

# What Do the Alternatives to EU Membership Look Like?

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Wednesday 02 March 2016

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## Philip Hammond

In just 16 weeks' time, Britain will face a decision that will shape the course of our nation's history for a generation or more: Should we remain within the European Union on the terms negotiated by David Cameron or should we withdraw from membership and go it alone?

The Government's clear view is that we are stronger, safer and better off remaining within a reformed European Union; Stronger, because our global influence is enhanced by being a leading member of the world's largest trading bloc, safer because of the work we do together with EU partners to strengthen our defences against organised crime and terrorism, and better off because of our access to a market of 500 million consumers. The deal that the Prime Minister won in Brussels twelve days ago ensures that the UK can remain in the EU with a special status: outside the Euro; outside Schengen; with an opt-in on Justice and Home Affairs matters, an exemption from 'ever closer union' and a new mechanism to limit access to our benefits system for EU migrants.

That deal protects British jobs by ensuring a level playing field in Europe for British business, safeguarding the pound and the Bank of England. It will boost EU competitiveness by completing the European Single Market, prioritising international trade agreements, and cutting the burden of EU regulation. And it provides an emergency brake to limit access to our benefits system for EU migrants and gives us new powers to exclude criminals and to stop exporting child benefits at UK rates.

I think that's a good deal for Britain.

And as the British people decide whether to take it and remain in a reformed European Union, offering Britain the best of both worlds or to take a leap into the unknown, I want to shine some light on what a future outside the EU might look like for Britain. Because the Leave campaign have so far failed to do so.

On Monday we published a paper setting out the process by which we would exit the EU following a 'leave' vote. Today we are publishing a paper outlining the principal alternatives to membership. I am laying the paper in Parliament this morning and it will be available online. I now want to summarise our main findings.

But first, I want to be clear about the process of negotiating an exit, and our future relationship with the EU. Because it would become the defining national project for several years. A vote to leave on June 23rd would trigger a two year window, under the terms of the Treaties, for the UK to negotiate the terms of our exit from the EU. And in the meantime, we will be able to offer British businesses no assurance at all about their future access to EU, or for that matter, to other markets. We will have nothing to say to American, Japanese, Chinese companies looking for a base in which to invest to supply the EU market. Our economy would literally be on hold, whilst our competitors, including our European competitors, forge ahead.

And at the end of two years, there is no guarantee at all that we would have reached agreement, but our exit would be automatic unless every single member of the remaining EU agreed to an extension.

Our access to the Single Market would cease. Our trading agreements with more than 50 markets around the world would lapse, with an immediate and negative effect on confidence, on growth, on investments, and on jobs.

Years of uncertainty for Britain, just as we are getting back on our feet.

And, like any divorce, the negotiations with our former EU partners are likely to be difficult. The leaders of the remaining Member States would have their own pressing domestic political calculations to consider. In many cases people in their countries already think that they've gone the extra mile for Britain. They'd be frustrated that having done that, to offer Britain a special – and unique – status in the EU, their efforts had been in vain. And frankly they'd be apprehensive as well, apprehensive of the 'contagion' that a Brexit might bring to their own countries.

So let's be clear, if we reject the special status the prime minister has painstakingly negotiated, then we can expect the goodwill that we have seen towards Britain during these negotiations to evaporate with them. The blunt fact is that our former partners in Britain will not feel that they owe us any favours; they will have no interest in helping us to thrive outside the EU.

And to those who argue, as some have done, that 'they need us more than we need them', I say 'sadly not the case'. Even if the only factor was trade, and it certainly isn't, the fact is that in 2014 half of the goods Britain exported went to the EU - just 7% of the goods the EU exported came to the UK.

Our exit negotiation and our attempts to forge some sort of new relationship are likely to involve some tough and protracted discussions.

So what, realistically, are the alternatives?

At different times, the various Leave campaigns have suggested over 20 different models to choose from including the current EU deals with Norway, Switzerland, Iceland, Lichtenstein, Canada, Turkey, Korea, Macedonia. Even Peru and Vanuatu!

But they have been unable to settle on one. In fact, they have deliberately avoided trying because they cannot point to an example which is better than the special status within the EU that we now have on offer. Every other option has significant drawbacks. And the simple truth is that we cannot know what deal a Britain outside the EU would end up with.

The evidence, however, and that is what this paper is about today, suggests that there are three basic models:

The Norway model; the bilateral model, a negotiated bilateral agreement, such as the free trade deals used by Switzerland, Canada, Korea and Turkey; or as a default, the WTO (World Trade Organisation) model.

Let me take each in turn.

#### **Norway**

Norway, along with Iceland and Liechtenstein, is a member of the European Economic Area (EEA), but not the EU.

And Norway is the non-EU country with the greatest, although still not total, access to the Single Market. It does have the same access in services as the UK has now. But it is outside the Customs Union, meaning that all trade in goods between the EU and Norway is subject to customs checks and Rules of Origin. And it faces tariffs in agriculture and fish.

Norway does also take part in some areas of non-economic co-operation, like counter terrorism. But it pays a price for these privileges. It has to adopt most EU rules, without any say in making them. It pays roughly the same into the EU per person as the UK does.

And, crucially, it is obliged to accept the free movement of people from both EU and EEA countries: migrants in Norway have the same right to access benefits as Norwegians. Today, there is a higher proportion of EU nationals resident in Norway than there is in the UK.

The case of Norway neatly demonstrates the dilemma for Leave: the price of access to the single market is freedom of movement. And the more access to the market they promise, the more empty the boast that they would be able to unilaterally control migration from the EU.

And I say this: If we care about real sovereignty, about being able to shape the decisions which affect us, then the Norway model is definitely not for us.

### **Bilateral**

What if we were to make a bilateral agreement? After all, the EU has a broad range of trade agreements with other countries, such as Switzerland, Turkey or Canada.

Some recommend the Swiss model. But it has taken Switzerland two decades to negotiate more than one hundred separate agreements that it currently has with the EU. Even then, they only have partial access to the Single Market. They face barriers for agriculture and, crucially from our point of view, for services. And once again, they are bound by the principle of free movement of people, with almost four times as many resident EU nationals per capita as in the UK.

Others point to Turkey as a model to follow. Now Turkey of course is a candidate country for membership and has been in a Customs Union with the EU since 1995. It has full access to the single market for industrial and processed agricultural goods, where it is subject to EU regulations, but no access for raw agricultural products nor again, crucially, services.

As part of the Customs Unions, Turkey must align its external tariffs with the EU. And when the EU signs a trade deal with a third country, Turkey must open its market on the same terms. But this is not reciprocal, and the third country is not obliged to open its market to Turkish exports.

Turkey does not take part in policing and criminal justice measures; has only limited co-operation on international security, and it has no say in EU decision-making.

And our conclusion is that the Turkish model would clearly not work for Britain.

What about Canada? The EU-Canada deal has taken seven years and counting to finalise and has still not been approved by the European Parliament! When it happens, and it will happen, it will be the most extensive bilateral agreement the EU has ever made. It gives market access without the free movement of people, and without paying into the EU budget. But Canada is not a European country. And let's be clear: the Canadian trade deal does not even remotely replicate the access we have as an EU member.

Canadian manufacturers will only have tariff-free access if they meet EU 'rules of origin'. So Canadian products, like cars, with complex international supply chains may still face tariffs. Canadian financial services providers can't supply directly to the EU market. They have to set up subsidiaries inside EU member states operating under EU regulations; exporting Canadian jobs. This would really matter for

Britain: our services sector is four-fifths (80%) of the UK economy. We are the second largest exporter of services in the world. And the EU is our largest market for those services.

The EU also sets regulatory standards on many products: cars, pharmaceuticals, toys, foodstuffs and Canada won't have a say over any of them.

The fact is, none of the bilateral free trade models would offer anything like the access we have now to the Single Market and many of them would require adoption of EU regulations and freedom of movement rules. What about Britain's trade with the rest of the world? We currently benefit from EU trade deals with over 50 different countries. And these deals have been based on the negotiating muscle of a bloc with 500m consumers and a quarter of the world's GDP. Renegotiating them as a single country would take many, many years. Years in which British businesses would be squeezed out of traditional markets and with no guarantee at the end of the process we could get terms as good as we have now.

Some have said we should focus our attention on deals with the Anglosphere and the Commonwealth. But the EU already either has, or is negotiating, trade deals with all the biggest Commonwealth countries, and none of our allies wants us to leave the EU. Not Australia, not New Zealand, not Canada, not the US. In fact, the only country who would like us to leave the EU is Russia. That should tell us all we need to know.

### WTO

Let's look for a moment now at the default option – the World Trade Organisation rules, which is where we will end up if we leave without a deal agreed. For anyone who wants to ensure a clean break with the EU, the WTO model is the only honest model. WTO rules mean we could sell into the Single Market, but at a price: The EU imposes a 'common external tariff' on goods and services from countries outside the EU who don't have free trade deals agreed.

10% on cars. 30% on confectionary. 36% on dairy produce.

Our exports would cost more and so be less competitive. That will cost British jobs. And if we reciprocated, our imports would cost more too meaning higher prices in our shops.

And that would not be all. Under WTO rules, we couldn't differentiate between countries. So, for example, if we decided to allow Irish goods to enter the UK tariff-free, we would have to do the same for all 160 countries in the WTO – putting British jobs at risk from foreign competition.

Because, as EU members, the common external tariffs protect our industries from undercutting from outside the EU, while allowing us to import from Europe without tariffs pushing up costs. Outside the EU, it would be all or nothing under WTO rules.

And for our crucial services sector, without a preferential trade agreement, UK businesses would only be guaranteed access under the General Agreement on Trade in Services. This is a much more basic framework, providing much less access to markets.

So on even a cursory inspection, the WTO model does not deliver for Britain. It would be bad for business; bad for jobs; bad for growth. Bad for Britain.

Our choice: leadership of a reformed EU or a leap into the dark.

The truth is, the Leave campaigns cannot point to a credible alternative. They are unable or unwilling to address their core dilemma: the price for any significant level of access to the single market for goods, let alone services, is acceptance of free movement of people. The EU has been remarkably consistent in its dealings with other European countries. And the more access to the single market the Leave campaign promises, the more hollow their pledge to limit EU migration.

So what should we conclude from this analysis? That none of the 'post-exit' options offer anything close to the best-of-both-worlds, special-status, deal that the Prime Minister has negotiated in the European Union. And the most often cited model, Norway, would offer us, quite literally, the worst of both worlds. Paying as if we remained a member of the European Union, subject to the European Union and obliged to observe the principle of free movement to gain access to the single market that we have now, without any say in how those rules are made and without any say over how the European Union is run.

Negotiating any kind of arrangement with 27 countries we that have just rejected will almost certainly take years, will not give full access to the Single Market without contributing to the budget, accepting all the rules, allowing free movement, and will leave us with no seat at the table. To me, that's less sovereignty, not more sovereignty.

Balancing the burdens and the benefits, none of the options that are remotely likely to be deliverable comes close to matching the deal that we already have on the table.

So why would we take a leap in the dark?

Why would we risk the effect of years of uncertainty on the British economy?

Why would we take that chance with our children's future - risking our influence, our prosperity and our security?

When by voting to remain, we can have the best of both worlds in a reformed EU; rather than the worst of both outside. A powerful voice inside Europe; instead of a lonely voice outside. A Great Britain, stronger, safer and better off within the EU.

Thank you.