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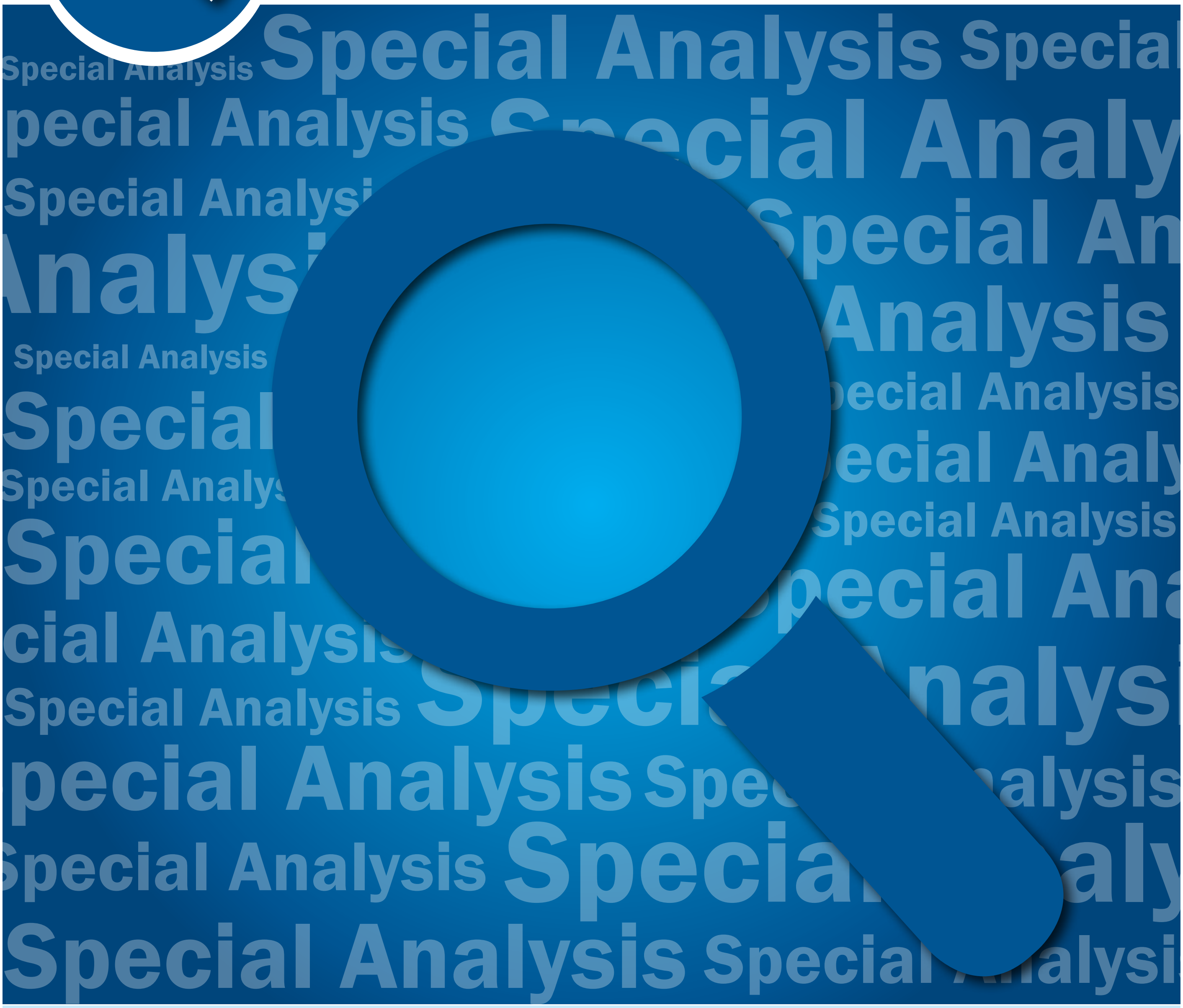

Alternatives to Great Britain's membership in the EU

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Introduction

The future of the UK outside the structures of the European Union is in the meantime a great unknown. What is almost for sure is perhaps the fact that even after the "independence" of the island kingdom it will not be able to afford to ignore the largest single market in the world with nearly half a billion potential customers. This was indeed documented with the words of former British Prime Minister, David Cameron, in 2013: „If we leave the EU, we cannot of course leave Europe. That has for many years remained our largest market, and has forever been our geographical neighbour. We are bound together in a complex web of legal obligations." Great Britain, after Germany and France, is the EU's third largest economy and one of the most open economies in the world in general, and it is heavily economically dependent on the EU internal market. In view of the volume of British trade with the EU, access to it is mortally important. For example, 45% of British exports in 2014 went to the EU, while the EU accounts for 53% of British imports. After withdrawing from the EU, the country will have to rebuild a whole range of commercial and institutional relations with the remaining EU members in which many different scenarios are possible. The following sections discuss the three most probable alternatives to EU membership, which are based on analyses from the British government, think tanks, academic articles and statistical data. They are: 1) membership in the European Economic Area (i.e. the Norwegian model), 2) a bilateral agreement with the EU (which includes three other sub-models: the Swiss model, the Turkish model and the Canadian model), and 3) membership in the World Trade Organization.

Each of these model situations is examined with regard in particular to the extent of access to the key EU economic policy, i.e. the single internal market and related rights and obligations. The various alternatives are also ranked according to the degree of economic integration between the UK and the EU in descending order from the highest level of integration to the weakest connection.

Membership of the EEA (i.e. the Norwegian model)

The first alternative is a relationship based on Great Britain's membership of the European Economic Area (EEA), which was established in 1994 under an agreement between the European Free Trade Association (EFTA) and the EU, and which extends the provisions of the European Union relating to the internal market to the three EFTA countries (Norway, Iceland and Liechtenstein). The agreement includes the four freedoms of the single market and related policies, such as competition, transport, energy, and economic and monetary cooperation, but also some horizontal policies, such as social policy (including occupational safety and health), consumer protection policy and environmental protection. In discussions about the organisation of relations between the UK and the EU after Brexit, Norway is most often used as a typical example - not only is it the largest EFTA country, it also has the closest relationship of all with the EU among all non-EU countries.

On the basis of membership in the EEA, Great Britain should be assured of the free movement of (a majority) of goods, persons, services and capital within the EU internal market, just as if it had remained a member of the EU. The exception would be agricultural products and fisheries.

This option would assure the country almost full access to the EU single market and British exporters to the EU would notice little. The country would retain full competence in areas such as, for example, agriculture, fisheries, regional policy, asylum and foreign and defence policy (but it is also worth noting that Norway has concluded special agreements with the EU in some of these areas).

This high level of participation in the EU internal market, however, would not be free. Norway has committed to implement all legislation related to the EU single market within its own law. As a non-member of the EU, however, it cannot directly help shape the rules, even though it has observer status in relevant EU agencies and committees, and has the right to be heard through consultation in European Commission working groups. Another feature of the free-trade model along the lines of the EEA is the need to adhere to a range of regulations relating to exported goods (against which the UK has long protested). During the movement of goods, the rules of origin, which are administratively more demanding than in the case of EU membership (the regulation relating to one product may number as many as 200 pages) must be respected. Similarly, commitments regarding social security and other elements of social and labour legislation must be implemented; the country would continue to be required to grant EU citizens the right to work and live in the UK.

Like Norway, which makes relatively large contributions to EU cohesion policy and EU initiatives in which it participates, it would also have to contribute financially to the operation of the EU (e.g. according to an analysis by Thompson and

Harari, in 2011 the Norwegian contribution to the EU budget was 106 pounds per person, which is only 17% less than the British contribution of 128 pounds per person). The EU, moreover, could apply antidumping measures to limit imports from the UK, as happened for example in 2006, when it imposed an anti-dumping duty of 16% on imports of Norwegian salmon.

A study from the UK Treasury from April 2016 which quantifies the impacts of the various alternatives to EU membership, concluded that in the case of the Norwegian scenario the British economy would be 3.8% worse off after 15 years than if it maintained membership in the EU, wherein this would fall would correspond to a decline in GDP of 1,100 pounds per person.

Bilateral agreement with the EU

Another of the potential scenarios for a future arrangement in mutual relations is the conclusion of a bilateral agreement between the UK and the EU. Although the extent of access to EU markets would depend on specific negotiated terms, it is certain that the negotiation of any bilateral agreement between the UK and the EU would be a very complex matter and would likely require not only the unanimous agreement of all 27 remaining EU member states and ratification by national parliaments, but also the European Parliament‘s consent.

Reaching such a wide-ranging agreement with so many negotiating partners who would try to promote their owned vested interests, would be at least very difficult (in regard to the weakened position of Great Britain), as well as lengthy (we should remember in this context that the negotiations over an agreement with Canada, which still hasn't entered in force, began 7 years ago; the Swiss negotiated their agreements with the EU for more than 20 years). According to projections from the UK Treasury, 15 years after the conclusion of bilateral agreements with the EU, the British economy would perform 6.2% worse than had it stayed in the EU (in increments of 4.6% to 7.8%), which would correspond to a loss of GDP amounting to 1,800 pounds per person.

A bilateral agreement with the EU would be liable to follow one of the following three scenarios: Swiss, Turkish, or Canadian.

Swiss model

Switzerland, which is a member of the EFTA and the Schengen area, but not a member of the EEA, regulates its economic relations with the European Union based on free trade agreements for goods (not services, which from the perspective of the UK, where services account for nearly 80% of the economy, is essential) and many other bilateral conventions which permit it access in certain areas to the single market. Overall, there is a comprehensive set of more than 120 bilateral agreements, which makes this model the most advanced bilateral relationship of all with the EU.

The arrangement gives Switzerland a significant degree of flexibility and freedom when it basically selects only those areas of common interest in which it wants to participate, and itself decides what European legislation it will voluntarily implement. This à la carte approach is, however, rewarded with narrower access to the EU internal market. Switzerland stands completely outside the EU decision-making system and, unlike members of the EEA, it does not have observer status in relevant EU agencies and committees. Like the members of the EEA, Switzerland also contributes to EU cohesion policy and the initiatives in which it participates (in 2011 its contribution to the EU budget was 53 pounds per person, which is 70% less than the UK) and it has concluded an Agreement on the Free Movement of People with the EU (in 2014, however, a change in the constitution was voted for in a referendum which establishes annual quotas for non-Swiss citizens and gives Swiss citizens preference in the labour market, which is in direct conflict with this agreement).

It is also interesting to note in this context that in 2014 negotiations started between the EU and Switzerland on an institutional framework agreement, since management of a large number of separate agreements, among which many conflicts frequently arise and which require frequent updates (unlike the EEA Agreement, bilateral agreements with Switzerland have a static nature), is proving to be more and more complicated.

Turkish model

Under this model, the UK would negotiate participation in a customs union with the EU, as Turkey did in 1995 (the agreement came into force on 1 January 1996), which would lead to the elimination of tariffs and establishment of a common customs tariff against non-member countries. Following Turkey, with which the EU formally launched negotiation talks on membership in 2005, would mean customs restrictions for the island kingdom in many areas and restricted access to a considerable extent to the internal market. The customs union with Turkey relates only to industrial products and processed agricultural products.

UK would have to apply the EU's common customs tariff to trade relations with third countries, follow EU provisions on technical barriers to trade and regulated goods, and adopt rules relating to economic competition and state aid. UK would simultaneously by bound by, for example, the common agricultural policy, fisheries policy, and social and labour regulation, and could conclude agreements on services independently of the EU.

It would also not have to contribute to the EU budget (Turkey on the contrary, as a candidate country is a recipient of EU funding). And it's worth noting here that the customs union with the EU has been a widely discussed topic in recent years in Turkey. The Turkish government considers it unfavourable, has long sought its revision and is currently preparing for its modernization.

Canadian model

This scenario envisages a variant in which the UK would enter into an agreement with the EU on a free trade zone. The FTA is the lowest level of economic integration, and differs from a customs union by simply abolishing customs duties between countries / entities and does not impose the same tariffs on imports of goods from the rest of the world.

The EU has in the past concluded several of these agreements (e.g. with Mexico, Egypt, South Africa and Lebanon), differing from each other in varying degrees of access to the EU internal market. The most comprehensive in this regard is the newly negotiated Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada, which will be used here as an illustrative example and whose many years of negotiations were formally concluded in September 2014 (at present the process is heading towards the ratification stage, which is expected in early 2017).

The negotiated agreement removes the vast majority (about 98%) of reciprocal duties and tariff barriers between the EU and Canada. The tariff elimination regime, however, is not complete - sensitive agricultural products are excluded from it, such as dairy or poultry. In sensitive agricultural sectors access to the market is moreover also restricted by tariff quotas.

Not all tariffs will be eliminated on the date of the agreement's entry into force – e.g. a seven-year transitional period will be applied for the export of cars. Exemptions also apply to access to the services market, particularly in the sensitive areas of public services and technical infrastructure.

If Britain sets out on the same path as Canada, British companies exporting goods to the EU will - given the absence of a customs union - face a significant administrative burden. Despite CETA, a large number of non-tariff barriers to trade have been retained between the UK and Canada.

British exporters would also have to adapt to EU standards and technical requirements for products, while Britain's chance to influence decision-making processes during their creation would be zero. This alternative conversely obviates the necessity to contribute to the EU budget and to participate in common policies.

Membership in the World Trade Organisation

After its withdrawal from the EU, however, UK can also choose a scenario where her relationship with the EU will be based on membership in the World Trade Organization (WTO). Brazil and Russia, for example, trade with the EU on this principle. According to its rules, WTO members must not discriminate between their trading partners. For this purpose the WTO uses the so-called Most Favoured Nation regime - the reciprocal obligation for states to provide equal treatment to similar products originating in the territory of other WTO members.

If countries thus grant someone special benefits, such as a lower rate of duty for certain products, these benefits (with some exceptions) have to be granted to all other WTO Members. British exports to the EU and WTO member countries would be subject to the MFN regime of the respective countries. A country would in the case of this model be fully absolved of the responsibilities associated with access to the EU single market; it could be quite free to decide its own trade agreements, and it would not have to participate in common policies, nor contribute financially to the running of the EU. But it would also obviously lose any ability to influence decision-making in the EU. Remaining in a trade relationship with the EU only on the basis of WTO membership would bring about a marked increase in tariffs, and export goods to the EU would be significantly more expensive for British businesses than in any of the other options stated here. It is also highly unlikely that UK producers would push for the introduction of customs duties on goods imported from the EU and other countries, which would result in an increase in prices for end consumers.

The cited study of the British Treasury estimates that the long-term economic damage suffered under this scenario would be the most sensitive of all the model situations. The British economy would in comparison within remaining in the EU worsen over the next 15 years by about 7.5% and the GDP loss would amount to 2,100 pounds per person.

Conclusion

The analysis has shown that all the presented alternatives to Great Britain's membership in the EU entail considerable expense. It will be more difficult and more expensive for the island kingdom to trade with Europe and the rest of the world after withdrawal from the EU (even if we take into account the savings in the form of a lower / zero contribution to the EU budget); and there will probably be a drop in foreign investment. None of the alternatives guarantees the country full and completely barrier-free participation in the EU internal market, and it therefore becomes a less attractive destination for foreign capital inflows. Scenarios operating with a higher level of access to the single market would require UK to implement rules which it could not participate in the co-creation of (in addition, it is almost inevitable that over time these rules would change direction, which would favour the remaining EU members rather than Great Britain). The UK would lose the ability to block proposals, which in its opinion are contrary to British national interests, and conversely it could not continue at the EU level to promote policies which it hitherto supported, e.g. further liberalisation of trade in services. It would thus have be only a passive recipient of EU legislation, which for Britain would be - as a relatively big country accustomed to having an active position in the European Union and European affairs - a considerable challenge.

Greater involvement in the EU internal market should also carry with it the need to accept the free movement of people and contribute financially to the EU budget. No country has so far managed to negotiate better terms and from the point of view of the EU it would not be in its interest to allow a more favourable agreement with UK. A position outside the main stream of integration will also restrict British access to broader global markets. After leaving the EU the country will note be able to continue to benefit from the free trade zones which operate between the EU and third countries.However, these zones cannot equal the breadth and depth of the EU internal market, which is among the most developed in the world. Great Britain will have to negotiate a large number of agreements with a great many states (which in itself will constitute a very complex, difficult and protracted process, accompanied by a long period of economic uncertainty), while its bargaining position will be significantly weaker than if it had remained a member of the EU.

In conclusion, it should be stressed once again that there is tremendous uncertainty over the issue of the potential development of relations between the UK and the EU. It is not known what form these relationships will take, on what basis they will stand, how long their (re) building would last and whether the model situation options mentioned here will be transferable at all to Great Britain's conditions. Thus, although extensive discussions are constantly ongoing among experts over the various possible scenarios, everything is still playing out at the level of speculation and hypothesis.

Models of relationship to the European Union

			Access to the Single Market in goods and services								
		Votes on EU law	Tariff-free trade	Customs Union and external trade	Level playing field for business	Ever closer union	Justice and Home Affairs	Free movement of people	Shengen border-free area	Contribution to EU financing	Eurozone membership
UK in the EU											
Standard EU member											
Norway (non-EU EEA)											
Bil. Agr.	Switzerland										
	Canada										
	Turkey										
WTO membership											

Source: Alternatives to membership: possible models for the United Kingdom outside the European Union

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