Conservative Group for Europe

Factsheet 11: The EU and Trade Issues

Summary

- The EU Single Market presents unique opportunities for British exporters of all sizes since it enables firms to sell products to the same specification from Bolton to Brindisi; in the past there would have been 28 different national standards adding cost and complexity. Access to an extended home market of 500 million consumers also helps British firms to compete in world markets since it allows for production to scale and for specialisation.
- There is huge economic upside for Britain in completing unfinished elements of the Single Market in areas like the digital economy, energy and capital markets. According to the House of Commons Library if these were completed it could add 7% to Britain's GDP.
- The EU Single Market accounts for 44% of UK exports or 12% of GDP, whereas Britain accounts for only 11% of the rest of the EU's exports and 3% of its GDP – an indication of who would have the better hand in negotiations on a new trading relationship in the event of a UK vote to Leave.
- The Leave Campaign provides no clarity on the terms on which Britain would have access to our largest export market beyond vague references to a free trade area. There can be no doubt that whatever terms are negotiated will be significantly worse than those which we currently enjoy. Our companies will still need to comply with EU regulations but will have little influence over them – a diminution in control over our economic prospects. A bilateral EU-UK trade deal would have to be capable of being ratified by the 27 other member states (giving each of them a veto) and the European Parliament.
- An even less explored area is the making of new trade agreements with the 53 countries that are currently covered by EU Trade Agreements. The EU has clout as the world's most powerful trading bloc and is in advanced negotiations with other major economies (e.g. Canada, the US and India). Britain would need to replace multiple third country agreements in double quick time – negotiating against the clock would weaken our negotiating hand.

Trading relations with the European Union in the event of a Leave vote

As explained in CGE Fact Sheet 2 ('The Single Market') the Common Market was established through the abolition of **tariff barriers**. The Single Market was created by the Single European Act of 1987 to demolish **non-tariff barriers** which were previously used as a form of protectionism. The programme was championed by Margaret Thatcher and the plan was created by UK Commissioner, Lord Cockfield.

In their March 2016 pamphlet 'Future UK Trade Patterns: Fantasy and Reality', the Senior European Experts explained that in addition to tariff-free access, the advantages offered by the Single Market to UK companies include: only having to follow one set of product standards; not having to face customs controls to check that goods comply with national product or health and safety rules; and our transport companies can carry goods throughout the EU. Furthermore, we can take action in the European Court of Justice against other member states for failing to implement legislation and the Commission can also take infraction proceedings to protect British companies against anti-competitive behaviour.

If Britain wants to retain access to the Single Market after a vote to Leave it could seek to join the European Economic Area (the 'Norway option') or it might try to conclude an agreement similar to that enjoyed by Switzerland. Both countries have to accept free movement, make a significant budget contribution, and accept the rules made by EU member states. Switzerland does not have full access to the Single Market for services hence the fact that some Swiss financial institutions have to do their EU business

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out of London. An alternative approach now put forward by some in the Leave campaign is that British exporters should just rely on World Trade Organisation rules. If this were such a good option you might wonder why Canada, for example, feels the needs for a bilateral agreement to improve its access to the EU market.

The Leavers argue that the Single Market isn't everything it is cracked up to be. However research in 2014 by the independent think tank the Centre for European Reform, found that EU membership has boosted Britain's trade in goods with other members states by 55%. In 2013 Britain's goods trade with the EU was £364 billion; of this, the additional amount attributable to the specific attributes of the Single Market was £130 billion.

A study of the impact of a potential Brexit by PWC, commissioned by the CBI found that, even in an optimistic scenario where a Free Trade Agreement with the EU is secured rapidly, UK GDP could be 3% lower by 2020 with GDP per household being between £2,100 and £3,700 less and with unemployment being 2%-3% higher. HM Treasury's report 'Alternatives to Membership' concluded that, even if Britain were to negotiate a bilateral agreement with the EU (one step up from reliance on WTO rules), it would result in our GDP in 2030 being 6.2% lower, families being £4,300 p.a. worse off and a £36 billion p.a. black hole in the public finances.

It seems that the Leave Campaign's ideological Europhobia makes them determined to eschew the Single Market even if enjoying unfettered access to it is in Britain's economic interests and being cut off from it will harm the living standards of British families. They have no ideological objection to the collective defence philosophy of NATO or the acceptance of constraints on sovereignty inherent in many other Treaties but their obsessive hostility to the EU means that they would rather be pure than prosperous.

WTO Rules and Britain's trade with the wider world

Amongst the first tasks that would follow a vote to Leave, would be for Britain to apply for membership of the WTO, this would not necessarily be a smooth process since other countries can object. In relation to the option of the UK of falling back on WTO Rules as the basis for its trading relations, Pascal Lamy, a former head of the WTO recently wrote in 'The Times' that: 'As the former head of the WTO, let me be clear; this would be a terrible replacement for access to the EU single market. Though tariffs have fallen they are still high enough to hurt businesses and therefore jobs: 10% for cars; 12% on clothes and 70% on some beef products. Any ambitious UK-EU deal would need to be ratified by 27 legislatures and by the European Parliament. How long will this take? My best guess is 5 to 15 years.'

As H.M. Treasury explains, without a preferential trade agreement,: 'WTO Rules mean that the EU, and all countries with which we currently have trade deals, would have no choice but to apply WTO tariffs on exports from the UK – putting our companies at a competitive disadvantage. Meanwhile the UK would face a difficult choice between either raising tariffs on imports from the EU or lowering tariffs on imports from all countries. Raising tariffs would have knock-on effects on UK jobs and incomes, as well as on the attractiveness of the UK as an investment destination. Lowering tariffs would deny the UK revenue and undermine our negotiating position in future trade deals.'

The EU has 36 preferential trade deals with 53 countries. On the day we left the EU we would cease to benefit from these. Britain would have to negotiate new arrangements with each of them pending which, our exporters would have to revert to less favourable terms, thereby losing orders, contracts and jobs. Such negotiations are lengthy and complex and it could take more than ten years for the UK to replace them. We have very few experienced trade negotiators since external trade has been a matter of EU competence for the last 40 years. We would be negotiating against the clock – a demandeur needing to put new arrangements in place as quickly as possible and potentially having to settle for unsatisfactory terms.

The EU is also in advanced negotiations on trade deals with Canada, the US, India and China. The Leave campaign likes to suggest that negotiating terms takes so long because the EU is protectionist and sclerotic. But, in the case of negotiations with India it is British demands for better access for our services and Scotch Whisky and resisting Indian demands for visa liberalisation that are amongst the biggest stumbling blocks.

The Leave Campaign's suggestion that Britain is prevented from trading with countries outside Europe is a fabrication. No member state is held back through its EU membership from exporting to third countries – hence the fact that Germany is able to export four times as much as Britain does to China.