Britain and Europe: a new relationship

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Executive Summary

Chapter 1
Britain and the global economy

- Britain is still one of the great trading nations. In 2010 it was the fifth biggest trading nation after the USA, Mainland China, Germany and Japan and the sixth biggest exporter of goods and services.
- Britain ran a large current account deficit (over £52bn) with the EU27 in 2010, but a healthy surplus with non-EU countries (nearly £16bn).
- Germany and Switzerland (the latter a non-EU country) are more trade dependent on the EU27 than is the UK. The proportion of UK exports going to the EU27 is declining. The proportion of recorded total exports of goods and services going to the EU27 was 48% in 2010. Making a conservative allowance for the "Rotterdam-Antwerp effect" (for goods) reduces the proportion to 45%.
- 100% of Britain's economy is subject to the EU's regulatory burdens and costs, but less than 15% of GDP relates to trade with the EU.
- UK-EU trade creates significantly fewer jobs in Britain than in the rest of the EU.
- Britain is one of the largest of the "second tier" economies. According to the World Bank the UK was the 6th largest economy in nominal (market exchange rate) terms in 2010 and 7th in PPP terms. Provisional IMF estimates suggest that Britain slipped below Brazil on both bases in 2011 to be the 7th biggest economy in nominal terms and the 8th biggest in PPP terms.
- The proportion of global output accounted for by the EU27 is shrinking and will continue to shrink. Part of the EU's relative secular decline is demographic.
- Many of the world's richest economies are small and include Norway, Switzerland and Singapore. "Small is beautiful".
- The Commonwealth as an economic bloc is rarely discussed in Britain. But Commonwealth countries share history and culture, are economically significant (in total) and have favourable demographics and growth prospects. If the UK withdrew from the EU's Customs Union, the UK should consider negotiating a Commonwealth FTA.

Chapter 2
The EU27, EEA and EFTA

- In the EU's Customs Union the EU's Trade Commissioner has a seat in the World Trade Organization (WTO) and negotiates trade deals on behalf of all the EU member states including the UK. The UK cannot negotiate its own trade deals.
- Membership of the EU's Customs Union may have been economically beneficial when EU tariffs were relatively high. But tariffs are now low and moreover only pertain to the import of goods, whereas much of Britain's trade relates to services.
- The development of the Single Market (Internal Market) has been driven by two main forces:
  - The laudable attempt to break down non-tariff barriers to trade as the Customs Union had removed the tariff barriers.
  - Harmonised regulations to prevent "unfair competition" and create "level playing fields".
- Despite the emphasis on the need for harmonised, level playing fields, EU27 countries are happy to trade with non-EU countries (e.g. China) that are not "harmonised".
- Single Market regulations are decided by Qualified Majority Voting (QMV). The UK has just 8½% of the vote.
- According to Commission estimates the costs of the Single Market could outweigh the benefits by a factor of two-and-a-half to one.
- The European Economic Area (EEA) comprises the EU27 and three EFTA countries (Norway, Iceland and Liechtenstein). All 30 members participate in the Single Market. The three EFTA EEA countries are effectively obliged to accept EU legislation pertaining to the Single Market, without being part of the legislative process.
- Switzerland is an EFTA country but not in the EEA. Its relationship with the EU is that of a free trade area with bilateral intergovernmental agreements. The Swiss Federal authorities (in 2006) estimated that if Switzerland joined the EU, the annual net contributions would increase to SFr3.4bn annually (six times the current cost), with gross contributions of SFr4.9bn (nine times the current cost).

Chapter 3
British membership of the EU: economic costs and benefits

- Britain's net contribution to the EU was £8.1bn in FY2010 compared with £4.4bn in FY2005. It is moreover set to increase in forthcoming years. If Britain had had a Swiss-style relationship in FY2010 the net contributions could have been 1/6th of what they were. They could have been £1.3bn – a saving of nearly £7bn.
- The costs to Britain of membership of the EU's Customs Union, specifically the opportunity costs of being unable to negotiate its own free trade deals, are substantial and will become more substantial, given the EU's shrinking share of global output.
- Membership of the EU's Single Market comes with a very heavy regulatory price.
- If the UK withdrew from the Single Market there would probably be little disruption to UK-EU trade because, quite simply, disruption would not be in the interests of those EU27 countries which run big surpluses with the UK. Similarly, it is unlikely that FDI flows would be severely disrupted.
- About half the legislation affecting business is EU-sourced and cannot be amended and/or repealed whilst Britain remains a member of the Single Market.
- The EU is extending its regulatory control over the City of London in the wake of the 2008 financial crisis. Whilst Britain is in the Single Market, there is little the Government can do to resist the regulatory creep.
- The Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP) are both costly.
- The UK has adopted the EU's climate change and energy policies, including the Emissions Trading System (ETS) and the Renewables Directive, with zeal. If Britain withdrew from the Single Market, but still wished to pursue its GHG emissions reductions targets, it could drop the ETS and the Renewables targets. It could then introduce a straightforward carbon tax to incentivise low carbon technologies and focus on gas-fired and nuclear generated electricity, dropping expensive and unreliable wind-turbines.
- Reputable cost-benefit analyses all show net costs to Britain of EU membership.
- The Treasury was sceptical from the start, according to Hugo Young. "The Treasury…remained officially against British entry. That is to say, its judgement of the economic consequences was negative, and it submitted a paper to that effect."
- Britain's influence in the EU is remarkably modest, given that it was the 6th biggest economy in the world in 2010 and the 5th biggest trading nation in 2010 with a unique set of international links.
- And the EU is "not going Britain's way". It never has done and it never will.

Chapter 4
Britain and Europe: a new relationship

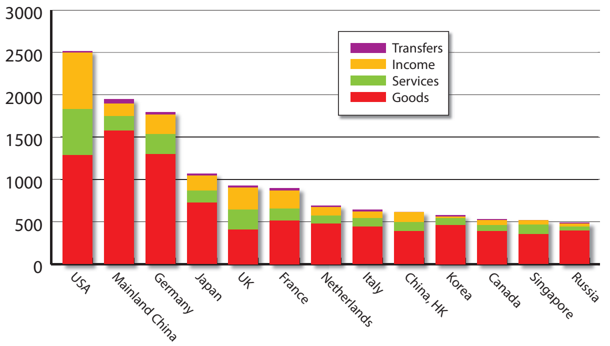
- Britain, under the WTO umbrella, should move towards the following trading relationships with EU and non-EU countries respectively:
  - With EU countries: a Swiss-style relationship, based on free trade and mutually beneficial bilateral agreements.
  - With non-EU countries: closer trade links with the Commonwealth, the USA and other favoured nations. These links could include the establishment of a Commonwealth FTA and/or Britain's membership of NAFTA.3 NAFTA (North American Free Trade Agreement) could then become North Atlantic Free Trade Agreement. By negotiating these closer relationships, Britain would be in a much better position to realign its trade patterns towards fast-growing economies, thus stimulating economic growth, than it is now.
- Building up mutually beneficial free trade links with the EU, Commonwealth and NAFTA would mean that, rather being isolated, Britain would actually be better internationally networked, especially with the world's growing economies, than as a member of the EU.

Chapter 1 **Britain and the global economy**

1.1 Introduction: Britain is one of the world's great trading nations

According to IMF data, the UK was the 5th largest trading nation in 2010 after the USA, Mainland China, Germany and Japan. Britain was the 9th largest exporter of goods but the 2nd largest earner on both overseas services and income (mainly investment income). Taking the exports of goods and services together, Britain was the 6th biggest exporter. Given the importance of invisible trade to the British economy, it is quite misleading to concentrate on visible trade, and the tariffs thereon, to the exclusion of invisibles. The relevant current account data are shown in chart 1 below.

Chart 1. Top trading nations, current account credits, $bn, 2010



Source: IMF, *Balance of Payments Statistics Yearbook*, 2011. Data are provided in annex table 1.

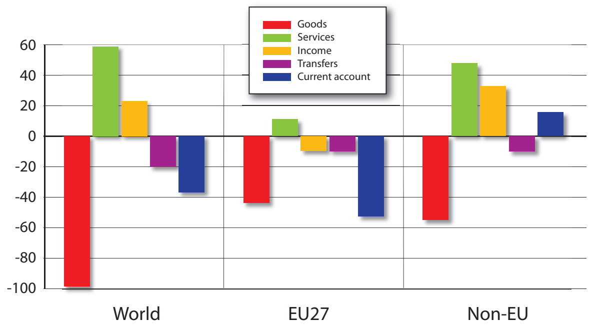
1.2 Britain's trade: a large deficit with EU27

But Britain is not just a major trading nation. It is a trading nation with unrivalled international business links for a country of its size - not least of all because the City of London is still the world's top financial centre.[1] Britain is a global nation, with unique global links.[2,3] The notion that Britain should trade with Europe in preference to other nations because of "geographical proximity" was always misguided. In the age of the internet it looks anachronistic, irrelevant and old-fashioned. If ever there was a time when matters of language, business culture, shared history and law should trump geography, this is it. We return to this issue below, when discussing the Commonwealth.

Britain's trade with the EU27 is undoubtedly significant but recent balance of payments data suggest that British trade with non-EU countries is more successful than trade with the EU. Chart 2a shows the balances for the components of the current account in 2010.

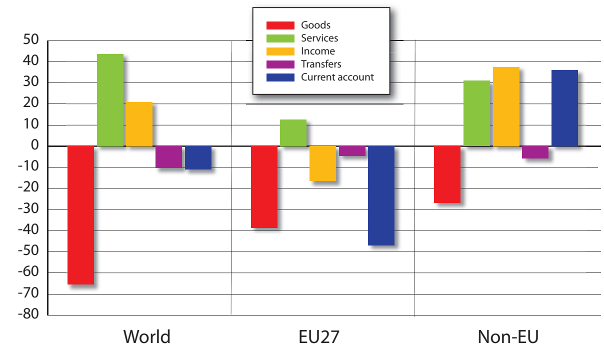
Concerning EU trade Britain experienced overall current account deficit of £52.4bn in 2010. There were deficits in goods (£43.8bn), income (£9.7bn) and transfers (£10bn), but a services surplus of £11.1bn. When it is asserted that Britain benefits significantly from the "Single Market" the figures suggest that more benefits accrue to our EU trading partners than to us. The trading outcome for non-EU countries was very different. Granted there were deficits in goods (£54.7bn) and transfers (£10.1bn), but there were very sizeable surpluses in both services (£47.7bn) and income (£32.7bn). The current account showed a surplus of £15.1bn.

Chart 2a. UK current account balance and components, £bn, 2010



Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition. See annex tables 2a-2c for the underlying data.

Chart 2b. UK change in current account balance and components, £bn, 2000-2010



Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition. See annex tables 2a-2c for the underlying data.

Chart 2b shows how the components have moved over the decade 2000 to 2010. Over this period the total current account balance deteriorated by £10.9bn from a deficit of £25.8bn (2000) to a deficit of £36.7bn (2010). But, interestingly, the deterioration was more than accounted for by trade with the EU by several factors (£46.9bn), whilst the balance with non-EU countries improved by £36bn. These developments suggest that UK-non-EU trade is more lucrative, and potentially much more lucrative given the relatively slow growth in the EU, than UK-EU trade.

1. Z/Yen Group, *Global Financial Centres Index 10*, September 2011, Long Finance's "Financial Centre Futures" programme.
2. The campaign group Global Vision discusses these issues in depth, www.global-vision-net.
3. Ruth Lea, "Time for a Global Vision for Britain" in Baimbridge, Whyman and Burkitt (eds), *Britain in a Global World*, Imprint Academic, 2010.

Leading on from this analysis, it is instructive to note which of Britain's individual trading partners show the largest surpluses/deficits. Annex table 3 shows the UK has the largest current account deficit with Germany (£22.8bn), mainland China (£20.9bn) and Norway (£17.6bn). But there were also sizeable deficits with Spain, France, Ireland (unusually and reflecting a sharp deterioration in investment income) and Japan. Surplus countries included the USA (£20.4bn), Australia (£10.2bn) and Switzerland (£6.2bn). The data for Luxembourg and the Netherlands are variously distorted by the "Rotterdam-Antwerp effect" and the "Netherlands distortion" which are discussed below.

The data suggest that Britain's most successful trading relationships are mainly outside the EU and with countries where there are ties of language and culture. Putting aside the slow growth prospects of the EU27, which we discuss below, the trade focus on the EU27 appears to be a classic case of "trade diversion" rather than "trade creation".

1.3 Switzerland, Germany and the UK: trade patterns

It is clear from the above analysis that Britain does not need to be in a "Single Market" to trade successfully with partner countries and, conversely, countries do not need to be in the EU to trade successfully with Britain. This conclusion is reinforced by a basic inspection of Swiss and German trade patterns, compared with Britain's. Switzerland's relationship with the EU is discussed in chapter 2.

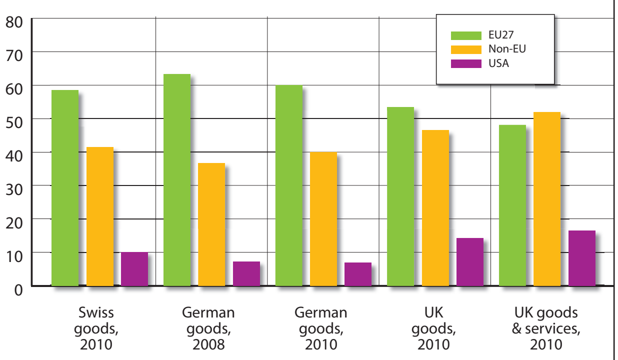
Table 1 and chart 3 opposite show the respective trade patterns of Switzerland, Germany and the UK for visible trade and, for the UK only, for goods and services.[4] The main conclusions are:

- Non-EU Switzerland had a higher proportion of its visible exports going to EU27 countries in 2010 (58.5%) than the UK (53.5%). This is a strong rebuttal to those who claim that trading with the EU, if we withdrew, would become "too complicated".
- Germany's dependence on the EU is greater than either Switzerland or the UK, but it fell between 2008 and 2010 reflecting a combination of the poorer outlook in the EU and rapidly rising exports to China. The proportion of German exports of goods going to China increased from 3.5% in 2008 to 5.7% in 2010. China's lack of membership of the EU seems to be no bar to buoyant Sino-German trade! Sino-German trade is, of course, conducted under the rules of the World Trade Organisation (WTO).
- Reflecting Britain's large and expanding services sector, the EU share of UK exports of goods and services was just over 48% in 2010 compared with 53½% for goods. Note that the goods data are distorted by the Rotterdam/Antwerp effect, which exaggerate Britain's trade dependence on the EU. (This effect is discussed opposite.)
- Britain's trade with the US is significantly higher as a proportion of total trade than either Germany's or Switzerland's.

Table 1. Geographical trade patterns, exports share (%)

	Switzerland	Germany		UK	
	2010, goods	2008, goods	2010, goods	2008, goods	2010, goods & services
Total	100	100	100	100	100
EU27, of which:	58.5	63.3	60.0	53.5	48.1
Germany	19.5	n/a	n/a	10.5	8.9
France	7.8	9.5	9.4	7.2	6.4
Italy	8.0	6.3	6.2	3.3	3.2
Netherlands	3.0	6.7	6.6	8.0	7.2
Austria	3.2	5.6	5.5	0.6	0.5
Spain	3.3	4.3	3.6	3.7	3.5
Ireland	0.3	0.6	0.4	6.3	5.8
UK	4.7	6.5	6.2	n/a	n/a
Non-EU	41.5	36.7	40.0	46.5	51.9
EFTA, of which:					
Switzerland	n/a	4.0	4.4	2.0	3.3
Other:					
USA	10.1	7.3	6.9	14.3	16.5
China, PRC	3.7	3.5	5.7	2.9	2.4

Chart 3. Geographical trade patterns, exports share (%)



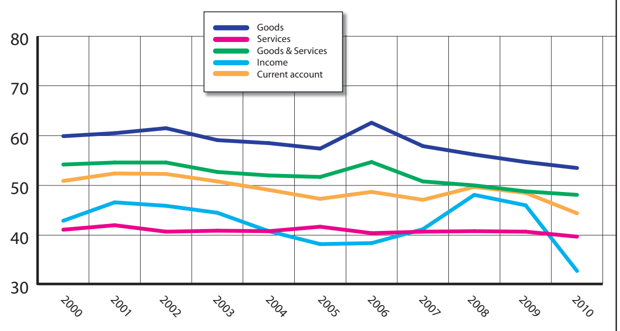
Sources: (i) Swiss National Bank, "Monthly Statistical Bulletin", December 2011; (ii) Deutsche Bundesbank, "Balance of payments, as of 12/12/2011"; (iii) ONS, *UK Balance of Payments, The Pink Book*, 2011 edition.

4. The choice of comparative data reflects the availability of the figures.

But Britain's dependence on the EU is not just less than either Switzerland or Germany, it is declining and, given the relatively poor outlook for the EU, will almost certainly continue to decline. Chart 4 shows the share of British trade accounted for by the EU27. The data tend to be volatile, and much affected by exchange rate movements, but the following broad conclusions can be draw:

- The share of visible trade accounted for by the EU27 dropped from 60% in 2000 to 53½% in 2010, whilst the fall in the share of services was modest - from 41% to under 40% over the same period.
- The share of goods and services, a component of GDP, fell from 54% to 48% reflecting the fall in the EU27-share of goods and the rising importance of services in British trade and which is less directed towards the EU27.
- The EU27 share of British income from abroad was volatile but at nearly 33% in 2010 was well down on 2000, when it was nearly 43%.
- The EU27 share of current account credits decreased from over 50% (early 2000s) to about 44½% (2010).

Chart 4. UK credits: goods, services, goods and services, income and total current account, % of total accounted for by the EU27, 2000-2010



Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition.

1.4 The "Rotterdam-Antwerp effect" and the "Netherlands distortion"

The EU-27 shares of trade are almost certainly distorted upwards by the "Rotterdam-Antwerp effect" and the "Netherlands distortion". The Rotterdam-Antwerp effect relates to trade in goods (and trade-related services to a lesser extent), whilst the Netherlands distortion concerns flows of income (and flows of capital).

In the words of the ONS:[5]

"Exports of goods are allocated to the country of destination; imports of goods are allocated according to the country of consignment. However, export figures from a country (A) to another country (B) may over-estimate the value of goods actually consumed in that country (B) if the importer forwards the goods on to another country (C). There are several reasons for this:

- The 'Rotterdam-Antwerp effect', where exports are properly attributed to the country where the port of discharge is located, following international convention, but are then re-exported to the country of final destination. The 'Rotterdam-Antwerp effect' is a particular issue with the UK because of exports routed through Rotterdam in the Netherlands and Antwerp in Belgium. No information is available on the value of UK exports that are subsequently shipped on to other countries, although investigations are taking place.
- Other transit trade, with goods passing straight through the country;
- Triangular trade, where goods are sold from member state A to B and on to C, but the goods move directly from A to C."

The "Netherlands distortion" arises because capital investments (and the income generated thereon) are often, for tax reasons, channelled through Dutch brass-plate holding companies by investors (corporate or otherwise) domiciled in other countries. Nevertheless, the income is recorded as originating in or destined for the Netherlands. Luxembourg is another jurisdiction favoured by investors for tax reasons where the same distortion arises.[6]

As already stated the ONS has no estimates for the "Rotterdam-Antwerp effect", but it is possible to calculate a proxy figure for goods. Table 2a (see over page 8) shows the high UK exports per capita for the Netherlands (£1280) and Belgium (£1250) compared with Germany (£339) and France (£306). Assuming that the "actual" per capita exports to the Netherlands and Belgium are not dissimilar to France and Germany, estimates can be made of the "excess" exports for the Netherlands (£15,410m) and Belgium (£9,632m) that are on-exported to other destinations (including France and Germany and other EU destinations). If this "guestimate" is in

5. ONS, "UK Balance of Payments, the Pink Book", 2011 edition. The "Rotterdam/Antwerp effect" is discussed on page 159.
6. "The Rotterdam-Antwerp Effect & the Netherlands Distortion", *Global Britain*, Briefing Note no 64, January 2011.

the right ball-park, it suggests that "actual" exports to both the Netherlands and Belgium are less than a third of the recorded exports.

Taking the sum of the "excess" exports to the Netherlands and Belgium (£25,072m) and dividing 50/50 between other EU and non-EU destinations, the adjusted shares for UK exports to the EU27 and non-EU can then be calculated. This is shown in table 2b. Similar adjustments could be made for services and for the Netherlands distortion for income credits. As we have restricted our calculations to goods only, it is likely that they are an underestimate of the total distortions to UK-EU trade.

Adjusting for the "Rotterdam-Antwerp effect" in this way reduces the proportion of total exports of goods and services going to the EU27 from 48% to 45%.

Table 2a. The "Rotterdam-Antwerp effect", exports of goods only, 2010

	Germany	France	Netherlands	Belgium
UK exports, goods	£27,913m	£19,228m	£21,250m	£13,377m
Population of importing country	82.3m	62.8m	16.6m	10.7m
UK exports, per capita	£339	£306	£1280	£1250
"Actual" exports, at say £350 per capita	n/a	n/a	£5,810m	£3,745m
"Excess" exports	n/a	n/a	£15,440m	£9,632m

Table 2b. Adjusted exports of goods and services, £m, 2010

	EU27	Non-EU	Total
Recorded exports:			
Goods	142,208 (53.5%)	123,506 (46.5%)	265,714
Services	67,940 (39.7%)	103,142 (60.3%)	171, 082
Goods & services	210,148 (48.1%)	226,648 (51.9%)	436,796
Adjusted exports:			
"Excess" adjustments, goods	-12,536	+12,536	0
Adjusted exports, goods	129,672 (48.8%)	136,042 (51.2%)	265,714
Recorded exports, services	67,940 (39.7%)	103,142 (60.3%)	171, 082
Adjusted exports, goods & services	197,612 (45.2%)	239,184 (54.8%)	436,796

Sources: (i) ONS, *UK Balance of Payments, The Pink Book*, 2011 edition; (ii) UN, Department of Economic and Social Affairs, Population Division, mid-year population estimates, June 2011.

1.5 Less than 15% of Britain's GDP depends on trade with the EU

Trade feeds into Gross Domestic Product (GDP) by way of the following identity:

- GDP = Total Domestic Expenditure + total exports of goods and services – total imports of goods and services.

GDP is therefore suppressed when a country runs a trade deficit in goods and services as Britain has done in recent years. Given that much of the recent deficit is with the EU27, trade with the EU has therefore, other things being equal, reduced GDP (see annex table 4).

Table 3 shows the share of exports to the EU27 as a proportion of GDP. This is a measure of UK economy's "dependency" on trade with the EU. 13-14% of the British economy, at most, is dependent on EU trade. Adjusting for the "Rotterdam-Antwerp effect", as calculated above, reduces the dependency share by about 1%. The vast majority of British GDP, over 85%, is therefore either entirely domestically generated or generated by trade with non-EU countries. Moreover, this proportion is rising as the EU economy falters. 100% of Britain's economy is subject to the EU's regulatory burdens and costs, but less than 15% of GDP relates to trade with the EU.

Table 3. UK exports to EU27, share of GDP, current prices

	GDP, £bn	Exports, goods & services Exports, goods & services					
		Total		To EU27		To EU27, allowing for the Rotterdam-Antwerp effect (goods)	
		£bn	% GDP	£bn	% GDP	£bn	% GDP
2009	1,393.9	395.6	28.4%	192.9	13.8%	180.4	12.9%
2010	1,463.7	440.9	30.7%	211.0	14.4%	198.5	13.6%

Sources: (i) ONS, "Quarterly National Accounts: 2011 Q3", Statistical Bulletin, December 2011; (ii) ONS, "UK balance of payments: 2011 Q3, December 2011 (note that the 2010 data have been revised since the Pink Book).

1.6 UK-EU trade creates fewer jobs in Britain than in the rest of the EU

A related issue is the number of jobs dependent on EU trade. It is often claimed that three million British jobs are dependent on exports to the EU. A couple of studies have suggested that this figure is in the right "ball-park":

- Ardy, Begg and Hodson (1997) concluded that nearly 3.5 million British jobs were dependent on exports to the EU.[7]
- Pain and Young (1997) estimated that approximately 2.7 million jobs in the UK could be linked directly to exports of goods and services to the EU.[8] Interestingly they concluded: "...although we find that a large number of jobs are now associated with exports for the EU, there is no *a priori* reason to suppose that many of these, if any, would be lost permanently if Britain was (sic) to leave the European Union" Indeed the study found that post-withdrawal there would be more British jobs in the medium-term than if Britain had stayed in.

But both these studies gave only one side of the story concerning the job creation effects of UK-EU trade within the UK. They did not deal with the number of UK jobs that were arguably "displaced" by imports from the EU. The studies gave no estimate of the number of "net" jobs that were created in the UK by UK-EU trade. For this reason, if for no other, they were incomplete at best and highly misleading at worst.

If, for example, we take the 3 million estimate of jobs dependent on exports to the EU and given that Britain's imports of goods and services from the EU were 16% higher than exports to the EU in 2010 then, as a crude rule of thumb, 3½ million EU jobs could be dependent on EU exports to the UK. This is surely as powerful a reason as any for the EU to maintain excellent trading relationships with us. It is in their interests. Another implication is that Britain could be suffering a net loss of ½ million jobs by trading with the EU.

One of the authors of this paper undertook a more detailed statistical analysis in 2008 using disaggregated data on employment and trade in the EU25 provided by the House of Commons Library.[9] The conclusion was that, at face value, nearly 6½ million EU jobs depended on the EU's trade with the UK in 2006, whilst just 4½ million British jobs depended on its trade with the rest of the EU. Britain's "jobs deficit" was nearly 2 million. Also, at face value, this study suggested that over 1 million German jobs, 800 thousand French jobs and 700 thousand Spanish jobs could depend on their trade with Britain. The detailed figures are shown in annex tables 5a and 5b. There is absolutely no reason to believe that the imbalance in jobs created has corrected since 2006.

1.7 The British economy is a large economy

It is sometimes claimed that Britain is "too small" to survive outside the warm embrace of full EU membership. For one of the world's largest "second tier" economies, albeit slipping down the league tables, this is a truly bizarre claim.

According to the World Bank the UK was the 6th largest economy in nominal (market exchange rates (MERs)) terms in 2010 and 7th in purchasing power parities (PPPs) terms. PPPs take into account differences in the relative prices of goods and services, particularly non-tradeables, and therefore provide a better overall measure of the real value of output produced by an economy compared with other economies than data calculated using market exchange rates. The largest economies in 2010 are listed in table 4 below.

It should be noted that the latest provisional data on international GDP suggest that Brazil overtook the UK in both nominal terms and PPP terms in 2011. IMF provisional estimates suggest that Britain dropped from 6th to 7th position in nominal terms and from 7th to 8th position in PPP terms.[10] Despite this slippage, the UK remains one of the world's biggest economies.

Table 4. The world's largest economies, GNI, US$tn, 2010

Rank	Atlas method (MERs)		Purchasing Power Parities (PPPs)	
		US$tn (%, share world total)		US$tn (%, share world total)
1	US	14.6 (23.4%)	US	14.6 (19.1%)
2	China	5.7 (9.1%)	China	10.2 (13.4%)
3	Japan	5.3 (8.5%)	Japan	4.4 (5.8%)
4	Germany	3.5 (5.6%)	India	4.2 (5.5%)
5	France	2.7 (4.3%)	Germany	3.1 (4.1%)
6	UK	2.4 (3.8%)	Russian Federation	2.7 (3.5%)
7	Italy	2.1 (3.4%)	UK	2.3 (3.0%)
8	Brazil	1.8 (2.9%)	France	2.2 (2.9%)
9	India	1.55 (2.5%)	Brazil	2.1 (2.7%)
10	Canada	1.5 (2.4%)	Italy	1.9 (2.5%)
	World total	62.4 (100%)	World total	76.3 (100%)

Source: World Bank, *World Development Indicators Database*, 2011. The world totals are as at July 2011. The Atlas method of smoothing exchange rate fluctuations improves the reliability of the market exchange rate (MER), or nominal, comparisons. Further details are shown in annex tables 6a and 6b.

7. Brian Ardy, Iain Begg and Dermot Hodson, "UK jobs dependent on the EU", Britain in Europe, 2000.
8. Nigel Pain and Garry Young, "Continent cut off? The macroeconomic impact of British withdrawal from the EU", *NIESR*, February 2000. This report was commissioned by Britain in Europe.
9. Ruth Lea, "UK-EU trade creates far fewer jobs in the UK than in the rest of the EU", *Global Vision Perspective*, April 2008.
10. According to the IMF Brazil's GDP will be $2,518bn (MER terms) & $2,309bn (PPP terms) in 2011. The UK's GDP will be $2,481bn (MERs) & $2,254bn (PPP). These data were taken off the IMF's website in early January 2012.

1.8 The changing global landscape: Europe's relative decline

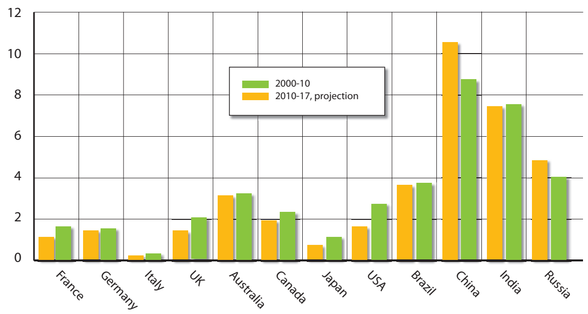
The relative shift in economic power from the developed economies to the emerging economies is indisputable. The rise of China, India and Brazil and the relative decline of European countries have been commented on many times.[11] It is reasonable to assume that these trends will not be reversed as the 21st century progresses, especially in the light of Europe's ageing and adverse demographics.

The IMF's comparative GDP data go back to 1980 and their forecasts stretch to 2017, so trends can be assessed for a period of over 35 years.[12] Chart 5 shows the major economies' shares of the global total (PPP terms). The explosive growth of China's economy is the most eye-catching development, but note how the EU27 slips back from accounting for over 30% of GDP in 1980 to just over 17% in 2017. The US's share also falls but less acutely – from nearly 25% in 1980 to nearly 18% by 2017. China's share is expected to expand from 2% (1980) to over 18%, ahead of the USA and the EU27, by 2017.

Chart 6 shows the latest IMF GDP growth projections (constant prices) to 2017 for selected EU and non-EU countries, alongside recorded growth rates for 2000-2010. The main conclusions are:

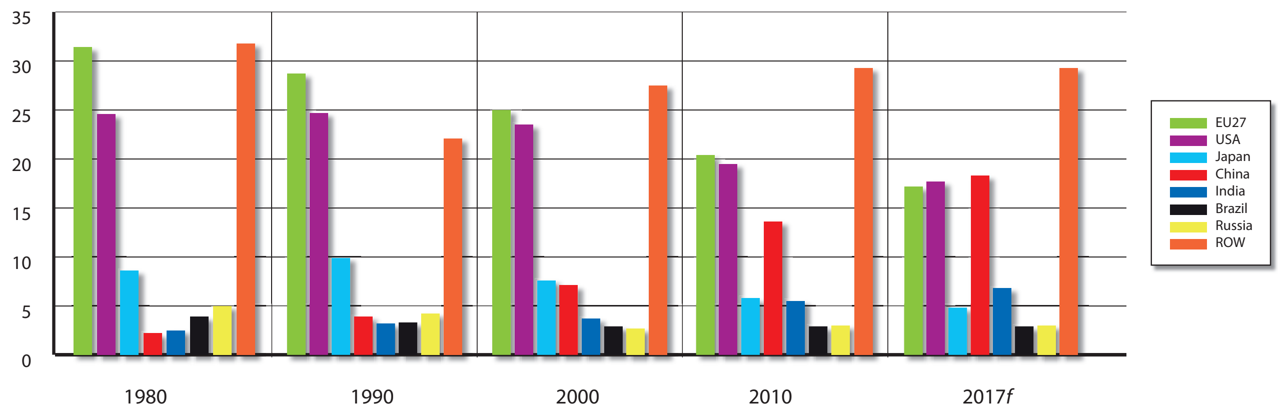
- The EU's growth prospects are poor, especially Italy's, and are outstripped by the BRICs, the USA and, notably, Australia and Canada. Europe may have been "the future" once, but in terms of buoyant growth prospects this is no longer the case – irrespective of the eventual outcome of the Euro. The EU is in relative secular decline. And even though the EU27 will remain a significant and wealthy part of the global economy it seems destined to contribute little to world growth in the foreseeable future.
- Japan's prospects are poor.
- India and especially China are expected to maintain spectacular growth rates into the middle of this decade.

Chart 6. IMF forecasts, GDP (constant prices), average annual growth rates (%)



Source: IMF, *World Economic Outlook database*, April 2012. Annex table 8 provides the underlying data.

Chart 5. Shares of world GDP (PPP), %



Source: IMF, *World Economic Outlook database*, April 2012. ROW = rest of world. Data for Russia for 1980 and 1990 were interpolated.

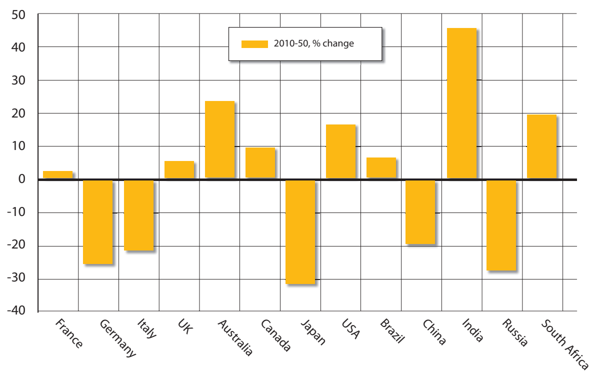
11. Ruth Lea, "Globalisation is here to stay and Britain must be free to respond", *Global Vision Perspective*, December 2007.
12. IMF, *World Economic Outlook database*, September 2011

1.9 Changing demographics: not in the EU's favour

Demographics are, of course, relevant to potential economic growth. And economic prospects for Germany, Italy, Japan and Russia up to 2050 will be undermined by falling working populations. Of the other advanced economies Australia and the US look well-placed to benefit from demographically-driven growth. India's working population should rise very strongly over the 2010-2050 period but China's is due to start declining in the second half of this decade reflecting the tough "one child" policy.

The UN estimates that between 2010 and 2050, the US's working population will increase by 16% and India's by 45%.[13] In contrast Germany's working population will fall by 25%, Italy's by 21% and Spain's by 14%. But the UK's is expected to rise by 5% and France's by 2%. Note too that other big fallers include Japan (31%), China (19%) and Russia (27%). The key data are shown in chart 7 below.

Chart 7. Working population (aged 15-64), selected countries, 2010-50, % change



Source: UN, *World Population Prospects*, medium variant, 2010 revision. Detailed calculations are shown in annex table 9.

1.10 The world's richest economies: small can be beautiful

We have already touched on the issue of whether Britain is "big enough" to survive as a nation outside full membership of the EU, provisionally concluding that Britain was indeed quite "big enough". But there are those who argue, rather persuasively, that size is irrelevant to prosperity and competitiveness in today's globalised world. Such "sizism" simply does not square with the facts. They point out that some of the most prosperous, competitive and fast developing countries are small.

The FT's Gideon Rachman, for example, has written that small countries tend to dominate almost any league table of national welfare.[14] And he noted the IMF's ranking of countries by GDP per capita showed that four of the five richest countries in the world had populations of less than 5m.

He also wrote that:

> "...taking pride in the sheer size of your country is increasingly anachronistic. Traditionally...a big country meant a bigger market and so more trade and wealth. But...globalisation has opened up markets across the world. China and India are getting bigger largely because they have access to the markets of the developed world, not because of the size of their domestic markets. Small countries can trade their way to success more swiftly. Think of Singapore or Switzerland."

> "...since the traditional disadvantages of being a tiddly country are disappearing, you are left with just the advantages. Governments in small countries...find it easier to craft and implement policy."

These are crucial points. The winning countries in the 21st century world, where the global markets are everyone's markets, will be those that can respond flexibly and quickly to changing circumstances. The "Singapores" and the "Switzerlands" will succeed and are succeeding. It is no coincidence that the WEF concluded that these countries were the most competitive in 2011.[15] Switzerland was the most competitive economy with Singapore as the runner-up (see annex table 10). The need for flexibility in today's markets should act as a warning to the EU with its inflexible regulatory mind-set (though note the WEF assessed several northern EU economies as highly competitive). Inflexible regulations put the EU's economies at a major disadvantage to the fleet-footed.

Annex table 11 ranks selected countries, excluding microstates, by GNI per capita, a proxy for living standards. The richest group of countries includes the Scandinavian

13. UN, *World Population Prospects*, medium variant, 2010 revision.
14. Gideon Rachman, "For nations, small is beautiful", FT, 4 December 2007.
15. WEF, *The Global Competitiveness Report 2011-2012*, 2011.

countries, Luxembourg, Switzerland, the Netherlands and the USA. (Norway and Switzerland are of course both relatively small European countries that are not in the EU.) The next wealthiest group includes Australia, Canada, Germany, France, Japan, Singapore and the UK. These countries are then closely followed by Spain, Italy, South Korea and New Zealand.

Russia, Turkey, Mexico and Brazil are in the next richest group. They are included in the World Bank's "upper middle income" group, along with South Africa and China.[16] China is well down the list of countries shown below by GNI per capita, in spite of its spectacular growth in recent years. Nevertheless growth in China, along with India, will continue to add "tens of millions of people to a global middle class keen to consume the financial advice, high-quality education and slick retailing that Britain does well" for many years.[17] Indonesia and India are classified as "lower middle income" countries.

Chart 8 includes some of the data ranked in annex table 11. They demonstrate the enormous range of per capita incomes – even for countries which are regarded by the World Bank as "lower middle income" countries or better.

1.11 The Commonwealth: time for another look

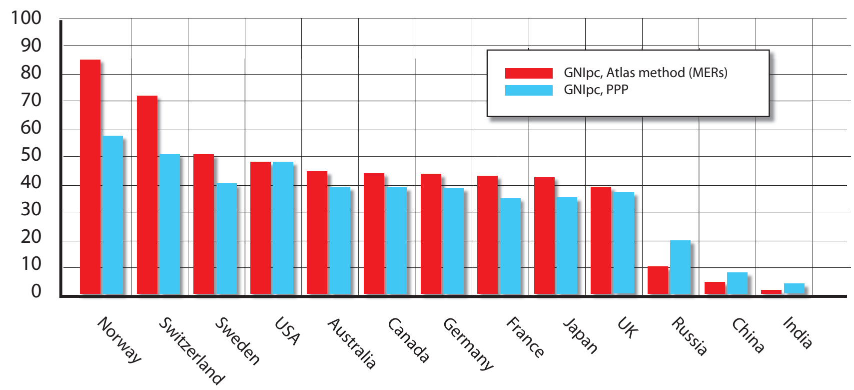
Before discussing the Commonwealth's economic potential, it is worth providing some political background. The modern Commonwealth was established in 1949 as a voluntary association of independent countries united as "free and equal members". It marked the end of the colonial, imperial "British Commonwealth". The eight original signatories were Australia, Canada, Ceylon (now Sri Lanka), India, New Zealand, Pakistan, South Africa and the UK. All members have equal votes, irrespective of size, and decisions are taken by consensus by their Heads of Government.

The Commonwealth's 54 members work together towards shared goals of democracy and development. Most are former British colonies but some, namely Mozambique, Rwanda and Cameroon, are not. (Annex table 12 lists details of the 54 members, but note that Fiji is currently suspended.) The Commonwealth is characterised by informal networks and associations that have evolved, rather than formal institutions. Leveraging these networks is the key to enhancing intra-Commonwealth trade and investment.

The key document concerning trade and economic cooperation (and development issues) was the "Edinburgh Communiqué", following a Commonwealth Heads of Government Meeting (CHOGM), in 1997. This Communiqué covered the members' agreed objectives but, crucially, left the individual members to decide the policies they should implement in order to achieve the objectives. The Commonwealth does not legislate for its members, unlike the EU, the members legislate for themselves. The Commonwealth Business Council was established in 1997 following the Edinburgh meeting.

The members vary vastly in size from India with a population of over 1 billion to small island states. The Commonwealth's membership includes two of the world's largest seven economies (the UK and India, on the PPP basis), two members of the G8 (Canada and the UK) and five members of the G20 (the UK, India, Canada, Australia and South Africa).[18] Eighteen African countries are part of the Commonwealth and there are also major clusters in South East Asia and the Caribbean.

Chart 8. GNI per capita, US$ thousands, selected countries, 2010



Source: World Bank, *World Development Indicators Database*, 2011. The data for Australia relate to 2009.

16. The World Bank classifies economies according to 2010 GNI per capita, calculated using the Atlas Method. The income groups are: (i) high income - $12,276 or more; (ii) upper middle income - $3,976-$12,275; (iii) lower middle income - $1,006-$3,975; and (iv) low income - $1,005 or less.
17. *Economist*, "Go east, young man", 14 November 2010.
18. The G20 comprise: UK*, Germany, France, Italy, Russian Federation, the EU; Turkey, Saudi Arabia, India*, China, Japan, South Korea, Indonesia; South Africa*, Australia*; USA, Canada*, Brazil, Mexico and Argentina. The asterisked countries are Commonwealth countries.

1.12 Commonwealth countries are the growth markets of the future

The Commonwealth as an economic bloc is rarely discussed in Britain.[19] But, as Britain's economic and political focus rightly shifts to partnerships with non-European economies, this is arguably an opportune moment to readdress and re-evaluate the economic potential of the Commonwealth. Britain has unrivalled international links for a middle-ranking country. Such links put Britain in a significantly more powerful position when negotiating with other countries and blocs (including the EU) than, say, Switzerland or Norway (though note these two countries are remarkably prosperous). Some of these links are with the misguidedly neglected Commonwealth countries. It is time for Britain to build on these links.

Commonwealth countries have at least four interesting features which are relevant to trade:

- Firstly, because of shared history and commonalities of language, law and business practice, it has been estimated that Commonwealth countries trading with one another experience business costs 10-15% lower than similar dealings with non-Commonwealth countries of comparable size and GDP. This has been called the "Commonwealth advantage".[20,21]
- Secondly, the modern Commonwealth spans five continents and contains developed, emerging and developing economies. Nearly every major economic grouping is represented and in its diversity it captures the character of the 21st century globalised economy. It contains over 2 billion people and accounts for 15% of world GNI in PPP terms (see annex table 12).
- Thirdly, they have favourable demographics and growth prospects (as discussed above). Their working populations are projected to increase to 2050 and, insofar as economic growth is correlated with growth in the working population, they are set to be the growth markets of the future, along with the US and China. Specifically, the Commonwealth's demographics compare very favourably with several major European countries, where working populations will age and shrink.
- Fourthly, the Commonwealth also has the advantage of being a group of friendly (non-threatening and non-adversarial) countries which includes many with deep reserves of key natural resources.

The comments by Kamal Nath, India's Urban Development Minister and former Industry Minister, are to the point:[22]

> "The Commonwealth is the ideal platform for business and trade ... I hope that India's ties with the Commonwealth will move from strength to strength, and that the new paradigm will only mean greater warmth, greater cooperation."

1.13 Time to consider a Commonwealth Free Trade Agreement

Britain's trade with the Commonwealth is already significant (table 5). In 2010, total exports of goods and services to the major Commonwealth countries were nearly £37bn, over 8% of the total. But these exports were dwarfed by exports to the US (£72bn) and in particular to the EU27 (£210bn). The equivalent figures for imports were £36bn from the Commonwealth, £46bn from the US and nearly £243bn from the EU27. Significantly, when the balances for income and transfers are accounted for, Britain ran a healthy surplus with the major Commonwealth countries and the USA in 2010, but a hefty deficit with the EU27 (and see above).

Table 5. UK trade, £bn, selected Commonwealth countries, 2010

	Goods & services			Income	Transfers	Current account
	Exports	Imports	Balance	Balance	Balance	Balance
Commonwealth, major 8:						
Canada	7.0	7.3	-0.2	2.2	-0.2	1.8
India	6.1	8.1	-2.0	1.6	-1.0	-1.3
Pakistan	0.8	1.3	-0.5	0.2	-0.3	-0.6
Malaysia	2.0	2.1	-0.1	0.6	0	0.4
Singapore	7.1	5.9	1.2	1.7	-0.1	2.7
Australia	8.4	4.5	3.9	6.6	-0.2	10.2
New Zealand	0.9	1.2	-0.3	0.4	-0.1	0
South Africa	4.6	5.5	-0.9	1.2	-0.4	-0.1
Total	36.9	35.9	1.1	14.5	-2.3	13.1
Other:						
USA	72.2	46.2	26.0	-5.1	-0.5	20.4
EU27	210.1	242.8	-32.7	-9.7	-10.0	-52.4
World	436.8	476.5	-39.7	23.0	-20.1	-36.7

Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition. There are rounding errors in the table.

19. Ruth Lea, "Commonwealth countries are the growth markets of the future", *Arbuthnot Banking Group Perspective*, 19 December 2010.
20. Sarianna Lundan and Geoffrey Jones, "The 'Commonwealth Effect' and the process of internationalisation", in the *World Economy*, January 2001.
21. Brent Cameron, "Building the Transatlantic Bridge: the potential for Canada-UK trade", *Global Vision*, March 2008.
22. The Commonwealth Business Council & City of London, *Commonwealth Economic Partnerships Forum*, October 2010.

Moreover the prospects for British trade with Commonwealth countries look positive, and not only because their demographics and growth prospects are favourable. As can be seen from table 6, the British imports penetration ratios in some of the Commonwealth countries look low, disappointingly so given the above-mentioned "Commonwealth advantage", compared with France and Germany. This suggests there is some scope for "catching up", especially so in the case of India and Canada. The data also suggest scope for "catching up", other things being equal, for the USA (though the USA is a less open economy than the UK) and, in particular, China.

Commendably, the coalition government has already stepped up its efforts to encourage Britain in the world's future growth markets. And, interestingly, William Hague has already acknowledged the Commonwealth's growth potential:

> "...increasingly, Commonwealth countries are... proceeding with some of the fastest growth rates in the world".[23]

The establishment of a Commonwealth free trade area, including the UK, would assist in developing trade links further, but Britain cannot negotiate such a Free Trade Agreement whilst a member of the EU's Customs Union. A looser framework for the UK with the EU would allow Britain to take the forward-looking approach of establishing closer trade relationships with the Commonwealth.[24]

Table 6. UK exports /GDP of importing countries, 2010

	UK exports of goods and services		Importing country, nominal GNI ($bn)	UK exports, % importing country's GNI
	£bn	US$bn+		
Germany	38.7	59.8	3,522	1.7%
France	28.1	43.4	2,750	1.6%
US	72.2	111.6	14,646	0.8%
China	10.3	15.9	5,721	0.3%
Commonwealth:				
Canada	7.0	10.8	1,476	0.7%
India	6.1	9.4	1,554	0.6%
Pakistan	0.8	1.2	183	0.7%
Malaysia	2.0	7.7	220	3.5%
Singapore	7.1	11.0	203	5.4%
Australia	8.4	13.0	957 (2009)	1.4%
New Zealand	0.9	1.4	124 (2009)	1.1%
South Africa	4.6	7.1	305	2.3%

Source: + taking the 2010 average spot rate $/£1.546, source Bank of England.
Sources: (i) export data from ONS, *UK Balance of Payments, the Pink Book*, 2011 edition;
(ii) GNI data from the World Bank, *World Development Indicators Database*, 2011.

23. The Commonwealth Business Council & City of London, *Commonwealth Economic Partnerships Forum*, October 2010.
24. Ian Milne, "Time to say no: alternatives to EU membership", *Civitas*, 2011.

Chapter 2 **The EU27, EEA and EFTA**

2.1 Introduction

The European Union currently comprises 27 countries, with 17 in the Eurozone. The member states are listed in the annex table, see page 42. The following should be noted:

- The EU's Customs Union comprises the EU27, Turkey, Andorra, Monaco and San Marino.
- The European Economic Area (EEA) comprises the EU27 plus Norway, Iceland and Liechtenstein. The three non-EU countries all belong to EFTA and participate in the Single Market, but not the Customs Union.
- The EU is an "economic union", comprising both a Customs Union and the Single Market. The Eurozone (EU17) is a "monetary union".
- Norway, Iceland, Liechtenstein and Switzerland are the current members of the European Free Trade Association (EFTA).
- The EU's Schengen Area comprises 22 countries of the EU27 (excluding the UK, Ireland, Cyprus, Romania and Bulgaria) plus the four EFTA countries (Norway, Iceland, Liechtenstein and Switzerland). Norway, Iceland, Denmark, Sweden and Finland comprise the Nordic Passport Union. The borderless Schengen Area was created by the Schengen Agreements (including the main agreement, signed in 1985). It will not be discussed further in this paper.

2.2 The EU's Customs Union

As any customs union, the EU's Customs Union has no internal tariffs but has a Common External Tariff (CET), or Common Customs Tariff (CCT), on imports of goods from third countries.[25]

The EU's Trade Commissioner negotiates all trade deals for EU members, having a seat in the WTO on behalf of all the members. It is sometimes argued that the UK has greater leverage in the WTO as part of the EU's Customs Union than would be the case if it negotiated for itself. Therefore, so it is claimed, membership of the Customs Union is unequivocally in Britain's interests. But this claim can only be valid in so far as British commercial interests coincide with the EU's collectively. If/when UK interests do not coincide with the EU's the UK would be better placed outside the Customs Union, negotiating its own trade deals. In reality Britain can be significantly at odds with the EU in important trade matters. For example, the EU sometimes pursues a protectionist agenda (especially regarding agriculture) which blocks the kind of free trade arrangements Britain favours.

Customs duties are only charged on imports of goods from outside the EU. In the mid-20th century, when duties were high, it was arguably economically helpful to be a member of the EU Customs Union. But since then EU tariffs have dropped significantly and are now very low. According to the Heritage Foundation's "2011 Index of Economic Freedom" the EU's average weighted CET was only 1.2% in 2009, though, they added:

> "...the EU has high or escalating tariffs for agricultural...products and its MFN (most favoured nation) tariff code is complex".[26]

It should also be noted that a high proportion of Britain's imports of goods and services are, in fact, services (about 25% in 2010), on which there are zero tariffs. Allowing for this, the effective average tariff on trade in goods and services would fall further – to less than 1%. Suffice to say there are no tariffs on the other two components of the current account: income and transfers. In the age of the WTO and low EU tariffs it can be argued that the EU's Customs Union is a relic of the 1950s, with Free Trade Agreements (FTAs) the future.[27]

2.3 The EU's Single Market

The Treaty of Rome (1957) set out "four economic freedoms", which are at the heart of the Single Market: free movement of goods, free movement to provide services, free movement of capital and free movement of people.

The Single European Act (SEA) (1986) set a deadline of 1 January 1993 for the "completion" of the Single Market. ("Completion" has however yet to be attained and is probably unattainable.) The SEA sought to eliminate the physical barriers, the technical barriers (including different product standards) and the fiscal barriers (principally concerning the harmonisation of indirect taxes) to trade. As the Customs Union had eliminated internal tariff barriers to trade, so the SEA sought to eliminate internal non-tariff barriers.

There have been two main driving forces behind the development of the Single Market:

- The genuine attempt to break down barriers to the "four freedoms", open up markets and develop an EU-wide competition policy.
- Harmonised regulations throughout the EU to create "level playing fields" and prevent "unfair competition".

25. In order to apply its trade policy instruments with third countries (including duties and anti-dumping) the EU has a system of complex rules to determine the origin of goods. See Ruth Lea, A new trading relationship for Britain with the EU, *Global Vision*, March 2008.
26. The Heritage Foundation, "2011 Index of Economic Freedom", www.heritage.org.
27. Ian Milne, "EU Customs Duties", *Global Britain*, Briefing Note no. 70, January 2011.

There has been a tendency in Britain to regard the opening up of the markets as the predominant feature, if not the only feature, of the Single Market and treat the accompanying regulations as an unnecessary and rather tiresome sideshow. But this is to misunderstand the nature of the Single Market. The Market is not intended to be a straightforward free trade market, as many in the UK would like it to be, it is intended to be a regulated market. Many British observers have failed to appreciate this fact. It has, moreover, significantly underpinned by and influenced by the Continental Social Market Model, which is characterised by heavy employment regulations (social protection) and trade protectionism (especially in France).

In its attempts to "harmonise", the EU has brought in extensive employment regulation, resisted by the UK in vain, to prevent "social dumping" and aims to harmonise tax rates to prevent "fiscal dumping". The notion that some countries should have relatively light employment regulations and/or low tax rates to improve their international competitiveness is considered by the EU to be "unfair competition".

There is another aspect to this thinking, bizarrely so when Germany's powerhouse export industries are considered, and that is that global competitiveness beyond the EU's borders does not really figure in the creation of the harmonised, regulated Single Market. Whilst Germany and some of the other northern EU countries can cope with the EU's regulations and restrictions and remain competitive, the southern EU countries clearly cannot. For the UK the regulations, not least of all for financial services, are increasingly damaging and onerous. We discuss this further in chapter 3.

It should be added that, though the EU is keen to impose regulations and controls over EU members and accuse them of a lack of solidarity or "not playing the game" if they challenge diktats from Brussels, the individual member states are quite content to trade with non-EU (or more correctly non-EEA) countries. There is no squeamishness when it comes to trading with the USA or China, even though neither of these countries would even contemplate imposing the EU's social regulations. Of course non-EU countries have to meet the product specifications of EU countries if they wish to trade with them, but as many of these are determined internationally this is a limited, if not a non-existent, additional imposition. There is of course absolutely no obligation for non-EU countries to conform to EU, or indeed international, specifications for their domestic trade. But the claim that EU countries would stop trading with the UK, if the UK ceased to be subject to the EU's Single Market regulatory reach, is absurd.

It is, in addition, important to note that many of the technical regulations which emanate from the EU do not actually originate with the EU. They are instead negotiated through various international bodies of which the UK is a member in its own right. These bodies produce technical standards on, for example, transport safety and food safety which the EU adopts with the Commission acting as the middle-man.

It is also worth noting that the power to "influence" Single Market legislation within the EU is very limited for any member state because such legislation is determined by Qualified Majority Voting (QMV). The UK has a mere 8½% of the votes in the crucial decision-making Council of the European Union (or the Council of Ministers). Moreover the UK, as a frequent outlier, finds it almost impossible to form political alliances to form blocking majorities to stop legislation it does not wish to be implemented. (26% of the votes are currently needed to block legislation.) Legislation such as the Agency Workers Directive and the Alternative Investment Fund Managers Directive were energetically opposed by the UK Government, but were nevertheless pushed through by the EU. There is now very little economic legislation subject to a veto; taxation being one of the few categories.

There have undoubtedly been some benefits from the Single Market, but the costs seem to have comprehensively outweighed the benefits. The EU Commission has conceded that the EU's regulations are costly. Günter Verheugen (the Commissioner for Enterprise and Industry, 2004-10) was reported in the *Financial Times* in 2006 saying that the costs to business of complying with European legislation could be up to €600bn a year, almost twice the previous estimates.[28] €600bn was equivalent to 5.5% of EU GDP, equivalent to the size of the Dutch economy.

Meanwhile the benefits are, apparently, much lower than the costs. The Commission has said that "…over the last 15 years the Single Market has increased the EU's prosperity by 2.15% of GDP. In 2006 alone this meant an overall increase of €240 billion, or €518 for every EU citizen, compared to a situation without the Single Market." [29]

An alternative Commission estimate of a boost to prosperity of €225bn in 2006 was quoted by the Treasury and the DTI in their 2007 analysis of the Single Market.[30] But whichever figure is taken, it appears that the costs easily outweigh the benefits by a factor of about two-and-a-half to one.

28. *FT*, "Uphill battle against Brussels bureaucracy", 10 October 2006.
29. Available from www.ec.europa.eu/internal_market/
30. HM Treasury and DTI, *The Single Market: a vision for the 21st century*, January 2007.

2.4 The European Economic Area

At the beginning of the 1990s there was pressure from the then remaining EFTA countries for greater economic ties with the EU, propelled by the development of the Single Market. EFTA then comprised Austria, Finland, Sweden, Norway, Iceland, Switzerland and Liechtenstein. The first step towards closer ties was the establishment of the European Economic Area (EEA) under the EEA Agreement. The EEA Agreement was signed in 1992 and came into force in 1994.

In 1994 the EEA comprised the then 12 members of the EU (EU12) plus Austria, Finland, Sweden, Norway and Iceland. Switzerland had signed the EEA Treaty but its independently minded electorate voted against it in a referendum in 1992. The Swiss rejection of the EEA delayed Liechtenstein's membership until 1995.

Despite membership of the EEA, Austria, Finland, Sweden and Norway pursued EU membership. Referenda were held in all these countries, with the Norwegian electorate rejecting EU membership for a second time. Austria, Sweden and Finland became members of the EU in January 1995. The EEA currently comprises the 27 members of the EU (EU27) plus Norway, Iceland and Liechtenstein.

All the relevant Community legislation in the field of Single (Internal) Market has been integrated into the EEA Agreement. But the Agreement does not cover:[31]

- The Customs Union and Common Trade Policy.
- The Common Agricultural and Fisheries Policies.
- A Common Foreign & Security Policy.
- Justice & Home Affairs (though they are part of the Schengen network).
- EU Monetary Union.

The EEA Agreement provides for equal conditions for businesses across the entire Single (Internal) Market, through competition and state aid rules. It also includes "horizontal provisions" relevant to the four freedoms, as well as cooperation outside the four freedoms in so-called "flanking" areas. The latter cover areas such as R&D, information services, education, training and youth, employment, enterprise and entrepreneurship and civil protection.

As a result of the EEA Agreement, EEA membership encompasses the adoption of the Single Market's regulations. Whereas EFTA, which is strictly a free trade area, is outside these rules. Norway, as a member of the EEA, has to adopt the Single Market legislation in order to trade with the EU whereas Switzerland does not.

The EEA Agreement is revised frequently reflecting changes in EU legislation to maintain the "principle of homogeneity" of the EEA. The EEA EFTA member states are given the opportunity to influence the shaping of EU EEA-relevant legislation, but they have little influence on the final EU decisions. They can neither sit nor vote in the major EU legislative institutions. They therefore have to agree to incorporate into the EEA Agreement what has ultimately been decided, if not necessarily shaped, by others.[32] This state of affairs is sometimes referred to as "fax democracy".

2.5 The European Free Trade Association (EFTA)

The European Free Trade Association (EFTA) is a free trade area and was established in 1960 by Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK (the "Outer Seven"). Finland, Iceland and Liechtenstein joined later, but Ireland was never a member. There are currently four members: Norway, Iceland, Liechtenstein and Switzerland.

A free trade area, as in a Customs Union, has no internal tariffs but it has no common external tariff (CET) either. In a free trade area the members, therefore, retain the right to decide their own tariffs against third countries whilst in a customs union they do not. Moreover, and crucially, members of a free trade area retain the ability to negotiate their own bilateral deals with third countries and have direct representation in the World Trade Organisation (WTO), whilst members of the EU's Customs Union do not. Note though that any Free Trade Agreement (FTA) implies a measure of discrimination against countries outside the FTA.

2.6 Switzerland's position

Switzerland's relationship with the EU is that of a free trade area, with a series of negotiated bilateral intergovernmental agreements. Any of the agreements can be cancelled by the Swiss Federal Government.

The Swiss-EC/EU relationship has been built in stages, [33, 34] including:

- The Free Trade Agreement of 1972 (industrial goods).
- The Insurance Agreement of 1989.
- Customs facilitation and security, agreed in 1990, amended in 2009.

31. EFTA, "The European Economic Area (EEA)," fact sheet, November 2010, available from www.efta.int.
32. EFTA, "The European Economic Area (EEA)," fact sheet, November 2010, available from www.efta.int
33. Swiss Confederation, Integration Office FDFA/FDEA, "Bilateral agreements Switzerland-EU", www.europa.admin.ch.
34. Swiss Confederation, Integration Office FDFA/FDEA, "The major bilateral agreements Switzerland-EU", December 2011, www.europa.admin.ch.

- The seven Bilateral agreements I (Bilaterals I) of 1999, which were mainly liberalisation and market opening agreements:
  - The free movement of persons.
  - The elimination of technical barriers to trade.
  - Public procurement markets.
  - Agriculture.
  - Research.
  - Civil Aviation.
  - Overland transport.
- The nine Bilateral agreements II (Bilaterals II) of 2004, agreed in order to strengthen cooperation in the economic sphere and extend cooperation:
  - The Schengen/Dublin agreement.
  - Taxation on savings.
  - Processed agricultural products.
  - MEDIA, for the promotion of European film.
  - Environment.
  - Statistics, to encourage the harmonisation of data collection.
  - Fight against fraud.
  - Pensions.
  - Education, occupational training, youth.
- Europol, 2004, which improves cooperation between police authorities in serious cases of international crime.
- Eurojust, 2008.
- Education, vocational training, youth, 2010.

In its *Europe Report* 2006, the Swiss Federal Council concluded that Switzerland's objectives and interests with regard to Europe could be best achieved through the further development of the bilateral contractual framework, rather than deeper integration.[35] The report estimated that the cost to Switzerland of continuing bilaterally with the EU would be about SFr550m a year for the period 2007-13. If Switzerland were to join the European Economic Area (EEA) the annual costs would rise to about SFr730m annually. If Switzerland were to join the EU, the annual net contributions would increase to SFr3.4bn annually (six times the current cost), with gross contributions of SFr4.9bn (nine times the current cost).

35. Swiss Confederation, Integration Office FDFA/FDEA, *Europe Report 2006*, available on www.europa.admin.ch

British membership of the EU: economic costs and benefits

3.1 Introduction

The UK joined the European Communities in January 1973. The Communities comprised the European Economic Community (EEC), the European Coal and Steel Community (ECSC, 1954-2002) and the European Atomic Energy Community (EAEC, Euratom). The European Union (EU), of which Britain is currently a full member, was established by the Maastricht Treaty in November 1993.

Britain participates in the EU's comprehensive package of economic policies except the euro, where Britain has an opt-out. Suffice to say, the EU's policies are profoundly influential on British economic management. This chapter covers:

- The individual cost-benefit aspects of:
  - Contributions to the EU Budget.
  - The Customs Union.
  - The Single Market which, with the Customs Union, comprises EU economic union.
  - The Common Agricultural Policy (CAP), the Common Fisheries Policy (CFP) and energy policies.
- There is also discussion of some comprehensive cost-benefit analyses of British membership.

It is salutary to note that in the run-up to EEC membership there were cautionary voices concerning the economic consequences of membership. According to Hugo Young

> "...the Treasury...remained officially against British entry. That is to say, its judgement of the economic consequences was negative, and it submitted a paper to that effect." [36]

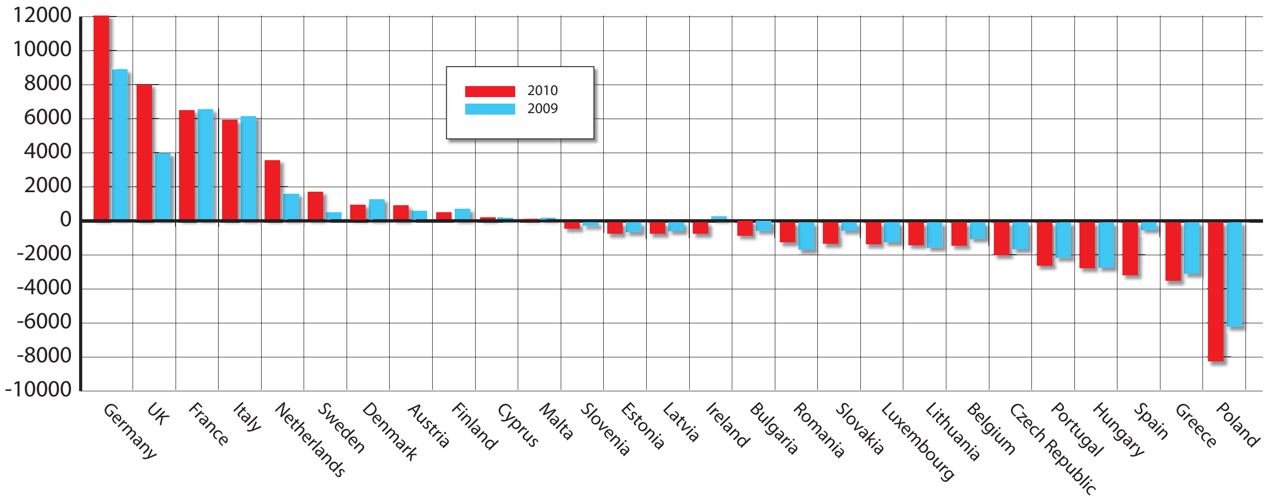
The Treasury was over-ruled by a Prime Minister who was convinced that the UK should join the EEC, whatever the cost. In mitigation the EEC was, at that time, a dynamic growth area and industrial tariffs were relatively high. This is no longer the case, as we have discussed in chapters 1 and 2. Nearly 40 years on, it is time to reconsider our relationship with the EU. The EU is no longer a dynamic growth area - its growth prospects are dreary. Moreover, industrial tariffs have shrunk, membership costs have escalated and much of the rest of the world, beyond Europe's borders, are the growth markets of the future.

3.2 Britain's contributions to the EU budget

The calculation of Britain's contributions to the EU Budget is relatively straightforward. Britain is a major net contributor to the EU Budget, of which about 45% was spent on policies for "sustainable growth" (including regional funds) in 2011, 41% on the "preservation and management of natural resources" (including CAP and the CFP) and the rest on "citizenship, freedom, security and justice", "EU as a global player" and administration. See annex table 1 for the 2011 Budget data.

In 2010 Britain was the second largest net contributor after Germany, as shown in chart 9. The current annual budgets are agreed under the present 7-year Multi-Annual Financial Framework (MFF), relating to 2007-13, which was agreed in 2005. The next MFF relates to the 7-year period 2014-20 and should be agreed towards the end of 2012 or early in 2013.

Chart 9. Net contributors to the EU Budget, €m



Sources: (i) European Commission, *EU Budget 2010*, Financial Report, 2011; (ii) European Commission, *EU Budget 2009, Financial Report*, 2010.
The detailed figures for 2010 are shown in annex tables 2a and 2b.

36. Hugo Young, *This blessed plot*, Macmillan, 1998.

Detailed UK contributions are provided by the Treasury.[37] The latest financial year estimates are provided in table 7a and show a significant increase in net payments to the EU in the financial year 2010-11 (FY2010). The net contribution was £8.1bn in FY2010, including the part of the aid budget which is channelled through the EU, compared with £4.4bn in FY2005. Britain's net contributions are moreover set to increase in forthcoming years (table 7b), though much will depend on the eventual settlement for the MFF for 2014-20 and this makes forecasts beyond 2013 especially uncertain. At times of fiscal austerity increases in the UK's contributions to the EU are especially unwelcome.

The rise in the UK's contributions reflects, firstly, the increases in the size of the EU Budget and, secondly, the fact that the abatement has been "disapplied" on non-agricultural spending in the 12 new Member States, which acts to reduce the abatement.[38] This "disapplication", agreed in 2005, is now fully phased in and is costing the UK around £2bn a year. Net contributions are projected to rise from £8.1bn in FY2010 to £8.5bn in FY2013 and nearly £9.4bn in FY2014.

Note that the EU makes payments directly to the private sector, which do not appear in the public sector's accounts. These receipts are expected to be around £890m in 2011.

The public sector receipts mainly comprise EU payments under CAP, the Social Fund and the European Regional Development Fund, [39,40] which would probably be better targeted and administered nationally by the British Government. Annex tables 4a and 4b provide the Treasury's detailed estimates of the receipts. The data quoted in tables 7a and 7b are shown in chart 10.

Table 7a. Payments, abatement and public sector receipts, financial years, FY2005-FY2010 outturn, £m

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Gross payments	11,780	12,245	13,746	13,155	13,733	15,593
Less: UK Abatement	-3,641	-3,560	-3,960	-5,595	-4,218	-2,678
Gross payments, less abatement	8,139	8,685	9,786	7,560	9,515	12,915
Less: public sector receipts	-3,750	-5,164	-5,601	-4,558	-4,791	-4,795
Net contribution to EU Budget	4,389	3,521	4,185	3,002	4,724	8,119
Payments to EU Budget attributed to the aid programme	-704	-709	-715	-751	-830	-856
Other attributed costs	0	0	0	0	-69	-43
Net payments to EU institutions (exc. aid)	3,685	2,812	3,470	2,252	3,825	7,220

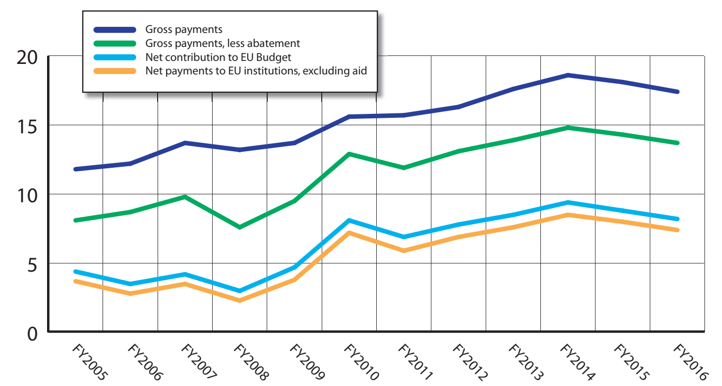
Source: HM Treasury, "European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement", Cm8232, December 2011, table 3.C. There are rounding errors in the table. Calendar year data are shown in annex table 3.

Table 7b. Payments, abatement and public sector receipts, financial years, FY2011-FY2016 outturn, £m

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Gross payments	15,654	16,294	17,593	18,649	18,145	17,392
Less: UK Abatement	-3,774	-3,212	-3,703	-3,800	-3,861	-3,719
Gross payments, less abatement	11,880	13,082	13,890	14,849	14,284	13,673
Less: public sector receipts	-4,964	-5,250	-5,360	-5,486	-5,475	-5,433
Net contribution to EU Budget	6,915	7,832	8,530	9,363	8,809	8,240
Payments to EU Budget attributed to the aid programme	-856	-856	-856	-856	-856	-856
Other attributed costs	-163	-82	-79	0	0	0
Net payments to EU institutions (exc. aid)	5,897	6,893	7,594	8,507	7,953	7,384

Source: HM Treasury, "European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement", Cm8232, December 2011, table 3.D.

Chart 10. Payments and net contribution to the EU Budget, £bn



Source: HM Treasury, "European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement", Cm8232, December 2011.

37. HM Treasury, "European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement", Cm8232, December 2011.
38. The abatement mechanism is complex: details are at Article 4 of the Own Resources Decision, where it is described as "a correction in respect of budgetary imbalances". The amounts deducted from the UK''s contribution to revenue under the abatement are made up by adjusting the GNI-based contributions of the other Member States.
39. There are four Structural Funds through which the EU provides financial assistance: the European Regional Development Fund, the European Social Fund, the Agricultural Guidance and Guarantee Fund (EAGGF, the Guidance section) and the Financial Instrument for Fisheries Guidance (FIFG).
40. Ruth Lea, "Britain's contributions to the EU: how to save £5bn, minimum", *Global Vision and TPA*, 2009.

If Britain were to adopt a Swiss-style relationship and negotiate a proportionate drop in net contributions (see chapter 2), then considerable savings could be made. If, for example, we had had a Swiss-style relationship in FY2010 our net contributions could have been one sixth of what they were. They could therefore have been £1.3bn – a saving of nearly £7bn.

3.3 The EU's Customs Union: remember the opportunity costs

We argued in chapter 2 that the benefits of being part of the EU's Customs Union in the age of the WTO and low EU tariffs were significantly less than they had been in the mid-20th century. The EU's average weighted CET was only 1.2% in 2009, according to the *Heritage Foundation*. The tariff on imported cars is, admittedly, somewhat higher but given the importance of the UK's domestic market for EU-produced cars it would be commercially sensible for the UK and the EU to negotiate mutually beneficial terms in the event of Britain's withdrawal from the Customs Union. It would not be in Germany's interest, to name but one major car exporter to the UK, for UK-EU trade in automobiles to atrophy.

The costs to Britain of membership of the Customs Union, specifically the opportunity costs of being unable to negotiate its own free trade deals, are however substantial. Moreover these opportunity costs are likely to be increasingly significant, given the relative decline of the EU as an economic bloc and the rise of the Commonwealth, for example, where Britain has an advantage through ties of culture and history. The establishment of a Commonwealth FTA, including the UK, would almost certainly stimulate the development of trade links.[41]

The current focus of Britain's trade, slanted towards Europe, is clearly sub-optimal. Moreover, the EU's tendency towards protectionism (for example in agriculture and textiles) is not only disadvantageous to the UK (which has a very small agricultural sector), but it can also damage the trading prospects of developing countries and, therefore, their ability to prosper. The fact that Britain is still a sizeable world economy and a leading trading nation should give the country considerable leverage in any negotiations concerning new trading relationships.

Calculating the opportunity costs of membership of the EU's Customs Union is of a different order of difficulty from net budget contributions. It is, by its very nature, uncertain. It is, however, an important and relevant issue. It concerns the very future of the world economy and Britain's place within it. Emphasising the caveats, Ian Milne has calculated that "even with rather modest assumptions about how much faster the economy of a UK outside the EU might have grown in the past, and might grow in the future, the cumulative effect in terms of percentage points of GDP ranges from 6% now to over 12% in the future".[42] These figures look quite reasonable.

3.4 The Single Market: introduction

Membership of the Single Market comes with a very heavy regulatory price, as we discussed in chapter 2. If the UK withdrew from the Single Market, then any British Government would be in a position to amend and/or repeal any legislation it considered especially damaging. This is not to say that most, or even some, EU legislation would be repealed in reality. Democratically elected British governments with different political agenda have different objectives. This would be especially true for, say, the social legislation. And some of the EU legislation may be considered helpful and retained whatever the political hue of the Government. For example Britain signed up to tighter financial regulation at international level (in Basel) in the wake of the 2008 financial crisis and the consequent regulations are being imposed at EU-level by the Commission. If Britain were to withdraw from the Single Market, any British Government would probably retain most of the EU-imposed Basel agreements.

As we also discussed in chapter 2 there are benefits as well as costs associated with the Single Market – though the costs appeared to outweigh the benefits by a factor of two-and-a-half to one. The benefits for Britain may be some additional trade and some extra inward investment (Foreign Direct Investment (FDI)). But they come at a very heavy price of costly regulations, not least of all on the City of London.

This imbalance of costs and benefits should be firmly kept in mind when discussing the best options for Britain. And any claims of a cataclysmic collapse if the UK were to withdraw from the Single Market, coupled with withdrawal from the Customs Union, should be firmly kept in perspective:

- There is absolutely no evidence for the assertion that Britain would "lose all exports to the EU and the 3 million dependent jobs". Many non-EU countries trade very successfully with the EU and they are not in the Single Market. And of course the other EU countries would "trade with us", trade would continue, contrary to some wild assertions that "they would not". Given the EU's large trade surplus with the UK, surely no EU exporter (or EU government) would wish to see a cessation, or even a disruption, of UK-EU trade.

- Even if some export trade to the EU were to be lost in the near-term, and this is by no means certain, the losses would be soon be more than made up by increased trade with fast-growing non-EU countries.

41. Ruth Lea, "Britain needs a really radical growth programme", in *The Future of Conservatism* (editors David Davis, Brian Binley & John Baron), Conservative Home, 2001.
42. Ian Milne, *A cost too far?, Civitas*, 2004.

- Similarly, even if some FDI into the UK were lost in the near-term, and this is by no means certain either, the losses would soon be made up if Britain took the advantage of its freedom to develop closer links with fast-growing countries, thereby stimulating domestic growth and making the country a more attractive place in which to invest. For those inward investors who export to the EU from the UK, there is no reason why they should not continue to do so if the UK withdrew from the Single Market.

- Even *UK Trade and Investment* seems uncertain as to just how important the Single Market is for FDI decisions. In 2008 they placed the "springboard to Europe" just 14th in their top 20 reasons for investing in the UK (see annex table 5).[43] Granted the ranking may not entirely indicate the relative importance of the separate factors, but the lowly placing of Europe suggests that this official body did not believe that the "springboard to Europe" was uppermost in investors' minds. For many inward investors the large and affluent UK domestic market is their main focus of interest. And flexible labour markets and favourable business conditions are arguably of far greater significance than the Single Market.

3.5 UK regulations: how many are EU-sourced?

The proportion of British regulations that is currently EU-sourced is a contentious issue. But it is not so much the **number** of British regulations per se that are EU-sourced that is important, as their **economic significance**.

A key source of information on the significance of EU-sourced legislation for the economy and business is a recent report by the House of Commons Library.[44] The report quoted two statements by Lord Triesman, both made in 2006 when he was an FCO Minister:

- In a reply to Lord Stevens (June 2006), who had asked how much UK legislation had its origins in EU legislation, Lord Triesman said "that around half of all UK legislation with an impact on business, charities and the voluntary sector stems from legislation agreed by Ministers in Brussels".

- In January 2006, in the light of a claim by the German Federal Department of Justice that an estimated 80% (sic) of German laws or regulations from 1998 to 2006 originated in the EU, Lord Triesman, replied "many EU regulations have a purely technical or temporary effect. We estimate that around 50% of UK legislation with a significant economic impact has its origins in EU legislation. OECD analysis of regulation in Europe yields similar results. In 2002, they estimated that 40% of all new UK regulations with a significant impact on business were derived from Community legislation. Despite reports that 80% of German regulation emanates from the EU, the German Government estimates that the proportion is about 50%".

Lord Triesman's rough-and-ready "rule of thumb" estimate of 50% is of supreme significance. It means that the British Government, on its own estimates, can effectively do nothing about half the legislation affecting business and the economy whilst the UK remains a member of the EU. This is legislation that our non-EU competitors, many of which are major trading partners of the EU, do not have to handle.

3.6 Single Market regulations: the costs

There are several estimates of the costs of Single Market regulations. They include:

- Open Europe estimated in 2009 that the cumulative cost of regulations introduced over the previous decade in the UK, and which had their origins in the EU, was as high as £106.6bn.[45]

- Open Europe updated their estimates in 2010.[46,47] This exercise was based on over 2,300 of the Government's own Impact Assessments.[48,49] They found that regulation introduced between 1998 and 2009 had cost the UK economy a cumulative £176bn by 2009. Of this amount, £124bn (71%) had its origin in EU legislation.

- The British Chambers of Commerce (BCC) "Burdens Barometer" (2010) calculated that the total gross cost of regulations introduced since 1998 was £88.3bn, £11bn higher than 2009 and compared with just £10bn in 2001.[50] 31.2% of the cumulative cost (£27.55bn) was attributable to domestic legislation, whilst 68.8% (£60.75bn) was attributable to EU legislation. Even after allowing for the Government's estimates of the putative benefits for business (which are difficult to quantify), the net result was still a new, annual recurring cost to business of over £1bn.

43. *UK Trade and Investment*, "Top 20 reasons to do business in the UK: investing in the UK", 2008, www.ukinvest.gov.uk
44. House of Commons Library, "How much legislation comes from Europe?", Research Paper 10/62, October 2010.
45. *Open Europe*, "Out of control? Measuring a decade of EU Regulation", February 2009. www.openeurope.org.uk
46. *Open Europe*, "EU regulation has cost the UK £124 billion since 1998, 71% of the total cost", press release, 30 March 2010, www.openeurope.org.uk
47. Mats Persson, Stephen Booth and Sarah Gaskell, "Still out of control? Measuring eleven years of EU regulation", 2nd edition, June 2010, *Open Europe*.
48. An Impact Assessment (IA) assesses the various costs and benefits of a regulation. They are designed to provide ministers and policymakers with evidence on the economic, social and environmental impact of a regulatory proposal, and assist them in selecting the most cost-effective policy option. IAs often, but not always, quantify the costs and benefits in monetary terms.
49. There are different types of regulatory costs: (a) administrative costs, incurred by companies from providing information to a third party, such as the Government or shareholders, or complying with administrative tasks such as record-keeping or invoicing; (b) policy costs, those incurred through meeting the aims of the regulations, such as installing new computer software to facilitate information sharing; (c) financial costs, arising from a direct transfer of money to the Government or other relevant authority, because of a tax or levy, for example regulations increasing NICs; (d) wider effects, costs not directly imposed by a regulation, but caused by its knock-on effects in the wider economy, for example regulations making it more difficult to sell real estate could lead to stagnation in the housing market (these costs are rarely quantified in IAs).
50. *BCC*, "The Burdens Barometer, 2010", May 2010.

- Annex table 6 provides the BCC's complete list of the 144 regulations introduced since 1998. It should, however, be noted that recent regulations have tended to be UK-sourced rather than EU-sourced. A goodly proportion of the regulations relate to employment matters. The most expensive regulations to date were:
  - The Working Time Regulations 1999 (EU): £17.8bn
  - The Vehicle Excise Duty (reduced pollution), amendment regulations 2000 (EU): £10.4bn
  - The Data Protection Act 1998 (EU): £8.0bn

The latest major piece of EU social legislation to be implemented (October 2011) was the Agency Workers Regulations, which will cost British business £1.9bn a year. The imposition on businesses of this absurdly expensive piece of legislation makes a mockery of the Government's war on red tape. Suffice to say the net regulatory impositions are increasing, and the net costs on business are increasing, damaging British competitiveness.

Moreover, it is clear that British business is unhappy with the heavy regulatory burden associated with the Single Market. In a poll of 1,000 Chief Executives conducted for Open Europe in 2006, 54% thought that EU over-regulation "outweighed" the benefits of the Single Market and 60% thought that the UK should renegotiate to reduce its involvement in the EU to one of free trade only.[51]

3.7 Financial services: a special case

There is increasing concern about the EU's legislative programme for the City which, for all its difficulties, is still a major overseas earner (£35bn of net exports in 2010) and revenue generator (11-12% of tax revenues came from the financial sector in FY2009). The City of London is still the top global financial centre, and a huge asset to Britain as an international economy, but its position is being challenged.[52]

Financial Services came into the orbit of the Single Market when the EU leaders agreed to develop a Financial Services Action Plan (FSAP) at the Cardiff Summit in 1998, under the British Presidency. Since then the EU, especially since the 2008 financial crisis, has ramped up its legislative programme to regulate and control the financial services industry.[53] The EU also introduced three supervisory bodies: the European Banking Authority (EBA) in London, a European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt and a European Securities and Markets Authority (ESMA) in Paris. There is little doubt that the EU is establishing a "single rule book" for financial services, the appropriateness of which for the City, a unique global centre, must be questioned. Whilst accepting the need to tighten up financial regulation in the wake of the 2008 crisis, the oft-expressed desire to "complete" the Single Market in financial services now looks as though it can only damage the City.

Open Europe's recent report on the City concluded "regulation is now less geared to financial services growth but more towards curtailing financial market activity, irrespective of whether such activity is good or bad".[54] They reported that there were 49 new EU regulatory proposals potentially affecting the City either in the pipeline or being discussed at EU-level, with very few aimed at promoting financial services trade. The UK was, moreover, already losing influence on the legislative agenda. Tellingly, this was happening at a time when opportunities in EU markets were limited whilst global opportunities were "exploding".

In addition, the EU continues to push for an EU-wide Financial Transactions Tax (FTT), or Tobin Tax, which would clearly have a much greater impact on London than on the EU's other financial centres. Business would leave the EU, including London, for more competitive non-EU shores. The Commission has moreover proposed that any proceeds of the FTT should be funnelled into the EU coffers. The British Government has expressed its opposition and still retains the veto on tax matters. It is clearly vital that it maintains this stance. Using the Commission's rate of 0.1% for bonds and shares and 0.01% for derivatives, Open Europe has estimated that the potential FTT impact would be €24.3-80.9bn for the EU27. The UK would be subject to €17.5-58.2bn of the total (over 70%), in the absence of a burden-sharing system. The large range of estimates reflects uncertainties regarding the degree of relocation and evasion following the introduction of an FTT.[55]

Whilst the UK is in the Single Market, there are major and potentially devastating limitations on what any UK Government can do to resist the Commission's increasing regulatory and supervisory control over the City of London. In order to maintain the pre-eminence of the City, the UK really has no choice but to leave the Single Market.

51. ICM surveyed 1,000 Chief Executives for Open Europe in September 2006. Open Europe's website is www.openeurope.org.uk
52. Z/Yen Group, *Global Financial Centres Index 11*, March 2012, Long Finance's "Financial Centre Futures" programme.
53. *Open Europe*, "Continental shift: safeguarding the UK's financial trade in a changing Europe", December 2011.
54. Keith Boyfield, "Selling the City Short?", *Open Europe*, December 2006, estimated that the measures under the FSAP to date would cost the UK at least £14bn whilst the benefits were uncertain. Later legislation, including the costly Alternative Investment Fund Managers Directive (AIFMD), was not included in this exercise.
55. *Open Europe*, "Ten ways to introduce an EU tax (and why none of them will work)", August 2011, reported that the World Federation of Exchanges, for example, puts the level of financial transactions in the whole EU at $830tn in 2010.

3.8 CAP, the CFP, climate change and energy policies

There are many other EU policies which affect the UK but we shall consider just three here. Taking the costly agricultural and fisheries policies together:

- The Common Agricultural Policy (CAP): there are several estimates of the costs of CAP to the UK. The Taxpayers' Alliance (TPA), for example, has estimated that CAP costs Britain £10.3bn a year, nearly £400 per family a year.[56] Moreover, CAP disadvantages developing countries, by damaging their trading prospects.[57]
- The Common Fisheries Policy (CFP): again there are several estimates of the costs of the CFP to the UK. The TPA, for example, estimates that the CFP costs the UK £2.8bn a year - through direct wastage, economic decline, state subsidy and, in particular, the surrender of traditional fishing grounds.[58]

The EU, with Britain as chief scout, is seeking to mitigate, almost unilaterally, dangerous manmade global warming by draconian cuts to manmade greenhouse gas (GHG) emissions. Few other countries have committed themselves to such a mission. To this end, the EU has set a series of demanding climate change and energy targets to be met by 2020, known as the "20-20-20" targets. These are:

- A reduction in EU GHG emissions of at least 20% below 1990 levels.
- 20% of EU energy consumption to come from renewable resources. Such a target does not, in itself, increase the GHG cuts programme, it merely insists that a proportion of the targeted cuts must be met by renewables.
- A 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency.

The EU's climate change mitigating policies, to which all EEA countries are committed, include:

- The EU's Emissions Trading System (ETS), a "cap and trade" system launched in 2005. The ETS is the key EU policy mechanism for cutting GHG emissions. It puts a price on CO2 emissions in order to reduce the emissions. Cap and trade systems are widely criticised for resulting in volatile, investment-unfriendly, carbon prices. Carbon taxes are a more efficient way of delivering low carbon energy investment by instilling some stability in the carbon price.
- The EU's Renewables Directive, to meet the 20% target for energy sourced from renewables by 2020.

British Governments have adopted the EU's climate change and energy policies with zeal. Indeed the Climate Change Act (2008) insisted that GHG reductions by 2020 should be more draconian than the EU's. Apparently this is known as "leading by example". The British Government has also signed up to a 15% renewables target by 2020 under the Renewables Directive which, given the low level of energy consumption sourced from renewables in the UK in the 2000s, is by far the most demanding target for any major EU country. The British Government has also announced a carbon price floor in order to underpin the price of carbon, starting 2013. The costs of pursuing these policies is enormous.[59]

If Britain were to withdraw from the Single Market, but remained committed to saving the planet from dangerous climate change, then a way forward could be:

- Withdrawal from the EU ETS and convert the carbon price floor into a straightforward carbon tax to stabilise carbon prices in order to encourage investment in low carbon energy sources.
- Dropping the renewables target altogether. The ruinously expensive policy of heavy investment in wind-power could then be dropped and energy policy could focus on gas-fired and nuclear powered electricity generation.[60]

3.9 Cost-benefit analyses

The compilation of a comprehensive cost-benefit analysis is fraught with difficulties and conclusions should always be treated with caution. One conclusion is however very clear. Without exception the studies have shown that the economic costs of Britain's EU membership outweigh the benefits.

Two of the more comprehensive studies are:

- Ian Milne's analysis (2004), which concluded that "the balance of the costs and benefits of UK membership of the EU is unequivocally negative. The net costs are substantial". The current (2004) recurring annual direct net cost to the UK of EU membership was estimated to range between approximately 3% and 5% of GDP, with a 'most likely' figure of 4% of GDP, equivalent to £40bn per year (2004). Moreover, the opportunity costs, as discussed above, would make the costs even higher. And, significantly, the future net costs would increase further. Milne wrote "...the gloomy prognosis for the future partly reflects the measures already in the pipeline, and partly reflects being locked into a regional bloc in marked long-term decline."[61]

56. Lee Rotherham, "Food for thought: how the Common Agricultural Policy costs families nearly £400 a year", *TPA*, January 2009.
57. *Open Europe*, "Parliamentary briefing number 6, trade and development", 2008, wrote "...current EU policies are actively harming developing countries. Trade protectionism and direct farm subsidies are perhaps the most objectionable aspects of the EU today..."
58. Lee Rotherham, "The price of fish: costing the Common Fisheries Policy", *TPA*, December 2008.
59. DECC, "Climate Change Act 2008, Impact Assessment", March 2009. This IA said that the annual costs could be £14.7-18.3bn annually until 2050, with a total cost (PV) of £324-404bn. The total benefits, somewhat improbably, were expected exceed the costs.
60. Ruth Lea, "Electricity costs: the folly of wind-power", *Civitas*, January 2012.
61. Ian Milne, *A cost too far? An analysis of the net economic costs and benefits for the UK of EU membership", Civitas*, 2004.

- Patrick Minford's economic analysis (2005), which concluded that the net annual costs could be 3.5% of GDP. Minford (and his co-author's) also expected the net costs to rise significantly in future.[62]

The main data from the Milne and Minford studies are shown in table 8. They are remarkably similar. Their estimates of present costs were 4% of GDP (Milne) and 3.5% of GDP (Minford) and their estimates of future costs were 26% of GDP (Milne) and 24.5% of GDP (Minford).

Table 8. The Global Competitiveness Index (GCI) 2011-12 rankings

Type of cost	Milne (most likely scenario)	Minford (average, range)
Current costs:		
Regulation (Milne)	2.0	n/a
Manufacturing trade costs, protectionism (Minford)	n/a	2.8 (2.5-3)
CAP	1.5	0.3
EU Budget	0.5	0.4
Single Market (Milne)	Zero	n/a
Inward Investment (Milne)	Zero	n/a
Total current costs excluding opportunity cost	4.0	3.5 (3.2-3.7)
Opportunity cost (Milne)	6.0	n/a
Total current costs including opportunity cost	10.0	3.5 (3.2-3.7)
Additional future costs:		
Combined costs excluding opportunity cost (Milne)	10.0 (minimum)	n/a
Harmonisation (Minford)	n/a	15.5 (6-25)
Pensions (Minford)	n/a	5.5 (2-9)
Joining Euro (Minford)	n/a	Macroeconomic volatility doubled
Additional opportunity cost (Milne)	6.0	n/a
Total future costs	16.0	21.0 (8-34)
Total current and future costs	26.0	24.5

Sources: (ii) Ian Milne, *A Cost Too Far?* Civitas, 2004; (ii) Patrick Minford, Vidya Mahambare and Eric Nowell, *Should Britain leave the EU?* Edward Elgar/IEA, 2005.

There are other analyses:

- Graeme Leach, IoD (2000) concluded that the minimum net cost to the UK was 1.75% of GDP, but it could be as high as 3% of GDP.[63]
- David Craig and Matthew Elliott (2009) estimated that the EU cost about £2,000 for every person in the EU – some £100bn for the UK alone.[64]
- Nigel Pain and Garry Young (2000) looked at the impact on the jobs figures if the UK left the EU (see chapter 1). They concluded: "...although we find that a large number of jobs are now associated with exports for the EU, there is no *a priori* reason to suppose that many of these, if any, would be lost permanently if Britain was (sic) to leave the European Union" Indeed the study found that post-withdrawal there would be more British jobs in the medium-term than if Britain had stayed in.[65]
- Brian Hindley and Martin Howe (2001) concluded that their analysis for the IEA "...suggests that alternative arrangements with the EU would almost certainly benefit Britain, compared with existing arrangements. The idea that dire economic consequences make UK departure from the EU unthinkable has no evident foundation."[66]

Two final reminders:

- The estimates made by the Swiss Federal authorities (2006) on the costs of joining the EU and their decision to remain with the *status quo* as the best option for Switzerland (see chapter 2). If Switzerland were to join the EU, the annual net contributions would increase to SFr3.4bn annually (six times the current sum), with gross contributions of SFr4.9bn (nine times the current sum).[67]
- The Treasury's scepticism as seen by Hugo Young (as above). "The Treasury...remained officially against British entry. That is to say, its judgement of the economic consequences was negative, and it submitted a paper to that effect."[68]

3.10 Britain's limited influence in the EU

As a postscript to this chapter on Britain and the EU, we note just how little influence Britain has in the EU. In so many ways Britain is not at the "heart" of Europe, and we are not part of the "core". Recent developments pertaining to the Eurozone make this state of affairs very obvious. Assertions that the UK is highly influential and "central" to the EU's general direction and its legislative programme are profoundly misleading.
It is sometimes claimed, for example, that "the EU is going

62. Patrick Minford, Vidya Mahambare and Eric Nowell, *Should Britain leave the EU? An economic analysis of a troubled relationship*, Edward Elgar/IEA, 2005. 63. Graeme Leach, "EU membership: what's the bottom line?" *IoD*, 2000.
64. David Craig and Matthew Elliott, *The great European rip-off*, Random House Books, 2009.
65. Nigel Pain and Garry Young, "Continent cut off? The macroeconomic impact of British withdrawal from the EU", *NIESR*, February 2000. This report was commissioned by Britain in Europe.
66. Brian Hindley and Martin Howe, "Better Off Out? The benefits or costs of EU membership", revised edition, *IEA, 2001.*
67. Swiss Confederation, Integration Office FDFA/FDEA, *Europe Report 2006*, available on www.europa.admin.ch
68. Hugo Young, *This blessed plot*, Macmillan, 1998.

Britain's way" and becoming a looser, reformed and more free market-minded entity. This is erroneous and has been erroneous ever since Britain joined the EEC in 1973. Indeed the opposite is happening. In response to the Eurozone crisis the response of the EU's key leaders is one of "more Europe". The EU is not becoming a looser institution - on the contrary it, especially the Eurozone, is becoming more integrated. The notion that the EU can be "reformed" along British lines has been disproved time and time again.

All too frequently, Britain finds itself in the slipstream of EU events, in a minority, dragging its feet. The developments in financial services regulation (above) show how the UK is effectively isolated. Concerning social legislation the UK was persistently at odds with most of the other EU member states over the Agency Workers Directive, for example. But the Directive was pushed through despite dogged British resistance.

In addition to these qualitative assessments of our position within the EU, it is worth repeating just how few votes the UK has in the legislative process. As we discussed in chapter 2, the UK has currently just 8½% of the votes in the Council of the European Union (Council of Ministers) for deciding legislation passed by Qualified Majority Voting (QMV).[69] There is now very little economic legislation subject to a veto; taxation being one of the few categories. The UK's ability to block legislation it does not like is extraordinarily weak.

The UK's influence in the EU is therefore remarkably modest, given that we were the 6th biggest economy in the world in 2010 and the 5th biggest trading nation in 2010 with a unique set of international links. This fact makes it all the more sensible for the UK to break away from the EU's grip and develop its own bilateral links with friendly nations in a rapidly changing world which is leaving the EU behind.

69. The Council of the European Union is not to be confused with the European Council, President Herman Van Rompuy.

Chapter 4 **Britain and Europe: a new relationship**

4.1 Introduction

The main conclusions that can be drawn for the previous three chapters are:

- The EU is in relative secular decline, partly driven by demographic factors, whilst the prospects for China, India, Brazil, Russia, Australia, Canada and the USA all look much brighter. The USA is set to be the largest and most prosperous economy for many years yet.
- Britain needs to realign its trade towards fast-growing economies in order to stimulate economic growth.
- Britain's membership of the EU Customs Union, which prevents Britain negotiating favourable trading relationships, and the Single Market, with its plethora of costly regulation, is holding the country back.
- Britain needs a new relationship with the EU, one which means withdrawing from the Customs Union, from the Single Market and de facto and de jure from the EU itself.

4.2 The options for a new relationship with the EU

The current existential crisis in the Eurozone, barely touched on in this paper, has helped to focus minds on Britain's relationship with the EU.

There are several options, which are broadly:

- The status quo, with attendant net costs, discussed in chapter 3. This is not our preferred option.
- The "Turkish option", whereby Britain stays in the EU's Customs Union, but withdraws from the Single Market. But Britain would be prevented from negotiating a Commonwealth Free Trade Agreement and/or signing up to an FTA with the USA, for example. This is not our preferred option.
- The "Norwegian option", whereby Britain stays within the Single Market (and the EEA). But Britain would still be subject to Single Market regulations including those relating to the City of London. The City of London needs to be freed from EU control if it is going to maintain its top spot in the global financial centres league table. This is not our preferred option.
- The "Korean or Mexican option". Korea is a non-EU country that has a free trade agreement with the EU - Mexico is another. This could be a feasible way forward. But if Swiss-style mutually beneficial bilateral agreements can be negotiated it would seem pointless to reject them, even if it meant Britain continued to contribute to the EU Budget. It is important that Britain should maintain excellent relationships with EU countries if it withdrew from the EU. This is therefore not our preferred option.
- "Going it alone", where Britain simply trades with the EU under the WTO umbrella, with no free trade agreement and/or bilateral agreements. This option seems unnecessarily "isolationist". It is not our preferred option.
- Finally, the "Swiss-style option", whereby Britain negotiates a free trade agreement with the EU and mutually beneficial bilateral agreements.[70,71] The UK would probably contribute to the EU Budget but substantially less than currently. Under this option, the UK would be outside the Customs Union (and therefore be able to negotiate FTAs with other favoured nations), outside the Single Market and outside the EU. This is our preferred option for a new relationship with the EU. It is sometimes claimed that because "Britain is not Switzerland" this would not suit Britain. On the contrary, this option makes even more sense for Britain than for Switzerland because of Britain's size, negotiating power and international links.

4.3 The way forward

Pulling all the threads together we conclude that Britain, under the WTO umbrella, should move towards the following trading relationships with EU and non-EU countries respectively:

- With EU countries: a Swiss-style relationship.
- With non-EU countries: closer trade links with the Commonwealth, the USA and other favoured nations. These links could include the establishment of a Commonwealth FTA and/or Britain's membership of NAFTA.[72] NAFTA (North American Free Trade Agreement) could then become North Atlantic Free Trade Agreement. By negotiating these closer relationships, Britain would be in a much better position to realign its trade patterns towards fast-growing economies, thus stimulating economic growth, than it is now.

Even though Britain would be outside the Single Market in our preferred option, we would make the following points:[73]

- The current Single Market legislation on, for example, social and employment matters would remain in British law, until the point when/if the British Government

70. See Global Vision, home page, 2007, www.global-vision.net. "Global Vision…believes Britain needs to negotiate a looser, more modern relationship with the EU to reflect the rapidly changing world of the 21st century. The new relationship should be based on trade and cooperation, whilst opting out of political and economic union. This vision recognises the reality that increasing global economic integration is profoundly reshaping the world's economy."
71. Ruth Lea, "Time for a Global Vision for Britain" in Baimbridge, Whyman and Burkitt (eds), *Britain in a Global World*, Imprint Academic, 2010.
72. The North American Free Trade Agreement (NAFTA) came into force in January 1994 and comprises the USA, Canada and Mexico. NAFTA is the largest trading bloc in the world.
73. Ruth Lea, "A new trading relationship for Britain with the EU", *Global Vision Perspective*, March 2008.

amended and/or repealed it. There would be no urgent need, possibly no need at all in some cases, to fundamentally change such legislation.

- The UK would almost certainly continue to comply with changing technical standards as agreed in international bodies such as the United Nations Economic Commission for Europe (UNECE) and the Codex Alimentarius Commission (CAC).[74,75]

- The UK could, if it wished, continue to comply with the decisions made under the UN Framework Convention on Climate Change (UNFCCC) and subsequent protocols, and other international agreements.

- The UK could, if it wished, negotiate a bilateral agreement on the freedom of movement of labour along the lines of the Swiss one.

- The British government could, if it wished, adopt any EU Single Market legislation it considered in its interests.

- And, at risk of repeating a point we have already made, the other EU countries would trade with Britain, it is fatuous to suggest otherwise.

Finally, we note that there are Articles in the Lisbon Treaty that should be helpful to Britain in negotiating a new relationship based on "free and fair trade" with the EU if we were to withdraw from the EU.[76,77] The key clauses are:

- Article 50, Treaty on European Union (TEU), which says "…any Member-State may decide to withdraw from the Union in accordance with its own constitutional requirements." Article 50 also says "…the Union shall negotiate and conclude an agreement with that State...taking account of the framework for its future relationship with the Union."

- Article 3 of the TEU which says "…in its relations with the wider world, the Union shall contribute to…free and fair trade."

- Article 8 of the TEU, a neighbourhood clause, which says "…the Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness...characterised by close and peaceful relations based on co-operation." Article 8 also says "the Union may conclude specific agreements with the countries concerned. These agreements may contain reciprocal rights and obligations as well as the possibility of undertaking activities jointly."

74. The main objective of the activities of the Economic Cooperation and Integration Division is to promote a policy, financial and regulatory environment conducive to economic growth, knowledge-based development and higher competitiveness of countries and businesses in the UNECE region.
75. The Codex Alimentarius Commission was created in 1963 by FAO and WHO to develop food standards, guidelines and related texts such as codes of practice under the Joint FAO/WHO Food Standards Programme. The main purposes of this Programme are protecting health of the consumers and ensuring fair trade practices in the food trade, and promoting coordination of all food standards work undertaken by international governmental and non-governmental organizations.
76. British Management Data Foundation (BMDF), *The Treaty of Lisbon in Perspective*, 2008. The Treaty was signed in December 2007, and effective in December 2009.
77. Ian Milne, "The EU has to negotiate Free Trade Agreements with Third-Parties and it does", *Global Britain Briefing Note*, no 61, January 2011. Milne pointed out that the EU will "soon have FTAs with 80% of all non-EU countries".

Q.	A.
Q.1: Would Britain still be able to trade with the EU?	**A.1: Yes,** the notion that we would lose the "privilege" of trading with the EU if we were outside the EU is erroneous. The other EU member states (in aggregate) run a large trade surplus with Britain. In 2010, Britain's exports of goods and services to the EU were £210.1bn, but its imports from the EU were significantly higher at £242.8bn. The EU's surplus with Britain was therefore £32.7bn. This provides a strong incentive for the EU member states to maintain strong trading links with the UK. It is in their interests. There is no reason to believe that Germany would stop importing our food and drinks products. Similarly we would continue to buy German cars. UK-EU trade is clearly of mutual benefit and importance. We are not challenging the significance of the EU's trade to Britain. Exports of goods to the EU were recorded as 53% of the total in 2010 – though this figure is significantly distorted upwards by the Rotterdam-Antwerp effect (where goods initially exported to the ports of Rotterdam and Antwerp are recorded as exports to the Netherlands and Belgium respectively even though they are in transit to other destinations). If goods and services are taken together the proportion going to the EU fell to 48% in 2010. After some conservative adjustments for the Rotterdam-Antwerp effect, the share of exports of goods and services to the EU27 fell to 45% in 2010. (See chapter 1, page 8). It should also be noted that as the EU's relative importance in the world economy declines then the proportion of Britain's trade with the EU can also be expected to decline. Indeed it already is doing. It should also be noted that there are strong trading links between EU and non-EU countries, as conducted under the rules of the World Trade Organisation (WTO). For example, the US was the UK's largest single export market in 2010 (over 14% of goods). Switzerland's exports of goods going to the EU as the proportion of their total was higher than for the UK – over 58% in 2010. A country does not have to belong to the EU to trade with it. This is a strong rebuttal to those who claim that trading with the EU, if we withdrew, would become "too complicated". (See chapter 1, page 6).
Q.2: Wouldn't we lose the 3 million jobs dependent on EU trade?	**A.2: No**, and note this issue is related to the trade issue covered in question 1. It is often claimed that 3 million British jobs are dependent on exports to the EU. Given that Britain's imports of goods and services are over 15% higher than exports (2010) then, as a crude rule of thumb, 3½ million EU jobs could be dependent on EU exports to the UK. This is surely as powerful a reason as any for the EU to maintain excellent trading ties with us. One of the authors undertook a more detailed analysis using disaggregated data on employment and trade in the EU27 provided by the House of Commons Library. The conclusion was that, at face value, nearly 6½ million EU jobs depended on the EU's trade with the UK in 2006, whilst just 4½ million British jobs depended on its trade with the rest of the EU. Also, at face value, this study suggested that about 1 million German jobs, 800 thousand French jobs and 700 thousand Spanish jobs could depend on their trade with Britain. (See chapter 1, page 9).

Q.	A.
Q.3: Wouldn't we still have to adopt EU Single Market regulations in order to trade with the EU?	**A.3: No**, if we were in a free trade relationship with the EU there would be absolutely no obligation to adopt EU regulations in order to trade with the EU. And the notion that "the EU would only trade with us if we complied with the Single Market rules so we would, therefore, be forced to adopt all the Single Market rules" is quite simply erroneous. The fact that EU countries now trade quite openly with non-Single Market countries clearly refutes this. There are absolutely no signs that the USA or China feel they have to adopt the EU's social legislation associated with the Single Market, for example, in order to trade with France or Germany. Of course non-EU countries have to meet the product specifications of EU countries if they wish to trade with them, but as many of these are determined internationally this is a limited, if not irrelevant, additional imposition. There is of course absolutely no obligation for non-EU countries to conform to EU, or indeed international, specifications for their domestic trade. (See chapter 2, page 16). If, for some reason, Britain opted to remain a member of the European Economic Area (EEA), along with Norway, Iceland and Liechtenstein, then we would be obligated to adopt legislation relating to the Single Market (the "Norwegian option"). It would also be true that we would have to conform to the relevant rules and regulations without any legislative role. But the "Norwegian option" should not be the option of choice. The Single Market is unduly costly and restrictive. A more suitable arrangement for the UK is to adopt a Swiss-style relationship based on free trade and negotiated bilateral agreements.
Q.4: But don't we have a lot of influence over Single Market legislation?	**A.4: No,** our power to "influence" Single Market legislation within the EU is currently very limited. Such legislation is determined by Qualified Majority Voting (QMV) and the UK has a mere 8½% of the votes in the crucial Council of the European Union (or the Council of Ministers). Moreover the UK, as a frequent outlier, finds it almost impossible to form political alliances to form blocking majorities. Legislation such as the Agency Workers Directive and the Alternative Investment Fund Managers Directive were strongly opposed by the UK Government, but have nevertheless been adopted by the EU. There is now very little economic legislation subject to a veto; taxation being one of the few categories. (See chapter 2, page 16). Britain's failure to carry through its opposition to, for example, the Agency Workers Directive and the Alternative Investment Fund Managers Directive resoundingly refutes the oft-heard claim that "the EU is going Britain's way". The EU is not going Britain's way. It never has done, it never will do and it never would have done. And we cannot unilaterally reform the EU. Britain's failures also refute the notion that we are better inside the EU with "influence" and accepting the consequences than outside making our own decisions. Our influence in the EU is minimal. France and especially Germany, increasingly call all the shots. (See chapter 3, page 25).

Q.	A.
Q.5: Wouldn't it be better to stay in the Single Market?	**A.5: No**, No, there is a great deal of misunderstanding about the nature of the Single Market, with its "four freedoms" of goods, services, capital and labour. It is frequently interpreted in the UK as equivalent to a free trade area. But this is not the case. The Single Market comes with a big price ticket in the form of extensive, intrusive and expensive regulations intended to "harmonise" the economies of the EU. These regulations range from the generalised employment and environmental regulations to industry specific rules. They impose large costs on British businesses, putting them at a clear competitive disadvantage with businesses outside the EU. And they make it harder for British businesses to grow and create jobs. If the regulatory costs are too great then businesses will either fail to thrive or simply migrate to countries where the environment is more business-friendly. Either way, they damage our prosperity. The EU Commission has conceded that the EU's regulations are costly. Günter Verheugen (the Commissioner for Enterprise and Industry, 2004-10) was reported in the Financial Times in 2006 as saying that the bureaucratic costs to business of complying with European legislation could be up to €600bn a year, almost twice the previous estimates. €600bn was equivalent to 5.5% of EU GDP, equivalent to the size of the Dutch economy. Meanwhile the benefits are, apparently, much lower than the costs. According to the Commission: *"Over the last 15 years the Single Market has increased the EU's prosperity by 2.15% of GDP. In 2006 alone this meant an overall increase of €240 billion - or €518 for every EU citizen - compared to a situation without the Single Market."* An alternative Commission estimate of a boost to prosperity of €225bn in 2006 was quoted by the Treasury and the DTI in their 2007 analysis of the Single Market. But whichever figure is taken, it appears that the costs easily outweigh the benefits by a factor of about 2 ½ to 1. (See chapter 2, page 16). An especially contentious area of the Single Market relates to the Financial Services Action Plan (FSAP). Its costs are all the more important for Britain because of the size and importance of the financial sector. According to Open Europe the measures under the FSAP as announced to 2006 could cost the UK at least £14bn, whilst the benefits were uncertain. Later legislation, including the costly Alternative Investment Fund Managers Directive (AIFMD), was not included in this exercise. In conclusion, even though there are benefits for the UK to remain within the Single Market, it is apparent that the costs outweigh the benefits. The Financial Services Action Plan specifically risks burdening the City of London with inflexible, costly and prescriptive legislation. And the conflicts between the UK and EU partners over employment and social regulations are likely to endure, threatening the relative flexibility of the British labour market. These will be increasingly crucial factors in the hotly competitive 21st century global economy, when the winners will be businesses that can act freely and flexibly, unencumbered with heavy regulation. It may be added that Single Market regulations apply to 100% of the economy, whilst the "benefits" by way of trade with the EU relate to a relatively modest part of the economy. In 2010 exports of goods and services comprised less than 30% of GDP. Given that less than half of the exports were to the EU, less than 15% of GDP "benefitted" from trade with the EU. (See chapter 1, page 8).

Q.	A.
Q.6: Could we repeal current legislation sourced from Brussels?	**A.6: Yes**, Britain would indeed be in a position to repeal legislation sourced from Brussels. But what would be repealed would, of course, depend entirely on the legislative programme of the incumbent Government. One Government may repeal swathes of EU-sourced legislation, whilst another may not. Internationally agreed product regulations would almost certainly be retained. The key issue is that the British Parliament would have the power to unilaterally determine the legislation for the country. The proportion of British regulations that is EU-sourced is a contentious issue. But it is not so much the **number** of British regulations per se that are EU-sourced that is important, as their **economic significance**. A key source of information on the importance of EU-sourced legislation for the economy and business is a recent report by the House of Commons Library. The report quoted two statements by Lord Triesman, both made in 2006 when he was an FCO Minister: • In a reply to Lord Stevens (June 2006), who had asked how much UK legislation had its origins in EU legislation, Lord Triesman estimated "that around half of all UK legislation with an impact on business, charities and the voluntary sector stems from legislation agreed by Ministers in Brussels". • In January 2006, in the light of a claim by the German Federal Department of Justice that an estimated 80% (sic) of German laws or regulations from 1998 to 2006 originated in the EU, Lord Triesman, replied "many EU regulations have a purely technical or temporary effect. We estimate that around 50% of UK legislation with a significant economic impact has its origins in EU legislation. OECD analysis of regulation in Europe yields similar results. In 2002, they estimated that 40% of all new UK regulations with a significant impact on business were derived from Community legislation. Despite reports that 80% of German regulation emanates from the EU, the German Government estimates that the proportion is about 50%". Lord Triesman's rough-and-ready "rule of thumb" estimate of 50% is of supreme significance. It means that the British Government, even on its own estimates, can effectively do nothing about half the legislation affecting business and the economy whilst the UK remains a member of the EU. (See chapter 3, page 22).

Q.	A.
Q.7: Would we still be making the same contributions to Brussels?	**A.7: Almost certainly not if a Swiss-style relationship is adopted.** Switzerland contributes to the EU budget to the tune of about SFr550m a year for the current budget period (2007-13). This is, however, far short of the estimated cost of EU membership. If Switzerland joined the EU, the annual net contributions could increase to SFr3.4bn annually, with gross contributions of SFr4.9bn. (If Switzerland joined the EEA, the annual costs could rise to about SFr730m.) Full EU membership would, therefore, cost six times as much as their current relationship in net terms and nine times as much in gross terms. (See chapter 2, page 18). Note that Britain's net contributions to the EU were £8.1bn in FY2010, substantially higher that the £4.7bn recorded in FY2009 (Treasury data). Our contributions to the EU are one of the very few areas of public spending increases in "austerity Britain". The largest single contribution to the rise in 2010 was the reduction in the UK's rebate, originally negotiated by Margaret Thatcher in 1984, but partly rescinded by Tony Blair in December 2005. £8.1bn is not a trivial sum. It works out as about £325 per household. For the next 7-year EU budget period (2014-20) Britain's contributions will almost certainly rise further reflecting the expectation that the rebate will be cut further and the EU budget will continue to expand. (See chapter 3, page 20). If Britain were to adopt a Swiss-style relationship and negotiate a proportionate drop in net contributions, then considerable savings could be made. If, for example, we had had a Swiss-style relationship in FY2010 our net contributions could have been 1/6th of what they were. They could have been £1.3bn – a saving of nearly £7bn.
Q.8: Aren't we too small to survive? Would we become isolated?	**Q.8: Certainly not.** Britain was the 6th biggest economy in the world in 2010 and the 5th biggest trading nations in 2010. (Provisional data suggest Britain's GDP slipped below Brazil in 2011, but this does not invalidate the conclusion that Britain is a large "second tier" economy.) Britain also has unrivalled international links, not least of all with the misguidedly neglected Commonwealth countries, for a middle-ranking country. Such links put Britain in a significantly more powerful position when negotiating with other countries than, say, Switzerland or Norway. Taking these factors together, Britain would surely be a highly successful, internationally networked trading nation if it chose to be outside the EU. This is all the more relevant as economic power is undoubtedly and permanently shifting away from Europe (and possibly the US) to Asia and other emerging countries. There is no doubt that the global tectonic plates are shifting and the EU's share of global output can only continue to decline. According to IMF data the EU27 accounted for over 30% of world GDP in 1980, but this proportion is expected to fall to about 17% by 2017. (See chapter 1, page 10). One of the reasons for Europe's expected relative decline is demographic in origin. The UN estimates that between 2010 and 2050, the US's working population will increase by 16% and India's by 45%. In contrast Germany's working population will fall by 25%, Italy's by 21% and Spain's by 14%; the UK's is expected to rise by 5% and France's by 2%. Note too that other big fallers include Japan (31%), China (19%) and Russia (27%). (See chapter 1, page 11). As a final thought, it is notable that two of the wealthiest and most successful European economies, Switzerland and Norway, are not in the EU. And the flexible "City States" of Hong Kong and Singapore are triumphantly successful. Big is not necessarily beautiful.

Q.	A.
Q.9: If, for some reason, we couldn't negotiate a free trade area with the EU, should we stay in a Customs Union with the EU?	**A.9: No**, on the contrary there is a very obvious disadvantage for Britain as a member of the EU's Customs Union. We have to rely on the EU's Trade Commissioner, our representative in the WTO, to negotiate trade deals on our behalf. If we shared the same trade interests as other EU members, as is often argued, then this could be positive for us. In reality, however, other EU countries are inclined to pursue a protectionist agenda (especially regarding agriculture) which can block the kind of free trade arrangements we favour. Britain should be perfectly competent to negotiate its own trade deals, but needs to be outside the EU in order to be able to do this. If Britain were outside the EU then we would be free to negotiate free trade areas with favoured countries. These would, of course, be within the overall rules of the WTO. To its credit the EU has negotiated many free trade agreements with third countries, though it should be added that these deals are structured to suit the EU as a whole rather than Britain. Membership of the EU's customs union was probably economically helpful for the UK in the mid-20th century, when tariffs in Europe were high. In the rapidly changing global economy of the 21st century, when tariffs are low, it almost certainly is not. (See chapter 2, page 15). It is, therefore, preferable for the UK to be outside the EU's customs union.

Table 1. Top trading nations, current account credits, $bn, 2010

	Current account (top 12)	Goods (top 12)	Services (top 6)	Goods & services (top 6)	Income (top 6)	Transfers
USA	2,517 (1)	1,293 (3)	544 (1)	1,837 (1)	663 (1)	16
Mainland China	1,947 (2)	1,581 (1)	171 (4)	1,752 (2)	145 (6)	50
Germany	1,794 (3)	1,303 (2)	238 (3)	1,541 (3)	231 (3)	24
Japan	1,055 (4)	730 (4)	141 (5)	871 (4)	174 (5)	23
UK	926 (5)	410 (9)	239 (2)	649 (6)	255 (2)	22
France	895 (6)	517 (5)	145 (6)	662 (5)	208 (4)	24
Other:						
Netherlands	691 (7)	480 (6)	96	516	98	17
Italy	644 (8)	448 (8)	99	510	74	23
China, HK	618 (9)	394 (11)	106	408	117	0
Korea	576 (10)	464 (7)	83	433	16	13
Canada	531 (11)	393 (12)	69	384	60	9
Singapore	522 (12)	358	112	470	50	0
Russia	493 (13)	400 (10)	45	445	37	10

Source: IMF, *Balance of Payments Statistics Yearbook*, 2011.

Footnote	Other big earners
Services	Spain: $124bn; India: $124bn; Ireland: $98bn; Belgium: $87bn; Switzerland: $84bn
Income	Luxembourg: $138bn; Switzerland: $115bn; Ireland: $76bn; Belgium: $69bn; Spain: $55bn; Sweden: $55bn
Transfers	India: $55bn; Spain: $24bn; Switzerland: $24bn; Mexico: $22bn; Nigeria: $21bn; Philippines: $17bn

Table 2a. UK current account credits with the world, the EU, the non-EU, £bn

	2000	2008	2009	2010	2000-2010, growth
World:					
Goods	187.8	252.0	228.1	265.7	41.5%
Services	81.9	170.9	167.5	171.1	109.0%
Income	132.9	263.9	170.5	163.5	23.0%
Transfers	10.5	16.3	17.1	14.6	39.0%
Current account	413.1	703.1	583.1	614.9	48.9%
EU27:					
Goods	112.4	141.8	124.7	142.2	26.5%
Services	33.7	69.7	68.2	67.9	101.5%
Income	57.0	127.0	78.5	53.7	-5.8%
Transfers	7.1	10.9	11.7	9.2	30.0%
Current account	210.3	349.4	283.1	273.0	29.8%
Non-EU:					
Goods	75.4	110.2	103.4	123.5	63.8%
Services	48.2	101.2	99.3	103.2	107.5%
Income	75.9	136.9	92.0	109.8	44.7%
Transfers	3.4	5.4	5.4	5.4	58.8%
Current account	202.8	353.7	300.0	341.9	68.6%

Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition.

Table 2b. UK current account debits with the world, the EU, the non-EU, £bn

	2000	2008	2009	2010	2000-2010, growth
World:					
Goods	220.9	346.2	311.0	364.2	64.9%
Services	66.9	115.8	110.2	112.3	67.9%
Income	131.0	230.8	150.1	140.4	7.2%
Transfers	20.3	30.1	32.1	34.7	70.1%
Current account	439.0	722.8	603.5	651.6	48.4%
EU27:					
Goods	117.6	181.8	162.7	186.0	58.2%
Services	35.4	58.8	55.8	56.8	60.5%
Income	50.2	93.9	64.9	63.4	26.3%
Transfers	12.6	16.0	17.6	19.2	52.4%
Current account	215.8	350.6	301.0	325.4	50.8%
Non-EU:					
Goods	103.3	164.4	148.3	178.2	72.5%
Services	31.5	57.0	54.4	55.5	76.2%
Income	80.8	136.9	85.2	77.0	-4.7%
Transfers	7.7	14.1	14.5	15.5	101.3%
Current account	223.2	372.2	302.5	326.2	46.1%

Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition.

Table 2c. UK current account balances with the world, the EU27, the non-EU, £bn

	2000	2008	2009	2010	2000-2010, change
World:					
Goods	-33.0	-94.2	-82.9	-98.5	-£65.5bn
Services	15.1	55.1	57.2	58.8	£43.7bn
Income	2.0	33.1	20.4	23.0	£21.0bn
Transfers	-9.8	-13.8	-15.1	-20.1	-£10.3bn
Current account	-25.8	-19.8	-20.3	-36.7	-£10.9bn
EU27:					
Goods	-5.1	-40.0	-38.0	-43.8	-£38.7bn
Services	-1.6	10.9	12.4	11.1	£12.7bn
Income	6.8	33.1	13.6	-9.7	-£16.5bn
Transfers	-5.5	-5.2	-5.9	-10.0	-£4.5bn
Current account	-5.5	-1.2	-17.9	-52.4	-£46.9bn
Non-EU:					
Goods	-27.9	-54.2	-44.9	-54.7	-£26.8bn
Services	16.7	44.2	44.8	47.7	£31.0bn
Income	-4.8	0	6.8	32.7	£37.5bn
Transfers	-4.3	8.6	-9.2	-10.1	-£5.8bn
Current account	-20.3	-18.6	-2.4	+15.7	£36.0bn

Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition.

Table 3. UK current account, balances, selected countries, 2010, £bn

	Trade-in goods	Trade-in services	Income	Current transfers	Current account
Total EU27, of which:	-43.8	11.1	-9.7	-10.0	-52.4
Germany	-18.5	1.7	-5.7	-0.3	-22.8
Spain	-0.4	-4.3	-0.1	-0.1	-5.0
France	-2.3	-0.7	-1.5	-0.1	-4.7
Ireland	4.1	4.2	-12.3	-0.5	-4.5
Netherlands	-5.2	6.2	4.2	0.1	5.3
Luxembourg	-0.7	0.7	5.6	0	5.6
EU institutions	0	0.8	-2.0	-9.1	-10.3
EFTA, of which:					
Norway	-17.9	1.3	-0.9	0	-17.6
Switzerland	-2.2	5.8	2.7	-0.1	6.2
Other key partners:					
USA	10.9	15.1	-5.1	-0.5	20.4
China, mainland	-23.0	1.5	0.8	-0.2	-20.9
Japan	-3.4	-0.7	-1.3	0	-4.4
Saudi Arabia	1.7	2.7	-0.1	0.4	4.7
Australia	1.0	2.8	6.6	-0.2	10.2
Canada	-1.6	1.4	2.2	-0.2	1.8
India	-1.7	-0.2	1.6	-1.0	-1.3

Source: ONS, *UK Balance of Payments, The Pink Book*, 2011 edition.

Table 4. UK GDP, £bn, current prices

	Domestic expenditure, adjusted for statistical discrepancy	GDP	Net exports, goods & services		
			Total	EU27	Non-EU
2009	1,419.5	1,393.9	-25.6	-25.5	-0.1
2010	1,505.1-4.6 = 1,500.5	1,463.7	-36.7	-32.3	-4.4

Source: (i) ONS, "Quarterly National Accounts: 2011Q3", Statistical Bulletin, December 2011;
(ii) ONS, "UK balance of payments: 2011 Q3, December 2011 (the 2010 data have been revised since *The Pink Book*).

Table 5a. Estimated number of EU25 jobs dependent on exports of goods and services to the UK, 2006

	Exports to the UK (£bn)	GDP (£bn)	Exports to the UK as a % of GDP	Employment (millions)	
				Actual	Dependent on trade with UK (estimate)
Austria	3.799	175.871	2.16	3.928	84,853
Belgium	17.086	216.141	8.24	4.264	351,274
Cyprus	3.071	9.899	31.02	0.357	110,849
Czech Republic	3.113	77.490	4.02	4.828	193,960
Denmark	7.363	150.078	4.91	2.805	137,636
Estonia	0.820	9.021	9.09	0.646	58,749
Finland	3.231	114.115	2.83	2.443	69,184
France	40.315	1,222.645	3.30	24.769	816,749
Germany	50.165	1,583.695	3.17	37.378	1,184,011
Greece	2.877	64.623	4.45	4.452	198,215
Hungary	2.371	61.309	3.87	3.930	151,985
Ireland	13.862	119.358	11.61	2.039	236,760
Italy	17.643	1,006.635	1.75	22.988	402,907
Latvia	1.418	10.987	12.91	1.087	140,307
Lithuania	0.354	16.172	2.19	1.499	32,813
Luxembourg	3.283	23.074	14.23	0.195	27,788
Malta	0.532	3.420	15.55	0.152	23,704
Netherlands	27.055	364.229	7.43	8.261	613,621
Poland	4.731	185.266	2.55	14.594	372,665
Portugal	5.006	105.747	4.73	5.160	244,247
Slovakia	0.708	29.985	2.36	2.302	54,362
Slovenia	0.339	20.335	1.67	0.961	16,024
Spain	23.926	668.680	3.58	19.748	706,591
Sweden	7.767	208.5666	3.72	4.429	164,951
EU25 jobs					**6,394,207**

Table5b. Estimated number of UK jobs dependent on exports of goods and services to the EU, 2006

	UK exports to EU25 (£bn)	UK GDP (£bn)	UK exports to EU25, % of GDP	UK employment (millions)	
				Actual	Dependent on trade with EU25 (estimate)
UK jobs	205.036	1,302.056	15.75	28.337	4,462,270

Data from the House of Commons Library, original sources: (i) Exports of goods and services: ONS, *UK Balance of Payments, The Pink Book*, 2007; (ii) GDP (current market prices): OECD, *Main Economic Indicators*, Volume 2007/10 (October 2007); (iii) Employment: Eurostat database. The table is from Ruth Lea, "UK-EU trade creates far fewer jobs in the UK than in the rest of the EU", *Global Vision Perspective*, April 2008.

Table 6a. GNI, Atlas method, MER, $tn, 2010

Rank	Economy	GNI, $tn	Share of total (%)
1	US	14.6	23.1
2	China	5.7	9.0
3	Japan	5.3	8.4
4	Germany	3.5	5.5
5	France	2.75	4.4
6	UK*	2.4	3.8
7	Italy	2.1	3.3
8	Brazil	1.8	2.9
9	India*	1.55	2.5
10	Canada*	1.5	2.4
11	Spain	1.5	2.4
12	Russian Federation	1.4	2.2
13	Mexico	1.0	1.6
14	South Korea	1.0	1.6
15	Australia*	1.0	1.6
16	Netherlands	0.8	1.3
17	Turkey	0.7	1.1
18	Indonesia	0.6	1.0
19	Switzerland	0.6	1.0
20	Belgium	0.5	0.8
	World+	62.4	100.0
	NAFTA	17.1	27.4

Table 6b. GNI, PPP, $tn, 2010

Rank	Economy	GNI, $tn	Share of total (%)
1	US	14.6	19.1
2	China	10.2	13.4
3	Japan	4.4	5.8
4	Germany	4.2	5.5
5	France	3.1	4.1
6	UK*	2.7	3.5
7	Italy	2.3	3.0
8	Brazil	2.2	2.9
9	India*	2.1	2.7
10	Canada*	1.9	2.5
11	Spain	1.6	2.1
12	Russian Federation	1.5	2.0
13	Mexico	1.4	1.8
14	South Korea	1.3	1.7
15	Australia*	1.1	1.4
16	Netherlands	1.0	1.3
17	Turkey	1.0	1.3
18	Indonesia	0.8	1.0
19	Switzerland	0.7	0.9
20	Belgium	0.7	0.9
	World+	76.3	100.0
	NAFTA	17.5	22.9

Source: World Bank, *World Development Indicators Database*, 2011. The Atlas method of smoothing exchange rate fluctuations improves the reliability of the market exchange rate (MER), nominal comparisons. Commonwealth members are asterisked. + The world totals were computed in July 2011, there are later revisions for the country data. Note: GNI (gross national income) = GDP + net factor income (such as rents, profits and labour income) from abroad.

Table 7. EU27, GNI, $tn, 2010

	Atlas method, $tn (share of total, %)	PPP, $tn (share of total, %)
Austria*	0.4	0.3
Belgium*	0.5	0.4
Bulgaria	0.05	0.1
Cyprus*	(0)	(0)
Czech Republic	0.2	0.25
Denmark	0.3	0.2
Estonia*	(0)	(0)
Finland*	0.25	0.2
France*	2.75	2.2
Germany*	3.5	3.1
Greece*	0.3	0.3
Hungary	0.1	0.2
Ireland*	0.2	0.15
Italy*	2.1	1.9
Latvia	(0)	(0)
Lithuania	(0)	0.05
Luxembourg*	(0)	(0)
Malta*	(0)	(0)
Netherlands*	0.8	0.7
Poland	0.5	0.7
Portugal*	0.2	0.25
Romania	0.15	0.3
Slovakia*	0.1	0.1
Slovenia*	0.05	0.05
Spain*	1.5	1.5
Sweden	0.5	0.4
UK	2.4	2.3
World total+	62.4 (100.0)	76.3 (100.0)
EU17	12.2 (19.6)	11.15 (14.6)
EU27	16.25 (26.0)	15.65 (20.5)

Source: World Bank, *World Development Indicators Database*, 2011. Eurozone members asterisked. There are rounding errors in the table. + The world totals were computed in July 2011.

Table 8. IMF GDP forecasts, average annual growth rates (%)

	2000-10		2010-17	
	2010 (2000=100)	Average % annual growth	2017 (2010=100)	Average % annual growth
EU:				
France	111.8	1.1	111.4	1.6
Germany	114.7	1.4	110.7	1.5
Italy	102.5	0.2	102.1	0.3
UK	115.1	1.4	115.1	2.0
Other developed:				
Australia	135.1	3.1	124.8	3.2
Canada	120.5	1.9	117.1	2.3
Japan	107.3	0.7	108.4	1.1
USA	116.7	1.6	120.9	2.7
The BRICs:				
Brazil	142.1	3.6	129.3	3.7
China	270.7	10.5	179.0	8.7
India	204.7	7.4	165.9	7.5
Russian Federation	159.4	4.8	131.3	4.0

Source: IMF, *World Economic Outlook database*, April 1012 for GDP (2010-17) in constant prices data (in national currencies, converted to indices by the author).

Table 9. Working population (aged 15-64), selected countries

	Millions			1950-2010		2010-2050	
	1950	2010	2050	Ratio: 2010/1950	% change	Ratio: 2050/2010	% change
EU:							
Germany	46	54	41	1.19	19%	0.75	-25%
France	28	41	42	1.48	48%	1.02	2%
Italy	30	40	31	1.31	31%	0.79	-21%
UK	34	41	43	1.21	21%	1.05	5%
Other developed:							
Australia	5	15	18.5	2.82	182%	1.23	23%
Canada	9	24	26	2.75	175%	1.09	9%
Japan	49	81	55	1.65	65%	0.69	-31%
USA	102	207	242	2.03	103%	1.16	16%
Other:							
Brazil	30	132	140	4.40	340%	1.06	6%
China	338	971	790	2.88	188%	0.81	-19%
India	221	790	1143	3.58	258%	1.45	45%
Russian Federation	67	103	76	1.55	55%	0.73	-27%
South Africa	8	33	39	4.13	313%	1.19	19%

Source: UN, *World Population Prospects*, medium variant, 2010 revision.

Table 10. The Global Competitiveness Index (GCI) 2011-12 rankings

	GCI 2011-12	GCI 2010-11
Switzerland	1	1
Singapore	2	3
Sweden	3	2
Finland	4	7
USA	5	4
Germany	6	5
Netherlands	7	8
Denmark	8	9
Japan	9	6
UK	10	12

Source: WEF, *The Global Competitiveness Report 2011-2012*, 2011.

Table 11. GNI per capita, US$, selected countries, excluding microstates, 2010

Atlas method		PPP	
Norway	84,290	Luxembourg	61,790
Luxembourg	77,160	Norway	56,830
Switzerland	71,530	Singapore*	55,790
Denmark	59,050	Switzerland	50,170
Sweden	50,110	USA	47,360
Netherlands	49,050	Netherlands	41,900
USA	47,390	Denmark	40,230
Australia*	43,590 (2009)	Sweden	39,730
Canada*	43,270	Australia*	38,380 (2009)
Germany	43,110	Canada*	38,310
France	42,390	Germany	37,950
Japan	41,850	UK*	36,410
Singapore*	40,070	Japan	34,640
UK*	38,370	France	34,440
Italy	35,150	Spain	31,640
Spain	31,750	Italy	31,130
New Zealand*	28,770 (2009)	Korea, South	29,010
Korea, South	19,890	New Zealand*	28,050 (2009)
Russian Federation	9,900	Russian Federation	19,190
Turkey	9,890	Turkey	15,170
Brazil	9,390	Mexico	14,290
Mexico	8,890	Brazil	11,000
South Africa*	6,090	South Africa*	10,360
China	4,270	China	7,640
Indonesia	2,500	Indonesia	4,200
India*	1,330	India*	3,550

Source: World Bank, *World Development Indicators Database*, 2011. Commonwealth members are asterisked.

Table 12. Members of the Commonwealth

Country (date joined Commonwealth)	Population (2009)	GDP p.c. annual average growth (%), 1990-2009	GNI, US$bn, 2010	
			Atlas method (MER)	PPP
Over 1 billion:	In millions			
India (1947)	1,198.0	4.8%	1,554	4,160
100-1,000 million:	In millions			
Pakistan (1947)	180.8	1.7%	183	484
Bangladesh (1972)	162.2	3.4%	105	270
Nigeria (1960)	154.7	1.7%	186	344
10-100 million:	In millions			
United Kingdom (n/a)	61.6	2.3%	2,387	2,266
South Africa (1931)+	50.1	1.2%	305	518
United Republic of Tanzania (1961)	43.7	2.0%	23	63
Kenya (1963)	39.8	0.2%	32	68
Canada (1931)+	33.6	2.1%	1,476	1,307
Uganda (1962)	32.7	3.6%	17	42
Malaysia (1957)	27.5	3.2%	220	404
Ghana (1957)	23.8	2.2%	30	41
Mozambique (1995)	22.9	4.3%	10	22
Australia (1931)+	21.3	2.3%	957 (2009)	842 (2009)
Sri Lanka (1948)	20.2	4.0%	47	105
Cameroon (1995)	19.5	0.7%	23	44
Malawi (1964)	15.3	0.5%	5	13
Zambia (1964)	12.9	0.3%	14	18
1-10 million:	In millions			
Rwanda (2009)	10.0	1.7%	5	12
Papua New Guinea (1975)	6.7	-0.4%	9	17
Sierra Leone (1961)	5.7	0.9%	2	5
Singapore (1965)	4.7	3.9%	203	283
New Zealand (1931)+	4.3	2.0%	124 (2009)	121 (2009)
Jamaica (1962)	2.7	0.7%	13	20
Namibia (1990)	2.2	2.0%	10	15
Lesotho (1966)	2.1	1.6%	2	4
Botswana (1966)	1.95	3.6%	14	27
The Gambia (1965)	1.7	0.6%	1	2
Trinidad & Tobago (1962)	1.3	5.1%	21	32
Mauritius (1968)	1.3	3.5%	10	18
Swaziland (1968)	1.2	1.7%	3	6

Country (date joined Commonwealth)	Population (2009)	GDP p.c. annual average growth (%), 1990-2009	GNI, US$bn, 2010	
			Atlas method (MER)	PPP
100,000-1,000,000:	In thousands			
Cyprus (all country, 1961)	871	2.2%	24	24
Fiji (1970, currently suspended)	849	1.4%	3	4
Guyana (1966)	762	3.0%	2	3
Solomon Islands (1978)	523	-1.3%	< 1	2
Malta (1964)	409	2.6%	8	10
Brunei Darussalam (2008)	400	-0.3%	12 (2009)	20 (2009)
The Bahamas (1973)	342	1.1%	7 (2009)	8 (2009)
Maldives (1982)	309	5.9%	2	3
Belize (1981)	307	2.2%	1	2
Barbados (1966)	256	2.2%	3 (2009)	5 (2009)
Vanuatu (1980)	240	-0.2%	1	1
Samoa (1970)	179	3.1%	< 1	1
St Lucia (1979)	172	1.1%	1	2
St Vincent & the Grenadines (1979)	109	3.8%	1	1
Grenada (1974)	104	3.1%	1	1
Tonga (1970)	104	2.9%	< 1	< 1
Under 100,000:	In thousands			
Kiribati (1979)	98	1.8%	< 1	< 1
Antigua & Barbuda (1981)	88	2.2%	1	2
Seychelles (1976)	84	1.7%	1	2
Dominica (1978)	67	1.7%	< 1	1
St Kitts & Nevis (1983)	52	2.5%	< 1	1
Nauru (1968)	10	n/a	n/a	n/a
Tuvalu (1978)	10	n/a	< 1	n/a
	In millions			
54 (including Fiji), Zimbabwe left (2003)	2,172.9	n/a	8,063	11,666
World	6,818.7	n/a	62,364 (July 2011)	76,288 (July 2011)
Commonwealth, % of world	31.9%	n/a	12.8%	15.3%

+ By the Statute of Westminster (1931) which gave legal status to Australia, Canada, New Zealand and South Africa (the Dominions) within the British Commonwealth.
Sources: (i) Commonwealth Secretariat, www.thecommonwealth.org, for population, growth rates; (ii) UN population database for 2009 world population estimate; (iii) World Bank, *World Development Indicators Database*, 2011. There are rounding errors in the tables.

The EU27, EEA and EFTA: memberships

	EU27	Eurozone (17)	EU Customs Union (31)	EEA (30)	EU Schengen Area (26)	EFTA (4)
Andorra			Yes			
Austria	1995-	Yes	Yes	Yes	Yes	1960-95
Belgium	1957-	Yes	Yes	Yes	Yes	
Bulgaria	2007		Yes	Yes		
Cyprus	2004-	Yes	Yes	Yes		
Czech Republic	2004-		Yes	Yes	Yes	
Denmark:	1973-		Yes	Yes	Yes	1960-73
[Greenland]	1973-85					
Estonia	2004-	Yes	Yes	Yes	Yes	
Finland	1995-	Yes	Yes	Yes	Yes	1961-95
France	1957-	Yes	Yes	Yes	Yes	
Germany	1957-	Yes	Yes	Yes	Yes	
Greece	1981-	Yes	Yes	Yes	Yes	
Hungary	2004-		Yes	Yes	Yes	
Iceland				Yes	Yes	1970-
Ireland	1973-	Yes	Yes	Yes		
Italy	1957-	Yes	Yes	Yes	Yes	
Latvia	2004-		Yes	Yes	Yes	
Liechtenstein				Yes	Yes	1991-
Lithuania	2004-		Yes	Yes	Yes	
Luxembourg	1957-	Yes	Yes	Yes	Yes	
Malta	2004-	Yes	Yes	Yes	Yes	
Monaco			Yes		De facto	
Netherlands	1957-	Yes	Yes	Yes	Yes	
Norway				Yes	Yes	1960-
Poland	2004-		Yes	Yes	Yes	
Portugal	1986-	Yes	Yes	Yes	Yes	1960-86
Romania	2007		Yes	Yes		
San Marino			Yes		De facto	
Slovakia	2004-	Yes	Yes	Yes	Yes	
Slovenia	2004-	Yes	Yes	Yes	Yes	
Spain	1986-	Yes	Yes	Yes	Yes	
Sweden	1995-		Yes	Yes	Yes	1960-95
Switzerland					Yes	1960-
Turkey			Yes			
UK	1973-		Yes	Yes		1960-73
Vatican					De facto	

Sources include *Global Vision* fact sheets, www.global-vision.net

Table 1. The 2011 EU Budget, appropriations

	€bn		Budget (CA), %	% change from 2010	
	CA	PA		CA	PA
1. Sustainable Growth	64.5	53.3	45.5	0.4	11.7
1a. Competitiveness for growth and employment	13.5	11.6	9.5	-9.0	2.5
1b. Cohesion for growth and employment	51.0	41.7	36.0	3.2	14.5
2. Preservation and management of natural resources	58.7	56.4	41.3	-1.4	-3.0
of which Direct aids & market related expenditure	42.9	42.8	30.2	-2.1	-2.1
of which Rural development, environment & fisheries	15.7	13.5	11.1	0.7	-5.6
3. Citizenship, freedom, security and justice	1.8	1.5	1.3	8.0	3.4
3a. Freedom, security and justice	1.1	0.8	0.8	13.2	10.1
3b. Citizenship	0.7	0.6	0.5	0.3	-3.9
4. EU as a global player	8.8	7.2	6.2	7.5	-7.1
5. Administration	8.2	8.2	5.7	3.4	3.3
of which for the Commission	3.3	3.3	2.3	-8.2	-8.3
Total	141.9	126.5	100		
In % of EU-27 GNI	1.13	1.10			

Source: European Commission, *Budget 2011 in figures*, www.ec.europa.eu/budget/figures/2011
Note commitment appropriations (CA); payments appropriations (PA).

Table 2a. EU 2010 Budget: expenditure and revenue, by member state, €m

Countries listed in alphabetical order in own language.

	Total national contribution+	TOR++	Total own resources+++	Expenditure	Expenditure - total own resources
Belgium	3,293	1,490	4,783	6,145	1,362
Bulgaria	310	42	353	1,223	870
Czech Republic	1,308	189	1,498	3,416	1,918
Denmark	2,074	307	2,381	1,526	-855
Germany	20,708	3,065	23,773	11,825	-11,948
Estonia	125	17	142	808	666
Ireland (Eire)	1,209	186	1,394	2,066	672
Greece	2,095	215	2,310	5,749	3,439
Spain	8,937	1,158	10,095	13,190	3,095
France	18,174	1,407	19,581	13,105	-6,391
Italy	13,664	1,668	15,332	9,498	-5,834
Cyprus	158	26	184	178	-6
Latvia	158	17	175	844	669
Lithuania	230	39	269	1,602	1,333
Luxembourg	248	13	261	1,554	1,293
Hungary	862	93	955	3,650	2,695
Malta	51	10	61	112	61
Netherlands	3,864	1,749	5,614	2,146	-3,468
Austria	2,460	167	2,627	1,822	-805
Poland	3,339	318	3,657	11,822	8,165
Portugal	1,714	134	1,848	4,379	2,531
Romania	1,042	101	1,143	2,317	1,174
Slovenia	320	67	387	756	369
Slovakia	540	107	647	1,905	1,258
Finland	1,575	127	1,702	1,310	-392
Sweden	2,809	434	3,243	1,646	-1,597
UK	12,146	2,514	14,659	6,746	7,913
EU27	103,416	15,659	119,075	111,338	-7,737

Source: European Commission, *EU Budget 2010, Financial Report*, 2011. Net contributors underlined.
\+ Net of the UK "correction" (abatement) and adjustments for the Netherlands and Sweden.
++ Traditional own resources (TOR) collected on behalf of the EU.
+++ Total own resources = Total national contribution + TOR.

Table 2b. EU 2010 Budget: expenditure and revenue, by member state, €m

Countries listed in order of net contributions

	Total national contribution+	TOR++	Total own resources+++	Expenditure	Expenditure - total own resources
Germany	20,708	3,065	23,773	11,825	-11,948
UK	12,146	2,514	14,659	6,746	7,913
France	18,174	1,407	19,581	13,105	-6,391
Italy	13,664	1,668	15,332	9,498	-5,834
Netherlands	3,864	1,749	5,614	2,146	-3,468
Sweden	2,809	434	3,243	1,646	-1,597
Denmark	2,074	307	2,381	1,526	-855
Austria	2,460	167	2,627	1,822	-805
Finland	1,575	127	1,702	1,310	-392
Cyprus	158	26	184	178	-6
Malta	51	10	61	112	61
Slovenia	320	67	387	756	369
Estonia	125	17	142	808	666
Latvia	158	17	175	844	669
Ireland (Eire)	1,209	186	1,394	2,066	672
Bulgaria	310	42	353	1,223	870
Romania	1,042	101	1,143	2,317	1,174
Slovakia	540	107	647	1,905	1,258
Luxembourg	248	13	261	1,554	1,293
Lithuania	230	39	269	1,602	1,333
Belgium	3,293	1,490	4,783	6,145	1,362
Czech Republic	1,308	189	1,498	3,416	1,918
Portugal	1,714	134	1,848	4,379	2,531
Hungary	862	93	955	3,650	2,695
Spain	8,937	1,158	10,095	13,190	3,095
Greece	2,095	215	2,310	5,749	3,439
Poland	3,339	318	3,657	11,822	8,165

Source: European Commission, *EU Budget 2010, Financial Report*, 2011. Net contributors underlined.
+ Net of the UK "correction" (abatement) and adjustments for the Netherlands and Sweden.
++ Traditional own resources (TOR) collected on behalf of the EU.
+++ Total own resources = Total national contribution + TOR.

Table 3. UK gross payments, abatement and public sector receipts, calendar years, 2005-2011, £m

	2005	2006	2007	2008	2009	2010	2011, estimate
Gross payments	12,483	12,426	12,456	12,653	14,129	15,197	15,289
Less: UK Abatement	-3,572	-3,569	-3,523	-4,862	-5,392	-3,047	-3,141
Total Contributions	8,911	8,857	8,124	7,791	8,737	12,150	12,148
Less: public sector receipts	-5,329	-4,948	-4,332	-4,497	-4,401	-4,769	-4,776
Net contribution to EU Budget	3,581	3,909	4,601	3,294	4,336	7,381	7,372

Source: HM Treasury, "European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement", Cm8232, December 2011, table 3.B. Note that the EU makes some payments directly to the private sector, which do not appear in the public sector's accounts. In 2011, these receipts are expected to be around £890m.

Table 4a. UK public sector receipts from the EU Budget: outturns

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
FEAGA (Agricultural Guarantee Fund)	1,705	3,312	3,455	3,047	2,967	2,565
EAFRD (Agricultural Guidance Fund)	85	53	265	299	310	329
Social Fund	739	1,324	831	519	571	763
Regional Development Fund	1,206	449	1,029	656	919	179
Other receipts	15	26	21	37	24	11
Total	3,750	5,164	5,601	4,558	4,791	3,484

Table 4b. UK public sector receipts from the EU Budget: plans

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
FEAGA (Agricultural Guarantee Fund)	3,126	3,291	3,349	3,441	3,398	3,404
EAFRD (Agricultural Guidance Fund)	679	725	744	757	768	751
Social Fund	449	481	495	502	513	499
Regional Development Fund	623	665	682	694	703	689
Other receipts	87	87	90	91	93	90
Total	4,964	5,250	5,360	5,486	5,475	5,433

Source: HM Treasury, "European Union Finances 2011: statement on the 2011 EU Budget and measures to counter fraud and financial mismanagement", Cm8232, December 2011, tables 3.E and 3.F.

Table 5. Top 20 reasons to do business in the UK: investing in the UK

Reason	Background information
1. The easiest place to set up and run a business in Europe	The World Bank found that it takes 13 days to set up a business in the UK, compared to the European average of 32 days. It ranks the UK first in Europe and 6th in the world to operate a business. Source: World Bank.
2. Low tax rate environment for foreign investors	The top corporate rate will be 28% from April 2008, below most of the UK's core competitors. The UK has reduced its corporate tax rate from over 50% in the early 1980s down to one of the lowest in the industrialised world. The UK's highest personal tax band, at 40%, is one of the lowest in the EU. Source: Forbes Tax Misery Index.
3. One of the most flexible labour markets in Europe	The World Bank ranks the UK the 2nd best place in Europe to employ workers, just behind Denmark. Source World Bank.
4. Least barriers to entrepreneurship in the world	The OECD noted that the UK is 2nd in the world for Product Market Regulation behind Australia, has the least barriers to entrepreneurship in the world and has the 3rd least barriers to trade and investment in the world. Source: OECD.
5. World leader in innovation	The UK is one of the most productive places for innovation firms in the world ranking 2nd only to the USA for the quality of its research base.
6. One of the most stable political environments to do business	According to Transparency International, the UK is one of the most transparent (least corrupt) countries in the world. It has a higher rating than France, Germany, USA and Japan.
7. Booming economy	The UK has one of the highest GDP growth rates in Europe, well above the European and Eurozone averages. Source: OECD.
8. One of the easiest countries to register a property	To register a property, the UK is ranked above France, Germany, Ireland and Italy. Source: Cushman and Wakefield.
9. Commitment to improving the planning regime.	The recent Energy White Paper by the Department of Business, Enterprise and Regulatory Reform (BERR), and the Government-commissioned Barker 2 Review of Land-use Planning and Economic Development, outline speedier planning consents for business.
10. Speaking in the international language of business	Operating in English gives firms in the UK a natural advantage when communicating globally.
11. Progressive communications network	The UK has the most extensive broadband market among the G7 countries and one of the strongest ICT infrastructures in the world.
12. Home to Europe's number one city for business	London is the world's leading financial services centre on a number of key performance indicators and was voted top European city for business for the 17th year running in 2006 by the European Cities Monitor.
13. Top talent	According to the Times Higher Education Supplement (THES), the UK has the top 6 universities in Europe and two of the top three globally. Source: The Times.
14. Springboard to Europe	The UK is the number one gateway to Europe giving easy access to the 27 member states of the European Union, the world's largest single market, with its population of nearly 500 million.
15. Number one location for European headquarters	More overseas companies set up their European headquarters in the UK than anywhere else.
16. Olympic opportunities	London will host the Olympic Games in 2012. Procurement started in 2007. Contracts will be available for firms of all sizes and the total budget will run into billions.
17. Outstanding transport links	The UK offers a world-class transport network offering rapid links to mainland Europe and the rest of the world. Heathrow is Europe's largest air hub, with on-going expansions improving its efficiency. London boasts one of the world's largest over-ground and underground rail networks.
18. High quality of living	UK residents enjoy a high standard of living, education and recreation. Personal taxes are low, publicly-funded health is free to all and there is a rich cultural heritage and abundance of leisure facilities.
19. Magnet for foreign investment	In 2006, the UK attracted and retained over $1tn of investment: the highest in Europe and the 2nd largest in the world.
20. Productivity rapidly increasing	Historically, the UK had lower productivity than its main competitors, but this is changing and the UK has closed the gap with many countries and overtaken others.

Source: UK Trade and Investment, 2008, www.ukinvest.gov.uk

Table 6. The BCC Burdens Barometer 2010

	Year	EU-UK	Regulation	One-off cost (£m)	Recurring cost (£m)	Total, by July 2010 (£m)
1	1998	EU	The Data Protection Act (Implementing the Data Protection Directive)	956	667	8,015
2	1998	EU	The Groundwater Regulations 1998	76	11	192
3	1999	EU	Employment Relations Act	2	60	570
4	1999	EU	The Working Time Regulations 1999	0	1,795	17,800
5	1999	EU	The Fire Precautions (Workplace) (Amendment) Regulations	0	15	150
6	1999	UK	National Insurance: Service Provision through Intermediaries (IR 35)	17	6	73
7	1999	UK	The Tax Credits Act 1999 & Accompanying Regulations (Working Families Tax Credit)	40	100	965
8	1999	EU	The Transnational Information & Consultation of Employees Regulation 1999 (European Works Councils)	7	15	149
9	2000	UK	The Education (Student Loans) (Repayment) Regulations 2000	64	17	221
10	2000	EU	The Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000	0	27	245
11	2000	UK	The Stakeholder Pension Schemes Regulations 2000 & 2005	107	78	738
12	2000	UK	The Wireless Telegraphy (License Charges) (Amendment) Regulations 2000	0	75	675
13	2000	EU	The Regulation of Investigatory Powers Bill: Parts 1 and 3	0	20	178
14	2000	EU	The Vehicle Excise Duty (Reduced Pollution) (Amendment) Regulations 2000 (EU Pollution Directive 98/69/EC)	10	1,225	10,412
15	2000	EU	The Water Supply (Water Quality) Regulations 2000	490	22	667
16	2001	UK	The Criminal Justice & Police Bill - Police Powers to close Disorderly Licensed Premises	1	31	251
17	2001	EU	The Pesticides (Maximum Residue Levels in Crops, Food & Feeding Stuffs) (England and Wales) (Amendment) Regulations 2000	0	18	107
18	2001	EU	The Biocidal Products Regulations 2001	107	8	172
19	2001	EU	The Processed Animal Proteins (England) Regulations 2001	20	34	289
20	2001	UK	The Disability Discrimination (Providers of Services) (Adjustments of Premises) Regulations 2001	203	189	1,910
21	2001	UK	Proceeds of Crime Act	0	54	382
22	2001	EU	The Maternity & Parental Leave (Amendment) Regulations 2001	5	5	100 (sic)
23	2001	UK	The Building (Amendment) Regulations 2001 & the Building (Approved Inspectors etc) (Amendment) Regulations 2001	62	32	308
24	2001	UK	The Electricity & Gas (Energy Efficiency Obligations) Order 2001	0	0	486 (sic)
25	2001	UK	The Undertakings on Supermarket / Supplier Relations (Code of Practice)	7	22	173
26	2002	UK	The Public Service Vehicles (Conditions of Fitness, Equipment, Use & Certification) (Amendment) 2002	760	124	1,669
27	2002	UK	The Occupational Pension Schemes (Minimum Funding Requirement & Miscellaneous Amendments) Regulations 2002	0	50	362
28	2002	UK	The Industrial Training Levy (Construction Board) Order 2002	74	0	74
29	2002	UK	The Aggregates Levy (General) Regulations 2002	0	63	456
30	2002	UK	Employment Act 2002	115	219	1,521
31	2002	EU	Control of Asbestos at Work Regulations 2002	1,359	13	1,443

Continued. **Table 6. The BCC Burdens Barometer 2010**

	Year	EU-UK	Regulation	One-off cost (£m)	Recurring cost (£m)	Total, by July 2010 (£m)
32	2002	UK	The Flexible Working (Procedural Requirements) Regulations 2002	34	296	1,884
33	2002	EU	Dangerous Substances & Explosives Atmospheres Regulations 2002	200	15	299
34	2002	EU	The Sale and Supply of Goods to Consumers Regulations 2002	0	285	1,781
35	2003	EU	The Control of Substances Hazardous to Health (Amendment) Regulations 2003	137	17	239
36	2003	EU	The Animal By-Products Regulations 2003	40	100	640
37	2003	EU	Regulating Insurance Mediation	60	90	465
38	2003	UK	Regulating Mortgages	145	120	685
39	2003	EU	The Additives for Use in Animal Nutrition (England) Regulations 2003	0	76	367
40	2003	UK	The Building (Amendment) Regulations 2003	0	167	932
41	2003	EU	The End-of-Life Vehicles Regulations 2003	0	101	572
42	2003	EU	The Money Laundering Regulations 2003	13	106	578
43	2003	UK	Child Trust Fund Act	165	0	165
44	2003	EU	The Water Environment (Water Framework Directive) (England & Wales) Regulations 2003	0	47	255
45	2003	EU	Fuel Quality Directive - Maximum Sulphur content/Review of volatility	0	117	653
46	2004	UK	The Occupational Pension Schemes (Winding Up and Deficiency on Winding Up etc.) (Amendment) Regulations 2003	0	70	368
47	2004	EU	The Carriage of Dangerous Goods & Use of Transportable Pressure Equipment Regulations 2003	44	5	225
48	2004	UK	Energy Act DTI	38	19	133
49	2004	UK	The Consumer Credit Regulations 2003	343	102	783
50	2004	UK	The Building (Amendment No 2) Regulations 2003	0	44	220
51	2004	EU	The Non-Road Mobile Machinery (Emission of Gaseous & Particulate Pollutants) (Amendment) Regulations 2003	0	134	670
52	2004	EU	The Genetically Modified Organisms (Traceability & Labelling) (England) Regulations 2003	0	97	509
53	2004	EU	Employment Relations Act – October 2004	39	33	196
54	2004	UK	Proposal to Amend The Air Navigation Order 2000	18	0	18
55	2004	EU	Directive to establish a general framework for informing & consulting employees in the UK	39	33	178
56	2004	EU	Food Labelling (Amendment) (England) (No 2)	75	0	75
57	2004	UK	Disability Discrimination Act 2004 & 2005	49	123	612
58	2004	UK	The Electricity & Gas (Energy Efficiency Obligations) Order 2004, regulation expired in March 2008	0	0	1,401 (Sic)
59	2004	UK	Occupation Exposure Limit - Framework Revision	43	0	43
60	2005	UK	The Occupational Pension Schemes (Winding Up & Deficiency on Winding Up etc.) (Amendment) Regulations 2005	0	20	85
61	2005	EU	Operating & Financial Review (OFR) & Directors' Report Regulations	0	96	408
62	2005	UK	Town & Country Planning (Fees for Applications & Deemed Applications) (Amendment) (England) Regulations	0	68	289

Continued. **Table 6. The BCC Burdens Barometer 2010**

	Year	EU-UK	Regulation	One-off cost (£m)	Recurring cost (£m)	Total, by July 2010 (£m)
63	2005	UK	Private Security Industry Act 2001: Door Supervisors & Wheel Clampers 2005 SI 2005/843	0	78	345
64	2005	EU	The End of Life Vehicles (Producer Responsibility) Regulations 2005	0	75	331
65	2005	EU	Directive 2002/15/EC on the Working Time of Persons Performing Mobile & Road Transport Activities	0	423	1,833
66	2005	EU	Work at Height Regulations	0	45	191
67	2005	EU	Control of Vibration at Work Regulations	0	230	978
68	2005	EU	Control of Noise at Work Regulations 2005	160	67	378
69	2005	EU	The Food Hygiene (England) Regulations 2005	36	-63 (sic)	11
70	2005	EU	The Carriage of Dangerous Goods & the Use of Transportable Pressure Equipment (Amendment) Regulations 2005	39	14	95
71	2005	EU	The Detergents Regulations 2005 SI 2005/2469	44	0	44
72	2005	EU	The Restriction of the use of Certain Hazardous Substances in Electrical & Electronic Equipment in the UK	0	150	450
73	2005	UK	Work and Families Act: Choice & Flexibility 2005	21	53	140
74	2005	UK	The Disability Discrimination (Transport Vehicles) Regulations 2005	39	107	315
75	2006	UK	Amendment to The Building & Approved Inspectors (Amendment) Regulations 2006 New edition of Approved Document F	10	1,203	3,920
76	2006	UK	Simplifying the Taxation of Pensions – Update HMRC	200	-90	-92
77	2006	UK	Fire Regulatory Reform Order	77	-82	-149
78	2006	UK	The Electricity Safety, Quality & Continuity (Amendment) Regulation 2006	0	16	45
79	2006	EU	Implementing Measures for Standby & Off-Mode Losses	0	54	27 (sic)
80	2006	UK	Corporate Manslaughter & Corporate Homicide Act	0	18	36
81	2006	EU	Emission standards for new heavy-duty vehicles	0	16	43
82	2006	EU	The Waste Electrical & Electronic Equipment Regulations 2006 (WEEE)	0	203	407
83	2006	UK	Tax Law Rewrite: the Income Tax Act	0	-45	-101
84	2007	UK	Companies Act 2006	0	-238	-416
85	2007	UK	The Smoke-free Regulations 2007	3	-112	-221
86	2007	UK	Managed Service Companies	9	11	26
87	2007	UK	Increasing Use of On-line Services	31	-35	-47
88	2007	UK	The Street Works (Registers, Notices, Directions & Designations) (England) Regulations 2007	81	41	132
89	2007	UK	The Street Works (Fixed Penalty) (England) Regulations 22007	0	36	45
90	2007	EU	Food Standards Agency Guidance Notes on Articles 14, 16, 18, 19 of the General Food Law Regulation (EC) 178/2002	3	-16	-28
91	2007	UK	The Introduction of Picture Warning on Tobacco Packs	4	38	32
92	2007	UK	The Water Supply (Water Quality) Regulations 2000 (Amendment) Regulations 2007, SI 2007/2734	0	-16	-24
93	2007	UK	The Renewable Transport Fuel Obligations Order 2007	252	382	714

Continued. **Table 6. The BCC Burdens Barometer 2010**

	Year	EU-UK	Regulation	One-off cost (£m)	Recurring cost (£m)	Total, by July 2010 (£m)
94	2007	UK	Energy Performance of Buildings (Amendment No.2)	-26	0	-26
95	2007	UK	The Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007	0	-29	-37
96	2007	UK	Increasing Income Tax Self-Assessment (ITSA) Payment on Account (POA) Threshold	0	-47	-58
97	2007	UK	Tenant Led Stock Options	0	-22	-22
98	2007	UK	Provision of Passenger, Service & Crew Data by Carriers to the UK Border Agencies	0	23	34
99	2007	UK	The Electricity and Gas (Energy Efficiency Obligations) Order 2008	0	938	1,172
100	2007	EU	The Motor Vehicles (EC Type Approval) (Amendment No.2) Regulations 2007	0	42	43
101	2007	UK	Local Transport Act	30	-10	14
102	2007	EU	The Small Companies & Groups (Accounts + Directors Report) Regulations 2008	0	-33	-41
103	2008	EU	The Fluorinated Greenhouse Gases Regulations 2008. SI 2008/41	0	32	32
104	2008	UK	Reduction of Administrative Burden of Stamp Duty Land Tax	0	-18	-23
105	2008	EU	The Merchant Shipping (Liner Conferences) Act 1982 (Repeal) Regulations 2008	9	-17	-12
106	2008	EU	Implementing the EU Mining Waste Directive in England & Wales	21	8	38
107	2008	UK	Employment Act 2008	0	-177	-44
108	2008	UK	Reduction of Administrative Burden of Stamp Duty	0	-16	-20
109	2008	UK	The Planning (Amendment) Regulations 2008 Standard Application Form	0	-59	-73
110	2008	UK	Amendment to the Town & Country Planning (General Development Procedure) Order 1995 (GDPO) etc. New Validation Procedures	0	-27	-33
111	2008	UK	Capital allowances changes announced in Budget 2007	0	-16	-20
112	2008	UK	The Financial Services & Markets Act 2000 (Consequential Amendments) Order 2008	-275	0	-275
113	2008	UK	Points Based System for Immigration Tier 2	0	-28	-61
114	2008	UK	Regulatory Enforcement & Sanctions Act Parts 1,2,3 & 4	0	-58	-33
115	2008	UK	Increasing Renewables Deployment in the UK & Banding of the Renewables Obligation (RO) (IMPACT ASSESSMENT FOR THE ENERGY ACT)	0	108	134
116	2008	UK	Points Based System for Immigration Tier 5	0	-61	-132
117	2008	UK	Improving regulatory framework for offshore natural gas storage & offshore LNG unloading consents (IMPACT ASSESSMENT FOR THE ENERGY ACT)	1	-40	-55
118	2008	UK	Changes to statutory fees for VOSA services in 2008	0	-20	-42
119	2008	UK	Consumer Credit (Information Requirements & Duration of Licences & Charges) (Amendment) Regulations	47	-5	-55
120	2008	UK	Proposals to Revise the Nitrates Action Programme & Extend the Nitrate Vulnerable Zones (NVZs)	0	49	73
121	2008	UK	Enabling Electronic Communication of Building Control Documents	0	-24	-41
122	2008	UK	Marine Act	0	41	41
123	2008	UK	Changes to the standard rate of VAT	300	0	300

Continued. **Table 6. The BCC Burdens Barometer 2010**

	Year	EU-UK	Regulation	One-off cost (£m)	Recurring cost (£m)	Total, by July 2010 (£m)
124	2008	EU	Euro 5 & 6 Light Duty Vehicle Emission Standards	0	989	1,483
125	2008	EU	Fluorinated Greenhouse Gases Regulations 2009	130	-55	-16
126	2008	UK	Mandatory Rating Against the Code	1	21	48
127	2008	EU	The Merchant Shipping (Prevention of Air Pollution from Ships) Regulations 2008	0	29	46
128	2008	UK	Introduction of a Statutory Scheme to Control the Price of Branded Medicines	0	225	319
129	2008	UK	129 The Companies (Company Records) Regulations 2008	0	-29	-19
130	2008	UK	Repealing Notification & Record Keeping Requirements for Factories, Offices & Shops	0	-21	-26
131	2008	UK	Climate Change Act – Powers to require charges for single use carrier bags	20	0	20
132	2008	UK	TSE responsibility& cost sharing proposals	0	25	47
133	2008	UK	Community Infrastructure Levy	0	457	304
134	2009	UK	Unit Trusts (Electronic Communications) Order 2009 & Open-Ended Investment Companies (Amendment) Regulations 2009	5	-180	-235
135	2009	UK	Street Works (Charges for Unreasonably Prolonged Occupation of the Highway) (England) Relation	0	-52	-65
136	2009	UK	Earned Citizenship: Fund to Managed Transitional Impacts of Migration	0	32	46
137	2009	UK	Deregulatory Review - The Occupational, Personal & Stakeholder Pensions (Miscellaneous Amendments) Regulations 2009	0	-250	-313
138	2009	UK	Amendment to Empty Property Relief	-185	0	-185
139	2009	EU	Retrofitting of Mirrors to Increase the Field of indirect Vision (Blind Spot) of Goods Vehicles	63	1	64
140	2009	UK	Statutory Instruments Implementing the Primary Authority Scheme	3	-32	-37
141	2009	UK	VOSA Fees revision for 2009/10	0	-21	-26
142	2009	UK	Amendments to the Education (Independent Schools Standards) (England) Regulations	0	-18	-24
143	2009	UK	Promotion of Apprenticeships in Construction Procurement	0	-51	-34
144	2009	UK	The Work & Families (Increase Of Maximum Amount) Order 2009	2	94	73

Source: *BCC*, Burdens Barometer 2010, 24 May 2010. Please note that original table contains extensive explanatory notes which explain the apparently counter-intuitive figures. These notes are excluded from the table above.

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