Factsheet 2: The EU Single Market

The EU Single Market is the world's largest barrier-free trading area, accounting for nearly half our trade. It contains 500 million people. The EU economy is worth £11.8 trillion compared with £11.1 trillion for the US and £6.6 trillion for China. Its creation has involved three phases:

- **Internal Free Trade:** From the start, all tariffs and quota restrictions on trade between participating countries were abolished, creating a free trade area.
- **The Common Market:** In addition, tariffs on trade with third countries were aligned (the Common European Tariff), and trade agreements with other countries were negotiated on behalf of all members. To date the EU has 36 such agreements covering 53 markets. Other policies were also aligned: for example, national subsidies to agriculture were replaced by a common system of support (the Common Agricultural Policy), making internal free trade in agricultural products possible. VAT replaced national sales taxes.
- **The Single Market:** trade between Member States was still hampered by "non-tariff barriers": for example, diverse technical and product safety standards and other obstacles listed in British Commissioner Lord Cockfield's Single Market Programme of 1985. Streamlined procedures for adopting common laws, embodied in the Single European Act of 1987, made it possible to remove most of these barriers, thereby creating the EU Single Market. Now, when goods are certified as compliant in the UK, they are automatically cleared for sale across the whole EU.

Services: Work on removing barriers continues, particularly in the field of services, which constitute over 75 % of the UK's economy. Further opening up the market in financial services and the creation of a single market in digital services would be of enormous benefit to Britain. The House of Commons Library estimates that it could add 7% to UK GDP and could double the value of our exports to the EU. The Services Directive, introduced in 2006, has already facilitated the opening up of retail, tourism, construction and business services. Restrictions on air transport have been removed, leading to new routes and lower air fares. Mutual recognition of professional qualifications means that UK architects, doctors or vets can work anywhere in the EU.

Wider than the EU: The Single Market now extends beyond the 28 EU countries. Norway, Iceland and Liechtenstein participate as part of the European Economic Area (EEA), as does Switzerland. Other European countries, including Turkey, have trade agreements permitting partial participation. Standards set in the Single Market are widely accepted in the whole of Europe and beyond.

The Benefits for Britain: Trade within the Single Market accounts for 44% of British exports; and some 65% of the British economy is linked to trade. Just as UK exports have unrestricted access to the rest of the Market, other EU countries have unrestricted access to ours. This brings economic benefits to all. Competition reduces prices and drives innovation; firms enjoy economies of scale and more efficient supply chains; and countries can use "comparative advantage" to increase prosperity.

What happens if we leave?

The Government published a White Paper in March 2016, *Alternatives to membership: possible models for the United Kingdom outside the European Union* (HMSO). This shows that there would be a trade-off between the economic advantages of the status quo on one hand, and freedom of action on the other. It analysed a number of possible arrangements.

- **The European Economic Area (EEA) - the Norwegian model:** The UK, like Norway, might be able

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to retain full access to the Single Market as an EEA member. On the other hand, we would have to accept not only existing regulations governing the Single Market, but all new ones – though no longer playing a full part in their formulation. We would still have to contribute to the EU Budget and accept free movement of people from EU countries.

- **The Swiss model:** Switzerland is a member of the European Free Trade Association (EFTA), but not of the EEA, and has bilateral agreements giving access to the Single Market for some, but not all exports. As in the case of EEA membership, new Single Market regulations would still have to be accepted, as would free movement.
- **The Canadian model:** We might negotiate limited access on terms similar to that obtained by Turkey or Canada. One problem is the length of the negotiations to agree such trade arrangements: that between the EU and Canada took seven years, and is still to come into force. It would not guarantee access for British services
- **A complete break and reliance on WTO rules:** A complete break with the EU would give the UK freedom to conclude international trade agreements, but at the price of losing preferential access to the EU single market and to the 53 third county markets covered by EU trade agreements. Michael Gove has proposed that in the event of a Leave vote, Britain should give up access to the Single Market. This would damage our prosperity and jeopardise an unknown proportion of British jobs dependent on access to the Market, and of investment from US and Japanese companies which have located themselves in Britain so as to access the Single Market.

What the Quitters Say

"If we left the EU, we should soon be able to negotiate continued access to the Single Market. After all, they sell more to us than we sell to them."

But UK exports to the rest of the EU amount to 12% of our GDP, while theirs to us represent only 3% - or according to the CBI, 44% of our exports go to the EU as against 11% of theirs coming to the UK. As former Canadian trade minister Pierre Pettigrew has said: "*Those who claim that the UK can pick and choose what it wants in any future agreement have never negotiated a trade deal*". EU negotiators would be unlikely to offer us any soft options, if only to discourage other possible leavers. In other words, access to the EU market for British exports would get worse, the proportion of foreign investment in the EU coming to Britain would fall and, according to analysis by HM Treasury, by 2030 GDP per household would, on their middle case scenario, be £4,300 p.a. lower.

"The Single Market just means more and more harmonising regulations from Brussels. We should be free to set our own rules in our own Parliament."

If we left the EU, then the Westminster Parliament could set independent rules on product safety and similar standards. However, in a globalised world those standards would need to conform to those set by our biggest market, the EU, over which we would have lost our influence. Moreover, in 1997 foreign direct investment from other EU countries accounted for 30% of our accumulated stock of investment; as Britain has become more integrated with EU supply chains that had had risen to 50% by 2012. If we no longer enjoy privileged access to the EU market that investment is likely to seep away. It is also a myth that Britain is tied up by EU generated red-tape. In the 2016 World Economic Competitiveness Rankings, Britain ranked a creditable tenth in the world – although we were out performed by four other EU member states including Germany in fourth and the Netherlands in fifth.

"But what about those Brussels regulations that have nothing to do with trade: rules on the quality of water, health and safety, conditions of employment, and so on?"

Most of the environmental legislation has been of significant benefit: for example, by establishing EU-wide standards on motor vehicle emissions. Aspects of EU employment legislation are more controversial but have their origins in preventing countries from obtaining a competitive advantage obtained through lower wages or looser health and safety requirements. A UK opt-out from the "social chapter" negotiated by John Major was reversed by the Blair Government. The Prime Minister's renegotiation has resulted in an EU commitment to "*lowering administrative burdens and compliance costs on economic operators, especially small and medium enterprises, and repealing unnecessary legislation*". Moreover, the European Commission has been reined back and the number of new initiatives which it produces has slumped from 314 in 2010 to 23 in 2015.