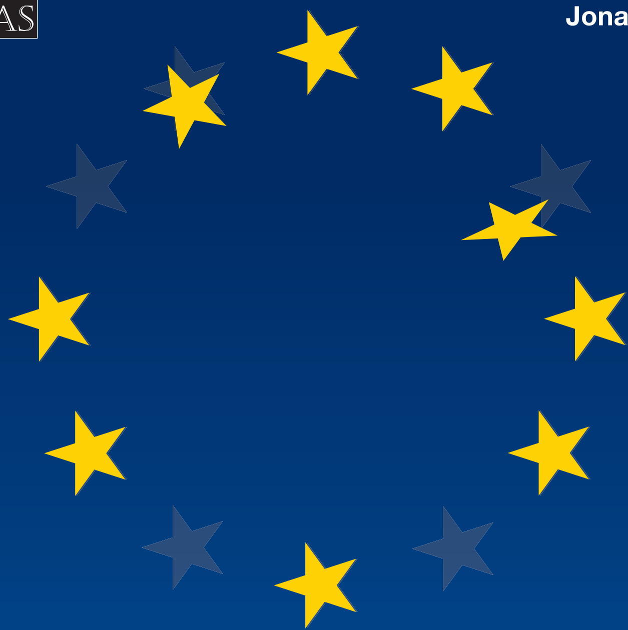
CIVITAS

Jonathan Lindsell



SOFTENING THE BLOW

Who gains from the EU and how they can survive Brexit

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CIVITAS

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Executive Summary

Fears & solutions

Conversations with business leaders and regional politicians who might be especially damaged by Brexit have revealed eight categories of concern. Such concerns are not universal: other businesses actively advocate a looser relationship or exit. Nevertheless, it is important that any government serious about leaving considers the nature of such concerns, and how they would mitigate the damage of 'Brexit' with domestic action and energetic new international agreements.

- **European market access**

  Every group in the study expressed concern that they might lose access to EU markets, whether that be because of tariffs and quotas or through less obvious obstacles such as non-tariff barriers or rules of origin requirements. These concerns suggested that business would be more expensive, future sales would be missed, or that large multinational companies would move their manufacturing, sales or headquarters to EU-27.

  Proposed solutions centre on continued access to the single market, using one of the models below. Exit negotiators should not be constrained by the existing EU trade agreements however; elements of Norwegian, Swiss, Turkish and 'Free Trade' could be the goal of an exiting government, including free movement of capital.

- **Hiatus, dislocation and uncertainty**

  Some groups feared that the time it would take to negotiate an EU trade agreement could itself be damaging and/or force businesses to relocate. These include Japanese car-makers, Airbus and Goldman Sachs. It could also force desperate UK diplomats to accept unbalanced trade deals and would leave British fishing in chaos.

Article 50 of the Lisbon Treaty gives a large window for exit negotiations, which can be extended if necessary. The UK could apply to join EFTA-EEA (below) as an interim agreement while negotiating a more distinctive relationship. British diplomats should be able to have all necessary agreements in place long before their EU membership lapses.

- **Future international clout**
  Britain might lose the EU's trade deals with South Korea, South Africa, Mexico and Canada, as well as the Transatlantic Partnership being discussed with the USA. Various sectors fear that, acting alone, Britain will not have the power, expertise or specialist skills to win meaningful trade deals.

  The Foreign Office will need a serious long-term boost in training, investment and recruitment (especially into languages) to make up for the absence of the various EU diplomatic bodies. Britain will need to be proactive in winning new alliances as well as consolidating relationships with current trading partners. The basis of trade deals is mutual advantage, and improved access to a market of 60 million people will always be attractive.

- **Influence on future regulations**
  From engineering to farming, British businesses fear that without a British voice (and British votes) in the EU's institutions, the continent will 'swing' towards a more heavily regulated mode of economic

management. This could have twin negative consequences for Britain, by making trade with the EU-27 difficult in itself (through non-tariff barriers, banking constrictions and environmental green tape) and by limiting the size and buying power of the EU market.

The Foreign Office should cultivate good relations and exert informal influence with the broadly similar economies of Scandinavia, the Netherlands and Germany, to avoid this 'swing'. Part of the exit negotiations could be to request 'observer status' in EU institutions, to make the UK's opinion known if not felt to the Commission and Council. The newly-steeled Foreign Office should be actively involved in the 'upstream' international bodies that influence EU regulation, such as the World Trade Organisation, *Codex Alimentarius* Commission, NATO, International Labour Organisation, United Nations and Basel Committee. The City may consider closer relationships with Wall St or Hong Kong to influence future Brussels banking initiatives.

- **Skilled labour**

  Highly technical sectors and the Welsh government made clear the importance of skilled migrants who could fill gaps in the labour market quickly. The STEM skills – science, technology, engineering and mathematics – are particularly lacking.

  In the short to medium term, Britain will need a migration policy that attracts appropriately skilled workers. Currently, only the United Kingdom Independence Party is advocating an actual immigration cap. Recruitment should not be arbitrarily restricted to Europe, but opened to international talent, most obviously that of the Anglophone world. British education and vocational training should improve to meet sustained demand.

- **Access to funding**

  Many British companies currently benefit from the EU's largesse in the form of subsidies or research and development grants. These include farmers, engineers, automotive developers, fishermen and the Welsh regions. The loss of these funds could be devastating as it would leave Britons competing with still-subsidised Europeans.

  Political hostility to the idea of subsidies must acknowledge that, given the competition, an abrupt funding loss could irreparably change the countryside and the economy. Using the money saved from terminating EU budget contributions, the UK could raise 'mirror funding' with long-term commitments to establish stability. These commitments could be based on cross-party agreement or an inflation-linked system, limited treaties to stay part of specific EU initiatives, or memoranda of understanding.

- **Gold and platinum plating**

  There are various farm regulations, green energy rules, small business regulations and banking taxes that threaten UK competitiveness. Of those that derive from the EU, many have been 'gold plated', or made more onerous by Westminster. There are other regulations that are entirely home-grown but hold businesses back just as much.

  Future governments either need to tailor regulations that are competitive with Europe to provide a level playing field, or accept they are damaging *X* industry in favour of other priorities such as fair trade, the environment, or the democratic deficit.

- **More flexibility**
  A complaint heard from several sources is the damage of a 'one-size-fits-all' command approach from Brussels, often enforced by the British government. These are troublesome for fisheries, different kinds of farm and small businesses.

  Whatever forms of management the UK uses to replace retreating EU institutions, they should include clear forums for dialogue with stakeholders and scientists, following a 'stewardship' model. Areas such as fisheries and chemical regulations will need mutual management with Britain's close neighbours, even after Britain has asserted control of its own laws and territorial waters.

Introduction

In January 2013, Prime Minister David Cameron laid out plans for a referendum on our membership of the European Union. His plans include reform of EU institutions, achieved through renegotiation, but this study assumes the likelihood of British exit, as argued in previous Civitas publications.[1] With the growth of Euro-realism in Britain, reflected in Tory backbench motions and the United Kingdom Independence Party's newfound prominence, secession appears more likely than ever.

However, a significant minority of British voters, businesses and sectors argue that we must remain in the EU. These include the Liberal Democrats, devolution parties in Scotland and Wales, and lobbyists for City and agricultural interests. The EU has tendrils that have infiltrated British life for forty years, affecting our tax, our prices, our labour market and our export strength. Those in favour of 'Brexit' cannot simply trumpet the constitutional and economic benefits of leaving to drown out experts who foresee major impact in their particular fields.

It is unlikely that renegotiation will triumph. Commentators such as Lord Lawson[2] and Lord Hannay[3] show that winning meaningful concessions from 27 other states is near-impossible. Cameron may manage to take home a few headline reforms, which will doubtless be vaunted as substantial. It's hard to imagine these satisfying the UK's concerns over immigration, trade, corruption and democratic illegitimacy. Reforming the EU to address such concerns would amount to a revolution, changing the fundamentals of each institution. Moreover, Cameron is seen as a wearisome antagonist across much of the continent, having frustrated Bulgarian and Romanian governments over his anti-immigration rhetoric, spurned Southern and Eastern Europe with his efforts to limit the EU budget, and obstructed eurozone consolidation when he wielded the veto over the 'fiscal compact'. George Osborne, the Chancellor of the Exchequer, has attracted similar ill-will through his opposition to EU plans for a financial transaction tax, a cap on bankers' bonuses and hostile rules on bond trading. Taken together, this does not seem the kind of constructive climate needed for fundamental reform.

It seems likely, then, that the public will judge Cameron's renegotiations as superficial at best and vote 'Out' when the referendum comes. Even if the Conservatives are not in power, a referendum is likely thanks to the 'Referendum Lock' that would be triggered by serious EU treaty change – a likely prospect, given the eurozone's moves towards fiscal union. James Wharton MP's Private Members' Bill, which fell at the final hurdle, also increases the likelihood of a plebiscite in the near future. The issue then becomes the manner of exit. Even if you support exit in broad strokes, most accept that certain industries will be hit hard, depending on the nature of the exit agreement (or lack thereof). These individuals, sectors and regions cannot be ignored. It is important to take their fears seriously, so that the negative impact of 'Brexit' can be mitigated as far as possible. With this in mind, Civitas contacted representatives of those who might lose out from Brexit, at least in theory, to investigate their specific fears. We considered different models for a post-European independent Britain (iBritain) including a 'worst case scenario', as well as the specific policies, treaties, subsidies and actions an iBritish government could take to minimise serious harm to our economy and people. Members of the Irish government are already considering how to react to a British exit: it is sensible that Westminster should do the same.[4]

There are a number of models being pushed for the nature of iBritain, and its relationship with EU-27 (the EU without Britain in it). Most are based on current examples, although it is worth bearing in mind that no whole country has left the EU in the manner Britain would, so novel arrangements are possible – future thinking need not be constricted by precedent. Nevertheless, the popular models are useful for illustrating the hopes and fears of Brexit's potential 'losers'.

The Norway Option

Norway, Iceland and Liechtenstein joined the 'European Economic Area' (EEA) in 1994, having already traded freely with one another under the European Free Trade Association (EFTA). Through the EEA, Norway gains access to the EU single market, although it has to follow a large number of EU rules and regulations. It also has to follow 'rules of origin' procedures to show where and in what percentage different parts of the EEA exports come from. The Trade Policy Research Centre fears this could overburden British exporters, whereas Business for Britain sees it as an acceptable change.[5]

Since it has no place in the EU's decision-making bodies, it has no say in these rules, so their situation is satirised as 'Fax Democracy'. This is an oversimplification: the Norwegian *Stortinget* (parliament) does have meaningful oversight.[6] Nevertheless, Britain having no say on the employment and banking rules it must follow seems daunting.

Norway is not part of the Common Agricultural Policy (CAP) or the Common Fisheries Policy (CFP), and pays far less into the EU budget than Britain *per capita*.[7] Norway is a member of the *Schengen Area* so cannot control EU migration.

The Switzerland Option

Switzerland has concluded two rounds of comprehensive bilateral treaties with the EU which give it a large degree of single market access but protect Swiss agriculture. The deal does not include free use of services, one of the UK's main strengths. Switzerland does retain more sovereignty than Norway or EU member states. Switzerland contributes even less to the EU budget than does Norway. Switzerland has more control over EU migration than full member states.

The Turkish Option

Turkey is a member of the 'customs union', so has free trade in goods with the EU and upholds the European 'Common External Tariff' (CET) on imports from other countries. This gives Turkey access to the EU market but means Turkey cannot negotiate its own free trade agreements (FTAs), whilst having to bow to future EU-FTAs with no say over their composition. This could be damaging if, say, the EU opens up trade with America across a sector in which US firms outperform sensitive Turkish ones. Turkey is free from CAP, CFP, EU employment law and financial regulation. Turkey pays very little into the EU budget and benefits from a few of its funding instruments. Turkey participates in certain initiatives, such as the European Environment Agency.

The Free Trade Agreement Option

Ian Milne, writing for Civitas, points out that the EU has a treaty-bound legal commitment to free trade with its neighbours.[8] iBritain, as a very immediate neighbour and one with whom free trade had already been conducted for years, would almost certainly be a priority for an FTA thanks to the volume of European economic activity that involves the UK. The EU already has FTAs with developed economies including Canada, South Korea, South Africa and Mexico – even with Tunisia.[9] Britain may be able to negotiate market access in many areas but protect vulnerable industries. The UK presumably would not contribute to the EU's budget.

The WTO Option

Without the above, iBritain would have no particular relationship with the EU so would depend on World Trade Organisation rules. After decades of liberalisation, these would include tariffs that are negligible on many products but rise to 30 per cent or more on automotive parts, aluminium and agricultural products. However, the UK could still face obstacles to market access in the form of 'non tariff barriers' (NTBs) such as complicated customs requirements, differing products standards and so on. The UK wouldn't contribute to the EU budget.

Within this option, Professor Patrick Minford argues, Britain should unilaterally drop all external tariffs and participate in global free trade, possibly prompting our trade partners to do the same and so gradually eliminating tariffs globally.[10]

There are many permutations of these options, with supporters of each normally arguing that Britain would get a better deal than the model thanks to our size and economic importance. As is clear below, such assurances do little to calm potential Brexit losers' fears.

UKIP

Many argue that a post-exit Britain would be free of arduous EU regulations. Whilst we may be free of many (e.g. environmental, social, employment), this will never be absolutely true. In any scenario, a specific British product will still need to conform to European product regulations to be sold within the EU. This is the case for Norway. Indeed, it is the case for Britain selling abroad, for example to America, and is especially true for financial services.

Some Eurosceptics also claim that Britain would easily become a free trading nation. It is far from clear whether the UK would 'inherit' the EU's free trade deals on identical terms with the EU's trade partners, such as Canada, South Korea, South Africa and Mexico. Whilst it seems likely that Britain could conclude such deals (or better ones), there may be a hiatus during which WTO rates would apply.

At the time of writing, UKIP does not have an official position on what form of Brexit it favours.

What the study is not doing

It's important to clarify what this study does *not* propose to do. It is neither a representative cross section of all business in the UK, nor even a large sample. No contributors were asked whether they supported Conservative plans for a referendum, or indeed harboured hopes for actual 'Brexit'.

Neither should this study be read as an attempt to see the future. In dealing with a disparate mix of 'worst case scenarios' and speculative preventions or cures, many of which require robust government action and international cooperation, any degree of certainty with the future is fleeting. The policies suggested must be weighed against other concerns and negotiation priorities, but nevertheless borne in mind.

1

Agriculture

Sector summary

Below I discuss the economic aspects of British agriculture, but readers should bear in mind that farming has a less tangible aspect. Britain is a historically agrarian society, and the preservation of land for farming is one of the major bulwarks between a 'green and pleasant land' and Blake's dark mills. This is acknowledged in English farming policy, with 12 per cent of the Common Agricultural Policy in the UK being devoted to green and agro-environmental measures (Pillar II), meaning a smaller direct 'single farm payment' to farmers (Pillar I). This is a far greater 'modulation' than that applied by other member states – France's transfer is likely to be three per cent, and Italy's zero.[1]

Total income from farming in 2012 was £4.70 billion (for farm owners) plus £2.37 billion (paying employees) according to government figures, a fall from 2011 in real terms.[2] The 'total income from farming per agricultural work unit of entrepreneurial labour' (roughly, income per farmer) was £25,175 in 2012, again falling. This was a particularly bad year due to an especially wet spring and hot summer. Britain's 'Utilised Agricultural Area was stable at 17.19 million hectares, accounting for 70 per cent of land in the United Kingdom', whereas the 'Total Agricultural Area' was even larger at 18.35 million hectares.[3] Dairy herd numbers are stable at 1.8 million and there are almost 4.5 million pigs and 32 million sheep and lambs, of which 15 million are the female breeding flock.

Britain employs 481,000 people working in agriculture on 222,000 'holdings'.[4]

EU involvement

From its inception the EU was concerned with agricultural policy, particularly in the context of the Cold War. Continental farmers were subsidised and insulated from global market pressures and competitive developing-world prices, since they needed to be able to sustain their nations in case of communist blockades or invasions. This 'Common Agricultural Policy' has become an entrenched part of EU spending, and is still a sore spot for Britain (who lose out on it with a relatively small farming sector) even after Prime Minister Thatcher secured a British abatement ('The Rebate') through sustained pressure in the 1980s. Eurostat, the EU's own statistical authority, found that "[s]ince 2005, the reference year, the agricultural industry in the United Kingdom has outperformed the industry in the European Union as a whole by all measures'.[5] That certainly suggests that a British exit has potential.

The EU's involvement in British agriculture has gone through numerous permutations since the 1970s and is still in a state of flux after negotiations in Northern Ireland over 2013. Essentially, European goods are privileged in two ways: the Common External Tariff is very high (often 30 per cent) and European farmers are subsidised. These subsidies are seldom linked to a farm's actual productivity, but to environmental protection, rural development, countryside stewardship, organic initiatives, and support for farms in especially unfavourable conditions such as hill farms.

CAP is important even in the UK. In 2012, £3.26 billion came to famers in direct payments as part of the Common Agricultural Policy. £3.24 billion of this was not linked to production, but came through systems such as the Single Payment Scheme. Agri-environment schemes were worth £520 million and support payments to 'less favoured areas' were £122 million.[6]

I spoke to the National Farmers' Union (England and Wales), which has some 55,000 members. It represents about 83,000 farm holdings of over 50 acres (some farmers having multiple holdings) and 'estimates that more than 70 per cent of full time [UK] farmers are…members'.[7] The NFU is headquartered near Royal Leamington Spa and has offices in Brussels. I met with Martin Haworth, Director of Policy and Communications, and Dr Andrew Clark, Head of Policy Services, to discuss their thoughts on leaving the EU.

Fears and worst case scenario

Tariffs and subsidies

I asked what the NFU's tariff concerns would be from a badly-managed Brexit. Mr Haworth explained:

'With tariffs, for those people who export, it's not just them on their own, it's a combination. The people who advocate our withdrawal from the European Union, their strongest or most consistently repeated arguments are that the European Union imposes tariffs on imports and therefore we could get rid of those if we were outside the European Union. And those people also, generally speaking, are opposed to farming subsidies, so the absolute nightmare scenario would be that we'd be outside the European Union, we'd lose our access to the single market, we'd have lower tariff barriers so food prices would drop and farmers' prices would come down, and our farmers wouldn't be subsidised, whereas our competitors would be, both in Europe and in large parts of the world.

'So that's the absolute perfect storm scenario, and very consistent with what opponents of European Union membership generally have in mind. That's why we're rather nervous.'

Later the topic came up again when I suggested a different scenario (the WTO option in which UK goods would face the EU external tariff, and EU goods would face the UK's MFN tariff).[8] I asked whether British agriculture could expand production to make up for the presumably lower imports of goods such as Danish pork. Dr Clark disagreed, the NFU's worst fear being that if Britain left the EU then Minford-esque voices would have won out:

'I imagine we'd have no tariff barrier against the Danes. They'd expand. We've already lost half of our pig production [to the Sow Stall and Tether Ban].[9] *I think the other half would go. Perhaps not completely - if you did a model of the UK farming sector without being in the EU, you need to say, looking at New Zealand,*[10] *what would* [Britain] *look like in terms of transition? It would be a very different farming population. There would be significantly less livestock producers, larger arable producers. I suppose horticulture might be OK, but even then it'd be really difficult to compete with subsidised Dutch producers. It would be a really harsh place.'*

So it's clear that this 'perfect storm' is one of competitive disadvantage – if British farmers lost subsidies *and* lost tariff protection, European farmers would be several steps ahead.

Lost Influence

Dr Clark explained a separate fear in terms of market access as we explored the Norwegian and WTO options:

'My biggest concern is, in pulling out of the EU, we would still be subject to the legislation and the rules by which we want to compete,[11] *but would be pulling out of ability to make and influence them. We have to compete, to export our product. We'd lose our seat at the table to actually go over to Brussels and actually influence those pieces of legislation as they're drafted,*

before they're thought about, so influencing things back at home. So from a farmer's point of view and a business point of view it would be madness.'

Mr Haworth elaborated on the damaging effects this could have:

'Looking at it at a really macro level, within the European Union there's obviously this tension between two schools of thought.

'One is that if you want to have free trade, you've got to regulate everything, so as many conditions as possible have to be harmonised, including ultimately probably tax, and certain things like the working time directive.

'[The other is] *a more liberal view of the fact that if you have a free market, you do need certain rules, but you keep those rules to the minimum that's required to maintain the free market, you don't try to harmonise everything. That would be the more liberal, somewhat under-attack view. At the moment that is a tension which is pretty much in balance.*

'So another danger of us leaving would be for that [balance] *to swing back to a more interventionist model, so not only would we lose the ability to influence things in the likely scenario of being inside the single market but outside the* [institutions' decision-making] *process, our leaving would shift the balance. Which is why, frankly, the Germans are keen on us staying, because they are more in our camp than they are in the French camp. So that would be another consequence which would, in addition to our loss of direct influence, be a shift in the balance that's probably bad for us.'*

We moved onto a more detailed look at influence. After ten years of consistent lobbying, the NFU convinced the British government to introduce a Grocery Supply Code of Practice domestically, 'to ensure supermarkets treat their suppliers lawfully and fairly', according to the government.[12] Mr Haworth pointed out:

'*What we're actually trying at the moment is to get that replicated at European level, that's our desire at the moment. It's about 50:50, I mean, there's a difference of opinion within the European Commission* – [some] *are actually quite favourable.'* Support from other European farmers was also mixed, since in some EU states the supermarkets are much more fragmented and localised, so can exert less pressure on farms. In other states the farmers are '*cushioned from* [supermarket pressure] *or structurally organised in greater producer organisations so have greater influence on the supply chain*'.

This example makes it clear how hard it is to make ostensibly positive progress in the EU, even as it is now, with UK influence in every level and institution. How hard, then, would it be to convince Europe of Britain's point of view through mundane diplomacy, especially after an antagonistic break-up?

Solutions

Norway and Switzerland

Dr Clark was not enthusiastic about the Norwegian option:

'*Norway's situation and its relationship with EU - stood apart in order to get into the single market* [i.e. through EEA membership, see Introduction] - *they actually have to comply with all the rules of the single market. So they are subject to the rules but not privy to be able to influence any of those rules, which is one of the reasons why we stay in.'*

Mr Haworth pointed out:

'[N]*o country is in that situation in agricultural terms. Norway is generally in industrial terms – it's got to meet all the European*

Union common rules and everything, and the environmental conditions, without having any influence on them.'

'These [non-EU] *countries in Europe haven't joined the European Union principally because their agricultural support* [government subsidies] *would be lower and their tariff barriers would be lower. I mean, if you look at Switzerland, Norway, Iceland, Liechtenstein, all those countries have much much higher agricultural support, much much higher tariff barriers. Their agricultural communities are, general speaking, strong opponents of European Union membership.'*

It's clear (below) that the NFU fears an independent government would not even match EU subsidies, let alone provide greater ones following the Norwegian and Swiss example. I asked whether, ideally, iBritain would follow the EFTA example. Mr Haworth was very clear:

'No, no, we don't want that. You know, they're heavily subsidised. We're not advocates of subsidisation of farmers, that's not our issue at all. What we want is equality of treatment, so we would actually envisage a situation where subsidisation and direct support to farmers is phased out. We can live with that, provided it happens in our principal markets equally and across the board.

'[Subsidies are] *part of a process going on with the European Union, which is our principle market. That's fine, but what we don't want is that in our principal market, we don't get the same level of support as our competitors do. We're not looking for higher levels of support, like Switzerland, and those* [EFTA] *countries …* [which] *get quite a bit of support but face significantly more barriers to production than we do in terms of topography and climate et cetera. We're certainly not looking for that* [level of support].'

Full exit, no free trade agreement with the EU

Mr Haworth pointed out that the alternatives to EFTA were worse, though:

'[Otherwise] *we leave the European Union altogether and are no part of the single market, so we face barriers against our exports in what is the principle external market for us: our exports against the European Union. Some commodities – a third of our total sheep production – are exported to Europe and we need those vital markets – Europe's seventy per cent of our exports.'*

International organisations

There might be benefits to independence in terms of Britain's own seat in the World Trade Organisation, which has recently concluded a deal worth $1 trillion with all 159 member countries.[13] At the moment, the UK has 1/28th of a voice in most WTO sessions, since the EU members are represented by the Commission. EU commentators such as Dr Richard North argue that, like Norway, Britain would have a lot of 'upstream' influence on global organisations such as UNECE (United Nations Economic Commission for Europe) and the *Codex Alimentarius* Commission, which sets food standards, guidelines, codes of practice and advice.[14] I asked Mr Haworth if this might alleviate the problems of leaving:

'Not really. We'd definitely be a separate member of the WTO, but not a particularly influential one. As for the Codex and UN – those are important in terms of global trade but have no influence at all in terms of European single market.'

Dr Clark went on:

'I think what [North's] *kind of argument overlooks is that there's so much, shall we say 'colour' added, detail, points and implementation rules, beyond an international framework.* [EU

level] *is quite often where the critical decisions are taken. WTO sets out things like the Green Boxes*[15] *and what kind of support there is and how that support can be regarded, but the critical detail is all added at the EU level. That has a significant impact in terms of access to single market.'*

Mr Haworth added:

*'I want to make an important point about WTO that I think has been overlooked by people who are advocating a British exit. They often say that: "*Because we have a trade deficit with the rest of Europe and the UK is such an important market for the European Union, that it would not be in the European Union's interests to raise tariff barriers against us.*"*

'That ignores the fact that the people who advocate our exit from the European Union often do so on the grounds that they want to have freer trade with the rest of the world, but what you can't do under WTO rules is, there's no way that the UK would be able to raise tariffs against the rest of the European Union and lower them against the rest of the world. We'd have to have the same for the European Union, so they [the EU] *are going to get access to our market come what may.*[16] *We'll face the Common External Tariff. Their argument here is a completely false one.'*

iBritain negotiating trade deals

We discussed what prospects Britain would have winning its own free trade deals without the 'clout' of EU membership and the size of the EU's negotiation personnel. Regarding the 'Transatlantic Trade and Investment Partnership' between the EU and America, and South Korea's EU Free Trade Agreement, Mr Haworth argued:

'I imagine the complete extreme is free trade with the rest of the world,[17] *so in that sense it won't matter if we aren't part of this specific free trade arrangement. But I think that's an*

unlikely scenario, that we somehow go completely to absolutely zero tariffs and back to Victorian times.'

Dr Clark explained that there would be further difficulties over genetically modified products and beef. Dacian Ciolos, the EU's Agriculture Commissioner, '*regards GM as incompatible with the European model of farming'*, whereas several member states are enthusiastic about it. Currently DEFRA policy means: *'We're happy to import food produced under* [GMO conditions], *feed them to our animals, but still not want to see it grown here.'* The Americans, who grow beef using growth hormones, would almost certainly demand such meat could be sold in the UK. One scenario would be that Britain started growing beef under similar conditions, but the NFU fear the UK public would be hostile to this. The alternative is to oppose the American demands. Mr Haworth noted: '*It seems like the European Union is in a stronger position to demand some sort of equality than we would be*. [We would be] *a sort of small island off the coast of Europe.'*

We also touched on the chance of Scotland leaving the United Kingdom, and the impact that would have on the EU debate. A Scottish vote for independence would change the nature of all the questions so much that it cannot be considered here.

New Zealand (hybrid WTO option)

In agricultural terms, New Zealand is about the only example of a country that doesn't subsidise. However, Mr Haworth argued that its success did not mean that option could be viable for the UK:

'New Zealand is perhaps the most productive agricultural community in the world for the products it produces. Agriculture is a very large part of their economy, so it's a one-off, I think. But

I'm not aware of any other country in the world, certainly not in the developed world, that would be in [that] *situation.'*

Dr Clark added:

'I guess the concern with [FTA] *negotiations, especially if it's the UK going it alone or even a kind of small micro-bloc,* [is] *what does the UK trade negotiator regard as a good deal? Other countries are probably looking to* [sell] *agricultural products* [to the UK] *and we're thinking* [to sell] *financial services and high value technology as the export. In that context, from farmers' point of view, where is UK agriculture? Who's fighting for that?*

'That's the difference between ourselves and New Zealand, where agriculture is a very significant part of the economy. So you can see where the UK PLC interests would be in terms of the trade deals.'

This point might be overstated – and negotiators for an independent Britain outside the CAP and external tariff would be aware that British agriculture was that much more vulnerable, and thus act differently to protect farmers than they currently do. It is, though, a genuine fear that future governments must bear in mind.

DEFRA mirroring CAP funding

An obvious solution to the question of subsidies would be for Westminster to guarantee to match whatever Brussels currently pays. This could, in theory, easily be funded by the money saved by withdrawing British contributions to the EU budget (which would be a saving of 17-60 per cent of current budgetary contributions).[18] The NFU broadly supported this idea, but Mr Haworth doubted its likelihood:

'[T]*hat's UKIP policy isn't it?* [19] *What UKIP says, which is right, is that if we weren't a part of the European Union we'd make a considerable net saving. That money, or the equivalent* *level that's currently being spent on the Single Farm Payment, could be spent nationally for the same purpose without the same restrictions, rules, or threats of us being fined if we don't do things properly et cetera. Up to that point, that's a logical argument, that's all correct.*

'The trouble is that that might be UKIP policy but of all the scenarios we can think of for the next election, the fact that UKIP's going to form a government is probably not the top likelihood. The other main parties have all said they want to reduce direct payments to farmers as quickly as they can, ideally by 2020, and that's certainly the position of the two main parties of this country. The only thing that's stopping them is the fact that we are in the European Union, so the idea that any kind of likely government is going to take the money and just carry on giving it to farmers seems pretty implausible, because it goes directly against what they've all said. They've all said there's no legitimate cause for doing that, and [the money] *should be in the public good.'*

Dr Clark added:

'Any proportion [of the old subsidy] *would come with very significant strings attached for doing specific things, very few of which are to do with being more profitable or productive. Most of them would make us less productive and less profitable. The* [UKIP] *argument probably could sway some people who want to be swayed, but I can't see how it holds any water at all. It directly contradicts the stated position of the Labour party going back to 2005, and the Conservatives and the Coalition. The three main parties have all said: "*We're not going to do that.*" The Treasury too.'*

Referring to the subsidies discussion (above), Mr Haworth was keen to make the NFU's position clear:

'We've been talking an awful lot about direct payments and subsidies, but let's be absolutely clear, that is not our priority.

Our priority is not to defend subsidies or direct payments or to maximise them, it's to have equality of treatment within the European single market. So our position would be much less interventionist, much less regulated, where the aim in agricultural policy was to improve our competitiveness and efficiency globally – that would be the game.

'Our argument with the British government is that they've failed to articulate that kind of policy direction. All they've done is argue to cut costs, that's all they've done. And they've completely isolated themselves as a result. In any situation: "What's your priority?" "Cut the budget." *Well, you know, we could just take a tape recorder in* [EU agricultural policy] *meetings... You do feel the British influence has been minimised as a result for quite a long time.*

'They should be quieter about the budget, so our long-term aim is to make the European farming sector more competitive, globally competitive.'

DEFRA in control of regulation: red tape and gold plating

One of the potential benefits of independence would be complete UK control over domestic regulation. Even though agricultural exporters would still have to follow EU rules, the many farmers who produce for the British market would not. They could be far more competitive, then, if DEFRA rewrote the rule book – a rule book that think-tank OpenEurope estimate cost agriculture £5 billion, plus another £3.5 billion in labelling requirements, from 1998-2010.[20]

Mr Haworth, however, pointed out that it wasn't that simple:

'Tractors are [an] *example of domestic legislation being less favourable than European. Most [EU] countries allow tractors and trailers to travel faster and be heavier in perfect safety. So actually it's a huge disadvantage to us, a competitive disadvantage that we face. We obey the law - which impacts on*

efficiency, especially at the time of harvest, makes it harder to get things done on time etc.'

This is an example of so-called 'gold plating', in which domestic governments add extra burdens on EU directives. The suggestion is that in many areas, DEFRA is *less* liberal than Europe, so cannot be relied upon to relax the rules. The Federation of Small Businesses (below) have similar concerns with the implementation of EU tractor rules.[21] Dr Clark had more illustrations:

'Soil protection is sort of another example of what Martin referenced: gold plating. There is nothing like that, or in that form, certainly not to start with, in the rest of Europe. Some have caught up with us since, but it's DEFRA who came up with the clear plan on soil protection. Other states have much lighter-weight rules, having regard to compaction and soil erosion and that sort of thing – general binding rules that are more frequently written down and observed rather than followed.

'Here it's led to a comprehensive requirement, and penalties if you don't complete a plan. So it's another example of cross-compliance. Just in sheer numbers we have 35 more cross-compliance rules than any other country, and yet we all have the same requirements in terms of setting out cross-compliance rules.'

There were similar frustrations with the Habitats and Species Directive, with 2,000 sites set aside, and the Water Framework Directive, which threatens:

'…very significant costs for the water companies that will, in the next five or six years, impact on agriculture because to comply with the standards to keep those blue flags flying on bathing waters, they're starting to look at where agriculture contributes pollution.

'Are we actually saying that if we pulled out, the domestic UK government will turn around and go, "You know, actually I'd be quite happy for half of our blue flag beaches no longer being

blue flags"? It's pollution, even though you can't see it, even though it doesn't have any impact on human health - would they allow that to fall onto the beaches?

'So we wouldn't see an unwinding of the EU resulting in an unwinding of the regulatory costs on the industry, on UK PLC, absolutely not.'

Escaping domestic regulations

The NFU takes issue with several 'platinum plated' rules, which have little or no EU instigation behind them. DEFRA's stance on such rules shows they are at odds with UK farmers' productivity, which underlines the NFU's fears for DEFRA free of Brussels. Mr Haworth explained that there were some possibilities for deregulation, but reiterated that it depended on the future government's attitude:

'Yes it could be [a plus to leaving]. *Of course we can all point to regulations we think are bad or unnecessary or cumbersome or stupid, like, you know, the working time directive. We hate that, it'd be a way of getting out of that. There's something called the nitrate directive which is old and cumbersome and restrictive and all of that – we could get out of that presumably. So of course you can point to individual cases like that, but I'd make two points.*

'One is that our biggest bugbear in the farming community is not so much European regulation but the gold-plating of it. So you take your European regulation, you make it worse – is that going to stop if we leave the European Union?

'The second is that probably the worst examples of regulation that have impacted on our farming community are purely national. Take two examples: one would be the Sow Stall and Tether Ban which was brought in by arch-anti-European Richard Body in 1999, which halved our pig production because it came in 13 years before the rest of the single market.[22] *So it completely wrecked our pig production.*

'One of the biggest problems we've got at the moment is bovine TB, which is spread by badgers, which are protected by

the entirely national Badger Act, which is not the case in the rest of Europe where they manage the numbers and don't have the same problems. So those are two examples of actually national legislation which has done far more damage than any European legislation we can think of. So yes, there's a theoretical possibility here, and as I said, we can all point to things we'd like to see got rid of, but where this confidence, this belief that somehow if we left the European Union we'd become model legislators, came from, I don't know.'

Dr Clark added:

'There are very significant restrictions. Hedgerow legislations are entirely a domestic regulation, introduced in 1997 under the Conservative government, which effectively has frozen the entire framework of field size and shape, in the entirety of England and Wales.

'You cannot remove a single yard or metre of hedgerow without applying to the local authority, giving them 42 days to assess whether that hedgerow is important or not. The criteria are set out to identify what is an important hedgerow, and actually it identifies about 90 per cent of hedgerows as being important. You can't do anything until you've gone through the process, and if, as the normal standard process says, it's "important"*, you can't remove it. Even if I remove it and plant something somewhere else, that's not allowed. That's entirely local, entirely domestic, England only.'*

On the other hand, Dr Clark explained that a lot of gold plating might be the result of civil servants fearing EU prosecution, which suggests they could be more liberal without the Commission breathing down their necks:

'Legislators in the UK, in Westminster, are so cautious [in over-implementation], *and then overlay that with the domestic zeal for creating new animal welfare or health or environment related legislation to appeal to a domestic audience.'*

Whichever party or coalition is in power at the time of Brexit would do well to heed these warnings. They would no longer be able to point to European bureaucrats and dictatorial directives from Brussels to excuse their own legislative agenda: the consequences of policies would be entirely on Westminster ministers' heads. Which party would see sense in putting farmers in such an uncompetitive position? What administration would want to be known as the government that killed British farming, abandoned the countryside and ensured Britain would be dependent on cheap foreign food imports?

Surely both UKIP and the Tories, with large countryside and home counties interests, would find a way to justify subsidy and relaxation. Labour would see that farming jobs have been dropping for years and prop them up. The Liberal Democrats and Greens would see the importance of maintaining the green belt and farm ownership, and likewise support the sector, albeit with environmental requirements. The alternative is to see farmers go out of business and sell portions of their land to developers.

Access to labour

Dr Clark noted a silver lining in the worst case scenario, based on current experience of the 'Seasonal Agricultural Workers Scheme':

'If the EU didn't place restrictions on where we could source labour, then we would be looking for labour much more widely, outside the EU, to countries that have got students and seasonal workers who'd be prepared to move in and fill that requirement... In the past it was Commonwealth, you know we got lots of Australians, lots of New Zealanders, lots of Africans, Indians would fill that role. Now of course, they can't.'

This very much chimes with the hopes of some Eurosceptic groups such as The Freedom Association and

Better Off Out, whose book *Common-trade, Common-growth, Common-wealth* argues that the Commonwealth could form a viable economic grouping, with shared culture and institutions, but without the coercive elements of the EU.

Beyond the worst case

From my conversation with the NFU it was clear that leaving the EU could pose serious challenges, but that if provisions were made for a level playing field, sympathetic governance, reasonable market access and informal influence over future regulation, British farming could punch above its weight. Dr Clark was keen to point out:

'Our farms can be competitive, and have the potential to become increasingly more competitive and more productive, if they can compete on equal terms.'

Conclusion

Future governments will all have different priorities, and it's unlikely that the NFU and parliament will ever see eye to eye on the importance of environmental/greening measures. Those aside, there are still steps that an independent government could take to ensure Britain's farming is not seriously damaged:

- Continued access to European markets on equal terms
- Mirror funding for CAP to ensure a level playing field
- An end to gold plating and unnecessary 'platinum' home-grown regulations
- Roll back EU-derived regulations to the lightest legal touch
- A more dynamic Foreign and Commonwealth Office willing to defend British agriculture (see below)

This assumes that the public would reject the Minford model of unilateral tariff-slashing, even if it did mean cheaper food.

2

Fisheries

Summary of sector & EU's involvement

The UK's fishing industry is not what it once was, but still remains important to coastal regions. 12,450 people work in UK fishing directly, (5,900 based in England, 1,000 in Wales, 4,700 in Scotland and 800 in Northern Ireland.) 627,000 tonnes of fish and shellfish were landed in 2012, worth a total of £770 million to the UK economy. The British sea-fishing fleet consists of 6,406 fishing vessels of various sizes.[1]

The EU affects the fishing industry in several ways. One of the prices Britain had to pay to join the European Community under Ted Heath was to open up formerly national waters to EC access in 1970. All EU fishermen can now fish all EU waters. To prevent overfishing, the EC/EU built up a complex system of quotas for how much of what stock could be fished each year per area ('total allowable catch', TAC). These quotas are regularly reset by meetings of member states' fisheries ministers.

Fishermen tend to blame this Common Fisheries Policy for threatening their livelihood, either by setting quotas too low to be profitable, or those of other countries too high due to political pressure, which can be damaging to long-term stock sustainability.[2] Britain has a particular complaint following the Factortame court decisions, which ruled that a Spanish company that had bought British-registered vessels could take advantage of the British quota.

The problem over overfishing has continued to grow, exacerbated by some fishermen's practice of 'discards', wherein they threw immature or low-value fish overboard, often already dead. Europe's total catch has fallen from 7.9 million tonnes (2002) to 4.8 million (2013), meaning Europe has to import 2/3 of what it consumes.[3] In 2013 after a sustained marine conservation campaign, the EU Fisheries Commissioner Maria Damanaki officially banned discarding, although it is unclear whether this will be enforceable and how hard it will hit fishermen obliged to land unprofitable hauls. One potential solution is the installation of 'spy in the wheelhouse' CCTV recording how fish are processed (or not) on deck, possibly combined with 'smart nets' that use lights and a variety of mesh sizes to allow non-target species to escape. It's unclear if these would be supported, and who would pay for them, as fleet modernisation subsidies are actually being squeezed.[4]

I spoke to Barrie Deas, the Chief Executive of the NFFO (the National Federation of Fishermen's Organisations), about the industry's attitudes towards a UK exit. The NFFO represents '[a]ll sizes and classes of fishing vessel … from under-10 metre beach-launched vessels, to 60 metre pelagic and distant waters vessels', using a subscription model. 'The NFFO was established in 1977 during the negotiations for the 1983 Common Fisheries Policy agreement.'[5] It interacts with DEFRA and the EU on issues such as sustainability, profitability and environmental impact.

Fears and worst case scenario

Quota system

I asked what Mr Deas's main concerns would be if Britain left the EU:

'Given that some mechanism is required to share out scarce fisheries resources to different countries and groups of fishermen, like Churchill's aphorism on democracy, [quotas are] *probably the worst possible approach, apart from the alternatives. There is no easy way of placing an overall cap on catches in the context of shared stocks.'*

The UKIP solution to fisheries, which would be to assert UK control over waters 200km from our coasts or equidistant between Britain and her neighbours, still faces this problem: most stocks will be probably be shared forever, since fish don't respect national boundaries!

Mr Deas continued:

'While we have been very critical of the Common Fisheries Policy historically, we feel it may be on the point of getting turned around. Regional Advisory Councils [RACs] *have been a big success, bringing fishermen's groups and stakeholders together to discuss* x *and* y *– and these will have a bigger role in the new reform.'*[6]

So the NFFO fears losing all this recent progress in cooperative waters management, and having to rebuild a multi-nation infrastructure from scratch. However Mr Deas did point out that the problems posed by Brexit (to cooperation) are "*not insuperable*".

I asked if a hiatus in coming to a future agreement was part of the fear:

'The worst case scenario would be a huge fight about quota shares parallel to the current Iceland – Faroe Islands – Norway – EU situation over mackerel. There was an agreement in place but Iceland and the Faroes have unilaterally increased their catches. They've got away with it so far in terms of [not ruining the] *mackerel stock, according to the science, but if this happened on a general basis, you could reverse all the positive*

conservation trends we've seen since 2000, to which most stocks have been responding. The reality is that shared stocks require joint management in some form or other.'

A plan for future stock management will need to be in place before Britain leaves the CFP.

'Then there's the access to waters – this all depends on what fleets, what target species, what time of year. Sometimes Danish fishermen want access to our waters, sometimes us to theirs, to Irish, and so on. A prolonged hiatus [between leaving the CFP and establishing a new bi- or –tri-lateral] *could make things very difficult for fishermen.'*

Under international law, the waters six nautical miles from a country's coast have been under that country's sovereign power since the 1964 European Fisheries Convention. Waters between six and 12 nautical miles from the coast have to be shared with vessels that have historically had access to them. In the late 1970s, Europeans states agreed to a principle of 'Exclusive Economic Zones' (EEZ) 200 nautical miles from a nation's coast, or equidistant between coasts if neighbouring coasts were closer than 400 nautical miles apart. This was codified by the UN in 1982 in the Convention on the Law of the Sea. The EU pools EEZs for fishing purposes, but they remain important for North Sea oil exploration and other marine resources.

If Britain left the EU with no agreements for cooperation in place, each nation's fishermen would presumably be excluded from at least other nations' 12 nautical mile limit, if not whole EEZs. Keeping different fishermen within their own territorial waters might encourage them to overfish immature areas or push for unsustainable quotas, to the detriment of the whole migrating stock and thus the other nations' fishermen.

Market access
'Then there's the market access issue. We import lots of cod, but we also sell high value catches like prawns, hake, lobster, crab, [and others]*, so we'd be very worried by any market barriers or increased barriers to trade.'*

After Brexit, selling fish to Europe might face median tariffs of roughly 14 per cent if rates with the EU drop to the World Trade Organisation's 'Most Favoured Nation' schedule – the worst they could be, as the UK would remain a WTO member.[7]

'So the worst case scenario includes stock depletion plus disrupted markets. In 1983 when the CFP started, it had taken five whole years for the member states to come to agreement on quotas in the first place. You could imagine that again, being very disruptive for all parties. The mackerel situation shows how difficult negotiations can be, and this would be for all waters and all species, so it's a genuine fear.

'The phrase of the day is "It all depends"' – mostly on our government's conduct.

Solutions

Group management
The NFFO clearly thinks we cannot manage our waters alone:

"Most commercial, pelagic and demersal species need managing on a group basis - [shoals] *don't respect territorial waters.*[8] *Reform has allowed more local cooperation* [through the Regional Advisory Councils] *but still Brussels has a lot of control. We'd need a forum* [to cooperate with the other states] *in any case, which would be quite complex and fragmented* [outside the CFP].

I asked if the fishing industry would be happier without the recent discard ban, which means that fishermen will have to land smaller fish once they're caught and use up their quotas in an inefficient way. Mr Deas explained that a situation in which steady progress was being made in reducing discards was about to be replaced with one much more complicated:

'The problem is in mixed fisheries (e.g. waters holding haddock, whiting and cod) *the nets catch a range of species and sizes. Some survive and return to the sea, many don't. Without major change to the quota system, as well as using all the flexibilities provided in the legislation, it is difficult to foresee how the ban will work.'*

So even if all the fish are the right age and size, the quotas are so rigid that you have to discard some of the fish to stay within the allowed percentages.

'The $64,000 question is, how will discards be eliminated? For example, for plaice, our studies show that 60 per cent survive being discarded, so forcing fishermen to land them is a net loss [to future stocks].'

I asked what changes Mr Deas could see coming:

'Fishing will become a lot more selective. At the moment there's no incentive to only fish for high-value stuff. That will change as all quota species landed will count against quota. But selectivity for some species can be really difficult – sole and plaice are caught together in 80mm nets. [If the nets' mesh is] *any bigger, the sole would escape. Therefore there are always lots of plaice discards. For some species like plaice, even more may survive if fishermen are incentivised to get them back in the water quickly. Therefore fishermen need exemptions for fast discards to increase the percentage of survival.'*

This kind of flexibility is something the NFFO can push for in the RACs, but might be much harder to achieve if a future agreement is established according to different principles.

Cooperation on the seas

I asked what the best arrangement would be after a British exit: would we need to try to get a specific opt-in for the CFP? Were there other models for multi-country waters management?

'That's another $64,000 dollar question. If the UK left the EU, I cannot see politically a great deal of support for opting in to the CFP. It's too often held up as an example of the problems of the EU, of how poorly managed it is. That's despite the fact that stocks are improving and there's improved governance – moving away from the top-down command-and-control method we used to see – but we still have yet to see how [the new balance] *works out. So I can't see a simple opt-in being favoured within the fishing industry* [and implicitly, not outside it either]. *This is very much an 'it depends' question.*

'What is certain is that there'll definitely be a need for some kind of bilateral agreements between the UK, the EU and Norway. We already have EU/Norway bilateral agreements for mackerel, herring, cod, haddock and plaice – they're all jointly managed, representatives sit down together and quotas are set jointly, and there are attempts to harmonise technical measurements [i.e. of TACs, to improve information sharing.]

'So you'd have to sit down with the EU, with those countries [whose waters British vessels fish, and who fish formerly British waters], *or consider a trilateral with the EU and Norway, that's certainly one option. There is precedent for this in the Baltic Sea, when Sweden was outside the EU.'*

'I think the aspiration would be to move away from the top-down command-and-control model, which didn't properly consult stakeholders enough and acted in a way that was too

prescriptive and sometimes ultimately led to very, very blunt, painful results.'

The ultimate arrangement a future government might aim for is far from obvious, then, but evidently there are pitfalls British negotiators should acknowledge and avoid.

New technology

Regarding Maria Damanaki's discard proposals, we discussed 'spy in the wheelhouse' CCTV systems and smart nets/selective gear. I asked whether these technologies, if subsidised by an independent government, could help future UK fishermen conserve stocks but remain competitive:

'It's part of the solution. Satellite monitoring is already obligatory for 15m vessels and soon will be for vessels over 12m. They're bringing in e-logbooks to come in soon, which should work but we have the problems of operating with them in a marine environment… New technology is not going to halt: we probably haven't even scratched the surface of what can be done.

'But at the same time, we have to be careful of catch-all solutions: CCTV might work well in some vessels in certain situations, but it's important not to treat a specific new technology as a universal panacea.'

This is a good general rule for dealing with European issues, as is clear from the SME chapter (below). Mr Deas explained how gathering better information reflected upon fishing complexity:

'We aspire to fully documented fisheries where the total catch (TC) is monitored and tracked, to improve knowledge and so improve their science-based management. But that needs incentives for fishermen to actually gather the data, which is sometimes hard without extensive costs. Again, governance comes

into it, as it's clear things like iPhones and smart phones can do so much already. It seems likely this will be more developed in the next 20 years.

'It needs to be explained to fishermen on a per-vessel basis as a motivation, that this extra information could lead to a quota uplift [if it turns out there's a bigger stock or recovery than anticipated] *which would contribute to greater economic performance.'*

Government help and encouragement with new smart gear is certainly welcome, then, but it must enter dialogue with fisheries stakeholders rather than prescribing the same pill for all maladies in the manner Brussels used to. The NFFO's long-term optimism in technology certainly indicates potential growth for fishing outside the EU.

Potential benefits

Research and development funding

I asked whether British fishermen currently benefit much from EU R&D funding:

'The industry doesn't get much R&D spending. The European Fisheries Fund, which will become the European Maritime Fisheries Fund, isn't specifically for R&D. The RACs have looked at the funds – they're very complex and hard to gain access too. We'd probably need expert advice to get access to them, it's not the highest priority.

'Sometimes the cost of getting 100 per cent data just doesn't make sense [in terms of costs and returns]*, but there is a move towards better data quality, helping the formal scientific processes that operate under international umbrellas, but effectively take place in national laboratories.'*

This indicates that if fishing policy was under British government control, Westminster could hardly do worse for our fishermen than Brussels currently does. There are clear benefits to be won from better fisheries R&D, including stock monitoring and improvement of the technologies mentioned above. Westminster mirror funds could work with our fishermen in a more transparent, straightforward manner.

Regional advisory councils

I asked whether, given NFFO's support for RACs as they currently are, he'd like to see their role extended in an independent future:

'It's desirable that it goes further. It's quite remarkable how RACs have provided a proper platform for the industry in a specific sea – the Celtic, the Irish, the North Sea. RACs bring you together so you're constructive, you aren't blaming each other or throwing mud like it used to be – "The Dutch fishermen are doing this, the Irish that, the Scots…". There has been a huge leap in maturity, especially with the scientists being there in the room with you. In many ways, RACs have led the reform from simple prescriptive methods towards a science-based, results-oriented [system].

'We'd like RACs to have a larger role giving more advice and recommendations for fisheries managers. We could even envisage a new direction with a kind of joint governance of RACs and the current fisheries management, or at least an expanded role. Some RACs are already moving towards this sort of arrangement. Others are in more complex situations, more complicated relationships [i.e. where the area of concern of the RAC doesn't easily correspond with the area of the fisheries managers.]

'Overall, there's a lot to be said for the stewardship approach to fisheries, asking stakeholders for their opinions and advice, creating much more joint responsibility. The North Sea RAC has already extended this to talk to the Norwegian Fishermen's Association. [That's] *working well.*

'So this experience could provide a platform in case of a British exit.'

It certainly seems that there's scope for improvement in R&D and RACs, which could be achieved with the British government championing its fishermen in a future looser cooperative relationship.

Conclusion

The idea of 'going it alone' in fishing is impractical for all concerned, and it's possible that a muddled end to the CFP would lead to antagonism between our neighbours, which could sour broader exit negotiations. It would be worrying, for example, for British diplomats to be arguing for single market access or mutual banking respect whilst a 'cod war'-type dispute is taking place with Spain or Scandinavia.

This need not be a worry, as fishermen are clearly willing to cooperate within a constructive framework and understand that this is the only way to manage fisheries sustainably, however imperfect current models might be. Before our EU membership lapses, it's vital for the British government either to negotiate continued Common Fisheries Policy membership, or to forge a new trilateral relationship with the EU and Norway. Single market access, or the removal of tariff barriers within the alternate treaty, must be an important component. This relationship must contain a structure similar to the RACs, ideally with a more straightforward system of access to R&D funds and appropriate incentives or subsidies for technology that will prevent discards and/or get immature fish back in the sea in good time.

This cooperation is not at odds with the principle of control over international waters. iBritain would be able assert its sovereign control over the whole Exclusive Economic Zone, and enter fisheries agreements on an intergovernmental basis.

3

Wales

Summary of sector & EU's involvement

Unlike England or the UK as a whole, in terms of net funding Wales benefits financially from EU membership. Regions receive money from the European Regional Development Fund and the European Social Fund, which is often matched by private sources or the UK government. Such funds contributed £207 million in 2009. 'West Wales and the Valleys' is a 'convergence' region and East Wales is a 'competitiveness' region. Wales also receives CAP and CFP funding, worth £290 million in 2009, due to its large agricultural sector. This meant that in 2009 Wales benefitted £163/head (gross) whereas in England the figure was £52, far less than they paid in.[1]

The Welsh First Minister, Carwyn Jones, has lauded the EU on several occasions:

'The EU remains Wales's largest trading partner, with more than 500 firms in Wales exporting nearly £5 billion annually to other member states and with around 150,000 jobs in Wales depending on that trade. Additionally, more than 450 firms from other member states are located in Wales, employing over 50,000 people.'[2] (09/05/2013)

He responded with concern to the Prime Minister's Bloomberg Speech:

'…Wales's continued membership of the EU is vital for our economic success. It gives us access to the biggest single market on

earth and Wales's membership is central to what we can offer inward investors.

...[A]nything that puts a question mark over our membership of the EU is a mistake. Such an uncertain future for the UK in Europe could put a break on potential inward investors.' (23/01/2013)

The First Minister's fears included:

- Non-EU companies based in Wales for single market access moving to the mainland
- 'Years of instability and marginalisation'
- A loss of influence over EU policies
- Hastening the breakup of the United Kingdom [3]

The Welsh Finance Minister, Jane Hutt AM, explained:

'EU Structural Funds have helped over 47,000 people in Wales into work and nearly 128,000 to gain qualifications. It has also helped to create over 5,000 new enterprises and 18,000 jobs. The EU funding Wales will continue to receive from 2014 to 2020 will help us to continue this good work.'[4]

Wales also has four MEPs in the European Parliament, plus formal seats in several committees and networks. The European Commission also has its own office in Wales. All of this adds to Wales's distinct voice on the continental stage, in addition to Wales's ability to shape UK policy through lobbying Westminster.

Office for National Statistics data shows that Wales has experienced far less EU immigration than other areas of the UK. According to the 2011 census, there were 168,000 non-UK residents in Wales, or 5.5. per cent of the population, compared to a UK average of 13.4 per cent and London peak of 36.7 per cent. This does not specifically reflect EU migration, but gives a strong indication of migration patterns.[5]

I was able to speak to Jane Hutt AM, the Welsh Finance Minister, about her thoughts on a UK exit.

Fears

Funding

The Office for Budgetary Responsibility (OBR) repeatedly suggested through 2013 that immigration is important for future tax receipts and growth.[6] In light of this, I asked whether possible alterations to the free movement of people could disproportionately affect Wales:

'The Welsh government doesn't yet have powers of taxation, so any impact would only be indirect, but of course (that might change) as we're waiting for the government's response to the Silk report [now received, more on Silk below].

'Immigration can be beneficial to Wales and promotes wealth, especially as younger migrants are net contributors and play a key role in higher education, providing a valuable contribution. [The Welsh government is] *supportive of a diverse population, so very concerned about changes to migrant restrictions.'*

Wales received roughly €5 billion between 2007 and 2013. I asked, if the UK left the EU, how best these funds should be replicated at a domestic level and what problems might arise:

'Of course, we don't want to be in this hypothetical scenario – those Structural Funds are vital for skills and our infrastructure to build the economy.

'It's in the UK's interests to see Wales succeed. EU funding directly supports Welsh jobs, so we don't want to leave, and we lobbied successfully for a long-term EU budget, which is better for Wales because the seven-year length gives it more predictability

than the UK government.[7] *There's no way Westminster can replicate that. The National Assembly for Wales reflects that* (opinion) *with a cross-party consensus.'*

'UK ministers recognise that the job [of raising Wales's GDP to the UK standard] *hasn't been done yet in terms of infrastructure, business, communities and individuals. Seven-year long-term funding just would not happen. It would be extremely difficult to have these funds replicated – Wales would lose out dramatically.'*

The Welsh devolved perspective is that, over two or even three parliaments, very possibly with different parties and changing fiscal priorities, it would be unlikely for seven-year commitments on spending to be met. Most Westminster spending is decided on a yearly basis. However this is fairly pessimistic, as there is some continuous expenditure such as financing PFIs or servicing national debt. Extra tax devolution (below) could also ameliorate this issue.

Trade

I asked for more detail on the Welsh government's earlier statements about loss of trade. Were their fears centred on tariffs, NTBs or something else?

'There would be serious consequences for Welsh trade. We're doing everything we can to ensure the UK stays inside the European Union. Uncertainty could have consequences on decisions by firms on where to locate. I recently had a meeting with the European Investment Bank, and a Dutch company just relocated to Newport in Wales. It's an example of very important direct investment in Wales.'

I asked how the National Assembly for Wales would prefer a future government to deal with these Brexit trade problems, and her answer was largely 'stay in':

'I've just received the Ambassador for Lithuania, which has the Presidency at the moment. Both Wales and Lithuania want to stay in the EU, as it provides sustainable growth and helps creating jobs, confidence and openness.[8] *They are key partners in the EU, and this provides significant benefits to Wales, who want to be active, positive partners without the negative business impact of British withdrawal fears. We're taking every opportunity to remind the UK Government that engagement with the EU is mutually beneficial, in common cause with the other devolved administrations.*

'16-25 year olds are getting training and job opportunities, and these initiatives are paid for with matched funding from the European Social Fund, so [the EU] is supporting all those jobs.'

Devolution impact

I asked whether a British exit would have implications for Wales's financial relationship with the Treasury, such as a change to the Barnett Formula which calculates how much each devolved government receives:

'We recommend that the Barnett Formula is reformed according to "relative need". I endorse the Silk Commission's findings, with cross-party support, and we hope for a positive UK Government response.[9] *This is a distinct issue separate from the EU."*

I suggested that outside the EU, Wales might be able to vary its VAT levels or corporation tax like the Azores:[10]

'That would be much further down the line – the Silk report dismissed the possibility. The Silk Commission recommend[ed], *and the Welsh government agreed, that devolution of income tax should be subject to a referendum in Wales.'*

Solutions

It is true that the Silk report dismisses corporation tax and VAT variation powers, as Mrs Hutt notes. However, in the detail of the report, it's clear that one of the main reasons *for* this dismissal is the complication of European Union law and the possibility that the Commission or Court would rule against it:

'Variation of VAT rates within a member state is prohibited by EU law. We therefore have no option but to rule out the devolution of VAT… as a result we do not recommend assigning VAT.'[11]

In a Brexit, this impediment to devolution would be removed, so it would be up to the Treasury alone to grant more powers. The report imagines a variety of potential benefits to Wales, such as a lower tax attracting more workers and business from across the border. However, in January 2014 Carwyn Jones reacted with dismay to the Treasury's current proposals to enact part of the Silk recommendations – income tax power – but with a 'lock-step' clause that means Wales wouldn't be able to vary individual bands. This means that if the top rate was dropped by 1p, all other rates would drop too. This constraint, according to the First Minister, means the power would be *'pretty much useless'*.[12] Such an assessment points the way to greater potential variation after Brexit being eventually welcomed.

Note that this possibility does not preclude a breakup of the Union. The Silk Commission's criteria for 'assessing a funding system' included *'accountability; autonomy; cooperation and constructive engagement between the UK Government and the devolved administration'*. The report noted:

'Fuller fiscal autonomy would remove the fiscal transfer on which the successful Union is based. We have therefore concluded that a combination of block grant with some tax devolution would be best for Wales.'[13]

As with greater devolution, it really seemed that the Welsh government did not wish to countenance what might be best if Britain left the EU, so recommendations are speculative, based on the concerns explained.

Conclusion

Concern about high-skilled and valuable immigrant labour and fiscal contribution runs through several chapters of this report. The financial services, chemical/processing industry, and engineering and manufacturing representatives all echo Jane Hutt's fears (below). Limited migration, perhaps modelled on the American or Australian systems, could be used to promote genuine labour migration, allay public concern, and close the current loopholes that allow 'benefits tourism', 'NHS holidays' etc.

Given that Wales already loses out to Scotland by the Barnett Formula, and that it would lose billions of pounds of EU funding, an independent Treasury will have to make substantial moves to make up the shortfall. Devolving tax & spend powers could go some way to make up the gap, but that will require a Welsh referendum and therefore add to uncertainty. In the meantime, Westminster should consider longer-term commitments to the Welsh Grant, for example agreeing at the start of a parliament how much Wales will receive annually for the length of that parliament (barring extreme circumstances).

Single market access is also an important demand for the Welsh economy, since some 50,000 jobs depend on non-EU companies located in Wales, who may move if tariff-free access is lost. Moreover, Welsh companies themselves export £5 billion annually to the EU-27, as Carwyn Jones made clear.

4

Engineering, Manufacturing and Processing Industries

Sector summary & EU's involvement

The Engineering Employers' Federation was founded in 1896 and merged with the National Employers' Federation in 1918. It became EEF The Manufacturers' Organisation in 2003 and maintains offices in London and Brussels. EEF provides 'manufacturing and engineering support and advice as well as general business support to over 6,000 manufacturing, engineering and technology companies'. The website points out that: 'Manufacturing is responsible for half of UK exports and its productivity regularly outpaces economic growth. All of this helps the UK maintain its position as the world's ninth largest manufacturing nation – a position we're working diligently to improve.'[1]

I met Stephen Radley, the EEF's Policy Director, just after it had published 'Manufacturing: Our Future In Europe', which was based on six roundtable conferences with 110 manufacturers; a survey of EEF members with responses from over 200 'senior decision-makers'; EEF's EU Challenge inviting companies to comment on reform and exit; and EEF's Main Board and Policy Committee.[2]

This document is strongly in favour of the EU and has several suggestions for its reform. EEF points out that the UK exported £104 billion worth of manufactured goods to the EU in 2012, including 618,000 cars. There are 185,000 Europeans working in UK manufacturing, together with

£66.3 billion stock of foreign direct investment and £2.7 billion of research and development spending (both 2011).[3] 'Just over 85 per cent of manufacturers believe it is in the interests of their business that the UK remains part of the EU', the website noted after George Osborne's 15 January 2014 'Reform or Decline' speech.[4]

I also spoke to Dr Stan Higgins, the CEO of NEPIC, the North Eastern Processing Industry Cluster. This cluster is part of a £60 billion industry that contributed £17.1 billion gross value added to the UK economy yearly, and accounts for 15 per cent of the UK's exports, roughly £12 billion per year.[5] The supply chain goods it produces, such as petrochemicals and pharmaceuticals, make the region Britain's only net exporter in trade. NEPIC represents over 500 companies, and the Tees Valley region's industry employs about 200,000. The region is growing, and its innovative products may be the basis for a future low-carbon economy, with an average of 2:1 emissions savings ratio in CO_2 megatonnes.[6] The effect of this is to create a positive skills transfer to the low-carbon sectors.[7]

Fears and worst case scenario

European market access

I asked Mr Radley whether he thought EEF's members were afraid of Britain leaving the EU itself, or aspects of the single market:

'I would say it's access to the single market, because one thing that did come out very strongly from the research that we did with our members was that, because it's been around for a while, they take the single market for granted. What a lot of the companies were saying was that they either remembered what it was like before the single market was created, or they've got experiences of trading with other parts of the world, and the ease of trading – to sell to an area without tariff barriers, with

common product standards, common rules – is just incredibly invaluable to them.'

Similarly Dr Higgins feared that loss of market access might force companies to relocate:

'*A lot of companies may move their businesses to other centres such as the Ruhr region in Germany.'*

He explained that the problems weren't straightforward. One was taxation, but also there would be the need *'to create increased integration between manufacturers so that energy and materials efficiency is maximised. The European market, as a single market, enables more efficient integration of supply chains particularly for the chemical industry.* [In the chemicals sector] *there is a constant turnover of products, for example electronic chemicals for iPhones or new drugs, so integration for supply chains is important, and as an island we already suffer a negative impact in this regard.'*

Dr Higgins drew a comparison from outside his sector: '*For example Nissan* [who had indicated they might leave], *I fear that will be the same for many multinational chemical companies.'*[8]

Single market problems could have far-reaching effects, which came up when Mr Radley was discussing FTAs too (below):

'*Although the faster growth in terms of export markets will come from selling to outside the EU, for a lot of companies [the EU] is still their bread and butter. At least 50 per cent of them have said,* "Trading with Europe is absolutely essential to our business plan".

'*Often* [EU sales] *gives you the volume, and with the economies of scale that then allows you to sell to other parts of the world. For quite a lot of companies it may well be that this is their next stage – they go to sell in Europe, and then next they* *sell to other parts of the world. Sometimes you might develop a new product and launch it somewhere that's closer to home first and then go into markets that are more complicated.'*

To clarify, I asked whether this preference was more about *market access* than influence over regulation and a 'seat at the table', to which he replied: *'I think so, yes, I think that is more important.'*

Influence on future regulations

The EEF had limited fears of EU retaliation after Brexit:

'[Members] *haven't mentioned retaliation, but they have said, if we were to leave*, "Why would [Europeans] give us access to all the things we like on the terms we want without there being something in return?*' One thing that did come out very strongly was that there are lists of areas of regulation that business doesn't like, but in many cases these are things that make life more difficult, but they're not necessarily deal-breakers, on the whole. There might have been some things that really were deal-breakers if they had gone ahead and weren't stopped – like Solvency II on pensions and the impact that would have on investment – but a lot of the things are just sort of employment laws that are going to make things a bit more costly and limit flexibility*.[9]

'They're impediments rather than insurmountable barriers, whereas I think business would be concerned that if they lost access to the single market on the right terms, or advantageous access to fast-growing markets around the world, that those could be real deal-breakers.

'[I]*f you look at things recently: Solvency II, the Financial Transactions Tax, the EU budget, and how we've seen off a number of regulations that would affect our financial services sector, we're starting to achieve success. You could argue that some of those we've got not by playing nice but by being extremely tough, but the point is still that we've achieved these not in an* *isolationist way but by working from within Europe*.'

I asked whether EEF shared the NFU's concern that in Britain's absence, EU rules might sway in a Gallic direction:

'[I]*t's incredibly difficult to predict the way Europe's going to go in the future and whether there's going to be treaty change, and whether it's going to continue to be more integrated. But I think your point is that Germany does see us as a really important counterweight to France, which is a valid point.*

'*It isn't a case of just that* "We want to change and make Europe more dynamic because we want to modify the rules we have to comply with", *but it's also the case that we want that dynamic market to sell into, and I think there is a worry: let's say we left Europe and it did move more in the French direction, that would be a concern for us because it means we'd be selling into a more sluggish economy, we'd have suppliers that would be operating in a less dynamic economy, they might be more constrained by a lack of flexibility, so they'd be less useful for the UK-based companies*.'

Dr Higgins saw a further problem with the UK loosening some regulations:

'*Back to this level playing field, we want the same regulations as Germany and elsewhere in the EU, not a different interpretation. We don't want it easier or harder- if my UK factory has it easier than my German one, I can still have a problem*.'[10]

Mr Radley shared NEPIC's fear about multinationals working across diverging regulatory regimes, too:

'[Some EEF] *companies would have operations in other parts of Europe, so in general it wouldn't be good for the overall group if, as a consequence of us leaving, Europe was to move in a less dynamic direction.*'

Energy and costs

The processing industry uses large amounts of energy, and Dr Higgins made the Brexit implications for such costs clear:

'*For carbon and energy pricing, doing it in an isolationist way is ridiculous – it must be coordinated continentally or at an even larger scale. The UK going it alone is laughable, we must have an integrated policy to get the outcomes we want. All that NEPIC members want is a level playing field with other international locations, but setting ridiculously higher or lower standards isn't helpful. Unless we have similar energy prices and climate change taxation to the markets that we compete with, we're lost. We need a global trade agreement on these matters – alone we are a painful pimple to be dealt with. The UK going alone in a global negotiation would be like Jimmy Clitheroe trying to play basketball.*' [11]

It should be possible to negotiate continued participation in the relevant measures during exit negotiations, or to mirror European pricing and taxation levels from Whitehall. The EU would not achieve anything by excluding Britain from energy policy.

Future trade deals

One thing that came out of EEF's report clearly was the importance members placed on the EU's clout in winning future free trade agreements. Mr Radley explained:

'[EEF businesses have] *got a good understanding that the best way for them to make sure that they have good access to growing markets around the world is to be able to negotiate as part of a powerful trading bloc, rather than bumbling around alone.*

'[T]*here is a general concern, rooted very much in the business realities, that if you look at our companies, even those medium-sized and small ones, they're very global. You've seen the report,* *90 per cent of them export, a lot of their supply chains will be dispersed across the world, 35-40 per cent of them are foreign owned, and I think there is just a general concern that even if you are able to leave and negotiate over some of the concerns that we've been talking about so far, it would just feel as though we were isolated.*

'[Businesses] *do understand the way the world is going, which is a kind of plurilateral world with a small number of discrete trading blocs. I think there would be a real concern about being on our own and also the perceptions of Britain. You know, if you're a foreign owned company, is the parent going to invest here? If you're a company that's a bit larger, are your suppliers going to invest here or are they going to decide that the low cost of activity is abroad and so I think there is a real concern about the potential level of isolation of Britain*.'

Dr Higgins was equally uncertain about an independent UK's clout:

'Whatever the industry: computing, energy, cars, they all globalise, and the UK must be part of this, solving the big issues like climate change, energy and housing.[12] Individual countries need to work within big blocs.'

Skilled labour

Mr Radley discussed the concerns EEF had around possibly restricting free movement of people:

'[One thing] *I'd really want to emphasise is, it's particularly important for companies that they get from Europe… access to a wider labour market with skills… because a lot of them face skills shortages, and they often have very specialised skill needs. When you've got very specialised needs, it can be very difficult to find them in one particular country.*

'So that ability, to get the right labour quickly from other parts of Europe, is really important to them. Often with the sorts

of businesses we're looking at – it's not that they are getting skills from Europe as a substitute for investing in training here, it's a compliment.

'For a lot of companies, they're in markets that are changing very quickly, particularly now you find that lead-times on all of them are much much shorter than before, and being able to find someone they need, quickly, is absolutely central to the way their business operates.'

This does not wholly reflect Dr Higgins' attitude to skilled labour:

'The whole EU is suffering from a lack of people educated in STEM [science, technology, engineering and mathematics] *subjects, so in that sense we* [UK] *aren't disadvantaged – I can't see that being a problem going forward. The UK already exports engineers to the Middle East, Alaska and so on, so there may be a case for doing more to keep them here, rather than competing with the EU member states.'*

Access to funding

The 'Our Future in Europe' report had mentioned £2.7 billion in R&D spending in 2011 coming from the EU, and Mr Radley was keen to point out that:

'[Businesses would also miss the] *support that comes from the EU in terms of innovation. Things like the Horizon 20-20 programme,*[13] *and the way they are trying to open that up to SMEs. Certainly from our survey evidence that was up there really alongside the things that you'd expect to be up there such as regulation.'*

Speaking of regulation…

'There is also a real scepticism amongst business, that if we left the EU, and let's say we were able to opt out of a large, meaningful number of regulations, would they just be replaced by a similar number of UK regulations that could be as bad, or

sometimes possibly even worse – either gold-plating or because they're necessary?

'You can't entirely take away someone's employment rights. A lot of the health and safety measures, even if they might be done in too much detail, overly prescriptive, they are still needed there for some reason. If you look at family-friendly measures, flexible working for peoples' lives, all the main parties tend to be coming up with ideas in that sort of area, and they're doing it because it's electorally popular.[14] *So I think, you know, the idea that if we left the EU we would suddenly put a stop to this stuff, like the flexible working agenda, is unrealistic.'*

Of course this corresponds to the farmers' fear that Whitehall creating the laws might be no better than Brussels. Coming from a completely different sector, it's a point that cannot be ignored.

Hiatus, dislocation and uncertainty

Mr Radley set out his overall worst case scenario but pointed out that this wasn't necessarily on the cards:

'The worst way to exit would be if we ended up leaving but the decision and the process was done in an incredibly drawn-out way. Let's accept for a moment the argument that leaving would actually be good for our economy, good for manufacturers. There still could be significant transitional costs in terms of regulations being rewritten, and just generally having to renegotiate access to free markets and so on etc. etc. I think those sorts of things would create uncertainty which would be damaging for business investment.

'I don't think you can make a case that the very fact of having a referendum is bad for business investment. I don't think we've met a business that's really been able to say, "I'm not going ahead with this investment because of [EU uncertainty]".[15]

'Businesses have said that, "We are fine with a referendum, but we've got a foreign parent company and

if we continue to hear negative mood music from British politicians about our membership with the European Union, the case for making to [the parent company] that they should invest here as a sort of gateway to the rest of Europe would get seriously harder." So I think that's the problem in terms of uncertainty and investment.'

On the other hand, I wondered whether Mr Radley's members had expressed opposition to the Norway Option's rules of origin:

'It didn't come up but that doesn't necessarily mean it's not important. I think it's more that probably companies haven't thought that through.'

This still suggests the companies aren't seriously afraid, long-term, of facing a Norwegian Option – not enough to examine the details at any rate. This implies the businesses are either confident that the UK will not leave, or that a more comprehensive agreement involving single market access will be met without a particular hassle.

Solutions

Reinforce the FCO

EEF's publications mention the importance of new and emerging markets, so I was keen to know what success Mr Radley thought iBritain would have in conducting its own trade deals, and whether the UK could have got FTAs with South Korea, South Africa and Canada acting alone:

'We possibly could do some of them alone. The two constraints would be that, if we were trying to do these on our own, particularly with some of the larger economies, it would weaken our hand. We wouldn't have such a strong hand trying to do things on our own rather than as part of a bigger club. [I]*f*

we were trying to negotiate a lot of deals with a lot of different countries, would we have the capacity to do it in terms of the civil service? If you do it as part of the European club, you can share the load and bring different specialisms to the table, not having to do it all on your own. If we were suddenly having to do it ourselves it would leave us very exposed.

'*I suppose you could then make a significant investment, ramp-up the Foreign Office, but we may well find that those skills are in fairly scarce supply, and we'd be struggling to get them.* [S]*ome of* [the FTAs] *would be still possible, it would be naïve to say that* 'If we left the EU we wouldn't be able to negotiate an effective trade deal with Canada' – *I think in many cases it may well prove more difficult.*'

Certainly an injection of funding and talent to the Foreign Office seems a logical step. iBritain wouldn't benefit from the specialisation of the EU Directorates General, the huge Commission staff or the ever-growing global reach of the External Action Service. Untested, it's very hard to say how well the FCO would cope on its own, despite its historical pedigree. In trade terms, its role has been limited to missions of goodwill and fighting for specific contracts for so long that grand international agreements may well take unprecedented effort. On the other hand, not having to cater to the whims of 27 fellow member states should streamline the process considerably.

Other trading groups

One way of gaining access to a market of comparable size to the EU would be joining NAFTA:

'[W]*e spoke to a lot of companies, individually and as groups: no-one suggested that that would be an attractive idea. I don't think that anybody pro-actively suggested that would be a good idea. I suppose the thing is that, why would NAFTA want us to join when all the mood-music from the United States has been* *that they want us to stay within Europe? Wouldn't it be much more effective just to stay within Europe and negotiate good access through T-TIP?'*

I suggested we could just depend on the WTO as it continued to liberalise:[16]

'How important will the WTO be in the future? Recently, as people like Herman van Rompuy say, as a trade liberalisation body it's largely stalled, and we're much more in a world of bilateral and plurilateral deals. That's the way it is now, rather than in the WTO. I'm not saying that the WTO is entirely a spent force, but it may well be that you could make a credible case for it being proportionally less important compared to the trading blocks, and in that case the advantages of having a seat at the WTO are comparatively less than they would've been in the past.'

Unilateral tariff slash

I explained the theories of Professor Patrick Minford, often cited by Tim Congdon and other Eurosceptics, regarding the removal of all tariff barriers and a true commitment to free trade:

'So what cards would you have left to play if you wanted to negotiate a better deal with other countries? If you just gave them up unilaterally?

'These days most trade barriers aren't to do with protective tariffs anyway, they're to do with product standards, that tends to be less: "You get rid of that 10 per cent tariff and so will we"*. It's a much more complicated process of:* "Here are our product standards, these are yours, how can we work together to unravel them?" *So I'm not sure that a model of dismantling ours without being part of a dialogue or process would work.'*

Like the NFU, the EEF doesn't really see this is a workable solution.

Research & development

I asked what the best way to provide continuity in R&D would be: a limited EU treaty on scientific and manufacturing technology, ring-fenced mirror funding (linked to inflation for example) or something else.

'*I guess in theory* [an R&D treaty would be OK]. *I think that the issue there would be, is it actually realistic to expect that to happen? And I think secondly, there would be a long period of uncertainty while that was all sorted out, and I think businesses would be very concerned about that.*'

As for ring fenced mirror-funding:

'*There'd be an enormous amount of scepticism about whether that would be ring-fenced, I mean ring-fenced for the longer term, or whether it would simply disappear into the general Exchequer coffers, but I suppose in theory, yes.*'

Conclusion

The EEF don't seem 'extremist' in their EU approach, but pragmatic and realistic, while NEPIC's concerns were expressed more strongly. As in other chapters, the formula to ameliorate serious problems is:

- Swift negotiations with no hiatus, granting…
- Single market access on a footing equal to or better than Norway's
- Long term Westminster commitments to maintaining a competitive environment in terms of regulation and R&D funding

- An expansion of the Foreign Office's capacity and focus on completing trade deals with emerging markets
- Participate in energy and carbon taxation and pricing mechanisms at a continental level, probably best achieved during the exit negotiations

5

Small Business

Summary of sector & EU's involvement

The main British representative for small and medium sized enterprises (SMEs) is the Federation of Small Businesses (FSB) based in London. I met with Sietske de Groot, FSB's Senior EU and International Affairs Policy Advisor, together with Jayne Almond, Policy Advisor. Although we discussed several issues, they quickly made clear that the diversity and number of small businesses that the FSB represents meant that they had no unified position on the EU, let alone on a theoretical iBritain. Their role was more suited to pressuring London and Brussels on specific regulations and upcoming burdens – many of the firms they represent are too small to have staff looking so far into the future.

This chapter is based on the FSB's document submissions to parliament, all of which are publicly available online.

'The FSB is non-party-political and, with 200,000 members, it is also the largest organisation representing small and mediu-sized businesses in the UK… Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute up to 50 per cent of GDP and employ over 59 per cent of the private sector workforce… There are more than four million people in the UK that are either self-employed or run their own business.'[1]

According to a *YouGov* poll by the renegotiation campaign group *Business for Britain*, 47 per cent of small business owners agree with the statement 'the costs of complying with EU Single Market regulation outweighs the benefits of being in the EU', whereas 33 per cent agreed that the benefits outweighed the costs, the other 20 per cent being 'neither' or 'don't know'. For medium sized businesses, 43 per cent said EU benefits outweighed costs, 43 per cent said costs outweighed benefits, five per cent 'neither' and eight per cent 'don't know', which shows how difficult it is to come to a definitive 'SME view'.[2]

Fears and worst case scenario

The quoted documents are largely negative since they are responses to proposals and suggestions for EU reforms, not overall evaluations of the European project. We know the FSB is broadly pro-European, however. For example, in their submission to the government's 'Review of Competences' they wrote:

'Just over one-fifth of FSB members export. The European market is the main destination for our exporting members (88 per cent trade within the EEA). A third of exporters provide services cross-border, and 65 per cent export goods …

'The internal market offers easy access for first-time exporters with a market of 500 million customers and 23 million businesses on their doorstep. The internal market creates some legal certainty and a level playing field through competition rules and many harmonised rules…

'We support the continuous development of the internal market and the liberalisation of trade, including digital entrepreneurship. However, its rules should be developed and screened according to the highest smart regulation principles.'[3]

We can reasonably extrapolate from the possible absence of other EU aspects (courts, accountability, R&D) that FSB fears would correspond to those of other industries on the single market, but have greater focus on unwieldy regulation.

Solutions

Better SME regulation and less of it

Responding to the No.10 Business Taskforce investigating EU regulations, the FSB criticises and suggests opt-outs for numerous regulations such as the Working Time Directive, Data Protection Impact Assessments, REACH chemicals regulations,[4] the Road Worthiness Package, and the working time of self-employed truck drivers amendments.[5] For example:

'Article 4 (3-4) of the proposed revisions to the (Environmental Impact Assessment) EIA Directive would effectively make the current screening thresholds redundant, meaning that thousands of small projects – anything from the installation of micro-generation power technologies to setting up a specialist cheesemaker or micro-brewery – will have to be appraised for its potential impact on the environment.'[6]

Other EU rules were criticised in a December 2012 study of the 'Top 10 most burdensome legislative acts for SMEs'. According to one member: ' *It is the continual churn of new legislation, changes to legislation and now standards as well, that impact on the time it takes to firstly read, secondly understand, thirdly seek help if you need (often at considerable extra cost) and then fourthly to implement what is required.'* The FSB noted of this: *'Constantly changing guidance and "advice" creates uncertainty and adds to the fears of a business that they are not only swamped by red tape, but at risk of breaching a regulation they have inadvertently overlooked.'*

The Temporary Agency Workers Directive comes in for particular scorn:

'96 per cent said they would be less likely to employ agency workers, and of all employers who have at some point employed agency workers, 98 per cent would be less likely to recruit them in the future. The Directive has introduced heavy administrative burdens on the small business sector. The actual cost of employing a temporary worker has also greatly increased.'[7]

If this were a British law, there's no way civil servants could ignore such unanimous SME opposition.

This certainly demonstrates an appetite for fewer regulations, or much smarter, more localised exemptions regimes. Under a British exit, this is theoretically possible, even likely given the Conservatives' hatred of red tape.

Moreover, FSB members' examples often point to the importance of general opt-outs, not just microbusiness exemptions:

'Case study 2 – A member who runs a one-man architectural design practice highlighted his concerns with REACH. He uses a specialist chemical as part of the architectural design printing process. He has now been told by the company that supplies the chemical that they are considering stopping importing it due to the high costs of complying with REACH. The member is now facing having to replace his entire printing machinery at a cost of several thousand pounds.

'Case study 3 – Specialist cleaning company. The firm uses specialist cleaning products that are crucial to its everyday business operations. However, they have noticed that they can no longer purchase key products. When they contacted their suppliers, they were told that, due to the high cost of complying with REACH, the firms that manufacture the cleaning products are choosing to no longer do so.'[8]

In both of these cases, the actual problems result from 'upstream' regulation that has a knock-on effect for the small businesses. Exempting only the SMEs from REACH wouldn't have any positive effect: they need their UK suppliers to be given the appropriate flexibility too.

Such flexibility is also something that should be aimed for in exit negotiations:

'Mutual recognition would be better suited to tackle fragmentation in the field of education and culture (e.g. professional qualifications).'[9]

Potential benefits

Better oversight of regulation

Several of the FSB's demands for improving EU regulation can be seen as potential benefits of Brexit, either because the UK already assesses regulation with a sharper eye, or because without being able to point to Brussels as an excuse, Whitehall will need to be more accountable.

The Smart Regulation consultation document noted:

'The FSB would like to see a strengthened and transparent Impact Assessment body established which could serve the three EU institutions. We believe a fully independent Impact Assessment body would help drive the smart regulation agenda forward.'[10]

Later the FSB makes a proposal that is already common among committed Eurosceptics, to review the existing *acquis* and cut out the dead wood:

'The FSB believes continuous ex-post evaluation of the 'acquis' *is critical to ensuring smart regulation… The removal of regulations that are obsolete or irrelevant for business should not count towards burden reduction targets, as they will have little impact on business...'*[11]

After Brexit this process would happen necessarily, as parliament would have to see which laws depended on or were derived from the European Communities Act (1972), and replace necessary laws with new ones when that enabling legislation was repealed.

In terms of Impact Assessment standards, small businesses favour the British approach:

'It is currently very difficult to judge if an IAB Opinion [i.e. from the Commission] *is positive or negative. Therefore the IAB should set up a grading system, similar to that of the UK, so it is absolutely clear if a proposal has been approved by the Impact Assessment Board or not.'*[12]

Fair Application of Rules

British exit could also allay SMEs' concerns that they are being made to follow the rules more stringently than their EU competitors:

'Our members fear that they are put at a commercial disadvantage by complying with regulations, when others may not… the [Working Time] *Directive is incredibly complicated and most businesses need specialist (and expensive) legal advice to get to grips with its many provisions.'*[13]

In a different document:

'Inconsistent application of EU law robs small businesses of a level playing field and can put UK firms at a disadvantage. We therefore would like to see more transposition grids for key pieces of legislation… The EU institutions seem to think harmonisation is just introducing a rule for all, but, like VAT, this can be implemented to different levels in different countries, thereby reducing competitiveness and increasing cross-border complexity.

'A report by the FSB and Foreign Policy Centre in 2008 demonstrated that gold-plating had presented a significant problem to the (UK's) *small business community* "putting

UK businesses at a competitive disadvantage to their continental counterparts".

'*Our members fear that they are put at a commercial disadvantage by strictly complying with regulations, when others may not, potentially because of uneven enforcement regimes or differing insurance/ legal regimes*.'[14]

Outside the EU, and removed from the oft-questioned hand of the European Court of Justice, British businesses would be bound only by the regulations they absolutely need to follow to ensure their goods are accepted in EU nations. Parliament might (and according to many, should)[15] exempt firms that don't export to the EU from whatever EU regulations we are left following. The Coalition is already doing its best to enforce new regulations as lately and lightly as possible, but this approach should be retroactively applied to the whole *acquis*.

Transparency and scrutiny
The FSB asks: '[W]hy is it so difficult to find out where proposals are in the Commission pipeline and if they are dropped or delayed?'[16] Other Civitas publications detail the reasons for EC secrecy.[17] Here it's probably worth noting simply that British bills are fairly easy to track on parliament's website, on Hansard and on BBC Parliament. Here, then, is another advantage to being 'out' – SMEs could see what's at the end of the tunnel and prepare adequately, contributing to debate forming future regulations.

Conclusion
Given the diversity of Britain's small business community, no set of proposals will be universally satisfying. However from a brief survey of the FSB's recent EU-related documents, we can reasonably suggest:

- Continued tariff-free access to the European Market
- Emphasis on expansion of new and developing markets
- Reduction of the regulatory burden (i.e. stripping gold plating *and* keeping it off)
- Accountability and transparency in future regulation
- All of these are well within the power of iBritain to achieve.

6

The City and Financial Services

Summary of sector & EU's involvement

Representatives of the City of London's financial services and related industries have made prominent media comments about the dangers of Brexit. Unfortunately their main representative group, TheCityUK, did not contribute to this study because they are conducting their own ongoing research. This chapter briefly looks at their published material as well as parliamentary submissions from Goldman Sachs and JPMorgan Chase & Co., two of the world's largest investment banks.

TheCityUK's first study, 'A Mutually Beneficial Relationship', states that UK exports of financial services to the EU generated a trade surplus of £15.2 billion in 2012, 33 per cent of the UK's total trade surplus in financial services (£46.3bn in 2012).[1]

JPMorgan's preamble lists London's strengths as a financial centre:

'London's stable regulatory, fiscal and political environments have always been important factors in attracting international financial businesses. The robustness, independence and commercial focus of the English legal system and the rule of law; the proximity of other related business services such as accountants, auditors and consultants; the English language; time-zone and geographic location in between the East and West; availability of talented employees have all been key factors in this attraction.

'…London arguably still presents advantages over other financial centres in the region. It is clear that the current

government is not complacent about what is needed to sustain the UK's position as a leader in financial services and to remain competitive.'[2]

It's important to note that none of these advantages of London (and Britain as a whole) are contingent on EU membership – indeed some would argue that the EU hampers them.

Fears and worst case scenario

Uncertainty and market access

Most of TheCityUK's cited benefits rest on the UK's ability to sell to Europe. It's important to remember that pro-EU commentators often talk about 'EU membership' being vital, whereas the detail suggests they only really mean 'access to EU markets', which countries from Tunisia to Iceland to Mexico show are not synonymous. So conclusions such as:

'*EU banks in the UK hold nearly $1.7tn in assets or 17 per cent of total assets of banks in the UK... If the UK was not part of the EU, some of the activities of these banks would probably be diverted to other European financial centres*' are overdrawn: they completely assume action based on market access, not EU membership.[3]

Although not the focus of their evidence, JPMorgan does touch on Britain's European membership:

'[T]*he Prime Minister's recent speech on UK membership of the European Union inevitably will raise questions for inward investors over the next few years, despite his expressed wish that the UK remain in the EU.'*[4]

Goldman Sachs' concerns are very similar:

'…[A] *key risk to London's retaining its status as a financial hub is an exit by the UK from the European Union. In common with financial institutions across the City, our ability to provide services to clients and engage in investment activities throughout Europe is dependent on the passport that London-based firms enjoy to operate on a cross-border basis within the Union. If the UK leaves*, it is likely that the passport will no longer be available, *thereby forcing firms that wish to access EU markets to move their operations to within those markets*.'[5] (emphasis added)

As others have argued, this is a very pessimistic reading of Brexit. This would make sense if the banks' evidence was describing a worst case scenario, but to describe this future as 'likely' is surely hyperbolic. Preservation of mutual banking relations would be high on Westminster's list of priorities, not to mention the interests of Frankfurt and Paris. Moreover, the passport is already in place and working fine – removing it would disrupt continental banking operations, just as it would British ones. Whilst British diplomats should be aware of this fear, it is *un*likely that Europe will indulge in such levels of cutting off noses to spite faces.

Skilled labour

London is famously multicultural, and the Square Mile especially attracts talent from around the world. The CityUK's Competitiveness Report found:

'…[D]*ecision makers specifically cited access to markets in the EU as a core reason for choosing the UK over other financial centres. In over 45 per cent of UK-positive investment cases, decision makers cited access to skilled staff, including EU nationals, as one of the core reasons for choosing the UK.*'[6]

Much of TheCityUK's research was based on evidence from their survey, 'The City Speaks'. They interviewed

101 'captains of industry': 'UK based CEOs, chairmen, CIOs, board members, directors and partners of firms' using Ipsos MORI polling. Of these, 77 per cent were from firms of over 500 employees (of which 22 per cent were from firms employing 1,500-4,999; 39 per cent over 5,000 employees) meaning those surveyed were not wholly representative of the country, or even of the City, which includes many small hedge funds and legal firms.[7]

Their evidence showed that:

- 84 per cent want the UK to remain in EU, five per cent want exit
- 95 per cent say access to the single market is important to UK's future competitiveness
- 90 per cent think an exit from the single market and the EU would damage the UK's competitiveness (which raises questions about the five per cent who were in the majority 95 per cent in the question above but not this one)
- 10 per cent of them would prefer (as first option) 'The UK leaves the EU but remains within the single market', whereas 84 per cent preferred both EU and single market membership.[8]

Some of the questions are quite misleading, if taken literally. One asks: 'In a scenario where the UK left the Single Market, how likely is it that your firm would relocate *at least some* of its headcount from the UK to a location within the Single Market?' The benchmark 'at least some' is notably low – in such large firms, it's likely that *a few* employees move one way or other each year regardless of the EU membership situation. No-one is denying that Brexit could cause disruption or change.[9]

It's also noteworthy that 59 per cent respondents did *not* agree that 'the prospect of a referendum on the

UK's membership of the EU in 2017 has created an uncertainty that is affecting decisions in our business'.[10] This corresponds with Steve Radley's assertion (above) that the mere likelihood of a referendum isn't spooking the markets, meaning Ed Miliband's primary reason for not matching Cameron's promise looks paper-thin.

Loss of influence

In terms of the importance of guiding regulation, JPMorgan submitted:

'European Union rules on bank bonuses could significantly impact our ability to attract and retain senior people from outside the EU to run parts of our business in and from the UK. The UK has successfully ensured that new EU Banking Union structures do not restrict its access to the EU single market.'[11]

This is reinforced by TheCityUK's opinion:

'It is crucial that [Britain] remains fully involved in future banking union negotiations… stand[s] *firm against proposals such as the proposed financial transaction tax.'* [12]

Of course, as we're currently seeing, Britain's influence *within* the EU isn't actually enough to block the financial transaction tax or the bonus cap, but bankers are probably reassured that George Osborne is fighting those moves from within the institutions.

Solutions

Future governments will probably have to decide whether the country should remain so dependent on the financial services industry, and act accordingly. Other Civitas publications in our 'Wealth of Nations' series advocate a move towards the regions and to manufacturing,[13] but this could not happen overnight. Assuming we do want the City to survive in some capacity, then Brexit negotiations must include continued access to European banking business and the flow of highly skilled migrants. Beyond this, Britain should try to exert influence over future banking regulation through alliances with Wall Street or Hong Kong, where most major banks have branches already.

Goldman Sachs's evidence notes that:

'*London and New York share a number of advantages that have supported the growth of vibrant capital markets: the availability of skilled local talent, a legal regime which recognises the enforceability of contracts and allows for a faster resolution to disputes, a reputation for consistent application of regulation, fair treatment of financial counterparties* (including non-residents) *and a supportive tax policy.*

'*…London has obvious time-zone and geographical advantages that have allowed it to grow to become by far the largest hub for international capital flows globally*.

'…[T]*he location of our clients and regulatory limitations on U.S. firms accessing European markets and vice versa will typically dictate whether we do the business from New York or London; we often do not have a choice between the two.*'[14]

All of these characteristics suggest the continued importance of the UK for Goldman, regardless of EU membership. This contradicts Goldman Sachs International's stated position, articulated by Michael Sherwood, their co-Chief Executive, that '[i]n all likelihood we would transfer a substantial part of our European business from London to a eurozone location – the most obvious contenders being Paris and Frankfurt.'[15]

JPMorgan's London office is not only its headquarters for Europe, but for the 'Middle East and Africa region':

'*London's location and role as a financial centre also make* *it a sensible location from which we oversee activity* in Russia, the Middle East, and Africa... *London's regional and global strength—not least in terms of human capital—in foreign exchange, derivative, bond, equity and commodities markets also make it an obvious place from which to run some of those businesses…"*[16] (emphasis added)

JPMorgan is therefore unlikely to leave London because of short-term EU complications, since its London HQ is also the base for trading with a G8 country, a continent and numerous oil states. Even if there was temporary dislocation, it would make little sense for the company to move its entire infrastructure, at great cost.

TheCityUK's research gives further credence to this argument. They note that the UK is the '*largest market in Europe for legal services*',[17] providing both a support and additional markets for City firms.

'The UK has a leading share of trading in many EU financial markets including OTC derivatives trading, foreign exchange turnover, hedge funds, assets, and management of private equity funds... Thanks to its critical mass of related services, the UK is the largest market in Europe for legal services. All of the largest ten EU headquartered law firms are located in London.'[18]

This leads to TheCityUK's Chief Executive, Chris Cummings, to conclude:

'The EU prospers from having London, the global financial centre, as its hub and its entry point for companies based outside Europe. It is genuinely a mutually beneficial relationship, and the links between financial markets in the UK and EU are extensive.'[19]

If his assessment is correct, Europe is likely to maintain the status quo. Even European banks such as

Deutsche Bank and BNP Paribas will want access to the British market after Brexit, and won't want to relocate just because of political obstinacy. In 'The City Speaks', TheCityUK states '*…the UK is the single most important market for other EU countries*'. In this case, we and our mutually benefitting partners should be able to agree amicably to the required market access and standards.[20]

7

The Automotive Industry

Summary of sector & EU's involvement

The automotive industry is an extremely important part of the UK economy and has performed well in the last few years while continental competitors have struggled. According to the Society of Motoring Manufacturers and Traders (SMMT), the 'voice of the motor industry', it accounts for £59 billion turnover and £12 billion value added. Including dependent jobs, the industry employs 700,000 people in Britain. Auto manufacture is important for the UK's balance of payments, accounting for ten per cent of total exports and exporting around 80 per cent of production. The UK hosts over 30 manufacturers, over 70 vehicle models (including commercial vehicles) and supports 2,500 component providers.[1]

This chapter examines evidence from the SMMT website and parliamentary evidence; an economic assessment of the UK's industry's EU interaction commissioned from KPMG by the SMMT;[2] an assessment of the UK industry in general by the Automotive Council (a government-industry partnership); and individual car firms' public statements. Broadly speaking, they share the concerns seen in chapters 4 and 6 – the importance of free market access for their supply chains and sales being the highest priority. Autobusiness leaders voiced fears to the media (below), albeit in little detail. However, we can use their recent investments as evidence of the extent of their concern. None, of course, commit to pulling factories out of Britain if Britain pulled out of the EU. Many have invested substantially here *since* David Cameron's Bloomberg speech (January 23, 2013).

Post-Bloomberg automotive investment

2014

3 March: 'Entek International Ltd (Tyneside) will invest **£10 million** in a new generation of battery separator for the automotive industry.'

Entek, founded in Lebanon, Oregon in 1984, produces car battery parts.

3 February: **'**Coventry-based RDM Group, a supplier to Jaguar Land Rover, Aston Martin and Bentley, is to invest £400,000 in a acquiring a new 20,000 sq.ft. manufacturing facility that will see 25 new jobs created.'

Bentley is owned by Volkswagen AG (Germany) and Jaguar Land Rover is owned by Tata Motors (India). As with many top-end luxury brands, Aston Martin sells a high percentage of its models abroad.

28 January: 'Nissan announced that it will assemble its new NV200-derived Taxi for London with ADV Manufacturing in Coventry, a joint investment of **£6 million**.'

16 January: **'**Thermal and acoustic insulation manufacturer, Automotive Insulations, has invested in a new 65,000 sq. ft. premises in Warwickshire, which will employ around 200 people.'

Automotive Insulations' clients include Bentley, Jaguar, Land Rover and 3M. They export to mainland Europe.

9 January: **'**Rolls-Royce Motor Cars will create 100 further jobs at its Goodwood manufacturing plant. This is in addition to the 100 positions announced in July 2013.

Rolls-Royce Motor Cars is owned by BMW AG (Germany).

2013

20 November: 'Jaguar Land Rover component supplier Sertec is investing in a new plant in Coleshill, West Midlands, which will see the creation of 150 jobs.'

4 November: 'Sunderland-based Gestamp, which builds chassis and parts for Nissan, General Motors and Jaguar Land Rover, has added the new MINI series to its roster after investing £150,000 to expand its facility.'

25 October: 'Faurecia is to create 60 further jobs at its facility in Washington, Tyne and Wear, which manufactures interior components for BMW, Cadillac, Ford, Nissan and Renault.'

14 October: 'Cosworth announced plans for a new **£30 million** manufacturing facility in Northampton, which will lead to the creation of around 70 jobs.'

Cosworth is a British specialist in 'motorsport-inspired engineering and manufacturing' which exports to the EU and the USA.

25 September: 'Car parts firm ElringKlinger announced a **£7 million** expansion as part of a planning application for a 4,000sqm expansion of its Teeside site.'

ElringKlinger AG is a German firm that manufactures replacement engines and parts, supplying BMW Mini, Jaguar Land Rover and General Motors.

11 September: 'LTC, formerly LTI, restarts taxi production in Coventry creating 66 new jobs as part of a **£150 million** five-year investment strategy.'

The London Taxi Company (producer of the iconic black cab) is owned by Geely (Hangzhou, China) and sells worldwide, including contracts with Saudi Arabia and UAE.

10 September: 'Jaguar Land Rover will invest **£1.5bn** at its Solihull plant to enable large-scale manufacture of aluminium-based vehicles, also creating 1,700 new jobs.'

23 July: **'**Bentley is to invest **£800 million** into its Crewe plant – and create 1,000 new jobs – as it gears up for production of its new SUV.'

17 July: **'**Rolls-Royce Motor Cars announced the creation of more than 100 UK jobs at its Goodwood site.'

6 June: **'**Component manufacturer, Stadco, has confirmed *a* **£15 million investment** in its Telford facility that will support the installation of a new production line at the site…[which] will include a 4,000-ton transfer press – one of the largest in Europe.'

22 April: 'Ford confirms **£24 million investment** programme at its high-tech Bridgend engine plant in Wales to produce a new…engine. The announcement includes Welsh government support of £12 million and will see employment at Ford Bridgend rise to 2,300 this year – the most in its 33-year history.'

6 March: **'**Jaguar Land Rover reinforced its commitment to UK manufacturing by adding **£150m investment** to the £355m already committed to its new engine manufacturing centre in Wolverhampton. This will almost double the number of highly-skilled engineering and manufacturing jobs at the plant to around 1,400.'

1 March: **'**Toyota Manufacturing UK announced 70 new jobs at its Deeside plant in North Wales following increased engine demand.'

5 February: **'**Automotive supplier, Brose confirmed a **£15 million investment** into its Coventry facility, advancing a range of projects and taking its workforce to 250 employees.'

Brose is a German family-owned private company which builds and sells internationally.

Source: *SMMT Website*[3]

All these investment announcements came *after* David Cameron indicated his intention to hold an EU referendum if the Conservatives win the next election. While the car industry's opposition to Brexit is in good faith, the range of investments, over £2.7bn in total, suggests business confidence that British plants will be viable for years to come. We could infer that Britain will continue to have at least preferential market access to Europe in the medium term, while the stability of continued EU membership is preferable to manufacturers.

KPMG's car report indicates a similar mindset:

> It takes many years to design and launch new vehicles. Therefore, the industry has production plans in place into the next decade which provide visibility and confidence in its development… Recent investment announcements, which effectively secure the production of models in UK factories in the medium-term, support the continued growth of the sector… there has been significant investment in automotive R&D, increasing from 5.3 per cent of total UK R&D in 2006 to 10.1 per cent in 2012, equivalent to £1.7 billion of R&D spend.[4]

Fears and worst case scenario

Single market: Free trade, sales and supply chains

In July 2012 the Automotive Council published *Driving Success*, its 'strategy for growth and sustainability'. From its appraisal of the EU's role we can see what car industry representatives fear losing:

'[The] *automotive industry is fully integrated into the EU industry, with significant EU supply chains and substantial* *exports of finished vehicles and engines to EU markets… As a member of the EU, the UK benefits from all EU free trade agreements with third countries, and the government is committed to securing ambitious free trade deals which will provide essential jobs and growth.'*[5]

The KPMG study backs this up:

> Access to the single market is fundamental for securing investment into UK vehicle and engine manufacturing and across a highly integrated supply chain. Access to the EU market is reflected in the fact that 49 per cent of UK-produced vehicles are sold across [Europe], unhindered by any tariffs or costly regulatory barriers.

Supply chain integration and the fact that large autofirms have multiple plants across Europe makes the single market crucial to future planning, too:

> New models (and associated investment in capacity and jobs) are awarded to competing plants within their regional network based on the total delivered vehicle cost to the market.[6]

Implicitly, tariffs on parts or finished vehicles would make the 'total delivered vehicle costs' too high for UK plants to attract new models.

UK plants source 20-50 per cent of supply chain needs from the EU, while only 38 per cent of their supply chain is located in the UK. Seventy-eight per cent of SMMT members surveyed indicated that 'leaving the EU would have a negative or very negative impact on ability to access EU automotive markets to sell and source products and services'.[7] Public statements from Toyota (one of Japan's 'Big Three') support this view:

> 'The UK's membership of the EU has always been an important consideration for Toyota, from our original decision to invest here and indeed to this day,' Toyota told the *Financial Times*. Over 80 per cent of cars produced in Toyota's factory near Derby are exported to continental Europe. 'Like a lot of international investors in this country, open access to the European Single Market has been and remains crucial to our business success.'[8]

Another Japanese giant, Nissan, employs 6,100 people in Sunderland; the supply chain supports 24,000 more jobs. Nissan founded the Tyneside plant in 1986 and it now coordinates production across Spain, Russia and South Africa. Toshiyuki Shiga, President and Chief Operating Officer at Nissan, fleshed out his Brexit concerns to *The Times*:

> 'The UK is part of the European Union — that's very important… From the foreign investor's point of view, I hope that the UK will remain an EU member.' [He] added that the company liked the fact that the Sunderland plant operated under the same safety and emissions regulations as factories elsewhere. 'If the UK, after departing from the EU, made unique regulations, unique standards, that would become an obstacle.' EU tariffs were one of Shiga's main concerns: 'If the EU side put import duties on the UK, that would be a big obstacle. It depends what happens after leaving.' [9]

On the other side of the Pacific, Ford, too, has an interest in UK motoring. It employs 8,500 across five UK operations, including one in South Wales. Stephen Odell, Chief Executive of Ford Europe (also responsible for the Middle East and Africa) spoke to *The Telegraph*:

> Odell would not comment on whether a UK exit would prompt Ford to withdraw from Britain, but he was clear

> that leaving the EU could cost jobs across the board. 'I don't want to threaten the British government, "If you do this there are consequences" [but] I would strongly advise against leaving the EU for business purposes, and for employment purposes in the UK,' he said. 'You'd have to look at everything … Clearly we wouldn't be alone in doing that. Would it mean tariffs? Would it mean duties? We'd take a look at what it meant. When the Russian industry reduced last year, we took a shift out of St Petersburg. It wouldn't just be UK specific, it would be what else would happen if we left the EU. Hopefully we never get to that.'[10]

The Telegraph had further quotations from Odell:

> 'All countries should have their sovereignty, but don't discuss leaving a trading partner where 50pc of your exports go. That would be devastating for the UK economy.' [11]

As with Nissan, there are large 'ifs' and 'buts' implied here. As any sensible firm would agree privately, Ford will act in accordance with future circumstances. Indeed, Ford later released a statement regarding Odell's comments, saying they were a response to a hypothetical question so did not constitute '*a statement of intent by Ford Motor Company*'.[12]

Back to the Japanese firms: Honda recently invested £2 billion into its Swindon plant, from which it exports the majority of cars produced to mainland Europe. In 2012 it produced over 160,000 vehicles. Honda UK's managing director, Dave Hodgetts, spoke to the *Telegraph:*

> 'I think you can see very clearly that the reliance on the overall European economy for British manufacturers is actually very high. We have very strong markets in Europe, and globally as well, but we are more dependent

> on the European region for the exporting of our products. Anything that weakens our ability to trade with the region would be detrimental to UK manufacturing.'

Hodgetts urged caution on the UK's outlook post-Brexit:

> 'It depends on what's negotiated. There would have to be some penalty to being outside rather than inside that's the risk I think.' Mr Hodgetts said Honda would accept a changed relationship between the UK and the EU if it didn't affect the competitiveness of UK manufacturers. 'But when we see an anti-competitive situation if we were outside the EU then we wouldn't support that,' he said. [13]

Finally Hyundai (South Korean, founded in 1967) has made several statements on Brexit. Hyundai's position is slightly more complicated than that of the Japanese companies because there is already an EU-Korea Free Trade Agreement. Hyundai built headquarters in High Wycombe in 2005 and now employs over 3,000 people in the UK, selling almost 80,000 vehicles in 2013.

Tony Whitehorn, chief executive of Hyundai's UK operations, described the single market as 'extremely advantageous' and 'very good for us' in an interview with *Huffington Post UK:*

> 'Everything is much easier because of the single market, and if that scenario was changed it would make it more challenging… The minute you go away from the single market, you reduce the certainty.' Allan Rushforth, chief operating officer of Hyundai's European operations, explained that a British exit would: 'potentially place barriers between the manufacture and sale of vehicles in mainland Europe and the sale of vehicles in the UK. Any potential barrier to freedom of trade would arguably increase costs and reduce the appeal of the UK.' [14]

Loss of foreign direct investment

The Automotive Council's *Driving Success* document includes a tally chart of the UK industry's strengths and weaknesses. In contrast with the EEF's comments above, the 'weaknesses' chart included:

'Inward investors (and re-investors) deterred by uncertainty over the UK's relationship with the EU.'[15]

Whether or not such uncertainty is already deterring investment, car bosses certainly fear that a poorly executed Brexit would. Carlos Ghosn, Chairman and CEO of Nissan, mentioned his concerns while launching the new Qashqai model in Sunderland. The Qashqai is his best-seller in Europe, having moved 240,000 units in 2012.[16]

> 'If anything has to change we (would) need to reconsider our strategy and our investments for the future.' Mr Ghosn told the BBC: 'Obviously it's going to be a major factor happening and we are going to need to consider What does it mean for us for the future? I'm not worried about Sunderland. Sunderland is a very competitive plant, it's a very productive plant and it's a European plant based in the UK.'[17]

Again, Mr Ghosn's statements do not amount to a threat. While expressing clear pride in the Sunderland plant, he gave the BBC an honest account of Nissan's future investment decision-making. If Brexit negotiations go so badly that Sunderland ceases to be 'a very competitive plant', then it would be only reasonable for Ghosn to take production elsewhere. His stance was reflected in KPMG's survey of SMMT members:

> Senior automotive executives from all parts of the industry see the EU as beneficial to their business and warn of a risk to investment in the medium and long-term, if the UK were to leave the EU.[18]

Losing regulatory influence leading to an imbalanced playing field
One of the industry's clearest concerns is the loss of a say in EU rules, as KPMG explains:

> Defining technical regulations and product standards at a European level enables the UK to remove complexity and costs and influence the way vehicles are made around the globe.[19]

These fears correspond to those of NEPIC in particular. UK manufacturers will still need to sell products in Europe so will still have to conform to some EU specifications. Assuming the UK doesn't create additional 'platinum plating', UK exporters would still benefit from the EU's level playing field, although without direct influence over new regulations.

The Automotive Council drew particular attention to energy:

[Supporting manufacturing includes] *'ensuring that the UK remains competitive on energy costs…*[E]*nergy costs in the UK are increasing as investment in ensuring future security of supply and reduced greenhouse gas emissions takes place...* [B]*usinesses must comply with a number of schemes that can also increase costs. This includes levies such as the Climate Change Levy, the Carbon Reduction Commitment and the Carbon Floor Price. The impact of these schemes can be compounded by complex regulations with overlapping but different requirements for management, measurement, verification and reporting create administrative costs that can be significant.'*[20]

'The European Commission's CARS 2020 Action Plan [is good and desirable]…

[EU laws affecting the auto industry which the UK influenced] *included employment, health and safety legislation, the development of technical regulations affecting vehicles, rules on labelling requirements, and advertising.'*[21]

KPMG's report had a comparable list of regulatory woes. 'The UK... needs to have the ability to influence regulations such that they are appropriate for the structure of the UK industry.' Their report goes into detail considering REACH chemicals rules, carbon dioxide emissions regulation and the Electro-Magnetic Field Directive, each of which are 'examples where the UK has been able to influence the regulation to ensure that it is appropriate to the unique structure of the UK automotive industry'. Their changes included different CO_2 rules for niche manufacturers and temporary derogations of the Electro-Magnetic Field Directive rules.[22]

After Brexit, the UK may be free of many such rules, and officials will certainly be more accountable in their choices either to continue green energy measures or to liberalise energy markets (within whatever EU regulations still apply to ensure market access). Indeed, this process is already in motion as the EU agreed in early 2014 that future green targets should be non-binding.

Nissan's Toshiyuki Shiga argued for the importance of universal regulations:

> The UK is part of the European Union, [that] is very important. From the foreign investor point of view I hope that the UK will remain as an EU member…If the UK – after departing from the EU – is making unique regulations, unique standards, this would become an obstacle. If the EU side [put] import duty from the UK, that would be a big obstacle.

The Journal noted that this speech was given in the context of Sunderland's production of the Nissan Leaf:

> The electric vehicle set to underpin growth in the future… Mr Shiga is also believed to have hinted that the Wearside factory could be producing yet another new car in the near future.[23]

The implication was that Shiga was employing a carrot-and-stick approach to Brexit. Mr Shiga's superior Carlos Ghosn was more straightforward about regulation, speaking to *Autocar*:

> When asked if the UK's potential withdrawal from the EU had implications for investment, Ghosn said: 'It will... You cannot consider the UK independently of its environment. If the UK is part of Europe, it's a completely different situation if the UK is not part of Europe. For the moment it is part of Europe and we will continue to invest and act like we have European assets in the UK.[24]

Ford's Stephen Odell told *The Telegraph* that Brexit would be masochistic, because the consequences of independence would far outweigh regulatory gains:

> 'It cannot make any sense [to leave the EU],' he said. 'Yes, there are absolutely some rules and regulations, in the minutiae, that are difficult to take, particularly if you're from Britain, which was, after all, this island state for years … but I don't think that's a reason to turn your back on your largest trading partner.
>
> 'People say, "That's OK, you'll still be able to trade with the EU" – but only if you comply [with EU regulations] without a voice into the process. I understand the frustrations, but not to the point of cutting your nose off to spite your face.'[25]

Loss of global influence and economic clout

KPMG's report noted:

> The EU's bargaining power in trade negotiations around the world is immense; paving the way for the UK to export over 50 per cent of locally-manufactured vehicles to growth markets across the rest of the world… The UK produced 1.6 million vehicles in 2013, and is the fourth largest vehicle manufacturer in the EU, but does not have the critical mass to negotiate trade deals as effectively as

the EU. Being part of the EU, therefore, enhances the negotiating strength of the UK.

KPMG combines this with a similar point to that of EEF, that attempts to expand exports to the developing markets are based on robust sales to the EU back yard.[26]

Ian Robertson is global head of sales at BMW and a member of the German company's board. BMW's plants at Ham's Hall and Oxford employ over 5,000 people and sell globally. Robertson explained the importance of the EU to international trade opportunities:

'The UK not only has to be part of Europe. It has to be a fundamentally active part of Europe… To think about the UK being outside of Europe doesn't make sense… The thought of a UK outside of Europe with different trade agreements – sorry, it's not the way forward. Around the world, the biggest global trading blocs are getting bigger and we need to be part of one of them.'[27]

SMMT submitted evidence to Lord Tugendhat's House of Lords EU select committee on the upcoming Transatlantic Trade and Investment Partnership (TTIP), an EU-US trade deal:

'The largest gains for UK automotive lie in the removal of non-tariff barriers (NTBs). It is vital that political capital is invested… to achieve recognition of equivalence of regulations between the EU and US. Identifying the appropriate legislative mechanisms and legislation that can be put forward to be considered for recognition of equivalence is an important process that should be established at an early stage.' [28]

'[P]*articular attention should be put on those markets where there is significant future potential to export. Government must carry out a comprehensive assessment of the impact… to identify potential economic imbalances. Such analysis should be available for industry to view and comment on. The opening of FTA negotiations should reflect genuine economic and market opportunities…*

'Increasing multi-lateral trade should be government's trade priority. Particular attention should be given to ensuring that agreement is reached on increasing international trade and opening markets at a multi-lateral level.' [29]

Similarly, the SMMT's evidence submitted to the competences review argued:

'The ability for the EU to act as a bloc of 28 member states on trade issues is a key strength in opening up market access, leading the push for trade liberalisation on a global level, and pursuing principles of free and fair trade. The single market is also an important element of the EU's influence in trade negotiations. The attraction of access to the largest economic area in the world for third countries should enable the EU to negotiate favourable free trade terms. The UK automotive industry is integrated across Europe, and therefore the EU's competence on trade policy is of critical importance to ensure a level playing-field in terms of access to third country markets.'[30]

SMMT also endorses a zero-tariffs policy for TTIP, which could be lost in a poorly planned Brexit. KPMG notes that while British cars face only a 2.5 per cent tariff in the US, non tariff barriers effectively add 26 per cent to costs, so their removal is paramount, possibly boosting UK GDP by nine per cent in the long term.[31] Their importance is also noted by the Automotive Council:

'Access to markets outside Europe is vital to the viability of the industry in Europe… A top trade priority for the Government is [TTIP]. *Potentially huge benefits are to be had from a truly ambitious agreement that addresses non-tariff barriers, including regulations, standards and intellectual property practices.'*[32]

Since TTIP isn't primarily about tariffs, the UK may substantially benefit from it after exit, since even in the most adversarial breakup, the UK automotive industry will still build cars to EU and US specifications. The EU and US harmonising, or agreeing to recognise the other's standards, can only help the UK – which is not to say the UK could not go further alone in negotiation with the US. The most obvious threat is additional UK-grown regulations: platinum plating.

The Automotive Council's pamphlet continues:

'The Government endorses the EU focus on the regulatory barriers to trade and investment that businesses encounter outside the Union. For example, removal of non-tariff barriers and improving market access are requirements in negotiations on the EU/Japan Free Trade Agreement.'[33]

Similar to TTIP, an EU-Japan FTA should be great news for Japanese firms with British plants: they will then own plants that potentially produce products simultaneously marketable in America, Europe and Japan. Again, the most obvious impediment is additional UK rules.

Shortage of skilled labour

Driving Success delves into Britain's need for more skills and skilled workers, especially in STEM and SET:

'[B]*etween 2012 and 2020 employers may need to fill up to 820,000 jobs for professional scientists, engineers and technologists (SET jobs) – 80 per cent of which are likely to be for engineers – and 450,000 SET technician jobs.*'[34]

This is both a challenge and an opportunity. The Automotive Council has made copious comments on the UK education and training reforms needed to meet demand. They also mention the need for EU recruitment as a matter of course, treating non-EU recruitment as extraordinary but needed:

'Non-EU students are less likely to be available to join the UK workforce. In 2011-12, 36 per cent of students gaining an engineering degree at undergraduate or postgraduate level were from non-EU countries – as compared to 16 per cent across all STEM disciplines. Although it is not as straightforward as recruiting STEM-proficient graduates from the UK or the EU, many automotive companies need to recruit from abroad [i.e. non-EU] *because domestic supply is not strong enough.'*

The Automotive Council's data further shows that countries such as Finland, Poland, Portugal, Sweden and the Czech Republic produce almost double the number of engineering graduates that Britain does as a percentage of total graduates.[35] Even so, the chapter's evaluation shows that the EU alone may not meet the auto industry's demand, so specialist non-EU migrants might be needed.

KMPG's study explains how current British technological ability is based on 1980s visits from Japanese master engineers, and how German companies with UK plants (e.g. Bosch UK) emphasise apprenticeships and training, including international experience and management mobility. The paper echoes the Automotive Council almost verbatim: 'There is a shortage of qualified scientist, engineers and technologists (SET) in the UK… the number of automotive manufacturing vacancies tripled between January 2013 and January 2014… having an EU-wide talent pool is important in filling these business-critical vacancies.'

KPMG also explains that skilled engineers need to be able to move within the highly integrated European market quickly (without visa applications) for collaboration, R&D projects, or in special teams deployed to oversee production line reconfiguration and capital investment. A case study demonstrates how BWM needed to transfer 140 staff to the MINI plant in Oxford so that the plant's own employees could work in Germany during a key launch process. Similarly Vauxhall swapped 900 Polish and Luton staff to train the 'offline' Luton staff in the skills needed to produce the next-generation Vivaro model. [36] A loss of free movement could complicate such operations.

Loss of R&D

The Automotive Council noted that there are significant EU funding opportunities, but that like the NFFO, British auto does not take full advantage:

'There is significant funding for R&D available from the EU… The UK contributes to this programme and it is important that UK companies make effective use of this… Industry intelligence suggests that automotive businesses in other countries have been much more successful at accessing EU funding for R&D. Universities and some specialist companies seem to have been most adept at accessing projects under the Seventh Framework Programme for Research.'

KPMG's study gives the issue more weight:

> Innovation in UK automotive is boosted by significant EU R&D funding. In total approximately £3.5 billion has been awarded to UK businesses and universities across all sectors to encourage growth.' The study explores the way 'EU regulation sustains innovation' by creating a 'a sufficiently large market', combined with the motivation of EU emissions standards, which caused 'acceleration in innovation and development of new powertrain and fuel efficiency technologies…hybrid and ultra low emission vehicle (ULEV) cars.[37]

Solutions

R&D access

As EU-27 would remain an important market for British manufacturers, and as China and India are both also creating emissions targets, the green incentive (above) still applies to an independent country. iBritain could actually boost this effect, since while KPMG notes that Britain has benefitted from £3.5 billion in R&D funds over time, auto firms 'lag behind in engaging with EU funding'.[38] Later KPMG notes: 'To secure funding, companies and institutions need to create a consortium with at least three member states represented.'[39]

With home control of a mirror fund, the government could make applications or tenders for R&D funding simpler and more straightforward (without blocking the *ability* of companies to apply as consortia). Indeed, funding may well be boosted as the UK will have more incentive to pull ahead of EU-27 in non-cooperative areas. Of course, the UK may aim to negotiate collaborative membership of specific scientific schemes or bodies, as Norway has done.

Soften home-grown regulations

An industry expert interviewed by KPMG, identified as 'Chief Executive, UK Tier 1 Supplier', noted:

> 'It's not the EU that causes the issue [of costly regulation]. It's our application of the rules. Often the regulators are seeking purity rather than pragmatism.' KPMG commented: 'Some of the regulatory burden and cost is self-imposed by UK-only policies which are additional to EU directive requirements. Industry members highlighted energy costs as an example. In addition to EU requirements (under EU Emissions Trading System), UK also applies further energy efficiency regimes such as Carbon Floor Price, Climate Change Agreements and Climate Change Levy, Carbon Reduction Commitment and mandatory Greenhouse Gas reporting.'[40]

This chimes with the NFU's sentiments above – often it's gold or platinum plating causing the issues. Without the EU to point the finger of blame at, post-Brexit government will be fully accountable, and either defend its application of rules (say, prioritising environmental concerns and labour rights) or adapt. Softening these measures *beyond* EU levels might be a way to mitigate problems arising from exit or free trade negotiations etc. as Britain adapts to life outside the EU.

Free trade with Europe

Toshiyuki Shiga heavily hinted that there were circumstances in which Nissan would stay in Britain, predicated on continued free trade. Kamal Ahmed of *The Telegraph* wrote:

> Although Mr Shiga said that it was too early to know what the change might mean in duties or tax tariffs, there was likely to be an affect [sic].
>
> 'Of course there is some influence,' he said.
>
> Mr Shiga said that Nissan would have to study any proposals to leave the EU carefully as free trade agreements could still be put in place.
>
> 'It is too early for me to say good or not but the first impression [is] there is a possibility to have some obstacles.'[41]

The government are doing as much as they can to keep Nissan here. In March 2014 Nick Clegg and Greg Clark (Cities Minister) announced a new 'City Deal' for Sunderland, South Tyneside and the North East Local Enterprise Partnership, which includes funding for a bridge over the River Wear and infrastructure around Nissan's partners.[42] To stimulate a whole cluster based on auto plants and beverage breweries, the stimulus is creating an 'advanced manufacturing plant' next to Nissan, to be completed in 2027.[43]

KPMG presents a Nissan case study, where the Sunderland plant 'has to compete with other Renault plants in France and Spain as well as other Nissan facilities to secure future model allocation. This allocation of new and replacement models is done via competitive process, whereby plants submit business cases to a steering committee, which decides 'based on economic grounds'. The implication here is that Britain might miss out on future models (which Sunderland is already not guaranteed to win) because of Brexit. The case study does note, however, that the Sunderland plant is 'consistently in the top three highest ranked plants globally… (with) a competitive edge when bidding for new models sold in the EU' – so with appropriate trade access, this might not necessarily be a problem.[44]

Rules of origin

In their Lords evidence, the SMMT shows familiarity with the details of Norway's EEA relationship and how it could be replicated in future FTAs:

'Free trade agreements must be beneficial to both parties. Government should pursue a so called 'zero-for-zero' approach in tariff reductions (in vehicles, parts and engines) where parties to an agreement commit to 100 per cent reductions in tariffs. The addition of "duty-drawback" mechanisms must be prohibited in EU FTAs to ensure a level playing field for European automotive companies and in parallel a uniform application of Rules of Origin threshold should be maintained.' [45]

SMMT notes that such arrangements should be 'mutually beneficial'. While this falls far short of endorsing the Norwegian position (or a UK-EU FTA), it would keep both tariffs and non-tariff barriers in check, while allowing the UK to control its own trade relations with third parties. The SMMT's concerns echo those in earlier chapters, and this evidence should certainly be borne in mind by future foreign and trade secretaries.

Global economic clout
On the completion of TTIP, the vehicles iBritain produce for EU-27 and US markets will need to conform to TTIP standards (which iBritian itself is likely to follow), so UK manufacturers will benefit from NTB progress without necessarily being a TTIP signatory. This is noted various times in the Commission/CEPR paper cited repeatedly by KPMG, which proudly states: 'The benefits [of TTIP] for the EU and US would not be at the expense of the rest of the world. On the contrary, liberalising trade between the EU and the US would have a positive impact on worldwide trade and incomes, increasing global income by almost €100 billion.'[46]

Dynamic Foreign Office and Department for Transport
Echoing the NFU's concerns, the SMMT wrote (of TTIP):

> *'Sectors should not be traded against each other. Government should aim at achieving a win-win situation for all sectors to promote the greatest level of competitiveness and attract investment.'*[47]

Both sectors are aware that there is a degree of give and take in FTA negotiations, and that their own interests may be sacrificed for the 'greater good'. The same is true at EU level. As the SMMT's evidence on impact assessment evaluation suggested below ('World Stage'), a committed civil service well versed in Britain's needs could minimise this risk.

SMMT's evidence for the competences review touches on some of the 'upstream' bodies that have a role in defining regulations before they get to EU or national level for implementation. Here the UK could play a more active role, as Norway does:

> *'The UN ECE* [United Nations Economic Commission

for Europe] *process in Geneva plays a crucial role in setting global technical regulations. While European standard setting and legislation ensures a level playing field and establishes a common set of rules for automotive companies to manufacture products for the single market, global standards potentially go one step further in opening up the global market and reducing costs to sell products to a larger number of markets. Economies of scale are greater where agreement can be reached on a global level. The UK should be a proactive voice in discussions at both EU and UN levels. SMMT understands that tightened resources within the Department for Transport and other government departments has had an impact on the UK's representation and voice at UN and European-level discussions on important issues relevant to technical standards.*'[48]

Similarly, in their TTIP evidence SMMT writes:

'Government should prioritise the harmonization of global regulations as a means of increasing market access and trade facilitation. The recognition and deployment of UNECE Regulations (1958 and 1998 Agreements) should be promoted.'[49]

The KPMG report likewise notes the importance of UNECE and the World Forum for Harmonisation of Vehicle Regulations (WP29) in 'influencing global harmonisation and mutual recognition'.[50] This has implications for more than the Department for Transport: all UK departments will find, post-Brexit, that they gain (or regain) 'competences' that have been controlled by or shared with the EU for decades. Government departments will, at the least, require plans for competences integration, and probably extra staff and resources.[51]

Skilled labour

The KPMG report makes clear that 'the process of employing or transferring non-EU nationals is complex and costly, making intra-EU transfers considerably easier for businesses'. After Brexit, iBritian could loosen these rules to make non-EU skilled workers an equally viable employment opportunity, for example by making a fast-track version of the Tier 2 (intra-company) visa with less strenuous requirements and/or a streamlined acceptance process.

The KPMG study also notes that international experience 'has become a pre-requisite for individual career progression… graduate programmes place great importance on international mobility'.[52] It almost goes without saying that, post-Brexit, the government would still need to cultivate good enough relations with Europe that our skilled young people could be employed abroad if companies wanted to hire them.

Potential Benefits

Regulation

KPMG's report celebrates minor changes that UK auto lobbying has made to different regulations (REACH chemicals, Electro-Magnetic Fields [EMF], Working Time, Carbon Emissions). KPMG points out: 'For non product-specific regulations such as employment and health and safety regulations, it is likely that a large proportion of this cost would still remain in any replacement domestic regulation.'

An independent government could theoretically escape social regulations while retaining market access: the EMF alone is estimated at a 90 million euro cost, and the Working Time Directive is famously damaging despite the derogation. Even if parts of those laws are retained or reproduced, there would be a marginal productivity gain. Of course, iBritian governments might put completely new workplace safety and labour rules in place, but these could at least be tailored to British needs. [53]

World stage

In the Trade & Investment competences review submission, the SMMT discusses problems with the EU that might be easier for iBritain:

'Though the Doha round of WTO trade talks have not produced an overall positive outcome in moving forward on the multi-lateral agenda, the initiatives being taken forward on issues such as trade facilitation are welcome and the UK has a strong role as a WTO member in making a success of these efforts.

'SMMT and some of its members have recently raised an issue regarding Brazil's IPI tax and Brazil's tightening market access conditions. While UK government has been supportive of the concerns raised by UK automotive companies on this issue, it has been unable to act without building a coalition of other concerned member states. This is due to the European Commission being the authority to raise trade complaints to the WTO. In this instance, although the move by Brazil is a violation of WTO rules, a coalition has been difficult to form and therefore the European Commission does not have enough of a constituency to make a formal complaint to the WTO.'[54]

This certainly shows a level of frustration: greater involvement in the WTO, which an independent seat would yield, could meet SMMT's ambitions in similar situations.

The SMMT's evidence continues:

'Ultimately, the opening of FTA negotiations should reflect genuine economic and market opportunities and align with both the European and UK ambitions for industrial growth. As UK government is not a party to negotiations, it is all the more of an imperative that as much background and preparatory work [as possible] *is undertaken to ensure business priorities are aligned with trade policy objectives.'*[55]

This seems to indicate further SMMT gripes with the European system, in which all 28 member states shout at once about what they want and the European Commission decides the whole bloc's negotiation positions. This means that much of the SMMT's work in explaining its own priorities to Westminster can be lost in transition when British politicians go to Brussels. iBritain could directly represent its main industries in free trade talks.

Trade
SMMT notes:

'[F]*ollowing the free trade agreement with South Korea… the industry felt that the agreement reached did not go far enough in ensuring free and fair access for the EU automotive industry to the South Korean market. The European Commission plays a crucial role in overseeing the implementation of free trade agreements, and the implementation of the South Korea FTA is a focus for the automotive sector… As the UK does not hold competency in negotiating trade agreements with third countries or economic blocs, it is imperative for the UK to be able to influence the Commission on UK priorities with a robust data and evidence base.'*[56]

It's impossible to say definitively whether iBritain could deliver more comprehensive FTAs than the EU, but this is at least a possibility. Defenders of the EU *status quo* often argue that iBritain either would not have the 'clout' to close deals with large nations, or to go as far as a 500,000,000-strong bloc. However, it's worth noting that Switzerland (with a smaller population and economy than iBritain) negotiated many of the same FTAs as the EU did, and several go further than the EU's do: Swiss FTAs with Canada, Singapore and South Korea all include liberalisation in services, which the EU did not manage. Moreover, Switzerland negotiated each of those FTAs years before the EU did, and sports several FTAs that Europe does not, including China/Hong Kong and Japan. If iBritain's Foreign Office can replicate the Swiss experience, that would surely go some way to ease SMMT's fears of Brexit.

Government clarity

'SMMT believes more could be done by the European Commission to ensure that its impact assessments are as robust and comprehensive as possible. Where necessary the Commission should draw on member states' expertise and all industry players as a part of its economic data gathering to obtain a complete and balanced view.'[57]

This criticism of the Commission's Impact Assessments is similar to that of the Federation of Small Businesses, who hold up Whitehall IAs as an example of how to examine a policy more effectively and communicate the findings more clearly.

Conclusion

The automotive industry brings together many of the fears exhibited by the engineering, manufacturing and financial sectors. A continuation of mutual European free trade is the most important element in meeting car manufacturers' concerns over supply chains and finished product sales, as much for the continent's benefit as for iBritian's. It is clear that UK industry will need to keep conforming to some EU standards in order to sell to the EU market. This might mean iBritain partially benefits from TTIP and a Japanese FTA *en passant*. Indeed, academics such as Anu Bradford (Columbia Law School) argue that European regulations make a large impact across the globe regardless of what Britain (or even America) does.[58] Nevertheless, some social and environmental laws might be relaxed.

It follows that the iBritian/EU trade agreement should be complimented by incisive government action to influence regulations ‘upstream’ (and informally in the EU). Britain must also work hard to win access to new free trade deals. To aid this, the Foreign Office and Department for Transport need a boost which could fill (or exceed) responsibilities previously exercised in Brussels, and to represent Britain in UNECE and WP29. Decisions must be made about educational priorities to provide the industry with the specialist skills needed for growth while, in the meantime, EU and non-EU migration fills the gaps.

Such policies should go a long way towards allaying the fears expressed by the various car makers’ leaders, and implied by industry publications.

Conclusions

Sum of all fears

A pessimist might say:

> The UK could become a country gutted of manufacturing. We'd import cheap foreign food and use cheap foreign consumables. Farming could contract and the City lose its advantages, London bleeding jobs and the Treasury missing out on tax revenue.
>
> Negotiations for free trade with EU-27 could become bitter, protracted and ill-spirited, prompting many multinationals to leave. Meanwhile Europe could lurch towards French-style protection, making our exports more difficult even as we encounter cold shoulders from the likes of America and the Commonwealth. The oppressive regulations that our businesses escape could be replaced by 'platinum-plated' home-grown equivalents, motivated by green or social concerns.
>
> British retirees could be forced home from Mediterranean expatriate communities, while the most talented British youngsters follow the Irish and Greek 'brain drain' by finding work abroad. Skilled EU migrants could leave the turbulent environment, creating a skills shortage. Our tech sector could flounder, starved of investment as the government cuts back on R&D. A depleted Foreign Office might fail to make its voice heard internationally, meaning our remaining exporters have to follow EU and US regulations anyway in most export cases. Wales might see its poorest regions regress in terms of jobs and competitiveness, the clanking Barnett

Formula still not fit for purpose. Fishing might decline as Europeans over-fish shoals when they migrate out of UK waters.

It's important to bear in mind that this 'worst case' is beyond contrived. Remember, the sectors in this study were selected especially because they were predisposed towards the EU – other businesses could well profit from Brexit. The specifics that different sectors did fear do not wholly correspond: not all of the above could happen at once.

Fears are unfounded

None of it should happen at all, if the government sensibly negotiates its exit and makes robust, long-term plans for an independent future:

- *European market access*
  Every group in the study expressed concern that they might lose access to EU markets, whether that be because of tariffs and quotas or through less obvious obstacles such as non-tariff barriers or rules of origin requirements. These concerns suggested that business would be more expensive, future sales would be missed, or that large multinational companies would move their manufacturing, sales or headquarters to EU-27.
  Proposed solutions centre around continued access to the single market, using one of the models below. Exit negotiators should not be constrained by the existing EU trade agreements however: elements of Norwegian, Swiss, Turkish and 'free trade' could be the goal of an exiting government, including free movement of capital.

- *Hiatus, dislocation and uncertainty*
  Some groups feared that the time it would take to negotiate an EU trade agreement could itself be

damaging and/or force businesses to relocate. These include Japanese car-makers, Airbus and Goldman Sachs. It could also force desperate UK diplomats to accept unbalanced trade deals, and would leave British fishing in chaos.

Article 50 of the Lisbon Treaty gives a large window for exit negotiations, which can be extended if necessary. The UK could apply to join EFTA-EEA (below) as an interim agreement while negotiating a more distinctive relationship. British diplomats should be able to have all necessary agreements in place long before their EU membership lapses.

- *Future international clout*
  Britain might lose the EU's trade deals with South Korea, South Africa, Mexico and Canada, as well as the Transatlantic Partnership being discussed with the USA. Various sectors fear that, acting alone, Britain will not have the power, expertise or specialist skills to win meaningful trade deals.

  The Foreign Office will need a serious long-term boost in training, investment and recruitment (especially into languages) to make up for the absence of the various EU diplomatic bodies. Britain will need to be proactive in winning new alliances as well as consolidating relationships with current trading partners. The basis of trade deals is mutual advantage, and improved access to a market of 60 million people will always be attractive.

- *Influence on future regulations*
  From engineering to farming, British businesses fear that without a British voice (and British votes) in the EU's institutions, the continent will 'swing' towards a more heavily regulated mode of economic management. This could have twin negative consequences for Britain, by making trade with the

EU-27 difficult in itself (through non-tariff barriers, banking constrictions and environmental green tape) and by limiting the size and buying power of the EU market.

The Foreign Office should cultivate good relations and exert informal influence with the broadly similar economies of Scandinavia, the Netherlands and Germany, to avoid this 'swing'. Part of the exit negotiations could be to request 'observer status' in EU institutions, to make the UK's opinion known if not felt to the Commission and Council. The newly-steeled Foreign Office should be actively involved in the 'upstream' international bodies that influence EU regulation, such as the World Trade Organisation, *Codex Alimentarius* Commission, International Labour Organisation, United Nations and Basel Committee. The City may consider closer relationships with Wall St or Hong Kong to influence future Brussels banking initiatives.

- *Skilled Labour*

  Highly technical sectors and the Welsh government made clear the importance of skilled migrants who could fill gaps in the labour market quickly. The STEM skills – science, technology, engineering and mathematics – are particularly lacking.

  In the short to medium term, Britain will need a migration policy which attracts appropriately skilled workers. Currently, only the United Kingdom Independence Party is advocating an actual immigration cap. Recruitment should not be arbitrarily restricted to Europe, but opened to international talent, most obviously that of the Anglophone world. British education and vocational training should improve to meet sustained demand.

- *Access to Funding*
  Many British companies currently benefit from the EU's largesse in the form of subsidies or research and development grants. These include farmers, engineers, automotive developers, fishermen and the Welsh regions. The loss of these funds could be devastating as it would leave Britons competing with still-subsidised Europeans.

  Political hostility to the idea of subsidies must acknowledge that, given the competition, an abrupt funding loss could irreparably change the countryside and the economy. Using the money saved from terminating EU budget contributions, the UK could raise 'mirror funding' with long-term commitments to establish stability. These commitments could be based on cross-party agreement or an inflation-linked system, limited treaties to stay part of specific EU initiatives, or memoranda of understanding.

- *Gold and platinum plating*
  There are various farm regulations, green energy rules, small business regulations and banking taxes that threaten UK competitiveness. Of those that derive from the EU, many have been 'gold plated', or made more onerous, by Westminster. There are other regulations that are entirely home-grown but hold businesses back just as much.

  Future governments either need to tailor regulations that are competitive with Europe to provide a level playing field or accept they are damaging *X* industry in favour of other priorities such as fair trade, the environment, or the democratic deficit.

- *More flexibility*
  A complaint heard from several sources is the damage of a 'one-size-fits-all' command approach from Brussels, often enforced by the British government.

These are troublesome for fisheries, different kinds of farms and small businesses.

Whatever forms of management the UK uses to replace retreating EU institutions, they should include clear forums for dialogue with stakeholders and scientists, following a 'stewardship' model. Areas such as fisheries and chemical regulations will need mutual management with Britain's close neighbours, even after Britain has asserted control of its own laws and territorial waters.

Notes

Introduction

1 See publications by David Green, David Conway, Roger Bootle, Ian Milne, Jonathan Lindsell at: <http://www.civitas.org.uk/europe/index.php>

2 'It's time to quit the EU', Nigel, Lord Lawson, *The Times*, 07/05/2013, accessed here: (£) <http://www.thetimes.co.uk/tto/news/politics/article3757641.ece>

3 'The Prospects of an EU Renegotiation and Referendum', Jonathan Lindsell, Civitas, (London, 2013), accessible here: <http://civitas.org.uk/pdf/TheProspectsofEURenegotiation.pdf>

4 'Plan for "Doomsday scenario" of UK exiting EU – Hayes', Niall O'Connor, 07.01.2014, *Independent*, accessed at: <http://www.independent.ie/irish-news/plan-for-doomsday-scenario-of-uk-exiting-eu-hayes-29893667.html>

5 'Rules of origin in free trade agreements', Ronald Stewart-Brown and Felix Bungay, Trade Policy Research Centre, (London, 2012), accessed at: <http://tprc.org.uk/pages/posts/rules-of-origin-in-free-trade-agreements-10.php>
Business for Britain propose a renegotiation option in which firms that do not export to EU-27 do not have to follow certain single market regulations. Those that do would have to have certification, and they proposed rules of origin as a model. 'Setting out the British Option: Liberating 95% of businesses from red tape', Matthew Elliott and Oliver Lewis, Business for Britain (London, 2014), accessed at: <http://forbritain.org/140113-the-british-option.pdf>

6 'Fax Democracy? Norway has more clout than you know', Jonathan Lindsell, Civitas blog, 12.08.2013, accessible at : <http://civitas.org.uk/newblog/2013/08/fax-democracy-norway-has-more-clout-than-you-know/>

7 ‘Leaving the EU’, Vaughne Miller, House of Commons Library Research Paper 13/42, (London, July 2013), pp.22-23.

8 *Time To Say No*, Ian Milne, Civitas, (London, 2011)

9 The Tunisian FTA includes machinery and agriculture, two sets of goods often excluded. It began in 1995 and was completed in 2008. See the EU’s information website: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/>

10 ‘Setting Business Free: Into the Global Economy’, Patrick Minford, The Hamden Trust & The Freedom Association, (London, 2013), accessed here: <http://library.constantcontact.com/download/get/file/1102527958638-256/bis+book+clear+with+NO+bleed+CLEAN.pdf>
This model has attracted several criticisms (below), not least because it overlooks the importance of ‘non-tariff barriers’.

1 Agriculture

1 ‘Groundswell of farmers oppose 15 per cent CAP modulate’, Philip Case, *Farmers’ Weekly*, 18.12.2013, available here: <http://www.fwi.co.uk/articles/18/12/2013/142573/39groundswell-of-farmers-oppose-15-cap-modulation39.htm>
‘DEFRA opts for 12 per cent modulation rate’, Jon Riley, *Farmers Weekly*, 19/12/2013, available here: <http://www.fwi.co.uk/articles/19/12/2013/142607/cap-latest-defra-opts-for-12-modulation-rate.htm>

2 *Agriculture in the United Kingdom: 2012*, Department for Environment, Food and Rural Affairs (DEFRA) and associated devolved bodies, (London, June 2013), pp.1, 12, accessed at: <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208436/auk-2012-25jun13.pdf>

3 *Agriculture in the United Kingdom: 2012*, DEFRA, pp.6, 63, 103

4 *Ibid*, pp.2-7

5 *Ibid*, p.14

6 *Ibid*, p.63

7 ‘About Us’, National Farmers’ Union website, accessed on 18/03/2014, at:
<http://www.nfuonline.com/about-us/>

8 See footnote 16 for detailed explanation of ‘Most Favoured Nation’ rates.

9 In 1997 an EU report found that pregnant sows’ welfare was restricted by keeping them in individual stalls. The UK legislated its own stall ban in 1999, but the EU only

passed one via directive in 2001, with an ultimate deadline of 2013. British pig farming has been labouring under far more expensive conditions for 14 years, without any rise in supermarket prices. Farmers Weekly doesn't believe the ban will be comprehensively enforced on the continent and is already being dodged, leaving UK farmers at a disadvantage. See *Agriculture in the United Kingdom: 2012*, DEFRA, and Farmers Weekly, 'Half of member states not compliant with sow stall ban', Sarah Trickett, 28/03/2013, accessed at: <http://www.fwi.co.uk/articles/28/03/2012/132216/half-of-member-states-not-compliant-with-sow-stall-ban.htm>

10 New Zealand has *'virtually no support for'* agriculture but still does well because her politicians ensure good market access, given agriculture's relative importance in their economy.

11 I.e., any products being sold into the EU must meet their product standards, just as our manufacturers have to meet US safety standards to sell into America.

12 For more information see 'Groceries Code Adjudicator' on the government website, last accessed 18/03/2014 at: <https://www.gov.uk/government/organisations/groceries-code-adjudicator>

13 For more detail see the Civitas blog, 'Kiev rocks as WTO rolls out $1tn deal', December 2013, available at: <http://civitas.org.uk/newblog/2013/12/kiev-rocks-as-wto-rolls-out-1tn-deal/>

14 The topic is frequently raised on Dr North's blog, 'EU Referendum'. See for example this 24.03.2007 entry: <http://eureferendum2.blogspot.co.uk/2007/03/success-of-eu.html>

15 WTO Green Boxes describe what developed and developing countries are allowed to do to support their agricultural sectors, the main test being minimal trade distortion. See the WTO Agriculture website at: <http://www.wto.org/english/tratop_e/agric_e/ag_intro03_domestic_e.htm>

16 Both the UK and the EU as a whole have 'Most Favoured Nation' status in the World Trade Organisation. This means that the UK must give the EU the same or better tariff rates, as it does to all other WTO MFN countries. If iBritain raised tariffs against the EU, we'd have to raise them against the rest of the developed world. The exception to this is Preferential Trade Agreements (which include Free Trade Agreements) which can go further than MFN rates without triggering WTO concern.

However it seems unlikely that iBritain would (or would be able to) negotiate PTAs with the rest of the world just to disadvantage the EU.

17 i.e. those who suggest we unilaterally slash all import tariffs.

18 'Leaving the EU', Vaughne Miller, House of Commons Library Research Paper 13/42, (London, July 2013), pp.22-23. Other calculations suggest different estimates.

19 It was in 2010 – see UKIP's former manifesto: <http://www.ukip.org/issues/2013-01-25-10-55-7/2010-manifesto>. However UKIP's leader, Nigel Farage, has since announced that the 2010 manifesto is not representative of current policy. UKIP have not formally announced a replacement, but various media appearances have hinted at continued EEA membership, which would resemble the 'Norway Option'. See for example the appearance of Janice Atkinson (an MEP candidate) on BBC Question Time, February 2014.

20 *Still Out of Control? Measuring eleven years of EU regulation*, Gaskell. S and Persson. M, Booth, S. ed, Open Europe, 2nd edition (London, 2010)

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The small businesses took issue with all tractors having to pass MOTs, regardless of how frequently they drove, or how far, when many are used on private land almost exclusively.

22 See footnote 9 for more on the Sow Stall and Tether ban.

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3 'Europe Fisheries Vote Shows That the EU Can Be Reformed', Tim Farron MP, *Huffington Post UK*, 10/12/13, accessed at: <http://www.huffingtonpost.co.uk/tim-farron/eu-referendum-fisheries_b_4418015.html>

I would argue that Mr Farron's assessment is overly optimistic, not taking into account the significant difficulties in enforcement of the new measures. Such fears were articulated by the Scottish Fishermen's' Federation (SFF) to the BBC here: <http://www.bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-25308303>

4 'EU vote to curtail fishing subsidies for new fishing boats', Fiona Harvey, *The Guardian*, 23.10.2013, accessed at: <http://www.theguardian.com/environment/2013/oct/23/eu-vote-curtail-fishing-subsidies>

5 'About Us', NFFO website, accessed 18/03/2014 at: <http://www.nffo.org.uk/about_us.html>

6 First established in 2004, Regional Advisory Councils (RACs) allow representatives of all the fisheries industries in the relevant region 'concerned [to] make recommendations and suggestions to the Commission and the competent national authorities' regarding that region's management and policy formulation. Their role has gradually grown as participation increases. For more information see the Commission website: <http://europa.eu/legislation_summaries/maritime_affairs_and_fisheries/fisheries_sector_organisation_and_financing/c11128_en.htm>

7 Melchior, A., 'Tariffs in world seafood trade', FAO Fisheries Circular. No. 1016. (Rome, 2006), p.iv

8 Demersal fish are those living in or near lake or sea beds. Pelagic fish live in the area between the demersal zone and the surface.

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2 Welsh European Funding Office website, <http://wefo.wales.gov.uk/news/latest/130510eumembership/?skip=1&lang=en>

3 'EU vital to Welsh Economic Success', 23.01.2013, Welsh Government website: <http://wales.gov.uk/newsroom/firstminister/2013/6932551/?lang=en>

4 Welsh European Funding Office website, 09.05.2013

5 'ONS International Migrants in England and Wales: 2011', ONS website, accessed here: <http://www.ons.gov.uk/ons/rel/census/2011-census/key-statistics-for-local-authorities-in-england-and-wales/rpt-international-migrants.html#tab-Regional-geography-of-non-UK-born-and-non-UK-nationals>
Raw data available on ONS website.

6 For example this BBC story, ‘Cutting immigration will fuel debt, Chote warns ministers‘, 14.01.2014: <http://www.bbc.co.uk/news/uk-politics-25732868>

7 David Cameron, after negotiating a budget freeze for the European Union, stepped in to make sure Wales was not disadvantaged for the 2014-2020 period.

8 Lithuania held the rotating Council of Ministers Presidency at the time.

9 The Silk Commission, or ‘The Commission on Devolution in Wales’, has recommended Wales gain the power slightly to vary minor taxes, and that the Barnett Formula be altered to reflect Wales’s needs rather than her population. This would be subject to a referendum. See: <http://commissionondevolutioninwales.independent.gov.uk/>

10 The Portuguese government allowed the Azores islands to vary their income tax, corporation tax and VAT. The European Commission decided this was state aid, and the Court of Justice ruled it illegal. The ‘Azores ruling’ did permit corporation tax variance so long as the relevant territory bore the entire fiscal consequence. If this occurred in Wales, then, the Treasury could not compensate Wales for lost revenue.

11 Welsh Government Finance Empowerment and Responsibility, Executive Summary: Paul Silk, pp.7, 11, accessed at: <http://commissionondevolutioninwales.independent.gov.uk/files/2014/03/Empowerment-Responsibility-Legislative-Powers-to-strengthen-Wales-Executive-Summary.pdf>

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2 *Manufacturing: Our Future in Europe*, EEF (London, 2013), p.4, accessed at: <http://www.eef.org.uk/publications/reports/Manufacturing-Our-future-in-Europe.htm>

3 *Manufacturing: Our Future in Europe*, EEF, p.6

4 This was one of Osborne’s fullest accounts of the Treasury’s position on the EU, delivered to Open Europe and the Fresh Start group.

The comment can be found here: <http://www.eef.org.uk/releases/uk/2014/EEF-comment-on-Chancellors-speech-on-EU-reform.htm>

5 *Chain Reactions: How the chemical industry can shrink our carbon footprint*, David Merlin-Jones, Civitas (London, 2011), pp.xiii-xiv, figures pertain to 2006-2009 but sector broadly stable.

6 So for every tonne of Carbon Dioxide emitted during the initial process, two tonnes are saved down the line.

7 'Invest: North East England' website, Chemicals and Process Industries Overview. Accessed at: <http://www.investnortheastengland.co.uk/key-sectors/chemical-engineering-supply-chain-biotechnology-opportunities-uk-one.html>

8 At this point Nissan had just threatened to pull out of the UK entirely if the UK left the EU [the interview was on 23/08/13].

9 Solvency II is part of EU changes to pensions which could cost the UK £350 billion according to the CBI. See: *The economic impact for the EU of a Solvency II-inspired funding regime for pension funds*, CBI (2012)

10 Because if easier, UK would be fined or face NTBs or accused of dumping presumably; if harder, we'd be outperformed on price or quality.

11 Jimmy Clitheroe (1921-1973) was a short British comedian who, because of his diminutive stature, played a child character, the 'Clitheroe Kid', when he was an adult.

12 *Chain Reactions: How the chemical industry can shrink our carbon footprint*, David Merlin-Jones, Civitas, 2011.

13 The Europa webpage describes Horizon 2020 as 'being fully open to international participation, targeted actions with key partner countries and regions will focus on the EU's strategic priorities. Through a new strategy, a strategic and coherent approach to international cooperation will be ensured across Horizon 2020.' The existence of the 'European Research Area' as its own body also points to grounds for an R&D-specific agreement in the 'pick'n'mix' manner of Norway.

14 For example, Nick Clegg announced that from April 2015 mothers and fathers will be able to share paternity leave for up to a year. BBC website, 29/11/2013, available: <http://www.bbc.co.uk/news/uk-politics-25148457>

15 This is quite notable, as one of Ed Miliband's stated reasons for not matching Cameron's referendum pledge was that promising a far-off referendum unsettled the market and deterred inward FDI.

16 This was before the Bali Package was agreed in December 2013

5 Small Business

1 FSB response to the call for evidence on the Internal Market: Synoptic Review, 28 February 2013, p.2, available at: <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226814/EITD-responses-all-A-to-J-FINAL-v2.pdf>

2 'Setting out the British Option: Liberating 95 per cent of businesses from red tape', Matthew Elliott and Oliver Lewis, Business for Britain (London, 2014), p.12, accessed at: <http://forbritain.org/140113-the-british-option.pdf>

3 FSB response to the call for evidence on the Internal Market: Synoptic Review, 28 February 2013, p.3

4 The Registration, Evaluation and Authorisation of Chemicals Regulation

5 FSB response to the Prime Minister's Business Taskforce on EU Regulation, 22/08/2013, Jayne Almond, pp.3-16, accessed at: <http://www.fsb.org.uk/policy/assets/fsb%20response%20to%20eu%20business%20taskforce.pdf>

6 FSB response to the Prime Minister's Business Taskforce on EU Regulation, 22/08/2013, Jayne Almond, p.9

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9 FSB response to the call for evidence on the Internal Market: Synoptic Review, 28 February 2013, p.7

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15 For example the campaign group Business for Britain advocates an in-EU renegotiation dubbed 'The British Option' which would see companies not selling to the EU exempted from EU regulation. See 'The British Option: Liberating 95 per cent of UK Business from EU Red Tape', Matthew Elliott and Oliver Lewis,

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1 *UK and the EU: A Mutually Beneficial Relationship*, James Nixon and Marko Maslakovic, TheCityUK, (London, December 2013), p.2, accessed: <http://www.thecityuk.com/research/our-work/reports-list/uk-and-the-eu-a-mutually-beneficial-relationship/>

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3 *UK and the EU: A Mutually Beneficial Relationship*, TheCityUK, June 2013, p.5

4 Banking Standards – Written Evidence from JPMorgan Chase & Co. 08/03/2013, accessed at: <http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27v_we89.htm>

5 Banking Standards Written Evidence – Goldman Sachs International, 08/03/2013, accessed at: <http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27iv78.htm>

6 *UK and the EU: A Mutually Beneficial Relationship*, TheCityUK, June 2013, p.2

7 *The City Speaks: A milestone study of the views of financial and related professional services leaders on the EU*, TheCityUK, October 2013, p.6

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9 *Ibid*, p.18

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'**Brexit**' – British exit from the European Union – is a distinct possibility. Although many argue that the economy of an independent Britain will be more successful on the whole, there are sectors in which people feel that they benefit from EU membership. These people are consequently strong critics of the Brexit movement. In *Softening the Blow*, Jonathan Lindsell discusses Brexit fears with industry spokespeople, then explores how these could be addressed post-independence.

Eurosceptics often present exit as a straightforward utopia and dismiss economic objections. This study draws on interviews with representatives from the National Farmers' Union; the National Federation of Fishermen's Organisations; EEF – The Manufacturers' Organisation; North Eastern Processing Industry Cluster; and the Welsh Finance Minister. These interviews are combined with written evidence from Goldman Sachs, JPMorgan Chase, TheCityUK, the Society for Motoring Manufacturers and Traders, the Automotive Council and the Federation of Small Businesses.

Lindsell argues that, alone, Britain would need to act decisively to fill the gaps that the EU used to cover, however inadequately. 'Mirror' subsidies and R&D funds might be employed to keep industries on a level playing field with EU competitors. Skilled migrants from across the world should be freely employable until a new British cohort is educated to fill technical roles. A hybrid 'Norwegian model' would best ensure free trade with Europe while preserving regulatory influence and international clout. Cooperation in specific areas such as fisheries management should be embraced. With the flexibility of independence and a beefed-up Foreign Office, sympathetic government and appropriate policies, even these pro-EU industries might see benefits from exit.

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