The Freedom Association's submission to the Balance of Competences review:

Internal Market: Free Movement of Goods

Goods trade within the European Union

The Freedom Association was founded on 31 July 1975 and is a non-partisan, centre-right, libertarian pressure group. TFA believes in the freedom of the individual in all aspects of life, including economic, to the greatest extent possible. As such, the Association seeks to challenge all erosion of civil liberties and campaigns in support of individual liberty, free market economics and freedom of expression.

This submission concentrates on the trade in goods between the United Kingdom and other member states within the European Union.

The trade in goods between the UK and the EU has decreased over the years and British exports to the EU make up just 10-15% of the UK's total exports worldwide.[1] Regardless of this, however, businesses in the UK are subject to 100% of the legislation that comes from the EU - legislation that makes up nearly 70% of all regulatory cost to businesses[2]

Nonetheless, there are still some companies that have the majority (sometimes significant majority) of their exports going to other EU nations. This is specifically seen in the car industry.

This submission will look at the car industry and submit evidence to show that the United Kingdom will be able to continue to trade with the EU with regards to this market even outside its Common External Tariff area. At this point it should be emphasised though that the myth that membership equals trade - and by the same nature membership equals jobs - needs to be tackled. As Tim Congdon CBE shows in his publication for The Hampden Trust in Association with The Freedom Association jobs depend on trade and not EU membership.[3]

This submission also looks at the Common Agricultural Policy and its effects on the trade of agricultural products throughout the EU. It should be noted that agriculture could also been seen as a protected industry in EU terms because of the effects that both subsidies, which farmers throughout the EU enjoy, as well as the effects of the Common Tariff Area (Customs Union).[4] This could also been seen through the Common Fisheries Policy which has left the fishing industry much diminished since it entered into the European Economic Community.

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[1] Lea, R and Binley B (2012): *Britain and Europe: a new relationship* (Global Vision, London)
[2] British Chambers of Commerce (2010): *Burdens Barometer* quoted in Ibid.
[3] Congdon, T (2013): *'Europe' doesn't work* (The Hampden Trust and The Freedom Association, London)
[4] A Customs Union that inflates imports from countries outside the EU, increases costs for the end consumer

Throughout this semester of the Balance of Competences review there has been cross-over between departments concerning the effects of certain issues. This can certainly be seen with regards to the effects that the Customs Union has had on UK trade both within the EU and externally with the rest of the world. This submission therefore includes some work submitted to other government departments in case it is of relevance to HMRC.

The Automobile Industry

In the first round of the Balance of Competences review, the Japanese Government to BIS suggested that 130,000 jobs would be lost if the UK left the European Union. This was based on the assumption that membership equals jobs, which, as outlined by Tim Congdon, is a fallacy. It is trade that equals jobs - in both the United Kingdom, the European Union and elsewhere.

Nonetheless, if the UK did leave the European Union would foreign investors leave the UK?

The economist, Ian Milne, investigated this question in a paper for the think tank Civitas[5]. He remarked:

The two main French car makers, Renault and PSA (Peugeot-Citroën), are already reducing their production in France, to the dismay of the French government.[6] Renault (of whose global production only 27 per cent is in France) has just opened a sizeable brand-new plant in Tangier, Morocco. This North African country is not, of course, a member of the EU. PSA (in which General Motors has recently taken a minority shareholding) is negotiating the closure of its Aulnay-sous-Bois plant near Paris, as well as laying-off employees at its other plants in France, and focusing its activities on producing low cost models outside France – most probably outside the EU altogether – for both mature and emerging markets.

In Germany, the decision by General Motors to de-localise production of its new Astra model to Poland and the UK (at Ellesmere Port) has raised eyebrows, though massive de-localisation of production outside Germany is precisely what VW and the other German owned groups have been doing for decades. General Motors is well aware that UK membership of the EU cannot be counted on indefinitely.

These French and German examples reflect Europe's chronic production over-capacity and illustrate the long-term global trend to site production in low-cost economies (inside and outside the EU) where market potential far exceeds that of mature markets such as those of the original EU member states.

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[5] Milne, I and Hamill N (2012): Withdrawal From the EU Would Not Damage Our Car Industry: True or False? *Civitas, Europe Debate No.1* http://www.civitas.org.uk/pubs/EuropeDebateNo1.pdf

[6] It should be noted that Peugeot has recently been granted a loan guarantee by the French government, approved by the European Union, of 7 billion euros.

However, the UK's car industry is in a different position to the car industries of other Western European countries. According to LMC Automotive's 'September 2012 West European Car Sales' data, UK car sales are bucking the region's trend and looking much more promising than the rest of Western Europe; September 2012 was the twelfth consecutive month of declining car sales for this region, with the UK as the only country in West Europe with growing sales, up 8.2 per cent on September 2011 figures.[7]

There are very few 'British' manufacturers that persist in the UK and those that do (such as Morgan) tend to cater for niche markets. The vast majority of the UK's industry is owned by overseas companies. These companies are investing heavily in plant sites and R&D across the UK; 2011 alone saw more than £4 billion worth of investments announced. These overseas investors have breathed life into an industry that was struggling, bringing new models and processes to the table.

As a result, the UK's car industry has adapted and modernised in a way that Germany and France did not need to until recently, and as a consequence the UK's automobile sector finds itself weathering the Eurozone crisis better than other EU countries and with a stronger foothold in growing, non-EU markets – some foreign car manufacturers (e.g. Jaguar Land Rover) have even announced plans for site expansion in the UK.

Foreign investment is therefore extremely important to the UK's car industry. To assume that leaving the EU would automatically lead to a reduction in such investment is questionable − many of these foreign companies are already significantly invested in car production in the UK. For example, the Japanese firms Nissan, Toyota and Honda have been investing in their UK factories since the 1980-90s, and both Toyota and Honda have recently announced further investments for their UK plants. Single Market membership might be inviting; however, these companies have laid solid foundations for continued and expanding production.

Industry expertise in the UK is world renowned and is not related to UK membership of the Single Market. In 2012, the chief executive of the Society of Motor Manufacturers and Traders (SMMT), Paul Everitt, outlined engineering expertise, workforce flexibility and the UK's motoring heritage as key factors that make the UK an important location for the global automotive industry.[8]

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[7] LMC Automotive, 'European Monthly Sales Report, September 2012' http://lmc-auto.com/public-data/ (need to register to access data) quoted in Milne, I and Hamill N (2012): Withdrawal From the EU Would Not Damage Our Car Industry: True or False? *Civitas, Europe Debate No.1* *http://www.civitas.org.uk/pubs/EuropeDebateNo1.pdf*

[8] Paul Everitt, 'Good News: Britain Engineering Makes UK an Automotive Hotspot', The Telegraph, 06/08/2012 http://www.telegraph.co.uk/finance/good-news/9457077/Good-News-Britain-Engineering-expertise-makes-UKan-automotive-hotspot.html [08/12/2012] quoted in ibid.

Given these domestic trends, whether or not a country belongs to the EU (which accounts for only five per cent of global population and around 20 per cent of global GDP) is unlikely to be the key determinant in global car groups' decisions on where to site production. If the UK were outside but trading freely with the EU (see above), free of the burden of Single Market regulation, and no longer having to apply the EU Common External Tariff to its imports of all categories of goods, it could well attract more rather than less investment from global car groups than at present.

Indeed, it should be noted that despite the UK being in a very different position to other countries in Western Europe when it comes to the automobile industry, the UK is treated the same by the European Union. This is despite historic differences in where the cars are sold. In the UK, roughly 50% of cars are sold throughout the EU, however, it has been less for French manufacturers such as Peugeot who have over the past few years sold roughly 70% of its cars into the relatively mature markets of the EU - with a large proportion of its production being sold within France[9]

Indeed, the UK exported 57 per cent of cars to EU-26 in 2010, Germany being the biggest importer (Tables E and H in Milne and Hamill, 2012). 43 per cent of UK exports went to countries outside the EU; Russia, the USA and China being the main importers. In terms of value, in 2010, UK exports of cars outside the EU were already worth more – £9.5 billion – than UK exports to EU-26 – £7.8 billion. (Table J in Milne and Hamill, 2012).[10] It shows that the future markets are increasingly outside the EU and that the UK would benefit in setting its own regulatory environment for this industry.

Future challenges:

The growing demand for British made cars coming from outside the EU is a future challenge for the industry. Despite the fact that the UK is increasingly exporting cars to other areas of the world, yet still tied to EU policy making. The UK now exports 4 out of ever 5 cars made in the UK [11] and increasingly those consumers are based in Latin America, China and other parts of Asia.[12]

Patrick Minford's submission to BIS in the first round of the Balance of Competences review[13]

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[9] Peugeot Quarterly Sales Fall 20% on European Market Drop:
http://www.bloomberg.com/news/2013-01-09/peugeot-2012-vehicle-sales-drop-17-on-europen-car-market.html Bloomberg, accessed 1/10/2013
[10] Also mentioned in Civitas (2013): Exit EU to boost UK car production http://www.civitas.org.uk/press/prCarReport.php accessed 01/07/2013
[11] SMMT (2013): June rise lfits half year UK manufactoring https://www.smmt.co.uk/2013/07/june-rise-lifts-half-year-uk-car-manufacturing/
[12] Asia Global Impact (2012): UK Car Manugacturing Boosted by Asian Demand http://www.agimag.co.uk/uk-car-manufacturing-boosted-by-asian-demand/
[13] Minford, P (2013): *Setting Business Free: Into the Global Economy* (Hampden Trust and The Freedom Association, London)

illustrates the potential problems with membership of the EU and the effects of increased desires from the EU to concentrate on the Eurozone.

Indeed, taking what Professor Minford considered in the first review and applying it to the car industry we can already see moves from EU countries to be more protectionist in relation to their car companies.

For example, the €7 billion grant given to Peugeot is an example of the French government getting involved to prop up its industry. If domestic consumption of French made cars continues to decrease in France, along with a rise in the purchasing of foreign made vehicles, we can assume from previous actions that governments in France will try to protect its car industry.

This could also happen in other countries within the EU - notably Germany - that have large car markets but decreasing demand. [14][15] Nonetheless, the EU is now no longer the UK's largest market for cars that it exports globally. Given this fact, and the growing trend against the EU as a market for automobiles in comparison to countries globally, the question is whether the UK wants to be subject to regulation that dictates the specification of its products from countries that firstly possess very different car industries and secondly a diminishing market.

There is one contrary thought to this, however. As detailed in Patrick Minford's submission to BIS [16], the car market is currently very interlinked within the EU. In terms of the acquisition of parts etc it may therefore be necessary to have transitional arrangements in place. However, Ian Milne argues in the many pieces that he has written for both Civitas and Global Britain[17][18] on the subject that, because of the UK's current deficit in purchasing from countries like Germany and now Italy, that a free-trade agreement is inevitable - especially in automobiles.

The Customs Union

There is also a concern that the UK is being restricted in its trading activities because of its membership of the European Union. The concern comes in the form of the Customs Union, a trading area that "may have been economically beneficial when EU tariffs were relatively high. But tariffs are now low and moreover only pertain to the import of goods, whereas much of

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[14] WSJ (2013): Europe's Car Makers See Weakness Ahead: http://online.wsj.com/article/SB10001424127887324425204578601771401330486.html accessed 01/08/2013

[15] Euronews (2013): No Let Up For European Carmakers As June Sales Drop http://www.euronews.com/business-newswires/2031004-no-let-up-for-european-carmakers-as-june-sales-drop/ accessed 01/08/2013

[16] Minford P. (2013): Setting Business Free: Into the Global Economy (The Hampden Trust and The Freedom Association, London): http://library.constantcontact.com/download/get/file/1102527958638-256/bis+book+clear+with+NO+bleed+CLEAN.pdf accessed 01/08/2013

[17] see http://www.globalbritain.org/briefingnotes.asp

[18] see http://www.civitas.org.uk/press/prCarReport.php

Britain's trade relates to services."[19]

This idea of a world of low tariffs is seconded by the think tank *Global Britain* which shows that the overall real average rate of duty on imports of goods from outside the UK shrank by 26% between 2002 and 2011 (table 1) and that over seventy-five per cent by value of all UK imports of goods from outside the EU bore zero customs duties in 2010 (see table 2)[20]:

Table 1: Real Rate of UK Customs Duties on Imports of Goods from outside EU

Year	Customs Duties (1)	Imports of Goods from non-EU £bn (2)	Rate of Duty change %
2002	1.9	97	1.98
2003	1.9	100	1.94
2004	2.1	109	1.97
2005	2.2	122	1.83
2006	2.3	136	1.71
2007	2.4	141	1.71
2008	2.6	164	1.61
2009	2.6	148	1.79
2010	2.9	178	1.65
2011	2.9	197	1.47

1. Table 7:1.2, p243, *The Blue Book 2012*, www.statistics.gov.uk > Economy > National Accounts > *The Blue Book 2012*
2. Table 9.4: Impacts: p.161 *The Pink Book 2012* , www.statistics.gov.uk > Balance of Payments > *The Pink Book 2012*

19 Global Britain Research Note 81: Very low on average and reducing, 28 September 2012 http://www.globalbritain.org/BNN/BN81.pdf

20 ibid.

Table 2: UK Customs Duties In 2010 by Type of Commodity [21]

Imports of Goods from non-EU	Value £bn	% value	Gross Duty charged £bn	Average Rate of Duty %
Bearing a positive duty	45	25	2.87	6.4
Bearing zeo duty	133	75	Zero	Zero
All imports from non-EU	178	100	2.87	1.61

This demonstrates that the world in which there were external tariffs is increasingly over and that the Customs Union is becoming archaic. The result is that, despite lowing trade tariffs, the UK is not free to reap the benefits of lowering prices for goods in countries such as China and around the continent of Africa.

According to the study submitted by The Freedom Association to BIS in the first Balance of Competences review period, Professor Patrick Minford CBE estimated that this Common Tariff cost the United Kingdom 2.5-3% per year. This is roughly £50 billion per year and restricts consumers in the United Kingdom to trade freely at world prices. Other reviews of the effect of this policy, such as that done by Tim Congdon CBE, show that the price of agricultural products, for example, coming in from outside the EU are in the 18% - 28% range, which "include often bogus obstacles to imports on the grounds that they do not meet EU health or nutritional standards, and are enforced with bureaucratic unpredictability and arbitrariness."[22]

However, as pointed out in Congdon (2012), in the EU tariffs and barriers apply not just to agricultural products, but also across a wide range of goods:

"Tariffs are much lower now than in the 1950s, because of the almost continuous move towards global trade liberalization that has characterised the post-war era. As a broad generalization, the EU's common external tariff on manufactured goods from other developed countries has dropped to an average of about 3% and from developing countries to an average of about 5%. It has also to be said that the EU has negotiated free trade agreements with non-EU countries, notably Japan, Mexico and Israel. (The significance of these agreements for the UK's own EU membership is considerable, and is discussed in chapter 7 in Congdon's paper). However, the EU does enforce an assortment of non-tariff barriers to trade with the rest of the world. These are plainly important and, like protectionism under the CAP, cause large-scale resource misallocation."[23]

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[21] Ibid

[22] Congdon, T Ibid (2012): How Much Does the European Union Cost Britain: http://www.timcongdon4ukip.com/docs/UKIP%20Cost%20of%20the%20EU.pdf, accessed 1/06/2013

[23] Ibid. See Table 4 for estimation of costs through resource misallocation and potential benefit if the UK left

Table 3: Gains from better resource allocation if the UK leaves the EU Table shows gains/losses, as % of GDP from improved resource allocation on (mostly), if the UK leaves the EU and unilaterally adopted free trade.

Gain/loss as % of GDP	To the UK	To the rest of the EU
Agriculture	+0.3	-0.06
Basic manufacturing	+1.4	-0.06
High-tech manufacturing	+1.6	-0.1
Traded services	-	-
Total	+3.3	-0.22

Source: Main, Mitford and Nowell, 2009 working paper, see text.

A second aspect of the Customs Union is that it forbids member states making their own free-trade treaties. Unlike the other 160 odd countries around the world, the United Kingdom has to ensure that any trading deal suits those within the European Union before proceeding.

This has slowed down the deal making procedure. Unlike countries like Switzerland, Norway, Iceland and Liechtenstein, the UK's inability to have a direct dialogue with third party countries means that, while the EU has started trade negotiations with Canada (2009) and Japan (2012), many of those in the European Free Trade Association (EFTA) already have deals with these states today.

Indeed, the European Union has either FTAs or EPAs (economic partnership agreements) in negotiation or signed but not implemented with over 90 countries - some of which have been in negotiation for many years. This is not necessarily a good thing for the United Kingdom. As in the case of the FTA with the United States of America, it is well known that through the work of Senator Philip Gramm, former Chairman of the United States Senate Banking Committee, and others that the EU could have had an FTA with the USA in the late 1990s / early 2000s only for it to be rubbished by French concerns.[24]

It means that the UK and the USA could have had an economic partnership in the late 1990s / early 2000s if the UK wasn't beholden to the signature of other countries for free trade deals.

But then there are the trade talks with the United States. The deal on the table has currently excluded aspects such as "culture" which could mean that the creative industries in the United Kingdom - that according to the CBI make up 6% of our economy - do not see the maximum

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the EU.

[24] Bloomberg (23 March 2013): "Pretentious Movies May Doom U.S.-EU Trade Pact

": Reuters: http://uk.reuters.com/article/2013/05/23/uk-eu-us-trade-idUKBRE94M0NN20130523 accessed 1/08/2013 benefit from such a deal with the USA through the EU.[25]

It is symbolic of a much wider problem where trade deals are not just delayed but they are also diluted in a way that means the UK faces what is known in economics as an opportunity cost.

Nonetheless, pro-EU supporters say the UK must stay in the European Union so that it can gain “better deals” from trade negotiations.[26]

Professor Minford CBE[27] explains why this is misguided:

“Yet the popular debate has it that there is a need to have access to EU markets on the same terms as now. Another popular concern is that we will not enjoy the ‘muscle’ of the EU in trade negotiations with third countries.

These ideas are confused. We benefit from moving to world prices, including selling to the EU at world prices, and not at prices inflated by EU protection for customs union members. This would also mean that we buy from the EU, as well as from the rest of the world, at world prices, not at EU-customs-union-inflated prices.

As for EU muscle in trade negotiation, as our intention would be to admit goods and services from all countries freely without tariffs or other protection, at world prices, there is really no likelihood that any of these countries would find it in their interest to raise tariffs on our goods or services.”

The only possible exception to this lies in areas where world trade is currently highly protectionist, such as airline arrangements. Here it is true that a larger grouping such as the EU has power to negotiate a bilateral reduction in barriers where the UK alone would not. In these areas it would make sense both for the UK (a major airline hub) and the EU to combine forces and share arrangements. Thus one can envisage a UK-EU trade agreement which would recognise such common interests.”

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25 Better Off Out: *The UK could make a better deal with the USA*: http://www.betteroffout.net/the-uk-could-make-a-better-deal-with-the-usa/ accessed 1/10/2013; Iain Murray, I (2013): A culture of freedom: the first casualty of the U.S.-EU trade deal :http://cei.org/op-eds-articles/culture-freedom-first-casualty-us-eu-trade-deal accessed 1/10/2013

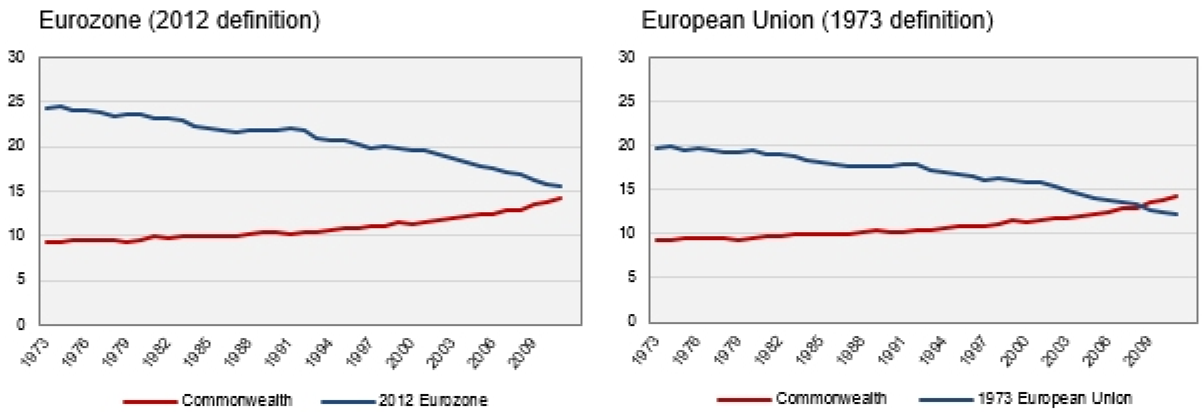
26 Reynolds, E (2012): British Influence in the world http://britishinfluence.org/subscription-confirmed/item/british-influence-in-the-world, British Influence, accessed 01/08/2013

27 Minford P (2013): Setting Business Free: Into the Global Economy (Hampden Trust and The Freedom Association, London): http://www.betteroffout.net/setting-business-free-into-the-global-economy-by-professor-patrick-minford-cbe/ last accessed 01/07/2013

Indeed, others see the Customs Union - far from being this wonderful vehicle for influence - as an opportunity cost. As described in Lea and Binley 2012:

"The costs to Britain of membership of the Customs Union, specifically the opportunity costs of being unable to negotiate its own free trade deals, are however substantial. Moreover these opportunity costs are likely to be increasingly significant, given the relative decline of the EU as an economic bloc and the rise of the Commonwealth, for example, where Britain has an advantage through ties of culture and history. The establishment of a Commonwealth FTA, including the UK, would almost certainly stimulate the development of trade links ."[28]

Indeed, they are quite right in pointing out the different economic projections that these two entities are currently faced with. As illustrated by graphs below[29], the EU is being overtaken by the Commonwealth and is on course to extend economic growth in the future.



It means that as part of the EU's Customs Union the UK is unable to make FTAs that might suit it with economies that are growing. Furthermore, as part of this EU competence the UK is missing out on growth opportunities.

Problems with tying the UK to the EU were also spelt out by Ruth Lea both in her evidence to the Foreign Affairs Select Committee in 2012[30] and in her *Daily Mail* article of 7 October 2012.[31] In her *Mail* article, Lea said:

"My enthusiasm for the Commonwealth has nothing to with a romantic attachment to a fading dream of Imperial glory. In fact nothing could be further from the truth. Commonwealth countries do not have their best years behind them, as I fear many EU countries do, they have their best

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28 Lea, R. and Binley, B. (2012): Britain and Europe: A New Relationship, p.3, Global Vision, London

29 World Economics: Commonwealth GDP growth:

http://www.worldeconomics.com/papers/Commonwealth_Growth_Monitor_0e53b963-bce5-4ba1-9cab-333cedaab048.paper

30 "Inquiry: The role and future of the Commonwealth", Foreign Affairs Select Committee, 19 April 2012

31 "The Commonwealth should play a much bigger role in Britain's future", *Daily Mail*, 7 October 2012:

http://leablog.dailymail.co.uk/2012/10/the-commonwealth-should-play-a-much-bigger-role-of-britains-future-an-interesting-snippet-of-news-slipped-out-recently-th.html years ahead of them. And it's worth reminding us Commonwealth nations, taken together and including the UK, are an economic colossus comprising some 15% of world GDP, 54 member states (53 excluding Fiji, which is currently suspended) and two billion citizens. They will inevitably become more influential and powerful. The Commonwealth spans five continents and contains developed, emerging and developing economies. Crucially, the Commonwealth, in its richness and diversity, mirrors today's global economy in a way that the EU simply cannot start to aspire to.

The latest IMF forecasts show that the major Commonwealth countries have healthy growth prospects in the medium-term, significantly better than for major EU economies. And looking to the longer-term, they are blessed with favourable demographics. Their working populations are projected to increase to 2050 and, insofar as economic growth is correlated with growth in the working population, they will represent some of the most important growth markets in the longer-term. Specifically, the Commonwealth's demographics compare very favourably with some major European countries including Germany and Italy, where working populations will age and shrink. It is mistaken and old-fashioned to regard the Commonwealth as the 'past', an outmoded relic of Empire. Commonwealth countries are young and dynamic and should play a much bigger part in Britain's future.

It has moreover been estimated that business costs are 10-15% lower for Commonwealth countries trading with one another compared with Commonwealth countries trading with non-Commonwealth countries of comparable size and GDP. This benefit, the 'Commonwealth advantage', reflects shared history and commonalities of language, law and business practice. It should act, other things being equal, as a major incentive to intra-Commonwealth trade.

Indeed, it is for practical business benefits that the UK should look to strengthen its ties with these countries – especially as this group of nations has "never been stronger", according to the Minister in charge of Commonwealth Affairs[32]. This includes some of the fastest growing economies in the world and includes many Commonwealth countries. Nonetheless,the EU's approach to trade deals are said to be harming relations between the EU and developing countries. This is highlighted in the 2012 publication, "Common-trade, Common-growth, Common-wealth" by Tim Hewish and James Styles.[33] In it the authors describe the "EU Solution for the Developing World", in the form of "Economic Partnership Agreements" (EPAs). It is worth quoting at length:

EPAs are defined as 'development-friendly trade agreements between the European Union (EU), its member states and African, Caribbean and Pacific (ACP) countries.

Yet the EU Commission's somewhat rose-tinted view of the EPAs conveniently omits to mention the damaging impact they have had upon some of the least developed countries of the world.

32 "The Commonwealth has never been stronger", Hugo Swire, *Daily Telegraph*, 2 January 2013

33 Hewish T. and Styles J. (2012): *Common-trade, Common-growth, Common-wealth* (The Hampden Trust , Exeter)

EPAs require developing countries to eliminate around 80% of their tariffs on goods imported from the EU.[34]

Another issue with EU trade deals is its subjective morality. Robert Sturdy MEP explained to us that one nation with which it is looking to trade still has the death penalty and the socialist bloc of the EU is trying to obstruct a report into an EPA because of capital punishment. As he laments:

If it is about trade, then forgive me, but what on earth has the death penalty got to do with trade?

The double standards are further exposed when we see that the US is a major trade partner for the EU, yet the death penalty remains in a large number of US states. The same could be said for China. Will the EU therefore refuse to conduct trade with these nations? We think not.

Whilst EPAs have been broadly beneficial, the EU has been accused of 'bullying' developing countries into signing up to these agreements by threatening to reduce their preferential access to EU markets and to sharply raise tariffs unless they commit. Sturdy confirms this, as he has seen cases where the EU Trade Commission has tried to push nations into an agreement when they were not ready

Instead of helping developing countries to join the liberalised global trading system, the EU has adopted a negotiating style more reliant upon the stick than the carrot, which has a left a bitter taste in the mouths of many premiers across the developing world. As the former Open Europe Director, Neil O'Brien, puts it:

The European Commission has inappropriately tried to shoehorn ACP countries into a model based on the EU, regardless of the situation on the ground.[35]

As we learnt from one source close to the Singapore High Commission, in part of the EU-Singapore trade negotiation, the EU Trade Commission asked Singapore to open itself up to more European banks and allow more EU lawyers to enter Singapore because it felt Singapore were allowing greater entry to UK banks and lawyers.

Singapore's response was that she had an ongoing understanding and trust with Anglophone banks, such as Standard Chartered, as they had been operating there for centuries and had very similar practices.

Therefore, she did not want European banks with what she saw as foreign practices, crowding

[34] "Economic Partnership Agreements: is the EU rushing towards disaster on 31 December? And how will we sort out the mess afterwards?" Open Europe: http://www.openeurope.org.uk/Content/Documents/PDFs/epaupdate.pdf

[35] O'Brien, N., Open Europe, Briefing Note: *Economic Partnership Agreements: is the EU rushing towards disaster and how will we sort out the mess afterwards?*

the market. As for lawyers, Singapore has an English legal system so it was logical and sensible to allow more UK lawyers to practice there as opposed to European ones who did not understand and adopt English based legal customs.

This explains why the majority of ACP countries have chosen not to participate, or have dragged their heels when being pressured into signing up to these onesided trade agreements. Indeed:

Ten countries have decided that EPAs are so unattractive that they would rather trade with the EU on the same basis as countries like Brazil and Argentina, whose exports to the EU face higher tariffs.[36]

Consequently, were the UK to form a looser trading relationship with the EU, it would be able to form more of its own trade deals with developing countries,on far more equitable terms.

In addition, the Tongan High Commissioner explained how British foreign policy is being severely damaged by a drift towards EU imperial mission creep:

Tonga does feel the difference, as everything must now be with the EU. We would love to get the answer from Westminster rather than Brussels. The situation we have now is Pacific Islands have set up in Europe, only Tonga, out of residual loyalty, is in the UK despite the fact most of my work is based in Brussels now. However, Tonga's High Commission will no doubt be leaving soon as the UK has given it little incentive to remain."

This shows that the EU's approach is not only restricting its relations with developing nations but also that, as a result of EU membership, the UK's relationship with developing nations is being harmed. However, this relates not only to the Commonwealth. With EU embassies having been set up in China and other areas, the question should be asked whether the UK is able adequately to lobby for influence? With the Foreign Secretary stating that we can never rely on anyone else to advance the interests of the United Kingdom[37], we should understand that being able to form free trade deals independently has benefited many nations around the world.

Nonetheless, countries like Switzerland, for example, have been able to strengthen their own relationship with the EU through EFTA while also being able independently to form trade deals

36 O'Brien, N., Open Europe, Briefing Note: *Economic Partnership Agreements: is the EU rushing towards disaster and how will we sort out the mess afterwards?*

37 Announcement: Foreign Secretary, 11 May 2011:

https://www.gov.uk/government/news/foreign-secretary-for-the-first-time-in-decades-our-diplomatic-reach-will-be-extended-not-reduced with other nations. An example of this is the FTA Switzerland signed with Japan in 2009 and the FTA which has been signed with China.[38] Furthermore, outside the Customs Union but within EFTA, Switzerland has been able to enjoy the benefits of a trade deal with Canada in 2009, the same year the EU started to negotiate one.[39]

While there is currently no FTA agreement with the USA, the EU is currently engaged in negotiations. It should be recognised that the EU has faced problems with forming FTAs with both the USA in the past, especially with regards to agriculture. It has been argued that this is because the UK's viewpoint is distorted by powerful lobby groups from other countries[40], and with more countries in the EU the more vested interests in each country have an influence in negotiations. The same point regarding the amount of vested interests now involved has been made on the other side of the Atlantic (in relation to Obama's position and the current USA – EU FTA negotiations).[41] This barriers could be reduced if the UK negotiated trade deals bilaterally with other countries.

Nonetheless, these proposed FTAs could bring benefits to the UK. According to the *Pink Book,* the UK had a surplus with the United States of above £20 billion in 2011.[42] TFA think any lowering of tariffs for British goods being sold in the USA is a positive step. Along with the UK's trading links We also commend the Prime Minister for using his term as President of the G8 to lobby for reductions in tariffs[43] and hope that there will be zero trade tariffs between the UK and the USA as soon as possible.

In doing so, we recognise that, like argued by Dan Hannan MEP, an EU-USA trade deal strengthens the case for British withdrawal. He points to the Index of Economic Freedom which shows that the two most open and competitive economies in the world are Hong Kong and Singapore and that, free of the EU's Customs Union, Switzerland has a more liberal trade policy than the EU.[44] This has led to a number of benefits and, as research conducted by KMPG shows, being outside the EU has not stopped Switzerland from attracting FDI investment, with 86% of it coming from the EU itself.[45]

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38 “Free Trade Agreements”, State Secretariat for Economic Affairs SECO:

http://www.seco.admin.ch/themen/00513/00515/01330/index.html?lang=en

39 Ibid

40 “Cameron says that free trade is in the UK's DNA. Is it in his?”, Rory Broomfield in *The Commentator,* 13 November 2012:

http://www.thecommentator.com/article/2043/cameron_says_free_trade_is_in_the_uk_s_dna_is_it_in_his

41 “How Obama Can Win a European Free-Trade Deal”, **by** Ben Heineman Jr. in *The Atlantic,* 21 February 2013:

http://www.theatlantic.com/business/archive/2013/02/how-obama-can-win-a-european-free-trade-deal/273279/

42 Table 9.2 on page 154 of *The Pink Book* 2012

43 “David Cameron sets free trade agreement as his G8 priority” by Juliette Jowit and Ewen MacAskill, *The Guardian*, 1 January 2013:

http://www.guardian.co.uk/politics/2013/jan/01/david-cameron-free-trade-agreement-g8

44 “An EU-US free trade deal is a good deal, though it stregthens the case for British withdrawal” by Dan Hannan, *Daily Telegraph,* 21 January 2013:

http://blogs.telegraph.co.uk/news/danielhannan/100199046/eu-usa-hold/

45 “Investment in Switzerland” by *KPMG*:

http://www.kpmg.com/CH/en/Library/Articles-Publications/Documents/Tax/pub-20120425-investment-in-switzerland-en.pdf

One other study (not mentioned in the above) does highlight some other significant costs:

An investigation conducted at the Washington-based Institute for International Economics, by Scott Bradford, on ‘Paying the price for final goods protection in OECD countries’ for the specialist journal, Review of Economics and Statistics.[46]

Cited in Tim Congdon CBE’s 2012 paper on EU costs, according to Bradford, the true levels of tariff-equivalent protection implied by the EU’s trade policy towards the rest of the world were much higher than signposted by the ‘headline’ tariff rates in the low single digits per cent (i.e., of 3%, 5% and so on). His assessment was that the EU’s tariff-equivalent rate of protection for imports of basic manufactured goods was 16% and for imports of high-tech manufactured goods no less than 58%.

In doing so this highlights the inflated prices companies could sell products to the UK at. Indeed, another form of price inflation has been the CAP and barrier that puts up to outside production. However, the problems associated with intra-EU trade and the CAP also means price rises at home.

Before going onto the next section on the CAP, agriculture and fishing, The Freedom Association also want to share with the Department a concept written by Professor Patrick Minford CBE in his submission for The Freedom Association to BIS for the first semester of the Balance of Competences review. This concept is of free trade[47].

Minford wrote:

“As we have already said, one key cost of being in the EU is our inability to trade freely at world prices, whether because our exports to the EU face subsidised prices or because our importers must pay elevated prices for all goods imported from the EU and from elsewhere that are protected by the EU customs union.

Yet the popular debate has it that there is a need to have access to EU markets on the same terms as now. Another popular concern is that we will not enjoy the ‘muscle’ of the EU in trade negotiations with third countries.

These ideas are confused. We benefit from moving to world prices, including selling to the EU at world prices, and not at prices inflated by EU protection for customs union members. This would

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[46] Scott C. Bradford ‘Paying the price for final goods protection in OECD countries’, Review of Economics and Statistics (Boston, USA: MIT Press, 2003), vol. 85, issue no. 1, pp. 24 – 37. in Congdon, T Ibid (2012): How Much Does the European Union Cost Britain: http://www.timcongdon4ukip.com/docs/UKIP%20Cost%20of%20the%20EU.pdf, accessed 1/06/2013

[47] Beyond the transitional relations that Minford also takes about in the submission.

also mean that we buy from the EU, as well as from the rest of the world, at world prices, not at EU-customs-union-inflated prices.

As for EU muscle in trade negotiation, as our intention would be to admit goods and services from all countries freely without tariffs or other protection, at world prices, there is really no likelihood that any of these countries would find it in their interest to raise tariffs on our goods or services.

The only possible exception to this lies in areas where world trade is currently highly protectionist, such as airline arrangements. Here it is true that a larger grouping such as the EU has power to negotiate a bilateral reduction in barriers where the UK alone would not. In these areas it would make sense both for the UK (a major airline hub) and the EU to combine forces and share arrangements. Thus one can envisage a UK-EU trade agreement which would recognise such common interests.

Furthermore, for particular industries where largescale intra-EU pooling of factories has occurred a special transitional arrangement could be dealt with through a trade agreement. The main example of this just discussed is volume cars. One can envisage a transitional trade agreement for volume cars that would preserve existing trade arrangements for them and phase these out over say a decade. This agreement would really be a ‘non-freetrade’ agreement; however, it can be seen that it would be a convenient way of giving transitional compensation to both UK and EU producers of volume cars.

One area where the UK’s situation does not in general change is in services where there is no ‘EU single market’ and there are no common trade arrangements. There are only a few exceptions to this, mainly in financial transactions where the main loser is the UK as other countries have only limited financial industries. It is therefore unsurprising that majority EU opinion was able to pass financial regulations. By leaving the EU the UK would be enabled to reset its financial regulations in its own free-trade interests. It could well lose some business to EU diversionary regulation; but as noted earlier the UK financial sector is the strongest in the world and well able to get replacement business.”[48]

The Common Agricultural Policy (CAP), agriculture and fishing

[48] Submission can be found at www.tfa.net: http://www.tfa.net/2013/07/15/press-release-setting-business-free-into-the-global-economy/ along with more of detail on Minford’s ideas.

As highlighted by Dr Lee Rotherham[49], the CAP in recent years has pushed up the price of food for the average family in the UK by nearly £400 per year. This may have been changed in recent years because of recent changes to the CAP, however, given the UK's contribution to the EU's budget has increased in 2012 (partly due to CAP), the liklihood is that it has increased.

Nonetheless, the effects of EU regulation and the lack of implementation in other countries also harms the UK - specifically the UK farmer.

As demonstrated in The Freedom Association's submission to DEFRA's Call for Evidence in the first semester of the Balance of Competences review, many countries do not implement EU legislation in comparison to those in the UK that do. This leads to higher costs for UK farmers in production and allows others from different parts of the EU to undercut business propositions from UK farmers. Furthermore, evidence in previous sections shows that the restrictions of the Customs Union means that agricultural products (for instance) have an inflated price when moving within the EU.

However below The Freedom Association has placed evidence, written by Jim Barrington and submitted by The Freedom Association, which we believe it to be of interest to this review. In it are details of how EU law stops the free movement of goods under EU law, with consequences that hurt the British farmer, the consumer and the animals in question.

Factory Farming:

"Welfare directives passed by Brussels have been forthcoming, usually granting generous amounts of time for all the EU countries to comply. For example, in 1999 the UK banned the use of the sow stall (apart from a short period during the sow giving birth), a device designed to keep breeding pigs in a metal cage, and in one position, while she was suckling her piglets. In reality, sows would often be incarcerated in such devices for most of their lives.

The EU banned the use of the sow stall, with the small exemption as stated above, effective from 1st January 2013. But for certain countries even the 11 years notice was not enough and 17 EU countries have simply ignored this directive, either wholly or in part.

The same problem of non-compliance has arisen with egg production and battery cages. The Laying Hens Directive was passed 14 years ago and defines a new size of cage that is 'enriched' – slightly larger and with a nesting, perching and small scratching area. The new measure was agreed to take effect in January 2012, granting more than enough time for countries to comply. Some EU countries still had not changed their egg production methods by the middle of last year. Final warning were issued last June and though most have now come into line, two countries, Greece and Italy, still have not complied.

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[49] Rotherham, L. (2010): *Food for Thought: How the Common Agricultural Policy costs families nearly £400 a year*, The Taxpayers' Alliance and Global Vision

While some welfare standards on the continent may not have improved to the level of the UK, it could be argued that this has not directly affected us. But that would be wrong. Clearly, lower welfare standards reduce costs of production and due to EU trade rules, these cheaper imports cannot be prevented from entering this country, undercutting the cost of UK products. It would seem that while Brussels is determined to enforce free trade within the EU, it thinks that welfare standards are less of a problem.

As a result, animal welfare suffers as do the UK farmers trying to do the right thing. The British Pig Executive (BPEX) estimates that 61 per cent of all pork and pork products eaten in the UK in 2005 were imported, with 70 per cent of those imports likely to have been illegal to produce in the UK on the grounds of pig welfare.

It may also be the case that the health of the consumer suffers too. Many people are opposed to intensive farming, arguing that it fails at every level; economically, environmentally, consumer health-wise as well as for the welfare of the animals concerned. If UK farmers are squeezed because of these cheaper imports, is it not likely that they may turn to more intensive forms of farming in this country?”

Horsemeat

“The recent scandal of some processed foods labelled as ‘beef ’ but actually containing horse meat, or indeed possibly donkey, camel or even kangaroo, has shone a light on how certain processed products are made, where ingredients are sourced and indeed to what extent these products have travelled. The number of countries through which certain meat products travel has been a revelation to many people.

Traditionally the British do not eat horses, as we tend to see these animals as our pets and companions, but on the continent they take a different view. The UK banned live horses being sent abroad for slaughter and human consumption, partly due to the way we see and use horses, but also because the animals may have been given certain drugs such as phenylbutazone (bute), though the reality is that enormous amounts would have to be consumed by humans to be dangerous.

The EU introduced the ‘Horse Passport’, a document which is supposed to be linked to each individual animal and applies to all equines. It should contain information about what treatments the animal has received, thereby providing a database of animals that are unfit for the human food.

But where there’s a profit to be made, regulations can be circumvented and many horses are sold to the continent supposedly for breeding purposes when in reality they will be slaughtered for human consumption. Many think that the equine passport system is corrupt.

Whereas at one time the horse had a working role for us in the UK, in certain European countries that is still the case, though things are changing. Now a surplus of working horses in Eastern Europe has provided a source of cheap meat and if it can be passed off as beef, which has a much higher value, the temptation to make greater profits is there.

Even if such a fraud is evident, once again, the UK is hamstrung by EU rules that prevent banning the importation of these products unless there was a known health concern.
Jim Barrington's submission to DEFRA also showed the effects on the UK consumer. Indeed, many have been highlighted above. It illustrates that without proper enforcement both the UK farmer and the UK consumer lose out. This is also demonstrated in the following example concerning intra-EU trade of goods and the labelling of products:

UK consumers should have the right to know exactly what they are buying and from where it originated. The Countryside Alliance has run a better labelling campaign for the past few years. Instead of the limited information of where a processed product was finally packaged, proper labelling would at least give consumers more detail and choice about the products they are buying. Despite beef labelling regulations being introduced in 1997 (following the BSE crisis) requiring all beef and veal meat to indicate the country where the animal was born, reared and slaughtered, processed foods can avoid such scrutiny due to the complex chain of production.

One way around this would be to take the advice of Peter Kendall, President of the National Farmers Union who said on the BBC recently, "I want consumers to look for the traceability of local supply chains." Research carried out by the Institute of Grocery Distribution in 2005 found that nearly one in five people "always try to buy British food whenever shopping, even if it's more expensive than food from other countries." In 2007, a YouGov poll for the National Farmers Union found that "72 per cent of shoppers want to buy British beef and lamb."

If the majority of UK residents wish to 'Buy British' they should be given the means to make a proper choice. It should be a legal requirement for the country of origin to be included on food labels. This would provide support to British farmers, reward good animal welfare and give consumers greater confidence in the products they are buying."

Mr Barrington's submission did not stop there in showing the inadequacies of the EU concerning the trade in agricultural goods. He illustrated that the effects of the EU's laws are also having an effect on the welfare of the animals themselves:

Live Animal Transport:

"Regulations governing the duration and conditions for transporting live animals have been issued by Brussels, including modification to transport vehicles improving ventilation and temperature monitoring, navigation aids on long journeys and training for operators. However, there is disparity between Member States on travel times and the need for rest periods for animal. This problem is far worse when animals are transported to countries outside the EU, where these regulations do not apply. Animals are sometimes held at the borders of non-EU countries for many hours or even days while paperwork is cleared. Investigations by organisations such as Compassion in World Farming found numerous examples of severe cruelty, with animals suffering from extreme thirst and hunger, legs trapped between the side of the truck and the floor for hours as paperwork is completed at the border, animals dying on the journey, terrible cruelty at slaughter in the destination countries and animals giving birth in trucks at the border, despite EU law prohibiting the transport of heavily pregnant animals.

Around 3 million cattle, sheep and pigs are exported to non-EU countries each year and instead of trying to curb such a trade, the EU is trying to expand it.

Under EU regulations, Member States can require labelling of origin when the absence of such information could mislead or confuse the consumer. Indeed such compulsory origin labelling is essential in order for the requirement that consumers should not be misled. Given the current situation with horse meat passed off as beef, the complexity of the food supply chain, its lack of transparency and the flouting of EU rules on animal welfare, there could hardly be a better time to take that step."

Animal Fur:

"Proper labelling would also help establish the true nature of fur skins being imported into the EU. Fur farms were made illegal in the UK in 2000, coming into force in 2003. The move was based entirely on animal welfare grounds, as the way in which numerous fur-bearing animals were kept (and still are kept in those countries that have fur farms) was rightly seen as causing suffering due to the deprivation of an environment that allows for the animals' natural instincts and needs.

Furthermore, some of the killing methods clearly caused suffering in that damage to the pelts took precedence over pain. Fur farms are not illegal in the EU and consequently furs from various countries with little or no animal welfare laws can send their products into EU countries, including the UK, to be handled by traders, brokers, manufacturers and retailers. A ban on importing dog and cat fur into the EU took effect in January 2007, but once again without proper labelling, identification is difficult and it is reported that sales of such fur have been known in the EU."

These words from Barrington continued and showed just some of the inadequacies of EU law and the decision-making process:

"Furthermore, until recently there was no legal basis in the Treaties of Europe that permitted the EU to ban a particular trade solely on the basis of animal welfare. This meant that rules on the internal market and trade always overrode ethical concerns and any EU wide ban as such had be undertaken via a more complex route, one that was not one based exclusively on welfare grounds. That changed in 2009 under the Treaty of Lisbon, which states that, "in formulating and implementing the Union's agriculture, fisheries, transport, internal market, research and technological development and space policies, the Union and the Member States shall, since animals are sentient beings, pay full regard to the welfare requirements of animals, while respecting the legislative or administrative provisions and customs of the Member States relating in particular to religious rites, cultural traditions and regional heritage.

Though an important step forward, it appears that there is limited room for the UK to ban any trade or transportation of animals unless the EU Member States agree."

Indeed, Member States such as the UK have claimed victory over some recent EU reforms, especially concerning the Common Fisheries Policy. However, the problems go far beyond discard. Barrington explains:

"Overfishing is undoubtedly a major environmental problem, both within the EU waters and around the world. Some fish stocks are now only a fraction of what they were just a few decades ago. Although not essentially a welfare problem, the current rules laid down by the EU through the Common Fisheries Policy (CFP) result in caught fish that exceed the set quotas - 'discard' as it's known - being thrown back into the sea – dead of course and simply wasted… and it has been happening for years. Clearly something had to be done to curb countries carrying on regardless, but in setting quotas fairness should surely have been included. UK fishermen have had their already depleted fishing stocks further reduced with the larger boats from Spain being allowed to fish in British waters, as permitted under EU rules. The European Parliament has just bowed to public pressure and put forward proposals to reform the Common Fisheries Policy to end the discard scandal, but the issue that permits the Spanish to fish in British and Irish waters continues."

Cases like Factortame showed the problems with the EU law and the effects have been seen in the UK's fishing industry. Interestingly, if one was to compare it to the Norwegian fishing industry you would see two very different stories: one with stock and fish sales that have rocketed over the past few years (Norway)[50] and one (the UK) where fishermen were catching four times more fish in Victorian times than they are today[51].

More about the effects of the Common Fisheries Policy can be seen through the research of Dr

[50] Seafood, Fishing, Aquaculture: http://www.nortrade.com/sectors/view/?sectorId=40011
[51] Thurstan, R., Brockington S. and Roberts C. (2010): The effects of 118 years of industrial fishing on UK bottom trawl fisheries: http://www.nature.com/ncomms/journal/v1/n2/full/ncomms1013.html, Nature Communications

Lee Rotherham[52] that shows the scandalous effects of this EU policy on the UK. The Freedom Association commends this research for the departments consideration.

Conclusion:

This submission has highlighted some areas concerning the intra-EU trade of goods that should concern the Government. Furthermore, it has illustrated areas in which the EU hurts trade, inflates prices and the welfare of consumers, businesses and animals through its policies and the issues that have arisen through in proper enforcement of EU standards throughout the EU.

Given the evidence submitted above, The Freedom Association concludes that EU membership has significant negative consequences for the United Kingdom. Whether it be in the automobile industry, the agricultural and fishing sector or regarding trade through the customs union in general, the UK would be better setting its own regulations in its own way to suit its own businesses and preferences of its people. In surrendering decision-making to Brussels the United Kingdom has hurt the potential to achieve free movement of goods globally. It exposes sectors that are unique in the UK (or that have unique features) to pan-EU legislation that doesn't fit and, in other industries when the UK producer adheres to EU legislation, they are out competed by competitors in countries that do not implement the required legislation. In being in this relationship the UK is making a mistake; it is undertaking a regulatory burden that does not fit and is suffering a prolonged opportunity cost as a result.

[52] Rotherham, L. (2009): *The Price of Fish: Costing the Common Fisheries Policy*, The Taxpayers' Alliance and Global Vision