



House of Commons
Treasury Committee

The economic and financial costs and benefits of the UK's EU membership

First Report of Session 2016–17



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*Report, together with formal minutes
relating to the report*

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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Committee reports are published on the Committee's website at www.parliament.uk/treascom and in print by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

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The current staff of the Committee are James Rhys (Committee Clerk), Chloe Challender (Second Clerk), Gavin Thompson (Senior Economist), Marcus Wilton (Senior Economist), Dan Lee (Senior Economist), James Mirza Davies (Committee Specialist), Shane Pathmanathan (Senior Committee Assistant), Amy Vistuer (Committee Assistant), Elektra Garvie-Adams (Committee Support Assistant), Toby Coaker (Media Officer/Committee Specialist on secondment from the NAO), David Hook (on secondment from HMRC), George Barnes (on secondment from the Bank of England) and Victoria Sena (on secondment from the Bank of England).

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1 Introduction

1. A recurring complaint in the debate on the European Union is the absence of ‘facts’ about the case for and against the UK’s membership on which the electorate can base their vote on 23 June. Hugh Bearryman and Carolyn Frank, the owners of small businesses, each with different views on the merits of membership, summed up this concern in evidence to the Committee:

Hugh Bearryman: “It has to be laid out clearly and precisely. At the moment, it is not. That is why some people are veering to one side and some to the other. It is purely because it is their gut instinct, not because they know.”¹

Carolyn Frank: “If I was voting today, I think I would vote “yes”, but that is more of a gut feeling because there is not enough information available publicly to make that decision.”²

2. The forthcoming referendum is not an election. There is no manifesto for Brexit;³ and even if there were, the public could not be assured that it could be fully implemented in the event of Brexit. What would follow a vote to leave depends partly on the positions taken by the 27 other EU Member States, which cannot be known. Neither the Government nor the Leave campaign have spelled out their own detailed approach to the UK’s future relationship with the EU and the rest of the world in the event of Brexit nor how they would fill the policy vacuum in areas where the EU presently exercises power.

3. There are also uncertainties—albeit somewhat more quantifiable ones—to remaining in the EU. The Five Presidents’ Report envisages far-reaching changes to the economic governance of the Eurozone in order to put the single currency on a sustainable footing. It is uncertain whether the political will exists to make these changes, raising the prospect of continued Eurozone economic malaise and future crises. Even successful reforms may fundamentally change the relationship between countries outside the single currency, and those within it. The Chancellor highlighted, prior to the completion of the Government’s renegotiations, that these developments bring with them the “very real risk that badly thought-through legislation will be imposed on the UK”.⁴ Over the longer term, the EU may also seek powers to act in other areas through changes to its Treaties; under the European Union Act 2011, the UK electorate would have to give its consent to this in another referendum.

4. In short, there are facts about the UK’s present relationship with the EU, some of which are set out in this Report. But in considering the UK’s future relationship with the EU and its economic implications—whatever the result of the vote on 23 June may be—there are few facts to help the electorate make their decision, and mainly judgements that Britain would be better off remaining in the EU which appear to be the prevailing institutional view of mainstream economic opinion with the IMF, the World Bank, the OECD, the IFS, the CBI and the TUC all making arguments in favour of Britain remaining in the EU.

1 Q205

2 Q157

3 This term is used throughout this Report to refer to a UK exit or withdrawal from the EU

4 Rt Hon George Osborne, speech at Open Europe conference, 15 January 2014.

5. Based on the evidence it has received, the Committee—a cross-party group representing a range of opinion on the merits of EU membership—has considered some of these judgements to be more credible than others. A principal aim of this Report is to identify the range of post-referendum outcomes the Committee considers to be plausible, and hence which judgements should be taken seriously.

6. Campaign groups and others have made many factual-sounding claims about the effects of EU membership and the consequences of Brexit. But in order to be meaningful, these claims must be underpinned by judgements about how the UK would fare, and the policy choices the Government would make, outside the EU.

7. It does not make sense to claim, as does Lord Rose, Chairman of the Stronger In campaign, that households benefit by £3,000 per year from EU membership,⁵ without specifying the alternative arrangement under which those benefits would be lost. Equally, it is not meaningful to say, as did Boris Johnson, the most prominent spokesperson for the Vote Leave campaign, that EU membership raises food bills by £400 per year thanks to the Common Agricultural Policy (CAP), without specifying whether and how the UK agriculture sector would be supported after Brexit.⁶

8. **The public debate is being poorly served by inconsistent, unqualified and, in some cases, misleading claims and counter-claims. Members of both the ‘leave’ and ‘remain’ camps are making such claims.** Another aim of this report is to assess the accuracy of some of these claims, and enable the wider public more confidently to set aside unqualified assertions about the economic impact of their vote.

9. **This Report focuses exclusively on the economic consequences of EU membership and Brexit.** For many, the case for staying in or leaving turns on more than economic logic: as Arron Banks, co-founder of Leave.eu put it, “This is not about pounds and pence. It is about our democracy.”⁷ The economic effects may be a second-order consideration for some when set against the importance in principle of the UK regaining greater power to control its affairs.

10. Influence, power and control over the country’s affairs (sometimes loosely described as sovereignty) are, in and of themselves, not amenable to economic evaluation. Consequently, this Report does not analyse them in detail, except to consider how far the UK, acting on its own, may pursue superior economic policies. But there is a connection between the economic relationship that the UK might have with the EU, and the powers it would be able to repatriate. In particular, as a member of the EU, the UK enjoys certain rights, and is bound by certain obligations, upheld and enforced respectively by a supranational court, the European Court of Justice (ECJ). Membership of the EU means accepting the “rules of the game” and the verdict of the referee. An important judgement needs to be made about whether, outside the EU, the UK would be able to retain the rights afforded by membership, including its present level of access to EU markets, while picking and choosing its obligations, and reasserting the authority of its own institutions to interpret the rules.

5 See, for instance, Lord Rose, speech at launch of Britain Stronger in Europe campaign, 12 October 2015

6 See, for instance, Boris Johnson, speech in Dartford, 11 March 2016

7 Q1563

11. Staying in or leaving the EU will also have political consequences. Indeed, for some, it would seem that the true prize of leaving the EU is the opportunities it might create to change how the country is governed; as Dominic Cummings, Campaign Director for Vote Leave, put it, “when we vote Leave it is only one part of a general process of national renewal that we need”.⁸ Many leave campaigners also hope that Brexit will be a catalyst for what they see as desirable changes to the way the EU operates, while many remain campaigners hope that a vote to stay will achieve much the same thing; Will Straw, Executive Director of Britain Stronger in Europe, has written about “Britain’s role in reforming EU institutions, as part of a strong wider pro-Europe campaign”.⁹ But neither detailed programmes of national renewal, nor likely changes to the EU’s institutional architecture—beyond the Government’s renegotiation package—have yet formed a major part of the campaign. In any case, and to the extent these issues do now form part of the public debate, their likelihood and merits would be highly complex to evaluate, and they are not considered in this Report.

8 Q1212

9 Institute for Public Policy Research, *Staying in: A reform plan for Britain and Europe*, November 2012

2 Claims made by the campaign groups

Background

12. Both leave and remain campaign groups have made claims about the economic impact of EU membership and Brexit. These claims, which are often described as ‘facts’, have been made in campaign literature, in speeches by prominent spokespersons, and in evidence before the Committee.¹⁰

13. As discussed in the introduction to this Report, many of these claims sound factual because they use numbers. They are not, however, facts, but claims underpinned by judgements and assumptions. Rarely have those judgements and assumptions been made adequately explicit. However, we recognise that the assumptions made to underpin analysis are those that would need to be made in any economic modelling, however advanced that modelling may be. We, therefore, should assess the weight given to the evidence not just on the assumptions made but on the sophistication of the modelling and analysis that underpins it.

14. The Committee took oral evidence from the major campaign groups and prominent spokespersons on both sides of the referendum debate. It also asked ‘permitted participants’ in the referendum to send campaign literature published during the referendum period.¹¹ What follows is the analysis of their most prominent economic claims.

15. Most claims made about the economic impact of EU membership fall into one of five categories:

- claims about the size of the UK’s contributions to the EU budget;
- claims about the impact of EU membership, and particularly the CAP, on consumer prices and household food bills;
- claims about the impact of EU membership on employment;
- claims about the cost or burden of EU regulation; and
- claims about the impact of EU membership on gross domestic product and/or household incomes.

The crucial issue of the impact of trade policy is considered later in the report.

¹⁰ Unsurprisingly, the claims made by the leave and remain groups are inconsistent, and are often in direct contradiction. For instance, depending on whose ‘facts’ one takes to be correct, Brexit will result either in higher or lower prices, lead to either a rise or a fall in household incomes, either increase or diminish Britain’s influence on the world stage, and cause trade to either rise or fall.

¹¹ ‘Permitted participants’ are individuals and organisations who intend to spend more than £10,000 on campaigning. Under the Political Parties, Elections and Referendums Act 2000, they must register with the Electoral Commission. The referendum period lasts from 15 April to 23 June.

Claims about the size of the UK's contributions to the EU budget

“our annual contribution [to the EU] is equivalent to £340 per household” (Lord Rose, speech on 12 October 2015)

“Let's give the NHS the £350 million the EU takes every week.” (Vote Leave campaign literature)

“Instead of sending £350 million per week to Brussels, we will spend it on our priorities like the NHS and schools.” (Vote Leave website, ‘Leave looks like ...’)

“£19.1bn: the amount the UK would save by no longer having to contribute to the EU budget.” (Vote Leave website, The UK-EU balance sheet)

16. The EU's resources come from contributions by Member States, including the UK. The process by which these contributions are calculated is complex, but they are closely related to Member States' relative economic size.

17. The UK gets back a proportion of what it pays in to the EU budget, largely in the form of agricultural subsidies under the CAP and regional funding, although it has been an overall net contributor to the budget (i.e. it has paid in more than it gets back) in 41 out of its 42 years of membership.¹²

18. In addition, the UK has received an ‘abatement’, or ‘correction’, to its budget contribution since 1984 which means it pays less than it otherwise would. This was negotiated by the Government led by Mrs Thatcher, which argued that the UK's budget contribution should more closely reflect the fact that it has a smaller agricultural sector, and consequently benefits less than some other Member States from the CAP. The abatement is applied before the UK pays its budget contribution (i.e. no money is paid out or rebated).¹³ As the Treasury points out, “it does not involve any transfer of money from the Commission or other member states to the Exchequer”.¹⁴ The rebate is calculated according to a formula that can only be altered with the agreement of all Member States, including the UK.

19. The EU also provides funding directly to private sector and non-governmental organisations in the UK, such as universities. A breakdown of these receipts is shown in the table below.

12 HM Treasury, *European Union finances* (various edns.)

13 The rebate is calculated directly and solely by the Commission and deducted from the UK's GNI-based contribution a year in arrears, e.g. the rebate in 2015 relates to UK payments and receipts in 2014. It is applied before the UK pays its budget contribution. To suggest the gross budget contribution is “sent”, thus implying the rebate is returned, is an over-simplification of this accounting. For reference see paragraph A10 of *European Union Finances 2015* (Cm 9167).

14 HM Treasury: *European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement*, December 2015

Table 1: UK receipts from the EU budget, 2014

	£ millions
CAP–direct payments	2,546
CAP–rural development	555
Regional funding	1,324
Research and innovation	642
Erasmus*	84
Administration	120
Other	357
Total	5,628

*Erasmus stands for European Region Action Scheme for the Mobility of University Students. It is an EU student exchange programme, established in 1987.

Note: figures converted from euro at 2014 annual average exchange rate (£1=€1.2411)

Source: European Commission

20. The different channels through which the UK receives money back from the EU budget, and the different sources in which information on EU budget contributions and receipts is published, has led to campaign groups putting forward various figures to measure the UK's contribution to the EU budget. The picture is complicated further by the different time periods used when presenting the numbers; for instance, Vote Leave has a 'counter' on its home page claiming to measure "total UK contributions to the EU" since joining (at the time of writing, it stands at £511 billion).

21. Figures on the UK's budget contributions over the time periods typically used in campaign literature are shown in the table below.

Table 2: contributions to the EU budget

	Since joining (1973–2014) (£m)	Past decade (2005–14) (£m)	2014		
			annual (£m)	Per week (£m)	£ per household (annual) (£m)
Gross contributions	473,939	147,443	18,833	362	698
Contributions including rebate	354,808	119,148	14,404	277	533
Contributions including rebate and public sector receipts	167,421	68,962	9,814	189	363
*Contributions including rebate, public and private sector receipts	n/a	54,179	5,711	110	212

*Note: top three lines are from HM Treasury (HMT) figures; bottom line is from European Commission (EC) figures. HMT figures and 'EC' figures are not directly comparable owing to issues related to the timing of payments and receipts. These timing issues affect 2014 in particular.

Note: All figures in 2014 prices

Source: HM Treasury, European Union Finances (various edns.); European Commission

22. Successive Governments have generally used the annual figure, taking account of the rebate and public sector receipts, as a measure of the UK's contribution (i.e. £189m per week).¹⁵ The Institute for Fiscal Studies describes a figure taking account of the rebate, and net of public and private sector receipts (i.e. £110m per week), as “the UK's current overall net contribution”.¹⁶

23. By far the most prominent, and most controversial, figure for the UK's EU budget contributions is that of £350m per week, used by Vote Leave. This is calculated on the same basis as the £362m figure in the top line of the table above; in effect, it does not account for the rebate, or include any receipts from the EU budget.

24. Matthew Elliott, Chief Executive of Vote Leave, said that this was “the core number”¹⁷ of Vote Leave's campaign, and that it was used “again and again”.¹⁸ In their campaign literature, Vote Leave describes this as the amount of money that the UK “sends” to Brussels, and imply that leaving the EU—and hence not “sending” this money to Brussels—would enable this sum to be spent on other priorities, in particular the NHS. The message emblazoned on the Vote Leave campaign bus—“We send the EU £350 million a week. Let's fund our NHS instead”—is a typical formulation of this claim. In the weeks leading up to the publication of this Report, the number has also been used in campaign videos, including one entitled *How would you spend £350 million?* Others from the Leave campaign have used this claim too. Michael Gove has said that “if we vote to leave [...] we can take back the £350 million we give to the EU every week. We can spend more on our priorities like the NHS”.¹⁹ Writing in the Times on 23 May, Sarah Wollaston, Chair of the House of Commons Health Committee, described the claim that leaving the EU would result in £350 million per week being made available to spend on the NHS as “absurd” and the emphasis Vote Leave have placed on the NHS in their campaign as “a cynical distortion which undermines the credibility of their other arguments”.

25. Matthew Elliott and Dominic Cummings were asked to justify Vote Leave's use of this figure, given that it does not take any account of the rebate. In oral evidence, they said that their figure was based on an annual number of £19.1 billion used in the ONS's Balance of Payments, where it is listed as a “debit”, with the rebate and other budget receipts identified as offsetting “credits”.²⁰ The Deputy National Statistician has made clear that “The rebate is shown as a separate credit in the ONS's Pink Book, but this does not follow how payments are made: HM Treasury pays over the UK's contributions after deducting the value of the rebate”.²¹ Furthermore, in correspondence with Mr Cummings, Sir Andrew Dilnot, Chair of the UK Statistics Authority, has described the use of this number as “misleading”:

Without further explanation, I consider these statements [concerning the £350 million figure] to be potentially misleading and it is disappointing that this

15 See, for instance, HC Deb 11 December 1985 c652-3W; HC Deb 22 February 1999 c17W; HC Deb 3 November 1989 c394W; HC Deb 23 October 2002 c352W

16 Institute for Fiscal Studies, *The budget of the European Union – a guide*, April 2016

17 Q1715

18 Q1748

19 http://www.voteleavetakecontrol.org/michael_gove_s_oped_for_bbc_radio_4_today_programme

20 See, for instance, QQ1158-62

21 Letter from Jonathan Athnow to Sir Andrew Dilnot CBE, 21 April 2016

figure has been used without such explanation. Given the high level of public interest in this debate it is important that official statistics are used accurately, with important limitations or caveats clearly explained.²²

26. In defending their use of the £350m figure, Mr Cummings and Mr Elliott also made reference to the Chancellor's evidence to the Treasury Committee on 17 December 2014,²³ in which he said that the rebate was subject to "negotiation" and (elsewhere) "discussion" with the European Commission.²⁴

27. The Committee at the time concluded that the Chancellor had exaggerated²⁵ the extent of ambiguity surrounding the rebate to support his claim that the Government had, through its negotiations at the Economic and Financial Affairs Council (known as ECOFIN and comprising the finance ministers of all EU Member States) "halved" a demand for a €2.1bn additional contribution to the EU budget arising from revisions to historic gross national income data (on which EU budget contributions are largely based). The Committee strongly criticised the Chancellor, concluding that his claim was "not supported by the facts", and noting that:

The calculation of the rebate, and the circumstances in which it applies, are embedded in EU law. This is set out in detail in Council Decision 2007/436/EC and the supporting Council document on the UK correction. These documents establish the precise method for calculating the rebate. They also provide for past rebates to be adjusted in response to GNI data revisions, such as those which prompted the rebate's revaluation in this case.²⁶

28. It added that "the Commission did not at any stage suggest to HM Treasury that the rebate would not apply". Nor could it have disappplied the rebate, which forms part of the Own Resources Decision that governs the financing of the EU Budget, and can only be altered with the unanimous agreement of Member States.²⁷

29. As well as suggesting that the whole of the UK's gross budget contribution before the rebate, could be spent on schools and hospitals, Vote Leave's website states that "there will also be financial protection for all groups that now get money from Brussels".²⁸ Mr Cummings was asked whether such financial protection was consistent with its appeal to spend the UK's gross budget contribution on schools and hospitals. He said that:

there is all of the other money that we have saved as well. There is not just the £350 million per week that we save from the budget; there is all of the other money.²⁹

22 Letter from Sir Andrew Dilnot CBE to Dominic Cummings, 10 May 2016

23 Oral evidence from Rt Hon George Osborne MP to the Treasury Committee, 17 December 2014

24 Q1157, Q1716

25 The Committee concluded in its report on the UK's EU Budget Contributions that "On the basis of the evidence the Committee has seen, it should have been unambiguously clear to the Treasury, well in advance of ECOFIN on 7 November 2014, that the UK was entitled to a rebate on any additional budget contributions that could arise from the GNI revisions." (Para 24)

26 Treasury Committee, The UK's EU budget contributions, Tenth Report of Session 2014–15, 24 February 2015, Para 20

27 On the basis of the agreed Own Resources Decision, the European Commission details the method used to calculate and finance the UK correction in a working document, with a view to reflecting and implementing the decision made at European Council level. The Member States unanimously endorse the method set out in that working document, alongside the formal adoption of the Own Resources Decision.

28 Vote Leave website, 'Leave looks like...' [accessed 20 May 2016]

29 Q1176

Mr Cummings was unclear from where this additional money would come, citing EU public procurement rules as evidence of unacceptable costs to the Exchequer.

30. Commitments have been made by other supporters of the leave campaign about the financial protections that certain groups would get on leaving the EU. For instance, the Farming Minister has said that “the UK government will continue to give farmers and the environment as much support—or perhaps even more—as they get now”.³⁰ In evidence to the Committee, Boris Johnson said that “all farmers will continue to receive the current levels of subsidy [...] it would be at the level that they currently enjoy and that level of support would be perpetuated”.³¹ This is a promise called into question by the multiple purposes to which the budget savings from Brexit have been allocated.

31. In evidence to the Committee, Roger Bootle, Executive Chairman of Capital Economics and a eurosceptic economist, emphasised that claims made about the UK's EU budget contribution, and waste and inefficiency in the EU's spending, should be put in context:

It occupies a role in the popular debate about these questions out of proportion to the amounts in question. They sound like very large sums of money, but they are not really. One per cent of GDP is about £16 billion, so we are talking, depending on who is right about the figures, about 0.7 per cent of GDP or something like that. It is not enormous.³²

32. **At the heart of Vote Leave's presentation of its case is the claim that, on leaving the EU, the UK Government would receive a windfall of £350m per week, available to be spent in other ways, “like the NHS and schools”. This, and the other figures used by Vote Leave for the UK's EU budget contributions (£150bn ‘contributed’ in the past decade, and £511bn since joining) are highly misleading to the electorate for a number of reasons.**

33. **First, Vote Leave's £350m figure does not account for the budget rebate, which amounts to £85m per week. Leaving the EU could not make this money available to spend on schools and hospitals because it is not ‘sent’ to Brussels in the first place. The rebate does not leave the UK or cross the exchanges. This is repeated in other ways. A ‘counter’ is prominently displayed on Vote Leave's website. This purports to show that the UK has historically contributed £511bn to the EU since joining in 1973 and excludes the rebate. The UK rebate is indeed controversial in other Member States. It may be raised in future negotiations over the EU's financial framework. However, it can only be changed with the UK Government's consent, as happened in the Government led by Tony Blair.**

34. **Secondly, the extent to which money that the UK receives from the EU budget (a further £88m per week to the public sector and £79m per week to the private sector and non-governmental organisations) would be available for spending on other priorities, would depend on the policy choices of the democratically-elected Government of the day. Vote Leave has stated that “There will [...] be financial protection for all groups that now get money from Brussels”. If that policy were implemented, the money available to fund other priorities after Brexit, such as schools and hospitals, would**

30 George Eustice, speech at launch of Farmers for Britain, 23 March 2016

31 Q1325

32 Q88

be much lower, and probably closer to the UK's net contribution of £110 million per week than it is to £350 million. This would be true even if, as has been widely argued, efficiencies could be made in the way that money the UK currently receives from the EU budget is spent.

35. Finally, it is not impossible that the UK may continue to make contributions to the EU budget after Brexit, either on a transitional or permanent basis, in return for continued access to parts of the single market, or because it considers mutual co-operation in certain areas, such as science research, to be desirable. This too would reduce the supposed fiscal windfall arising from leaving the EU.

36. Vote Leave has said that £350m a week is “the core number”, and that it is using the number “again and again”. It is very unfortunate that they have chosen to place this figure at the heart of their campaign. This has been done in the face of overwhelming evidence, including that of the Chair of the UK Statistics Authority, demonstrating that it is misleading. Without qualification this is unavoidable. Brexit will not result in a £350m per week fiscal windfall to the Exchequer as a consequence of ending the UK's contributions to the EU budget. Despite having been presented with the evidence contradicting this claim, Vote Leave has subsequently placed the £350m figure on its campaign bus, and on much of its recent campaign literature. The public should discount this claim. Vote Leave's persistence with it is deeply problematic. It sits very awkwardly with its promises to the Electoral Commission to work in a spirit that reflects its “very significant responsibility” and the “gravity of the choice facing the British people”.

37. Claims about the UK's contributions to the EU budget should be set in context; the UK's gross contribution, after application of the rebate, accounts for less than 2 per cent of public sector spends each year, and is equivalent to less than 1 per cent of the UK's economic output. If leaving the EU has a substantial positive or negative effect on the economy as a whole—as many advocates of leaving or staying believe it will—the consequent impact on the public finances is likely to be far more significant than the size of any saving from the EU's budget contributions. Nonetheless, the net saving would be a significant reduction in public expenditure in the context of the current austerity programme.

Claims about the impact of EU membership on consumer prices

If we left, the cost of our imports could rise by at least £11 billion—leaving families out of pocket as prices rise. (Britain Stronger in Europe campaign literature)

the Common Agricultural Policy [...] effectively adds around £400 to each family's living costs each year (Leave.eu website)

The demented CAP [...] adds about £400 to the cost of food for every household in this country (Boris Johnson, speech on 11 March 2016)

38. Claims about the impact of EU membership on prices are among the most complex to explain fully.

39. EU membership directly affects consumer prices in two ways. The price of goods imported from outside the EU is raised from their market levels by common external tariffs and, for agricultural goods imported from within the EU, price support is provided under the CAP. For instance, the EU applies a tariff of 17 per cent to footwear, 15 per cent to bicycles and 10 per cent to motor cars.³³ These tariffs are not applied to all imports, however; in particular, the EU has preferential trade agreements covering 62 countries, and least developed countries benefit from tariff-free access to EU markets. EU membership may act to reduce prices for goods and services traded among its members, because it eliminates tariffs and significantly reduces non-tariff barriers to trade.

40. Outside the EU, the UK would be free to eliminate all tariffs on imports (both EU and non-EU). This would lead to lower prices for goods imported from outside the EU. However, in deciding on its tariff regime, the Government would have to balance the theoretical economic benefits of more free trade against likely political pressure to limit foreign competition in some sectors. An assessment of the leverage that existing tariffs command when negotiating trade agreements would also have to be made. Depending on the sort of trade agreement the UK reached with the EU (discussed in Chapter 5), a British Government may also introduce higher import prices, owing to an increase in non-tariff barriers to goods and services trade.

41. The claim that the cost of imports would rise by £11bn as a result of Brexit—and associated claims that leaving the EU would raise the cost of consumer goods—rely on the assumption that the Government would fail to reach any trade agreement with the EU, and would also retain the same tariff regime as is presently set by the EU. Were an agreement to be reached, or were the Government to apply a more liberal tariff regime, this figure could be lower. The cost of imports would also, in practice, be influenced by the effects of leaving the EU on productivity growth and the exchange rate.

42. The claim that the CAP raises consumer prices by £400 per year is based on research by the Taxpayers' Alliance from 2009,³⁴ which found that the total cost of the CAP was equivalent to £398 per household. Of this, nearly half (46 per cent, or £184 per household per year) is made up of public expenditure on the CAP through the UK's contributions to the EU budget, measured on a gross basis (i.e. not taking into account what the UK gets back under the CAP). The remainder comprises price support paid by consumers, the estimate of which is based on a 2006 figure of £34bn; applying this to the UK on a population share basis gives a cost of £5.3bn, or £204 per household). The OECD has published more up-to-date estimates, which put the extent of consumer price support under the CAP at £10bn in 2014 (£1.3bn, or £48 per household).³⁵ Meanwhile, the UK's implied gross contribution to the CAP through the EU budget in 2014 was £5.8bn, or £215 per household.³⁶

43. Boris Johnson was asked in evidence about his claim that the CAP “adds about £400 to the cost of food for every household in this country”. He clarified that, on leaving the EU, “we would not save all that £400. We would save some”, noting that these would be “made possible by getting rid of some bureaucracy and provisions in the current CAP

33 WTO tariff database

34 Taxpayers' Alliance, *How the CAP costs families nearly £400 a year*, January 2009

35 OECD, *Producer and Consumer support estimates database*

36 HM Treasury, *European Union Finances 2015*. Figures calculated by applying proportion of CAP spending in EU budget to UK's gross budget contribution, accounting for the rebate.

system”.³⁷ He added that “we will certainly continue support for agriculture, and all farmers will continue to receive the current levels of subsidy”.³⁸ Lord Rose, Chairman of the Britain Stronger in Europe Campaign, acknowledged that the CAP was “flawed” and indicated that savings could be made were the UK not part of it:

Is it an inefficiency? Yes. Is it something I would rather not have to the degree that we have now? Yes, but I am hopeful that it will be sorted.³⁹

44. The Stronger In campaign’s claim that the cost of imports could rise by “at least” £11bn as a result of Brexit—and associated claims that leaving the EU would raise household bills—assumes that the UK will place the same tariffs on imports as does the EU currently. Given that the pursuit of an independent trade policy is at the heart of the case for leaving, this seems to be an implausible assumption. The figure of £11bn is therefore unhelpful and tendentious and should not be used without extensive explanation.

45. The figures used by some leave campaigners that the CAP costs £400 per household per year is based on out-of-date research. Using more up-to-date sources gives a figure that is much less than £300.⁴⁰ In any case, to suggest that this money would be “saved by Brexit” requires two assumptions to be made: that the Government would unilaterally eliminate all tariffs on agricultural goods on leaving the EU; and that it would not replace any of the subsidies and price support currently provided to UK farmers under the CAP. This is inconsistent with Vote Leave’s stated position that farmers will be paid “at least as much as they get now” and Leave.EU’s position that farmers will not lose the money they currently receive from the EU. It is true that the UK is effectively a net contributor to the CAP. It is widely acknowledged, even by Lord Rose, that the money currently distributed to UK farmers through the CAP could be spent more efficiently. Nonetheless, the overall saving would fall short—perhaps well short—of £300 per household.

Claims about the impact of EU membership on employment

3 million UK jobs are linked to our trade with the EU. (Britain Stronger in Europe; Government leaflet)

1 in 10 British jobs depend on UK membership of the EU (Labour in Europe)⁴¹

46. These figures originate from two papers published in 2000: a South Bank University paper that found 3.5 million jobs to “depend on exports to the EU”,⁴² and a National Institute of Economic and Social Research (NIESR) paper that found that 3.2 million jobs are “associated directly with exports of goods and services to other EU countries”.⁴³ A 2014 update by the Government put the figure at 3.3 million.⁴⁴

37 Q1324

38 Q1325

39 Q955

40 Based on the most recent OECD estimates for price support (£48 per household) and the UK’s implied net contribution to the CAP (£100 per household) the total saving is likely to be nearer to £150 per household per year.

41 Leaflet printed in Autumn 2015 by European Parliamentary Labour Party

42 Ardy et al (2000), UK jobs dependent on the EU

43 Pain and Young (2000), Continent cut off? The macroeconomic impact of British withdrawal from the EU

44 HL Deb 28 July 2014 c273WA

47. All these figures are based on the assumption that the share of UK employment linked to trade with the EU is equal to the share of total UK value added generated in the production of goods and services exported to the EU. Although the 3 million figure is the most widely quoted in campaign literature (usually as a measure of jobs linked to EU trade, rather than dependent on membership), other analyses have sought to estimate the number of jobs vulnerable to Brexit. These include a PwC study commissioned by the CBI, which found that, were the UK to leave and fail to reach a trade agreement with the EU, employment would be 950,000 (2.9 per cent) lower than otherwise by 2020; and if it did reach an agreement, the impact would be 550,000 (a fall of 1.7 per cent). These results arise both from lower trade with the EU after Brexit and from lower investment; although it does not attempt to identify the impact of leaving on foreign investment specifically, the report states that “it is very likely that some of this decline in investment would be caused by a reduction in foreign direct investment”. The effects of leaving the EU on foreign direct investment to the UK are considered further in Chapter 5.

48. It is important to note that these estimates should be interpreted as the number of jobs related to trade with other EU Member States. This is not the same as saying that over 3 million jobs are dependent on the UK's EU *membership*, since some trade with EU countries would certainly take place if the UK withdrew from the EU. In response to Parliamentary Questions, the Treasury has made this clear, stating that it is “not an estimate of the impact of EU membership on employment”.⁴⁵ Simon Tilford, Deputy Director of the Centre for European Reform, said in evidence that it was “clearly [...] fanciful” to suggest that 3 million jobs were at risk from leaving the EU.⁴⁶ Martin Weale, Director of NIESR at the time their paper was published, described this interpretation of its results as “pure Goebbels” and “a wilful distortion of the facts”.

49. Will Straw, Executive Director of Britain Stronger in Europe, made clear in evidence that “we have not said that 3 million jobs are at risk. We have said that 3 million jobs are linked to our trade”.⁴⁷ Philippe Legrain, Visiting Senior Fellow at the European Institute of the London School of Economics, argued that, to the extent that there were labour market effects from leaving the EU, they would be more likely to be felt through wages than employment:

It is not the impact on jobs per se. In a flexible labour market, wages adjust, so it is the impact on pay. If you have lower productivity, you are likely to have lower pay.⁴⁸

The TUC has also made the point that, although the number of jobs lost may be uncertain, good jobs would be lost and that “those good jobs are likely to be replaced by worse ones”.⁴⁹

50. It is misleading to claim, as some campaign groups continue to do, that 3 million jobs are dependent on EU membership. Britain Stronger in Europe, the lead remain campaign group, has at least made clear in evidence to this Committee, if not in some of its literature, that its use of the 3 million figure should not be taken to represent the number of jobs dependent on EU membership, but the number associated with trade with the EU. Without an estimate of how much trade would be lost as a result of Brexit,

45 HL1091

46 Q4

47 Q989

48 Q5

49 <http://www.hertford.ox.ac.uk/frances-ogrady-brexit-the-tuc-view>

the impact on job losses cannot readily be estimated. The wider public might form the mistaken impression that all these jobs would be lost or at risk if the UK left the EU. Campaigners should be clear that 3 million jobs may be associated with, but would not necessarily be dependent on, our membership of the EU.

51. A reduction in exports to the EU following Brexit would lead to a loss of jobs unless there were compensating effects from faster growth in trade with non-EU countries or to the extent that the UK's relatively flexible labour markets meant that any impact from lower trade may be felt through lower wages than otherwise and a reduction in hours worked, rather than through the unemployment rate.

Claims about the costs and benefits of EU regulation

£33.3bn per year—current annual cost of EU regulation to the UK economy
(Vote Leave brochure)

EU regulation costs UK small businesses over £600 million every week. (Vote Leave campaign literature)

EU regulations are estimated to cost UK businesses at least £33.3bn a year
(Leave.eu website)

52. The £33.3bn figure (and the £600m per week figure derived from it) is the most widely used estimate of the 'cost' of EU regulation used by the campaign groups, and is based on Open Europe's analysis of the 'top 100' most burdensome EU rules.⁵⁰ Boris Johnson in fact claimed that "the actual cost of EU regulation may be even higher".⁵¹ The costs are calculated with reference to Government impact assessments (IAs), which must be produced in response to EU Directives (where the Government will have some discretion over how EU requirements will be transposed into national law), but not Regulations or Decisions, which do not trigger a new piece of domestic legislation.

53. The potential costs in question arise from administrative burdens on companies and the public sector (e.g. notifying the authorities about the possible presence of asbestos dust before commencing work), and from the additional practical obligations of putting the policy of the regulation into practice (e.g. providing employees who may come into contact with asbestos with relevant training). There may also be wider consequences arising from regulation (e.g. the demise of industries allied to asbestos manufacture) though these are rarely quantified in IAs.

54. Regulations are imposed with the intention of capturing benefits, and on the assumption that these outweigh the costs. Open Europe's analysis does not take into account the benefit arising from regulations (e.g. to consumers from higher product standards, or employees from labour market protections), but it has previously acknowledged that "the whole point of regulation is for it to produce a total benefit [...] which outweighs the total cost".⁵² When asked in evidence about the benefits, Boris Johnson⁵³ and Dominic Cummings⁵⁴ argued that Open Europe had assessed that 95 per cent of the benefits

50 Open Europe, Top 100 EU rules cost Britain £33.3 billion, March 2015

51 Q1137.

52 Open Europe, Still out of control? Measuring eleven years of EU regulation, June 2010, p9

53 Q1144

54 Q1137

envisaged in IAs did not materialise. This prompted a clarification from Open Europe, stating that “the 95 per cent figure refers only to the forecast benefits of the Energy and Climate Change package”.⁵⁵ Oliver Lewis, Director of Research at Vote Leave, subsequently conceded that the use of that figure in evidence had been an “honest mistake”.⁵⁶

55. Simon Tilford explained that, in order to estimate the economic cost of EU regulation, “one would have to go through very carefully and look at each individual regulation and then estimate whether we would put in national regulations to replace the EU regulation”.⁵⁷ For instance, outside the EU, the UK would still be bound to honour international commitments to regulate certain markets and products. Such commitments are particularly relevant for financial services; Philippe Legrain noted that the second most costly regulation in the Open Europe study “is the CRD IV package, which is largely transposing Basel III, which Britain would most likely continue to abide by even if it left the EU. Therefore, that is not an additional cost of being in the EU; it is a regulation that we will be bearing the cost of in any event”.⁵⁸ Similarly, much EU regulation on product standards and safety reflects rules and guidance issued by global standard-setting bodies.

56. To take one example, 93 leaders in life sciences, which employs 222,000 people, say “Continued membership of the EU will also benefit scientific activity and R&D jobs. UK researchers and small businesses will continue to benefit from access to EU funding and from collaborations with cutting-edge science across the continent”⁵⁹ and Sir Andrew Witty, CEO of GlaxoSmithKline, says that harmonised regulatory standards for pharmaceuticals across the EU reduce costs.

57. In evidence, Matthew Elliott of Vote Leave conceded that “some of that [£33bn] is costs [...] incurred for a good cause”,⁶⁰ reflecting the language recently used in a speech by Michael Gove.⁶¹ Oliver Lewis said that the Open Europe analysis had been used because “it was transparent and accessible”. He added that the underlying point that Vote Leave was trying to make was about “control” and “allowing parliamentarians [...] to engage far more directly with regulation and how it should be amended or even repealed—far greater control than you have now”.⁶²

58. It is generally accepted that any future Government would want to retain the substance of some EU regulation after leaving, either because it is desirable on economic or welfare grounds, or in order to comply with international commitments, or to retain access to EU markets. A future government would undoubtedly judge that the compliance costs of some, perhaps many, EU regulations are more than offset by benefits.

59. Withdrawing from the EU would give the UK an opportunity to alter the way its economy is regulated in some areas (subject to other international obligations and negotiated conditions attaching to any single market access), and in a way that better

55 Open Europe blog, Clearing up confusion over Open Europe’s view of the benefits and costs of EU regulation, 21 March 2016

56 Q1870

57 Q9

58 Q8

59 The Association of the British Pharmaceutical Industry letter to The Observer, 8 May 2016

60 Q1740

61 Mr Gove said on 19 April that “The cost of EU regulation on British companies has been estimated by the independent think tank Open Europe at about £600 million every week. Now some of those costs are incurred in a good cause”.

62 Q1754

reflects its own domestic priorities. It may save firms and consumers some money in the process. Open Europe itself considers that the maximum feasible regulatory savings from Brexit are £12.8bn per year, although achieving even these might involve political controversy. Examples that Open Europe have counted under this category to reach this figure include: relaxing rules protecting workers' entitlement to time off; holidays and redundancy protection; abandoning the current target for increasing the share of energy generated from renewable sources; and abandoning financial regulations such as emergency bans on "short-selling", reporting and disclosure requirements and a cap on bankers' bonuses. In some cases, such as maternity rights and bank capital requirements, the UK currently regulates beyond the minimum EU standards. Realising gains from deregulation in such areas would require the Government of the day to muster support for a new domestic approach. However, as already noted, a future government would undoubtedly judge that the compliance costs of some, perhaps many, EU regulations are more than offset by the benefits.

60. In evidence to the Committee, Vote Leave pointed out that what counts is not so much the cost, but the importance in principle of having control over such regulations. This is reasonable. It may be a compelling political argument. But if they wish to make a case on economic grounds, and use as they have done figures purporting to measure the economic cost of EU regulation, it is incumbent on the leave campaigns to give at least some indication of which parts of the regulatory framework they would alter or scrap, while recognising that the practical limitations would put a comprehensive exercise beyond any referendum campaign group.

61. £33.3bn, or £600m per week, is an estimate of the total cost to firms of complying with the top 100 most 'burdensome' EU regulations. It is not the net economic cost of regulation, nor is it a measure of the savings that would accrue to businesses as a result of Brexit. To assert this is misleading. To persist with such a claim, as both Vote Leave and Leave.eu have done, is a tendentious representation of the research on which it is based.

Claims about the impact of EU membership on GDP and household incomes

EU membership is worth £3,000 to each UK household (Britain Stronger in Europe campaign literature)

If we take as a central assumption that the UK would seek a negotiated bilateral agreement, like Canada has, the costs to Britain are clear. Based on the Treasury's estimates, our GDP would be 6.2 per cent lower [and] families would be £4,300 worse off (Chancellor of the Exchequer)

62. Figures on the cost or benefit to households of leaving the EU are generally derived from analyses that estimate the impact on UK output (gross domestic product). The per household figure is derived by dividing impact on total output by the number of UK households (27 million).

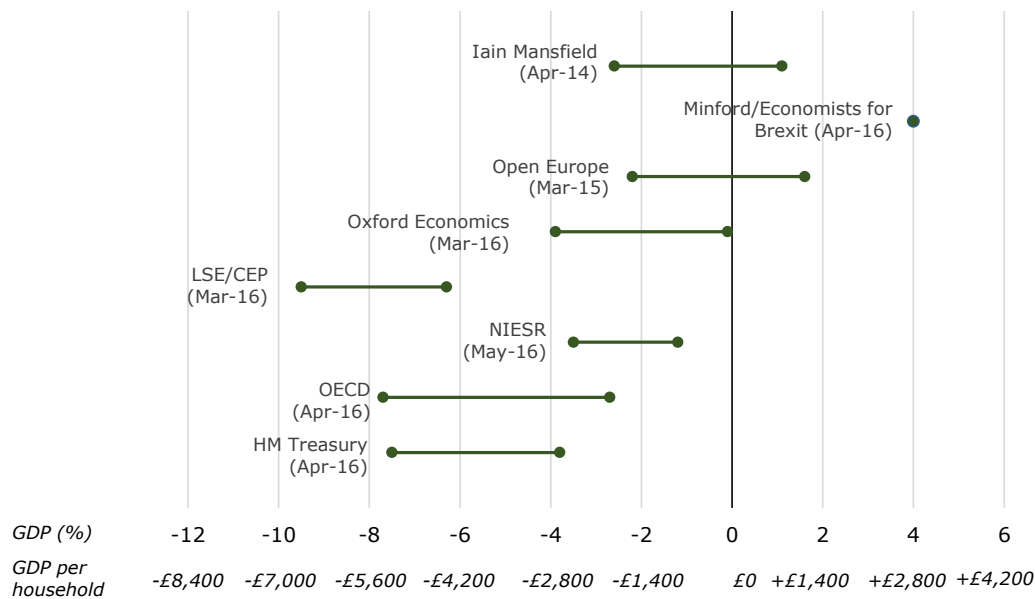
63. Framing the impact of Brexit in these terms requires a host of assumptions to be made. Roger Bootle described the figures that emerge from such analyses as:

plausible on the basis of certain assumptions, but there are three key imponderables. The first one is what sort of trade relationship we are going to have. We simply do not know. The second is what the effect would be on investment, including foreign direct investment. We do not know. The third is the cost of current regulations imposed by the EU and the extent to which we would rescind them were we not in the EU. We do not know the answer to those twin questions either.⁶³

He added that any results should be presented as a range, and that “to come out with a hard and fast number is verging on the intellectually dishonest”.

64. In the run-up to the referendum, a number of studies have attempted to estimate the overall effect of Brexit on UK output. These produce different results principally because they model the effects of leaving on trade and investment in different ways. They make different assumptions about the UK’s future economic relationship with the EU and the rest of the world, and about the extent to which the Government would choose to alter the regulatory framework presently set by the EU.

Figure 1: recent estimates of the long-term impact of leaving the EU on UK GDP



65. The Committee took evidence on two figures in particular. The first was a figure of £3,000, used by the Stronger In campaign, and purporting to measure the benefit of EU membership to each household. This figure is based on a CBI report, which combines the results of several cost-benefit studies of membership, from which Stronger In takes the midpoint. The second figure the Committee considered was a £4,300 cost of Brexit used by the Chancellor and others in Government. This is based on a Treasury study, published on 18 April, which models the effect of the UK’s membership of the EU on trade and foreign investment, compared to three alternative arrangements, and from this draws conclusions about the impact of Brexit on UK GDP.⁶⁴

63 Q3

64 HM Treasury analysis: the long-term economic impact of EU membership, April 2016

66. The CBI study, on which the £3,000 figure is based, was originally published in 2013⁶⁵ and updated in February 2016.⁶⁶ It considers seven studies of the impact of EU membership on GDP (economic output) that the CBI deems to be ‘credible’ (only one of which, the Open Europe study, is shown in the chart above). The estimates of the impact of EU membership in these studies range from a cost of 2.5 per cent GDP to a benefit of 9.5 per cent GDP, implying a range of minus £1,700 to plus £6,500 per household. In explaining this variation, the CBI notes that “much depends on how a study specifies its counterfactual—the trading, investment and regulatory climate that would prevail after the UK exited the EU”. From these studies, the CBI derives a range for the benefits of EU membership of 4-5 per cent of GDP, or £2,700 to £3,300 per household, but no detail is provided on how the wider range identified in the underlying studies has been narrowed down. The Stronger In campaign uses the middle of this range to conclude that EU membership confers a benefit of £3,000.

67. The £4,300 figure is based on the Treasury’s assessment of the long-term economic impact of EU membership. It is underpinned by a number of assumptions, including that:

- the UK would enter into a bilateral trade deal with the EU resembling the Canada-EU free trade agreement;
- the UK would have replicated, by 2030, the market access to non-EU countries presently afforded by the trade deals that the EU has negotiated. However, it would have made no progress in opening up other EU markets; and
- immigration policy would remain unchanged and there would be no change to the regulatory framework (or at least none that produced any economic effects).

68. Mark Bowman, HM Treasury Director General, International and EU, said that the assumptions the Treasury had made were “cautious” and “neutral” but acknowledged that no sensitivity analysis had been done to determine how far the results were affected by altering these assumptions.⁶⁷

69. The Treasury’s analysis uses a three-stage process to derive its results. A gravity model is used to estimate the effect of different trade relationships (including EU membership) on trade and foreign investment flows.⁶⁸ The effects on trade and investment of those different relationships are then assumed to have consequences for productivity; the magnitude of that impact is estimated using the “most relevant external evidence”. Both the trade and productivity ‘shocks’ of moving to a different relationship are fed into a global economic model maintained by the NIESR to estimate their combined impact on UK GDP. The Treasury document makes clear that “as there is no precedent for an economy like the UK leaving the EU, any quantitative analysis is subject to uncertainty.” It is also worth noting that some gravity models predicted a 300% increase in UK trade if we joined the euro so they are not always reliable.

70. Some of the detailed results of the Treasury’s analysis are at odds with what might be expected. For instance, the analysis did not find that EU membership had a statistically

65 CBI, *Our global future*, November 2013

66 CBI, *Two futures*, February 2016

67 Q1921

68 Gravity modelling seeks, through econometric analysis, to isolate the specific influence of trade relationships from other factors that might affect the extent of trade and investment, such as geographical proximity, historical ties, GDP and population.

significant effect on foreign direct investment (FDI) from countries outside the EU. Mark Bowman said that “the reasons for this is limitations with the data and a very short series of available data”, adding that “all intuition suggests that you would [expect to see an effect]”.⁶⁹ Both the £4,300 and £3,000 figures refer to the impact of EU membership on GDP per household. For a number of reasons, average disposable household incomes are lower than GDP per household,⁷⁰ meaning a given reduction in GDP will generally produce a smaller effect on household disposable incomes. For instance, the £4,300 (6.3 per cent) loss to GDP per household would, in proportional terms, result in a £1,600 loss in median household disposable income. However, as the Chancellor pointed out to the Committee in evidence, the GDP impact has an effect, “both on the income that the household has, but also on the public services that they consume”⁷¹.

71. Figures purporting to measure the overall impact of EU membership or Brexit on GDP and household incomes are only meaningful if the counterfactual—the assumed alternative to EU membership—is clearly spelled out (although it was based on different studies that individually had counterfactuals, the £3,000 figure used by the Stronger In campaign does not have any specific counterfactual). This is not the case for the £3,000 figure used by the Stronger In campaign, or indeed any number that combines the findings of different studies with different counterfactuals.

72. Most recent studies support remaining in the EU and find that Brexit decreases the UK’s openness to trade with the EU, which, other things being equal, causes a decline in investment and productivity. The key question is how far these negative effects are offset by: the scope for increased openness to trade with the rest of the world; productivity gains from deregulation; and lower contributions to the EU budget. The balance of recent submissions seen by the Committee is that Brexit is likely to have a net negative impact in the long term because the costs of a fall in trade exceed the gains in other areas, although the size of that impact varies considerably between different studies. Those who favour leaving the EU would argue that these studies are insufficiently optimistic or imaginative about how the UK would fare outside the EU. They could be right. In particular, the approach taken by the Treasury in its analysis appears not adequately to have considered various upsides to leaving the EU, but has modelled many of the downsides, though it is not out of line with many other independent expert analyses and it is ultimately up to those arguing to leave the EU to explain and model any possible upsides.

73. Even if the assumptions underpinning it are considered to be reasonable, the Treasury’s £4,300 figure is the result of two economic modelling exercises and a further assumption about the relationship between trade and economic productivity. Each of these three stages introduces uncertainty. Any specific numbers emerging from such an analysis should be subject to caveats and seen within the context of the forecast range presented by the Treasury. Indeed, the limitations of the Treasury’s approach are exposed by some counter-intuitive results from their analysis, buried in

69 Q1958

70 These reasons include the fact that income is not distributed equally across households, meaning mean incomes are higher than median incomes (GDP per household is effectively a ‘mean’ figure); not all income is distributed to households (e.g. some corporate income is retained, rather than paid out in wages or distributed to shareholders); and tax and social contributions result mean that the income available for households to spend (“disposable income”) is less than their gross income. The ONS’s provisional estimate for median household disposable income in 2014/15 is £25,600; GDP per household in the same period was £67,900.

71 Q1914

the appendices, such as the finding that EU membership does not act as a significant draw for inward investment from outside the EU. The Treasury is, however, clear about how the £4,300 figure is derived.

74. Presenting the figures on the impact of Brexit on a per household basis, as the Stronger In campaign has done, is likely to be misconstrued by readers, especially in the heat of a campaign, and probably has confused them. It may have left many readers thinking that the figures refer to the effect of leaving the EU on household disposable income, which they do not. The Remain campaign should have been alert to this risk, although this is a well understood hazard, and it is a generally accepted way that economists convert complex numbers into something more comprehensible. The Treasury's analysis contains a foreword from the Chancellor suggesting that "families would be £4,300 worse off" as a result of Brexit. But this is not what the main Treasury analysis found; the average impact on household disposable incomes would be considerably smaller than this number, which refers to the impact on GDP per household. Neither Government Departments nor other spokespeople for the remain side should repeat the mistaken assertion that household disposable income would be £4,300 lower than if we were to remain in the EU; the £4,300 figure refers to GDP per household. To persist with this claim would be to misrepresent the Treasury's own work. However, it is clear that household disposable income is not the only important measure from a household perspective—public services that are consumed are also of benefit, which would give greater justification for the GDP per household figure.

75. It is disappointing that the Treasury and the Chancellor place so much emphasis on a single figure (£4,300). Any single number that purports to encapsulate the effects of Brexit can be misunderstood, all the more so if it is used—as this number has been on occasion—unqualified by detailed explanation. Using the range around this estimate—£3,200 to £5,400— as well as a central forecast, and looking at average household income would both be useful ways of presenting the Treasury's results.

76. What is clear from all serious studies of the economic impact of Brexit is that the UK's future trade relationship with the rest of the EU, and with non-EU countries, matters a great deal. Chapter 5 of this Report considers this in more detail.

3 The short-term effects of leaving the EU

Consequences of uncertainty

77. In thinking about the impact of Brexit, it is helpful to distinguish between the short term, during which the UK's future relationship with the EU is under negotiation, and the long term. Just how long the short term lasts is uncertain and this is considered in more detail later in this chapter.

78. As the Treasury Committee has repeatedly pointed out, forecasts are usually wrong. But, as was reported in evidence to the Committee by Ben Broadbent, Deputy Governor, Monetary Policy at the Bank of England on 24 May, "the fact that the future is uncertain does not mean all forecasts are useless. That is a false dichotomy."⁷² The UK's formal relationship with the EU, including its rights and obligations under the Treaties, are unchanged in the short term; "nothing would change on day one", as Lord Rose put it. However, effects on financial markets and the economy may arise during this period as a result of the uncertainty surrounding the UK's future relationship with the EU. The Bank of England's May 2016 Inflation Report, and other analyses, describe a number of channels through which the uncertainty following a vote to leave might have short-term economic effects.

79. *The value of the pound.* By 14 May 2016, sterling had fallen by 9 per cent from its November 2015 peak. The Bank of England's May 2016 Inflation Report estimated that half of this decline was down to referendum risk. The Report notes that "were the United Kingdom to leave the EU, it is likely that sterling would depreciate further, perhaps sharply", and that this could, in the short term, boost net trade (exports minus imports) and GDP growth, and lead to a rise in consumer price inflation (CPI). However, a vote to leave could also cause the euro to depreciate, mitigating any fall in sterling against the euro specifically. Changes to US interest rates may also affect the value of sterling. The Governor of the Bank of England, in correspondence with the Committee about the inquiry also set out that:

A fall in the exchange rate implies a reduction in the price of UK output relative to world exports, boosting demand for UK exports. It would also encourage UK households and firms to substitute away from imported goods and services to domestically produced ones. Offsetting that, however, the increase in import prices would lower real incomes for UK consumers, reducing their demand for UK output as well as for imports. The Bank's forecasting model suggests that, overall, the substitution effect outweighs the income effect in this mechanical exercise.⁷³

The Bank's modelling showed that:

a persistent 10% depreciation (or appreciation) of the sterling effective exchange rate (ERI) increases (or decreases) annual consumer price inflation by around $\frac{3}{4}$ pp [percentage points] over the baseline path after two to three years, and the

72 Oral evidence to the Committee on the Inflation Report May 2016, 24 May 2016 Q106

73 Letter from Mark Carney to Rt Hon Andrew Tyrie MP, 29 March 2016

price level by around 2¾% over four years. Monetary policy is assumed to be held constant in this experiment. The model is linear, so a 20% change in the exchange rate would double these estimates.⁷⁴

HSBC economists have predicted that sterling would be likely to depreciate by around 20%.⁷⁵

80. *Domestic business investment and household consumption.* Some companies, particularly those with revenues dependent on trade with the EU, may defer decisions to invest or hire. This would reduce demand (GDP) and, over time, may also have a negative effect on potential supply. Households may also temporarily defer consumption. Other things being equal, this could reduce GDP growth. However, it is unclear whether this is currently happening.

81. *Financing costs and availability.* In the face of uncertainty, lenders may require greater compensation (risk premia) to lend money. This would be reflected in higher borrowing costs for the Government,⁷⁶ UK companies and households, and may act further to constrain business investment and household consumption.

82. *Foreign investment and capital flows:* A rise in uncertainty is likely to cause a reduction in foreign direct investment. This may be offset by short-term capital flows, which could be attracted by the depreciation of sterling or rises in interest rates.

83. These effects, should they materialise, may also interact with and exacerbate existing risks. Mark Carney, Governor of the Bank of England, described leaving the EU as:

the biggest domestic risk to financial stability, in part because of the issues around uncertainty, but also because it has the potential, depending on how it is prosecuted and how these issues can be addressed, to amplify risks around the current account [...] potential risks around housing, potential risks around market functioning, which we are trying to mitigate, and associated risks with respect to the euro area, which would have a feedback.⁷⁷

The Governor added that other, global, risks, including those from China, “are bigger than the domestic risks”.⁷⁸

84. Although the view expressed by the Financial Policy Committee (FPC) of the Bank of England in the record of its meeting of 23 March is similar, it is striking that in their written evidence when seeking reappointment neither Dame Clara Furse nor Richard Sharp suggested that Brexit was a material economic risk. The record of the FPC meeting states that: “risks around the referendum [are] the most significant near-term domestic risks to financial stability” and notes the UK’s reliance on inflows of portfolio and foreign direct investment to finance its historically high and persistent current account deficit. The FPC is required by statute to operate by consensus wherever possible, and under its remit

74 Letter from Mark Carney to Rt Hon Andrew Tyrie MP, 29 March 2016

75 HSBC Global Research: Brexit Strategies - What if the UK leaves? February 2016

76 The three main credit rating agencies have signalled that they would put the UK Government’s credit rating on a “negative outlook” in the event of a vote to leave.

77 Q1121

78 Q1122

from the Chancellor, communications by individual FPC members must be “co-ordinated and consistent”. The record of its meeting must include a “summary of the Committee’s deliberations”, but it does not generally identify specific dissent from the consensus.⁷⁹

85. The minutes of the 11 May meeting of the Bank’s Monetary Policy Committee (MPC) state that the combination of influences on demand, supply and the exchange rate arising from a vote to leave “could lead to a materially lower path for growth and a notably higher path for inflation”.⁸⁰ The MPC differs from the FPC in that it votes at each meeting on monetary policy decisions and its minutes routinely record the views of individual members (without specifically identifying them). In the absence of dissent in the minutes, it can be assumed that there is unanimity among the MPC’s members.

86. In a report otherwise supportive of the economic case for Brexit, Gerard Lyons, chief economic adviser to the former Mayor of London, Boris Johnson, wrote that leaving the EU would have negative short-term economic consequences:

Leaving the EU would be an economic shock. Most, if not all, economic shocks depress economic activity. Thus economic forecasts that focus on, say, a couple of years ahead would tend to show that leaving the EU is always worse than the alternative.⁸¹

Policy response and contingency planning

87. The Bank has already announced additional liquidity auctions around the referendum date, signalling its willingness to mitigate market tension associated with the referendum and its result; the Governor said in evidence that “we are particularly focused on the condition of bank funding markets.”⁸²

88. At its 11 May meeting, the MPC discussed how it might respond to a vote to leave. The minutes of the meeting state that in such an event, “the MPC would face a trade-off between stabilising inflation on the one hand and output and employment on the other. The implications for the direction of monetary policy would depend on the relative magnitudes of the demand, supply and exchange rate effects”. In effect, the MPC could either raise or cut interest rates. Despite the clear uncertainty from the MPC around the direction of monetary policy in the event of Brexit, the Chancellor has nevertheless made the claim that mortgages would rise under Brexit. Speaking on the media he has said “It’s already clear from the Treasury analysis that for example, there would be a significant shock to the housing market that would hit the value of people’s homes that would hit the cost of mortgages”.⁸³ But although presented as ‘fact’ this can only therefore be judgement. The Governor said that “there is likely to be risk premia on risky assets, in UK sterling assets, for a period of time. Even in the case of a potentially lower Bank rate, the overall mortgage rate could be higher.”⁸⁴

79 Bank of England Act 1988 (as amended) Section 9U (2)

80 Monetary policy summary and minutes of the Monetary Policy Committee meeting ending on 11 May 2016 (published 12 May 2016)

81 Greater London Authority, London: the global powerhouse
82 Q1091

83 Rt Hon George Osborne, interview with Robert Peston, 8 May 2016

84 Oral evidence to the Committee on the Inflation Report May 2016, 24 May 2016 Q106

89. In evidence to the Committee in December, the Chancellor said that no contingency planning was underway for a vote to leave because “we are focussed on the renegotiation at the moment”.⁸⁵ Sir Nicholas Macpherson, the then Treasury Permanent Secretary, told the Committee in February 2016 that “the Government are not at this stage doing contingency planning. They do not want their officials to do contingency planning”.⁸⁶ When he came before the Committee again in May, the Chancellor said that “the Bank of England and the Treasury are doing quite a serious amount of contingency planning for the impact [specifically] on financial stability in the immediate aftermath of a vote to leave” but would not be drawn on details.⁸⁷

90. Short of ruling out EEA membership, the Government has not described the sort of agreement it would seek with the rest of the EU, or with non-EU countries, following a vote to leave.

Length of period of uncertainty

91. Article 50 of the Lisbon Treaty describes the procedural mechanism by which a country leaves the EU. The departing Member State notifies the European Council of its intention to leave, after which a negotiation takes place with a view to reaching an agreement “setting out the arrangements for its [the UK’s] withdrawal, taking account of the framework for its future relationship with the Union”. From the point of notification, the UK would cease to be a member of the EU after two years (i.e. the Treaties and EU law cease to apply to it), unless a withdrawal agreement is reached that enters force on a different date, or the UK and the remaining EU Member States vote unanimously to extend the time period.

92. Article 50 implies that the arrangements governing the UK’s future relationship with the EU may take the form of a separate agreement. This is what is envisaged in the Government’s paper, *The process for withdrawing from the European Union*, which states “Any sort of detailed relationship would have to be put in a separate agreement that would have to be negotiated alongside the withdrawal agreement”. Sir Jon Cunliffe, Deputy Governor of the Bank of England and former UK Permanent Representative to the EU, said that “they [i.e. an agreement on withdrawal and on future trade relations] could be done as part of the same” but that “I have always envisaged it as a separate negotiation”.⁸⁸

93. It is clear from the evidence the Committee has heard that the length of the period of uncertainty, during which the UK’s future relationship with the EU is being negotiated, whether as part of a single agreement or not, is itself uncertain, and partly dependent on the position taken by other EU Member States, who must agree a common negotiating position, and ratify any eventual agreement.

94. On the one hand, based on the experience of recent comprehensive trade agreement negotiations (see Figure 2, below), it may be several years before the terms of the UK’s future trade relationship with the EU are settled. On the other, the UK would be starting from a very different position, where it already enjoyed a high level of access to EU markets and, where relevant, an equivalent regulatory framework. It is also possible that the

85 Q406

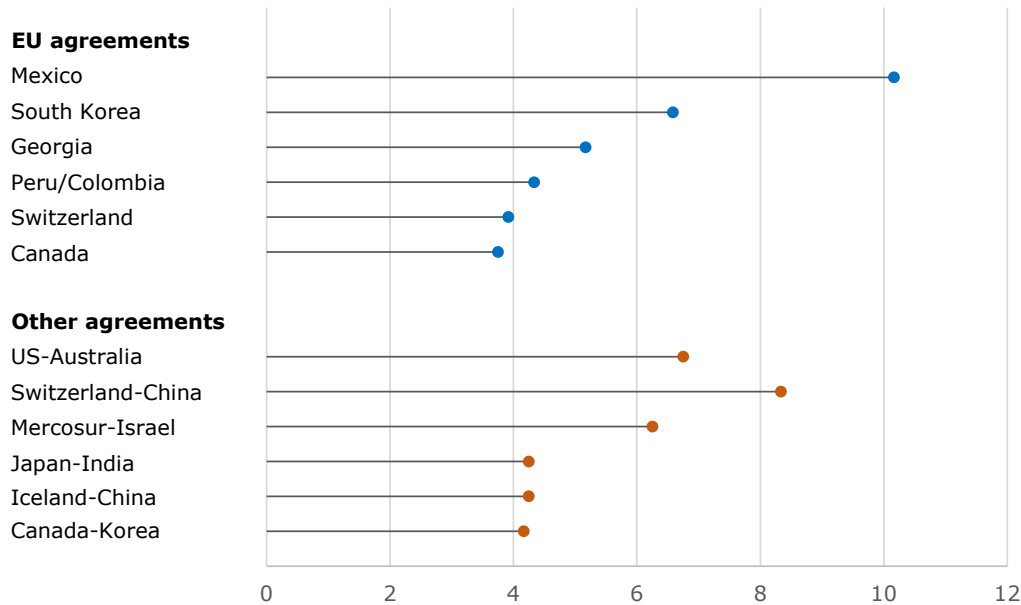
86 Treasury Committee Oral evidence: HM Treasury Annual Report and Accounts 2014–15, HC 805 10 February 2016, Q15

87 Q1966

88 Q1109

uncertainty surrounding the UK's future relationship with the EU could be significantly reduced well before negotiations are concluded: as Sir Jon Cunliffe put it, “you could be in a position where all parties agreed quite quickly as to where they wanted to go”.⁸⁹

Figure 2: length of time taken to negotiate selected trade agreements (years from launch of negotiations to entry into force)



Source: Open Europe, Where next? A liberal, free-market guide to Brexit, April 2016, p17

95. The length of the period of uncertainty would also depend on when the Government were to start the process of withdrawal. The Prime Minister has said this must start immediately:

If the British people vote to leave, there is only one way to bring that about, namely to trigger Article 50 of the treaties and begin the process of exit, and the British people would rightly expect that to start straight away.⁹⁰

This point was reinforced by the Chancellor in his evidence to the Committee, when he said that Article 50 would be invoked in “days—maybe a week or two.”⁹¹

96. However, there is no legal requirement for Article 50 to be triggered immediately after the vote. Sir Jon Cunliffe said that the right time to trigger it “would be when one knew what one wanted”.⁹² The Chancellor told the Committee that it was for others, particularly those advocating a vote to leave, to set out what the alternatives might be.⁹³

89 Q1126

90 HC Deb 22 February 2016 c24

91 Q2053

92 Q1126

93 Q406

97. Following a vote to leave, there would be a period during which the UK's future relationship with the EU is uncertain. As with much economic uncertainty, it is plausible to suppose that this could weaken the pound, reduce domestic and foreign direct investment, and increase borrowing costs. However, some of these effects may be countervailing. It could also exacerbate pre-existing risks to financial stability. The duration of this uncertainty, and hence the length of time that these effects would persist, is itself uncertain, but is likely to be in excess of one year.

98. The economic and financial consequences of uncertainty can in part be mitigated by the actions of the Bank of England's Monetary and Financial Policy Committees. The Committee notes that the scope for monetary policy to cushion the macroeconomic effects of a vote to leave is limited by the fact that base rate is close to zero, and that the Bank currently holds a quarter of UK Government gilts.

99. The extent and duration of uncertainty in the aftermath of a vote to leave can in part be mitigated by the Government if it is clear about its strategy and objectives. In a referendum, unlike a general election, the winning side does not form a government. Therefore, unless the government were willing to announce its contingency plans for a Brexit vote the uncertainty would be magnified. Understandably the Government is reluctant to spell out such plans for fear they help its opponents. The short-term economic effects of Brexit are generally held to be large, but it is possible that they could be small. The Committee intends to take further evidence on this as soon as possible now that the Treasury's analysis has been published.

100. The Government will need to make it unambiguously clear that it will respect the will of the electorate in the event of a vote to leave within a reasonable timeframe. But it could be economically misguided for the Government to invoke Article 50 immediately after a vote to leave and it may not be in the national interest to do so. The Committee agrees with Sir Jon Cunliffe that the UK should "start the clock running when one knew what one wanted". As the Chancellor has made clear, the Government has not considered the relationship that it wants with the EU following a vote to leave; it therefore seems unlikely that it will be in position to articulate its negotiating position on the day after the referendum.

4 The long-term risks of staying in the EU and the Government's renegotiations

Summary

101. In a speech in January 2013, the Prime Minister argued that the EU needed “fundamental, far-reaching change”. It was in this speech that he first announced his intention to seek a “new settlement” for the UK in the EU and to hold a referendum in the following Parliament, where voters would decide “to stay in the EU on these new terms or come out altogether”.⁹⁴ The intended terms of this new settlement changed over time, but gained their final expression in a letter from the Prime Minister to Donald Tusk, President of the European Council, dated 10 November 2015.⁹⁵ The final results of the renegotiation (henceforth the settlement) were set out in the conclusions of the European Council summit of 18-19 February.⁹⁶ The settlement covers four broad areas:

102. *Economic governance.* The settlement contains a set of principles intended to ensure that further economic integration of the Eurozone does not unfairly prejudice the interests of non-Eurozone countries. It also establishes a procedural mechanism intended to ensure that the principles are respected.

103. *Competitiveness and red tape.* The settlement restates previous pledges and commitments to “enhance competitiveness”, “fully implement and strengthen the internal market” and take “concrete steps towards better regulation”. Specific targets for burden reduction are to be established in “key sectors” and “where feasible”. A separate declaration of the European Commission states that the existing body of EU law will be reviewed for compliance with the principles of subsidiarity and proportionality.

104. *Migration and free movement.* The settlement proposes amending EU legislation to enable in-work benefits to be restricted for recently-arrived migrants, and for child benefit paid in respect of children living in other EU Member States to be indexed to reflect “conditions” in those countries. Other measures are proposed in the settlement to tackle the “abuse” of free movement.

105. *Sovereignty.* The settlement acknowledges that the UK has a “specific situation” in relation to the EU, that it will not be committed to further political integration, and that the concept of “ever closer union” will not apply to it. It also establishes a ‘red card’ procedure under which 55 per cent of national parliaments (currently the parliaments of 16 Member States) will be able to combine to prevent further discussion, in the Council, of EU legislative proposals, where they believe power should lie with national legislatures in accordance with the principle of subsidiarity.

106. The Committee’s overall view of the settlement and its impact on the case for membership is as follows:

⁹⁴ Prime Minister, EU speech at Bloomberg, 23 January 2013

⁹⁵ Letter from the Prime Minister to Donald Tusk, 10 November 2015

⁹⁶ European Council, Conclusions of meeting on 18-19 February (EUCO 1/16)

If there is a vote to remain, the principles contained in the economic governance part of the ‘new settlement’ with the EU will be important in ensuring that the UK’s interests, and the integrity of the single market, are protected as the Eurozone pursues further integration. These do improve the protections afforded to the UK in the EU, and hence, to that extent, the economic case for membership. But this falls short of the ambitions expressed in the Prime Minister’s Bloomberg speech of January 2013.

107. The Committee took a particular interest in the economic governance part of the settlement, and sought the views of the Bank of England on whether it provided the Bank with the flexibility it needed to safeguard the UK’s financial stability. The assurances sought by the Committee reflected concerns raised by the Bank in its October 2015 paper, *EU membership and the Bank of England*, that the pursuit of further harmonisation of financial regulation in the Eurozone could compromise the Bank’s ability to ensure financial stability in the UK.

108. The Committee also took evidence on the restrictions on in-work and child benefits. In particular, it considered the extent to which they addressed the Prime Minister’s concerns, expressed in his letter to Mr Tusk, about the “scale and speed” of EU immigration, and how far they might contribute to the Government’s target of reducing migration to the ‘tens of thousands’.

109. The economic governance and welfare parts of the settlement are discussed in turn below.

Economic governance and the risks of further Eurozone integration

110. Most legislative acts are now approved in the Council of Ministers by a weighted voting system known as qualified majority voting (QMV). The Eurozone has an inbuilt qualified majority, meaning that, acting together, its members can approve legislation, even if it is opposed by other Member States. Discussing EU financial regulation in a speech in January 2014, the Chancellor noted that this led to a “very real risk that badly thought-through legislation will be imposed on the UK”.⁹⁷

111. Two factors compound this risk. First, the Eurozone crisis has exposed the need for those countries that have adopted the single currency to pursue further financial and fiscal integration, including a banking union with single resolution and supervisory mechanisms. The extent of regulatory harmonisation necessary to ensure the single market functions properly is likely to be less than that required to ensure the stability of the single currency.

112. Secondly, the size and national economic importance of the UK’s financial services industry is unique among EU Member States. The result is that other non-Eurozone members cannot always be relied upon as natural allies in opposing legislation to which the UK objects. As Dr Robin Niblett, Director of Chatham House, put it: “non-Eurozone members, apart from us, are generally wanting to be included somehow in the broader banking union structures; they have a different outlook [...] they are not exporters of financial services the way we are; they do not have the City of London based within them”.⁹⁸

⁹⁷ Chancellor of the Exchequer, speech at Open Europe Conference, 15 January 2014

⁹⁸ Q142

113. The potential problems from this situation were identified in the Bank of England's October 2015 report on EU membership, which highlighted the importance of "clear principles to safeguard the interests of non-euro-area Member States". Without these, the Bank warned that the future development of EU financial regulation might impair its ability to address "the specific financial stability challenges in the world's largest international financial centre", and weaken the integrity of the single market.⁹⁹

114. In this context, a central objective of the Government's renegotiations was to secure safeguards to protect the integrity of the single market and the interests of non-Eurozone members. The UK's settlement establishes a set of principles, upheld by a procedural mechanism to raise concerns about their being breached. The principles include: recognition that the EU has more than one currency; that a greater degree of harmonisation of financial regulation may be required for countries inside the euro area than for those outside it; and that, for non-Eurozone countries, institutional responsibility for ensuring financial stability lies with their own authorities.¹⁰⁰

115. Some of the principles are framed in a symmetrical way, placing obligations on both Eurozone and non-Eurozone members; for instance, just as legislative acts linked to the functioning of the euro area must "respect the competences, rights and obligations of Member States whose currency is not the euro", so those same Member States "shall not impede the implementation of legal acts directly linked to the functioning of the euro area and shall refrain from measures which could jeopardise the attainment of the objectives of economic and monetary union". Others are carefully nuanced; for instance, the clarification that, for non-Eurozone countries financial stability and supervision is a matter for their own authorities is "without prejudice [...] to the existing powers of the Union to take action that is necessary to respond to threats to financial stability".

116. The procedural mechanism allows for any Member State not participating in banking union to raise an objection in ECOFIN if it is concerned that a legislative measure agreed by QMV breaches the principles. The President of the Council (i.e. the finance minister of the country holding the six-month rotating Presidency) must then "undertake any initiative necessary to facilitate a wider basis of agreement in the Council". The Council Decision describing the mechanism states that "a discussion in the European Council [i.e. among Heads of State or Government] on the issue, before it returns to the Council for decision, may constitute such an initiative".¹⁰¹

117. The Government's paper setting out the implications of the settlement states that the procedural mechanism allows it "unilaterally [to] take the UK's concerns to the Heads of State or Government in the European Council" if it believes the principles are not being respected.¹⁰² Sir Jon Cunliffe was asked whether the claim in the Government's paper was consistent with the text of the procedural mechanism. He said that "there is no legal right" for the UK to take its concerns to the European Council.¹⁰³ However, he made clear that in practice, a discussion at the European Council would be likely if that was what the UK wanted:

99 Bank of England, EU membership and the Bank of England, October 2015, p7

100 European Council, Conclusions of meeting on 18-19 February (EUCO 1/16), Annex I, Section A

101 European Council, Conclusions of meeting on 18-19 February (EUCO 1/16), Annex II

102 Cabinet Office, The best of both worlds: the United Kingdom's special status in a reformed European Union, February 2016, Para 2.31

103 Q1027

I would have thought, if a Member State brought a breach of this agreement to the Council, the ECOFIN, and if it was not resolved at the ECOFIN and the President of the ECOFIN decided not to refer this to the European Council, and that Member State then went to the President of the European Council and said, “This for me is a fundamental breach”, I am pretty sure that that would be discussed at the European Council, if only because a Member State could bring that to the European Court of Justice.¹⁰⁴

118. The Committee sought written evidence from the Bank as to whether the settlement satisfied the concerns raised in their October 2015 Report. In a letter to the Committee Chairman, the Governor wrote that “the settlement addresses the issues the Bank identified as being important, given the likely need for further integration of the euro area, to maintaining its ability to achieve its objectives”.¹⁰⁵ In oral evidence to the Committee, Sir Jon Cunliffe described the settlement as “significant and material” and “quite powerful”.¹⁰⁶

119. The pursuit of further economic and financial integration within the Eurozone, including the development of a banking union, could threaten the UK’s influence over how single market regulation develops, its access to EU financial markets, and the flexibility of its financial regulators to respond to risks. It is the single most significant risk to continued membership, and the Government was right to make it a focus of their renegotiation.

120. The settlement that the Government has negotiated establishes a set of ‘principles’ intended to safeguard the interests of countries outside the euro, and a procedural mechanism to uphold them. The Bank of England’s judgement that, taken together, these address its concerns about regulatory flexibility and the integrity of the single market should be taken seriously. But the language of those principles confers obligations on the UK as well as rights. In particular, the UK has now fully signed up to the logic that monetary union requires a fiscal and banking union, and it has agreed not to impede these developments in relation to Eurozone members only, so long as the principles are respected.

121. There clearly remains scope for conflict between those countries outside the euro and banking union, and those within it, and a risk that the principles will not be properly respected or correctly interpreted. Protection against this will be provided in part by the ECJ, but also through the procedural mechanism that allows the UK to raise objections about legislative measures that breach the principles in ECOFIN. This mechanism does not allow the UK to veto or delay measures that it considers to be in breach of the principles; nor even, as Sir Jon Cunliffe made clear, does it give it a formal right to have its concerns discussed by Heads of State and Government in the European Council. In saying that the UK is “unilaterally” able to raise such concerns at the European Council, the Government has somewhat overstated its case. Nonetheless, the mechanism would appear to have a degree of political importance, and a request by the UK to discuss concerns at European Council level would, as Sir Jon suggests, in practice be hard to reject, even if the text of the settlement falls short of saying so.

104 Q1010

105 Letter from Dr Mark Carney to Rt Hon Andrew Tyrie MP, 7 March 2016

106 Q1029. Sir Jon clarified in subsequent correspondence with the Committee Chairman that this latter remark referred to the settlement as a whole, and not to the procedural mechanism specifically (letter from Sir Jon Cunliffe to Rt Hon Andrew Tyrie MP, 8 April 2016)

122. With or without the principles and the enigmatic procedural mechanism that is supposed to uphold them, ensuring the UK's rights in the single market are respected, and its authority to act to mitigate financial stability risks are maintained, will be an enduring challenge. This challenge will only become greater as other countries join the banking union and the euro. In this context, it is worth remembering that only the UK and Denmark have Treaty-based opt-outs from joining the single currency. The settlement that the Government has negotiated may have mitigated the risks to UK interests of Eurozone integration, but it has not expunged them.

123. The settlement states that the “substance” of the principles will be incorporated into the Treaties when they are next revised. If the UK stays in the EU, these Treaty negotiations will present an opportunity to seek to place on a more solid footing the safeguards it has secured. The Government of the day will also have to guard vigorously against any encroachment of Union competence into the financial stability policy of non-Eurozone countries; given the size, diversity and importance of the UK financial services industry, it is vital that the UK's regulatory scope for unilateral action is maintained.

124. Treaty change also provides an opportunity for the Government to address a number of other shortcomings of the economic settlement, in particular the UK's exemption from ‘ever closer union’. It may, however, be some time—and probably several years—before such an opportunity arises.

Migration and welfare

125. In a speech on 10 November 2015, the same day that he wrote to Donald Tusk setting out the Government's renegotiation objectives, the Prime Minister said that he wanted “to reduce the current very high level of migration from within the EU into the UK”. He went on to say that this would be achieved in part by seeking changes that reduced the “pull factor” of the UK's welfare system:

we have proposed that people coming to Britain from the EU must live here and contribute for 4 years before they qualify for in work benefits or social housing. And that we should end the practice of sending child benefit overseas.¹⁰⁷

126. In evidence to the Committee, the Chancellor was asked about the extent to which these restrictions would limit inward migration from the EU and contribute to the Government's target to reduce migration to the “tens of thousands”. He said:

Our assessment is that that would be an effective mechanism for making the UK less attractive to people coming to this country to claim more generous benefits and that being their primary motive. There is quite a lot of evidence that, for some migrants, that is the principal draw. [...] there is of course also non-EU migration and things like the family route, but this would help a lot in delivering the target.¹⁰⁸

127. In support of his argument that the restrictions would have an effect on migration, the Chancellor cited Open Europe analysis, published in November 2014, that demonstrated

¹⁰⁷ Prime Minister, speech on Europe at Chatham House, 10 November 2015

¹⁰⁸ Q383

a “financial incentive” for workers in Spain, Poland and Bulgaria to migrate to the UK, because what they could expect to earn on the minimum wage in their own country was less than what could be earned in the UK, taking into account the national minimum wage and in-work benefit entitlement. On this basis, Open Europe advocated a policy similar to that which the Government sought in its negotiations; there should be a “qualification period” for access to in-work benefits and other parts of the welfare system.¹⁰⁹

128. The Chancellor was also asked whether the introduction of the national living wage (announced in the July 2015 Budget), which will result in the minimum wage for over 25s rising at a faster rate, reaching £9 per hour by 2020, might offset any effects from the proposed in-work benefit restrictions. He said that he “[did] not think that the national living wage is fundamentally going to change the attractiveness of the UK to overseas workers”.¹¹⁰ In evidence to the Committee on the Autumn Statement 2015, Sir Stephen Nickell, member of the Budget Responsibility Committee, disagreed with the Chancellor about the impact of the proposed in-work benefit restrictions. He said that, in his view, they would have “not much” impact on inward EU migration.¹¹¹

129. The settlement that emerged on 19 February differed from the Prime Minister’s demands. Instead of an outright four-year ban on in-work benefits for EU migrants, new migrants will qualify for them on a “graduated” basis over a period of four years. And instead of a ban on child benefit paid in respect of children living in migrants’ home countries, the value of benefits paid will reflect “conditions” in the country in question.¹¹²

130. In support of proposed restrictions, both the Prime Minister and the Chancellor made use of a figure of 40 per cent to refer to the proportion of EEA migrants supported by the “UK benefits system”.¹¹³ In an effort to verify that figure, and to determine what proportion of migrants might be affected by the in-work benefits restrictions, the Committee obtained, through correspondence with HMRC, the following numbers:

- The number of EEA migrants who had arrived within the four years to 2013/14, and who were in households claiming tax credits in 2013/14 was 111,000¹¹⁴
- The number of EEA migrants subject to income tax, NICs and/or who had received HMRC benefits at some point in 2013/14, and who had arrived in the previous four years, was 1 million.¹¹⁵

131. The figures indicate that, were the in-work benefit restrictions in force in 2013/14, 11 per cent of EU migrants would have been living in households that might have been affected by them. This is consistent with work by the Oxford University Migration Observatory, which concluded that, based on publicly-available data, “roughly 10-20 per cent of recently arrived EU adults were receiving tax credits in early 2014”.¹¹⁶

109 Open Europe, Reforming EU migrants’ access to benefits, November 2014

110 Q347

111 Oral evidence from Sir Stephen Nickell to the Treasury Committee on Spending Review and Autumn Statement 2015, Q135

112 European Council, Conclusions of meeting on 18-19 February (EUCO 1/16), Annex I, Section D

113 See, for instance, Prime Minister, speech on Europe at Chatham House, 10 November 2015

114 Letter from Lin Homer to Rt Hon Andrew Tyrie MP, 4 February 2016

115 Office for National Statistics, Note on the difference between National Insurance number registrations and the estimate of long-term international migration: 2016, 12 May 2016, Annex 3

116 Oxford University Migration Observatory, Migration, welfare benefits and EU membership, 4 May 2016

132. Outside the EU, the UK would be able to impose controls on EU migration. Michael Dougan, Professor of European Law at Liverpool Law School, said that “In principle, after withdrawal, the UK will no longer be bound by any free movement”.¹¹⁷ However, as discussed in Chapter 5, doing so could have implications for the access it is able to secure to EU goods and services markets. Boris Johnson told the Committee that, on leaving, “we would take back control over our borders”,¹¹⁸ adding that “both of those would be locked off—free movement and budgetary contributions—but it would be massively in the interests of our partners to do a deal based on free trade in goods and services, and I am sure that is what we would achieve”.¹¹⁹

133. In written evidence to the Committee, the Civil Engineering Contractors Association (CECA) said that Brexit and new migration controls could risk the loss of key skills.¹²⁰

134. A variety of studies have suggested that EU immigration has had a net positive fiscal impact.¹²¹

135. Some campaigners for Brexit have said that Brexit would lead to a reduction in immigration. Others have said that a reduction in EU immigration following Brexit will allow for a corresponding increase in non-EU immigration. These positions are apparently contradictory.

136. Other things being equal, the changes to in-work and child benefits that the Government has negotiated will at best lead to a modest reduction in inward migration from the EU and fall in welfare spending. These changes would also be more consistent with the principle that one should not be able to draw down from the benefit system before one has contributed to it. Other things are not, however, equal. The introduction of the national living wage may significantly offset any effect from these measures by increasing the UK's attractiveness to migrants. It is inconsistent to claim that migrants are attracted by higher wages when paid by the state in the form of tax credits, but not when paid by employers in the form of the national living wage.

137. So far, free movement has been a non-negotiable part of the single market and EU membership. Just as Boris Johnson and others are almost certainly mistaken to think that the UK could retain unfettered access to EU goods and services markets while ending free movement after leaving the EU, so the Prime Minister was almost certainly mistaken—as is indicated by the contents of the new settlement—to have concluded at the outset of the negotiations that he could succeed in substantially restricting free movement while remaining in the EU. The present situation, in which non-EU migration is increasingly having restrictions placed upon it—in pursuit of an arbitrary target that it is not within the Government's control to meet—is economically distortive, and is likely to carry a cost, although over the past decade non EU migration has shown no clear declining trend.

117 Q182

118 Q1270

119 Q1351

120 EUK0006

121 See for instance, Dustmann, Frattini, (2014) The fiscal effect of immigration to the UK, The Economic Journal

5 The long-term impact of leaving the EU: the economic relationship between the UK and the EU

Context

138. Any agreement on the UK's withdrawal from the EU will have to address a large range of issues, including: the UK's participation in EU-wide programmes; its contributions to the EU budget; the position of British staff working for European institutions; the status and treatment of UK nationals exercising free movement rights in other Member States; and the status and treatment of EU nationals exercising such rights in the UK. The focus of this report is on the economic relationship that the UK might have with the EU after leaving, and in particular the trade arrangements that it might conclude.

139. How far the UK's economic relationship with the EU would be altered by Brexit would depend on the agreement that was eventually negotiated. In its analysis of the consequences of Brexit, the Centre for European Reform sets out seven alternative relationships, six of which are based on the experiences of other countries, including Turkey, Norway and Switzerland. Campaigners to leave have cited various examples as models that the UK might seek to follow, including Canada, Albania and Switzerland.¹²²

140. Such comparisons can be instructive about the sort of post-Brexit arrangements that could be feasible. But they can also be misleading. The UK's economic relationship with the EU is unlikely to be identical to that of any other country. As a large European country, the UK will seek, and probably be able to obtain, a unique arrangement. However, the terms of that arrangement would be constrained and conditioned by two forces: the views of other EU Member States and UK domestic opinion.

141. *The views and interests of other EU Member States.* A comprehensive economic and trade agreement with the EU would require the unanimous consent of all Member States' governments and some Member States' national parliaments.¹²³ As Sir Jon Cunliffe put it, "there will be 27 Member States that will not necessarily all share the same view about what the European Union wants from the UK".¹²⁴ Recent events in the EU have shown that the interests of Member States are often not aligned with each other or with those of the UK. The disunity of the Eurozone and the challenges it has faced in making the changes necessary to put the single currency on a sustainable footing, are testament to this.

142. *Domestic public opinion.* A vote to leave the EU would be an expression of public dissatisfaction with the UK's existing relationship, and it is likely that any new relationship would need to be different from the status quo. In opinion polls, the public has cited

122 Centre for European Reform, *If the UK votes to leave: the seven alternatives to EU membership*, January 2016

123 If a trade agreement is classified as 'mixed competence' (i.e. EU and Member State competence), the Council (generally acting by qualified majority), the European Parliament and the national parliaments of all 28 Member States must separately ratify it. The scope of the EU's competence in trade policy was greatly expanded by the Treaty of Lisbon, which brought agreements covering services trade, trade-related aspects of intellectual property and foreign direct investment within the EU's exclusive competence. Nonetheless, recent comprehensive trade agreements, such as the Canada-EU and South Korea-EU have contained elements that fall outside EU competence and have been classified as 'mixed'. The EU-US Transatlantic Trade and Investment Partnership is also widely expected to be a mixed competence agreement.

124 Q1124

migration as something over which the Government should have greater control, as a major factor in determining their vote, and as something they would expect to fall following a vote to leave.¹²⁵ The strength of feeling in this area indicates that there would be a political imperative to reach an agreement that gave the UK the ability to impose controls on migration from the rest of the EU. As Boris Johnson put it, “free movement would be wrong for us”.¹²⁶ There may be other areas, such as social and employment regulation and EU budget contributions, where there could be pressure to achieve fundamental change, and repatriate powers currently exercised by the EU. At a minimum, the UK would exclude itself from the automatic jurisdiction of the ECJ.

143. These two forces would likely interact in a way that narrowed the range of possible economic arrangements eventually reached with the EU; for instance, the UK may find it difficult to satisfy public demands for restrictions on free movement, while securing unanimous agreement among EU Member States for unfettered access to the single market. As a Member State, the UK is bound by a set of rights and obligations, upheld and enforced respectively by the ECJ. It is unlikely that the UK could retain exactly the same rights, while significantly curtailing its obligations. Dr Niblett, said:

The British, in my opinion, will not have an easy time of saying, “Now we are out, we want to keep all the good stuff and we do not want the stuff that our citizens do not particularly like. We want to have access to the markets; we want to have all of the stuff that was the single market, but we do not want the people.” The deal for the EU is all four. [goods, services, capital and people]¹²⁷

Interviewed on BBC television on 6 March 2016, Wolfgang Schauble, Germany’s Finance Minister said:

If the decision is taken to leave, the UK will no longer be in the single market unless you find a new treaty, a new contract where you can be a member of the single market without actually being a member of the EU, and you will still have to accept the free movement of people as well, that goes with it, and you have to pay contributions as well. So it doesn’t really make sense.¹²⁸

Angela Merkel has spoken in similar terms:

It [...] goes without saying that there are things that are non-negotiable. That there are achievements of European integration that cannot be haggled over, for example the principle of free movement and the principle of non-discrimination.¹²⁹

125 For instance, in an Ipsos MORI poll of conducted during 14-25 April 2016, two-thirds of c.4,000 respondents expected migration to decrease over the following five years if the UK left the EU; two-thirds agreed with the statement “Britain should campaign for greater controls on EU citizens”; and 54 per cent agreed with the statement “the Government should have total control over who comes into Britain even if this means coming out of the EU to achieve it”. In the same poll, 48 per cent of respondents identified “the number of immigrants coming into Britain” as one of the issues that would be very important in determining their vote, and 47 per cent identified “the cost of EU immigration on Britain’s welfare system” (respondents were allowed to choose more than one option).

126 Q1121

127 Q182

128 BBC One, the Andrew Marr show, 6 March 2016

129 Angela Merkel, statement to the Bundestag, 15 October 2015

144. Jean-Claude Juncker has said that “freedom of movement since the Fifties is the basic principle of the European way of co-operating. These rules will not be changed.” He has also said that “deserters won’t be welcomed with open arms.”¹³⁰ The European Union General Affairs Council has concluded that “free movement of persons is a fundamental pillar of EU policy and that the internal market and its four freedoms are indivisible”.¹³¹ The European Commission states that “the cornerstones of the single market are the free movement of people, goods, services and capital”.¹³²

145. Campaigners to leave the EU have presented different visions of the sort of trade arrangements that the UK would have with the rest of the EU. The Vote Leave website states that “there is a European free trade zone from Iceland to the Russian border and we will be part of it”. In evidence to the Committee, Dominic Cummings made clear that this trade zone covered “free trade in goods”,¹³³ and argued that being part of a single market in services was “deeply destructive” for the UK.¹³⁴ However, tariffs are levied by the EU on certain goods and in certain countries within the “European free trade zone.” The Leave. EU website states that:

Given that the EU sells far more to us than we do to them, the remaining EU member states will seek a trade agreement with the UK that seeks to maintain the same level of free exchange of goods, services and capital as is the case today.

146. In the weeks leading up to the publication of this Report, spokespeople representing Vote Leave have converged on a view that the UK should have “access to” the single market, but not be “part of it”. Michael Gove said in an interview on 8 May that “we should be outside the single market.”¹³⁵ We should have access to the single market, but we should not be governed by the rules that the European Court of Justice imposes on us, which cost business and restrict freedom”. Boris Johnson said in a speech the following day that “what we want is for Britain to be like many other countries in having free-trade access to the territory covered by the Single Market—but not to be subject to the vast, growing and politically-driven empire of EU law”.¹³⁶

147. After Brexit, the UK’s future relationship with the EU would be unlikely to mimic that of any other country; in this narrow sense, there would indeed be, as Boris Johnson put it, “a British deal”. However, any comprehensive arrangement providing access to EU goods and services markets would require the unanimous consent of the 27 remaining EU Member States.

148. If it is not to call into question the whole purpose of the referendum, a post-Brexit agreement would have to achieve substantive change to the UK’s relationship with the EU. In achieving that change, there would be a trade-off between the extent to which the UK is able to obtain access to EU markets, and the extent to which it regained control over areas where the EU currently has competence. In particular, acquiring greater control over migration policy might well come at the cost of some curtailment

¹³⁰ Le Monde on 20 May 2016

¹³¹ Council of the European Union: Council conclusions on a homogeneous extended single market and EU relations with Non-EU Western European countries General Affairs Council meeting, 16 December 2014

¹³² European Commission, The European Union explained: internal market, November 2014, p3

¹³³ Q1432

¹³⁴ Q1233

¹³⁵ BBC One, the Andrew Marr show, 8 May 2016

¹³⁶ Boris Johnson, The liberal cosmopolitan case to Vote Leave, speech at Vote Leave event, 9 May

of access to other parts of the single market, and hence a reduction in EU trade. In deciding on what sort of relationship to seek, the Government would have to weigh the benefits of additional control against the costs of reduced market access. To sell into the Single Market, its relevant regulatory standards must be met.

149. Achieving the unanimous consent of EU Member States to a comprehensive trade deal would be a significant challenge. Counting in the UK's favour is the fact that, on leaving, it would become the EU's largest single trading partner for goods, just ahead of the United States. Moreover, it would be starting from a position of close integration, with the intention of loosening it in certain areas; this is markedly different from conventional trade negotiations, which start from a position of loose integration with the intention of tightening it. Set against this is the fact that Brexit could represent a crisis for the EU. The goodwill of other EU members could not necessarily be relied upon.

150. The sort of deal the UK would reach with the EU, and the access it would have to its markets in the long term, is highly uncertain. It is disingenuous to claim with any confidence, as some representatives from the leave campaign groups have done, that the UK would be able to leave the EU, drop free movement and continue to have the same rights to trade with EU Member States as it does now. The UK would certainly have access, at some level, to the single market on leaving. The question is not whether the UK would have access to the single market, but how far that access would differ from what it enjoys at present. This is a difficult question; nonetheless, the leave campaigns' leading spokespeople have not answered it.

Implications of different trade relationships

Summary

151. The Member States of the EU collectively form the UK's single largest trading partner by a significant margin. **The evidence heard by the Committee supports the view that the EU will continue to be the UK's most important trading partner for some time to come, irrespective of the referendum result.**

152. However, as noted above, it is almost certain that the UK's trade relationship with the EU would change if it leaves. The extent and nature of this change depends on the agreement the UK Government negotiates. For reasons discussed below, trade in agricultural goods and trade in services—particularly financial services—are most likely to be affected, because in these sectors, the extent and nature of access to EU markets is most likely to differ from the status quo.

153. **Whatever relationship it negotiated, it is likely that the UK's access to EU markets, and hence its trade with the EU, would be lower if it left than if it remained. It is likely to incur higher tariffs than if it remained. There would also probably be a trade-off, inherent in all forms of economic integration, between the extent of EU market access, and the extent to which the UK would be able to regulate products and markets in the way that it wanted. An important question is whether the freedoms and powers that the UK acquired following Brexit—to conduct an independent trade policy, pursue a**

different approach to migration, and establish a more liberal regulatory framework—could be exercised in a way that counteracted and outweighed the costs arising from a loss of EU market access. It is far from clear whether this would be the case.

Implications for trade in goods

WTO option

154. The 'purest' form of Brexit would involve the eschewing of any trade agreement with the EU, and UK reliance on its membership of the World Trade Organisation (WTO) as a basis for trade. This would free the UK from any obligations to follow EU rules, contribute to the EU budget or allow the free movement of people.

155. A core element of WTO membership is the principle of non-discrimination. This requires WTO members not to treat any member less advantageously than any other, unless they have negotiated a preferential trading agreement with them. The effect of this principle is that the EU could not apply punitive tariffs to UK exports, but nor, outside of a formal agreement, could it apply preferential ones either. Equally, if the UK wished to lower or raise tariffs on the rest of the EU, it would have to do the same for the rest of the world.

156. Over time, the EU has substantially cut the tariffs it applies under WTO rules (known as most favoured nation, or MFN tariffs), from a trade-weighted average of 7.4 per cent in 1995 to 2.4 per cent in 2014.¹³⁷ In this sense, the cost to exporters of leaving the EU and relying on WTO membership is lower than it would have been in the past. However, in certain areas, such as the automotive, apparel (clothes) and agricultural sectors, tariffs remain high. The table below shows the top ten products where the combination of export volume and tariffs would result in the highest increase in tariff costs under WTO rules.

Table 3: ten products with largest potential for increase in tariff costs under WTO rules

	average tariff rate (per cent)	exports to EU (£m)	approximate "post Brexit" tariff cost (£m)
Motor cars**	9.7	10,189	991
Aircraft parts	2.5	6,213	156
Refined oil	3.4	4,539	155
Motor vehicle parts and accessories	3.8	2,730	104
Women's or girls' suits, jackets, dresses, skirts, trousers etc	12.0	729	87
Food preparations not elsewhere specified	12.8	644	82
Jerseys, pullovers, cardigans, waistcoats etc., knitted or crocheted	11.9	440	52
Leather footwear	7.9	647	51
Turbo-jets, turbo-propellers and other gas turbines	3.4	1,472	50
Wine of fresh grape	32.0	156	50

* based on average tariff within listed product group, multiplied by total EU exports

** motor cars and other motor vehicles principally designed for the transport of persons (other than those of for transporting more than ten people), including station wagons and racing cars.

Note: products in the table are classified at the 4-digit level of the Harmonised System. At this level, traded products are classified into approximately 5,000 different categories. The table shows the ten HS4 products where the average tariff rate multiplied by the UK-EU export volume produces the largest result.

Sources: WTO tariff database and uktradeinfo database

157. Table 3 shows that were the UK to leave the EU and rely on WTO rules, car exporters, for instance, would face around £1bn in additional tariff costs, while exporters of aircraft parts and engines would face additional costs of around £200m. Such tariffs could cause reductions in competitiveness of 4-12 per cent. Cutting wages enough to compensate for this would be extremely difficult and production capacity might be lost. This might provide incentives for reciprocal tariff reductions across the EU. If it did not there might be some import substitution.

158. John Mills, founder and Chairman of JML, said of the WTO option that

“the level of tariffs now on most industrial goods is very low. There are a few examples [...] where the situation would be more difficult, but you would have the exchange rate going down maybe to compensate for this.”¹³⁸

159. The UK would also face non-tariff barriers to goods trade, such as customs procedures and product standards. WTO membership prohibits discriminatory non-tariff barriers but it would not, by itself, provide a means of approaching regulatory disputes in the way

that is offered in a number of the EU's Free-Trade Agreements. In its long-term analysis of the economic impact of EU membership, the Treasury estimated that non-tariff barriers on EU goods imports were 2.5 times larger than average tariff rates.¹³⁹

160. Most studies of the impact of leaving the EU consider the WTO option to be the worst in economic terms, because it would lead to the greatest reduction in trade. A notable exception is a study by Patrick Minford, which found that if the UK withdrew from the EU and unilaterally abolished all import tariffs, GDP would be 4 per cent higher.¹⁴⁰

161. Asked whether the UK should unilaterally remove all tariffs on leaving the EU, the economists from which the Committee heard were in broad agreement that it would be a good thing, at least in principle. Simon Tilford said “yes, but you also need to work hard to ensure maximum access to export sectors”.¹⁴¹ Roger Bootle said “there are circumstances in which I would not be in favour of it, but my presumption would be, yes, that it is a good thing”.¹⁴² Philippe Legrain agreed, but noted that eliminating tariffs would have implications for negotiating market access to other countries:

In order to gain access to, or for your firms to be able to operate in, other markets, you do need to negotiate under the presumption that other countries either do not maintain unilateral free trade or regulate their economies in some way.¹⁴³

Negotiated arrangement

162. The conclusion of most evidence, and the general view of both expert witnesses and most leave campaigners, is that, after leaving, the UK should seek to negotiate a trade agreement with the rest of the EU. In general, expert witnesses considered that it would be materially more difficult to reach an agreement eliminating tariffs on agricultural produce than on manufactured goods. The EU protects its agricultural sector from foreign competition through a combination of subsidies, delivered through the CAP, and high tariffs on produce imported from outside the EU. Outside the EU and the CAP, the UK would have to decide whether and how to support the agricultural sector. Boris Johnson said that “it is very important for my side of the argument to stress that we believe in subsidising and supporting agriculture”. He also claimed that “Nissan have said they would continue to invest irrespective [of the referendum outcome]”. However, Nissan has said that “our preference as a business is, of course, that the UK stays within Europe—it makes the most sense for jobs, trade and costs. For us, a position of stability is more positive than a collection of unknowns”.

It was then put to Mr Johnson that:

We get £27 billion every year. A period of uncertainty while you were deciding what a British deal meant would undoubtedly mean that we lost investment for a period of perhaps two years. Is that not a worry for those people who have jobs in the North East in manufacturing?

139 HM Treasury analysis: the long-term economic impact of EU membership, April 2016, p135

140 Economists for Brexit, *The Economy after Brexit*, p13

141 Q58

142 Q58

143 Q59

He replied:

It should not be a worry and I hope very much that people will do their best to persuade those who are anxious that there is no need for them to worry.

This reply, among others, appeared to be unsubstantiated by evidence.

163. Providing support outside the framework of the CAP would raise the prospect of differences between the way that the UK and the rest of the EU provides support to the sector. Such differences could justify the retention of tariffs. Andy Lebrecht, former Deputy Permanent Representative to the EU, Professor Dougan and Dr Niblett all agreed with the proposition that tariff-free access to EU agricultural markets would be “unquestionably conditional on continued membership of the common agricultural policy”.¹⁴⁴ Norway and Switzerland, for instance, do not have tariff-free access to EU agricultural markets. However, the UK is only partially self-sufficient in agriculture and could import tariff-free from the rest of the world outside the EU customs union.

164. Trading under a free trade agreement would involve additional administrative procedures that do not exist at the moment. In particular, countries that do not share the EU's common external tariff, such as Norway and Switzerland, must comply with the EU's Rules of Origin requirements. These ensure that the correct tariff is paid on goods that might have entered the EU from a country with which it trades on a preferential basis (e.g. Norway) but originate or contain materials from somewhere with which it does not (e.g. China). A 2013 study by the Centre for Economic Policy Research estimated that rules of origin raised trade costs by 4 per cent to 15 per cent.¹⁴⁵ In written evidence, the Scotch Whisky Association (SWA) listed other reasons why the costs of trade might increase and market access be hindered on leaving the EU, even though the EU's external tariff on spirits is already zero:

- Since the UK would not be part of the EU customs union, access to and influence in developing EU-wide customs and movements arrangements (EMCS and SEED) would be lost, unless specific arrangements to replicate it could be negotiated.
- the UK's ability to influence single market law in areas that matter to the industry could be affected. For example, rules on labelling might be set in ways that suited other GIs or spirit drinks but not Scotch Whisky, whose success has depended on the most rigorous possible protection of the category.
- the SWA's ability as an Association to influence the Commission direct to enforce single market law, ultimately in the European Court of Justice, would of course be weakened¹⁴⁶

165. Steve McQuillan, Chief Executive of Avingtrans plc, also raised concerns that, even under a free trade agreement, UK manufacturers would be disadvantaged, relative to their EU competitors, over time:

The problem is that the big trading teams, like car manufacturers, would probably find their way through it anyway. [...] The problem is that a lot of

¹⁴⁴ Q187

¹⁴⁵ Centre for Economic Policy Research, Trade and investment balance of competence review – project report, November 2013

¹⁴⁶ EUK0009

UK manufacturing is not that. It is not Jaguar Land Rover. It is people like us you have never heard of, and you are probably never going to hear of unless we sit in front of you in a Committee like this. Those supply chains would be subtly negatively affected in sorts of ways that would probably never even come to your attention, because of lack of standardisation and because of small prejudices being put up: “The UK exited. We do not like that anymore. We are going to have less to do with them, or we are going to subtly preferentially go with someone who is inside the trading bloc rather than someone who is outside the trading bloc.” That effect would be insidious and quite slow.¹⁴⁷

166. The tariffs levied by the EU on imported goods have fallen substantially over the last two decades. In this sense, the cost of leaving the EU and relying on WTO rules as a basis for trade is not as costly as it once was. However, EU tariffs still cover 90 per cent of the UK's goods exports to the EU by value, and remain high enough in certain sectors to risk prejudicing UK exporters' price competitiveness in EU markets, and the UK's position in the manufacturing supply chain. A trade agreement with the EU that provided for tariff-free access for manufactured goods would therefore carry considerable attractions, and a failure to agree one would be economically costly. The UK has traded freely in manufactured goods with the EU for more than forty years. But it is not impossible that Brexit would result in a return to tariffs.

167. The situation for agricultural goods is more complex, partly because this sector is protected by the CAP and a high external tariff. While the Committee recognises the important intentions sought by the CAP, despite recent reforms it is still, according to witnesses, wasteful and inefficient. But if the UK wishes to maintain tariff-free access to EU markets for agricultural produce, its capacity to protect farmers differently after Brexit might be constrained.

168. Even under a free trade agreement that eliminated all tariffs, the costs of trading with the EU would be likely to rise as a result of non-tariff barriers to trade, including rules of origin requirements and customs procedures. Further non-tariff barriers to goods trade might develop over time if the UK was not able to influence single market rules or the development of relevant WTO rules.

169. Despite the attraction to some economists of withdrawing from the EU and unilaterally eliminating tariffs, this has not been a major part of the campaign, so in the event of Brexit this would be a decision for the democratically-elected Government to make. Unilateral tariff abolition, however merited on economic grounds, is unlikely to secure domestic political agreement. This is partly because exporters would want to secure preferential market access to other countries through trade agreements, and tariffs are bargaining chips to secure that access. Even more difficult to handle would be the concerns of domestic industries currently protected by the EU's external tariffs. The interests of those international companies who have invested in the UK, in part to exploit the UK's membership of the single market, needs to be taken into account. Their continued future investment in the UK will be influenced by the trade relationship secured in a post-Brexit era.

Implications for trade in services

170. This section considers the implications of Brexit for the UK's trade in services with the EU generally. The Committee took evidence in particular on the implications for financial services. This is considered in the subsequent section.

171. Although there are no tariffs on services, barriers to trade in this sector are generally higher than for goods. This is because services markets are typically more highly regulated, either for public policy reasons or to protect domestic firms, and differences in regulatory regimes between countries can shut off cross-border trade entirely. Linguistic and cultural differences may also inhibit services trade. These barriers, together with the fact that many services intrinsically cannot be provided across borders, help to explain why services account for 70 per cent of global output, but only one fifth of global trade.¹⁴⁸

172. Although there has been progress in recent decades, witnesses acknowledged that the EU's single market in services—in effect, the freedom to provide services in other EU Member States—was far from complete; Dr Niblett said “it is 30 per cent or so and there is a long way to go”;¹⁴⁹ Will Straw said “it has not been perfect”.¹⁵⁰ Barriers to services trade within the EU include: differences in the way services are regulated between Member States; favourable tax treatment for services purchased from local providers; residence requirements for shareholders, staff and regulated professions; and failure to recognise diplomas and professional qualifications. A recent report by the European Court of Auditors found significant shortcomings in Member States' compliance with the requirements of the Services Directive, the principal legal instrument to reduce legal and administrative barriers to services trade—even though it was supposed to have been fully implemented by 2009.¹⁵¹

173. However, for some sectors, the EU provides a level of market access that is not replicated in any other international trading arrangement. This is particularly true of financial services, where ‘passporting’ allows firms to provide services across the EU, while remaining regulated in their ‘home’ country. The implications of Brexit for financial services is considered later in this Chapter.

174. There are initiatives further to reduce barriers to services trade, including the Digital Single Market project and the Capital Markets Union. Most witnesses agreed that the UK stood to benefit from these developments, given its competitiveness in services. Dominic Cummings, however, questioned whether a single market in services was a good thing at all, on the grounds that it would lead to further regulatory harmonisation: he argued that a single market in services would be “deeply destructive” for the UK.¹⁵² Given that the UK has a trade surplus of £21 billion with the EU,¹⁵³ offsetting a trade deficit in goods, protecting and expanding the UK's access to the single market in services would be important.

148 UNCTAD database; World Bank database; IMF World Economic Outlook database

149 Q182

150 Q877

151 European Court of Auditors, Special Report No 5/2016: Has the Commission ensured effective implementation of the Services Directive? March 2016

152 Q1233

153 ONS, UK economic accounts, series L86M

WTO option

175. As with goods trade, if no agreement with the EU is reached on services, market access will be determined by the WTO's General Agreement on Trade in Services (GATS). Under GATS, EU Member States choose which sectors they are prepared to liberalise and the time scale over which they wish to do so. As with goods trade under the WTO framework, a principle of non-discrimination applies, meaning that any restrictions on market access must be applied equally across all countries. However, there is no presumed right of market access, nor any means of tackling non-discriminatory barriers. Simon Tilford said that "the WTO has made virtually no progress whatsoever in breaking down barriers to the trade in services".¹⁵⁴ James Chew of HSBC said "if you are on WTO, your access to the single market is very difficult".¹⁵⁵ Professor Dougan said that access to services markets under GATS was "around about where the single market was in the 1970s".¹⁵⁶ A paper for the NIESR, *Free movement of services, migration and leaving the EU*, states that GATS "offers a much more limited freedom to provide services in other Member States on equal terms with domestic service providers."

Negotiated agreement

176. The UK sells more services to the rest of the EU than it buys. This trade surplus in services partially counterbalances its goods trade deficit with the rest of the EU. It has been argued that the UK therefore has a particular interest in retaining, as far as possible, access to EU services markets.

177. There are, however, different views among leave campaigners on how far the UK should seek an agreement covering services trade. Boris Johnson told the Committee that "we should have a free trade arrangement that continued to give access to UK goods and services on the European continent". Vote Leave's website states that the UK should be part of a "European free trade zone stretching from Iceland to the Russian Border". Dominic Cummings confirmed that this zone was not covered by a single trade agreement, but that "generally speaking, there is free trade in goods over that entire area". Meanwhile, the Leave.EU website states that "the remaining EU Member States will seek a trade agreement with the UK that seeks to maintain the same level of free exchange of goods, services and capital as is the case today." Richard Tice of Leave.EU emphasised in evidence the UK's greater trade surplus in services with the USA compared to the EU. He said:

We should remember we do not have to have a free trade agreement in order to very successfully trade with another country. For example, we have a greater trade surplus in services with the United States of 350 million people, with whom we do not have a free trade agreement, than we have with the EU of 500 million people. You do not need trade agreements in order to very successfully trade with other countries.¹⁵⁷

178. In general, witnesses considered that concluding a deal on services would be more difficult than for goods. In particular, in the financial services, transport and telecommunications sectors, the EU has developed a common regulatory framework that

154 Q43

155 Q504

156 Q192

157 Q1639

effectively replaces national regulation. Access to these markets could require the UK to maintain equivalence with the rules governing these sectors, even as they develop over time. Professor Dougan said “if you want extensive access to the single market, the price you have to pay is homogeneity with the rules adopted by the EU for the EU”.¹⁵⁸ Guy Sears, Interim CEO of the Investment Association, said that “to provide the professional services that are the majority of the business and activity that goes on in the UK to clients in the EU or for funds in the EU, there would be a requirement to show equivalence in the UK”.¹⁵⁹

179. The trade deals that the EU has negotiated to date provide for some liberalisation in services trade. For instance the EU-Canada free trade agreement, which the Commission describes as “the most comprehensive the EU has ever concluded”, opens up certain sectors, such as postal services and maritime transport. However, the list of reservations (carve-outs from trade liberalisation commitments) is extensive, and EU Member States retain the right to discriminate against Canadian service exporters. Open Europe states that the Canada-EU agreement, “is still some way from replicating the level of access to the single market the UK currently enjoys as a member of the EU”.¹⁶⁰ Professor Dougan said that “when we talk about having a free trade agreement with the EU, whether it is the Canadian version or any other version, we are not really talking about anything comparable to the single market in terms of market access and market integration”.¹⁶¹

180. Successive UK governments have sought to improve the EU single market in services. In many respects, progress has been disappointing. However, if the UK remains in the EU, it may well benefit from initiatives such as the capital markets union and the digital single market, and have a role in shaping them to its benefit. This assumes that the EU is more successful in future at implementing a single market in services than it has been in the past.

181. Were it to leave the EU and rely on WTO membership alone, the UK's current access to EU services markets could not be assumed to continue. The long-standing difficulties of opening up services markets in the EU illustrate the caution with which some Member States approach trade liberalisation in this area, even within the single market.

182. After Brexit, it is not certain that the UK would be able to reach an agreement with the rest of the EU that preserved its long-term access to services markets. Any agreement would probably require the UK to show that the regulation of firms operating in these sectors that wish to do business on the continent was equivalent to that prevailing in the rest of the EU, thereby limiting the freedom the UK gains from Brexit to regulate services industries in the way that it saw fit, and subjecting the UK to regulation over which it has no say or explicit influence.

Focus on financial services

183. The City of London has been a pre-eminent international financial centre for several hundred years. Today, it is the leading global centre for cross-border bank lending, and several forms of derivative trading activity and insurance services. It is overwhelmingly

158 Q189

159 Q523

160 Open Europe, What could the EU-Canada free trade deal tell us about Brexit? 15 March 2016

161 Q98

dominant within the EU; three-quarters of EU capital markets and banking revenue is earned in the UK and 37 per cent of assets under management in the EU are managed in the UK.¹⁶²

184. The financial services industry in the City is highly internationalised. In its report on EU membership, the Bank of England noted that “around half of the world’s largest financial firms have their European headquarters in the UK”. Of the nearly 250 foreign banks operating in the UK, 170 are incorporated outside the EEA. The assets of foreign banks located in the UK are nearly as large (186 per cent of GDP) as those of UK-headquartered banks (200 per cent of GDP).¹⁶³ The UK is the largest net exporter of financial services and insurance in the world, with a trade surplus that is more than double that of any other country. In 2013, UK net exports in these sectors were \$71bn. Around one third of that trade surplus is estimated to come from trade with other EU Member States.¹⁶⁴

Passporting

185. A key development in the EU single market in financial services was the establishment of the passporting regime. This is a shorthand term for a collection of measures in EU secondary law that enable financial institutions to provide certain services to other EU Member States, while remaining regulated by their home authority. For banks, the passporting regime allows banks headquartered in the UK, or non-EU banks with a subsidiary in the UK, to operate in the rest of the EEA (either on a cross-border basis, or by establishing a branch), while remaining regulated by the UK authorities. In their submission to the Government’s Balance of Competences Review in March 2013, the City of London Corporation argued that “firms invest in London because they know that they can benefit from access to 27 markets via the EU passport for financial services”.¹⁶⁵

186. Other passports exist to allow asset managers and other investment firms to conduct business in the rest of the EU, while remaining regulated in their home state; for instance, passporting provisions allows firms to market investment schemes to investors (including retail investors) across the EEA, and to provide financial advice to clients in other EEA countries.

187. In evidence to the Parliamentary Commission on Banking Standards, written before the possibility of a referendum was publicly announced by the Prime Minister, Goldman Sachs and JP Morgan described the importance of passporting to their decision to locate in the UK:

In common with financial institutions across the City our ability to provide services to clients and engage in investment activities throughout Europe is dependent on the passport that London-based firms enjoy to operate on a cross-border basis within the Union. If the UK leaves [the EU], it is likely that the

162 HM Government, Review of the balance of competences between the UK and the EU. The Single Market: financial services and the free movement of capital, October 2013

163 Bank of England, EU membership and the Bank of England, October 2015

164 HM Government, Review of the balance of competences between the UK and the EU. The Single Market: financial services and the free movement of capital, October 2013

165 City of London Corporation, response to the Government’s review of the balance of competences between the UK and the European Union, March 2013

passport will no longer be available, thereby forcing firms that wish to access EU markets to move their operations to within those markets¹⁶⁶[Goldman Sachs]

We value the flexibility London offers as a platform for access to the Single Market in a variety of formats. Our trading activity in London benefits from an EU passport across the EU.¹⁶⁷ [JP Morgan]

188. The Committee also asked representatives from the asset management industry for their views on the importance of passporting. Guy Sears said that it had “brought significant benefits to the UK’s fund industry”, noting that, of the £5.5 trillion managed by members of the Investment Association, £1.2 trillion was managed on behalf of EU-based clients not in the UK.¹⁶⁸ Not all of this is passported money. John Barrass, Deputy CEO of the Wealth Management Association, said that “in terms of how the EU works for us, the big benefit is in the passport” because “where you acquire clients overseas, you are able to service them from your office in the UK”.¹⁶⁹ He acknowledged, however, that for smaller and domestically-focussed firms, the benefits of passporting are “not so great”.¹⁷⁰

189. Witnesses had mixed views on whether the passport could be preserved were the UK to leave the EU. Roger Bootle said that “it is possible it could be maintained”. Phillippe Legrain described it as “extremely implausible” owing to “the size of the UK financial services, and given the hostility that exists towards financial services and the so-called Anglo-Saxon model”. Simon Tilford said that it could only ever be maintained on condition that “Britain agreed to abide by all EU rules and regulations in this area despite having no say over them”.¹⁷¹

190. Guy Sears also made the point that, in order to maintain the passport, the UK would be likely to have to show equivalence with EU regulation, drawing a parallel with the EU’s engagement with the United States: “Equivalence is the way in which the European Union as a market engages with other markets, and we would become another market.”¹⁷² John Barrass agreed, and expressed concern about a loss of influence over the development of financial services regulation that the UK might nonetheless have to comply with: “We would simply have to look at it [EU financial regulation] and decide how we deal with it here”.¹⁷³ Lord Hill also said that the UK would have to show equivalence in order to continue with passporting arrangements, although as EU Commissioner for Financial Services, he said that the Commission was “as open as we can be” to other markets, and that he was seeking to “improve the way that we do equivalence processes”.¹⁷⁴

191. The Governor said that replicating the current passporting regime would require a “mutual recognition framework”, and that “as one moves away from that, it is reasonable

166 Written evidence from Goldman Sachs International to the Parliamentary Commission on Banking Standards, June 2013, Para 56

167 Written evidence from JP Morgan Chase & Co. to the Parliamentary Commission on Banking Standards, June 2013, Answer to Q10

168 Q510

169 Q517

170 Q573

171 Q28

172 Q590

173 Q592

174 Q824

to expect that certain firms would take a view in terms of relocation".¹⁷⁵ Asked specifically whether there would be a degree of loss of business in the City of London were the UK not to be recognised by the EU as having an equivalent regulatory framework, he replied "that is without question".¹⁷⁶

192. Speaking on the Andrew Marr Show on 15 May 2016, former City Minister Andrea Leadsom disagreed, explaining her view that using subsidiaries negates the need for passporting, she argued:

the UK trades more dollars than in the States. The UK is a massive global financial services centre. Just Canary Wharf, one tiny bit of it, is bigger than the entire Frankfurt financial district. Outside of London, we have masses of financial services centres—in Birmingham, Manchester, Edinburgh, Aberdeen, even Bournemouth, even Northampton. You know, this is a huge, vast industry. It's not going anywhere.¹⁷⁷

193. The passporting regime provides benefits to financial firms that undertake cross-border activity, including large banks and some asset managers. Whether or not the UK negotiated a comprehensive trade agreement with the EU, maintaining the passporting would probably require the UK to show equivalence with EU regulation. This would limit the UK's flexibility, from outside the EU, to set its own regulatory framework, and it would lead to a loss of influence over financial regulation with which it might nonetheless have to comply or adhere. In this sector, the trade-off between domestic regulatory control and market access is particularly acute.

194. Any decision on whether the UK's regulatory framework was equivalent, and hence whether the passporting regime could be preserved, would ultimately have to be approved by the European Parliament and Council. It therefore has the potential to become politicised. It is possible that other EU institutions or Governments might no longer wish to allow such a large proportion of financial services activity to take place in what would become an offshore centre. Nonetheless, the UK financial services industry supports the development of businesses, investment in new technology, and growth and employment across the EU. There could be a degree of mutual interest in the UK having high levels of access to EU financial markets. Moreover, the free movement of capital is not going to be abolished and it is this more than the single market in services that allows businesses to come to the UK.

195. A loss of passporting would not be fatal for the UK's financial services industry; its competitiveness is founded on a wider constellation of factors, including time zone, language and the legal system. But it would be plausible to suppose that some relocation of activity, particularly by foreign banks that currently base their European operations in London, might take place, as the Governor has suggested.

Euro clearing

196. In response to the global financial crisis, the G20 committed to moving more derivatives trading away from bilateral, over-the-counter transactions, to central

175 Q1058

176 Q1060

177 Andrea Leadsom MP, interview with Andrew Marr, 15 May 2016

counterparties (CCPs)¹⁷⁸, with the intention of bringing greater transparency and security to these markets. Around 50 per cent of the global over-the-counter (OTC) interest rate derivatives market (the largest segment of the OTC derivatives market) is now centrally-cleared, compared to 16 per cent in 2007.¹⁷⁹

197. There are four central counterparties (CCPs) located in the UK, though only one (LCH) is owned by a UK group. The Bank states that “these CCPs are heavily used by market participants globally, commensurate with the size and nature of the UK’s financial system.” Three-quarters of European derivatives trades take place in London.¹⁸⁰

198. In 2012, the European Central Bank (ECB) published a ‘location policy’ that would have required CCPs dealing in large volumes of euro-denominated transactions to locate within the Eurozone.¹⁸¹ The rationale for the policy followed from the increasingly important role CCPs were coming to play in financial markets as a result of the G20 commitments. CCPs were assuming systemic importance, and might have consequently required euro liquidity, which was in the sole gift of the ECB. As the Bank of England put it, “it is important for the safety and soundness of CCPs that they have access to liquidity arrangements in the currencies they clear”.¹⁸² The UK requested a judicial review of the policy by the ECJ, which in 2015 annulled the location policy on the grounds that the ECB did not have competence for CCPs. Shortly afterwards, the Bank and the ECB agreed joint oversight arrangements for CCPs, and a swap agreement was established to allow for multi-currency liquidity support.¹⁸³

199. The controversy over the location policy raises a question of whether the EU authorities would continue to permit CCPs dealing in euro-denominated transactions to be located in the UK if it left the EU. Lord Hill, EU Commissioner for Financial Services, was asked to provide written evidence on the implications of leaving the EU for CCPs. He wrote:

“Equivalence” provisions in existing legislation, for example, in the European Market Infrastructure Regulation, allows CCPs from third countries to provide services to EU banks and trading venues under certain conditions. But equivalence takes time to negotiate [...] Moreover, although EMIR offers protection against discrimination on grounds of currency, these provisions do not apply to third countries.

In short, there can be no discrimination within the EU. But outside, there can be no guarantee that the clearing of large euro denominated transactions in the UK could be undertaken on the same terms as today, in terms of to whom services can be provided or under what conditions.¹⁸⁴

178 A CCP places itself between the original counterparties to a transaction, effectively guaranteeing that if one counterparty fails, the CCP will continue to perform on the transaction to the other party. A CCP protects itself by taking collateral (‘margin’) from each party and by collecting a ‘default fund’ from its members to meet losses that exceed the margin it holds.

179 Bank of England news release, European Central bank and Bank of England announce measure to enhance financial stability in relation to centrally cleared markets in the EU, 29 March 2015

180 Bank of England, EU membership and the Bank of England, October 2015

181 European Central Bank, Eurosystem oversight policy framework, February 2012

182 Bank of England News Release, European Central bank location policy for Central Counterparties, 4 March 2015

183 Bank of England news release, European Central bank and Bank of England announce measure to enhance financial stability in relation to centrally cleared markets in the EU, 29 March 2015

184 Letter from Lord Hill to Rt Hon Andrew Tyrie MP, <date>

200. Asked about the implications of a relocation of CCPs within the Eurozone, James Chew, Group Head of Regulatory Policy and Strategy at HSBC, said “it would be unhelpful for a lot of people if those arrangements were not in place and clearing of euros had to move into Europe. More euros are traded in London than are traded probably anywhere else, so that would not be a good outcome”.¹⁸⁵

201. As with passporting, the UK’s regulatory regime would have to be recognised as equivalent in order for CCPs to continue dealing in euro-denominated transactions. Outside the EU, the UK Government would be less able to resist any further pressure for CCPs to relocate within the Eurozone. It would not have recourse to the ECJ, as it did in 2012.

Implications for inward foreign direct investment

202. At over £1 trillion, the UK had the third largest stock of inward foreign direct investment (FDI) in the world in 2014, behind the United States and China, around half of which is from other EU Member States. The UK has long been the top recipient of FDI inflows into the EU and is often recognised as among the most attractive locations for foreign investment. A 2015 Ernst and Young survey of 400 investors asked to name their first-choice investment destination put the UK fourth globally, behind the US, China and India. In 2014, the UK’s FDI inflows increased by 50 per cent in a year when the global value of FDI flows fell by 11 per cent. In its 2014–15 Inward Investment Report, UKTI estimated that “almost 85,000 new jobs were created by inward investment projects” in 2014–15, and that another 23,000 existing jobs were “safeguarded”.

203. In written evidence to the Committee, the TUC note that:

while an overreliance upon foreign investment could leave our economy vulnerable to international economic shocks, a significant reduction in EU investment, which would be the likely consequence of the UK leaving the European Union, would be likely to harm our growth rate, with consequent negative effects for employment”. The Bank of England states that “FDI assists economic integration by creating stable and long-lasting links between economies”.¹⁸⁶ There is some empirical evidence to support the theory that FDI produces economic benefits by raising productivity and living standards, although the UK’s recent strong FDI performance has not been reflected in its productivity, wage or export growth.

204. The UK’s substantial current account deficit, standing at around 7% of GDP, is principally financed by FDI. If FDI fell, a material weakening of the currency and associated inflation may follow. The Bank of England states that “FDI assists economic integration by creating stable and long-lasting links between economies”.¹⁸⁷ FDI is held to produce economic benefits by raising productivity and living standards and creating jobs—85,000 in 2014 alone according to the CBI—although the UK’s recent strong FDI performance has not been reflected in its productivity, wage or export growth.

185 Q497

186 EUK0013

187 Bank of England, EU membership and the Bank of England, October 2015

205. As discussed in Chapter 3, a vote to leave would likely trigger a slowdown in inward foreign investment for as long as the UK's future relationship with the EU remained uncertain. The Committee also took evidence on how FDI might be affected in the long term by a vote to leave, in effect, how far EU membership was an important factor in attracting FDI to the UK and keeping it there. Membership might act as a draw for inward investment to the UK because it allows multinationals based outside the EU to access EU markets without facing tariff and non-tariff barriers. For similar reasons, companies headquartered elsewhere in the EU can bring UK-based operations into their supply chain at a lower cost. FDI will follow profitable opportunities wherever they lie.

206. Philippe Legrain made clear that a number of factors contributed to the UK's attractiveness to foreign investors:

Britain is a very attractive economy to invest in, whether it is because of the flexible labour market, the high level of skills, the rule of law, membership of the EU, general openness, political stability, the English language, the golf courses or all sorts of other things.¹⁸⁸

Simon Tilford echoed the point that FDI was driven by a constellation of factors:

There are lots of reasons why foreign companies invest in the UK. It is partly our openness; it is partly that we are not concerned about foreign ownership of our assets; it is partly language. It is quite clear that lots of companies invest in the UK in order to serve the broader EU market, because FDI is, to a large extent, driven by market size.¹⁸⁹

Roger Bootle said that, in the long-run, the effect on FDI would depend on how successful the UK was outside the EU:

Supposing we left and we were not able to negotiate a very favourable trade agreement with regard to manufacturers, the City, and so on and so forth; supposing also we did not rescind lots of regulations; supposing, in the worst-case scenario, we were still shoving our budget contributions towards Brussels; and supposing the job impact of the loss of trade with Europe was very severe, the overall economic performance of the UK would be pretty poor. In those circumstances, would we expect FDI to be the same, lower or higher than it was before? I do not think it is difficult to answer the question.¹⁹⁰

207. The Treasury's analysis of the long-term impact of leaving the EU found that membership increased FDI flows from countries within the EU by 35 per cent. However, it did not find that membership had a statistically significant effect on inward investment from countries outside the EU.¹⁹¹ Mark Bowman was asked about this result. He said that "the reasons for this is limitations with the data and a very short series of available data"¹⁹², adding that "all intuition suggests that you would [expect to see an effect]"¹⁹³.

188 Q75

189 Q19

190 Q72

191 HM Treasury analysis: the long-term economic impact of EU membership, April 2016, p172, Table A.8

192 Q1954

193 Q1958

208. There is anecdotal evidence that major overseas investors are already suspending their investment programmes in the UK due to the fear of a Brexit vote. For example, the European head of KKR (the world's second largest private equity firm) was quoted in the Wall Street Journal on 3rd May 2016 saying that KKR will not make any UK investments until after the referendum for fear of a Brexit vote and that in the event of a Brexit vote, will re-locate some operations to Dublin, Paris Madrid or Luxembourg.¹⁹⁴

209. In the run-up to the referendum, a number of overseas firms have made statements about the impact of leaving the EU on their operations in the UK. Many have made clear their long-term commitment to the UK whatever the outcome of the vote. Others have suggested that, while Brexit might not cause them to wind down their existing operations, it may affect future investment plans. For instance, Siemens said in a memo to staff that "a decision to stay in the EU would [...] make it far easier for Siemens to continue to invest in and grow our business in the UK".¹⁹⁵ Johan van Zyl, President and CEO of Toyota Motor Europe has said "we are concerned that leaving would create additional business challenges. As a result we believe continued British membership of the EU is best for our operations and their long term competitiveness."¹⁹⁶ Hitachi said "a potential departure from the EU creates uncertainty in terms of economics, trade, skills and talent—particularly in manufacturing, and would affect the stability that we need for continued investment and long-term growth."¹⁹⁷

210. In a recent poll of 667 international businesses from seven countries with operations in the UK, 78 per cent responded that Brexit would have a negative impact on their business (with 6 per cent taking the opposite view that it would be positive), and 60 per cent said that Brexit would have a negative impact on their future investment plans (with 6 per cent taking the opposite view that it would have a positive impact).

211. The UK's flexible labour markets, strong rule of law, independent judiciary and relatively skilled workforce would continue to make it an attractive location for inward FDI, whether or not it was in the EU. However, warnings by manufacturers such as Siemens and Toyota about the potential impact of Brexit on their future investment plans are significant, even though some companies said the same about not joining the euro. So too are the concerns expressed by a large majority of international firms in a recent poll, that Brexit would have a negative impact on their business and on their future investment plans in the UK.

212. Statistically proving the existence and extent of the effect of EU membership on FDI is difficult; in their analysis, the Treasury were unable to show that membership attracted FDI from non-EU countries. However, just as the finding that leaving the EU will cost each household £4,300 should be treated with caveats, similarly not too much store should be set by this result. There is considerable evidence from companies that the market access afforded by EU membership encourages inward investment to the UK from both EU and non-EU countries, particularly in the financial services and manufacturing sectors.

194 Wall Street Journal: U.K. Vote on Europe Deters KKR From Deals 3 May 2016

195 Siemens plc statement on Britain and the EU, 13 April 2016

196 Statement from Toyota in regards to the UK EU Referendum, 23 June 2016

197 Official Statement from Hitachi Ltd regarding the EU Referendum, 21 March 2016

213. How far FDI was negatively affected by Brexit would depend both on the extent of market access that the UK negotiated on leaving the EU, and how far it was able to increase its attractiveness to foreign investors by changing its regulatory framework and striking trade deals with non-EU countries. It is beyond the scope of this report accurately to assess or predict the size of the impact.

6 The long-term impact of leaving the EU: the economic relationship between the UK and the rest of the world

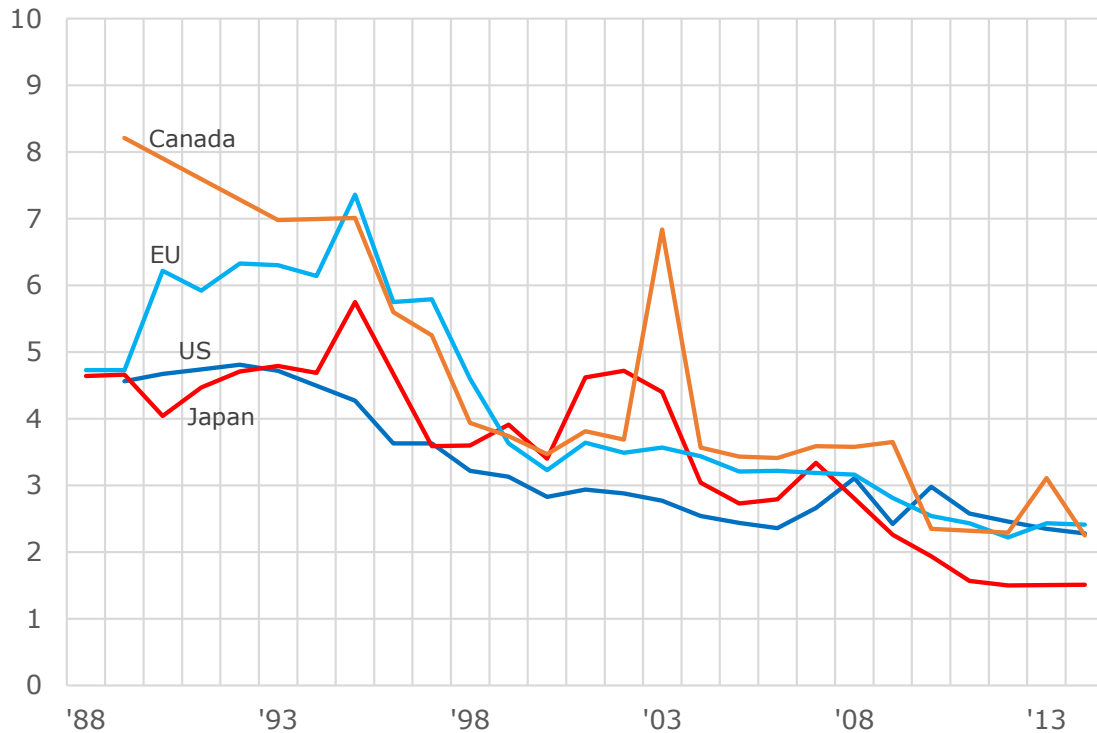
214. For supporters of Brexit, a key benefit of leaving the EU is the freedom the UK would thereby gain to negotiate its own free trade agreements with non-EU countries. As Vote Leave puts it, after Brexit “we will [...] be able to negotiate trade agreements with other countries. This will help our economy grow and create more jobs”.

Success of EU external trade policy and status of existing free trade agreements

215. The EU has 33 preferential trade agreements, covering 62 countries. Collectively, these markets account for 13 per cent of UK exports and imports. The completion of a deal currently under negotiation with the United States—known as the Transatlantic Trade and Investment Partnership (TTIP)—would lead to EU-negotiated trade agreements covering around 29 per cent of UK exports and 22 per cent of UK imports.¹⁹⁸

216. Witnesses had different views on the success of the EU's external trade policy to date, and the extent to which the UK could have achieved better results on its own. It was recognised that recent trade deals with Canada and South Korea were among the most comprehensive ever to be negotiated. The EU has also reduced the tariffs it applies to countries with which it does not have a trade deal, from a trade-weighted average of 7.4 per cent in 1995 to 2.4 per cent in 2014, a level broadly in line with other major advanced economies (see Figure 3 below).

Figure 3: trade-weighted average most-favoured-nation (WTO) tariffs, selected economies, 1988–2014, per cent



Source: World Bank database

217. However, a number of witnesses noted that EU trade negotiations often proceeded at a glacial pace. Roger Bootle said that the EU was “very slow and cumbersome” in reaching trade agreements,¹⁹⁹ adding that the different economic interests at stake in EU trade negotiations led to agreements that did not fully reflect the UK’s interests:

We have a much bigger financial services sector. We have a much smaller agricultural sector than is true of France, a much bigger business services sector than is true of most of those countries, and smaller manufacturing than Germany. It is by no means obvious that getting your negotiations for the interests that really affect you done by this bloc of which you are a member is going to be more effective than doing it yourself.²⁰⁰

218. Dr Niblett explained that “the EU is slow” because it consists of 28 Member States with “different economic profiles, different areas of competitiveness, different political systems, and often, when they are negotiating, different political parties with different perspectives behind them”.²⁰¹

219. Those representing the leave campaign also argued that the politics of EU trade negotiations meant that they failed to cover areas in which the UK had an advantage. Boris Johnson highlighted French objections to trade deals covering the audio-visual sector (i.e. films, television and music) as an example of the compromises that must be made when concluding trade deals as part of a 28-member bloc.²⁰²

199 Q36
 200 Q37
 201 Q109
 202 Q1224

220. Many witnesses pointed to the EU's failure to negotiate a trade agreement with China, something that has recently been achieved by Iceland and Switzerland. Others noted that the Icelandic and Swiss agreements were limited in scope, and gave China immediate access to Swiss and Icelandic markets, in return for a promise of access to Chinese markets several years in the future. The EU does have an Agreement on Trade and Economic Co-operation with China, intended "to promote and intensify trade" and "encourage the steady expansion of economic co-operation", although this does not reduce tariffs below WTO levels.

221. Witnesses were asked whether the trade agreements negotiated by the EU would continue to apply to the UK after it had left. Most evidence on this question draws a distinction between those agreements concluded by the EU in the exercise of its exclusive competence and signed only by the EU, and those concluded through mixed competence, to which both the EU and its Member States are signatories. For those agreements concluded through exclusive competence, it is likely that the UK would need to renegotiate the terms with the parties concerned. These are comparatively few in number, but some do cover potentially sensitive areas, such as protections for the use of the name "Scotch Whisky" in the United States. For mixed agreements, there was considerable uncertainty about the UK's (or the EU's) legal rights, and a consensus that it would ultimately be a political decision between the contracting parties as to whether they would remain in place. For instance, in written evidence to the Committee, Professor Dougan stated that:

The best case scenario would be that certain deals could remain in place, between the UK and the relevant contracting party, but depending upon a case-by-case analysis of their legal basis and detailed content. In practice, however, much will surely depend on the attitude of the relevant contracting parties—who might decide to accommodate or reject the UK's desire for continued participation in an existing trade deal on a truly bilateral basis. That calculation would obviously take into account the fact that those third countries had bargained away access to their markets in return for access to the single market: would they have offered the same terms to the UK acting alone, for access only to the UK's domestic market? If not, they might well be happy to terminate any existing trade relationship vis-à-vis the UK and seek (if at all) to negotiate some new arrangement based on the latest economic and political realities.²⁰³

222. The law firm Clifford Chance wrote that "there are some grounds to suggest that the UK may remain bound by certain aspects of these agreements but this is very uncertain and without legal precedent". It added that "a positive statement of acceptance would probably have to be sought from the EU and other contracting parties, failing which the UK would, at worst, either have to negotiate fresh bilateral FTAs with those countries, or fall back on its generic WTO rights (e.g. MFN tariffs [on goods] and GATS rules for services)".²⁰⁴

223. Witnesses agreed that, on leaving, the UK could not expect to continue to participate in trade negotiations currently being conducted by the EU with, for instance, the United States and India. President Obama has already said the UK would be "at the back of the queue".

203 EUK0005

204 EUK0010

224. The EU is slow and cumbersome at negotiating trade agreements. However, it has reached a larger number of trade deals than any other country or bloc. It has also increased its openness to trade in recent decades by reducing its external tariffs. Though several Member States may instinctively be more protectionist than the UK, the EU as a whole has matched non-EU peers in becoming less so over time.

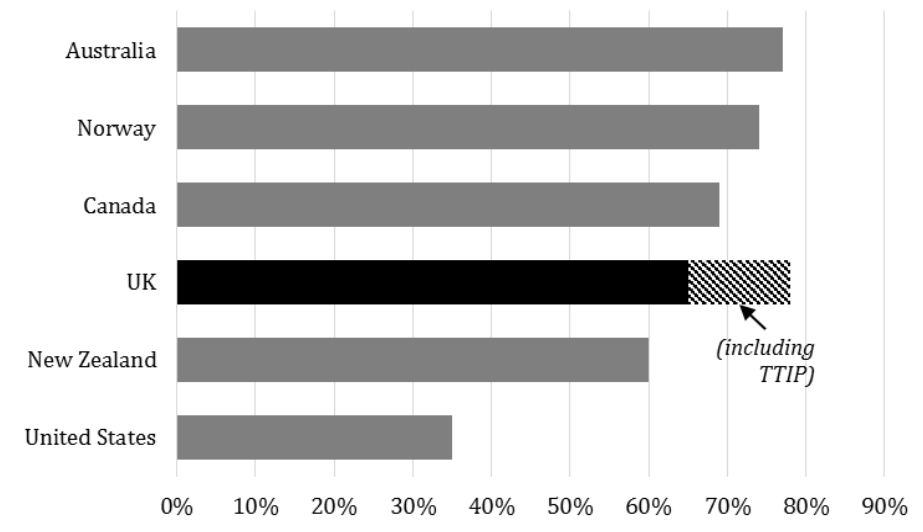
225. The trade deals that the EU strikes may in some respects not reflect the UK's interests. In particular, services are the fastest-growing sector of the global economy, and the UK stands to benefit from further liberalisation of services trade; but even in its most comprehensive trade deals, the EU's has had limited success in obtaining market access. However, it is uncertain that, post-Brexit the UK will be able to deliver such privileged access to those markets.

226. The access that the UK gains to non-EU markets through trade agreements negotiated by the EU is economically beneficial. Were the UK to leave the EU, it is very uncertain whether it would be able to continue to participate in these agreements. The extent to which the UK would have to enter into negotiations to ensure its continued participation would probably depend on the attitude of the contracting parties, about which little is known. Were the UK to vote to remain in the EU on 23 June, it should be a priority of the Government to seek to exert greater influence on the efficiency and quality of EU trade negotiations, which are currently unduly protracted, even considering the need to get 28 Member States to reach agreement.

Negotiating trade deals outside the EU

227. Outside the EU, it would be easier for the UK to act on its own priorities for pursuing trade deals, and establish a negotiating position that reflected its interests. Roger Bootle pointed out that “lots of small countries around the world have successfully negotiated free trade deals, including with very large countries like China”.²⁰⁵

Figure 4: share of foreign trade covered by free trade agreements, selected countries



Source: Open Europe, *Where next? A liberal, free-market guide to Brexit*, April 2016, p11

228. However, this agility would be counterbalanced by the fact that, being one-sixth of the size of the EU, the potential benefits to other countries of concluding a deal with the UK are smaller.²⁰⁶ The preference for concluding agreements with larger blocs of countries was highlighted by US Trade Representative Michael Froman in his comments to Reuters in October 2015: “we are not particularly in the market for FTAs with individual countries. We’re building platforms that other countries can join over time”.²⁰⁷

229. Philippe Legrain noted that China’s economic transition presented opportunities for the UK “for financial services and professional services, English-language education, all sorts of things”.²⁰⁸ However, witnesses were less optimistic about the possibility of the UK striking a comprehensive trade deal. Dr Niblett said that, although “the Chinese definitely see the UK market as a market in itself”,²⁰⁹ the negotiation of a meaningful trade agreement would be “incredibly complicated”.

You could do something that looks like an agreement, but it would not be a deep agreement—let us put it that way. The UK’s ability to negotiate improved access in the areas where it has particular advantage—i.e. services—will be dependent on what we are willing to give in return, because we will not be able to be part of offering access to a 500-million-person market; it will be access to a 60-something-million-person market. The price will be higher. We go back to what is sovereignty and what is not sovereignty.²¹⁰

206 Eurostat database

207 Reuters, *US trade czar says Britain would lost on trade outside EU*, 28 October 2015

208 Q17

209 Q121

210 Q190

Simon Tilford gave a similar view: “I cannot see a bilateral deal delivering the kind of market access to China that an EU deal would do.”²¹¹ The EU has not, so far, done a deal with China, in part because it insists on human rights being part of the agreement, which the Chinese Government seems unlikely to agree in the foreseeable future.

230. Witnesses agreed that concluding trade deals after Brexit and securing the continuation of those that the UK was party to by virtue of its EU membership would require significant resources. Andy Lebrecht said:

You would need people with the expertise to understand how trade agreements work, to understand our interests and communicate with stakeholders about those interests, and then to negotiate with the countries concerned. For every agreement that had to be negotiated, at any one time you would need a specific team. We are talking significant numbers and a fairly broad range of expertise.²¹²

Asked whether the UK Civil Service presently had the capacity and competence to conclude trade deals with the rest of the world, Dominic Cummings said that:

I certainly would not be confident now with the Foreign Office and the rest of Whitehall negotiating almost anything. We have seen what an appallingly cackhanded job they have just done of the last EU negotiations; a lot of these guys cannot negotiate their way out of a paper bag. In the short term, no; there would have to be a huge amount of work done in order for people to raise their game.

231. Free trade is at the heart of the economic case for Brexit. It is not possible to say with certainty how successful the UK would be in retaining the access to non-EU markets that it enjoys as part of the EU, nor how quickly it would be able to negotiate trade agreements with other countries. Leaders of the US and China have made clear that a trade agreement with the EU would be a greater prize than one with the UK, but given the complexities involved in negotiating with a bloc of 28 different countries, they could nonetheless find it more straightforward to strike a deal with the UK on its own, although the time taken to agree such agreements is often lengthy.

232. In order to make the best of Brexit, the trade deals that the UK negotiated with non-EU countries would need to be comprehensive, and provide good access to the services markets in which the UK has an advantage. Reaching high-quality trade agreements with countries like China, India and the United States, while securing access to the agreements to which the UK is party by virtue of its EU membership, would be a considerable diplomatic challenge; it would take time, resources and the goodwill of other governments. The cases of Australia and New Zealand show that it is nonetheless possible for relatively small countries, acting on their own, to agree a large number of free trade agreements covering a high proportion of their trade.

211 Q56

212 Q114

233. There may also be economic advantages for the UK in applying a different tariff regime to that currently imposed by the EU on trade with non-EU countries. However, the Committee reiterates the point made earlier about the implications of unilateral tariff abolition. Classical economic theory suggests that this would be economically beneficial. But eliminating tariffs would leave very little incentive for non-EU countries, and particularly emerging markets that export large volumes of manufactured goods to the UK, to grant preferential access to their goods and services markets.

7 The conduct of the Committee's inquiry

Difficulties in securing witnesses and evidence

234. The progress of the Committee's inquiry was hampered by difficulties in securing the attendance of Matthew Elliott and Dominic Cummings from Vote Leave. First, Mr Elliott and Mr Cummings sought to attach conditions to their appearance before the Committee; in particular, they refused to sit on a panel alongside witnesses from Leave.eu, Arron Banks and Richard Tice. On the day he and Mr Cummings were due to appear, 20 April, Mr Elliott withdrew with less than thirty minutes' notice, owing to an emergency. He refused two subsequent requests to attend, on the first citing a pre-arranged trip to see Swiss politicians and expatriates living in Switzerland, and on the second, a busy work schedule. As a result, the Committee was forced to summon Mr Elliott to appear before it on 10 May.

235. Vote Leave's application to the Electoral Commission to be designated lead campaign group for 'Leave' states that "we intend to campaign in such a way that we will also create a valuable legacy for the UK's democratic processes".²¹³ It goes on: we are conscious that playing a leading part in such an important moment in our national democracy is a very significant responsibility. If we are designated, we would undertake the task in this spirit, conscious of the gravity of the choice facing the British people, and clear about the limits of our remit as the designated Leave campaign".²¹⁴

Vote Leave's success gives it, among other things, a grant of £600,000, a free mailshot to every household in the UK (worth around £9m), the free use of certain public rooms and the right to issue referendum broadcasts.²¹⁵ The Committee may return to this issue after the referendum.

236. In their treatment of this Committee, neither Mr Elliott nor Mr Cummings, as individuals, have fulfilled Vote Leave's commitment, made in their successful application to the Electoral Commission, to "create a valuable legacy for the UK's democratic process". Their conduct has been appalling. Mr Elliott's and Mr Cummings's expressed view that powers should be restored to Parliament sits ill with that conduct.

237. It was the Committee's preference to hear from both Vote Leave and Leave.eu in one sitting. In the end, it took three. If Mr Elliott and Mr Cummings consider that the Committee's evidence-taking process has been protracted, uncomfortable or harmful to their cause, they have only themselves to blame.

238. The Committee notes that Mr Banks and Mr Tice did not seek to attach conditions to their attendance.

239. The Committee's inquiry was also unnecessarily impeded by the delay in the publication of part of the Treasury's analysis of the economic impact of EU membership and Brexit. In evidence to the Committee on 24 March, the Chancellor undertook to

²¹³ Vote Leave, Application to register as a designated lead campaigner – referendum on the United Kingdom's membership of the European Union, Section 2.1

²¹⁴ Ibid, Section 3.1

²¹⁵ See, for instance, Electoral Commission guidance on the designation process (EUR2), March 2016

publish this analysis at least four working days before his next appearance. On 18 April, the Treasury published work on the long-term economic consequences of Brexit. It also noted that a further analysis, on the short-term consequences of a vote to leave, would be published at a later date. The Committee obtained a further “reasonable assurance” from the Chancellor that this short-term analysis would be published long enough before the 28-day purdah period (commencing on 27 May) to enable the Committee to scrutinise and take evidence on it. This assurance was not met.

240. It is highly unsatisfactory that the Committee was unable to scrutinise the Government's analysis of the short-term economic impact of Brexit in time to consider its findings in this Report. The delay in the Treasury's publication is inconsistent with the commitment made to the Committee by the Chancellor. It is to be hoped that scrutiny and transparency have not in this case been subordinated to the imperatives of the Number 10 'media grid'.

Conclusions and recommendations

Claims made by the campaign groups

1. At the heart of Vote Leave's presentation of its case is the claim that, on leaving the EU, the UK Government would receive a windfall of £350m per week, available to be spent in other ways, "like the NHS and schools". This, and the other figures used by Vote Leave for the UK's EU budget contributions (£150bn 'contributed' in the past decade, and £511bn since joining) are highly misleading to the electorate for a number of reasons. (Paragraph 32)
2. First, Vote Leave's £350m figure does not account for the budget rebate, which amounts to £85m per week. Leaving the EU could not make this money available to spend on schools and hospitals because it is not 'sent' to Brussels in the first place. The rebate does not leave the UK or cross the exchanges. This is repeated in other ways. A 'counter' is prominently displayed on Vote Leave's website. This purports to show that the UK has historically contributed £511bn to the EU since joining in 1973 and excludes the rebate. The UK rebate is indeed controversial in other Member States. It may be raised in future negotiations over the EU's financial framework. However, it can only be changed with the UK Government's consent, as happened in the Government led by Tony Blair. (Paragraph 33)
3. Secondly, the extent to which money that the UK receives from the EU budget (a further £88m per week to the public sector and £79m per week to the private sector and non-governmental organisations) would be available for spending on other priorities, would depend on the policy choices of the democratically-elected Government of the day. Vote Leave has stated that "There will [...] be financial protection for all groups that now get money from Brussels". If that policy were implemented, the money available to fund other priorities after Brexit, such as schools and hospitals, would be much lower, and probably closer to the UK's net contribution of £110 million per week than it is to £350 million. This would be true even if, as has been widely argued, efficiencies could be made in the way that money the UK currently receives from the EU budget is spent. (Paragraph 34)
4. Finally, it is not impossible that the UK may continue to make contributions to the EU budget after Brexit, either on a transitional or permanent basis, in return for continued access to parts of the single market, or because it considers mutual co-operation in certain areas, such as science research, to be desirable. This too would reduce the supposed fiscal windfall arising from leaving the EU. (Paragraph 35)
5. Vote Leave has said that £350m a week is "the core number", and that it is using the number "again and again". It is very unfortunate that they have chosen to place this figure at the heart of their campaign. This has been done in the face of overwhelming evidence, including that of the Chair of the UK Statistics Authority, demonstrating that it is misleading. Without qualification this is unavoidable. Brexit will not result in a £350m per week fiscal windfall to the Exchequer as a consequence of ending the UK's contributions to the EU budget. Despite having been presented with the evidence contradicting this claim, Vote Leave has subsequently placed the £350m figure on its campaign bus, and on much of its recent campaign literature. The public

should discount this claim. Vote Leave's persistence with it is deeply problematic. It sits very awkwardly with its promises to the Electoral Commission to work in a spirit that reflects its "very significant responsibility" and the "gravity of the choice facing the British people". (Paragraph 36)

6. Claims about the UK's contributions to the EU budget should be set in context; the UK's gross contribution, after application of the rebate, accounts for less than 2 per cent of public sector spends each year, and is equivalent to less than 1 per cent of the UK's economic output. If leaving the EU has a substantial positive or negative effect on the economy as a whole—as many advocates of leaving or staying believe it will—the consequent impact on the public finances is likely to be far more significant than the size of any saving from the EU's budget contributions. Nonetheless, the net saving would be a significant reduction in public expenditure in the context of the current austerity programme. (Paragraph 37)
7. The Stronger In campaign's claim that the cost of imports could rise by "at least" £11bn as a result of Brexit—and associated claims that leaving the EU would raise household bills—assumes that the UK will place the same tariffs on imports as does the EU currently. Given that the pursuit of an independent trade policy is at the heart of the case for leaving, this seems to be an implausible assumption. The figure of £11bn is therefore unhelpful and tendentious and should not be used without extensive explanation. (Paragraph 44)
8. The figures used by some leave campaigners that the CAP costs £400 per household per year is based on out-of-date research. Using more up-to-date sources gives a figure that is much less than £300. In any case, to suggest that this money would be "saved by Brexit" requires two assumptions to be made: that the Government would unilaterally eliminate all tariffs on agricultural goods on leaving the EU; and that it would not replace any of the subsidies and price support currently provided to UK farmers under the CAP. This is inconsistent with Vote Leave's stated position that farmers will be paid "at least as much as they get now" and Leave.EU's position that farmers will not lose the money they currently receive from the EU. It is true that the UK is effectively a net contributor to the CAP. It is widely acknowledged, even by Lord Rose, that the money currently distributed to UK farmers through the CAP could be spent more efficiently. Nonetheless, the overall saving would fall short—perhaps well short—of £300 per household. (Paragraph 45)
9. It is misleading to claim, as some campaign groups continue to do, that 3 million jobs are dependent on EU membership. Britain Stronger in Europe, the lead remain campaign group, has at least made clear in evidence to this Committee, if not in some of its literature, that its use of the 3 million figure should not be taken to represent the number of jobs dependent on EU membership, but the number associated with trade with the EU. Without an estimate of how much trade would be lost as a result of Brexit, the impact on job losses cannot readily be estimated. The wider public might form the mistaken impression that all these jobs would be lost or at risk if the UK left the EU. Campaigners should be clear that 3 million jobs may be associated with, but would not necessarily be dependent on, our membership of the EU. (Paragraph 50)

10. A reduction in exports to the EU following Brexit would lead to a loss of jobs unless there were compensating effects from faster growth in trade with non-EU countries or to the extent that the UK's relatively flexible labour markets meant that any impact from lower trade may be felt through lower wages than otherwise and a reduction in hours worked, rather than through the unemployment rate. (Paragraph 51)
11. It is generally accepted that any future Government would want to retain the substance of some EU regulation after leaving, either because it is desirable on economic or welfare grounds, or in order to comply with international commitments, or to retain access to EU markets. A future government would undoubtedly judge that the compliance costs of some, perhaps many, EU regulations are more than offset by benefits. (Paragraph 58)
12. Withdrawing from the EU would give the UK an opportunity to alter the way its economy is regulated in some areas (subject to other international obligations and negotiated conditions attaching to any single market access), and in a way that better reflects its own domestic priorities. It may save firms and consumers some money in the process. Open Europe itself considers that the maximum feasible regulatory savings from Brexit are £12.8bn per year, although achieving even these might involve political controversy. Examples that Open Europe have counted under this category to reach this figure include: relaxing rules protecting workers' entitlement to time off; holidays and redundancy protection; abandoning the current target for increasing the share of energy generated from renewable sources; and abandoning financial regulations such as emergency bans on "short-selling", reporting and disclosure requirements and a cap on bankers' bonuses. In some cases, such as maternity rights and bank capital requirements, the UK currently regulates beyond the minimum EU standards. Realising gains from deregulation in such areas would require the Government of the day to muster support for a new domestic approach. However, as already noted, a future government would undoubtedly judge that the compliance costs of some, perhaps many, EU regulations are more than offset by the benefits. (Paragraph 59)
13. In evidence to the Committee, Vote Leave pointed out that what counts is not so much the cost, but the importance in principle of having control over such regulations. This is reasonable. It may be a compelling political argument. But if they wish to make a case on economic grounds, and use as they have done figures purporting to measure the economic cost of EU regulation, it is incumbent on the leave campaigns to give at least some indication of which parts of the regulatory framework they would alter or scrap, while recognising that the practical limitations would put a comprehensive exercise beyond any referendum campaign group. (Paragraph 60)
14. £33.3bn, or £600m per week, is an estimate of the total cost to firms of complying with the top 100 most 'burdensome' EU regulations. It is not the net economic cost of regulation, nor is it a measure of the savings that would accrue to businesses as a result of Brexit. To assert this is misleading. To persist with such a claim, as both Vote Leave and Leave.eu have done, is a tendentious representation of the research on which it is based. (Paragraph 61)

15. Figures purporting to measure the overall impact of EU membership or Brexit on GDP and household incomes are only meaningful if the counterfactual—the assumed alternative to EU membership—is clearly spelled out (although it was based on different studies that individually had counterfactuals, the £3,000 figure used by the Stronger In campaign does not have any specific counterfactual). This is not the case for the £3,000 figure used by the Stronger In campaign, or indeed any number that combines the findings of different studies with different counterfactuals. (Paragraph 71)
16. Most recent studies support remaining in the EU and find that Brexit decreases the UK's openness to trade with the EU, which, other things being equal, causes a decline in investment and productivity. The key question is how far these negative effects are offset by: the scope for increased openness to trade with the rest of the world; productivity gains from deregulation; and lower contributions to the EU budget. The balance of recent submissions seen by the Committee is that Brexit is likely to have a net negative impact in the long term because the costs of a fall in trade exceed the gains in other areas, although the size of that impact varies considerably between different studies. Those who favour leaving the EU would argue that these studies are insufficiently optimistic or imaginative about how the UK would fare outside the EU. They could be right. In particular, the approach taken by the Treasury in its analysis appears not adequately to have considered various upsides to leaving the EU, but has modelled many of the downsides, though it is not out of line with many other independent expert analyses and it is ultimately up to those arguing to leave the EU to explain and model any possible upsides. (Paragraph 72)
17. Even if the assumptions underpinning it are considered to be reasonable, the Treasury's £4,300 figure is the result of two economic modelling exercises and a further assumption about the relationship between trade and economic productivity. Each of these three stages introduces uncertainty. Any specific numbers emerging from such an analysis should be subject to caveats and seen within the context of the forecast range presented by the Treasury. Indeed, the limitations of the Treasury's approach are exposed by some counter-intuitive results from their analysis, buried in the appendices, such as the finding that EU membership does not act as a significant draw for inward investment from outside the EU. The Treasury is, however, clear about how the £4,300 figure is derived. (Paragraph 73)
18. Presenting the figures on the impact of Brexit on a per household basis, as the Stronger In campaign has done, is likely to be misconstrued by readers, especially in the heat of a campaign, and probably has confused them. It may have left many readers thinking that the figures refer to the effect of leaving the EU on household disposable income, which they do not. The Remain campaign should have been alert to this risk, although this is a well understood hazard, and it is a generally accepted way that economists convert complex numbers into something more comprehensible. The Treasury's analysis contains a foreword from the Chancellor suggesting that "families would be £4,300 worse off" as a result of Brexit. But this is not what the main Treasury analysis found; the average impact on household disposable incomes would be considerably smaller than this number, which refers to the impact on GDP per household. Neither Government Departments nor other spokespeople for the remain side should repeat the mistaken assertion that household disposable income

would be £4,300 lower than if we were to remain in the EU; the £4,300 figure refers to GDP per household. To persist with this claim would be to misrepresent the Treasury's own work. However, it is clear that household disposable income is not the only important measure from a household perspective—public services that are consumed are also of benefit, which would give greater justification for the GDP per household figure. (Paragraph 74)

19. It is disappointing that the Treasury and the Chancellor place so much emphasis on a single figure (£4,300). Any single number that purports to encapsulate the effects of Brexit can be misunderstood, all the more so if it is used—as this number has been on occasion—unqualified by detailed explanation. Using the range around this estimate—£3,200 to £5,400— as well as a central forecast, and looking at average household income would both be useful ways of presenting the Treasury's results. (Paragraph 75)
20. What is clear from all serious studies of the economic impact of Brexit is that the UK's future trade relationship with the rest of the EU, and with non-EU countries, matters a great deal (Paragraph 76)

The short-term effects of leaving the EU

21. Following a vote to leave, there would be a period during which the UK's future relationship with the EU is uncertain. As with much economic uncertainty, it is plausible to suppose that this could weaken the pound, reduce domestic and foreign direct investment, and increase borrowing costs. However, some of these effects may be countervailing. It could also exacerbate pre-existing risks to financial stability. The duration of this uncertainty, and hence the length of time that these effects would persist, is itself uncertain, but is likely to be in excess of one year. (Paragraph 97)
22. The economic and financial consequences of uncertainty can in part be mitigated by the actions of the Bank of England's Monetary and Financial Policy Committees. The Committee notes that the scope for monetary policy to cushion the macroeconomic effects of a vote to leave is limited by the fact that base rate is close to zero, and that the Bank currently holds a quarter of UK Government gilts. (Paragraph 98)
23. The extent and duration of uncertainty in the aftermath of a vote to leave can in part be mitigated by the Government if it is clear about its strategy and objectives. In a referendum, unlike a general election, the winning side does not form a government. Therefore, unless the government were willing to announce its contingency plans for a Brexit vote the uncertainty would be magnified. Understandably the Government is reluctant to spell out such plans for fear they help its opponents. The short-term economic effects of Brexit are generally held to be large, but it is possible that they could be small. The Committee intends to take further evidence on this as soon as possible now that the Treasury's analysis has been published. (Paragraph 99)
24. The Government will need to make it unambiguously clear that it will respect the will of the electorate in the event of a vote to leave within a reasonable timeframe. But it could be economically misguided for the Government to invoke Article 50 immediately after a vote to leave and it may not be in the national interest to do

so. The Committee agrees with Sir Jon Cunliffe that the UK should “start the clock running when one knew what one wanted”. As the Chancellor has made clear, the Government has not considered the relationship that it wants with the EU following a vote to leave; it therefore seems unlikely that it will be in position to articulate its negotiating position on the day after the referendum. (Paragraph 100)

The long-term risks of staying in the EU and the Government's renegotiations

25. If there is a vote to remain, the principles contained in the economic governance part of the ‘new settlement’ with the EU will be important in ensuring that the UK's interests, and the integrity of the single market, are protected as the Eurozone pursues further integration. These do improve the protections afforded to the UK in the EU, and hence, to that extent, the economic case for membership. But this falls short of the ambitions expressed in the Prime Minister's Bloomberg speech of January 2013. (Paragraph 106)
26. The pursuit of further economic and financial integration within the Eurozone, including the development of a banking union, could threaten the UK's influence over how single market regulation develops, its access to EU financial markets, and the flexibility of its financial regulators to respond to risks. It is the single most significant risk to continued membership, and the Government was right to make it a focus of their renegotiation. (Paragraph 119)
27. The settlement that the Government has negotiated establishes a set of ‘principles’ intended to safeguard the interests of countries outside the euro, and a procedural mechanism to uphold them. The Bank of England's judgement that, taken together, these address its concerns about regulatory flexibility and the integrity of the single market should be taken seriously. But the language of those principles confers obligations on the UK as well as rights. In particular, the UK has now fully signed up to the logic that monetary union requires a fiscal and banking union, and it has agreed not to impede these developments in relation to Eurozone members only, so long as the principles are respected. (Paragraph 120)
28. There clearly remains scope for conflict between those countries outside the euro and banking union, and those within it, and a risk that the principles will not be properly respected or correctly interpreted. Protection against this will be provided in part by the ECJ, but also through the procedural mechanism that allows the UK to raise objections about legislative measures that breach the principles in ECOFIN. This mechanism does not allow the UK to veto or delay measures that it considers to be in breach of the principles; nor even, as Sir Jon Cunliffe made clear, does it give it a formal right to have its concerns discussed by Heads of State and Government in the European Council. In saying that the UK is “unilaterally” able to raise such concerns at the European Council, the Government has somewhat overstated its case. Nonetheless, the mechanism would appear to have a degree of political importance, and a request by the UK to discuss concerns at European Council level would, as Sir Jon suggests, in practice be hard to reject, even if the text of the settlement falls short of saying so. (Paragraph 121)

29. With or without the principles and the enigmatic procedural mechanism that is supposed to uphold them, ensuring the UK's rights in the single market are respected, and its authority to act to mitigate financial stability risks are maintained, will be an enduring challenge. This challenge will only become greater as other countries join the banking union and the euro. In this context, it is worth remembering that only the UK and Denmark have Treaty-based opt-outs from joining the single currency. The settlement that the Government has negotiated may have mitigated the risks to UK interests of Eurozone integration, but it has not expunged them. (Paragraph 122)
30. The settlement states that the "substance" of the principles will be incorporated into the Treaties when they are next revised. If the UK stays in the EU, these Treaty negotiations will present an opportunity to seek to place on a more solid footing the safeguards it has secured. The Government of the day will also have to guard vigorously against any encroachment of Union competence into the financial stability policy of non-Eurozone countries; given the size, diversity and importance of the UK financial services industry, it is vital that the UK's regulatory scope for unilateral action is maintained. (Paragraph 123)
31. Treaty change also provides an opportunity for the Government to address a number of other shortcomings of the economic settlement, in particular the UK's exemption from 'ever closer union'. It may, however, be some time—and probably several years—before such an opportunity arises. (Paragraph 124)
32. Other things being equal, the changes to in-work and child benefits that the Government has negotiated will at best lead to a modest reduction in inward migration from the EU and fall in welfare spending. These changes would also be more consistent with the principle that one should not be able to draw down from the benefit system before one has contributed to it. Other things are not, however, equal. The introduction of the national living wage may significantly offset any effect from these measures by increasing the UK's attractiveness to migrants. It is inconsistent to claim that migrants are attracted by higher wages when paid by the state in the form of tax credits, but not when paid by employers in the form of the national living wage. (Paragraph 136)
33. So far, free movement has been a non-negotiable part of the single market and EU membership. Just as Boris Johnson and others are almost certainly mistaken to think that the UK could retain unfettered access to EU goods and services markets while ending free movement after leaving the EU, so the Prime Minister was almost certainly mistaken—as is indicated by the contents of the new settlement—to have concluded at the outset of the negotiations that he could succeed in substantially restricting free movement while remaining in the EU. The present situation, in which non-EU migration is increasingly having restrictions placed upon it—in pursuit of an arbitrary target that it is not within the Government's control to meet—is economically distortive, and is likely to carry a cost, although over the past decade non EU migration has shown no clear declining trend. (Paragraph 137)

The long-term impact of leaving the EU: the economic relationship between the UK and the EU

34. After Brexit, the UK's future relationship with the EU would be unlikely to mimic that of any other country; in this narrow sense, there would indeed be, as Boris Johnson put it, "a British deal". However, any comprehensive arrangement providing access to EU goods and services markets would require the unanimous consent of the 27 remaining EU Member States. (Paragraph 147)
35. If it is not to call into question the whole purpose of the referendum, a post-Brexit agreement would have to achieve substantive change to the UK's relationship with the EU. In achieving that change, there would be a trade-off between the extent to which the UK is able to obtain access to EU markets, and the extent to which it regained control over areas where the EU currently has competence. In particular, acquiring greater control over migration policy might well come at the cost of some curtailment of access to other parts of the single market, and hence a reduction in EU trade. In deciding on what sort of relationship to seek, the Government would have to weigh the benefits of additional control against the costs of reduced market access. To sell into the Single Market, its relevant regulatory standards must be met. (Paragraph 148)
36. Achieving the unanimous consent of EU Member States to a comprehensive trade deal would be a significant challenge. Counting in the UK's favour is the fact that, on leaving, it would become the EU's largest single trading partner for goods, just ahead of the United States. Moreover, it would be starting from a position of close integration, with the intention of loosening it in certain areas; this is markedly different from conventional trade negotiations, which start from a position of loose integration with the intention of tightening it. Set against this is the fact that Brexit could represent a crisis for the EU. The goodwill of other EU members could not necessarily be relied upon. (Paragraph 149)
37. The sort of deal the UK would reach with the EU, and the access it would have to its markets in the long term, is highly uncertain. It is disingenuous to claim with any confidence, as some representatives from the leave campaign groups have done, that the UK would be able to leave the EU, drop free movement and continue to have the same rights to trade with EU Member States as it does now. The UK would certainly have access, at some level, to the single market on leaving. The question is not whether the UK would have access to the single market, but how far that access would differ from what it enjoys at present. This is a difficult question; nonetheless, the leave campaigns' leading spokespeople have not answered it. (Paragraph 150)
38. The evidence heard by the Committee supports the view that the EU will continue to be the UK's most important trading partner for some time to come, irrespective of the referendum result (Paragraph 151)
39. Whatever relationship it negotiated, it is likely that the UK's access to EU markets, and hence its trade with the EU, would be lower if it left than if it remained. It is likely to incur higher tariffs if it remained. There would also probably be a trade-off, inherent in all forms of economic integration, between the extent of EU market access, and the extent to which the UK would be able to regulate products and markets in the

way that it wanted. An important question is whether the freedoms and powers that the UK acquired following Brexit—to conduct an independent trade policy, pursue a different approach to migration, and establish a more liberal regulatory framework—could be exercised in a way that counteracted and outweighed the costs arising from a loss of EU market access. It is far from clear whether this would be the case. (Paragraph 153)

40. The tariffs levied by the EU on imported goods have fallen substantially over the last two decades. In this sense, the cost of leaving the EU and relying on WTO rules as a basis for trade is not as costly as it once was. However, EU tariffs still cover 90 per cent of the UK's goods exports to the EU by value, and remain high enough in certain sectors to risk prejudicing UK exporters' price competitiveness in EU markets, and the UK's position in the manufacturing supply chain. A trade agreement with the EU that provided for tariff-free access for manufactured goods would therefore carry considerable attractions, and a failure to agree one would be economically costly. The UK has traded freely in manufactured goods with the EU for more than forty years. But it is not impossible that Brexit would result in a return to tariffs. (Paragraph 166)
41. The situation for agricultural goods is more complex, partly because this sector is protected by the CAP and a high external tariff. While the Committee recognises the important intentions sought by the CAP, despite recent reforms it is still, according to witnesses, wasteful and inefficient. But if the UK wishes to maintain tariff-free access to EU markets for agricultural produce, its capacity to protect farmers differently after Brexit might be constrained. (Paragraph 167)
42. Even under a free trade agreement that eliminated all tariffs, the costs of trading with the EU would be likely to rise as a result of non-tariff barriers to trade, including rules of origin requirements and customs procedures. Further non-tariff barriers to goods trade might develop over time if the UK was not able to influence single market rules or the development of relevant WTO rules. (Paragraph 168)
43. Despite the attraction to some economists of withdrawing from the EU and unilaterally eliminating tariffs, this has not been a major part of the campaign, so in the event of Brexit this would be a decision for the democratically-elected Government to make. Unilateral tariff abolition, however merited on economic grounds, is unlikely to secure domestic political agreement. This is partly because exporters would want to secure preferential market access to other countries through trade agreements, and tariffs are bargaining chips to secure that access. Even more difficult to handle would be the concerns of domestic industries currently protected by the EU's external tariffs. The interests of those international companies who have invested in the UK, in part to exploit the UK's membership of the single market, needs to be taken into account. Their continued future investment in the UK will be influenced by the trade relationship secured in a post-Brexit era. (Paragraph 169)
44. Successive UK governments have sought to improve the EU single market in services. In many respects, progress has been disappointing. However, if the UK remains in the EU, it may well benefit from initiatives such as the capital markets union and the

digital single market, and have a role in shaping them to its benefit. This assumes that the EU is more successful in future at implementing a single market in services than it has been in the past. (Paragraph 180)

45. Were it to leave the EU and rely on WTO membership alone, the UK's current access to EU services markets could not be assumed to continue. The long-standing difficulties of opening up services markets in the EU illustrate the caution with which some Member States approach trade liberalisation in this area, even within the single market. (Paragraph 181)
46. After Brexit, it is not certain that the UK would be able to reach an agreement with the rest of the EU that preserved its long-term access to services markets. Any agreement would probably require the UK to show that the regulation of firms operating in these sectors that wish to do business on the continent was equivalent to that prevailing in the rest of the EU, thereby limiting the freedom the UK gains from Brexit to regulate services industries in the way that it saw fit, and subjecting the UK to regulation over which it has no say or explicit influence. (Paragraph 182)
47. The passporting regime provides benefits to financial firms that undertake cross-border activity, including large banks and some asset managers. Whether or not the UK negotiated a comprehensive trade agreement with the EU, maintaining the passporting would probably require the UK to show equivalence with EU regulation. This would limit the UK's flexibility, from outside the EU, to set its own regulatory framework, and it would lead to a loss of influence over financial regulation with which it might nonetheless have to comply or adhere. In this sector, the trade-off between domestic regulatory control and market access is particularly acute. (Paragraph 193)
48. Any decision on whether the UK's regulatory framework was equivalent, and hence whether the passporting regime could be preserved, would ultimately have to be approved by the European Parliament and Council. It therefore has the potential to become politicised. It is possible that other EU institutions or Governments might no longer wish to allow such a large proportion of financial services activity to take place in what would become an offshore centre. Nonetheless, the UK financial services industry supports the development of businesses, investment in new technology, and growth and employment across the EU. There could be a degree of mutual interest in the UK having high levels of access to EU financial markets. Moreover, the free movement of capital is not going to be abolished and it is this more than the single market in services that allows businesses to come to the UK. (Paragraph 194)
49. A loss of passporting would not be fatal for the UK's financial services industry; its competitiveness is founded on a wider constellation of factors, including time zone, language and the legal system. But it would be plausible to suppose that some relocation of activity, particularly by foreign banks that currently base their European operations in London, might take place, as the Governor has suggested. (Paragraph 195)
50. As with passporting, the UK's regulatory regime would have to be recognised as equivalent in order for CCPs to continue dealing in euro-denominated transactions.

Outside the EU, the UK Government would be less able to resist any further pressure for CCPs to relocate within the Eurozone. It would not have recourse to the ECJ, as it did in 2012. (Paragraph 201)

51. The UK's flexible labour markets, strong rule of law, independent judiciary and relatively skilled workforce would continue to make it an attractive location for inward FDI, whether or not it was in the EU. However, warnings by manufacturers such as Siemens and Toyota about the potential impact of Brexit on their future investment plans are significant, even though some companies said the same about not joining the euro. So too are the concerns expressed by a large majority of international firms in a recent poll, that Brexit would have a negative impact on their business and on their future investment plans in the UK. (Paragraph 211)
52. Statistically proving the existence and extent of the effect of EU membership on FDI is difficult; in their analysis, the Treasury were unable to show that membership attracted FDI from non-EU countries. However, just as the finding that leaving the EU will cost each household £4,300 should be treated with caveats, similarly not too much store should be set by this result. There is considerable evidence from companies that the market access afforded by EU membership encourages inward investment to the UK from both EU and non-EU countries, particularly in the financial services and manufacturing sectors. (Paragraph 212)
53. How far FDI was negatively affected by Brexit would depend both on the extent of market access that the UK negotiated on leaving the EU, and how far it was able to increase its attractiveness to foreign investors by changing its regulatory framework and striking trade deals with non-EU countries. It is beyond the scope of this report accurately to assess or predict the size of the impact. (Paragraph 213)

The long-term impact of leaving the EU: the economic relationship between the UK and the rest of the world

54. The EU is slow and cumbersome at negotiating trade agreements. However, it has reached a larger number of trade deals than any other country or bloc. It has also increased its openness to trade in recent decades by reducing its external tariffs. Though several Member States may instinctively be more protectionist than the UK, the EU as a whole has matched non-EU peers in becoming less so over time. (Paragraph 224)
55. The trade deals that the EU strikes may in some respects not reflect the UK's interests. In particular, services are the fastest-growing sector of the global economy, and the UK stands to benefit from further liberalisation of services trade; but even in its most comprehensive trade deals, the EU's has had limited success in obtaining market access. However, it is uncertain that, post-Brexit the UK will be able to deliver such privileged access to those markets. (Paragraph 225)
56. The access that the UK gains to non-EU markets through trade agreements negotiated by the EU is economically beneficial. Were the UK to leave the EU, it is very uncertain whether it would be able to continue to participate in these agreements. The extent to which the UK would have to enter into negotiations to ensure its continued participation would probably depend on the attitude of the

contracting parties, about which little is known. Were the UK to vote to remain in the EU on 23 June, it should be a priority of the Government seek to exert greater influence on the efficiency and quality of EU trade negotiations, which are currently unduly protracted, even considering the need to get 28 Member States to reach agreement. (Paragraph 226)

57. Free trade is at the heart of the economic case for Brexit. It is not possible to say with certainty how successful the UK would be in retaining the access to non-EU markets that it enjoys as part of the EU, nor how quickly it would be able to negotiate trade agreements with other countries. Leaders of the US and China have made clear that a trade agreement with the EU would be a greater prize than one with the UK, but given the complexities involved in negotiating with a bloc of 28 different countries, they could nonetheless find it more straightforward to strike a deal with the UK on its own, although the time taken to agree such agreements is often lengthy. (Paragraph 231)
58. In order to make the best of Brexit, the trade deals that the UK negotiated with non-EU countries would need to be comprehensive, and provide good access to the services markets in which the UK has an advantage. Reaching high-quality trade agreements with countries like China, India and the United States, while securing access to the agreements to which the UK is party by virtue of its EU membership, would be a considerable diplomatic challenge; it would take time, resources and the goodwill of other governments. The cases of Australia and New Zealand show that it is nonetheless possible for relatively small countries, acting on their own, to agree a large number of free trade agreements covering a high proportion of their trade. (Paragraph 232)
59. There may also be economic advantages for the UK in applying a different tariff regime to that currently imposed by the EU on trade with non-EU countries. However, the Committee reiterates the point made earlier about the implications of unilateral tariff abolition. Classical economic theory suggests that this would be economically beneficial. But eliminating tariffs would leave very little incentive for non-EU countries, and particularly emerging markets that export large volumes of manufactured goods to the UK, to grant preferential access to their goods and services markets. (Paragraph 233)

The conduct of the Committee's inquiry

60. In their treatment of this Committee, neither Mr Elliott nor Mr Cummings, as individuals, have fulfilled Vote Leave's commitment, made in their successful application to the Electoral Commission, to "create a valuable legacy for the UK's democratic process". Their conduct has been appalling. Mr Elliott's and Mr Cummings's expressed view that powers should be restored to Parliament sits ill with that conduct. (Paragraph 236)
61. It was the Committee's preference to hear from both Vote Leave and Leave.eu in one sitting. In the end, it took three. If Mr Elliott and Mr Cummings consider that the Committee's evidence-taking process has been protracted, uncomfortable or harmful to their cause, they have only themselves to blame. (Paragraph 237)

62. The Committee notes that Mr Banks and Mr Tice did not seek to attach conditions to their attendance. (Paragraph 238)
63. It is highly unsatisfactory that the Committee was unable to scrutinise the Government's analysis of the short-term economic impact of Brexit in time to consider its findings in this Report. The delay in the Treasury's publication is inconsistent with the commitment made to the Committee by the Chancellor. It is to be hoped that scrutiny and transparency have not in this case been subordinated to the imperatives of the Number 10 'media grid'. (Paragraph 240)

Formal Minutes

Wednesday 25 May 2016

The Rt Hon Andrew Tyrie MP, in the Chair

Members present:

Mr Steve Baker

George Kerevan

Helen Goodman

Chris Philp

Stephen Hammond

Mr Jacob Rees-Mogg

Draft Report (*The economic and financial costs and benefits of the UK's EU membership*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 35 read and agreed to.

Paragraph 36 read and postponed.

Paragraphs 37 to 49 read and agreed to.

Paragraph 50 read and postponed.

Paragraphs 51 to 72 read and agreed to.

Paragraphs 73 and 74 read and postponed.

Paragraphs 75 to 240 read and agreed to.

[Adjourned till Thursday 26 May at 12pm]

Thursday 26 May 2016

The Rt Hon Andrew Tyrie MP, in the Chair

Members present:

Mr Steve Baker

Mr Jacob Rees-Mogg

Mark Garnier

Rachel Reeves

Stephen Hammond

Wes Streeting

Chris Philp

Postponed paragraph 36 again read and agreed to.

Postponed paragraph 50 again read and agreed to.

Postponed paragraphs 73 and 74 (now paragraphs 74 and 75) again read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Tuesday 7 June at 9.45am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Tuesday 27 October 2015

Question number

Roger Bootle, Executive Chairman, Capital Economics, **Simon Tilford**, Deputy Director, Centre for European Reform, **Philippe Legrain**, Senior Visiting Fellow, London School of Economics European Institute, and **Professor David Myddelton**, former Chairman, Institute of Economic Affairs

[Q1–92](#)

Tuesday 3 November 2015

Dr Robin Niblett CMG, Director, Chatham House, **Andy Lebrecht**, UK Deputy Permanent Representative to the EU, 2008-12, and **Professor Michael Dougan**, Jean Monnet Chair in EU Law, University of Liverpool Law School

[Q93–200](#)

Tuesday 18 November 2015

John Mills, Chairman, John Mills Ltd, and **Steve McQuillan**, Chief Executive, Avingtrans plc

[Q201–261](#)

Mike Cherry, Policy Director, Federation of Small Businesses, **Hugh Bearryman**, Owner, Tighten-Up Ltd, **Lars Andersen**, Managing Director and CEO, My Nametags Ltd, and **Carolyn Frank**, Owner, Libby Butler Jewellers

[Q262–321](#)

Tuesday 1 December 2015

Rt Hon George Osborne MP, Chancellor of the Exchequer, and **Mark Bowman**, Director-General, International and EU, HM Treasury

[Q322–434](#)

Wednesday 6 January 2016

Mark Astaire, Vice Chair, Investment Banking Division, Barclays plc, and **James Chew**, Group Head of Regulatory Policy and Strategy, HSBC Holdings plc

[Q435–509](#)

Tuesday 19 January 2016

Guy Sears, Interim CEO, The Investment Association, **John Barrass**, Deputy CEO, The Wealth Management Association, and **Jiří Król**, Deputy CEO, The Alternative Investment Management Association

[Q510–609](#)

Wednesday 3 February 2016

Andrew Bailey, Deputy Governor for Prudential Regulation, Bank of England, and Chief Executive Officer, Prudential Regulation Authority, and **Tracey McDermott**, Acting Chief Executive, Financial Conduct Authority [Q610–692](#)

Tuesday 1 March 2016

Lord Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union [Q693–841](#)

Wednesday 2 March 2016

Lord Rose, Chairman, Britain Stronger in Europe, and **Will Straw**, Executive Director, Britain Stronger in Europe [Q842–991](#)

Tuesday 8 March 2016

Dr Mark Carney, Governor, Bank of England, and **Sir Jon Cunliffe**, Deputy Governor, Financial Stability, Bank of England [Q992–1128](#)

Wednesday 23 March 2016

Boris Johnson MP, Mayor of London and member of Vote Leave Campaign Committee [Q1129–1358](#)

Wednesday 20 April 2016

Dominic Cummings, Campaign Director, Vote Leave Ltd [Q1359–1511](#)

Wednesday 27 April 2016

Arron Banks, Co-Founder, Leave.EU, and **Richard Tice**, Co-Founder, Leave.EU [Q1512–1693](#)

Monday 9 May 2016

Matthew Elliott, Chief Executive, Vote Leave, and **Oliver Lewis**, Research Director, Vote Leave [Q1694–1900](#)

Wednesday 11 May 2016

Rt Hon George Osborne MP, Chancellor of the Exchequer and **Mark Bowman**, Director General, International and EU, HM Treasury [Q1901–2063](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

EUK numbers are generated by the evidence processing system and so may not be complete.

- 1 ADS Group ([EUK0008](#))
- 2 British Bankers Association ([EUK0019](#))
- 3 CBI ([EUK0018](#))
- 4 Civil Engineering Contractors Association ([EUK0006](#))
- 5 Clifford Chance ([EUK0010](#))
- 6 Dr Gerard Lyons ([EUK0014](#))
- 7 EEF ([EUK0012](#))
- 8 HSBC Bank plc ([EUK0011](#))
- 9 Professor Michael Dougan ([EUK0005](#))
- 10 Professor Philip Whyman ([EUK0007](#))
- 11 Scotch Whisky Association ([EUK0009](#))
- 12 Sir Konrad Schiemann ([EUK0004](#))
- 13 The Law Society ([EUK0017](#))
- 14 TheCityUK ([EUK0015](#))
- 15 Trades Union Congress ([EUK0013](#))
- 16 Vote Leave ([EUK0016](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

Session 2015–16

First Report	Reappointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 459
Second Report	The appointment of Dr Gertjan Vlieghe to the Monetary Policy Committee of the Bank of England	HC 497
Third Report	The re-appointment of Ian McCafferty to the Monetary Policy Committee of the Bank of England	HC 498
Fourth Report	Appointment of Tim Parkes as Chair of the Regulatory Decisions Committee	HC 735
Fifth Report	Appointment of Angela Knight as Chair of the Office of Tax Simplification	HC 734
Sixth Report	Spending Review and Autumn Statement 2015	HC 638
Seventh Report	Reviewing the Office for Budget Responsibility	HC 514
Eight Report	The Treasury Committee's scrutiny of appointments	HC 811
Ninth Report	Re-appointment hearing of Dame Clara Furse and Richard Sharp	HC 895