EU: is it time to leave and embrace the world?

BY ROD MCNEIL

Should the United Kingdom remain a member of the European Union (EU) or leave? It's a big decision involving some complex issues, and there's no doubt the EU will continue to change. Ipsos MORI's monthly EU voting intention poll published 21 April 2016 shows 49% Remain, 39% leave, and 8% undecided (Figure 1). The author considers comment, analysis and opinion ahead of the referendum on 23 June 2016.

New settlement between UK and EU offers 'best of both worlds', potentially

The 'new settlement' between the UK and the EU agreed at the European Council meeting in February 2016 was intended to better address the nature of the UK's membership. The outcome produced a range of commitments that would be implemented following a vote by the UK to remain in the EU.
These cover:

- Economic governance: a two way commitment guaranteeing that non-Eurozone countries cannot be discriminated against or excluded from important decision processes and that non-Eurozone countries may not impede further progress in the Eurozone.
- Competitiveness: reiteration of the commitment of the EU and member states to enhance competitiveness and complete the single market, to decrease the regulatory burden and compliance costs for businesses and to repeal any unnecessary legislation.
- Sovereignty: the commitment to 'ever closer union' will not include the UK and may not be allowed to justify moves to further political integration in the EU; existing UK arrangements to opt-out or to opt in to EU level measures in the areas of policing, immigration and asylum continue to stand.

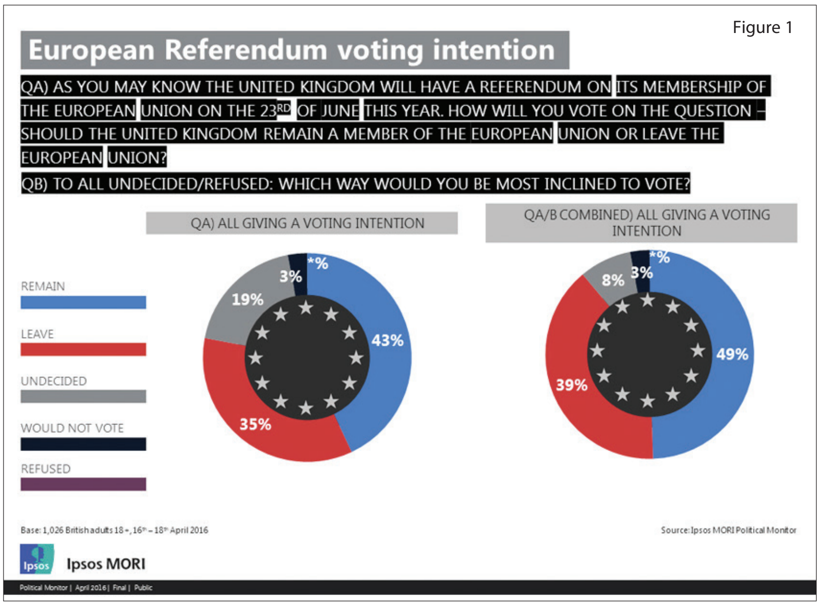

Figure 1

- Immigration: the settlement addressed access to free movement, prevention of abuse and fraud and the assessment of potential threat, with benefit restrictions fo migrants in cases where a member state may be experiencing an 'exceptional situation'.

The renegotiation package and with it the new settlement allowed the Prime Minister David Cameron to campaign for the UK to stay in the EU with secure new terms on offer. These offer the UK a special status and the 'best of both worlds'.

For the 'Remain' camp, the settlement confirms the UK's 'special status' allowing for a renewed and protected position for the UK and the EU, notes Laura Cram, Professor of European Politics at the University of Edinburgh and Senior Fellow on The UK in a Changing Europe programme [1]. Those who favour an exit consider the special status an unconvincing and temporary compromise, unlikely to be sustainable as the European integration process continues to move ahead and presents new challenges to the UK's ability to control its own affairs [1].

UK is a net contributor: per capita costs not much higher than that paid by Norway

The EU budget is around Euro 140 billion per year, or around 1% of the EU's Gross Domestic Product (GDP). The size of the EU budget will fall to 0.89% of EU GDP by 2020, down from 1.06% at the end of the previous seven-year budget [2]. Objectives include fostering economic convergence between member states, supporting the EU's agricultural sector and meeting the EU's humanitarian aid commitments. The UK government remains committed to continuing to control the overall size of the EU budget and to focus on improving the effectiveness of how it is spent.

The UK is a net contributor to the EU budget, averaging around £7.1 billion per annum in recent years 2010 to 2014 (Table 1). For every £1 of tax paid in the UK, a little over 1p goes to the EU, when the UK's cash rebate and the money the UK receives from EU

Table 1: Average UK payments to and receipts from the EU budget 2010-14.	
	Sterling value
Theoretical UK gross contribution	£16.3 billion
UK rebate	-£3.6 billion
UK post-rebate gross contribution	**£12.7 billion**
UK receipts	**£5.6 billion**
of which administered by public sector	£4.3 billion
of which paid directly to UK recipients	£1.3 billion
UK net contribution	**£7.1 billion**

Source: European Commission and HM Treasury.

Table 2: Net annual contribution to the EU budget UK nations 2014-20.

	UK	England	Northern Ireland	Scotland	Wales
Gross payments (£m)	16,907	14,582	567	1,417	340
Less UK rebate (£m)	-3,844	-3,270	-102	-298	-172
Less public-sector receipts (£m)	-5,078	-3,217	-409	-781	-670
Net contribution (£m)	7,985	8,094	-56	337	-503
Net contribution per capita (£)	117	140	-31	64	-164

Source: Centre for European Reform.

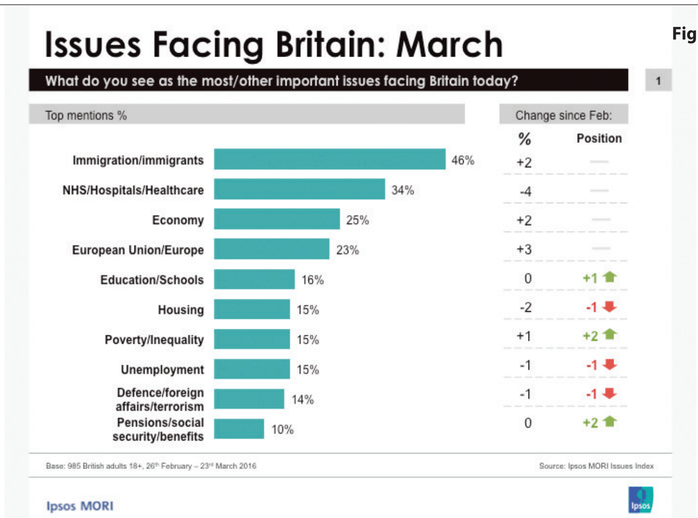

Figure 2

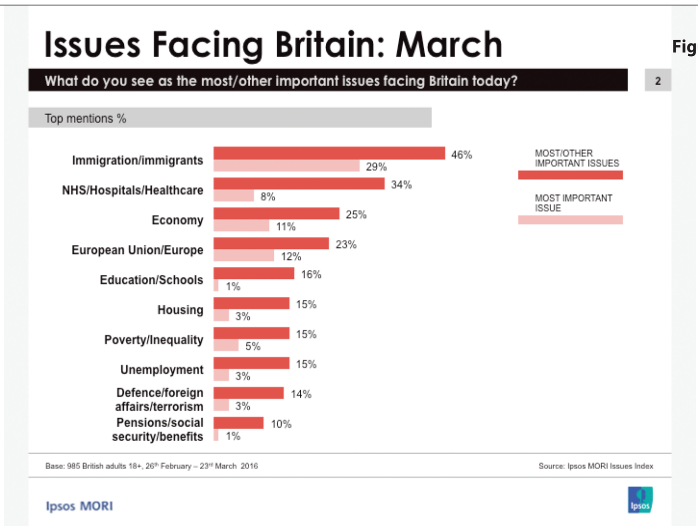

Figure 3

programmes are taken into account. Many UK receipts from the EU cover research and development, secured through a competitive bidding process, providing funding for UK universities and research institutions. Research and development is forecast to capture 27% of total expected UK receipts from the 2014-20 EU budget.

Estimates from the Centre for European Reform show that the UK will pay around £16.9 billion into the EU budget each year for the period 2014-20, with a net contribution of £8 billion a year, equating to £2.25 per person per week and a net annual contribution per capita of £117 (Table 2). Norway and Switzerland, both nominally outside the EU, make a net contribution to the EU budget of around £106 per capita (in 2011) and £53 per capita, respectively, as part of their free trade area deals [1]. The net contribution by the UK to the EU budget is therefore not much higher than that of Norway, despite the latter being outside the EU.'

Compelling case' for remaining in the EU

The HM Treasury published in April 2016 its economic analysis of the long-term impact of remaining a member of the EU compared to the exit alternatives [2]. Should Britain leave the EU, based on the Treasury's estimates, GDP would be 6.2% lower, families would be £4,300 a year worse off after 15 years, and tax receipts would face an annual £36 billion black hole – more than a third of the NHS budget and equivalent to 8p on basic rate income tax [2].

The government set out the process for withdrawing from the EU and the prospects for negotiations should there be a vote to leave. Article 50 of the Treaty on European Union details the rules for exit. A vote to leave the EU would be the start of a process that could take up to a decade or more to complete, says a report by the UK government. It also covers broader issues that would need to be resolved during the withdrawal process, such as access for UK citizens to the European Health Insurance card, and access to the European Medicines Agency, responsible for safety monitoring of medicines developed by pharmaceutical companies for use in the EU.

If the vote is to leave the EU, then the UK government will be expected to notify the European Council straight away that it wished to leave under the terms of Article 50. Once Article 50 is triggered, the UK would be excluded from EU discussions on the nature of the exit negotiations, which would be settled by the remaining EU Member States. The process of withdrawing from the EU is untested and could lead to up to a decade or more of uncertainty. The government paper says it is important that the risk this presents is understood.

Leaving the EU would mean that a new relationship and deal would need to be struck, based on one of three alternative models: like Norway, membership of the European Economic Area; a negotiated bilateral agreement, similar to those agreed by Switzerland, Turkey or Canada; or membership of the World Trade Organization without any form of specific agreement with the EU, like Russia or Brazil. The Treasury analysis concludes that the UK would be permanently poorer if it left the EU and adopted any of these models, as the costs would substantially outweigh any potential benefit of leaving. Weaker tax receipts would outweigh any potential gain from reduced financial contributions to the EU, resulting in higher government borrowing and debt, large tax rises or major cuts in public spending.

Arguments for and against

There are some credible arguments to support calls for Britain's exit. Brexit supporters point to the fact that the EU is in economic decline, with an ageing population and population growth at much lower rates than the rest of the world. Leaving the EU would provide the UK with the freedom to negotiate its own global free trade deals, seen as crucial when the EU has effectively become an uncompetitive trading bloc.

Does the EU threaten the NHS?

Vote Leave, the official organisation campaigning for a Leave vote in the EU referendum, claims the UK's EU contributions could be spent on something better inside the UK, including important priorities such as the National Health Service (NHS). Moreover, it claims the EU is a threat to the NHS: the European Commission wants to leverage more power and control of health issues and more areas of competence at EU level. The Adam Smith Institute (ASI), a London-based free market think tank, says that Britain wants trade and cooperation, while EU partners 'want merger and a leashed hinterland'. It's time to leave and embrace the world, argues the Adam Smith Institute.

An Ipsos MORI poll in March 2016 identified the 10 most important issues facing Britain today: in order of importance, immigration, healthcare, the economy, EU, education, housing, poverty / inequality, unemployment, defence / foreign affairs, terrorism and pension / social security / benefits (Figures 2 and 3).

Apart from immigration and 'Europe', none of these issues are related to European law-making, points out Tobias Lock, Lecturer in EU Law and Co-Director of the Europa Institute at the University of Edinburgh [1]. EU law may constrain national law-making in these fields but does not replace it. Mr Lock concludes that while laws made in Brussels have some impact in the UK, Britain has by no means surrendered all law-making powers to the EU.

Fifth-largest world economy should take full advantage on global stage

The grassroots campaign group Leave.eu says Britain should vote to leave the EU. In 1975, the British voted 67/33 'yes' to a free trade deal with Europe, and now pays a staggering membership fee of £15 billion annually to the EU and in return runs a massive trade deficit with Germany, France and nearly every other European country (the UK's trade deficit with the EU in 2015 was £97 billion). "It's increasingly clear that the one-size-fits-all, protectionist and slow-moving nature of the EU doesn't suit the UK's commercial needs," states Leave.eu. "Moreover, it prevents the UK from taking full advantage of a surging global economy; the UK is effectively prevented from capitalising on its unrivalled influence throughout the rest of the world."

The Adam Smith Institute advocates classical liberal public policies to create a wealthier, freer world. Sam Bowman, Executive Director of the Adam Smith Institute, commented on HM Treasury's April 2016 analysis report: "The Treasury's numbers are based on a scenario of Britain coming to a limited Canada-style free trade agreement with the EU, which would indeed be a poor outcome. The UK is far too deeply economically integrated with the EU for such a limited trade arrangement to work. But this is very unlikely to be what does happen.

"The best and most likely arrangement for the UK after Brexit would be to remain inside the Single Market – the so-called 'EEA Option' – while disengaging politically from the EU. By maintaining economic union, at least for the foreseeable future, the UK can take the economic risk out of Brexit and voters can focus on the real question: whether political union with the rest of the EU is right for Britain."

The EU is now about preservation of the supranation political body

Roland Smith, fellow of the Adam Smith Institute and author of the report 'Global Regulators: Stuck in the middle with EU', noted: "David Cameron's and George Osborne's attempts at reforming the EU have failed on almost every level such that they barely mention the renegotiation outcome during the referendum campaign [3]. The EU cannot be reformed, it will resist any attempt to be reformed, and it cannot serve the best interests of its members or even Europe. The EU is now about the preservation of the EU political body that serves to advance the supranation-building agenda of its architects.

"The rhetoric about the UK being isolated is out of place when you consider the global landscape," said the report's author. "If the EU didn't exist, we wouldn't be in a rush to invent it. The global single market is overtaking the EU, and since we are not in the Euro and have no need for political integration, it is time to leave and take our place as a truly global citizen."

Mr Bowman added: "The strongest argument for staying in the EU – that single market standards and regulations would still apply if Britain was outside the bloc – is actually rather weak. The EU is increasingly best understood as a regulatory intermediary, codifying for member states rules that have been agreed at an international level. If so, it is not clear at all that the UK would have less influence on global regulation if it left the EU – indeed, paradoxically, Britain may have a louder voice at the top tables if it was outside the EU rather than in."

Better off in Europe?

"Simplistic arguments that Britain would have more clout if it was outside the EU should not be taken at face value," cautioned Ray Perman, Director of the David Hume Institute, in a telephone interview with the author. "People should look at the evidence rather than base their decision on sound bites and prejudices. The decision by voters on 23 June is about Britain's place in the world and about how we see our future. In a way it is a much bigger decision than the Scottish referendum. That is why we have tried to inject as much independent factual analysis into the debate with the ebook *Britain's Decision – Facts and Impartial Analysis for the EU Referendum* [1]."

The comprehensive publication involves scholars specialising in European affairs from leading universities. In the preface of the April 2016 ebook, editors Charlie Jeffrey, Professor of Politics and Senior Vice-Principal at the University of Edinburgh, and Ray Perman conclude that it's clear from the analysis that neither of the two campaigns can rely on absolute facts to make their case. On the 'Remain' side there is only quasi-certainty of what will happen by staying in – the reality is that the EU has changed and will continue to change. On the other side, an exit from the EU will lead to protracted and complex negotiations on multiple levels about Britain's future relationship with the EU and the rest of the world. The 'Leave' campaign can offer no certainty on that.

In a well-presented opinion piece, Andrew Wilson and Kevin Pringle from Charlotte Street Partners, a strategic communications firm providing trusted counsel to companies, institutions and individuals, make the case for staying in [1]. They argue that the case for Europe is one of common sense and a vision for the future, and that the people of Scotland have enough of both to choose the right way forward.

A second Scottish independence referendum is widely expected should the UK vote to leave the EU against the will of the people of Scotland. However, a future Scottish Government may face more stringent conditions on renegotiation of membership with the EU, especially on key matters such as the budget, the single currency, or compliance with monetary and fiscal rules. On the other hand, under Brexit, an independent UK may manage to successfully negotiate relatively unfettered access to the single European market without the threat and perceived disadvantages of ever closer ties. So the prospects of Scottish independence any time soon are unclear. Many believe it's time for Scotland to move on, irrespective of the outcome of the EU referendum.

Nation states can successfully pursue different policies and achieve dramatically different outcomes, even within the constraints of EU membership. Growth in the Republic of Ireland for example was 7.8% in 2015, well ahead of all EU member states, India and China. According to Wilson and Pringle, access to European markets and ongoing elimination of barriers to trade has improved the lives of millions: for every £1 put into the EU, donors get almost £10 back through increased trade, investment, jobs, growth and lower prices. Also, arguments on migration are 'demonstrably bogus': immigration rates in Switzerland and Norway are far higher than that of the UK.

Wilson and Pringle note: "We believe that we are best served by being able to speak and act together through the European Union, against threats both internal and external. We worry about the domino effect of the UK leaving, and the forces it would encourage elsewhere. The fact that Mr Putin in Russia is the only world leader hoping for a UK 'Leave' vote is telling."

The Kalmar Union of 1397 lasted until 1523 when the Scandinavian amalgamation of Norway, Sweden and Denmark was eventually dissolved by a rebellious kingdom of Sweden hell-bent on independence. Been there, done it, confide Nordic folk.

References

1. Jeffrey C, Perman R (eds): *Britain's Decision – Facts and Impartial Analysis for the EU referendum on 23 June 2016*. The David Hume Institute: Edinburgh; 2016. http://www.davidhumeinstitute.com/wp-content/uploads/2016/04/Britains-Decision.pdf Last accessed April 2016.
2. HM Treasury analysis: the long-term economic impact of EU membership and the alternatives. Presented to Parliament by the Chancellor of the Exchequer by Command of Her Majesty. April 2016. Available at www.gov.uk/government/publications
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Impact of the EU on the UK's pharmaceutical industry

The benefits of a Single Market are particularly strong for high value-added goods exports that rely on cross-border supply chains, such as the pharmaceutical, aerospace and automotive sectors, and the customs union is particularly important for these sectors. The UK pharmaceutical industry contributes £13.0 billion of UK Gross Value Added (GVA), 8% of the UK economy and 7.7% of UK manufacturing GVA, employs around 93,000 people and 43% of the sector's total exports goes to the EU.

The EU provides a single framework for regulating and improving pharmaceutical products, ensuring a high standard of patient safety, raises productivity through economies of scale and increased competition, and reduces the cost of supplying drugs across the EU. The UK also has strong influence over the EU's regulatory framework for pharmaceuticals, which would be lost under any of the alternative relationships.

Trade with the EU has been made easier because the Single Market not only eliminates tariffs but also reduces cross-border transaction costs, and non-tariff and other barriers to trade (such as regulations, standards or specifications required to trade). Importantly, increased trade within the EU has not come at the expense of trade with the rest of the world.

Source: HM Treasury April 2016.

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