

## **The EU single market – is it worth it?**

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*“Europe’s nations should be led towards a superstate, without their people understanding what is happening.”*

– Jean Monnet, 30 April 1952

**... and 60 years later ...**

*“If the British cannot support the trend towards more integration in Europe, we can nevertheless remain friends, but on a different basis. I could imagine a form such as a European economic area or a free-trade agreement.”*

– Jacques Delors, *Handelsblatt*, 28 December 2012

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## Introduction

The UK Prime Minister, David Cameron, has said that the UK needs a “new relationship” with our EU partners. While we are waiting for him to define what that “new relationship” might mean, and while he has suggested that the possibility of leaving the EU is not beyond imagination, the government’s statements lay great emphasis on the importance of the EU ‘single market’ (or on what the EU refers to as “the Internal Market”). Ministers say that it is both a key British success in the EU, and that the advantages of the ‘single market’ are indispensable to the UK economy and therefore the UK must remain a full member of the EU. This creates some irreconcilable policy challenges.

The British people and their governments have become increasingly exasperated by the limitations and constraints which the EU imposes on UK freedom and self-government. The Government estimates that around 50% of UK legislation with a significant economic impact originates from EU legislation.<sup>1</sup> The qualitative effect is deeper, since EU regulations automatically become part of national law as soon as they are adopted in Brussels. ‘Completing the single market’, which was meant to have been finished by 1992, has become an endless pretext for further legislation and regulation.<sup>2</sup> As a result of the increasing friction in the UK’s relationship with our EU partners under the existing treaties, that relationship has become nothing less than dysfunctional.

Since the launch of the Euro, it has been inevitable that the Eurozone and the UK were likely to take different views about how the EU should continue to develop. This is evident from the reaction to the crisis in the Eurozone states, as they grapple with what they believe must be done to try to prevent a break-up of the Euro. The UK exercised a veto for the first time at the end of 2011, in respect of the proposed EU Treaty on Fiscal Union. Neither the UK government nor the other governments of the EU, nor the EU institutions themselves yet seem to have concluded what the long-term consequences of that veto may be. Nevertheless, the rest of the EU is pressing on with EU Fiscal Union as though there had been no UK veto, even though the European Scrutiny Committee has shown (as the government has conceded) that proceeding without the explicit consent of the UK and the Czech Republic is unlawful.<sup>3</sup>

The Prime Minister’s forthcoming speech on the EU, which aims to set out the basis of the “new relationship” with our EU partners, must address the key question which arises from the present unhappiness. Can all these problems and disagreements be resolved by

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<sup>1</sup> House of Commons Library. ‘How much legislation comes from Europe?’, Research Paper, 13 October 2010.

<sup>2</sup> ‘Completing the internal market?’, European Commission White Paper, 14th June 1985

<sup>3</sup> ‘62nd Report of Session 2010-12 - Treaty on Stability, Coordination and Governance: impact on the eurozone and the rule of law’, European Scrutiny Committee, HC 1817, 3rd April 2012. The reality is that the EU does not subscribe to the Rule of Law. On 17 December 2010, Madame Lagarde said about the first bail-out fund, the European financial stability mechanism: “We violated all the rules because we wanted to close ranks and really rescue the euro zone.” (Brian M. Carney and Anne Jolis, ‘Toward a United States of Europe’, *The Wall Street Journal*, 18 December 2010) Germany and France themselves broke the Stability and Growth Pact. Furthermore, both the UK Government and the Attorney-General are clearly of the view that the agreement on the fiscal compact was unlawful yet we remain in limbo on that situation. The banking union proposals were also unlawful and yet that situation also remains unresolved. Despite vaunting the Rule of Law, those actions accumulatively demonstrate that the European Union and its Member States are quite prepared to break the rules and the Rule of Law itself.

dealing with each of them on a case-by-case basis within the existing treaty framework? Or does a “new relationship” require a fundamental change in the UK’s constitutional and legal relationship with the EU treaties themselves? The latter is far more likely to be correct.

Most UK citizens believe the British people have the right to elect a sovereign Parliament which has the right to make our own laws on our own behalf. This desire is incompatible with any terms of EU membership which are based upon the existing EU treaties. According to a Yougov-Cambridge poll in 2012, 40% of people in the UK favoured a looser relationship with the EU based on trade and co-operation, while a further 20% wanted the UK to leave altogether.<sup>4</sup> So a clear majority of 60% want change. Similar views have been expressed by the business community, particularly amongst smaller businesses. In a recent poll, the British Chambers of Commerce found that only 26% of its members wanted to keep the status quo, while 59% wanted a looser relationship with the EU or an EU exit. Also of interest, of those supporting change, 40% wanted a referendum on the question within 12 months.<sup>5</sup>

Any positive “new relationship” with our EU partners must therefore be established on a different basis. Trade and political cooperation is the right basis. The best means of achieving this would be for the Prime Minister to announce that he will introduce legislation for a “mandate referendum” to be held before or on the date of the next Euro-elections in June 2014.<sup>6</sup> The question should be: “Do you agree that the UK government should negotiate a new relationship with our EU partners based on trade and political cooperation”. The government would bring forward a white paper, explaining the basis of the proposed new EU relationship. A resulting “yes” vote would give the UK government both the authority and a duty to deliver the “new relationship” along these lines. The rest of the EU and the wider world would understand that the UK could not contemplate a relationship with the EU on any other basis.

If the Prime Minister pursues this course, he would have to set out what such a new relationship would look like in a new government White Paper, in order that voters should be properly informed before being required to vote. In summary, such a new relationship would mean taking the UK outside the EU *acquis* (the entire body of EU law to which the UK is currently subject) and therefore outside the direct applicability and direct effect of the EU treaties and their legal instruments. However, we should bid to stay within a customs union relationship with the EU, thereby preserving the essential element of the ‘single market’ which provides for the free movement of goods, services, capital and labour throughout, though Parliament would determine how these ideals are interpreted in respect of the UK. The rules of this ‘single market’ would have to be agreed bilaterally between the UK and the EU.

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<sup>4</sup> ‘Cross-country attitudes towards Europe’, Yougov-Cambridge poll, 13th March 2012

<sup>5</sup> James Waterson. ‘Business Backs EU Referendum’, *CITY AM*, 14 January 2013.

<sup>6</sup> Such a mandate would traditionally be available under our constitution by means of a general election, as set out in the manifesto of the party which wins that election. Since the Fixed Term Parliament Act (2011) is intended to preclude an early election, the only means an administration can obtain such a mandate is by way of a “mandate referendum”. Both the Scottish and Welsh devolution referendums of 1997 were pre-legislative, “mandate” referendums, the detail of the proposition on the ballot papers being set out in a government white paper in each case.

The alternative to maintaining a customs union relationship would be to negotiate a new Free Trade Agreement between the rest of the EU and the UK. Such agreements do not provide for the simple principle of borderless trading like a customs union, but for trade according to the WTO “rules of origin”, whereby each product is free from tariffs if they comply with rules on their place of origin or manufacture. There can be no illusion about the significance of this. Reverting to a “free trade” relationship with the EU could not be construed as anything but leaving the EU ‘single market’. Article 50 of the Treaty on European Union, which provides for a member state to withdraw from the EU, is explicit that “the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union.”<sup>7</sup> Such agreements must conform to the principles set out in Article 3(5) which includes “free and fair trade”.<sup>8</sup> This is why Jacques Delors referred to “a free-trade agreement” as an option for a new UK-EU relationship in his comments in December.<sup>9</sup>

The question therefore arises: is the EU ‘single market’ as indispensable as the government and much of industry and commerce has been led to believe, so that it should determine our policy towards the EU? Is it worth it? That is the question this paper addresses.

Bill Cash MP

Bernard Jenkin MP

HOUSE OF COMMONS, 17<sup>TH</sup> December 2013

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<sup>7</sup> It is axiomatic that such an agreement would have to address new trading arrangements. This is why Jacques Delors, in his comments in *Handelsblatt* on 28 December 2012, identified “a free-trade agreement” as one of the possibilities for a new relationship between the EU and the UK.

<sup>8</sup> 5. “In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the [United Nations Charter](#).” Art 3(5) Treaty on European Union.

<sup>9</sup> *Handelsblatt*, 28 December 2012

## **Single Market or Common Market?**

If the UK wants a new relationship with our EU partners, there can be no avoiding the question about whether the benefits of the UK's access to 'single market' are as substantial as assumed. The answer to this question will shape the debate about our future relationship with the European Union and also determine the nature and outcome of the EU Referendum.

The evidence is that the benefits to the UK economy of the EU 'single market' are vastly overstated.

- The UK exports of goods to the EU equivalent to less than 8.7% of UK GDP, much less than to the rest of the world (10%); yet the burdens and costs of the 'single market' bear down on 100% of UK economic activity;
- The 3m jobs dependent on exports to the EU are not at risk, because the UK economy would create more jobs if it was relieved of the costs and burdens of the EU 'single market';
- The EU is in long-term structural decline, but the UK's non-EU markets are expanding;
- The UK enjoys a trading surplus with the rest of the world of £17.1bn, compared a deficit of £46bn with the other 26 states of the EU;
- Because of the above, the rest of the EU would not want a trade war with the UK, if we were outside the 'single market';
- EU red tape costs us about 4% of the EU's GDP, so the 'single market' does not reduce the costs of doing business in the EU;
- The EU Internal Market has become an end in itself, as a means promoting political objectives rather than economic benefits;
- Even if the UK were to leave the EU altogether, under Article 50, the EU is legally required to negotiate "free and fair trade" with non-EU countries, so we would continue to have access to EU markets, just like other countries.

It is time therefore to dispose of the myth of UK dependence on the EU 'single market':

### **MYTH 1: "The UK exports half our trade to the EU"**

This statement is commonly made to suggest that our economy would substantially implode if we were outside the EU 'single market'.

It is true that UK exports of manufactured goods to the European Union represented 10% of our economic output (GDP) in 2011 (about the same as the export of manufactured goods to non-EU countries). But this is inflated by the "Rotterdam-Antwerp effect" (whereby many UK goods are exported via ports like Rotterdam and Antwerp to countries outside the EU; and

many imported goods are immediately re-exported to the EU via Antwerp and Rotterdam).<sup>10</sup> After taking account of this effect, the share of GDP exported to the EU in 2010 was 8.7%. Yet the burdens and costs of the 'single market' bear down on 100% of UK economic activity. The trends show that the EU share of exports is declining, and the Rest of World (RoW) share is growing, so the current figure is likely to be less than this. This reflects the structural decline of the EU over recent decades as well as reflecting the Euro-crisis.<sup>11</sup>

UK exports of services already tell a different story: the UK earns substantially more from services exports to non-EU countries. Services exports to the EU were equivalent to only 5% of GDP, but to the RoW were 8%. In any case, exports of services to the EU would continue to be tariff free, though they might be subject to new rules on market access. Looking at total earnings from trade, overseas income and transfers, less the "Rotterdam-Antwerp" effect, the UK earns around 18% of GDP from the EU, but 26% from RoW.

The EU share of trade is still substantial, but it is improbable that it justifies subjecting 100% of the UK economy to the burdens of single market for the sake of less than one fifth of output (and declining). It is also ludicrous to suggest that 8.7% of UK output would be lost if we were exporting goods to the EU from outside the single market. Inward investors would be wrong to infer that the UK would cease to be an attractive destination for foreign direct investment (FDI). The UK suffered a trade deficit with the other 26 member states of over £46bn in 2011.<sup>12</sup> Over half this deficit was with Germany alone. It seems most unlikely that Germany and the EU would wish to enter a 'trade war' with the UK when they sell so much more to us than we sell to them. The UK is in a strong position to ensure that our industries continue to have favourable access to EU markets.

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<sup>10</sup> According to the ONS Pink Book 2012 (<http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2012/bod-the-pink-book-2012.pdf>), definitive figures on the Rotterdam-Antwerp Effect are not available. However, Global Britain estimated in 2011 that it accounted for 11.25% of UK exports to the EU in 2009, so that when the Rotterdam-Antwerp effect is taken into account, the real percentage of UK exports which go to the EU is 42.6%. This would reduce the ratio of UK goods exports to the EU to UK GDP from 10% to 8.875%. For this estimate, the real level of imports from the UK per capita of the receiving populations in the Netherlands, Belgium and Luxembourg is assumed to be the same as the official average level of UK exports received in Germany and France: £565 per capita. It is assumed that half of the excess exports go to other EU countries, half to countries outside the EU. More information can be found here: <http://www.globalbritain.org/BNN/BN64RotterdamAntwerpNethDistortion.pdf>

<sup>11</sup> The recent announcement that Honda is making 800 redundancies at its Swindon plant is reflects, as a Honda spokesman said, "sustained conditions of low demand in European markets make it necessary to realign Honda's business structure." Even though the United Kingdom is in the Single Market and sales performed well last year, rising by 5.3 per cent to a four-year high of 2.04 million, business is forecast by the Society of Motor Manufacturers and Traders to remain flat in 2013. Paul Everitt, the chief executive of the Society of Motor Manufacturers and Traders said "There are difficulties in Europe, there is no doubt about it. But the market in the UK has held up reasonably well." In contrast to the position of the Single Market, then, one might look to Jaguar Land Rover, who only two days after the Honda announcement stated that they will be creating 800 new jobs at its factory in Solihull. Why? Because demand for its luxury vehicles from countries such as China, the US and Russia is now so strong, it needed to recruit those additional staff. So, irrespective of the UK's car-buying activity – which seemed to perform well last year, at least – a focus on the Single Market means job losses; the orientation to the rest of the world means job creation.

<sup>12</sup> ONS. 'United Kingdom Balance of Payments – The Pink Book', 31 July 2012.

## **MYTH 2: “Three million jobs depend on our trade with the EU”**

This is intended to suggest that there would be substantial loss of jobs if we were not in the EU ‘single market’.

However, if UK business and commerce were to be relieved of the burdens and costs of EU single market regulations, the UK could expand its economy more quickly and recover some of the 2 million skilled jobs which have been lost to Germany, France and other parts of the European Union.<sup>13</sup>

Our earnings from the EU are in structural decline, but our overseas earnings from beyond the EU are growing. Non-EU exports of goods and services amounted to 56% of all UK overseas earnings in 2011. The UK now enjoys a trading surplus with the rest of the world of £17.1bn, compared a deficit of £46bn with the other 26 states of the EU.<sup>14</sup> This is despite the distorting effect of the EU single market in favour of trade with our EU partners. The UK economy is also highly dependent upon imports. Membership of the ‘single market’ increases the cost of imports from the rest of the world. These imports over the last 10 years have so far grown 80% faster than our imports from the EU. Given these trends, the UK economy must be free to adapt.

Non-EU exporters to the EU, the US and China, for example, export to the EU and cope with EU tariff barriers and they have increased their trade with the EU by more than the UK has since the ‘single market was established. They do not pay any contribution to the EU, nor are they bound to comply with the EU regulations in their own domestic and non-EU export markets. Being outside the ‘single market, Switzerland exports three times more goods per head of the population to the EU than does the United Kingdom.

## **MYTH 3: “UK exporters will have to pay high tariffs to export to the EU from outside the single market”**

90% of British exports would not face tariffs and even for those that do, average tariff levels are now generally low. They are charged only on trade in goods and not on services or income. Our trade in goods is below 50% of our total trade and the cost of collecting these low tariffs on goods is more than the cost of tariff collected overall. Some notable sectors could in theory be subject to significant tariffs (eg. cars at around 8%) but reciprocal tariffs would damage EU exporters too, so the incentive for the mutual amelioration of tariffs is strong. This does however depend on negotiating a new positive relationship with the EU, rather than resorting to a destructive UKIP-style exit.

The EU customs union was highly relevant at the time we were deciding to join the EU in the early 1970s. Indeed, as we were losing our empire and Commonwealth markets, there was little option but to pay for access to EU markets by joining the EU. However, after several General Agreements on Tariffs and Trade (GATT) tariffs are generally much lower. Many are negligible, or have been eliminated altogether. So today, customs unions are becoming less and less relevant. There are no substantial customs unions anywhere in the developed

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<sup>13</sup> 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](http://www.global-vision.net)

<sup>14</sup> See ONS. ‘United Kingdom Balance of Payments – The Pink Book’, 31 July 2012.

world except for the EU, which in global terms looks more and more anachronistic. It is interesting to note that neither ASEAN nor NAFTA are customs unions.

**MYTH 4: *The single market reduces the cost of doing business in the EU***

Tariffs are the only cost eliminated by virtue of the single market. The other effects of the single market make the statement above profoundly misleading.

The EU is imposing covert costs on our exporting to the other Member States. Former EU Trade Commissioner, Peter Mandelson, admitted to the CBI that EU red tape costs us about 4% of the EU's GDP.<sup>15</sup> A Treasury study under the last government is said to have concluded that the total costs of EU membership amounted to a significant 28% of UK GDP.<sup>16</sup> That consists of 7% of GDP on EU protectionism, 12% of GDP on the competition gap with the US, 6% of GDP on EU overregulation, and 3% of GDP on transatlantic barriers to trade.

**MYTH 5: *The EU single market creates a level playing field which is in interests of UK business and industry***

The reality of EU regulation is that it is formed by the "subject committees" which report into the various Directorates of the EU Commission. They are generally representative of the "two sides" of the established industries in the given sector. This tends to encourage regulation which is protective of the established industries, which discourages new entrants and innovation. This problem of "regulatory collusion" has been identified by Professor Roland Vaubel who also demonstrates that certain countries get together with a view to dominating the single market using the QMV system in a covert manner. The result may be a "level playing field" (whatever that means) but one which is protected to the advantage of particular countries and industries in those countries. This has contributed to economic failure within the eurozone with the exception of Germany, whose industries have tended to dominate the regulatory process and who now trade at a 30-40 % discount, since the Euro-exchange rate does not reflect what the value of the Deutsch Mark would now be.

This failure is all too evident in the public procurement directive. During 2011, the government was forced to award the contract for the new London CrossRail trains to Siemens, at the expense of Bombardier, because of this directive. There is much the UK government could do to improve public procurement, but the inflexibility of the EU public procurement regime adds time, cost and legal complexity to public procurement, as well as damaging UK industry by the loss of business to other EU countries, who also manage to retain most of their public contracts for domestic manufacturers.

This concern extends to the issue of takeovers and mergers. The UK utilities, airports and energy sector is dominated by French, German and Spanish companies who impose their terms on the UK, while returning dividends to their own home countries. There is little evidence of reciprocal opportunities for UK companies. This is not a true single or free market.

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<sup>15</sup> *Financial Times*, 9 November 2004.

<sup>16</sup> See the account of a study by HM Treasury provided in: Lee Rotherham. (2012). *The EU in a Nutshell*. Harriman House. p. 465 and John Redwood. 'What does the UK pay for the EU?' 28 July 2012: <http://johnredwoodsdiary.com/2012/07/28/what-does-the-uk-pay-for-the-eu>

## **The single market: rhetoric obscuring vested and political interests**

As EU Commissioner for Trade, Peter Mandelson exposed a truth about the 'single market':

*And remember that it is the basic rules of the single market which have allowed European integration to progress in a wide variety of areas, not only economic, but social and environmental too. It is the rules of the single market which give us the foundation to export our rules and standards around the world - an increasingly important part of my job as trade commissioner. In short, no single market, no European project and no Europe puissance.*<sup>17</sup>

The European Single Market has evolved since 1986 but has lost its apparent initial advantages. The single market has become an end in itself, as the then EU Trade Commissioner made clear in his statement. This "Europe puissance" is driven by Qualified Majority Voting (QMV), which has grown exponentially and has become a means promoting political objectives rather than economic benefits. The UK is either outvoted or left with unsatisfactory rules which we feel forced to accept by consensus. 'Single market' rules also now extend well beyond what was proposed in the Single European Act 1986, or which are necessary to enable borderless trading within the EU (see Introduction).

Taken as a whole, the policies of the 'single market' promoted in the name of growth competitiveness and jobs have achieved precisely the opposite. The EU reported record unemployment last week, at 11.8%.<sup>18</sup> The EU single market protects dominant interests and industries under the pretext of the 'level playing field'. Unfair subsidies and unfair practices have led to economic domination and tensions.<sup>19</sup>

### **Negotiating the "new relationship"**

The UK would continue to trade with the EU even if we ceased to be a member: under the EU treaties, the EU is exhorted to pursue "free and fair trade" with non-EU countries. In addition, Article 8(1) of the Treaty on European Union says: "The Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation." Any discrimination against the UK would also be contravening the rules of the World Trade Organisation (WTO). If the UK ceased to be in a customs union, the UK could resume membership of WTO. It is often argued that the EU can obtain better outcomes at WTO negotiations for Europe as a whole because we are part of a large bloc, but there is no reason why we should not continue to combine UK-EU negotiating efforts when it is in our joint interests. This would not be at the expense of our own seat at WTO negotiations, so we could have more influence. We would also have the ability to negotiate our own bilateral trading agreements with major economies like the US, China and India. The UK would be free to pursue agreements throughout the Commonwealth and elsewhere, to enhance UK influence and goodwill, exploiting the

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<sup>17</sup> Speech by Peter Mandelson, member of the European Commission for Trade, at the Chambre de Commerce et de l'Industrie Paris, 30 June 2007.

<sup>18</sup> "EU unemployment reaches new high", BBC website, <http://www.bbc.co.uk/news/business-20943292>

<sup>19</sup> William Cash, (1990), 'A Democratic Way to European Unity: Arguments against Federalism', The Bow Group.

“network” world which the present government has been promoting. We have stronger historic connections and a shared language and heritage with many of these countries (and trade surpluses). We also often share more in common in terms of our legal systems, including commercial law.

It is often argued that we would lose significant influence in the EU if we no longer participate as a full member of the EU. However, we have been losing influence in the EU ever since we adopted the Maastricht Treaty. Firstly, the dramatic increase in QMV means we enjoy only 8% of the votes on those issues. Second, competence creep tends to bring more and more policies into the ambit of QMV. Third, the effect of “opt-outs” and “permanent structureD cooperation”, increasingly leaves the EU core states with the power to decide the EU agenda amongst themselves. Finally, the political effect of the Eurozone and the ensuing crisis has made it harder and harder for member states to defy the German-led consensus and to join the UK in voting down integrationist measures. Our share of votes will rise in November 2014 to about 12%, under the Lisbon treaty, but the reality of the present treaties leave the UK in the worst possible position: we lack influence over the direction of the EU as whole, but we remain bound by the *acquis*. This is not influence; it is surrender.

If we were to leave the ‘single market’, we would regain control of our own markets in the City, and elsewhere, and over our trade with the rest of the world. We need a new associate membership, as Jacques Delors indicated.<sup>20</sup> Jacques Delors, for all his past stubbornness, now says he can imagine our relationship with the EU will remain friendly, even on the basis of a free trade agreement. M Delors has dramatically validated these arguments. It is no longer possible for anyone to dismiss the prospect of such an agreement as the least bit impractical or unrealistic.

The EU already has 63 free trade agreements with non-EU Countries. If we were to leave the EU altogether, Article 50 of the Treaty on European Union is premised on a new relationship being put in place, and several other EU treaty articles require the EU to pursue free trade with non-EU states. The other EU countries simply could not afford to engage in aggressive trade relations with the UK when they need us as customers for their own markets. The Eurozone and the other EU-26 would not wish to jeopardize their massive continuing structural surplus with the UK. Our prosperity is as much in their interests as theirs is in ours.

There are huge opportunities for translating the Commonwealth into a new axis of trade. The UK is the sixth largest trading nation in the world. The US would quickly recognise the reality of the value of the UK once again free to promote free trade as an autonomous trading nation. The UK would naturally be aligned with the other non-EU states in Europe. Switzerland themselves have now been put under undue pressure by the EU but it is the best framework on which to build. If we were to join this in the form of a new EFTA arrangement whilst remaining ‘associated but not absorbed’ as Churchill put it, we could prosper exponentially into the future.

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<sup>20</sup> Jacques Delors, *Handelsblatt*, 28 December 2012.

## **The Need for a Referendum before or on the date of the 2014 European elections**

The Sunday People ComRes poll published on 13<sup>th</sup> January shows that 63% want a referendum on “in-out” (17% against). With 42% who would vote to renegotiate, but not withdraw (31% against) and 33% who would vote to withdraw (42% would vote to stay in), it is clear that a substantial majority want change. Crucially, 46% (against 25%) believe the UK has derived more disadvantages than advantages from our EU membership, and 48% (against 27%) believe our EU membership has been “a costly mistake”.<sup>21</sup> Given these figures, Labour will not sustain opposition to a referendum.

According to reports and interviews, the Prime Minister believes there are “opportunities to achieve changes in the EU”. At this stage, he is laying great emphasis merely on the “opportunities” to renegotiate, rather than on the detail of what the UK must achieve by renegotiation. He also proposes a post-renegotiation referendum to give “fresh consent” to “a fresh settlement” sometime during the 2015-20 Parliament. (It is not clear whether a “no” vote would be interpreted as a vote to leave the EU.) While this may have superficial appeal, it would lack all credibility:

- As has already been suggested by Lord Heseltine, it is hard to commit to a referendum to validate the outcome of a negotiation, when it hasn't begun, on an unpredictable timescale, and on an outcome that's unknown.
- There will be a suspicion that whatever language is used to describe the promised renegotiation, the outcome will be celebrated as ‘victory’, however minimal it actually is, so therefore a referendum could in reality be a choice between no more than two versions of the *status quo*.
- All three political parties have committed to a referendum in previous manifestos, but have failed to deliver one, so such a pledge, however sincere, would have little political effect.
- The promise of a referendum many years ahead will not settle the debate about the EU in the intervening years: it will ensure it runs and runs.
- Unless there was a pledge to respect a “no” vote as a vote to leave the EU, the campaign for an “in-out” referendum would continue.
- If a “no” vote would mean exit, the debate about “in” or “out” would be likely to continue to polarise the debate about EU membership.
- Worst of all is the fact that whatever referendum is promised for post-2015 and post-renegotiation, it would create years of paralysis and uncertainty, which would not necessarily be resolved even by a majority Conservative government were it to be elected: or this pledge will be overtaken by events in the EU (see below).

The only alternative to a post-2015 referendum is one much sooner and on a question which would have an immediate effect on policy. This requires a “mandate” referendum on or before the date of the 2014 Euro-elections. The *status quo* being “unacceptable”, the Prime Minister needs to table a referendum question which leads to a fundamental change in our constitutional relationship. As many have already recommended, the question should be:

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<sup>21</sup> ‘ComRes/Sunday People Euro Election poll’, Saturday 12 January 2013.

***“Do you want HM Government to negotiate a new relationship with the European Union based on trade and political cooperation?”***

This has the advantage of a positive focus on what sort of relationship we know the majority of voters actually want (trade and political cooperation only). It is better than offering an in-out referendum: a ‘hobson’s choice’ for most people, who want neither to stay in on the present terms, nor just to leave without renegotiation.

**The Crisis in the EU; the fundamental change the UK needs**

The EU single market and our trading relationship with the EU are in crisis. The EU Constitution was defeated, but the calls from Manuel Barroso, Herman Van Rompuy and others for a new Treaty for a “federation of states”, and the recent declaration that the EU Parliament should have parity with the national Parliaments, demonstrate that the EU has not abandoned its bid for supremacy. This is consistent with Jean Monnet’s view 60 years ago quoted at the front of this paper.

The fundamental change required in the UK’s EU relationship will never be achieved by adjusting the existing treaties and then by seeking unanimous agreement for all the Member States. Changes proposed on this basis are simply dismissed out of hand by the European establishment and other Member States (most particularly by Germany and France). The UK government must therefore take decisive action to redefine the UK’s position in the EU unilaterally and on our own terms. The only alternative to their accepting these terms is that the UK should leave altogether.

**What is likely to happen next?**

The Commission is likely to table proposals for the new federal Treaty later this year. The new draft treaty will probably be with us by the time of the European elections in June 2014. Even if the Prime Minister has set out a detailed negotiating position, he does not appear to be proposing to seek to renegotiate at this stage, because he would not have the support of the LibDem element of the coalition for his policy. The UK will therefore miss this “opportunity”.

By the time of the 2015 general election, the ratification process for the new treaty may not have started, but the rest of the EU will wish to exploit UK paralysis in order to finalise the text amongst themselves. A new Conservative government in 2015 would be presented with a *fait accompli*, ironically one to which the present Prime Minister will have tacitly agreed during the period of coalition. A referendum in the UK after 2015 once the future direction of the EU has been settled would have far less effect on the progress of the new treaty text than a mandate referendum in this Parliament, which would validate UK demands for a genuine “new relationship” based on trade and political cooperation.

## **The effect on the Euro-elections**

In the 2014 Euro-elections, we would have little opportunity to promote our own proposals, without the mandate referendum. We will only be able to challenge the other parties on what their European policy may be, if we are clear about our own, and how we intend to put it into effect. The commitment to mandate referendum would enable us to face down the other parties during 2013 on the European issue and propose a Referendum Bill which they would not dare to oppose. Waiting until after the General Election in 2015 is not realistic. We would win a referendum on the question on “trade and political cooperation” and David Cameron could then enter negotiations with a powerful mandate from the British people. If the negotiations failed and these wholly reasonable demands were rejected, there would be the strongest possible reason for the UK – which would then have the legitimacy of having asked the British people the right question in the right way, to apply to leave the EU under Article 50. This in itself would lead to negotiations for the kind of free trade agreement, as laid down by the EU treaties, which Jacques Delors himself has proposed as a sensible way ahead.<sup>22</sup>

A vote for “trade and political cooperation” would be a return to the spirit of the common market - not as it has evolved, but as it was originally offered to the British people. “Trade and political cooperation” would underpin right of the British people to recover the right to make our own laws, while remaining friends with our EU partners, as Jacques Delors suggested.

Our new relationship with the EU could provide a template EU relationship for others, such as Turkey, whose membership of the EU is blocked by the present settlement. The UK would re-establish its self-respect and self-confidence as a nation, renewing our democracy and national responsibility for self-governance. This would help to restore the feeling that voting in elections matters once again; that elections can lead to change, which must remain the watchword of David Cameron’s leadership.

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<sup>22</sup> Jacques Delors, *Handelsblatt*, 28 December 2012.