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A SOCIAL EMPOWERMENT FOUNDATION

To Trustees and Executive,
Community and Voluntary Sector Organisations

26 February 2016

Dear Sir/Madam,

The European Union – British Exit (Brexit) and Britain In (Brin) Debate

For your information the Ethnic Minority Foundation (EMF) has produced a short summary and analysis of the relationship between the UK and the European Union, looking at the arguments between Brexit and Brin.

Please provide us with any feedback you may have on our document so that we may engage in a dialogue and develop a picture of how minority communities are looking at this matter.

Yours Sincerely,

Anil Bhanot OBE
Chair EMF

The European Union – British Exit (Brexit) and Britain In (Brin) Debate

This report aims to provide information on some of the arguments being made for and against UK membership of the European Union (EU) ahead of the referendum on this matter scheduled for the 23rd of June 2016.

Some basic information on the EU will first be provided, giving a background into the whole matter.

The European Union

The process of integration that led to what we today know as the EU started after the Second World War. Having lived through two world wars in the first half of the twentieth century the people and leaders of Europe wanted to find a way to maintain peace. Economic cooperation was seen as a possible answer; the idea was that countries that traded with each other became interdependent and so would look to avoid conflict.

With this idea in mind the European Economic Community (EEC) was created in 1958. Economic cooperation progressed into further policy areas such as the environment and development. To reflect the increased cooperation the organisation changed its name in 1993 to the European Union.

When in 1957 the Treaty of Rome was signed establishing the EEC there were six signatories: Belgium, Germany, France, Italy, Luxemburg and the Netherlands. Since then many more countries have joined, today the EU has 28 member states. The biggest single expansion in members took place in 2004 when 10 countries joined at once; these came to be known as the A10 countries. In 2007 a further two countries joined; these came to be known as the A2. The newest member is Croatia, which joined in 2013.

The EU member countries are as follows
(year of joining in brackets)

- Austria (1995)
- Belgium (1958)
- Bulgaria (2007)
- Croatia (2013)
- Cyprus (2004)
- Czech Republic (2004)
- Denmark (1973)
- Estonia (2004)
- Finland (1995)
- France (1958)
- Germany (1958)
- Greece (1981)
- Hungary (2004)
- Ireland (1973)
- Italy (1958)
- Latvia (2004)
- Lithuania (2004)
- Luxembourg (1958)
- Malta (2004)

- Netherlands (1958)
- Poland (2004)
- Portugal (1986)
- Romania (2007)
- Slovakia (2004)
- Slovenia (2004)
- Spain (1986)
- Sweden (1995)
- United Kingdom (1973)

Besides the current members there are also several candidate countries that are considered to be on the road to membership. These are:

- Albania
- Montenegro
- Serbia
- The former Yugoslav Republic of Macedonia
- Turkey

As well as two potential candidates: Bosnia and Herzegovina and Kosovo.

EEA EFTA – Iceland, Liechtenstein, Norway: Besides the member countries the European Internal Market is also made up of the other countries in the European Economic Area (EAA). The EEA non-member countries, referred to as the EEA EFTA (European Free Trade Association), are: Iceland, Liechtenstein and Norway.

The EEA agreement was signed in 1992 and came into force in 1994. The EEA agreement means that the EEA EFTA countries are guaranteed the four freedoms of the Internal Market: freedom of movement of goods, person, services and capital. The Agreement also covers cooperation in other areas, including: research, development, social policy, the environment, tourism and culture.

The Agreement, however, does not cover agriculture and fisheries, the customs union, common trade policy, justice or home affairs, monetary union, or common foreign and security policy. Also, although EEA EFTA countries can participate in the Internal Market and participate in any relevant EU programmes they do not have a right to vote. EEA FTA countries make a financial contribution to the EU.

Switzerland: Switzerland is not a member of the EU or the EAA, however, a number of agreements mean that Switzerland has a closer relationship with the EU than any other non EU or EEA country. There are agreements in place that ensure free trade; a recognition of each other's product standards; free movement, which means each other's citizens have a right to enter, live and work in the other's territory.

Like the EEA EFTA countries Switzerland also participates in some EU projects. Also like the EEA EFTA, Switzerland does not have the right to vote on EU matters. Switzerland makes a financial contribution to the EU budget.

EU Expansion

Besides more countries joining the EU the organisation itself has also grown and developed throughout the years. The initial idea of economic cooperation between countries was expanded to include greater political and monetary union. There are now common policies in place covering a broad range of areas. Some of the mayor developments have been:

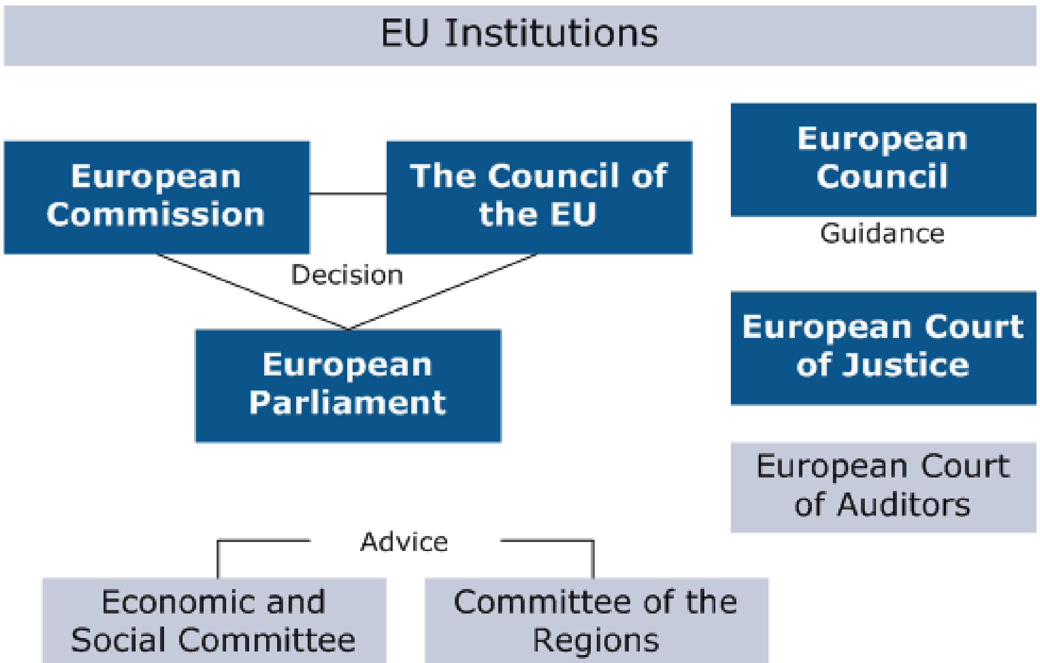
- 1957- Signing of the Treaty of Rome
- 1958 – Creation of the European Economic Community (EEC)
- 1962- Common Agricultural Policy begins – CAP
- 1968 – Custom duties between members removed, allowing free cross-border trade.
- 1972 – Exchange Rate Mechanism (ERM) created. This is the first step towards the Euro.
- 1973 – First expansion with member countries reaching 9
- 1974 – European Regional Development Fund created. Transferring money from rich to poor regions to encourage development.
- 1979 – Citizens directly elect members of the European Parliament for the first time.
- 1984 – First research and development programme funded by the EU launched.
- 1986 – The Single European Act launches a programme to remove obstacle to free trade from national regulations.
- 1987 – Erasmus programme begins.
- 1992 – The Treaty on European Union signed in Maastricht. Sets out clear rules for a future single currency, foreign and security policy, and closer cooperation in justice and hope affairs. The name of the organisation is changed to European Union.
- 1993 – Single market and four associated freedoms established: free movement of goods, services, people and money.
- 1995 – Schengen Agreement comes into effect.
- 1997 – Treaty of Amsterdam signed, planning reform of EU institutions and concentrating more resources on employment and the rights of citizens.
- 1999 – Launch of the Euro.
- 2002 – Euro currency rolled out.
- 2004 – Single biggest expansion in member countries, membership now 25.
- 2007 – Treaty of Lisbon signed, amending previous Treaties. Designed to make the EU more democratic, efficient and transparent.
- 2011 – European financial supervisory authorities set up: the European Banking Authority, the European Insurance and Occupational Pensions Authority, The European Securities and Markets Authority.
- 2012 – European Stability Mechanism (ESM) created to support the financial stability of the Euro countries.
- 2014 – Single Supervisory Mechanism for banks begins as part of the ‘Banking Union’. Aims to ensure Euro banks operate in a safe and reliable way.

It is clear from just these main changes that the scope of the EU has grown far beyond its initial aim of economic cooperation. The EU now reaches a wide range of policy areas that previously were solely the domain of national governments. Some consider these expansions as extremely positive, arguing that they have strengthened human rights and created a stronger organisation with shared values. Others, though, have been very critical of the growth, arguing that it has infringed on national sovereignty and moves beyond what the organisation was intended for.

The growth of EU institutions and scope has formed part of the argument for those in favour of a referendum on membership in the UK.

Decision making in the EU

The EU is organised in a way that aims to achieve balanced and fair representation through the relationship between the mean institutions of the EU. The institutions are connected as follows:



The European Parliament: as the only directly elected body of the EU the Parliament represents the people of the member countries. It also plays a central role in electing the President of the European Commission and shares power over the EU budget and legislation.

The European Commission: is the executive body of the EU and therefore responsible for proposing and implementing EU laws and monitoring the treaties, as well as for the day to day running of the EU.

Council of the European Union: is made up of government ministers, it shares power with the Parliament over the budget and legislation. This is where governments defend their own country's interests.

European Council: is made of the heads of state or government of the member states and is the strategic body that deals with the EU political decisions. The Council sets the EU's broad priorities.

Besides these principal institutions the Court of Justice of the EU upholds the rule of European law and the Court of Auditors monitors the financing of the EU activities.

The UK Referendum

On the 23rd of June 2016 the UK will vote on whether to stay in the EU or exit the organisation. Calls for a referendum have been growing in recent years as an increasing number of people in Britain have become dissatisfied with the present arrangements. In particular, there have been growing concerns about immigration and the Euro crisis, and how these may be having a negative impact on the UK.

Amidst these growing calls for a referendum Prime Minister David Cameron announced in 2013 that if the Conservative party was re-elected in the 2015 elections then he would renegotiate UK membership to the EU and hold a referendum by 2017. Having completed the renegotiations the Prime Minister announced the date of the referendum.

In recent years calls for a referendum have been led by the UKIP and some sectors of the Conservative party. It should be noted, though, that the UK's relationship with the EU has historically been somewhat turbulent. After decided not to join initially the UK was twice unsuccessful in its attempts to join in the 1960s; both times British membership was vetoed by French President de Gaulle. Britain finally joined at its third attempt in 1973.

Despite having only joined a couple of years earlier, in 1975 Britain held a referendum on continued membership. At that time 67% of people voted in favour of remaining in. During the 1980s and 1990s there were calls for a second referendum; on no occasion were they successful though.

The prospect of a second referendum became more likely after the turn of the century. The EU was undergoing significant changes. In 1999 the European single currency (Euro) was launched, with the UK opting out. And in 2007 the Lisbon Treaty was signed, which altered the constitutional basis of the EU. Growing discontent within the UK about what these changes could mean and the prospect of ever closer union meant that the campaign for a referendum was successful.

The Brexit and Brin campaigns have focused on a number of key areas: trade, the EU budget, regulation, immigration, and international influence.

We will now go through some of these in turn in an attempt to flesh out the arguments.

EU Budget

Brin Argument: People in the UK benefit far more from the EU than what it costs us to be a member. The UK pays the equivalent of around £340 per household to the EU, whereas there is an estimated benefit of around £3000 per household from membership. Also, most agree that whether the UK stays in the EU or not, it should not leave the EAA, there are also costs associated with this.
Brexit Argument: The money paid to the EU could be better spent on something that directly benefits UK citizens, such as new industry, research, education and so on.

Analysis

The UK's contribution to the EU budget, and that of all other members, is calculated in accordance to VAT revenue, Gross National Income (GNI), custom duties and levies on sugar production. Unlike other members, though, the UK has benefited from a rebate since 1985.

Member states contribute a standardised percentage of 0.3% of their harmonised VAT bases; this is calculated on a supposed EU common rate rather than on country-specific rates. Member states also pay a standard percentage of their GNI; this is capped at 1.24% of the respective GNIs. Tradition own resources (TOR) are made up of customs, agricultural and isoglucose levies. Member states pay 75% of these levies to the EU. The rebate that the UK receives is considerable, between 2008 and 2015 this varied from £3 billion to £5 billion.

It is estimated that in 2015 the UK made a net contribution of £8.5 billion to the UK budget. Between 2016 and 2020 it is forecast to fluctuate between £11.1 billion and £7.9 billion. This figure is roughly the equivalent of 0.5% of the UK's total GDP.

Irrespective of what either the Brin or Brexit camp might say, it is extremely difficult to quantify the benefits to the UK of EU membership. Estimates as to what the benefits could be vary greatly, some estimating the benefit to be as 3%, others as high as 5%. Most, studies, though, do suggest that the benefits are higher than the 0.5% of GDP paid in membership.

An important camp made by those arguing for Brin is the appeal of remaining within the EEA, which, as they rightly point out, would also mean that there is a financial contribution made towards the EU budget. It is calculated that on a per capita basis Norway's financial contribution to the EU is around 83% of what the UK pays. Whilst Switzerland's financial contribution is estimated at around 41% of the UK's per capita payments. So, if the estimate is that the UK pays £340 per household to the EU then Norway would be paying around £282 and Switzerland around £139.

Trade

Brin Argument: The EU is our biggest trading partner; as such it is hugely beneficial to avoid export tariffs and unnecessary red tape. Britain can also obtain better trade terms with other countries as a member of the EU due to the EU's size.

Brexit Argument: Britain is bound and constricted by EU legislation. If Britain were to leave it could negotiate a new relationship with the EU and untangle itself from these restrictions, as well as secure its own trade deals with other important countries such as the USA, China and India.

Analysis:

The EU is indeed the UK's most important trade partner. In 2014 the EU accounted for 44.6% of UK exports of goods and services, and 52.3% of UK imports of goods and services. Advocates of the EU point to growing trade with the EU and how this is facilitated by the lack of trade tariffs and barriers. They point out that when Britain joined the EEC, as it then was, in 1973 trade with other members accounted for 30% of UK exports. By 2008 this figure had risen to over 50%. Sales to and from a further 60 countries not in the EU are governed by EU wide agreements. These agreements mean that 63% of Britain's goods exports are associated to EU membership. As total exports account for 30.5% of British output, the value of all goods and services exported to the EU add up to around 14% of the overall UK economy.

Those opposed to membership, on the other hand, are quick to point out that in recent years trade with the EU has fallen. In 2002 55% of UK exports were accounted for by the EU. In part, the reason for this is that the EU's global share of GDP has fallen, with non-EU economies such as the BRIC countries outpacing EU economies. This has meant that non-EU economies have grown in importance to UK trade.

Despite the growing importance of non EU countries, in 2014 UK exports to the EU were worth £230 billion. In comparison, exports to the USA amounted to £88 billion; and exports to China to £18.7 billion.

In addition to the direct financial benefits of trade, it is estimated that three million jobs are linked, directly or indirectly, to the export of goods and services to the EU. Of course, this does not suggest that these jobs are dependent on EU membership; as trade with EU countries would continue if the UK were to exit. What remains unknown is to what extent trade would be affected if the UK were to leave.

What is certain is that it would be in the UK's interest to remain in the single market, like Switzerland or Norway. If the UK were to be completely out of these agreements then trade with the EU would be more expensive, which in turn would make goods more expensive.

It is also important to note that different sectors of the economy would be affected differently. Trade in goods with the EU is much greater than trade in services. Trade in goods represents almost 2/3 of all UK exports to the EU and more than 3/4 of UK imports from the EU. The production sectors of the economy would therefore be more affected by agreements with the EU.

In addition, financial services are expected to suffer greatly if the UK were to leave the EU. In 2013 financial services exports to the EU came to £19.4 billion, whilst imports came to £3.3 billion. The surplus of £16.1 billion is equivalent to around 0.9% of the UK's GDP. There are no tariffs on financial services; however, there are what are known as 'passporting rights', which allow UK-based institutions to see in other EU member states without having to have a branch there. Equally, non UK institutions can access the EU market by locating in the UK alone. There is serious concern that these passporting rights would be lost if the UK were to leave the EU; although it is presumed that if the UK were to remain in the EEA it would keep these rights.

Besides trade, economically the UK also benefits from considerable levels of foreign direct investment (FDI) from the EU. The EU is not only a major source of inward FDI it is also a major recipient of UK investment. In 2014, EU countries accounted for just under half the stock of FDI in the UK (£496 billion out of a total of £1,034 billion, 48%). This compares with 24% from the US and 28% from other countries. In terms of UK investment abroad, the EU accounted for 40% of the total UK FDI stock in 2014.

Immigration

Brin Argument: Leaving the EU will not mean reduced immigration. Countries in the single market also have to adhere to the free movement of people, in fact, both Norway and Switzerland have a higher percentage of EU citizens as a percentage of the population living there than the UK.

Brexit Argument: Britain needs to regain control of its borders; immigration is 'out of control'. Moreover, having an open door policy towards EU citizens means that non-EU citizens who could contribute more to the UK are being kept out.

Analysis:

An estimated 3 million EU citizens live in the UK; whilst around 2 million UK citizens live elsewhere in Europe. There are concerns from the Brexit camp, though, that the number of EU citizens coming to the UK is increasing. In March 2015 annual net migration from Europe was 183,000; this can be compared to 178,000 in 2014. What is more, in 2005 this figure did not reach 100,000 and before that the numbers really were minimal.
Substantial net migration from the EU to the UK is in fact a recent development, as it was only after the A10 (of mostly Central and Eastern European countries) expansion in 2004 that the numbers became economically and socially significant. In 2014 it is estimated that half of EU nationals coming to the UK for a year or more were from countries that joined after 2004.

Despite the growing number of EU migrants coming to the UK non-EU migrants still outnumber those from the EU, around 5 million non-EU migrants are estimated to live in the UK. The top three countries of birth for foreign born people in the UK are India, Poland and Pakistan.

Of the 3 million EU citizens living in the UK it is estimated that 2 million are employed in the UK labour market. It is estimated that this accounts for a boost in the workforce of around 0.5% per year.

In addition to boosting the workforce EU citizens are considered to make a positive fiscal contribution to the UK, as they pay more in taxes than they receive in benefits. Those that have arrived in the UK since 2000 are estimated to have contributed £20 billion to UK public finances between 2001 and 2011. During this time period immigrants from the EU-15 countries (those that joined before 2004) contributed 64% more in tax than they received in benefits; whilst those from the A10 countries contributed 12% more than they received. Moreover, immigrants who arrived since 2000 were 43% less likely than the native population to receive state benefits and tax credits and 7% less likely to live in social housing.

In addition, EU citizens that arrived since 2000 are better educated than the native population (in 2011, 25% of immigrants from A10 countries and 62% of those from EU-15 countries had a university degree, while the comparable share is 24% among natives) and have higher employment rates (81% for A10, 70% for EU-15 and 70% for UK natives in 2011).

With regard to the point about Norway and Switzerland receiving more EU migrants than the UK, as it was mentioned earlier, it is generally accepted that Britain would benefit from remaining in the single market. Countries that are not EU members but part of the single market such as Norway and Switzerland still have to uphold the free movement of people. The percentage of the UK population born in the EU is around 4.7%; in Norway the figure is around 5.5%, whilst in Switzerland it is 15.6%. It is therefore not clear that if Britain were to remain in the single market whether this would have any effect on immigration.

Potential Scenarios if the UK leaves the EU

Despite the best efforts from both Brexit and Brin advocates, there remains considerable uncertainty about what would happen if the UK were to leave the EU. In part there is uncertainty because much would depend on any deals made between the EU and the UK post departure. Most people accept that staying within the single market would benefit the UK, as otherwise the cost of trade and potentially goods and services could significantly increase. We do not know, though, whether the remaining EU countries would be happy to make favourable deals, or what their cost and implications would be.

Those analysing the situation have speculated on three possible scenarios of what might happen if the UK were to leave the EU.

Having looked at the Brexit and Brin arguments the question of what to do seems to boil down to a balancing between economic benefits and border sovereignty. Which one of these two you grant the greater importance to probably dictates which side of the debate you fall on.

Scenario 1 – Britain Triumphs

The government succeeds in creating favourable trade deals with not only EU but also non-EU countries, benefiting consumers. Business also benefits from the removal of restrictive EU legislation.

The chances of this being the outcome are very low though as some of the presumptions behind it clash. For Britain to triumph it would have to negotiate a favourable trade deal with the EU, ideally remaining within the single market. If Britain remains within the single market, though, it will have to adhere to the EU regulation, including the free movement of people. A looser agreement with the EU would mean less favourable trade and the associated financial implications.

Scenario 2 – A Difficult Transition

The savings made from not contributing to the EU budget are not only smaller than the Brexit camp anticipated but the loss of EU subsidies (around 2.5 billion a year) prove extremely costly. There is little benefit to business form de-regulation and a significant number of business leave Britain to have access to the European markets without having to deal with tariffs. Britain is forced to join the EAA under less favourable terms and a similar cost than that of full membership, only now it does not have a say on EU matters.

This scenario is far more likely than the triumphant one. Although the British economy would survive outside of the EU this will probably be a costly exercise that produces little benefit.

Scenario 3 – A Mistake

British trade is negatively affected by leaving the EU after difficult negotiations with the member states. Free movement of people is brought under British control, but access to EU markets is limited; this bad for both consumers and industry, especially manufacturing. Investment leaves the UK, which has a negative impact on the pound and interest rates.

This scenario is possible as there are clear economic risks associated with leaving the EU.

Any further Brexit arguments put forward to show that the UK would economically benefit from leaving the EU whilst restricting immigration will be assessed and discussed by us.

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