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PERSPECTIVES

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Post-Brexit trading options for the UK

4th July 2016

Introduction: the UK votes for Brexit

The UK voted to leave the EU by referendum on 23 June, with 51.9% voting leave and 48.1% voting to remain. All but one of the English regions vote to leave, the exception being London, as did Wales. Scotland and Northern Ireland, on the other hand voted to remain. The key data are shown in table 1.

Table 1 Voting patterns in 23 June referendum on EU membership

UK regions, countries	Leave	Remain
England:		
West Midlands (2,962,862)	59.3%	40.7%
East Midlands (2,508,515)	58.8%	41.2%
North East (1,340, 698)	58.0%	42.0%
Yorks. & Humberside (2,739,235)	57.7%	42.3%
East England (3,328,983)	56.5%	43.5%
North West (3,665,945)	53.7%	46.3%
South West, including Gibraltar (3,172,730)	52.6%	47.4%
South East (4,959,683)	51.8%	48.2%
London (3,776,751)	40.1%	59.9%
Wales (1,626,919)	52.5%	47.5%
Northern Ireland (790,149)	44.2%	55.8%
Scotland (2,679,513)	38.0%	62.0%
United Kingdom (33,551,983)	51.9% (17,410,742)	48.1% (16,141,241)

Source: BBC website.

Prime Minister David Cameron resigned on 24 June, leading the way to a Conservative Party leadership campaign. There are currently five candidates: Theresa May, Michael Gove, Andrea Leadsom, Liam Fox and Stephen Crabb. Unless there is an outright victory for one of these candidates in the initial stages of the contest, the Parliamentary Party will decide two names which will go to the Party membership who will choose the new leader by postal ballot. The closing date for the postal ballot is 8 September and the new leader will be announced in 9 September. There has been some speculation the new Prime Minister could call a General Election fairly soon after taking office.

Once the new Prime Minister is in office, it is currently expected that he/she will invoke Article 50 of the Lisbon Treaty fairly shortly afterwards, though the exact timing is, of course, currently unknown. Invoking Article 50 formally notifies the EU of the UK's decision to leave the EU. There then follows a period of negotiations "setting out the arrangements its withdrawal, taking account of the framework for its future relationship with the Union". The UK will cease to be a member of the EU within two years of notification of intent to leave, unless the period is extended. (See annex table 1 for more on Article 50.) As a working assumption, the UK will probably leave the EU on or before 1 January 2019.

It is worth noting that Article 8 of the Lisbon Treaty refers to the EU's developing "a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation" (also see annex table 1). As Article 50 provides the timetable for withdrawal, Article 8 should provide the "mood music."

Just how comprehensive the withdrawal negotiations under Article 50 will prove to be is presently being debated. One key concern is, of course, whether the negotiations will cover the UK's post-Brexit trading relationship with the EU.

Trade Commissioner Cecilia Malmstrom has said that detailed talks shaping the trading relationship should not start until after the political process of leaving (under Article 50) has been completed.[1] Under these circumstances, the UK on leaving would, therefore, operate under World Trade Organisation (WTO) rules until a new trade arrangement had been agreed sometime later. Whilst the WTO option would be far from catastrophic, many key trading nations including China and the USA trade successfully with the EU without any trade agreement, it is arguably sub-optimal.[2,3] Many commentators (including ourselves) would prefer a bespoke trade agreement in order to minimise trade disruption for both UK exports to the EU and EU exports to the UK on Brexit. Malmstrom's stance is, therefore, unhelpful. She has, however, been contradicted by Slovakian PM Robert Fico who takes the view that "…it's our duty to find a mutually-agreeable settlement for both sides".[4] Slovakia currently has the Presidency of the Council of EU.

During the 2-year negotiation period leading to Brexit, there will be key elections in both France and Germany. The French Presidential election is due in April-May 2017 and German Federal election is due by October 2017. Malta will take over the Presidency of the Council of EU in January 2017 from Slovakia, followed by the UK (July 2017), Estonia (January 2018), Bulgaria (July 2018) and Austria (January 2019).

Post-Brexit trading options for the UK: introduction

Despite of Commissioner Malmstrom's strictures, there is a high probability that there will be negotiations on the UK's new trading relationship before Brexit. Broadly the options are:

- Staying in the Single Market as a non-EU member of the European Economic Area (EEA). Non-EU members of the EEA are currently Norway, Iceland and Liechtenstein (see annex table 2). Note that these countries retain control in many key policy areas, including farming, fishing and commercial policy (they can negotiate their own trade deals as they are not the EU's Customs Union).
- Negotiating a bespoke trade deal for the UK (see annex table 3 for types of trade agreements).
- Trading under WTO rules, as a default.

Single Market

The Single Market comprises the "four freedoms":

- Goods: companies can sell their products anywhere in the member states and consumers can buy where they want with no penalty.
- Services: professional services such as banking, insurance, architecture and advertising can be offered in any member state.
- Capital: currencies and capital can flow freely between the member states and European citizens can use financial services in any member state.
- People: citizens of the member states can live and work in any other country and their professional qualifications should be recognised.

Advocates of staying in the Single Market emphasise the importance of membership in order to gain "access" or, even more mysteriously, "full access" to the Single Market. But the commercial reality is that all non-EEA countries which trade with the EEA have "access" without being members. Moreover, many countries, including the USA, China and Japan, trade very successfully with EU countries, as already noted. Anglo-Chinese trade over the past decade, for example, has grown much quicker than Anglo-EU trade. The relative weakness of Anglo-EU trade reflects the commercial reality of the EU's relative stagnation and secular decline as a share of global output.[5]

Single Market membership comes with, arguably, two large drawbacks: the obligation to adopt Single Market regulations (even though not a member of the EU) and the inability to control immigration from the EU. Given that the Leave campaign majored on the need to control immigration, it would be surprising if the UK stayed in the Single Market on Brexit. Under these circumstances, trade in goods and services would, of course, continue with the EU and there is no reason to believe that any impediments to the free movement of capital would be imposed. But freedom of movement of people would end.

Bespoke trade deal

As already indicated there is much to recommend a bespoke trade deal in order to minimise trade disruption for both UK exports to the EU and EU exports to the UK on Brexit. Specifically, this would, at the minimum, seek to include:

- A Free Trade Agreement (FTA) with the r-EU ("remaining EU") in order to retain tariff-free goods trade with the EU. Whilst EU's trade-weighted average Common External Tariff (CET) is currently low,[6] it is running at 10% for motor vehicles (see annex table 4). At the very minimum, tariff-free trade should be negotiated for the car industry.
- An agreement on "regulatory equivalence" regimes for financial services, which would act much as "passporting" does now for EEA members.[7-8] Helpfully, MiFID II (Markets in Financial Instruments Directive II), which will be implemented in January 2018, contains such equivalence provisions.[9]

Special arrangements could be made for other services, but these are not as significant for the UK as financial services, and they probably should not be regarded as priorities. As table 2 below shows, the balance on financial services with the EU contributed nearly 1% to UK GDP in 2014, way above the net contribution of other services.[10-12] In addition, despite the gallant attempts to progress with the Single Market in services, progress has been disappointing. HM Government concluded in 2014:[13]

- "Notwithstanding the fact that services were typically less tradeable than goods, evidence (submitted to this Review) attributed this underperformance of the Single Market in services to a number of factors, but particularly to poor implementation of the Services Directive (2006), with national restrictions remaining as barriers to trade."

Table 2 UK trade in selected services (£bn), 2014

	Exports (£bn) (% of total in brackets)				Exports as % of UK GDP			
	World	EU	Non-EU	Of which: USA	World	EU	Non-EU	Of which: USA
Services	219.8	81.3 (37.0%)	138.5 (63.0%)	50.6 (23.0%)	12.1%	4.5%	7.6%	2.8%
Financial services	49.2	20.2 (41.1%)	29.0 (58.9%)	12.4 (25.2%)	2.7%	1.1%	1.6%	0.7%
Insurance & pension funding	20.1	2.5 (12.4%)	17.6 (87.6%)	9.3 (46.3%)	1.1%	0.1%	1.0%	0.5%
Financial services & insurance	69.3	22.7 (32.8%)	46.6 (67.2%)	21.7 (31.3%)	3.8%	1.2%	2.6%	1.2%
Other business services	57.1	18.3 (32.0%)	38.8 (68.0%)	14.4 (25.2%)	3.1%	1.0%	2.1%	0.8%
	Balances (£bn) (% of total in brackets)				Balances as % of UK GDP			
	World	EU	Non-EU	Of which: USA	World	EU	Non-EU	Of which:

								USA
Services	89.1	17.1 (19.2%)	72.0 (80.8%)	27.2 (30.5%)	4.9%	0.9%	4.0%	1.5%
Financial services	39.2	16.6 (42.3%)	22.6 (57.7%)	9.0 (23.0%)	2.2%	0.95%	1.25%	0.5%
Insurance & pension funding	18.7	1.9 (10.0%)	16.9 (90.0%)	9.0 (48.7%)	1.0%	0.1%	0.9%	0.5%
Financial services & insurance	57.9	18.6 (32.1%)	39.3 (67.9%)	18.0 (31.1%)	3.2%	1.0%	2.2%	1.0%
Other business services	21.6	3.0 (13.9%)	18.5 (85.6%)	5.5 (25.5%)	1.2%	0.2%	1.0%	0.3%

Source: *ONS*, “UK Balance of Payments yearbook (Pink Book)”, 2015 edition. GDP (nominal) was £1,817.2bn in 2014.

It is sometimes claimed that the UK would be obliged to pay into the EU Budget and/or accept freedom of movement of people if there were to be a trade deal. But neither of these is necessary. Granted Norway and Switzerland contribute to EU programmes, but they do not pay into the EU Budget as they are not EU members. And the UK may or may not contribute to EU programmes after Brexit. Granted, too, Norway and Switzerland have freedom of movement of people (Norway because it is in the EEA and Switzerland has a bilateral agreement), but the EU has around 35 trade agreements with 3rd countries that do not involve freedom of movement. These agreements include those with Turkey, Korea, Mexico and Chile.[14]

Another question that frequently arises is whether this British “bespoke deal” would be feasible to negotiate if the UK were not prepared to “pay” for “access”. Some argue that UK markets matter comparatively little to other EU Member States because the ratio of their exports (goods and services) to the UK as a % of EU GDP is only around 3% whilst UK exports to the EU accounts for around 12-13% of UK GDP. This fact, so it is said, would weaken the UK’s position in any trade negotiations with the EU after a Brexit vote. The UK would, in effect, be a supplicant. But this is to ignore the significance of the UK’s sizeable deficits with the EU, in general, and the political significance of the EU countries with which the UK runs deficits, in particular.[15]

In 2015 the UK had a visible trade deficit of £88.7bn with the EU, £31.5bn with Germany alone (the Netherlands, Belgium, France, Italy and Spain all had goods surpluses with the UK).[16] No German exporter would want any disruption in their trade with their lucrative British markets because, quite simply, it is not in their commercial interests.[17] Assuming a German Government would wish to promote German economic interests, and Germany is Europe’s hegemon, a deal would surely be agreed expeditiously. The UK, an EU member since 1973, is also fully harmonised with the EU and this is another factor favouring the likelihood of an expeditious settlement.

Concerning financial services, European financial institutions benefit from locating key global operations in London, Europe's undisputed premier global financial centre with an unrivalled talent pool and global reach in Europe. There is no EU alternative centre of such importance. European financial institutions would, therefore, be commercially disadvantaged if their trading activities currently located in London were hampered and/or disrupted after Brexit. It is in the commercial interests of these institutions, as well as the City's, that trade continues unhampered and undisrupted after Brexit. "Regulatory equivalence" should be all but automatic given the UK currently complies with EU regulations.

WTO default option

As already indicated, trading under WTO rules has proved very satisfactory for many of the EU's trading partners that currently do not have dedicated trading agreements with the EU. But the UK would face the EU's Common External Tariff which, as already indicated, is 10% for cars, for example. The UK government could well decide to impose similar tariffs on the EU's exports to us in order to maintain a "level playing field" for UK car industry, raising import prices. Similarly, if there were no comprehensive "quasi passport" for financial firms, financial institutions located in London would be incentivised to establish economically significant subsidiaries in EEA countries in order to continue to benefit from the EEA passport. The City would lose business.

Leaving the EU: other trading implications

There are four other aspects to the UK's trading relationships on Brexit:

- The first relates to the EU's FTAs with 3rd countries. Providing there were mutual agreement, these FTAs could continue for the UK on Brexit. They are, however, not economically important except for Switzerland, Norway, Korea and Turkey.[18]
- The second relates to the new freedom the UK would have to recalibrate its future trading patterns towards the world's growth markets. Outside the EU's Customs Union, the UK will once more be able to negotiate its own trade deals with favoured trade partners including the US and key Commonwealth countries. As discussed in past Perspectives, Commonwealth countries have huge potential.[19-20]
- The third relates to the freedom the UK would have to apply to re-join the European Free Trade Association (EFTA), which currently comprises Switzerland, Norway, Iceland and Liechtenstein (annex table 2). Not merely would this be mutually beneficial in itself, but the UK could also have access to EFTA's suite of trade agreements (again, providing there were agreement). As discussed in a recent Perspective, EFTA's trade agreements are more comprehensive and more in tune with the UK's trading patterns than the EU's.[21]
- And, finally, once outside the EU's Customs Union, the UK will be able to decide its own external tariffs, though note they would have to be non-discriminatory between third countries under WTO rules.[22] The EU has relatively high tariffs on agricultural products and clothing and footwear (see annex tables 4 and 5), as it seeks to protect agriculture and the clothing and footwear industries against low cost producers. A future UK

government could decide to slash the tariffs on these products, giving a boost to consumers, preferring instead to support its domestic producers directly.

Leaving the EU: other implications

Finally, on Brexit, there are three other issues to consider:

- Even though the British Government would probably continue to comply with EU regulations on Brexit (there would be no immediate "big bang"), after Brexit the UK would be in a position to amend/repeal business-impeding regulations in order to give the economy a competitiveness boost. (This assumes the UK leaves the Single Market.) The UK could, for example, decide to choose a more liberal regulatory path vis-à-vis financial services to boost non-EU financial services trade, though this would risk "regulatory equivalence" with the EU/EEA. But note that exporters to the EU would have to continue to comply with EU product regulations and standards, as indeed exporters to the US have to comply with US product regulations and standards.
- Again assuming the UK leaves the Single Market, the UK would resume control over immigration policy. It could then implement a bespoke policy that does not discriminate between EU and non-EU nationals, and one more appropriate to the country's economic needs and social pressures.
- And the UK would continue to benefit from non-payment to the EU's Budget, though as indicated above it may decide to contribute to some of the EU's programmes. The Treasury estimated that net contributions (after the rebate and public sector receipts) were about £8.5bn in 2015. [23-24] By any standards, this is a useful saving on the balance of payments and contribution to the Exchequer's coffers.

Economic developments since the Brexit vote

In the wake of the Brexit vote both the Chancellor and the Governor of the Bank of England have already made two statements:

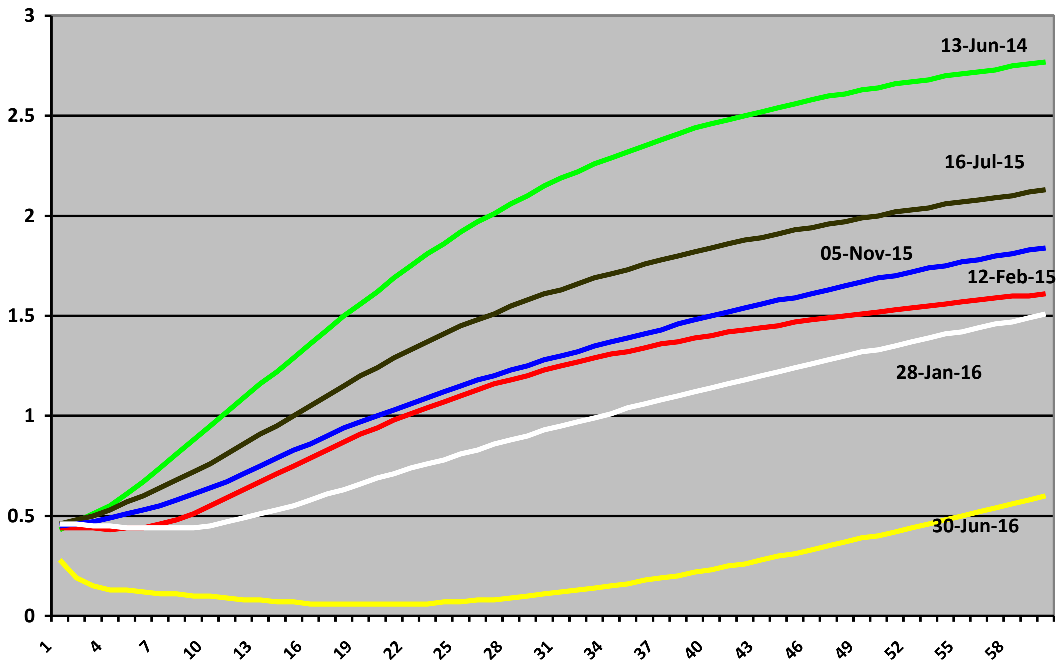
- The Governor, un-controversially, sought to calm the markets on 24 June. He reiterated his contingency plans for supporting the markets, saying that the Bank stood ready to provide more than £250bn of additional funds through its normal facilities and was also able to provide substantial liquidity in foreign currency, if required.[25]
- The Chancellor "postponed" his proposed post-Brexit vote "emergency budget" until Autumn on 27 June.[26]
- The Governor said that a "deteriorating outlook" meant that some monetary easing would "likely be required over the summer" on 30 June.[27-28] The decision would, of course, be the MPC's. The next MPC announcement is on 14 July. The Governor's dovish speech boosted the FTSE and gilt prices (yields fell further) and the pound slipped.
- The Chancellor abandoned his budget surplus target for FY2019/20 on 1 July.[29] Given the poor PSNB data so far for FY2016 (see below), this was little more than a recognition of financial reality.

There was, as expected, turbulence immediately after the Brexit vote, not least of all because many in the markets were convinced of a remain result. The pound was up to $1.48 prior to the vote. But the markets began to stabilise last week and the FTSE ended the week at 6,578, spurred on by the Governor's dovish talk, and well above its pre-referendum level.

The pound ended the week at around $1.33, knocked by the Governor's speech, but relatively modestly down (4%) on its end-February lows of $1.38-1.39. If the currency settles at around $1.35, this should provide a welcome competitiveness boost without triggering inflation. The gilts market has remained remarkably firm, with yields reaching new lows,[30] despite ratings downgrades by Standard and Poor's and Fitch's and having the credit outlook downgraded to "negative" by Moody's.[31-32]

In response to the Brexit vote the yield curve (chart 1) slipped significantly on 24 June, weakening further last week partly in response to the Governor's speech of 30 June. Suffice to say, the markets are clearly expecting further cuts in the Bank Rate and rates to stay at historic lows for the next 5 years.

Chart 1 UK instantaneous nominal forward curve (overnight index swap rates (OIS), %), months out to 60 months, at selected dates



Source: Bank of England, webpage on yield curves.

Finally, the latest economic indicators were a mixed bag:

- The current account of the balance of payments showed a near record deficit of £32.6bn (6.9% of GDP) in 2016Q1, compared with the record deficit of £34.0bn (7.2% of GDP) in 2015Q4. Britain recorded a current account deficit of £29.2bn with EU countries and "only" £3.4bn with non-EU countries.[33]
- GDP growth was unrevised at 0.4% (QOQ) in 2016Q1, compared an increase of 0.7% (revised) in 2015Q4. GDP was 2.0% up on a year earlier.[34]
- Public sector net borrowing (PSNB-ex, excluding public sector banks) was £9.7bn in May 2016, higher than expected and only marginally lower than the £10.1bn recorded in May 2015. The cumulative total for PSNB for the first two months of FY2016 was £17.9bn, slightly higher than in the first two months of FY2015 (£17.8bn).[35] The OBR's March forecast for FY2016's total was £55.5bn, compared with an outturn of £74.9bn (revised)

for FY2015. If the public finances continue to fail to improve for FY2016 vis-à-vis FY2015, March's forecast for FY2016 will clearly be missed.

- The unemployment rate fell to 5.0% in the three months to April, the lowest since the three months to October 2005.[36] All in all, the jobs report was in line with other indicators suggesting the economy firmed in the second quarter, after some weakness in the first quarter.
- May's CPI annual inflation rate was +0.3%, unchanged from April.[37]

References

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2. Ruth Lea, "A new relationship for the UK with the EU: the options examined", *Economists for Britain*, May 2015.
3. Ruth Lea, "Planning for Brexit if we vote to leave – British option", *Better Off Out website*, 25 May 2016.
4. *Daily Mail*, "No deal, says nurse in charge of EU trade", 2 July 2016.

5. Ruth Lea, “Trade with the EU is important, but is in relative decline”, *Arbuthnot Banking Group*, 6 June 2016.
6. *House of Commons Library*, “The economic impact of EU membership on the UK”, SN/6730, September 2013, reported that the EU average (trade-weighted) tariff was about 1%. And there are, of course, no tariffs on services (nearly 43% of UK exports of goods and services exports were services in 2014).
7. The EU’s financial services passport is currently only available to firms authorised in EU/EEA countries. Other international firms, therefore, need to establish a subsidiary in at least one Member State, such as the UK, in order to benefit from the passport. The ‘passport’ means that financial services firms authorised in the UK can provide their services across the EU, without the need for further authorisations. It also means that the main regulatory responsibility for UK firms’ activities across the EU/EEA remains with UK regulators rather than moving to other EU/EEA regulators.
8. Ruth Lea, “The City would hold a strong hand after Brexit”, *FT*, 12 May 2016, discussed the prospects for financial services and regulatory equivalence in the event of a Brexit vote.
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13. *HM Government*, “Review of the Balance of Competences between the United Kingdom and the European Union, Single Market: Free Movement of Services”, Summer 2014.
14. Ruth Lea, “Britain would benefit from new trade deals capitalising on Britain’s trading strengths”, *Arbuthnot Banking Group*, 15 February 2016, discussed the EU’s RTAS and EFTA’s RTAs.
15. Ruth Lea, “After a Leave vote the UK would have strong hand in any trade negotiations”, *LSE Brexit blog*, 20 May 2016.
16. *ONS,* “UK trade, April 2016”, 9 June 2016.
17. *Daily Mail*, “It would be ‘very, very foolish’ to impose trade barriers on the UK after Brexit, says German business leader”, 22 June 2016, reported that Markus Kerber, head of the BDI, urged Germany and the EU to draw up a free-trade regime that could operate after Brexit.
18. Ruth Lea, “Britain would benefit from new trade deals capitalising on Britain’s trading strengths”, *Arbuthnot Banking Group*, 15 February 2016.
19. Ruth Lea, “Commonwealth countries are the growth markets of the future”, *Arbuthnot Banking Group*, 21 December 2010.
20. Ruth Lea, “There’s more to the Commonwealth than the Games”, *Arbuthnot Banking Group*, 4 August 2014.
21. Ruth Lea, “Britain would benefit from new trade deals capitalising on Britain’s trading strengths”, *Arbuthnot Banking Group*, 15 February 2016, discussed the EU’s RTAS and EFTA’s RTAs.
22. “Most favoured nation” (MFN) is a status or level of treatment accorded by one state to another in international trade. The term means the country which is the recipient of this treatment must, nominally, receive equal trade advantages as the “most favoured

nation” by the country granting such treatment, i.e. it must be non-discriminatory. The exceptions relate to Regional Trade Agreements (RTAs), where there can be discrimination in favour of the other parties in the agreements.
23. Ruth Lea, “Britain is a major contributor to the EU Budget and the bill is rising”, *Arbuthnot Banking Group*, 1 February 2016.
24. *HM Treasury*, “European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement”, Cm 9167, December 2015.
25. *BBC*, “EU referendum: Statement from Bank of England governor Mark Carney”, 24 June 2016.
26. *ITV News*, “Osborne ‘hands post-Brexit emergency budget to next PM’”, 27 June 2016.
27. *Bank of England*, “Uncertainty, the economy and policy”, Speech given by Mark Carney, Governor of the Bank of England, 30 June 2016.
28. *BBC*, “Bank of England hints at fresh stimulus measures”, 30 June 2016.
29. *BBC*, “Osborne abandons 2020 budget surplus target”, 1 July 2016.
30. *Daily Telegraph*, “UK borrowing costs plunge to record low”, 2 July 2016, reported that the yield on 10-year gilts hit a new low of 0.78% on 1 July, compared with pre-referendum yield of 1.373%.
31. *BBC*, “EU referendum: Moody’s cut UK's credit outlook to ‘negative’”, 25 June 2016.
32. *CityAM*, “S&P and Fitch downgrade UK after “seminal” Brexit vote”, 27 June 2016.
33. *ONS*, “Balance of payments: 2016Q1”, 30 June 2016.
34. *ONS*, “Quarterly sector accounts: 2016Q1”, 30 June 2016.
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36. *ONS*, “UK labour market, June 2016”, 15 June 2016.
37. *ONS*, “Consumer price inflation, May 2016”, 14 June 2016.

Annex

Table 1 Lisbon Treaty: Articles 50 and 8

Articles	Paragraphs
Article 50	1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

	2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
	3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
	4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.
	5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.
Article 8	1. The Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation.
	2. For the purposes of paragraph 1, the Union may conclude specific agreements with the countries concerned. These agreements may contain reciprocal rights and obligations as well as the possibility of undertaking activities jointly. Their implementation shall be the subject of periodic consultation.

Source: www.lisbon-treaty.org.

Table 2 Members of the EU28, EEA (European Economic Area) and EFTA (European Free Trade Association)

	EU28	Eurozone (19)	EU Customs Union (32)	EEA (31)	EFTA (4)	EU Schengen Area (26)
Andorra			Yes			…
Austria	1995-	Yes	Yes	Yes	1960-95	Yes
Belgium	1957-	Yes	Yes	Yes		Yes
Bulgaria	2007		Yes	Yes		Legally bound to join
Croatia	2013-		Yes	Yes		Legally bound to join
Cyprus	2004-	Yes	Yes	Yes		Legally bound to join
Czech Republic	2004-		Yes	Yes		Yes

Denmark:	1973-		Yes	Yes	1960-73	Yes
• Greenland	1973-85					
Estonia	2004-	Yes	Yes	Yes		Yes
Finland	1995-	Yes	Yes	Yes	1961-95	Yes
France	1957-	Yes	Yes	Yes		Yes
Germany	1957-	Yes	Yes	Yes		Yes
Greece	1981-	Yes	Yes	Yes		Yes
Hungary	2004-		Yes	Yes		Yes
Iceland				Yes	1970-	Yes
Ireland	1973-	Yes	Yes	Yes		No
Italy	1957-	Yes	Yes	Yes		Yes
Latvia	2004-	Yes	Yes	Yes		Yes
Liechtenstein				Yes	1991-	Yes
Lithuania	2004-	Yes	Yes	Yes		Yes
Luxembourg	1957-	Yes	Yes	Yes		Yes
Malta	2004-	Yes	Yes	Yes		Yes
Monaco			Yes			De facto
Netherlands	1957-	Yes	Yes	Yes		Yes
Norway				Yes	1960-	Yes
Poland	2004-		Yes	Yes		Yes
Portugal	1986-	Yes	Yes	Yes	1960-86	Yes
Romania	2007		Yes	Yes		Legally bound to join
San Marino			Yes			De facto
Slovakia	2004-	Yes	Yes	Yes		Yes
Slovenia	2004-	Yes	Yes	Yes		Yes
Spain	1986-	Yes	Yes	Yes		Yes
Sweden	1995-		Yes	Yes	1960-95	Yes
Switzerland					1960-	Yes
Turkey			Yes			…
UK	1973-		Yes	Yes	1960-73	No
Vatican						De facto

Source: Ruth Lea and Brian Bingley, “Britain and Europe: a new relationship”, *Global Vision*, 2012, updated.

Table 3 Types of Regional Trade Agreements (RTAs)

	Notes
Customs Unions (goods)	No internal tariff, but a Common External Tariff (CET) is applied. The EU is a type of Customs Union.
Free Trade Agreements (goods, FTAs)	No internal tariff, but external tariffs are decided at a national level by the members. The European Free Trade Association (EFTA) is an FTA. FTA members, therefore, retain the right to

	decide their own tariffs against third countries, and negotiate their own trade deals, whilst in a Customs Union they do not.
Preferential Trade Agreements (PTAs) or Partial Scope Agreements (PSAs)	Trade pacts between countries which reduce tariffs for certain products (while tariffs are not necessarily eliminated, they are lower than countries not party to the agreement).
Economic Integration Agreements (EIAs)	Any agreements (including basic PTAs) also covering services.

Sources: (i) Ruth Lea, "Britain would benefit from new trade deals capitalising on Britain's trading strengths", *Arbuthnot Banking Group*, 15 February 2016; (ii) *OECD*, "Regional Trade Agreements", OECD website.
Note: The WTO website defines regional trade agreements (RTAs) as reciprocal trade agreements between two or more partners. Preferential trade arrangements (PTAs) in the WTO are unilateral trade preferences. They include Generalized System of Preferences schemes (under which developed countries grant preferential tariffs to imports from developing countries), as well as other non-reciprocal preferential schemes granted a waiver by the General Council.

Table 4 Examples of EU's Common External Tariffs (MFN)

Chapter	4 or 6-digit code	Rates
02 Meat & edible meat offal	0201-10 Bovine, carcases & half-carcases	12.8% + €176.80/100 kg
04 Dairy produce et al	0406-20 Grated or powdered cheese	€188.20/100 kg
10 Cereals	1001 Wheat & meslin	0.35 cent/kg or 0.65 cent/kg
62 Clothing (unknitted)	6203-12 Men's clothing (synthetic fibres)	12.0%
62 Clothing (unknitted)	6204-13 Women's clothing (synthetic fibres)	12.0%
64 Footwear et al	6403-20 Leather footwear	8.0%
87 Vehicles (exc. rail & tram)	8703 Motor vehicles	Basic tariff 10.0%

Sources: (i) "Finding commodity codes for import and export duty", www.gov.uk/trade-tariff/sections.
There are 21 sections of the nomenclature with 98 chapters; (ii) *European Commission*, "Market access database: tariffs", EU tariffs.

Table 5 EU: Most Favoured Nation (MFN), applied duties (average)

Product groups	Applied duties (average)
Animal products	17.7%

Dairy	42.1%
Fruit, vegetables & plants	10.9%
Coffee et al	6.1%
Cereals & preparation	14.9%
Oil seeds, fats & oils	6.8%
Sugars & confectionary	25.2%
Beverages & tobacco	20.7%
Cotton	0
Other agricultural products	3.6%
Fish & fish products	12.0%
Minerals & metals	2.0%
Petroleum	2.5%
Chemicals	4.5%
Wood, paper et al	0.9%
Textiles	6.5%
Clothing	11.4%
Leather, footwear et al	4.1%
Non-electrical machinery	1.9%
Electrical machinery	2.8%
Transport equipment	4.3%
Manufacturing n.e.s.	2.6%

Source: *WTO & ITC (International Trade Centre) & UNCTAD*, "World tariff profiles", 2015 edition (for 2014), WTO website.
The applied tariff is what an exporter or importer owes on a particular transaction.

Table 6 UK gross payments, rebate and public sector receipts, calendar years, 2009-2015, £m

	2009	2010	2011	2012	2013	2014	2015, estimate
Gross payments	14,129	15,197	15,357	15,746	18,135	18,777	17,779
Less: UK rebate	-5,392	-3,047	-3,143	-3,110	-3,674	-4,416	-4,861
Contributions net of rebate	8,737	12,150	12,214	12,636	14,461	14,361	12,918
Less: public sector receipts	-4,401	-4,768	-4,132	-4,169	-3,996	-4,576	-4,445
Net contribution to EU Budget	4,336	7,382	8,082	8,467	10,465	9,785	8,473

Source: *HM Treasury*, "European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement", Cm 9167, December 2015, table 3A.