

Prosperous, Sustainable and Secure

*Renewing the European Union for the 21st
Century*

Policy Paper 113



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Executive Summary

Better Off In

The European Union (EU) has been a hugely positive force for the promotion of peace, prosperity and democratic values in Europe. Membership of the EU is in the vital national interest of the United Kingdom. Our place in Europe ensures British influence over the rules and development of the largest single market in the world. Millions of British jobs – and the prospects for many more – are linked to this marketplace of 500 million citizens with its combined GDP of £11 trillion.

Membership of the EU helps the UK to tackle pressing challenges like climate change, cross-border crime and food and energy security. It provides an opportunity for the UK to lead on challenges that no European state can tackle alone.

In an increasingly multipolar, globalised world, membership of the EU gives our country the collective strength to ensure our values are shared and our interests taken into account around the world. We stand taller in Washington when we stand tall in Brussels.

Our Place in the EU

The choice for the UK

The cases for alternatives to EU membership simply do not add up. Neither Norway nor Switzerland offers a credible model for the UK to follow. Only full EU membership gives us the influence that we need to ensure British interests and aspirations are taken into account.

Liberal Democrats reject unilateral negotiations with our EU partners for the so-called ‘repatriation’ of powers to the UK. Renewal and reform of the EU are necessary, but they should be carried out on a multilateral basis with like-minded coalitions for change.

Liberal Democrats recognise that outside the euro area, the UK’s influence on the evolution of further EU economic integration is likely to be less extensive than it has been in the past.

The UK must therefore engage in pragmatic and sustained diplomacy to defend the integrity of the single market and to ensure that the special position of financial services in our economy is respected. An active and engaged UK can avoid marginalisation, and indeed aspire to leadership among its partners in vital areas of policy.

Treaty change and referendum

The coalition government’s EU Act has now codified in statute the significance of changes in the relationship between the UK and the EU. In line with our previous commitments Liberal Democrats want to ensure that when the EU Act triggers a referendum for the first time, there should be an In or Out referendum. Citizens across the UK can then have their say on the new treaty settlement and our relationship with the EU as a whole. Liberal Democrats would of course campaign strongly for the UK to remain in the EU.

Renewing the European Union for the 21st Century

The EU has achieved an enormous amount, but it needs further renewal and reform to meet the challenges of the 21st century. Liberal Democrats will continue to push for change so that all its countries can compete globally, create a more sustainable future and tackle cross-border threats to our security.

Liberal Democrats believe the UK should maximise its influence, and work with like-minded countries to drive renewal and reform of the EU, making its institutions more focused, effective and accountable.

Prosperity through growth and job-creation

Liberal Democrats want to build a more prosperous Europe through deepening the single market, supporting innovation and competitiveness and promoting international trade. We therefore propose:

- A British-led drive to complete the single market, particularly for the digital economy and services sector.
- Continued pursuit of global and bilateral trade agreements.
- Better representation of SMEs in Brussels.
- Greater use of EU apprenticeship schemes, building on Liberal Democrat achievements in the promotion of apprenticeships in the UK.
- UK engagement and leadership on the EU innovation agenda and development of a European knowledge market.
- A high priority for green growth and sustainability in all EU programmes, and the creation of more 'green jobs'.
- The development of a European project bonds initiative to speed up vital infrastructure development and to benefit Britain's financial services industry.
- Greater flexibility in the application of the Working Time Directive, and maintenance of the individual right to opt-out.
- Recognition of the positive contribution of free movement of labour, while taking measures to ensure that its provisions are not abused.

European leadership for a sustainable future

Environmental degradation and climate change threaten our well-being and way of life. Nation states cannot hope to deal with such challenges alone. The EU can do much more to promote and ensure greater sustainability. Liberal Democrats therefore propose:

- The adoption by the EU of an emissions reduction target of 50% by 2030 on 1990 levels.
- Reform of the EU Emissions Trading System to ensure it continues to incentivise cost-effective investments into low-carbon technology.
- That EU funds made available to steer investment into low-carbon solutions should be better used, in particular to help poorer member states.
- Greater devolution of the Common Agricultural Policy, an end to production subsidies, ensuring continued support for rural communities, particularly upland and less favoured areas, and a mid-term review of the CAP in 2017.
- That funding from the CAP for research into sustainable food production, climate change and water management should be ring-fenced.
- A 100% ban within the Common Fisheries Policy on the discard of edible and other usable fish, and further development of European marine conservation areas.
- Tougher enforcement of EU fishing rules by all Member States, and a UK review to assess the distribution of fishing opportunities between large and small-scale operators.

A free, secure and influential Europe

New forces such as rapid technological change and communications, globalisation, cross-border crime, regional insecurity and the emergence of a multipolar world have given the EU an increasingly important and direct role in the security of its citizens.

Liberal Democrats recognise the threats and opportunities posed by this changing world, and therefore propose:

- The application of a proportionality test to the European Arrest Warrant, and the implementation of the European Supervision Order.
- Promotion of the EU's capacity to tackle cybercrime, particularly through support for the new European Cybercrime Centre (EC3) within Europol.
- EU-wide action to stop VAT fraud, and procedures for orders of restraint to clamp down on money laundering and movement of criminal assets.
- Improved policy and strategy formulation and coordination within the European External Action Service.

Prosperous, Sustainable and Secure

- Greater pooling and sharing of European defence capabilities, without infringing the sovereign right of individual countries to decide when to deploy military force.
- Support for further enlargement of the EU to candidate countries, subject to stringent compliance with standards of democracy and civil rights.
- A firm and effective common EU policy towards Russia, and a stronger common EU energy policy.

A flexible, accountable and efficient EU

Liberal Democrats believe that concerns among EU publics about the accountability and efficiency of European cooperation should be addressed. The EU will win the trust of the public only if it can demonstrate that it is able to meet the challenges of prosperity, sustainability and security.

Equally important, however, is the need to ensure and reassure that when the EU does act it does so democratically and proportionately, always respecting the principle of subsidiarity. The EU must be both responsive in its decision-making and more efficient in its spending and administration.

Liberal Democrats therefore call for:

- A guarantee in the next EU treaty that both euro area and non-euro area member states have a full voice in the regulation and application of the four freedoms of the single market - goods, capital, labour and services.
- Further measures to enable national parliaments to contribute more directly in the development of EU policy and legislation.
- The UK to work with like-minded European countries to make the EU budget more relevant to 21st century challenges.
- Improved efficiency in the EU institutions and agencies.
- A single seat for the European Parliament.
- And for the UK Parliament and Government:
- Improved scrutiny of EU affairs at Westminster.
- More active encouragement of potential UK candidates for the EU institutions, including training, particularly in languages and mentoring.

Part I: Better Off In

The Case for the European Union

1.0.1 Next year will mark the centenary of the outbreak of the First World War. Across Europe we will remember the millions who gave their lives in that terrible conflict. 1914 was a portentous year, ushering in decades of instability, tyranny, war and division. We should be grateful that for all its problems and recent setbacks, the Europe of today is more prosperous, free and secure than at any time in its history.

1.0.2 The European Union, in partnership with the United States and the NATO security alliance, has been central to this transformation from conflict to cooperation. Liberal Democrats are proud of Britain's special role in helping lead Europe out of its darkest days. The lessons of European history are clear. We are more prosperous and more secure when we work together in the common interest. By contrast, when Europeans turn to narrow self-interest alone, prosperity and security are put in peril.

1.1 New Challenges

1.1.1 The EU has achieved a huge amount. It has helped to reconcile former foes and to transform communist and fascist dictatorships into free market, liberal democracies. Today, however, Europe faces different but equally demanding challenges. First, in the aftermath of the most severe global financial shock since the 1920s, the EU must restore stability to the euro area and deliver economic growth, jobs and improved competitiveness. Secondly, the EU must renew itself if it is to face the future in a multipolar world of new cross-border challenges, not least the threats from climate change.

1.1.2 Finally, it is essential that EU member states tackle concerns among their publics about the impact and accountability of European cooperation. Public faith in the EU institutions has been shaken by the troubles of the euro area. Sovereign debt crises and rising unemployment have reinforced a long-standing perception in many countries that the EU is too distant from the daily lives of ordinary Europeans. In Britain, while many are comfortable with our place in Europe, others are dissatisfied or puzzled about the purpose of European cooperation, and worry about where the powers of the EU begin and end.

1.1.3 Liberal Democrats must provide answers that recognise and allay these concerns because we are convinced the EU remains Britain's best option for facing the future, in spite of some flaws. Indeed, we believe the 21st century will prove that Europeans need the EU more than ever before.

Our best option in a fast-changing world

1.1.4 The world is changing fast. Globalisation and climate change will continue to reduce the capacity of nation states to control powerful social, environmental and economic forces from within their own borders. At the same time, the rising states of the East and South are pulling economic and political power away from the US and Europe, creating a more competitive, multipolar world.

1.1.5 These trends need not be all bad or threatening. Changes will bring opportunities too. The transition to a peaceful, rules-based, free trading global economy is in our national interest. We should relish the challenge to compete for new markets and jobs, and to influence this changing world for the better.

1.1.6 It is fanciful, however, to think that any European country can control or influence those powerful forces when standing alone. The UK will not find security, prosperity or environmental sustainability by pulling up a fantasy drawbridge on the outside world. Nor will we do so by opening up to the forces of globalisation, only to let them wash over us with no means of controlling them.

1.1.7 World trade negotiations with economic giants like China and the US and complex cross-border challenges like energy, crime and climate change demand that we cooperate closely internationally. While the UK is an outward-looking country with a strong partnership with the United States, successive US administrations have made no secret of their view that our influence in Washington depends on our influence in Brussels. Geography, interests and shared values point unequivocally to closer cooperation with our partners in the EU.

1.1.8 Historically, the UK has always sought to ensure that no single power was left free to shape the way ahead in Europe without taking full account of our interests. If we were to turn our backs on the EU, we would reverse that long-standing policy, leaving others to determine a collective European interest without us. We would risk the emergence of a different kind of Europe, less concerned with British interests but also less liberal, weaker and with a less global perspective.

1.1.9 Liberal Democrats therefore believe that the EU is vital for championing the UK's values and defending our interests around the world through strength in numbers. A strong UK in a strong Europe is best for both. A UK marginalised in Europe would be a serious blow to the security and prosperity of both.

1.1.10 It is clear, however, that if it is to meet these momentous challenges with the full backing of its peoples, the EU needs to change. Liberal Democrats will continue to push for reform of the EU so that all its countries can compete globally, create a more sustainable future and tackle cross-border threats to our security. But it is essential that the EU deals with these questions in a clear, efficient and accountable way, only taking action when absolutely justified.

1.1.11 In elections next year, voters across the UK will choose MEPs to represent them in the European Parliament. Siren voices will argue that we should pull up the drawbridge and turn our backs on European cooperation. But this will not defend or advance British interests or help lead the debate in Brussels.

1.1.13 A vote for a Liberal Democrat MEP will be a vote for British influence, for continuing renewal and reform of the EU, and for a prosperous, sustainable and secure future for all Europeans.

Britain's Place in Europe

2.1 The Euro Crisis

2.1.1 Since 2010, sovereign debt crises in a number of EU countries have put extreme pressure on the cohesion of the euro area. The response to the crisis has already led to important changes to its economic governance. Far-reaching packages of measures and the Fiscal Compact Treaty have now been enacted.

2.1.2 This process of reform is continuing. Key components of the banking union have already been agreed, including the Single Supervisory Mechanism (SSM) and the Recovery and Resolution Directive. The move to a banking union will likely force further governance changes, many of which can be undertaken under existing treaty provisions.

2.1.3 Further action is, however, likely to be needed to secure the future of the euro and stabilise the financial system across Europe. The euro area states and the banking union 'ins' need to arrange important financial and economic matters through deeper coordination. The highly technical details of banking union will be critical for the interests of the City of London, and thus for broader economic benefits to Britain.

2.1.4 It is vital that the UK continues to support efforts to ensure the stability of the single currency. It is in our national interest that the euro area returns to strong growth as soon as possible. Indeed, its health and that of the wider EU single market are vitally important, not just to Europeans but also to the global economy.

2.2 The Choice for Britain

2.2.1 In the aftermath of the euro crisis, three positions have emerged in British politics as to the course of action our country should now take: withdrawal; renegotiation and repatriation; or continued full membership, with a commitment to renewal and reform.

2.2.2 First, there are those who believe that the crisis will so irrevocably change the nature of the EU that the UK would now be better off out. This perspective is often allied with the pernicious claim that the EU somehow stifles UK trade with non-European countries. But this is not supported by the facts. Germany, for example, has been hugely successful in developing its exports to China. In recent decades the US has been the largest or second largest destination for British goods.¹

2.2.3 Advocates of British withdrawal fail to propose any credible alternative arrangements. Those who say that the UK should negotiate arrangements similar to those of Norway or Switzerland ignore inconvenient truths about those countries' relations with the EU.

2.2.4 Norway has to implement all the rules and regulations of the EU single market and the Schengen free movement area, but it has no say in their making. A recent major report into Norway's relations with the EU concluded that the country was a *de facto* member

¹ House of Commons Library briefing "UK Trade Statistics" - 13 March 2012, page 9.

state. Yet with no democratic input it is left to suffer “integration without representation”,² for which its taxpayers still have to pay.

2.2.5 In 2010, Norway contributed €230m to the EU budget, and between 2009 and 2014 it will contribute €1.79bn to social and economic projects in the EU/EEA³. Outside the EU, the UK would probably have to pay an even larger entry fee for single market access. There would be no obligation on EU states to grant such an arrangement to a country seeking to reduce its commitments to the EU.

2.2.6 Switzerland’s relations with the EU are governed entirely by time-consuming bilateral deals, which are becoming ever harder to negotiate as the EU has increasingly little interest in meeting Switzerland’s particular demands. In 2012 the Council concluded that the relationship had “reached its limits and needs to be reconsidered”.⁴

2.2.7 Despite its large financial services sector, Switzerland has no influence on EU legislation and increasingly has to adopt EU rules in order to retain access to its core markets. Indeed, such is the vast size, scope and influence of the EU’s single market – an £11tn economy of half a billion citizens – that the major manufacturers of the world’s other major economies often incorporate EU regulations into their products as standards.

2.2.8 Other alternatives, such as a renewed trading alliance with the Commonwealth or an independent collaboration with the rising powers of Asia, Africa and Latin America, are simply not credible alternatives to EU membership.

2.2.9 The second option set out for Britain’s future relationship with Europe is that advocated by the current Conservative party leadership. David Cameron argues that the euro crisis presents an opportunity to renegotiate, on unilateral terms if necessary, UK membership of the EU, seeking the return of as yet unidentified powers. Yet the truth – as others from the Conservative party have observed – is that our European partners will not cut special deals for the UK of any real significance.

2.2.10 Furthermore, to call for wholesale unilateral renegotiation on the vaguest of terms, and to an arbitrary deadline, is a reckless distraction for the UK. It endangers jobs and investment in the British economy and diminishes Britain’s diplomatic clout in Europe and around the world. At a time of unprecedented post-war economic fragility, the commitment of the UK to membership of the largest single market in the world should not be called into question.

2.2.11 The EU remains vital to British prosperity – almost half our trade and one-in-ten British jobs are linked to the single market. To marginalise the UK would not just risk damaging our prosperity. Advocates of withdrawal or repatriation negotiations also fail to address the risks to our security, influence and way of life.

2.2.12 Marginalised, Britain would have less control, not just over the rules of the single market, but also over global issues like trade, climate change and cross-border crime. Marginalised, Britons would have less control over their own lives, as our legal rights to travel, to work, to study and to choose how and where to live across the EU would be called into question.

² http://www.regjeringen.no/pages/36798821/PDFS/NOU201220120002000EN_PDFS.pdf

³ http://www.regjeringen.no/upload/UD/Vedlegg/eu_norge_og_eu_2011.pdf

⁴ http://eeas.europa.eu/norway/docs/2012_final_conclusions_en.pdf - para 31

2.3 Better Off In

2.3.1 Liberal Democrats reject both of these options. Our clear preference is for full membership of a renewed and reforming EU. At this time of economic fragility, nothing should be done to undermine the UK's place in the EU, or to send the wrong signals to the investors who bring jobs to our country.

2.3.2 Of course, we recognise that from outside the euro area the UK's influence on the evolution of further EU economic integration is likely to be less extensive than it has been in the past. The euro area states need to work together closely on particular issues, and Liberal Democrats do not believe it will be in the British national interest to join the euro in the foreseeable future.

2.3.3 As one of the 'big three' member states with a record of leadership on the single market, an active and engaged UK can and must avoid marginalisation. Indeed, the UK should aspire to leadership among its partners in vital areas of policy. Although in a minority, Britain is not the only non-euro state in the EU. Nor is it yet clear to what extent a more integrated euro area will impact on the future institutional evolution of the EU.

2.3.4 The UK must therefore engage in pragmatic and sustained diplomacy to defend the integrity of the single market and to ensure that its special position in financial services is respected. The negotiations over the European Banking Authority – in which Liberal Democrat MEP Sharon Bowles played a key role – demonstrate that innovative approaches can be found to balance a built-in euro area majority with protection of the particular interests of non-euro area countries.

2.3.5 It is by no means inevitable that 'caucusing' within the euro area will operate against UK interests. Under existing treaty provisions there are many different *ad hoc* alliances among EU countries across a wide range of single market and trade matters, notably, for example, between the more economically liberal northern European countries and the South. Indeed, UK weight and influence on matters of trade and the single market will remain powerful, and groups of like-minded states will continue to see this country as a vital ally.

2.3.6 Instead of retreating to the margins or sending mixed signals about the UK being open to investment, we should be exerting our influence in the debate over renewal and reform in Europe. The common challenges facing Europeans are real and pressing. The British have the capacity to play a leading role, and we should do so.

2.3.7 In the face of continuing uncertainty over the future of the euro area, and in the context of fragile economies across Europe, Liberal Democrats therefore believe a strong and clear commitment to continued British membership of the EU is essential.

2.3.8 This, together with an ambitious agenda for renewal and reform with like-minded countries, represents the right course for Britain.

“As Chair of the European Parliament’s influential Economic and Monetary Affairs Committee since 2009, I have overseen extensive reform of financial services, market regulation and reforms to ensure economic discipline in the Eurozone. Working closely and building alliances with MEPs and Ministers from across Europe, I have ensured that a strong British, liberal voice has been present on all the EU’s negotiations on financial and Eurozone reform,

In this role, I championed the single market in the face of Eurozone integration. In the negotiations on the Banking Union I successfully tabled an amendment which introduced a duty of care for all EU Member States, not just Eurozone countries, when the European Central Bank takes supervisory decisions.

By working with like-minded colleagues I also ensured that the decisions taken by the European Banking Authority, which writes many of the detailed rules on banking regulations, will require a majority not only of Eurozone countries, but also non-Eurozone countries, thereby ensuring the system is not rigged in favour of the Eurozone.”

Sharon Bowles MEP

2.4 Future Treaty Change and Referendum

2.4.1 The search for a solution to the euro area problems raises the very likely prospect that further revision of the EU treaties will be necessary. In such circumstances, Liberal Democrats believe that the UK should work constructively with its partners to seek renewal of the EU, its institutions and policies.

2.4.2 On ratification of the Lisbon Treaty, the last major treaty to transfer powers from the UK to the EU, Liberal Democrats advocated an ‘In or Out’ referendum. Our 2010 General Election manifesto reiterated this principle, pledging that on the next occasion there was a fundamental change in the relationship between the UK and the EU there ought to be an In or Out referendum.

2.4.3 The coalition government’s EU Act has now codified in statute the significance of potential changes in the relationship between the UK and the EU. In line with our previous commitments, Liberal Democrats want to ensure that when the EU Act triggers a referendum for the first time, there should be an In or Out referendum.

2.4.4 Citizens across the UK can then have their say on the new Treaty settlement and our relationship with the EU as a whole. Liberal Democrats would of course campaign strongly for the UK to remain in the EU.

Part II: Renewing the EU for the 21st Century

Prosperity, Sustainability and Security

3.1 Britain has an impressive track record as a pioneer and shaper of EU policy. Margaret Thatcher led the creation of the single market. Tony Blair, together with Jacques Chirac, launched EU defence and security cooperation. Through the hard work of our MEPs, Ministers and fellow liberal ALDE Commissioners, Liberal Democrats in Westminster and Brussels continue to ensure that the British voice is heard.

3.2 As Energy Secretaries, Chris Huhne and Ed Davey have put the UK at the forefront of the climate change agenda. Graham Watson led for the European Parliament on the setting up of the European Arrest Warrant. Chris Davies and George Lyon are leading the push for radical reform of the CAP and CFP, Sarah Ludford has championed the legal rights of European citizens and Sharon Bowles has become a powerful player in the debates over the future of EU economic policy.

3.3 By working with like-minded states for renewal and reform, Britain can take a leading role in key areas. First, we need to build a more *prosperous* Europe. If we are to create jobs in an increasingly competitive global economy, we need to work harder and more smartly. In particular, EU states need to deepen the single market in services and the digital economy, supporting innovation and competitiveness and promoting international trade.

3.4 Secondly, Liberal Democrats have demonstrated that Britain is in the vanguard of European leadership for a more *sustainable* future. We want to see European leadership of global efforts to tackle climate change, to ensure sustainable energy security, to mainstream environmental sustainability throughout EU policy and to continue to deliver radical reform and devolution of the common fisheries and agriculture policies.

3.5 Thirdly, Liberal Democrats want a more *secure* and influential Europe – in our own neighbourhood and in a world where the actions of others impact on our security. It requires deepening cooperation to tackle cross-border serious and organised crime, as well as to safeguard liberty and human rights. It also requires all Europeans to cooperate effectively to pull our weight in defence and security policy.

3.6 Finally, much of the EU's institutional architecture was created in the 1950s, a world very different from that of today. Although the institutions have undergone substantial change over the years, more needs to be done to renew and refocus their aims, to introduce greater efficiency and to re-connect with European citizens. The remaining sections of this paper outline an agenda for renewal and reform to meet this need.

Prosperity through Growth and Job-creation

4.1 Expanding UK Exports

Completing the Single European Market

4.1.1 Britain depends primarily on selling goods and services to our neighbours. We must use our influence to remove the remaining barriers within that Single European Market of 500 million customers on our doorstep and make it an even more vibrant area to do business.

4.1.2 Multiple national rules and practices still restrict trade in services (including financial services), energy supplies and the fast growing digital economy. All are great opportunities for the UK to expand its trade and create jobs. For example, barriers still exist in sectors such as consultancy, accountancy, legal services, architecture and retailing – where the UK has a competitive edge.

4.1.3 To create the most favourable conditions for growth in Britain, we must shape policy in our home European market. Fully opening that huge market would help the whole EU, including the UK, to become more competitive. Lower prices would benefit our consumers and make possible more sales to other parts of the world – enabling us to win twice over.

Exporting more to other large markets

4.1.4 Higher trade barriers – not just distance – obstruct UK companies seeking to export to the rest of the world. Global multilateral trade negotiations have stalled. Britain's best chance of giving them fresh impetus is through the EU's negotiating strength. Having overtaken the US, the EU is the world's largest economy (€11bn GDP)⁵, largest exporter (17.5% of global exports), largest importer (17%), largest investor (32.6%) and largest recipient of investment (24.4%)⁶.

4.1.5 The EU has already negotiated free trade agreements with 52 countries, some with individual countries and others with groups of countries. Recent deals include those with South Korea, Colombia and Peru. It is now pressing ahead to negotiate many others, including two of the largest bilateral free trade agreements ever attempted.

4.1.6 The proposed deal with the US has huge potential, since the US and EU together account for about half of the world's GDP. The European Commission forecasts that a comprehensive trade agreement between the EU and the US could boost EU GDP by

⁵http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:GDP_at_current_market_prices,_2001,_2010_and_2011.png&filetimestamp=20121204113534

⁶ <http://trade.ec.europa.eu/doclib/html/122532.htm>

€119bn⁷ (and £10bn annually for the UK⁸). This translates to an extra €545 in disposable income each year for an average family of 4 in the EU⁹.

4.1.7 Negotiations have also started for an EU-Japan trade agreement. An ambitious agreement could increase EU GDP by €42bn a year, with a significant portion of the prize coming to the UK. The Commission estimates that success here would create more than 400,000 jobs¹⁰.

4.1.8 Liberal Democrats should continue to work for global and bilateral trade agreements. In every case, tough negotiators on the other side of the table want to gain much but give little. Only by negotiating as part of a strong EU can we gain maximum advantage, opening markets for UK exports of goods and services.

4.1.9 Export success depends on UK companies seizing those opportunities. Their German counterparts, particularly small firms, export far more than UK companies. A major effort must be made to stimulate and facilitate UK exporting.

4.2 Opportunities for Small Firms and Young People

Thinking Small

4.2.1 Liberal Democrat MEPs, in their 22-point plan for SME policy, have led the cause of smaller firms – the greatest job generators in the UK and the whole EU economy, providing two-thirds of all private sector jobs. Liberal Democrat ministers Ed Davey and Vince Cable have succeeded in creating an effective group of 13 like-minded ministers at EU Council meetings committed to rigorous application of the ‘Think Small First’ principle and reducing unnecessary EU regulatory costs – especially those which burden small and medium-sized enterprises (SMEs).

4.2.2 Liberal Democrats are fighting to cut such red tape. Sharon Bowles MEP and Ed Davey were instrumental in achieving Europe’s first small business exemption from EU accounting rules, saving small businesses £400m a year. Liberal Democrats also helped to shape new legislation on the programme of competitiveness of enterprises and small businesses (COSME) which will facilitate reducing the number of days to set up a new small business to three, cut start-up costs to €100 and establish a one-stop shop for business start-ups.

4.2.3 SMEs are not well represented in the social partner dialogues. The SME umbrella bodies in Brussels should be invited to find appropriate representatives to participate in such meetings, since their conclusions may give rise to a Commission proposal for legislation. Whenever SME representation is lacking, the Commission should seek representative SME comments on the conclusions before deciding on any action.

4.2.4 We want British SMEs to have better opportunities to take advantage of the Single Market. It is so close, but seems too far for many of them. Many recent EU initiatives are

⁷ http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150129.pdf

⁸ <http://www.ukti.gov.uk/uktihome/item/516460.html>

⁹ http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf

¹⁰ http://europa.eu/rapid/press-release_MEMO-12-930_en.htm?locale=en

designed to help small firms to grow, to find finance and to access trading opportunities. The next step should be to ensure that UK firms are fully aware of them.

4.2.5 Government should play a low-cost but more ambitious role, which could reap great benefits. An easy-to-use EU information portal for SMEs on the BIS website would be a good starting point. Another practical step would be for UKTI and UK embassies in EU states to promote more meetings and other trade events specifically designed to enable SMEs to meet potential buyers or partners, so drawing more into exporting.

Improving Skills and Encouraging Aspiration

4.2.6 Young people in industry should be given greater encouragement to take advantage of EU schemes for gaining work experience in other EU member states. For instance, learning how German companies succeed through training skilled workers and managers would have great value to our young people and to their future employers.

4.2.7 Erasmus for Young Entrepreneurs offers such opportunities by enabling new or aspiring entrepreneurs to learn for up to six months from experienced people running small businesses in other EU countries. The EU's Leonardo da Vinci programme offers apprentices the chance to spend time in another member state.

4.2.8 Liberal Democrats must ensure that such periods count as time served in apprenticeship and make the schemes more widely known. We aim to widen opportunities and increase the skills of Britain's young workers. Liberal Democrat ministers, led by Vince Cable as Business Secretary, have already created more opportunities for apprentices within the UK and we can build on that success.

4.3 Competing Globally

Fairness with Flexibility

4.3.1 The EU Working Time Directive, which guaranteed workers reasonable holidays and rest breaks, was soon found to have some unintended consequences, such as time when hospital doctors are asleep but on-call counting as if they were working. In 2004, the Commission proposed an amending directive – adding more flexibility and discounting the inactive part of on-call time – but this has been blocked in Council.

4.3.2 Liberal Democrats should support moves to introduce greater flexibility, so that the Directive is not unduly burdensome, especially for SMEs. The opt-out applied by the UK – and 15 other EU Member States – removes the 48-hour working week limit provided that the worker gives prior consent, and it should be maintained. Fairness and protection of health should be combined with recognition of the need for global competitiveness.

Promoting innovation.

4.3.3 Innovation is vital to the UK's future economic success – and it is at the heart of the EU's 2020 Strategy for growth and jobs. The Strategy aims to improve access to finance for research and innovation in Europe and to ensure that innovative ideas can be turned into products and services that create growth and jobs.

4.3.4 An example is graphene – ‘the wonder material of the 21st century’ – impacting on everything from electronics and manufacturing to neurosurgery. The Nobel Prize-winning discovery at Manchester University of graphene's unique properties swiftly attracted EU research funding for its development. In 2013, Manchester won £23m of funding from the EU Regional Development Fund to build the world's leading centre of graphene research and it will receive ongoing funding from the EU's Horizon 2020 research programme.

Taking Advantage of EU research

4.3.5 EU Horizon 2020 brings EU research funding to pursue three objectives, which are largely in line with UK priorities:

- To strengthen the EU's position in the sciences – natural, applied and social – by boosting top-level research.
- To strengthen industrial leadership in innovation by investment in key technologies, greater access to capital and support for SMEs.
- To address shared concerns, such as climate change, sustainable transport, making renewable energy more affordable, food safety and security, and the challenge of an ageing population.

4.3.6 Two flagship priorities have been identified. Graphene and Human Brain initiatives will each receive €1 billion over ten years to deliver world-beating results at the crossroads of science and technology. The Human Brain Project will create the world's largest experimental facility for developing a detailed model of the brain, studying how the brain works and ultimately developing personalised treatment of neurological and related diseases. This research has the potential to improve dramatically the quality of life for millions.

4.3.7 Europe faces intense global competition, especially from the US and Asia. By combining research efforts in Europe, we in Britain will be better able to exploit the results both of our own and our joint research achievements efforts.

Bridging the Gap

4.3.8 Horizon 2020 seeks to bridge the gap between research and the market, for instance by helping innovative enterprises to develop technological breakthroughs into viable products with real commercial potential. This market-driven approach will include creating partnerships with the private sector and member states to bring together the resources needed.

4.3.9 A European knowledge market for patents and licensing will bring added dynamism – the cost of securing patent protection in the US is only €4,000 whereas for the same duration in the EU27, it costs about €168,000. Measures to complete and develop further the European Research Area by 2014 will aim at breaking down barriers to create a genuine single market for knowledge, research and innovation.

4.3.10 To secure our long-term economic future, the UK must be at the influential centre of this drive to bridge this research-to-market gap and to create a European knowledge market.

4.4 Focus on Sustainability and Green Jobs

4.4.1 Europe's industrial strategy must focus on sustainability – environmental as well as economic objectives. Using natural resources more efficiently and finding better alternatives will be crucial. Incentives to develop energy saving and low carbon technologies must be at the forefront, leading to growth and job creation in forward-looking industries – 'green jobs'. Developed on a pan-EU scale, these industries could be world leaders.

4.4.2 Liberal Democrats in the European Parliament and the Council should continue to use their alliances to ensure that sustainability is prioritised in all EU programmes and more 'green jobs' created.

Energy and climate change

4.4.3 In March 2013, the Commission published its Green Paper on a '2030 Framework for Energy and Climate Change Policies', accompanied by two other papers. A communication on the future of carbon capture and storage (CCS) initiated debate on options to ensure its timely development. A report assessed member states' progress towards their 2020 renewable energy targets and considered the sustainability of biofuels and bioliquids consumed in the EU.

4.4.4 By defining the climate and energy policy framework for 2030, the Commission aims to promote investment to give us 'green jobs' with sustainable growth, affordable competitive energy prices and greater energy security. This direction of travel is an endorsement of Liberal Democrat approaches, combining ambitious climate change targets with practical supportive policies. But the proposals need detailed examination and will face attempts to set less ambitious targets.

4.4.5 Our planet needs vigorous Liberal Democrat participation in EU decision-taking to maintain the focus on investment to combat the threat of global warming.

4.5 Investing in our Infrastructure

4.5.1 Major investment in economic infrastructure by non-state bodies – developing newer sources of energy and energy grids or improving broadband networks are examples – is currently constrained by lack of capital. In the US, most such capital is provided by long-dated infrastructure bonds but there is no tradition of this in Europe. Growth could be assisted by promoting a functional, deep and liquid European project bonds market. Part of the solution to the euro crisis should be less reliance on banks and more use of capital markets. The UK financial services sector could also be a huge beneficiary.

4.5.2 The pilot phase of the EU-European Investment Bank (EIB) Project Bonds Initiative, launched in late 2012, offers a good chance of establishing such a market. If early results bear fruit, Liberal Democrats should back this development strongly. Greater use of lending, through the ability of the EIB to fund lending at lower rates, could promote growth and, in the longer term, offer an alternative to some budgetary funding. Among UK projects which have benefited from EIB loans are Crossrail and off-shore wind schemes.

4.5.3 The development of a European project bonds market could speed up vital infrastructure development and benefit Britain's financial services industry.

4.6 Liberal Democrats Shaping the Future

4.6.1 The global pace of change is quickening at a time when Europe is weakened by a severe economic and social crisis. But the need for change offers an opportunity – to develop a modern, resource efficient, competitive and robust industry. As well as creating new jobs and boosting our competitiveness, we have to tackle other vital challenges – the ageing of people in Europe whilst the world population is growing; increasing pressure on raw materials and energy supplies; and the need to counter climate change and preserve ecosystems. Green growth must lie at the heart of a new industrial revolution.

4.6.2 Liberal Democrats want to build a more prosperous Europe through deepening the single market, supporting innovation and competitiveness and promoting international trade. In our distinctive approach, sustainability and green growth must underpin all these initiatives and we must ensure that the UK gains maximum benefit. This trading nation can prosper only if it shapes EU policies so that they incorporate our essential objectives.

European Leadership for a Sustainable Future

5.0.1 The impact of human behaviour on the sustainability of our planet is the single most pressing challenge of our times. Unaddressed, environmental degradation and climate change threaten our well-being, our way of life and perhaps our very existence. Nation states cannot hope to deal with such challenges alone. Without the EU, Britain's ability to promote and achieve greater sustainability would be pitifully weak.

5.0.2 Yet the EU has a mixed record when it comes to protecting our environment and creating a more sustainable future. On the one hand, environmental regulation across the single market has allowed Europeans to promote sustainability through rules and standards, for example through more sustainable industrial processes and waste and packaging regulation. The EU also provides powerful collective weight for Europeans to influence standards across the world and to negotiate over climate change with powerful players such as the US and China.

5.0.3 On the other hand, the EU's food production policies have been disastrous for fisheries, unfair for world trade and poor value for the taxpayer. In future, EU policies will have to combine productivity and sustainability. In these difficult economic times, however, there is a risk that member states will shy away from the need for more sustainable agricultural, industrial and energy policies.

5.0.4 Liberal Democrats believe that by working together we Europeans can create a more sustainable future. We will therefore continue to make the case for embedding sustainability across all EU policies and push the EU to prioritise green jobs and growth.

5.1 European Leadership on Climate Change

5.1.1 EU leadership on climate change will be essential in the run-up to the next round of global negotiations. The current EU approach sets binding targets for 2020 of a 20 per cent reduction in greenhouse gas emissions and 20 per cent of energy from renewables, together with an indicative target of a 20 per cent improvement in energy efficiency.

5.1.2 We believe that this is no longer sufficient to provide the necessary long-term certainty for investors in low-carbon technologies and infrastructure. Furthermore, in the absence of an ambitious EU approach, a strong global deal at talks in 2015 will be virtually impossible. Further detail on Liberal Democrat policies on the EU and climate change is set out in the policy paper, *Green Growth and Green Jobs – Transition to a Zero Carbon Britain*.

5.1.3 Liberal Democrats propose that the EU should adopt an ambitious emissions reduction target of 50% by 2030 on 1990 levels. Liberal Democrats support a technology neutral approach to how individual countries meet their emissions targets.

5.1.4 We will continue to push for a swift and ambitious reform of the EU Emissions Trading System to ensure it continues to incentivise cost-effective investments into low-carbon technology.

5.1.5 The EU funds available to steer investment into low-carbon solutions should be better used, in particular to help poorer Eastern European states with many cost-effective opportunities to reduce emissions, for example through energy efficiency investments.

5.2 Fair and Sustainable Food Production

5.2.1 Europe's common agricultural policy (CAP) was originally intended to increase European self-sufficiency through production subsidies and tariff barriers against imports. The resulting market distortion led to over-production in the 1980s. Surpluses were stored at high cost, and producers in developing countries were undercut when surpluses were dumped into world markets.

5.2.2 Liberal Democrats have long campaigned for the removal of such trade-distorting subsidies. Indeed, successive reforms have moved the CAP away from production subsidies and tariff barriers. The CAP accounted for 41% of the EU budget in 2012, down from 75% twenty-five years ago. Continued reform of the CAP must, however, eliminate production subsidies and find new ways to ensure a sustainable solution for a growing demand for food.

5.2.3 The world has recently seen large fluctuations in prices of agricultural commodities. This volatility has been caused by increasingly unstable climatic conditions, coupled with increasing world demand for grain-fed meat, rising oil prices, cropping for bio-fuels and market speculation. Productivity is not keeping up with global demand, forecast to increase by 70% by 2050. The urgent challenge for agriculture policy is to find more sustainable ways to increase productivity and to ensure food security.

5.2.4 Following the introduction of the Lisbon Treaty in 2009, the European Parliament has equal decision-making powers with the Council of Ministers over the reform of both the CAP and the common fisheries policy (CFP). This has allowed Liberal Democrat MEPs vigorously to pursue opportunities to improve sustainability in both agricultural and fishing policy.

CAP reform – ending production subsidies, promoting sustainable production

5.2.5 The current reform of the CAP will rationalise farm support across the EU, phasing out almost all historical or production payments. In addition, environmental enhancement by farmers will be mandatory in national agricultural programmes.

5.2.6 Liberal Democrats believe there should be a much wider menu of environmental options within the CAP, with greater devolution to member states, regions or farmers, in line with subsidiarity. National subsidies on current or historical production should be removed at the earliest opportunity.

A mid-term review of the CAP

5.2.7 There is need for greater flexibility in considering the future of the CAP. With unpredictable climate change, management that benefits the environment should be included within the framework of the CAP as soon as possible.

5.2.8 Liberal Democrats believe that the EU should plan for a mid-term review of the CAP in 2017, to build on the current rather timid reforms and enable the CAP to meet the challenges of environmental and economic sustainability.

Sustainable agriculture, environmental enhancement and climate change

5.2.9 Natural capital embodied in our countryside is vital to future growth and wellbeing. The total value of such natural resources to the UK economy was nearly £35bn in 2011. Managing our natural resources effectively can make significant contributions to moderating climate change.

5.2.10 Changes in agricultural management practices offer new ways to reduce farming's carbon footprint. Agriculture, including fertiliser production, directly contributes 10–12% of greenhouse gas emissions. Research indicates that it should be possible to cut fossil fuel use in agriculture while maintaining or increasing productivity by reducing cultivation and use of products heavy in fossil-fuel use. Further research is needed to look at the practicalities, costs and training needs of these management techniques.

Sustainable water and soil management

5.2.11 Climate change has led to increasing pressure on water resources across Europe. By 2007 at least 11% of Europe's population and 17% of its territory had been affected by water scarcity. The World Economic Forum highlights water security as one of the top five risks for business leaders over the next 10 years.

5.2.12 Sustainability in farming depends on effective water and land management. The UK has led with its "countryside stewardship" schemes, which pay for environmental benefits. Land use in river catchment areas such as pasture or crops significantly affects water flows and quality. In addition, a recent UK government Foresight Report indicates that increasing organic carbon pools in the world's soils by 10% could reduce atmospheric CO₂ by 100 ppm from a current level of 390ppm.

5.2.13 Liberal Democrats propose that funding from the CAP for research into sustainability should be ring-fenced and transferred to the EU's Research Programme. Research into developing a more sustainable model of agriculture, while improving water and soil management through paying for environmental services, should be a priority

5.2.14 Effective systems for transfer of knowledge such as the "European Innovation Partnership on Agricultural Productivity and Sustainability" are crucial and should be supported by the UK. Funds should be allocated within the Rural Development Fund for knowledge transfer within the existing farming community.

“Liberal Democrats have successfully campaigned for a new more sustainable agriculture to be at the heart of CAP reform. The 2010 Lyon Report set out my view that the CAP should be the key driver in making EU food production more carbon, energy and resource efficient, making the industry more competitive and less reliant on public support.

The report was backed by MEPs and the Commission's plans for reform took on board many of my ideas. The current reform moves European agriculture in the right direction, moving the CAP away from income support to paying farmers for delivering environmental public goods.”

George Lyon MEP

Supporting SMEs and rural communities

5.2.15 With the exception of some very large farms, agriculture is carried out by small and medium sized enterprises (SMEs). A few large companies occupy positions of power in the food supply chain. Four large multinational companies control as much as 90 per cent of the international grain trade, and three-quarters of food sales in the UK are controlled by four supermarket chains. This can lead to the exploitation of smaller businesses. Liberal Democrats have therefore successfully campaigned for the creation of a Groceries Code Adjudicator to guarantee fair treatment for all producers. Support for rural businesses is an important part of the CAP.

5.2.16 Liberal Democrats endorse support for rural communities and businesses through the CAP, particularly those in upland and less favoured areas, specifically in order to protect and enhance biodiversity, landscape and heritage, water management and local economic activity including tourism.

5.3 Fair and Sustainable Fisheries

5.3.1 The background to the current CFP reform proposals makes bleak reading. Landings have decreased as fish stocks have declined. The majority of European fisheries are being managed unsustainably, and job losses within the fishing sector continue inexorably.¹¹

5.3.2 The blame does not rest entirely with EU policy; landings of fish in Britain peaked in the mid-1950s and were already in steep decline when the UK joined the EEC in 1973. However, until recently the CFP has done little to reverse the trend. The problems have been exacerbated by national Fisheries Ministers who so often ignored scientific advice about the need to avoid overfishing when they met each December to set quota allocations for Member States.¹²

5.3.3 Since the Lisbon Treaty many decisions about fishing policy are now shared between Ministers and the European Parliament. Liberal Democrat MEPs have played a key role pressing for ambitious changes. Their efforts, and those of hundreds of thousands of European citizens who had made their views known, were rewarded in January 2013 when the Parliament voted by a landslide majority of 502-137 in favour of far-reaching reforms to the Common Fisheries Policy to introduce a sustainable approach, curb discards and rebuild fish stocks.

5.3.4 MEPs insisted that scientific advice must be followed, called for fish stock recovery areas to be created, backed requirements that a long term management plan be established for every fishery, and demanded that governments that fail to meet their obligations should face financial sanctions.

5.3.5 Recovery of fish stocks is a priority. 'European Marine Sites' (EMS) protect some of Europe's most important marine and coastal habitats and important European species. Liberal Democrats wish these to be expanded across the EU in line with the current UK Marine Conservation Zones, first established in 2010.

5.3.6 Liberal Democrats therefore propose that the EU should introduce a 100% ban on the discard of edible and other usable fish. The measures negotiated through the CFP reform are a welcome improvement but cannot be regarded as complete.

5.3.7 There should be a UK review to assess the appropriate distribution of fishing opportunities between large scale and small-scale operators.

5.3.8 The UK shall press for tougher enforcement of EU fishing rules by all Member States, with UK inspectors encouraged to play a full rule role in the European Fishing Control Agency, and act to curb the import of products from illegal, unregulated and unreported fishing activities.

5.3.9 European marine conservation areas should be developed to encourage the recovery of fish stocks and enhance and protect ecologically important locations.

¹¹ Latest figures from the EU Fish Processors and Traders Association (AIPCE) highlight continuing decline in overall EU catches, from 7.9m tonnes in 2002 to an estimated 4.8m in 2012. Europe imports two-thirds of all the fish it eats.

¹² WWF

“In 2011 I founded 'Fish for the Future', a cross-party group of MEPs in the European Parliament to campaign in support of major changes to the EU's Common Fisheries Policy.

It was essential to stress that this was not simply a 'green' issue. Overfishing has destroyed communities, left us dependent upon imports to meet our need for fish, and offered no hope for the future. Policy changes that could give fishermen and the fishing industry good long term prospects depended upon ensuring that there plenty of fish in the sea.

The group worked by uniting offices in each of the six very different political groups in the Parliament around a common cause. We organised an internal lobby campaign of seminars, emails and stunts - I'm fairly sure I'm the only MEP who has ever - or will ever - donned a fish costume to wander round Parliament's corridors and raise awareness of the CFP reform.

The result - a huge parliamentary majority of 502-137 that helped deliver major reforms aimed at rebuilding fish stocks, cutting discards, and giving fishermen a bigger say.”

Chris Davies MEP

A Free, Secure and Influential Europe

6.0.1 In its early years European cooperation was founded on fostering prosperity through economic integration. Greater wealth and political stability complemented and reinforced the NATO security alliance. Today, however, while the focus on prosperity remains, the security challenges are different. New forces such as rapid technological change and communications, globalisation, cross-border crime, regional insecurity and the emergence of a multipolar world have given the EU an increasingly important and direct role in the security of its citizens.

6.0.2 At the same time, the United States, the EU's key trading partner and ally, is shifting diplomatic and security resources to the Asia-Pacific region. While a strong transatlantic partnership will remain vital, inevitably there will be a greater onus on the EU to help ensure security within and beyond its borders.

6.0.3 Collectively, EU states have sufficient resources to meet this challenge. Indeed, in aggregate Europe remains a giant in trade, defence and security spending, diplomatic clout and overseas aid and development. Yet acting alone European states have nothing like this weight, particularly in the absence of US engagement.

6.0.4 Liberal Democrats therefore believe that Britain must take on a greater leadership role in the development and implementation of EU security policies, both internal and external. As a member of the UN Security Council and NATO, the UK has long held important leadership responsibilities in European security. The UK must build on that legacy within the EU, in order to defend and extend freedom, justice and human rights throughout Europe and in the wider world.

6.1 Tackling Cross-border Crime, Ensuring Justice for All

New challenges, British leadership

6.1.1 Increased mobility, speed of communication and technological change mean that crime now has significant cross-border elements. British law enforcement authorities have to work more speedily and effectively with the police, prosecutors and courts of other EU countries. The EU has facilitated this by deepening cooperation between Member States in justice and home affairs (JHA).

6.1.2 Up to now, Britain has been a leader in this field. Its police and justice systems are held in high regard and have shaped best practice across the European Union. Britain has promoted the principle of "mutual recognition" which forms the basis of many EU instruments, including the European Arrest Warrant. The current Director of Europol is British, as was the previous President of Eurojust.

6.1.3 Britain has benefited extensively from EU cooperation. In 2012 Europol supported around 14 000 cross-border law enforcement cases and provided active support to approximately 600 police and customs operations. The UK took part in more than 300 of these operations and in 25 of the 78 joint investigation teams. In Operation Rescue, Europol analysis identified one of the largest online child sex abuse networks in the world, with a particularly large UK dividend, involving 240 suspects. The Serious Organised Crime

Agency now routinely interrogates Europol's database in every new case that it initiates, with a hit rate between 10 and 20%.

6.1.4 This provides the lie to the view that Britain stands to benefit in the EU only from the single market. European police and justice cooperation helps the UK to catch criminals, combat terrorism, protect rights, and promote the rule of law across the entire European Union and beyond.

The Justice and Home Affairs 'opt-out'

6.1.5 The Lisbon Treaty, however, presents the UK with a challenge. First, it has the right to opt-out of around 130 pre-Lisbon police and justice measures which will become subject to the jurisdiction of the Court of Justice of the European Union (CEJU) in December 2014. Second, the Lisbon Treaty makes new police and justice measures subject to full EU procedures, including the Commission's right of legislative initiative and co-decision jointly by the Council and the European Parliament. The UK has the right to opt-in to new measures either within three months of their introduction or any time after the adoption.

6.1.6 This right to opt-out of pre-Lisbon measures must be exercised by no later than 1 June 2014 but can be followed by a request to opt back in to selected measures. Liberal Democrats have pressed to continue the fullest possible participation in the pre-Lisbon measures and have been successful in ensuring that the Coalition Government is committed to retaining the major EU police and justice measures including the European Arrest Warrant, Eurojust and Europol. The protection of British nationals should not be placed at risk, nor should our ability to influence and set standards across the EU.

European Arrest Warrant

6.1.7 These pre-Lisbon measures include the European Arrest Warrant (EAW). This has proved a swift and effective means of returning suspected criminals to face trial. Through use of the EAW, 51 of the top 65 individuals suspected of major crimes hiding in Spain have been returned to the UK to face justice. Before the EAW, it took 10 years for the UK to extradite Rachid Ramda, an Algerian national, a terrorist suspect, to France. Post-EAW, Hussein Osman, a British national suspected of the failed bomb attack at Shepherd's Bush Tube Station on 21 July 2005, was extradited from Italy to the UK within two months. We recognise, however, the concerns that have been expressed about some aspects of the EAW's operation.

6.1.8 Liberal Democrats therefore recognise the value of the European Arrest Warrant and advocate the application of a proportionality test to improve it, as well as supporting the implementation of the European Supervision Order, which would help in some cases to limit the length of pre-trial detention.

“In 2001 I witnessed the appalling lack of interpretation for British and Dutch planespotters wrongly charged with espionage in Greece. I launched a campaign for the introduction of measures to guarantee minimum rights for defendants across Europe.

In 2010, having built consensus with MEPs in other political groups and with national governments, I negotiated a new law on the right to interpretation and translation in criminal proceedings. In only ten months we managed to introduce this pioneering law, boosting standards in a very concrete way.

In future all European citizens who are questioned or arrested in other EU countries, or extradited under the European Arrest Warrant, will have the right to good quality interpretation in all interviews, hearings and key meetings with lawyers, and to translation of all essential documents.”

Sarah Ludford MEP

Fighting crime and defending freedom

6.1.9 Rights of both opting-out and opting-in should be guided by the need to create not only a more secure and just Britain but also a more secure and just Europe as a whole. The two are interdependent. Some see in every new EU measure a threat to our system of common law. This is not justified by experience. The UK has protected and even promoted its common law tradition by active negotiation and participation. Each new measure has to be considered on its merits. The UK retains the right not to participate if necessary. That provides sufficient protection if the UK decides that it does not want to participate in any post-Lisbon measure, such as the proposal for a European Public Prosecutor.

6.1.10 Liberal Democrats believe that the UK should lead and participate as fully as possible in those measures that will help Europeans to tackle existing and emerging threats. In particular, the increasing use by criminals and terrorist groups of highly encrypted internet communications or “darknet”, large-scale fraud against EU governments and the need to target criminal assets.

6.1.11 Liberal Democrats will therefore promote the EU’s capacity to tackle cybercrime, particularly through support for the new European Cybercrime Centre (EC3) within Europol. We will seek EU-wide action to stop VAT fraud, which costs EU governments as much as €100bn, and improve international legal assistance and procedures for orders of restraint to clamp down on money laundering and movement of criminal assets.

6.1.12 The EU has a hugely important role in guaranteeing basic privacy rights and standards for exchange of personal information, particularly in the digital environment. Liberal Democrats support a data protection framework that gives consumers assurance that their fundamental rights are respected and companies the confidence they need to invest in innovative business models.

6.2 Free and Fair Movement in Europe

6.2.1 The right of citizens to live and work in other Member States is at the heart of the EU. Rights of free movement within the EU have brought huge benefits for business, tourism, education, culture and many other fields. The single market provides important job opportunities for more than a million Britons to work, and through the Erasmus programme to study abroad. Between 2004 and 2009 migrants from the new EU member states added £5bn to the UK economy¹³.

6.2.2 For the same period, migrants from the eight Member States who joined in 2004 paid 37% more in taxes than they received in services in the UK. Highly skilled migrants fill a gap in the UK economy¹⁴. Education is the UK's fifth largest area of services export, worth nearly 10% of the total exports in services. Migration makes the UK more competitive by helping to control inflation whilst keeping wage costs competitive.

6.2.3 Liberal Democrats welcome the positive contribution of migrants to the UK. We also support measures to help ensure that rights of free movement are not abused within the UK, including strict application of rules relating to benefit claims.

6.2.4 Liberal Democrats support the current arrangements whereby the UK remains outside the 'Schengen' area, but continues to work with the EU through the Schengen Information System, which provides vital information for law enforcement agencies.

6.2.5 The UK is, however, losing out on valuable income from non-EU tourists because they are often, instead, opting to only purchase the Schengen visa, giving them access to 26 European countries. This situation is damaging to our tourism and service industries.

6.2.6 Liberal Democrats believe that the UK Border Agency should, without compromising the high standard of pre-entry checks, create a streamlined, fast-track process for those applicants that have already been issued a Schengen visa.

6.3 A Stronger European Voice in the World

6.3.1 Liberal Democrats believe that Britain must make the best contribution it can to the creation of a better and safer world for all, based on common promotion of European interests and values, including respect for human rights, the rule of law, and progress towards democracy. Yet if we are to maximize the influence we exert on the world we live in, we must work with partners and allies. By working together, and combining the various policy instruments available to the EU, the 28 EU Member States can achieve far greater influence than even the largest could on their own.

Foreign, security and defence policies and enlargement

6.3.2 The EU is not the sole forum for British foreign and defence policy. The UN, NATO, and bilateral arrangements with the US and France in particular, are hugely important. Matters of foreign and defence policy will continue to be determined by unanimity within the EU, and there are major issues on which agreement has proved impossible, such as

¹³ National Institute for Economic and Social Research, May 2011, <http://www.bbc.co.uk/news/uk-13251614>

¹⁴ University College London, July 2009, http://www.cream-migration.org/pages/Press_release_A8fiscalimpact.pdf

over Iraq and Libya. Yet EU action in the world is increasingly important to British and European interests. Recent successes illustrate the potential to do more.

6.3.3 After initial failure in the Balkans in the 1990s, where US leadership proved to be necessary, EU foreign policy has been more successful in Bosnia and the Former Yugoslav Republic of Macedonia and recently through the brokering of a landmark agreement between Serbia and Kosovo. The EU High Representative has been leading the nuclear negotiations with Iran on behalf of the EU, the US, UK, France, Germany Russia and China.

6.3.4 EU leadership, including EU-imposed sanctions, over Burma has helped to bring change. The EU has also helped tackle crises in Africa, ranging from the Congo, Sudan/Darfur, and Sahel to Somalia, off which the EU provides the Atalanta naval task force against piracy, a mission commanded from a UK headquarters at Northwood. This mission demonstrates what the EU is capable of in the defence field, i.e., military operations with clear goals and clear common interest among its member states.

6.3.5 The great advantage of EU action in addressing foreign security challenges is that it is able to bring a wide range of tools – military, diplomatic, economic, and developmental – together in a comprehensive approach. However, the EU needs to be more effective in responding to these challenges in a more timely fashion, with the necessary resources and the political will to make a difference. Britain, with its foreign policy tradition and reach, is a natural and necessary leader but needs to play a stronger role if the EU is to live up to its full potential in common foreign and security policies and ensure that Europeans maintain and develop their military capabilities.

6.3.6 The European External Action Service needs improved policy and strategy formulation and coordination. There is a need for better coordination of the EU's external relations in different fields (for example on aid, trade, environment, migration and energy).

6.3.7 In an era of declining defence budgets and costly capability, deeper cooperation is vital if European powers are to retain significant military capabilities to guard against the uncertainties of the future. This requires more strategic direction from European NATO and EU member states.

6.3.8 At the December 2013 European Council summit Britain and France should jointly press for a strategy on European defence cooperation that encourages "clusters" of states to "pool and share" capabilities. The European Defence Agency should play a central role in helping states to do so. None of this overrides the sovereignty of national parliaments. They must continue to decide on national military deployments and the use of force.

6.3.9 In the European neighbourhood, enlargement of the EU remains a vital policy tool. EU engagement in the Western Balkans is vital, where EU membership continues to hold out the best hope of lasting peace and stability in the region.

6.3.10 Liberal Democrats support further enlargement of the EU to candidate countries. Those countries must meet the stringent conditions for membership, including the Copenhagen criteria on democracy and human rights. There should be appropriate transitional arrangements for all new member states.

6.3.11 The EU should continue to engage with the aspirations of non-EU east European states to move closer to the EU.

6.3.12 On Russia, member states must do more to build a firm and effective common policy and develop EU energy policy in order to avoid over-dependence.

6.3.13 The turmoil in the Middle East, most acutely in Syria but all around the Mediterranean southern and eastern littoral, presents huge challenges to UK and wider European interests and values.

6.3.14 Liberal Democrats believe that the UK must continue to consult and work closely with our EU partners and key allies such as the US to help bring peace and stability to the region.

6.3.15 The EU remains the world's biggest spender on overseas aid. Liberal Democrats have long supported the UK spending 0.7% of GDP on overseas aid and development. The commitment to do so within this parliament provides a tremendous opportunity to lead this agenda, and encourage other member states to meet the EU's formal commitment to 0.7%.

6.3.16 The UK should push for better coordination between the Commissioners and directorates-general responsible for development, environment and agriculture and should seek to ensure that sustainability and fairer trade are mainstreamed throughout.

Promoting human rights and equality in the EU and around the world

6.3.17 Liberal Democrats believe that the EU should use its considerable influence to promote democracy and human rights around the world. Liberal Democrat MEPs successfully led the campaign to establish a clearer and firmer EU human rights strategy and an EU Special Representative for Human Rights.

6.3.18 Within the EU, Liberal Democrats have worked hard to ensure equal rights for all EU citizens regardless of age, disability, gender, sexual orientation or religion. We have campaigned on cross-border recognition of civil partnerships and marriage to ensure that equality across Europe is secured and enhanced, and shaped EU legislation to tackle age discrimination in the workplace.

6.3.19 Liberal Democrats will continue to campaign for an equalities directive to ban discrimination on all grounds in access to goods and services.

Part III: Influence in a More Flexible, Accountable and Efficient EU

A More Flexible, Accountable and Efficient EU

7.0.1 The preceding pages outline Liberal Democrat proposals to renew and reform EU policies to face the challenges of the 21st century. To win the trust of all Europeans, the EU must meet – and be seen by its publics to meet – those challenges.

7.0.2 Equally important, however, is the need to ensure and reassure that, when the EU does act, it does so democratically, proportionately and efficiently, always respecting the principle of subsidiarity. The EU must be both responsive in its decision-making and efficient in its spending and administration.

7.0.3 Following the euro crisis, it is very likely that at some point in the future the EU will need to revisit and revise its treaties once again. A new treaty would represent an opportunity for the UK to lead the reform debate with our EU partners. Much can also be undertaken without treaty change, and in concert with our partners, to ensure greater flexibility, accountability and efficiency in the way the EU carries out its work.

7.1 A Flexible Europe

7.1.1 The EU already accommodates different groupings of member states around different policies – a form of “variable geometry” or “differentiated integration”. Not all states belong to the euro or Schengen areas, and some non-EU countries such as Norway belong to Schengen, while the UK does not. Other important forms of European cooperation, such as the recent Franco-British defence treaty, lie outside EU institutions, but are valuable to Europe as a whole. The treaties also enable smaller groups within the EU to work together through ‘enhanced cooperation’.

7.1.2 Liberal Democrats believe that this flexible approach makes good sense. It recognises that different member states belong to different policy groupings as determined by their interests and their domestic democratic constituencies. What is vital, however, is that this flexibility should not be allowed to create deep fissures between this or that group of member states particularly as regards the single market.

7.1.3 Currently there is uncertainty as to how much more deeply the euro area will integrate. Liberal Democrats believe, however, that the core institutions and other policies of the EU must be safeguarded for all of the member states. Britain should not allow a sharp division between euro ‘ins and outs’ to develop. The integrity of the world’s largest single market – Europe’s engine-room for growth – and its key decision-making bodies must be maintained.

7.1.4 Liberal Democrats believe therefore that any new treaty ought explicitly to guarantee, so far as is practically possible, that both euro ins and outs should in principle and in practice have full voice in the regulation and application of the four freedoms of the single market.

7.1.5 Beyond the single market, EU institutions should continue to facilitate flexible cooperation in those policy areas in which it makes sense to develop 'coalitions of the willing' or cooperation in other appropriate fora, notably NATO. Indeed the British have repeatedly advocated this for foreign and security issues, as happened, for example, with military action in Libya in 2011. A rigid and over-centralised agenda would not be in the best interests of either the UK or its EU partners.

7.2 A More Accountable Europe

Accounting for EU performance

7.2.1 Liberal Democrats support the Coalition Government's 'Balance of Competences' review. We believe that it makes good sense to understand more deeply where and how the EU takes action, the pros and cons for the UK and fellow member states, and how we might go about reforming the EU in future with like-minded countries. Its conclusions will also provide a useful contribution to public debate about the UK role in the EU.

7.2.2 Liberal Democrats particularly welcome the prospect of insights into how the EU is meeting the challenges and implementing the key policies outlined in preceding pages.

Building on Lisbon Treaty reforms

7.2.3 Liberal Democrats have long argued for a more accountable and democratic EU. We therefore welcomed the changes brought about by the Lisbon Treaty in 2008, giving MEPs powers to match those of the Council of Ministers in areas such as justice and home affairs, agriculture and fisheries policies. We note that the Conservatives voted against and opposed the Lisbon Treaty and the vital reforms it introduced. Since gaining those powers, Liberal Democrat MEPs have led important reforms, particularly to the CFP, CAP and justice and home affairs policy. Lisbon also provided for greater transparency in Council of Ministers meetings, for which Liberal Democrats had argued for many years.

7.2.4 Liberal Democrat MEPs will continue to use these important new powers to renew and reform the EU and always work for the best deal for Britain and for the EU as a whole.

A greater role for national parliaments

7.2.5 Liberal Democrats have fought long and hard for a greater role for MEPs to increase the legitimacy and accountability of EU action. Indeed, the European Parliament now plays a vital role in influencing legislation and holding the Commission and Council of Ministers to account. Increased powers for the European Parliament need, however, to be matched by a greater sense of connection between the EU and its citizens.

7.2.6 National parliaments could be more involved in scrutinising and contributing to EU policy development and proposals – both formally in providing a subsidiarity check, and informally through better networking across Europe. National parliamentarians were given greater powers under the Lisbon Treaty, which have not yet been exploited as they

should. 'COSAC', the forum for national parliaments to coordinate with each other, could be a great deal more effective. There is much scope for select committees from national parliaments to scrutinise EU proposals and policies more closely and to work more systematically with each other and with the relevant committees of the European Parliament.

7.2.7 National parliaments already have important powers in EU decision-making. They can call for the European Court of Justice to make a retrospective assessment of whether a piece of legislation fails to meet the subsidiarity principle. Under Lisbon's "yellow card" procedure, if a third of national parliaments believe a Commission proposal violates the subsidiarity principle, they can send it back to the Commission for reconsideration. If half of all national parliaments object to a Commission proposal, this may result in the Council or Parliament agreeing to drop the proposal completely. In 2012, in response to national parliaments' objections the Commission withdrew proposed legislation on new employment laws dealing with the right to strike.

7.2.8 In debates over the future direction of EU policies, as well as in holding their own governments to account and in providing a subsidiarity check on legislation through the 'yellow card', national parliaments could be much more active.

7.2.9 Through a reformed COSAC, and more informally, chairs of national parliament European committees should build networks to understand and engage more effectively with EU decision-making.

7.2.10 Better use could be made of technology to provide for virtual meetings between committees. Such networking would promote better national understanding of the work of the Brussels-based institutions and a better understanding of opinions inside other member states.

7.2.11 All member states should consider further measures to enable their national parliaments to be able to contribute more directly to the development of EU policy and legislation.

More effective scrutiny at Westminster

7.2.12 The House of Lords EU Committee provides very good scrutiny on EU matters. However, the House of Commons is less effective. More time should be made for debates on the floors of both houses for important EU legislation and events such as the publication of Commission Work Plans. The Prime Minister's decision not to make a statement to the Commons on his attendance at the March 2013 European Council summit was regrettable and should not set a precedent. There should also be more formal interaction between MPs and MEPs, as in many other national parliaments.

7.2.13 Liberal Democrats believe that time should be set aside at the regular Ministerial Question Time sessions for European matters across all relevant Whitehall departments, including both pre and post Council of Ministers meetings.

7.2.14 The Prime Minister should make a statement to the House of Commons setting out the objectives of the government before each European Council meeting. This would also give MPs an opportunity to put their own views as to what position the UK should be taking.

7.2.15 To ensure more effective scrutiny and deeper understanding among MPs, EU matters should be routinely referred to the relevant expert House of Commons select committee for consideration.

7.3 More Efficient EU Institutions

EU Budget reform and streamlined institutions

7.3.1 The EU budget has undergone significant reform in recent years, and agriculture no longer represents such a large component. However, it remains a relic of the past, and needs reshaping to reflect the 21st century priorities outlined in this paper.

7.3.2 Liberal Democrats will continue to work with like-minded European countries to reform the EU budget so that it is fit for the challenges of the future, not those of the past. Future treaty change should look again at the structure of the institutions particular the number, roles and responsibilities of the College of Commissioners.

7.3.3 The Commission should also re-assess its staffing arrangements to ensure that directorates-general that contribute specifically to the growth agenda are prioritised in terms of staffing and resources.

EU efficiency audit

7.3.4 A core liberal principle is the commitment to efficiency and prudence in public finance. Reports of waste in spending by the European institutions, though frequently exaggerated or misrepresented, are corrosive in their effects on public support for the EU. At a time of significant cuts in public services across Europe, the EU institutions should also set an example in the search for greater efficiency. Along with the Committee of the Regions and the Economic and Social Committee, the number of agencies of the EU has ballooned to over thirty in recent years. Many of these make valuable and valued contributions to EU policy, but all should be periodically reassessed.

7.3.5 The UK, in collaboration with like-minded countries, should agree a process for a thorough efficiency audit of EU institutions and agencies. The process should consider ways to rationalise and collaborate over back-office functions in order to find savings.

One seat for the European Parliament

7.3.6 The European Parliament has three official seats, in Strasbourg, Brussels and Luxembourg. This wasteful arrangement was entrenched in an agreement contrived by the Conservative UK presidency of the EU in 1992, and enshrined in treaty under the Labour government in 1997. The monthly 440-mile round-trip for MEPs between Brussels and Strasbourg costs £150m annually and generates almost 20,000 tonnes of CO₂ emissions.

7.3.7 Edward McMillan-Scott MEP – the only British Vice-President of the European Parliament - leads the campaign for a single seat in Brussels. A large majority of MEPs themselves have demanded that EU governments revise the treaty fixing the European Parliament's official 'Seat' in Strasbourg.

7.3.8 Liberal Democrats will continue to campaign to bring an end to this wasteful and unjustifiable arrangement.

Maximising British Influence in Brussels

8.0.1 As one of the three largest member states, with considerable interests and influence across all policy areas, the UK is influential but should and could be more so.

8.0.2 The English language is increasingly the *lingua franca* of the European Union, and the UK is widely acknowledged to have among the best policy coordination and diplomatic resources in the EU. Yet, too often the UK has failed to capitalise on these advantages by not doing enough to work with like-minded states for change, by failing to get our brightest and best into the EU institutions, and by failing to realise that European party groupings play an increasingly important part in shaping the development of the EU.

8.1 Working with Groups of Like-minded States

8.1.1 Liberal Democrats have long argued that a more active and engaged UK approach to doing business with our partners in Europe would achieve results. Liberal Democrats in government have begun to prove the success of this approach. Upon entering Government, Nick Clegg and Ed Davey launched a 'like-minded' group of countries for growth, made up of ten EU governments which meet regularly to discuss shared priorities for jobs and growth and develop common agendas to promote at the EU level.

8.1.2 In autumn 2012, Vince Cable with thirteen other EU governments produced a joint statement of 10 key principles for smarter EU regulation, designed as a guide for the Commission, which is working, on a new EU smarter regulation programme. Ed Davey has continued to pilot this cooperation with a like-minded group for green growth.

8.1.3 The building of like-minded groups of states is vital to the exercise of British influence, and is likely to become more so in future. Liberal Democrats will continue to work with our partners for renewal and reform of the EU.

8.2 European Party Politics

8.2.1 Liberal Democrats in government have shown leadership and won reform by working with our European liberal allies. Liberals now make up a third of all Commissioners, including in key posts such as trade and JHA. We have demonstrated that by articulating a common agenda for Europe we can build alliances and get a better deal in a more liberal Europe. But more can be done. Indeed, it is in the British national interest for all the mainstream political parties, and the UK Government, to build those links and use them effectively. Government departments need to make a much greater effort to engage with those MEPs, from all countries, who are active in their policy areas.

8.2.2 This is increasingly important, not only because of the European Parliament's position in the EU, but also because of the caucusing of party leaders before most European Council meetings which has now become a routine part of political life in the EU. The Conservative Party's decision to leave the European People's Party has in practice meant that in meetings of the EPP leaders from the EU member states the British voice has gone unheard, often at tactically very important moments.

8.3 Promoting British Talent in Brussels

8.3.1 All EU Member States benefit from having talented nationals working in the EU institutions to contribute to collective policy-making. Yet the UK has an exceptionally poor record at recruiting its citizens into the EU institutions, and is currently the most under-represented of any of the member states.¹⁵ In the most recent 2012 EU-wide competition, fewer than 3% of the successful candidates were from the UK (which has some 12% of the EU's population), with only six from 1000 candidates making it through to the final stage. Other states had more successful candidates and a much larger pool of entrants (around 3000 each from France and Germany).

8.3.2 In addition, over the coming decade Britain faces a virtual wipe-out in the more senior grades across the EU institutions, as older officials, who joined soon after the UK's accession, retire. Liberal Democrats in Government have attempted to reverse this situation but far more needs to be achieved.

8.3.3 Liberal Democrats strongly support more active encouragement of potential UK candidates, as well as better training, particularly in languages, mentoring and networking for UK candidates in EU recruitment processes.

8.3.4 Liberal Democrats support the recent proposal by the House of Commons Foreign Affairs Committee for the Foreign Office to provide an annual update to Parliament on progress towards improving British representation in the EU institutions.

¹⁵http://ec.europa.eu/civil_service/about/figures/index_en.htm

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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, the Welsh Liberal Democrats and the Northern Ireland Local Party 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. The Party in England has chosen to pass up policy-making to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland 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 implement all these proposals immediately. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

Working Group on Europe

Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.

Ben Jones (Chair)

Colin Budd

Kay Barnard

Fiona Hall MEP

Martin Horwood MP

Paul Haydon

Edward Macmillan Scott MEP

Peter Price

Simon Tittley

Dr Julie Smith

Alison Suttie

Adrian Trett

Professor Helen Wallace

Staff:

Catherine Kingdom

Conan Darcy

Ed Webber

The Chair wishes to thank to all those who offered evidence and views, with particular thanks to Jeremy Hill, Sir Brian Crowe and Graham Bishop.

Comments on the paper are welcome and should be addressed to:

Policy Unit, Liberal Democrats, 8-10 Great George Street, London, SW1P 3AE

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Liberal Democrat Image, PO BOX 443, Farnborough, Hampshire, GU14 4DA

Tel: 01252 510 005 Email: libdemimage@ldimage.demon.co.uk

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