THE ALTERNATIVES TO MEMBERSHIP: POSSIBLE MODELS FOR THE UNITED KINGDOM OUTSIDE THE EUROPEAN UNION

The UK Government published the paper, "Alternatives to membership: possible models for the United Kingdom outside the European Union", which is the first part of the report that the Government will publish to meet its statutory commitments set out in section 7(1) of the European Union Referendum Act 2015.

If the result of the referendum were a vote to leave, the Government would seek the best possible balance of advantage for the UK. But regardless of the preferred outcome that the UK seeks, any existing alternative model to the UK's EU membership would mean having to make a number of difficult trade-offs, including:

- in return for full access to the EU's free-trade Single Market for key UK industries, we would have to accept the free movement of people, contribute to EU spending and comply with EU rules;
- the fact that no model outside the EU offers the same level of access to the Single Market that the UK currently enjoys. Access for services in particular, which account for almost 80 per cent of the UK economy, would be reduced;
- we would lose our preferential trade access to 53 markets outside the EU, such as Mexico, South Africa and South Korea – these deals would have to be renegotiated, which would take years;
- we would lose or have reduced access to cross-border action against criminals, including the European Arrest Warrant, some of which are only available for EU Member States; and
- we would no longer be able to use the EU as one of the ways in which we project UK influence in the world, for example by driving united European action to impose sanctions on Russia or Iran.

The UK Government believes that none of the existing alternative models come close to providing as good a balance of advantages and influence as we get from our current special status within the EU, which offers the best of both worlds.

The key features of each existing alternative model is set out below.

- **The Norway model:**
    - Norway contributes significantly to EU spending;
    - Norway is obliged to accept the free movement of people from the EU. Around 6 percent of the population resident in Norway are EU nationals – a higher proportion than in the UK;
    - An independent study commissioned by the Norwegian government has calculated that Norway has had to incorporate approximately 75 per cent of EU laws into domestic legislation in return for access for access to the EU market, but with no vote or veto on the creation of those rules; and
    - Norway is liable to tariffs on exports of a number of agricultural products to the EU.

- **Negotiated bilateral agreements:**

  Switzerland:

    - contributes to EU spending;
    - is required to accept the free movement of people in return for EU market access, in line with the Council of the European Union's view that "the internal market and its four freedoms are

indivisible". There are almost four times as many EU nationals resident in Switzerland, as a share of the population, than in the UK;

- has limited access to the Single Market for services firms. UK financial services firms could face increased costs as they would no longer have 'passports' allowing them to sell authorised services to the EU market without needing extra permits.
- has no vote or veto over the creation of EU rules; and
- took two decades to negotiate its agreements with the EU. In recent years, both the EU and the Swiss are calling the viability of this model into question.

***Canada*:**

- the EU-Canada Agreement took seven years to negotiate from scoping and it is not yet in force;
- has only partial access to the EU Single Market, including for financial services;
- quotas remain in place for key agricultural exports – for the UK this could mean, for example, a 12 per cent tariff on a large share of the UK's beef exports to the EU;
- Canadian manufacturers, such as car-makers, must comply with Rules of Origin, requiring that a proportion of the product is made in Canada in order to qualify for preferential tariffs in trade with the EU. This means extra bureaucratic costs; and
- firms that export to the EU have to comply with EU product standards and technical requirements without any say in setting them.

- **World Trade Organisation-only model:**

  - If we failed to reach a deal with the EU, we would have to revert to trading arrangements based on WTO rules;
  - The WTO would mean new tariffs on UK exports to the EU, making UK exports more expensive. These include tariffs of nearly 5 per cent on chemical exports, 10 per cent on cars, and 36 per cent on dairy products – many UK industries whose supply chains involves the EU could suffer due to increased tariffs and bureaucratic burdens. Increased tariffs could be passed on to consumers; and
  - WTO trade arrangements mean that the UK would have to apply have a single, universal set of tariff rates, covering imports from the EU and the rest of the world alike. Under WTO rules, we would not be allowed to treat any of the WTO's 161 other members differently, unless we had a trade agreement with them.

The full analysis is available at: *https://www.gov.uk/government/publications/alternatives-to-membership-possible-models-for-the-united-kingdom-outside-the-european-union*