

Literature review – economic costs and benefits of EU membership

- These fiches list published evidence on the economic costs and benefits of the UK's membership of the EU along three dimensions:
 - EU Budget;
 - Single Market; and
 - Regulation.

1. The EU Budget

- UK net contribution to the EU Budget: OBR forecasts¹ published alongside the June Budget estimated the UK's net contribution to the EU Budget to 2015-16:

£ billion	2008-9 outturn	2009-10 estimate	2010-11 forecast	2011-12 forecast	2012-13 forecast	2013-14 forecast	2014-15 forecast	2015-16 forecast
Net contribution	3.1	6.4	8.3	8.3	8.3	9.3	10.3	8.7

- Public sector receipts from the EU Budget were in 2008-9 £4.5 billion, which is estimated to rise to £5.0 billion in 2009-10 and £5.7 billion in 2010-11². The abatement is expected to be £3.2 billion in 2010-11³.
- Contribution other countries to the EU Budget: Countries in the European Economic Area (EEA) (Norway, Liechtenstein, Iceland) and the European Free Trade Association (EFTA) (EEA Member States plus Switzerland) pay contributions to the EU Budget for the EU programmes those countries choose to participate in. In 2013 EEA/EFTA contributions to EU Programmes is estimated to be €284 million⁴.
- EEA and EFTA Member States also contribute to development in New Member States through EEA & Norway Grants. Over 2009-2014 EEA & Norway Grants will be €357.7 million per year⁵.
- Norway's gross payments to EU Programmes and to grants were €400 million in 2007, which is estimated to rise to €550 million in 2013/14⁶.

References – EU Budget

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- European Free Trade Association (2009) *This is EFTA*
- Norwegian Ministry of Foreign Affairs (2009) *Norway and the EU*
- HM Treasury (2009) *European Community Finances, statement on the 2009 EC Budget and measures to counter fraud and financial mismanagement*

¹ OBR (2010)

² HM Treasury (2009)

³ Ibid.

⁴ EFTA (2009)

⁵ Norwegian Ministry of Foreign Affairs (2009)

⁶ Ibid.

The Single Market

- Backward looking benefits of Single Market integration: One study that is widely quoted is a paper from the European Commission in 2007, which estimated that over the period **1992-2006 the Single Market Programme raised EU GDP by 2.2% (€233 billion), creating 2.75 million jobs in the process**⁷.
- This estimate was used subsequently to infer the gains to the UK – assuming that gains were distributed evenly across EU Member States then 2.2% of additional GDP translates into **roughly £25 billion of gains to the UK over the period 1992-2006**.
- In a submission to the House of Lords inquiry into the Single Market, BIS⁸ take another approach to estimating the benefits of the Single Market since its inception. They argue that “EU countries trade twice as much with each other as they would do in the absence of the single market programme. Given that, according to the OECD, a 10 percentage point increase in trade exposure is associated with a 4 per cent rise in income per capita, increased trade in Europe since the early 1980s may be responsible for around **6% higher income per capita in the UK**”.
- Another widely used statistic is a calculation from BIS is that **3.5 million jobs are linked directly or indirectly to the UK’s trade with the EU**⁹. This is based on the assumption that the share of UK employment linked to trade with the EU is equal to the share of total UK value added generated in the production of goods exported to the EU.
- Forward looking benefits of further Single Market reform: The Commission’s 2007 paper brought together estimates of benefits from further Single Market reform across different sectors. **Progress on services could bring gains of 0.5-1% of EU GDP, financial markets (1.1%); energy (0.6-0.8%) and tax co-operation (0.2%)**¹⁰. Other studies have looked to translate these into benefits for the UK – most notably Copenhagen Economics estimated that full implementation of the **Services Directive could raise UK GDP by 0.4-0.6% (£4-6 billion)**¹¹.
- Recent evidence argues that calculations in the Commission’s 2007 paper of the extent of non-tariff barriers to trade were underestimated – a recent World Bank paper estimated that non-tariff obstacles to trade in goods markets across the EU ranged **between 13.4 and 45% of the value of production**¹² – much higher than the Commission’s estimate of around 2.5% of the value of production. This suggests that removing those obstacles could generate substantial benefits in terms of GDP and jobs.

⁷ European Commission (2007)

⁸ BIS (2010)

⁹ BIS calculation based on ONS 2006 data

¹⁰ Ibid

¹¹ Copenhagen Economics (2008)

¹² Kee *et al* (2009)

References – Single Market

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- Kee, H., Nicita A., and Olarreaga, M., 2009, Estimating Trade Restrictiveness Indices, *Economic Journal*, Royal Economic Society, vol. 119(534):172-199, 01
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- Department for Business, Innovation and Skills (2010) – written submission to the House of Lords Single Market inquiry – available at: <http://www.parliament.uk/documents/lords-committees/eu-sub-com-b/singlemarketinquiry/singlemarketwe221010.pdf>

2. Regulation

- Costs of EU regulations in the UK: A number of studies have estimated how much of the regulatory burden in the UK is EU-sourced, and the monetary cost that regulatory burden places on UK businesses annually.
- The following table summarises a few of these estimates:

Source	Proportion of cost of regulation EU sourced	Annual cost of EU regulation
Civitas (2004)	80 per cent	£18.99 billion
British Chamber of Commerce (2009)	69.4 per cent	
Open Europe (2010)	71 per cent	£19.3 billion
BIS (2010)	31 per cent	£8.6-9.4 billion

- Furthermore, along with these aggregate estimates of regulatory costs, there are a number of specific regulations being negotiated that are estimated to have a significant regulatory cost in the UK. For instance, the loss of the UK's opt-out from the Working Time Directive could cost the UK **an extra £20 billion annually**¹³, while the recent changes to the Pregnant Workers Directive agreed in the European Parliament could cost the UK **an extra £2.5 billion annually**¹⁴.
- Benefits of EU regulations in the UK: Many of the estimates above are based on Government Impact Assessments, which also attempt to quantify the benefits of regulations. Open Europe (2010) estimate that the **benefit-cost ratio of EU regulations in the UK is 1.02 – that is, for every £1 of costs that EU regulations impose, they deliver £1.02 of benefits**. The comparable benefit-cost ratio for domestic regulations is 2.35 – that is £2.35 of benefits for every £1 of costs¹⁵.
- Benefits of reducing the burden of regulation from the EU: The EU has a target to reduce administrative burdens (one component of the overall regulatory burden) by 25% by 2012, compared to 2007 levels¹⁶. **The Dutch think-tank CPB estimated that this could lead to productivity gains of around 1.4% of EU GDP, or €150 billion**¹⁷.

¹³ BIS estimate

¹⁴ European Parliament FEMM Committee Impact Assessment

¹⁵ Open Europe (2010)

¹⁶ Commission (2007b)

¹⁷ Gelauff and Lejour (2005)

References – regulation

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