

LABOUR EURO-SAFEGUARDS CAMPAIGN

BULLETIN

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QUESTIONS AND ANSWERS ON LABOUR'S

STANCE ON THE EU NEGOTIATIONS

1. **What is Labour's current stance on the UK's policy for renegotiating our relationship with the other 27 EU countries?**

A majority of Labour Party members – and an even larger proportion of Labour MPs – were in favour of Remain during the recent EU referendum. Understandably, therefore, many people within the Labour movement are reluctant to engage in detailed discussions about the terms on which the UK might exit the EU. There is a major danger, however, that views of this sort lead to Labour supporting policies which are inconsistent with the actual referendum result and way out of touch with the large minority of traditional Labour supporters who voted for Brexit. Labour has, therefore, not only to recognise that the referendum result has to be accepted – which indeed the vast majority of Labour members and MPs do – but then to take a realistic attitude to what is achievable in the negotiations to come and what is not. Labour is not going to help either itself or the country by advocating policies which are neither in line with the referendum result nor supported by the large number of Labour-leaning people who voted for Leave. It is also not going to be helpful for Labour to be seen to be advocating negotiating strategies which are very unlikely to be going to likely to be accepted by the remaining 27 EU Member States.

2. **What are the bottom lines?**

The result of the referendum held on 23rd June 2016 provided a clear negotiating mandate on three key points. One was that the UK should no longer be bound by the Luxembourg Court, with supremacy of UK law-making being transferred back to Parliament at Westminster. The second was that the UK should have control over its own borders and who, therefore, should be allowed to work and to settle here. The third was that the net cost of the UK's EU membership should be very

substantially reduced, although not necessarily completely eliminated. There is not a great deal of room for compromise on any of these key issues. Negotiations have, therefore, to be conducted on the basis that these fundamental objectives need to be capable of being achieved – although obviously at minimum cost to the future prosperity of both the UK and the EU, which may open up some scope for compromise, provided it is not us making all the concessions. There will need to be some give and take on both sides.

3. **Should we stay in the Single Market?**

There appears to be a widespread view at present among Labour Party members that we have to stay in the Single Market at more or less any cost. Unfortunately, however, it seems very unlikely that the EU 27 are going to agree to this happening on terms which would meet the referendum red lines. On the contrary, it seems likely that the only basis on which our Single Market membership might be retained post-Brexit would be substantially on the same terms at present - on both control by the Luxembourg Court, the UK's net contribution to EU costs and on the free movement of labour. If this is the case, it is surely not wise for the UK to press for an outcome which is never going to be agreed, not least because it would have to be approved by all 27 Member States, especially if it included services. The recent experience with CETA, the Canadian free trade deal, shows how difficult this might be.

4. **Does the European Economic Area (EEA) option provide us with a way ahead?**

Another possible approach would be for the UK to leave the EU but to stay within the European Economic Area (EEA), on similar terms to those which exist for Norway. We are already in the EEA so we would not have to apply to join. There are existing trading templates in place which it would be relatively easy to restructure to accommodate the UK post-Brexit, allowing us tariff free access to the Single Market. We would be outside the Common Agricultural Policy (CAP), the Common Fisheries Policy (CFP) and the EU's Customs Union, thus allowing us to negotiate our own free trade deals with countries outside the EU. The EEA operates on an inter-governmental basis rather than as a unified political organisation, and therefore has more scope for flexibility. The problems from the UK's point of view with EEA membership, however, are substantial and very likely, in the end, to be insuperable. One is that, although EEA membership would give us tariff free access to the Single Market, we would have little control over any new regulations or directives it decided to adopt. The second is that membership of the EEA is dominated by EU Member States who are unlikely to be willing to allow anything like the degree of flexibility in the way in which EEA rules are applied to accommodate the UK's red-line requirements on either control, net cost or immigration, which would be acceptable to UK public opinion.

5. **What about leaving the Single Market?**

A more realistic policy, therefore, could be for the UK to agree early on in the negotiations that we would have to leave the Single Market. This could potentially leave both the UK and the EU facing tariff barriers, although this problem could be overcome if a free trade deal was put in place instead, and this seems the objective to which UK policy should aim to achieve. This would undoubtedly be in everyone's best interest – not least the EU 27 which collectively have a £60bn trade surplus with the UK every year. There would, however, still be substantial potential obstacles to be overcome. While negotiating free trade on industrial goods might be relatively simple, agreements on agricultural products, services and some other sensitive product areas, such as apparel and shoes - and possibly cars and aerospace and their components too - might be considerably more difficult. More than two years might be required to cover everything and any agreement, especially if it is “mixed”, with services involved, would almost certainly require the acquiescence of all 27 Member States individually. It may, therefore, be sensible to split up the subject areas which need to be tackled into those which can be agreed within the two year negotiating period set out by the Lisbon Treaty, and which are relatively uncontroversial, leaving the more difficult areas to be covered on a temporary basis with provisional arrangements in place pending the negotiation of final agreements.

6. **What about the WTO option?**

A further possibility is for the UK to come out of the Single Market, the CAP, the CFP and the EU's Customs Union and to trade with the UK on standard World Trade Organisation tariff terms. These would involve the same trading arrangements for the UK with the EU as those applying to countries such as the USA, Japan, China, India and Australia, none of which have a free trade agreement with the EU. Nowadays, WTO tariffs are very low on industrial goods – averaging about 2.5%, but higher on some products, such as vehicles, potentially as high as 10%, and higher still on agricultural products – averaging around 20%. Losing free trade between the UK and the EU 27 would be a significantly worse outcome compared with having no tariffs but the WTO option has the major advantage of not requiring any agreement from the EU 27 other than those concerned with the technical procedures involved in international trade, which are governed by WTO protocols.

7. **How should negotiations then proceed?**

Taking the pros and cons of all these options into account, what seems to be the best way to take negotiations forward? No doubt those negotiating on behalf of the EU 27 are already well aware of the UK's determination to free ourselves from the

control of the Luxembourg Court, the current high net cost of the EU and the UK's need to resume control of its borders. It may be worth exploring whether the EU 27 would agree that either the Single Market or the EEA rules could be used sufficiently flexibly to allow these UK red lines to be accommodated, but it seems very improbable that this would happen. From the EU 27's perspective, apart from anything else, they would not be able to allow the UK to secure terms which would appear to them to be so desirable as to tempt other EU Member States to follow the Brexit example, thus destabilising the basic structure of the EU. It may be, however, that differing perceptions about the merits of Single Market membership will provide a way through. If the EU 27 think that full membership of the Single Market is a prize worth having – but this is not a view shared by the UK - the EU could conclude that our losing our Single Market membership was a sufficient downside – even a punishment - to deter other potential defectors. Combining this with a free trade deal between the UK and the EU 27 could then provide a satisfactory outcome for all concerned.

8. **Could this strategy be made to work?**

If the EU 27 thought that the UK could be made to stay in the Single Market on substantially the same terms regarding control, cost and borders as we have at present, this is very probably what they would press the outcome to be. To avoid the UK being pushed into this very unsatisfactory outcome, and to secure the UK having free trade with the EU even if we were outside the Single Market, we would have to have an option available which was achievable but which was also worse from the EU 27's point of view than the UK being outside the Single Market but still enjoying free trade with the EU 27. This is why the UK being willing to adopt the WTO approach is key to achieving a successful outcome to the Brexit negotiations – not because this is where we want to finish up but because this would be both better for us than capitulation within the Single Market and worse for the EU 27 than losing free trade with the UK. The key issue, therefore, is whether the Labour Party is going to be willing to back the WTO option as a realistic alternative - to enable us to compromise on being out of the Single Market, the EEA and the Customs Union, but very probably back in the European Free Trade Area (EFTA), and with a free trade deal with the EU 27. If this was the outcome of the Brexit negotiations, leaving us still on good trading terms with the EU but in control of our own law-making and borders, paying our fair share but no more for our contribution to Europe-wide co-operation, and free to strike our own trade deals with all the rest of the world, surely this would be close to what the vast majority of the UK electorate would like to see being achieved.