

THE BRITISH OPTION

SETTING OUT THE BRITISH OPTION
LIBERATING 95% OF UK BUSINESSES FROM EU RED TAPE

MATTHEW ELLIOTT AND OLIVER LEWIS

BUSINESS
for
BRITAIN

About Business for Britain

Business for Britain is an independent, non-partisan campaign for a better deal from the European Union. Launched in April 2013, Business for Britain's founding statement has now attracted the signatures (in a personal capacity) of over 750 British business leaders, including John Caudwell (Phones4u), Sir Rocco Forte (Rocco Forte Hotels), Paul Killik (Killik & Co), Lord Kalms (Dixons plc), Julie Meyer (Ariadne Capital), Sir Stuart Rose (Ocado), Lord Wolfson (Next plc) and many more. The Business for Britain Board is as follows:

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Executive Summary

- For UK businesses, a significant problem with our membership of the EU is that, while just under 5 per cent of British companies export to the EU (the value of our exports to Europe equates to 14 per cent of UK GDP), the full burden of EU regulation applies to virtually all businesses and organisations in the UK. The 95 per cent of companies that don't need access to the Single Market, and big organisations like the NHS that are part of the public sector, still have to comply with the most burdensome EU regulations.
- The more onerous 'social market' EU regulations have a detrimental effect on the competitiveness of the British economy, unnecessarily holding back the 95 per cent of UK companies that do not export to the Single Market. This problem needs to be tackled in the forthcoming renegotiation and a solution needs to be found by those wishing to engage seriously with the EU debate.
- This paper suggests a possible solution to this problem. The 'British Option' is a new proposal which would allow British companies and organisations that do not export to the EU to opt out of some of the more onerous European regulations. It foresees the UK remaining a member of a changed EU; ensuring that all companies that export to the EU retain full access to the Single Market and utilising existing mechanisms to protect its integrity.
- This is the first of several papers that Business for Britain will be producing to outline what business leaders want to see from a renegotiation of the UK's membership of the EU. Upcoming papers will both build on this proposal and look at other areas – including the City, VAT and Energy prices – to find ways we can achieve a relationship with the EU that will allow the UK economy to reach its proper potential.
- It has been estimated that EU regulations cost the UK economy around £124 billion between 1998 and 2010 – approximately £9.5 billion per year or £352 per household. The Prime Minister has said that the UK – and the EU – needs to become more competitive to take part in the 'global race' against the high-growth emerging economies. Attempts by the Government to make the UK more competitive have been repeatedly frustrated by EU regulations, much to the irritation of senior ministers and advisers.

- Under the British Option, EU laws would continue to augment UK business law, but Parliament would approve a list of regulations that would not apply to companies and organisation that don't trade with the Single Market.
- The Single Market should be the spine of trade within the EU, not the millstone that holds back EU member states in the 'global race', restricting job-creation and curtailing growth. This constructive proposal could apply to the EU as a whole, or just the UK. The Prime Minister should push for these reforms to apply across the whole EU so that member states can choose to adopt this proposal should they wish.
- The British Option should not deter the Government from also urging the EU to lighten the burden of Single Market regulation, because it is also important for firms that export to the EU are able to operate in a more competitive environment. But, at the same time, the Government should not set regulatory reduction as the height of their ambition.
- The Government should also consider the various constructive ideas that have been put forward for strengthening Britain's hand over Single Market regulation in the last year. The European Scrutiny Committee's cross-party proposal for a national veto on onerous European regulation in particular should be seriously considered.
- Furthermore, the Prime Minister has indicated that, beyond the Single Market, the other aspects of EU membership need to be reconsidered and that member states should be free to choose if they wish to opt into the other more political aspects of the EU. This paper proposes that the money saved by the UK opting-out of several aspects of the existing EU structures should be reinvested in trade missions with the growing economies across the globe, an initiative that should prove effective value for money by allowing UK companies to develop trading links with high-growth countries outside Europe.
- The proposal is based on an extensive six-month consultation with business leaders from all sectors, regions and sizes of firms in the UK, and includes the results of the most comprehensive poll of the attitudes of business leaders to Britain's EU membership ever conducted. Based on these findings, we established four criteria to judge any new relationship with the EU, allowing us to judge whether it would have the support of the British business community. The British Option meets these: access to the Single Market; influence over Single Market legislation; reducing the regulatory burden on companies that do not export to the EU; and reducing contributions to the EU budget.

Foreword

What sort of relationship does British business want with the European Union?

This question, which has dogged British politicians for 40 years, was last year thrown back onto the centre-stage. David Cameron's landmark speech to Bloomberg in January 2013, in which he committed a future Conservative Government to renegotiating the terms of Britain's EU membership and subsequently holding an In/Out referendum, has re-intensified the debate, both within the media and the country as a whole, about how Britain should interact with our continental cousins.

It is vital that politicians know where business stands on the issue of Europe. The EU debate has often been carried by ideology over practicality, harming both sides as they make their opposing cases. In its original formation, the union of Europe was intended to provide easier trade and closer economic cooperation, to the benefit of all nations. Today the EU has a clearly defined political and social remit, with which many in Britain feel uncomfortable.

Business for Britain was formed in the wake of the Prime Minister's speech, as a means of giving a voice to the hundreds of thousands of business people who believe that there needs to be some fundamental changes in Britain's relationship with the EU. This paper, informed by extensive polling, numerous interviews and detailed surveys, is Business for Britain's first contribution to the upcoming renegotiation. It is not a definitive blueprint for the Government to pursue, but it is, I am confident, a template for changing certain aspects of Britain's membership with which the vast majority of British business people will agree.

It has been 40 years since the British people were last asked to decide on our European membership. Today we have a once-in-a-generation opportunity to evaluate and establish a new set of parameters for our relationship with the EU. Seizing this opportunity will not only be beneficial, it is essential. There are strong moves towards federalism in Brussels, and the spectre of ever closer union hangs heavy over all recent pronouncements from its senior executive. Not many would argue Britain wants to be part of this new direction. David Cameron has taken a courageous step in seeking to redefine Britain's relationship with the EU and make it work better for Europe as a whole. I sincerely hope that this paper will help inform our political leaders what Britain's business community – small, medium and large – is looking to achieve.

Matthew Elliott - Chief Executive, Business for Britain

1. Introduction

“You probably want to see if you can fix what’s broken in a very important relationship before you break it off.”¹

President Obama’s observation about the relationship between Britain and the EU, made in the aftermath of David Cameron’s speech on the subject in January, encapsulates the current debate in the UK. It is very apparent that many in Britain, including in the British business community, view the current relationship as important, but also “broken” and needing to be fixed.

The evidence for this conclusion is found all around us. From the trade figures that reveal exports to the continent on a steady relative decline, to the polls showing growing frustration with Brussels and its institutions; popular discontent with the EU is on the rise. This situation is perhaps understandable. The EU produces new rules and regulations at a disconcerting rate, impacting on businesses in an ever-growing number of areas. European regulation, rather than existing to facilitate trade as was once envisaged, now appears to be primarily driven by more ambitious political and societal aims. Legislation introduced in the name of harmonising the Single Market increasingly concerns itself with questions of employee rights and social policy, instead of focussing on trade concerns. The modern EU has become focussed on creating a ‘social market’ rather than a successful, liberal, Single Market.

Europe’s competitiveness crisis is one of its own making, and European directives are costing British businesses and many non-profit organisations valuable time and money. As the report produced by the Government’s Business Taskforce published in October 2013 acknowledged:

“[Firms] are often encumbered by problematic, poorly-understood and burdensome European rules. The impact is clear: fewer inventions are patented, fewer sales are made, fewer goods are produced and fewer jobs are created. The burden also falls heaviest on small and medium-sized firms who make up the vast majority of businesses.”²

We are told that European regulations are the price that we pay for access to the world’s largest Single Market. Yet, despite the fact that EU rules apply to every company

¹ B. Obama, Washington, 13 May 2013, video found at <<http://www.bbc.co.uk/news/world-us-canada-22515887>>

² *Cut EU red tape: Report from the Business Taskforce*, 15 October 2013, <https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce/cut-eu-red-tape-report-from-the-business-taskforce>

and many organisations, only a small minority of British companies actually export to the EU. The research below finds that less than 5 per cent of British companies export to the EU and that, in any given year since 2002, British exports to the EU have only amounted to around 14 per cent of our GDP. The results of extensive polling and consultation find that British business leaders would like the UK to stay in a reformed EU, but are now saying that the costs of the Single Market outweigh the benefits.

Clearly, something has to change. Fortunately the number of opportunities for altering Britain's terms of membership are on the rise. Every passing month brings with it new reports of senior European politicians calling for dramatic action to preserve a struggling union. The economic crisis, as well as growing popular scepticism towards some of the EU's central tenets and institutions, has turned fundamental change in the near future from likely, to necessary.

Britain needs to be ready to seize this opportunity with both hands. This paper is Business for Britain's contribution to the renegotiation process. The authors contend that the Single Market should be made the spine of the EU and that, as the Prime Minister and other political leaders have already said, European integration in other areas should be reviewed and possibly repealed. However, the authors also believe that a causal link needs to be established between accessing the Single Market and having to comply with European laws – allowing companies that don't export to the EU to be exempted from the most onerous European regulations.

This is but one of many reforms that Business for Britain would like to see made in the relationship between the UK and the EU; however we believe that it could potentially be the most important. The imposition of onerous regulation on non-exporting companies, especially expensive and time consuming social and employment legislation, is unfair and corrosive for jobs. Addressing it amounts to a small change but one that could go a long way towards restoring business confidence in the EU.

Following our launch in April 2013, Business for Britain has been conducting a far-reaching and authoritative study of business attitudes towards EU membership, to ascertain where they stand on the different visions that have been put forward by the various campaigning groups. Business for Britain has commissioned detailed polling conducted by an independent polling company, launched extensive surveys, and conducted numerous interviews over several months, engaging with thousands of businesses leaders to build as complete a picture as possible.

The proposals below are based on those findings. By setting existing relationships that other countries have with the EU against business wishes, the authors have developed a new option – the British Option. We believe that this new option – which would be applied across the whole EU – far from harming the European Union would provide the impetus for

a new competitiveness on the continent that could see Europe rise far stronger from the economic crisis.

2. EU regulation: The key problem faced by British businesses

Business for Britain was set up to accurately reflect the views and opinions of UK business leaders when it comes to the EU. It remains the case that different business organisations will often reach wildly different conclusions on how British business leaders view our membership and particularly those parts they believe are essential and those that they see as expendable. The sectors, locations and, crucially, size represented by the business people being polled will have a large effect on whether they are likely to be more positive or negative towards our membership of the EU. One of the abiding issues with drawing an accurate picture, is that the majority of research purporting to represent the views of business is drawn from membership surveys of trade associations (for instance the CBI membership, or theCityUK), in which respondents are chosen from a pre-defined panel of members and therefore cannot claim to be providing an accurate and impartial reflection of overall British business opinion.

In order to ascertain a more comprehensive idea of attitudes towards the EU across company size, sector and location, Business for Britain commissioned YouGov to conduct a representative poll of 1,000 business leaders based in the United Kingdom on what they thought about Britain's membership of the EU. This poll aimed to be as fair and accurate reflection of British business as possible. As a result we oversampled the number of medium and large companies (our poll was weighted 70 per cent small, 15 per cent medium and 15 per cent large, whereas the official BIS classification is 97 per cent small, 2.5 per cent medium and 0.5 per cent large) and we also oversampled the number of exporting businesses – around half the respondents in our poll exported overseas.³ (To get some idea of how much business is generated within the United Kingdom it is worth reflecting on the fact that, as we will discuss in Section 2.3 less than 5 per cent of British companies export to the EU.

By sampling business opinion from across the board and exploring the attitudes of all sizes and types of industry, we have been able to reach a selection of conclusions, the most important being that EU regulation has become a major burden for British businesses. Many business leaders say that they don't understand why the most onerous regulations should apply to companies who don't even export to the Single Market.

³ See the full paper *Britain and the EU: What Business Thinks* at <<http://businessforbritain.org/wp-content/uploads/sites/2/2013/10/Britain-and-the-EU-What-business-thinks-EMBARGOED-00.01-01.11.13.pdf>>

2.1 Business leaders believe that the costs of EU regulation now outweigh the benefits of membership

The poll showed very clearly that British business leaders are not happy with our current terms of EU membership. When asked, 46 per cent of our polling respondents said that they thought that the costs of Single Market regulation outweighed the benefits of being part of the EU, only 37 per cent thought that benefits outweighed the costs:

Figure 2.1: British Business leader’s views on the costs and benefits of EU membership

<i>Which statement best reflects your view: the costs of complying with EU Single Market regulation outweighs the benefits of being in the EU, or the benefits of being in the EU outweighs the costs of complying with EU Single Market regulation? (%)</i>						
	All	Small	Medium	Large	Exports inside the EU	Trades solely in the UK
Costs outweigh benefits	46	47	43	39	46	49
Benefits outweigh costs	37	33	43	47	38	33
Neither	8	9	5	5	6	9
Don't know	10	11	8	9	9	9

The assessment that the regulatory burden is far too high strengthens the hand of those who believe that there needs to be a reduction in EU red tape. Our poll showed that the belief that the costs outweigh the benefits was shared by most businessmen; even the leaders of companies that export to the EU said that the costs outweigh the benefits (46 per cent to 38 per cent).

The evidence from our polls and interviews showed, overwhelmingly, that people thought that the main problem with the current terms of EU membership came from the volume of European regulation. While the leaders of large companies were most likely to say the benefits outweighed the costs, small business leaders in particular were overwhelmingly opposed to the current situation.

“The overburdening on our company by ever increasing legislation and over regulations is causing us to wonder what the hell we are working for.”

- Owner of a small recycling business based in the South West of England

Resentment towards onerous EU regulation is already well documented. Be it from Whitehall or Brussels, regulation is regularly cited by start-ups and SMEs as being one of the biggest barriers to growth and competitiveness. The red-tape passed by the EU and affecting British businesses is particularly onerous. A report by Open Europe in 2010 found that, since 1998, regulation introduced in the UK had cost the economy £176 billion.⁴ Of this, £124 billion, or 71 per cent, had its origin in the EU. The House of Commons Library put a more conservative cost to UK businesses at £7.5 billion per year (cumulatively £55 billion since 1998).⁵

In addition, as others have noted, the costs of regulation are also passed onto the consumer, in the form of higher prices. One area that has been highlighted recently is the regulatory impact on consumer energy prices.⁶

Considering the sheer quantity of EU regulation that is produced on a daily basis it is not surprising that the cost to UK businesses and other organisations is so high. A Business for Britain research paper last year calculated that, between May 2010 and October 2013, the EU passed 3,580 regulations and directives that affected British business.⁷ Different laws affect different businesses in different ways, but the cumulative effect remains the same: British businesses have to comply with an ever-growing burden of EU regulation – with compliance and administration costs becoming a nuisance to many businesses.

European business regulation introduced between May 2010 and October 2013⁸

- In this Parliament alone, a total of 3,580 regulations and directives have been passed by the EU that affect British businesses.
- The total word count of all 3,580 regulations is over 13 million words (13,321,530 words).
- It would take a UK business person, working an average 40 hours a week and reading at the average reading speed of 300 words per minute, 92 days to read all the EU red-tape enacted since the current Government came to power.
- Examples of regulation include: Commission Regulation (EU) No 1149/2012 concerning the use of extracts of rosemary in fillings of stuffed dry pasta and Commission Regulation (EU) No 1015/2010 with regard the ecodesign requirements for household washing machines

⁴ Still Out of Control? Measuring eleven years of EU regulation, *Open Europe*, June 2010 found at <<http://www.openeurope.org.uk/Content/documents/Pdfs/stilloutofcontrol.pdf>>

⁵ House of Commons Standard Note, *In brief: UK-EU economic relations – key statistics*, 13 February 2013, p.6

⁶ D. Campbell Bannerman, *Time to jump: A positive vision of a Britain Out of the EU and In EEA lite*, Bretwalda, Epsom, 201, p.53, 96

⁷ Business for Britain, *EU Business Regulation: A Business for Britain Briefing Note*, 14 October 2013, found at <<http://businessforbritain.org/eu-excessive-business-regulation-2.pdf>>

⁸ Business for Britain, *EU Business Regulation: A Business for Britain Briefing Note*, 14 October 2013, found at <<http://businessforbritain.org/eu-excessive-business-regulation-2.pdf>>

2.2 EU regulation is concerning itself more and more with social policy

In interviews, business leaders made it clear that they thought that the EU was regulating on areas that had no relevance to the Single Market. There was a view, expressed repeatedly, that the EU should focus on trade rather than social policy.

"We were told we were signing up to a trading deal with Europe... what right does Brussels have to say how I should hire temporary workers when all my business is in the UK? I believe in democracy – we should decide the laws of this country."

- Owner of a small retail business based in the South East of England

"Our relationship with the EU should be built on facilitating trade and should not be politically or legally motivated."

- Owner of a small real estate business based in the North West of England

"The EU should be a vehicle for economic development and a focus on creating a more vibrant economic environment. It should not concentrate on the accumulation of social and legal powers which are politically driven"

- Owner of a medium-sized investment firm based in the West Midlands

These concerns are not without basis. European laws that concern themselves with social affairs have become a serious regulatory burden for British firms. According to Open Europe, EU social law costs UK business and the public sector £8.6 billion a year.⁹ Politicians and think tanks have identified social policy as an area where repatriation of powers is a necessity, but such moves have been blocked by other European governments who see such regulation as essential and wish to ensure that they remain EU law.¹⁰

A legitimate case can be made that some of these laws are needed and that, had the EU not introduced them, the UK may have introduced such laws unilaterally. However there is a strong argument that it should elected national governments who decide the laws affecting how people live, rather than the EU. While ideas such as gender quotas, employee rights and temporary employee contract requirements may be appealing to some, it should be for Parliament to decide whether these measures should be introduced, not the EU. Commentators have justifiably started questioning the economic rationale for these laws which, far from dismantling barriers to trade and building a Single Market seem more intent on creating a European 'social market' focussed on Europe-wide social policy.¹¹ These rules

⁹ Repatriating EU social policy: The best choice for jobs and growth? *Open Europe* November 2011, found at <<http://www.openeurope.org.uk/Content/Documents/Pdfs/2011EUsocialpolicy.pdf>>

¹⁰ An example can be found at P. Spiegel, 'Britain and France tangle in pre-summit spat over EU regulations', *The Financial Times*, 23 October 2013 found at <<http://www.ft.com/cms/s/0/80713b68-3bd6-11e3-b85f-00144feab7de.html#axzz2o0JnCYBL>>

¹¹ Global Vision, *Single Market or Social Market?* 27 November 2013 found at <<http://www.global-vision.net/1/post/2013/11/Single-Market-or-social-market.html>>

not only have a negative impact on business, but other public sector organisations such as the NHS. The problems that this legislation generates – including decreasing the quality of care for training and restricting the ability of surgeons to participate in all aspects of patient care – have become so problematic that in October 2013 the Government ordered a review into the impact of European rules on the NHS.¹²

This tendency to regulate beyond the remit of the Single Market has been a particular irritation to the current government, who have found policies and manifesto commitments challenged by the EU in areas ranging from education to data protection.¹³ The Conservative Party in its manifesto had committed the UK to return powers over the Charter of Fundamental Rights, criminal justice and social and employment legislation, yet in Government have found delivering such reforms difficult.¹⁴ Senior Government officials have made no secret of the fact that they find EU regulations burdensome; both the Prime Minister's former adviser Steve Hilton, and the Minister of State for Policy Oliver Letwin, have privately expressed their frustration with the prevalence of EU rules and regulations.¹⁵

2.3 Only a small minority of companies export to the Single Market but every company is subject to EU legislation

By analysing official figures, it is possible to work out what percentage of British businesses have exported to the EU over the past few years. Since 2007 no more than 5 per cent of British firms exported to the EU in any given year.

Beyond a few, limited exemptions, European regulations and directives are universally applied on all British businesses. While some businesses (such as microbusinesses¹⁶) are allowed to opt out of some EU requirements, every business in the UK has been affected by EU regulation. Whether its VAT rules, environmental regulation or new policies regarding data protection – the EU has made it clear it wants “to ensure that

¹² “Working time directive for doctors to be reviewed”, Health Service Journal, 11 October 2013, found at <http://www.hsj.co.uk/news/workforce/working-time-directive-for-doctors-to-be-reviewed/5064216.article#.UrG1ZfRdVOg>

¹³ As a few, recent, examples: Whitehall sources told the BBC that the Government had to abandon its proposal to replace GCSEs with English Baccalaureate Certificates after being told the plan could be challenged in the courts under EU rules, more information found at <http://www.bbc.co.uk/news/uk-21363396> while, recently, ministers have also made their opposition to the EU's proposed data protection rule changes very clear, more information found at <http://www.telegraph.co.uk/news/politics/10108306/Chris-Grayling-attacks-EU-jobs-madness.html>

¹⁴ The Conservative Party, *Invitation to join the Government of Britain: The Conservative Manifesto 2010* p.114

¹⁵ More information found at P. Wintour “David Cameron's strategy director to take unpaid leave”, *The Guardian*, 2 March 2012 found at <http://www.theguardian.com/politics/2012/mar/02/david-cameron-steve-hilton-unpaid-leave> and J. Forsyth, “It must be serious... even that nice Mr Letwin's had enough of Europe”, *Daily Mail*, 12 February 2011 found at <http://www.dailymail.co.uk/debate/article-1356380/Oliver-Letwin-calls-Britain-leave-European-Union.html>

¹⁶ Defined as businesses that meet two of the following criteria: a) balance sheet total of £316,000 b) a net turnover of £632,000 c) an average turnover of employees of 10 or fewer. More information found at <http://news.bis.gov.uk/Press-Releases/Accounting-red-tape-cut-for-smallest-UK-companies-692ab.aspx>

the same rules apply to all businesses providing services to EU residents.”¹⁷ As the Prime Minister’s Business Taskforce noted “The burden [of EU regulation] falls heaviest on small and medium-sized firms who make up the vast majority of businesses.”¹⁸

However, despite this near-universal imposition of EU rules on British businesses, only a small number of British firms actually export to the EU. There is some contention in determining the exact number of companies that benefit from access to the Single Market. Existing reports – including Government official reports – tend to rely on surveys to deduce the number of exporters, although naturally this has clear limitations, and is skewed by the type of company surveyed, location and other factors.

This lack of official statistics leads to a scarcity of evidence when trying to calculate the exact number of UK companies that export to the EU. Government figures claim that, between 2004 and 2011, no more than 76,000 companies, less than 2 per cent, exported to the EU in any given year (see Figure 2.2).

In order to try to provide a more robust figure, Business for Britain extrapolated data from EC sales lists, so that we can estimate the number of companies who provide services as well as goods to the EU. Our percentages likely constitute an “upper limit”, providing a higher estimate than the actual number of companies that export to the EU. It is clear that at no point in the last seven years did more than 5 per cent of British companies export goods or services to the EU. In all likelihood that percentage was much lower. We can say with a degree of confidence that the percentage of companies exporting to the EU in 2011 (the year with the largest percentage) was only between 1.53 per cent (HM Government figures) and 4.27 per cent (Business for Britain figures) – a relatively small fraction of total UK businesses.

The Government’s figures for the number of companies that export to the EU are at the lower levels of the estimate.

¹⁷ HM Government has acknowledged that EU Environmental regulation has affected “all businesses irrespective of size, found at <<https://www.gov.uk/environmental-regulations>> see also V. Reding, *The EU’s Data Protection Reform: Decision Time is now*, Brussels, 7 March 2013, found at <http://europa.eu/rapid/press-release_SPEECH-13-197_en.htm>

¹⁸ Cut EU red tape, Report from the Business Taskforce p.9, found at <<https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce>>

Figure 2.2 – Number of EU-exporting companies as a percentage of all companies in the UK

Year	Number of companies exporting to the EU according to Government ¹⁹	Total number of companies in the UK ²⁰	EU exporting companies as percentage of total companies (%)
2007	66,297	4.67 m	1.42
2008	68,719	4.78 m	1.44
2009	67,396	4.83 m	1.39
2010	67,976	4.48 m	1.52
2011	69,559	4.54 m	1.53

It should be noted that these figures are based on Intrastat.²¹ This service only collects information on certain companies who export goods to the EU – it does not record information on companies who sell services to the EU. As ONS figures below show, this excludes a very large proportion of the UK’s exports to the EU (on average over the last fourteen years services have accounted for around 30 per cent of UK exports to the EU – see Figure 2.3).²² This means that information on a large number of companies that export to the EU is missing.

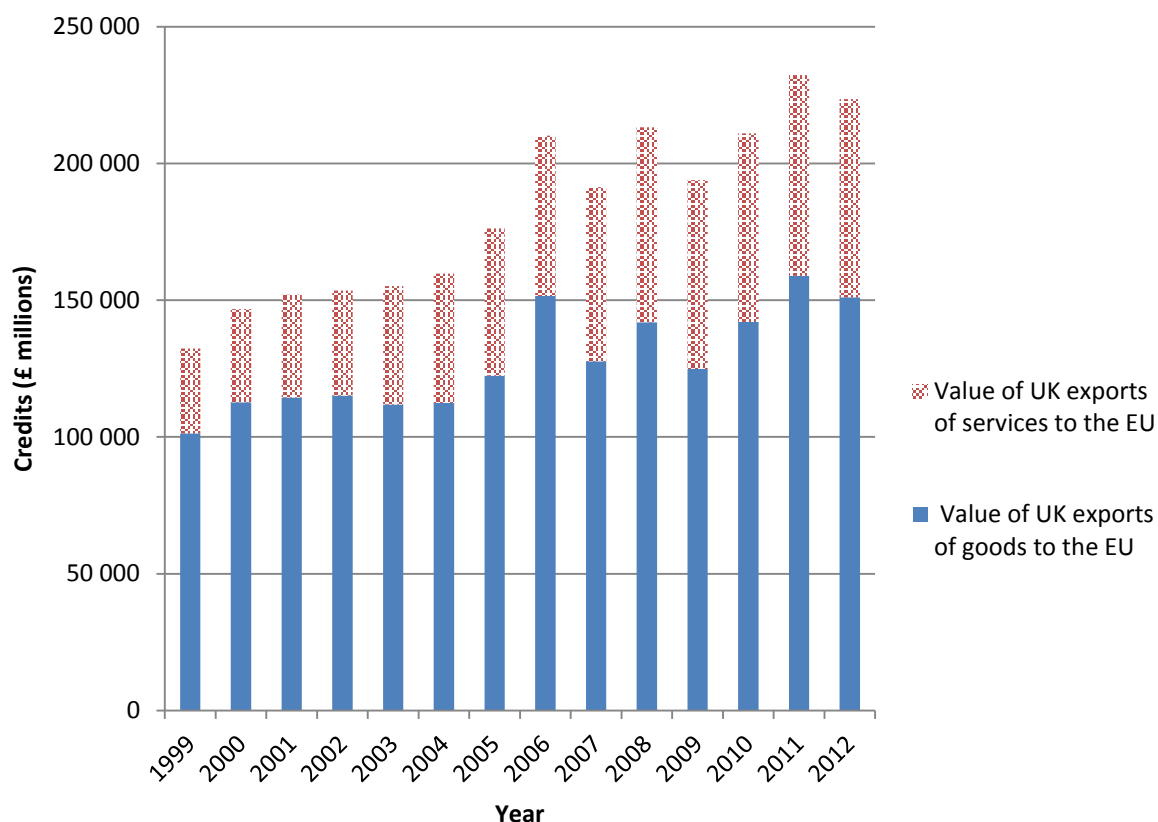
¹⁹ HM Government, REPI Reports, found at <<https://www.gov.uk/government/publications/rep-i-exports>>

²⁰ Figures collected from BIS Business Population Estimates for the UK and regions and datasets from Department for Business, Enterprise & Regulatory Reform

²¹ HM Government, REPI Reports, found at < <https://www.gov.uk/government/publications/rep-i-exports>>

²² ONS, Balance of Payments, Q2 2013, found at <<http://www.ons.gov.uk/ons/rel/bop/balance-of-payments/q2-2013/stb-bop-q2-2013.html>>

Figure 2.3 - Value of UK exports to the EU (1999 - 2012) in both services and goods²³



There is very little information on the number of companies engaged in exporting services to the EU and the Single Market is notoriously incomplete for services. However, we can reach a reasonable estimate by studying the number of EC Sales lists provided by companies in any given year. It is a legal requirement for companies to submit these lists to HMRC if the company is VAT-registered and exports goods or certain services to the EU.

Using this data, an idea of the number of companies who export to the EU can be ascertained by looking at VAT-registered EU-exporting businesses as a percentage of all UK VAT-registered businesses:

²³ ONS, Balance of Payments, Q2 2013, found at <<http://www.ons.gov.uk/ons/rel/bop/balance-of-payments/q2-2013/stb-bop-q2-2013.html>>

Figure 2.4 - Number of VAT-registered companies submitting EC lists as a percentage of all VAT-registered companies in the UK

Year	VAT-Registered companies submitting EC lists ²⁴	VAT-Registered companies in UK ²⁵	Total (%)
2006	86,622	2.09 m	4.15
2007	87,964	2.12 m	4.14
2008	89,065	2.64 m	3.37
2009	86,308	2.63 m	3.28
2010	100,879	2.57 m	3.92
2011	108,769	2.55 m	4.27
2012	108,000	2.61 m	4.14

These figures offer us the best indicator of the percentage of UK companies that export goods and services to the EU. While EC lists are only required of companies that are VAT registered, this should account for the majority of exporters (BIS states that large companies – i.e. those that are likely to be VAT registered – are much more likely to export). Were it possible to find the number of all EU-exporting companies, the size of this group as a percentage of all businesses in the UK, would likely be smaller than the percentages produced above. If anything, this figure over-estimates the percentage of exporting companies. It is clear that these figures are a larger percentage that the official Government figures suggest.

2.4 British businesses want the responsibility for key policy areas to return to the UK Government

In the past forty years, thousands of EU laws have been automatically placed on the UK statute books while successive Treaties have passed control of key areas of national concern, such as VAT and policy regulation, to the European Commission. According to the UK Government “50% of all UK legislation with a significant economic impact originates from EU legislation.”²⁶ In our poll we asked business leaders to decide whether they thought the EU or the UK Government should be in control of nine key policy areas currently under the purview of the European Union.

²⁴ Freedom of Information request by Business for Britain

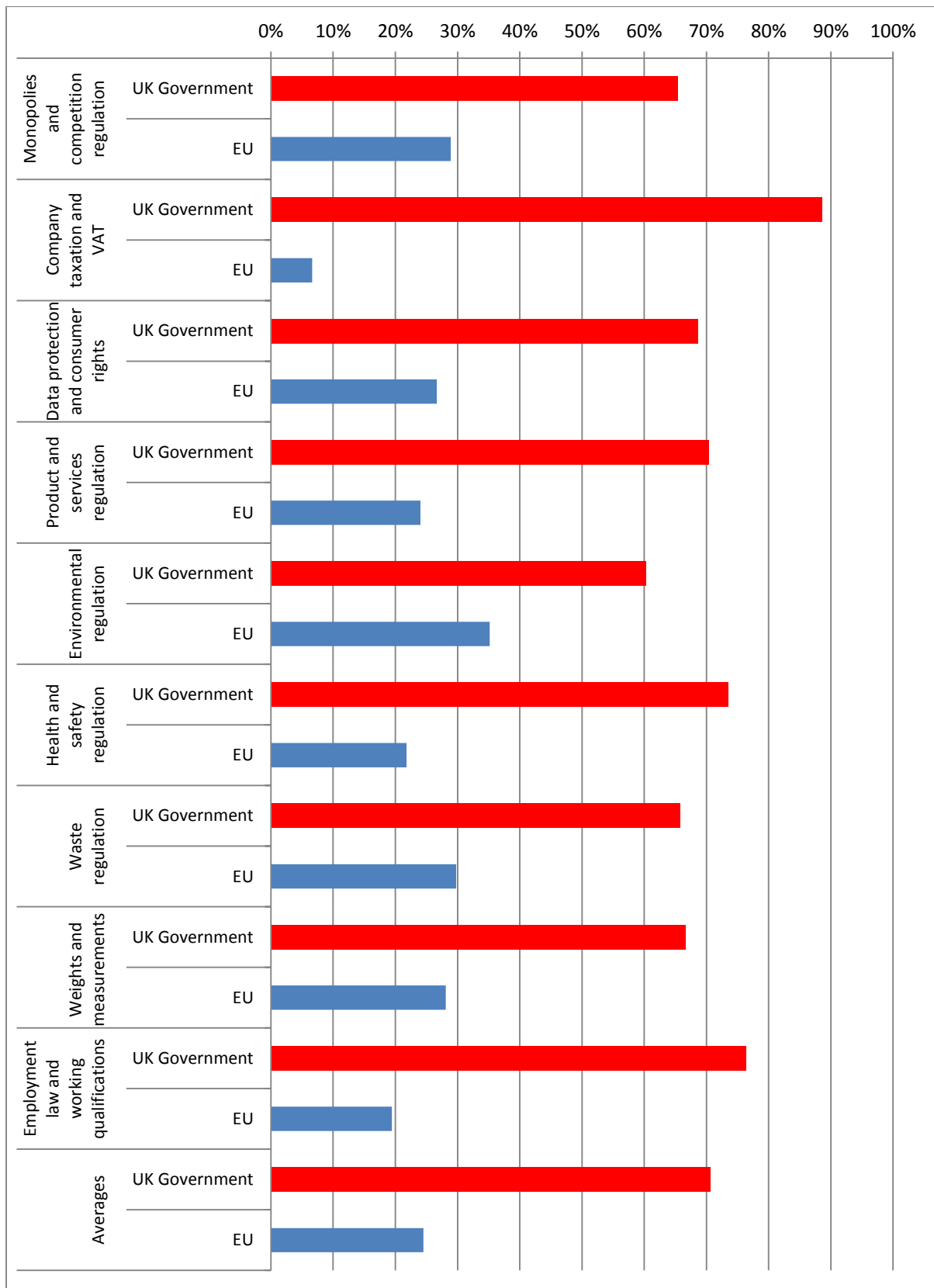
²⁵ UK Business: Activity, Size and Location. This is the number of VAT/PAYE registered companies and their local units in the UK – the most consistent dataset for VAT registered businesses over this period collected by ONS.

²⁶ Cited in House of Commons Library Research Paper 10/62, *How much legislation comes from Europe?*, 13 October 2010, p. 1, found at <www.parliament.uk/briefing-papers/RP10-62.pdf>

Figure 2.5 – British business leader’s views on the balance of competences

<i>For each of the following area of competence, please say who you think should be in control – the UK Government or the EU? (%)</i>					
	Small	Medium	Large	Exports inside the EU	Trades solely in the UK
<i>Monopolies and competition regulation</i>					
UK Government	67	57	64	61	70
EU	28	34	30	33	24
<i>Company taxation and VAT</i>					
UK Government	89	84	90	87	90
EU	6	10	5	9	6
<i>Data protection and consumer rights</i>					
UK Government	71	61	67	68	72
EU	25	33	28	29	23
<i>Product and services regulation</i>					
UK Government	72	64	70	68	73
EU	23	29	26	26	21
<i>Environmental regulation</i>					
UK Government	62	53	61	62	62
EU	34	41	34	34	34
<i>Health and safety regulation</i>					
UK Government	75	68	74	70	76
EU	21	24	24	25	19
<i>Waste regulation</i>					
UK Government	68	59	64	62	68
EU	28	35	32	36	28
<i>Weights and measurements</i>					
UK Government	68	63	62	68	71
EU	26	31	34	27	24
<i>Employment law and working qualifications</i>					
UK Government	77	76	74	76	80
EU	19	18	23	20	16
<i>Averages</i>					
UK Government	72	65	70	69	74
EU	23	28	26	27	22

Figure 2.6 – British business leader’s views on the balance of competences



It is clear that there is a deep concern among British business leaders that the EU is not working in their interests – the competence of the EU is being called into question. At the very least, these results suggest that there needs to be a substantial return of powers to the UK. Other groups have already provided detailed accounts of the various powers and laws that should return to the UK and the changes that need to be introduced to return powers to the UK. We commend these reports as valuable additions to the debate.²⁷

However, we also note that it is very doubtful that the EU would agree to unilateral opt outs for British industries while permitting universal access to the Single Market. Other EU member states, with very different traditions, cultures and industries to the UK, will likely defend higher levels of regulation for their domestic priorities and will be unlikely to allow either a drop in their standards, or to allow other member states free access to their markets without complying with EU-wide rules. The idea that we could have full access to the Single Market, without having to fully abide by Single Market rules lacks a degree of credibility. It seems somewhat unlikely that Britain would be allowed to become to Europe what Hong Kong used to be to China. However, having looked at the various options, the authors believe that there is a simpler, sensible middle way. We can solve this dilemma without needing an acrimonious and possibly futile bargaining session. We believe that there is a solution – one that will exempt 95 per cent of British businesses from the most onerous EU regulation, while still allowing the rest of UK businesses to access the Single Market. This solution is the British Option.

²⁷ As an example please refer to Fresh Start's *Options for Change Green Paper* or the European Scrutiny Committee's *Reforming the European Scrutiny System in the House of Commons*

3. Finding the solution for British business

It is clear from Business for Britain's consultation that business leaders in the UK value access to the Single Market which gives us tariff-free trade with the rest of the EU. They would also ideally like Britain to keep its place at the decision-making table in the European Union but recognise that the UK's influence is declining and want a more robust system of veto introduced. Yet, in spite of this support for engagement, key elements of European integration beyond the Single Market – such as structural funds, the Common Agricultural Policy, the Common Fisheries Policy and the External Action Service – were viewed very negatively by the business community, who questioned the supposed benefits that come from being part of these agencies and programmes.

However, despite this qualified desire for access to the Single Market and for Britain to have a say in the decision-making bodies of the EU, the business leaders we consulted also recognised that there was a clear divide in the British business community. The leaders of larger, exporting companies saw the EU as offering access to European markets while only having to comply with one set of regulations. However, there was a clear recognition that these benefits only really applied to businesses that had the infrastructure and scale to export on a continent-wide basis. For the vast majority of businesses, which are smaller in size and more domestically focussed, the Single Market held much less appeal and was instead seen as an unnecessary burden on their activities. There was also a belief that Britain contributed too much to the EU's budget and a strong desire to see more of our contributions diverted back to the UK.

Based on these findings, we have therefore established four criteria to judge any new relationship with the EU, allowing us to judge whether it would have the support of the British business community. These criteria are:

- Access to the Single Market
- Influence over Single Market legislation
- The regulatory burden on companies that do not export to the EU
- Contributions to the EU budget

3.1 The Norwegian, Swiss and Turkish options

Enacting the changes that British business leaders want will require substantial reform. A number of options have been put forward as to how our relationship with the

European Union might be altered. Most of these options are modelled on deals negotiated by three countries who are not members of the EU, but nonetheless enjoy varying degrees of access to the Single Market, namely Norway, Switzerland and Turkey.²⁸

By analysing these options against the four criteria outlined above, the authors have concluded that none of them fulfil what British business leaders have said that they want from renegotiation.²⁹ (The pros and cons of each of these relationships is analysed in greater depth in Appendix 1). All of the existing options have very apparent positive aspects; whether it is the ability to decide which EU regulations are accepted or being able to negotiate free trade deals independently of the EU. In all cases, however, there are aspects which are not so appealing.

Instead, we would argue that a nation as large and economically vital as the UK should not seek to try and replicate another country's relationship with the EU. Norway and Switzerland have both developed unique relationships with the EU, based on their own needs. As the world's sixth largest economy and the biggest trading partner for the other EU member states, the UK should seek its own bespoke deal, ideally one that keeps access to the Single Market, but which clearly addresses the very real concerns that British business leaders have with our current terms of membership.

Another serious option which has been proposed, but which is not enjoyed by any country at present, can be dubbed the 'Single Market only' option, which we will now assess against our four criteria.

3.2 The 'Single Market only' option

Over the last few years, a number of senior political figures have suggested that Britain can return to a trade-focused relationship with the EU, by slimming down our current terms of membership to participation in the Single Market only. David Cameron notably said in his Bloomberg speech that any new relationship between Britain and the EU "will be a relationship with the Single Market at its heart... we need to examine whether the balance is right in so many areas where the European Union has legislated including on the environment, social affairs and crime."³⁰

The results of Business for Britain's consultation found accord with the Prime Minister: business leaders were clear that they wanted the EU to focus on trade liberalisation between member states rather than seeking to supplant national governments as the

²⁸ An example of a critical analysis of these options can be found in CBI, *Our Global Future: The business vision for a reformed EU* (4 November 2013) and CBI, *Doing things by halves: Alternatives to EU membership* (5 July 2013)

²⁹ To read the full analysis of the Norwegian, Swiss and Turkish options please see Appendix 1.

³⁰D. Cameron, 'EU speech at Bloomberg' (London, 23 January 2013) found at <<https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>>

source of social legislation. The Mayor of London, Boris Johnson, also recently argued that EU membership should be boiled down to participation in the Single Market.³¹

The ‘Single Market only’ option has been most coherently articulated by Lord Leach, who led the business campaign against Britain joining the single currency at the turn of the century. His vision for the EU is to have the Single Market at its core but to allow member states to choose the level of political integration they are comfortable with beyond that:

“The shape of a new Europe... writes its own script — a neighbourly alliance, partly federal, partly by treaty between independent states, in which those who want to share a currency and economic sovereignty and those who just want co-operation would be equally welcome. Only trade, the bedrock of the original Common Market, would be universal... the UK would remain a full member of the customs union and Single Market and maintain its vote on making Europe’s trading rules. But it could limit Brussels’ involvement in areas such as policing and crime, fisheries, farming, employment law and regional policy. The EU’s institutions would be adapted so as not to discriminate against countries who have chosen to be less integrated. Likewise, the UK would not vote on EU laws that did not apply to itself. The presumption of travel towards a common destiny would cease.”³²

This vision chimes with the vision set out by the Prime Minister, of an EU with the Single Market at its core and an independent reassessment by all member states of the EU’s role in other policy areas. There is clearly more work to be done on the specifics of the ‘Single Market only’ relationship, how the opt-in system could work and which bodies the UK should remove itself from (a list of all the bodies that comprise the EU, and the policy areas on which the EU legislates on can be found in Appendix 2). But this option does meet the criteria of retaining access to the Single Market by remaining in the customs union and retains our influence over its legislation, whilst giving us the ability to remove ourselves from other key elements of European integration.³³ It would also have the added benefit of almost certainly reducing our contribution to the EU budget.

However, the one criterion from our consultation that this option doesn’t meet is that companies that do not export to the EU would still face the full regulatory burden that comes from being in the Single Market. This means that following a successful renegotiation

³¹ B. Johnson cited in *The Guardian*, “UK should renegotiate relationship with EU” (4 December 2012) found at <http://www.theguardian.com/politics/2012/dec/04/boris-johnson-uk-renegotiate-eu>

³² R. Leach, ‘The sceptics have won. Now for a new Europe’, *The Times*, (3 December 2012) found at <http://www.thetimes.co.uk/tto/opinion/columnists/article3618391.ece>

³³ Ronald Stewart Brown has produced high quality work, noting the need for the UK to stay in the customs union, found here <http://www.telegraph.co.uk/finance/economics/8994679/Britain-must-now-think-through-European-trade-options.html>

along these lines, the 95 per cent of British firms who do not export to the EU would still be expected to comply with EU rules. If the Single Market is to be the spine of trade within the EU, rather than the burden that holds us back in the global race, this point needs to be addressed, and it is what the British Option, outlined next, seeks to do.

3.3 The British Option

The British Option builds on the ‘Single Market only’ option by proposing that a mechanism should be created to reduce the regulatory burden on companies that do not export to the EU. Like the ‘Single Market only’ option it agrees that member states should be free to opt in or out of the aspects of the EU that have nothing to do with the Single Market – allowing the UK to leave the CAP, CFP etc. As British business leaders said in our poll, the UK should seek to remove itself from as many non-Single Market related institutions and bodies as possible.

This approach would allow the UK to retain full membership of a Single Market-focused EU. Britain would continue to send MEPs to the European Parliament, continue to have a European Commissioner and UKRep would be retained. Under this deal there would be no decline in Britain’s influence in the EU institutions for matters pertaining to the UK.

However, where the British Option differs from all the other options is that it will allow companies that do not export to the EU to opt out of some of the most onerous rules and regulations that have been created by the European Union. Parliament would produce a list of the most onerous EU regulations, and businesses that choose not to export to the EU would be free to opt out of these laws. This would immediately lighten the regulatory burden on the 95 per cent of companies that do not export to the EU, whilst retaining access to the Single Market for those that do. Just as companies that export to China need to comply with the regulations issued in Beijing, companies that export to the EU would need to comply with the regulations emanating from Brussels.

Crucially, the British Option need not only apply to the UK. Were the principle to be applied across the EU, it would help ensure that Europe regains the competitive edge that it has lost over the past two decades of relative decline.

Again, as with the ‘Single Market only’ option, allowing the UK to leave the more political aspects of the EU as well as programs like CAP would generate a strong political demand for a lower budgetary contribution. We would also recommend investing any savings that are made by reducing our contribution to the EU budget into trade missions with the various growth economies so as to promote British exports around the world.

As shown in Chapter 4 (section 4.12) Business for Britain included the British Option as one of several different suggestions for renegotiation in our YouGov polling and found

that it was the most popular choice. Although respondents from medium and large companies placed it alongside EU-wide reform as one of several preferable options, among small companies – which account for over 97 per cent of the total number of businesses in the UK – it took a clear lead as the most preferred option.

So how does the British Option match up to our four criteria for what business leaders want from our relationship with the EU?

3.3.1 Access to the Single Market

Under the British Option, access to the Single Market would be assured for all businesses that wish to export to the EU. Business law in the UK would continue to be shaped by EU law, but Parliament would independently decide which regulations need not apply to companies not exporting to the Single Market.

More thought is given to how the British Option could be implemented in chapter 4, but it is clear that if the premise of the Single Market is to facilitate trade between member states, there is no reason why access should be denied if companies exporting to the EU are fully complying with the necessary regulations.

3.3.2 Influence over Single Market legislation

In the Prime Minister’s vision of a European Union “with the Single Market at its heart”, Britain would still be a member of the EU, but the nature of the project would be radically different. Similarly, under the British Option, we would remain members of the EU and therefore keep full voting rights on legislation that applied to us and representation on the key EU bodies. As harmonisation (the introduction of new laws affecting companies that export to the Single Market) will still affect the 5 per cent of British firms that do sell goods and services to the EU, there is an advantage in British representatives having some say over these laws.

It is worth noting that, as the Eurozone moves towards greater banking and fiscal union, a two-tier system is developing with the establishment of institutions that don’t include the UK, such as the European Stability Mechanism. The principle of member states excluding themselves from aspects of the EU that don’t pertain to them is already established.

3.3.3 Regulatory burden on companies not exporting to the EU

The British Option is specifically designed to reduce the burden of European regulation on companies that do not export to the EU. With 95 per cent of British companies not exporting to the EU, and with exports to the EU only accounting for 14 per cent of UK GDP, the principle of exempting companies not exporting to the EU from the more onerous regulations is clearly a sensible way to make Britain more competitive whilst retaining access to the Single Market. Forty six per cent of British businesses polled – particularly smaller, non-exporting companies – said that the costs of membership outweigh the benefits. The British Option is a simple way to rectify their concerns.

3.3.4 Contributions to the EU budget

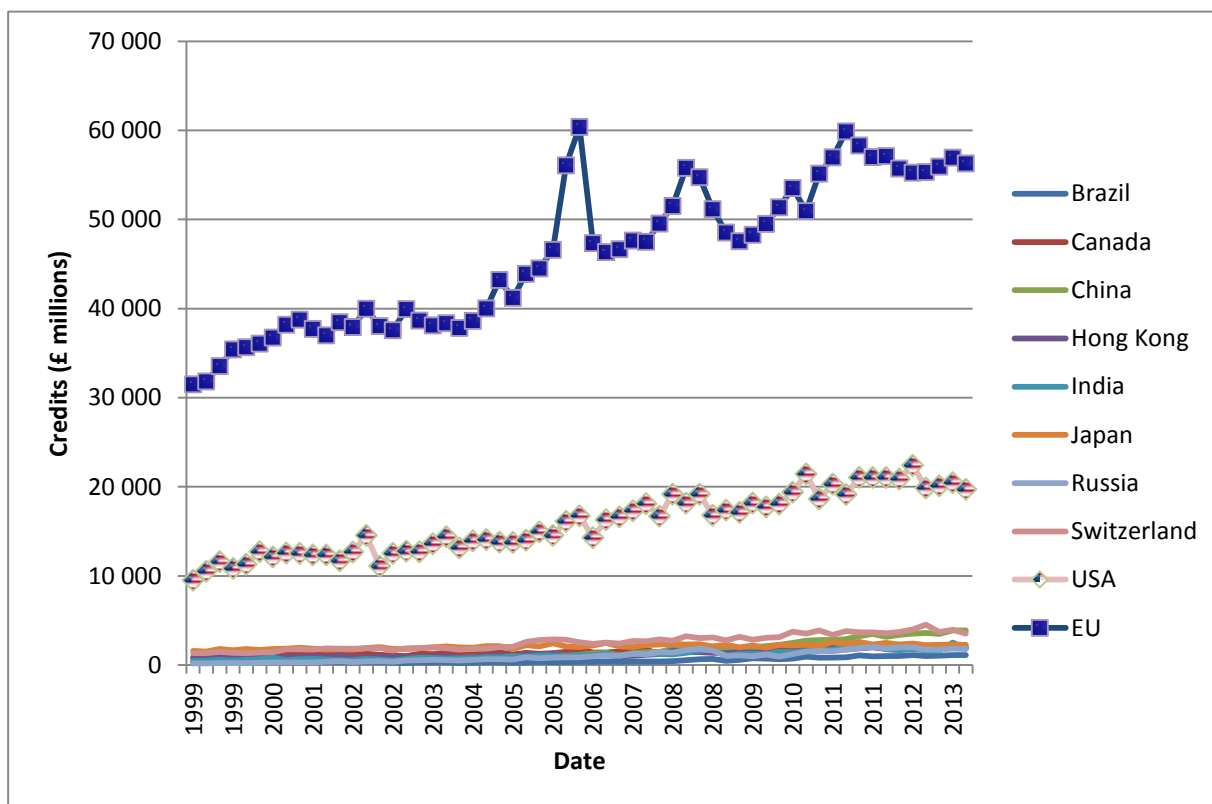
As with the ‘Single Market only’ option, there would be a strong political demand for a decrease in the amount that the UK contributes to the EU budget were it to withdraw from certain non-Single Market aspects of membership. Were Britain to leave the Common Agriculture Policy (CAP), Common Fisheries Policy (CFP) or the structural funds, there would be overwhelming political demand for our contribution to the EU budget to fall correspondingly. So money would almost certainly be saved by moving towards this vision for the EU.

We would recommend that savings should be put to good use promoting trade with the rest of the world. David Cameron should be commended for making trade missions a hallmark of his Premiership. These efforts to build Britain’s trading links with rising economies across the world – China and India especially – play a key role in helping UK companies access these growth markets. But to properly capitalise on a Prime Ministerial visit, there needs to be a permanent presence and proper infrastructure in place to help promote British firms in these high-growth economies.

Companies which do not trade with the EU, but do export to countries outside of Europe will naturally be free to opt out of the most onerous European regulations, as a result we should see a substantial increase in the competitiveness of British firms on the international scene.

Aside from the United States, sales to countries outside the EU have been staggeringly low – as shown in Figure 3.1. Under the British Option, the money saved by the UK taxpayer by not taking part in certain non-Single Market aspects of our EU membership would be reinvested into trade missions with the growing economies across the globe.

Figure 3.1: Total value of UK exports of goods and services by geographical location (1999 - 2013)³⁴



Some of this work is already done by UK Trade and Investment, a Government department which promotes British exports and currently has missions promoting trade in over 100 countries. In the last year alone, according to its own figures, it successfully generated £49.6 billion in exporting sales and helped 29,230 customers.³⁵ It achieved these outcomes despite only having a budget of £316.8m in 2012/13.³⁶ Allocating further resources to this objective – either using UKTI or an alternative body – would promote further exports, providing the structures were in place to ensure the money was well spent.

We also support the creation of more Free Trade Agreements (FTAs) with countries outside the EU and believe that the EU should push hard to complete the Transatlantic Trade and Investment Partnership, freeing trade with the USA. However, we note with dismay the failure of the EU to approach China and begin discussions with Beijing on creating a China-EU FTA as well as recent antagonism between the EU and China over solar panel tariffs. We agree with the Fresh Start Group that if the EU proves unsuccessful in

³⁴ ONS, United Kingdom Economic Accounts Q3 2013, found at <<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-320859>>

³⁵ UKTI at a glance 2013/14, found at <www.ukti.gov.uk/download/file/493940.html>

³⁶ UK Trade and Investment, UK Trade and Investment Annual Report and Accounts 2012-13 (London Stationery Office, 2013) p.7 Found at <<http://www.official-documents.gov.uk/document/hc1314/hc00/0024/0024.pdf>>

securing FTAs over the coming five years then the UK should consider other ways of negotiating more ambitious FTAs independently.³⁷ We will revisit the issue of FTAs in a future publication.

3.3.5 How the British Option compares to the other options

Figure 3.2 below gives a summary of how each of the options described above match up against our four criteria (including having no formal relationship with the EU, which could be dubbed the 'WTO option'). The British Option goes the furthest in securing access and influence, while minimising the costs and regulatory burden for non-exporting companies and cutting our contribution to the EU budget.

³⁷ Fresh Start Project, Mandate for Reform, p.5 found at <<http://www.eufreshstart.org/downloads/mandateforreform.pdf>>

Figure 3.2 – Visualisation of the different options available to Britain

		In the EU			Out of the EU			
		Full EU membership	Single Market only	British Option	Norwegian Option	Swiss Option	Turkish Option	WTO Option
Access to the Single Market	Full access to the Single Market	✓	✓	✓	✓ ³⁸	✓	✗ ³⁹	✗
	In customs union with EU member states	✓	✓	✓	✗	✗	✓	✗
	Subject to all other non-Single Market aspects of the EU	✓	✗	✗	✗	✗	✗	✗
Influence over Single Market legislation	Can vote in EU Institutions	✓	✓	✓	✗	✗	✗	✗
	Can send experts to influence EU legislation	✓	✓	✓	✓	✓	✗ ⁴⁰	✗
Full regulatory burden on companies not exporting to the EU		✓	✓	✗	✓	✓ ⁴¹	✓ ⁴²	✗
EU budget	Full contribution for all EU activities	✓	✗	✗	✗	✗	✗	✗
	Partial contribution for Single Market plus other areas opted into	✓	✓	✓	✓	✓	✓	✗

³⁸ For both the Norwegian and Swiss Options access to the Single Market is comprehensive and can be described as “full access”. See Appendix 1 for more details.

³⁹ The Turkish-EU customs union is a partial customs union covering only certain products. See Appendix 1 for more details.

⁴⁰ Turkey does send delegations to the EU and can send experts, but does so notably less than EFTA countries who have the right to send experts to influence the preparatory work of the Commission. It also has less experts based in the EU. See Appendix 1 for more details

⁴¹ While, in theory, the Swiss Option allows Switzerland to have its own domestic laws, the nature of the bilateral deals signed over the last few years, and the approach of the Swiss Government to emulating EU legislation has seen vast swathes of European laws being replicated in Swiss law. See Appendix 1 for more details.

⁴² Turkey’s laws are being closely aligned with the EU’s as a consequence of Turkey being i) in a partial customs union with the EU and ii) as part of Turkey’s bid for EU membership. See Appendix 1 for more details.

As is clear from this table, the British Option is the only option which meets all the concerns of business leaders, retaining access to the Single Market by remaining, at least for the immediate future, within the customs union and keeps our seat at the decision making table. However, at the same time it also liberates companies who don't export to the EU from the most onerous regulations and reduces our contribution to the EU's budget.

4. Frequently Asked Questions about how the British Option might work

The key insight behind the British Option, that the full burden of onerous EU regulation should not fall on companies or organisations that do not trade with the Single Market, is a small and relatively simple change but one that would make a big difference. The authors are certain that, were this principle enacted, it would help stimulate both the UK and the wider EU's competitiveness, spur the economic recovery and go a long way towards helping the UK in the global race.

There are a number of questions that need to be answered about how the British Option could be realised. This chapter explores how it could be implemented.

The authors do not shy away from the political and legal challenges that will come from trying to implement such a change. We recognise that it will be a complex process – but no more so than any other Treaty change that has come before or the inevitable changes that will have to be made in the coming few years. Furthermore we believe that the British Option would be easier to achieve than some of the ideas that have already been articulated by decision makers and politicians.

The British Option sets out to address one of the key problems that lies in our relationship with the EU; that it is unfair for businesses that don't export to the Single Market to face the burden of the most onerous European regulations. The purpose of this short chapter is to show some of the ways that the policy could be realised. We welcome debate, and hope to receive feedback on our recommendations. Our intention with this chapter is not to set out the definitive guide as to how to realise the British Option, but rather start a debate by highlighting the problem and proposing a solution.

4.1 Why should the British Option only apply to the UK? Could it form the basis for an EU-wide reform?

The British Option could very easily apply to the EU as a whole, significantly reducing the regulatory burden on companies that do not export to the EU and easing it for those that do. Making the Single Market the spine of trade within the EU rather than the burden that holds it back, would go a long way towards restoring Europe's overall competitiveness and would help the EU in the global race. It would be optional – countries that wish to see greater integration would be free to pursue that course, countries like the UK who wish to embark on a different route can do so as well without jeopardising the Single Market.

This is not a deal that will benefit Britain at the expense of other member states. To the contrary, we believe that all member states would benefit from embracing this option and would encourage our European partners to embrace such a policy. There have been

some encouraging signs already – the Dutch Government has already agreed that the era of ever closer union is over and there has been some positive reception to the Prime Minister’s Business Taskforce’s suggestions.⁴³

However, were our option to find a poor reception in other countries then the British Option is designed so that Britain can introduce it unilaterally without compromising the Single Market. Goods and services produced in Britain will still have to meet EU standards; companies that export and sell to the EU will not have an undue advantage compared to their European competitors.

4.2 Who would decide which EU laws companies and organisations that don’t export to the EU would be exempt from?

It is not the place of this paper to say which EU regulations should apply to all companies and organisations in the UK, and which ones only need to apply to bodies trading within the Single Market. It is for Parliament to decide. In his Bloomberg speech, the Prime Minister rightly said that:

“Countries are different. They make different choices. We cannot harmonise everything. For example, it is neither right nor necessary to claim that the integrity of the Single Market, or full membership of the European Union requires the working hours of British hospital doctors to be set in Brussels irrespective of the views of British Parliamentarians and practitioners.”⁴⁴

This suggests that a Conservative Government would exclude the NHS from the Working Time Directive. And if the NHS should be excluded from it, there is no reason why companies that also don’t export to the Single Market should also be exempt.

David Cameron is also right to say that British Parliamentarians should be the ultimate decision-makers, so on this basis, we would recommend that the British Parliament conducts a full review of the European laws (both regulations and directives) that have been transposed onto the UK’s statute books and determine whether or not these laws should apply to companies and organisations that do not export to the Single Market. Once approved by Parliament, the burden of the most onerous regulations would then be lifted from 95 per cent of companies in the UK.

⁴³ BBC News, *Dutch Government review criticises EU powers*, 21 June 2013, found at <<http://www.bbc.co.uk/news/world-europe-23005499>>

⁴⁴ D. Cameron, “EU speech at Bloomberg” (London, 23 January 2013) found at <<https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>>

4.3 Which EU laws do you envisage the UK Parliament exempting companies and organisations that don't export to the EU from?

While it is for Parliament to decide which rules and regulations should be optional for companies that don't export to the Single Market, it is likely that the focus will be on social market regulation. The Conservative Party in its manifesto had committed the UK to return powers over the Charter of Fundamental Rights, criminal justice and social and employment legislation, and David Cameron stated that *"we need to examine whether the balance is right in so many areas where the European Union has legislated including on the environment, social affairs and crime."*⁴⁵

Over the last forty years of Britain's EU membership, successive governments have voiced their concern about the burden of EU regulation on British businesses. Laws such as the Working Time Directive, employment law and environmental regulation have been highlighted by different politicians of different political affiliations as areas of particular concern.

In addition, as noted above, social and employment regulations (the laws that set out to create a 'social market' rather than a Single Market) are the policies that have met the greatest criticism from successive British governments as well as being one of the biggest burdens on both the budgets of private firms and the national purse. According to Open Europe, EU social law costs UK business and the public sector £8.6 billion a year.⁴⁶ As our poll showed, among the powers business leaders want returned to Westminster are consumer rights, health and safety regulation, employment law and working qualifications (see section 2.4).

As a result, we imagine that such social laws would form the bulk of any list of laws that companies that don't export to the EU can opt out of. However it would be for Parliament to decide.

⁴⁵D. Cameron, "EU speech at Bloomberg" (London, 23 January 2013) found at <<https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>>

⁴⁶Repatriating EU social policy: The best choice for jobs and growth? *Open Europe* November 2011, found at <<http://www.openeurope.org.uk/Content/Documents/Pdfs/2011EUsocialpolicy.pdf>>

Examples of EU laws which have generated problems

The Working Time Directive

Introduced (in its current form) in 2003, the WTD sets out a number of rules and regulations regarding European citizens working week – most notably setting a limit of 48 hours per week (allowing certain Member States to allow individual workers to opt out of this), minimum holiday periods and minimum daily rest periods. It has been estimated that this is the single most costly piece of EU regulation in the UK.⁴⁷

Temporary Agency Workers Directive

Introduced in 2008, this directive requires that, after twelve weeks of continuous employment, working conditions for any agency worker to be the same as those enjoyed by full time employees of the company. It has been estimated that the cost of this for individual businesses amounts to £1.46 billion.⁴⁸

4.4 Are there any examples of laws where the Government treats different types of businesses in a different way?

The European Union currently exempts certain firms from complying with EU directives based on the size of the company: microbusinesses, for example, are exempted from certain accountancy requirements and can instead submit simplified returns.⁴⁹ The Business Taskforce has made some pleasing recommendations for exempting microbusinesses from even more rules and regulations.⁵⁰

In addition certain products, including cars, are also entitled to less strident regulations if they are not being sold in other member states. The British Government also recognises that different rules can, in certain circumstances, apply to different companies. For example, they let it be known that they are considering new rules to require larger firms to pay a 'living wage', so exemptions for, and obligations on different types of companies are a well-established part of Government policy.⁵¹

⁴⁷ Open Europe, *Top 100 costliest EU regulations*, December 2009

⁴⁸ BIS, *Impact Assessment: European Parliament and Council Directive on working conditions for temporary agency workers*

⁴⁹ A good summary can be found in *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities* found at http://ec.europa.eu/internal_market/accounting/docs/news/legal_proposal_en.pdf

⁵⁰ *Cut EU red tape: Report from the Business Taskforce*, 15 October 2013, p.12 found at <https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce/cut-eu-red-tape-report-from-the-business-taskforce>

⁵¹ More information found at G Peev, "Cameron wants to raise minimum wage without scuppering business-led recovery" *Daily Mail*, 3 September 2013, found at <http://www.dailymail.co.uk/news/article-2409553/Cameron-wants-raise-minimum-wage-scuppering-business-led-recovery.html>

4.5 Wouldn't companies be put off from expanding into the Single Market by the additional EU regulations they'd have to abide by?

Businesses, liberated from the most onerous EU regulations would be free to grow much faster. As they expand they may decide that, at some point they wish to sell their goods and services to the EU, whereupon they face a 'step' of having to comply with all the EU rules and regulations that they had, hitherto, been exempt from.

It is important to note that, under current conditions, entrepreneurs face this 'step' from the very moment they set up a business. As the Business Taskforce found, EU regulation currently serves as a serious barrier to starting a company and employing staff, pointing out the problems generated by written risk assessments, worker rights, working time rules among many other regulations.⁵² The Government's own research that there is already a 'step' that is being faced by British businesses – it is one that all businesses have to face when they set up and have to endure throughout their entire existence as EU regulations block expansion and hinder competitiveness.⁵³

Were the regulations to be automatically imposed on a company as it expands from a microbusiness to a small or medium sized business, this could also potentially be a serious impediment to growth and job creation. However only requiring it for businesses that decide to export to the EU inserts an element of choice, in the same way that any business exporting outside of the Single Market accepts that their goods have to conform to the regulatory standards of the country they are exporting to.⁵⁴

4.6 Isn't it unfair that companies that do export to the Single Market would still face the full burden of EU legislation? How can they be helped?

If a company decides to export to a foreign country then it is only right that it complies with that country's laws and regulations. We would expect a company that exports goods or services to China to comply with Beijing's standards or a company that exports to the United States to comply with the relevant State and Federal standards.

That said, the UK, despite its declining influence in the European institutions, is in a unique position to promote deregulation in the EU. Concerns about the burden of EU regulation are, of course, also shared by companies that export to the EU, so it is helpful

⁵² Cut EU red tape, Report from the Business Taskforce pp. 21-29, found at <<https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce>>

⁵³ Cut EU red tape, Report from the Business Taskforce pp. 30-39, found at <<https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce>>

⁵⁴ It is worth noting that some firms already produce different types of product for exports and imports – notably scotch whisky which has to vary its strength. It is possible for companies – if they wish – to produce two different types of product, one for domestic consumption and one for export. For more information see <<http://www.scotch-whisky.org.uk/understanding-scotch/faqs/>>

that the Government has already started to recommend changes to Single Market regulation, most recently with the Prime Minister's Business Taskforce:

"We have identified barriers to expanding a business. To address these, the EU should drop costly new proposals... exempt more SMEs from current rules on the sale of shares, minimise new reporting requirements for emissions from fuels, drop plans for excessively strict rules on food labeling... remove unnecessary rules on SMEs transporting small amounts of waste... [and] withdraw proposals on soil protection."⁵⁵

However, in order to reduce the burden of regulation, there first needs to be steps to prevent the EU producing even more regulation – this will require a change in the way that the EU makes decisions. As Professor Roland Vaubel of Mannheim University has noted, the EU's system of majority voting has allowed a "majority of member states to impose their high levels of regulation on the more liberal minority."⁵⁶

It is clear that some form of 'veto' to block harmful EU regulation is necessary. Various groups have already proposed such a mechanism. The Conservative Party's Fresh Start Group has argued that the EU should apply a 'one in, one out' rule when proposing regulation and that the EU's 'yellow card' measure should be turned into a 'red card', allowing groups of national parliaments to come together and force the Commission to withdraw proposals that they object to.⁵⁷ (The generally pro-EU Centre for European Reform also support this concept and have argued that "the Commission should agree to treat a yellow card as a 'red card' by promising to abandon any proposal that faces a yellow card."⁵⁸)

The Labour Party have recently suggested a different form of veto, a resurrection of the Luxembourg Compromise (which used to act as an effective veto for member states) over areas of national concern, in particular finance.⁵⁹

Another proposal has been put forward by the cross-party European Scrutiny Committee who, in a recent report, argued that Parliament should review all European laws that have been implemented in the UK. This report, which was unanimously backed by a committee composed of Conservative, Labour and Liberal Democrat MPs agreed that:

⁵⁵ Cut EU red tape, Report from the Business Taskforce p.9, found at <<https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce>>

⁵⁶ R. Vaubel, *The European Institutions as an Interest Group*, IEA, London, 2009, p.14

⁵⁷ Fresh Start Project, Mandate for Reform, p.5 found at <<http://www.eufreshstart.org/downloads/mandateforreform.pdf>>

⁵⁸ C. Grant, *How to build a modern European Union*, p. 6, found at <http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2013/rp_119-7927.pdf>

⁵⁹ House of Commons Debate, 6 November 2012 vol. 552 c. 814

“There should be a mechanism whereby the House of Commons can decide that a particular EU legislative proposal should not apply to the United Kingdom. The House’s view could only be expressed prior to the adoption of a measure at the EU level... We further conclude that parallel provision should be made to enable a decision of the House of Commons to disapply parts of the existing acquis. This, we acknowledge, would require an Act of Parliament to disapply the European Communities Act 1972 in relation to specific EU legislation.”⁶⁰

Coming from a cross party committee, this proposal should be given serious consideration.

4.7 Are there already any examples of EU mechanisms in place to protect the integrity of the Single Market from unfair competition?

There are already similar mechanisms in place which allow certain goods to be produced to a lower regulatory standard if they are only sold within the UK, but require higher standards to be applied if they going to be sold elsewhere in the EU. Directive 2007/46/EC adapted the European Community Whole Vehicle Type Approval, a system designed to allow vehicles to be sold across the EU based on certificates that show that the EU’s common standards have been met.⁶¹ Under this directive, once a car type has been tested, each vehicle that is subsequently built will be entitled to sell to the Single Market without the need for any extra tests until there is a change in standards or the vehicle model changes. Crucially a certificate of conformity has to be provided for each car that is sold to other European markets.⁶² However, not all vehicles have to meet these standards; for goods that are produced in smaller quantities that are only going to be sold in the UK then the manufacturer only has to conform with National Small Series Type Approval (NSSTA) which, again, is based on type but is, according to the Department for Transport, “sometimes less exacting...as well as having less paperwork.”⁶³ This could be used as a basis for any new mechanism to ensure the integrity of the Single Market.

⁶⁰ House of Commons European Scrutiny Committee, *Reforming the European Scrutiny System in the House of Commons*, House of Commons, London, 2013, p.97

⁶¹ Directive can be found at <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:263:0001:0160:EN:PDF>>

⁶² HM Government, *The Individual Vehicle Approval Scheme*, found at <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209278/guide-to-the-iva-scheme.pdf>

⁶³HM Government, *The Individual Vehicle Approval Scheme*, found at <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209278/guide-to-the-iva-scheme.pdf>

4.8 Wouldn't the British Option undermine the Single Market? Surely companies would circumvent the rules by pretending they didn't export to the EU and then selling on via third parties?

The concept of giving companies that don't export to the EU an exemption from certain regulations might raise concerns that some firms would abuse the system to continue exporting goods to the EU whilst taking advantage of the less onerous regulatory regime. For example, a UK company might claim not to export to the EU, produce goods at a more economical rate, and then export them via another company.

In order to prevent this, measures are clearly needed to protect the integrity of the Single Market. Luckily these mechanisms already exist, because there are measures in place to stop companies with access to the Single Market being used to import goods from other companies that are based in countries without access to the Single Market.

Rules of Origin prevent certain companies from third countries being able to access the Single Market via the EU's trading partners without paying the appropriate tariff rate. By modifying the way Rules of Origin work, the Single Market would not be compromised as they would ensure that only products that comply with full EU regulations could be exported to the Single Market.

It is worth explaining in greater detail how Rules of Origin work.

The European Union is a customs union and applies a Common External Tariff (CET), or customs duty, to goods imported from outside the EU. Companies in some countries, however, are granted preferential tariff rates. However, without clearly defined protocols, these agreements could be used by third parties to circumvent the EU's CET.

As an example: the EU has a preferential trade relationship with country A. Country A also has a preferential trading relationship with country B. However country B does not have a preferential relationship with the EU. It is possible for a company in country B, eager to bypass the CET, to send their goods to country A and from there sell to the EU without having to pay the full duty.

As a result, when buying and selling to customers based in countries which have a preferential trading relationship with the EU, documentation is needed to prove that the good either originates from, or was substantially produced in the country in question. These 'Rules of Origin' allow trade agreements between the EU and other countries/trade blocs/FTAs as it prevents abuse by determining the 'economic nationality' of goods in international trade.

In the EU's specific Rules of Origin, there are two main categories: goods wholly obtained or produced in a single country; and goods whose production involved materials from more than one country. In the latter case, when a good has been manufactured in

several different countries, or composed of goods from different countries, the Rules of Origin determine whether or not the good still qualifies for preferential tariff rates. These ones require importers to account for the origins of the materials, the country in which the final phase of production took place and the value added to the product in each of the countries.

Clearly, under the British Option, a similar system could be used to help determine whether a good produced in the UK and sold to the EU has complied with all relevant Single Market regulations. Rather than just deciding which goods can come into the EU and what payments should be met, the Rules of Origin could be changed to focus instead on whether goods produced in Britain (or another member state) are entitled to free movement within the Single Market.

Under the British Option, some UK companies that did not directly export to the EU could therefore also be subject to the full body of Single Market regulations, in order for the goods to comply with the Rules of Origin. The actual number of suppliers who would fall under the remit of European legislation would depend on the transformation/value added threshold of the revised Rules of Origin. The lower the threshold (i.e. the smaller the amount of work that is needed before a company is considered to have accounted for the bulk of production) the fewer the number of companies that would be forced to comply with the full body of Single Market legislation despite not being an exporter themselves. Securing a low threshold (as is the case under the current Rules of Origin) should be considered a negotiation priority.⁶⁴

4.9 Shouldn't the EU ensure that the same rules apply to all businesses that provide goods and services to EU citizens?

The EU has defended its role as a regulator by claiming that it ensures that all EU citizens enjoy access to the same level of standards and regulations. A recent example of this view was made last year when the European Commission's Vice President argued that, when it came to data protection, the EU had a role "to ensure that the same rules apply to all businesses providing services to EU residents."^{65,66} Similar arguments have defended the introduction of various harmonising measures and consumer protection over the last forty years.

⁶⁴ Other trading blocs have substantially lowered their thresholds for certain countries and for certain products in recent years – securing such a concession in a renegotiation should be achievable. See WTO, *Preferential Rules of Origin in regional trade agreements* found at <http://www.wto.org/english/res_e/reser_e/ersd201305_e.pdf>

⁶⁵ HM Government has acknowledged that EU Environmental regulation has affected "all businesses irrespective of size", found at <<https://www.gov.uk/environmental-regulations>>

⁶⁶ V. Reding, *The EU's Data Protection Reform: Decision Time is now*, Brussels, 7 March 2013, found at <http://europa.eu/rapid/press-release_SPEECH-13-197_en.htm>

It is important to notice that such a view is not promoting a ‘Single Market’ (e.g. promoting free trade between the member states) but a ‘social market’ by setting out to impose a common European social policy across the whole of the EU. We agree with the Prime Minister when he argued that this was not the role of the EU: “Let us not be misled by the fallacy that a deep and workable Single Market requires everything to be harmonised.”⁶⁷ He strongly argued that the EU should not seek to supplant the role of nationally elected Governments when it comes to determining the standards for products and services for either domestic consumption or markets outside the EU. When it comes to the regulation of products that are not sold to other EU states, subsidiarity should nearly always apply.

4.10 Surely the British Option would require Treaty Change? This isn’t on the cards and the Government has no intention of going down this path.

The Treaties would have to be changed. However Treaty change is already on the cards, with senior European politicians expressing their wish to see substantial changes within the next few years.⁶⁸ As the Prime Minister noted in his Bloomberg speech, “*At some stage in the next few years the EU will need to agree on Treaty change*”. The authors recognise that it will be a complex process – but no more than any other Treaty change that has come before. The changes suggested in the ‘Single Market only’ option, allowing member states to opt out of aspects of the EU beyond the Single Market would have to be introduced via changes to the Treaties. Protocols in the Treaties have allowed member states to opt out (or – at a later date - opt in) to components of the Treaties. For example under Protocol 36 of the Lisbon Treaty the UK has the option to opt out of all police and criminal justice legislation adopted before the Treaty was signed with the ability to opt back in on a case by case basis. Treaty change also has the added benefit of setting limits on the remit of the European Court of Justice.

As with all Treaty changes, this will be a long and complex process which will require detailed legal analysis. The specific areas that will be changed will only emerge from the discussions; however it is clear that if the British Option is going to be realised, the main area of change would have to be Article 23 of the EC Treaty which stipulates free circulation for Community goods within the Community. Other areas that would require significant revision include Part III of the Treaty of European Union legislating for the Internal Market and the free movement of goods. The customs union will have to be redefined to make it clear that, rather than permitting tariff-free trade in all goods and services between

⁶⁷D. Cameron, “EU speech at Bloomberg” (London, 23 January 2013) found at <<https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>>

⁶⁸ Angela Merkel notably pushed for EU Treaty change in October 2013, story found at <<http://www.telegraph.co.uk/news/worldnews/europe/eu/10397512/Angela-Merkel-pushes-for-EU-treaty-change.html>>

member states, it instead permits tariff-free trade for only those goods and services that meet the EU's legislative standards.

This will require political and diplomatic skill. However, by making it clear that the UK will not stand in the way of other states embarking further down the road of ever closer union and by guaranteeing that British companies who export to the EU would comply with all Single Market regulations, the UK should be able to fend off its European partner's greatest concerns.

4.11 Is the British Government capable of delivering a change on this scale? Surely at most all they will get are some minor, limited reform of the Treaties?

The biggest barrier to achieving this option is likely to be the political will. Certain European leaders and EU politicians in particular, may oppose the idea on principle – deeming any change from the goal of ever closer union as bad for the entire EU project. This is not sufficient. As has been mentioned several times above, the EU is in the midst of an economic crisis, part of which can be directly attributed to its democratic and legitimacy crises. Each month these three failings reinforce one another, and polls by the EU's own polling agency – Eurobarometer – confirm that across Europe support for the EU and the Euro is declining.⁶⁹ With the EU in a state of flux and our political leaders focussed on achieving the best result for Britain, the British Option stands out as a concept that can find favour across the political spectrum and fits in with existing moves within the EU.

However, should ideological commitments to the idea of ever closer union prevent the Prime Minister from convincing others to embrace the British Option, then this measure can – and should – be taken unilaterally. Devices such a modified Rules of Origin will ensure that the Single Market is not compromised.

4.12 What does the British business community think of the British Option? Will it command the support of mainstream business leaders?

During our interviews, many business leaders told us that they thought it was unfair that non-exporting businesses were expected to comply with European regulation. While many politicians have, rightly, identified the need to reduce EU regulation for all businesses, there are no specific exemptions for those companies who do not export to the EU and who therefore do not benefit from the Single Market. Business for Britain polled business leaders across all the sectors to see if they thought a system in which non-exporting British

⁶⁹ Support has decreased from a high of 63 per cent in 2007 to 51 per cent in 2013 (Standard Eurobarometer 79, Spring 2013, *Public Opinion in the European Union, First Results* p.23 found at <http://ec.europa.eu/public_opinion/archives/eb/eb79/eb79_first_en.pdf>

companies were able to opt out of EU regulation was preferable for the business community as a whole. Of all the options for renegotiation presented, this was the most popular (see Figure 4.1)

Figure 4.1: The ambitions of British business

<i>Please say which of the following best describes what you think Britain should do? (%)</i>						
	All	Small	Medium	Large	Exports inside the EU	Trades solely in the UK
Integrate more deeply with the EU, eventually becoming part of the Eurozone.	10	10	12	11	18	8
Remain a member of the EU but don't join the Euro	21	19	24	23	26	17
Remain a member of the EU but repatriate some powers back to Britain only so long as EU-wide reform is achieved creating a multi-tier Europe	20	18	25	24	21	19
Negotiate a new relationship with the EU based on trade with the Single Market and allow non-exporting British companies the ability to opt out of European legislation	28	31	24	23	21	31
Leave the EU and don't negotiate a new relationship	16	18	12	11	8	19
Don't know	5	6	4	5	5	6

Many of the business leaders we surveyed said that they wanted to see Treaty change as part of the renegotiation, a step that was not taken when Harold Wilson renegotiated in 1975 and subsequently achieved very little. Treaty change would enable Britain to remove itself from the founding ambition of 'ever closer union' as well as potentially regaining control over a number of powers that have been placed in the hands of European policy makers. For many, the goal of treaty change would enable Britain to go back to a relationship with the EU based on economics rather than politics. As the results of our poll of competences above demonstrates, business leaders are keen to see the UK Government regain control over large parts of domestic policy currently under the purview of the European institutions.

"I would not wish to leave the EU now, but if it had proved impossible to renegotiate at some future date I might wish to vote to leave the EU. There are clear advantages of being part of the EU, but the disadvantages need to be reduced or eliminated."

- Owner of a small financial business based in the South East of England

Business leaders also supported the Prime Minister's pledge to hold a referendum following any renegotiation.

"I consider it important that we only seek to re-negotiate our position in the EU on points of absolute vital significance and that we make it clear that if those points are not accepted, the Government will put a simple in/out question to a referendum. That way our EU partners will understand that they must negotiate in good faith, against the likelihood that if they do not, they risk a no vote in the subsequent referendum"

- Owner of a large scientific business based in London:

"Any negotiation must be backed up by a credible threat of withdrawal from the EU. Otherwise we're turning up to a gun-fight equipped with flick-knives."

- Owner of a large manufacturing business based in the South East of England

Business for Britain gave business leaders three options for renegotiation based on our consultation. The first – 'no treaty change, but a return of certain powers in some areas and new rights to allow member states to join together to oppose EU legislation' – we judged to be an accurate description of the aims for renegotiation as put forward by the likes of the CBI, Liberal Democrat and Labour parties and organisations like Business for New Europe. The second option – 'treaty change that brings powers back to the UK. Britain's relationship with the EU to focus on trade rather than political union' – we drafted as a simple way of explaining Business for Britain's founding principles. And the final option – 'leave the EU' – we included for those who don't want to pursue renegotiation.

Figure 4.2: British business leader’s views on ‘meaningful’ change

<i>The Prime Minister, David Cameron, has said that before a referendum takes place he would like to renegotiate Britain’s relationship with the EU. Many different proposals have been put forward as to what Britain should seek to achieve in a renegotiation. Which one of the following do you believe constitutes a ‘meaningful’ change? (%)</i>						
	All	Small	Medium	Large	Exports inside the EU	Trades solely in the UK
No treaty change, but a return of certain powers in some areas and new rights to allow member states to join together to oppose EU legislation	23	22	28	25	36	21
Treaty change that brings powers back to the UK. Britain’s relationship with the EU to focus on trade rather than political union	56	57	51	59	56	56
Leave the EU entirely	14	15	13	11	7	17

Businesses leaders made it clear that, were the UK to successfully negotiate a new relationship with the EU and the Government was able to secure ‘meaningful change’ – i.e. treaty change and a trading rather than political relationship – then they would support membership. Even among the most Eurosceptic businessmen there is a willingness to try a new deal. However, this is on the proviso that renegotiation is substantial and permanent.

“Even if Britain negotiated a better deal, within 20 years we would be back to the same state that we are in now...”
 - Owner of a small motor vehicle repair business based in the South East of England:

“For me to vote to stay in the EU the negotiated settlement has to lead to a very substantial repatriation of powers and a guarantee that the ECJ or EC are unable to reverse or chip away at the new arrangement...”
 - Owner of a medium-sized manufacturing business based in Scotland

“Repatriation of powers must be abundantly clear and not a fudge.”
 - Owner of a large financial business based in the South East of England

4.13 Will the British Option be complex for businesses that export to the EU?

The British Option has the added advantage of being very similar to mechanisms that existing exporters are already used to. As shown in Section 4.7 and 4.8, exporters have had to deal with both the Rules of Origin and, in certain manufacturing sectors, certificates, for some time. For the 5 per cent of companies who export to the EU, the regulatory requirements that may come from the British Option are very similar to the rules that many of them are already used to. Even the possibility that companies who supply firms that export to the EU may be drawn into Single Market regulation is mitigated by the fact that the British Government should make securing a low value added threshold a renegotiation priority. This should, ideally, only require companies that directly export to comply with the new Rules of Origin or an equivalent mechanism.

However, even if a low threshold is not achieved, it is also worth remembering that only a relatively small percentage of the UK economy will be expected to comply with this new regime. Rules of Origin primarily apply to manufactured goods and, according to the House of Commons Library, manufacturing only accounts for 10 per cent of national economic output, so the number of firms who may be drawn into Rules of Origin will be relatively minor.⁷⁰

When assessing whether a new system is going to create complexity for companies, it is important to look at whether the new system will also remove irritations in the existing set-up. As our polling has shown, British business leaders clearly believe that the current system is too costly and, as the Prime Minister's own Business Taskforce pointed out, many firms find the status quo complex. The fact that, under the British Option, 95 per cent of British firms will be able to significantly reduce the amount of complex regulation that they have to comply with on a daily basis should outweigh any, relatively minor, extra obligations on companies that do export to the EU.

4.14 Is the British Option legal under WTO rules?

These changes have to remain within the law, and the spirit of the World Trade Organisation (WTO) and the General Agreement on Trade and Tariffs (GATT). These proposals are all within keeping of the WTO's rules as they currently stand.

The WTO concerns itself, primarily, with the insistence that there should be as few trade barriers between nations as possible. As this recommendation does not introduce any new direct trade barriers it is in keeping with the fundamental tenants of the WTO and with the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade

⁷⁰ House of Commons Library, *Manufacturing* 11 October 2013, p.1

Negotiations (1994). The proposal keeps Britain within the EU's customs union – as a result our position within the WTO remains consistent.

Changing the terms of the customs union is permitted under the World Trade Organisation's (WTO) rules. The WTO permits a variety of Custom Unions, defining such Unions as being agreements between “contracting parties” and requiring that “duties and other restrictive regulations of commerce... are eliminated with respect to substantially all the trade between the constituent territories of the union” (Article XXIV). This means that the British Option meets these criteria. As part of a renegotiation the UK would have to embark on discussions with the WTO regarding any discrimination concerns the EU or other countries may have.

It is worth noting that the WTO also permits partial customs union – such as the Turkey-EU customs union. The WTO has praised this deal and has even stated that the customs union between Turkey and the EU is a “case for thanksgiving”.⁷¹

⁷¹ WTO, The EU model and Turkey – a case for thanksgiving? Found at <http://www.wto.org/english/res_e/reser_e/tp9901_e.htm>

5. Conclusion

The British Option offers Britain an exciting future as a member of the EU, but with a much looser relationship that enables business to grow unencumbered by overregulation. Exempting businesses that don't export to the EU from the more onerous EU laws would be a huge boost for Britain's domestic productivity, as well as for firms that export beyond the EU. We believe our recommendation will help smaller companies who do not export to the EU to grow and become the large employers of tomorrow.

The status quo is unfair. Over 95 per cent of British firms do not export to the EU yet they are all expected to comply with European rules. Under the British Option the link between regulatory obligation and access to the Single Market is made explicit. If you do not benefit from access to the Single Market, then you are not expected to comply with the regulatory burden. Giving business owners the right to choose whether the costs of the Single Market outweigh the benefits goes a long way towards making our relationship much fairer. The change is comparatively small, but will make a big difference to British business.

Furthermore, it is not a purely asymmetric and unilateral change. The blueprint for reducing the regulatory burden and, in the case of domestic companies removing it entirely, could go a long way towards restoring Europe's overall competitiveness. This is not a deal that will benefit Britain at the expense of other member states. To the contrary, we believe that all member states would benefit from embracing this option and would encourage our European partners to embrace such a policy. However, were our proposals to find a poor reception in other countries then the British Option is designed so that Britain can introduce it unilaterally without compromising the Single Market. Goods and services produced in Britain for European consumption will still have to meet EU standards; companies that export and sell to the EU will not have an undue advantage compared to their European competitors.

Britain's future lies in being a competitive nation with global trading links around the world. Freeing up companies that don't export to the EU, investing in trade missions and pushing for a reduction of EU regulation across the board are three of the most important things that the Government can do to help ensure that our companies are equipped to deal with the challenges of the 21st Century.

Unless steps are taken to address the concerns of many within the business community, the general discontent with EU membership – across the whole of the EU – will only increase. The decisive action outlined above takes a first step to restoring business confidence and support for our membership of the EU.

Appendix 1: Analysing the Norwegian, Swiss and Turkish options

The purpose of this appendix is to offer a short summary of how the different relationships between Norway, Switzerland and the EU work and how the UK's relationship with the EU might look were it to adopt any of these approaches. It is important to note that none of these are 'off the peg' relationships, but are unique products of each country's historic relationship with the EU. This section looks both at how these options work today and what might happen were the UK to adopt a relationship with the EU that was either identical to, or heavily informed by these relationships. The authors firmly believe that a country as large and economically significant as the UK should not seek to replicate these countries' relationships but instead seek to develop its own unique relationship with the EU, based on the British Option.

The 'Norwegian Option'

Joining the European Economic Area (EEA) is one of the most often-cited options for Britain by commentators who would like to see a separation with the EU. The EEA encompasses the 28 EU states, along with three of the European Free Trade Association (EFTA) states: Norway, Lichtenstein and Iceland, binding the two groups in a relationship commonly referred to as the "Norwegian Option."^{72,73}

Were it to adopt this arrangement, the UK would have to leave the EU but remain a signatory to the EEA agreement (something that can likely be facilitated by rejoining EFTA). The EEA agreement aims to create a level legal playing field by adding new EU laws into an ever-growing annex – requiring non-EU countries that have signed to amend their legal structure to reflect changes in EU law.⁷⁴

Like full EU members, the three EEA EFTA states have access to the Single Market. However, unlike EU members, these states – as members of EFTA – also have the freedom to set up their own external trade policy, and are able to establish free trade deals without having to concern themselves with the Common External Tariff (CET) and have a seat at other international bodies such as the World Trade Organisation.⁷⁵

⁷² Switzerland rejected membership of the EEA in a referendum held in 1992.

⁷³ It is important to note that, unlike the UK or the Republic of Ireland, Norway has chosen to be a member of the Schengen area and has consequently become party to a number of agreements between the EU and its member states on border controls. In addition, it has also opted into a number of agreements on issues concerning policing, defence, fisheries and more. This is also true of the other three EEA EFTA members (Iceland, for example, cooperates with the EU on a range of policy areas, including the Common Foreign and Security Policy). However it must be noted that this is optional integration, and not a result of Norway's EEA membership.

⁷⁴ Such changes have to be implemented within six months of the changes being added to the annexes of the EEA agreement.

⁷⁵ As part of EFTA, Norway has been able to establish 26 free trade agreements covering over 30 countries, including Israel. Today around 80 per cent of EFTA's total merchandise trade is covered by preferential trade agreements (CBI, *Doing things by halves? Alternatives to UK EU membership* p.5)

Access to the Single Market

Norway has enjoyed substantial access to European markets since signing the 1973 trade agreement. As part of the EEA, Norway has secured excellent access to the EU's Single Market, allowing Norwegian businesses to enjoy tariff free access to the EU. Norway is the fifth largest trade partner of the EU, which in turn serves as the main trade partner of Norway in both imports and exports (the EU accounts for 74.3 per cent of Norway's trade).⁷⁶ Access is dependent on Norway complying with amendments to the EEA agreement.

In recent years, however, there have been accusations traded between Norway and the EU that the other isn't abiding by the spirit of the EEA.⁷⁷ In light of this it is perhaps unsurprising that there have been calls to further reduce barriers to trade between the EU and Norway. It is hoped that a new agreement between Norway and the EU to further liberalise the trade in agricultural goods can soon be reached.

Influence over Single Market legislation

According to a survey carried out by the last Norwegian Government there is a democratic deficit in Norway's relationship with the EU. This set-up is sometimes referred to as a "fax democracy", where Norway and the other EEA EFTA members are "faxed" their laws from the EU, but have no say over writing the laws. The problem stems from the fact that Norway is required to adopt EU law that is added into the EEA Agreement's annexes. The Schengen association agreement gives Norway the right to participate in the work of the Council at political, senior official and expert levels but it does not have the right to vote.⁷⁸

It is important to note, however, that EEA countries are not bound by EU policies including foreign policy, home affairs and agriculture.⁷⁹

Norway does have a formal opt out of introducing European legislation (although it would be politically contentious to use it, impacting large areas of the EEA agreement).⁸⁰ When Norway does fail to implement European legislation the EU tends to respond in a hostile fashion. For example after Norway failed to implement the EU's postal directive on

⁷⁶More information is provided by the European Commission at <<http://ec.europa.eu/trade/policy/countries-and-regions/countries/norway/>>

⁷⁷Council of the European Union Press Release, 3212th Council Meeting, 20 December 2012, found at <http://europa.eu/rapid/press-release_PRES-12-523_en.htm>

⁷⁸ Norway is able to send 'experts' to sit on EU bodies and currently has dozens of experts advising the various Directorates-General (DGs) of the European Union on issues ranging from VAT, safety analysis, transport, labour market, health and business. It also sits on the Schengen Mixed Committee. More information on Norway's influence has been provided by the Norwegian Government and can be found at <http://www.regjeringen.no/upload/UD/Vedlegg/eu/norge_og_eu_2011.pdf>

⁷⁹ Insights provided by L. Rotherham, comments found at <<http://www.taxpayersalliance.com/eu/2013/03/identifying-model-future-ukey-relations.html>>

⁸⁰ Also the Norwegian Parliament (Storting) can terminate the agreements with the EU, though this is a very drastic step and unlikely to be used.

letter mail weighing less than 50 grams, the European Commission announced that it would start to look into sanctions and there were calls from MEPs to expel Norway from the EEA.⁸¹

Regulatory burden on companies not exporting to the EU

The price that Norway pays for access to the Single Market is that it and the other EEA states have to transpose all Single Market regulation into their national laws,⁸² affecting all businesses, both exporting and non-exporting.⁸³ According to a House of Commons Library Paper;

“In practice, this means that the vast majority of the EU regulations identified as most burdensome to businesses, including the Working Time Directive, would still exist if the UK left the EU but remained a member of the EEA. It would also be bound by future EU law in these areas, with arguably less influence over their content.”

As well as requiring all firms to comply with EU Single Market laws, Norwegian Courts treat EU law as having supremacy over Norwegian law. EEA EFTA states have had to adopt EU Single Market regulations in areas such as product laws, employment laws, consumer protection, environmental policy and competition rules, regulatory framework for state aid, public procurement, rules on MOTs and daylight savings. The EU also expects the three EEA EFTA members to adapt their tax legislation to conform with EEA rules and international standards.⁸⁴

Contributions to the EU budget

Despite not being a member of the EU Norway is expected to contribute to the EU via payments to agencies and certain causes, such as reducing social and economic disparities within the EU.⁸⁵ In addition, when the EEA Joint Committee agrees to incorporate programmes and agencies into the EEA Agreement, Norway commits to making an annual

⁸¹ More information found at <http://www.euractiv.com/consumers/eu-threatens-punish-selfish-norw-news-517431>

⁸² “Outside and Inside” unofficial translation provided by Norwegian government, found at http://www.regjeringen.no/upload/UD/Vedlegg/eu/nou2012_2_chapter27.pdf

⁸³ The system is based on “dynamic homogeneity”, which means that Norway has to adapt its laws to match new EU legislation as it is introduced. According to “Outside and Inside” Norway’s EEA membership has seen “a massive transfer of power from national to supranational European level”. According to the same document Norway has adopted around 75 per cent of the laws that a full member state would have to – and this continues to affect all Norwegian businesses, regardless of whether they export to the EU or not.

⁸⁴ Council conclusions on EU relations with EFTA countries, found at http://www.parlament.gv.at/PAKT/EU/XXIV/EU/10/30/EU_103044/imfname_10389263.pdf

⁸⁵ EEA and Norway Grants are sent to each beneficiary state. When the EEA Joint Committee agrees to incorporate programmes and agencies into the EEA Agreement, Norway commits to making a yearly financial contribution to the relevant EU budget, found at <http://www.eu-norway.org/eu/Financial-contribution/#.UoZhQ8QmO1A>

financial contribution to the relevant EU budget. According to the CBI the total from Norway's contributions will be €1.8bn between 2009-2014, or €350m per annum.⁸⁶

Why the 'Norwegian Option' doesn't work

Based on the analysis above, the 'Norwegian Option' fails on two, if not three, of the criteria laid out by our business consultation. Norway has access to the Single Market but only limited influence on the terms of the regulation, meaning that most Norwegian businesses are caught up in the EU's ever-growing regulatory burden. Despite this, and the repeated 'No' votes of the Norwegian people in two referendums, successive Norwegian governments have signed up to as many EU initiatives as possible and continue to send large sums as a result. This demonstrates how the 'Norwegian Option' is liable to manipulation by the Government of the day and we strongly believe that British business would be concerned that, under this system, any deal renegotiated could be changed depending on the political weather.

The 'Swiss Option'

Switzerland's relationship with the EU is, unlike the other three EFTA members, based not on the EEA agreement, but on a host of successive bilateral trade deals which Switzerland has negotiated with the EU. There are over 120 Swiss-EU bilateral agreements in force today.⁸⁷ Instead of automatically accepting EU laws, Switzerland only accepts the EU laws that it wants by agreeing to them via individual treaties.

However, unlike the EEA countries, these bilateral deals are not automatically updated to reflect any changes to EU law. Instead, when a change in EU legislation is deemed to have had a significant impact on the regulatory homogeneity between Switzerland and the EU, diplomatic discussions take place so that a new arrangement can be reached. This safeguard has both advantages, and disadvantages for Switzerland.

It is worth noting, again, that Switzerland as an EFTA country is free to cooperate with the other EFTA countries to secure FTAs with countries outside of the EU.

Access to the Single Market

This option would grant the UK access to much of the Single Market, but it would take time to negotiate access in every different product. Over the last fifteen years Switzerland

⁸⁶ CBI, *Doing things by halves? Alternatives to UK EU membership* p.7

⁸⁷ The current arrangement is largely based on the 1972 Free Trade Agreement, the 1989 Insurance Agreement and two subsequent deals: 'Bilaterals I', which was agreed in 1999, and 'Bilaterals II', agreed in 2004.

has negotiated access to the Single Market through numerous deals concluded with the EU achieving close to full access to the Single Market for Swiss firms. This set up is called the ‘bilateral approach’.

However, this set up also means that if the EU adopts a new law that is not covered by the bilateral agreements, Swiss firms can suddenly find new barriers raised against them. For example, the new rules introduced by the EU’s REACH Regulation, and in particular its requirement for manufacturers and importers to provide the European Chemicals Agency with information, has resulted in effective non-tariff barriers being imposed on Swiss chemical firms. There are also certain areas, most notably in services, where there is a distinct lack of access for Swiss firms. In other areas, non-tariff or technical barriers to trade have been addressed by the mutual recognition of Swiss/EU regulations.⁸⁸

Influence over Single Market legislation

Again, there are concerns that Britain’s influence over EU legislation would dramatically decrease if it embraced this option. Switzerland also lacks participation rights or observer status, as it did not join the EEA states. Despite this, the EEA Agreement provides for the extensive participation of EFTA experts in the preparatory work of the Commission.

Despite this influence, and the theoretical power to refuse to implement EU law, events have recently shown that Switzerland is actually forced to comply with EU standards. The *Guillotine Clause*, which gives both parties a right to cancellation of the entire body of treaties between the EU and Switzerland is used to ensure compliance: the EU ambassador to Switzerland, Michael Reiterer, warned recently that if Switzerland didn’t introduce the changes that the EU had made to its free movement of labour policy, the *Guillotine Clause* would be enacted. This may well be the explanation as to why the Swiss Government has, historically, been so willing to accommodate European law, despite the express desire of the Swiss people not to be part of the EU or the EEA.

Regulatory burden on companies not exporting to the EU

Like Norway, this approach will still see non-exporting companies having to comply with European regulation. Since 1992 the Federal Council of Switzerland has decided to adapt Swiss technical regulations so that they conform to those of the EU – helping to

⁸⁸ More information provided by the European Commission, found at < http://ec.europa.eu/enterprise/policies/single-market-goods/international-aspects/mutual-recognition-agreement/switzerland/index_en.htm >

smooth any bilateral deals.⁸⁹ Many bilateral deals rely on the equivalence of legislation, particularly in agriculture.⁹⁰ Since 1988, Switzerland has checked all draft Bills relating to economic activity for their compatibility with EU laws. In fact around 40 per cent of Swiss domestic legislation – impacting all businesses – derives from EU rules.⁹¹ The impact of European legislation on Swiss firms that do not export is thus still substantial.

The EU has recently made it clear that it does not find the status quo acceptable. Like Norway it wishes to see the introduction of “dynamic homogeneity”, i.e. new EU laws will be – in effect - automatically be introduced onto the Swiss statute books⁹²

Contributions to the EU budget

Again, this arrangement would not require the UK to formally contribute to the EU budget as a full member, but it would be expected to make other substantial contributions to various EU programmes and agencies. Switzerland has voluntarily pledged CHF 1.257 billion in support to the new Eastern EU members to support their integration. These have been arranged as part of a ‘memorandum of understanding’ with the EU.⁹³ Switzerland also contributes to the budget for the programmes that it is involved in and also funds infrastructure to allow EU goods to cross across its territory.⁹⁴

Why the ‘Swiss Option’ doesn’t work

While the ‘Swiss Option’ certainly has attractive features in theory, there are significant issues that arise with its implementation. The need to constantly update laws so as to reflect changing European standards means that regulation is still applied to all firms, that access to the Single Market can be haphazard and the threat of the guillotine has meant that Switzerland’s actual sovereignty can be called into question. While business leaders would welcome the decline in contributions that would come from leaving aspects of the EU, like the CAP and the CFP, the uncertainty that arises in the current set up

⁸⁹ The corresponding Federal Act on Technical Barriers to Trade was enacted on 1 July 1996, adapting Swiss technical regulations so that they are the same as the rest of the EU. This is clearly a decision by the Swiss Government rather than a requirement of the Treaties, but it reflects the pressure that is brought to bear on Switzerland to conform to the EU’s regulatory burden. One of the most notable examples is that Switzerland has felt the need to sign up to the Working Time Directive.

⁹⁰ More information provided by the Swiss government, found at <http://www.europa.admin.ch/themen/00499/00755/00760/index.html?lang=en>

⁹¹ City of London, *Switzerland’s Approach to EU Engagement A financial services perspective*, found at <http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/research-2013/Switzerlands-approach-to-EU-engagement.pdf>

⁹² Council conclusions on EU relations with EFTA countries, found at http://www.parlament.gv.at/PAKT/EU/XXIV/EU/10/30/EU_103044/imfname_10389263.pdf

⁹³ More information provided by the Swiss government, found at <http://www.europa.admin.ch/themen/00499/00503/00562/index.html?lang=en>

⁹⁴ HM Government briefing note, found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220969/foi_eumembership_literaturereview.pdf

between Switzerland and the EU would be less appealing. While this option is attractive in theory, significant changes would have to be made before it could ensure full access to the Single Market and ensure that countries that do not export to the Single Market are exempted from the most onerous European regulation.

The ‘Turkish option’

Turkey’s relationship with the EU is, again, very different from that of Switzerland and Norway, with Turkey being in a customs union with the EU. The relationship developed by the Ankara Agreement (1963) established a three stage process towards creating a customs union between the EU and Turkey. Turkey has now reached a stage where a full customs union has been created in industrial products, while other industries get relatively easy access to the Single Market via preferential trade agreements. Like Norway, this means that while Turkey enjoys access to the EU’s market, it does have to accept EU legislation for certain sectors.

Access to the Single Market

Turkey has partial access to the Single Market since the customs union was established on 31 December 1995. Turkey enjoys good access to the Single Market in industrial products.⁹⁵ While other areas of the economy are not part of the customs union, there are some preferential trade agreements that make access for Turkish firms easier: Turkish agricultural products covered by the EU’s Common Agricultural Policy are also exempted from ordinary import duties (but not exempted from variable levies).

One point that it is important to note is that, Turkey is required to sign an FTA with any country with whom the EU also agrees an FTA.⁹⁶ However, it is also important to note that Turkey has no deal on access to the services market.

Influence over Single Market legislation

Turkey’s influence over European legislation is very limited. As with Norway and Switzerland, Turkey has no representation in the official institutions of the EU; there are no Turkish Commissioners, no Turkish ministers sitting in the Council nor Turkish MEPs in the

⁹⁵ From 1971, Turkish-origin industrial products were exempted from custom duties and quantitative restrictions in the EU (duties on Turkish textiles and clothing were phased out over 12 years).

⁹⁶ A preferential agreement with the EU means that third parties can export tariff-free to the Turkish market via the custom union, but in return they don’t need to grant Turkish companies free access in return. According to experts this asymmetry is not sustainable Ülgen and Zahariadis have argued this convincingly. (S. Ülgen and Y. Zahariadis, *The future of Turkish-EU trade relations, deepening vs widening* found at <http://edoc.bibliothek.uni-halle.de/servlets/MCRFileNodeServlet/HALCoRe_derivate_00005823/Future_Turkish-EU_Trade.pdf>)

European Parliament. While delegations and experts can be sent, it lacks the formal rights of influence that EFTA states enjoy and there is also a notable lack of Turkish representation within the Directorates-General (DG) when compared to EFTA states. Turkey enjoys little consultation before the signing of trade deals and has to adopt EU's standards in a wide array of areas.

Regulatory burden on companies not exporting to the EU

*"In a number of areas the relationship [between Turkey and the EU] goes beyond the minimum requirements for a customs Union: Turkey is also having to implement a number of measures which are part of the *acquis communautaire*, similar to those applicable within the EU."⁹⁷*

It is very important to note the WTO's words about Turkey when trying to assess the regulatory burden that comes from its relationship with the EU. Turkey has had to adopt much of the EU's *acquis*, however this is as much a part of the country's drive to join the EU rather than as a result of its formal arrangement. Divorcing regulation that comes from its current arrangement from regulation that derives from its (optional) desire for EU membership is important.

EU product regulations apply on goods that in sectors that are part of the customs union. In addition firms also have to comply with EU competition law even if they do not export into the EU.⁹⁸ The customs union Decision required that, within five years, Turkey incorporated into its internal legal order the Community instruments relating to the removal of technical barriers to trade, and stated that co-operation had to be achieved in the fields of standardisation, metrology and calibration, quality, accreditation, testing and certification. The result of all of this is that, again, large quantities of non-exporting businesses have to comply with European legislation.

Contributions to the EU budget

Turkey has both financial obligations and financial benefits as part of its relationship with the EU. The country has benefited from various EU funding instruments to neighbouring countries, including the MEDA and IPA as well as €0.7billion from the EU in the form of pre-accession assistance.⁹⁹ Turkey is a member of EU organisations, including the

⁹⁷ WTO, *The EU model and Turkey – a case for thanksgiving?*, January 1999, found at <http://www.wto.org/english/res_e/reser_e/tp9901_e.htm>

⁹⁸ More information provided by the European Commission, found at <http://ec.europa.eu/enlargement/candidate-countries/turkey/eu_turkey_relations_en.htm>

⁹⁹ Open Europe, *The EU and the Mediterranean: good neighbours?*, May 2011, p.22 Found at <<http://www.openeurope.org.uk/Content/Documents/PDFs/enp2011.pdf>>

European Environment Agency, towards which it has to pay a contribution.¹⁰⁰ Turkey also contributes to the civilian and military operations conducted by the EU including the EUFOR-ALTHEA operation in Bosnia-Herzegovina and the EULEX mission in Kosovo.¹⁰¹

Why the ‘Turkish option’ doesn’t work

Turkey’s relationship with the EU has to be seen in light of its desire to become a full EU member. In many ways the ‘Turkish option’ is a stepping stone towards EU membership, though it is not an ideal relationship for Turkish business. The Turkish option, as with Norway and Switzerland, suffers from Turkey having little or no control over the EU legislation it chooses to sign up to. While some market access is available, it comes at a price of having to accept EU free trade deals with only limited scope to conclude Turkey’s own deals. Britain’s business people would welcome the reduction in taxpayers’ money sent to Brussels afforded by this option, but might find this too high a price to pay for the lack of control over domestic and foreign economic policy.

¹⁰⁰Example found here <<http://eur-lex.europa.eu/Notice.do?mode=dbl&lang=en&ihmlang=en&lng1=en,en&lng2=cs,da,de,el,en,es,et,fi,fr,hu,it,lt,lv,mt,nl,pl,pt,sk,sl,sv,&val=248618:cs>>

¹⁰¹ Republic of Turkey, Ministry of Foreign Affairs, found at <<http://www.mfa.gov.tr/reasons-between-turkey-and-the-european-union.en.mfa>>

Appendix 2: List of EU policy areas and institutions

The following is a list of the various agencies and bodies that compose the EU as of the end of 2013. They have been created over the last fifty years in response to Treaty change or regulation, seeking to inform European policy or in some cases play a key role in the passage of European policy. Were the “Single Market” only option to be pursued, UK involvement in the following bodies would have to be examined.

Name of EU institution	Type of institution
Agency for the Cooperation of Energy Regulators (ACER)	Decentralised Agency
Body of European Regulators for Electronic Communications (BEREC)	Decentralised Agency
Committee of the Regions	Institution or body
Community Plant Variety Office (CPVO)	Decentralised Agency
Council of the EU	Institution or body
Court of Justice of the EU	Institution or body
Education, Audiovisual and Culture Executive Agency (EACEA)	Executive agency
EURATOM Supply Agency (ESA)	EURATOM agency
European Agency for Safety and Health at Work (EU-OSHA)	Decentralised Agency
European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX)	Decentralised Agency
European Agency for the operational management of large-scale IT systems in the area of freedom, security and justice) (eu-LISA)	Decentralised Agency
European Asylum Support Office (EASO)	Decentralised Agency
European Aviation Safety Agency (EASA)	Decentralised Agency
European Banking Authority (EBA)	Decentralised Agency
European Central Bank	Institution or body
European Centre for Disease Prevention and Control (ECDC)	Decentralised Agency
European Centre for the Development of Vocational Training (Cedefop)	Decentralised Agency
European Chemicals Agency (ECHA)	Decentralised Agency
European Commission	Institution or body
European Council	Institution or body
European Court of Auditors	Institution or body
European Data Protection Supervisor	Institution or body
European Economic and Social Committee	Institution or body
European Environment Agency (EEA)	Decentralised Agency
European External Action Service (EEAS)	Institution or body
European Fisheries Control Agency (EFCA)	Decentralised Agency
European Food Safety Authority (EFSA)	Decentralised Agency
European Foundation for the Improvement of Living and Working Conditions (EUROFOUND)	Decentralised Agency
European GNSS Agency (GSA)	Decentralised Agency

European Institute for Gender Equality (EIGE)	Decentralised Agency
European Institute for Innovation & Technology (EIT)	Institution
European Insurance and Occupational Pensions Authority (EIOPA)	Decentralised Agency
European Investment Bank	Institution or body
European Investment Fund	Institution or body
European Joint Undertaking for ITER and the Development of Fusion Energy (Fusion for Energy)	EURATOM agency
European Maritime Safety Agency (EMSA)	Decentralised Agency
European Medicines Agency (EMA)	Decentralised Agency
European Monitoring Centre for Drugs and Drug Addiction (EMCDDA)	Decentralised Agency
European Network and Information Security Agency (ENISA)	Decentralised Agency
European Ombudsman	Institution or body
European Parliament	Institution or body
European Police College (CEPOL)	Decentralised Agency
European Police Office (EUROPOL)	Decentralised Agency
European Railway Agency (ERA)	Decentralised Agency
European Research Council Executive Agency (ERC Executive Agency)	Executive agency
European Securities and Markets Authority (ESMA)	Decentralised Agency
European Training Foundation (ETF)	Decentralised Agency
European Union Agency for Fundamental Rights (FRA)	Decentralised Agency
Executive Agency for Competitiveness and Innovation (EACI)	Executive agency
Executive Agency for Health and Consumers (EAHC)	Executive agency
Interinstitutional bodies	Institution or body
Office for Harmonisation in the Internal Market (OHIM)	Decentralised Agency
Research Executive Agency (REA)	Executive agency
The European Union's Judicial Cooperation Unit (EUROJUST)	Decentralised Agency
Trans-European Transport Network Executive Agency (TEN-T EA)	Executive agency
Translation Centre for the Bodies of the European Union (CdT)	Decentralised Agency

The following are the policy areas where EU policy applies.

EU policy areas
Agriculture, fisheries and foods
Business
Climate action
Cross-cutting policies
Culture, education and youth
Economy, finance and tax
Employment and social rights
Energy and natural resources
Environment, consumers and health

EU activities
EU explained
External relations and foreign affairs
Justice and citizens' rights
Regions and local development
Science and technology
Transport and travel

Appendix 3: Calculating the value of UK exports to the EU

In order to calculate the value of UK exports to the EU, pink book figures were analysed and compared against overall GDP so as to work out the exports in goods and services over GDP percentage. These figures helps to show how much credit exports to the EU generate, relative to the rest of the economy.¹⁰² It should be noted that these figures do not factor in the Rotterdam, Antwerp, Amsterdam and Ireland Effects and are likely to be a higher estimate than other figures.

Year	Value of total exports of Goods and Services to EU	GDP, non-inflation adjusted	Exports to EU as % of GDP
2002	£15.34 bn	£1.08 tn	14.19
2003	£15.49 bn	£1.15 tn	13.49
2004	£15.96 bn	£1.21 tn	13.16
2005	£17.61 bn	£1.28 tn	13.79
2006	£20.99 bn	£1.35 tn	15.56
2007	£19.11 bn	£1.43 tn	13.39
2008	£21.30 bn	£1.46 tn	14.57
2009	£19.36 bn	£1.41 tn	13.65
2010	£21.07 bn	£1.48 tn	14.19
2011	£23.20 bn	£1.54 tn	15.09
2012	£22.21 bn	£1.56 tn	14.22

¹⁰² Source: ONS and Pink Book figures from respective years