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A European strategy for Labour

By Charles Grant



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- ★ Britain needs a better deal with the EU than that negotiated by Boris Johnson's government: the economy is taking a hit, opinion polls show that most Britons want a closer relationship and the tense geopolitical situation highlights the value of greater co-operation with the EU. But a significant reset of the relationship must await the arrival of a Labour government.
- ★ Keir Starmer's Labour Party is cautious about Europe. It worries that if it talks too much or too positively about the EU, those who voted Leave in 2016 will be reminded of their identity as Leavers and vote Conservative.
- ★ It will be hard for a Labour government to make significant improvements to Johnson's Brexit deal. The UK is not a priority for most European leaders and there is much scepticism about Labour's willingness and ability to engineer a fundamental change in the UK-EU relationship. In many respects the current Brexit deal suits the EU quite well and a Labour government will need to think carefully about how it can motivate European leaders to reopen Johnson's deal.
- ★ Starmer and his team could take some useful steps on their own. They need to set out what they want to achieve in terms of a reset with Europe, ideally with some vision about the kind of country the UK aspires to be. Labour leaders need to cultivate relationships with EU governments and the Brussels institutions.
- ★ Within the UK, Labour should re-establish a European secretariat in the Cabinet Office, to co-ordinate the EU policies of the different ministries. A new unit should monitor EU legislation and take a view on which new rules the UK should mimic. Labour should commit to adopting new EU business rules unless there is a reason not to. Such a default position would be good for business and help to reassure the EU that the UK was not intending to undermine its 'level playing field'.
- ★ Other steps that Labour should take will require the consent of the EU. The Trade and Co-operation Agreement (TCA) is due for review in 2026. Before deciding what it wants to revise, Labour should consult businesses, trade unions and other relevant stakeholders.
- ★ Labour should ask for a mobility chapter, to make it easier for British people to work for short periods in the EU (and vice versa), and for children to go on school trips. Labour should also rejoin the Erasmus student exchange scheme and seek a youth mobility agreement with the EU.
- ★ Labour should recognise EU rules on plant and animal health, with a view to negotiating a mutual recognition agreement that removes most of the border checks on farm goods and food. Labour should also pursue the mutual recognition of professional qualifications and certification bodies, though neither will be easy to achieve.

- ★ A Labour government should seek to merge the UK's Emissions Trading System with that of the EU – to prevent the EU's new Carbon Border Adjustment Mechanism creating problems for British exporters. It should also set up a review to examine which EU agencies the UK should seek to rejoin or associate with. And it should ask the EU to ease local content requirements so that goods can more easily qualify for the zero tariffs of the TCA.
- ★ A Labour government should negotiate structural links to the EU's foreign policy machinery, involving regular meetings at official, ministerial and prime ministerial level. This would give the UK the opportunity to influence the 27 member-states, learn what is going on in the EU and forge friendships and alliances.
- ★ Concerning defence, the UK and the EU should negotiate a framework agreement so that UK personnel can take part in EU military missions. The British defence industry would benefit from the UK becoming more closely associated with bodies and funding arrangements like the European Defence Agency, Permanent Structured Co-operation, the European Peace Facility and the European Defence Fund.
- ★ None of the steps mentioned so far will do much to undo the economic damage inflicted by Johnson's Brexit deal. If Starmer is serious about making the UK the fastest-growing economy in the G7 he will need to re-examine the fundamentals of the TCA.
- ★ A Labour government may well find the EU a difficult negotiating partner. It will say 'no cherry-picking', meaning that the single market is part of a package including free movement and that third countries like the UK cannot be allowed access just to parts of it.
- ★ But if a Labour government adopted a constructive long-term strategy, and restored trust in the UK as a partner, the EU might see the potential benefits of a more intimate relationship. Some EU officials do envisage the possibility of the UK being allowed de facto into parts of the single market, when it is in both sides' mutual interest. The more that a Labour government can offer, for example through the provision of security, an energy partnership or financial contributions to EU programmes, the more likely the EU is to agree to a bespoke relationship that goes further than what it has offered other neighbours.
- ★ Labour is committed not to rejoin the EU's customs union. But in the long run manufacturing companies – encumbered with bureaucracy at the border – will put pressure on Labour to think about linking to the customs union. The domestic politics would be difficult: the UK would have to renounce the right to negotiate free trade agreements on its own, and scrap or amend some of the deals done since Brexit.
- ★ Labour's problem will be one of timing: the politics in both the UK and the EU suggest that a radical rethink of the relationship will not be feasible before the second term of a Labour government. But in the meantime the economic problems resulting from Johnson's Brexit deal will accumulate. So, the sooner Labour starts to prepare the ground in Europe and the sooner it works out exactly what it wants to achieve, the better.

After seven years of acrimony, the UK and the EU have for the time being buried the hatchet. The Ukraine war reminded them how much they have in common. Prime Minister Rishi Sunak and European Commission President Ursula von der Leyen showed a willingness to compromise over the Northern Ireland protocol, agreeing to the Windsor Framework in February 2023, which has fostered good will on both sides (if not in Northern Ireland).

A memorandum of understanding on financial services has been signed, and after much haggling the UK and the EU have agreed on the terms of Britain's re-entry into the Horizon research programme. But other bones of contention remain – for example the EU is (for now) rebuffing British requests that it postpone the introduction of tariffs on electric car batteries traded

across the Channel. The tone of such arguments, however, is civil.

The improved tone does not signal a profound shift in the UK-EU relationship; the governing Conservative Party contains many hard-line Brexiteers and has a strong populist bent. Its senior figures keep saying or

doing things that disturb European leaders, like talking of leaving the European Convention on Human Rights (ECHR), despite the fact that the ECHR is integral to the Good Friday Agreement, and that membership is a condition for co-operation on law enforcement under the Trade and Co-operation Agreement (TCA). The government is also pushing ahead with the ‘small boats’ bill, which would deny the right of irregular migrants to claim asylum, and which the governments’ own legal advisers admit is probably in breach of international law.

A real reset of UK-EU relations will probably have to wait for the arrival of a Labour government – and at the time of writing, Labour leader Keir Starmer stands a good chance of winning the general election that is likely to be held in summer or autumn 2024.

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This paper considers what steps the Labour Party and/or a Labour government could take to improve relations, unilaterally; what improvements to the economic relationship a Labour government could hope to negotiate with the EU in the short term; what scope there is for closer co-operation on foreign and defence policy; and finally, whether in the long term much closer economic ties are feasible.¹

British and European leaders need to rethink their relationship, for at least three reasons (as a recent report from the Tony Blair Institute for Global Change argues).² First, British public opinion has shifted markedly towards the EU. According to polling earlier this year by the Tony Blair Institute, 18 per cent of those who voted Leave now think it was a mistake to quit the EU. And 53 per cent of all voters think that it was wrong to leave the EU, while 34 per cent think the decision was right. More strikingly, 78 per cent of Britons want the UK to have a closer relationship with the EU than it has now (including 71 per cent of Leave voters).

Second, the economic damage inflicted by Boris Johnson’s Brexit deal is becoming ever more apparent. Brexit has led to friction at borders, labour shortages, regulatory uncertainty and upward pressure on prices. The CER’s own number crunching, led by my colleague John Springford, suggests that the British economy is 5.5 per cent smaller than that of a constructed ‘Doppelgänger’

1: The author would like to thank those who contributed their thoughts to this paper. In addition to Labour politicians and advisers, and my colleagues at the CER, I am grateful to David Henig, Julian King, Ivan Rogers, Sam Lowe and Anton Spisak.

2: Anton Spisak and Christos Tsoukalis, ‘Moving forward: The path to a better post-Brexit relationship between the UK and the EU’, The Tony Blair Institute for Global Change, June 2023.

UK that did not leave the EU.³ Both investment and goods trade are 10 to 15 per cent lower than they would have been without Brexit.

Third, the world has changed since the Brexit deals were negotiated. Russia’s invasion of Ukraine and the growing tensions between the US and China have led to an incipient cold war, at least at the level of politics, between the West and an axis of autocracies. New types of cross-border challenge are emerging, such as how to regulate technologies like artificial intelligence (AI), how to encourage collaboration in pursuit of net-zero emissions and how to make supply chains less vulnerable. Having very similar interests in this new and potentially more unstable world, the EU and the UK would benefit from working together closely.

Starmer and his chief lieutenants are instinctively pro-European. Unlike Sunak, Starmer does not have to worry about anything like the European Research Group (a caucus of anti-EU Conservative MPs) creating trouble on the back benches. If he becomes prime minister he will certainly want to have good relations with the EU and its leaders.

Starmer is nevertheless cautious on Europe. He does not talk about it often in public and when he does, he tends to avoid speaking about the EU with great warmth. He set out his position in July 2022, in a speech at the CER’s 24th birthday party:

“Under Labour, Britain will not go back into the EU. We will not be joining the single market, we will not be joining a customs union... We will not return to freedom of movement to create short-term fixes, instead we will invest in our people and our places.”

Starmer and his political advisers are focused on winning back the ‘red wall’ seats in the north of England and the Midlands that switched to the Conservatives at the 2019 election. They worry that if the political argument centres on Europe, many voters will be reminded of their strong sense of identity as Leavers, and vote Conservative.

Hence the reluctance of the Labour leadership to talk about Brexit. Starmer’s relative coolness towards the EU has periodically upset committed Europeans – including at that CER birthday party – but the calculation is presumably that most of them have nowhere else to go.

To be fair to Starmer, he and David Lammy, the shadow foreign secretary, have made clear they want to improve the EU-UK relationship – and they have mentioned

3: John Springford, ‘Are the costs of Brexit big or small?’, CER insight, May 9th 2023.

adopting EU standards on plant and animal health, making it easier for Britons to work for short periods in the EU without a visa, and negotiating structural ties on foreign and defence policy. Visiting Europol in the Hague in September, Starmer talked of building closer ties with it. Then a few days later in Montreal he said “We don’t want to diverge [from the EU].” There have been hints from senior Labour figures that in the long run they will become more ambitious in their efforts to reset the UK-EU relationship.

“The first thing one learns if one talks to EU governments and institutions is that almost nobody is thinking much about the UK.”

However, a Labour-led Britain will not find the EU easy to deal with. The first thing one learns if one talks to EU governments and institutions is that almost nobody is thinking much about the UK. There are a lot of difficult subjects on the tables of policy-makers – such as the war in Ukraine, the growing momentum towards the enlargement of the EU, strained relations with China, arguments with the US over subsidies and industrial policy, the growing backlash against green legislation, large flows of migrants from the south, and the lack of respect for the rule of law in certain member-states. The last thing that most EU politicians and officials want to talk about is Brexit – it bored them to death for many years and they think it is behind them.

To the extent that policy-makers do think about the UK, their thoughts and feelings tend to be negative. They have not forgotten the chaotic, aggressive and fickle behaviour of Boris Johnson’s government. It still rankles that, soon after negotiating the Withdrawal Agreement with the EU, the UK twice proposed legislation – first in the Internal Market Bill and later in the Northern Ireland Protocol Bill – that would have allowed it to tear up parts of that international treaty. Of course, EU officials know that Starmer is not to blame for the shenanigans of Johnson’s government, but they think it plausible that

a europhobic Conservative Party could win the election that is likely in 2028 or 2029. They worry about British policy yo-yoing between europhilia and europhobia every few years. That prospect will colour European views on what is feasible in the UK-EU relationship, even if Starmer becomes prime minister in a year’s time.

A Labour government should not assume that everyone will roll out the red carpet for its senior figures. Of course, EU leaders will be glad to see the back of the Conservatives and hope for cordial relations with Starmer and his people. But they have noticed the great caution with which Labour front-benchers talk about the EU. Some fear that the UK’s europhobic press has sufficient clout to deflect any British government from a pro-EU course. They are sceptical that a Labour government would be willing or able to engineer a significant and permanent shift in the UK-EU relationship. In other words, a Labour government will start with a serious credibility problem. It will need to convince EU leaders that it is not a Sunak Mark 2 government.

And nobody can be sure who those leaders will be. Von der Leyen tends to be relatively sympathetic to British points of view, but it is not certain that she will be reappointed to a second term after the June 2024 European elections. British officials say that at the moment Commission officials tend to be more inflexible on the UK relationship than some European politicians – but there is a steady turnover of the latter.

Furthermore, although the current problems in the relationship, such as friction at the border, affect or will affect both sides, Britain is much more dependent on trade with the EU than vice versa. In some ways the current Brexit arrangements suit the EU fine: there are very limited provisions for trade in services, where Britain is strong, while the TCA allows for tariff-free trade in goods (albeit with added border friction), which suits the manufacturing strength of several continental economies. A reset will matter more for the UK, so a Labour government will be *demandeur*. Labour will need to think carefully about what it can offer the EU, to encourage European leaders to change the current arrangements.

Steps for the UK to take on its own

Labour leaders could make some important moves on their own to help restore British credibility – both before the general election and after it, assuming that they form a government. Starmer and his lieutenants need to inform European governments of their thinking – at least in broad terms – on how they intend to improve the relationship. Starmer has made a start by visiting Chancellor Olaf Scholz in July and President Emmanuel Macron in September. He should make a major speech in a European capital, setting out the broad thrust of his agenda and priorities, to help Europe’s political class to get to know the Labour leader.

Starmer will need to say what kind of country he thinks the UK is, and where it wants to go. A laundry list of piecemeal reforms, such as those listed in the next section of this paper, will not suffice. The possibility of Donald Trump’s return to the US presidency could be part of the picture that Starmer paints: in an increasingly harsh world, the UK knows that its friends in Europe share its values and most of its interests in the global agenda. There is scope for co-operation, for example, in areas like foreign policy, internal security, energy, health, climate, green technologies and safeguarding supplies of critical minerals. In many of these areas Britain could make a positive contribution.

A Labour government will need to work hard at strengthening bilateral relations with the member-states, and not just the big ones. Even when the UK was in the EU, it paid insufficient attention to some of the smaller members, thereby forgoing influence.

Labour's shadow ministers should tour round the major European capitals, rebuilding personal ties, discussing what changes to the relationship might work and asking how a Labour-led Britain could contribute to the common good. They should treat the EU and its members with courtesy, avoiding provocations and hubristic talk of Britain having 'world-beating' this, or 'world-leading' that. Politeness and modesty would help to generate goodwill towards the UK. Labour remains a member of the Party of European Socialists, and should step up its efforts to cultivate ties with this political family, which could provide a useful network of friendly ministers, commissioners and MEPs.

“Labour politicians should pay more attention than their Conservative predecessors to the Brussels institutions.”

Labour politicians should pay more attention than their Conservative predecessors to the Brussels institutions, which are hugely important in EU decision-making. Many Conservatives are ideologically hostile to engaging with Brussels, but the European Commission and the European Parliament matter, even when one is outside the EU.

The Cabinet Office used to contain a powerful European secretariat which co-ordinated the European policies of the various ministries and when necessary adjudicated between them. The Conservatives abolished that and gave the Foreign, Commonwealth and Development Office (FCDO) the lead role on EU policy. The FCDO should be the main source of detailed expertise on the EU within the government, but other ministries (and not only the Treasury) also count and the FCDO lacks the clout to arbitrate between them. The Cabinet Office needs to recruit a small team of senior officials to lead a new European secretariat. One of its tasks should be to set up a unit to monitor EU legislation – and take a view on whether the UK should mimic new rules in Brussels. Within the FCDO itself, a culture of objectivity needs to be restored. In recent years officials have been told by ministers not to submit papers that present the EU in a positive light – and to emphasise the benefits of Brexit in all that they do.

A big problem in the UK these days is sheer ignorance about the EU. Because ministers and officials no longer travel to meetings in Brussels, fewer and fewer people

know much about how the EU works. There is no easy way of solving this problem. But the government should encourage officials to build up networks of contacts in EU capitals and in the Brussels institutions, and it will need to make efforts to tap the knowledge held outside government, for example in businesses and think-tanks.

A Labour government should commit to adopting new EU business regulations unless there is a good reason not to do so. This is a key recommendation of a report from a commission chaired by Hilary Benn MP.⁴ A default position of alignment would please many businesses, which like regulatory and legal certainty and dislike having to comply with different rules on either side of the Channel. Taking this step would also help to reassure the EU over the 'level playing field'; it worries that the UK could seek to follow the model which is sometimes called 'Singapore-on-Thames', meaning that it would try to divert investment from the continent by slashing all sorts of business regulation.

Voluntary alignment with the EU would not in itself deliver friction-free access to the single market – though it might reduce bureaucracy for British exporters and firms reliant on EU supply chains. As the *Financial Times's* Peter Foster has written:

What confers preferential access to the EU single market is submitting to the oversight of EU regulators and the jurisdiction of the European Court of Justice (ECJ). Viewed from Brussels... a UK decision to voluntarily align would be seen as evidence of the EU's single market exerting its inexorable gravitational pull on UK industry.⁵

But such a move would generate goodwill on the EU side – especially if combined with recognition of some role for the ECJ. Furthermore, the closer the alignment with the EU, the easier it will be for the special arrangements applying to Northern Ireland to function smoothly. The Windsor Framework provides a process for managing divergence between UK and EU rules, but it will be easier to minimise checks on goods travelling from Great Britain to Northern Ireland (which has no hard frontier with the Republic of Ireland) if the divergence is kept to a minimum.

Another sensible suggestion in both Benn's report and the Tony Blair Institute paper is the establishment of a UK-EU Regulatory Co-operation Council, where the two sides could discuss their respective regulations. For example, if the UK planned to diverge from EU rules, it could use such a council to discuss the details, impact and timing with the Commission. And the Commission could use a council to try and persuade the UK to follow new rules that it was planning.

4: UK Trade and Business Commission, 'Trading our way to prosperity: A blueprint for policy-makers', Best for Britain, May 2023.

5: Peter Foster, 'What went wrong with Brexit, and what we can do about it', Canongate, 2023.

Alignment would probably help sectors like cars, chemicals, pharmaceuticals, aerospace and agri-food. But there may be particular sectors where it would suit the UK to have its own rules, for example on emerging technologies like AI, gene editing or agri-tech – even though there would be a price to be paid in terms of lost access to the EU market for goods that met only UK standards. The UK might also wish to pursue its own path for many service industries. But when doing so it would be advisable to discuss new rules in the kind of council just mentioned.

Improving the economic relationship

The implementation of the TCA, signed by the UK and the EU on December 20th 2020, is subject to review every five years. The Commission has made a deliberate effort to lower expectations, saying that the review is merely for checking whether the British are applying the rules properly, rather than changing anything significant.⁶ It is true that Article 776 of the TCA, which contains the review clause, merely states that the parties “shall jointly review the implementation of this Agreement and supplementing agreements and any matters related thereto five years after the entry into force of this Agreement and every five years thereafter”.

“Long before the general election, Labour leaders should try to work out what they want to modify in the TCA.”

But as Lord David Hannay (a former permanent representative to the EU) has remarked, if both sides want to make a particular change, they will find a way of doing so. Long before the general election, Labour leaders should try to work out what they want to modify in the TCA. A preliminary step should be to consult businesses and other stakeholders such as trade unions, farmers, fishermen and NGOs on what sort of changes they would like to see. Labour would then have a plan prepared for when it takes office. A Labour government could spend 2025 sounding out European capitals as it finalises its proposals – and clarifying whether it wants a mere review of the TCA, or (as is more likely) a more ambitious negotiation. In 2026 there would be a lot of haggling and Labour should be prepared to be rebuffed in several of its demands.

Some of the changes proposed below could be considered to fall under the scope of the TCA review; others might not, but they could all be tackled in the first year or two of a Labour government.

6: Anton Spisak. ‘What approach should Labour take to the 2026 TCA review?’, CER insight, September 6th 2023.

In addition to saying that its default position will be to adopt new EU business regulations, Labour should promise to maintain the EU’s current standards on environmental protection, health and safety for workers, employment and consumer rights. Even the Tory governments of recent years have done little to diminish these standards, because they are popular with voters. If a Labour government committed to sticking with them, it would help to allay fears on the continent that the UK was seeking to undermine the level playing field.

Negotiate a chapter on mobility.

This commitment from the Labour Party should not be confused with ‘free movement’, in the sense of the right to go and work permanently in another EU country, which is not going to be on the agenda of any British government in the foreseeable future. But during the Brexit talks Johnson’s government rejected the idea of a mobility chapter in the TCA, with the result that people making short trips from the EU to the UK and vice versa, for their work, face difficulties. Often a visa is required, for example when a businessperson on a trip sells a good or service. Many British orchestras and other groups of artists have almost given up touring in the EU, because of the difficulties (which include ‘cabotage’ rules restricting the number of EU countries into which British vehicles can carry musical instruments). The House of Lords European Affairs Committee was “disappointed that very little progress has been made in addressing the challenges faced by creative professionals wishing to work in and tour the EU, despite the government having been aware of these problems for a considerable period of time”⁷

The new mobility chapter should also cover school trips: the number of children travelling from EU countries to the UK has dropped dramatically since Brexit, partly because the Home Office insists that they have passports rather than the identity cards which used to gain them entry to the UK. Another problem is that Home Office officials have repeatedly rejected the visa applications of children whose nationality is non-EU but want to take part in a school trip from a member-state. Sunak’s government has promised to modify the rules to facilitate school trips but has so far done very little to bring this about.

Labour should take several other initiatives to encourage mobility and people-to-people contacts. These should include rejoining the EU’s Erasmus student exchange scheme – which, unlike Turing, its British replacement, is a reciprocal program which also sponsors foreign students to study at UK universities. And the government should negotiate a youth mobility scheme with the EU, similar to

7: House of Lords European Affairs Committee, ‘The future UK-EU relationship’, April 2023.

the reciprocal schemes which the UK has with Japan and Canada, which allow young people to come and work in Britain for two years. Sunak's government seems keen to negotiate such agreements with individual member-states, but the Brussels institutions will want an accord at EU level.

Recognise EU rules on plant and animal health, and food safety.

Labour is already committed to recognising EU sanitary and phytosanitary (SPS) standards. This would not be too hard since UK and EU rules are currently almost the same. If the British agreed to follow changes to EU rules – 'dynamic alignment' in the jargon – the EU might give the UK a similar deal to that it has given Switzerland: with each side recognising the other's rules as equivalent to its own, there would be a massive reduction in the checks on plants, animals and food that otherwise take place at the border, to the great relief of farmers and businesses.

“If the EU recognised UK certification bodies, UK exporters would be saved a lot of bother.”

The EU may not be in any hurry to recognise UK standards. But when the UK starts imposing long-delayed border controls on EU food exports to Britain, the EU may be more motivated to strike a deal on SPS.

Such a deal would make it harder for the UK to negotiate a free trade agreement (FTA) with the US, because the Americans have made a big priority of opening up the UK market to their farmers and American food does not always comply with EU standards. However, there is little chance of a UK-US FTA in the foreseeable future: both the likely candidates in the 2024 presidential election, Joe Biden and Donald Trump, are instinctively opposed to free trade.

Negotiate the mutual recognition of professional qualifications and certification bodies.

Labour has said it wants both these things, but neither will be easy to achieve. The TCA allows for the possibility of mutual recognition of professional qualifications, so that, for example, British accountants, architects, engineers and lawyers could practice in the EU. But a very long and complex negotiation is likely: between the EU and Canada the mutual recognition of architects required nine rounds of talks. One of the difficulties is that the EU and its member-states share competence for professional qualifications.

The point of achieving mutual recognition of certification bodies is to reduce hassle for companies that export. Now that Britain has left the EU, the makers of goods that require product certification, such as car parts or medical

equipment, have to go through separate certification processes in the EU and the UK. But if the EU recognised UK certification bodies, UK exporters would be saved a lot of bother. The EU has agreed to mutual recognition of conformity assessment, to a greater or lesser extent, with Australia, Canada, Israel, Switzerland and the US, among others. During the Brexit negotiations the UK asked for this, but the EU said no. Many on the EU side did not want the UK to become a 'certification hub' off the coast of Europe. Given time, if the UK can generate goodwill on the EU side, attitudes may change.

Merge the British and EU emissions trading systems (ETSs).

The TCA leaves open this possibility, but the British government has not followed through. Worse, the government has issued additional carbon allowances to help reduce the impact of the energy price hike, which has led to much lower prices for carbon emissions in the UK than in the EU. Labour should commit to negotiating a merger of the two systems, so that carbon allowances can be traded between them. Otherwise the EU's incoming carbon border adjustment mechanism (CBAM) will create a lot of extra bureaucracy for some UK firms exporting to the EU: importers of British steel, aluminium and other commodities will have to demonstrate how much embedded carbon they contain – and sometimes pay a tariff. But if the EU and British ETSs – which are in any case similar in their philosophies – were merged, the CBAM would not apply to the UK (although it would apply to foreign goods re-exported from the UK to the EU). A merger would also lower the cost of energy trading and reduce the volatility of the carbon price. The UK would probably have to accept that the EU set most of the rules in the new ETS, and a role for the ECJ.

Set up a review to consider which EU agencies may be worth rejoining or associating with.

Johnson's decision to leave every EU agency has been costly for taxpayers and burdensome for business. Take chemicals: the UK left the European Chemicals Agency (ECHA), which approves the use of chemicals in the EU, so it has to set up its own approval system. The government's own estimate of the cost to British chemicals companies of complying with the new UK regime is £2 billion. These firms will in any case still need to get their chemicals approved by ECHA, so that they can do business in the EU.

The UK would have to pay a price to rejoin or associate with agencies such as the ECHA, the European Medicines Agency, the European Air Safety Agency or the EU Agency for the Co-operation of Energy Regulators. There would be a membership fee and the UK would have to forgo voting rights and maybe accept ECJ rulings in relevant areas. It is not self-evident that the UK should seek a *rapprochement* with every EU agency.

Apply to join the Pan-European Mediterranean Convention to make tariff-free trade easier.

The TCA is supposed to enable tariff-free trade between the UK and the EU. But sometimes it does not, because exports between the two entities only qualify for zero tariffs if the exporter can demonstrate that a certain proportion of the good – often 50 per cent – is made in the UK or the EU. During the Brexit negotiations the UK asked for components made in countries with which the UK and the EU both have FTAs to count as ‘local content’ – which would have made it easier for British exports to qualify for the zero tariff. But the EU said no.

The TCA has provisions for amending these ‘rules of origin’ by mutual consent. Some on the EU side will argue against easing local content requirements,

on the grounds that it is not in the EU’s interests to support British industry. But if the UK sought to join the Pan-European Mediterranean Convention (PEM), an agreement on rules of origin between the EU and 20 countries, including Israel, Norway, Switzerland and Turkey, the EU would probably agree. Joining PEM would make it easier for British manufacturers to comply with rules of origin, for example if their supply chains extended into Norway, Switzerland or Turkey.

Trade experts are baffled as to why the UK did not seek to join PEM during the Brexit negotiations. The trouble now is that PEM’s rules on local content differ from those of the TCA – so the EU would need to change the TCA’s provisions or allow the two systems of rules to operate in parallel.

Foreign and defence policy

In October 2019, the political declaration on the future relationship that Boris Johnson agreed with EU leaders included several pages about formal co-operation on foreign, security and defence policy. But Johnson and David Frost, his chief negotiator, subsequently decided to discard that idea.

“More structured co-operation on foreign policy would give the UK greater opportunities to influence the 27.”

The result is that the only consultations are ad hoc and informal – which is sometimes inadequate. Take sanctions policy. In general, the UK and the EU have co-ordinated their sanctions on Russia quite well. But some of those working on sanctions say that a joint UK-EU structure for identifying targets and for monitoring their enforcement and effectiveness would be useful.

More structured co-operation on foreign policy would give the UK greater opportunities to influence the 27, to learn what was going on in the EU and to forge friendships and alliances. The US, Canada and Japan already have regular dialogues with the EU on foreign policy. The advantage of such dialogues is that they create a baseline for consultations, no matter what; and that when a crisis hits, the relevant people know each other and can react speedily together.

Most EU governments would welcome a more formal UK involvement in EU foreign and defence policy, because the UK has much to offer in terms of expertise and capability. Some are reticent, fearing that the super-skilful FCDO would use its influence on certain member-states to undermine common EU positions. But that is a minority view.

Structured co-operation could involve regular consultations on foreign policy at the level of junior officials, senior officials and ministers. The British foreign secretary could attend meetings of the Foreign Affairs Council (FAC) every six months (since Brexit, only Liz Truss, in March 2022, has attended an FAC meeting). Of course, the British would not have a vote, but if they had interesting things to say they would be listened to with respect. British officials could be seconded to the European External Action Service (EEAS), and vice versa, as is the case between Norway and the EEAS. The co-operation could also extend to development policy: joint programming between the UK and the EU would help prioritisation and avoid duplication of efforts.

The formal ties should extend to the level of heads of state and government: the EU holds regular summits with many significant countries, but not with the UK. EU-UK summits could encourage strategic co-operation in areas such as climate, energy security and biosecurity. And if such summits set an agenda at the strategic level, that would encourage officials to carry out technical work at lower levels.

As for defence, it would be in the UK’s interest to seek closer ties because it would build goodwill and because the British may have good reasons for wanting to take part in certain EU operations. The UK and the EU need to sign a framework agreement enabling the UK to participate in EU military missions. The British should have representation in the headquarters managing the mission, proportionate to their contribution. One problem is that the EU is reluctant to allow non-EU members a role in decision-shaping for such missions – lest a precedent be created that could allow potentially awkward partners such as Turkey to throw their weight around. In time the EU might rethink this principle, especially if the UK was willing to make significant contributions (in the years

before Brexit, British contributions to EU missions were usually meagre).

The UK could become more closely involved in Permanent Structured Military Co-operation, known as PESCO, a framework that allows groups of EU and other countries to work together on capability-boosting projects. To its credit, in November 2022 the UK decided to join PESCO's military mobility project, which facilitates the moving of troops and military equipment around Europe, though that was long after the US and Canada had joined (unfortunately, Spain has blocked the UK's accession to this project because of arguments over Gibraltar). The UK could join other PESCO programmes that fit with NATO objectives, such as one that promotes logistics hubs (for the pre-positioning of equipment across Europe). The UK could also seek involvement in PESCO projects that aim to develop new weapons, such as the Twister missile programme or the Eurodrone.

“The British could seek closer ties to EU instruments in the defence industrial field such as the European Defence Fund.”

The UK could seek links to the European Peace Facility (EPF), through which the EU provides money for arming Ukraine and for training Ukrainian forces (Norway is linked to the EPF and gives it money). All these sorts of move would help to shift perceptions of the British in a positive direction.

UK defence firms could benefit from British involvement in what the House of Lords European Affairs Committee calls the “European defence industrial ecosystem”.⁸ The UK could follow the example of Switzerland, Norway, Ukraine and the US by signing a co-operation agreement with the European Defence Agency (EDA), which works to improve the defence capabilities of its members. The EDA's partners are able to participate in its programmes and share information on issues such as supply chains and raw materials.

In the longer term, the British could seek closer ties to EU instruments in the defence industrial field such as the European Defence Fund (EDF), which provides money for collaborative defence research – but they would then come up against the problem of France.

The French sometimes have a split personality when it comes to Britain's involvement in European defence. On the one hand Macron and senior officials say that there can be no serious European defence without British involvement – and probably mean it. On the other hand,

they are dogmatic in pursuing the immediate interests of the French defence and space industries. So they kicked the British out of the Galileo satellite project – which involves the creation of a European GPS; have designed the EDF in ways that deter the involvement of British firms (such as restrictions on extracting intellectual property from EDF-funded projects); and have ensured that non-EU firms cannot benefit from a new system of EU-level defence procurement.

The French argue – and many of them sincerely believe – that this is not about French industrial interests but European strategic autonomy: if EU governments do not buy European and build up their own industry, the continent will become dependent on non-European suppliers, who may be reliable or unreliable in a crisis, but will certainly have their own interests rather than Europe's at heart.

Macron is right that the British do need to be involved in European defence – and there will be times when NATO is not the appropriate organisation to act. Sometimes the EU will need to play a role – working with its close partners – and sometimes the relevant grouping may be a coalition of a smaller number of countries. A few years ago, Macron invented the ‘European Intervention Initiative’, an embryonic defence club for a dozen of the militarily serious European countries, including the UK – but it has not come to much. There may be scope for a new European defence body, involving the British. But that would be more likely to work well if the French moderated their focus on the short-term interests of their own industry.

Aside from defence, there is scope for closer ties in countering terrorism and crime. One downside of Brexit was leaving the Schengen Information System – a very useful database of information about criminals, terrorists and missing persons, which British police forces made much use of. Britain could seek some sort of associate membership, but it would need to accept a role for the ECJ.

Peter Mandelson has suggested British participation in a ‘European Security Council’ (ESC).⁹ Soon after he was first elected to the French presidency, Macron floated the idea of a forum for the countries that are serious about European security. But the Germans were unenthusiastic about an ESC and there was pushback from smaller EU member-states which did not want to be excluded. Mandelson is right that an ESC would suit the UK – but the EU is unlikely to agree on such a format. That is why Macron instead launched the European Political Community (EPC), a loose structure that includes every European state bar Russia and Belarus and which first

8: House of Lords European Affairs Committee, ‘The future UK-EU relationship’, April 2023.

9: Lord Mandelson, speech to the EU-UK Parliamentary Partnership Assembly, Brussels, July 2023.

met in Prague in October 2022. The EPC provides a useful forum for the British prime minister to engage with his or her European counterparts on strategic questions.

A Labour government should take the EPC seriously and consider what concrete projects it could oversee.

Longer-term economic ties

The EU could be open to many if not all the initiatives mentioned above. But even if they were all put into effect, they would not do a great deal to undo the damage that Brexit has inflicted on the UK economy. Starmer has said that one of his top five priorities is for the UK to have the strongest economic growth rate in the G7. If he is serious about that, he will have to revisit the fundamentals of the UK-EU relationship. Businesses will be putting pressure on him to do so.

“A Labour government would find it hard to improve the overall structure of the economic relationship.”

Closer ties on foreign and security policy could be relatively easy to negotiate, since they mostly concern ‘inter-governmental’ areas, where the role of EU law is sometimes minimal. The difficulty with closer economic ties is the involvement of EU law, and hence the ECJ. Many EU governments – and the Commission in particular – strongly believe in the ‘integrity’ of the single market, meaning that third countries should not be allowed to ‘cherry-pick’ access to parts of it; the market comes as a package, including free movement of people. And if one country, like Britain, were allowed an exception, others would ask for the same and before long the market would unravel. So a Labour government would find it hard to improve the overall structure of the economic relationship.

But if a Labour government adopted a serious and constructive long-term strategy, and restored trust in the UK as a partner, the EU might at some point see the potential benefits of a more intimate relationship. Labour could make the case for a bespoke relationship that would go further than what the EU has offered to other neighbours.

A Labour government committed to a closer relationship would not only meet obstacles in the EU. The domestic politics would also be challenging. Hard-Brexiteers and their friends in the media would claim that Britain was trying to rejoin the EU by the back door. Brussels bureaucrats, foreign judges, nefarious French and arrogant Germans would dominate the front pages of Britain’s newspapers. Eurosceptics would argue that Labour’s ideas were leading to a loss of autonomy on decision-making, and a widening of the ‘democratic deficit’. The best response would be for Labour to focus relentlessly on the economy and on security. The government would not be seeking a closer relationship

because it loves the EU but because the Conservative version of Brexit was holding back the economy. And, in an increasingly dangerous world, closer co-operation on foreign, security and defence policy – areas in which the UK would retain its decision-making autonomy – would make us more secure.

Parts of the single market?

The ‘Norway’ option of joining the European Economic Area (EEA) would not work well for the UK. Norway is in the single market and is consulted on its rules but has no vote on them. Norway has to accept free movement of labour, which UK governments will probably not want to restore in the short and medium term. Another problem is that Britain has a huge financial services industry. In the EEA, it would have to take rules for that industry that were voted on by small member-states with no financial services industry, but it would not have a vote itself. Britain would be better off writing its own rules for the City of London.

But Britain could aspire to be de facto in parts of the single market. Put this to EU officials, and they recite the mantra of no cherry-picking and the integrity of the single market. But probe a little deeper with some officials – in EU institutions and member-state governments – and their response can become more positive. If there was a clear mutual benefit to involving the UK more closely, as for example there could be in energy, why not allow it in? It would have to agree to follow relevant EU rules – but a consultation mechanism could be created. The UK would also have to accept a role for the ECJ.

The same principles could apply to other fields where both sides could see mutual benefit in a much closer British involvement. As already mentioned, SPS is one area where integration could happen quite soon. On a piecemeal basis, new areas could gradually be added, for instance chemicals. The words ‘single market’ should not be used: politically, this sort of integration would be easier for both sides if it was called something else, such as deep alignment. The long-term outcome could be UK integration into large parts of the single market for goods. At a certain point the EU could well insist on free movement of labour as a quid pro quo. When that point was reached could depend on how much goodwill the UK had generated in the meantime, and what it was contributing to the common European good.

The evolution of the EU’s thinking on enlargement could help: because of the slowness of the accession process, there is serious talk in Brussels and Paris of allowing

would-be members to participate in parts of the EU, including, perhaps, parts of the single market. This would be before they become full members with voting rights. If future members may be allowed into part of the market, without a vote, could not the same logic apply to ex-members? Some officials in Brussels and Berlin say there is a big difference between countries on the way in and those which have departed, and that the legal difficulties of creating a half-way house for the UK would be immense. But other EU officials do see the relevance of the new thinking on enlargement for the British.

“Being in a customs union with the EU would be of huge benefit to the makers of cars, chemicals and pharmaceuticals.”

Customs union?

The Labour Party will go into the next general election saying that it will not rejoin the EU's customs union, which would rule that out for the first term of a Labour government. There is a strong political case for maintaining that position: a customs union is a binary, in-or-out choice, so it would be harder for a Labour government to revisit the customs union than to edge closer to parts of the single market. Giving up an independent trade policy would be a hard sell, politically.

Nevertheless in time Starmer and Rachel Reeves, his likely Chancellor of the Exchequer, will come under pressure from manufacturers to reconsider the customs union. Being in a customs union with the EU would be of huge benefit to the makers of cars, chemicals and pharmaceuticals, and to many other industries, which would face greatly reduced bureaucracy at the border. It would at a stroke solve the problem of rules of origin – which do not apply to trade within a customs union.

If Britain returned to the EU's customs union, it would not get a vote on EU trade deals but it would benefit from a consultation mechanism – an idea that the Commission has mooted in talks with Turkey on upgrading the EU-Turkey customs union. There would have to be a complex negotiation in which the UK's trade policy was folded into that of the EU. For example, both the UK and the EU have negotiated trade deals with Australia and New Zealand since Brexit, but they are roughly comparable, so adapting the EU's deals to accommodate the UK need not be a very difficult undertaking.

The UK would have to leave the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), a trade grouping of 11 Pacific countries that it is currently seeking to join. But one should remember that the macro-economic benefits of all the FTAs that the UK

10: John Springford and Sam Lowe, 'Holding out for a half-way Brexit house', CER bulletin, Issue 118, February/March 2018; Sam Lowe, 'Inching our way towards Jersey', CER insight, July 11th 2018.

has negotiated since Brexit, including the CPTPP, are negligible – and in any case the EU has trade deals with nine of the 11. Furthermore, being in a customs union only precludes an independent trade policy in goods. The UK could still do trade agreements on services with other countries. True, most FTAs are concerned mainly with goods, and commitments on services in FTAs tend to be weaker, but that is starting to change as trade in services becomes ever more important.

The EU would be open to the UK rejoining its customs union; if Britain had asked for that during the Brexit talks, its wish would have been granted. The EU would not insist on free movement of labour as its price.

In the long run the best possible deal for UK economically could be something similar to the 'Jersey model'.¹⁰ Before Brexit disrupted that model, Jersey was in the EU's customs union and single market for goods, but not for services. If applied to the UK, there would be no controls on goods crossing between the EU and the UK – which would be very good for manufacturing. This would be comparable to the deal that Theresa May tried to achieve when she was prime minister. The EU never agreed to her plan, one reason being that European leaders thought – correctly – that she could not get it through the British Parliament.

In the long run it is possible to imagine the EU agreeing to something similar, if the geopolitical situation made leaders think that UK-EU ties should be much closer; and if the British government was strong, had restored trust with EU institutions and governments, and had a substantial offer to make.

The offer could include:

- ★ fish – the EU has greater need of the fish in the UK's waters than vice versa (this matters, in particular, for France and Spain);
- ★ mobility – the EU regrets the drop in people-to-people contacts and would be delighted if the UK softened its line on freedom of movement;
- ★ money – the EU would appreciate British contributions to its neighbourhood and development policies, of the sort that Norway and Switzerland make;
- ★ energy – with the UK blessed with both copious amounts of wind power and massive capacity for under-sea storage of gas from carbon capture and storage projects, an energy partnership involving new power and gas connectors under the North Sea could be attractive to the EU (and the British would benefit from access to French nuclear energy);

★ rebuilding Ukraine – the EU would be delighted if the UK collaborated in helping to reconstruct the country, post-war;

★ and security – a subject on which most Europeans would like to see more British engagement.

That last point is not to suggest that the UK should seek to ‘buy’ access to European markets by offering battalions. Britain is making an important contribution to Ukraine’s war effort because it is the right thing to do, not as part of a cynical trade-off. Nevertheless, the overall perception of the British – which has been very negative in recent years – will be shaped by their attitudes, words and actions.

The problem of timing

A big difficulty for a Labour government that tries to improve the UK-EU relationship will be the timing. On the one hand, it will take several years for the government to restore trust and confidence with EU leaders. It may also take Starmer and his ministers a while to work out what they want, and to find the self-confidence to push for it, against the inevitable chorus of eurosceptic voices within the UK.

Yet if the more ambitious proposals for change are left for the second term of a Labour government, the economic cost that builds up in the meantime will be considerable. As Peter Foster has written:

Those arguing that the politics will be too hard, that this should be a ‘second term issue’ if Labour are elected in 2024, overlook the fact that that would mean five more years in which supply chains will

re-orientate, investment will drain away and diplomatic and people-to-people relationships between the EU and the UK will continue to atrophy.¹¹

Businesses are going to push Labour to give them something better than the TCA – which is like a millstone hanging around the neck of the British economy. Any government that is serious about growth will need to look for a better deal.

The best way for Labour to handle the timing issue is to start restoring trust with EU leaders as soon as possible, before the general election, through visiting European capitals and making the odd speech. And Labour needs to work out a clear strategy of what it wants in Europe, sooner rather than later.

This paper has argued that a Labour government could pursue a significantly closer relationship with the EU. But that task will not be easy. The British will need to remember that the EU will only agree to changes in the relationship that it regards as being in its self-interest. It is possible that the British would be uncomfortable with the loss of decision-making autonomy that some of the steps suggested in this paper would require. In that case, they would have to get used to an economy that would be markedly smaller than it would otherwise be. Or think about rejoining. But that would be for another generation to consider.

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11: Peter Foster, ‘What went wrong with Brexit, and what we can do about it’, Canongate, 2023.