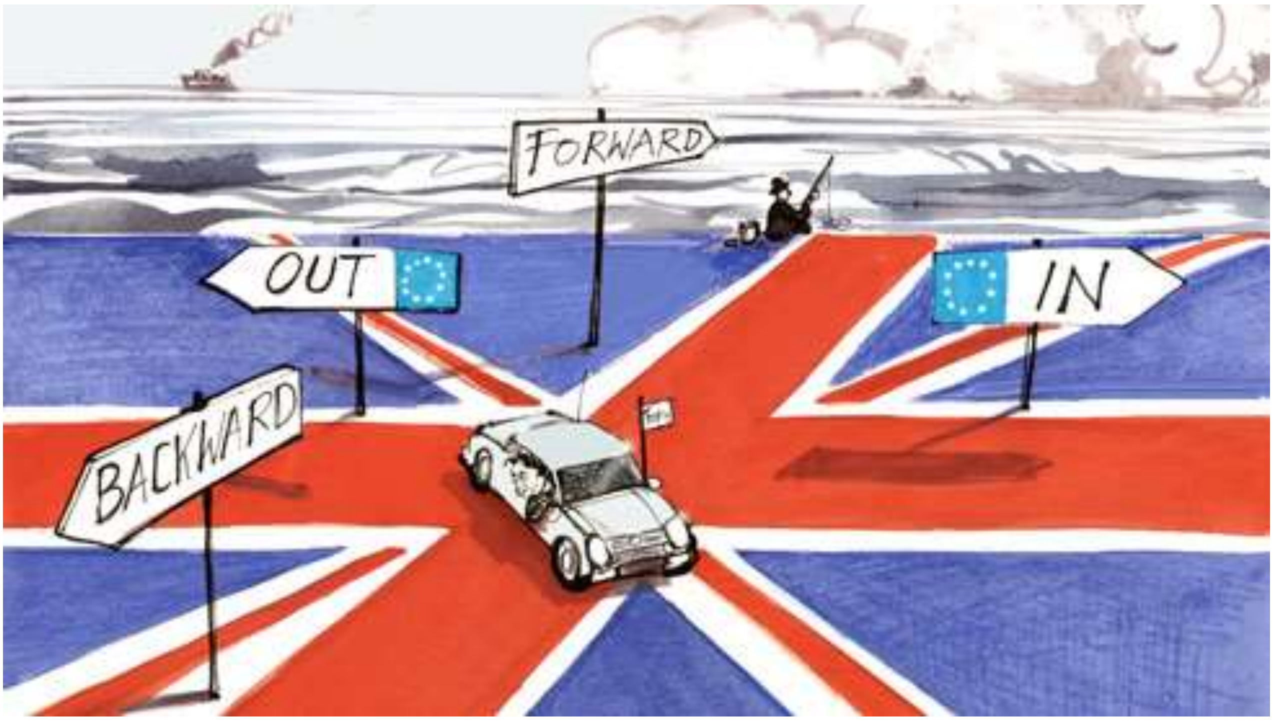
Better off out?

An Analysis of Britain's Gains and Losses in the EU and Alternatives to EU Membership



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Abbreviations

BIS	Department for Business, Innovation and Skills
CAP	Common Agricultural Policy
CFP	Common Fisheries Policy
EC	European Community
EEA	European Economic Area
EEC	European Economic Community
EEZ	Exclusive Economic Zones
EFTA	European Free Trade Association
EMU	European Monetary Union
EU	European Union
FDI	Foreign Direct Investment
FOI	Freedom of Information Request (conducted in June 2013 – Results received in August 2013)
FTA	Free Trade Area/Agreement
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GNI	Gross National Income
HM Treasury	Her Majesty's Treasury
MEP	Member of European Parliament
MFF	Multiannual Financial Framework
MFN	Most-favoured-nation
MP	Member of Parliament
PM	Prime Minister
SMP	Single Market Programme
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UK	United Kingdom (England, Wales, Scotland and Northern Ireland)
UKIP	UK Independence Party
US / USA	United States / United States of America
WTO	World Trade Organisation

EU Integration: an overview[1]

1946
Winston Churchill calls for a "kind of United States of Europe"

1950
Robert Schuman, the French Minister of Foreign Affairs, proposes that France and the Federal Republic of Germany pool their coal and steel resources in a new organisation which other European countries can join

1951
Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands sign the Treaty establishing the European Coal and Steel Community.

1957
The European Economic Community (EEC) and the European Atomic Energy Community (Euratom) are established.

1960
At the instigation of the United Kingdom, the European Free Trade Association (EFTA), comprising a number of European countries that are not part of the EEC, is established.

1961
UK applies to join the Community

1963
France (under General Charles de Gaulle) rejects Britain's application to join.

1965
The executive bodies of the three Communities (the ECSC, EEC and Euratom) are merged, creating a single Council and a single Commission.

1967
UK re-applies to join the Community

1968
Customs duties between the member states on industrial goods are abolished and a common external tariff is introduced.

1973
Denmark, Ireland and the United Kingdom join the European Communities (9 members).

[1] For reference, see http://europa.eu/about-eu/eu-history/

1974
UK foreign secretary James Callaghan makes statement to the Council on the new Labour government's policy on the Community. He calls for major changes in the Common Agricultural Policy (CAP).

1979
The first direct election of the European Parliament

1981
Greece joins the European Communities (10 members).

1984
The European Council agrees on the amount of rebate to be granted to the UK.

1985
The Schengen Agreement is signed with the aim of abolishing checks at the borders between member countries of the European Communities. The UK does not take part in it.

1986
Spain and Portugal join the European Communities (12 members).
The Single European Act is signed and comes into force in 1987.

1991
The European Council adopts a Treaty on European Union, laying the foundation for a common foreign and security policy, closer cooperation on justice and home affairs and the creation of an economic and monetary union, including a single currency.

1992
The Treaty on European Union is signed at Maastricht. It enters into force in 1993.

1993
The single market is created.

1995
Austria, Finland and Sweden join the EU (15 members).

1997
The Amsterdam Treaty, which comes into force in 1999, is signed. It emphasises citizenship and the rights of individuals, more powers for the European Parliament and the beginnings of a common foreign and security policy.

2001

The Treaty of Nice is signed. It reforms the institutional structure of the European Union to enable eastward expansion. It enters into force in 2003.

2002

Euro notes and coins are introduced in the 12 euro-area countries – in 2013 there are now 17 Euro-area countries. The UK does not adopt the common currency.

2004

Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia join the European Union (25 members).

The European Constitution is adopted in Rome (subject to ratification by member states).

2005

Voters in France and in the Netherlands reject the Constitution in a referendum.

2007

Bulgaria and Romania join the European Union (27 members).

2008

Switzerland joins the Schengen area.

2009

Treaty of Lisbon comes into force.

2013

Croatia joins the European Union (28 members).

Table of alternative options

	Single Market	Non EU trade	Social+ Employment Legislation	Product regulation	EU budget contributions	CAP, CFP + regional policy	Sovereignty
EU Membership	Full access; including 4 freedoms.	Conducted under EU external trade policy.	All	All	Yes	Yes	Ability to influence and to vote
A clean break: WTO	Trade conducted under MFN tariffs, subject to FTA negotiations.	MFN, trade with EU acting along WTO.	None	Required to meet standards only for exports to the EU	No	No	Full sovereignty, but no influence on EU
Norwegian Model (EEA)	Full access including 4 freedoms, trade in goods subject to Rules of Origin.	Individual bilateral negotiations or conducted under EFTA's FTA.	All	All	Contribution for areas of participation on a % GDP basis	No	Limited influence (only heard by COM), no vote and regulations have to be adopted
Swiss Model (EFTA)	Restricted access, trade in goods subject to Rules of Origin, no free movement of services.	Conducted under EFTA's FTA or individual bilateral negotiations.	None	All (voluntarily)	Contributions to the regional development of new member states (since 2006)	No	Bilateral adoption of regulation. Very limited influence and no vote.

Introduction

"Britain does not dream of some cosy, isolated existence on the fringes of the European Community," stated Margaret Thatcher in 1988[2].Today, it increasingly appears that it does. When David Cameron announced a referendum on continued membership in the European Union (EU) on the 23rd of January 2013, he sent a shock wave through Europe[3]. The idea that a country would voice the desire to leave the EU after 40 years of membership had been unimaginable. Opinion polls show that the majority of Britons are in favour of leaving the EU, the Conservative Party has become increasingly more eurosceptic, even if divided about EU membership, and the UK Independence Party (UKIP) is becoming a progressively stronger political actor demanding a withdrawal from the EU, having moved from the political margins to mainstream. The outcome of a referendum on the UK's membership of the EU might therefore very well be in favour of withdrawal. And what if Britain[4] left? According to the eurosceptic side of the debate, the UK could quickly grab a few benefits. It would no longer have to contribute to the common EU budget and be freed from the much resented Common Agricultural Policy (CAP); it would repatriate its competences, regain its sovereignty and be free from irritating EU regulations. On the other hand of the debate it is argued that these benefits would quickly be outweighed by the costs, denting trade with the world's largest single market, reducing investment and leaving Britain in a much weaker negotiating position with little influence worldwide.

Among those who argue for an exit, finding an accommodation by which the UK would leave the EU but still be allowed to trade freely with it, is spoken of. Cameron's idea to repatriate certain competences already goes in the direction of reforming the EU to British liking. Others put forward the idea of joining the same arrangement as Norway as a member of the European Economic Area (EEA), or an even looser relationship copying the Swiss arrangement as a member of the European Free Trade Area (EFTA). Yet, would the EU be in favour of offering such a deal to the UK which has proven to be an awkward partner ever since it joined the EU in 1973?

[2] The Economist 2012, p. 15.

[3] Europe and EU are used interchangeably.

[4] UK and Britain are used interchangeably in the discussion about the EU, even if geographically speaking, 'UK' represents the correct term. We will nevertheless stick to tradition and refer to the UK as Britain, too.

This master thesis aims at understanding to what extent Britain benefits from being a member of the EU and whether or not EU membership still is in Britain's interest. Furthermore, it will offer an analysis of other possible alternatives to EU membership, in order to establish if EU membership really leaves Britain as badly off as is often portrayed by British eurosceptics.

In order to reach an answer to both questions, we first have to look at the legal implications of withdrawal from membership. This is a topic which could be much further discussed, yet we will only outline the legal framework. It is important to include this topic as it already shows to what extent secession from the EU could become complicated and which areas it will affect.

Then, the second chapter will concentrate on background information on the UK concerning its economic structure which is important to define its interests. It also includes a brief analysis of UK-EU relations since Britain's decision to adhere to the EU and finally it considers Britain's EU policy today.

Having given an overview of the UK's economic structure and its relationship with Europe, we will turn in the third chapter to the debate on the continued EU membership, currently faced by the UK. There we will understand how David Cameron wishes to reform the EU by re-negotiating Britain's relationship with the EU and how he came to decide to offer a referendum on EU membership in 2017. The last part of Chapter 3 will concentrate on the main actors in the debate and their position within it. These include the four main political parties (the Conservatives and the Liberal Democrats, Labour and UKIP), the City of London as a finance hub, businesses, and finally the British public. Contemplating the position taken by these different actors in the debate about EU membership will already start giving us an insight about where the advantages for Britain lay in the EU but also, what might be a possible result of an in/out referendum.

Then we will come to the major part of our analysis: the gains and losses through EU membership. We decided to differentiate between economic and political consequences connected to EU membership due to the impact that EU integration has had on both sides. The first part will analyse the economic aspects of membership. These include an analysis of costs and benefits in the area of trade within the Single Market and external trade, Foreign Direct Investment (FDI), the EU budget and CAP as well as the Common Fisheries Policy (CFP). The following part devoted to political elements of EU membership concentrates on EU regulation, economic and geopolitical influence and sovereignty.

We could have included a vast amount of additional topics, however due to restrictions, we settled upon the elements mentioned above as they are also the most contested aspects resurfacing in the debate. We chose not to include the topic of Police and Justice Cooperation due to the possibility of Britain to opt-out of this policy area. Furthermore we decided against including the topic of immigration since in that case we would also need to analyse the demographic development in Britain to understand to what extent Britain benefits from EU-wide immigration or whether it finds itself hampered by it. We also chose to leave out the aspect of free movement of people where withdrawal clearly has an impact on how Britons living in other EU member states and vice-versa would be affected in their lives. Although, Chapter 1 refers to the difficulties the UK and the EU would have to face in that respect.

The British government has published a research paper[5] in which it offers an analysis of several policy areas including justice and home affairs, social security, health policy, environmental policy, and many more, in which you can find detailed information on the topics we decided to leave aside for the aforementioned reasons.

Finally, the fifth chapter answers the question as to which alternatives might be available to Britain and to what extent these might be more advantageous to the UK than full EU membership. Here we discuss the WTO model which also is the baseline for our analysis in Chapter 4. We then look at the Norwegian model with Norway being a member of the EEA and at the Swiss model, with Switzerland as an EFTA country. We conclude this chapter with an idea of what might be in the best interest of the UK.

To conclude we offer a standpoint as to how we evaluate the situation Britain has found itself in at present.

In order to offer a clear answer to our research question, we first studied several cost and benefit analyses and compared these to our findings from UK government papers analysing the competence division between the UK and the EU. Each feature analysed in Chapter 4 is taken against the assumption that Britain were simply a member of the WTO with no closer links to the EU. Of course, this is a crude assumption to make since the UK and Europe have always been connected and always upheld a special relationship due to geographic and economic proximity. Nevertheless, it offers a clear baseline for comparison. Each topic is then analysed in its current status and then compared to the event in which Britain would no longer be an EU member but seen as any other WTO member.

For the fifth chapter we then used the results from our analysis of Britain’s gains through EU membership in order to define which alternative model might be more suited to British interests, after having given an overview of the framework each model operates in.

[5] Research Paper 13/42

Chapter 1: A Legal Framework for Withdrawal from the European Union

If it does come to an 'in or out' referendum in the UK in 2017 which may indeed lead to a 'Brexit'[6] it is worth considering what this withdrawal might look like in legal terms. Withdrawal from the EU requires a complex legal framework. So far, in the history of the EU, secession from the Union has only happened once. In 1985, Greenland decided to leave the EU after having gained an increasing level of autonomy from Denmark. It was then associated to the EU as an Overseas Country and Territory[7]. Though, due to its special status, Greenland's exit cannot be compared to a potential UK exit. It is only with the Treaty of Lisbon that the novelty of a legal framework allowing for a member state to withdraw was introduced. It is important to understand the legal framework in which a member state may decide to leave the EU, as it reveals the great difficulties a withdrawing country may encounter. This legal topic could be discussed in further detail, by elaborating upon the necessarily following withdrawal agreement - once exit is agreed upon - between the EU and the withdrawing state and which consequences or alternatives both parties might face.
A first part of this chapter will concentrate on the legal basis under Art.50 TEU and Art.218 (3) TFEU to outline the legal framework, whereas the second part will briefly discuss what a withdrawal agreement could look like.

The process of withdrawal

Art.50 TEU offers the possibility to a Member State to unilaterally leave the EU in accordance with its own constitutional requirements[8]. As Art.50 TEU states:

A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament
(Source: Treaty on the European Union, Article 50)

Art.218 (3) then specifies the following duties of the EU's institutions in the event of a Member State deciding upon leaving the EU:

[6] "British exit from the EU'
[7] For more information on Greenland's exit, see Research Paper 13/42 (2013) as well as Nicholson and East (1987).
[8] In the British case, this would require an Act of Parliament to repeal the European Communities Act 1972 and to implement any negotiated agreements on the EU-UK relationship (Research Paper 13/42, 2013).

The Commission, or the High Representative of the Union for Foreign Affairs and Security Policy where the agreement envisaged relates exclusively or principally to the common foreign and security policy, shall submit recommendations to the Council, which shall adopt a decision authorising the opening of negotiations and, depending on the subject of the agreement envisaged, nominating the Union negotiator or the head of the Union's negotiating team.
(Source: Treaty on the Functioning of the European Union, Art.218 (3)

With the decision to leave, the Member State must therefore notify the European Council which sets out the negotiation guidelines, taking into account future relations between the leaving Member State and the EU. The negotiations take place under the regulation of Art.218 (3) TFEU. The European Commission submits a recommendation to the Council which adopts a decision authorising the opening of negotiations and also nominates the Union negotiator (Art.218 (3) TFEU). The European Parliament has to accept the withdrawal agreement before the Council can conclude it in a Qualified Majority Vote (Standard Note 6089). During the negotiation period, the withdrawing Member State is not to participate in the European Council and Council discussions or decisions. Nevertheless, it continues to participate in other European affairs, as agreed upon in the Treaties, until its withdrawal comes into effect.
Secession from the Union would lead to the unravelling of budgetary, financial, commercial, political and legal obligations which demands long and intense negotiations (Lazowski, 2013). Should, after the set negotiation period of two years, no withdrawal agreement come to existence, the European Treaties cease to apply for the departing Member State. The possibility to extend the negotiation period still does exist. This decision has to be taken unanimously in the European Council in agreement with the Member State in question (Art.50 (3) TEU). Once a withdrawal agreement has been adopted, or once the negotiation period has come to an end, the Treaties then cease to apply to the departing Member State.

The withdrawal agreement

Of course it is impossible to withdraw over night without causing enormous disruptions in all sectors, be it agriculture, fisheries, social security, business, and many more (Lazowski, 2013). Instead, it would be necessary to introduce a transitional period in order for all affected sectors to adapt to the new situation. This would be settled within a withdrawal agreement. The agreement would also have to set a framework for future relations between the withdrawing state and the EU. Especially taking into account that policy fields in which the EU might have had exclusive competences, but also in the fields where the competences were shared, a policy void would be left within the Member State. Regulating future relations is therefore important. As stated by Lazowski (2013, p.2), "Art. 50(2) TEU merely provides guidance in that it requires arrangements for withdrawal, taking account of the framework for its future relationship with the Union'". The content of the withdrawal agreement would have to take into account the deletion of all provisions and protocols relevant to the departing state. Furthermore, a date would need to be set by which all areas affected by EU membership would be completely cut off. This is especially relevant to the free movement of persons, capital and goods, but also legislation affecting the situation within the State such as employment law issues (Lazowski, 2013). Seemingly, leaving the EU would not be limited to institutional matters but would bring with it enormous legal and economic consequences. The withdrawal process would not present itself as an easy undertaking, considering to what extent EU integration has affected legal, economic and political life.

Chapter 2: The United Kingdom and the European Union

Before moving towards the debate on the UK's referendum on EU membership, we will concentrate here on some background information. This will allow us to grasp the impact of a potential withdrawal from the EU could have on Britain. First we shall establish the structure of Britain's economy. This will include the different important economic sectors, trading partners and general economic information on the UK.

The second sub-chapter will concentrate on UK-EU relations. Here we will identify the long held conflict between eurosceptic Britain and continental Europe. The UK-EU relationship will lead us to a better understanding of how it came to the demand of an 'in/out'-referendum about EU membership in the UK.

UK Economy

As a leading financial centre and trading power, the UK is the 6th largest economy in the world according to nominal Gross Domestic Product (GDP) (World Bank, 2013) and the second largest economy in the EU, after Germany (CIA, 2013). Its GDP stood at 1,901.0bn euro (£ 1,541.7bn) in 2012 (GTAI, 2013). As many parts of the world, the UK faced a major setback during the global financial crisis of 2007/2008 and the UK government has since implemented austerity measures[9] in order to reduce its government debt (90,0 % of GDP; GTAI 2013) and to facilitate long-term economic growth. Under the then Labour government under Prime Minister (PM) Gordon Brown, strong measures were taken to stimulate the economy and to stabilise the financial sector. These included nationalising parts of the banking system, suspending public sector borrowing rules and moving forward public spending on capital projects (CIA, 2013). In 2010, with the change of government to a coalition between Conservatives and Liberal Democrats with PM David Cameron, a 5-year austerity programme was initiated. It aims at lowering the national budget deficit from over 10% of GDP in 2010 to nearly 1% by 2015 (Wall Street Journal, June 2013). Due to slow economic growth and the impact of the euro-zone debt crisis, further austerity measures were announced. However, as data from 2012 has shown, low consumer spending and subdued business investment hinders the economic upturn[10]. The budget deficit still remained at 8.3% of GDP (GTAI, 2013).

[9] See Chu or Elliott (2013) in the Independent and the Guardian, for example.

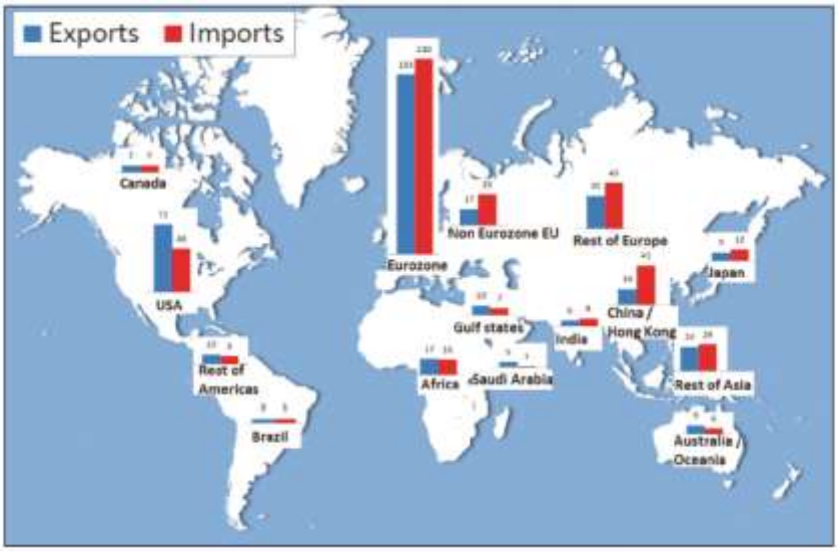
[10] See footnote above.

The UK's economic geography encompasses its home nations – England, Scotland, Wales and Northern Ireland. The Isle of Man and the Channel Islands are considered to be part of the British Isles, but benefit from an offshore banking status. As one of the largest members of the EU with a population of 61million[11], the UK is also part of the Single Market which ensures the free movement of goods, capital, services and people within the Member States. Rather than converting to the common currency, the Euro, the UK has chosen to continue its national currency, the Pound Sterling.

The important sectors of economy include agriculture, industry and services, especially concentrating on financial services. Agriculture does only represent 0.7% of GDP. Though, as 60% of food needs are produced, agriculture represents an important economic sector in Britain nonetheless (CIA, 2013). Industries represent 21% of GDP and services represent by far the largest share of GDP with 78.3%[12]. Particularly important are financial services, with the City of London (the City) being the finance hub of Europe, representing a point of entry for finance firms to gain access to the EU's market.

The UK is also a global trading partner, as Figure 1 shows us. Trade with the EU accounts for 48% of total UK goods and services exports, where 53.5% account for goods and 39.7% for services exports (Open Europe, 2012).

Figure 1: UK imports and exports of goods and services in 2010 (£bn)



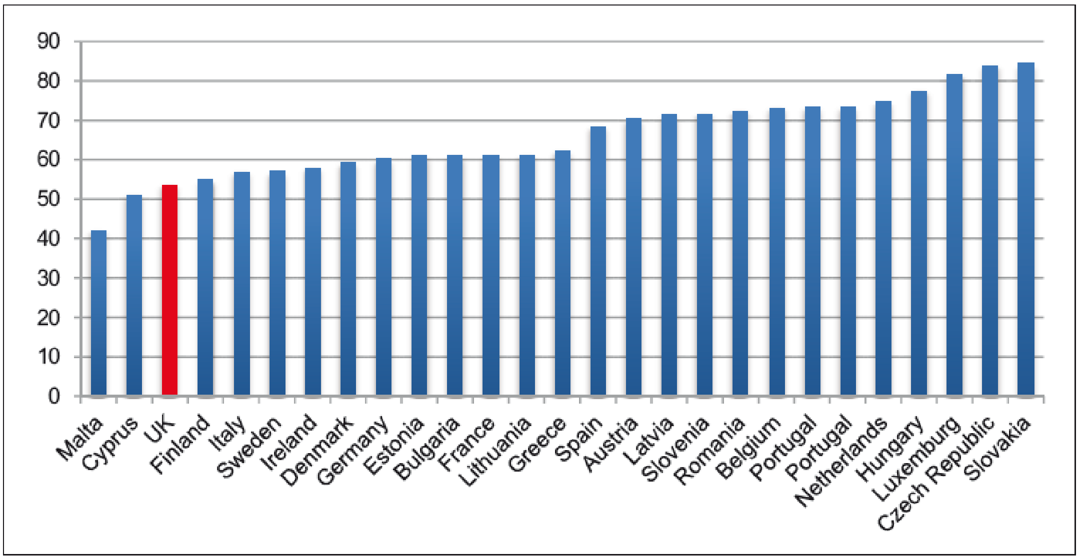
Source: Open Europe, Trading Places, June 2012, p.8.

[11] http://europa.eu/about-eu/countries/member-countries/unitedkingdom/index_en.htm

[12] Compare CIA World Factbook: GDP composition by sector (2013).

Though, compared to other EU Member States, the UK is less dependent on trade with the EU than other Member States (see Figure 2): while the UK's trade in goods within the EU represented 53.5%, Slovakia's intra-EU merchandise trade for instance accounted for above 80% of total trade.

Figure 2: Intra-EU trade as a share of member state's total goods exports in 2010 (%)



Source: Open Europe, Trading Places, June 2012, p.9.

UK-EU Relations

Britain and Europe have shared and formed common history for centuries. Different periods were either forged by common goals and traditions, or divide. With the end of the Second World War, calls for a United Europe had risen to the surface. With that, the history of the EU found its beginnings. Winston Churchill had been part of the voices calling for the formation of a 'United States of Europe', somehow giving British roots to the European project. However, Churchill's enthusiasm for Europe did not include the idea of Britain being part of European integration. Instead, Britain and its empire would be a friendly partner of the European project (Rennie, 2012). Therefore, the UK first stood aside when Germany, France, Italy and the Benelux countries created a single market. In the years to come, the former British Empire had to deal with the loss of its colonies, which, in the shape of the Commonwealth became newly independent states and started to establish trading links with the EEC. The UK's economy was in decline, as was its influence on the international scene. The economy of the European Community (EC) on the other hand was thriving. Britain therefore decided to apply for EU membership, regarding itself as 'the sick man of Europe', without any real enthusiasm for an ever closer union and further political European integration (Rennie, 2012). Two applications were completed in 1962 and 1967. Both were rejected by a French veto under the presidency of Charles de Gaulle. Only after Charles de Gaulle's retirement, the UK could formally join the EC in 1973 as a latecomer. "It joined a club in which power and money were already being divided up on other countries' terms (and later, by the widespread sense that British voters had been tricked into an ever closer union on false pretences of joining a purely economic club)" (Rennie, 2012, p.7). Since then, the UK-EU relations could be considered in three different phases: 'catch-up' (1973-1990), 'opt-out' (1980s-2010) and 'crop-out' (2010-today).

- **'Catch-up'**
  This first phase would be defined by the beginning of the UK's membership of the EU until the end of former PM Thatcher's time in power. The UK was able to regain economic strength and influence by benefitting from EUmembership but also through a policy change under Margaret Thatcher and newly accessible oil resources in the North Sea. The period with Margaret Thatcher from the 1980s until 1990 is intertwined with the second period during which it came to a series of opt-outs of EU EU membershippolicies for the UK.
- **'Opt-out'**
  Margaret Thatcher successfully "banished the belief that the UK was in terminal decline and she redefined the UK's negotiating stance within the European Community" (Ludlow, 2013, p.1). This defeated the pro-European argument that Britain needed the EU due to its weak economy. She also succeeded in gaining a rebate on the CAP. Margaret Thatcher is otherwise known as the person who brought forward the Single Market. Equally, at the same time as being in favour of a stronger single market, Margaret Thatcher was against further European integration and a strong European Commission. This is where she suffered one of her defeats around the European table: the Single Market was launched with a greater use of qualified majority voting against her wish, which in other words meant 'more Europe' (Ludlow, 2013). In 1992, Britain then gained opt-outs under PM John Major from joining the European Monetary Union (EMU) as well as from the social chapter of the Maastricht Treaty.
- **'Crop-out'**
  During the development of the EU and the sometimes reluctant involvement of Britain, the UK's self-image changed, too. The majority of the British public may have never *loved* the EU. It was however but until recently not in favour of the UK's withdrawal. Several recent surveys published in 2013 in The Times, The Guardian,

and elsewhere suggest that this opinion has now changed and a majority does in fact favour withdrawal from the EU under current conditions. To this we are yet to come to in detail in Chapter 3. For now, however, it is important to underline the opinion of the British electorate concerning Europe as it explains how UK-EU relations have evolved. As both phases above have shown, the UK needed to catch-up with its continental partners which it has achieved in. Margaret Thatcher's boost to British morale and the economic upheaval led to a perception that the UK is better off than the rest of Europe, in particular the Euro Area (Ludlow, 2013). The current economic and financial crisis has deepened the divide between the UK and the EU as it reinforced the prejudices which kept Britain out of the common currency but calls at the same time for deeper integration in the Euro-Area. The economic crisis has led to Euro-countries forging stronger links, which are setting the UK aside. The Fiscal Treaty[13], agreed upon as an international treaty precisely because the UK and the Czech Republic refused to join in, has shown that European integration is possible without the full participation of other members. However, this is increasingly leaving the UK as a bystander.

Calls for a referendum on EU membership have always been voiced since the very beginning of British membership of the EU. Though, since 2010, these calls have become louder and with the public opinion changing, the UK has to face the decision on how it will conduct its relationship with the EU in future (Gamble,2012). Hence, this last period is defined by the calls for a referendum on EU membership and the idea of reforming the European Treaties in order to re-negotiate British terms of membership.

As we have seen, the UK-EU relationship has been shaped by different periods, while at the same time being characterised by a eurosceptic approach from the beginning of EU membership up until today. Be it for geographical or historical reasons, the British have never felt as *European* as might do the French or the Germans, based on the previously mentioned surveys[14]. The UK has supported EU enlargement and the expansion of the Single Market and contributed to a more Anglo-Saxon economic model in the EU, but never became 'more European'. Instead, "the central pillars of a more British Europe – the single market and EU

[13] http://www.bbc.co.uk/news/world-europe-17230760

[14] For more detailed information on the results of the surveys, look at: The Guardian, The Times, YouGov (2012 and 2013).

enlargement – are in danger of being repudiated by the very British parties that originally advocated them" (Rennie, 2012, p. 13).Taking into account the notion of UK-EU relations, we will turn out attention to British EU policy, which has been shaped by this eurosceptic feeling.

Britain's EU policy

Britain's EU policy may slightly differ depending on which party, be it Labour, Conservative or Liberal Democrats, may be in power. It is nevertheless characterised by similar behaviour. Sometimes stronger than others, the eurosceptic trait remains in Britain's EU policy. Being characterised by the notion of the 'awkward partner' in the EU, the UK reflects the eurosceptic sentiments we briefly discussed above. Britain has often taken a hostile stand on EU policies designed to deepen integration, whilst also taking a pragmatic view on different EU policies which could strengthen the UK's economy or influence without demanding too much transferal of British sovereignty to the EU. Looking at domestic politics, Britain remains deeply ambivalent and divided about Europe. Labour and Liberal Democrats have appeared to be more pro-European, whereas Conservatives have become significantly hostile to the EU. As Diamond and Liddle (2008) put forward, it is important to clarify that British pro-Europeanism is not equivalent to the continental pro-European approach. Where the latter supports deeper European integration, possibly leading up to a type of federal European state, the former merely supports the economic benefits through the Single Market, but refuse further political integration. Amongst British politicians, on both right and left, a deep attachment to sovereignty in Westminster politics remains. "There is also the strength of Anglo-American ideology in Britain's political class, which manifests itself as a military and strategic alliance, a capitalist model, a model of governance, a set of doctrines and ideas, as well as a popular culture" (Diamond & Liddle, 2008, p.173). Overall one can define British EU policy as a cautiously supportive policy which is accompanied by awkward and confrontational engagement at times. Britain does rely on the EU to achieve its global policy objectives in areas such as trade or international economics, but tension remains over areas such as financial regulation, the EU budget or the EU's future institutional development. British EU policy is formed by a pragmatic non-ideological approach to Europe. It aims at enlarging the Single Market and regards the EU as a purely economic project, whereas continental Europe does have a political and ideological approach, where the EU does not solely represent an economic achievement but is also shaped by political and ideological accomplishments (Diamond & Liddle, 2008). The current government's EU policy reflects the pragmatic approach towards the EU. In the Conservative's 2010 election manifesto[15], any further extension of the EU's competences without the British people's consent was ruled out. With the aim of restoring 'democratic control', the manifesto promised to amend the 'European Communities Act 1972'[16], ensuring that any proposed future European Treaty transferring national competence to the EU level would be subject to a referendum. Once in power, these aims were finalised by means of the 'European Union Act 2011' which gained Royal Assent in July 2011.

The coalition party, Liberal Democrats, also pledged for a referendum in their election manifesto of 2010 if the UK-EU relationship changed. The following Coalition Agreement (May 2010) then included a commitment to examine the balance of EU competences, with the aim of repatriating some of them. This is still a work in process and due to be finalised by the end of 2014.

[15] For further detail on the planned EU policy, read the Conservative election manifesto 2010

[16] The European Communities Act 1972 established an act of Parliament providing for the incorporation of European Community law into national law in the UK.

Chapter 3: The Debate on EU membership

Having described the UK-EU relations and the trend of British EU policy, David Cameron's strategy may not come too much as a surprise. Being pressured by domestic and internal party politics[17], David Cameron announced on the 23rd of January 2013 in his Bloomberg speech on Europe his decision to hold a referendum on continued EU membership between 2015 and 2017, should the Conservatives be re-elected. Although one could argue that the change in Britain's EU policy could have been expected, the idea that a Member State would decide to leave the Union after a membership of 40 years does come as a blow. The background of David Cameron's decision has to be remembered. In a time of economic and financial crisis, discussions about deeper European integration become louder in continental Europe, which goes against British principles. Even if Britain has still not made up its mind about Europe, it is sure that deeper political integration is not in its interest. Following a petition by a Conservative Member of Parliament (MP), David Nuttall, in 2011[18], a vote in the House of Commons on whether there should be a referendum on Britain's membership of the EU took place. 81 conservative MPs voted 'yes', while 15 abstained. Due to the 'no' vote by Labour and Liberal Democrats MPs, the vote was easily defeated. Nevertheless, it represented the largest ever rebellion by Conservative MPs on the issue of Europe (Gamble, 2012). Next we witnessed the decision on the Fiscal Treaty, which David Cameron rejected on the grounds of it being against British interest. 25 Member States went ahead and implemented the Fiscal Treaty without British and Czech support. Back in the UK, this was taken as a defeat of David Cameron who failed to implement British interests (von Ondarza, 2013), whilst other EU Member States went ahead, deepening integration and leaving the UK as a bystander. Over the course of the Eurozone crisis, British EU policy has increasingly become confused. No clear signs appeared as to whether the UK aimed to be further in, further out, or out altogether of the EU (Gamble, 2012). Until 2012/2013, David Cameron had always opposed a referendum on EU membership despite several attempts by eurosceptic backbenchers since 2010 to introduce legislation in Parliament to provide for a referendum. Yet, David Cameron found himself under increasing domestic political pressure and pressure from internal party politics. Threatened by the growing importance of UKIP, which could currently become the third strongest party in the UK, David Cameron's aim is to put a stop to UKIP's progression (von Ondarza, 2013). With its two most important aims, one to leave the EU and two to

[17] For more information, see Watt (2013) in the Guardian.

[18] http://www.bbc.co.uk/news/uk-politics-15425256

tighten regulation on immigration, UKIP has become an interesting option for disappointed Conservative voters and hence a vital threat to the Conservative party. Offering a referendum on EU membership allows PM Cameron to regain support from some of his electorate. At the same time he puts pressure on his opposition, the Labour party, which is currently still opposing such referendum. And with the promise to hold the referendum in 2017, David Cameron is avoiding conflict with his coalition party, the Liberal Democrats, opposing an in/out referendum (von Ondarza, 2013). Seemingly, his strategy to limit domestic pressure on his party has paid off, as the British population supports the referendum, as we will see below. At the same time, PM Cameron has succeeded in limiting the internal pressure he receives from eurosceptic backbenchers of his own party, by leaning into their wish to hold a referendum on EU membership.

The Bloomberg Speech: referendum and re-negotiation

In his speech on 23rd January at the London headquarters of Bloomberg, David Cameron considered arguments in support of a withdrawal from EU membership. In his speech he acknowledged that even if the UK were to leave the EU, decisions made in Europe would continue to have a profound effect on Britain, whilst the UK would have lost all power in contributing to any EU decision. He explained the debate as follows:

> *Alone, we would be free to take our own decisions, just as we would be freed of our solemn obligation to defend our allies if we left NATO. But we don't leave NATO because it is in our national interest to stay and benefit from its collective defence guarantee.*
> *We have more power and influence - whether implementing sanctions against Iran or Syria, or promoting democracy in Burma - if we can act together.*
> *If we leave the EU, we cannot of course leave Europe. It will remain for many years our biggest market, and forever our geographical neighbourhood. We are tied by a complex web of legal commitments.*
> *Hundreds of thousands of British people now take for granted their right to work, live or retire in any other EU country.*
> *We would need to weigh up very carefully the consequences of no longer being inside the EU and its single market, as a full member. Continued access to the Single Market is vital for British businesses and British jobs. Since 2004, Britain has been the destination for one in five of all inward investments into Europe. And being part of the Single Market has been key to that success.*
> *(Bloomberg Speech, David Cameron, 23rd January 2013)*

The PM confirmed that should the Conservatives win the next general elections due in 2015, an in/out referendum on EU membership would take place after the government had renegotiated the settlement for the UK.

Re-negotiation: the search for a looser relationship with the EU

The British government decided that the referendum would not be held on EU membership under the current circumstances, but under a revised settlement. David Cameron's aim is to negotiate a sort of *lose membership* for his country. Next to taking part in the Single Market, the UK should only contribute to selected policy areas and leave the EU's path to an 'ever closer Union'. The PM is using the referendum as a threat to EU Member States. His motives are threefold:

- First, his aim is to strengthen economic integration in the sense of a free trade area and to complete the Single Market by fully integrating the energy and the services sector.
- Second, he wants to regain competences which have been transferred to the EU level, if necessary this would be achieved by negotiating new opt-outs for Britain.
- Third, David Cameron desires to create a more flexible EU, avoiding integration revolving around the Euro-area. The Single Market would be the centre of British attention in the EU.

Furthermore, government is currently conducting an analysis of the 'balance of competences'. Its aim is to identify how and to what costs or benefits EU legislation impacts on Britain. The results will then be used to identify the areas which the UK will wish to re-negotiate in order to achieve David Cameron's main goals. Once re-negotiation will be concluded, the British electorate will vote in a referendum on continued EU membership under the then revised settlement. This procedure makes it impossible to determine the context of the referendum (Crawford, 2013), as the 'review of balance of competences' (Cm 8415, 2012) won't be completed until the end of 2014. Yet, some topics were already identified in a Green Paper "Manifesto for change"[19]. Following policy areas, amongst others, are proposed for re-negotiation:

- **Trade**

  The UK should aim for an expansion and increasing liberalisation of the Single Market. At the same time, independence in conducting national trade policy would be welcome. Currently trade policy is an exclusive EU competence, which allows it to negotiate trade agreements with third parties on behalf of its members.
- **Budget + Institutions**

  The UK should continue to defend its rebate and negotiate to reduce administrative costs. Furthermore, it should negotiate for the abolishment of "a number of EU

[19] For further information, read: Fresh Start Project, 'Manifesto for change: a new vision for the UK in Europe', January 2013.

quangos", which would demand a treaty change in some cases (Fresh Start Project, 2013, p.16).

- **Common Agricultural Policy (CAP) + Common Fisheries Policy (CFP)**
  Accounting for a net contribution of around £1bn per year, the UK should thrive to return agricultural policy to the Member States and to phase out direct payments made to farmers through CAP. Concerning the CFP, the UK should negotiate to regain control of its territorial waters (defined by the 6-12 mile limit).
- **Regulation: Social and Employment Law**
  The UK should negotiate to return competence over social and employment law from the EU to the Member State, which would also require a treaty change. Should this fail, the UK should re-negotiate an opt-out for all existing EU social and employment legislation, as this area is argued to have imposed an increasing burden on British businesses and employers.

The elements above are merely a selection of issues proposed for re-negotiation in the Green Paper. The proposed topics in the Green Paper extend to issues such as financial services regulation, defence, environment and energy, the Regional Development Fund or immigration.

In conclusion, David Cameron's aim is to establish an EU membership for his country, where the UK can continue being involved in the decision-making revolving around the Single Market, whilst abstaining from regulation in social, environmental or fiscal policy. As such, Britain would voluntarily move itself to an outer ring of European integration (von Ondarza, 2013).

Though, David Cameron's strategy faces one major challenge. "What is clear is that not one single member state has expressed support for the UK position, welcomed the reopening of the relationship, or indicated willingness to back the repatriation of powers being sought" (Priestly, 2013, p.3).

Referendum on EU membership

In his speech, David Cameron noted some of the underlying tensions in the UK-EU relationship we discussed in chapter 2: "the insular mentality, a history of strained relations , a pragmatic – rather than ideological or visionary – approach and long-standing frustrations at the EU's inability to adopt to a changing world" (Oliver, 2013, p.2). The question remains whether a referendum would settle any of these underlying tensions. Being shaped by countless division on what Britain's place is in Europe, the domestic political landscape leads to the subject of 'Europe' being a complex and multifaceted issue.

As we saw above, the announcement of a referendum was one way for David Cameron to regain the support of eurosceptic Conservative MPs, limiting UKIP's rise and drawing votes towards his party, from the political left and right. Though, a referendum on EU membership faces one major weakness: the scale of the task of addressing this multifaceted topic is too great. "We should not expect that a referendum campaign lasting, at most, a few months can secure permanent change to an issue that has been the cause of political squabbles for more than six decades" (Oliver, 2013, p.2). Secondly, one might wonder whether the announced referendum is to settle the 'European question in British politics', or whether its aim is to manage tensions within the Conservative Party and the coalition government. "Given the record of referendums being offered as means of coping with party tensions, it is likely this will lie behind any future referendum when it happens" (Oliver, 2013, p.3).

Positions

The idea put forward above, that a referendum could be used as a means to settle inner-party tension, already leads to the diverging positions on the referendum of major players.
We will concentrate on the political players, being the coalition government (Conservatives and Liberal Democrats) and the opposition (Labour and UKIP), as well as the City of London as the financial centre, business and trade unions and last but not least, the British population.

As we have already seen, the coalition government truly differs in opinion when it comes to the referendum on EU membership.

<u>Conservatives:</u>

Representing a rather more euro-sceptic party, Conservatives stand to be the opposite of Liberal Democrats. Nevertheless, opinion within the governing party is divided. A growing number of Conservatives believe that a referendum could reduce party tension by solving the question on Europe. On the other hand, other voices within the party state that membership is essential for the UK and a referendum would be lost by leading to an EU exit. Despite diverging opinions on the subject, Conservatives support British EU membership, be it under a revised settlement, allowing the development of the Single Market but reducing the political union (Stephen, 2013).

<u>Liberal Democrats:</u>

Often portrayed as the most pro-European party, Liberal Democrats have rejected the referendum and have boycotted the parliamentary debate on the EU referendum (Watt, 2013).

They pledged for a referendum if the UK-EU relationship changed in their 2010 election manifesto, do not however support an in/out referendum on EU membership.

On the other hand, the opposition representing Labour and UKIP also differ in opinion.

Labour:

As a more pro-European party than Conservatives, Labour has so far ruled out the possibility of an in/out referendum (Standard Note 6393). Nonetheless, some Labour strategists have been insisting on their party leader to promise a referendum, but one where the direction Britain should take should be decided on (The Economist, 2012 and Watt, 2013). Noticeably, Labour is as divided as the Conservative Party and has yet to make a decision on where it will position itself on the question of holding an in/out referendum.

UKIP:

UKIP has formed a conservative, anti-European and nationalist party, rejecting European integration and immigration to the UK As probably one of the few political actors having a clear standpoint on the subject of Europe, UKIP fully supports an in/out referendum. An EU exit is, after all, one of their main aims.

Taking a look at ‘economic’ players, we discover another side of the debate. They have the tendency of being more EU friendly. However, it is rare that they openly encourage Britain’s EU membership.

The City of London:

The City has been a financial centre for some years. Leaving the EU might bring with it relieve from EU regulation and obligations. Yet, it is argued that a ‘Brexit’ would be most damaging. The City would lose its status as the point of entry to do business in Europe (Jenkins, O. 2013). As a study conducted by the lobby group ‘TheCityUK’ demonstrates, “more than two-fifths of finance firms gave access to European markets as a core reason for choosing London” (The Economist, 2012, p.28). With an EU exit, finance firms would be likely to direct themselves towards Frankfurt or Paris, as EU finance centres. Therefore, the City is reluctant on holding the promised in/out referendum.

Business and trade unions:

Even if they disagree with certain EU regulations, fearing that over time business investments would move away from Britain and towards the continent and therefore the EU, business and trade unions do not support an EU exit.

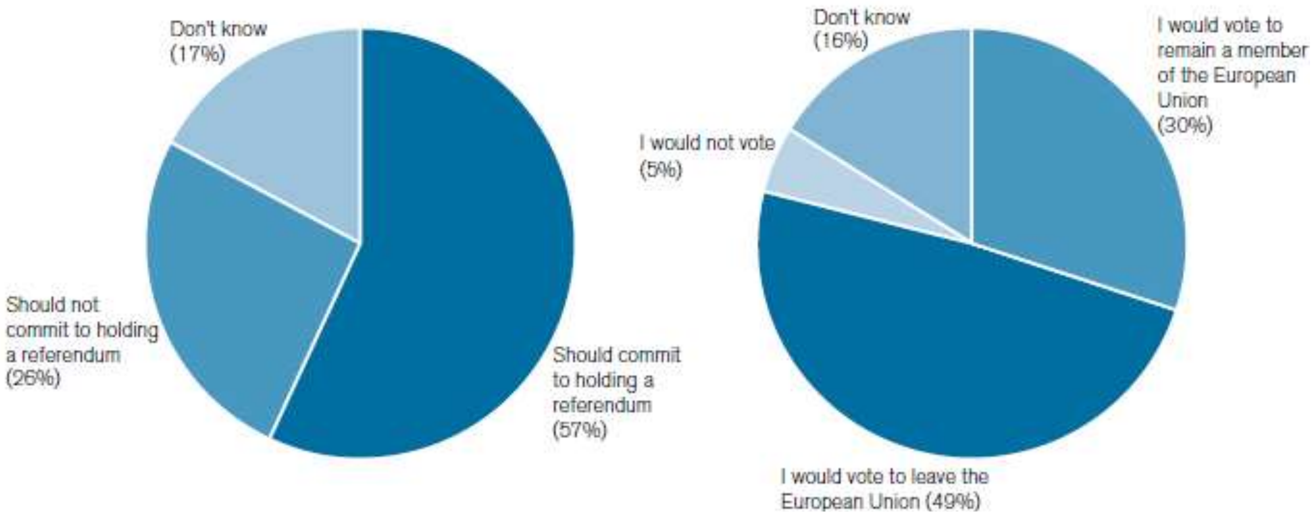
Public opinion:

Although no evoked party above supports a withdrawal from the EU – except UKIP, the British public and electorate reflects Britain's eurosceptic tradition.

Monitoring public opinion across the EU since 1973, the Commission has established in its last Eurobarometer survey that the UK's population has less affinity to the EU than that of most other European countries (Research Paper 13/42, 2013). A Chatham House – YouGov Survey (see Figure 3 and 4) from 2012 showed that 57% of the general public supported the government initiative to hold a referendum on EU membership. 49% would vote in favour of the UK leaving the EU, whereas only 30% would vote for the UK to remain a member.

Figure 3: Should the government commit to holding a referendum on whether the UK should remain a member of the European Union?

Figure 4: How would you vote in a referendum on the UK's membership of the European Union?



Source: Chatham House – YouGov Survey, 2012, p.13.

Other, more recent surveys provide very similar results:

- YouGov/The Times – 7 May 2013: 46% in favour of an EU exit
- ComRes/Sunday Mirror/Independent – 15-16 May 2013: 46% in favour of an EU exit.

These opinion polls are a mirror to eurosceptic tradition in Britain. In front of such results, a referendum on EU membership under today's conditions would eventually lead to an EU exit. The role of the media in forming such opinion must not be undermined. It often reinforces eurosceptic opinion by equally eurosceptic media-coverage in the UK, where pro-European voices remain low (Ludlow, 2013).

To summarise, it can be argued that most political parties prefer for the UK to remain in the EU, all be it under different conditions, as do businesses and trade unions, as well as the City. The main voices against membership are raised amongst the British public and UKIP.
As eurosceptic tradition has remained strong in Britain over the years, withdrawal from the EU would not come as a surprise in the event of an in/out referendum. David Cameron has moved himself into an uncomfortable position. Though having relieved inner-party pressure, he has shocked his European colleagues. Once could argue that he has moved himself in a more difficult position to negotiate any sort of new UK-EU relationship by ‘black-mailing’ his European partners.

Chapter 4: EU membership – does Britain have a European Future?

As we have established so far, the British sentiment towards Europe differs profoundly from the continental political and ideological approach. Characterised by a pragmatic and rather eurosceptic tendency, Britain's EU policy has taken a path away from further European integration. With David Cameron's referendum and wish to re-negotiate the settlement in order to repatriate some competences to the UK, Britain has decided to withdraw from the continental idea of what Europe should be like, moving towards 'going it alone' as a partner of the EU. The question which arises during the debate on whether or not Britain should hold a referendum on a continued EU membership is what, aside from eurosceptic feelings, makes the British willingly take the risk of withdrawing from a club after 40 years of membership. The answer to that question is the balance of costs and benefits, advantages and disadvantages. Only then can the UK decide to what extent it might be better off as a member or as an ex-member of the EU. Such analysis is not evident and straight forward. There are economic benefits or costs that can be calculated and lead to a result on whether costs outweigh the benefits or not. However, the EU has not only led to economic integration but also to political integration. Therefore, an analysis on whether or not Britain benefits from being a member of the EU also has to take into account political advantages or disadvantages. These factors cannot be calculated but are subject to rather subjective sentiments on whether or not they are a high price to pay for being a member or withdrawing from membership of the EU. Many of the costs and benefits – or the advantages and disadvantages – of EU membership are in certain respects, subjective, diffuse or intangible due to the fact that assumptions must be made about the terms on which the UK would leave the EU and how the British government would then fill the policy void which would consequently be left. For that reason we shall analyse the costs and benefits of British EU membership next to the assumption that, should it leave, Britain would merely go back to being a WTO member, without any closer or special relations with the EU. This is of course a strong assumption to make, as for geographical and historical reasons Britain always has had a special relationship with continental Europe. However, for the purpose of allowing a clear as possible answer, we will assume otherwise. In order to gain a clear response, we shall divide the costs and benefits of membership into two categories: economic consequences of membership and political consequences of membership. The first category will allow an objective result, taking into account previous calculations of costs and benefits of EU membership. The second category will establish advantages and disadvantages membership has brought to the UK which cannot be calculated but are subject to a subjective opinion, where the British government has to weigh the costs and benefits itself. Due to restrictions, we cannot elaborate on each individual competence the EU has gained from the UK and each individual policy field the EU has been active in. Instead, we will concentrate on the main aspects which also resurface in the debate about continued membership. These topics are the internal trade within the Single Market, external trade, Foreign Direct Investment (FDI), the EU Budget, CAP and the CFP. Under the second category we will find the cost of EU Regulation in different policy fields, the subject of influence – be that geopolitical and economic influence, and the subject of sovereignty.

Economic consequences

In order to establish a comprehensive analysis of the advantages and disadvantages of EU membership for the UK, we have separated economic factors from political factors. Economic consequences – here taken in the positive but also negative sense, will allow a more balanced perception of the costs and benefits of membership. Of course, results may vary here from study to study and how calculations were undertaken. Nevertheless, research has shown that results do not diverge too much. A reliable answer can therefore be given. As 'economic' consequences of membership we will look here at the effects of trade within the Single Market, external trade, FDI, and finally the effects of the CAP and the CFP[20]. These topics have been chosen as they are the main topics resurfacing in the debate and where assumptions on whether or not the UK has benefited from these effects can be made.

Trade

Trade within the Single Market

Prior to the creation of the EU's Single Market, the Treaty of Rome (1957) set out the grounds by establishing the four economic freedoms: free movement of goods, services, capital and persons. Followed by the Single European Act (SEA) in 1986, which sought to eliminate all technical, physical and fiscal barriers to trade, the deadline for the creation of the Single Market was set. Championed by Britain, the Single Market Programme (SMP) ultimately came into force on January 1st, 1993 by means of the Treaty of Maastricht (1992). The SMP had been designed to enforce the elimination of barriers to trade within the customs union. The two main driving forces behind the development of the Single Market had been

[20] For further information on general economics refer to Mankiw and Taylor (2012).

the attempt to open markets and develop an EU-wide competition policy as well as the enforcement of harmonised regulations throughout the EU to prevent unfair competition. Subsequent Treaties have led to the addition of other areas to the Single Market such as environment or social and employment policy.

Being part of the Single Market and the resulting participation in a customs union is often brought forward as one of the main reasons behind British EU membership. The benefits it is argued to have brought to the UK mainly relate to trade. These benefits can be split into three aspects.

First and foremost, being a member of the EU and therefore a member of the SMP has given access to a large market, now comprising 500 million people. Enlargement of the EU had always been supported by the UK, and so far the EU enlarged from only 9 members in 1973 to 28 member states since July 2013. The UK has not only been a supporter of enlargement, but also benefited through the extension of the liberal UK economic tradition in certain areas of the EU. Today, the UK is able to trade with 27 partners within a customs union and benefits from increased removal of technical, physical and fiscal obstacles to trade. Such a large common market, as the EU's Single Market represents it, is so far unique in the world.

Secondly, the SMP is argued to have been a key driver for economic growth in the EU as well as the UK. As a review of the European Commission (2002) estimated, EU GDP would have been 1.8% lower without the SMP. Furthermore, another European Commission study (2007) assessed that the Single Market had led to a 2.2% increase in EU GDP in 2006 as well as the creation of 2.75 million jobs. Assuming these gains were distributed evenly across the Member States, this would translate to a gain of £25bn for the UK over the analysed period from 1992 to 2006 (FOI request, 2010). Economic growth, in this case mainly linked to trade, is considered beneficial to a country's welfare. In fact, the UK's Department for Business, Innovation and Skills (BIS) has suggested in a study that "increased trade in Europe since the early 1980s may be responsible for around 6% higher income per capita in the UK" (BIS, 2010, p.110). Furthermore, 3.5million jobs are supposedly directly linked to UK-EU trade (BIS, 2010). Such figure accounts for around 10% of the total UK workforce, or the population of Wales.

This leads us to the third aspect of benefits for the UK due to trade within the Single Market. HM Treasury estimated in 2005 that trade between Member States was boosted by 38% due to EU membership. Of course, when analysing trade growth, it is important to also take into account trade diversion. Boosted trade with EU Member States can only be considered welfare enhancing if trade growth did not come at the expense of trade diverted from other third partner countries. As put forward by HM Treasury (2005), the EU's common commercial policy may just have this effect. However, they calculated that only 5% of trade were diverted which means that the SMP has led to trade creation and hence, trade growth. In fact, the UK trade with other EU member states "was seen to have increased by 7%, with only 4% of trade with non-EU countries suffering diversion" (Open Europe, 2012, p.16).

Despite these seemingly glooming benefits, certain aspects of the Single Market, here relating to trade in goods and services, also come with downsides.
UK trade with EU members accounts for nearly 50% of total export, as we established in Chapter 2. Such high trading numbers first point towards a benefit, resulting from EU membership. However, there are some distortions. The Netherlands and Belgium account for 7.1% and 5.8% of total UK goods and services exports respectively (Open Europe, 2012). This relatively large proportion of trade with both countries is to some extent accounted for by the Rotterdam-Antwerp effect. Thereby, goods exported to these ports are in fact due to be exported to non-EU States. Despite the final destination of these goods exports, they are classified as exports to the EU.[21] Taking the Rotterdam-Antwerp distortion into account, UK-EU trade comes closer to 40% than 50% (Lea and Binley, 2012).
Next, the UK's exports are orientated towards the EU markets and do not correlate well with future growth opportunities (Lea and Binley, 2012). In fact, the UK's ability to penetrate in more vibrant developing markets in the rest of the world will be vital (Open Europe, 2012). This aspect is not a direct cost or disadvantage, but it does weaken the benefits of UK membership, as the UK depends on the EU's external trade policy.
Furthermore, as we have seen in Chapter 2, it is the services sector which represents the heart of the UK economy. This is where the British comparative advantage lies. However, liberalisation of trade in services is lagging behind in the development of the Single Market which is a particular problem for the UK. In fact, while services are a large proportion of the EU economy, they remain a small proportion of intra-EU trade. "Although the share of the EU economy devoted to services significantly outweighs the non-services economy, only 3.2% of EU services output is accounted for by intra EU trade. The figure for non-services trade is by contrast 33.6%" (Open Europe, 2012, p.17). Such development is linked to the fact that far less progress in removing domestic regulation affecting services trade has been made. BIS (2011) estimates that completing the Single Market could raise the EU income by 14%

[21] For further information on and discussion of the Rotterdam-Antwerp Effect see: *Global Britain*, briefing note 64, 2011.

over 10 years. However, liberalising trade in services is far more complex than liberalising trade in goods as it often requires the movement of persons across borders and comparable regulation between the home and the host state. Within the EU, a multilingual region with diverse political and legal cultures the 'completion' of the Single Market in trade in services therefore represents a major challenge.

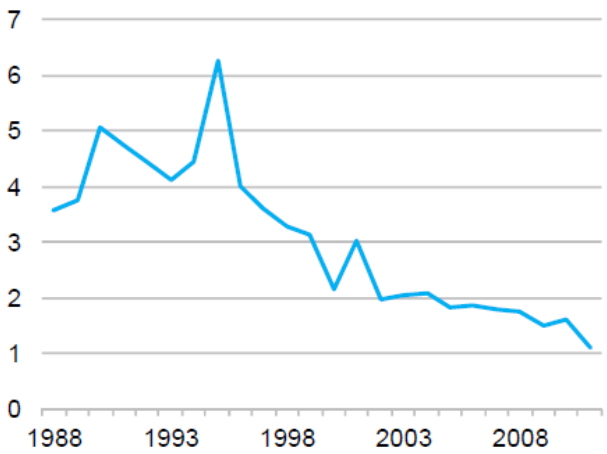
External Trade

As a member of the EU, the UK has no longer the competence to negotiate trade agreements with third countries as external trade policy is an area of exclusive EU competence. The Lisbon Treaty (2007) stipulates that, in addition to trade in goods and Foreign Direct Investment (FDI), the EU's external trade policy includes trade in services and intellectual property (Art.207(1), TFEU). Under the Common Commercial Policy, all member states furthermore apply the same external tariff. Given this structure, the UK has very limited room for manoeuvre and influence in pursuing its own trade policy. Next, to a certain extent, its ability to influence the EU's decision has declined. This is linked to the enlarged union but also due to the fact that the UK has failed in securing an economic portfolio in the current Commission (Open Europe, 2012). Another disadvantage of being an EU member comes with the inability to negotiate individual bilateral or multilateral trade agreements. Instead, the UK depends on the EU to do so. Yet, British interest may not be prioritised as other Member States also have national interests and may wish to concentrate on different aspects or regions when it comes to trade negotiations. Another downside which comes with EU membership is the aspect of sectorial protectionism, which goes against British tradition and the EU's failure to liberalise the services market. Especially agricultural protectionism is highly valued in continental Europe, notably in France. Fears have been voiced that in the wake of the Euro-crisis, protectionism may even be strengthened (Open Europe, 2012).
Despite these negative aspects of EU membership concerning external trade, the major benefit which outweighs these negative impacts, is the ability to influence. The EU's market size is a great negotiation tool. Taken as a whole, the EU represent the world's largest economy and trading block, "with almost 29% of global output, a population of over 500 million people, 15% of global merchandise trade, and 24% of global commercial services trade in 2010" (Open Europe, 2012, p.23). As a result, the EU has a major influence in world trade talks. An influence, the UK would not even come close to if it stood alone. Furthermore, the UK can use the EU as a vehicle for its own interests in global trade talks with particular partners.

Implications of EU exit for trade relationships

Were the UK to withdraw from EU membership, Britain's trade relations would be the product of negotiation. A vast number of different arrangements could result but for the purpose of analysis, we will consider a situation in which no preferential market access is given. In this case, the UK, as a member of the WTO, would be considered as any other third WTO country. According to the principle of non-discrimination, the UK would benefit from the tariff applying to the 'most-favoured-nation' (MFN). As Figure 5 shows, the EU's MFN tariff has fallen considerably over time.

Figure 5: EU average (trade-weighted) MFN-tariff
Percent, 1988-2011



Source: Research Paper 13/42, p. 27

In that respect, the advantage of membership has declined. Nevertheless, since MFN tariffs would be imposed on UK goods exports, British exporters facing customs tariffs would consequently become less price competitive than their counter parts in the EU. Yet, since the MFN tariffs are considerably low, Hindley and Howe (2001) calculate that the maximum economic cost to Britain would be below 1% of GDP if British exporters held their prices to EU buyers constant, and paid the re-imposed EU import duties. Since MFN tariffs have dropped even further since 2001, it is safe to assume that the economic loss would still be far below 1% of GDP. On the other hand, UK consumers would be likely to face higher prices when buying EU products considering that Britain would 'inherit' the EU's tariff regime which it negotiated as part of the EU at the WTO (Research Paper 13/42). However, British consumers would then also have access to other products at world market prices which could be significantly lower than prices of protected EU goods.

Another consequence of withdrawing from EU membership includes the re-instalment of non-tariff barriers to trade[22]. Especially required standards of certain imported products from outside the EU could come to the detriment of UK exporters. UK producers currently have to comply with these standards set by EU regulation. Withdrawal however "raises the prospect

[22] Non-tariff barriers represent a range of measures indirectly reducing imports (intentionally or unintentionally). Included are anti-dumping measures, product standards (labelling, packaging…), or support to domestic producers.

of costly divergences between the UK and EU product standards" (Research Paper 13/42, 2013, p.29).

As for the UK services trade, it would be governed by the WTO General Agreement on Trade in Services (GATS). Here too, GATS operates on the principle of non-discrimination. However, it can be assumed that market access would be even more limited for UK exporters under GATS than it currently is under the EU (CEPS, 2013). Reasons for this effect include the loss of the four economic freedoms, especially the free movement of labour which facilitates trade in services.

Concerning trade relationships outside the EU, the UK would have to face renewed negotiations to secure on-going market access with countries the EU currently has trade agreements with (see Appendix I for the EU's preferential trading agreements). Else, the UK would face MFN tariffs imposed by these countries.

Taking into account the power to influence, the access to the world's greatest trading block, and the relatively high level of UK-EU trade, the benefits seem to outweigh the costs of EU membership. As this brief analysis of advantages and disadvantages of the trade aspect within the Single Market has shown, Britain is able to take advantage of economic growth in Europe. The UK's participation in European integration is an opportunity to increase trade with a growing market. As a member of the EU, Britain can aim at driving liberalisation and increase trade opportunities for British firms. Even if the UK is less dependent on the EU market than many of its European partners, and despite the incomplete Single Market concerning trade in services, EU membership remains the best option for the UK from a trade perspective. It may be unlikely that UK-EU trade dropped to bottom with withdrawal. Nevertheless, it is likely that trade will drop by a considerable amount after withdrawal. This will not quickly be adjusted by raising trade with current non-EU members, as even there figures might fall considering that the UK will no longer be part of the world's largest trading block and therefore lose in attractiveness. Moreover, being able to use the size of EU markets as a negotiation tool has a great impact in world trade talks and offers potential to trading partners, the UK's market on its own would never be able to offer.

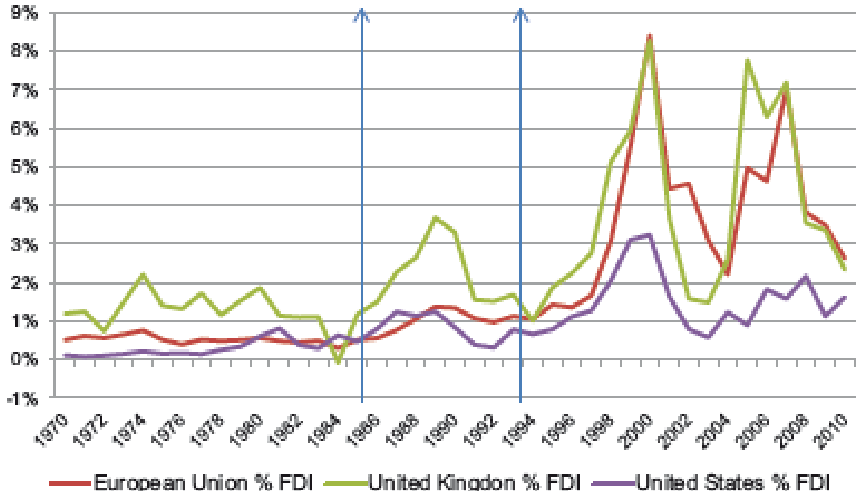
Yet, some future developments could alter this opinion. If EU trade liberalisation stalled over the long-term, the EU moved towards an even more protectionist direction and if the EU prevented the UK from taking advantage of growth opportunities in non-EU countries when it came to trade talks, UK membership of the EU might be wished to be reconsidered (Research Paper 13/42). In that case, it could lead to the perception that other aspects of EU membership such as CAP and the CFP, or budget contributions could outweigh the benefits the UK receives by being part of this large trading block.

Foreign Direct Investment (FDI)

A major argument in favour of UK-EU membership and the Single Market is that it helps Britain attract more inward investment than would otherwise be the case. With £770bn, the UK accounts for the second largest stock of FDI in the world, behind the United States (Research Paper 13/42). The 2013 Ernst &Young Study recognised the UK as the most attractive location for FDI in the EU.

Of course, the UK has a historically good record in attracting FDI, be it for numerous reasons ranging from the English language, law, Britain's relatively de-regulated labour market or the proximity to the Single Market (Open Europe, 2012). This tradition makes it difficult to quantify the amount of FDI linked to the UK's membership of the EU. Figure 6 however demonstrates that investment flows into the UK increased following the SEA in 1986 and the Treaty of Maastricht in 1993.

Figure 6: Foreign direct investment into the UK compared to the US and EU (% of GDP)



Source: Open Europe, 2012, p. 21.

Yet, in comparison with the US data, it becomes apparent that to a certain extent this development is also tied to global factors unrelated to the EU. Though, FDI growth in the UK has been encouraged by EU membership as it reduces the access costs for businesses to a larger market (Open Europe, 2012).

The decision to invest is motivated by a number of factors. Hence, the magnitude of the 'EU effect' on inward FDI in Britain is difficult to estimate. However, surveys of multinational companies such as the UN Conference on Trade and Development Survey (2010) or the Ernst &Young Study (2013) have brought forward results in which the size of the local market is the most important criterion in determining the location of FDI. Nevertheless, this cannot represent the only main factor in deciding to invest in Britain, since this does not explain also French, German or Irish FDI in the UK as they already have access to the EU's internal market. In that case it appears that Britain's labour market regulations are more favourable than in other EU member states. It would therefore be unlikely that Britain suffered from a great loss in FDI, should it decide to withdraw from the EU (Burrage, 2012). Though, in the long-term, firms might wish to relocate to the core of the Single Market, leaving London to invest in other finance hubs such as Frankfurt instead (The Economist, 2012).

To summarise, one can conclude that EU membership has been favourable to UK inward investment. Yet, the UK may still be able to establish a regulatory regime favourable to investors outside the EU. "In particular, the UK would regain competence to negotiate international agreements on foreign trade investment with third countries, something which it has not been able to do since the Lisbon treaty entered force in 2009" (Research Paper 13/42, p.36). All the same, EU membership offers reliable FDI in the medium term.

The EU budget

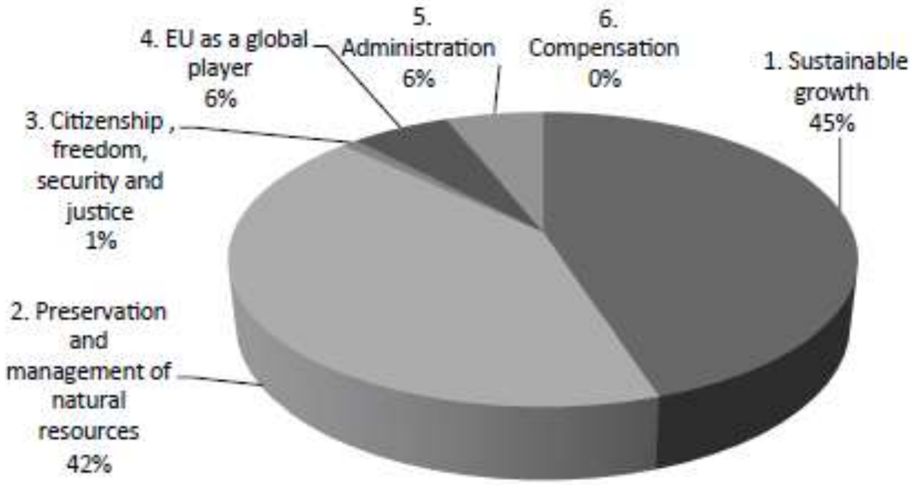
Budgetary contribution to the EU is one of the more quantifiable costs of membership. The UK contributes considerably to the EU budget. Its gross contributions are expected to remain around £14bn a year, depending on potential policy reforms and budget negotiations. Its net-contributions, however, are slightly lower. The UK contributed £10bn in 2012, an equivalent of 0.7% of GDP (Research Paper 13/42).

The budget course was laid down in the treaties of 1970 and 1975 and therefore coincided with Britain's accession. It had been decided by the six founding Member States that the EC's budget should comprise own resources which are now defined as "revenue allocated irrevocably to the Union to finance its budget and accruing to it automatically without the need for any subsequent decision by the national authorities" (European Commission, 2008). These own recourses include customs duties and agricultural and sugar levies. Furthermore, around 1% of VAT collected by the Member States is transferred to the EU budget. Each Member State then also pays a certain percentage of its Gross National Income (GNI) – at the moment the maximum of contribution is set at 1.27% of GNI. These GNI-based contributions account for 87% of total revenues[23].

[23] For more information on the structure of the EU budget see DG BUDGET: http://ec.europa.eu/budget/explained/budg_system/index_en.cfm

Since 1988, the EU budget has taken on a multiannual perspective and is now negotiated to a period of seven years, known as the Multiannual Financial Framework (MFF). The MFF is set by the Council, once the European Parliament has adopted the draft, and sets annual expenditure ceilings and allocates spending to preferential policy areas. The budget is then used to pay for policies set out at EU level. For 2007-2013, the EU budget was structured in the following way:

Figure 7: The EU budget - overall ceiling of commitments 2007–13



Source: Spence, J. (2012), p.1246.

As can be seen in Figure 7, a large percentage of the EU budget is spent on sustainable growth (45%) and on “management of natural resources” (42%) – in other words: agricultural policy, to which we will come in more detail later on.

For the majority of Britain’s membership, the UK has been a net-contributor to the EU budget. In other words, it contributed more than it received: in 2011 Britain contributed with €13.8bn and received €6.5bn, resulting in a net contribution of around €7.3million (Compare Appendix II, Standard Note 6463). It was with this perception that arguments about Britain’s contributions to the EU budget deepened between 1975 and 1984. In 1984, under Margaret Thatcher, the UK succeeded in negotiating the British rebate. The European Council had concluded that “any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time” (Spence, 2012, p.1244). To simplify, the British rebate represents a reimbursement of two thirds of the difference between the UK’s contribution and what it receives from the budget. Calculation is based on GNI and VAT and is calculated in year in arrears.

As a non-member of the EU, Britain would no longer *have* to contribute to the EU budget, which is often put forward as a great benefit of the UK’s withdrawal. In comparison to

Norway – an EEA country - and Switzerland, which contribute to cost of the EU programmes in which they participate, both contribute to 17% and 60% less in per capita contributions respectively (Research Paper 13/42)[24]. The overall benefit to the UK of withdrawing from the EU would therefore be the complete contributions it currently makes to the EU budget. The UK could then decide on which areas or programmes it would like to spend its gained budget, rather than seeing a considerable amount of its contribution being used for the CAP in the EU. Though, even from a budgetary side, there can be downsides from the UK leaving the EU. Although the UK is a net-contributor over all, and it would, as a whole, benefit from regaining its contribution, certain regions within the UK, where living standards fall short of the EU average would lose a significant level of support from the EU budget through the European Regional Development Fund and the European Social Fund. British land owners and farmers, too, would lose payments which they currently receive under CAP. For example, Wales, being eligible for the highest level of regional funding and which has a large agricultural sector, currently receives £163 per head under EU funding (Research Paper 13/42). In effect, the divergence in public sector receipts means that some parts of the UK such as Wales and Northern Ireland are net recipients from the EU budget, while others (England and to a lesser extent Scotland) are net contributors (Research Paper 13/42). In that respect, EU withdrawal would leave a vacuum, which the UK government would have to fill in order to avoid certain regions or sectors losing out.

Yet, taken as a whole, the UK would benefit from withdrawing from the EU as a net-contributor.

The Common Agricultural Policy and the Common Fisheries Policy

Closely connected to the issue of the EU budget is the EU's Common Agricultural Policy (CAP) with its subsidy and regulatory regime. When following the debate about British EU membership, the one argument resurfacing over and over again is the EU's CAP and the fact that it represents around 40% of the EU budget and therefore the largest element of the UK's costs in the EU. Set-up in the 1950s, the policy's aim was to make Europe more self-sufficient by allowing greater freedom of movement in agricultural goods and supporting farmers. A system of subsidies ensured that farmers could produce food even when the market conditions were unfavourable and allowed food prices away from instable world prices and supply. This subsidy system led to excess in the 1980s. Being paid based on production, farmers increased production which led to butter lakes and grain-mountains. In the last reforms, subsidies were

[24] Norway contributes to EU programmes with a budget of £106 and Switzerland with a budget of £53 per capita. Britain's per capita contributions are £128 in 2011 (Research Paper 13/42, p.38).

decoupled from production and farmers are now paid based on acreage. Furthermore, farmers implementing certain environmental measures are eligible for supplementary subsidies. CAP is once again the topic of policy reform post 2013[25].

The budget directly allocated to farmers is £49bn (57.5bn euros) in 2013, where UK farmers receive 7% of the total budget (BBC, 2013$_{(a)}$). Of course, withdrawal from EU membership would automatically lead to reduced farmer incomes, unless Britain provided a transitional system including subsidies. On the other hand, which is the main argument for Britain against CAP, is the wider benefit to the UK economy as a whole. This would come in the form of the competence to freely negotiate trade deals with non-EU countries and the WTO and it would bring with it more flexibility on pricing (BIS, 2012). The UK government has sought a more market-orientated policy which would allow farmers to prepare for a future without income support, whereas other EU members are reluctant to withdraw the farmers' subsidies.

In addition to CAP, EU membership entails the Common Fisheries Policy (CFP) [26] and therefore, the common ownership of the UK's waters, which is argued to have been damaging to UK fisheries. In the 1970s, it was agreed that fisheries would be a European matter and the CFP intended to address the mobile nature of the resource and to protect local fishing grounds. As a result of the agreement that if a Member State can prove historic fishing activity between 6 to 12 nautical miles, it receives access to those, otherwise nationally exclusive, fishing grounds, the UK has access to fishing grounds within the 6-12 miles of four other Member States and five Member States have access to the UKs fishing grounds. Furthermore, in the 1980s, fishing grounds between 12-200 miles were agreed to be shared (European Commission, 2009).

It is argued that the CFP has failed to effectively manage fish stocks, to reform the fishing industry, and to deliver a sustainable fishing industry. Overfishing continues to be an important issue and political pressures have led Member States to protect the short term, rather than the long term, interests of fishing industries (UKIP, 2013). As CAP, the CFP also faces reforms. These are likely to "include a ban on the discarding of fish, enforcement of sustainable levels of fishing and more regional decision-making" (Research Paper 13/42, p.56).

The UK is argued to benefit from several factors if leaving the EU. First and foremost it is believed that, considering the failure of the CFP, fisheries management would be more

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[25] For further information on CAP and its reform, see the European Commission website on agriculture and rural development: http://ec.europa.eu/agriculture/cap-post-2013/

[26] For more information on the CFP, visit the European Commission website http://ec.europa.eu/fisheries/cfp/

effective if kept at national level. Furthermore, the UK would once again have sole access to its fisheries resource. UKIP claims that the resource would be worth £2.5bn per year (UKIP, viewed 13 August 2013). Moreover, the UK would be able to determine its own fishing rules within the region, without having to negotiate with other parties. Of course, certain rules would still be developed within international environmental agreements. Yet, the responsibility for managing fisheries would rest with the UK government, potentially offering a more fitting policy. Furthermore, the UK would be free to negotiate directly with third parties over the potential division of joint fish stock.

On the other hand, leaving the EU would also result in negative impacts. UK fishermen could be excluded from areas outside the UK's Exclusive Economic Zone[27] (EEZ). The UK could face wider political repercussions leading back to the feelings generated from excluding fishermen from their traditional fishing grounds. And concerning negotiation with third parties, the UK could face a number of disadvantages. These include a potentially weaker UK position outside the EU, disputes between the UK and EU Member States becoming more frequent and the UK losing its influence in directing the management of fisheries in seas adjacent to the UK's EEZ. Given the migration of fish stock, this could have implications for the fisheries management within the UK EEZ (Research Paper 13/42). Additionally, the UK could still be bound by EU fish trade rules without being able to influence them, as the UK would have to comply with EU import conditions and requirements when exporting fish products to the EU.

Concerning CAP and the CFP overall, it is however argued that both common policies are hugely damaging for the UK's economy. Britain, as a market orientated force, is against subsidising farmers and would prefer to see a more market oriented agricultural sector. Outside the EU, its consumers could benefit from lower and more flexible prices, whilst the government would save a significant amount of expenditure linked to the EU budget. As for the CFP, Britain would regain control over its rich waters accounting for 70% of the EU's catch (UKIP, 2010) and its fisheries management.

Balance of economic gains and losses

Looking at the analysis above of the main items in the debate about the economic costs or benefits of remaining in the EU or withdrawing from it, they cover a proportion of the measurable costs of EU membership. Studying the results leads to a striking revelation. The

[27] Exclusive Economic Zone – a zone within 200 nautical miles of coastal countries

economic gains and losses associated with each topic, be it trade, FDI, the budget, or CAP and the CFP, are in fact relatively small to British GDP. Furthermore, they seem to counterbalance one another:

There is a sure gain from leaving CAP, combined with withdrawing from EU budgetary contributions. There is a loss from the re-imposition of EU tariffs on UK exports to the single market, but this loss is offset by the removal of the distorting effect of EU tariffs on imports to the UK. Also, there is a possible loss due to a potential reduction of FDI. Last of all, leaving the CFP is argued to be of benefit as Britain would regain control over its waters and rich fishing grounds.

To sum up, the analysis above does not allow a confident answer as to whether or not the British economy would gain from a withdrawal from the EU. The point is however, that whatever the decision may be, any economic gain or loss from withdrawal is small, if one does not consider indirect effects. As Hindley and Howe (2001) point out, the economic gain of leaving the EU is less than an annual cost of 1% of GDP. Other cost and benefit analysis put forward that EU membership leads to a net annual cost of 1.75% - 4% of GDP (Minford, 2005; Leach, 2000; Milne, 2004). Yet, the latter studies take into account aspects such as the UK joining the Euro and possible future costs including further harmonisation and many more. Furthermore, this low cost is explained by the assumption that non-EU members would show the same interest in the UK when it comes to trade as they currently do. This, in our opinion, is unlikely. The US have already indicated that should the EU-US Trade and Investment Partnership come to conclusion, Britain's inclusion as a non-EU member would not be guaranteed. Furthermore, the US have indicated interest in the UK precisely because of its EU membership (The Guardian, 2013). However, when we consider the impact EU withdrawal could have on trade relations, be it UK-EU trade relations or external trade relations, EU membership currently appears to offer the advantage. If the EU developed a more integrated and protectionist approach, on the other hand, the benefits of EU membership received by participating in the Single Market and through the advantages of trade relations, would be outweighed by the costs of CAP, the CFP and the budget.

It should be emphasised that the low cost the EU represents for the UK is estimated on the basis of the absence of any special relationship following the withdrawal. As we put forward above, the likeliness of Britain entering into an arrangement without any special relationship is very low. Instead, and we will come to that in Chapter 5, other options are open for consideration and it might very well be that alternative arrangements lead to net economic benefits. Yet, first we must analyse political implications of EU membership.

Political consequences

As we established consequences of economic aspects of EU membership, we now have to consider political effects. Here, too, we shall define whether or not EU membership represents a costly undertaking for the UK. It is important to understand that unlike economic aspects, political factors are subject to subjective reasoning and evaluation. Hence, another study might come to a completely different conclusion of the importance of the factors analysed in the following. We will firstly consider the impact of EU regulations. Regulations also have an impact on the economy. As their reason lies within the functioning and integration of the EU, we consider them as political, not economic consequences. As a second factor we look at influence. Here distinguishing between geopolitical and economic influence we will consider whether the UK has gained in influence worldwide and to what extent it could be affected by a withdrawal from membership. As a last point we consider the subject of sovereignty. As EU integration has led to the transfer of former national consequences to the EU level, it is often claimed that Britain is losing its sovereignty to the EU. The aim is here to analyse to what extent this is true and whether or not it is an acceptable price to pay for membership.

Regulations

It is commonly known that the EU regulates several policy areas. Through successive Treaty amendments, the EU's regulatory competence has expanded over time. As long as EU legislation does not infringe upon the subsidiarity principle[28], EU regulations are accepted. Yet, in the debate about EU membership, the eurosceptic party often claims that the EU has a tendency to over-regulate and that EU legislation imposes great costs on the British tax payer. A research paper from the House of Commons in 2010 estimated that around 50% of UK regulations are in fact EU-sourced (Research Paper 10/62). Now, it could be considered that as a result, the British government can effectively do nothing about half the legislation affecting its businesses and economy.

Several studies have offered estimates of the cost which EU regulation is argued to inflict on the UK. In 2010, Open Europe estimated that regulations introduced over the previous decade amounted to a cumulative cost of £124bn. Using a similar approach but looking at a smaller number of regulations, the British Chambers of Commerce 'Burdens Barometer' (2010)

[28] A principle by which decisions should always be taken at the lowest possible level, or closest to where they will have their effect (i.e. at the local, rather than the national level).

estimated a total cost of regulations amounting to £60.8bn since 1998. These costs in question mainly arise from administrative burdens on businesses and the public sector. Certain regulations were stated as particularly expensive. These included EU social, employment and health and safety regulation with the Working Time Directive[29] and the Directive on Temporary Agency Work.[30]It is claimed that these regulations result in costs to the UK business and public sector of £8.6bn a year (Open Europe, 2011; FOI, 2013). Particularly the Working Time Directive and the Directive on Temporary Agency Work represent policy choices which the UK government would seek to change in order to reduce burdens on business and the public sector (Open Europe, 2012). Another sector for which potential future EU regulation represent a threat is the financial sector. The threat of a financial transaction tax for example, leads to reluctance of accepting EU financial regulation. However, the City is argued to benefit more from EU membership than it would once out of the EU. JP Morgan Chase and Goldman Sachs both noted the importance of EU membership:

We believe that a key risk to London's retaining its status as a financial hub is an exit by the UK from the European Union. In common with financial institutions across the City our ability to provide services to clients and engage in investment activities throughout Europe is dependent on the passport that London-based firms enjoy to operate on a cross-border basis within the Union. If the UK leaves, it is likely that the passport will no longer be available, thereby forcing firms that wish to access EU markets to move their operations to within those markets.
(Goldman Sachs International, 2013)

We value the flexibility London offers as a platform for access to the single market in a variety of formats. Our trading activity in London benefits from an EU passport across the EU.
(JP Morgan Chase & Co, 2013)

The eurosceptic's argument against the EU and its regulations claims that the EU has become so intrusive that it damages the UK economy by putting unnecessary burdens on businesses into place. Arguably, the resulting costs of regulation have become so high, they now outweigh the modest benefits the UK derives from the Single Market (Whyte, 2013).

What the eurosceptic party does not include in its estimates about how regulatory costs outweigh potential benefits from EU membership is why regulations exist, why the EU might

[29] Directive 2003/88/EC, regulates minimum rules on working time in all EU Member States

[30] Directive 2008/104/EC, defines a general framework applicable to the working conditions of temporary workers, guaranteeing a minimum level of protection to temporary workers.

have a legitimate reason to legislate and whether the UK would really escape all regulatory costs it currently faces.

Understandably, regulations can and do impose costs on businesses. Depending on the design of the regulation, these costs can be unnecessary and even damaging. Nevertheless, governments have a legitimate reason to regulate markets, as unregulated markets can fail or lead to sub-optimal outcomes such as negative spill-overs.

Therefore, one reason for the legitimacy of EU legislation is the Single Market. As one of the purposes of the Single Market is to reduce barriers to trade it becomes understandable that the EU receives the competence to regulate the EU's market. Otherwise, 28 Member States would regulate their individual market and resulting conflicting regulations could then act as barriers to trade. Hence, it is in the EU's interest to set common minimum standards, necessary for mutual recognition.

Another reason is that collective action can, at some times result in superior outcomes than countries acting independently. As an example, environmental regulation should in principle lead to greater outcomes by reducing the opportunity for individual members to 'free ride'.

Finally, the assumption we often find in the eurosceptic's argument, that the UK would face none of the regulatory costs it currently does through EU regulation, is simply misleading. For one thing, many areas regulated by the EU are already regulated by the member states. For another, some of the costs arise when EU directives are transposed into national law, and national legislatures levy regulatory burdens above those required by EU legislation. It is in that respect that Open Europe (2010) acknowledges this in their study, noting that the aim of regulation is to produce a total benefit, outweighing the total costs. However, it was calculated that "the benefit-cost ratio of EU regulations in the UK is 1.02 – that is, for every £1 of costs that EU regulations impose, they deliver £1.02 of benefits. The comparable benefit-cost ratio for domestic regulation is 2.35" (FOI, 2013).

Leaving the EU would allow the UK to regulate as it sees fit. As initially withdrawal would leave a policy void in a range of areas the EU currently regulates, it is likely that in the short-term, EU regulations would be kept. Over the long-term it would then be the government's responsibility to decide which parts of EU regulation to keep or to reform. Proponents of withdrawal argue that Britain would benefit by offering more suitable and tailored regulation. On the other hand, British exporters would be required to comply with EU product standards which could be different from those required for domestic sale. As the UK would, unlike stated by eurosceptics, still face regulatory costs, withdrawal from EU membership does overall so far not appear to be beneficial to the UK.

Influence

The principal issue not relating to hard economic aspects such as trade or FDI is the issue of influence. There one can distinguish between geopolitical and economic influence worldwide, whereas the results come to the same conclusion. Being part of a much larger and more powerful bloc, the UK arguably enhances its powers in world affairs by influencing political and economic events in and outside Europe. Within the EU, Britain has so far been able to argue in favour of the development of the Single Market in goods and can continue to strengthen the liberalisation of services. Aside from trade, EU membership has given Britain the opportunity to influence internal developments of the EU, be it enlargement, integration or Europe's wider relations with the rest of the world. Especially in the area of foreign policy, pooling influence with that of other Member States seems like a sensible idea, as it is more likely that by exerting a common standpoint, be it by offering development aid or by upholding an embargo for example, other states may lean into the desired direction. The review of the balance of competences between the UK and the EU on foreign policy has concluded that it is in the UK's interest to work through the EU in several policy areas: "the key benefits included: increased impact from acting in concert with 27 other countries; greater influence with non-EU powers, derived from our position as a leading EU country; the international weight of the EU's single market, including its power to deliver commercially beneficial trade agreements; the reach and magnitude of EU financial instruments, such as for development and economic partnerships; the range and versatility of the EU's tools, as compared with other international organisations; and the EU's perceived political neutrality, which enables it to act in some cases where other countries or international organisations might not" (HM Government$_{(a),}$ 2013, p.6).

The disadvantages include that the UK loses significant rights and powers in which it might conduct its external affairs. Combined with the difficulty to reach a compromise or an agreement with 27 other partners, the EU is often seen as a bloc, unable to formulate a clear strategy which can impede the implementation of policy. Sometimes slow decision-making is then the result of differing interests and complicated international relationships.

Considering the UK's economic influence it currently exerts via the EU, a withdrawal from membership could potentially hurt its economic relations it upholds with non-EU members. No longer offering access to the large Single Market, the UK would lose in attractiveness and furthermore influence when it comes to trade negotiations. Furthermore, leaving the EU would prevent the UK from influencing EU decisions which will still affect it in several areas, especially trade. The UK must come to an assessment of the value EU membership is able to offer when it comes to geopolitical or economic influence. Relying on its special relationship with the US, as is hoped for by eurosceptics in the UK, is unlikely to be enough, The US government already has announced its clear wish for the UK to remain a member of the EU, as otherwise it would lose in attractiveness, even for the US (The Telegraph, January 2013). Instead, it is likely that the UK will find itself side-lined on transnational issues such as trade, security or environment (BBC, $2013_{(b)}$).

Sovereignty

At the core of the UK's contentious relationship with the EU stands the issue of sovereignty. As we have seen so far, British cooperation in EU negotiations is often conditional on agreeing opt-outs in different policy fields. By retaining the right to opt-out of certain policies, British governments have so far successfully 'protected' British sovereignty in particular areas. Though, it is often expressed that EU membership leads to an erosion of British sovereignty.

While there may be different perceptions of the meaning of sovereignty, we understand it along the following lines (Gifford, 2010):

First, there is a political principle of sovereignty which is understood as parliamentary sovereignty. This is closely accompanied by the second aspect, popular sovereignty, including the connotation of rule by the people, usually citizens.

Third is the idea of economic sovereignty, understood in terms of the separation of public power from private property and the market. "This is a contested boundary characterised by disputes over legal regulation, state intervention and the commodification of everyday life" (Gifford, 2010, p.324).

First of all, EU membership is regarded as an attack on British parliamentary and popular sovereignty by eurosceptics. With the introduction of a - to a certain extent - supranational institution, drawing increasingly more competences from the national to the EU level, British parliamentary and popular sovereignty is arguably weakened. As is often portrayed by the British press (Ludlow, 2013), the decision-making process is moved away from Parliament, and hence the people, to the EU, allowing this institution to confront the UK with accomplished facts. Of course, when analysing the decision-making process of the EU, it becomes clear that national governments and parliaments remain involved in the process. Nevertheless, there is a debate about the so-called democratic deficit in the EU and it remains contested as to how much influence is left for national parliaments[31]. In conclusion, what remains significant is that the EU has emerged to a supranational political and legal order. Nation state power is exercised within this order but is constrained by con-federal institutional arrangements (Gifford, 2010).

As for the third aspect, economic sovereignty is lost in the sense that due to diverging economic traditions, the continental European protectionist tradition counters the British idea of liberalising markets.

Taken as a whole, it appears that in the context of sovereignty EU membership comes at a price. Yet, it is a highly subjective answer to give whether these costs are too high a price to pay for membership, or maybe are a low price to pay as a contribution to a common European goal, set at offering peace and security to the European people.

Balance of political gains and losses

Because political aspects of the debate are followed by subjective answers to the question of whether or not EU membership is worth such endeavours, another study might come to a different conclusion. Yet, in terms of EU regulations, non-membership does not appear to be more beneficial to the UK than membership is. The UK would have to fill a policy void and carry costs of other regulations. In terms of influence the UK is significantly better off as part of the economic and political bloc the EU represents, as it no longer carries its former status of a great empire. Merely in the case of sovereignty one could argue that EU membership brings a negative result. Though in the end, the balance of the analysed aspects point in favour of EU membership.

The following section will use the results we gained from our analysis in Chapter 4, examining to which alternatives the UK could turn to formulate its relationship with the EU, should it really come to withdrawal.

[31] For more information on the democratic deficit, read Decker (2013).

Chapter 5: Alternatives to EU membership – a new relationship?

Since David Cameron announced the referendum on continued EU membership, an increasing discussion about which alternatives to EU membership might be available to the UK has arisen. In total we argue that there are four options: the clean break from the EU as a member of the WTO, the Norwegian model offering full access to the Single Market but little decision-making power, the ponderous Swiss model, or a tailored, but unlikely, option guaranteeing decision-making rights to the UK.

The following sections will analyse the options there potentially are for Britain, drawing back on the results from Chapter 4.

A clean break: a member of the World Trade Organisation (WTO)

The only model the UK can definitely rely on is our baseline for comparison in Chapter 4: the WTO. The UK would be given full sovereignty of its trading agreements and all other policy fields, it would no longer contribute financially in any way to the EU, and it would no longer be obliged to implement any of its regulations. However, there would be a high price to pay for this and very few British Eurosceptics argue in favour of a clean break. The UK would be excluded from all preferential trade agreements the EU has negotiated over the years, it would be excluded from the Single Market and the world's greatest economic and political bloc and it is likely to lose its attractiveness to partners such as the US who would rather see the UK within the EU than next to it. And once departed, it would be exceedingly hard to get back in. The analysis we conducted has shown than a complete break from the EU cannot be in the interest of the UK. The costs are simply too high for the time being.

Only in terms of sovereignty a definite gain would become apparent. The economic loss over the access to the Single Market however is not balanced or outweighed by the political factor of sovereignty. This access represents such a high value which, in the eyes of Eurosceptics, is unfortunately rapped by European bureaucracy and regulations. Stripping the UK's membership from this dismal encrustation until Britain's relationship with the EU became one based on free trade with a minimum of necessary regulations, would be the ideal relationship imaginable for British Eurosceptics.

The experience of Iceland, Liechtenstein, Norway and Switzerland, four countries allied to the EU without being part of it and forming the European Free Trade Association (EFTA), shows us that in between full membership and a clean break from the EU other possible alternatives exist. The experience of the aforementioned countries suggests that similar terms could be negotiated for the UK.

Whilst Switzerland is only a member of EFTA, Norway is a member of the EEA, which was established in 1994.

The EEA extends the Single Market and transfers EU legislation to EEA member states desiring access to the Single Market but no full EU membership. Within the EEA the ‘four freedoms’ are therefore also applicable. Besides trade, the EU and EEA states also collaborate in areas such as consumer protection, culture, education and environmental issues. Excluded are the CAP and the CFP. In return, Norway is obliged to adopt all EU legislation relating to the Single Market, including social and employment regulation.

Switzerland on the other hand cooperates with the EU in the form of bilateral agreements in individual political or economic areas. Switzerland’s access to the Single Market is therefore limited and restricted to the areas it has bilateral agreements with the EU[32].

Norwegian model

Norway, together with Liechtenstein and Iceland, comes as close to EU membership as is so far possible without actually becoming a member. An official Norwegian review of the EEA (2012) has come to conclusion that the Norway-EU relationship has brought advantages and growth to Norway with the access to the Single Market in several policy areas.

The main characteristic of the EEA is that, rather than being a customs union, it is a free trade area. Hence, members are effectively free to conduct their own external trade policy. This means that Norway retains the competence for setting its own tariffs with countries outside the EEA and to enter into special trading relationships with third countries. Thus far, the movement of goods is subject to the ‘Rules of Origin’[33], bringing with it more bureaucracy. Secondly, the EEA-agreement allows tariff-free access to the Single Market with its ‘four freedoms’. With the ‘four freedoms’ however, comes the necessity to adopt a vast majority of EU regulation. The only policy areas not included in the EEA are the EU’s CAP and the CFP, its Common Foreign and Security Policy, justice, immigration and monetary policy. As for Norway, it chose nevertheless to align its immigration and justice policies to those of the EU by joining the Schengen and Dublin conventions[34]. In effect, being a member of the EEA

[32] For more detailed information on EFTA and the EEA, see Buchan (2012).

[33] See Appendix III

[34] Dublin convention: regulates asylum applications to EU Member States to prevent abuse of asylum procedures. The Schengen convention regulates the Schengen Area, eliminating all border controls within it.

comes with the obligation to adopt most of the EU's current and future legislation without having much say in the regulation and laws which would bind the country. EEA members are consulted by the European Commission and are therefore 'decision-shapers', but they have no voice in the increasingly powerful European Parliament (The Economist, 2012) and no vote. As a member of the EEA, Britain would lose its status as a decision-maker. Officials and lobbyists would be unaware of the debates about legislations which effectively would affect British industry and businesses, and they would rely on second-hand information from friendly EU member states (Etzold, 2013).

Financially, the Norwegian model also comes at a high price. Norway contributes to administrative aspects of the budget and contributes to the cohesion fund. With a yearly contribution of €350 million, Norway is the ninth highest net contributor to the EU budget (Etzold, 2013). Unlike EU members, Norway does not receive any direct payments or rebates from its contributions.

If one considers the results we received in Chapter 4, the Norwegian option from a purely economic point of view does seem attractive as Britain would still have access to the Single Market and would no longer have to contribute to the much resented CAP or to the CFP. However, from a political aspect the arguments against a Norwegian option seem stronger. Having to adopt nearly all EU legislation without having the right to vote, would leave Britain institutionally worse off than it is as a member of the EU. Furthermore, it would consequently infringe even more on British sovereignty and strengthen the arguments for the democratic deficit. The Norwegian option simply does not seem to be in the UK's interest. Instead, the UK might wish for a more distant relationship with the EU.

Swiss model

The tailored bilateral deal Switzerland upholds with the EU seems, at first sight, more attractive from a British point of view. Switzerland is a member of EFTA but decided against joining the EEA in 1992. Swiss relations with the EU are now conducted on a bilateral basis of a FTA. To an extent it is offered what the UK would desire most: it can pick and choose the policy areas it wishes to be involved in and contribute to. On the other hand, this agreement does not offer unrestricted access to the Single Market. Instead, Switzerland has to negotiate access to each individual sector.

The benefits of the Swiss model include the flexibility over external trade. As part of EFTA, Switzerland is, like Norway, free to decide its own external trade policy, either via EFTA or individually. Sovereignty cannot argued to be lost as in theory Swiss-EU bilateral agreements do not involve the transfer of legal or decision-making power to the EU (Open Europe, 2012). Furthermore, Switzerland is exempted from financial contributions to the CAP, the CFP and EU-wide regional policy. Though, Switzerland has been contributing to the regional development since 2006 to support the EU's new member states which joined in 2004. This was negotiated as a compensation for Switzerland's access to an enlarged market. Unlike the EEA-countries, Switzerland is additionally exempted from EU social and employment regulation, as it is only required to implement equivalent legislation covered by the bilateral agreements (Buchan, 2012).

Yet, even the Swiss model comes with some costs. Switzerland has very limited influence on EU rules and no decision-making power. It is, such as Norway, bound by the 'Rules of Origin' when it comes to the movement of goods. Furthermore, Switzerland and the EU have no agreement on the free movement of services, which, especially in the UK's case counteracts its wish for more liberalisation in the services sector. "Switzerland is hampered by the lack of an accord with the EU on financial services and by the lack of representation in Brussels. In the broader fight against protectionism and financial over-regulation in Europe, it relies on an informal alliance with another country that also has a big financial-services industry, as well as a valuable seat at the negotiating table: Britain" (The Economist, 2012, p. 29).

Despite these costs, some toy with the idea of adopting a similar relationship for Britain with the EU. In terms of British interest it would here represent an optimistic option, being able to pick and choose policy fields in which it wishes to be involved in. Nonetheless, it is very unlikely that the EU would offer similar treatment to Britain. The EU is already trying to move Switzerland into an arrangement more similar to the one it has found with the EEA countries (Buchan, 2012). In that respect, the EU has demanded that Switzerland adopts EU law not only for the affected sector at the time of the negotiation but also incorporates the development of EU legislation, without offering Switzerland the right to be involved in the decision-making process (Etzold, 2013).

From the UK's point of view, it would have much to lose without an agreement on financial services allowing companies to carry out all transactions in the EU from London. As well, it would lose its power to influence EU legislation, which it be required to adopt, even if only in particular and chosen areas. Most significantly however, the UK would lose its unrestricted access to the Single Market. It therefore seems even the Swiss model, even if it entails loser cooperation with the EU which might be in favour of British interest, is not a viable alternative option for the UK.

A new model for the UK?

The EEA and the EFTA options, both described above, were offered in the attempt to encourage these countries[35] to eventually join the EU. The UK, on the other hand, would be moving in the opposite direction, letting us wonder whether the EU would at all be likely to even offer the Norwegian option to the UK. Britain would undoubtedly try to negotiate a special relationship with its former EU partners but this process could take many years, as we mentioned in Chapter 1. We argue that it is debatable how generous the EU, even including friendly countries to the UK, would be to a country that had chosen to leave.

The FAC report on the Government's Policy (2013) on Europe concludes:

"We agree with the Government that the current arrangements for relations with the EU which are maintained by Norway, as a member of the European Economic Area, or Switzerland, would not be appropriate for the UK if it were to leave the EU. In both cases, the non-EU country is obliged to adopt some or all of the body of EU Single Market law with no effective power to shape it. If it is in the UK's interest to remain in the Single Market, the UK should either remain in the EU, or launch an effort for radical institutional change in Europe to give decision-making rights in the Single Market to all its participating states"(FAC Report, 2013, Chapter 5).

As an important member of the EU, the UK is interested in a tailored solution allowing Britain to retain its decision-making rights in order to influence EU decisions which would ultimately have an impact on British politics and the economy. In effect this would lead back to David Cameron's idea to repatriate certain competences and to create an EU *'à la carte'*. Once might argue that the success of such undertaking is extremely low. It would demand huge legal implications by completely reforming the EU Treaties. And no EU member has so far supported David Cameron's plan (Oliver, 2013). Additionally, one might wonder whether the EU would even agree to such a relationship, as it would not take long until other EU members would then wish to have the same beneficial relationship and the union would fall apart.

[35] Switzerland, Norway, Iceland and Liechtenstein

Conclusion

Should it really come to withdrawal from the EU, we do not believe that adopting a model along the lines of the EEA or EFTA is in British or in EU interest. Instead, it could be assumed that the UK would try to negotiate a bilateral agreement according to Art.50 TEU in order to establish its future relations with the EU. Such a new relationship could leave Britain better off if it offered the right of co-decision in sector-specific areas and continued access to the Single Market, for example. However, this would demand a new legislative framework and possibly even a change in EU treaties. Consensus amongst the EU member states to offer such a preferential agreement is highly uncertain. In such an event, one would have to ask what the UK could offer the EU in order to justify an agreement to such a privileged relationship with a formerly rather awkward partner. Since, however, no EU member state has so far welcomed David Cameron's idea to reform the EU in order to repatriate competences we believe it unlikely that the EU will agree to any preferential agreement. Especially when one considers the risk it would carry by opening the path for other member states to leave the union, demanding an equally favourable relationship.

Our analysis in Chapter 4 has shown that EU membership is for the time being in the interest of the UK. First and foremost due to the benefits it gains in the area of trade and linked to that, economic influence. The costs the UK 'suffers' when it comes to budget contributions and CAP or the CFP are, in our opinion, outweighed by its gains in trade, FDI and influence. The UK has a lot to lose, even if being outside the EU does not necessarily mean losing access to the Single Market. Yet, as we analysed in Chapter 5, the Norwegian model comes at a high financial cost as well as a loss of sovereignty. As an EEA country, Norway is obliged to implement EU legislation without having any voting power while it has to contribute financially to the EU budget without being eligible for any financial returns. The Swiss case, on the other hand, is first and foremost an unlikely model to follow for the UK since it is questionable whether the EU would even be likely to consider it. Furthermore, it does not grant full access to the Single Market which, in the case of the UK, would come at a high price concerning its trade in services.

What is more, economic aspects are only part of the problems withdrawal would deliver. The question of what might happen to EU nationals living in the UK or UK nationals living or working in different EU member states would also have to be answered. Secondly, its international influence and perception would probably diminish with the US and other partners such as China or Russia (Emerson, 2013). Secession from the EU would result it enormous disruptions and changes in Britain's economic and political life.

So where do we go from here?

Whilst, as we put forward in Chapter 3, David Cameron may have succeeded in limiting internal party pressure, potentially securing the vote of a eurosceptic electorate likely to turn to UKIP, and forcing Labour to take a side in the debate about the EU, the Prime Minister's announcement of a referendum may have brought the UK and the EU into a period of uncertainty. Potentially, this period could lead to exacerbating EU negotiations in areas such as budgetary, political or economic issues, especially at a time where the economic and financial crisis still has to be resolved collectively. Internally, one can argue that withdrawal from EU membership could also give rise to regional calls for further or even full independence, especially concerning Scotland, a pro-European country part of the UK, already planning on holding a referendum on leaving the UK (Emerson, 2013).

Overall, we argue that as long as the EU does not drastically develop along the lines that the UK finds unacceptable on fundamental political and economic grounds, the benefits of leaving the EU are too small and too uncertain in the medium term. Even if the UK is a net-contributor to the EU budget and certain policies and regulations are found to be uncomfortable, the advantages it receives by being a member of the EU outweigh any likely position it would find itself in if it left the union today. In our view, the UK remains an important member of the EU, despite being described as an awkward partner at times, and it benefits more from being able to influence and shape the EU than from leaving it.

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Appendix

Appendix I: EU preferential trading agreements

Figure 8: EU preferential trading agreements completed and under negotiation

Source: Research Paper 13/42, 2013, p.32.

Appendix II: EU Budgetary Balances by Member States 2007-2013

Table 3: EU Budgetary Balances by Member State 2007-2013

€ million, includes administrative expenditure

	Expenditure						
	2007	2008	2009	2010	2011	2012 (Adopted Budget)	2013 (Draft Budget)
Belgium	5,679	6,108	5,629	6,145	6,797	n.a.	n.a.
Bulgaria	591	972	979	1,222	1,107	n.a.	n.a.
Czech Republic	1,721	2,441	2,949	3,416	3,029	n.a.	n.a.
Denmark	1,449	1,557	1,328	1,526	1,473	n.a.	n.a.
Germany	12,484	11,194	11,713	11,825	12,133	n.a.	n.a.
Estonia	377	368	716	808	505	n.a.	n.a.
Greece	8,429	8,514	5,434	5,749	6,537	n.a.	n.a.
Spain	12,796	12,094	11,614	13,190	13,599	n.a.	n.a.
France	13,897	13,722	13,632	13,105	13,162	n.a.	n.a.
Ireland	2,157	2,052	1,378	2,066	1,639	n.a.	n.a.
Italy	11,315	10,306	9,372	9,497	9,586	n.a.	n.a.
Cyprus	127	130	172	178	184	n.a.	n.a.
Latvia	675	610	710	844	911	n.a.	n.a.
Lithuania	1,044	1,134	1,790	1,602	1,653	n.a.	n.a.
Luxembourg	1,256	1,410	1,454	1,554	1,549	n.a.	n.a.
Hungary	2,428	2,003	3,569	3,650	5,331	n.a.	n.a.
Malta	89	87	72	112	135	n.a.	n.a.
Netherlands	1,916	2,267	1,850	2,146	2,064	n.a.	n.a.
Austria	1,598	1,777	1,817	1,822	1,876	n.a.	n.a.
Poland	7,786	7,639	9,253	11,822	14,441	n.a.	n.a.
Portugal	3,904	4,117	3,724	4,379	4,715	n.a.	n.a.
Romania	1,602	2,666	2,951	2,317	2,659	n.a.	n.a.
Slovenia	390	456	616	756	847	n.a.	n.a.
Slovakia	1,083	1,242	1,192	1,905	1,785	n.a.	n.a.
Finland	1,423	1,321	1,208	1,310	1,293	n.a.	n.a.
Sweden	1,659	1,464	1,452	1,646	1,757	n.a.	n.a.
UK	7,423	7,310	6,247	6,746	6,570	n.a.	n.a.
Total (a)	113,953	116,545	118,361	122,231	129,395	129,106	137,924

	Contributions (b)						Net Contribution					
	2007	2008	2009	2010	2011	2012 (Adopted Budget)	2007	2008	2009	2010	2011	2011 (€ per head)
Belgium	4,372	4,631	4,661	4,783	4,927	5,233	-1,307	-1,477	-968	-1,362	-1,870	-124
Bulgaria	291	364	390	353	395	412	-301	-608	-589	-870	-712	-118
Czech Republic	1,167	1,396	1,374	1,498	1,683	1,599	-554	-1,045	-1,574	-1,918	-1,347	-183
Denmark	2,219	2,301	2,491	2,380	2,448	2,596	770	744	1,163	855	975	154
Germany	21,710	22,215	20,510	23,773	23,127	25,439	9,226	11,021	8,797	11,947	10,994	146
Estonia	177	161	158	142	159	165	-200	-207	-558	-666	-346	-497
Greece	3,020	2,328	2,425	2,310	1,903	1,381	-5,409	-6,186	-3,009	-3,439	-4,634	-752
Spain	9,838	9,966	11,170	10,095	11,046	2,206	-2,958	-2,128	-444	-3,095	-2,553	-274
France	16,989	18,025	20,093	19,581	19,617	11,316	3,092	4,303	6,461	6,476	6,455	140
Ireland	1,586	1,577	1,534	1,394	1,339	20,881	-570	-475	156	-671	-301	-10
Italy	14,024	15,145	15,418	15,332	16,078	16,443	2,709	4,838	6,046	5,835	6,492	96
Cyprus	170	180	199	185	185	201	43	50	27	7	1	8
Latvia	199	216	216	175	182	191	-476	-395	-495	-669	-729	-322
Lithuania	271	329	322	269	302	324	-773	-805	-1,468	-1,333	-1,351	-437
Luxembourg	296	259	287	261	293	324	-960	-1,150	-1,167	-1,293	-1,255	-2,526
Hungary	870	947	909	955	937	1,101	-1,557	-1,056	-2,660	-2,695	-4,394	-270
Malta	57	60	64	61	66	71	-32	-27	-7	-51	-69	-123
Netherlands	6,303	6,669	3,337	5,614	5,869	6,359	4,386	4,402	1,488	3,467	3,805	208
Austria	2,218	2,194	2,316	2,627	2,689	2,706	620	417	499	805	813	96
Poland	2,809	3,473	3,134	3,657	3,580	4,061	-4,978	-4,167	-6,119	-8,165	-10,860	-212
Portugal	1,460	1,466	1,637	1,848	1,734	1,648	-2,444	-2,651	-2,087	-2,531	-2,981	-239
Romania	1,089	1,218	1,342	1,143	1,226	1,360	-513	-1,449	-1,609	-1,174	-1,434	-55
Slovenia	359	408	428	387	401	422	-31	-48	-189	-369	-446	-180
Slovakia	519	595	712	647	694	756	-563	-647	-481	-1,258	-1,091	-233
Finland	1,629	1,710	1,814	1,702	1,955	1,986	206	389	606	393	662	73
Sweden	2,915	3,223	1,855	3,243	3,334	3,534	1,256	1,759	403	1,597	1,577	170
UK	13,429	10,114	10,112	14,659	13,825	14,798	6,006	2,804	3,864	7,914	7,255	127
Total (a)	117,563	121,584	117,626	127,795	130,000	126,727	..	..	..	..	..	..

Notes: Negative net contribution indicates Member State is a net recipient
(a) Total includes non-EU revenue and expenditure and therefore is not the sum of expenditure and revenue by Member State.
(a) Total revenue includes surplus from previous year.
(a) Total expenditure for 2012 and 2013 are Payment Appropriations

(b) 2012 Total does not include surpluses from previous years etc
Net contribution per head based on Eurostat population estimates for 1 January 2011
n.a. Not available

Sources: European Commission, *Interactive graph on EU expenditure and revenue*, available at:
http://ec.europa.eu/budget/financialreport/chart/index_en.html
2012 contributions: 2012/70/EU, Euratom available at:
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:056:0001:0556:EN:PDF

2012 & 2013 expenditure: *DRAFT: General budget of the European Union for the financial year 2013*, available at:
http://eur-lex.europa.eu/budget/data/DB2013/EN/SEC00.pdf
Eurostat population data, downloaded 5 November 2012

Source: Standard Note 6463, p.10

Appendix III : Rules of Origin

“The key difference between a Free Trade Area and a Customs Union

A customs union has a common external tariff (duty) wall. Once the tariff has been paid, goods can travel in free circulation. A free trade area has no common external tariff, but goods originating in the area still travel tariff free . As there is no standard external tariff, Rules of Origin (ROO) apply to specify the conditions under which a good becomes eligible for zero tariffs within the free trade area and that there is no backdoor. ROO can be relatively simple for products wholly produced and assembled in one country. However, when a product involves complex supply chains, determining origin can be a “very complex, sometimes subjective, and time-consuming process.”

As countries within a customs union apply a common external tariff to external countries they must harmonise their external trade policy on trade covered by the customs union.

The EU has one standard set of ‘preferential ROO’83 for both the EEA Agreement and for its free trade agreements with Switzerland, other European countries and certain non-European countries such as Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia, creating a complex pan-European system of rules of origin. Under these rules, components manufactured in these states are given preference under so called ‘cumulation’ rules.”

Source: Open Europe, 2012, “Box G”, p.31.