EU MEMBERSHIP

Co-operative Scrutiny Board Briefing

PLYMOUTH CITY COUNCIL

I. How leaving or remaining in the EU will impact on UK influence and security both in Europe and Globally

The EU is not a military organisation; it was founded as a trading-bloc and has no dedicated armed forces. Most Member States retain their own militaries, and the foreign policies of these Member States differ substantially. Europe has developed a Common Defence and Security Policy (CDSP) which enables the EU to participate and lead on peacekeeping operations and missions to strengthen international security.[1] Its aim has been stated as to support and add value to NATO, not replace it.[2]

UK influence on European security is difficult to reliably quantify. It is widely acknowledged that European intelligence agencies share intelligence more readily in the post 9/11 world, but it is also a fact that the UK shares close intelligence ties to the "Five Eyes" group – Australia, Canada, New Zealand, United States and the UK.

It is reasonable to assume that Britain's membership, or lack thereof, of the European Union would not impact Britain's membership of NATO or seat on the UN Security Council. It is not possible to accurately assess whether and to what extent intelligence sharing would cease if the UK left the EU and what the effects of this would be. No evidence has been brought forward from organisations from Plymouth regarding this.

II. EU regulation of products and markets

The effects of regulation and so-called 'red-tape' are strongly contested and difficult to monetise. Open Europe states that according to UK Government Impact Assessments, the top 100 EU rules cost the UK £33.3bn per annum but also provide an annual benefit of £58.6bn (the latter being contested by Open Europe).[3] The Confederation of British Industry (CBI) has stated in their report 'Our global future: the business vision for a reformed EU' that, "Despite frustrations with a number of specific pieces of legislation, the majority of CBI members continue to believe that the benefits of EU membership through enhanced market access and competitiveness outweigh the costs of regulation. 71% of CBI member companies reported that, on balance, the UK's membership of the EU has had a positive impact on their business – with over half (52%) saying that they had directly benefitted from the introduction of common standards. Only 15% suggested this had had a negative impact."[4]

Without evidence from local stakeholders it is impossible to determine whether local businesses feel that EU regulations have a negative or positive impact on their business.

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[1] http://www.eeas.europa.eu/csdp/
[2] http://researchbriefings.files.parliament.uk/documents/SN06771/SN06771.pdf
[3] http://openeurope.org.uk/intelligence/britain-and-the-eu/top-100-eu-rules-cost-britain-33-3bn/
[4] http://news.cbi.org.uk/reports/our-global-future/

III. <u>Economic costs and benefits of membership on the City of Plymouth</u>

1. Fiscal Impacts:

It is almost impossible to quantify the advantages and disadvantages in monetary terms. However, it is possible to present the monetary inflows and outflows. The UK contributes a gross payment to the EU. The UK receives the UK rebate, public sector receipts (e.g. Agricultural Guarantee Fund, ESIF funding) and other payments (e.g. rebate for school fruit programme).

Figure I represents the total annual sums that the UK pays to the European Union, and the total sums that it receives from the EU. It is clear to see from this graph that the United Kingdom is a net contributor. Since 2000, the UK has paid the EU more than €187 billion; it has received just over €104 billion back over the same time period[5]. On an annual basis, this has been just over 0.4% of GDP – around a quarter of what the UK spends on the Department for Business, Innovation and Skills, and less than an eighth of the UK's defence spend[6]. See Appendix I for a breakdown of these payments and OBR forecasts.

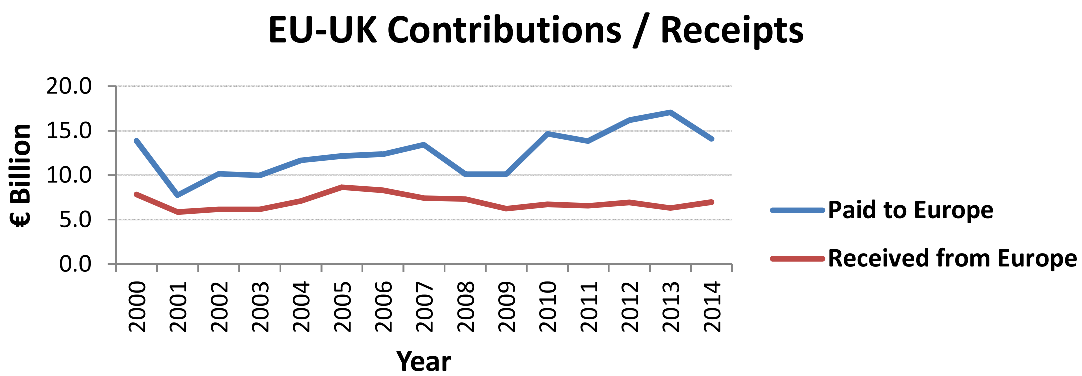

Figure I
Source: Office for Budget Responsibility (OBR) - Economic and Fiscal Outlook, 2015

Once all monetary costs and benefits are accounted for, the EU remains a net cost to the UK economy. Since 2000, the UK's membership of the European Union has come at a net cost of more around €0.34 billion.

Unfortunately, it is not possible to extrapolate this data down to a local level as most of it is only available at national or regional level. For example, European Social Fund allocations are only available at a regional level and there is no further project data available publicly. Similarly we have not been able to obtain local data for other European funds such as INTERREG or FP 7 (Europe's research programme).

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[5] European Commission, EU Expenditure and Revenue 2015
[6] CBI, 'Our Global Futures – Factsheet 2', 2015

We do, however, have data on ERDF investments in the last programme round (2007-2013) for the South West. From this data it was possible to identify projects that were primarily based in Plymouth (Figure 2) and as such have benefitted Plymouth.

Further to this, ERDF has funded several programmes which targeted the whole South West region, meaning that while not exclusively aimed at Plymouth or located in Plymouth, Plymouth businesses were able to participate and benefit from these projects. The investments presented in figure 3 show these regional-wide ERDF funded programmes. Unfortunately, without project data from each project it is impossible to identify to what extent Plymouth's businesses have benefitted from these programmes.

Figure 2. Total ERDF Structural Investment in Plymouth 2007 – 2013

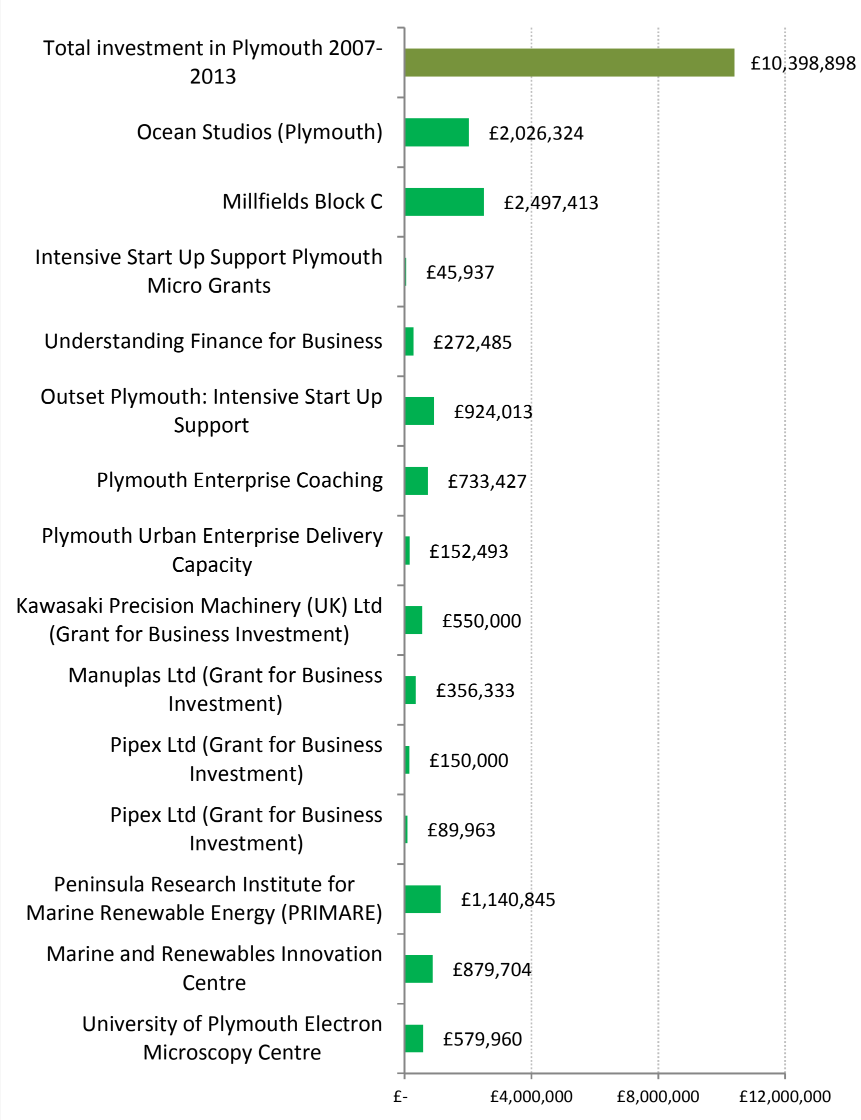


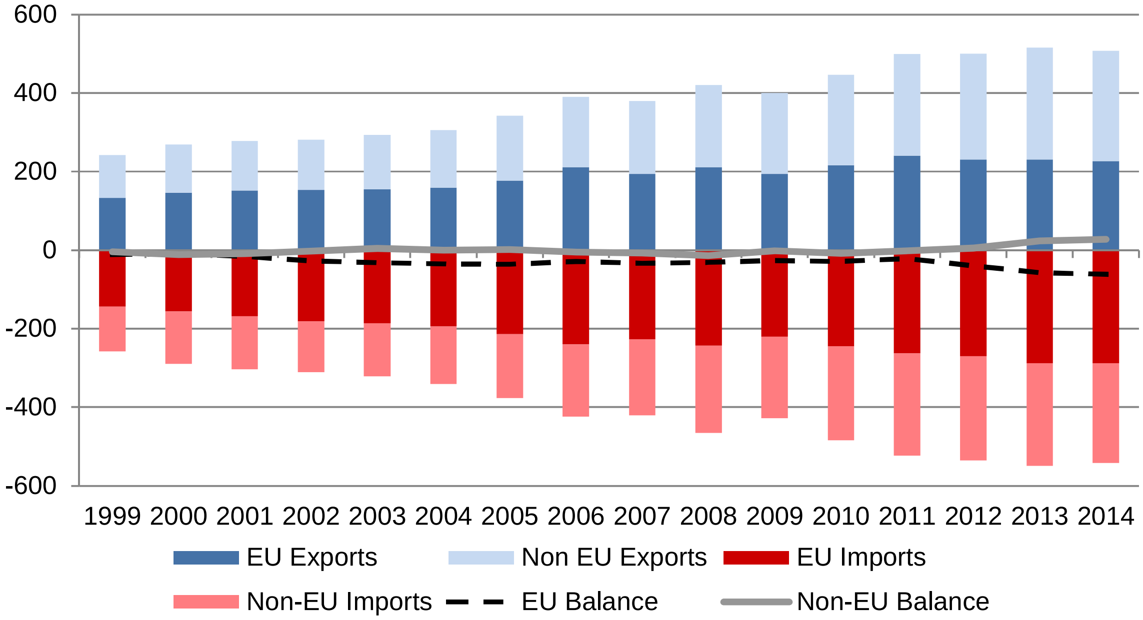
Figure 3. Additional ERDF Structural Investment with benefits to Plymouth 2007 – 2013

2. Trade

The UK has traditionally had strong trade links with the EU. Despite changes in the composition of the global economy, the EU in 2015 accounted for 43.9% of UK exports of goods and services, and 53.4% of UK imports of goods and services[7]. As the Eurozone economy continues to stagnate, the proportion of British trade accounted for by the rest of the EU is falling, and non-European markets are becoming more important for British exporters. [8]

Faster growth in the value of UK imports compared to exports with the EU has resulted in the UK's overall trade balance with the EU deteriorating (value of imports exceeding exports), with the trade deficit widening notably, reaching £61.6 billion in 2014 compared with £11.2 billion in 1999.

Figure 4. **UK Exports and Imports to EU and Non-EU**



Source: Office for National Statistics (ONS), 2015

Regionally, within the South West, dependency on trade with EU countries appears to be higher than nationally: 59.2% of all South West exports are to the EU (£8.2bn out of £13.8bn), compared with 45% nationally; 40% of SW imports are from the EU (£7.6bn out of £11.5bn).

[7] Source: UK Regional Trade Statistics, HMRC 2015
[8] Commission for European Reform, 2014:
https://www.cer.org.uk/sites/default/files/smc_final_report_june2014.pdf

South West Exports			
	2014	2013	2012
EU	£8,180m	£8,015m	£7,465m
EU (%)	59.2%	58.6%	58.6%
Non-EU	£5,631m	£5,662m	£5,268m
Non-EU (%)	40.8%	41.4%	41.4%
South West Imports			
	2014	**2013**	**2012**
EU	£7,626m	£7,750m	£7,093m
EU (%)	39.9%	39.9%	39.5%
Non-EU	£11,489m	£11,683m	£10,866m
Non-EU (%)	60.1%	60.1%	60.5%

Source: Regional Trade Statistics, HMRC 2015

IV. Economic effects of the free movement of people on the economy

As one of the basic freedoms of the EU Single Market, the free movement of people allows UK firms to recruit employees with specialised skill sets easily from across the EU, and also allows 1.8m British people to live, work, and retire freely elsewhere in the EU. 63% of CBI members stated that the free movement of labour within the EU had been beneficial to their businesses and had helped them close high-level skills gaps.[9]

In Plymouth, 2.7% of the workday population are from the EU, while 4% are from outside of the EU. It is worth noting, however, that Plymouth has a particularly high make-up of student population, with over 28,000 students across three universities, contributing 835 EU students and 1,720 non-EU students (over 16% of the immigrant population in Plymouth).

In terms of the immigration effects on public finances, existing research generally shows migrants' net fiscal contribution to be small but positive. Moreover, Office for Budget Responsibility (OBR, 2013) forecasts suggest that higher net migration (260k+) would

[9] http://news.cbi.org.uk/reports/our-global-future/

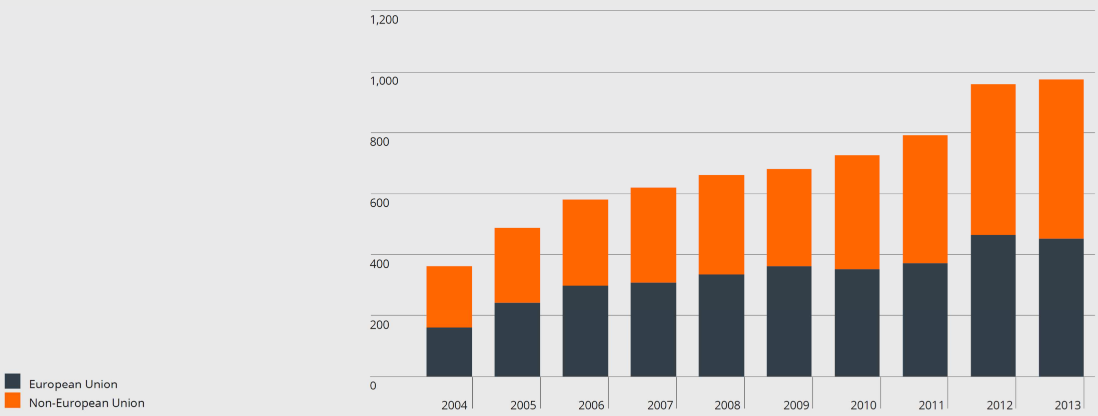
reduce pressure on government debt over the next 50 years by delaying some of the fiscal challenges of an ageing population. These findings are strongly contested.

V. The extent to which EU membership attracts and maintains inward investment

In their latest UK attractiveness survey, Ernst and Young have highlighted that the UK remains the 4th most attractive Foreign Direct Investment (FDI) location in the world, after US, China and India and before any other European country.[10]

The European Union is an important source of FDI for the British economy. In 2014, the European Union accounted for 46% of the United Kingdom's stock of inward foreign direct investment. However, inflows of foreign direct investment by EU countries have been slowing over recent years and more investment has been flowing in from non-EU countries.

Figure 23: Stock of foreign direct investment in the UK (£bn nominal)
Source: Office for National Statistics, Capital Economics



In Plymouth, of the largest 20 companies by sales turnover, registered in Plymouth (excluding education and government), 50% are owned in the UK and 50% are foreign owned. Of these half are owned by an EU company and the other half are subsidiaries of multinational US or Japanese firms.

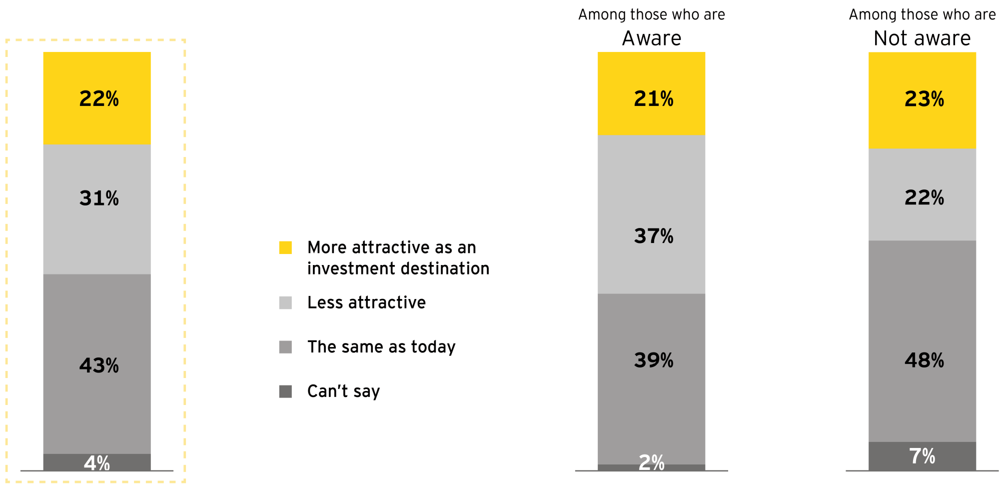
It is generally assumed that access to the single market is important for FDI decisions[11] and indeed 72% of surveyed investors in the Ernst and Young report stated that access to the European market was an important part of the UK's attractiveness. Furthermore,

[10] http://www.ey.com/UK/en/Issues/Business-environment/2015-UK-attractiveness-survey
[11] http://researchbriefings.files.parliament.uk/documents/SN06730/SN06730.pdf

several foreign government leaders have praised the UK as their preferred entry point to Europe and the European market[12].

The extent to which BREXIT will influence future FDI decisions is unclear and assessments regarding this are contested.[13] Already the prospects of an EU referendum seem to have an impact on FDI, with 31% of investors stating they were likely to reduce or put on hold any investments before the EU referendum.[14] When asked whether leaving the EU (while still maintaining access to the Single Market) would affect the UK's attractiveness, 31% believed the UK would become less attractive as a FDI destination (22% believed it would be more attractive).[15]

If the UK did vote to leave the EU but retained access to the single market on similar terms as today but with no political links to the EU, would this make the UK more or less attractive as an FDI location, or the same as today?



Source: *EY 2015 UK attractiveness survey*

[12] http://www.uk.emb-japan.go.jp/en/japanUK/governmental/130711_UKEU.html
http://www.bbc.co.uk/news/uk-politics-33647154
http://www.cityam.com/228670/eu-referendum-indian-prime-minister-narendra-modi-says-uk-is-indias-entry-point-into-the-eu
[13] http://assets.woodford.in/the-economic-impact-of-Brexit.pdf
[14] http://www.ey.com/UK/en/Issues/Business-environment/2015-UK-attractiveness-survey

[15] http://www.ey.com/UK/en/Issues/Business-environment/2015-UK-attractiveness-survey

Appendix:

1. Transactions with the European Union in £ billion, financial year							
	£ billion						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Expenditure transfers to EU institutions:							
GNI based contribution	13.6	13.8	13.7	12.8	13.5	14.2	14.7
of which, adjustments assumed in latest forecast:[1]							
in respect of 2015	-	-	*0.1*	-	-	-	-
in respect of 2014	-	*0.3*	-	-	-	-	-
in respect of earlier years	*1.6*	*0.0*	-	-	-	-	-
VAT payments to the EU[2]	2.3	2.9	2.7	2.8	2.9	3.1	3.2
of which, adjustments assumed in latest forecast:							
in respect of 2015	-	-	-	-	-	-	-
in respect of 2014	-	*0.1*	-	-	-	-	-
in respect of earlier years	*-0.1*	*0.1*	-	-	-	-	-
UK abatement	-4.8	-4.2	-5.0	-5.3	-4.9	-5.2	-5.5
of which, adjustments assumed in latest forecast:[1]							
in respect of 2015	-	-	-	*-0.1*	-	-	-
in respect of 2014	-	*0.7*	*-0.3*	-	-	-	-
in respect of earlier years	*-0.5*	*-0.9*	*-0.2*	-	-	-	-
Receipts from the EU to cover the costs of collecting Traditional Own Resources[3]	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.7
Total expenditure transfers included in AME, TME and PSNB[4]	10.4	11.7	10.7	9.7	10.9	11.4	11.7
Traditional Own Resources[3]	3.0	3.1	3.2	3.1	3.1	3.2	3.5
Public sector receipts from the EU[5]	-4.6	-4.1	-4.2	-4.4	-4.7	-5.0	-5.2
Net contribution to the EU budget[6]	8.8	10.8	9.7	8.4	9.3	9.6	9.9
Gross contribution to the EU budget[7]	13.4	14.8	13.9	12.7	14.1	14.6	15.1

[1] The GNI adjustments are subject to refunds, and also result in additional rebate (shown as rebate adjustments).
[2] Contributions calculated by applying a call-up rate, currently 0.3%, to a notional 1% harmonised VAT base.
[3] Traditional Own Resources (TOR) consists of customs duties and sugar levies. These duties are excluded from public sector current receipts because they are collected on behalf of the EU. Customs duties include duties on agricultural products. Currently, the UK, like all Member States, retains 25% of the amount of TOR it collects to cover the costs of collection and this reduces TME in the National Accounts. This changes in our forecast to 20% in 2016 when the new Own Resources Decision is expected to come into force.
[4] These are the expenditure transfers to EU institutions included in current AME in Table 4.26 in the November 2015 *Economic and fiscal outlook*. These are also the expenditure transfers to EU institutions included in the National Accounts.
[5] These receipts are not netted off public sector current expenditure in the national accounts, because they are deemed to finance spending by the EU.
[6] This table included another aggregate previously, termed 'Net payments to EU institutions', which is now identical to the 'net contribution to the EU budget', and so is no longer shown separately.
[7] Calculated from the net contribution to the EU budget, and then excluding public sector receipts from the EU.

Source: European Commission - EU Expenditure and Revenue 2015; Office for Budget Responsibility forecasts, 2015