

Why Free Trade with the Single Market would continue if the UK left the EU

Mutual commercial self-interest would ensure that trade between the EU and a post-withdrawal UK would be as free, if not more free, than it is at present, because:-

- ***EU-14' needs UK trade more than the UK needs EU-14's.*** EU-14 sells to the UK far more than the UK sells to EU-14;² and the EU-14 unemployment rate is far higher than the UK's.³ The number of EU-14 jobs “dependent” on exports to the UK is bigger than the number of UK jobs “dependent” on exports to EU-14.⁴
- ***The UK is EU-14's biggest single customer - bigger even than the USA⁵. And the UK market is growing faster than EU-14's.⁶*** EU-14 would shoot itself in the foot, post-UK-withdrawal, if it discriminated against the UK. Such discrimination against its biggest single customer would risk provoking retaliatory measures.
- ***EU Inward Investment in the UK, and UK Inward Investment in the EU, is substantial.⁷*** Restrictions on trade between the EU and a post-withdrawal UK would damage the viability of those investments. (For example, tariffs or quotas imposed by EU-14 on UK car exports to the EU would hit Minis produced at its Oxford plant by Munich-based BMW.)
- ***Even if tariff-barriers were erected between the EU and a post-withdrawal UK, they would be no higher than the EU's current Common External Tariff (“CET”).*** The CET⁸ is now so low as to be hardly worth collecting - one per cent and falling even lower (which means, incidentally, that the EU Customs Union has lost its *raison d'être*). World Trade Organisation (WTO) members (including the UK and other EU countries) undertake under WTO rules to “bind” their tariffs at no higher than present levels (though they are at liberty to reduce them unilaterally or bi-laterally).

The UK in the Global Economy: Some Basic Facts

- The UK is the world's third biggest trading nation⁹ - after the US and Germany but ahead of Japan - and the world's fourth biggest economy.¹⁰
- The proportion of the British economy - and the proportion of British jobs - involved in exporting to EU-14 is ten per cent.¹¹
- Nevertheless, the UK has to impose the totality of the EU *acquis communautaire* on the ninety per cent of the economy which is **not** involved in exporting to EU-14.
- Well under half - around 45 per cent - of all British exports (goods, services, income, transfers) go to EU-14.¹¹
- 92 per cent by value of all UK imports of goods are tariff-free,⁸ and the average tariff the UK charges on all its imports is less than one per cent.⁸
- The net cost (costs less benefits) to the UK of EU membership is substantial - perhaps 4 per cent of GDP each year.¹²
- **The USA**, a country 3000 miles away, not in the EU, exporting over the EU Common External Tariff, without even a Free Trade Agreement (FTA) with the EU, **sells more to the EU than Britain does**,¹³ without paying a cent to Brussels and without imposing one iota of the *acquis communautaire* on the US economy. (The US economy is however six times bigger than Britain's.)
- **Free trade with the EU's Single Market is available** to 22 non-EU countries currently,¹⁴ including Norway, Switzerland and Mexico, **through FTAs**, with few if any of the regulatory and other costs of membership of the Single Market. The EU is currently negotiating FTAs with another 69 countries.¹⁴
- **British "access" to EU-25's** population of 455 million comes at a high cost.¹² But 455 million is only 7 per cent, and declining, of world population. **British access to the 93 per cent (5.7 billion and growing)** of the world population outside the EU costs nothing.

Notes and References

1. EU-14 refers to the pre-1st May 2004 fifteen-member EU, less the UK. Data in this Briefing Note is for 2002; data on the ten countries which joined the EU on 1st May 2004 not available on a comparable basis.
2. EU-14 sold the UK £220 bn (goods, services, income & transfers) in 2002; the UK sold EU-14 £ 204 bn; the EU-14 surplus with the UK was £16 bn. On trade in goods alone the EU-14 surplus was £20 bn. *UK Balance of Payments: The Pink Book 2003: ONS 2003* www.statistics.gov.uk
3. Standardised rates of unemployment in 2002: Eurozone 8.4%, UK 5.1%; in 2003, Eurozone 8.9%, UK 5.0% *ECB Monthly Bulletin, June 2004* www.ecb.int
4. An approximate calculation can be made by assuming that the "job-content" per pound of EU-14 exports to the UK is the same as that of UK exports to EU-14; see Reference 2 above.
5. In 2002 EU-14 exported (goods, services, income) £208 bn to the UK; EU-14 exported £ 191 bn to the USA. *The Pink Book 2003* (referenced at 2 above); *US Balance of Payments* www.bea.doc.gov
6. UK output growth has exceeded that of the Eurozone in 2001, 2002 and 2003. Chart 1, *ECB Monthly Bulletin, June 2004* www.ecb.int
7. See Global Britain Briefing Note No 32, *Foreign Direct Investment: The Netherlands Distortion*, 4th June 2004 www.globalbritain.org
8. See Global Britain Briefing Note No 33, *Customs Duties: hardly worth collecting*, 17th September 2004 www.globalbritain.org
9. In 2002, the top three exporting nations were the USA (\$1241 bn), Germany (\$840 bn) and the UK (\$ 607 bn). The same three countries were the top three importing nations: USA (\$1722 bn), Germany (\$793 bn), UK (\$621 bn). Exports consist of goods, services, transfers & receipts of income. *IMF Balance of Payments Statistics Yearbook 2003* www.imf.org
10. See Global Britain Briefing Note No 35, *European Union 2003 Prosperity Rankings*, 17th September 2004 www.globalbritain.org
11. See Global Britain Briefing Note No 22, *Ninety per cent of the British Economy is NOT involved in Exports to the EU*, 20th September 2002, www.globalbritain.org, and Appendix II of *A Cost Too Far?* by Ian Milne, July 2004, Civitas www.civitas.org.uk
12. See *A Cost Too Far?* in reference 11 above
13. In 2002 US exports to EU-15 were £ 227 bn (\$ 341 bn converted at £ 1=\$ 1.50). UK exports to EU-14 were £ 204 bn. *US Balance of Payments* www.bea.doc.gov; *The Pink Book 2003* (referenced at 2 above)
14. Written Answer (HL 4331) to Lord Pearson of Rannoch, House of Lords, 5th July 2004

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