The Single Market and British Withdrawal

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The Author

Ian Milne has been the Director of the cross-party think-tank Global Britain since 1999. He was the founder-editor (in 1993) of *The European Journal,* and the co-founder (in 1995) and first editor of *eurofacts*. He is the translator of *Europe's Road to War*, by Paul-Marie Coûteaux, (published by The June Press), and the author of numerous pamphlets, articles and book reviews, mainly about the relationship between the UK and the European Union. His most recent publications are *A Cost Too Far?* (Civitas, July 2004), an analysis of the net economic costs and benefits for the UK of EU membership, and *Backing the Wrong Horse* (Centre for Policy Studies, December 2004), a review of the UK's trading arrangements and options for the future.

He is chairman of companies involved in publishing and book distribution. He graduated in engineering from Cambridge University and has a forty-year career in industry and merchant banking in the UK, France and Belgium.

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Part One:

Eight Reasons Why the UK Doesn't Need the EU Single Market

The EC Customs Union dates from 1957. The Single European Act came into effect in 1992 and superimposed on the Customs Union a costly, tightly-regulated, supposedly harmonised internal market: the Single Market. The outsourcing to Brussels of the regulation of all the City's financial markets, the Social Chapter, the Working Time Directive, Health and Safety and Tax Harmonisation: all are part of the pursuit of the Single Market.

Membership of the Single Market is often said to be vital for British trade. The facts suggest that that proposition is wrong. These are the eight reasons why.

FIRST: Customs Unions are redundant.[1]
Over ninety per cent of British imports are tariff-free, and those tariffs that remain are very low. Tariffs are only charged on trade in goods; they are not charged at all on trade in services or income. UK trade in goods is well under half[2] of total UK trade, the rest being in tariff-free services and income. The cost of collecting those low tariffs on goods is greater than the amount of tariff actually collected. In other words, Customs Unions are redundant: they have lost their *raison d'être*. That is why, outside the EU, there are simply no significant customs unions at all, anywhere in the world.

SECOND: Single Market membership is hugely costly.[3]
If, as many assert, the UK is in the EU to get "access" to the Single Market, it follows that the hidden costs of exporting to the EU – in effect, a tax paid by British taxpayers on UK exports - are absolutely colossal.

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1 Global Britain Briefing Note No 70, *EU Customs Duties*, 7th January 2011, *www.globalbritain.org, Briefing Notes*

2 Global Britain Briefing Note No 60, *88% of the UK Trade Deficit over the last five years was with EU-26*, Table 4, 29th October 2010, *www.globalbritain.org, Briefing Notes*

3 Global Britain Briefing Note No 65, *The Economic Cost of EU Membership*, 7th January 2011, *www.globalbritain.org, Briefing Notes*

Recent studies[4] put the net cost of EU membership at ten per cent of GDP, equivalent to £139 billion in 2009. In that year, the sterling value of UK goods exports to the EU was £124 billion. This means that for every £10 of UK goods exported to the EU, British taxpayers paid on top, for the privilege of belonging to the Single Market, a hidden tariff – an export tax - of £12.

THIRD: The haemorrhage of skilled UK jobs to the Continent resulting from the trade deficit.

The UK has a massive structural trade deficit with the EU. In the five years 2005 to 2009, eighty-eight per cent of the UK's alarming trade deficit with the whole world has been accounted for by the EU[5]. Over those 5 years the cumulated UK deficit with the EU was £135 billion. The fact that the UK trades with the rest of the world more or less in balance implies a causal connection between Single Market membership and the UK deficit.

The consequence of this massive deficit with the EU is the haemorrhage of jobs to the Continent: huge numbers of skilled British jobs being exported over the Channel. It has been estimated[6] that the result of this deficit is an extra two million or so jobs, many of them highly-skilled, in Germany, France and other EU countries, that might have remained in the UK were it not for the UK deficit with the EU. In the context of the UK's own 30 million workforce and high unemployment rate, two million "lost" jobs is a huge number.

FOURTH: Over 90% per cent of the British economy is NOT involved in exports to the EU.[7]

Putting it another way: exports to the EU account for less than 10% of British economic output. Within the approximately ninety per cent NOT involved in exports to the EU, 80% is generated by British residents trading with each other, 10% in exporting to the world beyond the EU. Yet for that ten per cent the remaining ninety per cent still has the burden of EU Single Market regulation imposed upon it.

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4 Global Britain Briefing Note No 65, *The Economic Cost of EU Membership*, 7th January 2011, *www.globalbritain.org, Briefing Notes*

5 Global Britain Briefing Note No 60, *88% of the UK Trade Deficit over the last five years was with EU-26*, Table 4, 29th October 2010, *www.globalbritain.org, Briefing Notes*

6 Global Vision Perspective, *UK-EU Trade creates far fewer jobs in the UK than in the rest of the EU*, by Ruth Lea, 21st April 2008, www.global-vision.net

7 Global Britain Briefing Note No 67, *Less than ten per cent of the British economy is involved in exporting to the EU,* 7th January 2011, *www.globalbritain.org, Briefing Notes*

FIFTH: British Export Growth: better outside the EU.[8]

British exports to the world OUTSIDE the EU are growing far faster than British exports TO the EU – 37% faster since the turn of the millennium.

The main reason why British export growth is almost 40% higher outside the EU is that most EU markets are anaemic, while many markets outside the EU are expanding rapidly. Excessive Single Market regulation may not explain all of the EU economic anaemia, but, according to the *Conseil d'Analyse Economique*[9] which reports to the French Prime Minister, it is a major factor in the EU's economic under-performance compared with the rest of the world.

SIXTH: British Import Growth: more from outside the EU.[10]

But maybe, for the British, Single Market membership makes it easier to import goods and services? Not so: British imports from the world beyond the EU are increasing significantly faster (18% faster over the ten years 1999-2009) than British imports ***from*** the EU.

So, whether British exports or British imports are concerned, the Single Market fails the acid test: overall, there is simply no objective evidence that the UK benefits from being part of it.

SEVENTH: The proportion of British exports going to the EU, already under half, is declining.[11]

At present, roughly 40% of UK exports go to the EU. And because of the faster rate of growth of UK exports OUTSIDE the EU, by, say, 2020, the split of UK worldwide exports will be something like two-thirds outside the EU, one third to the EU, rendering the justification of belonging to the Single Market even more tenuous.

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8 Global Britain Briefing Note No 68, *The non-existent "benefits" of belonging to the EU Single Market*, 7th January 2011, *www.globalbritain.org, Briefing Notes*

9 Global Britain Briefing Note No 43, France Assesses Costs and Benefits of EU Membership, 13th October 2006, *www.globalbritain.org, Briefing Notes*

10 Global Britain Briefing Note No 68, *The non-existent "benefits" of belonging to the EU Single Market*, 7th January 2011, *www.globalbritain.org, Briefing Notes*

11 Global Britain Briefing Note No 64, *The Rotterdam-Antwerp Effect and the Netherlands Distortion,* 7th January 2011, *www.globalbritain.org, Briefing Notes*

EIGHTH*:* A country doesn't have to belong to the Single Market to export to the Single Market.[12]

The USA and China, not EU members, with zero votes in the EU Council of Ministers, zero MEPs, zero Commissioners, zero judges at the European Court of Justice, zero civil servants working in EU institutions, having to export to the EU over the EU tariff barrier, each sell more goods to the EU than the UK does, without paying a cent to Brussels or imposing one iota of EU regulation on their domestic economies.

Closer to home, Norway and Switzerland, not EU members, export far more in relation to their GDPs or populations than the UK – Norway about fives times more goods per capita than the UK, Switzerland about three times more goods per capita than the UK.

Those eight stark economic facts constitute a powerful argument for the UK to leave the EU altogether.

12 Global Britain Briefing Note No 62, *A country doesn't need to belong to the EU to trade with it ,* 7th January 2011, *www.globalbritain.org, Briefing Notes*

Part Two:

How the UK would prosper after withdrawal from the EU

The EU: a failed experiment emulated nowhere else

It is often forgotten that the European experiment in post-democratic governance remains just that: an experiment (and a failing one at that). In no other continent has it been emulated. The preferred option of the majority of countries and peoples of the world is the self-governing nation state. In contrast, a small minority of countries, all European, have opted to renounce national sovereignty.

United Nations membership has grown from 51 countries in 1946 to 192 today. Of those 192, no fewer than 165, or eighty-six per cent, have chosen to function as sovereign nations, whether liberal-democracies such as the USA, Japan, India and Brazil, or autocracies such as China and Russia. The remaining 27 countries – fewer than one in seven – accounting for five per cent of global population, are progressively ceding sovereignty to a supranational institution, the European Union.

The EU is in long-term structural demographic and economic decline. It also costs a fortune to belong to. UK withdrawal would result in the British people rejoining the ninety-five per cent of the world's population who live in self-governing states and successfully trade with each other – and with the EU - multilaterally.

The World Trade Organisation

The UK is a founder-member of the Geneva-based World Trade Organisation[13] (WTO), the world's principal forum for negotiating and supervising international trade agreements. The WTO, like the UN and NATO, is a multilateral, not a supranational body. On withdrawal from the EU, the UK would resume its own seat and vote (which it surrendered to the EU in 1973 on joining the "Common Market") at the WTO. The UK would then be free to strike up trade agreements with fast-growing countries and export markets such as the USA, Singapore and Australia.

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13 Global Britain Briefing Note No 5, *The World Trade Organisation*, 19.11.99

British influence at the WTO is sometimes claimed to be stronger as part of the EU Single Market than it would be if the UK spoke and negotiated for itself in WTO councils. That claim has validity only in so far as British commercial and geo-strategical interests coincide with all or a majority of its EU partners – all 26 of them. When British interests do not so coincide – for example in the regulation of the City, or in agriculture and fishing – it follows that British influence is weaker than it would be if the UK were outside the EU and able to make its own decisions at the WTO. Since the structure and pattern of UK global trade is quite different[14] from that of its EU partners, there is no *a priori* reason to suppose that, on balance, British interests and those of its EU partners coincide more often than they diverge.

It should be noted that in the UN, the World Bank, the IMF and NATO, the other main multilateral institutions set up after the Second World War by the UK and its wartime allies, the UK shows no inclination to surrender its votes or seats or vetoes to mere functionaries of a regional bloc in irreversible long-term decline.

No interruption to EU-UK trade following UK withdrawal

On withdrawal, the EU would continue to trade with the UK. The EU-26's biggest single customer worldwide is the UK[15], and EU-26 sells far more to the UK than it imports from the UK[16]. Under Articles 3, 8 and 50 of the Lisbon Treaty[17], the EU is constitutionally obliged to negotiate "free and fair trade" with non-EU countries – which it does. Besides, discriminating against exports would be illegal under the rules of the World Trade Organisation[18].

No loss of "influence" with the EU Single Market following UK withdrawal

After thirty-eight years of adopting successive treaties, UK influence in EU deliberations has shrunk to a negligible 8%.[19] That is the UK vote in the key EU decision-making body, the Council of Ministers, in which member-states have given up almost all veto powers. In practice, 8% and zero per cent are about the same: zero.

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14 Global Britain Briefing Note No 66, *Exports of Germany, France and the UK in 2009*, 7.1.11

15 ECB Monthly Bulletin October 2010, page S63, Table 3: Eurozone exports to UK 2009Q2 to 2010Q1: € 392 bn; Eurozone exports to USA: € 308 bn. (Eurozone as proxy for EU-26.) www.ecb.int

16 Global Britain Briefing Note No 60, 88% of *UK Trade Deficit...is with EU-2*6, 7.1.11

17 Global Britain Briefing Note No 61, The *EU has to negotiate Free Trade Agreements with Third-Parties....and it does*, 7.1.11

18 Global Britain Briefing Note No 5, *The World Trade Organisation*, 19.11.99

19 Global Britain Briefing Note No 72, *How EU Law is Made*, 7.1.11

On withdrawal the UK would regain control of key industries such as the City of London and resume negotiating on its own behalf with trading partners in the rest of the world – including the EU itself. The US and China have zero votes in the Council of Ministers but still manage to out-export the UK to the EU; Norway and Switzerland, not EU members, with zero votes in the Council of Ministers, export far more to the EU in proportion to the size of their economies than the UK[20], showing that outside the EU the United Kingdom would be perfectly able to continue exporting to the Continent.

The UK's Trading Options after withdrawal[21]

Outside the EU, the USA (by far the UK's biggest single-country export market), the rising Asian superpowers and most of the rest of the world rely on interlocking WTO-compatible networks of free trade agreements. The UK would fit naturally into that system. The UK should also seriously consider transforming the English-speaking, London-headquartered Commonwealth[22] into a user-friendly global trade organisation.

Other models the UK could consider are the "Norwegian Option" (used also by Iceland and Liechtenstein) or the "Swiss Option".[23] These allow countries to be semi-detached members of the EU Single Market while keeping clear of main EU "policies" such as the Common Agricultural Policy and tax harmonisation; but they still have to impose on their economies a proportion of EU legislation and regulation, and make annual payments to Brussels.

After withdrawal, the UK would prosper outside the EU

EU membership costs the UK, net, every year, upwards of 4 per cent of GDP, with no discernible benefit. Some studies put the cost at more than twenty per cent of GDP[24]. On withdrawal, that burden on the British economy would progressively disappear, as EU regulation were removed from the British polity and economy. If, say, ten per cent of GDP were saved every year, the impact after several years, due to the dynamic compounding effect, would be very substantial indeed.

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20 Global Britain Briefing Note No 62, *A country doesn't need to belong to the EU to trade with it*, 7.1.11

21 For a discussion of UK options for trading arrangements post EU-withdrawal, see *Backing the Wrong Horse*, by Ian Milne, Centre for Policy Studies, December 2004, www.cps.org.uk

22 Global Britain Briefing Notes No 58: T*he Commonwealth and British Export Growth* 2010-2050, 5.3.10, and No 38, *The Commonwealth: Neglected Colossus*?, 22.7.05

23 Global Britain Briefing Note No 36: *EFTA, EEA and the Swiss-EU Trading Relationship*, 26.11.04

24 Global Britain Briefing Note No 65, *The Economic Cost of EU Membership*, 7th January 2011, *www.globalbritain.org, Briefing Note*s

THE BRUGES GROUP

The Bruges Group is an independent all–party think tank. Set up in February 1989, its aim was to promote the idea of a less centralised European structure than that emerging in Brussels. Its inspiration was Margaret Thatcher's Bruges speech in September 1988, in which she remarked that "We have not successfully rolled back the frontiers of the state in Britain, only to see them re–imposed at a European level…". The Bruges Group has had a major effect on public opinion and forged links with Members of Parliament as well as with similarly minded groups in other countries.
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