Chapter 7
The European Union and the single market

The European Union (EU) is a political and economic grouping that currently has 28 member countries. These countries have given up part of their sovereignty in exchange for political, business, economic and monetary membership of the world's largest free trade area. This loss of sovereignty means that the EU (through the Commission, Parliament and Council of Ministers) sets many laws and regulations that control large parts of business activity, economic policies and trade throughout the European Union.

The single market of the European Union, which came into existence on 1 January 1993, aims to make the whole of Europe the 'home market' of all businesses operating within the European Union. The single market is not complete yet and there are plans to create an internal market for energy and a single digital market. Croatia joined the European Union in 2013 and other Balkan countries such as Macedonia and Bosnia will join in subsequent years. New members gain open access to an export market of over 500 million people comprising 28 countries which account for 20% of global GDP. According to many economists, enlargement of the EU benefits both new and existing members.

The single market has been developing since the original establishment of the EEC (the old name for the EU), and is still being refined and improved upon today. Businesses operating and competing in the single market are able to trade freely with all other countries within the single market and also, because of increased competition, increased economies of scale, and improved access to resources will be able to increase efficiency and compete on the world stage.

Main features of the single market
No barriers to trade between member states. This means no quotas (limits on number, value or quantities) on imports and exports.
No tariffs (taxes on imports and exports) on goods and services traded within the single market.
Free transfer of resources from one country to another. These resources include capital and labour.
Consistent standards from one country to another (a good, service or professional qualification that is valid for sale or for use in one member state, is free to be sold or used in all member states) .
Common external tariff on imports into the EU.

The advantages of the single market for businesses
Increased levels of demand results from access to a larger marketplace.
Lower costs through increased economies of scale. Larger markets results in larger scale production, lowering average costs of output.
Freeing of capital markets. Businesses will be able to access the best finance and capital-raising deals throughout Europe.
Greater employer access to labour markets – workers from all member states are potential employees.
Growing wealth in poorer parts of the single market could drive future demand.
Single market legislation has deregulated markets, increasing opportunities for competitive businesses to enter these markets.

The advantages of the single market for consumers and workers
Increased wealth as trade and competition increases. Lower prices means higher 'real income', and increased economic activity leads to more employment.
Increased consumer choice. There is access to all manufacturers and service providers. Why not take out a mortgage or loan with a German bank if the interest rates offered are lower?
Greater employment opportunities. For those with 'marketable skills' – employment anywhere in Europe is available to anyone living in one of the 28 member states
EU competition law has increased choice and forced down prices.

Why is the single market not yet complete?

More than 20 years after the 'official opening' of the European single market, there are still barriers to trade and free movement of resources within the EU. There are a number of reasons for this:

- **Protection of industries** for political or economic reasons. Protectionism is still being practised throughout Europe. Subsidies are paid by governments to uneconomic and non-competitive industries.
- **Problems with harmonisation of standards.** Harmonisation means the bringing together of different standards that exist within Europe. This is a difficult and complex task, made more so by countries fighting to protect their national interests.
- **Cost implications.** For many industries, there are high costs to be met in trying to achieve the harmonised standards set by Europe.

The impact of membership on the UK

There is no doubt that we have moved a long way towards a free market in goods and services throughout the EU and that the UK has been one of the greatest beneficiaries of this single market. After all, many, if not all of the Asian and American companies that have established production facilities in the UK, have done so to gain free access to the rest of the EU. However, there have been differing impacts in differing sectors of the economy. One great UK success within the single market has been in finance, with London currently the leading financial centre of Europe, producing net exports of £70 billion a year. When the UK leaves the EU, there may well be requirements for London-based banks and other financial institutions to set up subsidiaries in each of the other 27 member states. Each of these subsidiaries would need to be capitalised separately and would have to meet a different financial regime to London. The net effect on the financial services industry of leaving the EU has been estimated at a fall of £50 billion in net exports and a corresponding fall in jobs.

Agriculture has been one of the industries that have been impacted the most by the EU and the single market. Large subsidies for certain crops have led to the growth of agro-industry. In addition, specific subsidies, aimed at upland farms, have protected farmers' incomes in areas such as Wales and the Peak District.

The Open Skies Policy of the EU deregulated the airline industry allowing entry and expansion of low-cost airlines like Ryanair and easyJet. These, and many other similar airlines, have boomed, allowing low cost travel for all, as well as creating thousands of new jobs. UK exports to the EU have increased, both in proportion and in total, since the single market was established and many of our largest businesses have benefited from significant economies of scale.

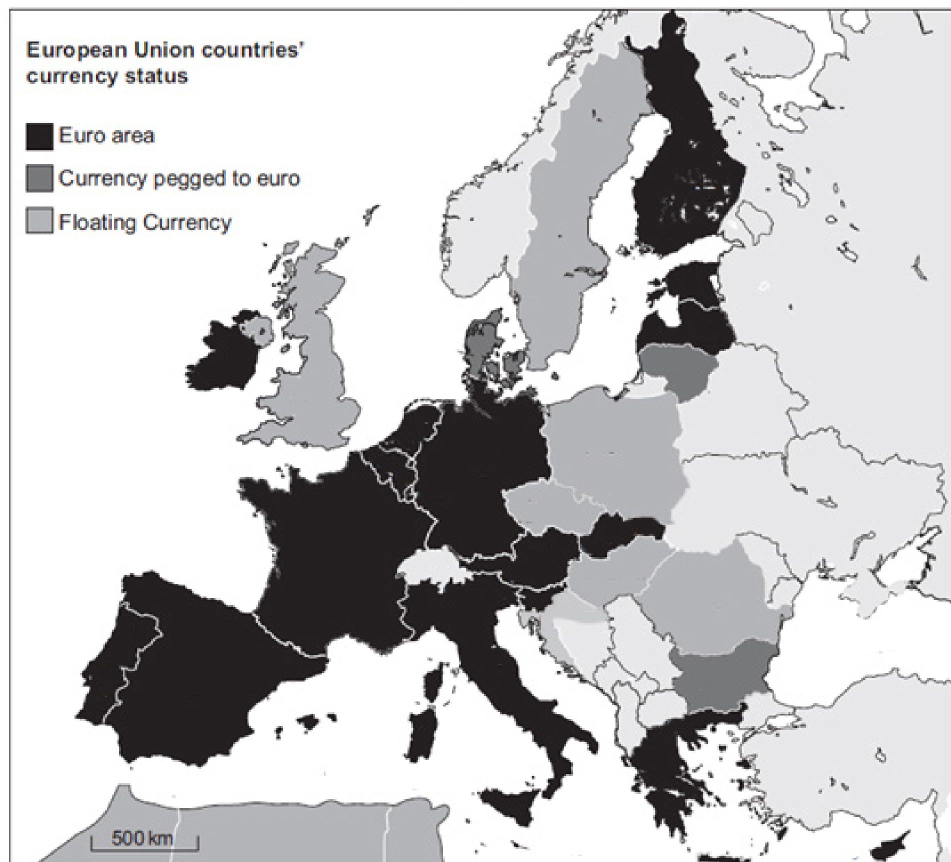
However, there are still problems. Smaller UK businesses have lost out to European competitors. The relatively new members of the single market, with their lower costs for business, have encouraged some disinvestment in the UK, with some manufacturing jobs moving to Eastern Europe.

The single currency and the Eurozone

European Monetary Union (EMU) involves the establishment of fixed exchange rates between the member currencies and the implementation of a single monetary policy (interest rates), operated by the European Central Bank (ECB).

The single currency, known as the euro (€), came into existence on 1 January 1999. Initially, the € existed in tandem with the currencies of the member states (this means that member currencies were still being used for everyday transactions and purchases, but commercial goods and services could be priced in euros). In Jan 2001, the euro was issued for everyday use by consumers in member states and for a while each country had two currencies (its own and the euro). As soon as people got used to using the new currency, the euro (€) fully replaced member currencies; after six months it was used for all forms of exchange.

Those countries that adopted the euro as their currency are collectively known as the Eurozone. This means, for example, that a French business can pay for supplies from any Eurozone country without having to exchange any currency to do so, saving both time and money.



Source: *The Economist (adapted)*

The UK chose not to join the Eurozone and to keep the £ sterling as its currency. This has created certain **disadvantages** for UK businesses:

- Every time a UK business wishes to change £s into euros it has to pay commission to a bank. Its competitors within the Eurozone do not have this additional cost and therefore have a cost advantage over their UK competitors.
- When exchange rates fluctuate, there is always an element of **risk** involved for businesses. The uncertainty created means that UK businesses could lose out if the exchange rate fluctuated and they had to pay more for their supplies than originally anticipated. Eurozone countries dealing with each other have no such uncertainty.

The key reason put forward for the UK keeping the £ sterling as its currency centres on the fact that the Bank of England would ***not be able to set the interest rate*** for the UK economy. Instead that would be set by the European Central Bank. It is argued that this would then limit the ability of the UK Government to control economic growth and inflation. The raising or lowering of the interest rate in the UK is regarded as a key weapon in the government's economic armoury. Lowering interest rates to encourage spending has often been a strategy used by UK governments in an attempt to get the economy out of recession. If the ECB decided not to lower the interest rate, or even raise it, then this might prove very bad for UK businesses. Many in the UK feel that losing the ability to manage the economy in this way was a step too far.

As indicated by the referendum of 2016 (Brexit), there is a strong body of opinion in the UK that believes that further integration with the EU would be bad for UK businesses, with even more 'red tape' and regulations making UK businesses less competitive. It was this body of opinion which also added weight to the decision not to become part of the Eurozone.

The impact on UK businesses of not being a member of the EU

How the single market and the € impact on UK businesses does, to a large extent, depend upon the type of business and the objectives of the business. For large businesses importing and exporting goods and raw materials, variations in the value of the € against the £ will impact on cost-pricing decisions and profitability. But often the currency of greater concern than the € is the $; after all most commodities are priced in $s and changes in the £ / $ relationship has greater business impact.

The single market creates opportunities for producing businesses of all sizes. Meeting member countries' regulations for imported goods being the same as meeting regulations for domestic markets reduces costs and makes exporting a great deal simpler. However, as a counter to this has been increasing regulation (especially employment-based) from the EU pushing up business costs.

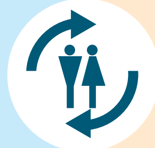
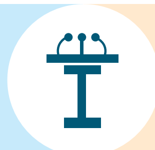
The growth of cross-border trade and removal of customs regulations within the single market have created opportunities for logistics companies to expand their markets, reducing costs at the same time.

When the UK leaves the EU, many larger UK businesses that benefit from membership may struggle to replicate the same market access gains at the same cost. This would especially apply to airlines, shipping and logistic companies, holiday companies and financial service companies. It is likely that there would be some impact on all exporters and importers, but it is these aforementioned industries that would feel the impact the most.

Farmers of all types receive subsidies from the EU, and the question that needs to be asked is that when the UK leaves the EU, would the Westminster Government continue to support farmers in the same way. Also there is a potential impact on labour supply. Would leaving the EU mean that tens of thousands of European workers employed in hospitality, healthcare, agriculture have to leave the UK? If this were to happen, wage costs would undoubtedly rise in these industries.

The debate

Arguments for and againste Brexit, according to the main campaigns

IN		OUT
Britain avoids exporter tariffs and red tape, important as 45% of British exports go to the EU. As a member, Britain can obtain better trade terms because of the EU's size.		Britian will negotiate a new EU relationship without being bound by EU law. It can secure trade deals with other important countries such as China, India and America.
Britain pays the EU £240 a year per household, compared with an estimated £3, 000 yearly benefit of membership. In or out, payment is needed to access the single market.		Britain can stop sending £350m, equivelant to half England's school budget, to Brussels every week. This money could be spent on scientific research and new industries.
Most EU regulation collapses 28 national stand-ards into one European standard, reducing red tape and benefiting business. In, Britain can fight for better regulation.		Leaving will return control over areas like employment law and health and safety, measures that a recent Business for Britain poll found businesses favoured.
Leaving doesn't mean reduced immigration. Countries that trade with the EU from outside have higher rates of immigration, including from EU countries, than Britain.		Britain can change the "expensive and out-of-control" system that offers an open door to the EU and blocks non-EU immigrants who could contribute to the UK.
At international summits, Britain is represented twice - by the foreign secretary and the EU representative. Co-operation has helped fight Ebola and piracy in Africa.		Britain has little influence within the EU. From outside, it can retake seats on international institutions and be a stronger influence for free trade and co-operation.

Sources: Britain Stronger in Europe; Vote Leave

Opinions and judgements on the consequences on leaving the EU are conflicting. Until the UK actually leaves the EU, and possibly for a few more years, the actual impact to UK businesses will not be known. The following views are put forward by the House of Commons Library:

What does leaving the EU means for businesses?

The impact on business is one of four areas where the economic impact of leaving the EU will be most obvious, according to the House of Commons Library.

The EU legislates in a number of areas that impact directly on businesses. These include:

- Product specifications
- Competition
- Employment terms
- Health and safety
- Consumer protection

Regulation

If the UK withdraws completely from the EU and the European Economic Area, and opts out of negotiations on access to the single market, we will be free to regulate businesses largely as we see fit. This wouldn't mean the end of EU regulations though. The government will undoubtedly decide to retain the substance of some EU laws. Businesses that export to the EU would still have to comply with many EU product standards too.

If the UK negotiates a relationship similar to that of Norway and Switzerland, where their access to the single market is tied to their acceptance of many EU laws, the UK may not have the freedom to regulate as it sees fit.

The House of Commons Library has said that the overall impact of leaving the EU on businesses isn't really about the impact it will have on the size of the 'burden' regulations create. It is about whether the benefits of having a more tailored and flexible national system of regulations outweigh the loss of access to the single market that may come with whatever relationship we negotiate with the EU.

Restructuring and insolvency

EU laws on insolvency are designed to coordinate cases across EU member countries, and to stop those involved from 'shopping' around within the EU for the most beneficial insolvency rules.

Once the UK has left the EU, the EU's insolvency rules will no longer automatically apply to the UK. What this will mean for UK insolvency cases in the courts of the remaining EU member countries, and of EU cases in the UK, will depend on the results of negotiations.

Public procurement

Much UK public procurement is regulated by EU rules. These are set out in the core European treaty, in EU directives and in UK regulations that result from the directives.

These rules are controversial because they are often seen as overly bureaucratic and because they limit the ability of public bodies to 'buy British'. That said, they do offer UK firms the opportunities to supply the public sectors of other countries. They also make it easier for the UK public sector to reach a wider range of potential suppliers, potentially increasing value for money in its purchases.

The UK now needs to decide whether we want agreements with other countries to mutually open up their public procurement markets. But this would mean that the UK had to allow suppliers in other countries to bid for UK public procurement opportunities and we would have to follow certain procedures in our procurement processes—potentially doing away with some of the reduction of burden that could follow from no longer having to apply EU rules.

Financial services

A huge amount of existing financial services regulation is derived from the EU.

Because of its size and influence, the UK has frequently led reform of financial services, checking retrospectively that it is aligned with EU rules. This has been particularly true since the financial crisis. It is likely therefore that a significant amount of this legislation will remain after withdrawal from the EU, though not necessarily in the same form or to the same extent.

Currently, financial services providers based outside the European Economic Area must generally establish a subsidiary or branch in the EU in order to provide cross-border services.

The study agrees that new EU financial regulation could put the sector under pressure.

Taxation

Leaving the EU won't make a huge difference to UK tax policy, aside from the major exception of VAT. There is a substantive body of EU law establishing common rules for VAT across member countries—and, to a lesser extent, excise duties (taxes on specific products, such as alcohol).

The EU sets a standardised system for VAT across all EU member countries. This includes a standard VAT rate of no less than 15% and a reduced rate for certain goods or services of no less than 5%.

VAT featured during the campaign as an area where it was argued that, if the UK voted to leave, the government could remove VAT on energy bills to make them more affordable for consumers. The UK can choose to do this once it has left the EU.

The fact that VAT accounts for around 17% of all taxes paid suggests that future governments will be unlikely to change UK VAT rules much, even though they will gain this power. Therefore, in practice, VAT on energy bills may not be removed.

While in the EU, the UK's tax laws have also had to comply with the freedoms of the EU in relation to the free movement of goods, people, services and capital. There have been a number of cases where the European Court of Justice has ruled that a member country's tax code has gone against these freedoms.

The other area where the EU affects tax policy is in the measures it has introduced to tackle tax evasion, such as by improving the way in which member countries exchange information about businesses' tax arrangements. It may well be that the UK will want to continue having some kind of EU-wide agreement similar to this once we have left the EU.

Until the details of the Brexit negotiations are finalised and implemented, it is difficult to say what the impact on UK businesses will be. There will no doubt be winners and losers. However, the uncertainty that faces both businesses and consumers in the UK is a major concern.

Discussion themes
What is the single market?
What are the benefits and drawbacks of a single market?
How does the Eurozone, and the euro, work?
What are the benefits of being a member state of the EU?
What is the likely impact on UK businesses of not being a member of the EU?
The UK should have remained a member of the EU. Evaluate this statement.
Benefits of the single market http://ec.europa.eu/internal_market/publications/docs/citizens_en.pdf
The potential impact of Brexit on UK businesses https://www.businesstakeaways.co.uk/the-potential-impact-of-brexit-on-uk-business/
Benefits of the Single Currency http://ec.europa.eu/economy_finance/euro/why/index_en.htm
The EU and enlargement (PDF to download) http://europa.eu/pol/enlarg/index_en.htm
Carry out some research to find out the latest situation with the UK leaving the EU.