

Personal remarks on the Review of the Balance of Competences

The following note is a personal assessment based on 2 documents

- Trade and Investment Report issued by the Department for Business, Innovation & Skills
- Review of the Internal Market issued jointly by HM Revenue & Customs, the Dept. for Business, Innovation & Skills and the Intellectual Property Office.

This note does not cover all aspects raised in the documents, nor does it provide answers to all questions. The responses are given as an individual with several years of experience in UK and EU matters.

1. General Remarks

The review can be used as a useful platform to better understand and discuss in an objective way important aspects of British membership of the EU. The results could contribute to a balanced public as well as political debate of the merits and potential drawbacks of Britain's EU membership. However, the papers offer no clear evidence on the potential economic and political costs which would be associated with a British Exit from the Union. A meaningful and conclusive debate of this issue on the basis of these documents is not possible. It is reassuring to note, that this review is intended not to prejudice future policy or assess alternative models for Britain's overall relationship with the EU.

The documents contain useful data and information. The statistics on trade and investment underline the huge economic significance of UK's membership of the EU. The papers also provide a useful summary of the legal framework and the institutional set-up of the EU. They demonstrate the increasing role and competences of the European institutions under the EU treaties. It has to be acknowledged, that the balance of power between the EU and the national level has been changing following EU-Treaty amendments as well as political agreements between member countries. The papers also throw a light on a number of areas which are subject to disagreement and dispute between the EU and national governments. One important conclusion is that an early clarification of the respective roles and the resolution of these conflicts is called for, as these disputes undermine the efficiency of the EU and impair its credibility.

There seems to be considerable room for improvement in the institutional and legislative set-up of the EU with the objective to better define the legal competences and powers at the European and national level. This is a vital prerequisite for a more efficient working of the EU. In my view, British interests are much better served if the UK remains an influential and fully committed member of an efficiently organized the European Union. This does not preclude continued efforts on behalf of governments to make the European institutions work in a more efficient way.

The economic and political benefits of a Britain being at „the heart of Europe“ are difficult to quantify. But it can be safely assumed that those benefits are of considerable magnitude and outweigh the financial costs of EU membership.

2. Specific Remarks

2.1 Document issued by the Dpt for Business Innovation & Skills:

Q 1.1 If the EU institutions would command sufficient and efficient resources as well as sufficient experience, a case could be made that trade and investment interests could be more efficiently represented on an EU level backed by the weight of the biggest single market in the world.

However practical evidence suggests that national trade and investment is still better represented by national institutions if they are appropriately equipped with financial and human resources.

Q 1.3 It is obvious that a unique competence for trade and investment representation on the EU level would demand a sizeable increase in EU resources. It remains to be seen whether these additional resources would also lead to a corresponding increase in efficiency. It might well be that a significant part of these resources would be used to finance additional bureaucratic structures on the EU level.

Q 1.6-7 The key objective of the EU-Treaty is to establish an ever closer union among member states. A further deepening and enlargement of the union will remain a key objective of the integration process.

Monetary union and the single currency will remain a top priority of the 17 (18 as of January 1.2014) members of the Eurozone.

It cannot be ruled out that Britain could be exposed to economic and financial disadvantages if the UK were to remain outside of major integration steps. It would be in Britain's own interests to influence the integration process as a full member of the EU. By standing aside, Britain would not only lose influence but would also forgo potentially huge business and investment opportunities. This view is supported by a recently published paper by the Japanese authorities highlighting the potential loss of 130,000 jobs in the UK , if Britain were to leave the EU!

2.2 Documents issued by HM Revenue & Customs (and the Home Office)

Free movement of goods, services and persons within the EU is a cornerstone of the

single market. The right to move and work freely within the EU has been an important factor in alleviating labour and skill shortages in some sectors as well as generally reducing cost and price pressures in the labour market. However, as some sectors of the labour market demand a very specific work profile (i.e. Chartered accountants, auditors), economic and cost benefits cannot be materialized in all areas to the same degree.

The right to move, set up business, invest and work freely within the EU is of enormous benefit to UK residents and British companies doing business in the largest single market in the world.

From the consumer's perspective, action on the EU level would be useful to harmonize consumer protection rights.

Q12 In order to maximise the benefits of the single market, the following action is warranted on an EU level. Action on a national level would clearly be detrimental as it would create the risk of divergent regulations, thus undermining the efficiency of the market.

- further progress on tax harmonization. It is not desirable to have widely divergent (direct and indirect) tax rates in a truly single market. This distorts the level playing field for business and consumers and favours misallocation of resources. It would also be highly desirable to have common withholding tax rates on income derived from European shares and bonds. The present system is highly unsatisfactory and undermines the functioning of European financial markets. Those measures can clearly only be taken on the EU level. The double taxation agreements presently in place between individual member countries should be replaced by a European framework.
- The financial crisis has underlined the urgent need to harmonize banking regulation and to set up an effective banking and financial markets supervision on the EU level. A common – and binding – set of rules is required in order to establish a level playing field for all financial institutions operating in the Union. It is self-evident that these rules cannot be created on a national level. Britain's role as the biggest financial center in the EU underlines the need for the UK to be at the centre of the relevant negotiations in a constructive way.

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