

CHAPTER II

THE RELATIONS BETWEEN BRITAIN AND EUROPEAN UNION

The referendum held in June 2016 resulted the leave voters won, Britain should leave from European Union membership. Even so, Britain has just begun the negotiation step where Britain should negotiate with every European Union member country to get the new agreement about how they will conduct politic relations and economic policy which will implicate the future of Britain and each EU member.

Britain and EU now are in warm condition where the status of Britain in the membership of EU itself is now in uncertain condition. Before Britain entered this kind of situation, the relations between Britain and EU were in good condition since they both needed each other and their relations also had been built since long time ago. (Gibbs, 2016)

European Union was named as European Communities which was established by the unification of three communities that had already been established in 1965. These communities were European Coal and Steel Community (ECSC), European Economic Community (EEC) and European Atomic Energy Community (Euratom). Three of them were established in order to make economic and political cooperation between member countries. In 1993, these communities became part of European Union under the Treaty of European Union (TEU) (European Union, 2017).

A. The Background of Britain Joining European Union

World War II was the most feared war since this war took the longest period of war in history. It began in 1939 and ended in 1945 and left bad impacts that were felt by every country in the world. More than 30 countries were involved in this war and the war caused more than 50 million military officers and civilian passed away (Kyle, 2011). Countries affected by World War II mostly were from European continent.

The common impacts felt by every country was the death of civilians and military officers, individuals were also forced to give up their properties because they had to move to another place, starvations also became usual thing during war and there were any other harmful things that felt by every individual during war. (Stat, 2014)

Britain was one of the states which became part of the war. Britain declared to join the war after Germany attacked Poland and since it was officially declared, Germany frequently attacked Britain. German's purpose spesifically pointed to hit the military production base due to the fact that Britain produced their own military equipment such as ships, aircraft, tanks, transport vehicles, weapons and so on (Beveridge, 1942).

Britain won the admiration of the world because of their bravery. They also could end the war through the step that the Prime Minister of Britain, David Lloyd George made. He wrote the Treaty of Versailles about preparing the League of Nations and took control of German's colonies in Africa (dailymail.co.uk, 2006). Even so, Britain was affected by the war in several aspects and needed time to recover their condition. Around 750.000 British armed forces members were dead and around 8 million short tons British shipping sunk, Britain also lost its position as a powerful state and also suffered economic problem as the major loss.

Political and economic system were changed permanently in many countries including Britain. This change was because WWII created the block of communist and democracy block.

Britain had election after WW II ended in order to make new order of the government. Clement Attlee from Labor Party won the election as the Prime Minister after defeating his rival from Conservative Party. At that time, the focus of the new government was to recover Britain condition after war to become welfare state where they have to get rid of disease, greedy, squalor, ignorance and idleness. Almost all of the programs were established and mostly they were successful. (bitesize, 2017)

Britain recovered their economic condition after war. It was proven by the growth of their GDP. Due to their improved economic condition, Britain rejected the invitation of European Coal and Steel Community to join as their member because Britain thought that if they joined, it would make their condition weaker. (Nauro Campos, Fabrizio Coricelli, 2015)

The time goes by, the signer of ECSC treaty established European Economic Community. That aimed to create a full economic union, which was giving member countries a free trade area where there is no tariff and barriers for them to exchange goods and services within the area of member countries. EEC also developed into the mobility of capital, labor and people freely. In 1968, all members also removed goods tariffs from other countries which are not EEC member. It is grown also in political arena, after economic integration succeeded then this community tried to make such political integration. That triggering several countries to join, In 1973, Britain started their intense relation with other European countries by joining European Economic Community along with Ireland and Denmark. (Eichengreen, 2012)

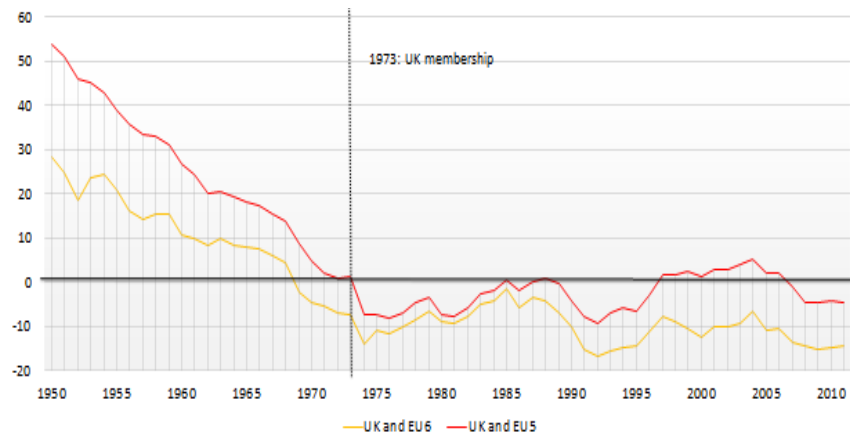
B. Economic Integration between Britain and European Union

Britain started political and economic integration when Britain joined European Economic Community where the urgency of this community was

only about economic integration within its members. Previously, Britain rejected the invitation of ECSC membership.

1. The background of Britain and EU economic integration

European Coal and Steel Community was invited Britain to be their member in 1950. But Britain which led by the Labour Party was rejected to join Schuman Plan or also called as ECSC. It was caused by the economic condition of Britain that was much better than the founder countries of ECSC itself. The GDP of Britain was 28% higher than each member state of ECSC which is the most stable European GDP after war and with joining ECSC, Britain think it will create economic decline to their country. (Cross, 2016)



Source : Penn World Tables 8.0

Figure 2.1

The Diagram of UK and EU GDP

The diagram show that GDP of Britain was always above the GDP of EU. But then, Britain's GDP tends to decrease from 1950 until 1970's.

in 1960, The Stockholm Treaty created European Free Trade Area where the concern of this organization was the economic development within its member and the mobilization of goods. Since the rejection of Britain's application to join EEC in 1961 by its President Charles De Gaulle, Britain in collaboration with the Commonwealth creating EFTA but its performance not as good as it was expected. This community was inferior, has little number of competition as an export market and any other things that create not-so-good impact to the member states. The GDP of Britain falling into 10% above EEC. (Nauro Campos, Fabrizio Coricelli , 2015)

In 1964, Labour Party won the election and promised to the citizens that they would re-apply the application to the EEC. They applied in 1967 but again, it was rejected by Charles De Gaulle. At that time, economic condition of Britain decreased into 6% above the GDP of EU member countries.

Charles De Gaulle was protested by the students and he should have resigned as the President of EEC. He resigned in 1969 and soon

after he resigned, the government of Britain re-applied to EEC since the economic condition of Britain was rapidly decreased. When Britain applied to the EEC, their GDP was 2% below the EU. Finally, in 1973 Britain officially became the member of EEC.

In 1993, three of these Communities which were ECSC, EEC and Euratom became united and named as European Union with Britain in it.

2. Economic integration and contribution of Britain and EU

The purpose of EU in economic arena is to decrease the trade barriers within territory, single market and control exchange rate (Clare Daley and Anna Sonny, 2015).

a. Economic integration on Single market

Single market is the biggest achievement of EU since it helps every country to increase their economic condition and also make the economic activity between companies or sellers and buyers much easier. EU as one territory which has no internal borders or regulations that make the movement of goods and services face the obstructions. EU also has a function as mediator for each country to compete so that their economy grow rapidly, to improve the efficiency of international trade, to decrease the prices or tariffs and

also to increase the quality of trade itself (European Commission, 2017).

Single market is conducting free movements of several things, which are:

1) Free movement of goods

The function of EU in fields of free movement of goods is to decrease trade barriers for European Union members.

EU created The Trade Barriers Regulation or so called as TBR in 1995 in order to make the developing of member's international trade run well and trying to help EU companies decrease the trade barriers (European Union, 2009).

The TBR tries to help companies facing trade barriers by giving them direct access to the European Commission who has authority to investigate the core problem that create the barriers and giving them solutions for the company to solve their problem.

2) Free movement of services

Services is one of the important aspects in economy of the EU. The European Commission is aimed to create free movement on services in order to erase barriers for companies

whom seeking for workers or so called as cross-border services. It helps companies to run their business easier (European Commission, 2017).

3) Free movement of capital

At first, the treaty about free movement of capital which including the investment, stocks, technology did not fully apply the free movement, member states should have limitation of capital movement only for a common market. But since the emerge of the Economic and Monetary Union along with the more globalized of the world, the Treaty developed into the prohibition of any restriction on capital movements and payments appeared even if it was only between member states or member states and third countries (Kolassa, 2016).

4) Economic and Monetary Union

European Union has European Central Bank (ECB) which maintains the stability of price and tries to hold on the value of single currency within European area. Meanwhile ECB focuses only for countries that use Euro as their currency which are 19 EU member countries and Britain is not one of them since

Britain use Great Britain Poundsterling as their currency (European Central Bank, 2017).

Since ECB is under the control of EU, European Council has control about the monetary policy. Even there is Euro zone which has control on exchange rate and change the policy, ECB can be the one who can fix foreign exchange intervention or even prevent that intervention to be happened (Sibert, 2007).

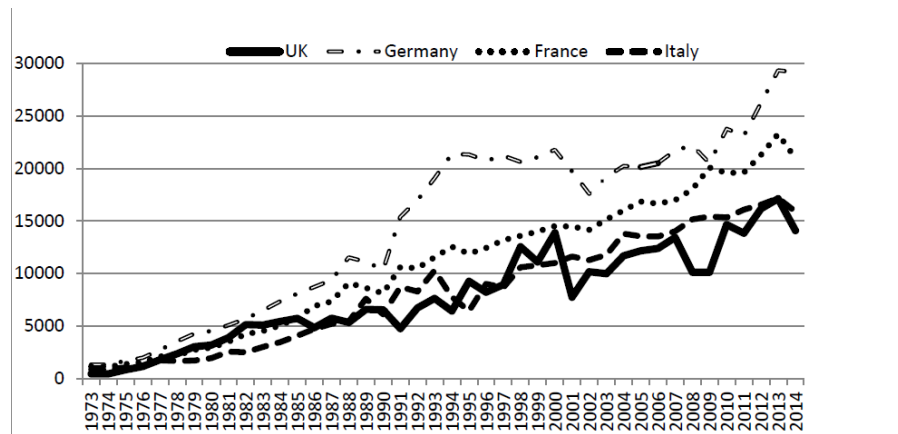
As a major world trading power, EU has policy to make the economic growth of its member stable or dispose to make the economic growth increase. But to make the integrations run as the way it was aimed, every member should pay or also known as the charge to the EU Budget.

There are three sources of the EU budget that charge to every member which first, each country has collect cost through custom tariffs and levies in the name of EU, 20% of its tariffs allocate for state as the cost of collection. Second, VATbase contributes some percent that already conform. Third, Growth National Income contributes some percent to the EU Budget (Wilkinson, The Telegraph, 2015).

b. The economic contributions of Britain to the EU

Britain as an active member should pay or also known as contribution to the EU Budget and Funding since first time they were

registered. In fact, Britain is always become one of the biggest contributors to the EU Budget.



Source: London School of Economic Research Online (Begg, 2016)

Figure.2.2

Payments into EU by four largest Member States,
1973-2014 (current prices)

Based on the diagram above, Germany had always been the highest contributor since Germany had larger economy than other member states. Britain paid less than others especially since there was rebate that had been known in 1985. Britain disposed to have same position as France in term of economic condition.

Table.2.1**Funding Contribution of Britain to the EU Budget**

Year of Contribution	Gross Contribution (after rebate and refund)	Net Contribution
1973	£ 181 Million	£ 102 Million
1974	£ 181 Million	£ 31 Million
1975	£ 342 Million	£ -56 Million
1976	£ 463 Million	£ 167 Million
1977	£ 737 Million	£ 369 Million
1978	£ 1,348 Million	£ 822 Million
1979	£ 1,606 Million	£ 947 Million
1980	£ 1,669 Million	£ 706 Million
1981	£ 1,481 Million	£ 397 Million
1982	£ 1,844 Million	£ 606 Million
1983	£ 2,169 Million	£ 647 Million
1984	£ 2,676 Million	£ 656 Million
1985	£ 3,713 Million	£ 1,808 Million
1986	£ 2,792 Million	£ 572 Million
1987	£ 4,049 Million	£ 1,721 Million
1988	£ 3,544 Million	£ 1,362 Million
1989	£ 4,431 Million	£ 2,315 Million
1990	£ 4,658 Million	£ 2,475 Million
1991	£ 3,309 Million	£ 544 Million
1992	£ 4,857 Million	£ 2,030 Million
1993	£ 5,446 Million	£ 2,155 Million
1994	£ 5,463 Million	£ 2,211 Million
1995	£ 7,682 Million	£ 4,017 Million
1996	£ 6,721 Million	£ 2,348 Million
1997	£ 6,258 Million	£ 1,597 Million
1998	£ 8,712 Million	£ 4,597 Million
1999	£ 7,117 Million	£ 3,638 Million
2000	£ 8,433 Million	£ 4,192 Million
2001	£ 4,819 Million	£ 1,389 Million
2002	£ 6,340 Million	£ 3,139 Million
2003	£ 7,407 Million	£ 3,679 Million
2004	£ 7,302 Million	£ 3,008 Million
2005	£ 8,911 Million	£ 3,582 Million
2006	£ 8,857 Million	£ 3,909 Million
2007	£ 8,933 Million	£ 4,601 Million
2008	£ 7,791 Million	£ 3,294 Million
2009	£ 8,737 Million	£ 4,336 Million
2010	£ 12,150 Million	£ 7,382 Million
2011	£ 12,214 Million	£ 8,082 Million
2012	£ 12,636 Million	£ 8,467 Million
2013	£ 14,461 Million	£ 10,465 Million
2014	£ 14,362 Million	£ 9,779 Million
2015	£ 14,646 Million	£ 10,763 Million
2016	£ 13,118 Million	£ 8,616 Million

Source: House of Common Library (Keep, 2017)

According to Matthew Keep, this HM Treasury figures are used as the comparison, but this data actually doesn't include allocation

of funding directly by the Commission of UK Organizations. Take a look to these datas, the forecasts thought that Britain contribute to the EU budget in usual way or nothing too much about its payment (Keep, 2017).

C. Political Integration between Britain and European Union

Political integration between Britain and European Union has started since the establishment of European Economic Community. Britain's decision to join EEC as the first political decision of the government along with every decision after Britain became its member.

Immigration within European Union is one of the contributions in term of politic between Britain and European Union.

In 2004 EU enlarged their scope of integration to mobility of people freely, Britain was one of three countries which welcomed the employee from EU areas to find job in Britain. In 2016, the immigration number from EU countries to Britain was around 250.000 people and most of them came in order to find job (O'Leary, 2017).

Reasons given for immigrating to the UK

Immigration of EU and non-EU nationals by main reason stated for migrating, 2016



* The figures in this chart exclude British nationals. The figures only include the 'main' reason given so the actual proportion coming for any particular reason may be higher

Source : ONS Migration Statistics

Figure 2.3

The Reasons of Immigrant Movement to Britain

The number of the immigrants who came to Britain looked for job, increased in several years. The figure shows the number of job seeker immigrants dominate the reasons of moving. Since the Southern European countries mostly has economic crisis in recent years, the immigrants thought that it will be more benefit if they move and have a job in Britain (O'Leary, 2017).

Even though the immigration for EU citizens has no tariffs, the government of Britain sets several conditions in order to make limitation on free movement of people from EU countries. The conditions are, first, the immigrants from EU countries should prove that they have a job after three months living in Britain, second, if the immigrants come as a student, he or she should have source of money which means they should have enough

money to pay their living cost and the tuition fee to not to be state expenses (Eaton, 2017).

Beside political integration, Britain also sends representative to the EU or also known as contribution in political arena. Britain already sent the representatives since the first time they were officially became EU member. The latest contribution is still happening in this pheriod. Every pheriod usually taking five years to change.

In this pheriod, Britain is contribute in European Parliement with sending 73 members of the total 751 MEPs (Members of the European Parliament), Britain sends representative as the Council of the EU, EU has precidency system is about rotation every 6 Months and last time Britain has turned as the President of the EU's Council in July until December 2005, Britain sends 24 representatives over 350 to the European Economic & Social Committee, sends 18 representatives over 350 other member countries representatives to the Committee of the Regions And last, Britain has a Permanent representative to the EU. (European Union, 2017)