

LABOUR EURO-SAFEGUARDS CAMPAIGN

BULLETIN

SEPTEMBER 2017

QUESTIONS AND ANSWERS ON

LABOUR AND THE BREXIT NEGOTIATIONS

1. **What is the Labour Party's current stance on Brexit?**

In an article in *The Observer* on Sunday, 27th August 2017, it was announced that Labour policy had shifted decisively from its previous Brexit policy position. Instead of leaving the Single Market and the Customs Union, as promised in the Party's June 2017 general election manifesto, Labour now advocates staying in both organisations at least for an extended temporary period. This would entail us remaining in the European Economic Area (EEA), of which we are already fully accredited members, so there would be no risk of our not being accepted in the club. We might also join Norway, Switzerland, Iceland and Lichtenstein in the European Free Trade Area (EFTA). We would essentially have the same kind of relationship status *vis à vis* the EU as Norway has now

2. **What are the advantages of moving in this direction?**

Remaining in the EEA, but shifting our membership of this organisation to being in the non-EU rather than EU membership category, would provide the UK with some advantages - if it could be achieved. It would provide us with access to the Single Market on the same "free movement" basis as we enjoy at the moment. It would enable virtually all the existing trade relationships we have with the EU – such as mutual recognition of standards – to remain as they are. It would be relatively simple to implement from a customs administrative standpoint, as procedures would remain substantially the same as they are at present. It might potentially provide business with some certainty about the trading conditions to be faced. This could be of increasing importance if the Brexit negotiations do not go well, and the framework for a transitional period is required to provide more time for further discussion beyond March 2019, when, under Article 50, the UK

formally ceases to be a member of the European Union. The EEA approach is one way in which this could be done.

3. **What are the downsides of EEA membership?**

There are, however, substantial downsides to the UK being in the EEA, especially – as essentially has happened with Norway - if a supposedly temporary arrangement hardens into being one which is permanent. Being in the EEA would leave the UK still under obligations in relation to the free movement of EU citizens, subject to the jurisdiction of the Luxembourg Court, and liable to pay a significant net membership fee every year, as we do now. As non-EU members we would have no influence on the way the Single Market develops, although we would regain our seats on the world international bodies where many EU regulations originate. Remaining in the Customs Union would preclude the UK from negotiating free trade deals with countries outside the EU. By tying our trade closely to the EU, we would continue to have a slow-growing market as our largest single customer. To be fair, the way on which the EEA operates is rather more flexible and less prescriptive than the that of the EU, so that some derogations from where we are currently may be possible on issues such as free movement of people. All the same, EEA membership is clearly not what a majority of the British people thought they were voting for in June 2016

4. **What other hurdles are there to be overcome?**

Leaving aside for the moment the pros and cons of EEA membership, if it could be achieved, there are also major problems on the way to getting there, even supposing that the UK was united about wanting to achieve this objective. The two most significant are first the divorce bill which is being proposed by the EU and second the extent to which the EU would be willing to make EEA membership really work well for the UK. On the sum to be paid by the UK for leaving the EU, it is extremely difficult to see how the UK can agree even in principle on what the amount should be in the absence of any certainty on the future trading arrangements between the UK and the EU. There is thus a substantial danger that the negotiations will stall – or that so much time will be taken up by the divorce payment – that not enough time will be left to deal with the trade issues, let alone anything else. The EEA approach may then be one way of buying time – although it is also possible that the gap on the divorce bill will become so wide that there will be strong pressure for the UK to opt for a hard Brexit, i.e. without a preferential trade deal. As to goodwill on both sides, again this may to an increasing extent not be forthcoming. To make any trade arrangements work fairly, especially regarding non-trade barriers, there has to be a real willingness on both sides to make them operate successfully. In their absence, will the EU find that the temptation to discriminate against the UK proves too strong to resist? Rules about tangible trade are relatively easy to enforce. Those relating to services, on which

the UK is very heavily dependent, are much more difficult to implement equitably even if the will to do so is there. If it is lacking the scope for obstruction is inevitably substantial.

5. **What should the UK do if the Brexit negotiations stall?**

This takes us back to what is likely to happen if the Brexit negotiations stall. Certainly, one option would be to use the EEA route to buy more time, but this could turn out to be extremely expensive. This is because, if the EU negotiators believe that there is no majority in the UK for any alternative but the EEA option, they will inevitably realise that will be in a position to drive a hard bargain – and the pressure on them to do so will certainly be very strong. Part of this is because of the financial pressure which the EU will be under if it loses the £11bn a year net UK contribution to EU budgets and partly it will be because of pressure to ensure that the UK's exit from the EU is to our disadvantage, to discourage any other EU Member State following our example. The result may well be a very high divorce bill, minimal derogations from Single Market requirements on further annual payments, legislative competence and free movement, combined with lack of genuine liberalisation of non-trade barriers

6. **What should the UK's negotiating tactics be?**

This is why the UK was right to start from the position of leaving the Single Market, the EEA and the Customs Union, negotiating a free trade deal with the EU27, if they were willing to do this, but with the UK being willing to fall back on trading with the EU27 on World Trade Organisation (WTO) terms, if sufficient flexibility from the EU side was not forthcoming. The WTO option was never the best outcome - although quite tolerable – but it was our willingness to walk away from a really poor deal and to adopt the WTO approach which could have given our negotiating position the credibility needed to push the EU27 negotiators into a reasonable free trade deal for the UK. Once the result of the recent general election led to this ceasing to appear to be a credible threat the UK's negotiating position was severely weakened, notwithstanding the extent to which our starting position ought to have provided us with very substantial leverage. We are very substantial net payers – currently about £11bn year – into the EU budgets and we have a huge trade deficit with the EU - £71bn in 2016. Combining this with the UK's net investment income deficit with the EU27 of £10bn generated a total balance of payments deficit between the UK and the EU27 last calendar year of £93bn. This huge sum needs to be put into the context of the total value all of all our trade with the EU which is no more than about £240bn a year. By this measure, by adopting the EEA option for a further period – leaving aside the divorce settlement which may turn out to be at least another €50bn, and potentially much more – we might well find ourselves continuing to pay almost £100bn per annum to secure no more

than £240bn worth of sales to the EU27. What business could survive if it accepted a deal as bad as this?

7. **Faced with all these difficulties, what should Labour do?**

This is why Labour needs to start thinking hard about how bad a deal it would be willing to accept before it would feel it had to reject it, and it needs to do this for a number of different reasons. First, from the country's point of view, a really poor outcome to the EU negotiations is in no-one's interests and crippling the country financially is no way to promote our economy over the next few years. Second, there is a big democratic issue at stake. Rightly or wrongly, the UK electorate voted to leave the EU in June 2016 and if our political elite are seen as welshing on this decision by adopting courses of action which effectively leave us in the EU in all but name – a state of affairs which at least some Labour figures say they want to make permanent – this will further increase the distrust in which our political class is held. Third, almost 3.5m people who supported Labour in the 2015 general election voted for Leave in 2016. Their support is going to be vital when the next general election comes and if a large number of them feel cheated by the Brexit outcome, this will do little to improve Labour's chances. Fourth, a truly unsatisfactory outcome to the current Brexit negotiations, is very unlikely to provide any long-term solution to attitudes to the EU within UK politics. The UK very badly needs to come to a settled relationship with the EU27 which is broadly supported by the whole of the electorate. A very poor deal is all too likely to leave Euroscepticism continuing to divide and distract us from dealing satisfactorily with the many other problems with which we are likely to be confronted.

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

The fundamental problem is that the more that public opinion in the UK swings in favour of the EEA option, the weaker our negotiating position becomes, and the worse the deal which eventually is likely to be offered to us. The clearer it becomes that there may be a majority in parliament prepared to pay almost any price to stay in the Single Market and the Customs Union, and that there is little stomach for the UK rejecting a really poor deal and being willing to trade with the EU27 on WTO terms, the worse the deal which we are eventually offered is likely to be. The danger for Labour is that it may then find itself supporting a harsh outcome to the Brexit negotiations which the electorate regards as far too onerous – and the Labour Party then gets blamed for allowing Parliament and the country to drift into this position.