



POLICY OPTIONS PAPER 1



Seeking the Common Good

**Building a new constructive
relationship between
Britain and the European Union**



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The Conservative Group for Europe

Every Conservative Prime Minister, from Macmillan to Cameron, has recognised the importance of strong and committed British participation in European political and economic institutions. The Conservative Group for Europe was founded almost fifty years ago initially to campaign for British membership of the European Economic Community and thereafter for Britain to play a leading role in the European Union. Although the 2016 Referendum was flawed, Britain is now embarking on a course to leave the EU. The role of the CGE in these new circumstances is to campaign to preserve the fullest practicable political and economic co-operation between Britain and the European Union in pursuit of our shared interests, prosperity and security.

This paper is the first of a series that will look at the economic and political impacts on specific issues and sectors of a range of policy options related to the Brexit negotiations.

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EXECUTIVE SUMMARY

As Britain starts the process of withdrawal from the European Union, the prospects are high that the outcome of the exit negotiations will cause significant damage to the political and economic interests of both Britain and the EU. There is a real danger that if these negotiations go awry, our relationships may be blighted for a generation.

This paper sets out the risks from a bad or chaotic Brexit. It argues that the British Government is in serious danger of asking for the wrong things, in the wrong way and on the wrong timescale. The Government should reconsider the strategy set out in its recent White Paper and adopt an approach which emphasises our shared interests and values. Rather than seemingly seeking to minimise the formal ties between Britain and our neighbours, this policy options paper argues for a measured timescale for achieving Brexit and for the creation of a new institutional relationship to provide coherence to the many fields in which we should aim to preserve the closest continuing cooperation.

The outcome of the 2016 Referendum was determined by a narrow majority. The Government has adopted a somewhat intimidatory stance towards its critics, claiming that the Referendum has given it a mandate. This is disingenuous. It is not defying the ‘will of the people’ to believe that the Government is pursuing an unnecessarily extreme form of Brexit. The Referendum decided that we should no longer be a member of the EU; beyond that it decided nothing. The Government should respect the views of all those who voted in the Referendum and should be identifying approaches that heal the Leave/Remain divide. Regrettably, its White Paper is based on a divisive ‘winner takes all’ approach designed to delight Brexit zealots. Amongst other consequences, this approach risks increasing alienation between the Conservative Party and its natural supporters in business.

Two of the four constituent parts of the United Kingdom voted to ‘Remain’. The Government’s approach fails to recognise this and represents an English majoritarian mind set. This seeming insensitivity to Scottish and Northern Irish concerns may give the Scottish Nationalists the sense of grievance they have been seeking to give momentum to the cause of independence. In Northern Ireland the form of Brexit currently proposed is likely to alienate nationalists and may undermine the Good Friday Agreement, especially through the imposition of a ‘hard’ border on the island of Ireland.

The Government seems to have ruled out seeking to preserve British membership of the Single Market principally because it involves a continuing role for the European Court of Justice (ECJ). It is unwise for Britain's negotiating strategy to be driven by such an ideological hostility to the ECJ. The need for EU law to take precedence where common rules must be enforced has been inherent since 1973. It has not been particularly controversial for most of that time – compared with some of the judgements of the European Court of Human Rights. If there were to be a UK-EU Free Trade Agreement (FTA) Britain will have to accept rulings by a supranational arbitrating authority to resolve disputes. The logical conclusion of a refusal to accept that supranational institutions should ever be higher than our courts is an absolute insistence on 'sovereignty'. This mindset is reported¹ to be leading the Trump Administration to refuse to guarantee their acceptance of future WTO rulings. The idea of shared sovereignty has been fundamental to making international institutions work.

It is in Britain's interests to preserve a uniquely close relationship with the EU through a new institutional relationship rather than a series of *ad hoc* arrangements. The Prime Minister has spoken of the need to create a "new strategic partnership between Britain and the EU". This is welcome. It should encompass *inter alia* the fullest possible participation in the Single Market, continuing co-operation in areas like the environment, science and research, higher education and aviation and the preservation of uniquely close working arrangements on security, crime and foreign policy. The fundamental flaw in the approach set out in the White Paper is that amid all the 'ad hoc-ery' there is no coherent vision to tie it together. Like the Tin Man in the Wizard of Oz, it lack a heart.

In considering new models, the parties should draw upon long discussed options for a 'variable geometry' Europe. Options might include Associate Membership; a bespoke Britain-EU Partnership Council; or building on ideas for a Continental Partnership. The latter would not only accommodate Britain but also other major actors on the edge of Europe, such as Turkey and Ukraine.

Much of the Brexit debate has focussed on economic issues, but the nature of our ongoing political relationship with the EU is of huge significance. It underpins our security, our shared efforts against crime and our ability to work effectively to promote our interests in the world. With the new US Administration agnostic about European unity and uncertain in its approach to Russia, now is a bad time to reduce the ability of European countries to cooperate on foreign and security policy. Our European relationship should remain an enduring pillar of British foreign policy. There is no Empire beckoning. Subservience to the United States has limited attractions since it cannot be a partnership of equals and, outside our NATO and intelligence relationship, our interests tend to diverge more than is the case with our European partners.

It is wrong to assume that it is necessarily impossible for Britain to retain membership of the Single Market whilst limiting freedom of movement for EU nationals. If negotiations are conducted in a constructive spirit, designed to maximise ties (albeit outside full membership)

¹ Financial Times: 'Trump's trade shake-up – why has the US taken aim at the WTO', 2nd March 2017.

rather than amid suspicion and rancour, a grand bargain might yet be achieved. If Britain were, for example, willing to trade some influence over Single Market rules then it might be possible to secure restrictions over freedom of movement such as an emergency brake; constraints on access to benefits; and EU nationals only being allowed to come to Britain with an offer of employment or to study, rather than in search of work.

An EU Free Trade Agreement will fall a long way short of providing the same benefits as the Single Market, especially in relation to services. Before we start rubbing our hands at the prospect of new deals with third countries we shall first have to replicate the access that we enjoy with 59 countries through EU agreements. Moreover, new FTAs with third countries will involve tough trade-offs. Independent assessments calculate that such new agreements are unlikely to be transformational in compensating for business lost in the Single Market.

Leaving the Single Market will be damaging particularly for financial and professional services pharmaceuticals, the food industry and those manufacturing sectors with tightly integrated supply chains. Thus, if an exit from the Single Market were to become inevitable, then the Government should negotiate a significant transitional period, during which Britain should retain its place in the European Economic Area (EEA). Both sides would suffer from a 'train-crash' Brexit – but Britain has even more to lose.

The Prime Minister attracted approving headlines when she declared that 'no deal' is better than a 'bad deal'. Theoretically she is right but only if the 'bad deal' is in compulsory slaughter of the first born territory. We are fooling ourselves –and the Government would be fooling the British people– if we fail to understand that a default to trading with our biggest (and currently most closely integrated) trading partners on the basis of WTO Rules would be profoundly damaging.

Many statements from British Ministers have lacked empathy with our partners and failed to create the mutual confidence that is essential if the negotiations are to have a successful outcome. Many Continental leaders see the British approach as transactional, nationalistic and ultimately hostile to the EU. This feeds a sense that Britain should be palpably disadvantaged by choosing to leave. It is inevitable that non-membership will have fewer benefits than being members. Nevertheless, ultimately both sides will benefit from maintaining a high level of economic and trading integration and from preserving the habit, as fellow European nations, of working together on environmental, security and foreign policy challenges and against crime.

1. Avoiding Brexit Zealotry

The Prime Minister established her Government at a time of great national risk and is to be praised for the leadership which she has given the country in the ensuing months. She inherited a crisis with no road map from which to navigate and has succeeded in giving the country a sense of stability.

She has no time for xenophobia and has been at pains to counter the impression given by some 'Leave' campaigners that Britain is hostile to the European Union rather than wishing to treat it as a valued partner. Despite this, the White Paper on Leaving the EU² reveals a negotiating strategy that lacks empathy with our partners, which is mistaken in its rigidity towards the European Court of Justice, and is likely to cause serious economic dislocation and, over the medium term, damage to employment levels, living standards and public services. Most importantly, the White Paper fails to convey a holistic vision for the future relationship between Britain and our European neighbours.

The outcome of the referendum on British membership of the EU created a conundrum. A narrow majority voted to 'Leave' and that result has been accepted by Parliament. It does not, however, constitute a rejection of the Referendum result to point out that there is no mandate for a rupture—or 'clean break' as it is euphemistically described by its advocates—between Britain and the European Union. It is regrettable that in its recent White Paper, the Government set a course for an extreme version of detachment, representing a model favoured by Brexit zealots and ignoring the views of the 48% of voters who backed 'Remain'. The Prime Minister's Lancaster House speech contained a fundamental inconsistency in simultaneously urging that the country should come together whilst setting out negotiating objectives that polarise opinion rather than build a consensus. The Government's proposed course threatens to damage the British economy and Britain's influence. We need a different point of departure.

Even if the Government's proposed approach were desirable, concluding within the two year negotiating window provided by Article 50 both a Brexit agreement and a Free Trade Agreement, including many *sui generis* elements, looks impracticable. This is especially so when the first

² 'The UK's Exit from and New Partnership with the European Union'.

six months are unlikely to see substantive progress due to elections in other member states and when the final months will be required to secure the necessary ratifications from the European and – for a Treaty governing a future relationship - national (and some regional) Parliaments. This highlights the need to plan for a transition phase which will enable a less radical, better planned and managed Brexit process. The most practicable approach to such a transition would be to use an already established structure, namely remaining within the European Economic Area (EEA) until a superior permanent agreement has been reached and a seamless transition can take place.

The result of the June 2016 referendum was narrow – in marked contrast to the two to one majority which determined the 1975 referendum. It is also relevant that two out of four of the countries of the United Kingdom (Scotland and Northern Ireland) were opposed to Brexit and that younger voters and those in employment voted strongly in favour of ‘Remain’. These factors argue for caution as to the model for Brexit and against the adoption of a ‘winner takes all’ approach.

The risks of an unravelling - The danger looms that the new European architecture constructed after 1945, and forged by a determination that never again should Europeans go to war with each other, may unravel. Seven decades ago Britain played a decisive role in securing the triumph of tolerance and the defeat of nationalism. It now seems self-absorbed and detached from our share of responsibility for the stability, security and prosperity of our continent. Our European relationship should remain one of the enduring pillars of British foreign policy. There is no Empire beckoning. Subservience to the interests of the United States has limited attractions, in part because it would in no sense be a partnership of equals.

Every Conservative Prime Minister since Eden – Macmillan, Home, Heath, Thatcher, Major and Cameron - grasped the importance of a European framework that recognises the lessons of history and delivered reconciliation between the countries of Western Europe and, latterly, has achieved the integration of the new democracies of Central and Eastern Europe. Those are achievements of historic importance and should not be taken for granted. Those Conservative Prime Ministers understood that strong political and economic relationships complement the defence dimension provided by NATO. They clearly saw the importance of European countries working together to solve common problems.

Margaret Thatcher was an architect of the Single Market. She accepted increased use of majority voting as a price worth paying for the creation of the largest integrated market in the world. It has delivered many benefits to British companies and consumers and for more than twenty years has been fundamental to our prosperity and competitiveness. Mrs Thatcher may sometimes have seen the European Court of Justice (ECJ) as irksome, but never as an affront to self- government or an anathema to our sovereignty. She understood that you can only have a single market with a common set of rules if it is policed by a common arbitration body. The role of the ECJ in policing the implementation of agreed rules was in Britain’s interests. It is unclear why the Government has adopted such a hostile and inflexible approach to the ECJ. Indeed such a stance implies an in principle hostility to supranational institutions, even though we happily

accept that membership of NATO involves the far greater sharing of sovereignty inherent in an automatic obligation to go to war in defence of fellow members. Moreover, it is intrinsic in free trade agreements and the operation of WTO rules that disputes have to be arbitrated and solutions imposed. Sovereignty is not in the real world an absolute concept even for major powers.

The decision to renounce the Euratom Treaty, seemingly because it involves an EU institution and is subject to the ECJ, suggests that the Government is being driven by ideology rather than a pragmatic assessment of the national interest. Industry experts agree that this decision will damage Britain's nuclear programme and create a need for duplicative regulatory structures which will then need to be accepted by third countries. In particular, if the UK leaves Euratom before an agreement with the USA is in place, American firms will likely be prohibited from supplying nuclear technology and equipment to Britain. This could result in significant outages for UK nuclear stations as a result.

Similarly, apparently in the hope of finding some way to opt back in, we should not be leaving positions in the European Medicines Agency, Europol, the European Centre for Disease Prevention and Control (which coordinates action to stop or prevent the flow of infectious diseases including threats such as the pandemic threats of avian flu and SARS or bioterrorism) or the European Environment Agency. We should start from a stance of how to preserve our position in each of them.

Designing a new institutional relationship with the EU - Our relationship with the EU will have to change to reflect the outcome of the Referendum and some of the issues which surfaced during the campaign. Nevertheless Britain's interests, values, culture, security and prosperity are inextricably linked with the EU to such an extent that these should be managed in a structured way.

The Government appears to envisage a trading relationship with the EU that is no closer than that which Canada will enjoy, once the EU-Canada Free Trade Agreement enters into force. It then seems to foresee a variety of *ad hoc* arrangements on issues like science and research, security and foreign affairs. Such arrangements would lack coherence and are surely inadequate to the task. Rather than a multiplication of individual 'deals', both sides should be looking to establish a new institutional relationship which maximises the dialogue, alignment and areas of co-operation between them.

Negotiating a new 'institutional relationship' could build on ideas which, over many years, have been discussed, and increasingly become the reality, concerning a Europe of 'variable geometry' or of 'concentric circles' or upon the ideas of a 'Continental Partnership' floated last year by a study group supported by the Bruegel think tank. Speaking in Malta recently Chancellor Merkel contemplated a move in the direction of greater flexibility, acknowledging that 'not everyone wants to take part in the same steps of integration'. To negotiate a new 'institutional' relationship will require goodwill and a longer-term strategic sense from both sides. Regrettably, there is otherwise a very real danger that the coming negotiations will be hijacked by nationalist forces both in Britain and in the EU and that relations will be poisoned for a generation - to our mutual disadvantage.

The Government should not be tempted to adopt a confrontational, crowd-pleasing stance. We and our European partners are friends and allies who share each other's values and respect each other's institutions. Europe is not a zero sum game. We must share the challenge to designing solutions which meet each other's objectives and which preserve our uniquely close relationship. The British Government, by leaving the EU, is seeking to change the legal 'form' of this relationship, but it should preserve as far as possible, its 'content': the deep and rich links between Britain and its European partners, built up over more than forty years.

Our European partners also have a significant interest in a positive outcome and in the creation of a strategic partnership as long as what is agreed strengthens –or is at worst neutral towards– the overall European project. They should ask themselves, for example, whether an institutional, rather than *ad hoc*, relationship with Britain may facilitate a continuing closeness and alignment of objectives in areas like foreign policy, security and climate change. Similarly, they should consider whether helping Britain to meet its problems regarding migration may be a price worth paying for maintaining the current scope and scale of the Single Market. Do they want, even unwittingly, to abet the nationalist elements in the British political system by imposing a 'hard' Brexit which risks maximising the schism between Britain and the EU and minimising the chances of a convergence at some point in the future?

Some European politicians privately suggest that the costs of a 'hard' Brexit (which appears to be the point of confluence between hardliners in the Conservative Party and the champions of 'more Europe' on the continent) will be too high and that British public opinion will ultimately demand that the country rescind its decision. They are almost certainly wrong in this calculation. The more likely scenario would be that the EU will be used as a scapegoat for Britain's ills; so for the EU 27 to plan on the basis of a British change of heart would be a serious miscalculation.

Empathy and common interests - Some of the leading advocates of Britain's departure from the EU argue that, since the EU's share of global GDP (on the basis of purchasing power parity) has fallen from 25% to 16% over the last thirty years, Britain should instead focus on trading with the rest of the world. They are wrong. It is welcome that an increasing proportion of the world should have become full participants in the global economy over the period – their participation increases global stability and reduces migratory pressures. Such growth accounts for the decline in the EU's share of the global economic pie even though the EU itself has continued to grow richer. The EU remains the richest trading bloc in the world and the Single Market has boosted the competitiveness of European firms. Moreover, steered by Britain and Germany, the EU has been able to have a much stronger influence on the world trading system than the UK (with just 4% of global GDP) will have alone.

The word 'deal' dominates much of the British political and media discourse about our future relationship with the EU. But if we only appear concerned about transactional trading arrangements then our partners will be much less likely to make the necessary concessions either to secure a good trading relationship or to deliver the new institutional relationship needed to maximise the effectiveness of co-operation in other fields. It is welcome that in her Lancaster House speech, the Prime Minister made clear that Britain recognises and supports the

achievements of European integration and sees the health of the European Union as integral to the stability of our continent. That was important reassurance. Conversely, Britain's attempts to ingratiate itself with the Trump Administration, despite its nationalist and protectionist agenda, makes many European leaders deeply uneasy about Britain's orientation and intentions.

Britain and our European partners face many common challenges. These include Russian attempts to destabilise its neighbours; terrorism; unprecedented migratory pressures from Africa and the Middle East; climate change; the threat posed by a US President who seems to prefer a 'Great Power' rather than a rules-based model of international relations; and the threat of growing protectionism. Britain has notable strengths to offer in meeting these threats including having the world's sixth largest economy, respected diplomatic and intelligence services, the most powerful armed forces in Western Europe, a cluster of globally respected universities and world-leading capital markets. Looking at the challenges described above, it is clear that Britain has a better chance of managing them effectively if we work with our neighbours. When the current belligerence has receded it will once again be apparent that on many issues, in the words of Benjamin Franklin, 'we must all hang together, or, most assuredly, we shall all hang separately'.

2. A view from the Continent

In preparing for a major negotiation it is wise to have a good sense of the views and objectives of those on the other side of the table. Too often the political discourse in Britain seems to be unaware of the reasons why other member states take different positions or to regard them as intrinsically irrational or unreasonable since they differ from our own.

The United Kingdom has played a pivotal role in the development of the Common Foreign and Security Policy and the creation of the Single Market. Amid rather laborious debates about the benefits of ‘widening’ versus ‘deepening’, we convinced our partners that it was a political imperative to enlarge the EU to the East. Two aspects of the Maastricht Treaty championed by Britain were the intergovernmental nature of foreign and justice and home affairs policies and the idea of subsidiarity. Unfortunately, under Tony Blair and Gordon Brown the former intergovernmental structures were largely collapsed into more supranational decision-making processes. Subsidiarity has, however, played a continuing role including in significantly reducing the volume of regulation emanating from the EU level.

In more recent years, outside the Single Currency and Schengen, British policy seems to have become increasingly reactive rather than designed to shape the European debate. Under the Coalition Government, this approach seemed designed to avoid stirring up the hard-line Eurosceptics even at the expense of our increased marginalisation in Europe. Nevertheless, the United Kingdom has continued to be of fundamental importance to the Single Market; to ensuring that the EU has maintained a broadly free-trade approach; to the growing effectiveness of cooperative security and anti-crime efforts; and to the EU’s foreign policy heft.

In 2016, during David Cameron’s ‘renegotiation’, Britain secured *inter alia* an exemption from further political integration; agreement to new arrangements to prevent the potential for the abuse of our benefits system by EU migrants; and guarantees designed to protect the interests of the City of London. A problem with the Cameron renegotiation was that it lacked a connection to other EU reform efforts and so was largely conducted – as the Brexit negotiations will be – on the basis of 27 to 1. This exaggerated the extent to which Britain was ‘isolated’ when, in reality, it has had allies on many issues. Most other member states believe that over several decades they went a long way to accommodate Britain and albeit with some reluctance to recognise it as having a special status.

Britain's departure from the EU provides a chance to come to terms with our underlying philosophical differences and to reset the UK-EU relationship. It will enable the remaining member states to take a view about the pace and direction of integration following the removal of the British 'brake'. Few people on the continent, for example, would argue against the proposition that the euro needs greater fiscal integration and a reinforced banking union if it is to be politically and economically sustainable or would disagree that the EU's handling of the migrant crisis has been confused and sub-optimal.

The twin pressures of Russian aggression and US expectations that Europe must do more to pay for its defence mean that there are strong arguments for closer security co-operation through the EU, including in the field of equipment procurement. The emergence of an instinctively unilateralist US President increases the pressure on the European members of NATO to rethink how they work together. It may even be that, freed from the toxic domestic political debates about EU membership, post-Brexit Britain will be more open to, and able to be associated with, some of this thinking and activity and thereby be able to ensure that such co-operation is complementary to NATO.

The EU's role in imposing sanctions on both Iran on nuclear proliferation issues and on Russia for its annexation of Crimea and adventurism in Ukraine has been vital. It underlines that there are inevitably links between defence, security and foreign policies and that whilst the EU has very limited 'hard' power it is a major player when it comes to 'soft' power. Britain should seek to continue to play a leading role in the evolution and implementation of common European responses on these essential issues.

The EU's 6 Principles - The European Commission's lead negotiator, Michel Barnier, has set out six principles to guide the negotiations. These are: that the Four Freedoms (goods, services, people and capital) should be regarded as indivisible; that transitional arrangements should be time-limited; that any arrangements should ensure that EU membership should always be the most advantageous status; that any new relationship must be based on the rules of fair competition; that implications for the EU's relations with third countries should be borne in mind; and that continuing close co-operation between Britain and the EU should be preserved in the fields of defence and security.

Overall, the EU 27 can be expected to give priority to preserving the stability of the EU and to discouraging other countries from contemplating taking the Brexit route. Interestingly and encouragingly the fissiparous trends which some commentators predicted would afflict the EU following Brexit have not to date materialised. If this unity is sustained, it may enable the EU to be less antagonistic towards Britain *pour encourager les autres*. Nonetheless, we will see during 2017 whether this optimistic assessment is borne out by election results in the Netherlands, France, Germany and Italy.

Whilst it may be tempting in some capitals to think that Britain should be 'punished', this would be a foolish and self-harming inclination. Firstly, because the European Union is a democratic and free community of states and peoples, held together by shared interests and

values. Article 50 of the Lisbon Treaty establishes a legitimate route to exit and it would be wrong for the EU to send a message that countries should be kept in membership by coercion rather than choice. Secondly, neither Britain nor the EU countries should willingly contemplate major economic dislocation for our citizens or a threat to the financial stability of the continent through a breakdown in the negotiations. And, thirdly – as previously noted – short-term emotional responses to Brexit should not be allowed to jeopardise the substance of UK-EU relations across the policy agenda. We need each other now and will still need each other in two, ten or fifty years from now. Ultimately, indeed, our NATO commitments require that we should be willing to fight and die for each other to defend our collective freedom.

There is a united EU position going into the negotiations behind the slogan ‘no cherry picking’. This would appear, for example, to exclude any give on the inseparability of the Four Freedoms as the pillars of the Single Market. Equally, however, ‘no cherry picking’ might be taken to indicate hostility to a bespoke deal whereby Britain seeks specific sector-based approaches to access to the Single Market and the Customs Union. This implies a rejection of the British Government’s favoured model for its Brexit negotiations. Understandably, the EU 27 seem reluctant to create awkward precedents relative to relationships with other EU neighbours such as Norway or Switzerland – albeit given Britain’s scale and capacities it arguably has a wider range of assets to offer as a partner.

At a time when other member states want to focus on a wider reform agenda, and so soon after the Cameron renegotiation, it is Britain which is once again demanding their attention. It is Britain’s planned departure which risks throwing long-established budgetary plans into turmoil with the prospect of significant cuts to expenditure programmes in eastern and central Europe or significantly higher contributions from the countries of northern and western Europe. Moreover, some voices close to the British Government sound, to continental ears, to make common ground with nationalist forces in some member states. These are some of the reasons why other member states may start the negotiation feeling distrustful and aggrieved.

As noted above, it is welcome that in her Lancaster House speech the Prime Minister emphasised that Britain recognises the crucial role of the EU in maintaining the stability and prosperity of our continent. In this context, it is regrettable, however, that the Prime Minister chose not to attend the celebrations marking the sixtieth anniversary of the Treaty of Rome implying disengagement from the need to influence the future direction of the EU. Many of those who might otherwise be our allies in Europe need to see evidence of Britain’s continued desire for a partnership with and support for the EU.

3. The Lancaster House speech and the White Paper

The Prime Minister's Lancaster House speech set a better tone than some earlier contributions from British Ministers. It was welcome too that Mrs May recognised (her mention of the need for an "implementation" phase) that it may not be possible to finalise and implement all aspects of Britain's future relations with the EU within two years. The Prime Minister also expressed a desire for "a new strategic partnership between Britain and the EU", but unfortunately she provided no clues as to her thinking about how this would be governed or what the institutional underpinnings would be.

Britain and the Single Market - The Prime Minister's determination to rule out preserving any aspects of the current relationship ("we don't seek to hold on to bits of membership as we leave"), and her exclusion of continued participation in the Single Market, seemed not to be driven by the pursuit of Britain's national interests but by hostility towards the EU in particular and supranational institutions in general. Most people interpreted the Prime Minister's unwillingness to remain within the Single Market as being about giving priority to immigration control over commerce – but it is actually the rejection of the jurisdiction of the ECJ which would rule out such participation. To wilfully exclude ourselves from the world's largest single market would, however, mark a triumph of ideology over the welfare of the British people. The Chancellor has rightly observed that in the Referendum people did not vote to make themselves poorer – but that is the almost inevitable outcome of the present direction of policy.

It will be important to ensure that trade between Britain and the EU does not become subject to tariff barriers, and that European supply chains, which have become increasingly integrated over the last twenty years, are not disrupted by onerous customs procedures. A Free Trade Agreement is unlikely to be effective in securing equivalent access to British services relative to that which we currently enjoy. An FTA will, in all likelihood, not prevent the emergence of non-tariff barriers in goods. It makes no sense for Britain to sacrifice its significant competitive advantages in financial services, including through the loss of 'passporting'. Although the voters of North-East England or the West Midlands may have little love for the City of London, they risk a significant reduction in national tax revenues and, therefore, in the quality of public services,

if the essentials of current market access arrangements are not preserved. A PWC study³ has estimated that by 2020, up to 100,000 financial services jobs - across the country not just in the South East - could be put in jeopardy through Brexit.

A recent study by Dr Monique Ebell, of the National Institute for Economic and Social Research (NIESR) suggests that even by replacing Single Market access with a comprehensive FTA, British exports to the EU will be 22% lower than they would otherwise be. The NIESR review noted that “non-tariff barriers such as regulatory constraints play a more important role” (than tariffs), “especially for high-value added business services such as financial or legal services”.

It is known that the Government has informed its negotiating strategy through sector by sector analysis of the extent and nature of their dependence on the Single Market. In order to facilitate informed debate about the Government’s proposed negotiating strategy and alternative approaches, the Government should publish sectoral impact assessments of Brexit models.

Free Trade Agreements with third countries - The NIESR study⁴ goes on to consider to what extent new FTAs with third countries might be expected to compensate for the estimated 22% drop in export revenues from the loss of full participation in the Single Market. The study concludes that, even on optimistic assumptions, these are unlikely to increase exports of goods by more than 11-12% to non-EU countries, implying a 7-8% rise in total trade (in goods and services) relative to the previous trend. Alarmingly, the study predicts over the longer term a drop of 35% in Britain’s exports of goods to the EU and of 61% in services. To date, few FTAs provide comprehensive coverage of trade in services and so the probability is that Britain will likely lose almost three times as much from leaving the Single Market as we will gain from attempts to re-orientate our trading relationships.

It is also unclear in the negotiation of FTAs with third countries to what extent Britain will be willing or able to make concessions in areas such as laxer visa controls for India and Australia (such clauses are standard in more advanced FTAs); greater private sector competition in Britain’s healthcare market or changes to our food safety requirements for the US; or will be successful in seeking the application of significant environmental or social standards to competitors from China and India.

‘Global Britain’ - The ‘Global Britain’ vision outlined by the Prime Minister has attractions – albeit the portrayal of Britain as being intrinsically more internationalist in its history and outlook may come as a surprise to the French. But a continuing close relationship over the last forty years with the European Union has never been an impediment to Britain having a global outlook; rather we have enjoyed greater heft in the world through our ability to work with other like-minded European countries. Indeed aspects of the ‘Global Britain’ concept seem to be

³ ‘Leaving the EU: Implications for the UK Financial Services Sector’, April 2016

⁴ Ebell, Monique ‘Assessing the Impact of Trade Agreements on Trade’, National Institute for Economic and Social Research Journal, November 2016 and NIESR Blog Post ‘Will New Trade Deals Soften the Blow of Hard Brexit’, 27th January 2017.

confused and at variance with objectives set out elsewhere by the Prime Minister. So, for example:

- i) Britain sells less than 4% of its exports to China, less than 2% to India and less than 1% to Brazil. But this isn't because the EU prevents us from selling more – Germany's exports to China, for example, are three times greater than Britain's. By all means we should be seeking to expand exports to developing countries. Indeed our success in doing so is reflected in the fact that the EU's share of British exports has declined over the last decade from over 50% to some 44% now. It is, however, easier for Britain to export to other EU countries because they are closer, generally richer, have liberalised elements of the market in services and because both tariff and non-tariff barriers have been removed.
- ii) The Prime Minister has set out the admirable objectives of Britain being 'a great global trading nation' and a champion of free trade. However, under her leadership, we will damage – potentially severely – access to both our biggest and freest market together with losing our preferential access to over 50 other countries derived from agreements negotiated by the EU. We will lose significant leverage in favour of free trade through leaving the most powerful trading bloc in the world, and weaken pro-reform, pro-market trends within the EU.
- iii) The Government's reaffirmation of its target of reducing net immigration to the 'tens of thousands' sits oddly with an affirmation of Britain's openness to the world.
- iv) During her 2016 Party Conference speeches the Prime Minister empathised with those 'Leave' voters who felt disempowered, had been treated unfairly, or had lost their jobs. However, far from providing more support for such people, the Government is aiming to reduce our access to a market where we share similar social and environmental standards in favour of greater competition from countries that have only basic standards such as China or India. We will be giving up our position in the Single Market in order to increase the exposure of our companies to markets where bribery and corruption are often endemic and human rights abuses commonplace. Moreover, if London has to find a new future as an offshore financial centre it is likely to have to become less discriminating about the sources of money it accepts and manages.
- v) Global Britain should also be about our ability to promote our values in the world and yet outside of the European Union – the biggest 'soft' power actor in international relations - we will see our influence reduced. Many of the pronouncements coming from the White House since the inauguration of President Trump are deeply troubling on trade policy, the Middle East, NATO and climate change. They are wholly opposed to established British policies. And yet because we are so anxious to secure a free trade deal with the US, we appear to have no option but to ingratiate ourselves with the new Administration. It appears that our ability to influence the world around us on our own terms has already begun to be eroded – a palpable loss of sovereignty.

The future of the United Kingdom - It is worrying too that the Government's approach offers few concessions to the concerns of Scotland, Northern Ireland or even 'Leave' voting' Wales whose Executive favours continued membership of the Single Market. The approach set out is English 'majoritarian', an attitude which threatens the Union. It may be that the Scottish First Minister will overreach herself or that adverse movement in the price of oil and increased estimates of the cost of decommissioning production infrastructure will prevent a vote for Scottish independence. But through its hard-line model for Brexit the Government is upping the stakes unnecessarily.

Similarly, through threatening to impede freedom of movement of people and goods within the island of Ireland, we risk a revival of the divisions which previously fuelled the conflict; economic damage on both sides of the border; a drift back to alienation on the part of Irish nationalists and a consequent deterioration in security. The Government has said that the Province will not be accorded any special status, whilst expressing the intention that a 'hard border' should be avoided. Nonetheless, it is unclear how this is to be achieved. The hard-won Good Friday Agreement was possible because the United Kingdom's and Ireland's shared membership of the EU made it easier to accommodate the Irish identity of a significant proportion of Northern Ireland's population whilst remaining in the United Kingdom. It is essential that the Government conveys a much greater sense that these issues will be decisive in its calculation of the right approach to Brexit.

A policy in need of a heart - But the greatest weakness of the model set out in the White Paper is that it is piecemeal. Like the Tin Man in the Wizard of Oz it lacks a heart. There is no vision of what a new relationship should be like, what would hold it together, how it would work or how we would hope to have influence over the policies of our closest neighbours.

4. The forthcoming negotiations

It will become apparent shortly after Article 50 is triggered whether or when the other 27 member states will be willing to conduct parallel negotiations about both the terms of the 'divorce' **and** the basis for a new relationship. Parallel negotiations would be in the interests of all those who aspire to a successful outcome since it creates the potential for both parties to make trade-offs rather than only focussing on the largely negative issues which need to be resolved during the 'divorce'. Moreover, a persuasive point in favour of parallel tracks, rather than consecutive negotiations, is that the wording of Article 50 requires that the separation agreement should take account of any agreed framework for future relations.

The scope for substantive negotiations in advance of the German Bundestag elections in Autumn 2017 will be limited. Several months will then be needed at the end of the Brexit process to achieve ratifications from the European and national Parliaments. Thus the Article 50 negotiating window may be as narrow as 15 months. On this basis, many experts believe it is very unlikely that a detailed and comprehensive new relationship can be negotiated and put in place before March 2019. In addition, there is a risk that the outcomes of the German or Italian elections could be indecisive, that the Spanish Government might fall and that negotiations to form new governments could take several months, thereby further narrowing the window for substantive negotiations.

Transitional Arrangements and the EEA Option - Authoritative commentators regard five years as a minimum period for the negotiation of a complex Free Trade Agreement (the EU's FTA with Canada, which was much less politically sensitive, took seven years).

The Government is in danger of painting itself in to a corner by taking the view that it is a political imperative that Britain should have completed the process of leaving the EU by March 2019. This need not be the case. The Prime Minister has credibility with the electorate and she should therefore use her authority to make clear that unravelling 43 years of shared economic and political arrangements cannot be done optimally in two years. It is better to do Brexit well than quickly.

If the Government persists in refusing to seek continued access to the Single Market, then Britain should continue to enjoy membership of the European Economic Area until a superior

agreement has been put in place. This would provide stability whilst detailed negotiations are completed and implementation measures – including readying IT systems – are completed. The EEA is a sub-optimal solution but until we can negotiate a new bespoke institutional relationship, then it is better than the alternatives. A number of leading lawyers have given their opinion that British membership of the EEA is independent of our membership of the EU and can only be terminated on the basis of giving twelve months' notice of an intention to withdraw.

Using the EEA would make it less likely that Britain would have to 'walk away' or that we would have to revert to the profoundly unattractive – especially for services – option of trading under WTO Rules. It would give business a longer period of stability to adapt and, from the point of view of the Conservative Party, it would avoid the period of maximum economic and administrative disruption coinciding with the run up to the anticipated General Election in May 2020.

The 'Walk-Away' Option and WTO Rules - Former senior diplomats, including Lord Kerr and Sir Ivan Rogers, have highlighted the consequences of a 'disorderly' Brexit – or the 'walk away' scenario. This scenario could involve legal and administrative chaos including around border and customs procedures; many of our service industries would face barriers to doing business; and sectors such as cars and many foodstuffs would face significant tariffs. Other areas of co-operation might well be imperilled and lengthy international litigation would be in prospect. Moreover it cannot be guaranteed that we could get immediate agreement to our proposed tariffs within the WTO from its 160 member states, which could leave us in a trading limbo if any other member chose to use the need for unanimity as a point of leverage on other issues. Treasury Select Committee Chairman, Andrew Tyrie, has characterised such a breakdown as a 'train crash Brexit'.

To a chorus of approval from most British newspapers and in line with the urgings of many hard-line 'leavers', the Prime Minister has declared that she would be willing to 'walk away' from the negotiating table and that no deal was better than a 'bad' deal. This is theoretically true but the 'bad' deal on offer would almost have to be in the 'slaughter of the first born' territory to make this a sensible option.

The hard-line 'Brexiters' took a similar line during the Cameron renegotiation - ultimately goading him to say that if he didn't get what he wanted then he could recommend a 'Leave' vote. In that situation their agenda was to increase the sense of confrontation and to make 'Leave' appear to public opinion to be a valid – rather than highly risky - option. In the current situation the Brexiters' over-riding objective seems to be to create the maximum alienation between Britain and the EU and then to scapegoat outsiders for self-inflicted wounds. We have already seen a significant increase in the projected fiscal deficit as a result of Brexit, but according to the widely-respected Institute for Fiscal Studies⁵ (August 2016) continued Single Market membership would be worth 4% of GDP relative to having to rely on WTO terms.

⁵ 'Brexit Options: Budget contributions pale against wider trade and economic impacts' Carl Emmerson, Paul Johnson and Ian Mitchell

An early and potentially acrimonious phase of the negotiations will concern the crystallisation of Britain's financial liabilities and assessment of its legitimate share of EU assets. The existence of such potential liabilities, which include a share of the costs of multi-year programmes to which Britain is committed and shared pension liabilities, were not discussed during the Referendum campaign. Some of the figures which it is speculated the EU will ask for as its 'Brexit price' are no doubt inflated, and Britain will counter claim for a share of the EU's assets. But the net crystallisation of liabilities caused by Brexit may be significant – albeit they diminish very substantially by 2022 as agreed expenditure programmes run their course.

Freedom of Movement - Immigration is generally agreed to have been the issue that drove the successful 'Leave' campaign. The Prime Minister has indicated that she will give priority to reducing net immigration to the 'tens of thousands'; requiring a big reduction in the numbers coming from both the EU and the rest of the world. Some Continental Europeans express surprise that the UK should give such a high priority to immigration, especially when net EU migration has always been less than half of the net inflow. They note that, even with Theresa May as Home Secretary, Britain failed over many years to bring non-EU immigration – over which it has full 'control' – down to the 'tens of thousands'.

Migration became such a salient issue during the Referendum campaign for a number of reasons. These include:

- a degree of conflation of concerns between EU migrants and the influx of over one million Middle Eastern and North African refugees to continental Europe during the summer of 2015 (viewed nightly on British television);
- a perception that the influx of Central and Eastern Europeans was putting unsustainable pressure on public services in some parts of the country;
- a failure to engage constructively on the issue, including the contribution made to public services by EU migrants by 'Remainers' who, wrongly, saw salvation in a sole focus on the economy; and
- some 'Leave' voters felt that immigration was an issue on which the major parties had been unwilling to listen to them during the normal electoral process and that the Referendum gave them the opportunity to be heard.

Because of Britain's relatively healthy economy and the choice made by the Blair Government not to impose transitional controls on immigration from the first wave of Central European countries, the UK received a significant proportion of migrants from these countries after 2004. According to Eurostat figures, in 2014 Britain received 263,600 EU citizens and 287,000 non-EU citizens. These figures were greater than the flows into any other member state except Germany which received 415,000 EU nationals and 372,000 non-nationals.

Immigration has become a difficult issue in some other member states, including normally staunchly liberal northern European countries such as the Netherlands and Sweden. In most of these countries, however, migration from within the EU has been much less of a concern than arrivals from Africa, the Middle East and South Asia.

David Cameron made limiting freedom of movement a central plank of his renegotiation. He was successful in getting agreement to restricting EU migrants' access to in-work benefits for up to seven years – indeed there was sympathy from a number of other member states for the principle of preventing benefit levels in richer EU countries from acting as a magnet for migrants from poorer countries. Without changing the Treaties there was, however, no real scope for producing an absolute reduction in the numbers of EU migrants such as through a quota regime or a points-based system discriminating between 'skilled' and 'low-skilled' migrants. Of course, in the context of negotiating a new relationship, if Britain is no longer a full-member of the EU and a ratification of the new UK-EU relationship will in any case be required, then the Treaty change complication may no longer be an impediment to the UK's limiting freedom of movement.

Freedom of movement is enshrined in the Treaties, albeit the concept has over the years morphed from freedom of movement for 'workers' to freedom of movement for 'persons'. Many member states regard the Four Freedoms as sacrosanct, equal and indivisible pillars of the Single Market. Freedom of movement has such political resonance elsewhere in the EU because it has attractions for many different political tendencies. For economic liberals it is about a flexible and mobile market for labour; for socialists the emphasis is on workers having the right to move in a territory where there are comparable labour standards; for Central and Eastern Europeans it is the obverse of years during which their countries were hemmed in by barbed wire; and for European idealists the Treaty of Maastricht created a common European citizenship and a shared 'homeland' – a palpable expression of being 'European'. This concept remains attractive to many younger British voters.

What were perceived to be the relatively limited concessions obtained by David Cameron, the mantra from many leading continental politicians about the indivisibility of the Four Freedoms and their desire not to concede things to Britain that were not on offer when we were full members of the 'club', make the prospects of a breakthrough on freedom of movement unpromising. Nonetheless, it is worth trying and the Government should do so. It is more likely to succeed if the tone is right and the overall context is set as trying to create a mutually supportive and sustainable relationship – rather than one driven by a touchy obsession with technical 'sovereignty' and hostility to the ECJ.

For Britain, rightly or wrongly, greater control of our borders has to be a major element in any new dispensation – albeit the conclusion from work done by the Global Future think tank that post-Brexit it may only be possible to reduce annual net migration from the EU by 50,000, suggests that what we may be seeking is more of a political than substantive outcome.

It should not be impossible with goodwill, political will or concessions in other areas to find a way of cutting this Gordian knot. After all, the Four Freedoms are not always pursued to the ultimate extent or with equal rigour. For example, despite the rhetoric, after twenty five years of trying, the market for many services is far from being liberalised and the Capital Markets Union is still under construction. In addition, Liechtenstein as a member of the EEA has a derogation from freedom of labour to ensure that such migration is not disruptive for the country. This has to be re-examined every five years. It can be argued that Liechtenstein (population 37,000) is a

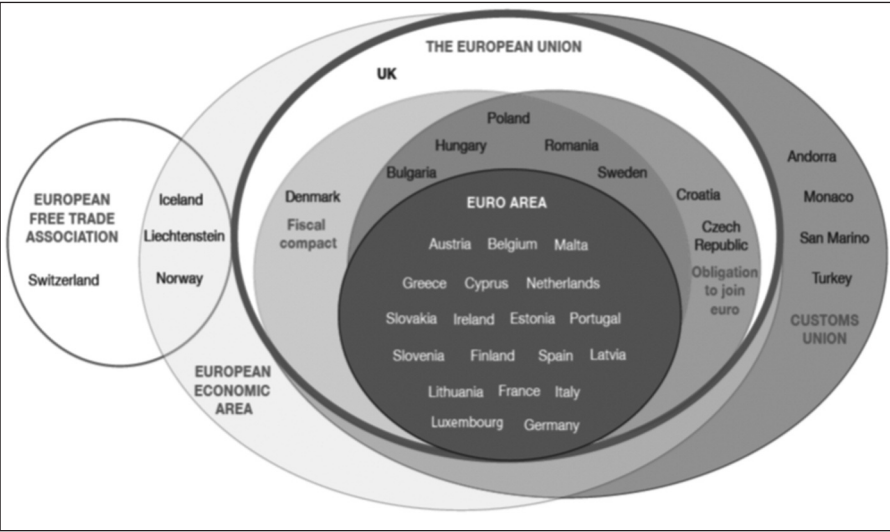
special case because of its size – but the same argument could apply in reverse to the UK. Britain's previous absorption of three million EU migrants, and its scale and potential value to the rest of the EU as a partner is considerable. Moreover, the migration issue has demonstrably been so disruptive of popular sentiment as to have triggered Britain's planned departure from the EU.

It might be that, with political will, an agreement could be negotiated around a renewable 'emergency brake', that stipulations could be introduced requiring that EU migrants should prove that they have a job or study offer before coming to Britain and that, in addition to Britain's continuing need for tens of thousands of highly-skilled workers, the country could give continued preference to EU workers for lower skilled roles in vital areas like care, hospitality, food and agriculture.

5. How might a new EU-UK Institutional relationship work?

It may take time for either Britain or the EU to put models on the table to create a strong and durable new relationship. H.M. Treasury’s April 2016 document ‘The Long-Term Economic Impact of EU Membership and the Alternatives’ included a diagram which set out the numerous overlapping groupings within and around the EU.

EU Membership Groupings⁶



⁶ Source: ‘The Long-Term Economic Impact of EU Membership and the Alternatives’, HMT, 18 April 2016 (page 29). Note: The UK and Denmark have permanent legal opt-outs from membership of the euro. All other member states have a legal obligation to adopt the euro in the future.

The Eurozone contains nineteen countries; there are seven other member states who nominally have a commitment and obligation to join in time and only two (Britain and Denmark) who have no expectation of joining. The Customs Union contains all twenty eight EU countries plus Andorra, Monaco, San Marino and Turkey. Then three countries within the European Economic Area, Iceland, Liechtenstein and Norway, plus Switzerland (the four countries also comprising EFTA) participate in the Single Market. Norway, Switzerland and Iceland participate in Schengen but EU member states Britain, Ireland, Bulgaria, Croatia, Cyprus and Romania do not. Three EU countries, Finland, Ireland and Sweden, are not members of NATO but Iceland, Turkey and Albania are.

The Lisbon Treaty provides for 'enhanced co-operation' through which nine or more member states can integrate in specific policy areas without others taking part. Thus the Europe of 'variable geometry' already exists. In some cases countries are expected over time to move towards greater integration but that is by no means true of all. In the forthcoming negotiations all the actors will need to have in mind the flexibility and pragmatism that created this patchwork of co-operative relationships.

Discussion of whether the Norwegian, Swiss, Ukrainian, Canadian or even Albanian models might be most appropriate has left most of the British population little wiser. The Swiss model involves a complex series of Treaties and agreements to align EU and Swiss laws. If a non-alignment occurs in one area it can lead to the abrogation of them all and has been found to be inherently unstable meaning that the rest of the EU is unlikely to want to replicate it. The EU's recently agreed Free Trade Agreement with Canada is cited as a possible alternative model but it surely suggests a lack of ambition if Britain seeks no closer a relationship with our neighbours than non-European Canada's.

The Prime Minister is right to reject taking any of the existing models off the shelf and to suggest the need to negotiate something bespoke. She is, however, wrong in terms of some of the activities from which she intends Britain should exclude itself and rash about the timescale within which she intends to seek to resolve everything. Subsequent CGE Policy Papers will look at the areas where Britain should seek to preserve close co-operation or where preserving established commitments would make sense. These would appear to include security and anti-crime arrangements (hopefully including continued full participation in Europol and the European Arrest Warrant), aviation, health and medicines, science and research, higher education and climate change and the environment. They should also include foreign policy and potentially some aspects of development aid.

The relationship between Britain and the EU is too important to both actors for it to descend to little more than a series of *ad hoc* or transactional arrangements. That is why both parties should be looking to create a new 'institutional' relationship. This Paper has set out potential approaches to the negotiations on some issues and explained why adopting a constructive and conciliatory approach is likely to produce the best outcome for Britain. At this point, it briefly describes three potential approaches to the creation of an 'institutional' relationship: an Association Agreement; the Continental Partnership; and the creation of a Britain-EU Partnership Council. It is probable that none of these will be right 'off the shelf' but are included to suggest the direction in which negotiations might most productively be guided.

Associate membership: It is reported that David Cameron considered seeking agreement from the EU 27 to designating Britain as an 'associate member' to stress the variety of opt-outs and assurances we had sought and received over the years, but ultimately chose not to pursue the idea. However, significant thought has been given to how such a status might work. For example, the Spinelli Group has suggested that an associate member country might participate in agreed EU policies and functions, including relevant institutional and financial arrangements. EU agencies could be used to deliver on some policies and the associate members would have the right to participate in some decision making processes including Commission consultations and relevant Council meetings.

This would not meet the 'red line' set out by the Prime Minister of escape from the jurisdiction of the ECJ, but it would be a pragmatic means of providing an institutional underpinning for continued participation in decision-making in those areas where Britain and its partners agreed to continue to work together. This could be incorporated in to a special Treaty chapter. It would avoid Britain becoming like Norway which is a 'rule-taker' and is obliged to accept rules from the EU over which it has no real influence. Britain would still make budget contributions but these would be somewhat reduced since they would relate to a narrower range of activities.

The Continental Partnership - An alternative approach, the Continental Partnership (CP), was set out in August 2016 by a working group of five distinguished individuals⁷, including former Deputy Governor of the Bank of England Paul Tucker, and supported by the Bruegel think tank. The Partnership approach has the merit of not treating the UK as a special case but instead of creating a framework which can also embrace other important, but geographically peripheral, states such as Turkey and Ukraine. It largely seeks to separate economic from political integration and emphasises intergovernmental decision-making. It would cover mobility of goods, services and capital with limited scope for movement of labour.

The integrated market would include the absence of tariffs, a single set of enforceable rules; continued application of competition policies and regulation of state aids; and a requirement for contributions to the EU Budget for those areas of co-operation covered by the Partnership and close co-operation on foreign and security policy. Continental Partnership countries would meet in a CP Council in which the relevant EU institutions would also participate. The Council would not have legislative authority but would be consulted on draft EU legislation including the right to propose amendments. The Single Market would, however, continue to be regulated through EU legislation over which CP members would have no right of veto. Participating countries would have to accept the continuing authority of the European Court of Justice in interpreting Single Market rules. The lack of a vote on Single Market legislation, even though it would explicitly be the price of concessions on freedom of movement, may not be acceptable to the British people; albeit it is worth reflecting that the volume of legislation emanating from Brussels has shrunk considerably in the recent past.

⁷ Jean Pisani-Ferry, Norbert Röttgen, Andre Sapir, Paul Tucker and Guntram Wolff.

The Continental Partnership working group saw their model as creating two ‘circles’ for European co-operation: the inner, increasingly tightly integrated EU circle, and an outer closely associated group of countries which would participate in the economic opportunities created by the Single Market and be close inter-governmental partners in areas like security and foreign policy. Continental Partnership countries would not participate in freedom of movement and in return would accept a lower influence over Single Market decisions and would not be committed to participate in ‘ever closer union’.

Britain-EU Partnership Council - A third, hybrid model –a Britain-EU Partnership Council– might be created to co-ordinate a range of continuing areas of cooperation. It would provide a strategic overview of work programmes being undertaken within the EU and by the UK Government with a view to aligning policy objectives and negotiating parallel legislative and executive actions.

In areas such as foreign and security policy and justice and anti-crime initiatives Britain and the EU might operate as two equal units – albeit the member states would also participate – and decide on an *ad hoc* basis on each issue whether or not they would act together. Former Foreign Secretary, Sir Malcolm Rifkind, has described this option as being an EU + 1 model – analogous to the way in which Germany joined the UN Security Council Permanent Five (P5 + 1) in the negotiations with Iran about their nuclear programme. This arrangement would respect the UK’s greater comfort with an intergovernmental approach. It could, on the other hand, be dysfunctional and its effectiveness would depend on Britain being treated as a full partner rather than merely being asked to align its positions with the established approach of the EU 27.

It might, as with the association model, be augmented by UK participation in specified EU Council meetings at which joint action might be agreed. It might, in any circumstances, be worth creating a joint Parliamentary Assembly to promote political co-operation and alignment in thinking. All of these options would, however, require the creation of a specific legal base through the negotiation of a new Treaty.

Conclusion

Many people of goodwill in both Britain and Continental Europe are concerned that the dynamics created by the British Referendum and by the forthcoming negotiations could irretrievably damage relations between Britain and continental Europe. Article 50 has never been invoked before and we are working in uncharted territory. It is simply not feasible to disentangle over forty years of economic integration in two years. That is one reason why it would be in the interests of both sides to keep Britain within the Single Market or, if that ultimately proves impossible, to plan an extended transition whilst Britain remains in the European Economic Area.

Although the Referendum campaign revealed some xenophobic tendencies and there has been a worrying uptick in 'hate' crimes against EU citizens, the great majority of the British people do not feel antipathy towards the EU and its member states. Nor do average citizens in other member states want an alienation from Britain. It is crucial that both sides in the forthcoming negotiations act with flexibility, restraint and responsibility. It is in the long term interests of the peace and prosperity of our continent that a new institutional basis is created for a uniquely close strategic partnership or association between Britain and the European Union.

About the Author



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He has had a long history of political involvement. He served as Special Adviser to the Foreign Secretary, Rt Hon Douglas Hurd CBE, from the end of 1990 until mid-1993, a period that included the negotiation of, and Parliamentary approval for, the Maastricht Treaty. He also served as Special Adviser to the Northern Ireland Secretary (1983-85) and Home Secretary (1985-88) and as European Desk Officer for the Conservative Research Department (1980-83). He graduated in law from the University of Oxford and is married with two sons.



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