




WILL THE EU AGREE TO THERESA'S FTA VISION?

On Tuesday 16 January, 2017, UK prime minister Theresa May outlined her objectives for the forthcoming Brexit negotiations. These goals make clear that she plans to take the country out of the single market and try to negotiate a free trade agreement with the EU's 27 other members.


Although Theresa May has expressed her desire for an EU-UK free trade agreement, the EU itself may not be so keen, and may try to negotiate a different relationship, perhaps incorporating elements of one of the existing deals it has with non-EU countries.

NORWEGIAN	SWISS	TURKISH	CANADIAN	WTO
 Norwegian model EEA membership				
Free movement of goods	✓	In a customs union	✗	
Free movement of services	✓	Need to follow EU employment laws	✓	
Free movement of capital	✓	Need to follow EU social laws	✓	
Free movement of labour	✓	Contribution to the EU budget	✓	
Has a say in EU law making	✗	Can negotiate trade agreements outside the EU	✓	
Visa-free travel	✓			

This option would see the UK rejoin the European Free Trade Association (EFTA) and then enter the European Economic Area (EEA), like Norway, Iceland and Lichtenstein.

Membership of the European Economic Area would mean that the UK has full access to the single market, but as it would not be part of a customs union, tariffs for trade outside the EU would be set by the UK.

This would allow the UK to maintain access to the single market and continue trading with EU member countries, with some export/import restrictions. But it would also require the UK to accept EU laws without any representation in the institutions that make them, and the four principles of free movement of goods, services, capital and labour.


NORWEGIAN	SWISS	TURKISH	CANADIAN	WTO
 Swiss model Bilateral trade				
Free movement of goods	PARTIAL	In a customs union	✗	
Free movement of services	PARTIAL	Need to follow EU employment laws	✓	
Free movement of capital	PARTIAL	Need to follow EU social laws	✓	
Free movement of labour	PARTIAL	Contribution to the EU budget	✓	
Has a say in EU law making	✗	Can negotiate trade agreements outside the EU	✓	
Visa-free travel	✓			

If the UK decides to copy the Swiss, the UK will need to sign a bilateral trade agreement with the EU after rejoining EFTA, rather than join the EEA.

Switzerland has 120 separate accords with the EU which make it a quasi-member of the single market. But it has no say in regulations and its single market access covers goods and some – but not all – services.

Moreover, if it wanted to follow the Swiss model, the UK would also be likely to have to contribute to the EU budget, abide by some internal market laws – and accept the free movement of people.


This model does allow Switzerland to negotiate its own bilateral trade agreements outside the EU, though most are made via EFTA.

NORWEGIAN	SWISS	TURKISH	CANADIAN	WTO
 Turkish model Customs union				
Free movement of goods	PARTIAL	In a customs union	✓	
Free movement of services	✗	Need to follow EU employment laws	✗	
Free movement of capital	✗	Need to follow EU social laws	✗	
Free movement of labour	✗	Contribution to the EU budget	✗	
Has a say in EU law making	✗	Can negotiate trade agreements outside the EU	LIMITED	
Visa-free travel	✗			

If the UK wants to entertain the idea of less political and legal integration, it could imitate Turkey and enter into a customs union with the EU. This would mean applying the same tariffs as the EU to non-EU trade, in return for tariff-free goods trade across the EU.


An agreement along the lines of the Turkish model would give the UK control over inward migration, but the UK would still need to apply EU laws to areas covered by a customs union, again without having a say on those rules.

While the UK could strike its own trade agreements outside the EU, if that country has an agreement with the EU that covers the goods and services in an EU-UK customs union, the UK would have to give a similar agreement, despite not being involved in the negotiations.

NORWEGIAN	SWISS	TURKISH	CANADIAN	WTO
 Canadian model Free trade agreement				
Free movement of goods	PARTIAL	In a customs union	✗	
Free movement of services	PARTIAL	Need to follow EU employment laws	✗	
Free movement of capital	✗	Need to follow EU social laws	✗	
Free movement of labour	✗	Contribution to the EU budget	✗	
Has a say in EU law making	✗	Can negotiate trade agreements outside the EU	✓	
Visa-free travel	✗			

One example of an even less integrationist trade deal with a third country is the EU's Comprehensive Economic and Trade Agreement (CETA) with Canada. Negotiations started in 2009 and were officially concluded in September 2014, though the agreement is still not yet fully ratified.

As a trade agreement, CETA removes or reduces tariffs on a range of goods and services, and makes it easier for companies based in one side of the agreement to invest in the other. There are also a number of legal agreements to bring certain laws in line, such as the length of copyright.

NORWEGIAN	SWISS	TURKISH	CANADIAN	WTO
 WTO rules				
Free movement of goods	✗	In a customs union	✗	
Free movement of services	✗	Need to follow EU employment laws	✗	
Free movement of capital	✗	Need to follow EU social laws	✗	
Free movement of labour	✗	Contribution to the EU budget	✗	
Has a say in EU law making	✗	Can negotiate trade agreements outside the EU	✓	
Visa-free travel	✗			

This is the fall-back position, if the UK and EU cannot strike a deal before the two-year time limit for Brexit negotiations run out.

WTO agreements are lengthy and complex, and deal with all forms of international trade including agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations and intellectual property.

Under current WTO agreements, some goods are tariff-free, though free movement is not assured as all imports need to be checked thoroughly by customs officials.

If the UK decides to do this, it will be free to strike trade agreements outside the EU beyond the levels of the WTO, although having left the EU, its bargaining leverage will be less than the EU's, which speaks for 500 million consumers in 28 member countries.

CMC Markets is an execution-only service provider. The material (whether or not it states any opinions) is for general information purposes only, and does not take into account your personal circumstances or objectives. Nothing in this material is (or should be considered to be) financial, investment or other advice on which reliance should be placed. No opinion given in the material constitutes a recommendation by CMC Markets or the author that any particular investment, security, transaction or investment strategy is suitable for any specific person.