

BRITAIN
STRONGER



EUROPE'S
SINGLE MARKET

BRITAIN IS STRONGER IN EUROPE'S SINGLE MARKET

This paper highlights the value to the UK economy of full access to Europe's single market, covering goods and services. This is a benefit to British businesses, in particular our service sector and UK financial services.

Those campaigning to leave the EU cannot show how these benefits can be matched, let alone improved upon, outside Europe.

- A host of independent experts have outlined how the UK's full single market access, covering goods and services, benefits the UK economy, including through additional trade, investment, incomes, employment and growth
- Leading expert and business figures have consistently highlighted the importance of having full access to the EU's single market
- The single market is particularly vital for the UK service sector, which constitutes 78% of the UK economy, and in particular the UK's financial services sector, which benefits from the 'passport' system
- Leave campaigners are putting our economic benefits from the EU single market at risk as they are committed to a future trading relationship that would exclude Britain from having full access to the single market

1. The value of the EU's single market to the UK economy

A host of independent experts have examined the impact of the single market on UK trade, investment, incomes, employment and growth.

These expert analyses underline the value of Britain having access to the single market for the UK's economy, our businesses and families.

This is put at risk by those campaigning to leave Europe, who cannot guarantee that Britain would be able to retain access to the single market.

- **The EU single market boosts trade**

The Centre for European Reform shows that our goods trade with EU countries is 55% higher because of EU membership. This is the "EU effect" on UK-EU goods trade. Analysis using publicly available ONS data shows that UK goods trade with the EU was £374bn in 2014. The "EU effect" in 2014 therefore amounted to £133bn. This £133bn is the equivalent to over £670k in extra trade on average for each business which exports or imports goods with the EU.

BRITAIN STRONGER IN EUROPE

- **The EU single market brings foreign investment**

Insurance experts Euler Hermes have predicted that the stock of FDI would fall by 20% following the referendum (2016-2020) if the UK does not have a Free Trade Agreement with the EU.¹ The latest ONS figures implies that £206bn could be lost from the stock of FDI in the UK.²

- **The EU single market boosts working people's incomes**

In written evidence to the House of Lords, the Department for Business Innovation and Skills note benefits to the UK of 6% higher income per capita from the Single Market as a result of increased trade.^{3,4}

- **The EU single market will bring more jobs and growth in future**

The Centre for Economic and Business Research has estimated the UK would see an additional £58.6bn and 790,000 additional jobs by 2030 from deepening the single market.⁵

- **The EU single market increases UK productivity growth**

Independent evidence shows that 60% of aggregate UK productivity growth was attributable to exporting firms, whose biggest customer is the EU.⁶

- **The EU single market allows the UK to avoid costly transaction costs when trading across Europe**

CityUK have highlighted how outside the single market the UK would have to face costly rules of origin, estimated as c.8% of the value of exports.⁷

¹ <http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/Economic-Insight-Brexit-UK-US-nov15.pdf>

² <http://www.ons.gov.uk/ons/rel/fdi/foreign-direct-investment/2014/stb-fdi-2014.html>

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/271784/bis-14-512-trade-and-investment-balance-of-competence-review-project-report.pdf

⁴ <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06091>

⁵ <http://www.cebr.com/reports/britain-stronger-in-europe/>

⁶ <http://www.thecityuk.com/assets/2014/Reports-PDF/Analysing-the-case-for-EU-membership-How-does-the-economic-evidence-stack-up.pdf>

⁷ <http://www.thecityuk.com/research/our-work/reports-list/analysing-the-case-for-eu-membership-how-does-the-economic-evidence-stack-up/>

2. Leading businesses and organisations believe the single market is vital to British prosperity

- Leading expert and business figures have highlighted the importance of the need for access to Europe's single market:

The FSB: "The European Single Market is good for business. The Federation of Small Businesses (FSB) welcomes the European Commission's push to make the market a more flexible and fairer place to operate."

The FSB National Chairman John Allan, 'FSB reacts to EU's Single Market Strategy', 28 October 2015, <http://www.fsb.org.uk/media-centre/press-releases/fsb-reacts-to-eu-s-single-market-strategy>

British American Business: "With more than 500 million consumers, the EU with its single market and free movement of goods and people is of huge importance to UK and US businesses...The Single Market is the EU's biggest asset. Many companies headquartered outside the EU chose to locate their regional bases in the UK where they can access the deep capital markets in London, and from there branch out in to other European markets."

British American Business, <http://www.babinc.org/policy/policyinitiatives>

The CBI: "Access to a \$16.6 trillion a year Single Market of 500m people is the key benefit. UK firms' access to the Single Market goes beyond a standard free-trade agreement. The EU has eliminated tariff barriers and customs procedures within its borders, and has taken strides towards removing non-tariff barriers - such as different product regulations - by enforcing EU-wide competition law and coordinating product regulations."

CBI Factsheet, Britain's Global Role', <http://news.cbi.org.uk/reports/our-global-future/our-global-future-factsheet-pack/>

The British Banking Association: "Banking needs access to the single market...The banking industry has been very clear in the past that our interests lie in the Single Market. It's important that the UK has a strong voice in deciding the rules that dictate that market, particularly as the Single Market for financial services is a significant factor in the success of the UK as a financial centre. It is of considerable value to the UK economy and hundreds of thousands of jobs depend on it."

Chief Executive's newsletter – September 2015, <https://www.bba.org.uk/news/insight/chief-executives-newsletter-september-2015/#.VI7Wc3bhCUk>

Centre for European Reform: "Full access to the single market is important to British prosperity. EU rules do little damage to Britain's economy. It would have to choose between full access to the European single market, in exchange for continued adherence to its rules and little influence on the rules that govern it, or freedom from those rules, with less access to the market. It would be better and simpler to stay in."

John Springford, Centre for European Reform, <http://esharp.eu/debates/the-uk-and-europe/the-british-economy-and-europe>

London First: "The Single Market of the EU – enshrined in the four freedoms of movement in goods, services, people and capital – has opened up European markets to competition by creating common rules. Estimates of its direct benefit to the UK economy vary, but the liberalisation of trade that has followed its introduction is seen by most London businesses as having significantly contributed to jobs, growth and rising GDP."

London and the EU, London First, May 2014, http://londonfirst.co.uk/wp-content/uploads/2014/05/London-and-the-EU_single-page.pdf

3. The single market is particularly vital for the UK service sector, in particular the UK's financial services sector

- Access to the single market in services is extremely important for the UK economy, as the service sector constitutes 78% of the UK economy.⁸
- Furthermore, the UK financial services sector is a major beneficiary of the EU single market, with financial services constituting 25% of UK services exports to the EU, worth £20.2bn in 2014.⁹ The UK also has a £17.1bn trade surplus with the EU in services, of which £16.6bn is in financial services.¹⁰
- The single market is particularly vital for the UK's financial services sector, which employs 1.1m people.¹¹ 95% of directors and partners of City firms say the single market is important for the UK's future competitiveness, and 90% of directors and partners of City firms think withdrawal from the EU would damage the UK's competitiveness.¹²
- The Government's Balance of Competences review concluded that the access to the single market was "critical" to maintaining the UK's position as leading financial centre.

"The existence of the EU Single Market and UK access to it were considered in the evidence to be critical to the consolidation of the UK's position as a leading international financial centre. Respondents highlighted the importance of the EU as a market, the value of the passporting regime which enables firms to be authorised in the UK and then operate across Europe, and the role of the Single Market in facilitating access to non-EU markets. Evidence emphasised the UK's share of the single market in financial services, the link between the UK's position as a global financial centre and the development of the Single Market, and surveys setting out business support for access to the Single Market"

UK Government, Review of the Balance of Competences between the United Kingdom and the European Union The Single Market: Financial Services and the Free Movement of Capital, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332874/2902400_BoC_FreedomOfCapital_acc.pdf

- The EU passport for financial services allows companies based in London to access over 500 million consumers across the EU, which attracts significant investment in the UK.

"Firms invest in London because they know that they can benefit from access to 27 markets via the EU passport for financial services."

City of London Corporation, Submission to the Balance of Competences Review, March 2013, <https://www.cityoflondon.gov.uk/business/eu-and-regulation/Documents/Balance%20of%20Competences%20Review.pdf>

⁸ ONS Blue Book 2015, Chapter 2.

⁹ ONS Pink Book (2015), Chapter 9.

¹⁰ ONS Pink Book (2015), Chapter 9.

¹¹ House of Commons Library, February 2014.

<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06193>

¹² TheCityUK, The City Speaks, 2013, <http://www.thecityuk.com/assets/2013/Reports-PDF/TheCitySpeaks-a-definitive-study-October-20131.pdf>

- Without access to the single market, the UK would have no influence over the rules we would have to adhere to in order to export to the EU.

"Removing non-tariff barriers would require compliance with EU regulation imposed from Brussels without Britain playing a role in its formulation. A particular worry for business would be the impact this would have on the UK's financial services sector, potentially threatening the City's position as the world's leading financial centre."

CBI, Our Global Future, 2013, http://www.cbi.org.uk/media/2451423/our_global_future.pdf

4. Leave campaigners are putting the UK's single market access at risk

- The Leave campaigns cannot guarantee that the UK could retain full access, covering goods and services, to Europe's single market if we were to leave.
- Leave campaigners are proposing to end all budget contributions,¹³ end free movement¹⁴ and repatriate economic regulations¹⁵ while retaining full access to the single market¹⁶. These pledges are, however, incompatible with full access to the single market.
- The only countries who have full access to the single market, covering goods and services, without being full EU members are members of the European Economic Area (EEA), such as Norway. Leave campaigners have, however, ruled out the 'Norway option'.¹⁷
- Some Leave campaigners have advocated the UK following the same model as Switzerland,¹⁸ but Switzerland does not have access to the EU single market in services.
- There is no country that has full access to the single market without paying in to the EU budget and there is no country that has full access to the single market without accepting free movement of people. Given that Leave campaigners have committed to ending free movement completely and to ending all budget contributions, they would therefore be unable to retain access to the single market and must come clean about the negative economic implications that would arise from this.

¹³ "We stop sending £350 million every week to Brussels and instead spend it on our priorities, like the NHS and science research.", Vote Leave website

¹⁴ "We will bring back control including over trade deals and migration.", Dominic Cummings, Vote Leave Campaign Director, 28 October 2015

¹⁵ "We regain legal control of things like trade, tax, economic regulation, energy and food bills, migration, crime, and civil liberties. British voters should be able to change our laws and control our taxes by voting out politicians.", Vote Leave website

¹⁶ "[David Cameron] is talking Britain down - we could negotiate a free trade deal with EU & access to [Single Market] without accepting supremacy of EU law", Dominic Cummings, Director Vote Leave, 28 October 2015

¹⁷ Dominic Cummings: "Vote Leave does not support the 'Norway option' for Britain", 28 October 2015,

<http://www.theguardian.com/politics/2015/oct/28/cameron-to-confront-norway-option-anti-eu-campaigners>

¹⁸ <http://blogs.telegraph.co.uk/news/danielhannan/100194407/outside-the-eu-we-should-aim-to-copy-switzerland-not-norway/>

ANNEX: EU EFFECT BY REGION

- Independent research by the Centre for European Reform shows that our goods trade with EU countries is 55% higher because of EU membership. This is the "EU effect" on UK-EU trade.¹⁹
- Regional Trade Statistics data from HMRC provides the value of goods trade with the EU by region.²⁰ There is a small difference with ONS Pink Book 2015 figures²¹, thus the proportions in the HMRC Regional Trade Statistics data have been applied to the ONS Pink Book 2015 data to provide the goods trade data by region below.
- These Regional Trade Statistics also provide the number of businesses that import goods and export goods with the European Union. However, these only count the number of businesses whose trade value with the EU is above the Intrastat exemption threshold (£1.5 million per year for imports and £250,000 per year for exports).
- The proportion of goods importers in each region and the proportion of goods exporters in each region from the HMRC Regional Trade Statistics have been averaged to give an estimate of the number businesses that trade with the EU that are in each region. These figures have been applied to the number of goods businesses that trade with the European Union in line with the HMRC 'Overseas Trade Statistics', which provides the total number of businesses engaged in goods trade with the EU (197,300).
- Thus, the "EU effect" by each region is:

Region	Goods trade, £m	'EU Effect' on goods trade, £m	No of business trading with EU	EU Effect per business, £
North East	13,319	4,726	4,905	963,573
North West	34,003	12,066	20,185	597,755
Yorkshire and The Humber	23,933	8,492	16,456	516,056
East Midlands	23,382	8,297	16,562	500,961
West Midlands	37,245	13,216	20,502	644,638
East	51,483	18,268	21,700	841,863
London	47,065	16,701	26,803	623,089
South East	89,541	31,773	32,885	966,160
South West	18,649	6,617	12,664	522,539
Wales	11,213	3,979	5,653	703,842
Scotland	15,978	5,669	9,806	578,140
Northern Ireland	8,284	2,939	9,179	320,227
Total	374,096	132,744	197,300	672,801

¹⁹ Centre for European Reform, The Economic Consequences of Leaving the EU, June 2014

²⁰ <https://www.uktradeinfo.com/Statistics/RTS/Pages/RTSArchive.aspx>

²¹ <http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2015/index.html>

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