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The Role of Context in European Union Negotiations

Introduction

While international organisations, such as the United Nations, the European Union and the World Trade Organization, differ in many regards, a largely common feature amongst them is the prevalence of negotiations. The decisions and policies that emerge from these organisations tend to represent the outcome of negotiations between their members. Thus, in order to understand issues ranging from the output of an international organisation (IO) in a particular policy area to the evolving structure of an IO over the longer term, it is useful to examine preceding negotiations, and consider the positions of negotiating parties. Examining the case of the European Union negotiations over EU-level financial regulation through a negotiation analytic approach, this paper highlights the challenges facing policymakers in the original phase of international negotiations, where the aim is to establish initially a common framework at the supranational level.

In the following section, I begin by presenting evidence of the need for enhanced coordination of financial regulation at the supranational level, before discussing significant political challenges to establishing and implementing coordinated financial regulations. In the next section, I introduce the theoretical argument that negotiations will differ depending on whether they take place in the presence of an established policy at supranational level. In other words, I distinguish between negotiations that aim to establish policy, as opposed to those that aim to reform existing policy. I then highlight important differences between the original and reform phase of negotiations in the EU, and discuss the impact of these distinct negotiation contexts on potential agreements emerging from each phase.

The third section discusses some empirical evidence of the impact that context can have on the process and outcome of negotiations. From there, I draw the conclusion that, in the original policymaking phase of negotiations, the state or states with the most attractive alternative to agreement will wield significant influence, making compromise agreements more elusive than in the reform phase of negotiations, where a more level playing field facilitates compromise. In the final section, I consider the implications of this conclusion for the future of financial regulation in the EU and beyond.

The Case for Supranational Financial Regulations

The global financial crisis that began in the US in 2007 has focused the attention of policy makers and publics in countries around the globe on the tension between intense financial integration, with the resultant interdependence of national economies, and nationally differentiated financial regulatory regimes. This issue did not emerge from nowhere as a result of the financial crisis, and past efforts to address it can be seen, for instance, in the Basel I and Basel II international capital regulations both agreed prior to the crisis. However, the crisis is responsible for elevating the issue to the top of political agendas and for placing it on the radars of many countries' citizens who would be otherwise unaware of and potentially unconcerned with such a highly technical issue. To be sure, much of the public sentiment, for example in the US, where the crisis was largely born and bred, is about tightening national regulations, rather than the issue of enhanced coordination at the international level. However, in many other parts of the world, where the crisis was simply bred by the scale of international financial integration, the question is about how to ensure that the damage done by light touch financial regulation in one territory does not spread to other, more tightly regulated domains.

I do not aim to take a normative position in this paper, on whether financial regulation should be tightened, or whether loose regulation was the cause of the financial crisis, or a host of other questions that have spawned endless debate over the past years since the onset of crisis. Rather, my aim is to advance evidence on the need for enhanced coordination of financial regulation, in whatever direction it may go. One might argue that by advocating another level of financial regulation, I am already adopting a position in support of more regulation, but to this I would respond that a supranational regulatory regime could be coordinated along the lines of the American and British models of neoliberal regulation that existed prior to the crisis, with the result that regulation of financial institutions would be reduced, if anything, compared to a world where the French and British regulatory regimes coexist at national level alone. Thus, I am committed to neutrality on the design of a supranational regulatory regime, while I argue in favor of its existence.

In particular, I focus on the political side of the argument, along the lines of national sovereignty. One very relevant argument in this regard is Goodhart and Lastra's 'cross-border problem', which identifies the result of nationally differentiated regulatory regimes as movement of the activity in question from a more to less regulated boundary (Goodhart & Lastra, 2010). A similar point is raised in the de Larosiére report on the need for EU and global coordination of financial supervision, regulation and crisis management mechanisms. Specifically, the report identifies as one of the main regulatory failures in the lead up to the crisis that the presence of strong international competition among financial centres effectively prevented unilateral action by national regulators (de Larosiére report, 2009: 11). Given the reality of international financial integration, it is very easy, as both of these publications point out, for interested parties to cite the level-playing-field argument in opposing any regulatory tightening at the national level and, considering the size of the financial services sector in London and New York, as compared with Paris, for instance, there is certainly evidence to support the argument that looser regulatory regimes facilitate the growth of financial centres.

To be sure, there are a host of reasons, not all to do with regulatory regime, why some financial centres are larger than others, but as long as the level-playing-field argument carries weight, it is somewhat less relevant whether this is an accurate portrayal of reality. Rather, what matters is that national regulators operating unilaterally are constrained by the possibility that this is an accurate portrayal, in other words, that the decision to impose a unilateral tightening of the regulatory regime would lead to an exodus of financial institutions from their territory, at which point it might be too late to backtrack. Thus, as Goodhart and Lastra argue in the aforementioned article, the sovereignty of national governments is limited by the power conferred on financial interests under the status quo system of nationally differentiated regulation (Goodhart & Lastra, 2010), which implicates the need for enhanced supranational regulation.

Another issue with regard to 'cross-border problems' is that national governments acting unilaterally can force the hand of others that would have been unlikely otherwise to implement a particular regulatory change. This is due to the presence of financial institutions in multiple territories, and the relative ease with which banking customers can thus move their deposits. For example, while the EU tried, through measures to complete the single market in financial services, to address the issues surrounding financial institutions with operations in multiple member states, the financial crisis laid bare the missing pieces. Specifically, differences in deposit guarantee schemes across member states meant that the decision by the Irish government to increase the amount of savings guaranteed in the wake of the financial crisis made it more attractive for savers to deposit money in Irish banks than in those regulated by member states with smaller guarantee amounts (Jones, 2008), which places pressure on others to increase the amount of savings covered by their own deposit guarantee scheme. Accordingly, this is one of the problematic inconsistencies in existing legislation cited in the de Larosière report of 2009.

Thus, the problem of nationally differentiated regulation in the presence of international financial markets is not necessarily, or not only, the drive to loosen regulation for competitive purposes but, more broadly, the aforementioned issue that national governments are not sovereign in the face of cross-border banking. As long as differential leverage ratio requirements in different states incentivise banks when choosing where to locate their business, and distinct deposit guarantee schemes induce savers to deposit in the bank of one member state rather than another, and assuming that it is beneficial to host banks and to receive deposits within national borders, then national governments are constrained significantly by the near absence of supranational regulatory standards.

I have advanced only a few broad examples of the host of reasons why an increasingly global financial market should not be regulated at national level alone. While I submit that some global regulatory regime would be ideal, given that regionally differentiated regulation does not address the problem of regulatory arbitrage restricting unilateral action, I acknowledge that some such issues, for example the case of deposit guarantee schemes, are potentially more relevant to the case of the EU, host to a single market in financial services. Along the same lines, the EU appears to be the most likely locus for the emergence of robust supranational financial regulation, which makes it a particularly interesting case for analysis, even if it is hardly the only region where my discussion of the need for supranational regulation applies.

Although the EU does appear to represent the best chance for supranational financial regulation, there remain significant obstacles to its realisation. This is not uniquely true in the case of financial regulation, though, as political obstacles present themselves in any area of European integration. Thus, I will not undertake, at this point, a detailed discussion of the general political difficulty surrounding European integration, but will return to the topic of political challenges, some general and some particular to this policy area, in a later section of the paper.

Theoretical Framework

There is a wide body of literature that seeks to explain instances of international cooperation or coordination and the circumstances under which states agree to enter into cooperative agreements or coordinate their policies with other states (see for example Keohane, 1984; Oye, 1985; Young, 1989). A common approach in this literature is to specify the type of collective action problem with which states are faced, and identify the corresponding circumstances under which states are likely to reach negotiated agreements to address this type of problem, as well as determining the general institutional form the agreement is likely to take (Garrett, 1992). It is possible, using this approach, to demonstrate whether states have achieved negotiation success, in terms of whether or not an agreement has been reached. In other words, if the negotiating parties have made the decision to coordinate, rather than not coordinate, the negotiations have been successful. However, in order to demonstrate the relative influence of one state or another, it is necessary to consider negotiation success beyond this dichotomy of coordination/non-coordination, and focus on the specific, rather than general institutional form of an agreement.

James Sebenius (1992) argues that an approach which seeks to explain negotiated outcomes in terms of a dichotomy between cooperation and defection is incomplete, and that it is necessary not only to consider whether agreement was reached, but also the distributive implications of an agreement. Analysing international cooperation in terms of the type of problem negotiators try to solve and the corresponding strategies they will use to achieve a set of possible payoffs is broadly the game-theoretic approach to explaining international cooperation (Sebenius, 1992). There is a wide body of literature that employs game-theoretic analysis to draw inferences about state behavior, the design of international institutions and other questions central to the study of international relations (see for example Snidal, 1985; Koremenos et al., 2001; Martin, 1992). Koremenos et al. argue that game-theoretic logic allows researchers to draw a connection between independent variables of circumstance and dependent variables of institutional design (Koremenos et al., 2001: 774-775), and as Sebenius puts it, game theory is of the 'structure determines outcome' school of thought (Sebenius, 1992: 347). The game-theoretic approach is useful in drawing a distinction between the original and reform phase of negotiations in an IO, because it highlights such factors as the type of problem, the choices and strategies available to players, and the potential payoffs from cooperation.

However, one weakness of a game-theoretic approach, with regard to this paper, is the set of assumptions involved with formal game-theoretic analysis[1] that do not often hold in real-world situations, including the EU negotiations I examine. In his critique of game theory, Sebenius (1992) argues that these assumptions represent a crucial weakness in the literature that employs a game-theoretic analysis, and argues for negotiation analysis as an approach that benefits from its relaxation of these, in particular the assumption of full rationality and pareto-optimality that game-theoretic analysis applies to studying negotiations. While negotiation-analytic approaches can vary considerably[2], the key element of the approach emphasised in this study are perceptions of the zone of agreement and, related, integrative versus distributive bargaining (Sebenius, 1992). In the following section, I describe how these crucial elements of negotiations change between the original and reform phases.

[1] See Young, 1989: 358-359 for a discussion and critique of these assumptions.

[2] See Sebenius, 1992: 324 (footnote 4) for a brief review of negotiation-analytic studies.

Original and Reform Negotiations: What's the Difference?

There are four main, interrelated reasons why the negotiation phase in an IO, that is the original policymaking phase as opposed to the policy reform phase, has an impact on the general process and outcome of negotiations. The first reason is that the default condition changes substantially between phases. Specifically, in the original phase of negotiations, there exists no institutionalised cooperation at the supranational level, so the default condition in case of no agreement is simply the existing national policies on offer. To take the example of financial regulation, there is at present no comprehensive policy for financial market regulation at EU-level. Some measures have been agreed, but the transfer to supranational level of an effective framework for regulating EU financial market activity has not occurred. This is a topical issue in response to the recent global financial crisis and the process is ongoing to institutionalise cooperation in this area at EU-level. However, as is often the case in the EU, different members want different things and all are interested in safeguarding national interests.

Crudely, this means that France wants a stricter set of regulations imposed on financial markets than does the United Kingdom, the capital of which is host to big investment banks that favor the British market for its relatively loose regulations in comparison to other markets (Whyte, 2012). The finance industry is an important source of income for the UK and so British national representatives negotiating at EU-level will tend to oppose introducing regulations that might lead these banks to relocate from London (Whyte, 2012). In contrast to this, not only do other EU member state representatives see the UK approach to financial regulation as a potential threat to the stability of the global economy, they also, therefore, see UK participation as essential for the effectiveness of any EU-level agreement on financial regulation. Further to this, as long as the UK maintains a domestic policy that is comparatively friendly to international finance, other European markets, arguably, are at a disadvantage in terms of attracting this sort of revenue, due to regulatory arbitrage (Goodhart & Lastra, 2010). At this stage of negotiations, then, the default condition, which is that all member states maintain existing national policies, is more attractive to the British than to their continental counterparts.

To take this example further, assuming that competences were effectively transferred from national to supranational level, in the realm of financial market regulation, the default condition changes. In other words, once the decision has been taken to institutionalise comprehensive financial regulation at EU-level and the policy established, the default condition for all member states in any future negotiations is that policy framework. So, in the event that the policy states have agreed to establish should at some future point become suboptimal, and the decision is taken to negotiate reform of financial regulation at EU-level, it would not matter that the UK used to have the most finance-friendly market, because the default condition at that point is not a return to different national policies, but rather maintenance of the supranational policy states have set out to reform.

It is crucial to note, though, that this change in default condition only comes into effect where there has been some meaningful transfer of competence to the supranational level. In other words, the original phase of negotiations may be successful, insofar as negotiations don't break down and states reach some agreement, but unless the agreement requires a shift in policy administration from the national to supranational level, there is the possibility to return to national arrangements and hence the default condition does not truly change. An example of international negotiations that result in an agreement but no real change in the default condition is the Kyoto Protocol regulating greenhouse gas emissions. Specifically, while this agreement commits states to observe binding targets for the emission of greenhouse gases, it does not involve the transfer of policy administration to the supranational level, but rather requires states to report on emissions themselves. Thus, in any reform negotiations over Kyoto, it would be possible for states to return to domestic policies regulating greenhouse gas emissions without incurring material costs such as reestablishing agencies whose responsibilities have been transferred largely to supranational level. Of course there are other costs to consider, such as reputational costs that would be involved with departing from supranational cooperation and returning to national-level policy, but the important point is that the default condition does not change significantly in this case between the original and reform phase of negotiations.

In contrast to this, in a policy area such as monetary union, the default condition changes drastically between the original and reform negotiations, because in the former, states have distinct national currencies and central banks, while in the latter, they share a common currency and central bank. This is not to say that in the area of monetary union or in the aforementioned example of financial regulation, there is no possibility for states to return to national policy after agreeing a supranational policy, but rather that the costs of doing so are likely too great for this to be a real option except in the most extreme cases. Thus, for the majority of reform negotiations over such policies, the change in default condition from the original to reform phase is significant enough to change negotiations in the latter.

The second, and related reason why the negotiation phase matters is that the original phase consists not only of negotiations over how a supranational policy should look, but also over whether there should be a supranational policy at all. For this reason, member state preferences will be composed of both whether to institutionalise coordination at the international level and the form this coordination should take. Thus, a member state that is attempting to convince others to accept their preferred policy design will be unlikely to win over another member that is unsure of the merits of establishing a supranational-level policy in the first place, and if the latter state is to be persuaded, it will likely be on their terms. In the reform phase, on the other hand, preferences are composed only of the form coordination should take, because the issue of whether or not to coordinate has already been decided. Thus, more attention should be paid to identifying a policy design that satisfies all negotiating parties, rather than 'buying off' an uncertain partner.

It is important to point out here that in fact member state preferences in the reform phase might be composed of both whether or not to reform the existing policy and how that reformed policy should look. While this might be the case, it is not a comparable situation to that in the original phase of negotiations, where states are deciding whether to institutionalise coordination at the international level at all. This is so for two main reasons, the first being that states are unlikely to enter into complex and often costly multilateral negotiations to reform a policy that they are content with. In the original phase of negotiations, states that are happy with existing domestic policies might agree to a supranational policy because there are material benefits in transferring policy responsibility to the supranational level, for example in terms of the EU providing oversight that is costly to arrange at the national level. Or, in a world characterised by increasing interdependence, it might be that a particular policy area is better addressed at the supranational than the national level, so even a state with relatively effective domestic policies can envision that supranational policy will be more effective. These are only two examples, but it is relatively easy to make a case for why a state that is satisfied with the status quo might still be willing to transfer policy responsibility to the supranational level. In contrast to this, it is difficult to imagine reasons why states that are satisfied with existing supranational policy would set out to reform it.

The second reason why the situation regarding preference composition is so different between negotiation phases has to do with compliance. Specifically, compliance is not a factor in the original phase, because there has been no supranational policy present to comply or not comply with, prior to that point. However, in the reform phase, compliance is certainly a factor, not least because compliance problems are likely to have been a catalyst for policy reform. In the case of widespread non-compliance, member states have a very strong and common incentive to reach agreement in the reform phase, because the alternative is being saddled with a policy that has proven ineffective. Even in the case where one or a few states have failed to comply with existing policy, and the mechanisms provided for within the EU have been unable to address this non-compliance, all member states have an interest in reforming the policy, so as to avoid free-riding or negative externalities caused by the non-compliers. So, while preference composition in reform negotiations might involve whether or not to reform the existing policy and how that reformed policy should look, this is a very different situation than when preferences are composed of whether or not to coordinate at the supranational level in the first place.

The third reason why negotiation phase matters is that the change in default condition between the original and reform phases translates to a leveling of the playing field. In the original phase of negotiations, the default condition means maintenance of domestic policies, which, in almost any policy area, leaves some states with better policy options than others. To return to the example of financial regulation in the EU, as long as no comprehensive framework is established for financial regulation at EU-level, there exists an asymmetrical interdependence amongst EU member states. Specifically, British policy on financial regulation means that Britain is able to attract and maintain big finance within its borders, which confers great benefits on the British economy, in terms of jobs, tax revenue, etc. At the same time, the interdependence of European economies means that other states are vulnerable to the risks involved with loose financial regulation, as witnessed through the recent global financial crisis and related economic crisis that is still ongoing in the Eurozone (Whyte, 2012). Thus, as long as there is no coordination of financial regulations at EU-level, there exists an asymmetrical interdependence between the UK and other EU member states.

Once states institutionalise coordination at the supranational level, though, this asymmetrical interdependence becomes more symmetrical. Whether states have agreed to adopt a common policy or merely to uphold a common set of standards in a given policy area, there is no longer the same opportunity for one state to benefit from domestic policy, or else demand concessions in return for institutionalising international coordination. It might be very difficult, in some cases, to negotiate an agreement where states with more competitive regulations standardise in accordance with international regulations, but in the event that such agreements are concluded, the interdependence between participating states is far more symmetrical from that point on. In other words, the influence a state derives from a more competitive or more desirable domestic situation is no longer at play in the reform phase of negotiations, where the default condition leaves all states with the existing common policy or standards.

This leveling of the playing field, or increasingly symmetrical interdependence, between the original and reform phase of negotiations leads to decreased distributional conflict in the reform phase, which is the fourth reason why negotiation phase matters. In the original, policy-making phase of negotiations, some states typically have much more to gain than others from institutionalising coordination at supranational level, and those latter states will expect concessions in return for reaching an agreement. In the reform phase, though, it is in the interest of all states to reach an agreement, precisely because the alternative is to maintain the existing policy they have set out to reform. While, as previously mentioned, some states may be more enthusiastic than others about the prospect of policy reform, for example states experiencing compliance problems, all states risk experiencing negative externalities caused by states that cannot comply, and are thus in no position to extract concessions for agreeing to policy reform. This is not to say that all reform negotiations result in effective policy reforms, as of course reform negotiations can break down just as original negotiations do. Rather, the important point here is that states do not derive influence in the reform phase from relative satisfaction with the status quo, compared to other negotiating parties.

The following table summarises the four points discussed above:

Phase in the policy process	Policy making	Policy reform
Default Condition	No supranational policy	Same supranational policy as that agreed in original negotiations
Preference Composition	1.) Whether to establish a supranational policy 2.) How supranational policy should look	1.) Whether to reform existing supranational policy 2.) How reformed policy should look
Interdependence	Asymmetrical – the default condition leaves some member states with better policy options than others	Symmetrical – the default condition leaves all member states with the same supranational policy
Level of Distributional Conflict	High – some member states have much more to gain than others from agreeing a supranational policy, and those latter states will expect compensation for reaching an agreement	Low – while some states, for example those experiencing compliance problems, may have more to gain than others from agreeing a reformed policy, the latter states risk experiencing negative externalities caused by states that cannot comply, and are thus in no position to extract concessions for agreeing to policy reform

Integrative versus Distributive Bargaining

Having highlighted some key differences between the original and reform phase of negotiations, the focus now turns to bargaining dynamics. There is a body of literature that aims to link the level of distributional conflict in negotiations with the perceived costs of making concessions and the type of bargaining actors will employ (for example Conceição-Heldt, 2006; Naurin, 2009). The general argument is that where the distributional implications of a choice are small, and there is thus less at stake, bargaining will be less competitive, while bargaining will be more competitive when the distributional implications of a choice are large, and there is thus more at stake in the negotiation process (Naurin, 2009). While a variety of labels exist to distinguish between more cooperative and more competitive forms of bargaining, this paper will refer to integrative and distributive bargaining (Walton & McKersie, 1965).

Naurin (2009: 37) distinguishes between these two types of bargaining as follows: "integrative bargaining involves efforts at reaching agreements by comparing and matching fixed preferences, searching for solutions that will satisfy all participants given their existing preferences"; "distributive bargaining, by contrast, denotes a competitive bargaining game, where actors try to solve the conflict by pressuring the other participants to make concessions". Another useful distinction between integrative and distributive bargaining is the presence of a fixed, unchanging and generally acknowledged negotiation set with the latter, as opposed to the former (Young, 1989). To summarise, integrative bargaining involves attempts by actors to change the positions of other actors through the process of negotiations, which is made possible by the flexibility of negotiators to change their positions in the absence of clearly defined win-sets, high stakes and resultant political pressure, the presence of which factors will lead to a distributive style of bargaining.

It is important, here, to distinguish between positions and preferences, in that cooperative forms of bargaining, such as integrative bargaining, are centred on the goal of making actors compromise on their positions, not their preferences. In any bargaining context, preferences tend to be fixed, while positions may be more or less flexible. To use, again, a distinction employed by Naurin, an actor's preferences are composed of their normative ranking of different courses of action, that is what they want and what they believe to be right, while their position indicates which compromise solution they are willing to accept (Naurin, 2009: 40). Thus, the process of integrative bargaining entails clarifying preferences and preference orderings, to facilitate compromises and move actors from their original positions to a common position. In contrast to this, when the negotiation process involves attempts by actors to change the preferences of other actors, arguing, rather than bargaining, takes place (Naurin, 2009).

Of course, this characterisation of negotiation processes is an ideal-type, and in practice, international negotiations will tend to be characterised by some mixture of both bargaining types. In fact, Dür and Matteo (2010) argue that there is little utility in the distinction between integrative and distributive bargaining, given the overlap that occurs between the two in any one set of negotiations. Still, for the purposes of this study, it is useful to establish some typology against which to compare the empirical evidence, even if the theoretical distinction is a simplification of the empirical reality.

Drawing on the descriptions by Naurin and Young of integrative and distributive bargaining, the circumstances present in the original phase of international negotiations appear more conducive to distributive bargaining, whereas those in the reform phase should lead to a more integrative style of bargaining. The reason behind this is that in the original phase of negotiations, negotiating parties will have distinct domestic arrangements, which in most situations, particularly those regarding regulation, will imply a comparative advantage for some state or states relative to others. Thus, while some negotiation analysis rests on the assumption that all parties want to reach an agreement and hence will not abandon the negotiation process, I contend that this cannot be assumed and in fact the willingness to abandon negotiations will be a key determinant of negotiation process and outcomes in the original phase of international negotiations.

Specifically, as predicted by Nash bargaining theory, the state or states with most to gain from the core agreement, relative to unilateral alternatives, tend to offer greater compromises to secure an agreement (Moravcsik, 1998), whereas the state or states with the most attractive alternative to agreement may prefer to abandon negotiations, or at least threaten to do so, if the agreement would leave them worse off than the alternative. This threat, implicit or explicit, has the effect of fixing the zone of agreement, because the state with the best alternative to agreement can exit negotiations rather than shift position. However, as I argued in the previous section, this constraint should be absent in the reform phase of negotiations, with the effect that competitive bargaining gives way to cooperative bargaining aimed at fixing whatever defect has arisen with the existing international level policy states are negotiating to reform. Thus, I derive the following hypotheses regarding original and reform negotiations:

H1: In the original phase of negotiations, the state(s) with the best alternative to agreement will fix the boundaries for the zone of agreement

H1a: If the states with the best alternatives to agreement have opposing positions, the zone of agreement will exist between those two positions

H2: While the threat of exit may be present in the original phase of negotiations, it will be absent in the reform phase

H2a: Absent the threat of exit, the zone of agreement will be subject to change by all actors in the reform phase of negotiations

Methodology

The two cases I consider are the Stability and Growth Pact (SGP) negotiations[3] and the financial regulation negotiations. I select the SGP because it has been through an original and reform set of negotiations, the former concluding in 1997 and the latter in 2005. In addition to this, given that the SGP agreement facilitated progress to full economic and monetary union, it is one of the starkest examples of a shift in the default condition, between the original and reform phase of negotiations. In other words, during the original

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[3] My research on the SGP negotiations is far more extensive than the summary I present in this paper, a necessary compromise due to space constraints. Please feel free to contact me, should you wish for further information on my research design and the entirety of my findings.

phase of negotiations over the SGP, the default condition would have been for all member states to maintain existing national currencies, whereas, by the time of the reform phase, the default condition would have left all member states with the euro and a defunct policy as the main anchor for stability of that common currency.[4] For these reasons, I saw the SGP as a necessary case on which to test my arguments – if the hypothesised changes between the original and reform phase of negotiations over the SGP were not confirmed, then the argument would have been largely discredited.

Having found support for the hypothesised effects of changing negotiation context between original and reform negotiations, for the SGP, it was essential to find further cases on which to test the argument. While negotiations over financial regulation in the EU have not yet seen the completion of the original phase, this is a topical area and one in which the dynamics I highlight, with regard to comparative advantage in the original phase, are clearly at work. In addition to this, the role of domestic politics is particularly interesting in this case. Specifically, while the UK, and in particular the City of London, benefits from a competitive regulatory regime in comparison to Paris and Frankfurt, for instance, one effect of the financial crisis has been to turn domestic opinion against finance and the light touch regulation that is seen as a major contributing factor (The Herald, 28th October 2008). Thus, where Putnam's two-level game would typically see a national government highlighting domestic opinion in favour of maintaining some comparative advantage as a bargaining strategy (Putnam, 1988), in this case, domestic opinion is potentially more likely to force the hand of the British government in agreeing to financial regulation it would be unwilling, otherwise, to accept.

While it is not possible to advance conclusive findings regarding the financial regulation negotiations, given that the majority of measures are yet to be agreed, I will comment on the preliminary outcome of negotiations over core capital requirements. I will discuss more extensively my findings with regard to the SGP negotiations, and the extent to which these cases are comparable, as well as how far evidence from the SGP negotiations offers useful predictions for the process and outcome of the remaining financial regulation negotiations.

I utilise a qualitative methodology in analysing the SGP negotiations, and draw my findings from a combination of national and EU documentary evidence, media reports, secondary sources, participant surveys and 15 in-depth interviews with EU and member state officials who participated in the original and/or reform phases of SGP negotiations. The EU officials were all Commission representatives to the Monetary Committee/Economic and Finance Committee[5] and/or the Economic and Financial Affairs Council. The member state officials were representatives to the Monetary Committee/Economic and Finance Committee[6] and/or the Economic and Financial

[4] While there is debate over whether the euro was already a certainty by the time of the SGP negotiations (Heipertz & Verdun), interviews conducted for this research made very clear that agreement on the SGP and, related, progression to full EMU were not certain.

[5] Name change post-1999

[6] In one case, it was necessary to interview the alternate representative to the Monetary Committee/Economic and Finance Committee, because the full representative was unavailable.

Affairs Council, and came from the following member states: Belgium, France, Germany, Greece, Luxembourg, the Netherlands, the United Kingdom.[7]

In order to test the hypothesised effects of negotiation context in the case of the SGP negotiations, it was necessary to establish which state or states had the best alternative to agreement in the original and reform phases of negotiations. I define alternative to negotiated agreement as the default condition for a member state in case of no agreement. Therefore, the quality of a member state's alternative to negotiated agreement is directly related to their satisfaction with the status quo (Lax & Sebenius, 1985; Moravcsik, 1998).

While there has been no systematic attempt to measure member state alternatives to agreement in the 'uploading' and 'reuploading' phases of the SGP negotiations, Moravcsik (1998), in an investigation into the Maastricht Treaty negotiations, provides useful indicators for the quality of member states' alternatives, which can be adapted for the purposes of this study. Specifically, Moravcsik highlights such factors as currency stability, trade relationships and domestic opinion as determinants of member state bargaining power over the EMU arrangement, which he argues derives from the quality of their alternative to agreement (Moravcsik, 1998).

In a study of four competing theoretical explanations for the establishment of the SGP, which includes an intergovernmental approach, Martin Heipertz and Amy Verdun cite similar indicators to Moravcsik's as determinants of the strength of member state bargaining positions during the original SGP negotiations. Heipertz and Verdun add importance to the completion of EMU and the legitimacy, or otherwise, of walking away from EMU as further factors. The same authors, in an analysis of the SGP reform negotiations, consider member state debt and deficit levels, as well as past experience with the Excessive Deficit Procedure (EDP) as indicators of preference intensity for reform (Heipertz & Verdun, 2010). Thus, in the original phase of negotiations, the quality of a member state's alternative to agreement is understood to derive from their satisfaction with existing domestic policy options, while in the reform phase of negotiations, it relates to their satisfaction with existing EU policy. In other words, where unilateral alternative is not a feasible option, because states are locked into cooperation, the quality of a state's alternative to agreement depends on their willingness or otherwise to maintain the common EU policy they have set out to reform.

For the purposes of my study, I consider the following indicators in measuring the attractiveness of a member state's alternative to agreement during the original phase of SGP negotiations: currency stability, domestic opinion toward EMU membership, the likelihood of key trading partners joining EMU and whether the state was pivotal to the project going ahead. It can be assumed that the more stable a member state's currency, the less urgent the need for enhanced credibility from the common currency, which indicates a more attractive alternative to agreement. I consult one issue per quarter of the *Financial Times* 'currencies' section for the years 1991, 1992, 1993, 1994, 1995, and 1996 to capture the currency stability of each member state. This time period provides for a look at currency stability prior to completion of the Maastricht Treaty that enshrined a commitment to full EMU, as well as in the period just after the signing of the Treaty and throughout negotiations over the SGP.

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[7] I selected these officials on the basis of their relevance to the negotiations and/or because they held Chairmanship or Presidency roles during the course of negotiations

The role of domestic opinion toward EMU membership impacts on the attractiveness of alternative to agreement in that the more favourable domestic opinion was toward EMU membership, the more costly for the government if the project did not go forward or the state in question failed to qualify, while the more opposed domestic opinion was, the more legitimate it would have been for the state to withdraw from SGP negotiations, and hence the running to join the single currency. This indicator is based on results from Eurobarometer surveys for the years 1994, 1995, and 1996, in which the percentage of member state populations supporting and opposing single currency membership are estimated from responses to a number of related questions.

With regard to the likelihood of key trading partners gaining membership, it would have been potentially more costly, both politically and economically, for a state to turn away from EMU if their key trading partners adopted the common currency, thus conferring a more attractive alternative to agreement on a state with key trading partners unlikely to join EMU in the first round. Finally, if a state's exit from negotiations meant the termination of the project, than any concern about the costs of non-participation are moot, giving such a state an extremely attractive alternative to agreement compared to others, which were not pivotal to the project's completion. Both of these indicators are apparent from media reports and secondary sources written about the negotiations, which report with widespread consistency the states that were expected to join and those that were deemed pivotal to the project. With regard to the key trading partners, it is worth noting that, of course, nearly all EU member states have a considerable volume of trade with others, though there are trading relationships that are particularly intense, as well as those small, open economies in the EU that depend on trade more heavily than others.

In the case of reform negotiations over the SGP, the alternative to agreement for all member states would have been to continue with the SGP as it stood. Thus, the indicators I consider in measuring the attractiveness of a member state's alternative to agreement during the reform phase are: whether the state had been subject to initiation of the Excessive Deficit Procedure (EDP), whether the state had a deficit close to the reference value of 3% of GDP in the lead up to and during the time of negotiations and whether the state had a debt close to the reference value of 60% of GDP prior to and during negotiations. With regard to the first indicator, for a state that had already reduced deficit levels in line with the existing EDP, the need to secure a weakening of the rules would be less urgent than for a state that was unsure of how their government and public would cope with initiation of the EDP in the first place. Furthermore, a state that had already been subject to the EDP would be less willing to see other member states escape that process through securing reforms to weaken the SGP.

The deficit level in the lead up to and at the time of negotiations has significant implications for the attractiveness of a state's alternative to agreement because a state that was likely to breach the ceiling provided for under the original SGP would have a stronger preference for securing reforms than a state that did not face the impending threat of sanctions under the existing arrangement. Finally, a state with a high debt level may have preferred an overall weakening of the pact, but would have found the alternative to agreement more attractive than a reform deal that shifted the focus of the EDP from deficit to debt levels, which was a possibility in this case. I rely on the 'Stability Program', which all EMU members have been required to publish on an annual basis since the launch of EMU in 1999, in order to capture each of these indicators. In addition to reporting on debt and deficit levels, as well as the existence or otherwise of the EDP for a given state, these programs are met with a written response from the Commission, which provides a useful check on the reliability of their content.

Based on these indicators, I conclude that the member state with the best alternative to agreement in the original SGP negotiations was Germany. However, given that the project would not have gone ahead unless both Germany and France were participating, I consider France to have an alternative to agreement that was nearly as attractive as that of Germany.[8] In the reform phase of negotiations, I found that Belgium held the best alternative to agreement.

For the remainder of my hypotheses, it was necessary to capture the positions of the member states with the best alternative to agreement, as well as the median position and the actual outcome. Following Thomson et. al eds. (2006), I measure member state policy positions immediately following the introduction of the Commission proposal in both phases. In order to measure member state positions, I consulted position papers from national parliamentary databases, where available, media reports and secondary sources.[9] I also asked interviewees to describe the positions of their delegation, as a check on documentary evidence.

In addition to describing their positions, member state representatives were asked to identify the most important issue(s) for their delegation, and Commission officials were asked to identify the most important issue(s) overall. The reason for this is that it is a more accurate portrayal of negotiation success to demonstrate how well a member state was able to influence the outcome of agreement over issues of general, rather than individual importance. In other words, if a state succeeds at influencing negotiations to the extent that the issue outcome reflects the position of that state, this could result from that state being unopposed because the issue was of special importance to that state alone.

Along similar lines, it was essential to identify the level of importance assigned by an individual state to a given issue, as success over issues of particular importance is arguably more indicative of negotiation performance than is success over issues of little importance to the state. In fact, the latter successes may be more accidental than due to genuine influence. By considering the general and individual importance attached to an issue, as well as tracing the process of negotiations through in-depth interviews, I ensure that success is only attributed to states when they have actively influenced the outcome of negotiations to reflect their position over a given issue.

Findings: SGP Negotiations

Findings regarding the SGP negotiations largely confirmed my hypotheses. With regard to *H1: In the original phase of negotiations, the state(s) with the best alternative to agreement will fix the boundaries for the zone of agreement*, interviews confirmed that the bulk of the original phase of SGP negotiations were about bridging the gap between France and Germany. Specifically, multiple actors confirmed that all of the member states would have accepted an agreement that was acceptable to France and Germany,

[8] Interviews with officials who participated in the negotiations confirm that, while Germany was by the far the most advantaged state going into the negotiations, France held significant sway due to the desire of the German leadership to see EMU go forward, combined with the knowledge that it would not happen absent French participation (interviews with French Finance Ministry official, British Treasury official).

[9] Please see appendix for a detailed description of documents consulted

thus signifying that France and Germany, the two states with the best alternatives to agreement, fixed the boundaries for the zone of agreement. Arguably, this could simply mean that those two states had the most extreme positions, but in fact there were states with positions that lay further to the weak end of the strict/weak continuum than did French position on certain issues, and these were beyond the zone of agreement as set by France and Germany (interview with British Treasury official). Further to that, as the positions of France and Germany represented opposite ends of the spectrum along which most of the SGP dossier lay, I can also accept *H1a: If the state(s) with the best alternatives to agreement have opposing positions, the zone of agreement will exist between those two positions.*

In comparing the process and outcome of the original and reform phases of negotiations over the SGP, I find some support for *H2: While the threat of exit may be present in the original phase of negotiations, it will be absent in the reform phase*, though this support is not unequivocal. Specifically, Based on data gathered from interviews, it is possible to conclude that Germany believed the alternative to agreement was a viable bargaining resource and relied on this in the original phase of SGP negotiations. However, while independent observers acknowledge that this was a potential source of influence for Germany, they also note considerable doubt over whether the German delegation would really follow through with such a threat, which calls into question how relevant the threat is in the first place. In fact, the German delegation did threaten to exit at one point in the negotiations (Barber, 1996), and did negotiate very successfully, which leads to reasonable confidence in concluding that Germany could and did use this resource for negotiation success in the original phase of SGP negotiations.

In contrast to this, there was no threat to exit negotiations from the state(s) with the best alternative to agreement in the reform phase of SGP negotiations. Based on interviews with representatives from Belgium, the state with the best alternative in this case, it is possible to conclude that they saw no possibility to use this resource for negotiation success. In addition to this, two representatives interviewed from the Netherlands, a state with an alternative to agreement nearly as attractive as that of Belgium, stated explicitly that the no agreement alternative could have had dire implications for the stability of the single currency, and so a reform was essential, despite the risk that reform negotiations could have resulted in a weakened pact. Such a reaction is exactly what the theoretical argument predicts, in terms of the symmetrical interdependence between states in the reform, as opposed to original phase of negotiations.

Finally, *H2a: Absent the threat of exit, the zone of agreement will be subject to change by all actors in the reform phase of negotiations*, is largely confirmed. Whereas the original phase of negotiations was dominated by bridging the gap between France and Germany, this was not a feature of the reform phase of negotiations. It could be argued that the reason behind this change was not due to the absence of the threat of exit in the reform phase, but rather the fact that France and Germany no longer held opposing positions, as they had in the original phase of SGP negotiations. It was the aim of in-depth interviews to clarify such questions, by gaining an understanding of the whole process of negotiations and, hence, the effects of changing context between original and reform phases. Based on interviews with participants, including participants who had taken part in both phases of SGP negotiations, I am reasonably confident in concluding that the convergence in French and German positions was not the reason for the opening up of negotiations to wider influence in the reform phase.

Given the reported involvement of a larger group of member states in these negotiations, and in particular the active influence I have detected from states that did not hold an attractive alternative to agreement, it seems clear that the zone of agreement was far more flexible in this case than in the original set of negotiations, regardless the convergence of positions between France and Germany. Further to that, were this convergence the only cause of a change between the original and reform negotiations, arguably there would have been no conflict to speak of, because the zone of agreement would have contained the joint Franco-German position and the positions of others would have been irrelevant. Given that these negotiations were long and arduous, it is clearly not the case that France and Germany dominate all negotiations, but rather that their near unparalleled influence in the original set of negotiations was due to a circumstance that facilitated their success, i.e. the relevance of alternative to agreement. The comparative irrelevance of that resource in the reform negotiations meant that, absent an attractive alternative, France and Germany could influence negotiations, just as other states could, as a result of the absence of a fixed, inflexible zone of agreement.

Financial Regulation Negotiations

While it is not possible to subject the case of financial regulation negotiations to the same analysis as that of the SGP, given that the former has so far only been through a partial phase of negotiations to establish EU-level financial regulations,[10] it is possible to discuss how such an analysis might be set up and to offer some preliminary remarks on the course of negotiations so far. First, it is essential to consider which state has the most attractive alternative to agreement in negotiations over EU financial regulation. To date, negotiations over EU financial regulation have centered on the 2008 Commission proposal for regulations on credit rating agencies, the 2009 Commission proposal on alternative investment fund managers and the de Larosiére report of 2009. While member states have agreed to the thrust of the de Larosiére report, concrete measures have yet to be decided.

In adapting the measure of alternatives to agreement used for the case of the SGP, relevant indicators would be size of the financial sector, number of international banking institutions hosted and domestic opinion toward financial regulation. With regard to the first of these, the larger the national financial sector, the more important the member state's participation for regulations to be effective and the more the state has to lose from a change in the status quo.[11] In terms of the second indicator, it is the presence of cross-

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[10] While some standards have been agreed as a concomitant to the single market in financial services, these are to ensure basic protection for companies operating across national borders, rather than being common regulatory standards

[11] While a state's financial sector could arguably be large for a number of reasons not directly related to the regulatory regime, it is possible to conclude that a comparatively large financial sector indicates that the status quo regulation is not harming that state, relative to others, in competing for business, which would imply satisfaction with the status quo.

border financial transactions that makes financial regulation above the national level so essential, with the implication that a state hosting more institutions that engage in cross-border transactions poses a greater risk to the stability of the financial system, absent common regulations. Finally, the relevance of domestic opinion is along the lines of Putnam's two-level games argument. Specifically, to the extent that domestic opinion is opposed to EU-level financial regulation, the member state can argue that its positions must be reflected in any agreement, or else it will be unable to sell it to an already skeptical public (Putnam, 1988). In contrast to this, as long as domestic opinion is in favour of changes to financial regulation, and in particular to the transfer of financial regulation above national level, other states can exploit this in motivating an otherwise unwilling government to shift position in line with domestic opinion.

One interesting element of these negotiations is that domestic opinion in the UK, arguably the state that is otherwise in the strongest position with regard to alternative to agreement, is hostile to finance in general and to the regulatory style that allowed, or even encouraged, excessive risk taking in the absence of a guarantee that only those actively involved would bear the costs when their bets fell through (The Herald, 28th October 2008). Thus, where domestic opinion in Germany, in the case of the SGP negotiations, forced the government to set a smaller zone of agreement than they might have otherwise, British domestic opinion in this case potentially has the effect of widening the zone of agreement, as it is more nearly in line with the positions of other negotiation parties than that of the British government, which has felt compelled to defend the interests of the City of London (Whyte, 2012). Despite this, the size and composition of the financial sector in Britain, as compared with that in France and Germany, for example, confers a far more attractive alternative to agreement on the British negotiators than on the French and Germans, with the result that Britain can be expected to determine the zone of agreement, regardless of its size. Thus, in line with the hypotheses regarding the original phase of negotiations, the prediction is that Britain will define the zone of agreement and that the outcome of negotiations, if they do not break down, will result in agreement closest to the position of the UK delegation.

There are a host of areas and measures under consideration in these negotiations, a discussion of all of which is beyond the scope of this paper. Thus, I will focus solely on the issue of changing capital requirements for financial institutions. I have chosen this topic for a number of reasons, the first of which being that it is one of the farthest along in the lengthy process of negotiations through which Commission proposals become EU regulations. Specifically, a common position reached by the Ecofin Council provides for some very preliminary conclusions that would not be possible in the absence of this step.

Another key factor in my selection is that this topic illustrates clearly the role of the divide between a British public sympathetic to the continental backlash against the City, and a British government seeking to safeguard tax receipts. In other words, while, as previously stated, German domestic opinion in the SGP negotiations had the effect of pushing the German government's position farther from the positions of most other member states, on the continuum of strict to weak SGP design, the role of British opinion in this case led the British government to push for stricter regulation than that proposed by other member states. This is not to say that British public opinion has led the British government to turn against the City and throw in their lot with the Germans on every point, as on other issues, such as caps on banker pay, the British have been nearer to the

City position than other member states (BBC News, 8th October 2010; Quinn, 2012). In the case of core capital, though, there was little choice but to address the potential loss to British taxpayers that could result from the combination of the size of the British financial sector, as compared with financial sectors in other member states, and the uniformity of capital requirements across the EU.

This point relates to yet another reason for selecting the issue of capital requirements, which is that this particular debate reinforces a point raised earlier, that unilateral action in the realm of financial regulation is not problematic solely because of regulatory arbitrage and the resultant drive toward looser regulation in general. Rather, a unilateral British action to toughen capital requirements for their financial institutions could bring more business to those banks, to the extent that they are apparently safer than banks in member states with looser capital requirements (Geitner, 2012). Regardless the logic behind the British position in favour of differentiated requirements, the corollary, which is inconsistency in EU financial regulation, is problematic insofar as it fails to address the constraints on national sovereignty that international financial markets give rise to.

The debate surrounding increased core capital requirements for EU banks is a necessary component to be agreed for Europe to implement the Basel III rules agreed on over the course of 2010 to 2011,[12] which would entail an increase in banks' capital reserves from two to seven percent. Throughout discussions among EU finance ministers, the UK, supported fairly consistently by Sweden, Poland and the Czech Republic, has argued that individual member states should be permitted to impose stricter requirements without seeking permission from EU institutions (EU Observer, 3rd May 2012). Some member states and EU institutions have argued that this would distort the single market (EU Observer, 3rd May 2012), and some, such as France and Austria, also oppose such a move for fear that British banks would be considered safer as a result of stricter capital requirements in Britain than in other EU member states (Geitner, 2012).

After acrimonious debate, including British Prime Minister David Cameron apparently vetoing the fiscal compact at a European Council in December 2011 because he could not gain concessions on this matter, the EU finance ministers on 15th May agreed a common position from which to negotiate with the European Parliament, co-legislators in this case. While British finance minister George Osborne was arguing for additional flexibility of up to twelve percent, he and other EU finance ministers accepted a Danish Presidency compromise that provides for an additional three percent, on top of the seven percent contained in the Basel III rules (EU Observer, 15th May 2012). It is difficult to call this a success for any of the parties, as it was a compromise on the part of the British, with regard to the extent of flexibility allowed, and on the part of those states, such as France and Germany, that opposed any differentiation in capital requirements across member states. However, it is possible to conclude that, if the legislation goes ahead in its current form, this is a lowest common denominator solution and, in fact, the status quo of regulatory inconsistencies in EU member states essentially remains.

While there is similarity with the outcome of the SGP negotiations, in that some flexibility was essential in both cases, to reach a compromise, it is more readily apparent that the attractiveness of the German alternative to agreement in the SGP negotiations

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[12] See Bank of International Settlements at http://www.bis.org/bcbs/basel3/compilation.htm for a compilation of documents that form Basel III.

served as an important source of influence than is the case with Britain in the negotiations over capital requirements. To some extent, this is the result of the latter being current, which presents obstacles to a clear understanding of the negotiation process. In addition to this, it is difficult to ignore the severity of the Eurozone crisis as a contextual element in the completion of the Council negotiations. Nonetheless, market pressure was a factor in the SGP negotiations, as any signal that EMU would not be completed would have provoked a strong reaction from financial markets, which simply indicates that it is necessary to delve deeper into the negotiations over capital requirements, before concluding whether market pressure related to the Eurozone crisis was decisive or not. What is clear from the outcome of these preliminary negotiations in the Council is that compromise has been hard fought and the state with the most attractive alternative to agreement was disinclined to institutionalise common regulatory standards at the supranational level, both of which are in line with the hypothesised effects of negotiation context in the original phase of EU negotiations.

Conclusion

While any conclusions on the course and outcome of negotiations over EU financial regulation must be very tentative, given that they are still ongoing, some preliminary conclusions can be drawn, as well as comparison with the case of the SGP negotiations. First, it is clear that these negotiations will be long and complex, and significant political tensions have already been exposed, as in the case of the British veto of the fiscal compact in December, over the issue of core capital requirements. It is also clear, as I refer to in the section on negotiation contexts, that the member state with the most attractive status quo arrangement, the UK, is uncertain of the merits of uniform EU-level financial regulation. As a result of this, Britain is likely to set the boundaries of the zone of agreement throughout negotiations and it may be exceedingly difficult to reach a compromise agreement that is within the win-set of Britain and others, such as Germany, that seem to have very distinct positions. The Council common position on core capital represents a compromise on the parts of Britain and others, though the underlying principal of the British position – to safeguard flexibility in applying capital requirements – is reflected in the common position and, as such, this outcome appears to confirm the prediction that the state with the best alternative to agreement will negotiate successfully over those issues it deems essential, regardless the opposition of others.

In terms of comparison with the SGP, one point that is clear from my findings about those negotiations is that the original SGP agreement left open questions as the only way to reach a compromise between France and Germany, the two states with the most attractive alternatives to agreement. These open questions eventually precipitated reform negotiations aimed at tying up loose ends. While the content of the reformed SGP can and has been criticised significantly, one important finding is that those negotiations were more nearly focused on clarifying technical failings in the original agreement than finding a political compromise palatable to the French and German publics, as in the original negotiations.

It is already clear that the agreement on core capital leaves questions open, such as how this agreement changes anything when it maintains nationally differentiated regulation. It may be the case that such half changes are essential to move things along, but what is not clear is whether the location of regulatory competence will be changed significantly enough, as a result of the eventual package of regulations, to alter the default condition in future negotiations. In other words, we may be witnessing the first in many rounds of financial regulation negotiations that feature the fixed zone of agreement, high stakes and political pressure characteristic of original negotiations and conducive to distributive bargaining. Given my previous statement that the EU is certainly not the only, but perhaps the most likely, grouping of states to establish common supranational regulations, this preliminary analysis does not bode well for the future of global financial regulation.

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Appendix 1

Documents used to measure member state policy positions, following the introduction of Commission proposals:

- For the original phase of negotiations (Commission proposal published January 1996)
    - I consulted minutes from the Monetary Committee meeting of 17/1/1996 in order to read what MC members stated as their opening position during the tour de table that takes place at the start of MC meetings. Due to severe access restrictions, most information regarding member state positions was removed from these documents and so they were not a useful source of data
    - I consulted minutes from the Ecofin meeting of 12-14 April 1996, to determine whether Ecofin members stated a formal policy position in that forum, which they did not
    - I read speeches given by both finance ministers and heads of state or government shortly after the Commission proposal was presented. In order to capture policy positions as a response to the Commission proposal, I limited my data in this case to speeches given in January – April 1996.

After that point, it is not clear that the policy positions stated are in response to the Commission proposal, as opposed to preliminary negotiations. In particular, I consulted speeches or notes from speeches given in parliamentary sessions, for the domestic media and for the international media. Where documents were published in a language I do not speak, I used the services of translators to interpret them.

  - I consulted media accounts of the negotiations from January – April 1996, for reports on speeches given by member state representatives, as well as their policy positions. Specifically, I read the international publication the *Financial Times*, as well as British publications. I consulted the European Union news agency, *Agence Europe*, for the same period: January – April 1996. I also consulted the same domestic media publications for this purpose as I did in search of speeches reported. While these media reports cannot be assumed to be reliable enough independently, they can be compared with the policy positions I identified in aforementioned sources, and through participant interviews, in order to check their reliability.
  - Where secondary accounts of the negotiations reported member state policy positions with widespread agreement, and also in agreement with the aforementioned sources I checked, I used these as a further source of data. Specifically, I used two publications – *Ruling Europe* and *The Stability and Growth Pact: The Architecture of Fiscal Policy in EMU*. These particular publications were useful, as both refer explicitly to the time frame, when discussing member state policy positions, an so it was possible to check policy positions specifically for the period of January – April 1996.

- For the reform phase of negotiations (Commission proposal published September 2004)
  - I consulted minutes from the EFC meeting of 8th September 2004 in order to read what EFC members stated as their opening position, during the tour de table that takes place at the start of EFC meetings. Due to severe access restrictions, most information regarding member state positions was removed from these documents and so they were not a useful source of data
  - I consulted minutes from the Ecofin and Eurogroup meetings of 10-11 September 2004, to determine whether economic and finance ministers stated their formal policy position in that forum, which they did not.
  - I read speeches given by both finance ministers and heads of state or government shortly after the Commission proposal was presented. In order to capture policy positions as a response to the Commission proposal, I limited my data in this case to speeches given in September – December 2004. After that point, it is not clear that the policy positions stated are in response to the Commission proposal, as opposed to preliminary negotiations. In particular, I consulted speeches or notes from speeches given in parliamentary sessions, for the domestic media and for the

international media. Where documents were published in a language I do not speak, I used the services of translators to interpret them.

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- Where secondary accounts of the negotiations reported member state policy positions with widespread agreement, and also in agreement with the aforementioned sources I have checked, and the data from participant interviews, I used those as a further source of data. Specifically, I used two publications – *Ruling Europe*. This particular publication was useful, as it refers explicitly to the time frame, when discussing member state policy positions. It was possible, then, to ensure that I checked policy positions for the period September – December 2004.