

Submission of evidence for inquiry on the costs and benefits of EU membership for the UK's role in the world, for the House of Commons Foreign Affairs Committee

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1. This written evidence is submitted by Dr Federica Bicchi, Dr Nicola Chelotti, Professor Karen E Smith, and Dr Stephen Woolcock, in a personal capacity. We are all members of the European Foreign Policy Unit (EFPU), which is based in the Department of International Relations at the London School of Economics and Political Science. EFPU acts as a focus for research and teaching on issues relating to European foreign policy. EFPU members are currently researching and writing on topics such as the EU's policies towards the Mediterranean region and south-eastern Europe; EU-UN relations; European diplomacy; and EU trade policy. EFPU publishes working papers, and has organised conferences on European foreign policy (see <http://www2.lse.ac.uk/internationalRelations/centresandunits/EFPU/EFPUhome.aspx>).

Our evidence addresses the following questions posed in the Committee's call for evidence:

Whether and how EU collective action helps or hinders the UK in achieving its key foreign policy objectives and/or adds value to UK foreign policy

2. EU collective action is of clear and overwhelming benefit to the UK and is crucial in helping the UK achieve its key foreign policy objectives. In the age of the information society and knowledge economy, the EU is an exclusive club in which key information travels quickly and influence is more effectively exerted. The advantages of working through the EU on any area of foreign and security policy far outweigh the disadvantages.¹ For EU member states, including the UK, the EU brings substantial benefits. The EU is unique and uniquely advantageous in that it is highly institutionalised (fostering very tight links between the EU's central institutions and the member states, and between the member states themselves, both formally and informally), and has considerable collective resources (stemming, for example, from the fact that it is a very large single market, the largest trading bloc in the world, one of the largest aid donors in the world, and can deploy civilian and military missions in a wide variety of situations). The EU groups together states that share a multitude of common interests and common values. Arguably the UK is closer to its EU partners on a range of interests and values than it is to any of its other partners worldwide; this largely, but not only, stems from geographical proximity. Although size is not the only thing that matters in terms of the ability to exercise influence in international affairs, the European Union's sheer size (as well as its considerable collective resources) enables it to have an impact far beyond what any of its member states could have independently.
3. Furthermore, participation in the EU's intergovernmental foreign policy-making system imposes few costs – for it is relatively easy for a member state to block an undesirable policy and it is easy to raise concerns and influence outcomes, especially for a large member state such as the UK. It is the case, though, that being a naysayer may have negative consequences for a member state's reputation and ability to strike favourable deals in future, but this has not stopped member states from frequently blocking developments that

¹ This argument fits with the conclusions presented in HM Government, 'Review of the Balance of Competences between the United Kingdom and the European Union: Foreign Policy', July 2013.

they do not favour, or forcing fundamental revisions in line with their interests. The challenge is instead to strengthen the EU's capacity to act decisively and effectively in international affairs, so as to maximise the value added to UK foreign policy. A large set of problems the EU faces are due to unclear leadership – an excellent chance for the UK to exert its influence and multiply its power.

Whether the EU's priorities for its common foreign policy align or conflict with the UK's foreign policy goals, and how influential the FCO and UK Government are in directing EU common action

4. The mechanisms for cooperation on foreign and security policy within the European Union are predominantly intergovernmental: decisions are taken by unanimity (with only minor decisions taken by qualified majority voting), though states could abstain instead of opposing decisions; and the EU institutions involved in the cooperation process do so by and large in a supportive manner, implementing policies using the EU's resources. The EU's foreign policy objectives and priorities necessarily align with the UK's objectives (and the objectives of all other member states), as they are decided on through an intergovernmental process of cooperation (all member states agree on them).
5. The UK has historically been a very influential player in the cooperation process, and has been considered a leader in this area. Examples abound of British influence: in conflict prevention policy; in external human rights policy; in diplomacy vis-à-vis Iran. More recently, and in anticipation of the referendum, the UK has been somewhat disengaged from European negotiations and the other member states have reacted by not involving it in ongoing discussions. As a result, the UK has missed an opportunity to play a more leading role in the Ukrainian crisis and the refugee crisis. Another such example is cooperation in defence. The Common Security and Defence Policy has long been considered a dual directorate: the UK and France set the parameters of and steer the process in the CSDP. Yet more recently the role of the UK has been reduced. In the words of a CSDP official from another country, previously "there was the predominant role of France (first) and the UK (second). Consensus between these two parties ... usually meant consensus among member states." However, the British influence is seen in decline because of the UK's "very strict and sometimes inflexible positions. To a certain extent, the UK has isolated [itself] from the mainstream of the discussions. Of course no major decision can be made without them. But I think that if they were more practical during discussions, they would achieve more out of them."

How the UK's standing in multilateral organisations (e.g. the UN, NATO, OSCE and WTO) might change if it were to leave the EU

6. The current framework of 'global governance' (especially key institutions such as the UN, the World Bank, IMF, and so on) has been criticised as not being representative enough, with 'rising powers' increasingly calling for fundamental reform to reflect the changing distribution of power. This is clear already in the demands for expansion of the permanent membership of the UN Security Council, in the creation of the G20 to effectively replace the G7, in criticisms of the 'understanding' that a US citizen would head the World Bank and a European citizen would head the IMF, and so on. The trend is for Europe as a whole to be relatively less powerful: the replacement of the G7 – which included the EU and four member states – by the G20 is a case in point. The EU and its member states make up one-fifth of the G20, a proportion which is a bit less than the EU's percentage of global GDP in 2010 (29%) and about equal to its proportion of global exports and imports – in other words, it is a more proportionate representation of 'Europe' in a significant international forum

than was the case of the over-representation of European states in the G7. Making Europe's voice heard in this context will require it to present unified and persuasive policy positions. If the UK excluded itself from the EU, then it would face even greater difficulties in exercising influence within multilateral organisations. Indeed, in UN multilateral diplomacy, countries on the margins of major groups (such as the EU, the Organisation for the Islamic Conference, the Africa Group) often struggle to have their preferences heard.

7. The implications of 'Brexit' for the UK's standing in multilateral organisations can be seen starkly in the case of the World Trade Organisation (WTO), but the points we make here about the WTO can be extrapolated and applied to other cases, especially the UN and multilateral negotiations (such as those climate change). If the UK were to leave the EU, this would have major implications in terms of the UK's influence and role in the WTO. The UK like all EU Member States is a member of the WTO as is the EU. The UK would therefore retain its membership of the WTO. The impact of Brexit would be on the role of the UK in multilateral trade negotiations:
 - a) The UK would no longer be party to the EU working parties shaping EU policy and therefore would not be able to influence EU policy as it has significantly in the past.
 - b) The UK would be excluded from formal and informal meetings between the EU and other WTO members that have a significant impact of agenda setting and working through political compromises.
 - c) The UK would no longer have guaranteed access to the Director General's Consultative Group (aka Green Room) where key decisions are taken in a semi-formal WTO context. The UK would need to work to ensure that it was invited to these. Attendance would not be automatic as it is determined by the size of the economy and representation of developed and developing economies and a broad regional representation. Northern developed Europe would be seen as already over represented by the EU.
 - d) The UK would also need to find potential coalition partners with similar interests as much decision-making and negotiation take place informally between various groups. Only the US and the EU are effectively single actors. Natural coalition partners are not easily identified. Switzerland and Norway are very protectionist on agriculture; Australia, Canada and New Zealand are probably too liberal on agriculture and would 'balance' their relations with the UK with the large EU.
 - e) The economic costs in terms of outcomes in WTO negotiations are very difficult to estimate but would result from the reduced leverage of the UK and the adoption of rules that do not reflect the UK's interests. Far from being a 'liberal charter', the WTO works largely according to the more mercantilist principle of reciprocity. In other words 'I'll open my market if you open yours'. This is particularly true for market access commitments (tariffs, services access, access to public procurement) but reciprocity shapes all aspects of the WTO including rules.
8. One of the WTO's essential roles is in dispute settlement. Leaving the EU would mean the UK would have a reduced ability to ensure enforcement of the rules. If a WTO member is found to be infringing a provision, for example blocking imports illegally, a panel rules on the matter. But the only sanction to enforce compliance is the reciprocal denial of benefits. In other words if the USA or China decides to discriminate against UK suppliers of goods or financial services, the only sanction for the UK would be to withdraw access to the UK market. Here as for market opening the reduced size of the UK compared to the much larger

EU market would make it less costly for a trading partner to take action that is politically difficult domestically.

9. There would also be significant resource costs. The UK has effectively shared coverage of the hundreds of committees and working groups with EU partners. In future it will need to cover these all by itself if it is to ensure an effective input into policy and monitor implementation of agreements.
10. There would be a need to renegotiate some WTO agreements. Although the UK would remain a member of the WTO and therefore benefit from the MFN (Most Favoured Nation) principle of Art I of the GATT 1994 and equivalent provisions in other agreements. However, access in some WTO agreements is determined by reciprocity. For example, coverage of the revised 2012 Government Procurement Agreement (GPA) and thus access to procurement markets is based on bilateral reciprocity agreements. Leaving the EU would mean the UK would have to renegotiate these and would be in danger of being able to obtain only inferior access to major procurement markets due to the relatively small scale of UK public procurement.

The extent to which the UK could continue to participate in EU collective action on an ad-hoc basis if it left the EU, and the benefits and drawbacks of such an approach

11. Much of the EU work is done in an informal way and on the basis of personal relations. The rhythm imposed by meetings in Brussels and by the EU calendar of events creates several opportunities to develop personal ties, exchange views on issues not directly related to the agenda, and air possible policy choices. None of this would be possible if cooperation were to take place on an ad-hoc basis. The functional nature of cooperation might seem 'lighter' and more effective. However, it would be like relying on fire-fighting instead of fire-retardants. It would be more costly and less effective.
12. Moreover, as the case of Norway has shown, participating in the European Economic Area without a seat at the table (called 'fax diplomacy' in its early days, as Norwegian diplomats were said to wait for the latest regulation to arrive by fax from Brussels) can be extremely frustrating and certainly not suited to the UK. It would confine the UK to reacting to events in the short term, instead of contributing to shape them in the long run.

The international legal implications of a UK exit from the EU, including the scope and cost of renegotiating the international treaties to which the UK is a signatory as an EU member state (including the likelihood of securing favourable terms in such negotiations)

The foreign policy implications of any changes to trade treaties resulting from a UK withdrawal from the EU

13. We focus here on the need to renegotiate preferential trade and investment agreements. The existing WTO agreements and thus the scope of liberalization date from the early 1990s (the Uruguay Round was finally adopted in 1994, but the real agreements date from the early 1990s). All the significant advances in trade and investment since this time have been, for better or worse, through preferential agreements. Preferential agreements have proliferated and become more and more comprehensive covering not just tariffs, but services, investment and a wide range of regulatory or non-tariff measures. The most recent agreements are now approaching the level of integration of the EU.

- a) Brexit would necessitate the renegotiation of all the preferential agreements the EU has signed. It can be assumed that the mega regional agreements with the USA (TTIP) and Japan will have been concluded before any eventual Brexit is brought about. This would involve renegotiation of schedules for all tariff lines, for all service sectors, for government procurement coverage for detailed provisions on rules of origin and for any sectoral provisions such as for financial services and sectoral mutual recognition measures.
- b) The scope of these negotiations would be considerable is certain to overtax the existing negotiating capacity of the UK. The renegotiation process is therefore likely to extend over a considerable period. Most comprehensive preferential trade and investment agreements take at least 3-4 years to negotiate. The EU has FTAs with nearly 40 countries and is negotiating with the USA, Japan, Mercosur (including Brazil) and India, so the UK will in effect need to re-negotiate agreements with almost every major economy in the world as well as many developing and least developed countries. This would create considerable uncertainty concerning access and the treatment of UK exports and investment.
- c) All preferential agreements include bilateral coordination procedures. The UK would also then have to service its own bilateral coordination and cooperation committees. So even after completion of the renegotiations there would be hundreds of specialist committees to service.
- d) The costs of Brexit for preferential agreements would come from reduced leverage in negotiations. Access to markets under Preferential Trade Agreements (PTAs) is even more shaped by reciprocity. So the UK's ability to demand access to major markets would be reduced. This is likely to result in UK competitors benefiting from tariff preferences, better access to services markets and investment. In services in particular the UK's competitors will likely to benefit from first-mover advantages on markets, especially if it takes the UK some years to renegotiate PTAs. This means in practice that competitors will have established a market presence in banking, insurance, legal practices or other business services in key growth markets before the UK companies have an opportunity to access the market.
- e) The China – Switzerland free trade agreement is often cited as a potential model for the UK. In other words if the Swiss can negotiate with China so can the UK. There are however, reasons for caution here. First, the China - Switzerland is not a very good (advanced) agreement. The provisions on services and non-tariff barriers are not much better than the existing WTO agreements. In other words it does not match the level of liberalization of other major FTAs such as EU- Korea, Korus, let alone the mega regional agreements that are now being negotiated. A China -UK FTA along the lines of the China-Switzerland agreement would mean a level of access to the Chinese services market and protection for intellectual property rights equivalent to the level of the early 1990s. Second, China's motive for negotiating with Switzerland was in no small part to develop experience of negotiating with a country that has to all intents and purposes adopts the EU *acquis communautaire*. Third, China responded positively to the Swiss request to negotiate for political reasons, because Switzerland was the first state to recognize the PRC.
- f) As noted, the most advanced comprehensive trade and investment agreements are approaching a degree of integration equivalent to that of the EU. The TTIP negotiations with the USA are for example, often seen as having the aim of creating a single Transatlantic market. Just as EU rules remove barriers resulting from divergent national regulations and standards within the EU, so agreement on regulatory issues in the mega regional agreement is needed to open and regulate global markets. An explicit aim of the mega regional

agreements is to shape the 'rules' to facilitate international trade and investment. Eighty percent of the economic gains from TTIP are predicted to come from the removal of regulatory or non-tariff barriers. This requires finding a balance between competition and maintaining the right to regulate in the pursuit of social, health and environmental policy objectives. Brexit will mean the UK will be excluded from this process. For example, the EU-Canada CETA includes a Regulatory Cooperation Forum to determine priorities, TTIP is likely to include an EU – US Regulatory Cooperation Body, the EU – Japan FTA negotiations are likely to follow suit. Outside the EU, the UK would therefore be excluded from the forums that are currently shaping international trade and investment, but would be obliged to follow the standards and norms adopted if it wished to engage effectively in the global economy and global supply chains.

14. The UK government has been strongly in favour of the TTIP, and has pressed EU partners to speed up the process of reaching an agreement. If the UK leaves the EU, it could indeed sign a bilateral agreement with the US in the short term, without having to wait for the longer Brussels-based process. Yet there might be a (large) trade-off between the speed and advantageousness of the agreement. It could be a dangerous illusion to think that the UK will be able to extract favourable concessions from the US by negotiating alone: the US would be in a much stronger position in the negotiations. In the recent trade agreement between the US and South Korea, South Korea obtained little of what it wanted. Negotiating as a European bloc would clearly get a better deal for the EU member states. The point for the UK is then how to shape as much as possible the EU position (or also how to use the EU/US divisions to bring the deal as close as possible to British interests). This would imply, in any case, engaging in EU politics and policy-making in a constructive, cooperative and committed way.

The impact on other EU states and EU institutions of UK withdrawal from the EU

15. An interesting speculation is whether Brexit could lead to more integration among EU countries, even in foreign and defence policy. The UK is sometimes considered an obstacle to this. A well-known example is the establishment of an EU operational headquarters (for CSDP missions) in Brussels. France in particular pushed for it, but the UK was able to substantially water down the final compromise. It is likely that without the UK, we would see more common projects like this one approved by the rest of the member states. Although several countries have so far happily shielded behind the (sometimes recalcitrant) British positions, they would need to take more open stances – and might or might not choose to do so.