MOORED TO THE CONTINENT

FUTURE OPTIONS FOR BRITAIN AND THE EU

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Preface

There are many people to thank for their input into making this book possible. We would like to thank our colleagues at the universities of Bradford and Central Lancashire for their comradeship and general support for our research on European economic integration. Finally, we owe a deep sense of gratitude to our families and partners for their forbearance during the preparation of this book. It is to them that this book is dedicated: MB: Mary, Ken, Beibei and Douglas; PW: Barbara, Boyd and Claire; BB: Beryl, Ivan and Marvin.

Any remaining errors and omissions we gladly attribute to each other.

Haworth, Nether Edge and Guiseley
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European integration timeline

From its beginnings, half a century ago, in the immediate aftermath of World War II, through to its expansion, we highlight some of the key events that have shaped the development of the EU towards closer integration.

1948	The **Organisation for European Economic Cooperation** (**OEEC**) is set up in Paris in April 1948, coordinating the distribution of the Marshall Plan financial aid that will amount to $12.5 billion from 1948 to 1951. The OEEC consists of one representative from each of the 17 Western European countries that join the organisation. In May 1948 in The Hague, the Congress of Europe (a meeting of delegates from 16 European countries) agree to form the **Council of Europe** with the aim of establishing closer economic and social ties.
1951	The **European Coal and Steel Community** (**ECSC**) is established by the signing of the Treaty of Paris in April 1951. Along with France and West Germany, Italy, Belgium, Luxembourg and The Netherlands have also chosen to join the organisation. Members of the ECSC pledge to remove all import duties and quota restrictions on the trade of coal, iron ore, and steel between the member states.
1952	The **European Defence Community** (**EDC**) Treaty is signed by France, West Germany, Italy, Belgium, Holland and Luxembourg in May 1952. It includes provision for the formation of a parallel **European Political Community** (**EPC**). However both initiatives are destined to founder since the French National Assembly never ratifies the EDC Treaty, finally rejecting it in August 1954.
1955	The process of further European integration is given fresh impetus by a conference of ECSC foreign ministers at Messina, Italy, in June 1955. The meeting agrees to develop the community by encouraging free trade between member states through the removal of tariffs and quotas. Agreement is also reached to form an Atomic Energy Community to encourage co-operation in the nuclear energy industry.

1958	The two Treaties of Rome are signed, establishing the **European Economic Community** (**EEC**) and the **European Atomic Energy Community** (**Euratom**). As well as stipulating the eventual removal of customs duties on trade between member countries (over a period of 12 years) the EEC Treaty sets out to allow the free movement of workers, capital and services across borders and to harmonise policies on agriculture and transport
1960	At the Stockholm Convention in January 1960, Austria, Britain, Denmark, Norway, Portugal, Sweden and Switzerland form the **European Free Trade Association** (**EFTA**). The objective of EFTA is to promote free trade but without the formal structures of the EEC.
1961	UK applies to join the EEC.
1963	British application for EEC membership fails.
1967	UK submits second application to join EEC.
1968	Customs union completed and **Common Agricultural Policy** enacted.
1972	In October, following the recommendations of the **Werner Report**, the EEC launches its first attempt at harmonising exchange rates. The mechanism adopted is the so called 'snake in the tunnel' whereby participating governments are required to confine the fluctuations of their currencies within a range of ±1% against each other. The value of the group of currencies (the snake) is also to be maintained within a range of ±2.25% against the US dollar (the tunnel). Countries requiring assistance to keep their currencies within the required band may receive help only in the form of loans
1973	Denmark, Ireland and the UK join the EEC.
1975	UK referendum supports staying in EEC.
1978	At a summit in Bremen in July, the French and West German governments announce their intention to create the **European Monetary System** (**EMS**). At the centre of the EMS is the **European Currency Unit** (**ECU**). The value of the ECU is to be derived from a weighted basket of all participating currencies with the greatest weighting against the West German mark.
1981	Greece joins the EC.
1986	Portugal and Spain join the EC.

1990	UK joins EMS.
1992	At a summit of the European Council in Maastricht, Holland, the **Treaty on European Union** (**TEU**), also known as the Maastricht Treaty, is signed. Originally intended to include a declaration of an intention to move towards federal union, at Britain's insistence this aspect is played down. Subsequent to the signing of the Maastricht Treaty, the European Community is referred to as the **European Union** (**EU**). UK leaves EMS.
1993	The Single European Market takes effect. Trade tariffs are scrapped, but Duty Free shopping remains until 1999.
1994	Stage 2 of EMU is initiated on 1 January with the establishment of the **European Monetary Institute** (**EMI**) to oversee the co-ordination of the monetary policies of the individual national central banks. The EMI will also work towards the introduction of Stage 3 by organising the creation of the European Central Bank.
1995	Austria, Finland and Sweden join the EU, bringing membership to 15. The **Schengen agreement** comes into force and scraps border controls. UK and Ireland stay out of the agreement.
1997	Heads of government draft a new agreement in Amsterdam that updates the Maastricht Treaty and prepares the EU for its eastward expansion. Qualified majority voting is introduced into new areas, reducing individual countries' powers to veto new measures.

1998	At the beginning of May, at a summit of EU officials and heads of state in Brussels, the announcement is made as to which countries will participate in the launch of the euro the following January. In June the **European Central Bank** (**ECB**) is established in Frankfurt, Germany. The ECB together with the national central banks of the 15 EU member states form the **European System of Central Banks** (**ESCB**) which will be responsible for setting monetary policy for the euro countries and managing those countries' foreign reserves. The EU opens accession negotiations with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.
1999	Romania, Slovakia, Latvia, Lithuania, Bulgaria and Malta are invited to begin accession negotiations. Eleven countries adopt the euro as their official currency (although national currency notes and coins remain in circulation), but Sweden, Denmark and the UK stay out.
2000	The Nice summit agrees to limit the size of the Commission and increase the president's powers. Qualified majority voting is introduced in new areas, but members keep their vetoes on social security and tax. A timetable for taking forward accession negotiations is endorsed.
2001	The Laeken European Council establishes the **Convention on the Future of Europe**.
2002	Euro notes and coins are introduced in 12 EU countries. The European Commission announces that 10 countries are on course to meet the criteria for accession to the EU in 2004.
2003	The UK has been a member of the EU for 30 years.
2004	EU enlargement to 25 member states with addition of Slovakia, Latvia, Lithuania, Malta, Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.

2005	**EU Constitution** ratification ended by referendum defeats in France and the Netherlands. The UK holds EU Presidency, but fails to make progress on new 2007–13 budget. Accession negotiations are opened with Turkey and Croatia.
2006	Slovenia's entry into the euro on 1 January 2007 is confirmed. Accession negotiations with Turkey are suspended.
2007	EU enlargement to 27 member states with addition of Bulgaria and Romania.
2008	Slovenia becomes the first of the recent enlargement members to hold the Presidency of the Council of the EU. **Treaty of Lisbon** ratification ended by referendum defeat in Ireland.
2009	Final year of the **Barroso Commission**. Seventh series of elections to the **European Parliament**. Second referendum on the **Treaty of Lisbon** in Ireland.
2010	Spain is the first country to hold the presidency under the Lisbon Treaty and the new '**trio presidency system**' working with Belgium and Hungary. Heads of state and government agree to support the Greek government in its efforts to meet the Stability Programme targets for 2010. European Council adopts a 10-year strategy for smart, sustainable and inclusive growth: Europe 2020. The EU agrees to support the **Irish** economy to help safeguard the stability of the euro.

2011	**Estonia** adopts the euro, becoming the seventeenth member of the euro area. The first '**European semester**' of economic policy coordination between EU countries to help prevent economic crises like the one in 2008–10. A comprehensive package of measures to strengthen the European economy is finalised with the **Euro Plus Pact** to reinforce economic policy coordination in the EMU.

Glossary of terms

Asymmetric and symmetric external shocks	External shocks refer to the impact upon the domestic economy generated by activities beyond the control of UK authorities, for example a sudden rise in oil prices or change in global demand for raw materials. If an external shock has a similar effect amongst a given group of countries, it is said to be a *symmetric* shock since the policy response will be largely the same for all countries. *Asymmetric* shocks, alternatively, refer to those changes in the external environment that have significantly different effects upon different countries, requiring very different policy responses by each country in order to respond effectively.
Common Agricultural Policy (CAP)	EU agricultural support scheme which accounts for majority of EU budget until 1997. The protection of EU food producers has led to food prices rising significantly higher than world prices.
Commonwealth	The Commonwealth of Nations, usually known as The Commonwealth, is an association of independent sovereign states, almost all of which are former territories of the British Empire. The Commonwealth is primarily an organisation in which countries with diverse economic backgrounds have an opportunity for close and equal interaction. The primary activities of the Commonwealth are designed to create an atmosphere of economic cooperation between member nations, as well as the promotion of democracy, human rights, and good governance in them. The Commonwealth is not a political union of any sort, and does not allow the UK to exercise any power over the affairs of the organisation's other members. The Commonwealth encompasses a population of approximately 1.8 billion people, making up about 30% of the world's total, whilst the land area of the Commonwealth nations equals about a 25% of the world's land area.

Cyclical and structural convergence	Economic convergence refers to potential EMU participants becoming economically similar prior to membership. Cyclical convergence occurs when the business cycles of boom and recession become increasingly similar amongst participating economies, so that a recession in the UK would occur approximately at the same time as a comparable slow-down in Germany, rather than one or two years in advance as at present. Similarly, structural convergence refers to changes in industrial and financial structure of the participating economies that have the effect of ensuring similar reactions to external forces over the long term.
Deflation/ reflation	Deflation may be defined as a reduction in economic activity in the economy that is associated with a sustained reduction in inflation, output and employment. Reflation refers to an increase in economic activity that stimulates output, employment and inflation in varying degrees.
Devaluation/ revaluation/ over-valuation	Devaluation refers to a reduction in the value of a given exchange rate relative to other rates, whilst revaluation concerns the increase in the exchange rate. For example, if the exchange rate on a given day was £1 equals $1.67, if the value of sterling increased so that £1 could now buy $2 worth of goods, the value of the pound would be said to have appreciated, whereas if the value fell to perhaps $1.5, sterling would be said to have fallen in value or devalued. Over-valuation refers to the circumstance where the value of sterling is so high that British exporters find it difficult to compete and possibly lead to a trade deficit where more is imported than exported. Too high an over-valuation could lead to economic recession as export companies reduce output and lay off workers. This then may spread to the remainder of the economy.

Economic and Monetary Union (EMU)	As a matter of definition, monetary union occurs when exchange rates are *permanently and irrevocably* fixed and may therefore precede the introduction of a single currency. However, the two terms are generally used interchangeably. Economic union involves a further transfer of macroeconomic policy to the federal level – particularly monetary policy but typically also 'coordination' of fiscal policy within prescribed limits.
European Central Bank (ECB)	This supersedes national central banks in those EU nations participating in EMU. Based in Frankfurt, the ECB will be in sole charge of exchange rate and monetary policy for all EMU countries, setting one common interest rate which will apply irrespective of the particular needs of individual countries at any period of time. Its sole policy goal is to achieve price stability without a similar responsibility to assist employment creation or economic growth. Policy conflict between ECB and the wider economic responsibilities of individual governments is difficult to resolve since the ECB is beyond the control of both member states and the EU Commission.

European Economic Area (EEA)	The European Economic Area (EEA) came into being on 1 January 1994 following an agreement between the European Free Trade Association (EFTA) and the EU. It was designed to allow EFTA countries to participate in the European SIM without having to join the EU. In an obligatory referendum, Switzerland's citizens chose not to participate in the EEA. Instead, the Swiss are linked to the EU by bilateral agreements, with a different content than that of the EEA agreement. Thus, the current members, contracting parties, are three of the four EFTA states (Iceland, Liechtenstein and Norway) and the EU25. The EEA is based on 4 'freedoms': the free movement of goods, persons, services and capital between the EEA countries. The non-EU members of the EEA have agreed to enact legislation similar to that passed in the EU in the areas of Social Policy, Consumer Protection, Environment, Company Law and Statistics.

European Financial Stability Facility (EFSF)	The European Financial Stability Facility (EFSF) is a special purpose vehicle agreed by the EU27 on 9 May 2010, aiming at preserving financial stability in the eurozone by providing financial assistance to eurozone states in economic difficulty. The European Investment Bank provides treasury management services and administrative support. The EFSF can issue bonds or other debt instruments on the market with the support of the German Debt Management Office to raise the funds needed to provide loans to eurozone countries in financial difficulties recapitalise banks or buy sovereign debt. Bonds would be backed by guarantees given by the euro area member states in proportion to their share in the paid-up capital of the European Central Bank (ECB). The Facility may be combined with loans up to €60 billion from the EFSM and up to €250 billion from the International Monetary Fund (IMF) to obtain a financial safety net up to €750 billion. The EFSF can only act after a support request is made by a eurozone member and when a country programme has been negotiated with the European Commission and the IMF, together with its unanimous acceptance by the eurogroup.
European Financial Stabilisation Mechanism (EFSM)	The European Financial Stabilisation Mechanism (EFSM) is an emergency funding programme reliant upon funds raised on the financial markets and guaranteed by the European Commission using the EU budget as collateral. It runs under the supervision of the Commission and aims at preserving financial stability by providing financial assistance to EU member states in economic difficulty. The Commission fund, backed by all 27 member states, has the authority to raise up to €60 billion.

European Free Trade Association (EFTA)	The European Free Trade Association (EFTA) was established on 3 May 1960 as an alternative for European states that were not allowed or did not wish to join the EU. The treaty was signed on 4 January 1960 in Stockholm by seven states (United Kingdom, Denmark, Norway, Sweden, Austria, Switzerland and Portugal). Finland became an associate member in 1961 (later becoming a full member in 1986), whilst Iceland joined in 1970. The United Kingdom, Denmark and Ireland joined the EU in 1973, and hence ceased to be EFTA members, whilst Portugal left EFTA for the EU in 1986. Liechtenstein joined in 1991 (previously its interests in EFTA had been represented by Switzerland). Finally, Austria, Sweden and Finland joined the EU in 1995 and hence ceased to be EFTA members. Currently, only Iceland, Norway, Switzerland and Liechtenstein remain members of EFTA. The EFTA States have jointly concluded free trade agreements with a number of countries worldwide. EFTA has the following institutions: the Secretariat, the EFTA Council, the EFTA Surveillance Authority, and the EFTA Court.
European Stability Mechanism (ESM)	The European Stability Mechanism (ESM) is a permanent rescue funding programme to succeed the temporary EFSF and EFSM, due to be launched in mid-2013 with the European Commission, rather than EU member states, playing a central role in its operation. On 16 December 2010, the European Council agreed an amendment to the Lisbon Treaty that would avoid any referendums, which read 'The member states whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.'

Fiscal policy	Fiscal policy refers to the interaction between government expenditure and taxation. Under EMU, fiscal policy will remain under the control of national economic authorities, although constrained by the MCC and *Stability and Growth Pact* rules.
Gross Domestic Product (GDP)/ Gross National Product (GNP)	These are two methods of measuring the value of the total flow of goods and services produced by an economy over a specified period of time – usually a year. The difference between the two is that GNP equals GDP *plus* net income earned by domestic residents from overseas investments.
Maastricht Convergence Criteria	Established by the Maastricht Treaty to ensure economic convergence amongst potential participants prior to their entry to EMU, there are five criteria which each country must achieve before they are permitted to participate in the single currency. They are: (i) each country's rate of inflation must be no more than 1.5% above the average of the lowest three inflation rates in the EMS; (ii) its long-term interest rates must be within 2% of the same three countries chosen for the previous condition; (iii) it must have been a member of the narrow band of fluctuation of the ERM for at least two years without a realignment; (iv) its budget deficit must not be regarded as 'excessive' by the European Council, with 'excessive' defined to be where deficits are greater than 3% of GDP for reasons other than those of a 'temporary' or 'exceptional' nature; (v) its national debt must not be 'excessive', defined as where it is above 60% of GDP and is not declining at a 'satisfactory' pace.
Monetary policy	Monetary policy is typically concerned with the level of interest rates, the availability of credit, banking regulations and the control of the money supply by the central bank. Under EMU, monetary policy will be transferred from national authorities to the ECB.

Nominal and real wage rigidity	Nominal wages refer to money wages, whereas real wages refer to the purchasing power of those wages. Thus, a 3% rise in nominal wages during a period of 2% inflation produces a 1% rise in real wages. Wage rigidity refers to a situation that occurs when wages are observed not to be perfectly flexible in response to a change in economic circumstances, for example, if wages should fail to fall sufficiently to price people back into work during a recession.
North American Free Trade Agreement (NAFTA)	The North American Free Trade Agreement (NAFTA) came into effect on 1 January 1994 and links Canada, the United States, and Mexico in a free trade sphere. NAFTA called for immediately eliminating duties on half of all US goods shipped to Mexico and gradually phasing out other tariffs over a period of about 14 years. Restrictions were to be removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks) and outlined the removal of restrictions on investment amongst the three countries. Provisions regarding worker and environmental protection were added later as an expansion of the earlier Canada–US Free Trade Agreement of 1989. Unlike the EU, it does not create a set of supranational governmental bodies, nor does it create a body of law that is superior to national law. NAFTA, as an international agreement, is very similar to a treaty. The agreement was initially pursued by free-trade governments in the US and Canada. Some opposition persists to the present day, although labour unions in Canada have recently removed objections to the agreement from their platforms.