

The United Kingdom and the (Digital) Single Market

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Introduction

The European Single Market has been the main thrust of the United Kingdom's involvement in the European Union. The European Free Trade Area (EFTA) was created in 1960, driven by a British desire to offer European countries the economic benefits of a larger internal market in a situation where the full accession of EFTA countries to the European Economic Community was, for various reasons, not possible (Milward 2005: 3). For the UK, membership in the (now) EU in 1973 thus represented a deliberate choice to participate in the European integration project beyond its economic core.

Key events in EU-UK relations with a focus on the Single Market (based on Dinan 2014; Hartley 2014)	
1960	Austria, Denmark, Finland (1961), Norway, Portugal, Sweden, Switzerland and the United Kingdom establish the European Free Trade Association (EFTA).
1961	The UK's application to the European Economic Community (EEC) is denied.
1973	The UK joins the EEC along with Ireland and Denmark.
1975	In a UK referendum, 67.2% of British citizens agree to stay in the EEC.
1993	After many internal conflicts the UK ratifies the Maastricht Treaty (TEU). Nevertheless the UK does not agree to the common currency and the 'Social Chapter'.
1995	The UK refuses to sign the Schengen Agreement.
1997	The UK Labour Party wins the elections and decides to opt in to the 'Social Chapter'.
2002-2012	Most EU member states adopt the Euro, but the UK keeps its own currency.

In 2016, both the EU's internal market and all the other forms of European integration have, however, evolved far from the state of play in 1973. The crucial question, therefore, is whether the EU's Single Market has developed in a fashion that, in the aggregate, remains beneficial to the UK, and if it has, whether such benefits outweigh the potential net costs that the membership may entail in view of the (partly considerable) changes in other respects. In this paper we focus on the

By bundling the manifold policy expertise of the researchers of the Institute for European Studies (IES), this paper forms part of a series of analyses investigating the potential implications of a 'Brexit' scenario for different EU policies. All papers ask the same three questions: 1) What is the state of the EU policy in focus? 2) What is the UK's role/interest in this policy field? 3) What are the potential implications of a 'Brexit' scenario at the policy-level?

After Claire Dupont and Florian Trauner [introduce the project](#), Richard Lewis sets [the historical and cultural context](#) and explains how the UK and the EU have come to such a low-point in their relations. Next, five policy fields are analysed: [justice and home affairs](#); [free movement policies](#); [EU external representation](#); the (digital) single market; and [environmental policy](#).

former question: the implications of the British participation in the EU Single Market for the UK and for the EU. Building on this reflection, we also briefly discuss possible consequences of a 'Brexit' scenario. Considering the diverse and vast nature of Single Market policies, the paper primarily draws on examples from the Digital Single Market. We conclude that from a (Digital) Single Market perspective, a 'Brexit' would entail losses for both the UK and the EU, primarily in terms of liberal regulatory influence and continued access to goods and services.

What is the state of the EU policy?

'The European Single Market [...] has transformed the way Europeans live, work, travel, do business and study. It has opened up opportunities for businesses to expand successfully on the global market' (European Commission 2012).

Pioneered by the Delors Commission in the 1980s and launched on 1 January 1993, the European Single Market, also known as the EU's Internal Market, is an open market where barriers have been abolished to guarantee the 'four freedoms' among member states: free movement of goods, capital, services and people. The Single Market aims at promoting specialisation, economies of scale and efficient allocation of resources so as to raise the aggregate welfare in the European economy. Increased competition will lead to better quality European products and services at lower prices, which will also increase EU's global competitiveness. The Single Market is one of the EU's greatest achievements, also for global trade and investment.

Key macroeconomic achievements attributed to the Single Market (European Commission 2012)
<ul style="list-style-type: none"> • Increase of 2.13% or €233 billion in EU27 GDP in 2008, or an average of €500 extra in income per person in the EU27 in 2008.
<ul style="list-style-type: none"> • Creation of 2.77 million new jobs, or a 1.3% in total EU employment, over the period 1992-2012.
<ul style="list-style-type: none"> • Increase in intra-EU trade in goods from €800 billion in 1992 to €2,800 billion in 2011, or from 12% of EU GDP in 1992 to 22% in 2011.
<ul style="list-style-type: none"> • Increase in flow of foreign direct investment (FDI) between EU countries from €64 billion in 1992 to €260 billion in 2010 (before the economic downturn, €730 billion).

The Juncker Commission is spearheading internal market developments in the contemporary global information era with its Digital Single Market (DSM) initiative (European Commission 2015). This is the follow up to the European Commission's eEurope (1999) and i2010 (2005) strategies, which have all focused on slimming down regulation in the fast-paced field of technology development and adoption. The Digital Single Market seeks to reduce the burdens of economic operators by shifting towards a digitally driven economy, where regulatory differences between EU member states are harmonised and cross-border trading simplified. The DSM is the European response to the global challenges of ensuring economic growth in an age when digital technologies are eroding state and market boundaries. The European Commission (2016) estimates that the completion of the DSM could 'contribute €415 billion per year to our economy and create hundreds of thousands of new jobs'.

The European Commission's DSM strategy identifies three main pillars: access to digital goods and services, regulation of networks, and industrial growth.

Concretely, the DSM has already delivered some achievements for European citizens in terms of access to services: the success most touted by the European Commission is the reduction of mobile roaming costs for European travellers. Industrial growth has been supported by research and development funds, currently disbursed through (among others) the Horizon 2020 programme.¹ In the near future, EU regulations will also help provide a (more) secure online environment for all Europeans (notably regarding data protection).

What is the UK's role/interest in the (Digital) Single Market?

'Our participation in the Single Market, and our ability to help set its rules is the principal reason for our membership of the EU' (David Cameron 2013).

The European Single Market has evolved in a continual tussle between market-based and state-centric approaches to harmonisation. Those advocating a market-based approach to the Single Market merely seek to create a level-playing field in which market players can compete on fair terms. The key term is liberalisation rather than regulation. Others adopt a more interventionist approach, viewing state involvement as necessary and desirable to strengthen the European economy and its players. Generally speaking, the UK prefers to leave the developments to the markets to the extent possible, and use as light a policy approach as possible where that is not sufficient (Geddes 2013; Oliver 2015). In the Council of Ministers, a coalition of liberal Northern states often builds around the British position, facing not only the Mediterranean member states, but on issues such as mutual recognition of degrees and certificates also increasingly Germany.

The UK's vision of encouraging a market-led approach to harmonisation is also illustrated in its position on the DSM. The UK strongly supports the removal of internal barriers and believes that, with 500 million European consumers across 28 member states, the DSM provides the key to place the EU on the top in the global (knowledge and innovation) economy, making it more productive, better for small businesses, and fit for the digital age (UK Government 2015). The debate focuses on the means of achieving the objectives. It is again not only the Southern EU countries, but the *ordo-liberal* German approach that distrusts the markets that the British approach tries to harness. British interest is thus in ensuring that market principles are applied equally in the online and offline worlds. Recent examples include policy debates on network neutrality, data protection, modernisation of copyright and development of standards in the Internet of Things (European Commission 2016).

A related, yet distinct area of high interest to the UK is the European support for innovation and modernisation of research infrastructures. British involvement in the EU's ICT-related research programmes is intense and very fruitful. Year on year,

the UK is one of the largest recipients of EU research grants in absolute terms, and has supported technological development in both research and commercial fields (Simmonds et al. 2010). Approximately €3.3 billion will be made available in 2016 and 2017 for ICT-related research in the Horizon 2020 programme.

What are the potential implications of a 'Brexit' scenario?

'If the British cannot support the trend towards more integration in Europe, we can nevertheless remain friends, but on a different basis. I could imagine a form such as a European economic area or a free-trade agreement' (Delors 2012).

The discussion surrounding the UK's departure is loaded with opinions, assumptions and misunderstandings. Proponents of a 'Brexit' believe that the benefits to the UK economy of the European Single Market are vastly overstated and the UK's dependence on the Single Market is simply a myth. Those led by UK Prime Minister David Cameron emphasise the importance and benefits of being in the EU, while pushing for reforms on how the EU develops as a trading partner. Both camps wish to see economic cooperation with the EU continue in some form. One possible shape this could take is a Norway-style agreement (despite political insistence from Cameron that this will not happen), where the UK retains access to the Single Market. However, joining the European Economic Area would mean that the UK would have no ability to directly influence EU policies, and in effect would be subject to 'regulation without representation'. Norway is also a net contributor to the EU, but has traditionally chosen this model due to its ability to avoid being part of the Common Fisheries Policy.²

Importantly, a separation from the EU would mean that in the institutional politics of the EU, the European Commission as a proponent of a liberal agenda on the Digital Single Market would lose its greatest ally, while the UK could only influence the debate from the side lines.³ It is not unlikely that EU-wide liberalisation efforts in the DSM would stall, shifting the regulatory balance towards a more interventionist approach to harmonisation.⁴ We illustrate the potential implications of a 'Brexit' with three Digital Single Market policies.

First, the UK has a strong interest in the copyright reform and enforcement debate in the EU. As the discussions at a European level have been at a standstill for quite some time, the UK has taken policy action at a domestic level. For instance, the UK's co-regulatory 'follow-the-money' approach to online copyright infringement through the involvement of financial and advertising intermediaries is regarded as best practice in the EU. Consequences of a 'Brexit' would therefore not necessarily be felt immediately.⁵ However, the UK would lose its say in determining the future direction of a policy field that is high on the European Commission's agenda and crucial to online commerce.

Second, concerning access to goods and services, the UK (along with the European Commission) has been a strong promoter of removing mobile roaming charges, but might see its previous efforts turn to vain if it leaves the EU. Indeed, the UK could continue to benefit from the recently approved roaming regulation only if it adopts Norwegian-style cooperation or forms some other sort of treaty arrangement with the EU, none of which is certain, should the 'withdrawal Article' 50 TEU be invoked. Otherwise the fate of British customers in Europe would depend on individual agreements between operators, far less clear-cut than the present model.

Third, the most practical example is that the UK would need to continue to contribute to the EU's research and innovation programmes to ensure access to EU bids for UK research institutions and companies. It is clear that the EU is not afraid of using research funding as leverage. When Swiss voters decided to limit the number of workers coming from the EU due to rising immigration concerns, the EU responded by blocking Swiss universities from EU research projects and the Erasmus exchange programme. Israel, another country that participates in EU R&D programmes, was forced to exclude research organisations based in the Occupied Palestinian Territories from participation in Horizon 2020, in a last-minute concession that had threatened to see Israel removed from the programme altogether (Abbott 2013).

In sum then, there is agreement that, in terms of the Digital Single Market, mutual benefits occur for the UK and the EU when the UK is part of the EU. For the most part the European Commission also shares the market-based approach pushed by the UK in shaping regulation tailored to the digital environment. Although much is undetermined at this time, we argue that a 'Brexit' will entail several losses for both parties, even after a period of uncertainty. For the UK, (further) barriers to UK businesses' and consumers' access to transactions of goods and services would emerge across the EU, while for the EU itself, the loss of the UK's input on the Digital Single Market would doubtless lead to more debate on how market-driven the Digital Single Market policies should be.

Endnotes

1. This paper will not delve into contestations around the effectiveness of EU-level research funding, commonly referred to as the 'European paradox': 'a strong EU public sector science base coupled to a relatively weak R&D performance of EU firms' (Tijssen and van Wijk 1999).

2. For a detailed overview of seven alternative models of economic cooperation with the EU, please consult Piris, J.-C. (2016). *If the UK Votes to Leave. Seven Alternatives to EU Membership*. London: Centre for European Reform. Retrieved on March 2nd, 2016 from https://www.cer.org.uk/sites/default/files/pb_piris_brexit_12jan16.pdf.

3. In this context, see for instance the statement of a British civil servant within the then Department of Trade and Industry (DTI) that 'in areas that are core to the DTI, trade policy and Single Market policy, we are closer to the Commission probably than any other member state' (quoted in Buller and Smith 1998: 174).

4. Tim Oliver (2015: 421-422) concurs that '[i]n the longer term a Brexit could make the EU less inclined towards liberal, free market economics'. At the same time he argues that the UK's liberal regulatory influence is already limited by its exclusion from the Eurozone and questions the extent to which the European Commission, Germany or even France would permit a more protectionist agenda.

5. Although regulatory issues between national and European licensing and enforcement agencies may arise.

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