**The UK and the EU – together forever?**

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There is certainly no lack of commentary in the media around the threat of the UK leaving the EU – the so-called ‘Brexit’ – and what the future of the UK’s relationship with the EU may look like. In addition, the ‘in/out’ referendum that was promised by the Conservatives before the General is looking increasingly likely to be held in 2016.

However, much of the debate about the UK and the EU is intensely political, often distorted, and lacking objective analysis on the business implications of an exit and what any potential alternative models could look like. There is also a lack of awareness of what would be an extremely complex withdrawal process, involving lengthy negotiation of new relationship terms for the UK. For reference, it took Switzerland over 10 years to successfully negotiate its series of bilateral agreements with the EU. The fact that Greece’s situation with Brussels is hanging in the balance adds even greater urgency to developing a balanced, factual understanding of the UK’s position.

The first point to note is that many of the business predictions for the event of an exit vote are based on scenario planning. This is particularly the case around the economic impact of a UK withdrawal from the EU, because it is not possible to forecast exactly what trade terms the UK would secure with the EU and the rest of the world post-exit. However, we can gauge with a bit more certainty the implications for UK workplaces in areas such as employment law – for example, what would happen to EU-derived employment regulation if the UK left the EU?

**EU employment law**

The short answer is that not a lot would change, an area we will explore in more detail in a forthcoming blog and further commentary. But those employers hoping that they will no longer need to comply with labour laws emanating from Brussels will be disappointed. Just one thought to leave you with on this score – even if the UK is no longer a member of the EU, countries such as Norway, Iceland and Liechtenstein that belong to the European Economic Area (EEA)/European Free Trade Association (EFTA) are **obliged** to accept the majority of EU regulations without being part of the EU decision-making process. These countries are subject to compliance with most EU social and employment policy.

**An alternative model?**

The think tank Open Europe (OE) has recently published a [study](http://openeurope.org.uk/intelligence/britain-and-the-eu/what-if-there-were-a-brexit/) of the potential impact of a UK withdrawal from the EU, concluding that, from a purely trade perspective, the existing alternatives to EU membership – primarily the Norwegian, Swiss and Turkish models – all come with major economic drawbacks for the UK, including for key industries such as financial services. Instead, the UK would likely have to negotiate a tailored deal for itself. Based on its tests, a “Single Market-Lite” arrangement – staying inside a very tightly defined EU single market – would be the most beneficial for the UK, says OE. Unlike the EEA, this must also involve voting rights over the rules governing the single market, which would be very difficult to negotiate. A politically more realistic alternative is a comprehensive Free Trade Agreement (FTA), differing from the “Swiss model” by including better access for financial services and a fair say over how rules and standards are implemented.

Another perspective to bear in mind, should the UK relinquish full membership of the EU, is that it could lose a lot of influence – not only over the development of the rules that govern the EU as one of the world’s key single markets, but over the international standards and trade arrangements that the EU develops. The UK has, until now, enjoyed considerable influence and negotiating power in Brussels. For example, it is widely accepted that the UK wields significant influence and ‘punches above its weight’ in comparison with other member states when it comes to developing employment law. The UK’s position can hardly be compared to that of Greece in its debt-ridden place at the negotiating table, but the painful and protracted discussions over Greece’s future still strike a note of caution for the pressure that will be brought to bear in the future debate.

**The cost of EU membership**

The economic implications of a UK exit from the EU is the area where it is probably least reliable to predict with any certainty. The available studies are built on forecasting various scenarios because it is not possible to predict the terms of any new trade arrangements that the UK negotiated with the EU and beyond. But just to give a flavour, [analyses](http://cep.lse.ac.uk/pubs/download/pa016_tech.pdf) by economists at the Centre for Economic Performance says that the UK could suffer income falls of between 6.3% and 9.5% in a pessimistic scenario, and losses of around 2.2% in a more optimistic scenario if the UK is able to negotiate a favourable FTA with the EU. The report concludes that withdrawing from the EU is a ‘dangerous move’ for the UK.

Open Europe’s [study](http://openeurope.org.uk/intelligence/britain-and-the-eu/what-if-there-were-a-brexit/), meanwhile, says that UK GDP could be 2.2% lower in 2030 if Britain leaves the EU and fails to strike a deal with the EU or reverts into protectionism. In a best case scenario, under which the UK manages to enter into liberal trade arrangements with the EU and the rest of the world, whilst pursuing large-scale deregulation at home, Britain could be better off by 1.6% of GDP in 2030. However, a far more realistic range is between a 0.8% permanent loss to GDP in 2030 and a 0.6% permanent gain in GDP in 2030, in scenarios where Britain mixes policy approaches.

One last point on the economic front – a persistent myth about the EU is the cost to the UK of EU membership. The number often cited in commentary is that EU membership costs the UK £55 million per day. There was a media storm at the end of 2014 when Cameron did not want to pay the UK’s annual dues. There clearly are budgetary costs to EU membership, but what isn’t mentioned is the money we receive back from the EU. In 2013/14, the UK was projected to make a contribution to the EU pot of around £17 billion and, of that amount, around £8 billion would be directed back to the UK, primarily on farming subsidies. So the UK’s net contribution last year was around £9 billion, representing well under 1% of GDP.

**Entering new territory**

David Cameron’s well documented forthcoming negotiations in Brussels for a new UK/EU relationship are fraught with unknown variables. The key question is, will he be able to secure a deal that satisfies the Eurosceptics here in the UK? Will he be able to agree terms that will be palatable enough to avoid stronger pressure for a ‘no to EU membership’ vote in the Referendum? And would these terms require treaty change? There is a still a lot of uncertainty around all of these issues, as the Prime Minister has still not shown his negotiating hand in detail, and the Eurosceptics within his party are certainly not an homogenous block. While some may be prepared to accept certain compromises, others may not.

We will have to leave consideration of one of Cameron’s main ‘asks’ – restrictions on in-work benefits for EU migrants for four years, plus restrictions on out-of-work benefits – for a future blog. The freedom for people to move around Europe to work and live is enshrined in the EU treaties and one of the four fundamental pillars on which the single market is based – attempting to change this key principle is likely to be a huge sticking point. One point is clear – when David Cameron dons his negotiating hat in earnest and takes his seat at the Brussels negotiating table, in all likelihood not long vacated by Alexis Tsipras, there won’t be many politicians who would choose to be in his unenviable shoes.