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# Does the EU impede the UK's economic growth?

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## INTRODUCTION

A number of estimates have already been made of the impact of the EU on the UK's economic growth. This note appraises them to evaluate the negative effects of the *acquis communautaire*. There is an unavoidable element of uncertainty in the surveyed sources, and so disparate estimates are discussed where appropriate.


### Executive Summary

- The general cost of EU regulation is estimated at over £20 billion each year.
- Of this, employment rules may cost more than £3 billion, damage NHS morale and productivity, may forfeit 60,000 potential jobs and force unnecessary turnover in temporary work.
- Environment and energy rules fail in their objectives by forcing production out of Europe to unregulated regions; rules cost £25.5 million to Energy Intensive Industries alone and possibly £3 billion to the country.
- The threat of over-zealous financial regulations could end over half a million jobs, and possibly already cost £1.7 billion each year through stultified markets.
- The Common Fisheries Policy has decimated fish stocks, driven up supermarket prices, minimised employment and may cost the UK up to £4.7 billion each year. Recent reforms seem inadequate.
- The Common Agricultural Policy drains upwards of £10 billion each year, both in direct costs and by inflating food prices.
- The UK contributes between £6.8 and £15 billion net to the EU annual budget.
- Government spending on EU migrants' integration and benefits is at least £55.2 million, whilst migrant remittances affect the country's balance of payments and inflation. The migrant influx increases job competition.
- EU procurement and state aid rules restrict the government's ability to award public works contracts to UK firms, to prop up job-creating firms and to revitalise the economy.
- This is all compounded by the restrictive nature of the customs union. The EU negotiates external trade deals painfully slowly as a collective, which impedes international commerce and restricts profits.

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## Laws and Regulations

The percentage of a member states' regulations arising from Brussels is considerable and famously harmful. Following German MEP Jorgo Chatzimarkakis' 85% claim,[1] debate was sparked in Parliament leading Lord Malloch-Brown, then Minister for the Foreign and Commonwealth Office (FCO), to suggest that "around half of all UK legislation with an impact on business, charities and the voluntary sector" comes from Brussels.[2] On the other hand, the British Chambers of Commerce argued that regulation numbers were falling, from 30% in 2007/8 to 20% in 2009, with a net impact of only £1.9 million.[3]

Much confusion arises from differing definitions of 'laws' and 'regulations', particularly regarding Primary Legislation, Statutory Instruments and EU Regulations, and whether all laws or only specific sectors are under investigation. In answering a Parliamentary Question, Lord Triesman, then Parliamentary Under-Secretary of the FCO, claimed:

*"Based on the analysis of regulatory impact assessments carried out on EU and domestic legislation, we estimate that around half of all UK legislation with an impact on business, charities or the voluntary sector emanates from the EU."*[4]

This figure's focus on economics alone explains why it does not wholly tally with a study by the Library of the House of Commons, which calculated that:

*"From 1997 to 2009, 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. Estimates of the proportion of national laws based on EU laws in other EU Member States vary widely, ranging from around 6% to 84%."*[5]

Caution is required in determining the relative impact of this phenomenon in several respects:

1. Whether the UK would have enacted similar (or identical) legislation on its own.

2. Whether the UK has 'gold-plated' an EU directive, or legislated pre-emptively.[6]

3. Whether the legislation is necessarily bad for the economy, and to what extent.

Open Europe's latest study of regulation, *Still Out of Control?* makes a detailed comparison of EU and home grown regulation, concluding that the adaptability and attention to detail in domestic legislation makes it superior – the cost/benefit ratio is £1.00 : £1.03 for EU legislation, but £1.00 : £2.35 for UK legislation.[7] The authors cautiously deny both substantial gold-plating,[8] and the idea that Britain would have similar 'bad' rules anyway, again on the premise that home grown legislation is 2.3 times more effective.[9] Moreover, they highlight examples of the Commission berating the United Kingdom for *under-implementation* on employment and discrimination issues.[10] A recent announcement from Michael Fallon MP, Business and Enterprise Minister, suggests a conscious end to gold-plating and an attempt to roll back historic 'red tape'.[11]

Overall, Open Europe's figures (based on government Impact Assessments) suggest EU regulation cost the country £19.35 billion in 2009,[12] an improvement on their estimation of £28.7 billion the year before.[13] However, Professor Tim Congdon (IEA/UKIP) concludes regulation constrained the economy by 5% of GDP, roughly £75 billion per annum for 2012.[14] This figure is supported by an earlier UKIP study produced by Gerard Batten MEP in 2010, which decided on £48.7 billion per annum.[15] Congdon's figures initially seem anomalous, but his method backs them up, as he investigates the specific effects of particularly damaging legislation and quantifies their impact (below) rather than relying on government predictions. This approach is more satisfying than that of popular 'Europhile blogger' J Clive Matthews ('Nosemonkey's EUtopia') which claims that the volume and complexity of regulation is such that accurate investigation is impossible.[16]

Notably, several prominent pro-European politicians have estimated EU regulation costs at similar levels. Lord Mandelson suggested a figure of 4% of GDP in his 2004 address to the Confederation of British Industry.[17] In the same year Gerrit Zalm, who was both Vice Prime Minister and the longest-serving Finance Minister in Dutch history, gave the same 4% figure for the burden to the Netherlands specifically.[18] In 2006 Gunther Verheugen , European Commissioner for Industry & Enterprise, stated that the average cost for member states was 5.5% of GDP, which he revised down to 3.5% in 2007.[19] Gerard Batten's calculations use this lower 'Commission' figure. Since Congdon's highest estimate is lower than the Commission's highest, it cannot readily be dismissed.

**"It is quite possible to oppose the dangerous Working Time Directive without undermining the 48-hour week or wider employment protection."**

## *Employment regulation*

This includes the Working Time Directive (2003/88/EC), the Temporary and Agency Workers Directive (2008/104/EC) and numerous other rules relating to employee rights and non-discrimination. Whilst well-meaning in theory, the rules with the aim of protecting workers often have negative consequences due to inflexibility.

EU Fresh Start, whose most prominent members include Dominic Raab MP, Andrea Leadsom MP, Chris Heaton-Harris MP & former MEP, George Eustice MP and John Longworth, Director General of the BCC, produced a 'manifesto' examining myriad regulations, highlighting the particular impact of the Working Time Directive, which they calculate costs over £2.6 billion per year. Moreover, their research suggests the Temporary Agency Workers Directive costs 'nearly £2 billion a year',[20] and Open Europe estimates social and employment restrictions forfeit 60,000 potential jobs.[21] However they argue that some regulation is necessary, so they suggest that UK legislation would save £4.3 billion, not the £4.6 billion we might expect.[22]

Open Europe estimates that EU labour market laws account for 22% of total regulation costs, or £38.9 billion from 1998-2010.[23] They refrain from producing an annual figure, given the high one-off implementation costs of new directives or ECJ rulings. Batten adjusts for these anomalies and argues that the 1999 Working Time regulations cost the country £3.49 billion in 2009 and £3.52 billion in 2010, with latter amendments and rulings adding a further £300 million.[24]

The severity of Temporary Agency Workers Regulations (2008/104/EC) was illustrated by a 2011 study by law firm Allen & Overy. They surveyed the HR departments of 200 medium and large UK businesses, discovering that 33% would terminate temporary workers' roles before they reached the 12 week qualifying period, purely to prevent the increased costs of equal treatment.[25] The specific economic implications of such drastic admissions presumably contribute to unemployment, under-employment and inefficiency, since temporary workers typically take several weeks to train.

The WTD has an even more extreme impact on hospitals. According to a report from the Royal College of Physicians, the WTD causes problems across hospitals including poor training for junior doctors, junior doctors working unsupervised, consultants having to cancel appointments at short notice due to statutory rest periods, and very low consultant cover in evenings and on weekends.[26] The number of work-days lost through cancelled appointments and unnecessarily-prolonged illnesses might reasonably be noted as significant, if not worrying.

The media typically lumps Euroscepticism along with market fundamentalism, and portrays any disagreement with EU employment rules as a desire to fire with impunity. In fact, a rational appraisal of the effects such laws are currently having on temporary employees and the NHS suggests that, again, EU laws are simply too inflexible. It is quite possible to oppose this dangerous waste without undermining the 48-hour week or wider employment protection.

## Environment and energy rules

18% of regulation costs relate to compliance with energy or environmental standards according to Open Europe.[27] Batten/Open Europe figures suggest that in 2009, the Water Environment Regulations (2003) cost £626 million, whilst the Climate Change Act (2008) & The Carbon Budgets Order (2009) had a combined cost of £3 billion.[28]

Tim Congdon emphasises the impact of environmental legislation, especially that which affects electricity generation and chemical production, a major UK industry. The 2001 Large Combustion Plant Directive, the 2003 Bio Fuel Directive and 2009 Renewables Directive are his main culprits, which drive electricity prices up and consequently stultify production, driving away multinationals.[29] This thinking is supported by Kaveh Pourvand's research into carbon-reduction targets, which shows both that EU targets for 'Energy Intensive Industries' (EIIs) fail in their environmental aims, and that they will cost EIIs some €29,288,000 (€64,559,000 in extremis) in 2013.[30] The industries' annual turnover is roughly €1 billion, a threat of 2.9% – 6.5% represents a very substantial figure which may well deter investors or even cause outsourcing.

The Centre for European Reform, a broadly pro-EU think-tank, is similarly critical. Stephen Tindale shows that UK/EU environmental regulation simply drives 'dirty' industries to unregulated countries, where their impact is usually worse than it would have been if left alone.[31] Thus the regulation fails its own 'green' targets and threatens domestic growth.

## Banking regulation

PricewaterhouseCoopers research shows the UK's financial sector is vital to the economy, both for million jobs it maintains, the proportion of GDP it represents and the tax receipts it posts.[32] Both EU Fresh Start and Open Europe conducted specific studies into the EU's role in banking regulation. From the 1980s the EU generally legislated in line with City interests and no outstanding regulation is holding back the economy at present.

However, the global recession and the role of banking within it has changed the EU's attitude, and up to 49 pieces of financial services regulation, "have been either adopted but not implemented, proposed but not yet adopted, or are currently being discussed without a formal proposal".[33]

Threatening moves include an EU-wide Financial Transaction Tax ('Tobin Tax/FTT') and the European Central Bank's plans to force all clearing houses trading Euros to be based within the Eurozone. The European Commission's own 'Impact Assessment' estimates that an FTT would result in job losses of 478,000 – 812,000 as a result of the 'cascading effect' as the tax makes business capital more expensive. The 1,200-page study does consider the possibility of 'relocation', i.e. banks moving their operations to countries without the tax, but fails to quantify what would presumably be a disaster for UK employment, GDP and tax revenue.[34] The Commission are well aware of this, having studied the effects of the 1980/90s financial tax in Sweden, which drove over 50% of all trades to London and reduced bond and futures trading volume by 85% and 98%.[35]

These plans would disproportionately affect London and the UK economy, and are difficult to block thanks to new Council arrangements which see the potential for the Eurozone bloc to force through QMV votes. Moreover, Commission plans for rules-based regulation clash with the recommendations of the UK's Vickers Commission, which aimed at a more supervisory and adaptable model endorsed by the Bank of England.

These moves, although they do not obviously impede growth, may well be a factor dissuading banks from expanding their UK operations or choosing to favour Eurozone cities. It is unclear whether Britain leaving the Union would help matters – no precedent suggests whether Europe would be able to impose rules on London from the outside.

Such fears are reflected in an International Regulatory Strategy Group report into the future of the ECB and fiscal compact, which highlights concerns over a lack of flexibility, the UK's exclusion from decisions, and the non-democratic decision making process.[36] After the Prime Minister's veto, such developments only indirectly affect the UK, but remain concerning given Britain's major trading interests within Europe. CER's Philip Whyte agrees that the Financial Transaction Tax and pipeline regulations are threatening, both to Britain and to EU stability, and discusses various methods of increasing safeguards.[37]

Congdon, however, believes that the EU is *currently* impeding the financial sector because under Lisbon the sector's regulation is now a Council competence. It will not be British institutions enforcing new legislation but the European Banking Association, European Insurance and Occupational Pensions Authority, and the European Securities and Markets Association. He emphasises that this augmented threat has already halted growth, meaning a loss of £1.7 billion per year and rising.[38]

*Still Out of Control?* estimates that current EU financial regulations account for 5% of the total regulation costs the UK faced from 1998-2009, or £8.3 billion.[39] This could apparently face a hike in the near future, as the CBI (Confederation for British Industry)'s independently-commissioned study concludes, "Proposed EU pension changes would force £350 billion (€440 billion) of extra costs on UK businesses, hit long-term growth by a potential 2.5% GDP, slash 180,000 jobs and cut the value of pensions".[40]

**"Wine lakes and butter mountains are back. Our food prices are 17% higher than they should be."**

On 28 February 2013, Ireland's Finance Minister Michael Noonan used the EU Presidency to forge agreement over a limit on banking bonuses as part of the Third Basel Accord. The rules will cap bonuses at 100% of annual salary, or double that with shareholders' explicit permission. Other measures include stronger 'Tier One' bank holdings, which would cushion banks from future shocks. The Treasury and government have opposed this development, not only for the reasons above, but also simply because they do not believe Brussels should have competence over banking. The measures are yet to pass the Council or the European Parliament, but are expected to, thanks to QMV.[41]

## Common Fisheries Policy

The fisheries policy arguably holds back the economy in numerous ways – promoting overfishing, allowing other nations to fish UK waters, artificially increasing fish prices and wasting tonnes of viable stock through quota-imposed dumping. In their study of the fisheries policy, Greenpeace allege that 70% of fish stocks are currently overfished, whilst the BBC puts it at 75%.[42] The new economics foundation ('nef' – a broadly left-leaning think-tank) argues that the CFP has devastated the seas so profoundly that only a virtual suspension of fishing of four to ten years will replenish stocks![43]

Dr Lee Rotherham, a TaxPayers' Alliance economist, argues that the loss of access to home waters under the '200 nautical mile' principle cost the UK £2.11 billion per year,[44] and arrived at a total annual cost of £2.8 billion.[45] This claim appears to be corroborated as the Fisherman's Association Ltd estimate that the CFP costs Scotland alone £706 million annually. Unlike Rotherham, FAL's analysis did not provide costings for job losses onshore, or for broader taxpayer and societal losses.[46] Similarly, nef claim UK fishermen have discarded £1 billion worth of cod alone in the last 50 years, and that loss forfeited 711 jobs.[47]

UKIP's section on fisheries assumes that, outside the EU, the UK would be able to catch and sell seafood equal to the total value which EU members currently catch in UK waters. This would mean a loss of £3.26 billion, although given the noted and protracted damage the CFP has wrought on Britain's fishing industry, it is unlikely the British fleet would be able to operate at such scope or efficiency immediately. To reach a total loss of £4.7 billion, Mr Batten adds the presumed extra cost of importing fish (rather than catching it) to the aforementioned figure.[48]

Early in 2013, the Council and European Parliament, passed Commission CFP reforms,[49] but even "EU Fisheries Commissioner Maria Damanaki says the ministers' deal is weaker than the Commission wanted".[50] The process received criticism for ignoring scientific advice and for partial exemptions to France, Portugal and Spain, and for repeated failures to codify the new, low quotas in law, meaning that overfishing can continue to thwart stock recovery.

The reforms include new measures to halt 'dumping' but there is no agreement on reform to Total Allowable Catches (TACs), meaning there is a chance fishermen will simply land immature fish or untargeted species. The world's largest marine environmental group, Oceana, worries the plan "doesn't establish any mechanisms to deal with landed by-catch".[51] Policing and reducing dumping would also require huge technological investment across the whole European fleet (for 'smart nets' and 'spy-in-the-wheelhouse cameras'), some £11,000 per boat plus £300 annually.[52]

## Common Agricultural Policy

The Common Agricultural Policy rightly receives opprobrium for its direct cost, questionable purpose and suspect efficacy. Beyond this, its existence impedes economic growth by inflating food prices and enforcing bureaucracy such as food labelling requirements and agricultural regulations. Open Europe estimates 3% of regulation costs impact farming, reaching a total of £8.5 billion from 1998-2010.[53]

Dr Rotherham studied CAP specifically, discovering that wine lakes and butter-mountains are back. He concludes that CAP costs the UK £10.3 billion per year, of which £4.7 billion is the UK's share of CAP budget, meaning indirect costs come to £5.6 billion per year.[54] Rotherham discusses a 13 May 2008 leak from then-Chancellor Alastair Darling, who stated that CAP artificially inflates food prices, costing EU consumers £34 billion in 2006.[55]

Likewise, the Institute of Economic Affairs argues that our food prices are on average 17% higher than they would otherwise be, based on New Zealander and Australian statistics from the OECD and World Bank.[56] Dr Rotherham shows a lower inflation estimate ranging from 4.2% to 13.9% from 1970-2004 (adjusting for real inflation).[57] This translates into a £5.3 billion loss.[58] On the other hand, Open Europe estimate that agricultural prices were inflated by €3.67 billion in the UK in 2008,[59] and Bruges Group quote a figure of 23% inflation based on Consumer Nominal Assistance Coefficient (CNAC) statistics.[60]

Batten uses Ian Milne's estimates to project a range of CAP costs. Depending on whether CAP causes food prices to set back the economy by 1.2% of GDP or 1.7%, the cumulative effects result in a 2008 figure between £17.35 billion and £24.58 billion.[61] Meanwhile Tim Congdon argues that CAP causes resource misallocation equal to 0.5% of GDP and cites Minford et al's 2005 study of EU Protectionism to argue that CAP-like schemes cost the UK a total of 3.25% GDP,[62] or £48.75 billion in 2012.

## Direct Cost (savings and redirection potential)

Although the UK does receive some money from the EU in terms of structural funds, regional support, SFP and so on, it is by far a net contributor to the EU budget, even after the rebate. Moreover, the rebate's structure dissuades the government from applying for loans and other funds to which it is entitled. In any case, such funding is usually ill-spent and poorly targeted, so would almost certainly be more effective if 'left' with the UK to spend itself, rather than taken and returned with certain Commission strings attached.

- TaxPayers' Alliance calculated a direct net cost of £8.3 billion for 2010-11 and forecasted £10.3 billion for 2014-15.[63]
- Batten believed Britain's annual contribution to the EU Budget for 2010 was £15.247 billion gross or £6.883 billion net.[64]
- Dr Congdon calculates that this figure is 1% of GDP, i.e. £15 billion net for 2012.[65]
- CER gives a net figure of £7.4 billion in 2011-12.[66]

Batten adds certain hidden costs: *"It is known that amounts of monies additional to the budget contributions are paid to the EU to fund EU and EU related projects, e.g. the Galileo Satellite System etc. An estimate for these amounts was arrived at using the discrepancies between the published UK Government current account balance with the EU institutions and the official transactions with EU institutions. In 2008 we estimated the discrepancy as £3 billion per annum. The current discrepancies are estimated at an average of £3.258 billion per annum."*[67]

**"The huge and unnecessary taxation for direct EU costs has a deleterious impact on the nation's growth."**

By Arthur Laffer's economic principles, the huge and unnecessary taxation entailed in the government paying these direct costs has a deleterious impact on the nation's growth. This is compounded when, as a net contributor, the funds raised are not spent on the UK, so fail to conform to basic Smithian promotion of infrastructure and retrenchment. The benefits of improving trade with Eastern Europe are comparatively negligible at present.

## Migration

Even if we take the considerable leap of faith involved in trusting Home Office statistics, the net economic consequences of EU migration are almost impossible to calculate. Most available studies fail to make distinct conclusions. We can only learn about specific problems, for example how restricting employment rights leads a higher percentage of asylum seekers and low skilled migrants to turn to the sex trade,[68] or how "EUA8 migrants, especially males, are far more likely to claim child benefit and tax credits, even if their children do not actually reside with them in the UK".[69]

On the specific issue of migrant benefits, Treasury statistics show, "(on) 31 December 2012, there were 24,082 ongoing child benefit awards under EC Regulation 883/2004 in respect of 40,171 children living in another member state and 4,011 ongoing child tax credit awards under the regulation in respect of 6,838 children living in another member state".[70] Using these figures, MigrationWatch UK calculate non-domicile child benefit payments cost the taxpayer £36.6 million per year and child tax credit costs £18.6 million per year".[71] Furthermore, Congdon estimates 110,000 EU migrants are currently receiving benefits in the UK. Assuming they receive two thirds of the average claim's value, they cost the country £2 billion each year.[72]

EU Fresh Start's study shows a rough estimate of net EU immigration accounting for almost a third of total net immigration to the UK in 2010-11. They suggest that low-paid and low-skilled British and EUA8 migrant workers might be competing for a finite number of jobs, and that immigration can strain the transport system.[73] Open Europe's immigration study conveys a similar message, noting that European migration accounted for 27% net immigration in 2010, a majority of which was from EUA8.[74]

The Office of National Statistics shows one in five workers in low-skilled occupations are non-UK born, mostly from EUA8.[75] Similar figures lead Congdon to conclude that 135,000 'British' jobs have been lost, costing the country 0.25% to 0.5% GDP, or £3.75 to £7.5 billion in 2012, although this figure isn't entirely satisfying in methodological terms.[76]

It should be noted that immigrants do pay taxes and interact with the local economy, rather than simply draining wages from British workers. As for 'benefits tourism' itself, the Economic and Social Research Council suggests that economic migrants who fail to get jobs quickly leave the country rather than lingering.[77] A survey of wage support mechanisms and social security provision in EU countries suggests that 'benefits tourists' should rationally choose Belgium or Scandinavia to maximise their income – this could be interpreted as proof that migrants come to Britain to work.[78] Such an interpretation fails to account for the greater value of the English language, England's historic strength in migrant integration, the importance of already-established expatriate communities in destination countries, and of course that migrants do not have perfect knowledge and logic (in the philosophical sense).

A 2008 House of Lords committee examined immigrants' fiscal impact and showed a "Home Office study claimed that immigrants paid in £2.5 billion more than they consumed in Government services in the year 1999–2000…Immigrants paid in 10% more in taxes than they received in public services and benefits, compared to only a 5% 'surplus' for the UK-born population."[79] The Select Committee concluded: "Immigration has very small impacts on GDP per capita, whether these impacts are positive or negative. This conclusion is in line with findings of studies of the economic impacts of immigration in other countries including the US."[80] The government of the time responded, claiming a net GDP per capita benefit, a tax surplus and no negative impact on employment.[81]

An issue arising from so large a migrant population is remittances. Newcomers sending their earnings out of the country has multiple consequences – depressing low-skilled wages for both migrant and native workers,[82] lowering prices for consumers, affecting UK balance of payments levels and reducing inflation.[83] World Bank remittance studies show that $3.4 – 3.7 billion left the UK in 2009, $3.44 billion in 2010 and $3.25 billion in 2011.[84]

CER research suggests that Britain's position outside the Schengen area is warranted, that current Schengen efforts fail to stop illegal immigrants, and that Schengen provisions cause intra-EU tensions to flair. However ideas to reform and strengthen Schengen are worrying as they would allocate the EC more power to determine the emergencies in which border controls can be temporarily reintroduced.[85]

## Procurement

Procurement accounts for up to 19% of member states' GDP and is therefore a sensitive topic.[86] EU competition rules seem to favour other countries, or to be flouted by them. The case of the Thameslink trains contract, which saw British firm Bombardier overlooked in favour of the German company Siemens, embodies this problem.

An unpublished Civitas study into the consequences of EU procurement rules suggests the Bombardier case is exceptional. The Commission's wording and ECJ rulings leave room for creative interpretations, especially with regard to 'warlike' and 'social' procurement, which allows the procuring government to influence bidding.

If Britain were to be acting as 'sticklers for the rules' and losing contracts, when competing countries happily bend the rules, this would be damaging. However, whilst Britain is demonstrably good at following the rules and avoiding infringement proceedings compared to similar EU economies,[87] it would appear that Britain actually wins a high proportion of overseas procurement contracts and awards few UK contracts to overseas bidders directly.[88] Nevertheless the whole process is a great waste of time and resources, creating needless inefficiencies. This is especially that case for Britain, which has 'gold-plated' procurement, creating a 'self-inflicted wound'.

## State Aid

EU rules dictate that a state cannot use its 'resources in any form whatsoever which distorts or threatens to distort competition'.[89] There are few General Block Exemption Regulations (GBERs) such as "aid in favour of SMEs, research, innovation, regional development, training, employment of disabled and disadvantaged workers, risk capital and environmental protection."[90]

This arrangement is potentially limiting to UK economic growth, meaning that nationalising the railway network (should the government ever want to) would be extremely difficult, if not illegal. In less extreme terms, it means the government cannot aid ailing firms with sums any more than €200,000 – something it may well need to do in the current crisis.

Rules allowing intervention are extremely complicated, and contain the highly subjective 'market economy investor principle', which allows state investment only where a private investor might reasonably act. Various examples of state intervention such as the French Chronopost, Télécom and Institut Français du Pétrole Énergies Nouvelles (IFP) all show that it is possible for the Commission to approve substantial funding.

> **"The EU is too large, divided and unwieldy to close deals with the most important markets."**

The UK spends a larger proportion than other Western EU states on GBERs, bypassing the need for EC approval. This focus on GBERs impedes the UK's ability to subsidise manufacturing as the government seems unwilling to risk prosecution, unlike Spain, Italy, Germany and France. Thus EC figures show that since 2000, the UK only has 10 state aid cases under examination for infraction, whereas France has 426, Spain, 370 and Austria, 198.[91]

It is difficult to suggest that the British government is being prevented from intervening in the economy by EU rules when in many respects France, Germany and Italy carry out a far more active industrial policy. Indeed, since the report was written many of the headline EU-UK obstructions have been resolved, including 'superfast broadband' grants for rural areas, the creation of a 'Green Investment Bank' and a 25% tax relief for video games and animation producers.[92]

## External tariffs and slow Free Trade Agreement negotiation

Whilst the pro-European lobby often trumpets the value of the EU's economic clout and Britain's extra weight within it, this benefit is severely limited. As a member state, Britain must maintain the Common External Tariff and cannot negotiate bilateral trade agreements with third parties; it can only participate in EU bilateral negotiations.

Prospective EU trade partners face not only the 'carrot' of free access to the single market, but the 'stick' of needing to undergo protracted negotiations with 27 different nations and the central authority, entailing numerous pockets of protectionism.

If the EU was truly an unambiguous champion of free trade, we might ask why there are not already Free Trade Agreements with America, China and India? Why wait until the depths of a global recession to begin negotiation?

The EU is too large, divided and unwieldy to close deals with the most important markets. Protectionism lingers, for example between France and Poland's agricultural sectors, and America's bread basket and automotive industry.[93]

New FTAs with Canada and South Korea are genuine successes in EU external relations,[94] but have taken years to achieve. Moreover, that Canada and South Korea could negotiate beneficial FTAs with a body so large as the EU undermines the 'economic clout' argument.

Indeed, Canada (GDP PPP $1.40 tn) is a member of NAFTA, so it has free trade with the USA and Mexico. Canada also has FTAs with Israel, Jordan, Colombia, Chile, Costa Rica, Panama and EFTA, and is negotiating with China, India, Japan, Singapore and the Andean states.

South Korea (GDP PPP $1.55 tn) likewise has agreements not only with the EU, but also the KORUS FTA with America and relations with EFTA and ASEAN, the South Asian economic/geopolitical organisation of Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Burma-Myanmar, Cambodia, Laos & Vietnam, three of which are Goldman Sachs's 'Next Eleven'[95] states.

Various other states have been able to gain preferential trade deals (PTDs, usually FTAs) with the EU, China or the USA:

> Mexico (GDP PPP $1.67 tn) with the EU, NAFTA and Japan

> ASEAN (total GDP PPP $1.80 tn) with China, Japan and India

> Australia (GDP PPP $0.92 tn) with the USA and ASEAN

> South Africa (GDP PPP $0.55 tn) with the EU and limited with America

> Switzerland (GDP PPP $0.35 tn) with the EU and China

> New Zealand (GDP PPP $0.12 tn) with China, ASEAN[96]

The supposition that the United Kingdom, with GDP PPP $2.28 trillion, a member of the UN Security Council, third largest economy on the European continent and eighth largest in the world, would somehow lose its ability to form meaningful trading relationships is fanciful.

In fact it is more likely that, alone and flexible, the UK would be able to negotiate FTAs both more swiftly and more appropriately than as an EU member. Their value to the UK economy (and therefore the cost of the current Customs Union) is inestimable. Moreover, such FTAs could be structured to protect vulnerable sectors rather than being entirely 'open door'. Such an approach conforms to the opinions of Harvard economist Dani Rodrik, who argues that supranational institutions must be designed to respect the unique circumstances of individual nations rather than imposing an artificial rule-set.[97]

## Conclusion

### *EU Benefits*

It would be lopsided to present only the EU's costs. Successive governments have trumpeted the overall positive effect of membership, particularly in economics. Following the Prime Minister's announcement of a possible in-out referendum, Business Secretary Vincent Cable revived this argument with claims that the Single Market membership brings each household £1,100-3,300 per year and that over three million jobs depend on membership. These claims are examined and rebutted on Civitas' website, but for argument's sake they will be accepted here.[98] Based on census data from the same year, this would mean the EU's gross positive impact was between £28.96 billion and £86.89 billion in 2011.[99]

However, the exact same logic that demonstrates trade benefits from EU free trade must apply to all the markets the UK current isn't freely accessing because of the EU's bloated, unwieldy external tariff policy.

Moreover, the majority of Eurosceptics have no hatred for free trade itself, and envision either a weaker trade area such as EEA membership (similar to Norway and Iceland) or a negotiated series of bilateral treaties (following Switzerland). Given EU-26's huge trade surplus with the UK, Congdon claims that some form of mutually beneficial agreement "would almost certainly be available" if the UK left the Union, meaning that the aforementioned benefits would be preserved whilst the drawbacks recede.[100]

## Net Costs

Neither Batten nor Congdon account for the global trade losses, but both conclude that the EU causes horrific net damage to the British economy. Batten's total, including direct and indirect costs, comes to £77 billion per annum.[101] Congdon, whose figures we can ultimately assume represent the UKIP consensus, concludes that the EU has a negative 10% GDP or £150 billion impact each year.[102] Using the lowest estimate for each section, and omitting elements that require more investigation, this paper suggests a minimum gross cost of £31 billion, which considerably outweighs Cable's economic positives when we consider the added value of international free trade. Moreover, the EU's costs of course include issues of democratic deficit, criminal/legal confusion and threats to sovereignty.

We have seen that there is a distinct possibility that specific markets are especially hindered by EU membership, not least the fishing, food and financial industries. What is impossible to estimate is the cumulative impact of each individual sector's difficulties.

For example, in an alternate past without the EU, we might imagine a struggling fishing firm being given either state aid (from a government allowed to do so) or an emergency loan (from a City bank with the confidence and liquidity to lend), allowing the firm to recover and flourish. When back in profit, the fishing firm's success not only benefits the government/bank through paying off the loan, but also the treasury through greater tax receipts, the local economy through employment, and the wider food supply chain through adequate, stable, reasonably-priced supply. Of course, our fishing firm would probably never have struggled in the first place since the fishermen didn't have to throw half of their catch away and because the waters off Yarmouth were not horrendously overfished!

## Notes

1 EUobserver, 14.04.2009. This figure almost certainly derives from the 84% claim of ex-President of Germany, Roman Herzog, made in 2007.

2 Lords Hansard, 28.04.2009

3 Worlds Apart – The EU and British Regulatory System, British Chambers of Commerce, Frances Chittenden and Tim Francis (May 2009), p.4

4 Lords Hansard, (14.11.2005)

5 *How much legislation comes from Europe?*, Commons Library Research Paper, Vaughne Miller (London, 2010), p.1

6 "Gold Plating" is the practice of adding additional regulatory burdens to an EU directive when legislating domestically.

7 *Still Out of Control?* Gaskell, Persson, Booth, (Open Europe 2010; hereafter SOOC), p.10
They discuss the relevant BIS figure, 1.85, on p.36, highlighting variables BIS fails to account for.

8 SOOC, p.13-14

9 Ibid, p.10, I did my own maths here as Open Europe's calculation produces an overly generous benefit/cost ratio of 2.5

10 Ibid, p.14

11 Government Press Release, 25/02/2013

12 SOOC, p.1 (Total cost of 2009 regulation, £32.8bn) X (Proportion of 2009 regulation cost blamed on EU, 59%)

13 *Out of Control?* Gaskell, Persson, Booth, (Open Europe, 2009), p.3

14 *How much does the European Union cost Britain?* Dr Tim Congdon, (UKIP, 2012), p.49
Congdon criticises SOOC's method and emphasises the severity of the Commission's threats to the City stultifying growth (pp.21-22), and the costs of renewable/environmental burdens (e.g. 1999 Landfill Directive, £1.1. billion according to local authorities). N.B., Congdon does knowingly pick the greatest of his 'possible GDP percentages' – he contemplates a cost as low as 2.5% GDP, or £37.5 billion.

15 *How much does the European Union cost Britain?* Gerard Batten MEP (2010), p.27

16 *Why the UK's "audit of EU law" is a waste of time*, J Clive Matthews, EUtopia (2012)

17 http://www.civitas.org.uk/blog/2004/11/mandelson_admits_that_eu_regul.html , accessed 01/03/2013.

18 The Bruges Group's rebuttal to a letter from European Minister, David Lidington MP, p.16

19 SOOC, p.37

20 EU Fresh Start, *Manifesto*, p.20

21 EU Fresh Start, *Social and Employment Law*, p.121, i.e. halving legislation could deliver 60,000 new jobs.

22 EU Fresh Start, Manifesto, p.20

23 SOOC, p.8

24 Batten, p.42

25 *Changes to Temporary Workers – An Employer's Guide*, Allen & Overy (2011), p.7

26 *Parliamentary briefing: Medical workforce: New Deal and European Working Time Directive*, Royal College of Physicians, July 2011

27 SOOC, p.8

28 Batten, p.42

29 Congdon, pp.17-18

30 *Are our carbon-reduction targets self-defeating?* Kaveh Pourvand (Civitas, London, 2012)
In pounds, £25.5 million, calculated using 21/02/2012 exchange rate.

31 *Saving emissions trading from irrelevance*, Stephen Tindale, The Centre for European Reform (June, 2012)

32 PricewaterhouseCoopers report, (London, 2010), p.3

33 *Continental Shift* (2011, Booth, Howarth, Persson, Scarpetta), p.16
Similar discussion in EU Fresh Start, *Financial Services*

34 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmeuleg/428-xxxix/42806.htm accessed 01/03/2013

35 *Impact Assessment: Proposal for a Council Directive on a common system of a financial transaction tax and amending Directive 2008/7/EC*, European Commission, (Brussels, 2011) pp.8-9

36 *EU Banking Union, Operational Issues and Design Considerations*, Anita Millar (London, 2012)

37 *What a banking union means for Europe*, Philip Whyte (London, 2012), pp.7-8

38 Congdon, pp.21-23

39 SOOC, p.8

40 *The economic impact for the EU of a Solvency II-inspired funding regime for pension funds*, CBI (2012)

41 http://www.thetimes.co.uk/tto/business/industries/banking/article3701685.ece ; http://www.guardian.co.uk/business/2013/feb/28/european-union-cap-bankers-bonuses

42 http://www.greenpeace.org.uk/oceans/fishing-laws-need-fixing
http://www.bbc.co.uk/news/world-europe-14143606

43 *No Catch Investment*, new economics foundation, (London, 2012)
This was largely thanks to a similar attempt to replenish cod stocks off Canada; BBC summary.

44 *The Price of Fish – Costing the Common Fisheries Policy*, Lee Rotherham (London, 2009), p.7

45 Ibid, p.52

46 Idem

47 new economics foundation (2011)

48 Batten, pp.25-26

49 *Stop Overfishing*, European Parliament report, (06.02.2013)

50 http://www.bbc.co.uk/news/world-europe-20055321

51 http://www.bbc.co.uk/news/world-europe-14143606

52 http://www.bbc.co.uk/news/science-environment-21500701

53 SOOC, p.8

54 *Food for thought – How the CAP costs families nearly £400 per year*, Lee Rotherham (London, 2009) p.3

55 Ibid, pp.6-7
Alastair Darling's estimate would mean a £5.3 billion cost to the UK, based on the UK's population as a percentage of Europe's.

56 IEA "Abolish the CAP, let food prices tumble", Kristian Niemietz, (London, 2012)

57 *Food for thought*, p.6

58 Ibid, pp.3, 6-8

59 *More for Less*, Howarth, Kullman, Swidlicki (London, 2012), p.17
This equates to £3.19 billion based on 21.02.2013's exchange rate.

60 Bruges, p.16

61 Batten, p.24

62 Congdon, pp.25-29

63 This forecast was calculated before the February 2013 budget negotiations, so was rather pessimistic.

64 Batten, p.6

65 Condon, p.49

66 *Much ado about little: Britain and the European Budget*, John Springford (2013)

67 Batten, p.23

68 *Migrant Workers in the UK Sex Industry*, Nick Mai (London)

69 *Welfare Participation by Immigrants in the UK*, Stephen Drinkwater, Catherine Robinson, (Institute For the Study of Labour, Bonn, 2011), p.24

70 Hansard, Parliamentary Written Question from Keith Vaz MP, 29.01.2013

71 Migration Watch Document 288

72 Congdon, p.46
This figure relies on the assumption that the ECJ will force the UK to allow all EU migrants to draw a UK pension, and that future-pensioners will not have contributed NI.

73 EU Fresh Start, *Immigration*, p.219

74 *Tread Carefully*, Open Europe (London, 2012), p.3

75 Non-UK born workers 2011, ONS (2011)

76 Congdon, pp.33-35, 49
Congdon admits to *"being under few illusions about the fragility of the assumptions required to deliver this result"*. He seems to ignore elements of complexity, assessing the 'cost' as the 'cost to the body of UK-born UK citizens' in 'jobs they otherwise would have got'. This is not what most people understand

when discussing a country's economy, nor is it clear that the natives' jobs are *"destroyed"*.

77 *Jobless immigrants prefer to leave*, ESCR (2011)

78 *Benefits and Wage Comparison*, OECD (2012)

79 *The Economic Impact of Immigration*, House of Lords Select Committee on Economic Affairs (London, 2008), p.40

80 Ibid, p.26

81 The Government's response to *The Economic Impact of Immigration*, (London, 2008)

82 *Remittances and the Wage Impact of Immigration*, William Olney, (Massachusetts, 2013)

83 The Economic Impact Of Immigration, ref: Blanchflower, p.31

84 World Bank Migration & Remittance Data, see UK columns in "Annual Remittance Data" for Inflows and Outflows.
Slightly older figures are presented more readably in *World Bank Migration and Remittances Factbook 2011*, pp.13,15

85 *The Schengen Crisis in the Framework of the Arab Spring*, Hugo Brady, (London, 2012)

86 *Evaluation Report Impact and Effectiveness of EU Public Procurement Legislation*, European Commission Staff Working Paper (2011), p.i

87 European Commission, Public Procurement, *Infringement Cases*

88 *Wood Review: Investigating UK business experiences of competing for public contracts in other EU countries*, Alan Wood, (2004)

89 Article 107 of the Treaty of the Functioning of the European Union

90 *State Aid*, Department of Business and Skills

91 *State Aid Control, Competition*, European Commission, accessed 12/03/2013

92 Breakdown:
– Video Games given competitive tax break in 2012 Autumn Statement, 05/12/2012, comes into effect 13/04/2013.
– Commission signs off on £3 billion Green Investment Bank, 17/10/2012.
– Green light for super-fast broadband, £530 million, 20/11/2012.

93 Reuters; the European Centre for International Political Economy is more broadly critical of the EU's FTA strategy, as is GEM (Group D'Économie Mondiale)

94 The Canada talks may drag on yet further.

95 *The N-11: More Than an Acronym*, Dominic Wilson, Anna Stupnytska (Chicago, 2007)

96 All statistics from IMF 2011

97 *The Globalization Paradox*, Dani Rodrik, (Oxford, OUP, 2011), pp.236-249

98 Cable's claims come from this study: *The UK and the Single Market*, BIS and DFID (2011), p.3
Discussion of the figures is available on the Civitas blog.

99 These estimates are necessarily rough since the government's claim relates to households, not per capita. Using 2011 census data to find an estimate true to the applied formula, the EU's value would be £208.56 billion, almost one seventh of the UK economy. To suggest that withdrawal would cut one seventh of GDP is patently absurd.

100 Congdon, p.58

101 Batten, p.28

102 Congdon, p.49



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