U.K. Rethinks Ties to Europe

In Surprise Shift, Cameron to Offer Vote on Leaving EU, Fueling Trade Worries

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U.K. Prime Minister David Cameron, leaving Downing Street in London Tuesday, is setting a risky political path.

LONDON—Prime Minister David Cameron plans to let the British people vote on whether or not to stay in the European Union, a surprise move critics say will hurt both economies and cast a new shadow over the troubled bloc.

His pledge, set to be delivered Wednesday morning in London, will likely prove unsettling for one of the world's largest trading blocs as members of the EU have been struggling to deal with a debt crisis.

While many people had focused on the risk of Greece leaving the euro zone, the promise of a referendum by Mr. Cameron would raise the prospect of an exit from the EU by one of the bloc's biggest economies and a financial center. While the U.K. is part of the EU, it doesn't use the euro currency.

The move is a risky gambit by Mr. Cameron, who has found himself in a tight spot on the issue of Europe. He has said repeatedly that he thinks it is in Britain's best interests to remain part of the EU. But some members of his own party—who think too much power is ceded to Brussels—have aggressively pressed him to significantly reduce the U.K.'s ties to the bloc or exit altogether.

Still, the referendum Mr. Cameron will propose wouldn't occur before the end of the first half of the next Parliament, roughly by late 2017, after an election.
He is betting that, by offering the vote, he can both appease the anti-Europe wing of the Conservative Party and, at the same time, keep Britain in the EU under new and better terms.

"I want the European Union to be a success. And I want a relationship between Britain and the EU that keeps us in it," Mr. Cameron is due to say.

His proposal is likely to make the Europe debate a key part of the country's next election. That comes with potential risks, as business leaders and others have warned that uncertainty about Britain's future status in the EU could chill the desire for companies to invest in the country until matters are sorted out.

Mr. Cameron's proposal comes with conditions. He will need to win the next election—and likely need to win it outright. His center-right Conservative Party, which failed to win a majority in the previous election and was forced to form a coalition with the centrist and pro-European Liberal Democrats, has been trailing the main opposition Labour Party in opinion polls.

His pledge is also dependent on the U.K. being able to negotiate a treaty change with the other EU members. Croatia's planned accession in July would make it the EU's 28th member.

Mr. Cameron's fate turns on his ability to navigate a course with some sharp turns. His calculus is that he can win the election in 2015 by solidifying support from the party's right wing without alienating more centrist voters also frustrated with Europe. At the same time, he may be able to use the threat of a referendum to extract better terms from Europe, already battered by years of crisis and not eager for more instability. And he is banking on the fact that a more favorable deal with the EU will secure the British public's vote for continued EU membership.

Mr. Cameron had repeatedly delayed outlining his views on Europe and recently joked that he was taking a "tantric" approach.

He had been scheduled to give the speech last Friday in Amsterdam, but postponed it to deal with the attack and hostage crisis at an Algerian gas facility that resulted in British deaths.

Mr. Cameron plans to say that British people feel the EU is heading in a direction the country never signed up for, suffering interference from what are seen in some quarters as unnecessary EU rules and regulations.

"When we have negotiated that new settlement, we will give the British people a referendum with a very simple in-or-out choice to stay in the EU on these new terms; or come out altogether. It will be an in-out referendum," he plans to say in the speech.

Mr. Cameron recently had repeatedly said he didn't think a referendum on whether to leave the EU currently is the right solution.

It remains unclear which specific areas of the U.K.'s relationship with the EU a Conservative government would seek to renegotiate. Lawmakers from Mr. Cameron's party have suggested a range of powers they would like to seize back from EU institutions, including employment regulation and crime fighting. It also is unclear whether the results of the referendum would be binding.

Anti-Europe sentiment in the U.K. is at some of its highest levels since the early 1980s. Frustrations with the EU are more pronounced among Conservatives, with opinion polls having shown support shifting away from the Tories to the U.K. Independence Party, whose main goal is Britain's withdrawal from the EU.
But Mr. Cameron risks unsettling business leaders, officials from Europe and the U.S., and even ministers from the coalition government, who have all warned in recent days of the risks to the British economy and status of a referendum on the EU membership.

"We certainly shouldn't do anything which would have a chilling effect on jobs in this country at a time when we're still haltingly recovering from this terrible shock back in 2008," said Deputy Prime Minister and Liberal Democrat leader Nick Clegg, in an interview with the British Broadcasting Corp. early last week.

A survey of the British public late last week by pollsters YouGov YOU.LN 0.00% PLC showed 34% indicated they would vote to leave in a referendum, while 40% said they would vote to stay. A week earlier, 42% said they would opt out, compared with 36% preferring to remain.

While members of the British public are often quick to gripe about the EU, voters generally don't cite Europe as a major factor in general elections. Mr. Cameron also is conscious that a key factor in the next election will be in winning the center ground.

Europe also has long been a divisive issue for the Conservative Party—it played a role in the downfall of the past two Conservative prime ministers, Margaret Thatcher and John Major. When he was in opposition, Mr. Cameron said the party had alienated voters by "banging on" about Europe, but the issue has again come to the fore since he became prime minister amid the euro-zone crisis.

Mr. Cameron also risks further aggravating his European counterparts, who have expressed frustration with what they view as the U.K.'s efforts to throw up roadblocks.

European officials have spoken in recent weeks about the potential consequences of a U.K. split. However in private, EU officials have been more critical of Mr. Cameron's plans, with France warning that London wouldn't be able to choose which parts of EU membership it would keep. And some European officials have said they are worried the U.K. could prompt others to try to follow suit.

Europe is used to pivotal referendums: France and the Netherlands voted down what became the latest incarnation of the EU basic law—the Lisbon Treaty in 2005. The Irish, who also rejected the Lisbon rules, last year held a referendum on the euro zone's new fiscal pact, which curtails government spending. Irish voters backed the pact.

An explicit vote on whether to leave the EU would be the first such move by a member in some time. In 1985, Greenland, which is part of Denmark, voted to leave the EU's predecessor, the European Economic Community. In 1975, the U.K. held a referendum on whether to leave the then-EEC—a large majority voted in favor of remaining.

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