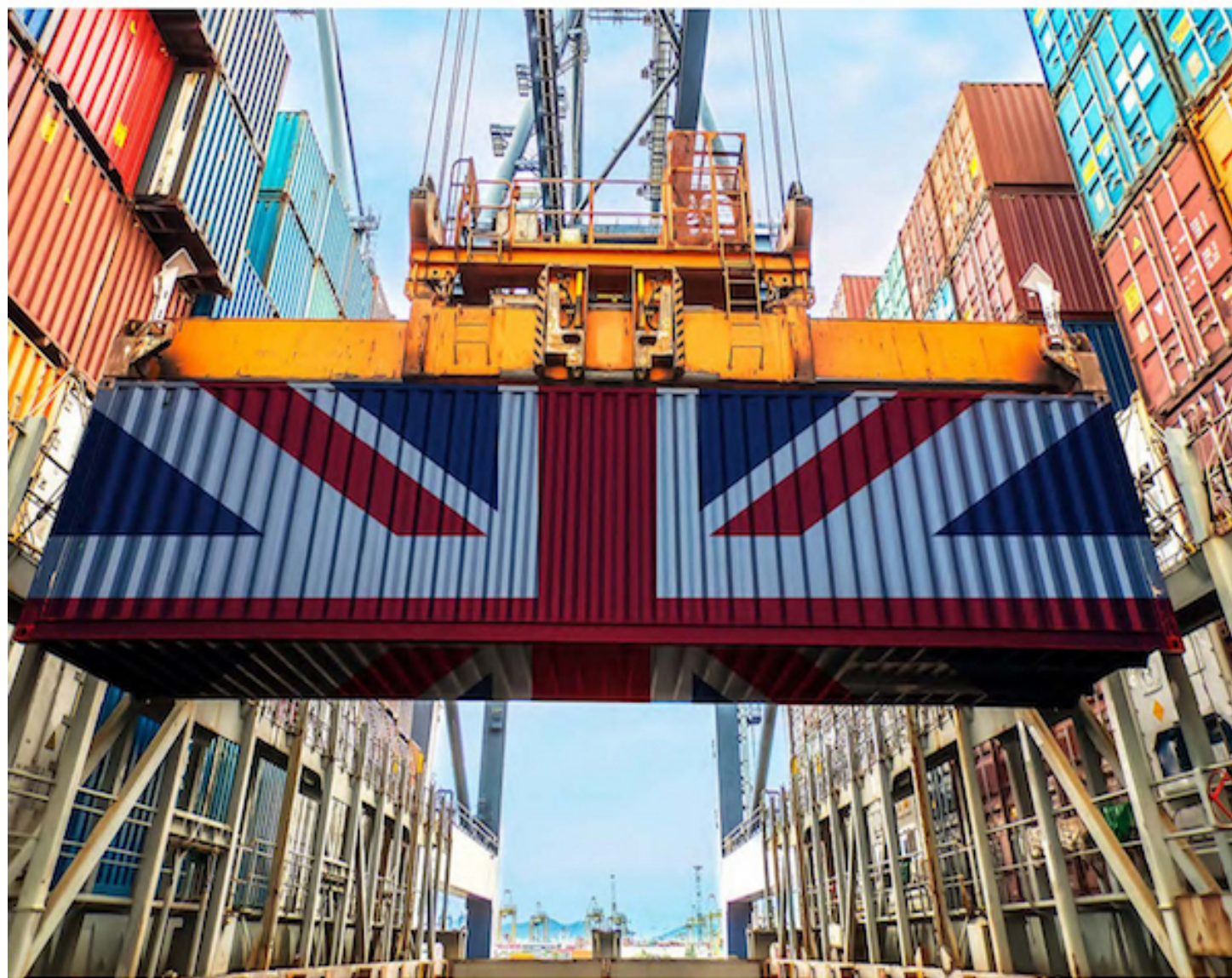


GOING GLOBAL WITHOUT DELAY

*LEADING THE WORLD TO
TARIFF-FREE TRADE.*



GLOBAL BRITAIN

Going global without delay

Leading the World to tariff-free trade

Ewen Stewart & Brian Monteith

Global Britain's analysis of the trade options available post BREXIT unequivocally recommends *global free trade* outside the EU Customs Union and Single Market

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EXECUTIVE SUMMARY

- This is a once in a generation opportunity to re-design UK global trading relationships guided by the UK's historic mission of supporting global free trade away from the mercantilist highly regulated and expensive Single Market and Customs Union approach.
- We demonstrated in our sister paper *Why the single market is failing Britain* why there is the need for wholesale trade reform and why remaining in the EU Single Market, or Customs Union, simply locks the UK into perpetual deficits and slow growth.
- In a nutshell the UK enjoys a trade surplus with the non-EU world and a massive deficit within the Single Market and Customs Union. The Single Market is failing in services, the UK's strategic advantage. It is also the world's slowest growing region and has been for a generation. It is pre-occupied with firefighting to save the sub-optimal Euro. Business is voting with its feet, away from the EU Customs Union to the world. In 1999 61% of UK trade went to the EU. It is 43% now and projected to fall to 35% by 2025.
- Further the EU is hopeless at agreeing free trade deals with other significant nations. They have failed to secure a deal with US, China, Japan, Brazil or Australia for example. Far from being 'at the back of the queue' there are very positive indications from the US, China and Australia in particular that they would relish a free trade deal with the UK.
- We set a number of key criteria in judging the merits of a deal with the EU. These key criteria are:
 - As near tariff-free free trade as possible
 - Flexibility so UK policy can change as circumstances change. A reliance on complex bi-lateral agreement harms this objective as agreement needs to be reached with all parties. The current example of EU law making shows the difficulty in the supranational or bi-lateral approach. Policy must therefore be decided by Parliament as a general rule rather than bilaterally as this allows for flexibility to act as circumstances change
 - Simplicity to keep regulation and harmonisation to a minimum thus allowing the customer and business the maximum reasonable freedom from regulatory interference
 - UK Parliament to solely decide its laws and trade, migration, agriculture and fisheries policies
 - Any agreement being out-with the framework of supra national legal authority, notably the European Court of Justice or similar institution
 - A reasonable timeframe. We define that within a maximum of 24 months of triggering Article 50 which we fully expect to be implemented by not later than Q1 2017
- We examine each of the four principle trade options open to HMG which we call The Norway Option, The Swiss Option, The Canadian Option and the Global Free Trade Option with each of these options judged against the deal criteria above.

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- The Norway Option is judged to be no better than the current arrangements as it involves remaining in the Single Market with virtually all the regulation remaining with no say in its framing (against the current 12% paltry say within the Council of Ministers.) Further there would be no control over UK borders and the UK would have to continue to submit to EU supranational legal jurisdiction.
 - The Swiss option is little better. Detailed line-by-line bi-lateral arrangements are very inflexible, as circumstances change, while it is highly doubtful that the UK would have any meaningful control over its borders. We believe trying to negotiate this kind of option would enable the EU to dictate the timetable and given its complexity could take years. This would be unacceptable in the light of the vote on 23rd June.
 - Instead we believe the UK should attempt to secure a zero tariff-free trade deal with the EU on triggering article 50 making it clear at the onset of negotiations if no deal was reached within a maximum 24 month timeframe the UK would leave the EU trading under WTO rules.
 - Given that the UK has a £110bn current account deficit with the EU it is manifestly in the EU's interests to accept such an offer as to do otherwise would harm EU industry. It must be clear however that such a free trade agreement must cover current service sector access including financial services with passporting rights continuing under the MIFID 2 equivalence rules which will enable US firms, for example, easy access to EU nations.
 - If the EU are unable to reach a zero tariff-free trade deal with the UK HMG should simply leave the EU, porting over current legislation, to provide legal certainty to business and consumers and trade under WTO rules.
 - The UK should seek zero tariff-free trade agreements with other willing nations. The US, China and Australia have all indicated they would relish the opportunity to discuss a free trade deal with the UK.
 - It should be remembered that US, China, Brazil and Australia amongst many others currently trade under WTO rules rather successfully with the EU. There is no reason to believe the UK could not do the same.
 - Ultimately we have nothing to fear but fear itself. The fear spread by some observers of economic collapse before the EU referendum was clearly misplaced as the UK economy has simply shrugged its shoulders at BREXIT and continued to prosper. There is nothing to fear from the WTO. Many other major nations prosper under its wings.
 - This is a once in a generation opportunity for the UK to return to its historic free trade routes. HMG should not be afraid to say '*No deal is better than a bad deal*' and simply leave the EU and seek free trade deals with the world's fastest growing markets under WTO rules.

1. INTRODUCTION

No deal is better than a bad deal

Agreeing the right trade deal is of critical importance to the nation's long-term health and prosperity and this note outlines the position Leave Means Leave believes the UK should take.

By voting to leave the EU the British electorate has handed HMG a blank sheet to re-design our political and trading relationships for the next generation. This is a noble opportunity to help frame the peace and prosperity for the people of this country and indeed Europe and beyond.

We have demonstrated in our sister paper *Why the Single Market is failing Britain* the need for wholesale reform. Our trade position is asymmetric. We run trade surpluses in services globally and with all trade with the non-EU world. We have a problem with goods and the Single Market where substantial deficits are the norm. While corporatist voice will undoubtedly argue for 'the easy option' of remaining in the Single Market, or Customs Union, we do not believe this to be the right approach.

Remaining in the Single Market, or wider Customs Union, will lock the UK into perennial under-performance. The Single Market has failed to liberalise trade substantially in services and they have had nearly 30 years to try. The EU has failed to sign any significant free trade deals with the most notable global partners; US, China, Japan, Brazil or Australia. The EU has failed to provide growth and prosperity that one would expect, underperforming every other region in the world over a generation or more. This means the EU market does not work to our advantage, or indeed that of most other members.

There is a real danger that if we remain in the EEA, or similar, we are locked into a declining bloc, our political and diplomatic resource is wasted fighting a lost cause, the interests of the EU and UK deviate further as the latter is forced to firefight the Euro, causing detrimental financial and fiscal regulation and worse. From within the EEA, or similar EU customs union arrangement, the UK shall need to take the consequences without even a fig leaf of a 12% Council of Ministers vote.

The key Leave Means Leave criteria to judge an EU-UK deal

The key to the right deal should be guided by the following broad principles

- As near tariff-free free trade as possible;
- Flexibility – so UK policy can change as circumstances change. A reliance on complex bi-lateral agreement harms this objective as agreement needs to be reached with all parties. The current example of EU law making shows the difficulty in the supranational or bi-lateral approach. Policy must therefore be decided by Parliament as a general rule rather than bilaterally as this allows for flexibility to act as circumstances change;

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- Simplicity – keep regulation and harmonisation to a minimum and allowing the customer and business the maximum reasonable freedom from regulatory interference;
 - UK Parliament to solely decide its laws and trade, migration, agriculture and fisheries policies;
 - Any agreement being out-with the framework of supra national legal authority, notably the European Court of Justice or similar institution; and,
 - A reasonable timeframe. We define that within a maximum of 24 months of triggering Article 50 which we fully expect to be implemented by not later than Q1 2017;

We will judge any final settlement with the EU against these criteria and argue that *no deal is better than a bad deal*. The UK government should simply leave the EU and be guided by WTO rules should no satisfactory trade deal with the EU be possible within 24 months of Article 50 being triggered. This statement of intent gives clarity and enhances our negotiating position.

2. BACKGROUND

The UK is a trading nation. For centuries it has made its way in the world through trade. The ideas of free trade were born here through the likes of Adam Smith and David Ricardo building on its universal benefits through concepts like the theory of comparative advantage, a notion that the European Union's ever-increasing 'harmonisation' policies paradoxically work directly against. At a political level the UK has been a global leader in promoting free trade since the 19th century.

The UK has always been open to fresh ideas and international goods and services. The Anglosphere generally, be it the UK, Australia, or the US, differs from continental Europe in two great respects, one in the basis of law – the common law approach against the Roman or Napoleonic code – and flowing from that, ideas of trade.

Firstly the Anglosphere's emphasis on the common law, based on precedent with underlying freedoms to act unless an action is specifically proscribed, contrasts with the Continental tradition, based on Napoleonic code, where rights are withheld unless specifically given. Napoleonic code tends, therefore, to be much more codified and prescriptive.

This common law tradition made the UK, and the Anglosphere, more susceptible to global free trade and a greater acceptance of new ideas and products while Europe tended to be more closed and mercantilist in nature. This can still be seen today across so many products and services. For example London, or Edinburgh, are far more international than Paris, Frankfurt or Rome which tend to still be more national in their product and services choices.

The UK, despite making up less than 1% of the world global population is one of the world's most significant trading nations. Last year the UK exported £669bn of goods and services equivalent to over 36% of GDP. She has long known that free and open trade is the route to prosperity.

It is only since 1973 that the UK's approach to law and trade has been eroded to the point where our previous influence at the WTO is now relegated to a 12% vote, with no veto, at the European Council of Ministers. Our common law ideas and free trading instincts have given way to the European regulatory and mercantilist approach, as evidenced by the disproportionate insistence throughout the EU's legislative processes with the costly and highly restrictive 'precautionary principle'¹.

The European Single Market implies free trade within its boundaries. While this is true at one level it is in reality a highly managed and regulated trade bloc that stifles competition and innovations as the EU increasingly sets uniform standards. As Professor David Myddleton has noted, harmonisation *per se* is inherently damaging to the diversity upon which previous European economic success was built, and as Professor Jean-Jacques Rosa has also emphasised, this all-pervasive regulatory union through the Single Market and Customs Union, in practice stifles competition and in fact leads to regress and distortion of competition².

¹ *The European Institutions as an Interest Group*, Professor Roland Vaubel, Institute of Economic Affairs, London, 2009

² *Saying No to the Single Market*, Bruges Group, London, 2013

Further, third party EU trade agreements often extend well beyond trade imposing regulatory standards on partners often unrelated to trade; for example in areas like climate change, human rights, or restrictive constraints upon UK firms, which do no business at all with the rest of the EU – but still, nonetheless, have to conform with heavy-handed EU directives, backed up with the full force of the European Court of Justice, the supreme law making body in the land³. Research by *Open Europe* has concluded that the top 100 EU rules cost the UK economy £33.3 billion per annum with little tangible benefit⁴. Whilst clearly not all of these costs will disappear overnight post Brexit, but would likely take several years to diminish, the UK's membership of the EU is has both stifled business innovation through regulatory 'harmonisation' and thus competition⁵. Moreover recent analysis by Michael Burrage for *Civitas* demonstrates that there is no statistical evidence whatsoever to assert that UK exports have actually benefited from EU membership⁶ nor indeed Foreign Direct Investment⁷, except in the very early years.

Finally, as we have demonstrated in our paper *Why the EU's Single Market is Failing Britain* the bloc is in steep and terminal decline. No other region has performed so poorly in terms of GDP growth over the last generation. Gone is the idea that the UK must be a member to boost trading links. The EU is the world trade laggard and business is voting with its feet. In 1999 61% of UK trade went to the EU, today it is 43%. By 2025 this is projected to have fallen further to just 35% rendering the need to stay in the Single Market as not only obsolete, but ultimately damaging to the UK's long term trading partnerships as the UK is excluded from reaching its own trade deals, while a member of the Single Market and Customs Union.

Indeed so jealous of its sole trade agreement right is the EU that it has even gone so far as to warn the UK with sanction should it dare to try and reach 3rd party trade deals while still a member of the EU. This is ironic as the EU has singularly failed to reach a trade deal with any major partner, be it US, China, Japan, Australia or Brazil. The UK can do much better reaching its own deals and what has become clear from senior politicians in the US, China and Australia in particular, far from being 'at the back of the queue' these countries are relishing the opportunity to reach mutually beneficial free trading deals with the UK.

The UK's current relationship with the European Union is therefore very different from the classical liberal idea of trade and it is high time the UK rediscovered its historic global trading roots and ideas. The vote to leave the European Union, on 23rd June, provides a once in a generation chance to develop a clear and mutually beneficial trade policy which can re-boot the sale of goods and services much more closely to our historic role, that of global free trade, based on willing buyer, willing seller with minimal, and ideally no tariff barriers. We must get this arrangement right and that is why *no deal is better than a bad deal* and the UK Government must be prepared to leave the EU and trade under WTO rules should the EU be unwilling to offer a satisfactory free trade deal.

³ *The hidden cost of exporting to the EU Single Market*, Global Britain Briefing Note No.98, London, 2014

⁴ *Top 100 rules cost Britain £33.3bn*, Open Europe, London, 2015

⁵ *The hidden cost of exporting to the EU Single Market*, Global Britain Briefing Note No.98, London, 2014

⁶ *Where's The Insider Advantage? A comparative study of UK exports*

⁷ *The EU effect: the impact of the EU on foreign direct investment in the UK from 1970 to 2011*, Civitas, London, 2014

3. LEGAL POSITION

Australia, USA, China, Japan, Brazil and other leading trading nations currently have no trade agreement with the EU and trade flows with the EU continue unhindered. Internationally, tariffs are now very low and falling. 75% of all goods pass borders tariff-free and the average tariff into the EU is a paltry 1.09%, less than an average week's swing in currency markets.

When the UK invokes Article 50, which we expect in Q1 2017 and subsequently leaves, there will be continuity. Nothing changes on day one. All European directives and regulations are currently directly incorporated into UK law and rubber-stamped by Westminster. (The UK cannot ignore an agreed directive, or regulation, or it would face prosecution by the European Court of Justice). When the UK leaves the EU all existing laws will remain legally in place until rescinded by the UK Parliament, or by international agreement.

Indeed we recommend Parliament expressly incorporates all EU outstanding directives and legislation into UK law to ensure continuity and business certainty on day one. Over time the UK Parliament can therefore amend law as appropriate for UK needs given changing circumstances. This approach has substantial legal precedent having been followed by the embryonic USA on independence from the UK and also subsequently Australia, India and other commonwealth countries on their independence.

The UK may choose to keep much of it on the statute, repealing only what was deemed harmful by Westminster. The good bits stay; Parliament repeals what is deemed disadvantageous at a time of our choosing.

On Brexit, economic and geopolitical reality will rapidly come to the fore and ensure that the Lisbon Treaty's Article 50 negotiations between the UK and Brussels result in a mutually satisfactory outcome. Should negotiations prove overly protracted, however, or indeed a free trade deal with the EU proves impossible to broker, the UK must be clear and ready to adopt WTO rules and reach free trade deals with more willing parties.

Outside the EU, UK exports to the EU would be in the same position as every other country in the world that trades with the EU and would need to abide by EU Customs Union regulations, quotas and tariffs. The UK would be exempt, however, from all other aspects (not trade related) of EU policy including the CAP, fisheries, environment, foreign policy and borders control and, critically, the European Court of Justice legal supremacy, amongst others.

Evolution not revolution

As the UK is currently an EU member it meets existing regulatory standards, this will be the case until we formally conclude negotiations and leave. While policy would gradually deviate over time the process would be slow and it would remain fairly simple for UK companies to continue to evolve to

meet regulatory demands as required. This slow evolution would give the UK time to continue the process that has already begun as companies rebalance trade to where the fastest economic growth is, namely America, Asia and now parts of Africa.

Some commentators have argued that there is no option for the UK other than remain part of the European Economic Area simply as there is no legal basis to do anything other if trade is to flow. They claim that the UK, on leaving the EEA, simply would not be able to incorporate into law the 1600 pages of current EU trade regulation. We believe this to be a very narrow interpretation of the legal position and ignores the complex supply chains, inter-dependence and hardnosed business incentive to allow trade to freely flow.

If this narrow interpretation is correct Airbus would not fly. Many components, including the wings, of Airbus aircraft, rely solely on UK components. The wings are assembled in Filton, Bristol and Broughton, North Wales. No similar facilities on a suitable scale exist elsewhere. It would take years to build up expertise and obtain patents to move the facility within the EEA. Do they really believe Airbus can fly without wings? The same is true for Boeing and many other manufacturing and service companies dependent on the global supply chain.

Former trade minister Peter Lilley, and others, have argued that *realpolitik* will dictate what is possible and what is not. He dismisses the argument that it is EEA, or no trade, for those that argue in a very narrow legal interpretation, ignore the reality of the position and the UK has a trade deficit with the EU of in excess of £110bn. Would the German, French and Italian governments accept they could not export to the UK simply as no legal mechanism could be found to replace the 1600 pages of trade agreement, which the UK is currently compliant with already and is obliged to remain compliant with until the day she leaves? It is absurd to suggest that during the negotiating period clear legal mechanisms cannot be found to smooth trade. On BREXIT, whether the UK remains in the EEA, or not, trade will flow as it did the day before, therefore all options are open to the UK Government.

The British people decisively voted to leave the EU in the Referendum of 23rd June. The previous Prime Minister was clear that Parliament would 'faithfully follow the instructions of the British people.' The new Prime Minister Theresa May has also been crystal clear that 'BREXIT means BREXIT.' We are also clear LEAVE *means* LEAVE.

This paper provides a clear route map to ensure the wishes of the people are indeed faithfully carried out and that negotiations are concluded in a mutually beneficial and timely manner. Given the legal and political reality we consider the four principle alternatives open to the UK (clearly there are derivatives of each one as well) and suggest each has its merits however we make firm recommendations and proposals as to the route HMG should adopt clearly measuring the benefits and drawbacks of each against six criteria outlined above towards a fair and reasonable deal.

4. THE FOUR OPTIONS

There are essentially four basic options available to the UK, albeit there are a myriad of variants, on BREXIT. Judging against our criteria above we outline each with the principle strengths and weaknesses of each opportunity.

Option One: The Norway Option

– European Economic Area (EEA) membership

The EEA is currently only open to European Free Trade Association (EFTA) or EU members. The UK is a signatory of the EU and EEA. Theoretically it would be simple to resign our EU membership but retain EEA membership; however, legal opinion varies as to whether on resigning EU membership remaining in the EEA would be automatic, or part of a negotiating process. We tend to the view negotiation would be required. Indeed, some Norwegian politicians have suggested the UK might not be welcome⁸.

Taken directly from the EFTA website:

‘The EEA Agreement provides for the inclusion of EU legislation covering the four freedoms — the free movement of goods, services, persons and capital — throughout the 31 EEA States. In addition, the Agreement covers cooperation in other important areas such as research and development, education, social policy, the environment, consumer protection, tourism and culture, collectively known as “flanking and horizontal” policies. The Agreement guarantees equal rights and obligations within the Internal Market for citizens and economic operators in the EEA.’⁹

Thus if the UK remained a member of the EEA the UK would be required to apply the full *acquis communautaire* relevant to the four freedoms – goods, persons, services and capital along with that pertinent to flanking policies, including transport, competition, social policy, consumer protection, environment, statistics and company law including rules on state aid.

Effectively EEA is the ante room to full EU membership, for countries where Governments have indicated they would like to join the EU, but their populations are more hostile. It is no place for a country that has just voted to leave the EU.

While it could be argued technically that the UK had left the EU by joining the EEA Leave Means Leave views this as largely semantics as the UK would remain bound by the full body of EU law in the critical areas described above. Worse, the UK would be swapping a modest 12% say in the framing of this legislation, as is currently the case, for practically no say at all.

⁸ <http://www.independent.co.uk/news/business/news/norway-model-not-right-brexit-eu-referendum-uk-single-market-passporting-eea-a7113101.html> and <https://www.theguardian.com/world/2016/aug/09/norway-may-block-uk-return-to-european-free-trade-association>

⁹ <http://www.efta.int/eea/eea-agreement>

Under the EEA the UK may benefit from zero tariffs (against an average 1.09% for third party nations) but would be excluded from decision-making. This would be a dangerous place to be as the EU remains in fire-fighting mode over the attempts to stabilise the Euro. This is no long-term safeguard at all for the City, for example, as regulation could be applied without influence.

The EEA Agreement does not cover all EU policies – Common Agriculture and Fisheries Policies (although the Agreement contains provisions on various aspects of trade in agricultural and fish products), Common Foreign and Security Policy, Justice and Home Affairs, or Monetary Union (EMU) are exempt. The reality is, with the exception of agriculture and fisheries, the UK has many exemptions, or opt-outs, from most of the others thus the EEA option is essentially EU membership without influence as the UK would be forced to adopt all regulations and directives agreed and subject to supranational judicial review in relation to a very wide range of existing EU policies.

We view the Norway option, or similar derivative, as very detrimental to UK interests in the long term as policy choice is highly constrained, in this overly regulated declining bloc, with no policy influence. Those that argue this option gives them access to the Single Market misunderstand that all nations have access so long as they pay the required tariff and meet regulatory obligations. As we have shown average tariffs are very low and frankly in most industries close to a rounding error.

‘The Norway Option’ suffers from the following further disadvantages:

- The UK would not have control of its borders as free movement of people remains a sacrosanct principle of EEA membership; unless a bespoke deal can be reached which, given comments from the EU’s leadership, seems improbable. Both the electorate and Theresa May have been clear that control of migration is a red line, thus remaining in the Single Market is not an option.
- Within the EEA the UK would remain bound by supranational court judgements. The current EFTA Court is based in Luxembourg and largely fully accepts and adopts legal precedent based directly on EU policy and law
- We would have no say on framing Single Market directives. i.e. ‘picking up the tab without a say’. It is, however, a moot point as to how much influence the UK has anyway. For example a Business for Britain paper demonstrated that the UK had failed to stop one single proposal out of the last 55 that it voted against in the Council of Ministers¹⁰; This could be particularly problematic in areas like financial services legislation unless specific safeguards are forthcoming
- We would need to argue for exemptions, which would be subject to negotiation, from regulation in many areas, but would these exemptions be watertight and what would stop a future UK Government ‘opting in’? Again financial services could be problematic as would agriculture and fisheries in particular.
- There is substantial legal creep should the UK remain in the EEA as ECJ judgements regularly

¹⁰ *Business for Britain Briefing Note No.3* <http://forbritain.org/percentagelaws.pdf>

stray from pure trade matters by tying in agreement with issues like Climate Change, health and safety policy and even human rights legislation. The UK would have no ability to influence decisions should it opt for EEA membership and the risk is that the position could be even worse than the current arrangements with most of the regulation with little or no say.

EEA membership may superficially seem better than the current position of full membership but there are very significant drawbacks for the UK. As we demonstrated in our sister paper *Why the single market is failing Britain* the risk is EEA membership merely ties us into a failing regulatory regime, cements the £110bn plus annual trade deficit, and fails to re-boot UK trade towards where the growth is, while providing no control over intra EU migration, or say on Single Market policy and all the myriad of 'flanking' policy areas while almost certainly continuing to pay into the EU budget for the dubious privilege. The EEA option gives the illusion of BREXIT and the reality of remaining in all but a few policy areas without any say. It certainly does not remotely meet the deal criteria we set out – it would be a bad deal.

Option Two: The Swiss Option

– European Free Trade Association (EFTA) membership

The UK was a founding member of EFTA, resigning in 1973 to join the then EEC. EFTA currently has four members all of which are amongst the richest nations on earth. The current members are with GDP per capita in brackets (World Bank 2014 statistics): Switzerland (\$84.8k), Norway (\$100.8k), Iceland (\$47.4k) and Lichtenstein (\$98k). They have a combined population of 14m and total GDP of in excess of \$1tn. Some EFTA members are members of the EEA, but Switzerland is not. It is probable EFTA would welcome the UK as a new member as it would greatly increase its 'clout.'

There are a number of advantages to the Swiss Option:

- It offers a high degree of independence via bi-lateral treaties. As the European Union's own website says:

*'the EU has closer ties with Switzerland than any other non EEA country. Switzerland, despite its small size, is the EU's 4th largest trading partner and over 1 million EU citizens live in Switzerland and 430,000 Swiss live in the EU. Switzerland takes part in a number of EU initiatives voluntarily including ERASMUS, there is freedom of movement agreements giving the right to enter and work but critically not welfare, or benefits.'*¹¹

Under this scenario the UK may have a higher degree of independence than EEA membership so long as satisfactory bi-national negotiations were concluded. And therein lies the rub. The EU would doubtless seek to negotiate bi-laterally line by line on all aspects of policy that we believe would be extremely difficult to achieve within any acceptable timeframe.

¹¹ http://eeas.europa.eu/switzerland/index_en.htm

Further, one of the key principles of an independent nation is the ability of the executive to change policy as circumstances or direction from the electorate dictate. The problem with bilateral agreements is the subsequent difficulty in changing policy.

While some bilateral deals are clearly beneficial the overarching principle should be minimalism and simplicity, a criteria that the EU, with its 40,000 legal acts, 15000 court judgements and 62000 adopted international standards is not renowned for.

Even if a deal could be brokered in a reasonable timeframe, which we doubt, such detailed bilateral agreements are a recipe for lack of policy dynamism given the legal difficulty in changing unilaterally bilateral agreement. This clearly fails our criteria test and it is hardly what the population voted for on 23rd June.

Further, with a Swiss style option the UK would be very unlikely to be able to fully control its borders. Although it is probable we could adopt a Swiss style approach to work and benefits, we believe this would have little impact on intra-EU net migration.

Moreover it would require continuing a very close co-operating relationship in many areas without great influence on the outcome. While the UK's influence within the EU is, however, at best questionable, given we have only 12% of votes and no veto in the Council of Ministers, having no influence would be worse.

There would be a high degree of complexity in terms of negotiations and tying up loose ends and negotiation could take years and to an extent be at the mercy of EU timescales. This is a line by line bilateral agreement covering many areas of policy creating a short term fix with long term inflexibility.

Given the clear will of the people and the promises from HMG that 'Brexit will mean Brexit' negotiations lasting years are clearly unacceptable both from a democratic and business certainty perspective.

A Swiss style deal involving EFTA would give the UK greater freedom of action than is currently the case thus it is a superior option to EEA membership but we believe it to be inflexible, with in all probability adopting virtually all EU policy with little ability to change direction longer term given the rigidity of bi-lateral agreements, while failing to meet the requirement to control UK borders adequately. Worse, the timetable would be substantially directed by the EU that would likely take years to negotiate. The Swiss option sounds attractive but it is a trap resembling quicksand and does not pass our criteria test – it too would be a bad deal.

Option Three: The Canadian Option

– Establishing a Free Trade Agreement with the EU

From the European Commission website:

‘The Canada-EU summit on 26 September 2014 in Ottawa marked the end of the negotiations of the EU-Canada trade agreement (CETA). The agreement will remove over 99% of tariffs between the two economies and create sizeable new market access opportunities in services and investment.

The text of the agreement will now undergo a legal scrubbing followed by a translation into all official languages of the EU. At a later stage, the agreement will need to be approved by the Council and the European Parliament.

In 2013 Canada was the EU's 12th most important trading partner, accounting for 1.7% of the EU's total external trade. In the same year the EU was Canada's second most important trading partner, after the U.S., with around 9.8% of Canada's total external trade.

The value of bilateral trade in goods between the EU and Canada was €58,8 billion in 2013. Machinery, transport equipment and chemicals dominate the EU's exports of goods to Canada, and also constitute an important part of the EU's imports of goods from Canada.’¹²

Given that the UK currently meets all Single Market and EU law, and it would be in the EU's interests to continue a strong trading relationship with the UK, especially as it runs a £110bn plus current account surplus with Britain, it should, in theory, not be difficult to negotiate a deal similar to that of the Canadians. However the Canada-EU accord took seven years to negotiate, with it finally expected to be signed on 27th October 2016. Such a timetable is clearly an unacceptable timeframe from either the UK or EU's position.

There are a number of advantages to the Canadian option notably that Canada secured an agreement to eliminate 98% of tariffs despite being only the EU's 12th largest trading partner and with the EU running a small surplus with Canada. By comparison the UK is the EU's *largest* trading partner selling well over £150bn to the EU, a magnitude around eight times greater than Canada's trade. Given the UK's scale, relative to Canada, it is not credible to believe that the UK would not get a similar deal, and probably better, to that of Canada's. If Canada can do it so can we.

Further, if the UK could sign a similar deal to the Canadian's there would be the following advantages:

- The UK saves the net £14.8bn per annum EU membership fee and all the regulation (bar those required to trade in the Customs Union);

¹² <http://ec.europa.eu/trade/policy/countries-and-regions/countries/canada/>

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- We would be exempt from CAP, CFP and all other EU regulation, simply keeping what we deemed to be in our interests or mutually beneficial;
 - We would have full control of borders and in fact regain full independence;
 - EU law is currently incorporated into UK law – we can change it at the pace that suits us in a co-operative manner;
 - We would be exempt from the European Court of Justice

There are, however, some major challenges, notably in securing such a deal within a two year timeframe. While a positive business-like approach is doable the EU's decision making process is notoriously slow. Not only did it take seven years to negotiate a deal with Canada but the EU's failed attempts to strike bespoke agreements with the US, China, Japan, Brazil and Australia do not offer an encouraging precedent as in each of those cases no deal has yet been brokered despite years of trying.

Further, the devil would be in the detail and close scrutiny would be required as to the regulatory and policy agreement. Effectively however we believe the UK should attempt to secure a similar deal to the Canadian's arguing for a tariff-free zone between the EU and UK. However the UK Government should also be very clear with the EU at the outset of negotiations that if a zero tariff deal cannot be struck within 24 months the UK will leave the EU and trade under WTO rules and we will not be bullied, or bounced, into arrangements that do not meet the criteria test set out.

Given the EU would have more to lose than the UK on this, due to the scale of the UK's trade deficit with the UK, such a clear signal could help focus minds towards a mutually beneficial agreement. If not HMG would trade under WTO rules. If the EU won't agree to free trade, there are plenty of other nations that will. Waiting beyond two years for a deal that we cannot be certain will be favourable can only be described as a bad deal relative to option 4 below.

Option Four: The Global Free Trade Option **– Benefitting from existing WTO rules**

Under the *Global Free Trade Option*, the UK offers more quickly to remove all trade tariffs on imports from other nations, thus becoming the largest free trade economy in the world, providing there is reciprocity from the third part nation / bloc. The UK will thereby become a beacon for global free trade, encouraging cross border trade and investment, challenging other nation states, and the EU itself, to follow its example.

Some have argued this option would not be possible given the sheer scope of EU legal competence. They have even argued that trade would grind to a halt out-with some EU Customs Union or EEA framework. This is a very narrow and improbable definition of the position as it is simply not credible

to believe trade would grind to a halt due to bureaucratic imperative. If so Airbus planes would have no wings, as they are made in the UK and sent to Toulouse, Volkswagen (the UK's market leader) would not be able to export to the UK and BMW would not be able to export its Mini to Germany.

To circumvent this risk Parliament simply needs to convert all existing EU legislation and regulation into UK law as this provides business certainty and allows for Parliament to gradually amend EU law as appropriate over a sensible timeframe. Further as the UK is already compliant with EU law, as a full existing member, this would imply policy continuation until Parliament decided to make appropriate changes.

Under the *Global Free Trade Option*:

- 1) Internationally, the UK will have more influence, not less. Crucially, the UK will regain its own seat and vote at the WTO (which it surrendered to the then EEC on joining in 1973). The UK is already the 5th largest global economy and an influential member of the G8, NATO, the OECD, the United Nations Security Council and the Commonwealth.¹³
- 2) Following Brexit, the UK will create more trade and jobs, not less. By offering to remove tariffs and being free to negotiate its own trade agreements globally with all nations, export growth and inward investment will be able to accelerate. Evidence of this post-referendum trend is already visible. Additionally, outside the EU, the UK will be able to maximise the opportunities flowing from its leading position in the Commonwealth, its special relationship with the US and its other global historical ties.
- 3) The UK will restore sovereign control and democratic accountability to its parliament at Westminster. Currently, over 64% of UK laws and regulations are forced on the economy by the EU, with no ability to withstand restrictions that are perceived as unnecessary.¹⁴ The UK can ensure that the City of London grows its position as a global financial centre of excellence rather than have further damaging EU regulations and costs imposed upon it.
- 4) The UK will regain control of its own borders. Leave Means Leave supports controlled immigration, as directed by the UK Parliament, to bring additional skilled labour from the EU and the rest of the world into the UK to help grow its economy, but believes that the UK must be able to determine the numbers and required skills of those who wish to work in the UK.
- 5) This is the globally moral option as it benefits both buyer and seller. For example under current EU rules many agricultural products face punitive tariffs and quotas simply to prop up the inefficient Common Agricultural Policy. The UK can act as a global beacon for good encouraging much lower tariff trade with Africa, Latin America and Asia than is currently the case. This is a real *fair trade*.

The *Global Free Trade Option* ensures that the UK will determine its own destiny, without being

¹³ *The Scaremongers*, Global Britain, London, 2015

¹⁴ *Business for Britain Briefing Note No.8* <http://forbritain.org/percentagelaws.pdf>

reliant on others, during and after the expected two-year period of Brexit negotiations with the EU. It allows for continuity, via the initial continuation of EU laws and regulations on the statute thus giving business certainty but it also allows for maximum flexibility in amending policy as circumstances dictate.

The *Global Free Trade Option* means that the UK would not be a member of the European Economic Area (EEA), or of the European Free Trade Association (EFTA), or the EU Customs Union and Single Market which, as we have demonstrated, have failed British interests. Those who claim the Single Market is critical have no answer to why we can hold our own globally, with a small surplus but within the rigid expensive framework of the EU Single Market run up a deficit of over £110bn annually.

The UK deficit in goods is a primary negotiating chip for services. There is no reason that the UK's somewhat limited financial services access to the EU should not continue if such an agreement is tied to where the EU has a surplus. For example while we doubt the value of 'passporting' – the UK trades even better in markets like US and Kong Kong where there are no passports than it does with the EU where there are; this is an area for concern. Under MIFID2, however, the principle of regulatory equivalence should circumvent this problem. It would be very hard for the EU to argue UK regulation was inferior to that of US, Hong Kong and Singapore where equivalence will apply.

As an example, Australia has no trade agreement with the EU – a status that currently holds true for the USA, India, China, Japan, Brazil and other leading trading nations.

From the EU website:

'The EU and Australia are like-minded partners who share many common concerns in today's international trade environment, such as initiative to further liberalise green goods, services, the issue of raw materials and the risks of protectionism.

The EU and Australia conduct their trade and economic relations under the EU-Australia Partnership Framework of October 2008. This aims, apart from cooperation on the multilateral trade system and trade in services and investment issues, to facilitate trade in industrial products between the EU and Australia by reducing technical barriers, including conformity assessment procedures.

Australia is an important economic and trading partner for the EU. In 2013, it ranked as the 15th largest trade in goods partner of the EU while the EU represented Australia's third largest trading partner after China and Japan.

*Total trade in goods amounted to €42.3bn in 2013. Traditionally, Australia's exports to the EU are dominated by mineral commodities (fuels and mining products) and agricultural products while EU's exports to Australia are predominantly manufactured goods.'*¹⁵

¹⁵ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia/>

The EU runs a large trade surplus with Australia, similar in percentage to its trade with the UK. There is no formal pact, just a bilateral agreement policed by the WTO. According to the WTO, tariffs average 1.09%, which clearly is only the most marginal impediment to trade.

The advantages of the *Global Free Trade Option* would include those discussed under the Canada option, namely:

- *The UK saves the net £14.8bn per annum EU membership fee and all the regulation (bar the requirements to trade in the Customs Union);*
- *We would be exempt from CAP, CFP and all other EU regulation – simply keeping what we deemed to be in our interests or mutually beneficial;*
- *We would have full control of borders and in fact regain full independence;*
- *EU law is currently incorporated into UK law, we can therefore change it at the pace that suits us in a cooperative manner; and*
- *The European Court of Justice would have no legal jurisdiction over the UK.*

Under the *Global Free Trade Option* a formal trade agreement with the EU can be done but would not be necessary. Instead the UK would operate under WTO rules, establishing bilateral agreements, such as that between Australia and the EU, when required. Such an approach would provide a route to mutual cooperation with others – including the EU - and should be achieved immediately following departure from the EU.

Such an approach would increase the opportunities for the UK to increase its trade with all nations, especially those that are growing fastest.

In addition, because the UK is already free to trade under existing international law using WTO rules, the EU leadership could not deny diplomatically or practically that the UK can take up this option. Economically and politically, unless the EU offers tariff-free access to the UK within 24 months of triggering Article 50 the *Global Free Trade Option* offers the most beneficial advantages and the fewest disadvantages, thus becoming the optimal option.

We would advocate that the UK, using the example of Singapore and Switzerland, adopts a zero tariff policy as a shining example to other nations – by abolishing all financial and import tariffs and thus lowering costs in the UK economy. Such a policy would re-unite the UK with its classical liberal economic heritage and act as a beacon for good for the world.

5. CONCLUSIONS

The UK needs to make clear from the outset it shall leave the EU within two years of triggering Article 50 and trade under WTO rules should no free trade deal or bilateral arrangement with the EU be agreed. The UK also needs to be very firm outlining the areas of negotiation and what is now an internal matter and not for negotiation. The areas of negotiation need to be narrowed to the minimum with the presumption that the UK Parliament legislates on policy going forward.

If the EU refuses a wider free trade deal they would stand to lose more than the UK because the EU's current account surplus is in excess of £110bn with the UK. In theory it should be fairly easy to reach agreement on most goods. It is simply not in Germany's interests that between 6-10% tariffs are charged on various automotive parts.

The UK should be an international beacon, promoting free trade across the world under the *Global Free Trade Option*. The EU has a two year window of opportunity after we serve Article 50 to reach a mutually acceptable arrangement with the UK that will be in everyone's best interests. What is clear however is that no deal is better than a bad deal for the UK, as we take our rightful place on the global trading stage.

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Global Britain

Global Britain was founded twenty years ago to provide the positive business case for the UK to leave the European Union and published a wealth of research briefs and papers to that end. Now that the argument for an outward-facing, sovereign, democratic UK has been won Global Britain is committed to ensuring that our politicians do not betray the 17.4 million Britons that voted for change through the publication of papers that showing how Brexit can be delivered.

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