

LABOUR EURO-SAFEGUARDS CAMPAIGN

BULLETIN

JULY 2017

QUESTIONS AND ANSWERS ON

LABOUR'S BREXIT POLICY OPTIONS

1. How should Labour move on from the General Election?

Labour did much better in the general election than most people expected, thus both depriving the Conservatives of their majority, and enormously strengthening Labour's role in the forthcoming Brexit negotiations. Indeed, the current small and potentially unstable government majority means that there may be a general election in the reasonably near future which Labour could win, putting a Labour government in charge of the Brexit negotiations. This will however bring the current divisions in the Party over the best approach to Brexit much more sharply into focus. During the general election it was possible for Labour both to appeal to Remain constituency voters, where they were in a majority, by advocating a very soft Brexit while at the same time emphasising the manifesto commitment that "Labour accepts the referendum result" in more Leave orientated seats. Now that Labour is much closer to power than it was, the Party urgently needs a more clearly agreed vision of what Brexit outcome would be best for the country and how to get there.

2. What is the government's position?

As set out in the Prime Ministers Lancaster House speech earlier this year, it was always clear broadly what the government's position on the Brexit negotiations was. The UK should come out of the Single Market, relinquish membership of the European Economic Area, exit the EU Customs Union and then negotiate a free trade deal with the EU27 covering goods and as many services as possible. There were always two problems, however, about getting the EU27 to accept this outcome. One was how to divide up among the remaining Member States liability

for the UK's net annual contribution to EU budgets and other funds of about £12bn a year. The other was concern that too good a deal for the UK might encourage other secessions. It was always essential, therefore, for the UK to be willing to walk away from a bad deal, falling back on trading with the EU27 on World Trade Organisation (WTO) terms, thus allowing the EU27 to compromise on some reasonable version of the free trade deal approach. An outcome which left the EU27 and the UK trading on WTO terms would be much more disadvantageous to the EU27 than to the UK because of the huge annual trade deficit we have with the EU27 - £71bn in 2016. Trading with the EU27 on WTO terms would not be the UK's first choice but our willingness to do so, rather than have a really poor deal imposed upon us, was always key to the UK achieving the free trade deal which would in fact be the best outcome for both the UK and EU27.

3. **What has happened now?**

Prior to the general election, there was a majority of MPs across all parties who favoured Remain but a government determined to implement the outcome of the June 2016 EU referendum. Because of the Conservative majority, the government had sufficient support on which it could rely to enable the negotiating strategy set out about to be implemented. The outcome of the general election, however, is a House of Commons which looks unlikely to be prepared to trade with the EU27 on WTO terms in any reasonably foreseeable circumstances. Furthermore, there is vocal support not only among opposition parties but also among a substantial section of the Conservative Party for the UK to stay in the Single Market and the Customs Union, and to pay substantial costs for doing so. This makes it much more difficult to see how the free trade option is likely to be accomplished.

4. **What is likely now to be the outcome?**

In current circumstances, the outcome for the Brexit negotiations – assuming that they can be achieved within the two-year period or with an agreed extension of negotiating time – is that far from coming out of the Single Market, the EEA and the Customs Union, but with a free trade deal in place, we will finish up in the EEA and the Customs Union. This will provide us with access to the Single Market on the same “free movement” basis as we have at the moment. It will, however, still leave the UK subject to all Single Market regulations and directives, still justiciable by the Luxembourg Court, still with no EU border control, still liable to pay both a large divorce settlement bill and probably heavy ongoing annual payments, still unable to negotiate our own trade treaties – and with no control over how the Single Market develops in future. This outcome will therefore achieve none of the objectives sought by those who voted Leave but it will also leave us with a relationship with the EU which even most Remain supporters would think is worse than what we have at the moment.

5. **What would the consequences be of a really bad outcome?**

Labour needs to think carefully about what the consequences of engineering an outcome like this would be. There are four main considerations which may cost both the country and the Labour Party dearly. First, the EEA outcome is likely to be perceived generally to be a very poor deal for the country as a whole, in both economic and political terms, doing nothing to achieve what either Leavers or Remainers would like to have accomplished in relation to where we are now. Second, while parliament might be prepared to vote through a deal along these lines, it is very doubtful whether the electorate as a whole would think that this was a satisfactory outcome, thus widening still further the distrust between politicians and the electorate which urgently needs to be reduced and not strengthened. Third, Labour is likely to suffer from a significant backlash as the Party loses support among the large minority of traditional Labour voters who favoured Leave in 2016 and who would perceive the Party to be engineering exactly the outcomes they do not want. Fourth, instead of our negotiations with the EU27 producing an outcome with which most of the population would be reasonably satisfied, continuing membership of the EEA along the lines likely to be offered to us will leave Euroscepticism simmering on as a significant force. Our relationship with the EU will then continue to divide and distract the country from devoting the attention needed to many other important objectives.

6. **What should Labour do?**

Faced with this scenario, what should Labour do? It has to start by coming to a view about how poor a deal it is prepared to accept – and what the alternatives might then be. How saleable is the EEA option - especially if it entails high ongoing annual costs and no border controls - going to be to the country, the Party, the electorate and to lancing the latent Euroscepticism in the UK? At what point does no deal – meaning falling back on WTO terms - become better than accepting potentially more and more onerous terms? It may be that parliamentary voting arithmetic will in the end play a crucial role here. If the deal on offer from the EU27 is harsh enough, at what point will the House of Commons refuse to vote it through, leaving just the kind of vacuum which everyone wants to avoid?

7. **What about WTO terms?**

Thus, although there may be many MPs who would regard any version of the EEA option, however onerous, as better than falling back on the WTO outcome, at some point they may cease to be a majority. This is why Labour should, at the very least, support the government in preparing for what would be involved in trading with

the EU27 on WTO terms – not because this should be the UK’s first choice but because being willing to contemplate it is the only way of responding to either a very poor deal – or circumstances in which Parliament is simply not prepared to accept what is on offer. In fact, the WTO option, although not so good as the free trade outcome, would be entirely manageable for the UK. These are the terms on which most trade with the EU is done – for example by the USA, China, Australia, Russia and India. Average WTO tariffs on industrial goods are about 2%. If agricultural products are included, the average rises to about 4% but it falls back again to about 2% if services - on which there are no tariffs, although there are often non-tariff barriers – are also counted in. Customs procedures are a little more complicated than with existing “free movement” within the Single Market but they are essentially the same as with a free trade deal, the only difference being that, with free trade, duties are zero whereas, on WTO terms, there are tariffs to be paid.

8. **Where does this leave us?**

In June 2016 the British people decided by a small but still decisive majority to Leave the EU. The number of votes cast in favour of this course of action, with a higher turnout than in any recent general elections, was greater than any ever achieved by any other individual, party or cause in the UK’s history. Of course there was a large minority who disagreed with this outcome and they are entitled to their point of view. At the severe risk of looking unwilling to accept a clear democratic decision, clearly re-articulated in the general election manifestos published by the parties for which most of them voted, they are also entitled to campaign to get the British people to change their decision, although this may be more difficult than they imagine it would be. What they need to think about in the meantime, however, is whether taking as much action they can to frustrate the EU referendum decision – thus undermining the capacity of the government to carry out, with a reasonable hope of success, what was decided last June - is a sensible and desirable way ahead. There are always dangers when democratically taken decisions are ignored by those who think they know better. This time what is at stake is both the good of the country, the credibility of parliament in reflecting the views of the electorate, a large block of vitally needed support from erstwhile Labour supporters and a real chance of achieving a settled relationship with our European neighbours. This could be a very high price for Remainers to pay for putting their views, supported no doubt by a vociferous section of their constituents, ahead of complying with a clear democratic decision which they might not have liked, but with which they might be wise to comply.