

QUESTIONS AND ANSWERS ON LABOUR

AND THE BREXIT NEGOTIATIONS

1. **What has happened so far?**

On 1st February 2017, about 80% of Labour MPs voted for triggering Article 50, thus helping to assure a House of Commons majority of 498 to 114. Despite a three-line whip in favour of the proposal in front of the House, 47 Labour MPs voted against and 5 did not vote – a total of about 20% of the Parliamentary Labour Party. The Bill is now with the House of Lords. They agreed two amendments. One would have guaranteed the right of EU nationals already in the UK to be allowed to stay notwithstanding that no reciprocal undertaking is currently on offer from the EU27. The other was to ensure that both the House of Commons and the Lords could have a meaningful vote on whatever the outcome of the Brexit negotiations is. Both these amendments were voted down by the House of Commons on 13th March 2017. It therefore now seems very likely that Article 50 will be triggered by the government before the end of March 2017, in line with the schedule which was proposed some time ago.

2. **What happens next?**

Once Article 50 has been activated, there is a two-year period laid down by the Lisbon Treaty during which negotiations for the UK to leave the EU will proceed. At the end of this period, the UK will automatically cease to be a member of the EU unless a further extension of time is agreed. As extending the time period requires a consensus among the EU27 which may not be forthcoming, there is no certainty that further time will be available. This could be a major factor because there are a number of reasons why it may be difficult to get the negotiations completed and ratified by all concerned within 24 months. The EU may insist on agreement about separation being concluded before discussions about subsequent trade arrangements begin. There are difficult issues to be resolved about how much the UK should pay the EU27 for past overspends, pension

entitlements and future liabilities, which could hold up starting discussions on other matters. Trade negotiations are likely to require unanimity among the EU 27 which could well lead to hold-outs and delay. Much will depend on the extent to which the EU27 want to try to “punish” the UK for leaving the EU, thus making agreement more difficult to secure. Finally, there are elections coming up in key EU countries with unpredictable results, so that we may not have a consistent negotiating stance taken by the EU over the two-year period.

3. **What potential outcomes are we facing?**

The government’s negotiating strategy seems to be reasonably clear. It is for the UK to leave the Single Market, the European Economic Area (EEA) and the EU’s Customs Union and then to negotiate a free trade deal covering as many goods and services as possible, perhaps with some carve-backs into the Single Market for specific sectors such as motor vehicles, aerospace, agriculture and perhaps some services, if these can be negotiated on acceptable terms. This would be the best outcome from the point of view of both the UK and the EU and one which it seems very probable that most people in the UK would regard as satisfactory. Free Trade involves only marginal increase in paperwork for goods movements compared to what we have at the moment and the equivalence needed on product standards, safety, etc. is already in place. This would therefore provide the UK with access to the EU27 market on more or less the same terms as we have at present. Labour should surely support the government in aiming for this outcome and, in particular, should not obstruct it being achieved.

4. **What will happen if the negotiations stall?**

The free trade outcome, however, depends on agreement on it being reached within two years or perhaps rather longer if a time extension is agreed. What will happen if, within this time period, no agreement has been secured? It is impossible to tell for sure but it seems probable that the outcome will then be a choice between one of two options. One would be the EU27 telling the UK what it was prepared to accept and the other would be the UK walking away from any kind of trade deal with the EU. The first would probably take the form of a “take-it-or-leave-it” offer from the EU for the UK to leave the EU but to remain in the EEA. The other would be for the UK to opt to deal in future with the EU on World Trade Organisation (WTO) terms, with no preferential arrangements in place. What would these two options look like?

5. **What would the future look like if we stayed in the EEA?**

There are some advantages to the UK in staying in the EEA. It maintains existing trading arrangements and provides us with continuing access to the Single Market. There are, however, also substantial downsides. We would have to live with continuing free movement of people from all EU countries to the UK. We would still largely be subject to the Luxembourg Court. We would almost certainly have to pay a heavy

continuing membership fee. We would be in the same position as Norway, obliged to comply with all Single Market requirements but without any say in their formulation. This is not what the majority of the British people voted for on 23rd June 2016.

6. **What would the WTO option look like?**

The advantage of the WTO option is that it does not depend except to a very limited extent on goodwill from the EU27. WTO rules both govern the extent to which the EU could erect tariffs against British goods and to ways in which UK exports of goods and services could be discriminated against in other ways. The UK could therefore opt for the WTO option unilaterally. Doing so would allow us to conclude free trade deals with countries outside the EU ourselves instead of as part of the EU bloc. We would regain control of our borders and legal supremacy and we would not have to pay our current EU membership fee. The major downside would be that tariff barriers would be re-established between the UK and the EU27, which most people would regard as a significantly retrograde step. With the rather lower value for sterling against the euro, which has materialised since the referendum – currently about £1.00 = €1.15 instead of €1.30 – the relatively low WTO tariffs should not be major problem for the UK. Tariffs on industrial goods would average about 2.5%, although they are higher in some sectors such as vehicles.

7. **Are there any other major considerations?**

There is another major factor which needs to be taken into account. This is the huge annual deficit which the UK currently has with the EU27. Whereas with the rest of the world, the UK has a balance of payments surplus which in 2015 - a fairly typical year - ran at £10bn, our total deficit with the EU that year was £90bn. This figure was made up of a trade deficit of £61bn, another deficit of £19bn on investment income and remittances and a further £11bn, which was our net contribution to the EU budget and institutions. £90bn is a huge sum. It is about 5% of our national income, and nearly £1,500 per head of the UK population or £6,000 a year for a family of four. This very large gap between the UK's income and expenditure relating to the EU27 has to be filled every year by borrowing from abroad or by selling UK assets to foreign interests. As a result, the UK has lost control of a large proportion of its industries, infrastructure and a significant proportion of our housing stock. A deficit of £90bn a year is clearly unsustainable. A major factor in choosing which option is the best for our future relationship with the EU27 therefore needs to be which one is likely to provide us with the best chance of getting this enormous annual deficit down to more manageable proportions. There are differences of view about how this problem might be tackled but the WTO option may provide us with considerably more freedom of manoeuvre to take remedial action than would be possible if the UK were to remain in the EEA. This would probably be on relatively constraining and punitive terms which might make it much more difficult for us to rebalance our economy to reduce our EU deficit.

8. **What are the politics of these choices?**

This then leads on to the politics of the situation which confronts the Labour Party, at present on its attitudes to the EU. Clearly the Party is very heavily divided. Over 90% of all Labour MPs supported Remain during the referendum as did a large majority of Labour Party members and activists. This view was reflected in the vote in a number of Labour held seats where there were large Remain majorities. On the other hand, about 70% of all Labour held seats had Remain majorities, a ratio which rises to about 90% if London and a few other mainly university cities are excluded. Over the 9.3 million people who voted Labour in the 2015 general election, the most authoritative polls indicate that about 37% – just short of 3.5m of them – voted Leave when the referendum took place. Subsequent polls suggest that about half of these people are not currently planning to vote Labour in future at least partly because of the Party's attitude to the EU. As a result of these strong pulls in different directions, the Party has lost support both from Remain-leaning people who do not think that Labour should have supported triggering Article 50 and from previous supporters who voted Leave and who feel that Labour is half-hearted about leaving the EU, as a result of which they are inclined to switch their support to the Conservatives or to UKIP.

9. **What can Labour do in these circumstances?**

There is obviously no easy way ahead but there are surely some lessons to be drawn from the current state of affairs. Perhaps the most important is that the more divided the Party looks, the less it is likely to appeal successfully to the electorate. This suggests that Labour badly needs to coalesce as much as it can round an agreed line. In view of the outcome of the EU referendum, this cannot be anything other than to accept the outcome that then materialised and to support getting the best deal we can with the EU27 from the forthcoming negotiations. It is easy to understand the pressure which the 47 Labour MPs who voted against triggering Article 50 felt they were under – let alone taking account of their own personal convictions – but the danger for the Party is that their evident lack of commitment to following through on the referendum result encourages defections in Labour's erstwhile industrial heartlands which the Party simply cannot allow to happen if Labour is ever to form a government again. Finding unity may, however, be difficult now but it may become even more problematic if the eventual choice which Labour has to make is between staying in the EEA on onerous terms or choosing the WTO option. This is a choice which is likely to polarise the population even more than is the case at the moment. The danger for Labour is that the Conservatives government then articulates much more convincingly than Labour the way ahead - choosing the WTO option against Labour support for the EEA alternative which will be seen by a majority of the country to be not by a long chalk what they want. Labour's troubles on the EU may well get worse before they get better.