

Euromyths 2012

The reality behind the half-truths



SCOTLAND EUROPA PAPER | PREPARED BY CHRIS DALTON

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Scotland Europa Papers

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Introduction

This year marks the 20th anniversary of Scotland Europa, which was created in 1992 by Scottish Enterprise to support Scottish economic development. Much has changed for Scotland and the EU over that time, not least the devolution of powers to the Scottish Parliament, the development of the Single Market, the introduction of the Euro and EU enlargement from 12 to 27 members.

In 2003, just after the 10th year of Scotland Europa, a reference paper called “Euromyths – the facts behind the rumours, hearsay and half-truths” was written. This raised a number of issues which were of significance at the time to a ‘British’ reader with an interest in the EU. Nearly a decade on, and in connection with celebrations for Scotland Europa’s 20th anniversary, there are compelling reasons to revisit some of the issues raised in 2003.

The current paper can, however, be distinguished in a number of ways. It has been written at a time when huge uncertainties hover over the prospects for individual European economies and the stability of the eurozone as a whole. As such discussions in Brussels have assumed a much more economic focus than was the case previously, and this is reflected in the paper. In addition, and perhaps also as an expression of the times, the substance of this paper moves away from tabloid originated ‘euromyths’ such as ‘curved bananas’, ‘straight cucumbers’ and ‘harmonised condom dimensions’, to examine issues such as misgivings in the UK about the importance of Europe’s single market and the actual blameworthiness of Brussels’ institutions for bureaucratic inefficiencies.

In the spirit of Scotland Europa’s 20th anniversary celebrations, a range of questions have been posed throughout the paper in respect of how EU policy themes and trends will develop over the next decade. The questions below are included by way of introduction:

- How can the current, intensive austerity measures being implemented across Europe pave the way for growth and fiscal consolidation?
- Balancing its alignment with the ‘European social model’ on the one hand with its deeply held aversion to European market regulations (such as a financial transaction tax) on the other, can the United Kingdom ever redesign its relationship with Europe to become a ‘critical friend’, or is it on an inevitable path towards marginalization as a ‘difficult partner’? What implications does this have for the United Kingdom’s presence and influence within the EU?

More broadly, it will be very interesting to observe Scotland’s development in the European context over the next decade, as it continues to prove itself as a significant player in areas closely aligned with EU policy priorities.

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Changing Perceptions on European Integration

The term 'integration' has traditionally held different meanings for different observers, who in turn have interpreted it in very different ways. It is broadly represented by, and associated with, the increasingly connected cultural, social, territorial, and economic setting in which EU citizens are now located. This has a close relationship with the more understood, if similarly complex, process of globalisation. Globalisation has been a major driver of economic events in recent decades and, simplistically, can be characterised by trade growing twice as fast as output and direct investment growing twice as fast as trade. Alongside this, the process is associated with an increasing flow of people and greater communication and interconnectedness between places. But while the processes of globalisation and integration share many features, they are distinct and there is a great deal more to European integration than simply an expression of Globalisation at a local level.

Definitional Challenges...

In an address to the European Parliament in 1993, Jacques Delors (then President of the European Commission) jokingly offered a 200,000 ECU (the basket currency of the European Community member states) prize to anyone who could define the term subsidiarity on one side of paper. It remains a very difficult term to precisely define in a useful way.

To Scotland Europa's knowledge, no one has taken up this challenge in the past two decades, and submissions from Scotland Europa's members would be welcome!

In the 2003 Euromyths paper, integration was explained and its 'true meaning' defended. In doing so, specific reference was made to the various checks and balances on the preservation of subsidiarity, national identity and cultural diversity within the EU's institutional architecture.

These measures were used to challenge the popular notion of 'integration' as a process of unremitting centralisation. However as Europe wrestles with being flagged the ill patient of global politics, what 'integration' now means to its citizens - and whether or not it is worthy of renewed defence - is a much more lively debate.

Perhaps the most potent part of this debate is whether or not a more intensive political and fiscal union is the best response to the crisis. If indeed this is the case, the defence of 'integration' from a nationalist perspective is less tenable, and the concept is likely to be a less attractive proposal for EU citizens than it was when political sovereignty was explicitly preserved. From a UK perspective, it goes without saying that with this comes added uncertainty in respect of the UK's ongoing relationship with the continent.

In any case, what 'integration' means to people in the UK is likely to be flavoured by a media

MYTH: EU demands EU flags on England football shirts and at all sporting events

This myth stems from a report on the 'European Dimension in Sport'. Despite discussion in the Parliament, this is never intended to be compulsory and in any case is still being discussed in the Commission.

which often seems determined to challenge the viability and financial stability of the Europe project. As a consequence, in the realm of public opinion the question of 'integration' has assumed an almost exclusively economic focus, and the cultural, social and territorial aspects have been marginalised.

Question for the future

What more could be done at EU, Member State and local levels to challenge these perceptions?

Size of the EU's Budget and 'Juste Retour'

The size of the EU budget is small when considered in a relevant context and this is regularly forgotten. It amounts to around 1% of Europe's wealth (measured by GNI), and around 2% of the Member States' aggregate budgets. Having said that it is of great political and symbolic significance for the Member States, and both the negotiation process and the effectiveness of implementation attract widespread scrutiny.

The vast majority of the budget is allocated to Cohesion Policy initiatives which are implemented through the structural funds, and to the Common Agricultural Policy (which provides direct aid, export refunds, storage, and rural development). These two policy areas alone make up almost 70% of the EU budget. Many other key EU policies which offer vast benefits to EU citizens – like the single market, competition policy, common foreign and security policy, trade negotiation and justice co-operation - are only loosely linked to the EU budget. Nonetheless, the flawed view that the merits of EU membership can be assessed only in balance-sheet terms is a long standing sceptic belief. This was identified in the 2003 Euromyths paper and still holds today.

MYTH: The EU finances projects like dog training centres and Elton John concerts

Generally, the national and regional authorities in Member States select projects which they think are best suited to their needs in line with the strategies and priorities agreed with the Commission. If a claim is not legitimate, the EU budget does not fund it - suffice to say, tax payers did not ultimately pay for dog training centres or Elton John concerts.

What has also not changed over the past decade are concerns that the EU budget is riddled with fraud, and that every day in Brussels a vast amount of money finds its way down notional drainpipes. In reality, evidence suggests that the incidence of errors with financial impact in the EU payment system is low, and in any case that more than 80% of the budget is spent by national or regional governments in Member States. In the case of EU funds flowing directly from the Commission, the payments are transparent and details are contained in a publicly available on-line database. The most recent EU accounts (those for 2007, 2008 and 2009) were given a clean bill of health by auditors.

'Juste retour' is each Member State's priority for securing the best possible individual net financial position vis-à-vis the community budget, in preference to any other consideration concerning the community budget.

What has changed, however, is the emphasis Member States are placing on 'juste retour' (or the net financial position approach) in EU budget negotiations, as they become politically cornered into myopic economic agendas. This difficult negotiation process involves representatives from the 27 governments, each with veto powers and each with strong preferences for items of particular importance to their domestic interests. Negotiators themselves are accountable to their parliaments and constituencies, to whom they must demonstrate evidence of success. And in

these forums, there is a tendency for success to be measured by reference to the net monetary deal for a Member State, comparing what has been paid and what has been received, rather than by focusing on the wider policy priorities. Particularly for the larger Member States who contribute the lion's share of the budget, the scene is set for a difficult negotiation process in respect of the 2014 – 2020 budget.

What this means for the European project more broadly is an increasing likelihood of a return to a financial 'zero sum game' of poker politics between Member States.

Negotiations proceeding on this basis will naturally undervalue the EU's public goods, given the relative influence of the Commission and the European Parliament (when compared to the Member States) at round table negotiations concerning the budget.

Moreover, as a forward looking budget predominantly oriented towards investment rather than consumption, it is likely that the 'juste retour' approach to the negotiations will have a negative impact on the effectiveness of spending. This is because spending is tied to EU policy areas and priorities and then distributed via funding programs. The scale of these programs means they are not particularly responsive to changing circumstances and needs over the seven year period, making it all the more likely that negotiators will squabble for money off the negotiating table to gain a short term domestic 'win', at the expense of improving allocative efficiency and overall impact in the longer term.

Questions for the future

Will this process of 'juste retour' constrain the process of European integration, or will Member States recognise the need for more cooperation in order to tackle the significant issues facing the EU?

What does this imply for the effectiveness of EU funding and spending?

European Bureaucracy

Within the EU, as with most of its Member States, the 'cutting of red tape' or 'red tape bonfires' are popular political phrases. After years of criticism and scrutiny, the nature and extent of excessive bureaucratic involvement in EU activity remains an area of interest for many observers. This tendency was identified in the 2003 Euromyths paper, and specific reference was made to the claim that the problem with EU rules is that the UK is alone in trying to actually implement them. At that time, it was recognised that while the UK's transposition record was good, several other EU countries had out performed it.

The problem of effective transposition remains a concern today. Recent carbon capture and storage legislation provides a useful example of this. Following acceptance by the Council of Ministers in 2009, all Member States were required to transpose obligations included in the 'EU Directive on the Geological Storage of Carbon Dioxide' into their national legislation by 25 June 2011 (as required under Article 4.3 of the Treaty on the European Union). Spain fully implemented the directive by December 2010, but no other Member State completed the process by the deadline. On the one hand this was for a variety of legislation specific reasons, such as widespread public opposition to the carbon capture and storage process in both Germany and the Netherlands. But more broadly, and as is often the case with instances of delayed transposition, differences between national legal cultures, administrative structures, and even tensions between government departments can influence the efficiency of the process. To pass this off as a symptom of a red-tape obsessed Brussels would be both simplistic and unfair.

Another issue has emerged which gives rise to a misrepresentation of the extent of EU bureaucracy, and that is the tendency of Member States to 'gold-plate' EU rules when transposing them into national laws. 'Gold-plating' refers to the practice of national bodies exceeding the terms of EU directives when implementing them into national law, and indeed tagging additional measures on to the back of the directives. Historically, corporate actors

have claimed that their competitiveness with actors from other Member States was compromised because of the convoluted way in which EU directives were implemented by their governments. Though not exclusively, this has often been associated with the UK Government and it became a particularly prominent domestic political issue. In 2006 the extent of assertions of ‘gold-plating’ prompted the appointment by the Government of Lord Neil Davidson QC, the former solicitor general for Scotland, to examine whether the ‘gold-plating’ or over-implementation of EU regulations added to the administrative burden for UK businesses.

The review found ten areas of legislation where simplification was possible, and this included consumer sales, financial services, transport, food hygiene and waste legislation. The review also made a number of recommendations about best practice in implementing EU rules, and the Government has now implemented Guiding Principles for EU legislation, which it is hoped will bring an end to ‘gold plating’ practices.

Thus before launching yet another vague assault on the ‘red-tape institutions’ of Brussels, observers would do well to remember that both the efficiency and form of transposition is largely influenced by issues within Member States. In any case, recent simplification measures issued both at the EU level and within certain Member States should pave the way for greater efficiency in the future.

A final point worth mentioning is that in the past decade the European Commission undertook a major reform of its administration, and administration expenses now amount to less than 6% of the total EU budget (with salaries accounting for roughly half of this). These reforms have included lowering recruitment salaries, bringing in a higher retirement age, and lowering pension rights (while increasing pension contributions). It is claimed by the EU that these reforms have already saved the EU taxpayer €3 billion. However, it remains a challenge for the EU to balance bureaucratic simplification and efficiency whilst still ensuring effective scrutiny and due process.

Institutional Arrangements and Euroscepticism in Britain

The 2003 Euromyths paper made reference to the Eurosceptic view that the UK has been institutionally trapped inside a system designed to frustrate ‘British’ interests. The paper set out the processes which were designed to ensure all Member States had a fair say in EU decision making processes.

There have been two important developments in this area over the past decade. The first is a range of institutional reforms designed to make the EU ‘more democratic, more transparent and more efficient’ and introduced via the Lisbon Treaty. The second is that the Eurosceptic movement in Britain may have changed shape with devolution, but that it certainly has not lost any momentum.

The Lisbon Treaty sets out a number of changes which were designed to streamline Europe’s institutions to enable the better functioning of an enlarged bloc of 27 states. Its strongest opponents see this Treaty as a further expression of a federalist agenda which threatens national sovereignty, largely because of the removal of national vetoes in areas such as climate change, energy security and emergency aid. However unanimity remains in the key areas of tax, foreign policy, defence and social security.

There are two other important changes via the Lisbon Treaty which ostensibly increase the role for both national parliaments and individual citizens in EU decision making. Specifically, a subsidiarity mechanism was introduced to ensure that the EU only acts where results can be better attained at the EU level than at the national level, and the European Parliament (whose members are directly elected by EU citizens) was given new powers to effectively place it on an equal footing with the Council for decision making in respect of the vast bulk of EU legislation.

Rather than discussing how the British people have responded to these institutional changes, it is perhaps more useful to consider some 'home-grown' features within Britain that impact upon its relationship with the European Union. By way of introduction to this theme, an important observation is the somewhat curious position of successive British governments to celebrate economic internationalism with Europe on the one hand (and indeed to accept foreign ownership of iconic British assets), whilst displaying hostility to foreign encroachments in respect of British judicial, parliamentary and governmental sovereignty on the other.

The Government is by no means alone in putting up this kind of resistance. Indeed, another expression of it has been the gradual retreat from Brussels by British based newspaper editors. Today there are half as many newspapers with a presence in Brussels as was the case in 2003. Whilst not excluding the influence of the financial climate, this does demonstrate a reluctance to engage with the European project. And while there will always be demand for sensationalist pieces, such as those accusing Germany of turning the Eurozone into a 'Fourth Reich' (the Daily Mail, 17 August 2011), or articles charting the slippery slopes of the failing southern European states, much of the British coverage of EU affairs has moved from the foreign news pages to the opinion columns and blogospheres. Indeed, at the closure of the Brussels staff bureau for one newspaper, an executive from the organisation stated that 'true Eurosceptics' in Britain do not even want to read about issues relating to the European Union. Whilst perhaps an exaggeration, or perhaps an innovative way of suggesting an ignorant readership, this does confirm that a culture of non engagement with European issues remains in place.

That is not to say that the UK necessarily wants to be out of the EU collage. A 'Green Paper' published in the UK earlier this year supported ongoing membership with the EU, although in doing so did not deny the reality that the value of access to the single market is becoming an increasingly prominent item on the domestic political agenda. With fiscal austerity measures now rendering cash injections to stimulate the UK's economy difficult, deregulation is seen as one of the key remaining tools for boosting growth. However the capacity to deregulate is often constrained by rules locked in at the EU level, providing an impetus for actors to challenge the institutional arrangements of the EU - and indeed EU membership itself.

This is historically an area of very fertile ground within the UK. A sentiment of distance and mistrust towards Europe still moves from many parts – and whether a cause or consequence of this, many 'British' are reluctant to identify themselves as European.

2011 Eurobarometer Poll

- Only 17% of British respondents expressed trust in the EU
- Only 13% stated that they had a broadly positive view of the EU

What is interesting about this, however, is that the British are also becoming less likely to identify themselves as British. Alongside the enhanced sense of identity that came with the devolution of powers in favour of Northern Ireland, Wales and Scotland there has also been

a resurgent sense of English identity. Interestingly, what sometimes seems to distinguish those people who call themselves 'English' from the others is a passion for keeping other countries, and in particular European ones, at arm's length.

2011 YouGov Poll

(Asked UK voters to identify themselves as mainly English, Scottish, Welsh, Irish, British or European):

- 2% said they were European
- 19% said they were British
- 63% said they were English

In some quarters, there is also a tendency for the British to consider themselves culturally, politically and economically more aligned with other English speaking countries. But when scrutinized even slightly, this tendency should be puzzling to an external observer. Beyond the common language, there are many areas which align the British squarely with the European social model. This is true of attitudes to religion, gun ownership, capital punishment, social welfare, the environment, and the desirability of free, universal public healthcare. Perhaps this is an area that should be more readily reflected on by Eurosceptic observers in the UK.

Question for the future

After years of integration, *what is it* that needs to happen to change British attitudes towards the EU?

The Single Market

The 2003 Euromyths paper outlined the benefits of the European single market and also offered justification for its regulation by the European Union. The thrust of the argument was that in a free market, rules are needed to ensure consumer protection, balance different interests and ensure fair competition. On reflection, and in light of recent developments, this is an area worthy of renewed and perhaps more involved consideration. This is because issues such as an EU wide financial transaction tax and the likelihood of constrained domestic political sovereignty within the Member States do not sit easily in the ageing 'regulation versus free market' paradigm. Moreover, examples of renewed protectionism in other parts of the world are challenging the once held belief that increasingly liberalised markets are an inevitable economic reality.

Europe's single market seeks to guarantee the free movement of goods, capital, services, and people within the EU's 27 Member States. While this is an ongoing process, it expresses an assumption that ultimate efficiency in the allocation of Europe's resources can be best achieved through the increased competition, specialisation, and economies of scale enabled by such a single market. The European single market remains the most ambitious free trade area in history and access to it is commonly seen as the most appetising aspect of EU membership.

Indeed, the majority of the current Conservative MPs in Britain regard the internal market as the most obvious net benefit of EU membership. However, they also regularly denounce supranational regulation by the European Commission. This stance overlooks the uneasy political truth that without regulatory oversight at the supranational level to police competition policy, state aid payments and non-tariff barriers to trade, the internal market would not be a reality. Thus emerges a common theme for observers of European politics: the perpetual tension between calls for removals of red tape and regulations on the one hand, with criticisms as to the integrity of market actors on the other.

"...the way to make the whole of the EU, including the eurozone, work better is to promote open markets, flexible economies and enterprise. That is an agenda that Britain has promoted, under successive governments and successive prime ministers, but it is now an agenda that the European Commission is promoting, too."

David Cameron, Hansard, House of Commons debates, October 24th 2011.

In any case, in October last year it seemed that the British notion of 'better regulation' would prevail at the EU level and that the Commission, under President Barosso, would push for increasingly liberalised single market policies. This was particularly true in respect of services and in cross-border-digital commerce.

Where it was not true, however, was in the area of the taxation of certain financial transactions. Indeed, this emerged as a significant point of departure from the apparent ideological attachment to *laissez faire* economics, and it took the form of a proposal by the Commission for an EU wide tax of financial transactions (both stock and derivative transactions). Broadly speaking, the pace at which this issue found its way to the front of the political agenda surprised observers and was most probably a consequence of energetic lobbying by non-state actors and NGOs, reflecting normative views within Europe about the role of financial markets in society. It also gained popularity because of revelations about the extent to which it would bolster the EU's 'own resources' coffers, without significant implementation costs.

Support for a Financial Transaction Tax in Europe

The latest Eurobarometer survey shows that 66% of Europeans favour a financial transactions tax

Inevitable tension arose because not only is the profitability of the financial services industry a cornerstone of the UK economy (approximately half of European investment banking activity is conducted through London and 80% of Europe's Hedge fund assets are managed in London), but also because such a tax presents complex challenges for other items on the UK Government's agenda. For instance, in the March 2012 annual budget statement Chancellor of the Exchequer George Osborne spoke of the need for London to become a new offshore market for the Chinese currency. The viability of such a project would quite possibly be constrained by the introduction of a new financial transaction tax, just as the likelihood of capital flight to other financial centres would be enhanced. Prime Minister David Cameron has unequivocally stated his opposition to the tax, and vowed to challenge it all the way. Whilst the jury is still out on the likely economic impact the tax may have both directly on the economy and on the stability of financial markets (not least because of mixed signals from the Commission), following the initiative's progress will inevitably be a fascinating exercise for observers of the single market.

In any case the focus on locating or even creating new markets has become a particularly popular political point in the UK as a result of competing views on the merits of its trading base. In particular, those who celebrate the benefits of the EU's internal market point to the fact that despite much wishful thinking about increased exports to 'emerging giants' of the world economy, over the past decade the UK traded more each year with Ireland than it did with all of the BRICS nations (Brazil, Russia, India and China) put together. For others, this is an embarrassing revelation.

Certain other international developments are also of relevance to a discussion of the future of the single market, particularly as European companies look to invest in foreign markets to diversify their portfolios in light of increasingly risky European assets.

Firstly, the EU has identified a sharp rise in protectionism globally, with 123 of the 534 restrictive measures in place globally having been introduced in the last eight months. The EU has naturally expressed concern about this trend and has demonstrated its willingness to challenge the newly introduced protective measures.

Secondly, there are concerns about the state of play with foreign investment in Latin America, triggered by some bold nationalist agendas in South America. In particular, there have been a number of expropriations in the natural resource sector. The most prolific of these and of considerable concern for the EU was the decision by Argentina to renationalise its largest oil company, and in doing so expropriate a Spanish company's 51% share in it.

Finally, the number of international investment disputes in the Central and South America region is growing, alongside which the 'bad boys' of Latin America (Bolivia, Ecuador, and Venezuela) have either said they will no longer resolve disputes through international forums of arbitration, or have already pulled out of them.

As the future success and effectiveness of the EU single market is intrinsically linked to global protectionist developments, this is an area to be keenly watched as Europe looks to navigate its way through the current crisis.

Questions for the Future

Is a financial transactions tax an integral part of an exit from the economic crisis, or does its uncertain impact on GDP make it too big a risk if the ultimate agenda is to 'grow' out of the crisis?

Should the UK be more concerned with the future of the single market, and ensuring it has a place within its architecture, than further isolate itself by pursuing the anti-financial transaction tax stance seemingly at all costs?

How much does the future attractiveness of EU membership rely on the fate of the single market?

Conclusion

This paper set out to identify prominent EU policy themes and chart their development over the past ten years, which will hopefully invite some reflection on the process of change – both at institutional and individual levels. Quite clearly, what has not changed is the extent to which 'Euroscepticism' still exists today. On the one hand, this is somewhat surprising when considered alongside noticeable improvements in areas which gave birth to the movement in the first place – such as the transparency of the budget (and the relative absence of fraud), and the difficulties associated with transposing EU directives into national laws. On the other hand, the persistence of 'Euroscepticism' is possibly explained by the current precarious economic situation, which has (somewhat selfishly) informed what people think about the broader question of 'integration'.

In any case, as one gazes into a very wobbly crystal ball, the next ten years are likely to define many relationships both within and across nations and boundaries. This paper has offered views on just some of the themes that will inform this process.