

# The EU: what's best for business?

ESRC UK in a Changing Europe Seminar Series: Aberdeen

Aberdeen and Grampian Chamber of Commerce

20 May 2016

REPORT ON EVENT

## EVENT OVERVIEW

The United Kingdom faces a momentous decision, whether to leave or to remain in the European Union. Voters, who will soon be asked to settle the matter in a referendum, are looking for more information and impartial analysis. At this Q&A event, we discussed the issues at stake with the help of a panel of academic specialists.

Among the matters we covered:

- o The impact of the EU on the economy and jobs
- o Immigration
- o National sovereignty and the political implications of Europe
- o The impact on business and the North East of Scotland

## PANEL (L-R)

Rona Jamieson

Professor Michael Keating (University of Aberdeen)

James Bream (Aberdeen and Grampian Chamber of Commerce)

Professor David Bell (University of Stirling)



## INTRODUCTORY REMARKS

**RONA JAMIESON** opened by pointing out some of the statistics circulated by both of the campaigns in support of their respective positions and suggested that some of them are somewhat contradictory. The speakers, she hoped, would illuminate some of these issues.

**MICHAEL KEATING** outlined the work of the UK and EU programme, and the events which we have organised across the UK, including work by the CCC, RSE, David Hume and Hunter Foundations.

“There were 3 concerns at the opening of David Cameron’s negotiations: the Single market, Migration, and Sovereignty.

On the single market, the EU adopted freedom of movement – the four freedoms – so it needed to develop institutions in order to deal with the issues which arose on its doorstep: so from free trade and single market agreements, it evolved into several other areas – including, among others, on environmental policies, reducing effective trade barriers by creating common regulations and mutual recognition of product standards, and a common foreign and security policy. If the UK wants to return to a simple single-market relationship with the EU, it would be very difficult to do so without any kind of institutional framework.

On migration, the principle of free movement of people is one of the pillars of the EU single market (free movement of people, goods, capital and services) which meant that the UK could not make an agreement to ‘opt-out’ of the principle. However, the PM made an agreement on an ‘Emergency Brake’ to allow benefits to migrants arriving in the UK to be phased in over four years, beginning at the level of Eastern European benefits. While this is unlikely to have much of an impact on migration in this short-term, it is both symbolically significant to EU social citizenship (the notion that you should be treated the same across the EU) and to elements of the UK’s more anti-immigration and eurosceptic electorates

On sovereignty – this nineteenth century idea that Westminster is supreme over all laws. This has changed through the EU, ECHR, and also internally through devolution (as well as the use of referendums). The European body of law determines that European law supercedes national legislation: in effect, outdating this conception of sovereignty. The PM’s negotiations exempted the UK from the preamble to the EU clause on “ever closer union”, which is more symbolic than practical, but it is an important concession. The social aspect of the EU has not been developed recently. This was one aspect that David Cameron had wanted to get out of, but dropped it after recognising that this would jeopardise Labour support for remaining, and the campaign would need Labour support.

Options for alternatives to the EU:

You could remain in the single market by joining the European Economic Area (like Norway) but without any input into regulation. Norway see it as a pragmatic compromise – they get the benefits but without the EU membership, which their population do not want. It's obviously not a perfect solution – being part of a club without being able to help make the rules – but it works for them because they value the trade opportunities the economic area gives them.

The other option is to “go it alone” – there are other markets, other than the EU – China, South-east Asia, the US,– we could access those, or make bilateral agreements. David Cameron suggests that he'd rather this model if we vote to leave the EU. I would suggest that the 'go it alone' option would appear to be the logical conclusion of an exit vote – the Norwegian model appears to a less coherent position on leaving. The argument for going it alone is more convincing than the Norway model. It works for Norway, but they have different justifications for doing things that way. If you were inclined to, you could make the argument that the EU is a declining global power, that it is burdensomely regulatory, and that leaving would provide more flexibility for a state in determining their trade partnerships and priorities, and the regulations for their own goods and services.

**JAMES BREAM** – “The Hokey Cokey”: the Prime Minister's negotiations on the EU took around 7 months. The suggestion from data is that people are not overly taken with these negotiations.

Some business stats:

- 54% - UK businesses want to remain
- 68% - Scottish businesses want to remain
- 77% - North-East businesses want to remain

So the north east is very euophile – stability appears to very important to businesses in the north-east: Aberdeen and shire voted 60% to stay in the UK in the independence referendum, 5 points higher than the result across Scotland.

Regulatory standards are key to businesses in the UK that do business with other EU member states, so if you stay, you have to abide by these regulations, but if you leave, and continue to trade with EU members, you still have to work within these regulatory frameworks.

AGCC members' understanding of the debate emphasises that there is a greater deal of uncertainty on the leave side – indeed, 45% Oil and Gas firms say they don't know what the impact of either outcome will be.

**DAVID BELL** outlined key concerns about Brexit, including:

- **Sovereignty** – what is it, what does it mean in the modern world: border control, threats?
- **Economy** – how would trade change, who do we trade with in the event of Brexit, how long would it take to organise, how would Foreign Direct Investment continue? What happens with farming and fishing? And with migration? Farming and fishing constitute less than 1.5% of GDP of the Scottish economy – they are emotive, but economically, are less important than many other sectors.
- **Constructing “counter-factuals”**: very difficult for the long run.

#### Myth-busting:

- **The EU has a declining importance in global trade:**

True – over the past 20 decades, other emerging countries and trade blocs have become much more important in global trade
- **The post-war UK economy has never been a strong exporter:**

Mostly true – we have a significant deficit in import and export, both at EU level and globally: 51.4% of British exports go to EU versus 6.6% of EU exports go to the UK – trade deficit currently apparent, but whether this would continue after a Brexit, it is difficult to know.
- **The UK is an attractive destination for migrants:**

True – net migration has increase from just under 200,000 in 2012 to around 350,000 in mid-2015. As a result, Eurostat projects that the UK would become the largest by population in the EU by 2042 - the argument against migration is that it puts pressure on public services – health service, education.
- **The UK has a negative flow of money within the EU:**

True – the UK contributes more to the EU than it gets back. This is mostly due to the shift in EU focus to spend money in the east. Most of the money that comes from the EU is for farming in the UK

The net contribution per capita for the UK to the EU is £117m. UK public spending in 2016-17 will be £771bn, thus around 1% is sent to the EU.

#### Conclusions:

- Clear short term economic risks of Brexit to sterling, FDI and trade
- Uncertainty on trade deals
- Migration effects mixed
- What would replace farming support/ fishing regulations?

## QUESTION AND ANSWER SESSION

### 1) DO YOU THINK WE CAN HAVE A HALFWAY HOUSE WITH THE EU SUCCESSFULLY, OR DOES IT HAVE TO BE ONE THE OTHER?

**DAVID BELL** – I can't see how the single market can be cut up in such a way that is agreed by all sides, so in that regard, I don't think the halfway house is manageable.

**MICHAEL KEATING** – As far as the single market goes, that is right. But in other areas – eurozone, Schengen – we're out of those things, so there are various speeds in Europe. We'll be on the margins in the future

**JAMES BREAM** – It depends on your view of what that future looks like: if you think it's going to be further integration, you probably want to be inside it. But if you think it is failing, and will fall apart, then you may well be in a place where you want to be out fully.

### 2) DANISH AMBASSADOR: WE WOULD VERY MUCH LIKE YOU TO STAY, AS WE ARRIVED WITH YOU IN 1973. THE NEGOTIATIONS WITH THE PM PROVIDE A FORWARD-LOOKING POLITICAL COMMITMENT TO THE EU. WHAT IS YOUR TAKE ON THE FUTURE OF SCOTLAND IN THE UK IF BREXIT OCCURS

**MICHAEL KEATING** – We have several scenarios that could occur post-referendum:

1. We all vote the same across the UK, and this results in a united voice (either to leave or remain). This is an unlikely scenario, given current poll figures, but it does make the prospect of internal constitutional crises limited.
2. Scotland votes to stay, but is forced to leave by the rUK voting to leave. While this would have salience in Scotland – and possibly move us towards a second independence referendum – there are also issues for nationalists here, as this would make arguing for an independent Scotland (with a hard EU border with England) more difficult.
3. Scotland votes to stay, England votes to leave and the result is a slim majority for remain. In this scenario, the likelihood of internal constitutional crisis is greatest: England, the dominant component nation in the UK, would be over-ruled by more pro-EU voters in Scotland. Herein, the scenario of England seceding from the Union might be more plausible than Scotland doing so – and argument I've been making for some time.

**JAMES BREAM** – At a simple level, Scotland's largest growth market is with the rest of the UK, so economically that might look like a more difficult sell; the choice is between the UK and the EU at that point

**DAVID BELL** – Ireland are quite terrified about the UK leaving since much of their trade is with the UK, and how that would be affected is the key concern. Another factor to consider is that if there is a narrow outcome in the referendum, then the losing side will not let it go, and more uncertainty will continue.

**3) ON REFORM: IS THE EU AMENABLE TO CHANGE? WE WANT A BETTER EUROPE FOR SURE, AND ONE THAT WORKS – WILL, AS A RESULT OF THE UK’S REFERENDUM, IS THERE AN APPETITE FOR SERIOUS RESTRUCTURING?**

**MICHAEL KEATING** – The EU has got itself locked down by institutions that are in many ways locked down. The EU constitution really creates a lot of inflexibility. However, in the past few years, the UK has pursued – and seen delivered – many changes to the EU. Regulations from Brussels have been significantly reduced over the past few years, under Junckner. It’s not about de-regulating – it’s about *better* regulation. There is a democratic deficit – it is rather remote from the citizens, and that creates an alienation. There is a need to rethink the institutions, and to increase accountability. But in order to do so, you have to be committed to Europe in the first place – that’s the choice we have: do we get involved, or sit on the sidelines.

**DAVID BELL** – We haven’t really discussed the eurozone, but it drives much of the policy direction of the EU. It hasn’t been resolved, and remains a significant issue in the EU. Would the UK play a role

**4) IF WE VOTE FOR BREXIT, IS IT POSSIBLE TO NEGOTIATE THE SETTLEMENT IN 2 YEARS? OR WILL THIS RESULT IN MORE VOLATILITY?**

**MICHAEL KEATING** – If we go over the two years, we’re straight out, unless we get an extension agreed by the remaining 27 members. But what has been discussed is that we keep the regulations until we get around to changing them (which kind of defeats the purpose of leaving). And then we get around to what we do next – which model do we follow? Norway or Switzerland? Negotiate again with the EU members individually?

**JAMES BREAM** – Much of the regulation is likely to be grandfathered across, but as EU regulation evolves, this is likely to lead to some divergence.

**DAVID BELL** – I think that FDI would grind to a halt in this period due to the uncertainty, so the economy would take a huge hit.

## Acknowledgements

This event was a collaboration between the **Aberdeen and Grampian Chamber of Commerce** and the **Centre on Constitutional Change**, the latter in association with the ESRC's **UK in a Changing Europe** programme. We'd like our warmest gratitude to Kim Stephen and Irina Bonnavino at the AGCC for their organisation of the event, to each of the speakers for their time and expertise, and to the Danish Ambassador to the UK who attended and added a European perspective to the discussions.

