

## **RICHARD NORTH'S PAPERS ON BREXIT**

1. I have great respect for Richard North. He does original research. It is thorough and well documented. On a range of issues he has been right and the conventional wisdom wrong. Moreover, he is not a closet Remainer trying to inveigle the UK back into the EU by the back door. So I am reluctant to take issue with him.
2. On Brexit he has highlighted a number of little known or neglected issues which we should not ignore. In particular, as far as trade is concerned he has identified a web of agreements - over and above Preferential Trade Agreements on tariffs - between countries to facilitate trade as well as the complex customs and related legislation within the EU.
3. However, as Harry Johnson said in a similar context: *"the effort he has expended in opening the oyster may have led him to overvalue the pearl within"*!
4. Moreover, his commitment to 'Flexcit' may lead him to put the most adverse interpretation on his discoveries and highlight worst case scenarios (e.g. the Article 50 negotiations end without an agreement and without the UK having done any work to prepare for trading on a WTO basis with these facilitation deals).

In any case, I think the idea of exiting the EU via a period in the EEA is a mistake. The EEA was devised for countries whose governments wanted to join the EU but whose people were reluctant. It is an ante-room, not a departure lounge.

### **5. The WTO Option and Trade Barriers and Brexit**

In particular:

- a. He tends to ignore that the issues he identifies will affect trade in both directions, so continental exporters will have as much incentive as UK exporters to sort out a solution.
- b. Above all, like many commentators, he underestimates 'the power of the status quo'. The one thing I have observed – whatever the issue - is that it is much harder to change things than to leave them unchanged, however anomalous or irregular that may be. It may be logical and theoretically possible to declare all existing customs and other trade facilitating agreements and procedures invalid – but it won't happen! Indeed, so far as I am aware that has never been done even to countries subject to trade sanctions.
- c. Far from having to reinvent the 1,600 pages of customs regulations, the UK can and should incorporate them into UK law, with relatively minor amendments.
- d. The UK starts off in full conformity with EU product regulations etc so there can be no problem agreeing 'regulatory conformity' at the point of Brexit, even if we have to agree at a later stage how to avoid divergence.

- e. We should be able to novate to the UK the network of trade facilitation agreements to which the EU is party, again with only minor technical amendments. The fact that such agreements exist between all WTO members, even those which have no bilateral Preferential Trade Agreements and even between countries hostile to each other, suggests that they are unlikely to be thrown aside for bureaucratic reasons or to teach us a lesson.
- f. Richard North (in common with many others) assumes that the eagerness of each member state to maintain the flow of trade with the UK depends on whether or not they have a trade surplus with us. In fact, whether they have a surplus or deficit is of little relevance. The political pressure on each government to maintain access to the UK market will be a function of the absolute amount they export to us. Exporters of Italian shoes, or Dutch cut flowers, or French wine, or Czech machinery etc. will be reluctant to lose access to the UK market regardless of how much other sectors of their economies import from us. Indeed, even importers of UK goods will lobby their governments to avoid being cut off from their suppliers.

## 6. The Single Market and Free Movement of People

- a. He argues that if we joined EFTA and thereby the EEA we would, under EEA Article 112 which allows for safeguard provisions, be able to negotiate limitations on free movement of people, as has Liechtenstein. (He thinks that Switzerland, although not part of the EEA, is negotiating a similar deal – in fact their deal is different: see point ‘f’ below). Thus we could have tariff free access to the Single Market yet not be obliged to accept free movement of labour.
- b. This strikes me as a bit of a pipe dream.
- c. The extreme reluctance of the EU to negotiate all but the most minimal changes in UK benefits law – nothing at all on free movement as such – even to keep the UK in the EU suggests they will not concede much to lure us into the EEA.
- d. Liechtenstein is allowed to retain quotas (which began during its transitional period) but only because of “the specific geographical situation of Liechtenstein”. Clearly the UK is so much larger that this scarcely qualifies as a precedent on which we could rely.
- e. Moreover, the measures are subject to review by the EEA Council every five years and according to Richard North, member states appear to be required to “request the Commission to apply safeguard measures” and ... “provide the Commission with the information needed to justify it”. Most Leave voters were voting for UK to make its own laws; the next most important issue was effective control of immigration. This offers neither.
- f. Likewise, I understand that the Swiss and EU have reached agreement, kept under wraps because of the UK referendum. This would allow the Swiss to prohibit firms from taking on new employees from elsewhere in the EU if unemployment in a particular sector and region exceeded 3%. This falls way short of the UK’s needs.

## 7. Financial Contribution after Brexit

- a. This is the least satisfactory of Richard North's papers. He ends up concluding that we could pay more if we leave than we do at present. That is pretty well impossible unless he is double counting which, if I am not mistaken, he is. In any case he provides no convincing rationale as to why our ongoing costs will be worse if we leave EU without joining the EEA.

- b. North puts the base figures for our EU contributions and receipts as follows:

UK Gross Contribution (net of rebate) £12.9 billion

Govt Receipts for EU Programmes	£4.4billion
Private Receipts from EU	£1.5billion
UK Aid Channelled Through EU	<u>£1.2billion</u>
"Sum HMT must continue to finance"	£7.1billion

Net available to redistribute post Brexit £5.8billion

- c. He argues that the Treasury must continue to finance the £7.1 billion as shown. It is a moot point whether all the Private Receipts will need to be underwritten. The EU will continue to make some even if we leave and others might not be essential. He argues that since the UK is committed to spend 0.7% of GNI on Aid it must continue to spend the £1.2billion channelled through the EU on Aid, albeit of our own choice.
- d. He argues that when we leave we might choose to make EU contributions similar to Norway. At least we would want to participate in various programmes like Horizon, Erasmus, Copernicus etc. And we might also wish to go on supporting Eastern European countries. If we contributed on the same basis as Norway pro rata to GDP he calculates that we would pay:

For programmes and agencies	£2-2.5billion	NB this is a gross figure
Support for Eastern Europe	<u>£2billion</u>	
Total 'Norway style contribution'	£4.3billion	

He argues for maintaining support for Eastern Europe partly on the grounds that we will need their support for limiting free movement of labour if, as he assumes, we remain in the EEA.

- e. He then adds the £4.3 billion to the 'HMT ongoing costs' of £7.1 billion.
- f. But this is double counting. The sums we would expect to contribute to programmes and agencies if we leave the EU would cover some of the sorts of spending which he assumes HMT will take over from the EU.

It also treats a gross sum as a net amount. Britain would expect to get back most of what it puts in to programmes and agencies. So the net sum would be much less than the gross figure shown.

- g. Also, (as North subsequently acknowledges) we could use the £1.2billion of our aid budget which is currently channelled through the EU to finance support for Eastern European countries.
- h. On top of that he assumes we will be committed to our share of all long term liabilities and commitments – referred to as the “outstanding commitments at the end of the Multi-Annual Financial Framework period known as the RAL from the French *reste a liquider*. This was put at E217 billion and does not include other liabilities (mostly for purchases and staff pensions) amounting to E103 billion. He suggests that our 13% share of both could be £30 billion or annual payments of £4billion over the next framework period. If the RAL is a real liability which the UK would have to pay at some stage if we remained members then the cost of our membership has been correspondingly underestimated. However, RN admits that “the RAL liability might be questionable (and negotiable)”.
- i. North also argues that if we don’t segue into the EEA we will have to go on paying our annual EU budget contribution because we have voted for the future spending programme up to 2020. That is a bit like saying – if you, along with all other members, approved your golf club’s spending plan for the next five years you will have to go on paying the subs for five years after you leave. I have never heard anything similar argued in any organisation!
- j. No convincing case is made that we would retain either this liability to pay our subs for five years and/or the liability to pay RAL if we leave outright but not if we join the EEA.