REGENT'S
UNIVERSITY LONDON

The UK & Europe: Costs, Benefits, Options

Abridged and updated, 2015

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The Institute of Contemporary European Studies at Regent's University London.

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Vice Chancellor's Foreword

Universities should be involved in and contribute to key public debates. Internationalism and global development are at the heart of the mission of Regent's University London. For this reason, Regent's takes a keen interest in international relations and in particular those between the UK and its international partners and those partners and the rest of the world.

In 2013 it became increasingly obvious that the continued membership of the United Kingdom in the European Union was becoming a central issue in the debate running up to the 2015 elections. Accordingly, the University commissioned and published its first European report, 'The UK & Europe: Costs, Benefits, Options'. More than 20 expert authors were invited to write on key aspects of the relationship between the UK and the EU. The report was an influential data source and was used in debate in a variety of fora including the UK Parliament.

It was followed up with a report on the relationship between the EU and the United States, 'Transatlantic Relations: A European Perspective'. A third report is almost complete on the topic of 'Europe and its Neighbours' and will be published in the autumn of 2015.

The UK parliamentary elections have come and gone and the Conservatives, who committed to a referendum on continued UK membership of the EU, have gained a parliamentary majority. At the time of writing, the referendum bill is proceeding through its parliamentary procedures. It is almost certain that by the end of 2017 the UK will have voted on its continued membership of the European Union. The preceding arguments and the final referendum result will have ramifications for every aspect of society, as well as implications for the future of the EU as a whole.

In the light of this, we invited the authors of the original Europe report to provide a condensed update to assist in debate. The original report was the first comprehensive, independent, non-political contribution to the debate published by a university. We hope that this revised version can take the debate forward productively. All the contributors are eminent experts in their own fields. The views expressed are their own.

I hope that you find the report informative and illuminating and that it helps to inform your thinking.

Professor Aldwyn Cooper
Vice Chancellor
Regent's University London

Editors' Preface

The general election of May this year resulted in a Conservative majority government and confirmation of the Prime Minister's promise to hold a referendum on UK membership of the European Union by 2017. The Prime Minister has described it as an 'in/out referendum', and the wording of the question to be put to the British people will ensure that a 'Yes' majority will be to stay in the EU and a 'No' will signal the UK's intention to leave.

As the issue played only a minor role in public debate before the recent election, Regent's University London has decided to publish this updated and abridged edition of its comprehensive 2013 Report on The United Kingdom and Europe: Costs, Benefits, Options in order to help inform and stimulate further debate. This revised report contains over 20 short essays on topics ranging from migration to budgetary policy, from energy security to international trade, from the role of the City to environmental legislation, from transport to sovereignty. The range of issues is wide, as the UK's relationship with the EU has developed considerably over the more than 40 years of our membership, and now affects many more areas of contemporary public life. Contributors to the earlier report summarised the gist of their argument in approximately one thousand words, and attached to each is a selection of relevant facts and figures.

The common ground of almost all contributions is that the current relationship serves the interests of the UK relatively well and that alternatives proposed by those opposed to this relationship would not bring equal benefits. However, these essays also suggest that the relationship could be improved selectively with various – often minor – reforms. In this it complements the review of competences undertaken by the previous government in 2013/2014. In that exercise almost all government departments reported that present arrangements offered the UK probably the best advantages it could reasonably expect from its current membership of the EU.

We can expect public interest in this issue to increase and public debate to become more heated over the coming months. This Regent's Report is an attempt both to encourage and to inform the debate.

The editors are grateful to Dr Neven Anjelic and the following students from Regent's University London for their assistance with the preparation of the facts and figures attached to each essay: Suratchatha Chinchaatharn, Maria Cunha Bueno, Lana Gadza Cermak, Joshua Lange, Kevin Large, Pinja Mann, Sabine Nassser and Sarah Williamson.

Dr Martyn Bond, Honorary Senior Fellow, Regent's University London
Professor John Drew, Chancellor, Regent's University London and Director of its Institute for Contemporary European Studies

Population Change and Migration

Professor Ibrahim Sirkeci

Director of the Centre for Transnational Studies, Regent's University London

Migration is an exception not the norm: only roughly 3% of the world population move internationally. The complexity of migration processes, paucity of data, and patchy state of theories on human mobility, however, make the phenomenon difficult to analyse. Human mobility remains a challenge for the UK and the EU. Both are clearly facing significant population fluctuations, characterised by an ageing population and increasing immigration.

The big picture

Population projections for the EU as a whole suggest total population will rise to 520.7 million by 2035 and then decline slowly to 505.7 million by 2060. The median age will rise from 40 to 47, and the share of over 65s will increase from 17% to 30%. The ratio of retired to working-age adults in the EU, which is one to four today, will eventually rise to one to one unless working age is increased. In the UK, the ratio will be more positive, at just two to five, partly because of an expected population increase of over 10 million, due largely to increased immigration of working-age adults.

The economic challenge is clear. An ageing population brings extra demands for public support in the form of pensions and health care, and immigration can be a temporary stopgap, bringing additional working age migrants. But it is not an effective long-term antidote to an ageing population: immigrants also grow older.

Immigration into the EU

Both pull and push factors drive immigration into the EU. Unstable politics and precarious living conditions stimulate emigration from states outside Europe – notably from its periphery, the Middle East and North Africa – while demand for labour, good wages and social support attract those wishing to better their lives and established cultures of migration encourage migrant groups to go where others have gone before.

Dramatic political upheavals – particularly following the Arab Spring – boosted numbers seeking asylum.

The EU granted protection to just over 100,000 asylum seekers in 2012, up from 84,000 in 2011. Although the figure is rising, it represents barely one in four of those seeking protection, with European states turning away about 300,000 (and also rising) year on year.

From 15 million in the late 1980s, the total number of foreign-born people in the EU is now estimated to be close to 50 million, representing just under 10% of the total population. Turkey, Morocco, China, Ukraine, Russia, Algeria and India are the leading source countries (in order) among the immigrant groups in the EU. Annual inflow figures vary from over 3 million at a peak in 2006/7 to under 2 million in 2011, but the overall trend is clear: the most recent decade has seen an increase of over 50% compared to the previous ten years.

Emigration figures from the EU have also fluctuated strongly, suggesting that about 300,000 left each year in the early 2000s, rising to over 800,000 ten years later, often moving to Australia, New Zealand, Canada and the USA. That figure, however, also includes returnees, for instance more Turks returning from Germany than immigrating to that country more recently.

Inside the EU

Between EU member states the main drivers for migration are economic. The treaty right to free movement facilitates this. More than a third of immigrant stock in individual EU states taken as a whole is composed of EU citizens who have moved from another EU state. About 75% of them are resident in Western European countries, most in Germany, fewer in Spain, the UK, France and Italy. Several EU states are also the country of origin of a considerable number of migrants into another EU state: Romania (2.3 million), Poland (1.9), Italy (1.7), Germany (1.5) and the UK (1.4).

In the UK

Migration into the UK has reached historically high levels. From 4.2% fifty years ago, the proportion of 'overseas born' in the UK population rose to 8.3% by 2001, then steeply in the first decade of the twenty-first century to reach 7,625,800 or 11.5% in 2011. Roughly 2.5 million (33.5%) of this group comes from another EU country, the largest subgroup of 579,000 coming from Poland. India, China and Pakistan led the source countries overall, followed by Poland, Australia, Germany, the USA, France, Spain and Lithuania. Overall about 10 million immigrants arrived between 1981 and 2011.

The impact of migration on UK society is hotly debated. OECD studies show that young, healthy immigrants often make a positive economic contribution – potentially between 7.3 and 16.3 billion pounds sterling to the UK economy – but they, too, will age and at some stage incur costs in pensions and health care. In addition, immigrants' higher fertility rates mean that one in four babies were born to foreign-born mothers in the UK in 2012. The corresponding figure for London, home to a large foreign-born community, was close to 6 out of 10.

Leaving the UK

Between 1981 and 2001 about 8 million people left the UK, mainly to Australia, New Zealand, Canada and the USA, but also to India, Poland, France, Germany, Spain and China – the top ten destinations in 2012. In 2010 well over a million Brits lived in the top four British destinations in the EU: Spain (411,074), Ireland (397,465), France (172,836) and Germany (154,826). The UK is one of the top five countries of origin for the intra-EU immigrant stock.

The number of asylum seekers applying to the UK has declined to less than a third over the past decade as government has tightened the applicable rules. In addition, the Border Agency reports that it turned back over half a million people following refused entry or failed asylum application or by voluntary deportation.

Irregular migration

The International Organisation for Migration estimates irregular migrants make up between 10% and 15% of overall migration flows. Estimates of those now in the UK vary considerably (between 310,000 and 863,000) and the authorities admit the exact figure cannot be known. Most are thought to be those who have overstayed their visas rather than immigrated clandestinely.

Facts and figures

UK expats (rounded to nearest 10,000) in selected EU countries

Spain	411,000	Ireland	397,000	France	172,000
Germany	154,000	Netherlands	45,000	Italy	34,000
Cyprus	32,000	Belgium	25,000	Sweden	19,000
Portugal	14,000	Greece	14,000		
Total EU 1,369,000			Total in the world 4,666,000		

Other EU member states citizens (over 20,000, rounded) living in the UK

Poland	521,000	Ireland	422,000	Germany	299,000
France	128,000	Italy	108,000	Portugal	84,000
Spain	70,000	Lithuania	68,000	Cyprus	67,000
Netherlands	56,000	Romania	53,000	Slovakia	49,000
Bulgaria	35,000	Greece	28,000	Latvia	27,000
Malta	26,000	Hungary	24,000	Czech Republic	24,000
Belgium	22,000	Sweden	21,000	Austria	21,000
Total from EU 2,212,000			Total from the world: 6,955,000		

Foreign citizens and foreign-born people

In the EU in 2011, the largest numbers of foreign (non-national) citizens were recorded in Germany (7.2 million persons or 9% of the total population), Spain (5.7 million or 12%), Italy (4.6 million or 8%), the United Kingdom (4.5 million or 7%) and France (3.8 million or 6%). In total, more than 75% of the foreign citizens in the EU27 lived in these five member states.

In 2011, there were 48.9 million foreign-born people living in the EU27 member states. This figure includes many who were born outside Europe but may have subsequently acquired citizenship in a member state. Of this total, 16.5 million were born in a different member state to the one in which they live (3.3% of the EU population) and 32.4 million were born in a country outside the EU27 (6.4% of the EU population). In total, foreign-born people accounted for 9.7% of the total population of the EU27. The number of foreign-born people exceeded the number of foreign citizens in almost all member states.

EU Budgetary Policies

Professor Iain Begg

European Institute, London School of Economic and Political Science

To make sense of EU budgetary policies you have to see the issues they raise in the context of all member states' severe financial difficulties in recent years. Public debt has risen, tax revenues have fallen and economic stagnation has been widespread throughout the EU. Despite these domestic budgetary difficulties, however, late in 2013 member states did successfully negotiate the current Multiannual Financial Framework 2014–2020 (MFF), fixing the outline budget for the EU for the next seven years.

Overall public debt has indeed ballooned across Europe, in many cases to 100% or more of GDP, but member states' budgetary deficits, which before the crisis ran at approximately 2% of GDP, have in general fallen back from the excessive figures of up to 6.5% seen in 2009 and 2010. They now run at between 3% and 4%, in some cases higher than the limits set by the Stability and Growth Pact, but much more manageable. Cumulative interest payments are an enduring burden for some states, but most have emerged from the Excessive Deficit Procedures that subjected them to Commission oversight during the height of the crisis.

Against this background member states were anxious to agree a current MMF that did not increase the sums spent at European level while they were pursuing restrictive fiscal policies domestically. Austerity policies at home determined that the current MMF represented slightly lower total expenditure in real terms than that foreseen for the previous seven years. Despite some changes to permit greater flexibility in planning and executing individual budget lines, the structure of the budget represents more a recognition of the status quo than any radical change.

The MMF groups prospective budget expenditure under the following headings:

a) Competitiveness, Growth and Employment (13%) including research and innovation;
b) Cohesion Funds (34%) including regional funds;
c) Rural Development (9%) covering social aspects of the Common Agricultural Policy, and a further 29% for support in the form of Direct Payments;
d) Global EU (6%), which includes expenditure on foreign assistance and emergency aid to the developing nations;
e) Security and Citizenship (2%), which includes expenditure on the frontier service FRONTEX;

f) Other Sustainability (1%) for aspects of environmental policy;
g) A further 6% is earmarked for Administration, despite a 5% reduction in staff numbers over the seven-year period.

Off-budget, the member states agreed three separate funds: the EU Solidarity Fund (for disaster relief inside the EU), the European Globalisation Adjustment Fund (for unemployment relief resulting from lack of international competitiveness), and the European Development Fund (for financing overseas aid projects).

Member states agreed to continue the UK budgetary rebate first agreed in 1984, as well as existing rebates for Austria, Germany, the Netherlands and Sweden, and also adding one for Denmark. The UK rebate keeps the country's average contribution roughly in line with that of France (0.3% of GDP), and lower than that of the biggest net contributors such as Germany and the Netherlands. Although the sum fluctuates from year to year, it is hardly of a size to make a noticeable difference to UK public finances, as some Eurosceptics might claim.

Economists rarely agree, but there is consensus that the size of the current EU budget is too small for it to be a serious fiscal stabilizing force. The Commission has no power to borrow and must balance the EU's books year on year. There is no central treasury for the twenty-eight member states that could pool the surpluses of one part of the EU with the deficits of another, or borrow to create rolling debt. The EU budget does not serve that purpose, as a national budget does within its own territory.

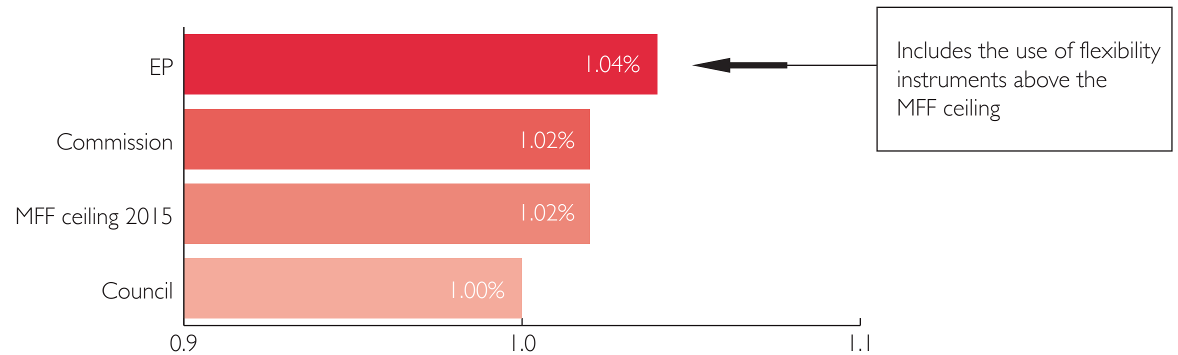
But that could be changing. The development of the eurozone economic coordination for the long term will require a mechanism that would make possible on a regular basis the ad hoc support that helped the euro respond to the 2009 crisis. The absence of a permanent eurozone (if not EU-wide) stabilisation capacity appears as a serious gap in a genuine economic and monetary union. The current EU budget is not only too small, but its structure and concept is too trapped in its own past to be the answer to this larger economic question.

Plans for genuine economic and monetary union, however, are likely to raise problems for the EU in relation to public finances. Although they skirt cautiously round the question of mutualisation of debt, the likelihood is that a new fiscal capacity will emerge, separate from the current EU budget. Any new fiscal capacity will entail additional sources of revenue and a commitment by those participating to bear the resulting risks, and that is a major step towards closer fiscal integration. Some states have agreed to more intrusive EU-level scrutiny of their public finances already, and this could be the first step.

The UK is virtually certain to stand aside from these developments, but fiscal deepening by others will widen the gap between what the UK wants from the EU and the reality of what its partners are doing in budgetary policy. Their decisions about the future of budgetary policy could be a trigger for a significant reassessment of where the UK.

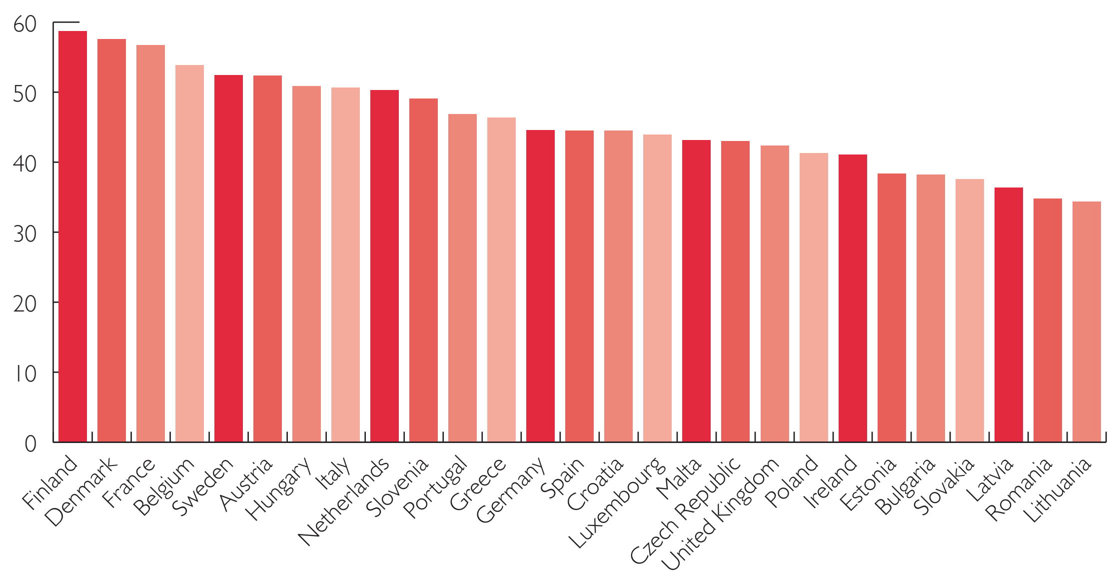
Facts and figures

2015 EU budget payments, % of EU GNI



Source: European Parliamentary Research Service

Public spending ratio in GDP, % in 2014



Source: http://www.statista.com/statistics/263220/public-spending-ratio-in-eu-countries/

EU budget 2014-2015 (in million EUR)

	2014 Final adopted budget	2015 Draft amending budget 2	€	%
1a Competitiveness for growth and jobs	11,863.00	15,798.20	+3,935.23	+33.2%
1b Economic, social and territorial cohesion	51,124.70	51,372.10	+247.34	+0.5%
2 Sustainable growth: natural resources	56,443.80	55,998.60	-445.16	-0.8%
3 Security and citizenship	1,665.50	1,859.50	+194.00	+11.6%
4 Global Europe	6,840.90	7,422.50	+581.59	+8.5%
5 Administrations	8,405.40	8,658.80	+253.37	+3.0%
6 Compensations	28.60	0.00	-28.60	-100.0%
Other special instruments	350.00	351.70	+1.73	+0.5%

UK budgetary

							£ million
	2008 Outturn	2009 Outturn	2010 Outturn	2011 Outturn	2012 Outturn	2013 Outturn	2014 Estimated Outturn[1]
Gross Payments[2]	12,653	14,129	15,197	15,357	15,746	18,135	19,234
Less: UK rebate	-4,862	-5,392	-3,047	-3,143	-3,110	-3,674	-4,888
Less: Public sector receipts	-4,497	-4,401	-4,768	-4,132	-4,169	-3,996	-4,539
Net contributions to EU Budget[3]	3,294	4,336	7,382	8,082	8,467	10,465	9,807

[1] The figures for 2014 are derived from the Office for Budget Responsibility forecast. Those for earlier years are outturn.

[2] Gross payment figures include TOR payments at 75%. The remaining 25% is retained by the UK to cover the costs of administering collection on behalf of the EU.

[3] Due to rounding, totals may not exactly correspond to the sum of individual items.

[4] The 2014 estimated outturn figure is derived from the Office for Budget Responsibility's December 2014 forecast.

Source: Office for Budget Responsibility and HM Treasury

Foreign Trade

Dr Nicholas Bowen

President of the Chartered Institute of Linguists and former Principal Lecturer in International Business, European Business School, Regent's University London

The UK economy is heavily trade-dependent. The country specialises and trades internationally rather than aiming at self-sufficiency. For the UK, overall foreign trade in goods and services accounted for about 30% of GDP in 2013. This trade-dependency figure puts the UK in second position after Germany and somewhat ahead of France, Italy and the Netherlands among EU member states.

Trade with the European Union

Just under 50% of UK foreign trade overall is conducted with its EU partners. This percentage has risen from little more than a quarter in 1973 when the UK joined the EEC. The composition of this trade has changed over that period and fluctuations year on year can make the numbers quite uneven. In the decade since 2004–5, for example, exports to other EU countries fell from 54% to 47% of the UK foreign trade total.

The UK currently runs a large trade deficit in goods with the rest of the EU. In 2012, for instance, the UK exported £155 billion of goods to the EU but imported £221 billion. This imbalance was to a large extent compensated for by a surplus in EU trade in services – the impact of the City of London with its extraordinary concentration of financial services. The UK's final tally, though still negative, was only minus £44 billion.

Foreign trade affects different sectors of the economy in different ways. Construction, for instance, is hardly connected to the nexus of foreign trade, neither with the EU nor with the wider world. Motor manufacturing, on the other hand, is very closely bound into supply chains and markets that are both European and global. Food production, textiles and clothing are likewise internationally organised: traffic on UK roads and goods in UK supermarkets are perhaps the most visible signs of the country's economic interdependence, much of it with the EU.

In terms of employment, the EU proportion of this trade interdependence is estimated to affect at least three million jobs in the UK. In political terms, major policy changes such as withdrawal from the EU could affect some three million families in the UK, as they stand to gain from increased European trade or suffer from its reduction.

Likewise, close to four million jobs in other EU countries are closely tied to trade with the UK: over one million of them in Germany, a further 500,000 in France and 300,000 in Italy. Their annual goods and services exports to the UK are worth 60 billion, 33 billion and 18 billion euros respectively.

EU trade with the rest of the world

A key characteristic of the customs union that lies at the heart of the EU is that conditions of trade with third countries outside the Union are negotiated by the European Commission on behalf of all members together. This ensures that all enjoy the same advantages – and share the same disadvantages – from trading arrangements with foreign countries. The Union negotiates internationally for a market of 500 million consumers and the combined productive capacity of all 28 member states. Hence it carries considerable weight both in multilateral deals in the World Trade Organization (WTO) and even more so in separate bilateral deals with third countries.

Most recently the EU has negotiated deals with Chile, South Korea and Canada, and is currently engaged in a major negotiation: the Transatlantic Trade and Investment Partnership (TTIP) with the United States. In such contexts it inevitably negotiates from a much stronger position than any one of its member states, including the UK, and can conclude more advantageous terms.

This is especially important for the UK as, among EU member states, it is the second most dependent on foreign trade; after Germany ($2,726 billion), the UK's overall foreign trade (export and import, goods and services) was valued at $1,595 billion in 2013. Taking a recent sample month in the last quarter of 2014, when the UK's exported and imported goods and services were worth a total of about £56 billion, the UK's top six trading partners in descending order were: Germany (£6.6 billion), USA (£6.6 billion), China (£4.0 billion), the Netherlands (£4.0 billion), France (£3.2 billion), and Belgium (£2.4 billion). For that sample month, the total of UK trade with non-EU countries was £30.4 billion and with the EU was £26.6 billion, thus indicating a slight downward trend in the proportion of UK trade that is EU-related (about 47%) as opposed to non-EU-related (about 53%).

Free trade versus protectionism

The UK's 'trade openness ratio' was 61.6% in 2013 – up from 51.6% ten years earlier. The ratio is a rough guide to the business competitiveness of the country and the degree to which it is integrated into the world economy through trade. It represents the combined weight of total trade in its economy, a measure of the degree of dependence of domestic producers on foreign markets and their trade orientation (for exports), and the degree of reliance of domestic demand on foreign supply of goods and services (for imports). This figure puts the UK as the third highest country among the G8 after Germany and Canada.

Openness and competitiveness figures reflect national choices on the spectrum from protectionism at one extreme (very low) to free trade at the other (very high). Ever since the early 19th century the UK has opted for free trade in this grand dispute, and it has successfully argued this case during the 40 years of its membership of the EU. The trend of third-party agreements struck by the EU has consistently been towards free trade – whether agreements with the African, Caribbean and Pacific countries, the Generalised System of Preferences, various WTO rounds (from the Kennedy Round to the as yet incomplete Doha Round) or country-specific deals such as the recent Chilean, South Korean and Canadian deals.

The UK has a long intellectual tradition of economic thinkers – Adam Smith, Richard Cobden, David Ricardo, Alfred Marshall, and even John Maynard Keynes – whose underlying premise has been that trade between private parties unconstrained (or as little constrained as possible) by government intervention contributes more to the common good than the alternative policy of protected markets and constrained trade.

As a global approach to trade negotiations, organised through the WTO, appears to be faltering, regional representation through the EU grows in importance. Alongside other big national players – the US, China, Russia, Brazil, India – there is strength (and safety) in numbers. Jointly with its EU neighbours the UK can punch above its weight in trade matters which – as the figures show – are of vital national importance.

Facts and figures

The UK traditionally runs a balance of payments deficit. This reflects a large trade deficit in goods, which is compensated for in some measure by an export surplus in services, notably financial services provided by the City of London.

Trade figures for 2014 reflect this continuing situation. An overall deficit in trade in goods averaging between minus £8 billion and minus £10 billion per month was largely compensated for by an average surplus for trade in services of between £6 billion and £8 billion per month. Figures for January illustrate this: minus £9.8 billion for goods and plus £7.2 billion for services.

In 2014, the 28 EU member states exported goods to a value of €4,636 billion, of which €2,934 billion (or 63%) were destined for another member state of the EU. For the UK, trade with the EU amounted to 48% of total foreign trade that year.

Top 20 UK trading partners in 2014, in £ billions, covering 80% of UK trade in goods

Export		Import	
United States	37.3	Germany	61.4
Germany	30.9	China	36.1
Netherlands	23.4	Netherlands	32.1
France	18.8	United States	28.1
Irish Republic	18.6	France	24.9
China	14.0	Belgium/Lux	21.6
Belgium/Lux	12.7	Norway	17.2
Switzerland	10.3	Italy	16.9
Spain	9.0	Spain	13.4
Italy	8.8	Irish Republic	12.1
Hong Kong	6.3	Sweden	7.8
United Arab Emirates	6.0	Switzerland	7.8
South Korea	5.6	Poland	7.8
Sweden	5.5	Hong Kong	7.4
India	4.8	Japan	7.2
Japan	4.2	Canada	7.1
Russia	4.1	India	6.7
Saudi Arabia	3.8	Turkey	6.4
Poland	3.8	Russia	6.2
Norway	3.7	Czech Republic	4.8

Foreign Direct Investment

Sacha Zakariya

CEO and Co-Founder of the Change Group International plc

Foreign direct investment (FDI) matters. In 2013 flows of FDI into the UK totalled over £37 billion, involving nearly 800 projects. The government estimates it created 66,000 new jobs and safeguarded a further 45,000. Over 400 of those projects and nearly 40,000 jobs were in advanced manufacturing.

The global pecking order

Unsurprisingly, more FDI flows into the US each year than to any other state, but the UK ranks second worldwide. Figures can vary considerably from year to year, but results for 2013 were particularly positive for the UK.

The UK held its lead position in the competition among European states to attract FDI. It received 26.5% by overall value of FDI projects in Europe, followed by Spain with 12% and Russia with 10.6%. Other states trailed on the list with below double figures for Turkey, Germany, Romania, the Netherlands, France, Poland and Ireland (with just 4.2%) completing the European top ten.

The UK attracts FDI from the whole world. Of the £975 billion cumulative stock of FDI in the UK, £566 billion came from Europe, £325 billion from the Americas, £72 billion from Asia, £10 billion from Australasia/Oceania, and just £2 billion from Africa. Among the biggest European investors in the UK is the Netherlands with 15%, France with 8% and Germany with 7%. Individually they are overshadowed by the US with 28%, but the cumulative European figure of 58% is more than double that.

Benefits of FDI

FDI strengthens competitiveness in the UK economy. Many projects are in software and computer services, others in financial services, and many in business and consumer services. Grouped according to official criteria, 545 were in services and 394 in manufacturing; 310 involved research and development, and 324 involved at least some HQ responsibilities being located in the UK.

The UK share represents 19% of total FDI stock in the European Union. France lies in second place with 13%, Germany in third with 10%, and Spain and the Netherlands close behind in fourth and fifth places.

Government estimates suggest this FDI stock relates to 63.3% of UK national GDP, while comparable figures for Spain are 52.7%, France 39.5% and Germany 23.4%. These percentages give an indication of how strongly the UK leads other EU states in opening and internationalising its economy, bringing in added value with new skills, technologies and management. The success of specific innovative clusters is evident in Oxford, Cambridge and Silicon Roundabout/Tech City in London.

In addition to high-tech initiatives, the UK government assists inward investment with public/private collaboration, especially in the life sciences, agri-tech business, financial services, the automotive sector and certain regenerative projects.

According to an annual survey of FDI by the accountancy firm Ernst and Young, several factors play a role in attracting firms to invest in the UK. Chief among them are quality of life, diversity, culture and language, which are 'very attractive' in almost half the cases studied. Only slightly less important is the stable political environment and the quality of available technology and telecommunications infrastructure. Following these factors, respondents next rank the stable social climate and levels of both trade and academic education. Other factors – entrepreneurial culture, access to skilled labour, transport and logistics infrastructure – bring up the rear.

The overall figures reveal how dependent the UK economy is on FDI, more so than any other large member state in the EU, and the overall effect of FDI is clearly strongly positive for the UK. The most useful form of FDI brings increased workforce and management skills, increases government tax receipts and the technological sophistication of the company, and by extension of the local supply chain.

Drawbacks

Not all FDI does this, however, and examples abound of new (foreign) companies displacing existing – if outdated – companies, slashing the workforce, avoiding tax and increasing demands on public funds.

Compensating practical arguments may be made when foreign companies locate in distressed regions, or when – in more theoretical terms – the longer-term picture of national economic regeneration is considered. The effects of specific FDI projects, however, can be disruptive, indeed disastrous, for uncompetitive companies unable to compete with the newcomers.

The story of FDI needs to be balanced, however, by a view of the outward flow of capital from the UK, where companies and individuals located in the UK invest in other economies. The total stock of such outward FDI is roughly comparable to the approximately $1,000 billion stock of inward FDI. Income from this stock of outward FDI has fallen recently, however, from approximately 3% of GDP to close to 1% as sterling has appreciated and as returns, especially from the eurozone, have fallen.

Would leaving the EU affect FDI?

In 1997 the UK decided not to join the euro, and statistics indicate a subsequent drop in FDI. Commentators suggest that many American and Asian investors decided then that other low-cost centres in the EU with comparable market access and a fixed exchange rate inside the single-currency area were more attractive than the UK. Uncertainty about the volatility of the pound deterred foreign investors, who habitually look for minimal risk and long-term predictability.

Some eurozone countries offer this. Germany, for instance, has better direct air links and more developed trade relations with China and a number of other emerging economies. Already more Chinese FDI flows to Germany than to the UK, and without infrastructure improvements and better vocational training, this trend could continue, in particular if the UK turned its back on the EU. The deterrent effect is not easily quantified, but it is expected to be considerable.

If the UK left the EU, European regional development assistance to companies locating in disadvantaged regions, currently supplied by the EU, would be lost and would need to be replaced by national funds, where such are used to support FDI in underperforming UK regions.

Whatever option the UK electorate eventually decides for the UK with its European neighbours, the country will remain heavily dependent on strong inflows of FDI. Investors demand predictability and are strongly averse to uncertainty. Any solution that does not settle the issue for the foreseeable future would likewise breed insecurity for foreign investors.

Facts and figures

The free movement of capital is one of the basic 'four freedoms' of the Single Market, contributing to economic growth and job creation. The EU is the largest source and destination of FDI in the world measured both by stocks and flows, and EU countries all make significant efforts to attract foreign investment.

EU countries as a whole receive about one third of global FDI annually (just under one trillion euros in 2013), and investors based in the EU provide nearly half of the total sum of FDI invested in countries outside the EU each year.

In 2013 flows of FDI into the UK totalled over £37 billion, involved nearly 800 projects, created 66,000 new jobs and safeguarded a further 45,000. Over 400 of those projects and nearly 40,000 jobs were in advanced manufacturing.

Of the £975 billion cumulative stock of FDI in the UK, £566 billion came from Europe, £325 billion from the Americas, £72 billion from Asia, £10 billion from Australasia/Oceania and £2 billion from Africa.

The biggest European investors in the UK are the Netherlands with 15%, France with 8% and Germany with 7%. Individually they are overshadowed by the US with 28%, but the cumulative European figure of 58% is more than double that.

In 2013 the UK held its lead position in the competition among European states to attract FDI. The UK received 26.5% by overall value of FDI projects in Europe, followed by Spain with 12% and Russia with 10.6%. Other states trailed on the list with below double figures for Turkey, Germany, Romania, the Netherlands, France, Poland and Ireland (with just 4.2%) completing the European top ten. The UK's position slipped in 2014 possibly because of uncertainty concerning the forthcoming election and promised referendum on EU membership.

Financial Services and the City

John Cooke, Chairman of The City UK's Liberalisation of Trade in Services Committee; Sir John Gieve, former Deputy Governor of the Bank of England; and David Green, Head of International Policy and EU Affairs at the FSA

The UK's EU membership is integral to UK financial services and London's global pre-eminence. UK participation in the Single Market underpins the UK's attractiveness both for investment and for locating financial services business.

As well as the EU being the UK's most significant economic partner, EU policies – notably on trade and investment – also bring gains and attract investment to the UK as an EU member. London's role as international financial centre for the EU and EMEA provides easy access to global capital markets drawing major business flows through the UK. The Single Market thus favours London even though the UK is neither the largest EU economy nor a euro area member. The UK financial sector and its regulatory framework are now highly integrated into those of the EU.

Growing financial market integration across the EU has spurred better and more efficient resource allocation, concentrating high-value employment and services in London, in finance and linked business and professional services. The City also benefits from other aspects of the Single Market, notably the free movement of labour. These play to the strength of the UK financial services sector, which accounts for 7.9% of UK GDP – higher than all other major economies including the US (7.2%), France (4.9%), Japan (4.5%) and Germany (4.0%). They also bring international participation in the UK market, where UK-owned financial businesses are strongly matched by non-UK firms established in the UK, relying on the Single Market and its 'four freedoms' as the basis for conducting business across Europe.

The EU Single Market has been the integrating factor, steadily equalising the terms of business for financial services across member states and enabling a firm from one member state to establish branches in others, conducting business on its parent's balance sheet in its 'home' member state, providing scope for centralising activities in the most efficient locations for each business category while still accessing markets across the EU, benefiting both providers and users of financial services.

UK policy throughout has successfully ensured that EU financial services regulation follows wider international agreements, notably the Basel banking framework, aiming to ensure that the Single Market's advantages are not bought at the expense of disadvantaging the EU, and London in particular, as a global financial centre. The EU has been more assiduous than most (including the US) in transposing into binding laws agreements in Basel and in equivalent bodies, and has rarely departed from the substance of these wider international accords, reflecting not just the UK's preference but a wider recognition among EU regulators of Basel as the international rule maker.

EU regulatory legislation has recently intensified, directed both at the Single Market as a whole and at tackling euro area integration. The process has used qualified majority voting in most Council decision-making; Council and Parliament co-decision; delegating certain powers to new European Supervisory Authorities (ESAs); the move to a Single Supervisory Mechanism (SSM) for the largest banks; and banking union.

The UK has been a leader in the integration of Europe's financial markets over the last 40 years – to an extent that is largely taken for granted. Yet the provision of financial services in the UK by and to non-UK firms on the scale that exists today, together with all the economic benefits this brings, is contingent on the common EU-wide legal framework in which the UK participates.

The growing integration of the EU's inner tier in the euro area carries some risks for the UK, including that future Single Market regulation could be dominated by euro-area states. A logical conclusion is that the UK must redouble its diplomatic engagement within the EU, rather than detaching, which would carry risks of: less interest from non-UK EU firms in establishing in the UK; other EU governments no longer feeling comfortable allowing so much activity by their firms in what could be characterised as an offshore centre; the UK becoming distanced from euro-area management, inhibiting its role as the euro's financial centre; and wider loss of influence over Single Market/euro-area relationships and of Single Market facilities such as free movement of labour. There could be other unknowns, such as how far UK domestic politicians would cater for the UK financial sector's needs: would the UK political climate always be benign and readier to countenance a looser regulatory regime than in the EU?

The logic of these arguments is for the UK to participate in framing the Single Market; remain engaged effectively with EU institutions, including the regulatory bodies and SSM; press for better rule enforcement; argue for higher quality legislation through better processes; and proactively participate in EU structural reform (i.e. banking union and capital markets union).

But some reject this, arguing that the UK would be better off leaving the EU or negotiating alternative terms for free trade and market access. One view is that the UK could secure some alternative halfway-house regime as a member of the European Economic Area (EEA), like Norway, or outside the EEA, like

Switzerland. A more radical view is that the UK would do better to detach itself from the EU and EEA more completely, based on three interrelated propositions:

1. That London has such a lead over other European centres that the UK could leave the EU and retain its predominance in Europe, that is, that attempts by the euro area to repatriate business would be ineffective. But can this be relied on? And, if outside the EU, how well could the UK – whatever its market scale and depth – fare without the advantages of the Single Market?
2. The UK, if it left the EU, would be protected by the World Trade Organization (WTO) and any future treaties, and so could count on access to the EU in financial services almost as good as at present. But this relies on assumptions similar to those in proposition 1, above, plus others, including that the UK, if outside the EU, could rely on EU General Agreement on Tariffs and Services (GATS) commitments on financial services. But how far can it be assumed that the WTO and the GATS would automatically enable the UK to replicate its current trading advantages for financial services within the Single Market?
3. That the integration of the euro area into full economic, fiscal and monetary union would anyway leave the UK 'in the ante room', outside the EU's real discussions and decisions, so the UK might as well leave the EU and become fully independent. But might this degree of freedom prove illusory, given the importance for UK-based firms of retaining access to the EU market as well as the continuing obligation to meet Financial Services Board (FSB) international standards? It raises a question: even if the UK has sometimes been in a minority in EU discussions and decisions, is minority status and minority influence preferable to none at all?

The City as it exists today is made possible by the Single Market legislative framework. Without it, many City commercial operations might not take place at all or else do so in a non-EU centre. Without it, too, non-UK firms would have far less interest in establishing in the UK, and their home country authorities might not allow it without additional regulation. The creation of the EU's integrated framework for financial services has been highly positive for UK-based financial services businesses with an EU-wide or global reach.

Facts and figures

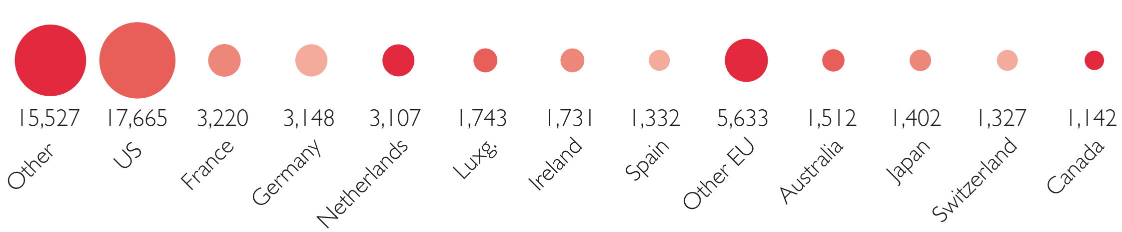
UK share of financial markets in the EU

	% Share of UK	Date
Interest rate OTC derivatives trading	74	Apr-2013
Foreign exchange trading	78	Apr-2013
Hedge fund assets[1]	85	2013
Private equity funds raised[1]	64	2013
Marine insurance premiums	59	2013
Fund management	50	2013
Equity market capitalisation (LSE)	31	2013
Financial services GDP	18	2013
Bank lending	19	2013
Banks assets[1]	32	2013/14
Insurance premiums	23	2013
Financial and professional services employment	15	2013

[1] % share of Europe *Source: Various; TheCityUK estimates*

Geographic breakdown of UK trade in financial services

UK trade surplus in financial services with selected countries, £m, 2013



UK trade surplus in financial services: £58.5bn

Source: ONS

Manufacturers' Views on the European Union

Lee Hopley, Chief Economist, Engineering Employers Federation (EEF)

The UK's relationship with the European Union is vital to the long-term interests of industry. This has been true over the course of our four-decade-long membership of a bloc that has changed in name, in membership and what it does over this period. And it remains true today.

Our membership of a large and growing economic area has opened up significant opportunities for the economy and boosted productivity by exposing it to greater competition. But it has, at times, been challenging for UK manufacturers that have had to adapt to the more intense competition and for policymakers, who have struggled to put in place the strategy to ensure our industrial sector could exploit the opportunities that were open to it.

Nevertheless, as the UK economy continues to pursue the important goal of better balanced growth, manufacturers – with their higher levels of investment, innovation and export intensity – will need to thrive if we are to achieve this. To that end, there are a number of important channels through which the UK's continued membership of the European Union can help the UK achieve its growth goals.

The EU has been, and will remain, an important source of demand for UK exporters, notwithstanding the current weakness we see across the bloc. In the past decade we have seen the EU's economy increase by almost 50%; in addition, new members have joined, a process that will continue as enlargement continues and other countries progress towards membership.

A survey by the EEF of its members showed that 48% of manufacturers continue to see export opportunities for their business in the EU and will to look to increase their market share in future, compared with less than a fifth that say their focus in now more concentrated on other markets with better demand prospects. But even for this latter group, the UK's relationship with the EU on trade matters does not cease to be relevant.

The trend in trade relations in recent years has been away from multilateral negotiations and in favour of regional trading blocs. Discussions on a free trade deal with the US are a case in point for the EU, and the eventual benefits for both sides are estimated to be substantial. Indeed, in the same EEF survey 82% of manufacturers said that action at the European level to ease trade access to new markets through free trade agreements should be a priority, with 37% saying this was of critical importance.

Europe is not simply about opening up exporting opportunities; there is also a significant market across the EU for collaborative research and innovation projects, as well as expanded procurement opportunities.

Investing in innovation has become a top priority for UK manufacturers – not only does this provide companies with a competitive edge, it will also ensure that the UK is well placed to develop capabilities in new industries that can help society tackle future challenges, such as demographic shifts and environmental obligations.

Around a fifth of research funding spent in the UK comes from overseas, much of it from the EU. And the UK research community has been among the most successful in winning support from the EU's Framework Programme for research, including as a key partner for non-European countries participating in the programme. Accessing funding for European innovation projects is cited as an important reason by more than three-quarters of manufacturers surveyed by EEF for being a part of the European Union. Without the collaborative partnerships that we have developed within the EU, the UK would struggle to continue to punch above its weight as part of efforts to build large-scale international innovation and research infrastructure.

Another essential component of this agenda for manufacturing is access to the talent that can mobilise innovative ideas. Where British manufacturing faces a talent crunch in the STEM subjects of science, technology, engineering and maths, international research networks and the freedom of movement of people within them can help to plug the gap.

While innovation and exporting are increasingly important for many manufacturers, the basic issue of operating from a competitive and flexible location remains central for most of them. The EU is often seen as a source of higher costs, particularly through increased regulation. UK manufacturing appreciates the government's successful efforts to minimise and indeed reduce this with four-fifths of manufacturers agreeing that pursuit of the deregulation agenda is important for Europe's economy. Better scrutiny of proposals and a concentration on essentials will help this process.

However, manufacturers also recognise that EU membership can reduce costs for business. For example, the single market in goods has already helped to increase competition and reduce costs. Looking forward, there is the potential for greater savings in areas such as energy, telecommunications and insurance.

Access to markets, skills, innovation collaboration and a level playing field are all important to UK manufacturers. This is why a convincing majority of 85% would vote to remain in the European Union if a referendum were held tomorrow.

While there are indeed many policy areas and institutions in Europe that are in need of reform, some of the steps necessary to achieve this are now in train. UK manufacturing wants the public debate about the UK and its relation to the EU to be better informed and conducted at a higher level. Simplistic slogans do not do justice to a relationship that has many strengths and several weaknesses, a relationship that needs careful attention and selective reform.

Facts and figures

Summary of points from EEF survey of manufacturers in the UK

- The EU's economy has grown by 50% in the past decade
- 48% of UK manufacturers continue to see export opportunities for their businesses in the EU
- Accessing funding for European innovation projects has been cited as one of the many important reasons for being part of the European Union: 36% prioritized this issue as very important and 41 % saw it as quite important
- Accesses to markets, skills, innovation and a level playing field are important to UK manufacturers, thus 85% wish the UK to remain a member of the European Union

Importance of EU membership

% of companies saying statement best describes their export strategy

48% There is demand in the EU and we will look for ways to increase our share of it
17% The state of the EU economy means our focus is on other markets with better prospects
4% Challenges in entering other export markets means we will continue to prioritise sales opportunities in the EU
26% Many of our big customers are in the EU but we are looking to emerging markets for additional opportunities
5% We are not interested in selling to EU markets now or in the future

Source: EEF Europe Survey 2013

Importance of EU membership

%	Very important	Quite important
Cut EU budget	23.0	45.1
UK access to EU innovation funds	36.1	40.5
EU deregulation agenda	36.5	43.8
Access to non-EU markets through FTAs	36.5	44.8
Address the eurozone crisis	49.5	42.1

Source: EEF Europe Survey 2013

The Digital Single Market

Khen Nirnfeld

Research Officer, Regent's University London

The digital economy is developing rapidly. In his political guidelines for the next Commission Jean-Claude Juncker wrote in 2014: 'I believe that we must make much better use of the great opportunities offered by digital technologies which know no borders. To do so, we will need to have the courage to break down national silos in telecoms regulation, in copyright and data protection legislation, in the management of radio waves and in the application of competition law.'

In May 2015 the Commission launched its Digital Single Market Strategy for Europe, claiming that information and communications technology (ICT) was no longer a specific sector but the foundation of all modern innovative economic systems, the single most important driver of innovation, competitiveness and growth.

Objectives of the digital single market

The digital single market rests on three key objectives: a) better access for consumers and businesses to online goods and services across the EU; b) good conditions (high-speed, secure and trustworthy infrastructures and content services with regulatory conditions encouraging innovation, investment and fair competition) so that digital networks and services flourish; and c) an expanded European digital economy, with investment in ICT infrastructures and technologies (cloud computing and big data, for instance) as well as enhanced research and development to improve competitiveness and skills training. By 2020 big data analytics – a sector growing by 40% a year – could boost EU economic growth by 1.9%, an increase of GDP worth 206 billion euros.

The first objective requires cross-border e-commerce rules that consumers and business can trust, affordable high-quality cross-border delivery of goods (62% of companies complain of high delivery costs), a ban on unjustified geo-blocking (dividing the market), a modern European copyright framework, as well as reduced VAT-related obstacles to cross-border selling (currently estimated to cost EU business up to 4.5 billion euros in lost turnover each year).

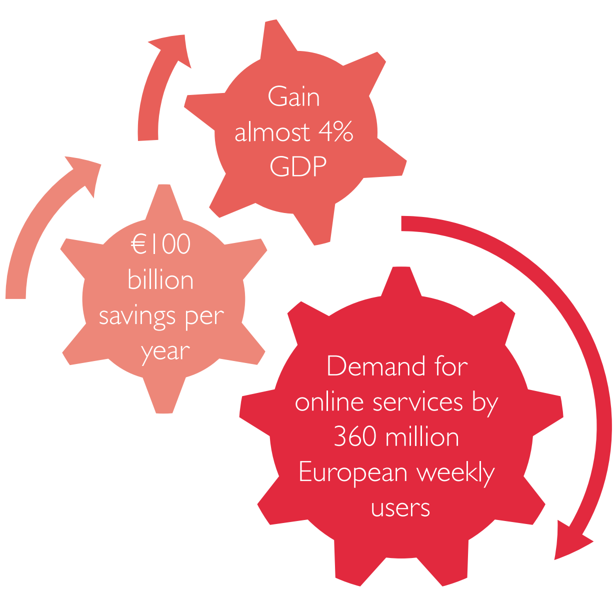
The second objective requires going beyond the telecoms single market proposals already under discussion, to ensure EU-wide regulatory consistency and predictability. Member states must make more radio spectrum available and optimise 'infrastructure competition' in the interests of connectivity, in particular for rural areas and to promote public-service, research and teaching. This European vision requires a modern media framework, involving online as well as audio–visual interests, and an updated regulatory environment for platforms and intermediaries. It implies control of illegal content on the internet, as well as improved cyber security and greater protection of personal data and privacy. Already 72% of internet users are concerned they are being asked for too much personal data online.

Günther Oettinger, European Commissioner for Digital Economy and Society, highlighted the need to coordinate spectrum across member states when it comes to enabling 5G and the 'internet of things', including connected cars. Former Commission Vice-President Nellie Kroes proposed Europe-wide spectrum assignments in her 'connected continent' paper, but ministers in Council chose to concentrate on smaller steps: net neutrality (treating all data usage equally) and roaming (where premiums should disappear by 2016).

Achieving the third objective requires building a coherent data economy including big data, cloud services and the 'internet of things'. All benefit from economies of scale in the larger market. Standardisation ensures greater inter-operability and increased competition, balancing the interests of patent holders and developers with fair licensing conditions, an issue that also impacts public procurement. Hand in hand with this must go developing digital skills and expertise in an inclusive e-society, characterised by enhanced e-government.

The contemporary European situation

The huge potential of the digital economy is under-exploited in the EU, and many member states are not currently in the forefront of this global development. Four out of every ten enterprises in Europe are still 'non-digital' – a lamentable state of affairs in the Commission's opinion. Only 2% of European enterprises currently take full advantage of new digital opportunities, while 41% are not using them at all.



The strategy for a digital single market aims to transform European society and ensure that it can face future technological challenges with confidence. Over the next two years some twenty pieces of EU legislation will be presented to complete the single digital market, an indication of the urgency with which the Commission is tackling this task.

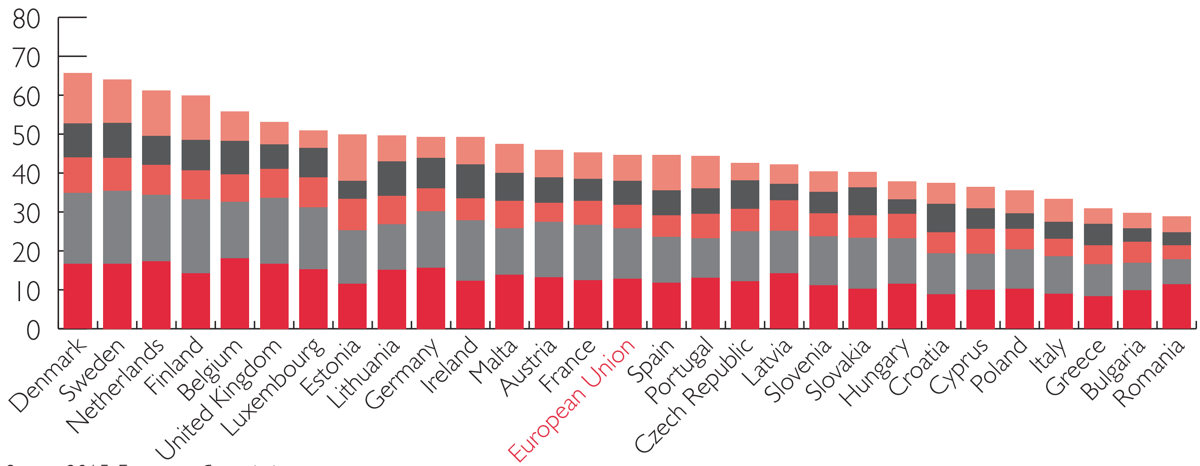
The digital economy now contributes up to 8% of the GDP of the G20 major economies, powering growth and creating jobs. Over the last five years, for instance, the US has developed mobile applications and created nearly 500,000 new jobs in the process. That type of growth has not been seen across the EU. It is estimated that between 400,000 and 1.5 million additional jobs could be created in the EU digital economy if it mirrored the performance of the US, or even one of the best-performing EU member states such as Sweden.

Simply taking the plunge and going online can create growth. But small and medium-sized enterprises (SMEs) wishing to trade in another EU country typically face costs of about 9,000 euros. On the other hand, SMEs that have actively engaged with consumers on the internet have experienced sales growth at rates up to 22% higher over three years than non-connected SMEs, and 57% of SMEs say they would either start or increase their online sales to other EU countries if start-up costs for trading digitally were lower.

From the autumn of 2015 member states will discuss the Commission's proposals. The challenge for the Commission is to foster competition at the same time as ensuring investment in infrastructure, balancing the interests of member states and of the market as a whole. Already special interests have come to the fore. The Commission will have to address concerns of interested commercial players as well as the member states if it is to progress the common cause and yet not lose sight of the big picture.

Facts and figures

The Digital Economy and Society Index (DESI) is an index that tracks the evolution of EU member states in digital competitiveness. Its indicators include connectivity, human capital, use of internet, integration of digital technology, and digital public services. The region performs best in connectivity and human capital but needs to progress in the use of the internet by citizens and even more so in the integration of digital technology by businesses. The UK is currently ranked sixth in the EU.



Source: 2015, European Commission

The potential of a single European market

It is expected that 90% of jobs will require some level of digital skills; however, 47% of the EU population is currently not properly digitally skilled. Demand for digitally skilled employees is growing by about 4% per year. Shortage of ICT professionals in the EU could reach 825,000 unfilled vacancies by 2020 if no action is taken.

Better access for consumers and businesses to online goods and services across the EU

Only 38% of people feel confident buying online from another EU country and only 7% of SMEs in the EU sell cross-border. It has been reported that 95% of Europeans have been prevented from visiting a website from another EU country or were redirected to a different site with higher prices. EU consumers could save €11.7 billion each year if they could choose from a full range of EU goods and services when shopping online.

Competition Law and Policy

Tim Cowen

Partner Preiskel and Co LLP former Chief Counsel, Competition Law and Public Policy, BT Group and former General Counsel, BT Global Services

EU competition law is part of a multifaceted trade agreement among member states designed to open up national markets and, once opened, to prohibit private agreements or monopolistic practices that restrict competition and re-erect barriers. It is designed to keep open markets functioning effectively. Agreements that restrict competition and abuse monopoly power are prohibited under EU competition law. Unjustified price differentials between member states are outlawed.

Benefits of competition law

Competition law has been strengthened and modified as the EU has developed, and now the integration of the Single Market has been enshrined in EU jurisprudence as an essential goal. Various attempts have been made to quantify the benefits of this Single Market, from the initial estimates of the costs of 'non-Europe' in the Cecchini Report in 1988 to more empirical measures at the end of the 1990s and the 2000s. They suggest that 2.75 million jobs have been created between 1992 and 2007 as a result of the opening up of national markets and GDP increased by 2.15% over a similar period. Personal incomes have been boosted and inflation rates have been kept lower than they would otherwise have been (both by between 1% and 1.5%) and manufacturing trade boosted by between 20% and 30%. Quite specifically, the cost of telephone calls has fallen by 40% or more, and the cost of setting up a new business has fallen on average across Europe by a third. In June 2012 Jo Johnson MP, European adviser to Prime Minister Cameron, writing in defence of the UK retaining full access to the Single Market, cited evidence to indicate that it made the average household roughly £3,500 better off each year.

Enforcing competition law

Effective enforcement of competition law is essential in securing the benefits of the Single Market. Trans-border industries such as telecoms and energy are especially dependent on liberalisation and enforcement action. The EU has exclusive competence in 'the establishing of the competition rules necessary for the functioning of the internal market' (Art.3(1)(b) of the Treaty on the Functioning of the EU (TFEU)). De facto, the Commission oversees larger competition issues and mergers where there is a 'Union dimension' at stake: for example, when two or more undertakings have worldwide revenues over 5 billion euros or EU revenues over 250 million euros.

To ensure effective cooperation with the national competition authorities, the Commission chairs the European Competition Network (ECN), where all 28 member states' representatives are present. This system of information exchange entails detailed and systemic cooperation between national and European authorities. The Commission benefits from dealing with a high volume of high-value matters affecting the largest trading bloc in the world. This model system of cooperation and efficiency enables the Commission to interpret and apply competition law from a uniquely well-informed position, and the UK's enforcement agency – now the Competition and Markets Authority (CMA) – benefits from the expertise of this network.

The earlier responsible agency, the Office of Fair Trading, though far from negligent in the application of competition law at a national level, did not have as active a track record as the Commission. Statistics show that the number of decisions taken at national level from 2007 to 2012, for instance, was far lower than those at European level, and fines imposed for anti-competitive acts were much lower. In that period the UK authorities made seven decisions and imposed fines totalling approximately half a billion pounds, while the Commission made 42 decisions and imposed fines totalling close to 15 billion euros. Withdrawal from the ECN would be likely to reduce enforcement and its deterrent effect, to the detriment of UK consumers.

State aid

State aid is regulated under EU law by Articles 107 to 109 of the TFEU and its oversight forms part of the anti-competitive activity of the Commission. Member states are allowed to attribute direct aid to companies in their territory within strict limits if justified: a) as regional aid for investment or employment; b) as aid to small and medium-sized enterprises (SMEs); c) as aid for environmental protection; d) as risk capital aid; or e) for research, development or innovation.

Withdrawal from the EU would remove this control on the ability of the UK government to attribute state aid to firms within the UK, inviting political interference with the market. It would also remove the possibility for the UK to challenge decisions taken by member states of the EU to support companies within their borders, even if this aid had been approved by the Commission. Recipients of government aid would doubtless welcome this, but all competitors would object – and have nowhere to object to.

The UK has managed to operate effectively within the framework of EU competition and state aid law to date, as evidenced by the recent creation of the CMA, and by the 'strategic steer' given to it by the

Department for Business, Innovation and Skills. This does not challenge – nor is challenged by – EU law, while it re-orders UK priorities in pursuing competition policy in the UK.

Political interference

The EU competition authorities reviewed recent high-level UK cases – such as News Corporation/Sky and Lloyds/HBOS – in good time and came to clear and publicly justified conclusions. However, the UK reviews – dealing with media plurality issues in the former and with banking services for SMEs, personal current accounts and mortgages in the latter case – allowed considerable political interference in the former and direct ministerial overriding of advice in the latter case.

Conclusions

There are four main issues that should concern policymakers were the UK to leave the EU: a) without the enforcement of EU law, which prohibits subdividing markets along national lines, prices in our national market could well rise; b) enforcement by the EU competition authority alongside national enforcement effort would no longer be available; c) UK operators would have no recourse against perceived unfairness in state aid distortions in favour of companies in other states; d) Brexit opens the prospect of increased political intervention in UK business practice, particularly as concerns mergers and acquisitions.

As national competition law does not make the Single Market a goal of national policy, the government of the day would be free to provide aid to businesses with no obvious redress for rivals that suffer as a consequence. UK businesses would also lose the right to challenge state aid given by other European governments to their competitors. As businesses would not be prevented legally from separating the UK from the European market, prices for consumers would certainly rise, and there would be popular opposition if UK consumers were blocked from purchasing online equivalent goods at lower prices in the EU.

Facts and figures

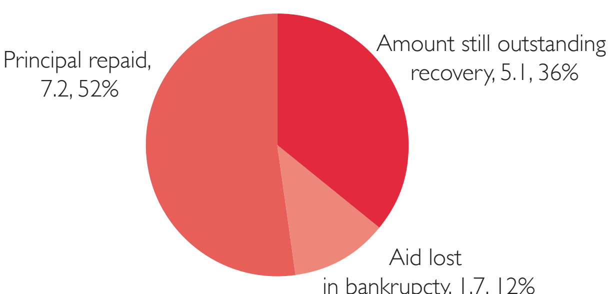
Anti-trust/merger power

The EU authorities took 19 decisions in 2013, imposing fines totalling 1,882 million euros; 53 decisions in 2014, imposing fines totalling 1,689 million euros; and 1 decision in 2015, imposing fines totalling 14 million euros (updated on 4 February 2015).

Among major firms fined by the European Union were Deutsche Bank AG and Société Générale in 2013, and Schaeffler in 2014.

State aid powers

Recovery of illegal and incompatible state aid (period 2004-2014; Situation on 30/06/2014) expressed in volume (billion EUR) and as a percentage of the total.

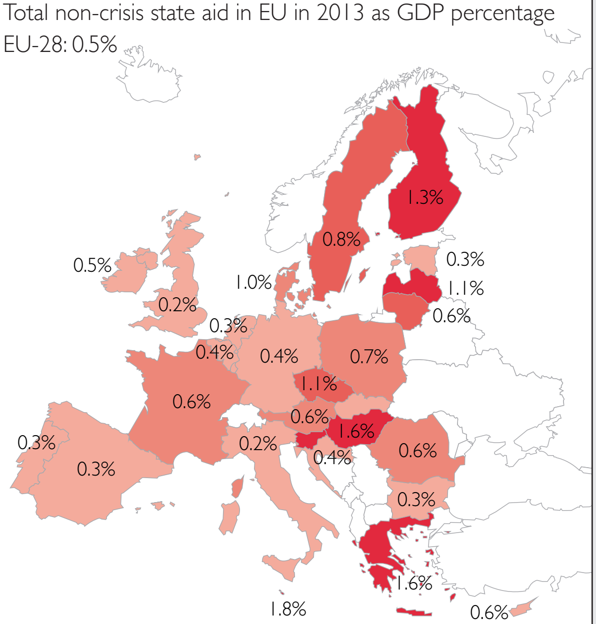


Source: DG Competition.

NB; (1) The above information refers to state aid measures through which aid was granted to industry and services and which recovery decisions were adopted in the period 1 January 2000 until 30 June 2014.
(2) 'Principal repaid' does not include the interest which was recovered as well.

The UK (non-crisis state aids, % of GDP)

Total non-crisis state aid in EU in 2013 as GDP percentage
EU-28: 0.5%



State aid in the financial crisis

Regarding state aid to the financial sector, from October 2008 to October 2014 the Commission took over 450 decisions on state aid among the EU member states. In 2014, the financial crisis measures have been used in EU member states, except Bulgaria, Estonia, the Czech Republic, Malta, Croatia and Romania. From 2008 to 2014, the Commission authorised aid of €3,892.6 billion in total for guarantees on liabilities, while recapitalisation is a second instrument (after guarantees on liabilities), which is used mostly for supporting the financial sector. During 2008 to 2013, EU member countries have €448 billion in total for recapitalisation measures.

Environment

Michael J. Lane

Former Secretary General of CONCAWE (Conservation of Clean Air and Water in Europe) and former Global Environment and Health Manager for Exxon Mobil Corporation

In his 2013 Bloomberg speech Prime Minister Cameron explicitly mentioned EU environment legislation as an example where competence should be returned to member states. He argued that it would allow flexibility in balancing competitiveness of the UK economy with environmental improvements.

However, Brexit would not significantly relax environmental controls in the UK. Many standards to which the UK is committed do not stem directly from EU legislation. In addition, political and public opinion, generally committed to 'green' policies on the environment, would neither want nor accept a relaxation of such rules.

History of environmental policy

The UK's concern for environmental improvement has a long history, starting with urban sanitation, water supply, and clean air issues following industrialisation in the 19th century. By the late 20th century a broader approach to the environment led to the establishment of the Environment Act in 1995 and the Environment Agency (EA) in 1996.

Over recent decades the UK has implemented many laws to control and reduce environmental damage, some predating EU accession and others amending such rules to bring them into line with EU requirements. In many cases the UK has chosen to go beyond the requirements of EU directives, for example in the Emissions Trading Scheme, where a high UK floor price for CO2 (introduced in April 2013) imposes a significant cost penalty (with some exceptions) on UK energy-intensive industries, compared to our European neighbours.

Seven key directives

The Industrial Emissions Directive (2011) codified seven previously ratified directives and regulates a wide range of industrial activity with emission limits for refineries, chemical plants, power stations and gas turbines. Specific national regulations for England and Wales and for Scotland were subsequently implemented.

The Water Framework Directive (WFD), which came into force in 2000, aims to ensure sustainable water use and to reduce water pollution by setting environmental quality standards to limit contaminants in water from industrial and municipal facilities. It came into force in the UK in 2003. Strict though the timetable of the WFD is, it did little more than tighten existing legislation in the UK.

The Waste Framework Directive (2006, revised in 2008) requires the UK to establish a waste prevention plan by the end of 2013 and to encourage the separate collection of bio-waste. The UK implemented the directive into national law between 2010 and 2012, requiring local government to collect waste paper, metal, plastic and glass separately. The directive also established long-term targets for waste recycling or reuse.

The Ambient Air Quality Directive (2008) sets limit and target values for atmospheric pollutants in all member states, covering lead, NO2, PM10 and PM2.5 (soot, dust), SO2, benzene, CO, toxic heavy metals, polycyclic aromatic hydrocarbons and ozone. The UK has requested more time to meet the targets for NO2 and PM10.

The National Emissions Ceiling Directive (2001) – like the UN Gothenburg Protocol – sets limits for certain emissions, in particular SO2, NOx, volatile organic compounds (VOC) and ammonia, to be reached by 2010 and maintained thereafter.

The Environmental Liability Directive (2004) introduced the principle of 'polluter pays' and aims to prevent and remedy damage to protected species, nature, water and soil, largely mirroring UK legislation of the 1980s and 1990s. It was transposed into UK law in 2009.

Perhaps the most ambitious, costly and bureaucratic piece of EU legislation in the environmental field is the REACH Regulation, which came into force in 2007. The Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation aims to control the manufacture and safe use of chemicals for the EU market. The manufacture and import of all substances covered were registered, by 2010 for high volumes, by 2013 for lower volumes and by 2018 for small volumes. As most substances manufactured in the UK are, at least in part, exported to the EU, Brexit would not remove the burden of registration from UK manufacturers, nor the Classification, Labelling and Packaging (CLP) regulation for hazardous materials, which results from a UN agreement.

Non-EU environmental agreements

Many EU environmental directives mirror UN agreements, including the Gothenburg Protocol (ratified by the UK in 2005; revised in 2012), the Aarhus Convention (ratified by the UK in 2005), and the Kiev Protocol (in force from 2010). The Gothenburg Protocol sets emission ceilings for sulphur, NOx, VOCs and ammonia to avoid harmful effects on human health, the environment, natural ecosystems, crops and climate. The National Emissions Ceilings Directive transposed these obligations into EU law in 2001. The Aarhus Convention links environmental rights to human rights by providing a public right of access to information, public participation in decision-making and access to justice in environmental matters. The Kiev Protocol requires governments to consult each other on all projects that potentially have a significant environmental impact across borders. As the UK is an independent signatory to these UN protocols, Brexit would have no effect on their validity here.

Other EU legislation affecting the environment

Much EU legislation relating to manufacturing standards has a considerable impact on environmental standards. Vehicle emissions have declined by over 80% in the past 20 years as fuel suppliers and vehicle manufacturers have conformed to increasingly demanding standards. The impact of domestic appliances has likewise been improved through obligatory and standardised eco-labelling. Given the relatively small size of the national market for such products, it is unlikely that Brexit would induce manufacturers to relax such standards because they would still be required for export to the EU – and domestic consumers might also object to lower-quality products.

UK performance

The UK performance in environmental improvement is broadly in line with the European average. The number of infringement proceedings against the UK for non-observance of its commitments is slightly above the EU average, placing it behind Germany but just ahead of France and well ahead of Italy and Spain in the league table of major member states.

It is tempting to identify EU environmental regulation as a burden for the UK, but the reality is more complex. Due to wider international commitments (especially UN), Brexit would not allow any notable relaxation of standards, and nor would the need to export into the EU market and popular opposition to any government returning to more polluting policies.

Facts and figures

UK emission reduction commitments for 2005–2020 and beyond (Gothenburg)

- SO2: 59%
- NO2: 55%
- NH3: 8%
- VOC: 32%
- PM2.5: 30%

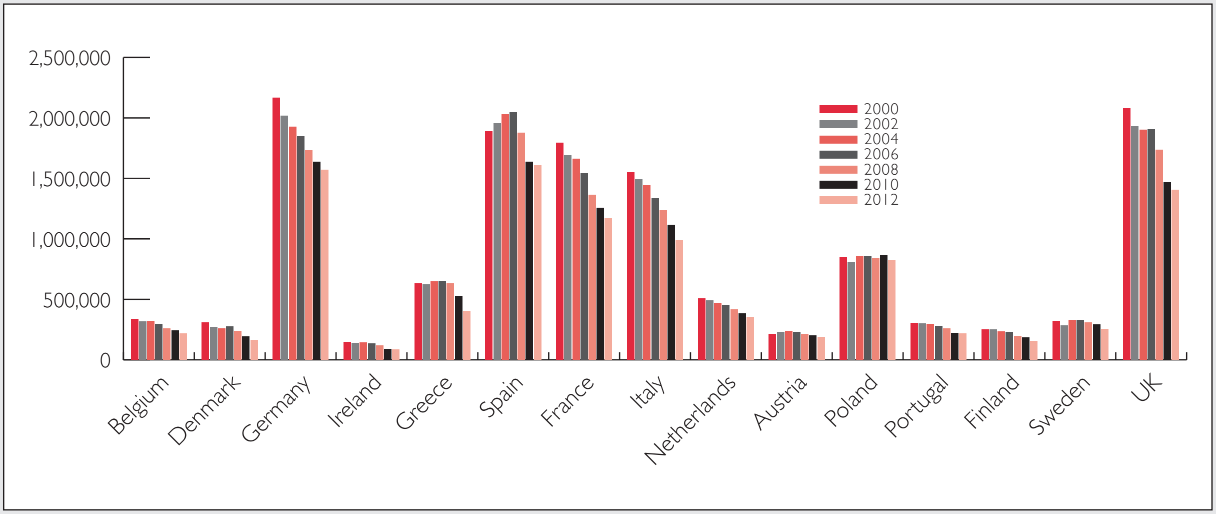
Greenhouse gas emissions 1990–2012 (EU average: -19.2%)

- France -11.4%
- Germany -24.8%
- Italy -11.4%
- Spain +20.1%
- UK -25.2%

Total EU environmental policy infringements 2014: 334

- 16 UK cases
- UK represents 5% of total EU infringement cases
- Compared with UK as 15% of EU GDP; 13% of EU population

European NOX emissions (2012: UK ~ 12% EU 27)



Energy Policy

Dr Sara Bazoobandi

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When the UK joined the EU in 1973 it was still a major coal producer, and just two years later the first North Sea oil was flowing. For many years, the country had been either an exporter of energy or at least self-sufficient. Initially, the UK was fearful that the EU would take away control of its resources, and it was reluctant to engage in developing a common EU energy policy. But as domestic production peaked, these fears faded away and from 2013 the UK accepted a degree of EU competence in this field, notably in agreeing a directive on offshore rig safety.

Developing energy policy

During the 1970s and 1980s EU energy policy was largely concerned with emergency oil sharing and energy research and development (mainly nuclear) investments, which left national energy markets, monopolies and existing policies largely untouched. By the 1990s this trend was changing. The EU moved to apply anti-trust legislation to this market and opened national markets to wider competition, a path the UK had already embarked on.

The UK has generally supported EU anti-trust action to liberalise continental energy markets and encourage cross-border activities. In practice, however, much of the merger activity on the continent has been between companies of the same nationality, which has led to big continental companies entering the UK market. As a result, four of the UK's big six utilities are now foreign-owned, while no UK utility has major activities in the continental market.

Broadly speaking, the debate over the UK's relation to the EU has not been focused on energy, since for many people the retail impact of EU energy policy has been positive. For many years member states continued to decide their own energy mix and choice of fuels and sources. It was not until 2009 that member states agreed to decide some aspects of their energy mix at EU level, when they each took on national renewable energy targets: an important step for the UK, as it ambitiously undertook to increase its renewable share of total energy consumption from 1.3% in 2005 to 15% by 2020.

During the 1990s, climate change also rose to the top of the EU energy agenda. In 2000 the UK decided that by 2050 the country should cut its emissions by 60% below the level of 1990. The 2008 Climate

Change Act further bound the UK to cut carbon emissions by 80% by 2050 and requires the setting out of 'carbon budgets' for every period of five years; a self-imposed commitment unique inside the EU.

Targets for energy from renewable sources are central to the Emission Trading System (ETS), but mistakes in setting the floor price and issuing permits has undermined its effectiveness. The UK now needs to close down 12GW of coal and oil generation and 7GW of ageing nuclear plant by 2020 and replace it with low-carbon-generation power plants. In order to promote low-carbon energy, the UK is introducing: 1) a separate carbon floor price to increase the cost of carbon permits to UK electricity producers; 2) an effective prohibition of coal generation without any capture of carbon emissions; and 3) long-term minimum price guarantees for renewables and nuclear. EU competition authorities have concerns about the danger of excessive UK government intervention in the domestic energy marketplace.

In terms of energy security the UK is a net importer of fossil fuels, and clearly benefits now from membership of a large bloc of countries with diverse sources of supply and with which it has fixed power links and gas pipelines. Its biggest single source of oil and gas imports is Norway, which is tied in to EU regulation through the European Economic Area. However, the largest single source of UK coal imports is Russia, which is also a major gas supplier to the rest of the EU. As Europe's largest aggregate energy supplier, Russia is also its most problematic.

Renegotiation

Three key areas of energy policy could be of interest for the UK in any future renegotiation:

a) The EU Large Combustion Plant Directive (in force since 1987) gave generators many years to adapt to new pollution limits and install anti-pollution equipment. Many UK operators decided to keep dirty plants running for a reduced number of hours during 2008–2015, but now they need to be shut down. New regulations after 2016 will lead to a capacity crunch, in particular affecting coal-fired plants.

b) Renewable energy targets are individually tailored to reflect a combination of each member state's relative GDP and green energy potential, while aiming to achieve a European average renewable share of total energy of 20% by 2020. The UK government in 2009 agreed a target of 15%, which may well prove too high for the UK, and could sensibly be slightly reduced. At the moment member state governments individually subsidise renewable energy through levies on electricity users at the national level, and the EU has no plans to introduce a common EU-wide subsidy system for renewables. Being a middle-income state with a high target, however, the UK would probably benefit from more harmonisation of renewable subsidies across Europe so as not to have to compete for green investment with richer countries like Germany.

c) The issue of over-supply of ETS is harder to resolve. In theory, it should be possible to change the ETS (both quantity issued and price) by qualified majority. In practice, given the scale of the system and the quasi-tax nature of carbon permits, governments have agreed that structural change to the ETS should only be by consensus. And the UK tends to support the maintenance of unanimity as a voting system.

If the UK maintains all its current clean energy targets, it might pull out of the EU in frustration at being prevented from effectively meeting them, for instance by competition rulings preventing the UK from providing necessary subsidies to renewable energy and nuclear power.

If the UK decides to pull out of the ETS in frustration, it might abandon EU-style clean energy targets altogether. But this would amount to a policy U-turn, reversing decades of UK environmental and climate policy, and upsetting many commercial interests, and is hence very unlikely.

Leaving the EU would make no difference to the UK's ability to import oil and gas at whatever price it could find on the world market.

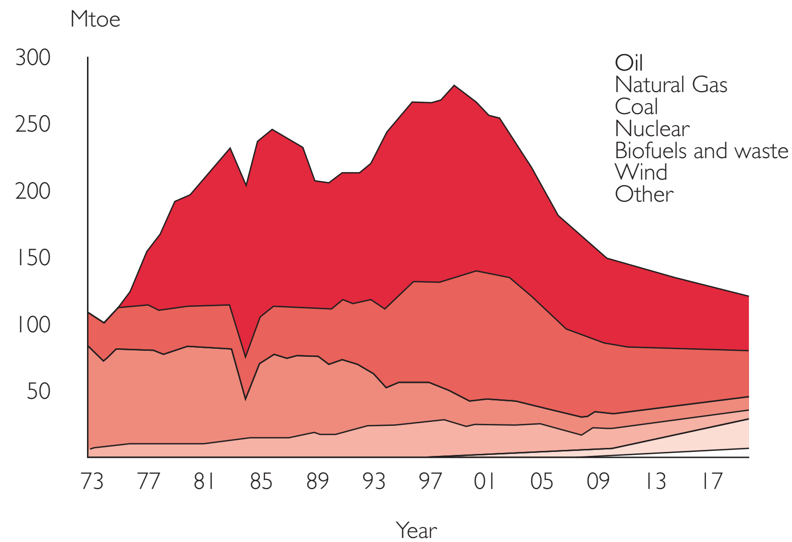
Conclusion

Britain's interest in EU energy policies has gradually increased over the past decades. There is little or no demand for any fundamental renegotiation of the UK's participation in EU energy policy, because it has evolved under UK influence (market liberalisation) and according to UK concerns (climate change mitigation). The current U-turn in UK policy – to underpin low-carbon energy investment – may raise some competition difficulties with Brussels. But these are minor compared with the major energy and climate goals that the UK shares with the rest of the EU.

Facts and figures

UK moves from being net exporter to net importer of oil and gas

Energy production by source (million tonnes of oil equivalent) Source IEA 2012



Shutting down dirty coal and ageing nuclear power plants

Closures (megawatt capacity)	2013	2014	2016	2018	2019	2023
Gas	218					
Coal	4,175		2,957			
Nuclear		490	2,335	1,081	2,410	2,418
Oil & gas turbine	1,355		2,281			

Closures (megawatt capacity)	2011	2012	2013	2014	2015	2016	2020	2025	2030
Projected ETS carbon price if not reformed	12.3	5.8	6.0	6.2	6.4	6.7	8.6	10.3	12.3
Carbon price for UK electricity sector (with price floor)	12.3	5.8	9.6	14.2	19.9	23.6	32.4	54.0	75.6

Source: Projections by Department of Energy and Climate Change 2012

Transport Issues

Handley M. G. Stevens

Former Under-Secretary, Ministry of Transport, and author of 'Transport Policy in the EU'

The European common transport policy was slow to develop. Qualified majority voting, which had been applied to road and rail from 1965, was extended to all modes of transport in 1987. From 1993 the Maastricht Treaty also extended EU competence into transport safety and infrastructure. The Commission gained increased authority and resources with the establishment in 2002 of European Agencies for Aviation Safety and Maritime Safety, followed in 2006 by the European Railway Agency and the Trans-European Networks – Transport Executive Agency.

History and context

In 1969 the European Court of Justice made a seminal ruling with profound consequences for the external relations of the member states. The Court ruled in the AETR Case (Case 22/70) that wherever the EU has developed an internal policy, member states no longer have the right to reach agreements with third countries that would have an impact on that policy. In all such circumstances, it was for the Commission to make proposals to the Council for a negotiating mandate, and to conduct the negotiations, and for the Council to conclude the agreement.

If the UK ever leaves the EU, British trucks and trains, ships and aircraft would still need access to the roads and railways, sea ports and airports of the EU. It follows from the AETR judgment that in order to obtain such access the UK would have to negotiate with the Commission acting on behalf of all other member states, and they would have the negotiating muscle to insist that the UK align its transport rules with the EU, not the other way around.

The Commission has made no secret of its intention to 'extend internal market rules through work in international organisations' and to 'promote European safety, security, privacy and environmental standards through bilateral and multilateral cooperation'. The UK government would have more freedom to express independent views in international fora if we withdrew from the EU, but less influence on the outcome than we have now as a significant EU member state.

Road transport

The EU sets conditions for the operation of passenger and freight services. In addition the manufacture of road vehicles has to comply with EU standards to ensure access to the single market.

Whether the UK leaves the EU or not, it remains bound by agreements it has signed for itself, such as the Economic Commission for Europe (UNECE) conditions governing the carriage of dangerous goods, as well as the AETR agreement on working conditions for coach and truck drivers.

If UK operators of bus, coach and freight services want to access the single market, the UK will have to accept EU regulations governing maximum weights and dimensions, minimum rates of fuel duty and maximum road user charges, as well as compensation of passengers using bus and coach services. Norway, Iceland and Liechtenstein all do; only Switzerland – with some leverage because of the EU's need for transit rights between Germany and Italy – has negotiated a special relationship.

Rail transport

Operating the UK's two rail links with neighbouring states – Ireland and France – is not likely to be affected by renegotiation or withdrawal. Internationally agreed rules and standards (for instance in Convention concerning International Carriage by Rail (COTIF), which the UK joined in 2011, or Community of European Railways and Infrastructure Companies (CER) and International Union of Railways (UIC) or European standards bodies, in which rail companies are long-standing members) will continue to apply. And the railway supply industry would lose access to the Single Market unless the UK agreed to follow EU rules and standards, including oversight by the European Railways Agency.

Maritime transport

Sea transport accounts for nearly 40% of all intra-EU freight transport, and the internal market has been substantially opened up to competition since 1992, but shipping is a global business, and the International Maritime Organization (IMO) – located in London – remains the key forum for the regulation of international shipping. Any renegotiation, or even withdrawal, would have little impact on British shipping interests, beyond depriving them of a seat at the decision-making table for any new EU initiatives.

The EU has incorporated into EU law norms accepted internationally within the IMO and the International Labour Organization (ILO). These include the IMO Convention on Prevention of Pollution from Ships, the Convention on Safety of Life at Sea, the Convention on Standards of Training, Certification and Watch-keeping, and ILO recommendations on working conditions of seafarers, including the Maritime Labour Convention. EU regulations also provide for mutual recognition of the Classification

Societies, which carry out statutory surveys and certification, overseen since 2002 by the European Maritime Safety Agency.

Roughly half the world's merchant shipping is registered under flags of convenience, such as Panama and Liberia, with less onerous conditions than EU member states. Following a series of major ecological disasters in the 1970s and 1980s, when foreign-registered tankers broke up on European coasts, the EU adopted directives (in 1995, 2001, 2009) requiring port state control of compliance with the relevant international conventions, thereby imposing tighter standards, and reducing oil spills dramatically.

Air transport

The situation is very different for air transport. In three steps – 1987, 1992 and 1997 – the EU liberalised access to a single European market in aviation services. This precipitated a process of airline consolidation leading after 1997 to the creation of three key alliances – the Star Alliance around Lufthansa and SAS, the International Airlines Group around BA and Iberia, and SkyTeam around Air France and KLM. Several low-cost airlines, including EasyJet and Ryanair, also established extensive European networks. Airline licensing, computer reservation systems, airport slot allocation, ground handling, air-traffic control and safety certification have all been brought within the ambit of EU law. EU agreements are slowly replacing the complex network of bilateral air service agreements between member states and third countries, including in 2007 a ground-breaking agreement between the EU and the USA.

In the event of withdrawal, UK airlines would retain the rights they currently enjoy within the EU only if the UK accepted all aspects of the internal market for air services. As regards rights to serve third countries, in the cut-throat world of airline competition those countries would drive a hard bargain if the UK wished to continue to enjoy what the EU has now negotiated – especially with the USA. The cost of such renegotiation from a position outside the EU would be extremely high.

Costs and benefits

It is difficult to see any potential gain from disengagement from the EU in any aspect of transport policy. UK suppliers of transport equipment would have to accept EU regulations governing access to the single market, and it would be costly and inconvenient to apply different conditions to the UK. For operators of transport services, the costs of renegotiation or even withdrawal would be minimal where EU law does little more than implement what has been agreed in other international fora – notably in sea transport – but the costs mount where the EU has its own distinctive body of law, to some extent in road and rail transport, and most notably in air transport, where any attempt to disentangle a national aviation industry would now be disastrous for British airlines and costly for British passengers.

Facts and figures

Transport activity shadows GDP

Between 1995 and 2012 GDP in the EU grew by 1.7% p.a. Passenger kilometres travelled (pkm) grew by 1.0% and freight tonne kilometres (tkm) grew by 1.2%.

EU transport modal split

In 2012, the modal split for passenger transport within the EU was:

- Cars 72.2%, Air 9.0%, Bus/coach 8.2%, Rail 6.5%, Other 3.2%

The modal split for freight within the EU was:

- Road 44.9%, Sea 37%, Rail 10.8%, Other 7.1%

For freight to and from all destinations, the modal split was:

- By weight – Sea 75.3%, Road 6.2%, Rail 3.7%, Pipeline 10.2%, Air 0.6%
- By value – Sea 51.5%, Road 15.9%, Rail 1.2%, Pipeline 3.6%, Air 22.4%

Busiest ports and airports

In 2012, Dover was the busiest EU port for passengers with over 12 million, followed by two Greek ports (11.4m each), Helsinki (10.6m) and Calais (9.3m). The busiest ports for freight were Rotterdam (395m tonnes), Antwerp (164m) and Hamburg (113m). Immingham was the busiest UK port, handling 60m tonnes.

In 2013, London Heathrow was the busiest EU airport for passenger traffic (72.3m), followed by Paris/Charles de Gaulle (61.9m) and Frankfurt (57.9m). However, Frankfurt handled most freight (2.065m tonnes) followed by Heathrow (1.556m), Paris (1.514m) and Amsterdam (1.511m).

Fisheries

Andy Lebrecht

Former UK Deputy Permanent Representative, Brussels

The Common Fisheries Policy (CFP) was introduced by the original six member states of the European Union just before the UK joined in 1972. It took very little notice of British interests or of conservation goals. The UK government of the time considered it an unfriendly last-minute development in the negotiations for UK accession, but nonetheless accepted it – reluctantly – as part of the *acquis communautaire*.

Making the best of a bad job

This policy was subsequently changed, in particular in 1983 when conservation of fish stocks became the driving principle. Total allowable catches (TACs) and quotas based on fixed national shares ('relative stability') were introduced for each fish stock, with TACs to be set annually based on independent scientific advice. Technical measures such as minimum mesh sizes, minimum landing sizes and closed fishing areas completed the instruments designed to restrain fishing effort and maintain stocks. Each member state was responsible for enforcing the CFP in its own territorial waters, and a structural policy was developed to modernise the fleet, reduce its size and improve the safety of vessels.

Pressure from fishing interests, however, led to excessive TACs frequently being set, poor enforcement, over-fishing and ever diminishing stocks. Reforms in 1992 and 2002 introduced increased subsidies for decommissioning ships, tighter rules on state aid for modernisation (to avoid encouraging increased fishing capacity) and tougher enforcement measures, but these failed to deliver effective conservation of stocks.

The bigger picture

By subscribing to the Johannesburg Declaration on sustainable development in 2002 and the UN Convention on Biological Diversity in 2010, the EU committed itself to introduce maximum sustainable yield (MSY) into the CFP by 2015. MSY is the maximum use that a renewable resource can sustain without impairing its renewability through natural growth or replenishment.

In July 2011 European Fisheries Commissioner Maria Damanaki described the CFP as a 'failed policy' and proposed a major reform, which the Council of Ministers and the European Parliament finally agreed in 2013. The UK, which shared Mrs Damanaki's analysis, worked closely with the Commission and with allied member states – notably Germany, Sweden, Denmark and the Netherlands – to secure fundamental reform, and the main features of the new CFP reflect this.

The new CFP

The 2013 reform has introduced four powerful new elements designed to transform the effectiveness of the CFP through improved conservation, controlling fleet capacity and reducing micro-management from Brussels.

A ban on discards of fish at sea (a practice that has seen huge wastage of fish) and thus an obligation on fishermen to land all catches will be progressively introduced. The principle of MSY is enshrined in law as the basis for fisheries exploitation, and the main stocks will be managed through multiannual plans based on MSY. Regionalisation of fisheries management decisions will enable member states with an interest in a fishery, after consulting local interests, to submit joint recommendations on conservation measures to the European Commission, with the latter obliged – normally – to adopt them. Systems of transferable fishing concessions are introduced as an option for member states to manage their fleet capacity. Those countries not introducing such a system will be required to put in place measures to adjust the fishing capacity of their fleets to their prospective fishing opportunities, which would in most cases mean reducing them.

UK better off in or out?

Fisheries conservation is an exclusive EU competence, so to withdraw from the CFP the UK would have to withdraw from the EU. All other member states would then determine the EU fisheries policy and subsequently negotiate with the UK – as Norway does today – concerning joint TACs and mutual rights in each other's waters. The UK would lose access to Norwegian fisheries unless it negotiated a new reciprocal agreement with Norway. Fisheries exports to the EU would become subject to the EU's common external tariff. The resulting gain in 'sovereignty' over UK waters would not necessarily benefit British fishermen. Indeed, it could have the contrary effect, as a consequence of the need to reach agreement with our neighbours on joint fisheries management.

The overwhelming number of economically important stocks found in UK waters – whether the North Sea, English Channel, Celtic Sea or Irish Sea – also swim in the waters of other member states and/or Norway. The UK has a major interest in the conservation of these 'straddling stocks' and this will require joint management, including setting joint TACs, by the UK, the EU and Norway where appropriate. Given the long-established share-out of these stocks based on 'relative stability', the UK could not realistically expect to negotiate more favourable opportunities for fishing than it enjoys now.

Failure to agree would be even worse for UK fishermen, as a free-for-all would lead to over-fishing, declining stocks and falling fishing opportunities for all – the very outcome the UK has fought to avoid in the reform of the CFP. Moreover, without the UK at the heart of the EU's fisheries policy, the EU stance would inevitably become less responsible and therefore less UK-friendly.

Conclusions

The UK wants significantly improved conservation of fisheries stocks leading to an improved environment and a more stable, sustainable and profitable fishing industry. Recent reforms should deliver:

a) More stable fisheries management through long-term plans based on MSY;
b) Better returns for fishermen via a discards ban
c) More say for UK fishing interests in detailed conservation measures with less Brussels micro-management;
d) An opportunity to improve the structure of the fishing fleet through 'transferable fishing concessions' if the government and/or devolved administrations choose to use them.

Whether the new CFP with these reforms alone will achieve an ideal balance between stock availability and fishing fleet capacity remains to be seen. That will depend in part on how all concerned, especially UK fishermen, respond to the new situation. But it undoubtedly marks a step in the right direction. It would be perverse if the country decided to withdraw from a reform process in Brussels that is already delivering what the UK has been demanding.

Facts and figures

Value of UK fisheries sector 2012

Total seafood consumer purchases (retail and food service)	£ 6,200 million
Imports	£ 2,560 million
Exports	£ 1,350 million
Value of UK vessels' catch	£ 770 million

Source: Seafish

Employment and vessel numbers

Number of fishermen (2013)	12,150
Seafish processor employment (FTE2013)	11,864
Size of UK fishing fleet 2013 (vessels)	6,399
Size of UK fishing fleet 2013 (gross tonnage)	197,283
Size of UK fishing fleet 2013 (engine power)	797,661

Sources: MMO, Seafish (processor employment)

The UK fishing and fish processing industries are not large in terms of global GDP and employment, but they are politically sensitive. The main fishing ports are in Scotland, Yorkshire and Humberside, south-west England and Northern Ireland, with the bulk of fish processing located in Humberside, northern England and north-east Scotland. The location of the industry in geographically peripheral and/or low-employment areas, plus the socio-cultural and environmental importance of fishing, means that successive UK and devolved governments have attached a greater significance to this industry than the figures alone merit.

The Case for British Agriculture

Martin Haworth

Deputy Director General, National Farmers' Union

Although the Common Agricultural Policy (CAP) is often cited as a major disadvantage for Britain in the EU, there has been no serious attempt to explain what an alternative, independent British agricultural policy would look like if the UK left the EU following a referendum.

We need to explore two scenarios: a) Brexit that keeps us in the European Economic Area (EEA), including the single market for agricultural goods; and b) Brexit that leaves us on our own, not remaining part of the single market.

Agricultural support and trade in Europe

Norway, Liechtenstein, Iceland (members of the EEA) and Switzerland (member of the European Free Trade Area (EFTA)) all have domestic farm support and import protection at a much higher level than the EU. For that reason, agricultural lobbies in these countries have always been strong opponents of EU membership. Based on OECD figures, the production and trade effects of their support systems are at least three times as distorting – and possibly even more – than that of agricultural support in the EU.

Currently the UK exports more than £10 billion worth of food, feed and non-alcoholic drink to the rest of the EU each year. For some agricultural sectors, this export market is critical: more than one third of the total lamb production in the UK, for instance. Yet imports from the EU in this sector far outstrip our exports, as they have for many years. Indeed, the difference is now nearly double the size it was in 2000, despite the significant depreciation of sterling during that period.

If the UK leaves the EU but remains part of the Single Market

First, the UK would have to observe the regulations of the market without having been party to deciding them: no seat at the Council table, no MEPs in the European Parliament and no British Commissioner to sensitise the Commission to UK requirements.

Second, as a member of the EEA we would have to respect the rule on free movement of labour, which would be helpful to British agriculture and horticulture, which rely heavily on migrant labour.

Third, the UK would have to apply the EU's Common Customs Tariff on imports from third countries, which would prevent the UK attracting, for example, cheaper meat from South America and undercutting the EU market.

Fourth, like other members of the EEA and EFTA, the UK would have to pay for the privilege of access to the Single Market. HM Treasury calculates the sum could be 641 million euros, considerably less than our current contribution to the EU budget.

This scenario raises a number of difficult questions:

a) Would the UK have to follow CAP regulations to the letter, or simply their intention, and who would judge that?
b) Would the Treasury redirect the financial gain made by paying less to the EU to supporting domestic agriculture?
c) As the retail cost of food would not fall – since we could not import cheaper food from elsewhere because the UK would have to observe the Common Customs Tariff – would government be able to sell this move to the electorate as a benefit?

If the UK is outside the EU and outside the Single Market

Although it could be attractive to be outside a system that often imposes red tape on farming activities, even outside the EU there will be a need for sensible national regulations concerning issues such as food safety, environmental protection, animal welfare, health and safety and so on.

The effect of cheaper imports (if we were outside the Common Customs Tariff) is lower farm-gate prices. Too radical a move in that direction would drive many farmers out of business.

World Trade Organization rules would apply to our foreign trade, and the UK government would then only be able to restrict imports on grounds of food safety, not on environmental or animal welfare grounds. Eggs from battery hens and pig meat from stalled sows, for instance, could not be banned.

In order not to devastate the UK farming sector on Brexit, if it were expected to compete against low-priced imports, the government would have to divert to domestic agriculture some of the budgetary savings created by no longer paying our contribution to Brussels. While the net savings for the Treasury are large enough to pay for UK agricultural support, successive British governments – left and right – have argued for the abolition of direct payments, only paying for the provision of 'public goods' such as environmental protection.

For farmers, it is not the quantity of support that is critical, but that there should be equality of treatment with our competitors. Concerns about distortion of competition which would occur if levels of support were different across a land border – such as between Ireland and Northern Ireland, for instance – are real.

If the government wants to engineer lower food prices for consumers, someone has to pay for it – either the EU budget, the UK taxpayer or the farming community – and further burdens on farmers will drive many out of business.

Conclusions

The first scenario – the EEA solution – farmers could somewhat reluctantly live with, as long as we retain access to the Single Market for agricultural goods. The downside is that we would have to follow common rules made without our being at the table to help decide them, and from a Eurosceptic point of view, it would hardly deliver any of the goals that they might expect from Brexit.

The second scenario – Brexit without access to the Single Market – would deliver more to the anti-Europeans, but it would bring huge risks to UK farmers. Lower farm-gate prices, loss of our major export market, no support and little or no protection from imports produced to lower than British standards is not a future that farmers would welcome.

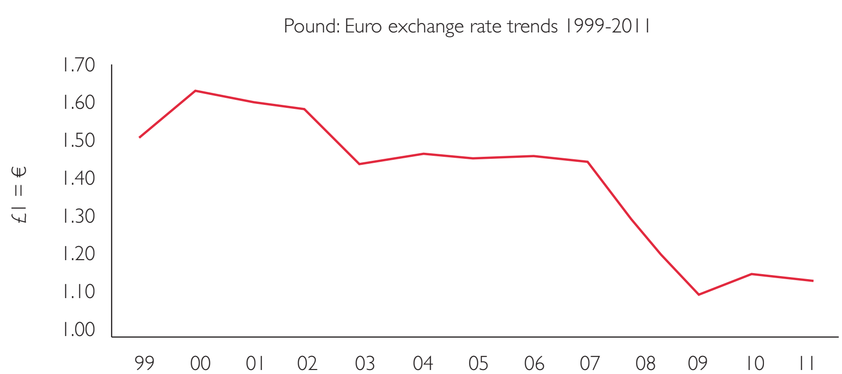
A third option could be to maintain our current position in the EU and press for continuation of reforms to the CAP. An alliance of progressively minded member states pressing for more reforms could be the best solution.

Facts and figures

Subsidies from public support policies

	PSE 2011 (as a % of farm receipts)	% PSE classified 'output-based support' 2011 (considered most production- and trade-distorting)
EU	18%	13%
OECD	19%	44%
Iceland	44%	68%
Switzerland	54%	42%
Norway	58%	47%

UK trade with other EU member states in food, feed and drink



Structural Funds and Regional Policy

Michael Lloyd

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EU regional policy – sometimes called 'cohesion policy' – aims to 'reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions'. On the assumption that market forces alone are unable to achieve this objective, member states commit serious money to this policy. The current financial framework (2014 to 2020) foresees expenditure of close to 50 billion euros per year, over 30% of the entire EU budget.

Differences between European regions

To achieve the declared policy goal within one country is difficult enough; to achieve it across 28 member states is a formidable challenge. GDP per head in the EU averaged 25,100 euros in 2013 and the UK is very close to this figure. The most developed and hence richest country in the EU is the Netherlands (32% above average) and the poorest is Bulgaria (45% below average). If the range at the level of countries seems enormous, when measured between richest and poorest regions (NUTS 2 regions in the jargon), the range is even wider.

Cohesion policy currently devotes approximately 80% of total available funds to regions where the GDP per head is less than 75% of the EU average. That involves 76 NUTS 2 poor regions from a total of nearly 300 EU regions into which the 28 member states are divided. As none of the UK regions has an average income as low as 75% of the EU average, the share of funding to which it has access is limited to a share of the remaining 20% of the available cohesion funds. These funds are devoted to:

a) improving regional competitiveness and employment and
b) promoting cross-border integration projects

The UK share of this will amount to approximately 1.25 billion euros per annum, channelled through three funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. As an example, the North-East region of England will receive some 740 million euros from these regional funds over the period 2014 to 2020.

Does charity begin at home?

There is some attraction in the argument that charity begins at home and the UK should repatriate regional policy from Brussels to London. When at the Treasury in 2003, Gordon Brown argued, 'When the economic and social, as well as democratic, arguments on structural funds now and for the future so clearly favour subsidiarity in action, there is no better place to start than by bringing regional policy back to Britain.' A Treasury paper the same year stated, 'It cannot be right for richer Member States to continue to receive substantial development funding from the EU budget. Equally, it cannot be assumed that nations and regions of the UK should have to scale down their spending on regional development programmes to accommodate the loss of EU support ... We would therefore guarantee that, by increasing UK Government spending on regional policy, UK nations and regions receive a level of resources which ensures they do not lose out from the UK's proposals on Structural Funds reform.'

Does EU regional policy work?

Various attempts to analyse the practical effect of the EU transfer of funds for regional development within the UK fail to come to a clear conclusion. There is no definitive view in the research community that the EU regional/cohesion policy is an unqualified success, nor that it has failed. But many commentators would support the conclusion of a recent research paper by the influential Breughel Foundation: 'EU funds contribute to growth convergence i) if used in a supportive institutional environment, ii) in the presence of a decent industrial structure and some R&D intensity, and iii) when used for soft and not just hard investment.'

A more closely focused empirical research paper by New Economy examined in detail the effects of ERDF and ESF funds in the North-West region of the UK. It assessed the impact on investment and economic growth from 2000 to 2006. Its research showed net benefits, with North-West gross value added (GVA) increasing by at least £2.3 billion per annum due to structural funds, and with the creation of 56,800 additional jobs within the region over the period.

The paper went on to highlight an innovative element of regional funding, the establishment of a revolving (self-replenishing) fund code-named JESSICA. 'The NW has established one of the first JESSICA funds in Europe and has successfully developed two Urban Development Funds (Evergreen and Chrysalis) to deliver £50 million of ERDF investment and associated matched funding. By creating appropriate legal and governance structures the two funds have the potential in the medium to long term to significantly grow their scope of investment and the size of the resources under their control – in excess of £350 million.'

Another example is the equivalent £54 million JEREMIE fund, supporting small and medium-sized enterprises (SMEs) in the North-East of England region and which, between 2010 and 2015, has generated some £220m worth of investment in regional SMEs.

The cost of leaving the EU

If the UK were to withdraw from the EU, UK regions would lose access to this type of EU support. Well-targeted funding, as these examples show, is of specific value locally. It can deliver a multiplier effect for ERDF and ESF funding, well illustrated in the experience of the North-East. And – despite the assurances of the Treasury paper quoted earlier – in times of austerity it is unlikely that the UK government would make up for the shortfall in available resources if the UK left the EU, which is made more difficult now that the government has abandoned the idea of English regions in favour of a multiplicity of LEPs (Local Enterprise Partnerships). However, in the North-East, a surviving regional body, the European Enterprise Network (funded by the European Commission) works with the two independent LEPs in support of SMEs, with the LEPs represented on the steering group of the EEN. One of the more important side effects of EU regional funding is the impetus it has given to closer local cooperation between both public and private agencies, institutions and companies, including SMEs.

Conclusion

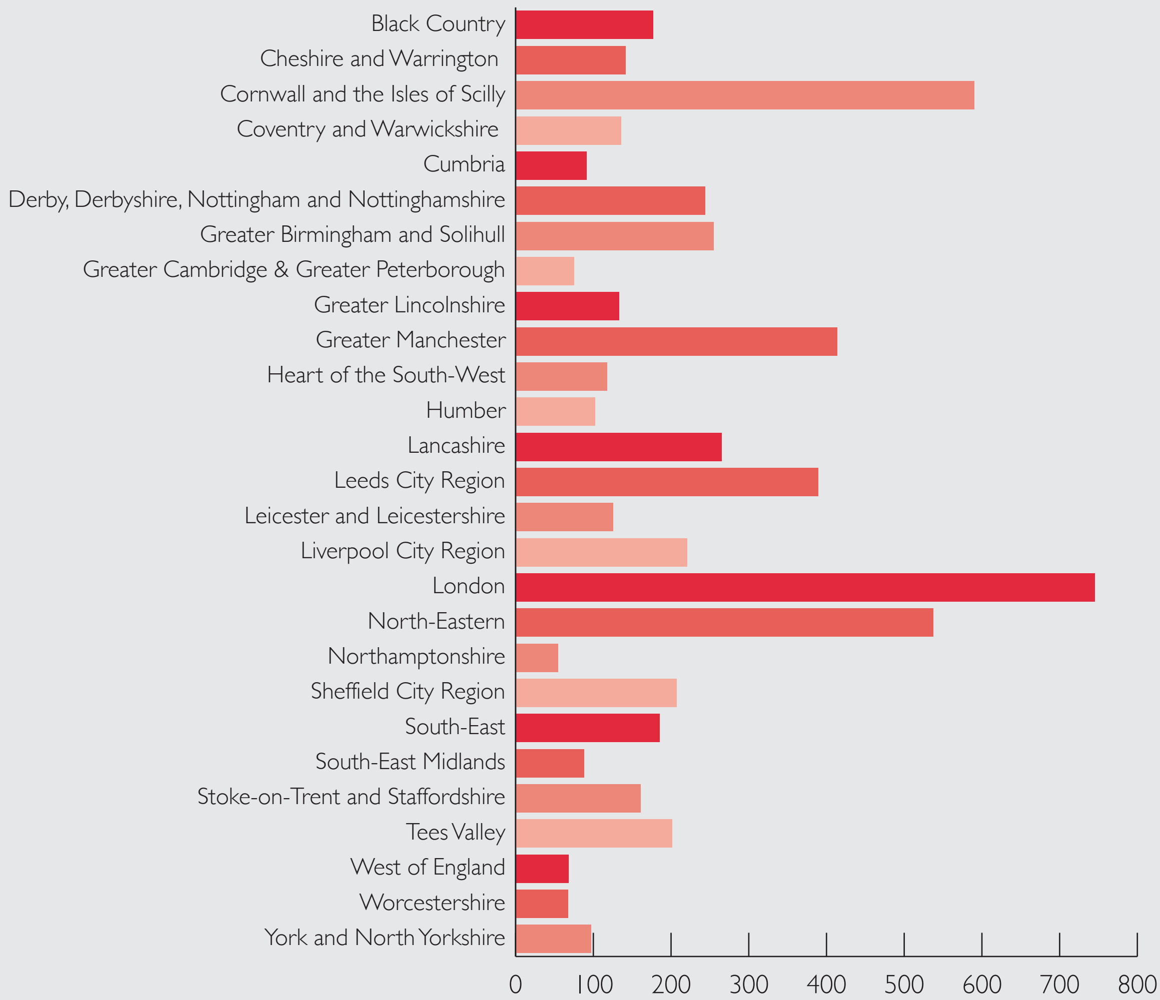
Resolving regional disparities is not a simple matter, either for national government or for the EU. But working in the evolving context of EU regional policy offers the best hope for regional strategies – both in the UK and Europe-wide – that will deliver the targeted investment necessary for better balanced economic growth in the future.

Facts and figures

EU structural funds allocations to England and the devolved administrations between 2014 and 2020 will total:

for England 6,937.2 million euros; for Scotland 894.6 million euros, of which: Highlands & Islands 193.0 million euros and Rest of Scotland 701.6 million euros; for Wales 412.5 million euros, of which: West Wales & the Valleys 2,005.9 million euros and East Wales 406.6 million euros; for Northern Ireland 513.4 million euros; and (considered under UK amounts) for Gibraltar 10.5 million euros.

Some selected regional allocations



Social and Employment Dimensions

Lord Monks of Blackley

Former General Secretary of the TUC and of the European Trade Union Confederation (ETUC)

Social and employment issues are at the heart of the continuing troubled relation of the UK with the EU. The EU must be more than a single market. As Jacques Delors said, 'You do not fall in love with a market.' But from the very start, the EU has been much more than that. Member states should not compete on ever lower labour standards, and in the Single European Act – which laid out the ground rules for the Single Market – Europe's leaders disallowed any one state from using low health and safety standards to gain competitive advantage. As Prime Minister, Mrs Thatcher signed up to that.

Social Europe

The Treaty of Rome established the principle of equal pay between men and women. The Single European Act set rules for health and safety on the basis of qualified majority voting, and established the principle of the free movement of labour between member states. The Maastricht Treaty included the Social Chapter encouraging employers' associations and trade unions to negotiate Europe-wide collective agreements. The Lisbon Treaty incorporated a Charter of Fundamental Rights with key provisions on collective bargaining and the right to strike – though the UK demanded an opt-out from this charter.

The core issues of industrial relations are still dealt with at national level in national legislation: collective bargaining, strikes, job security, employment protection, restructuring, pensions, sick pay, social security, dismissals and work discipline. But on the basis of these treaties, ministers from the member states have agreed more than 60 pieces of legislation on social and labour market issues. Most deal with health and safety; others regulate issues of equality in terms of gender, race, religion and sexual orientation; still others deal with part-time workers, fixed-term and agency workers, maternity and parental leave, and information and consultation of the workforce, in particular on issues of mass redundancies, transfer of undertaking and European works councils.

The economic crisis

As a result of the financial bust in 2008 that inevitably followed the debt-creating boom years of the early 2000s, unemployment rates in double figures now haunt the continent, with youth unemployment up to 50%. Four countries – Greece, Ireland, Portugal and Cyprus – have needed multibillion euro support. Austerity policies have imposed cuts in wages, social security, minimum pay, pensions and public spending. A doctrinaire right-wing handling of this crisis – led by Germany – is massively counterproductive.

What is missing is a sense of solidarity. Instead of learning from the mistakes of the 1930s, when austerity made the Great Depression worse, Europe's leaders should have followed Keynes' advice to President Roosevelt then and the Marshall Aid programme after 1945. A massive programme of public as well as private investment is what is needed.

The USA has recovered from this recent crisis more quickly by pursuing growth policies rather than austerity. Debt repayment should come second, not first. The eurozone in particular seems to be heading in the wrong direction, aiming to reduce labour and social costs, weakening the voice of labour and eroding nationally based wage formation and bargaining. Europe should not try to emulate low-cost China. We have a different economic model. Recent statements from the new Commission and from the French government point in the better direction, towards a highly skilled and high-investment economy, but not everyone is yet on that wavelength.

Standards and free movement of labour

Recently ten former communist countries from Eastern Europe joined the EU. The ETUC has long favoured the free movement of labour, but on the basis that social standards applied are those of the host country, not the country of origin. Recent decisions of the European Court of Justice, however, have gone against this assumption, seeing host country labour standards as a barrier to free movement. This has had a negative impact on posted workers, seasonal labour and intra-corporate transfers. The ETUC wants a social progress protocol added to EU treaties to preserve the right of posted workers to equal rather than minimum pay, and to declare that the Single Market does not override fundamental rights, such as the right to strike.

But we could go further in the struggle against social dumping and inequality by building a universal right to negotiate and bargain collectively at European level. A major step would be a framework directive that required member states to establish minimum rates of pay in all sectors of the economy, ensure that productivity gains are fairly distributed, regulate hours of work, ensure equality between men and women, between migrants and host country workers, and pro rata for all 'precariously employed' workers, as well as to provide for information and consultation of the workforce before all decisions affecting job security.

In addition, workers need to establish their representation at board level. This is an issue of democracy at work. Workers and shareholders have common interests in creating growth and in fairly sharing its proceeds, in reducing carbon emissions, in employment, skills and training. The good society should reduce the growing inequalities between material rewards for senior executives and the rest of the workforce, now a social scar across Europe.

The UK debate

I make no claims to be dispassionate. I believe in the UK's membership of the EU and also in a strong European social model. While the Conservatives in government have been hostile to workers' interests in Europe, even Labour have not been enthusiastic in their support, often stressing the need for a 'flexible' labour market. They did end the UK opt out from the Social Chapter, however, and agreed directives on information and consultation as well as agency workers. And they have maintained the Working Time Directive.

This directive provides for a minimum entitlement to four weeks' paid holiday, rest breaks, and an upper limit to the number of hours worked per week. It brought better benefits in holiday leave to six million British workers. Junior doctors' previously excessive hours of work have been cut back as working practices in the NHS have been changed. Even so, the UK government secured an opt-out of the 48-hour rule, which less scrupulous employers still use widely.

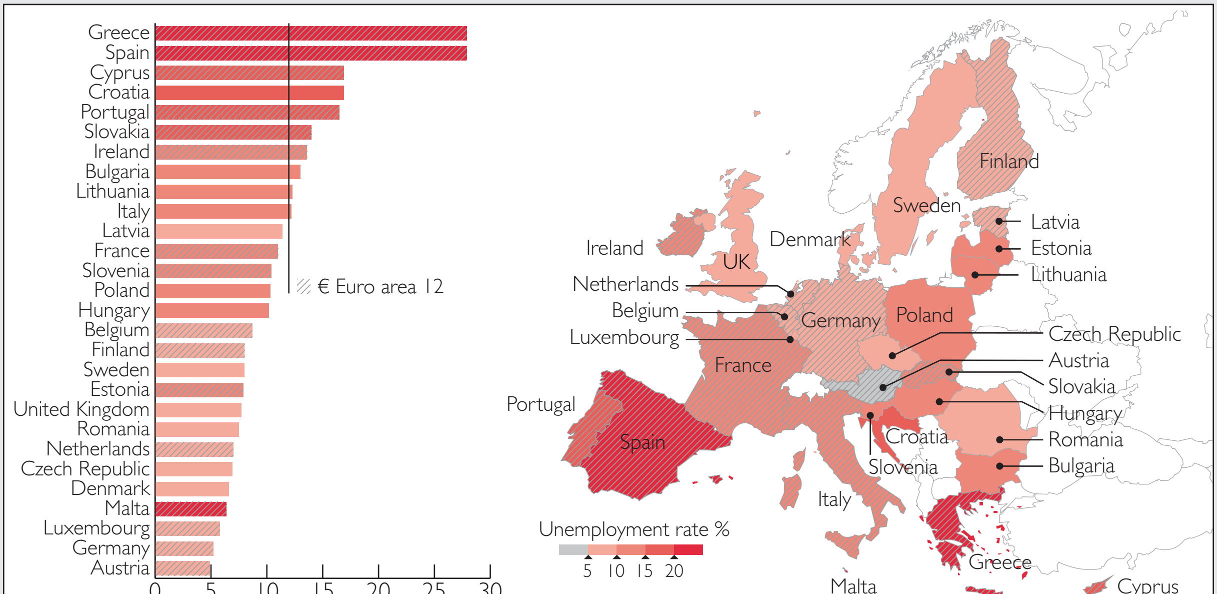
The Prime Minister is making a mistake in insisting on maintaining this opt-out. What is all the fuss about? Most of the specific issues raised can be settled through social dialogue between employers and trade unions, or if necessary through amendments agreed by the Council of Ministers. They do not warrant the Prime Minister making their maintenance a condition for the UK staying in the EU.

The EU's employment laws are a bulwark defending workers' rights against raids by owners of capital and business-friendly governments. The standards achieved by previous generations should be defended. The recent Conservative-led government introduced new restrictions on access to employment tribunals. It reduced legal aid, cut available compensation and reduced the period of notice for redundancies. It encouraged workers to sell their rights for potentially worthless shares. It legislated for some three million workers to be taken out of unfair dismissal protection. Such regressive steps are easy in one country but very difficult at EU level where the UK requires the consent of a majority of other states to take such unwelcome steps.

For all its flaws, the EU deserves the wholehearted support of British working people. Social Europe remains a battlefield. It lies at the heart of what the EU should be – more a 'North Sea' economy with high productivity, high social standards, constraints on inequality, rather than an 'Atlantic' model of monetised society where only capital counts. It is essential that Social Europe wins.

Facts and figures

European unemployment rates



Source: http://blog.thomsonreuters.com/index.php/tag/euro-zone/

- Social unrest as populist parties grow across Europe: National Front in France, UKIP in the UK, Podemos in Spain, SYRIZA in Greece
- Recession increased resentment against immigrants, both EU and non-EU citizens
- Unemployment in the EU fails to fall below 10/11%
- Youth unemployment (under 25) ranges from 20% to 50% across EU28, wasting a generation

Unemployment rates in selected EU member states

Member State	Total Unemployment	Youth Unemployment	Time Period
Austria	5.3%	9.0%	February 2015
Croatia	18.5%	46.4%	January 2015
Denmark	N/A	10.2%	February 2015
Germany	4.8%	7.2%	February 2015
Greece	26%	51.2%	Last updated December 2014
Italy	N/A	42.6%	February 2015
Spain	23.2%	50.7%	February 2015

Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

The Common Foreign and Security Policy (CFSP)

Anthony Cary CMG

Former UK Ambassador to Sweden and High Commissioner to Canada, former Chef de Cabinet to Chris Patten, European Commissioner for External Affairs

The EU remains weak – and often divided – as an international actor, despite recent efforts to strengthen CFSP. While the big member states recognise that common EU external action can be the most effective way to advance their interests, they see it as only one option for that purpose, to be taken when it happens to suit but resisted where it might challenge other networks of influence or threaten independence of action. The concept of an overarching shared interest is understood, but it is not a reflex. Policy is more typically driven by narrow national concerns and political pressures. The UK has not been alone in supporting institutional change to strengthen CFSP while denying the new structures the material and political support that might enable it to become really effective.

That said, the EU's record over the past half century as a stabilising influence on the continent, and not least on its own periphery as it has enlarged, should be recognised as a stunning foreign policy success. It gave the countries of Central and Eastern Europe a docking-point after the collapse of the USSR and provided not just a blueprint but extensive programmes of support for their economic and political transformation. It has been hugely important to the modernisation of Turkey since 1963. EU membership aspirations are perhaps the single most important factor in keeping a lid on further unrest in the Balkans.

Origins of CFSP

The EU was always a political project (pace those British commentators who assert that it was solely economic at its inception). But because it is made up of separate nations determined to maintain their independence of external action, foreign policy was never the engine of integration; rather, it has been one of the last carriages on the train. After the failure of the European Defence Community in 1954, the motor of closer union was essentially economic. The tentative initiative of political cooperation scored some success with the Helsinki Agreements in the 1970s, but European divisions were bitterly exposed in the Balkan wars of the 1990s. It required US hard power to resolve that European crisis. From that experience grew the slow but increasingly determined effort to develop CFSP.

From the Maastricht Treaty of 1992, the Amsterdam Treaty of 1999 and the Lisbon Treaty of 2007 came the creation of a High Representative straddling Council and Commission, supported by a European External Action Service (EEAS).

Achievements and deficiencies

There have been some signal successes. As High Representative from 2009–14, Catherine Ashton oversaw the peaceful separation of Kosovo from Serbia in 2013, which was the culmination of long mediation. The EU played a helpful role in the emergence of Myanmar from military dictatorship. Suppression of piracy off the coast of Somalia was another achievement. The importance of Ashton's role in the P5+1 talks with Iran, which led to the 2013 Interim Agreement, was attested by the decision of her successor, Federica Mogherini, to retain her as chief negotiator.

The EU's role in Ukraine has been harshly criticised by some as an imperialistic effort to draw Ukraine into the EU's orbit, unnecessarily provoking Russia. That criticism is surely misplaced. The EU was bound to respond to Ukraine's fervent wish for closer association, and must continue to resist Russia's assertion of a *droit de regard* over its near abroad. What is notable, as a reflection of the CFSP's development, is that the UK role in the crisis (such as it is) has been almost entirely subsumed in the common European effort. It is also notable that the EU has remained very largely united behind a common policy. In the past, Russia was all too successful in using the energy lever to divide and rule.

Despite these successes, CFSP remains anaemic because, among other reasons:

a) On many issues (as for example in Iraq or Libya) the member states cannot agree a common line. There are evident weaknesses in the concept of a High Representative for the lowest common denominator.
b) The first choices of High Representative have been low profile. This has been a deliberate choice by member states, anxious that an established international figure should not eclipse them.
c) The EEAS, made up of Commission and Council Secretariat officials as well as seconded national diplomats, has been starved of funds, and has not yet been welded into a coherent whole. CFSP itself is still largely funded by national whip-rounds for particular operations, rather than from a central budget.

d) The larger member states, nervous about so-called 'competence creep', have been too ready to detect encroachments upon their prerogatives, and to resist them.

e) Not all member states have yet factored the EEAS into their manpower planning. The German expectation that diplomatic staff will spend a third of their career in the EEAS remains exceptional.

Options

Steps that the member states might take to strengthen the EEAS include:

a) The appointment of deputies to the High Representative so that this figure is not constantly airborne and over-taxed.

b) Greater powers to enable the High Representative to coordinate the work of the Council and of the Commission in support of a coherent common policy.

c) More generous funding of CFSP, increasingly channelled through a common budget. This would require acceptance, over time, of a comparable reduction in autonomous national capacity.

d) Better co-ordination between the EEAS and national missions abroad, enabling the EU to project a more unified profile. Over time, there might be some streamlining of consular and visa responsibilities.

e) Gradual rationalisation of the network of EU and national missions, with more common representation in some posts.

f) More joint EU representation in international bodies.

Conclusions

The UK's role as a regional power, let alone a world power, will inevitably continue to dwindle with its relative economic ranking. To exert the most effective influence in its own enlightened national interest, it needs to maximise its role within CFSP as an intrinsic element of its foreign policy rather than just as an optional vehicle for common action when this happens to suit. The UK's interest is to shape its strategic vision in permanent and close cooperation with its European partners. As an uncertain ally, questioning its very membership of the club, it weakens itself as much as it weakens Europe.

Facts and figures

- The EEAS runs 139 EU delegations throughout the world
- Delegations may be responsible for a particular nation, a group of nations, or an international organisation such as the United Nations or the African Union
- Current operations are taking place across Eurasia and Africa

Civilian operations

Mission			Personnel			
Name	End of current mandate	Annualised budget (million €)	EU member states	Third states	Local	Total
EULEX Kosovo	01/06/2016	90.00	656	32	748	1436
EUAM Ukraine	01/11/2016	13.10	53		0	53
EUMM Georgia	14/12/2015	18.30	258		129	387
EUBAM Rafah	01/06/2015	0.94	3		5	8
EUPOL COPPS	01/06/2015	9.80	57	3	43	103
EUPOL Afghanistan	01/12/2016	58.00	35		187	422
EUCAP Nestor	1/10/2015	17.90	76	3	29	108
EUCAP Sahel Niger	01/07/2016	9.16	46		31	77
EUBAM Libya	01/04/2015	26.00	16		4	20
EUCAP Sahel Mali	01/01/2016	7.33	41		6	47
EUSEC RD Congo	01/06/2015	6.13	26		25	51

Military operations

Mission		Personnel		
Name	End of current mandate	Annualised common costs (million €)	Third states	Total
EUFOR ALTHEA	11/11/2015	10.20	227	600
EUTM Mali	18/05/2016	13.85	9	560
EUFOR RCA	15/03/2015	30.62	163	872
EUTM Somalia	31/03/2015	5.16	5	125
EU NAVFOR Somalia - Operation ATALANTA	01/12/2016	7.39	67	1200

Security and Defence Cooperation

Professor Jolyon Howorth

Visiting Professor of Political Science and International Affairs, Yale University, and Jean Monnet Professor of European Politics, University of Bath

The St Malo Agreement between the UK and France – signed by Tony Blair and Jacques Chirac in December 1998 – declared that the EU must have the capacity for autonomous action backed up by credible military forces, the means to decide to use them and a readiness to do so in order to respond to international crises.

Why did the UK reverse at least two generations of thinking on security issues to reach this joint conclusion with the French to strengthen the EU's capacity in this field? The first reason is pressure from the United States for Europe to stand on its own two feet in defence and security terms. Most European states had a long history of free-riding in NATO, relying on the US. Many European leaders at that time felt that the EU offered an alternative – or at least a complementary – structure to NATO. The second reason for the UK's support for the Common Security and Defence Policy (CSDP) was the failure of the Western European Union (WEU) to do the job. The fallout from the end of the Cold War – failed states, military conflict in the greater European area and the Middle East, multiplication of civil wars, transnational terrorism and criminality – showed up the illusory nature of the 'peace dividend' and the 'end of history'. The world's largest trading bloc, now with a single market and a single currency, needed a modicum of hard power to be a consequential actor on the world stage and to underpin effectively its delivery of soft power.

The case for some kind of autonomous European military capacity (or more accurately civilian–military capacity) is even more compelling now than in 1998, and it poses problems for the UK.

From active support to malign neglect

The UK has played a leading role in most of the almost 30 civilian and military missions launched by CSDP since 2003 and in establishing the European Defence Agency for common procurement. It persuaded its EU partners to develop 'battle groups' as the optimum size units for effective CSDP deployment. The UK's EU presidency in late 2005 launched a record number of missions. The UK was also principal cheerleader for CSDP in Washington, reassuring the Americans that the project was compatible with the interests of the Atlantic Alliance.

But operational requirements in the US-led operations in Iraq and Afghanistan during the first decade of this century resulted in reduced UK participation in CSDP missions as time went on. Public polemics between Tony Blair and Jacques Chirac over European policy towards Iraq in 2003 also called into question the solidity of the Anglo-French security project. In particular, the controversial French, German, Belgian and Luxembourg 'chocolate summit' in April that year – aiming to create an EU Operational Headquarters (OHQ) separate from NATO's Supreme Headquarters Allied Power Europe (SHAPE) – was formally denounced by London as an unnecessary duplication of precious resources. While US opposition to such an idea has mutated over time to a simply agnostic position, the UK alone has remained adamantly opposed. From 2010 the newly elected Conservative-led government in London attached less and less importance to CSDP, in part as a result of many EU member states' lack of seriousness about defence. The first Defence Secretary in David Cameron's government, Liam Fox, was unambiguously hostile to CSDP, openly inviting it to a future of 'malign neglect'. The current crisis in Ukraine is, however, perhaps cause for a reassessment of this position.

Over-expectations and underestimates

The Lisbon Treaty of 2009 initially looked as if it might give a new impetus to CSDP. After all, more than a third of the changes it introduced in EU activity were related to defence and security. But in the real rather than the diplomatic world a sense of mission fatigue, accompanied by the budgetary austerity following the financial crisis, ensured that no new CSDP operations were launched between 2008 and 2012.

Realistic budgetary assessments in Paris and London also led to the Franco–British Treaty on Defence and Security Cooperation of November 2010. Between them, Britain and France account for 50% of the military spending of all 28 EU member states. Continuation of their countries' global roles required combined military efforts in a number of strategic sectors, including aircraft carriers, transport aircraft, nuclear submarines, military satellite technology, drones, expeditionary forces and even combat systems. Franco–British cooperation clearly exposed the free-riding of many other states, something shown up even more so by the Libyan crisis the following year.

Libya: CSDP or NATO?

Libya was precisely the sort of regional crisis CSDP was expected to address: medium scale, immediate neighbourhood, not over-challenging, involving both hard power and soft reconstruction and support –

the comprehensive approach at the heart of the EU's security identity. But CSDP failed patently. National leaders in the EU responded nationally, not as a coherent group – just as they had 20 years earlier in the Balkans. The Libyan mission, authorised by the UN in March 2011, became, almost by default, essentially a Franco–British operation within a NATO framework.

The mission was technically 'badged' by NATO as Operation Unified Protector, even though only half of NATO's twenty-eight members participated. Fourteen of them – and sixteen EU member states (including major players such as Germany and Poland) – opted to stay on the sidelines. CSDP seemed to have declared itself irrelevant, handing back to NATO responsibility for exercising hard power.

But could it be that CSDP is only somnolent rather than impotent? In its 'Ghent Framework' the European Defence Agency has recently developed 11 major initiatives, and the European Council of Defence Ministers has met to discuss future developments. The European Commission has set up a Defence Industry and Markets Task Force, the 'Future of Europe' defence group has put forward proposals, clusters of regionally based member states are cooperating on 'pooling and sharing', there is much talk of a European White Paper on security and defence, and new missions have been launched. Much activity, but to any central purpose?

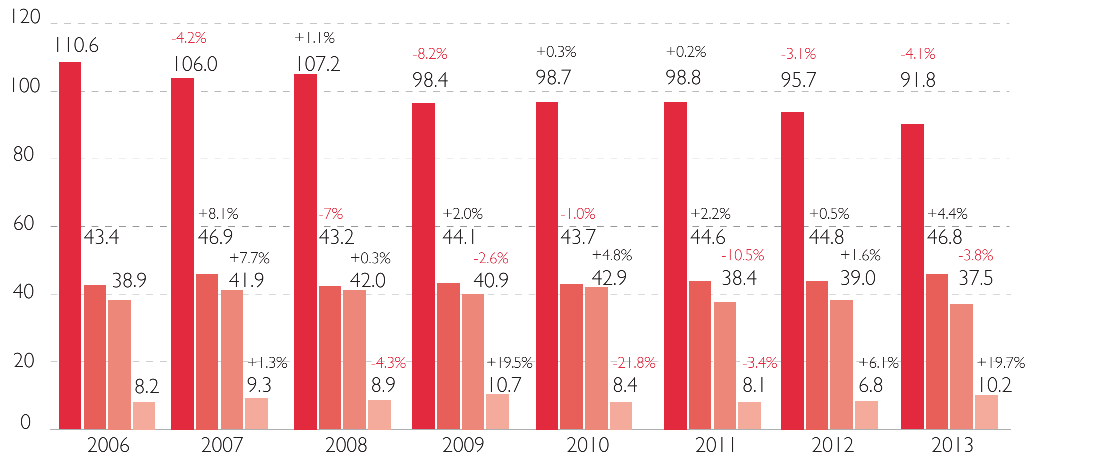
The EU's security conundrum and the UK's role

The EU's crucial challenge is to find the right balance between hard and soft power, between civilian and military approaches to conflict resolution and crisis management. That also entails determining the relation between CSDP and NATO. Answers on these two fronts would clarify the UK's complex relationship with European security and defence. Whether or not the UK, by accident or design, finds itself leaving the formal structures of the EU, the defence and security conundrum facing the UK will remain the same.

Facts and figures

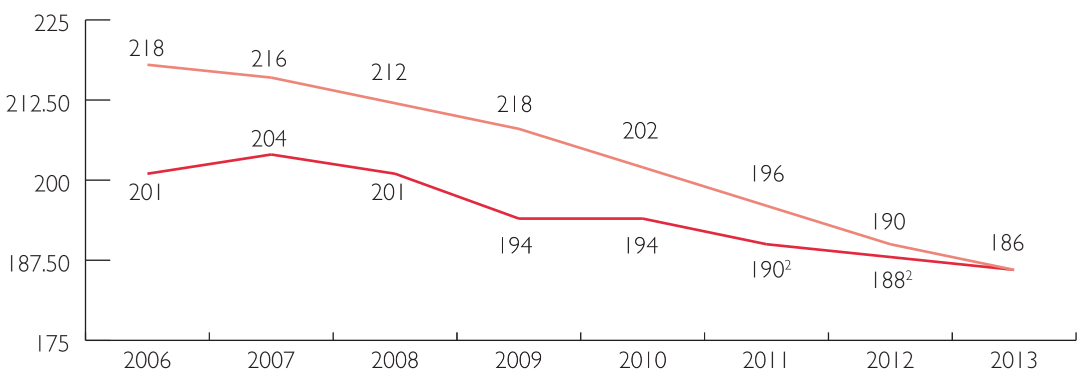
The total defence expenditure of member states decreased by 1.7 billion euros, or 0.9%, in 2013, to 186 billion euros compared to 2012. Total defence expenditure has been declining since 2006, dropping by over 32 billion euros or about 15% from 2006 to 2013.

Defence expenditure breakdown (billion EUR and % change on previous year)



[1]Revised data.

Defence expenditure in current and constant1 prices (billion EUR)



[1] Data from 2006 to 2012 has been inflated to 2013 economic conditions. Source of deflator: European Commission ECFIN - based on weight of EU-28

[2] Revised data.

EU Development Cooperation

Mikaela Gavas

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Until the 1990s the EU was a niche development actor, focusing on specialised programmes linked to trade and humanitarian assistance. It took a back seat to national donors. Today the EU is an important donor and development actor in its own right, working alongside its member states.

Collectively member states of the EU are the world's largest providers of Official Development Assistance (ODA): 56.5 billon euros in 2013, more than half of global aid. Around one quarter of this amount was channelled through the European Commission (approximately 15 billion euros), the rest distributed bilaterally by individual member states. In 2013, the European Commission aid effort was greater than any single member state's bilateral aid and the second largest in the world, ranking only behind the USA.

Minimum or maximum EU involvement?

EU competence in the field of development cooperation is characterised as 'shared' or 'parallel'. The Treaty states: 'In the area of development co-operation and humanitarian aid the Union shall have competence to carry out activities and conduct a common policy; however, the exercise of that competence shall not result in Member States being prevented from exercising theirs.' But considerable flexibility and ambiguity allows fluctuations between a high degree of consolidation and a minimum level of cooperation.

Three views can be identified among the member states. The first argues a strong case for the Commission to play a greater part both in shaping policy and in delivering programmes. The contrary view suggests the Commission should pull back to a minimal role of support and coordination of member states' efforts. The mainstream view is that, while the Commission should not increase its policymaking role, it should continue to manage its substantive aid programme, but the balance of development effort should not shift further in the direction of a single consolidated European operation.

Among the member states, in 2013, Greece, the Slovak Republic, Poland, the Czech Republic and

Slovenia channelled more than 50% of their national development effort through the Commission; Italy, Spain and Portugal between 45% and 30%; Austria, Belgium, France, Germany, Ireland and Finland between 15% and 30%; followed by the Netherlands, the UK, Luxembourg, Denmark and Sweden at or below 12%. The actual amounts, however, show a different order, with the UK, France and Germany as the largest EU donors. Between them, these three contribute more than half of collective EU aid. Thus, individually or together, they can have a major impact on the way all EU aid (and not just their own) is used. A further 30% is contributed by only six other countries – Belgium, Denmark, Italy, the Netherlands, Spain and Sweden. In 2014, the UK became the first major economy to meet the 0.7% agreed by international donors in 1970. This should give it additional leverage over European development cooperation.

The European Consensus on Development, adopted by the Commission, European Parliament and Council in 2005, provides a shared framework and sets the rules of engagement within which member states deliver their bilateral programmes. It lays down the common vision of values, objectives, principles and means for development shared by all. Currently member states appear relaxed about the relationship with the Commission, which gives them considerable room for manoeuvre with their own national programmes while making sure that the EU has a big enough programme to allow it both to achieve the EU's declared development goals and to exercise considerable clout on the international development scene.

In 2012 the EU adopted a revised development policy entitled 'Agenda for Change'. It signals two important shifts in policy: a) concentrating assistance on two pillars: good governance, democracy and human rights (linked to greater conditionality) and economic growth (with a strong focus on leveraging private sector funds); and b) introducing new aid allocation criteria with a view to leading better-off developing countries to 'graduate' to greater independence and dispense with aid.

Agenda for Change establishes a framework for the EU to concentrate resources on fewer sectors and countries, enabling it to make better use of its comparative advantages as a donor. The Commission's commentary on the document aims to target resources 'where they are needed most to address poverty reduction and where they could have the greatest impact … Grant-based aid should not feature in geographic co-operation with more advanced developing countries.'

Comparative advantages of EU development cooperation

The UN and its agencies have global political authority, but not the capacity to disburse aid on the scale of, or with the variety of instruments available to the EU. The World Bank and multilateral development banks have the financial resources but neither the voice on trade nor the role in foreign and security policy that the EU now has. Regional development banks lend long term but generally do not engage in response to humanitarian crises as the EU does. The EU's somewhat depoliticised persona internationally enables it to provide aid directly to non-state institutions, something particularly important in conflict zones, where individual governments could be perceived as politically interested parties.

In addition to the specific assets that the EU has – values enshrined in treaties, agreed development policies, considerable experience, worldwide presence, full range of development instruments, economies of scale and critical mass – it can improve the development efficiency of member states' efforts. 'Parallel' competence does not imply a leadership role, and the neutrality of the Commission in this respect matches the voluntary nature of member states' acceptance of any common analysis or strategy. The Commission is in no position to compel agreement.

In an increasingly multi-polar world, the geopolitical advantages of the EU with its critical politico-economic mass will grow more significant in coming years. Developing countries (India, for example) are increasingly expressing a preference for working with fewer partners – in total and by sector – to the exclusion of smaller players. The advantages of belonging to a larger grouping such as the EU are likely to increase.

But the EU struggles against factors that make its aid effort less than optimal. For a start, there are now 28 national programmes and their coordination grows ever more complex as the EU expands. Then there are financial constraints as austerity freezes budgets and allows no real growth. This was particularly so for the recent agreement to freeze the size of the European Development Fund (EDF), which represents about 35% of overall EU development spending, for the next seven years. Third, some of the larger member states project residual ties to former colonies into the common programmes. If member states views converged more about how far to use the EU as their instrument of choice in development policy, they could more easily agree on the optimal division of labour, based on principles of complementarity, subsidiarity and comparative advantage.

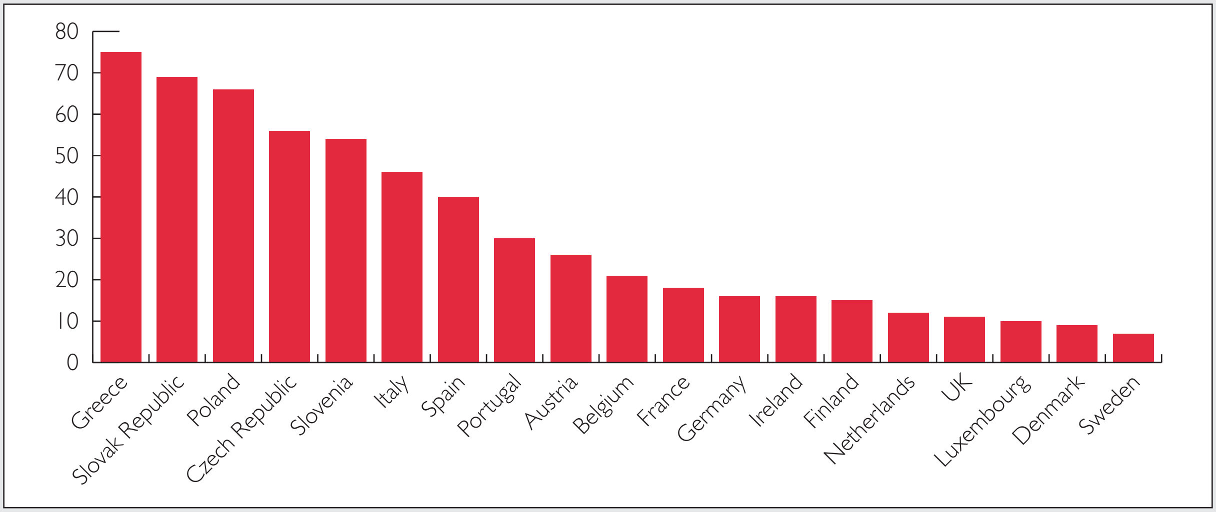
The UK Department for International Development (DFID) claims that, 'through its policies on aid, trade, climate change and conflict the EU sets the global development agenda and provides a powerful platform from which to tackle global challenges and take collective action … and can act as a multiplier for the UK's policy priorities and influence'. Given that the EU's development programme is fundamentally dependent on the interests and policies of member states, reducing or severing its ties to the EU could cost the UK considerable international influence in the field of development cooperation.

Facts and figures

Collectively, the EU and its member states give the most aid in the world. In 2013, the EU and its member states provided 56.5 billion euros in development aid, or 0.44% of combined gross national income (GNI) – more than twice as much as the United States.

There are 29 major donors in the EU: 28 member states and the EU itself. In 2013, the EU's own aid budget amounted to around 15 billion euros, larger than any individual member state's aid budget.

Total contributions to the European Commission (core and non-core) as percentages of gross ODA



EU aid is resourced from both the EU budget (70% in 2013) and the EDF (30% in 2013). In 2013, EU budget and EDF aid represented around 10% of the total EU budget. The EDF is funded outside the EU budget by voluntary contributions from the EU member states on the basis of specific contribution shares for a multi-annual period.

Regional distribution of aid to development countries in 2013

In 2013, the top two regions receiving assistance from the EU were Europe and sub-Saharan Africa. The EU is a top donor to fragile and conflict-affected African states. In 2012, the EU was one of the top three largest donors to 20 out of 29 fragile and conflict-affected countries in sub-Saharan Africa.

Sources: OECD Statistics; OECD DAC (2013) DAC Multilateral Aid Report in 2013–14; OECD (2014) Fragile States 2014, Domestic Resource Mobilisation in Fragile States; European Union (2014) Annual Report on Development and External Assistance Policies and their Implementation.

Higher Education

Professor Peter Scott

Professor of Education Studies, Institute of Education, University of London, and former Editor, Times Higher Education Supplement

UK universities have always been at the heart of Europe. Oxford, one of the oldest European universities, was founded not long after Bologna and Paris. Scholars and students circulated freely between universities in medieval and early modern Europe. Between the 20th century wars UK universities benefitted hugely from the influx of refugee scholars, scientists and intellectuals from Central and Eastern Europe, mainly but not exclusively Jewish.

Post-war reconstruction of higher education (HE) in Europe owed much to British influences, and the compliment was returned a generation later – think Adorno and Habermas in the social sciences. British scholars and scientists also played a leading role in supporting dissident academic movements in Central and Eastern Europe before the collapse of communism. Long before there was talk of creating a single European Higher Education Area (EHEA), Europe – including the UK – constituted a single intellectual and academic space. UK universities will remain 'in' Europe whatever political decisions are taken about the formal relationship of the UK to the EU. But the degree and nature of their engagement will be different.

The evolution of European responsibilities for HE

European Union responsibilities in education have grown from small beginnings: mutual recognition of professional and vocational qualifications. They now underpin the free movement of labour, a key principle of the Single Market.

Mobility programmes have been major stepping stones. The Erasmus programme, justified in the 'high noon' of European integration as a step towards strengthening engagement of young people for the wider European project, is a clear example. The Bologna process, begun in 1998, brought together the vocational/professional strand with the political and cultural strand of thinking. Originating in discussions outside the EU framework, this process was subsequently built into strategies for the Single Market and greater economic efficiency, promoting the EHEA 'brand'. Following the financial crisis, emphasis has shifted to lifelong learning and re-skilling the workforce, strengthening science and research, as in the

European Research Area (ERA), and establishing a European Institute of Technology (EIT).

But EU competence in education has always been marginal and to some extent discretionary. As a result, the European influence on large national systems – such as the UK – has been peripheral. The strength of European engagement in UK universities relies more on the informal networks of collaboration – durable but not central – than on the formal powers of EU institutions.

This European influence is expressed essentially through programmes for student and staff mobility and through research programmes, funded by the EU and managed by the Commission. Structural and regional funding and the Social Fund play a minor role alongside them. The increasing importance of HE was underlined in the 2011 White Paper, A New Agenda for the Modernisation of Europe's Higher Education Systems, which stressed innovation, student mobility and employability, and closer links between education, research and business as motors of economic growth for the 'Europe 2020' strategy.

Mobility and development programmes

The Erasmus programme, begun in 1987, has become the largest student and staff mobility scheme in the world. More than three million students and 300,000 staff have taken part, and every year almost 250,000 students from 4,000 HE institutions in 31 countries (EU plus Iceland, Switzerland and Turkey) join them. The annual budget is 450 million euros.

Roughly double the number of students come to study in the UK than UK students go abroad: 24,474 as opposed to 12,833 in 2010/11. The most popular destination for outgoing students is France, followed by Spain and Italy; the main source country is Germany, followed by Italy and the Netherlands. Staff exchanges are more balanced, with 18,811 incoming and 16,739 outgoing over the first decade of this century.

The UK is an even more active participant in the Erasmus Mundus programme, which links staff and students to institutions outside the EU, and the Tempus programme, which helps modernisation of HE in Eastern Europe, central Asia, the Balkans and the Mediterranean area.

Foreign students also come to UK universities outside the Erasmus scheme. Currently 5% of students at English universities – and 8% at Scottish – are from EU countries, some filling gaps in demand from British students for STEM subjects: science, technology, engineering and mathematics.

Research programmes and the Bologna process

Since 1984 framework programmes have been the main method of EU financing for research at UK universities. The current Horizon 2020 programme, which has followed the Framework 7 programme, has a budget of 80 billion euros for the period 2014–2020.

Although not a formal part of EU responsibilities, the Bologna process is the flagship educational project of EU states, the initiative of the UK, France, Germany and Italy. It has now spread to include 47 states, stretching from Reykjavik to Vladivostok. It aims to confirm a two-stage structure of courses and awards (bachelor's and master's degrees) with standard measures of academic credit and compatible quality assurance. It is also a dynamic process of modernisation, establishing stronger links between universities, research, innovation and business, and also building a more coherent EHEA 'brand'.

While the UK already has the two-stage structure for degrees and a respected system of quality control, it has much to gain from reform of doctoral programmes, strengthening links to lifelong learning, and better linking scientific research and innovation strategies. The UK would lose some of the centrality of its role in this process if, from being one of the 'gang of four' that established the Bologna process, it slipped to a peripheral position outside the EU, comparable to Turkey or Russia.

Consequences of withdrawal

UK universities will continue to be 'at the heart of Europe', participating in various programmes (at a proportional cost), even if the UK withdraws from the EU. But self-imposed exclusion would enforce the impression of a semi-detached cultural role for the UK, no longer related meaningfully to its imperial past and situated uncomfortably in 'mid-Atlantic'. Losing its European role would reinforce North American cultural norms: less Descartes, more Disney.

Distancing itself specifically from the Erasmus programme might encourage resentment that UK universities were losing more than they were gaining, as overwhelmingly more foreign students come to UK universities. In terms of research funding the UK may well no longer be able to 'punch above its weight' as an outsider seeking a disproportionate share of EU funding. Its enthusiasm for non-EU activities dominated by EU member states, such as the Bologna process, might also wane.

By withdrawing from or loosening links with the EU, the UK will serve notice that it is no longer part of the 'European project' in wider political, historical, cultural and scientific terms, regarding its association with the rest of Europe solely in terms of market liberalisation – the original 'common market'. As Delors once said: 'You do not fall in love with a market.'

Facts and figures

Student numbers (2011–2012)

Country	Students (millions)
Germany	2.93
United Kingdom	2.49
France	2.29
Poland	2.01
Italy	1.92
Spain	1.96

Student flows between the UK and the rest of the European Union (2000–2010)	
Incoming	Outgoing
206,836	100,247

Europe-wide Erasmus programme (1987–2013)		
Student mobility	Staff mobility	Participating institutions
3 million	350,000	4,000

EU students in UK HE institutions (2012–2013)	
Undergraduate: 86,835	Postgraduate: 51,175

- European research programmes
- FP7 (Framework Programme 2007–2013): 50.5 billion euros
- European Research Council (ERC): 13 billion euros (2014–2020)
- 4,500 projects selected for funding since 2007 (ERC)
- ERC-funded projects: 1,007 UK, 634 Germany, 587 France, 392 the Netherlands

The Debate about Sovereignty

Rt Hon. Sir Konrad Schiemann

Former UK Judge at the European Court, Luxembourg

An all-embracing concept of sovereignty, based on the theory that all decisions in all fields must be under the control of a single sovereign entity, cannot play a useful part in the discussion of contemporary relations between Brussels and a member state. We need a realistic view of just what sovereignty means in the contemporary world in order to optimise relations between the UK and the EU.

International cooperation

Neither the UK nor any other state can control or contain within its own borders the impact of policies pursued by other states or events that take place elsewhere. They impact on citizens, companies and institutions whether we like it or not. Consequently it is in the UK's interest to acquire some forms of control over decision-making by others outside its borders, in order to mitigate the bad and optimise the good effects on us. The UK needs to share the sovereignty of others, even at the cost of sharing some of its own.

There is room for legitimate argument as to whether differences of policy between states in any field are desirable, undesirable or simply do not matter, but a major policy aim of all governments is to try to influence other states to act in a way that does not frustrate its own policies. We cannot all do what we want because we do not all want the same things.

Achieving our national aims requires cooperation with other governments, just as achieving theirs requires our cooperation. The days of gunboat diplomacy – the use of force – are over, at least in Europe. This difficult task becomes impossible if any one state insists on a concept of sovereignty that implies it is free to do whatever it wants but others are not.

International justifications

Negotiating separately with many individual states on every single issue is not an effective way of making progress in the modern world. Several international bodies – UN, WTO, NATO, EU – have been set up to facilitate negotiation on issues within the remit of the treaties that set them up.

The best democracy is also the one that allows decisions to be taken at the most appropriate level, and the doctrine of subsidiarity requires decision-making at the lowest appropriate level – local, regional, national or international. There may be legitimate argument as to the level at which a particular decision should best be taken, but to insist that all decisions should be taken by national parliaments or by national referendums is a fundamental misreading of the actual situation in which states and individuals find themselves in our part of the modern world.

Democracy and sovereignty

We all know that our individual sovereignty is limited within our own society – by the laws of the land, by moral imperatives, by our own strength or weakness, and by the material resources we can command. We thrive when we compromise with our families, friends and neighbours to optimise our situation, not when we insist on having our own way and throw a tantrum when we cannot get it. States live in an international community and are not dissimilar to us as individuals when it comes to sovereignty.

In the European Union member states not only signed treaties and set up institutions but also agreed to abide by the laws that those bodies might make in the future. Member states exercised their national sovereignty in the present to limit their sovereignty in the future. They created a dynamic process that has led to more decision-making together at EU level and less that can be usefully decided at national level. To debate whether this dynamic is compatible with the doctrine of national sovereignty is fruitless. By agreeing to achieve things together that states could not achieve separately, all member states have agreed to share sovereignty. By allowing the institutions they created to make laws and take decisions in the future, they gave up the right and capacity to take those decisions independently in the future themselves.

Temporary concessions, permanent arrangements?

Concepts such as sovereignty are there to help us solve our political problems, not to make them insoluble. An agreement from which one party can escape at any time is well nigh useless. For shared sovereignty to be exercised effectively, it requires mutual trust and commitment. If you want your partner to be bound by an agreement, then you must accept that you are equally bound, even when you find it temporarily inconvenient.

All discussion of sovereignty must be rooted in practical realities. Clearly mutual agreement was required to establish a customs union and encourage trade. Uniform practice had to be agreed to allow transport across borders. Equivalent standards had to be agreed to prevent neighbouring states harming each other's natural environment. Mutual recognition was required for companies or individuals to set up business in other states.

The process of engaging in negotiation for each issue is voluntary; any state can – initially – frustrate any other state's desires. Hence mutually acceptable rules have been developed for decisions to be taken by majority – a happy state of affairs when you have enough allies to win, and a source of regret when you do not.

Practice and theory

It is irritating and frustrating for UK politicians to find they have less power – especially in international relations – than they thought they had when they were making promises and asking for our vote. But they would be even more aggrieved if they found politicians in other countries asserting their nation's sovereignty as a justification for acting against the UK's interests. If the UK claims to exercise sovereignty on a particular subject, then it must accept the right for other states to do the same. Then the key question becomes: do we get a better deal by stressing everybody's sovereignty, or by all accepting limits and sharing sovereignty together?

The major achievement of the EU has been to set up a mechanism for arriving at policy decisions that bind all members. The mechanism involves elected national politicians, an elected European Parliament, an appointed civil service and an appointed judiciary. The mechanism specifies different degrees of consensus required for different types of decisions: sharing sovereignty in practice.

Future perspectives

In my judgment it is not wise to put all this at risk because of an inflexible application of an outdated doctrine of national sovereignty. The most effective way for the UK to achieve what it wants is by persuading others that they are more likely to achieve more of what they want if they do not stand in the way of the UK achieving what it wants. We need allies.

If we leave the EU, countries inside will do deals and – politely or less politely – ignore us. They may well do deals at our expense, as we would no longer be present or party to them, and that would not be in our interest. We should stay in the EU and use this more nuanced and multi-faceted shared sovereignty to optimise our interests.

Facts and figures

The Foreign Office maintains a list of approximately 14,000 treaties to which the UK is a signatory, many dating from the 20th century. They all limit in some measure the UK's exercise of national sovereignty.

Among them are over **500 UN Agreements**, including the founding Charter of 1945. They bind all member states of the UN, originally only 51 but now 193.

In the context of the **Council of Europe**, member states have negotiated 217 Conventions covering a wide range of cultural and legal aspects of democracy and human rights. The original 10 states have been joined by 37 more, and the UK has ratified 119 of the 217 Conventions negotiated, including the European Convention on Human Rights.

In addition, the UK is bound by **55 International Labour Organization** (ILO) and **29 International Maritime Organization** (IMO) agreements, regulating the UK's international relations in these specific fields.

The founding treaty of the **North Atlantic Treaty Organization** contains the vital Clause 5 on mutual defence, which states that all member states will respond to an attack on any one of them as if it were an attack on all.

Then there are the **EU treaties** to which the UK initially acceded through the European Communities Act of 1972, the latest being the Lisbon Treaty (2010). Together three institutions of the EU – Council, Parliament, Commission – can create laws (the major elements of which are confirmed by national parliaments) that take precedence over national laws in their relevant fields. From 1997 to 2009 in the UK 6.8% of primary legislation (Statutes) and 14.1% of secondary legislation (Statutory Instruments) had a role in implementing EU obligations, although the degree of involvement varied from passing reference to explicit implementation. The European Court adjudicates on disputes concerning the treaties and their application.

In addition, the European Union has agreed approximately **130 treaties with third countries** to which the UK has subscribed as a member of the EU. In the event of the UK leaving the EU, these would require renegotiation, and the outcome would be likely in most cases to be less favourable to British interests.

The UK Government's Balance of Competences Review

By the Senior European Experts group

(SEE) - An independent body of former high-ranking British diplomats, ambassadors and civil servants who work closely with Regent's University London Institute of Contemporary European Studies.

In its 'review of the balance of competences between the UK and the EU' the British government has published reports on every aspect of the policies of the European Union. Prime Minister David Cameron declared, 'we have launched our review to give us an informed and objective analysis of where the EU helps and where it hampers'. Foreign Secretary William Hague said 'this review is the most extensive analysis of the impact of EU membership on the UK ever undertaken'. Its scope was not limited to 'competence' or the legal power to act (should more, or less, be decided at the British rather than the European level?). The review covered wider questions of national interest (what are the advantages, and disadvantages, of EU policies?) and future options and challenges.

To initiate the review, the government published 'calls for evidence', in response to which members of the public and organisations of all kinds, in the UK and elsewhere, submitted evidence. Many government departments organised consultations, workshops and seminars with experts, the business community, and other interest groups. This wide consultation was followed by the publication of 32 reports, amounting to nearly 3,000 pages, in which the results were distilled and summarised under the supervision of a Ministerial Committee.

Published reports

Four series of reports were published in 2013–14 (see list below) together with all the written evidence, covering altogether more than 10,000 pages. Never before has a British government organised such a well-informed scrutiny of European policies; never before has it published such a mass of evidence-based information, advocacy and opinions about the EU.

When the Conservative Party and the Liberal Democrat Party entered government in 2010, the review of the balance of competences formed part of their coalition agreement. According to the press, 'Eurosceptic Conservatives and businessmen hoped it would provide a "shopping list" of powers that should be returned from Brussels to Westminster, to form the basis for David Cameron's demands in the renegotiation of Britain's membership terms before the referendum he has promised for 2017' (The Independent, 13 February 2014). The Liberal Democrats, on the other hand, argued strongly that the review should be 'evidence-based'. When the first series of reports suggested that the overall balance of competences was about right, the press reported that Eurosceptics denounced them as a 'Whitehall whitewash from a pro-Europe bureaucratic elite' (The Independent, 23 July 2013). But they are in fact a store of well-balanced information, obtained through public consultation and from many different sources, and offer an invaluable resource for informing public debate in Britain.

The government itself has published no summary of its findings, has given little publicity to the reports, and has avoided discussion of them in Parliament. Each report states that 'it does not predetermine or prejudge proposals that either coalition party may make in the future for changes to the EU or about the appropriate balance of competences'. A commentary on the review, with a digest of all the reports, can, however, be found in the book *Britain's Future in Europe - Reform, renegotiation, repatriation or secession?* published by CEPS, a Brussels think tank, in March 2015.

What the UK government review found

On the question of whether more should be decided at the national rather than the European level, the results of the review of the balance of competences are clear. In none of the areas of policy examined did a convincing case emerge for transferring competences from the EU to the UK. Although some contributors argued for a reduction in the EU's competences, and others for its extension in a few areas, all 32 reports regularly conclude that, on balance, the evidence suggests that the existing situation is appropriate. In no case does the review recommend the transfer of competences to the national level.

Probably the most controversial issue in the current debate is free movement of persons, and the report on this – whose publication was delayed because of disagreements within the government – does not conclude in favour of a transfer of competences. It says, 'some of those who submitted evidence argued for stricter enforcement of the existing rules, but others called for radical change, including amendments to EU legislation or Treaties'.

Another finding of the review is that, in areas of policy where the UK does not wish to participate, it has already negotiated a series of opt-outs that limit the competences of the EU. Britain does not use the euro and is not subject to the macroeconomic and fiscal constraints of the eurozone. It has an opt-out from EU policies for justice and home affairs, although it has decided to opt back in to most of them. With its opt-out from the Schengen passport-free area, it retains control of its borders.

The 32 reports contain a wealth of material on the advantages and disadvantages for Britain of EU policies, and the future options and challenges facing Britain and the EU. When Foreign Secretary William Hague launched the review he declared, 'it will be a valuable exercise for deepening understanding in Britain of the nature of our relationship with the European Union and will provide a constructive and serious contribution to the public debate across Europe about how the EU can be reformed, modernised and improved'.

Reports on the balance of competences

Group 1 Single Market; Taxation; Animal Health and Welfare and Food Safety; Health; Development Cooperation and Humanitarian Aid; Foreign Policy (published July 2013)

Group 2 Single Market: Free Movement of Goods; Asylum and Non-EU Migration; Trade and Investment; Environment and Climate Change; Transport; Research and Development; Culture, Tourism and Sport; Civil Judicial Cooperation (published February 2014); Single Market: Free Movement of Persons (published July 2014)

Group 3 Single Market: Free Movement of Services; Single Market: Financial Services and the Free Movement of Capital; EU Budget; Cohesion; Social and Employment Policy; Agriculture; Fisheries; Competition and Consumer Policy; Energy; Fundamental Rights (published July 2014)

Group 4 Economic and Monetary Policy; Police and Criminal Justice; Information Rights; Education, Vocational Training and Youth; Enlargement; Voting, Consular and Statistics; Subsidiarity and Proportionality (published December 2014)

Chronology and definitions

i. William Hague MP, then Secretary of State for Foreign Affairs, announced on 12 July 2012 the official launch of the Balance of Competence Review.
ii. Purpose: to form a comprehensive basis on which to renegotiate British membership in the EU prior to referendum in 2017.
iii. The term 'competence' entails 'all the areas where the Treaties give the EU competence to act, including the provisions in the Treaties giving the EU institutions power to legislate, adopt non-legislative acts, or to take any other sort of action'. Within this context, competences are used to examine the effects that EU law has on domestic national policies within the United Kingdom.
i.v The Balance of Competences Review was completed in December 2014.
v. The overall report consists of 32 departmental reports, presented in four sessions during 2013 and 2014. None of the departmental reports concluded that competences should be transferred from the EU to the UK.
vi. Several individual reports, however, recommended stricter enforcement of current national laws, to avoid abuse of various rights such as the freedom of movement that allows EU citizens to enter Britain only for certain defined purposes.
vii. In more general terms the report calls for the reform of EU legislation and treaties, in order to take account of the progressive coalescing of the eurozone and to stimulate rather than deter economic growth, in particular job creation.
viii. It also calls for greater cooperation among member states on issues such as security and climate change.
ix. The UK has negotiated 'opt-outs' in order to limit the competences of the EU within the UK, notably remaining out of the eurozone and also out of the Schengen passport-free zone. These are not called into question by the report.

All reports can be found at: www.gov.uk/review-of-the-balance-of-competences.

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