



European Parliament
Background Note

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THE ADVANTAGES OF STAYING IN

It is in Britain's interest to remain a member of the European Community. Membership is already producing many tangible benefits. Although in the short term these are difficult to quantify, in the long run "membership is bound to be advantageous". "A stake in the common market is a definite advantage, especially for a major industrial country, provided that it can seize the opportunities available." Membership should be viewed in the light of the changing world economic and political situation; it should also be remembered that the Community has always proved flexible in response to the circumstances of any member state.

These are the main conclusions of a 171 page report which has just been published by the research Directorate General of the European Parliament's Secretariat in Luxembourg.* The report, an analysis of the effects on the United Kingdom of membership of the European Community was drawn up at the request of the European Conservative Group.

A CONTRIBUTION TO OBJECTIVE DISCUSSION

At a time when Britain is negotiating important aspects of its economic and political relations within the Community, when the Cabinet and Government are discussing how the results of these "renegotiations" may be put to the people and to Parliament and when the possibility of holding a referendum or consultation at a general election are being actively considered, this document, it is hoped, may make a positive contribution to objective discussion. The "four points" relating to British membership which were raised by the British Foreign Secretary, James Callaghan, in the Council of Ministers are covered in substantial sections of the study.

The main Chapters discuss British experience - and prospects - within the Community in four main fields:

- political affairs, the institutions and the Community budget (Chapter I)
- the common market and related policies (Chapter II)
- the development of common policies including economic and monetary, agricultural, social and regional policy (Chapter III)
- external relations with particular reference to trade and development (Chapter IV).

Some of the points raised are indicated in the following pages.

*The Effects, in 1973, on the United Kingdom of membership of the European Communities, Directorate General for Research and Documentation, European Parliament, Luxembourg (PO Box 1601). July 1974.

NEW ECONOMIC CIRCUMSTANCES

Economic and political activity both at Community and world levels has seen major changes of perspective since the early years of the Community's development and more pertinently since the negotiations leading up to British accession.

"The events of 1973," says the report, "have shown British problems in quite a different light. During the accession negotiations, stress was laid on the transitional provisions for implementing the customs union or adjusting to the common policies, or the maintenance of relations with the Commonwealth, and on the amount of the budgetary contribution. The upheaval in the prices of raw materials and agricultural products, the energy crisis, the absence of the pound sterling from the 'snake in the tunnel' (the lira and the franc are no longer inside) and the fight against inflation, have been the major economic events since accession and as a result, the whole problem has altered. The problem has not been whether or not the EEC adjustment mechanisms are working properly but how to face up to the new economic circumstances."

THE PRICE OF FOOD

Joining the Community has had for Britain certain advantages in a period of rapid world commodity price increases. Prior to accession the Common Agricultural Policy (CAP) was frequently criticised for maintaining prices above world levels whereas the position is now largely reversed.

As a member of the Community Britain has been able to purchase cereals at more or less the same price since accession as in previous years whereas prices on the world market have tripled. Meanwhile Commonwealth suppliers of many products, for example sugar and butter, have gradually turned towards more profitable world markets in the USA and Japan - taking advantage of the higher prices - and in some cases for the first time in many years have not fulfilled their contracts with the UK. "This trend," says the report, "is in line with the changing pattern of economic relations between the United Kingdom and the Commonwealth countries."

The maintenance for the British consumer of low food prices based on cheap world imports - so long regarded by many as inconsistent with membership of the CAP - can now no longer be regarded as possible. Moreover many CAP prices now offer a considerable price advantage over those of other world suppliers. "Whether in or out of the Communities," says the report, "the United Kingdom can no longer count on low agricultural prices, either by concluding long term contracts with individual countries, since these would be unwilling to renew on the previous price terms, or by buying on the 'world market'."

Helping the British consumer

Apart from benefiting from the relative stability of Community prices, a further factor which has benefited Britain has been the operation of the system of compensatory amounts financed by the European Agricultural Guidance and Guarantee Fund. Under the system the price of imports into Britain from another Community country may be adjusted downwards by a compensatory amount, covered by the EAGGF, to bring the price to the lower level applied in Britain. In 1973 these amounts totalled the equivalent of about £110 million. The report points out: "A large proportion of this expenditure thus enabled the British consumer to buy agricultural

The British farmer

Accession arrangements for agriculture are well advanced with the alignment of prices - originally scheduled over five years - now partly completed in respect of most prices and already completed for some products. "The prevailing impression," concludes the report, "is that the real problems facing British agriculture are exactly the same as those facing the Six - i.e. imbalance between livestock production costs and the selling price - and no longer have so much to do with the gradual adjustment to the Common Agricultural Policy."

A FAIR APPROACH TO THE BUDGET

In discussing the Community budget and Britain's contributions the report notes Mr Callaghan's forecast made on June 4 that Britain's share of the Community's gross national product - and thus its ability to contribute - could have fallen to 14% in 1980. This figure, the report finds "at first surprising". "The figure," says the report, "was 19% on average for the years 1970/1971/1972. The estimate of 14% is perhaps projecting a medium term trend on the basis of the results of last year which was marked by the energy crisis and its consequences on the level of employment."

Noting that the forecasts for 1974 are "admittedly pessimistic both in themselves and by comparison with those made for other countries," the report continues, "the United Kingdom may reasonably expect to make a recovery in the medium term, thanks to North Sea oil and to the new economic relationship in which it will find itself within the EEC. If export figures can be taken as an economic indicator, this argument is supported by the steady rise in the value of UK exports to the other EEC countries over the last four years even if the import/export balance remains negative". "Recovery," it adds, "could be aided by the development of existing and the introduction of new common (Community) policies."

Substantial receipts

The report explains clearly the financing of the Community budget and "own resources" system and how according to the accession formula Britain is not due to pay a full contribution until 1980. Of a nominal approximate 19% contribution Britain thus paid less than half in 1973 and slightly over half in 1974 (amounting to 8.78% of the budget in 1973 and an estimated 11.03% in 1974). But Britain also receives substantial amounts from Community funds including the Agricultural Guidance and Guarantee Fund and the Social Fund.

Any assessment of a 'fair return' for Britain from the Community budget (£1762m in 1973), the report says, must take account of the receipts from the budget - some £106.5 million in 1973, a year when Britain was only beginning to adapt to membership. In addition non-returnable budget expenditure on administration, food aid, research and investment which for the Community as a whole was £184 million in 1973 should also be excluded from the assessment. The report calculates that the portion of Britain's contribution on which it could expect a fair return was thus £138 million for that year.

Britain has also received benefits (rather more in 1974 than 1973 due to the time-lag between accession and the proposals and acceptance of projects) from the European Coal and Steel Community funds which are financed separately from the main Community budget. None of these calculations,

some areas of Community accounting. Of major importance in the long term there is the prospect of the establishment of Community policies and funds in other fields, particularly a large regional fund from which Britain is expected to be a major beneficiary.

The report, however, warns against an analysis solely in terms of contributions and receipts: "As in the case of the customs union, the fairness of the budgetary contribution of one of the member states cannot be assessed solely in terms of the balance between its contributions to the Community budget and what it receives in return. Nor is this a question specific to the United Kingdom contribution; it has been a constantly recurring theme in the different phases of the construction of Europe," says the introduction.

NO STRAIGHT-JACKET FOR ECONOMIC POLICIES

Community coordination of economic policies, argues the report, "has rarely proved the straight-jacket which many Britons feared. Italy has demonstrated in recent weeks that Community procedures can be applied flexibly. It is an unwritten law in the Community that no member state shall be forced to adopt for Community reasons anything which it considers contrary to an important national interest. And this is likely to be the situation for some time." "In practice," it states, "it has always been found that member states retain considerable freedom of action to take such measures as they consider in the national interest."

Taking a realistic - and even critical - view of the Community's past approach to Economic and Monetary Union about which, it says, "the Labour Party expressed much concern", the report states: "It could even be asserted that the aversion of Britain's anti-marketeters results, in a way, from their tendency to take Community decisions too seriously, something for which not they, but the Community, must take the blame. In past years it has all too often been the case that the Council or a Summit Conference formulated ambitious plans only to find that they could not be implemented ... it should not be forgotten that, now circumstances have changed, the Council resolutions on the achievement of economic and monetary union have to be seen in a totally different light. In a world of floating exchange rates, the call for gradual reduction and the ultimate abolition of the margins of fluctuation between currencies is no longer relevant." The report also points out that the resolutions "say virtually nothing about the period from January 1, 1974 to 1980, the period in which we now find ourselves".

BETTER OFF IN EMU

Stressing that Economic and Monetary Union in the long term "is still the avowed aim of the Community ... a customs union of industrialised countries can never be the final goal of integration," the report says, "the real question is whether the UK would be better or worse off in an economic union". Here the report argues strongly the advantages of such a union and challenges "for those who prefer to do everything themselves (even though it no longer proves particularly effective) and who feel that integration between modern industrialised countries can well be limited to customs union, there is every reason to be concerned since ... full economic and monetary union is an important Community aim". It continues by setting out strong arguments as to why this aim should continue to be pursued. "There is not a single small or medium-sized industrialised

the world unless it is prepared to accept a considerable drop in prosperity. International division of labour is incontrovertibly an important source of prosperity. Consequently, all Western industrialised countries (the US to a far lesser extent) are dependent upon one another, and the same applies to the UK, whether inside or outside the Community. The principal difference between the two possibilities is that membership of the Community gives the UK the opportunity to participate in decisions on matters that will anyway affect the country's economy. This applies equally to the abolition of technical obstacles to trade, the fight against inflation, monetary integration and environmental regulations."

"Besides, what in the field of economic and monetary policy is coordinated in the Community? In actual fact only those matters which in practice can no longer be dealt with, or at any rate dealt with efficiently, at national level. The fight against inflation is an example of this. In the final analysis, inflation is in fact a problem of redistribution, which makes it an evil not readily disposed of even by Community action. But the hyperinflation threatening us now can be fought far more successfully at Community than at national level."

Regaining lost powers

"Without exaggerating," continues the report, "one could even say that, in the Community, member states regain - even if they do share it with others - an influence they had gradually lost at national level. An example of this is the international monetary situation: individually, none of the member states could do much more than act as dollar satellites, having not the slightest influence on the exchange rate policy of the US. An economic and monetary union of the nine member states, on the other hand, constitutes a bloc capable of pursuing an independent monetary policy - if possible in cooperation with the US, though not necessarily on a course exactly parallel to that country's policy."

A customs union is not enough

"To be an advocate of completely free movement of goods is to be in favour of economic and monetary union" argues the report. "A customs union of modern industrialised countries is not a viable proposition in the long run, if only because the economic and monetary policies of the government affect the operation of the customs union too much for these policies to be left to the member states without jeopardising the smooth functioning of the customs union."

The importance of regional policy

Noting that "further progress in setting up a Community regional fund is now effectively blocked by the issue of 'renegotiation' of British membership of the Community," the report argues that the Community has always assumed that regional policy would form an important part of economic and monetary union. It could be expected in the long term to be of major benefit to Britain and "should help Britain to avoid unfair competition from wealthier member states". Moreover the report points out that the Community accepted in principle the arguments put forward for regional policy by the British Government in 1972 and 1973. "It is possible," says the report, "to acknowledge the advantages of a customs union, yet still feel that one of the member states will lose by it. The reasoning behind this is that

economic integration, if it is not controlled through a regional policy, leads to economic activity being concentrated in the most highly industrialised areas. This tendency has in fact prevailed until now." However "the efforts now being made in the Community to bring about Economic and Monetary Union should lead ultimately to a kind of 'economic disarmament' in the policies of the member states with respect to each other".

The acceptance of the principle of regional policy by the Community is thus one reason for assuming that a reasonably even distribution of economic activity can be achieved in an economic and monetary union. Other reasons cited in the report are the imposition of measures (already in existence in some areas) which restrict the expansion of economic activity in areas of concentration such as conurbations which may have become saturated, and measures to regulate economic activity for environmental and particularly pollution reasons. Environmental standards, the Commission has suggested, could be variable from region to region and in this way assist regional policy.

Curing the 'English sickness'

It is in Britain's interest to bend its efforts towards achieving economic and monetary union for an additional economic reason, says the report, that of curing what it calls 'the English sickness'. Citing the findings of European economists, the report argues: "The income elasticity of British imports, i.e. the ratio between the increase in demand for imported products on the one hand and the increase in the British GNP on the other is about 1.66 for Great Britain, which is a high figure. At the same time, the ratio between the increase in demand for British export products and the increase in income of the consumers of these products is about 0.86 and that is a low figure." This means that: "Assuming that import and export proceeds must be more or less in balance, the British economy will be able to grow only half as fast as that of Great Britain's trading partners. This is one of the main reasons for the British stop/go policy of the sixties. However, in recent years British governments have flatly refused to be coerced by the balance of payments, and rightly so; but the new approach does lead to a continuous depreciation of sterling."

"The only way out of this dilemma between stop/go policy and devaluation of the pound is the Economic and Monetary Union. For within such a union, compensatory mechanisms operate in the same way as they do in a national economy. And, it is a well-known fact that nobody worries about the balance of payments deficit or surplus of a region because the balance of such a region is 'automatically' corrected with regard to other parts of the country by means of regional payments to and from the central bank, inter-regional movements of capital purchase and sale of treasury bonds, taxes and public expenditure."

THE IMPORTANCE OF COMMUNITY TRADE

Two sections of the report are devoted to a consideration of Britain's and the Community's trade relations. Figures contained in the report serve to refute some widely held misconceptions about Britain's trade and the Community. It shows how, well before accession, the Community area was coming to dominate Britain's trade and the importance of the Commonwealth had declined markedly. It illustrates this trend by reference to figures from the British Department of Trade and Industry (see table below).

UNITED KINGDOM TRADE - RELATIVE SHARES BY AREA

IMPORTS (percentage of world total)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
EEC (8 members)	27.00	29.69	31.59	32.78
EFTA (excluding Denmark)	12.57	12.92	14.46	14.95
USA	12.95	11.11	10.50	10.16
Commonwealth	23.88	22.31	19.26	17.50

EXPORTS (percentage of world total)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
EEC (8 members)	29.22	28.97	30.16	32.41
EFTA (excluding Denmark)	13.19	12.63	13.84	14.04
USA	11.57	11.70	12.39	12.17
Commonwealth	21.03	21.88	18.86	16.60

In 1970 imports from the Eight (the Six plus Denmark and Ireland) accounted for 27% of Britain's total imports, compared with a Commonwealth share of some 24%. The Eight took some 29% of Britain's exports in 1970, and the Commonwealth 21%. By 1973 the Commonwealth share of Britain's imports had fallen to 17.5% while the Eight's share was nearly twice as important at just under 33%. For exports, the Commonwealth share was only just over 16.5% while the Eight's share was almost double at almost 32.5%. By 1973 then, in trade terms the Community was already twice as important as the Commonwealth for Britain.

It is important to note that just as the increase in trade between Britain and the Community dates from well before British accession, so the deterioration in Britain's terms of trade - Britain's growing world trade deficit - also began well before 1973. As the following table from the report shows, over the past few years the coverage of British imports by exports has not been lower in the case of trade with the Eight than it has been in Britain's trade as a whole - in fact for the years 1967-1973 averaging 87.0% it has been marginally higher than in the case of overall trade with the world (85.6%); for 1969 and 1970 it was substantially higher.

UNITED KINGDOM TRADE - EXPORTS/IMPORTS COVER RATE, BY VALUE (%)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	Average <u>1967-1973</u>
With world	81.2	81.4	88.2	89.2	93.4	87.5	78.4	85.6
With EEC (8)	81.0	84.0	95.5	96.5	91.2	83.4	77.5	87.0

Although Britain's balance of trade position has worsened, taking a long term view it would clearly be wrong to suggest that this was on account of the growing importance of trade with the Eight other members of the Community.

FUTURE TRADING PROSPECTS

To chart the future course of trade with the Community on the basis of the experience gained since accession would be extremely difficult since in 1973 the transitional arrangements for accession were only beginning to take effect - the first move by Britain towards the adoption of the Community's common external tariff for industrial goods and, in some cases, its generalised system of preferences only took place on January 1, 1974. Acknowledging the debate amongst economists over the degree to which membership of a customs union may be found to create or divert trade, the report argues that the increase in trade between the United Kingdom and the other member states should not necessarily take place at the expense of third countries. Britain, it says, has something to expect from participation in the Community customs union which it points out has not yet been fully realised, even among the original Six. "A customs union (i.e. an economic area with free internal movement of goods and a common external tariff) increases the all-round prosperity of its members. This can be attributed to economies of scale, sharper competition in a larger economic unit and more rapid dissemination of industrial know-how."

North Sea oil

Discussing the implication of Community energy policy for Britain the report states "it is clear that the fact that the UK is a member state of the Community does not influence her rights of ownership of the North Sea oil deposits" and underlines this by reference to the Treaty of Rome. It also foresees Community support being available to help North Sea oil extraction.

NEW POLITICAL OBJECTIVES

"In an outward-looking or peace-seeking Community, with liberal policies, generous to under-privileged peoples, Great Britain can find new political objectives, the realisation of which will give immeasurably greater satisfaction to the British people than any attempt independently to try to pursue outworn aims now impossible to achieve." With this unanimous verdict on the importance of Community membership, the report sets out potent arguments why membership of what it calls "the concert of Europe" has already been and will increasingly be to Britain's advantage. "The present critical economic situation has already had political consequences in several Community countries, which may be expected to intensify. In face of this situation, the economic and political support of her Community partners will be of immense advantage to Britain. In addition, she will, at the same time as working out a new structure of relationships with Commonwealth countries old and new, be assisted in finding in Europe new outlets for her energies and influence in the framework of the Community. These will go far to replace her old Commonwealth links and to substitute for them a new sense of purpose for the British people."

Political cooperation

The Community's system of political cooperation, only launched in 1970, developed strongly in 1973. It has been important, says the report, "for Britain to be represented at the experts' consultations and the Foreign Ministers' meetings on political cooperation for this is where the foreign policy of the Nine has been evolved". After what it calls "the meagre results of the Copenhagen Summit conference" the report forecasts that political cooperation is likely to increase in importance as a means of forging a common Community view in foreign policy fields of vital interest to Britain.

In terms of the United States foreign policy, which has brought it into relationship with China, its mutual understanding with the Soviet Union in several fields and into the dominant role of peacemaker in the Middle East, nothing less than a common position among the Nine is sufficient to exert influence on the superpowers. "Britain's voice," says the report, "could have been considerably more muted had she not been able to add it to those of the other Eight in claiming a position of equality with the USA in consultations on future policies." Britain's traditional policies of close relations with the USA and the Commonwealth, support of the United Nations, and aid for developing countries, would become considerably easier to achieve if the Community developed a continuing relationship based on common political and economic interests with the USA," concludes the report.

In relations with the Middle East the report recalls how the Nine lent support to United Nations peacekeeping through their joint declaration of November 1973 and how the undertaking regarding trade agreements made at the Paris Summit Conference in October 1972 pointed the way towards trade with, and aid to, the Near East countries as a means of building up their economies and so of reducing political tensions. Here again "British influence as a Member of the Nine was considerably greater than if she had no place in the councils of the Community countries, and as a member of the Nine". This has also been true of the Conference on Security and Cooperation within Europe where the report argues "it has patently been to the benefit of the United Kingdom to wield a

Benefits for the Commonwealth

The report finds that the misgivings, expressed since 1961 about the prejudicial effects on Commonwealth countries of British membership of the Community, particularly on the economies of New Zealand and of developing Commonwealth countries in Africa and the Caribbean, have been overtaken by events. Since the British accession, the increase in world prices of food-stuffs, oil and other commodities has "completely overturned" the previous relationships between developed and developing countries and also within the third world. "The developing Commonwealth countries are now asking what Britain can do for them politically in a rapidly changing and more challenging world, and Britain's membership of the Community is already acknowledged as being of great potential assistance to them ... the Community has offered her (Britain) a new outlet for her political experience and technical knowledge in furthering the interests not only of the developing countries of the Commonwealth but of the old Commonwealth countries such as Canada, Australia and New Zealand."

The report also recalls the words of Commissioner George Thomson speaking at the Royal Commonwealth Society, London in April 1974: "in twelve months in Africa the Commission has done more to break down the barriers left behind by European colonisation than twelve years of independence has done".

"The economic benefits of British membership for the Commonwealth could be expected by 1980 to be considerable, and Britain's political influence could only be strengthened if Commonwealth countries were by then reaping the fruits of association and trade agreements with the Community, negotiated with the help of Britain," says the report. Community policies "could be expected increasingly to take into account British initiatives and proposals made on behalf of the Commonwealth, to the mutual benefit of the latter and the Community".

SHARING PARLIAMENTARY POWER

The report refutes the argument that membership of the EEC has resulted in a serious loss of sovereignty to the British Parliament. Research by the Directorate General into the effects of joining the Community on all member Parliaments had, it says, shown that there had been a theoretical rather than a real loss of power resulting from accession to the Community in certain fields, particularly as regards taxation. This theoretical loss would be perhaps better described as a sharing of power.

"Notwithstanding conventional text book descriptions of the British constitution," says the report, "it is clear that in fact much of the Parliament's supposed functions in both legislation and financial matters had been ceded to the Government many decades ago." "In point of fact," continues the report, "large fields of Government activity are necessarily carried out in modern times by Statutory Instruments made by Government departments, many of which Instruments do not even have to be laid before Parliament, let alone be subject to approval or annulment by either House. Customs duties, transport, public health, many agricultural price decisions are just some among many examples of this process. Legislation in these fields by the Community since British accession should thus not affect 'Parliamentary sovereignty' to any measurable extent if a comparison is made with the situation before accession. This was certainly the experience, after similar doubts had been expressed, in the former member states of the Community."

Extending sovereignty

The report stresses that in calculating any theoretical loss of sovereignty the influence which British Ministers can exercise in the Council of Ministers must be taken into account. "Since many of the political and economic problems facing Britain can not be solved by British Ministers taking decisions in isolation but only, at the least, after consultation with Ministers of other, particularly Community, countries, membership of the Community could be considered to give the British government more rather than less control over British affairs and, since the British Parliament can call Ministers to account in relation to the exercise of their powers in the Council of Ministers, parliamentary sovereignty could well be considered to have become more rather than less extensive following accession," it concludes.

Two other ways in which theoretical losses of sovereignty are counter-balanced are mentioned by the report. First, the report cites the role of House of Commons and Lords Committees on EEC Secondary Legislation which can scrutinise this legislation at a formative stage. As an example of this process, the report notes that already the House of Commons committee has reported on the proposals for new guidelines for Community economic policy and, as a result of this parliamentary activity, the British Government has reserved its decision until after the House of Commons has debated the subject.

Secondly, the report underlines the role of the European Parliament which gives the British Members many possibilities under its different procedures to exercise the parliamentary function of challenging Ministers, questioning them and obtaining information from them, both in plenary sessions of the European Parliament and, more especially, in committees. These detailed explanations by Ministers and the opportunity of cross-examining them would not be available in the absence of British membership of the Community.

FOOTNOTE: It should be noted that in several places it is stressed that this is by its very nature only a preliminary study of Community activities and their effect on Britain. Although tentative conclusions are drawn about British membership "any assessment of the benefits or otherwise of these activities would be difficult to make after such a short period of membership".

