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Membership: two years on

Two years of Community membership suggest that it is in Britain's interest to remain a member of the European Community. This is the main conclusion of a detailed 200-page study, "The Effects on the United Kingdom of Membership of the European Community", prepared by the research department of the European Parliament. This edition of European Parliament Report is a summary of its conclusions.

Membership is already producing many tangible benefits. At home in Britain it has helped the housewife, the farmer, the exporter and will soon be benefiting people living in less-favoured regions. Overseas, it has meant a strengthening of both Britain's and the Community's voice in the world. Commonwealth nations and, in particular, developing countries have welcomed their new relationship with the Community of Nine. In general, the Community has proved itself flexible in meeting the particular needs of both member and non-member states. Current negotiations with Britain are proving no exception.

What of the longer term implications? During the two years since accession Britain's economy has not yet been affected in depth by Community membership. Any assessment has also to be seen against a background of world economic and political upheaval. Moreover, the European Community is the first example in history of six, then nine, independent states freely coming together to pursue in common mainly economic, but also some political, objectives – objectives they could not hope to achieve alone. No such undertaking could ever be expected to achieve its aims more than partially in a few years.

Finally, even in the longer term, the Community is by its very nature greater than the sum of its parts – there could never be a precise balance sheet for any one member.

Within these limitations, however, it is clear that the long-run balance of advantages and disadvantages for Britain is bound to be favourable. Despite teething problems, we cannot ultimately fail to benefit from the potential which the Community provides.

UK Trade – relative shares by area % of world total:

	1970	1974 est.
EEC partners		
imports	27.0	33.4
exports	29.2	33.4
Commonwealth		
imports	23.9	18.0
exports	21.0	19.3
EFTA		
imports	12.6	11.7
exports	13.2	13.6
USA		
imports	13.0	9.9
exports	11.6	10.8
USSR/E. Europe		
imports	3.9	3.1
exports	3.2	2.6

People and Power

Both Britain's sovereignty as a nation and the democratic sovereignty of Parliament have in many ways increased rather than diminished as a result of joining the Community. Certainly the idea that national or Parliamentary sovereignty has been handed over to "bureaucrats in Brussels" does not stand up to serious examination.

As far as national sovereignty is concerned, any treaty necessarily means a limitation in absolute freedom of action. Membership of the European Community is in this sense no different from membership of NATO, the GATT or the United Nations.

Nevertheless, gains in security, prosperity and influence make the signing of such treaties worthwhile. For example, multi-national companies can exercise a strong, even decisive, influence on the economies of individual countries; but they escape, by their very nature, from individual national control. The public interest can only be satisfactorily protected through an organisation like the European Community.

Democratic safeguards

Fears have been expressed that – whatever the position as regards national sovereignty – the democratic sovereignty of the people through Parliament is weakened by membership of the Community.

Within the United Kingdom, however, much Government activity is already carried out by Statutory Instruments made by Ministers, many of which do not even have to be laid before Parliament, let alone subjected to approval or annulment by either House. Customs, transport, public health and many agricultural-price decisions are just some among many examples. In these fields, legislation by the Community's institutions does not affect Parliamentary sovereignty by comparison with the situation before British membership.

In other legislative fields, the Community provides two avenues of democratic control.

1. The power of final decision in the Community rests with the *Council of Ministers*, where Britain retains the veto over matters of "vital national interest". In turn, British Ministers are responsible to the British Parliament; and the Government has undertaken to reserve the British position on any matter which, in the view of the House of Commons' EEC Secondary Legislation Committee, "raises questions of political importance".

According to the Treaties, the power to initiate Community legislation rests with the Commission in Brussels. However, through the growing use of committees of national experts, Council resolutions and through summit conferences, national governments and national parliaments are increasingly in a position to steer the Community at a "pre-legislative" stage.

Any theoretical inroads into sovereignty by the EEC Treaties are thus counterbalanced by the opportunities open to the national parliaments to influence and control the Council of Ministers.

2. *The European Parliament* provides a second avenue of democratic control over the Community. Increasing powers over the Community budget – combined with conciliation procedures to ensure agreement between the Parliament and the Council of Ministers – now give the Parliament the historically critical source of parliamentary control: the power of the purse.

In addition, the Parliament's power to scrutinise Community policy in standing committee at the pre-legislative stage exceeds that available to the British Parliament in the field of UK legislation.

The Parliament's democratic power will clearly be enhanced once it has been directly elected, instead of nominated, as at present, by and from national parliaments. The summit conference of December 1974 decided that the first direct elections should be held in or after 1978.

The Housewife

In a period of rapidly increasing world commodity prices membership of the Community has acted as a shield for Britain. This is especially true over food supplies. Prior to accession, the Common Agricultural Policy was frequently criticised for maintaining prices above world levels. During the past two years the picture has been largely reversed. The maintenance of low British consumer food prices through cheap world imports has no longer proved possible as prices of, for example, grain on world markets and food supplies from the Commonwealth (e.g. sugar) have rocketed. For the products concerned, Britain has thus been able to change to cheaper European sources of supply – a switch of the order of £500 million.

Help for the housewife has also been provided in another way. Under the "compensatory amounts" system financed by the CAP Guidance and Guarantee Fund the price of Community food imports into Britain has been reduced through compensatory payments to Community exporters. This direct subsidy amounted to some £110 million in 1973 and another substantial amount in 1974. In addition, the over-valuing for accounting purposes by the Community of the pound sterling as it depreciated during 1973 and most of 1974 meant a further hidden subsidy by the Community for the British consumer.

Providing food supplies at reasonable prices is one of the fundamental objectives of the CAP, as specified in the Rome Treaty. Considerable flexibility has been shown by the Community during the past two years in allowing exceptions to CAP rules, approving Britain's own food subsidies and farm aids and frequently offering direct Community subsidies.

To take a recent example, in the summer of 1974, when Commonwealth sugar producers decide not to fulfil their quotas under the Commonwealth Sugar Agreement, but to sell instead on the open market at much higher prices, an acute shortage was experienced in Britain. Although the shortage was in no way attributable to the operation of the CAP, the Community agreed to buy 200,000 tons of sugar on the world market – 90% for Britain – at the far lower Community price, the difference being paid from Community funds. Subsequent purchases of 300,000 tons have ensured continued supplies, pending the conclusion of a five-year agreement with Commonwealth suppliers this year.

Although food prices in Britain rose considerably during 1973 and 1974, the main culprits were the escalating farm costs and price increases in the world as a whole. The British Minister for Prices and Consumer Affairs Mrs. Shirley Williams said in November 1974: "Official estimates now show that food prices are, on balance, very slightly lower than they would have been were we not members of the Community".

Trade

The Community has demonstrated in its trading relationships throughout the world that it is already what Britain has demanded: outward looking. It has the lowest average customs duties on industrial goods of any industrial power. It has continued to be the world's largest importer of agricultural products. It has had faster growing imports than the world as a whole. It has pioneered and improved generalised tariff preferences for developing nations and has negotiated extensive duty-free access to the common market for the products of associated countries.

Well before accession the Community area was coming to dominate Britain's trade. By the end of 1973, in trade terms the Community was already almost twice as important as the Commonwealth for Britain. These changes reflect, of course, long-term trends rather than Community membership. Preliminary figures for 1974 show a continuation. In particular, British exports to the Community averaged an increase of about 38% per year over 1973 and 1974 while the rise in exports to the Commonwealth averaged about 22%.

What of the terms of trade for Britain? The all-important factor in the deterioration over 1973 and 1974 of Britain's trade balance with the world has been the sharply increased cost of oil imports. Because of insufficient domestic refining capacity in Britain, this was also reflected in increased energy import costs from the Community. Changes also occurred in Britain's food import bill, crucial since Britain imports more than half her food needs. With rising world food prices Britain's food trade deficit with the Commonwealth deteriorated from £32 million in 1972 to £637 million in 1973, falling slightly to £580 million in 1974. The latter figures, however, could have been higher if British importers had not been able – through Community membership – to switch to cheaper Community suppliers (for example, wheat and maize); thus a rising trade deficit with the Community (an increase of the order of £500 million) masked a net overall trade balance saving.

Apart from these factors and the effect of the depreciation of sterling it is difficult to deduce trends in Britain's trading performance with the Community. The first year of membership was one of rapid growth in demand and output in Britain, leading initially as in previous periods of fast expansion to higher import than export growth, both in relation to the Community and the rest of the world. Then in 1974 a combination of higher oil prices, the effects of the coal strike and the three-day week prevented domestic output from satisfying domestic demand, with the result that exports were dampened but imports were imperative to keep the economy going. This was especially true of iron, steel and chemicals. The years 1973 and 1974 then were distorted and exceptional and it will be some years before long-term trends in trade with the Community and outside can be ascertained.

Certainly no case for terminating membership can be constructed.

As one third of Britain's exports go to the other eight members of the Community, but less than 10 per cent of their combined exports come to Britain it would appear that membership of the common market is more important to Britain than to her partners. The implications of this if Britain had to renegotiate trading terms after having left the Community are obvious.

The Commonwealth

Virtually all Commonwealth countries – including Australia, New Zealand and Canada – now want Britain to stay within the European Community.

For the Commonwealth's developing countries, access to the large Community market via the Generalised Preference system is more than a compensation for the loss of Commonwealth preference. In addition, no less than 46 African, Caribbean and Pacific countries – half of them in the Commonwealth – will now benefit from the aid and trade provisions of the Lome Convention, signed on February 28 this year. The aid comprises £1,400 million in grants and loans over four years.

The Farmer

While 1973 was a reasonably profitable year for farmers, 1974 has been described as a financial disaster, particularly for livestock farmers. The situation has been most critical in the pork, beef and poultry sectors, and stems from the sudden increase in the prices of feedstuffs, fertilisers and fuel. For British agriculture, in a time of rising costs, the most pressing problem is to integrate more rapidly into the common agricultural market and shorten the transitional stage between the phasing out of deficiency payments and complete adoption of the CAP system. This would also make up for the fact that while the British Government has increased consumer subsidies it has decreased direct grants to farmers. Special measures adopted (or in the process of adoption) by the Community to help British farmers include an increased calf subsidy, a special variable levy on beef, an increase in sugar-beet quota acreage, aids to hill farmers (representing a considerable saving to Britain) and a temporary flat-rate subsidy for heating oils to overcome increased fuel costs.

In addition to the recent agreement on increasing farm prices, a thorough stocktaking of the CAP is under way, with changes requested not only by the British Government but notably by the German Government as well.

The Community Budget

Since Britain joined the Community there have been significant steps towards more effective control of the Community budget. The European Parliament now has the last word on the Budget as a whole; and expenditure is to be properly supervised by a new Parliamentary accounts committee and an Audit Court.

Britain's share of the Community Budget has been one of the crucial points in the "renegotiations". Article 129 of the Act of Accession fixed Britain's contribution by 1980 at 19.32% of the total. Until then, during the transitional period, Britain pays a lower percentage, based on the projection for 1980 – in 1974 this proportion was fixed at 11.03%.

The British Government has argued that by 1980 Britain's share of total Community production (GNP) will only be 14% and that Britain's contribution should therefore be reduced. The principle of flexibility has been accepted by the Community, which is devising "corrective mechanisms" to ensure that no nountry pays an unfair proportion of the Budget, nor more than it can afford. (It is worth noting that Britain currently pays 19% of the NATO budget – the US paying 25%.)

Meanwhile, Britain has benefited considerably from receipts from the Community Budget. So far receipts across the exchanges, indeed, have been broadly in balance with contributions.

North Sea Oil & Energy

The fact that the UK is a member of the Community does not in any way affect her rights of ownership of North Sea oil deposits.

The UK will probably be able to obtain support for projects important to the Community's oil supplies, i.e., including the North Sea. Money from Community funds has already been assisting North Sea oil development.

In the period up to the 1980s by which time the UK should become a major oil producer, Community solidarity, in conjunction with other major oil consumers, should bring to the UK the benefits of joint negotiating strength, both in terms of price and of ensured supplies.

The Treaty does not exclude the nationalisation by a member state of any sector of economic activity.

Investment Capital & EMU

The great influx of foreign capital into Britain which was predicted in the early years after Community membership has not, in fact, materialised. At the same time, there has clearly been a steady outflow of long-term capital. Even so, actual foreign private investment in the UK came to £1,365 million in 1973 (compared to £1,008 million in 1971 and £729 million in 1972). These figures compare with British private investment abroad of £1,253 million in 1973 (against £875 million in 1971 and £1,450 million in 1972).

As far as Britain is concerned, article 124 of the Accession Treaty allows for the increased liberalisation of capital movements to be deferred until the end of 1977. The study, however, warns that, if there is not an improvement in UK economic and social conditions, the long-term outflow of capital will continue, and even stronger measures than those allowed for in the Accession Treaty may be necessary.

In the long term, the Community remains committed to Economic and Monetary Union. So far, Community coordination of economic policies has rarely proved the straight-jacket which many Britons feared; and, in a world of floating exchange rates, the call for the abolition of the fluctuation margins between currencies seems no longer relevant.

Nevertheless, Britain could well benefit in the end from a move to EMU – in particular since it offers an escape from the dilemma between stop/go-policies and devaluation. Such a union would make possible the automatic coordination of policy on those economic matters which can no longer be satisfactorily dealt with at national level; compensatory mechanisms would operate in the same way as they do within a national economy.

The Regions

Between 1975 and 1977, Britain will receive about £150m from the Community's newly established Regional Fund. The Community should now find it easier to channel investment by Continental firms to Scotland and Wales, Northern England and Northern Ireland than hitherto – something in which British governments alone have not been successful.

The aim of the Regional Policy as a whole is to rationalise regional aids by preventing wasteful international over-bidding for regional investment. It is not intended, as some people have suggested, to stifle national efforts.

Unlike the situation as regards the CAP (established in the early 1960s), the UK has a place on the "ground floor" in the construction of the Community Regional Policy.

Social Policy

On a percentage basis, the appropriations Britain receives from the Social Fund far exceed its contribution to the Community budget. In 1973 the United Kingdom was granted £24 million from the European Social Fund – more than any other country; in 1974, the United Kingdom was allotted another £26 million, or a quarter of the total. Britain also received £10 million for retraining 20,000 coal and steel workers – half the total. Britain is also to receive 20% of Community appropriations for the modernisation of housing for coal and steel workers.

The Community has an ambitious social programme including plans to improve living and working conditions, for equal pay for men and women, for safeguards against mass dismissals, strengthening the rights of workers and their say in management, particularly in multi-national companies, reducing the working week and extending annual paid holidays.

The free movement of workers, which came into operation in 1973, has not made any difference to the steady decline in the numbers of immigrants from Common Market countries to the United Kingdom.

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