MEP Briefing Notes on EU

Economy, Trade and Tax Burden

The Economy – An Overview

Recent economic figures point to the fact that Britain has slowly returned to the path of recovery with May's 2013 CIPS/Markit survey showing all major sectors are now growing for the first time in a year.[1] Whilst such green shoots of recovery are weak, it does mean that Britain has escaped a triple dip recession. The return to growth was spearheaded by the services sector which now employs some 80% of the UK's working population but other sectors such as manufacturing (which accounts for a tenth of the UK economy) contributed to a UK GDP growth forecast of 0.5% for the quarter. On the other hand, the Eurozone (bar exceptions such as Germany) has now endured its seventh successive quarter in recession, with only sluggish growth seen more recently.[2]

As a non-Eurozone member, the UK has been able to set its own interests rates and institute its own deficits programme rather than obey the diktats from Brussels. In consequence, the UK has returned to growth and avoided another recession. However, the EU regulations and directives have cost the UK economy billions of pounds and many jobs. Germany is able to bear the burden but for the UK, Brian Binley and Ruth Lea noted in their excellent report that 'the regulations not least for financial services, are increasingly damaging and onerous'.[3] With this regulation burden and moribund sectors such as construction which are still trailing behind the flagship services sector, an independent Britain needs an ambitious infrastructure programme which will boost every region of the UK. The funding for such a programme could come from diverted EU membership costs.

Any survey of the British economy would soon reveal that it enjoys its best trading relationships beyond the EU. In 2010, trade with the Rest of the World had a positive balance of £16 billion.[4] However, trade with the EU remains in the red with a current trading deficit in goods of £56 billion. The overall trade deficit is £44.4 billion as the UK had a positive services trading balance of some £12 billion with the EU[5]. This is an ongoing trend. In 2010, 92% of the UK's total trading deficit was with the EU.[6] Of the EU26, the UK had a trading deficit with no less than nineteen of the member states in 2010.[7] On the other hand, the UK had in 2010 a £20 billion structural trading surplus with the US.[8] In that year, Britain's healthiest trading surpluses were with the US, Australia, Switzerland, Saudi Arabia and only one - Luxembourg - is in the EU.[9] Since the turn of the millennium, British exports to markets outside the EU have grown 37% faster than British exports to the EU[10].This is explained by the EU's lack of growth compared to the nations such as China, Brazil and India.

The UK's huge trade deficit with the EU is not an aberration but part of a long term pattern in which Britain has a huge deficit in terms of goods exports/imports which is only partially offset by the service sector and oil exports. However, the UK cannot rely on oil for too much longer. In January 2013, the Guardian reported that the 'long-term decline in oil exports from the North Sea continued to expose the lack of overseas sales by manufacturing firms - while imports remained high'.[11] It means that Britain must boost its manufacturing sector as a matter of urgency but the EU imposes tough rules on State Aid, a sizeable regulatory burden and competitive investment in other parts of the EU, such as support for car plants in Eastern Europe and Turkey.

The sheer scale of EU regulation may not explain all of the EU economic weakness, but, according to the Conseil d'Analyse Economique which reports to the French Prime Minister, it is a major factor in the EU's decline compared with the Rest of the World.[12] This decline has seen the EU's share of world GDP decline by almost half since 1980. Therefore, for Britain to flourish, it must export more to countries such as India with GDP growth in 2010 of 8.8% (Source: World Bank). On the other hand, the Eurozone – bar Germany – is largely moribund economically and its working population will decline drastically over the next forty or so years, as its population ages. In other words, the EU will become increasingly subsidised by a Britain which will become the largest country in Europe (by population) bar Russia.

Regulatory Burden on the UK Economy and City of London

Despite all the protestations to the contrary, the Single Market is actually of dubious benefit to the UK. According to the EU Commission's own estimates, the costs of the Single Market could outweigh the benefits by a margin of 2.5 to 1 which poses series questions for Britain's membership of the EU.[13]

Yet the UK accepts this huge regulatory millstone despite only 8% of the UK economy (trade of goods) actually involved with the EU. 80% of UK GDP is economic activity within the UK itself and the other 12% is trade with the Rest of the World.

The British Chamber of Commerce Burden Barometer attempts to estimate the actual costs of EU regulations across the board. In 2010, their report stated that the EU Working Time Regulation had alone cost the UK a staggering £17.8 billion since its introduction[14]

In the City of London, the EU has been active in a 'power grab' of regulation of the British financial services industry, which accounts for 12% of UK GDP.

The EU has suddenly moved to legislate in financial service areas such as the creation of EIOPA, the European Insurance and Occupational Pension

Authority. EIOPA joins the European Securities and Markets Agency (ESMA) and the European Banking Agency (EBA) as the EU's financial regulators. Most regulation of the City of London, the world's leading financial centre, has sought to advantage competitive EU centres such as Frankfurt and Paris, but in practice just loses business to non-European centres in the Middle and Far East. Under threat too are billions in tax revenues needed to fund hard-pressed UK public services.

In March 2013, EU Finance Ministers adopted a strict cap on Bankers' Bonuses despite a UK fightback which only secured minor tweaks from the other member states. Something of vital British national interest, was simply beyond our control.

At the time, the FT reported that the 'concessions offered, which do not include exemptions for offshoots of banks outside of the EU… will reinforce fears over Britain's waning clout in protecting its biggest industry's interests in Brussels'. The FT noted that the decision 'will have important implications for banks such as Barclays and Standard Chartered, whose bankers in New York or Singapore will be subject to the tighter (EU) rules'. It also reported senior banking executives describing the decision as the 'worst case outcome'. At the time of writing, the deal needs to be signed off by the European Parliament but it is expected to be passed without any more discussion amongst EU Finance Ministers[15].

These bonus restrictions are due to come into effect in January 2014. The UK voted against the plan as it would hurt London's place as a leading financial centre in the world economy but this argument fell on deaf ears in the EU corridors of power. It should be noted that there was no prospect of the European Parliament rejecting the deal as it had already endorsed the bonus restriction proposal.[16]

Added to this are the consequences of Euro integration on the City of London. As the Eurozone seeks to implement measures to seized control of national economies under the guise of saving the Euro, the EU threat to the City of London grows exponentially. At the time of writing, the European Court of Justice is reviewing whether the ECB's demands for London based clearing houses to be based in the Eurozone and supervised by Eurozone authorities are in line with the legal principles of the Single Market.

The pro-EU group Open Europe states simply that this one case could well determine UK's role in the EU and the 'trillions of euro worth of business conducted in London'. It should be noted that the UK banks hold 10.2 trillion Euros. In its survey of the current banking crisis, they point out the UK cannot take part in a European banking union for UK banks are 'decentralised' and global – unlike the major European banks such as Deutsche Bank. This means that the UK needs a global system of protection rather than an EU one.[17] This is not to mention the forthcoming EU [PRIS] regulations which could in short destroy the entire London equity market overnight by requiring discretionary trading of shares to obtain permission for trades before committal in a real time environment.

Survey of Key EU Directives and their Impact on Britain

The EU Working Time Directive 2003/88/EC

This Directive limits the EU working week to 48 hours. The UK negotiated an opt-out from full implementation, providing an agreement is reached between private employers and employees. Despite this, the UK has been forced progressively to extend the 48-hour working week to public sector employees.

This has had a dire effect on the NHS in particular. Senior doctors have warned that rules on working time are hindering NHS care. The European Parliament is now proposing to extend the full 48-hour working week to all British professions. Open Europe estimates that full implementation of the Working Time Directive in the UK will cost British businesses £11.9bn a year, nearly equivalent to the entire increased foreign aid budget.

The Agency Workers Directive 2008/104/EC

The UK implementation of the EU Directive on Agency Workers is another EU working time law. After a 12-week qualifying period, temporary and agency workers will be entitled to the same working conditions as full time workers, extending rights to pay, holiday and insurance (if offered). In the drawing up of the Directive, the CBI warned that 250,000 jobs were at stake, even risking the economic recovery. Open Europe estimated that 8 out of 10 people affected by this Directive will be in the UK. This is due to the UK's flexible economy in contrast to many EU nations' inflexible, anti-entrepreneurial economies.

The Government's own Impact Assessment report found that this Directive will impose £3.7bn of preparatory costs on British business, with an annual cost of £1.9bn.

The Alternative Investment Fund Managers (AIFM) Directive and other Financial Services Directives 2004/39/EC and 2009/39/EC

The AIFM Directive now regulates the practices of all EU-based Alternative Investment Fund Managers (rather than funds themselves). This law hurts the UK disproportionately as the UK is home to 23% of the EU's AIF Management Companies whilst law firm Osborne Clarke estimates that 80% of European hedge fund managers are based in the UK. Forcing more regulation - such as dictating how much can be borrowed, requiring AIFMs to only deal with EU clients and restricting who AIFMs can bank with - will not only cost the UK economy £5.3bn (according to Open Europe) but also 18,000 jobs. A report in February 2011 found a 29% increase in British citizens working in financial services in non-EU Switzerland, which has access to the EU market without having to apply these directives.

An independent UK will enjoy the same access to European markets as the Swiss or the United States for a fraction of the costs following the country's exit from the European Union and the signing of a free trade agreement such as EEA Lite.

Free of the EU bureaucracy, an independent UK would only have to conform to only a few of the EU's technical barriers such as product testing in order to be able to export to the rest of the EU. Indeed, Norway only had to make very changes to its laws to make its products eligible for the Single Market.

Of course, it is recognised that the EU is not the only source of technical regulation. Many international standards do now originate from international organisations such as the OECD and the UN on such issues as transport and food safety, and the EU sees fit to interpret these. Financial regulation such as BASEL 2 comes from international agreements, and the UK will be party to such agreements but will have more democratic control over what agreements it signs up to outside of the EU.

Additional Note: Laws also come via the EU from the IPPC (International Plant Protection Convention), IMO (international Maritime Organisation),CGPM (International Weights and Measures), WIPO (Intellectual Property) ICAO (aviation) Codex (international food standards) and UN-set rules (FAO, SPS) as well as a host of other global organisations, forums and conventions. Nations such as Switzerland can deal directly with these organisations. The same is not true of the UK who has ceded its negotiating power to the EU. More information can be found in the International Affairs and others briefing document.

With the windfall of cash funds from returned EU membership contributions and other payments, the UK Government would have extra resources to invest in much needed infrastructure projects that would boost the whole of the UK economy rather than isolated pockets. British business will also benefit from reduced administrative and compliance costs, be able to boost competitiveness and to invest much more in research and development.

The EU in Systemic Economic Decline

The EU economy is in a pattern of slow steady decline, which has even effected the export powerhouse of Germany. In 2015, the EU share of world GDP was forecast to be 15% which is down from 36% in 1980. Moreover, the EU's decline will worsen as a result of its impending demographic crisis which will see a major reduction in the working populations of Germany and many other EU countries. One of the few exceptions will be Britain which is forecast to become the biggest European state (bar Russia) by 2050.

This has reduced the value of UK exports to the EU Single Market. With the EU economy in long-term decline, the UK cannot afford to focus only on the markets of Europe. In order to secure long term prosperity and growth, it must export more to the fast growing economies of China, Brazil, India and Nigeria among others. Two of these nations are in the Commonwealth and there are now five members of the G20 which are also in the Commonwealth. These are the UK, India, Canada, Australia and South Africa.[18] Collectively, Commonwealth economies GDP is now greater than that of the EU[19].

UK trade with the Commonwealth is already sizeable, with total exports in 2010 of nearly £37 billion. Including the balance for income and transfers, the UK had a positive trade balance with the major Commonwealth nations,[20] unlike the sizeable deficit with the EU. Trade with these emerging nations of the Commonwealth and elsewhere offer the most growth potential for UK exporters. In a 2013 Quarterly Trade Survey, the British Chamber of Commerce noted that exports to India are expected to grow by a staggering 18.5% in 2013 whilst EU exports are due to decline by an expected 0.6%.[21]

The Eurozone Crisis

Despite years of crisis, the countries of the Eurozone seem to be frozen in a cycle of ferocious austerity programmes, Government collapse, public protests and rioting, whilst Brussels dithers on the sidelines. The Euro still remains under serious threat, with further turmoil only put on pause by a European Central Bank's vague assertion that it will print yet more Euros to save the currency (if nations follow austerity rules etc). This is an assertion yet to be tested fully.

But with Greece needing a third bailout, Slovenia expected to join the bailout queue and Spain effectively declared insolvent by the IMF[22], a solution seems as far off as when the banking crisis first hit the EU. The key of course is the willingness of the economic powerhouse Germany to accept liability for any measure that they do not control. Chancellor Merkel may have won her election but the rise of Germany's Eurosceptic and anti-Bailout Alternative for Germany party is a strong warning. It is not surprising therefore that the prospect of Eurobonds or German taxpayers' money being used to 'automatically finance other Governments'' is simply not on the current or even long term agenda[23].

The report 'The EU in a Nutshell' summed up the Euro Crisis situation: 'Many Eurozone countries have massive debt fault lines running through their economies. As the debt burden increases, so less money can be spent on essential services such as schools and more money has to be taken out of businesses so making them less competitive.' The Economist adds that the largely southern Eurozone countries are in crisis because the austerity formula that worked for Germany won't work for the South. This is because Germany could export its products to other economies and thus grow their economy back to prosperity. The South lacks such advantages and so the austerity process becomes a vicious circle.[24]

But the real indicator of pain in the Eurozone is that of youth unemployment, which has reached the barely believable rate of 50% plus in both Spain (56% in August 2013). and Greece (57.3% in July 2013).[25] In October 2012, unemployment across the Eurozone was 18.2 million people which is the highest level since the Euro's inception in 1999 and a rise of some 2.6 million people since early 2011. A study by Ernst and Young forecast that Eurozone joblessness could go beyond 19 million by early 2014 with an average unemployment rate of 27% in Greece.[26]

Discontented young people breed Revolution, whether 1789, 1917 or 2013. The CIA has predicted on its website the potential of a return of Greek military government. Greece has seen the meteoric rise of an extreme neo-fascist anti immigrant party, 'Golden Dawn', and there has been a resurgence of Basque and Catalan nationalist movements. It was as recently as the 1970s that Greece was ruled by the Generals and Spain was ruled by Franco. Indeed, Spain experienced an abortive military coup in the early Eighties which is a stark reminder that democracy in some parts of Europe (and not least much of Eastern Europe) is only a few decades old.

Despite their crushing economic travails, counties such as Greece are unable to make their goods more competitive or to boost tourism significantly by devaluing their currency. They have surrendered their power over currency and interest rates to the European Central Bank – losing two vital economic levers to guide their economy. The Euro is great for Germany because it acts to artificially cheapen German goods and services in the Eurozone. The Euro itself is the problem not the peoples of the Eurozone.

Whilst Germany deserves plaudits for its competitiveness and for keeping their wage levels down, the reality is that if Eurozone had free floating currencies, the German Deutschmark would be soaring and the Greek Drachma crashing to make German goods and services much more expensive, and Greek holidays and shipping that much more competitive. Within the rigid Euro straightjacket – a major tool of political integration - it is jobs that pay the price. Unemployment goes up, taxes goes up but living standards go down. It is reported that the Greek economy is now worse off than Germany in the 1930s. All this is basic, and pretty unattractive, economics.

As for Euro interest rates, these are now set to benefit the Eurozone core (read Germany's manufacturing heartlands of the Ruhr valley) but not the peripheral countries such as Greece or Ireland[27]. For these nations, it acts to worsen their economic plight. In 2011, Bank of America Merrill Lynch found that countries such as Spain, Italy and even France were over-valued against the US dollar. This means that their US exports would enjoy a huge boost if they left the Euro - but political necessity - forbids such a growth-boosting option.[28]

The Death Knell of the Euro and Britain's Escape

Whilst Eurozone leaders fail to find a lasting solution, one of the key pillars of the Euro has already fallen. This is the monetary principle which asserts that a Euro is worth the same in any part of the Eurozone.

The Cyprus crisis destroyed that standard - for the Cypriot Government was allowed to take steps which essentially devalued the Euro on the island. Indeed, the response to the Cyprus disaster sets dangerous precedents for the whole zone even if the Cypriot economy is worth only 0.2% of Eurozone GDP.

Firstly, the island saw the introduction of capital controls – against normal EU Treaty measures (and the EEA Agreement) as passengers were forbidden to take out more than a thousand Euros from the country. Secondly, savers couldn't withdraw more than 300 Euros in a day from their banks and lastly, the cashing of cheques was banned by the central bank. The effect has been to ensure that Cyprus is no longer a full member of the currency.

This is because in every other Eurozone country, no such restrictions are in effect. It essentially means that a Euro in Cyprus is now worth less than anywhere else in the world. Cyprus claims it is only a temporary measure but this crisis also poses real questions regarding the credibility of the Euro and the Eurozone as the EU stood aside and let the Cypriot Government snatch money from people's bank deposits which would never have been allowed to happen in a less peripheral nation.

Of the banking crisis, the European Parliament concluded: "we saved the banks but are running the risk of losing a generation"[29] But the EU never fails to turn a crisis into an opportunity for the only way to solve the Euro crisis the member states peoples are told is through greater fiscal/economic/(political) integration. Whilst the EU has made some attempt to change voting rules to ensure that the Eurozone cannot use its inbuilt majority to impose measures on non-Eurozone members, the EU's 'form' suggests that this is merely a temporary speed restriction in its journey towards a political superstate, and the UK is already effectively 'Out' now.

Free Trade Agreements and WTO

The UK has ceded its seat on the WTO to the EU Trade Commissioner, and it is only the EU which can negotiate free trade deals with major trading partners on behalf of the UK and the other member states, including close Commonwealth partners. The EU Commission also constantly interposes itself on UN and other international agreements that should be left to the sovereignty of the member states under the subsidiarity principle.

Despite the EU's overwhelming power over the UK's laws and international relations, it seems unable to conclude deals with such powerhouses as China and Japan (at the time of writing), and has been beaten to a Canadian FTA by EFTA. Indeed, Switzerland now has a Free Trade Agreement with China and Japan as it is freedom to secure its own deals[30]. Indeed the EU has mounted a trade war with China over solar panels, imposing substantial tariffs whilst China has retaliated with heavy duties on French wine. This does prove the point that big trade blocks aren't the best at opening up free trade relationships as EFTA so clearly demonstrates.

Moreover, the agreements that the EU does manage to conclude can be angled at the expense of British interests. For example, the agreement with Central America provides long term trade barriers to Central American banana exports, including from some Commonwealth countries, and thus shelters the EU's banana growers from fair competition. This results in the need for greater development aid and adds to the household bills for the average British family.

At the moment, as Global Vision points out, EU membership has imposed 'too great a proportion of Britain's energies are dedicated towards facilitating convergence with European neighbour economies, rather than concentrating upon the national interest by developing markets for British goods and services amongst the fastest growing areas of the world.[31]

An independent Britain would of course, be free to conclude proper free trading agreements with countries across the world that better suit British interests and not French protectionism and German export aims. In addition, the UK can take back its seat on the WTO and negotiate its own interests as effectively as other sovereign states such as Norway and Switzerland, who continue to take their seats in the WTO and other international forums.

The UK will also be free to reaffirm its links with other Commonwealth states which comprise a staggering two billion people, and which are growing massively in terms of population and their economies.

Nor will the EU surely not want to continue to trade with its largest customer. Whilst three million jobs in the UK are said to be dependent on trade with the EU, it is calculated around 4 million EU jobs are dependent on trade with the UK. Binley and Lea report reported that analysis of the 2006 employment and statistical data of the then EU25 showed that on face value, nearly six and a half million EU jobs are dependent on the EU trade with the UK whilst four and a half million UK jobs depend on EU exports. This suggests that one million jobs in Germany alone depend on trade with the UK whilst for France, it is 800,000 and in Spain, 700,000.[32] In a 2013 study by Regent's University, the figure for one million German workers reliant on trade with the UK was collaborated. In the Pain and Young study of 1997, it was noted that 'although we find that a large number of jobs are now associated with exports to the EU, there is no *a piori* reason to suppose that many of these, if any, would be lost permanently if Britain was to leave the European Union.'[33]

EU Taxes such as VAT (Value Added Tax)

Whilst the EU now controls huge aspects of British life, no aspect of that power is so prominent and persuasive as Value Added Tax (VAT). It was a tax which Britain had no option but to introduce, as it was a pre-condition of membership in 1973. The Guardian reported on the 1st of April 2013 the tax has now taken £1.6 trillion from UK businesses and citizens since its introduction.

VAT is a tax which is extremely complicated for businesses to administer and vulnerable to fraud. Leaving the EU will allow the UK flexibility over rates and applicability of VAT (in the EU rates can only go up and applicability be extended) or explore alternatives such as a US-style sales tax.

With VAT, the power of the EU is starkly obvious as it is the EU which sets the bands and exemptions, and which receives much in the form of direct contributions. Whilst exemptions are allowed, once a zero exemption is given up by a member state it can never be brought back. Indeed in June 2013, it was reported that the EU was urging the UK to abandon its remaining zero exemptions and reduced VAT on such essential items as children's clothes and toys, heating oil and water bills (but not bottled water) in order to wipe £3 billion off the national debt. [34]

Applying VAT in the UK is extremely puzzling too: with cakes and Jaffa Cakes being exempt from VAT but chocolate covered biscuits are not. Gingerbread men with chocolate eyes are exempt unless they have other kinds of chocolate additions such as buttons or a belt. Takeaway sandwiches are exempt but sandwiches are liable for VAT if they are eaten on the café premises.[35]

The UK has additionally extended VAT to alterations to listed buildings[36] for such building work as roof repairs, key remedial work and extensions. Thousands of people protested at the move[37] and the Government was forced to give the churches £30 million to offset the new VAT burden.[38] In addition, under the Listed Places of Worship Grant Scheme, the full VAT can be reclaimed on certain works of repair and maintenance to listed buildings. According to CLAS, the sale of Church Christmas cards and church bazaars are both subject to VAT[39].

VAT can also be perverse towards other objectives. For example the Coalition Government's worthy green policies ran foul of the EU's VAT rules with Brussels protesting about the UK's reduced rate of VAT on energy saving products. The EU is also trying to force the Government to raise VAT on insulation from 5% to 20%.[40]

Nor is VAT a simple and easy tax to administer. In 2005, it was found that a staggering 107 billion Euros was lost to fraud[41]whilst the EU Commission estimated that the cost of VAT administration to European business was a colossal 80 billion Euros. Open Europe in their 2007 paper 'The Truth Behind Tax Harmonisation' summed up VAT complexity as follows:

'*A produces raw materials. It sells them to B and charges VAT on those. B manufactures (products from the) raw materials. It sells the product to C, with VAT on it, accounts for the VAT and reclaims the VAT charged by A. C distributes the product to D. C sells it in course and charges VAT on the price, accounts to Customs for it, and reclaims the VAT charged by B. D is a retailer who sells the product to the wider public, and of course charges VAT upon it, accounts to Customs for it, and reclaims the VAT charged by B.*'[42]

They go on to suggest a sales tax charged by the retailer at the lower rate to the end consumer only would eliminate these endless payments, reclaims, accounting entries and official administrative costs. Such a tax would reduce fraud as it would be far easier to police than a system which requires constant declarations and reclaims.

However, reform or replacement of VAT is extremely unlikely as EU laws prevent the introduction of any other form of sales tax. Indeed, the Commission has sought to prosecute the Hungarians for seeking to levy one.[43] The UK is locked into VAT within the EU – and only by leaving can the UK to revisit all such measures and even replace the tax itself.

The real agenda is political. VAT is one of the means by which the EU tries to harmonise tax across the member states. Indeed, key EU bureaucrats hold some truly astonishingly dismissive views of the member states democracies' right to set their own tax and the EU uses the European Court of Justice (ECJ) as a 'crucial legislative tool' to extend its power regardless of the Parliaments of the member states or indeed the EU Parliament.

Structural Funds – the missed economic opportunities

For decades now, the EU has been extending its influence in regional and local Government by funding so called Structural Funds. Such funds are intended to boost the economies of the EU's poorer regions. Of the 308 billion Euros which the EU spent on structural funds, the UK got back only Euros 9.4 billion. Also only 4.8% of structural funds projects are based in the UK whilst Italy, on the other hand, has a third of such projects.[44] The think tank Open Europe stated that over the 2007-13 EU budgetary period, the UK contributed approximately just under £30 billion (£29.5) to the Structural and Cohesion funds. Their estimation of what Britain received back differs slightly from 'EU in a Nutshell' in that they put the figure at £8.7 billion. According to Open Europe, this makes the UK the third largest net loser of structural funds after France and Germany.

Despite these billions of pounds in aid, pro-EU's Open Europe found that 'there is no conclusive evidence that the structural funds have had an overall positive economic effect on Europe's economy.' As the Commission admits, the funds carry with them 'considerable administrative and opportunity costs.' Their analysis of EU's regional funding found that the funds only redistributed income within the same regions. In the UK, only 5% was redistributed across to other regions with 25% being distributed with the same region in which the funds were raised. Of course, the largest proportion (70%) went out of the UK altogether.

Of the UK's 37 regions, 35 are net contributors to the EU's funds with only West Wales and Cornwall were net beneficiaries. This means that some relatively poor areas actually lose money rather than benefit from funds that are intended to boost the industry of the EU's poorer regions. The West Midlands which has the lowest disposable income in the UK, gets only £1 for every £3.55 that it pays to the funds. On the other hand, Devon pays £6.58 for every pound than it gets back. Under EEA Lite a new grant system would replace the EU's approach and ensure all the Uk benefits are fairly distributed. Under EU rules too the UK is not eligible for support from the Cohesion Fund as it is limited to the poorest member states.

How the EU props up French Colonies

The European Parliament in February 2013 voted a fresh 40million Euros subsidy for EU banana growers. Some €18.52 million will go out of Europe to the French overseas departments (or French colonies annexed to France to be precise) with only €1.24 million going to the Azores and Madeira and €20.24 million for the Spanish Canary Islands.[45] This isn't the end of the EU aid subsidy to the 'outlying regions' as they are termed. The ex-French colonies (French overseas departments) will also receive €278.41 million in 'aid' whilst the Azores and Madeira get €106.21 million and €268.42 million for the Canary Islands. The overall annual amount for Aegean islands remains at €23.93 million.

In contrast, the UK's Shetland, Orkney and Western Isles are missing from this list of 'outlying regions', as are the UK's Falkland Islands for example. The Scottish Highlands and Islands actually receive less from EU Structural Funds than they pay to the EU coffers[46].

Open Europe found that the EU funding decisions in the UK are made without any real commercial grounding. For example, Cornwall was allocated funding geared towards developing its high-skill sector rather than those sectors which are already flourishing and require funds to expand and export. According to the think tank, the result was to pour money into business parks for which there wasn't sufficient demand. However, the region's specialist food product companies, in which Cornwall excels, were denied funds as food production is outwith the funds' remit nor can they receive monies from the EU's agricultural fund.

Global Vision believes the Funds are counterproductive as the EU channels 'taxes and duties from profitable businesses, but are then largely repaid as grants to unproven or unprofitable enterprises' – such as aid to superconductor manufacturers just before the market collapsed in the 1990s.[47] It is this difference in attitude between French-style EU protectionism with its corporatist 1970s style 'picking of winners' and a more flexible, less interventionist UK approach. This difference is maybe why the UK car industry – export driven with long term investment in research - is now flourishing whilst France's heavily State propped up car companies are fading out fast.[48]

Moreover, Open Europe notes that the EU development funds are 'locked in' with fixed spending criteria so the EU - unlike commercial lenders - cannot respond quickly to rapid economic changes. The European Court of Auditors (ECA) agreed in a 2011 report saying 'the scheme remains fundamentally input-based, and therefore orientated towards compliance rather than performance.'

Open Europe found too that EU funding can take an age to be released and the EU largesse is scattered too widely instead of being targeted where it can do the most good. Moreover, the funds also favour larger organisations rather than SMEs as the funds compliance requirements impose huge costs on recipients.[49] In their withering assessment, Global Vision notes that the EU funds cause 'bright, intelligent people who could be developing business ideas to meet the needs of people in the marketplace instead devote their time to meeting the demands of grant-giving bureaucrats in Brussels.'

Taken together, EU funds can provide perverse incentives and major opportunity costs for the British economy. Funds often fail to reach those companies who can provide greater local productivity and boost employment rates, and 'unsustainable businesses are sustained and unviable enterprises are launched' according to Global Vision. They comment that any enterprise which cannot attract commercial investment as either seed capital or to 'maintain trading' will not be viable for long.

It would be able too to take up the British Chamber of Commerce's call for a Business Bank which would be run on commercial lines and resemble the German Kreditanstalt für Wiederaufbau. The BCC argues that such a bank would ensure that Britain's vital SMEs are properly financed and have the resources to grow and export.

Currently, the UK's businesses (and especially SMEs) find it difficult to source funding as bank lending is actually falling despite massive Government support. In June 2013, it was reported that bank lending had actually fallen by £300 million in the first three months of the year despite the UK Government's 'Funding for Lending' scheme which has pumped £16.5 billion into the banks for that very purpose.[50]

In summary, an independent Britain would be able to introduce policies which very significantly reduce the tax and regulatory burden on businesses throughout Britain. This will ensure that more resources are kept within successful businesses for proper long term investment. An free Britain would be able also to introduce valuable UK-wide support schemes using the same UK taxpayers' funds, but for job-generating investment in the UK economy and not jobs abroad.

Note: These MEP Briefing notes are provided for general information about the EU for constituents and UK citizens and draw on published and unpublished or original research.

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