



# Pointmaker

## BRITAIN AND THE EU A SOLUTION

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### SUMMARY

- Britain needs to reform its relationship with the European Union.
- Swift action is required from the British Government to reassess and renegotiate the terms of Britain's EU involvement.
- In particular the respective relationships of Norway and Switzerland with the EU must be carefully examined.
- On the surface, Norway and Switzerland have similar arrangements with the EU.
- Both are members of the European Free Trade Association and of Schengen. Both enjoy full access to the EU's single market without being part of the Common Agricultural Policy, the Common Fisheries Policy, the European Court, Commission or Parliament, the shared jurisdiction in the fields of justice and home affairs or the Common Foreign and Security Policy. Critically, both countries are able to sign free trade accords with non-EU states – much the greatest advantage in the present global economy.
- In short, both have a far better deal than Great Britain has.
- Britain's objective should be a Swiss model, based on bilateral accords – though naturally adjusted to UK conditions.
- There is no reason that the British shouldn't do better even than the Swiss. Britain is 63 million people to Norway's 5 million and Switzerland's 8 million. Britain runs a massive trade deficit with the EU (but a surplus with the rest of the world). On the day Britain left, the country would become the EU's single biggest market, accounting for 21 per cent of its exports – more than its second and third largest markets (the US and Japan) combined.
- Reforming Britain's relationship with the EU is crucial, but as things stand, the only way to secure reform is to vote to leave and then negotiate from the outside.
- This paper lists nine objectives that Britain should seek to achieve in its negotiations with the EU. These are summarised overleaf.



## OBJECTIVES

**1) Fiscal freedom from the EU**

No financial transactions taxes, no green levies, no EU airport duties and no harmonisation of VAT.

**2) UK citizenship**

Britain should disapply the EU Citizenship that was created by the Maastricht Treaty in 1992. There should be no automatic assumption of mutual voting entitlements, residence rights or social security claims.

**3) No Common Agricultural Policy (CAP)**

Britain is penalised both positively and negatively by the CAP, paying more into it and getting less out.

**4) No Common Fisheries Policy**

Around 60 per cent of North Sea fish are in British territorial waters. But, under the CFP, Britain's quota is equivalent to 25 per cent by volume or 15 per cent by value.

**5) Independent diplomacy**

Britain should pull out of the European External Action Service – the EU's diplomatic corps. Close intergovernmental links with European neighbours should of course be retained, as well as the military obligations that go with NATO membership.

**6) Common law, not EU law**

Britain should withdraw from the EU's Area of Freedom Security and Justice – that is, the common judicial space created in 1998, within which a shared legal code is enforced by a European magistracy (Eurojust) and police force (Europol).

**7) British social policy**

All employment laws and social policies from the European Union should be returned.

**8) Supremacy of Parliament**

Sections 2 and 3 of the 1972 European Communities Act should be repealed or amended so that EU law no longer has automatic precedence over UK law on UK territory.

**9) Reform of Immigration Policy**

New European immigrants should not receive unemployment benefit until they have been in the UK for a minimum of one year.



## FORWARD

Currently the opinion polls show that UKIP has the support of 19 per cent of prospective voters for the May 2015 General Election. The Conservatives and Labour have about 30 per cent support each.

Two thirds of the prospective UKIP voters voted Conservative in 2010. A principal reason why they have switched their support to UKIP is their concern over the current British relationship with the European Union.

Clearly, therefore, David Cameron must take a stronger and more specific view on the reforms he wants from the way the European Union operates. He needs to specify these reforms clearly and it is strongly recommended that he holds a referendum within one year, if he wins the May 2015 election. This would undoubtedly persuade many of the UKIP supporters to return support to the Conservatives. However it is highly likely that the reforms which the British electorate seeks will be difficult to achieve.

If the necessary EU reforms are not achieved, a referendum on the issue should be held, giving voters the option of either staying in the European Union with the current rules or seeking to at least achieve the same relationship which Switzerland has with the European Union. The Swiss have full access to the European market but do not have to pay high membership fees or apply EU employment laws.

A recent paper published by the Tax Payers' Alliance<sup>1</sup> revealed the following information about Britain's relationship with Europe:

- 1) As Chart 1 shows, in 2012 only Germany and France paid a greater net contribution than Britain.
- 2) The UK share of the £44 billion Common Agricultural Policy subsidy is very small, with an annual cost to the UK of over £13 billion – see Chart 2.
- 3) Since 1998, employment rules and regulations introduced in the UK have cost the economy £176 billion. Of this, £124 billion (71 per cent) has its origin in the EU. Many of the EU employment rules are superfluous and most of the other European Union countries ignore them.
- 4) Astonishingly, Germany has a Constitutional Court. If a German *Land* (State) does not like a new European Union employment rule, it is able to decline enforcing it. If Germany can do this, why can't Britain? It is estimated that the annual cost of just the Working Time Directive and the Temporary Agency Workers Directive costs the UK £4.6 billion a year.
- 5) Only 30 per cent of the Gross National Product of the 27 EU member countries is supplied by free trade agreements with non-EU member countries. In contrast, 67 per cent of Switzerland's Gross National Product comes from trade with countries outside the EU with whom they have free trade agreements.

The following paper examines Switzerland's relationship with Europe further and with this in mind, sets out a compelling solution to Britain's relationship with the EU.

**Sir Cyril Taylor GBE**

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<sup>1</sup> The Taxpayer's Alliance "EU Fiscal Factbook" 2013.



## WHY BRITAIN NEEDS TO REFORM ITS RELATIONSHIP WITH THE EUROPEAN UNION

Ask Eurocrats about the prospect of a British renegotiation of rules and you almost always get the same answer. If the UK wants substantial changes to the structure and institutions of the EU, they say, forget it. The EU was set up to advance political integration, and that remains its primary purpose. One member cannot be allowed to rewrite the rules for the other 27.

But they almost always add a significant rider. If, they say, Britain simply wants to withdraw from a number of common policies, if it wants a relationship based on unrestricted trade rather than common citizenship, a Swiss-type deal,<sup>2</sup> a form of associate status, fine.

It's worth taking a moment to consider how Switzerland regulates its relationship with the EU. Its status is often likened to Norway's, which Euro-enthusiasts hold up as a terrifying example of being "governed by fax". But there are important differences between the two, which need to be understood.

On the surface, Norway and Switzerland have similar arrangements with the EU. Both are members of the European Free Trade Association and of Schengen. Both enjoy full access to the EU's single market without being part of the Common Agricultural Policy, the Common Fisheries Policy, the European Court, Commission or Parliament, the shared jurisdiction in the fields of justice and home affairs or the Common Foreign and Security Policy. Critically, both countries are able to sign free trade accords with non-EU states – much

the greatest advantage<sup>3</sup> in the present global economy. In short, both have a far better deal than the UK has.

But there is a difference. Norway is a member of the European Economic Area (EEA) while Switzerland is not. The EEA was negotiated in 1992 when Austria, Finland, Norway and Sweden applied for full membership of the EU. It was only ever envisaged as a transitional arrangement: a way to expedite harmonisation on the way to full accession. No one ever envisaged that Norway would vote 'No' to the EU but still be in the EEA 20 years later.

The chief anomaly in the EEA – the fact that Norway has to apply EU laws over which it has had no say – is more of a problem in theory than in practice. According to the EU, Norway has had to impose more than 5,000 EU legal acts since 1992. Yet Britain, over the same period, had to apply more than 3,000 every year.<sup>4</sup> And most of the Norwegian directives are technical and trivial: the order in which to list ingredients on a ketchup bottle, the font size on a packet of chewing gum and the like. Implementing these 5,000 directives has required fewer than 100 pieces of primary legislation in the Stortinget.<sup>5</sup>

It should be stressed that these figures are the EU's. According to the Norwegians themselves their exposure to Brussels legislation is far slighter. In reply to a parliamentary question in 2004, the Norwegian Government declared that of 11,511 pieces of EU legislation adopted

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<sup>2</sup> The Daily Telegraph "Switzerland is a more attractive model than Norway, but Britain could do better than either" 2012.

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<sup>3</sup> The Daily Telegraph "The case against EU membership" 2012.

<sup>4</sup> The Daily Telegraph "Switzerland is a more attractive model than Norway, but Britain could do better than either" 2012.

<sup>5</sup> Ibid.



between 1997 and 2003, Norway had had to adopt 2,129: 18.5 per cent.<sup>6</sup> A survey in 2014 covering the period from 2000 to 2013 found the figure to be just 9.05 per cent.

Still, the anomaly is there. Never mind whether it's 9.05 per cent or 18.5. Never mind that in practice Norway maintains a large representative office in Brussels to ensure that its concerns are heard when the legislation is being proposed. Formally there is a chunk of Norwegian law which has, as David Cameron likes to point out, been made in Brussels without official Norwegian input. Why does this happen to Norway but not to Switzerland?

The main reason is that Swiss politicians, unlike their Norwegian counterparts, listened to their voters. When Switzerland rejected EEA membership in a referendum in 1992, that was that. Although almost all the political parties had wanted to join both the EEA and the EU, they accepted the people's verdict. With EU membership off the agenda, they sat down to discuss an alternative. Over the next three years 120 sectoral treaties were negotiated covering everything from lorry noise to fish farming. In consequence Switzerland has most of the benefits of full membership but few of the costs. It is wholly covered by the four freedoms of the single market – free movement of goods, services, people and capital – but it is spared the regulatory burden of Brussels directives. When it harmonises its standards with those of the EU, it does so through bilateral agreement and following a deliberate act of the Federal Assembly in Bern.

Yes, Swiss exporters must meet EU standards when selling to the EU, just as they must meet Japanese standards when selling to Japan. But they are not obliged to apply these standards

either to their domestic economy or to their non-EU exports. Being outside the Common External Tariff they have pursued a much less protectionist policy than the EU and are now, among other things, negotiating a free trade agreement with China – something Britain cannot do while it is in the EU. Switzerland is unrepresented in the Brussels institutions and makes only a token contribution to the EU budget. Not that this prejudices its trade with the EU: Swiss exports to the EU in 2013 were 450 per cent per capita what Britain's were.<sup>7</sup> That, too, is worth repeating. *Last year, the Swiss, in population terms, sold four-and-a-half times as much to the EU from outside as Britain did from inside.*

Why, then, don't the Norwegians copy the Swiss? Why, 20 years on, do they keep the lopsided EEA agreement in place? Because their politicians still hanker after eventual membership. Replacing the EEA with something more permanent would mean formally accepting that their dream was over. Indeed a cynic might say that it suits Europhile Norwegian politicians to retain the imperfections of the EEA. It allows them to say to their sceptical electorate: *"Look, since we have to apply all these laws anyway, we might as well go the whole hog and join!"* The same reasoning explains why Norway pays so much more to the EU budget than is required under the EEA treaty. When officials in the Norwegian foreign office were asked why they paid so much more than Iceland (which is an EEA member on precisely the same terms as Norway), they gave some waffle about wanting to participate in foreign aid, research and social projects. When the same question was put to their Icelandic counterparts, two civil servants looked at each other awkwardly and

<sup>6</sup> Ibid.

<sup>7</sup> European Commission "Trade Policy: Switzerland" 2014



one said: “*Because those Norwegian Euro-officials are f\*\*\*ing crazy!*”

Happily there is no sign that the level-headed Norwegian people are being taken in. Opinion polls have registered a two-to-one majority or more against EU membership for so long that earlier this year the pro-accession campaign admitted defeat and suspended operations.

So, to summarise, Norway has a much better deal than the UK, but Switzerland’s is better than either. Britain’s objective should be a Swiss model, based on bilateral accords – though naturally adjusted to UK conditions. There is no reason that the British couldn’t do even better than the Swiss. Britain is 63 million people to Norway’s 5 million and Switzerland’s 8 million. Britain runs a massive trade deficit with the EU (but a surplus with the rest of the world). On the day Britain left, the country would become the EU’s single biggest market, accounting for 21 per cent of its exports – more than its second and third largest markets (the US and Japan) combined. That’s not to say that Britain should precisely replicate the Swiss deal: there is no reason for this country to join Schengen, for example. But the Swiss offer a useful template.

Most British people need little convincing in this regard. Every opinion poll shows that by far the most popular option – typically commanding around 80 per cent support – is for a free trade relationship with the EU that does not involve political amalgamation. And yet, oddly, David Cameron was reported at a recent meeting of the 1922 Committee explicitly to have ruled out anything resembling a Swiss-style deal.

What David Cameron doesn’t explain, in any meaningful sense, is what reforms of Britain’s relationship with the European Union need to be achieved. Two years ago when he was

promising the wholesale repatriation of social and employment policy, it seemed that a worthwhile deal might be struck. Even as recently as January 2013 in his Bloomberg speech he held out the prospect of significant – and, if necessary, unilateral – returns of power from Brussels to Westminster.<sup>8</sup>

All that has now been quietly dropped. In March 2014 the PM set out a modified list of seven objectives, none of which would require an Intergovernmental Conference and all of which have been endorsed by Nick Clegg and Ken Clarke. It is clear why: when the objectives have been declared fulfilled Britain will still be a full EU member subject to the Common Agricultural and Fisheries Policies, the Common Foreign and Security Policy, the Common External Tariff, EU citizenship and all the rest. Incredibly, having opted out of the European Arrest Warrant the PM and Home Secretary now want to opt back in. Nothing, in short, will change.<sup>9</sup>

It’s a terrible waste of an opportunity. Here is a generational chance for the UK to put its relationship with the EU on a mutually happy and sustainable footing. But it seems it may be lost.

So, what ought the British Government to be asking for? What specific objectives should they be seeking in a renegotiation? Here is my list of nine. Others will no doubt want to add or subtract some items.

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<sup>8</sup> The Daily Telegraph “*David Cameron has given the most Eurosceptic speech ever by a British prime minister*” 2013.

<sup>9</sup> The Daily Telegraph “*David Cameron and I will be on opposite sides in the EU referendum – but he alone can deliver one*” 2014.



### 1) Fiscal freedom

No financial transactions taxes, no green levies, no EU airport duties – and, for that matter, no harmonisation of VAT. Britain should be ready to pay its share of the cost of any common institutions as Switzerland does (in per capita terms Switzerland pays less than 5 per cent of what Britain pays because fewer common policies apply to it), but there should be no automatic transfer of revenue to the EU.

### 2) UK citizenship

If Britain's relationship is to be primarily economic rather than primarily political the country should disapply the EU Citizenship that was created by the Maastricht Treaty in 1992. There should be no automatic assumption of mutual voting entitlements, residence rights or social security claims. Any such reciprocal deals would be voluntary and bilateral. Furthermore the attributes and trappings of statehood should also be scrapped: driving licences, birth certificates, ID cards, number plates and so on. Stiff blue passports would be a concrete symbol that things had changed.

### 3) No Common Agricultural Policy (CAP)

It is difficult to find a more wasteful, expensive, immoral, bureaucratic, corrupting system of farm subsidy in the world – although within the EU there is plenty of competition. As a net food importer with a relatively efficient farming sector, Britain is penalised both positively and negatively by the CAP, paying more into it and getting less out. If Britain wants to recognise the contribution that its farmers make to maintaining the environment, it should pay a direct grant, based on acreage and land quality. It makes no sense to subsidise rivals.

### 4) No Common Fisheries Policy (see Chart 3)

Around 60 per cent of North Sea fish are in British territorial waters. But under the CFP Britain's quota is equivalent to 25 per cent by volume or 15 per cent by value. Britain should control its territorial waters out to 200 miles or the median line, as allowed under maritime law, making due provision for the historic rights of neighbouring states and entering into sensible multilateral agreements on total allowable catch.

### 5) Independent diplomacy

Britain should pull out of the European External Action Service – the EU's diplomatic corps. Great Britain is the sixth largest economy in the world and the fourth military power. Why must this nation conduct its foreign policy as part of a wider EU one? Close intergovernmental links with European neighbours should of course be retained, as well as the military obligations that go with NATO membership. But Britain should run its own embassies – without EU flags on them.

### 6) Common law, not EU law

Britain should withdraw from the EU's Area of Freedom Security and Justice – that is, the common judicial space created in 1998, within which a shared legal code is enforced by a European magistracy (Eurojust) and police force (Europol). This would of course imply withdrawing from the European Arrest Warrant, which was deployed against the blameless King family,<sup>10</sup> when they removed their son from hospital in search of alternative treatment.

### 7) British social policy

David Cameron campaigned for the Tory leadership arguing for the return of all

<sup>10</sup> The Daily Telegraph "The Ashya King case has brought out the worst in British officialdom" 2014.



employment laws and social policies from the European Union. Curiously enough, Nick Clegg used to make the same argument and the repatriation of social policy made it into both the Conservative manifesto and, in a slightly diluted form, the Coalition Agreement. Now, for whatever reason, it has been dropped.<sup>11</sup>

#### **8) Supremacy of Parliament**

Sections 2 and 3 of the 1972 European Communities Act should be repealed or amended so that EU law no longer has automatic precedence over UK law on UK territory. Instead of being directly applicable by UK courts – a doctrine invented by the European Court of Justice in an act of stunning judicial activism – Brussels regulations should be treated as advisory pending implementation by Parliament. Britain should have similar powers to those the Germans have.

#### **9) Reform of Immigration Policy**

Many low paid European Union workers come to Britain to do similar work but get paid the housing benefits and grants for children which indigenous low paid workers receive. David Cameron has quite rightly said that new European immigrants will not receive unemployment benefit until they have been here for three months. It should be recommended that this be extended for a minimum of one year.

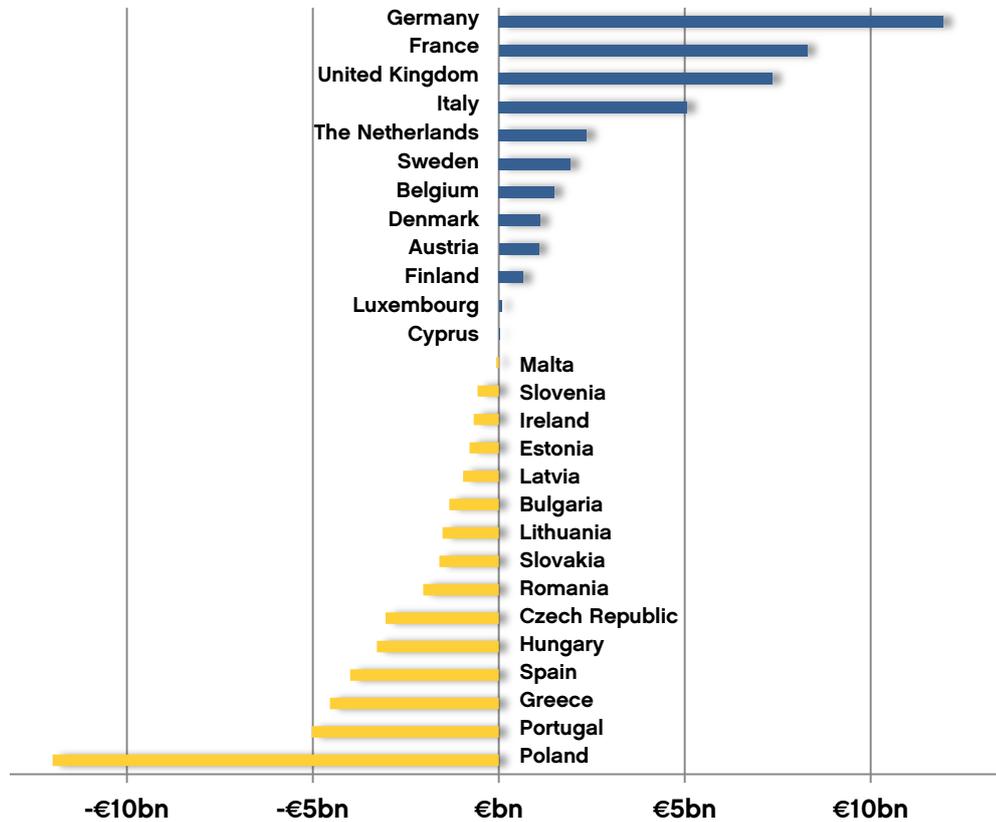
Reforming Britain's relationship with the EU is crucial, but as things stand, the only way to secure reform is to vote to leave and then negotiate from the outside.

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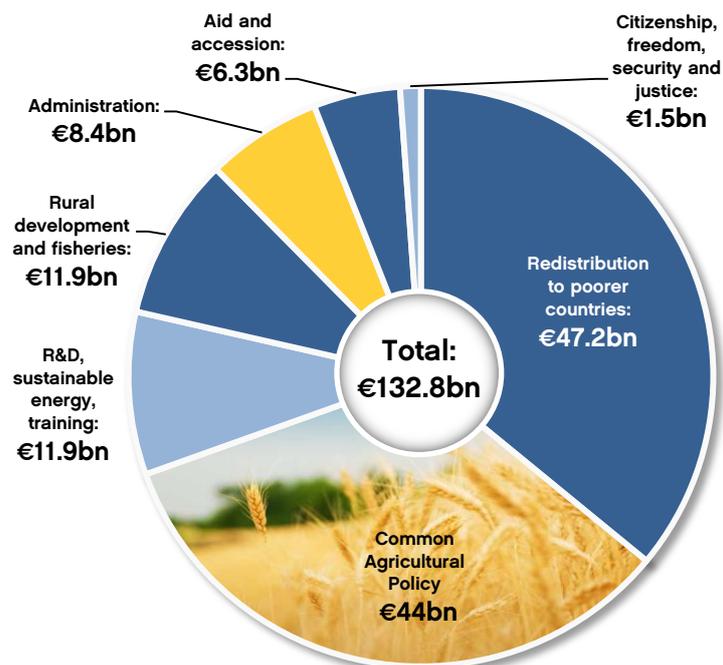
<sup>11</sup> The Daily Telegraph "David Cameron and I will be on opposite sides in the EU referendum – but he alone can deliver one" 2014.



**Chart 1: EU Net Contributions 2012**



**Chart 2: EU Budget 2013**



Source: European Commission, Tax Payers Alliance analysis



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