



## ERG: What type of UK EU relationship?

- It is not necessary to be a member of the Internal (Single) Market to trade with it
- Internal Market membership would include the free movement of people and acceptance of EU laws
- The EU is a Customs Union, membership of which is mutually exclusive to 3<sup>rd</sup> state free trade agreements.
- The main options open to the UK are the WTO, a modern free trade agreement and some form of Internal Market membership based on accepting EU laws, free movement and paying into the EU budget.

### Customs Union v Free Trade Agreement

The essential element of the Customs' Union is a common external tariff, remaining in the EU Custom's Union would make it impossible for the UK to sign its own free trade agreements with third party states. Turkey agreed to a transitional Custom's Union agreement, which allows for the free movement of goods (except agricultural goods) but curtails their ability to negotiate their own free trade agreements.

### Benefits of a Customs Union

- Free flow of goods without 'rules of origin'
- Does not cover trade in Services

### Drawbacks of a Customs Union

- Limits ability to strike third party trade deals, as they would need to comply with the EU tariff regime.
- Would require conformity with EU product standards and other rules.

If the UK decided to leave the Customs Union the following are options:

### WTO

If the EU left the EU without any agreement it would trade on Most Favoured Nation (MFN) terms with the EU. This would mean EU tariffs been put in place, and the ability of to reciprocate.

### Benefits of trading on WTO terms with the EU

- It would not require any negotiation beyond that of the formality of leaving the EU.
- The Current EU trade waited tariff on manufactured goods is only 3.2%.<sup>1</sup>

---

<sup>1</sup> World Bank: <http://data.worldbank.org/indicator/TM.TAX.MANF.WM.FN.ZS?locations=GB>

- It would not require the UK adopting any EU laws.
- Services Exports would be governed by the GATS, providing for non-discrimination based on establishment<sup>2</sup>
- The EU could not demand any budget contribution.
- GATS does provide for some free movement of people limited to investors (Mode 4)<sup>3</sup>.

#### **Drawbacks of trading on WTO terms**

- There would be tariffs, and 'rules of origin', even if minimal.
- Access for UK services exports, would be less than at present. [EU services trade is already less than perfect].

#### **Free Trade Agreement (FTA)**

The UK could agree a limited trade agreement concerning tariffs on goods and some enhanced services access.

#### **Benefits of a FTA**

- This would be achievable and has the precedent of the Canada/EU negotiations as a starting point.
- It could allow for zero rated tariffs, helping the UK goods trade.
- It could allow for greater access for services than GATS.

#### **Drawbacks of a FTA**

- It would be more difficult to negotiate than WTO terms and could require taking into account the EU's existing cumulation agreements that allow for the import and re-export of components.<sup>4</sup>
- A 'passport' for UK financial services companies to trade directly with EU counterparts would be difficult to agree as the Commission would be likely to require full acceptance of EU regulations and would be likely to hold the granting of "equivalence" hostage to politics, as has happened with Switzerland.

#### **Stay in the "Internal Market"**

The UK could try to stay in the Internal Market. This would require the UK accepting the majority of EU laws as they relate to different sectors. There are several ways to remain in the Internal Market.

Switzerland has agreed a series of bilateral sectoral deals that imports EU law into Swiss domestic law without the EU Court having jurisdiction, these need updating with every new EU law. The second way is a 'living agreement' such as the EEA that automatically places EU law into Norway, Iceland and Lichtenstein's law and places them effectively under the EU court.

#### **Benefits of Internal Market**

---

<sup>2</sup> WTO; [https://www.wto.org/english/tratop\\_e/serv\\_e/gatsqa\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm)

<sup>3</sup> WTO, free movement of natural persons;  
[https://www.wto.org/english/tratop\\_e/serv\\_e/movement\\_persons\\_e/movement\\_persons\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/movement_persons_e/movement_persons_e.htm)

<sup>4</sup> EC:  
[http://ec.europa.eu/taxation\\_customs/customs/customs\\_duties/rules\\_origin/preferential/article\\_774\\_en.htm#full\\_cumulation](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_774_en.htm#full_cumulation)

- Access for services on a similar basis to EU states, although it is noted that Switzerland has so far failed to gain a full passport for its banks.
- Zero tariffs
- It is possible, but unlikely, that the UK could gain limited membership in one or two areas – i.e financial services, without accepting all EU laws.

#### **Drawbacks of Internal Market membership**

- Potential for the EU to demand the UK accepts all aspects of the Internal Market including free movement of people.
- The EU may demand a payment into the EU budget
- There is a 'sovereignty' cost in terms of UK legislation.

#### **EEA 'minus' / 'plus'**

It is possible that the UK might propose a variation on the current EEA agreement to either add voting weights for areas included or exclude policy areas. This is however likely to be very difficult to negotiate.<sup>5</sup> Variations of EEA 'plus' can be indistinguishable to an EU minus.

Negotiating a continuity trade deal would be in addition to a negotiation to leave the EU, such as those on payments to the EU budget and international obligations. Both leaving the EU and concluding a trade agreement would require UK domestic legislation.

---

<sup>5</sup> See for instance Open Europe (Mats Persson) on the EEA 'plus';  
<http://openeuropeblog.blogspot.co.uk/2013/05/eea-plus-model-for-future-of-uk-in.html>