

Labour's European conundrum

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If and when the Labour Party takes office, it will come under pressure to negotiate a much better Brexit deal than that bequeathed by Boris Johnson. But the political situation in both the UK and the EU will make that task very difficult. The agreement on the 'Windsor Framework' in February 2023, which sorted out some of the difficulties of the Northern Ireland protocol, softened the antagonism between London and Brussels. But the governing Conservatives remain profoundly Eurosceptic and a real reset of UK-EU relations must await the arrival of a Labour government.

There are at least three reasons to revisit the relationship. First, public opinion in the UK has shifted markedly. According to polling by the Tony Blair Institute for Global Change, 18 per cent of those who voted Leave now regret leaving the EU. 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).¹

Second, the economic damage inflicted by Johnson's Brexit deal is becoming ever-more apparent: friction at borders, labour shortages, regulatory uncertainty and upward pressure on prices. The Centre for European Reform's calculations suggest that the British economy is 5.5 per cent smaller than that of a constructed

'*Doppelgänger*' UK that did not leave the EU. Both investment and goods trade are 10 to 15 per cent lower than they would have been without Brexit.²

Third, the world has changed since the Brexit treaties were negotiated. Russia's invasion of Ukraine and the growing tensions between the US and China have created an increasingly uncertain geopolitical context. New types of cross-border challenge are emerging, such as how to regulate AI, encourage collaboration in pursuit of net-zero emissions and make supply chains less vulnerable. Having similar interests in this potentially more unstable world, the UK and the EU would benefit from closer co-operation.

Keir Starmer and most of his chief lieutenants are instinctively pro-European but also very cautious. Starmer has made clear that he would not rejoin the single market or the customs union or restore freedom of movement. He and his political advisers are focused on winning back the 'red wall' seats in the north and the Midlands that went Conservative at the 2019 election. They believe that if the political argument centres on Europe, many voters will be reminded of their strong 'Leaver' identity and end up voting Conservative. Hence the reluctance of the Labour leadership to talk very much or very warmly about the EU.

Labour leaders have made it clear that they want to improve the EU-UK relationship – for example by 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 forging closer ties on foreign and defence policy. However, a Labour government may well find the EU hard to deal with.

EU leaders have a lot on their plate – the war in Ukraine, the renewed momentum for EU enlargement, strained relations with China, arguments with the US over industrial policy, the growing backlash against green legislation, and the lack of respect for the rule of law in certain member-states. The last thing that most politicians and officials want to think about is Brexit, which bored them to death for many years.

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. A reset will matter more for the UK, so a Labour government will need to think carefully about what it can offer the EU, to encourage it to change the current arrangements.

EU leaders have not forgotten the chaotic and fickle behaviour of Johnson – who repeatedly threatened to tear up the Withdrawal Agreement that he had negotiated with them. They know that Starmer is not to blame for the shenanigans of Johnson's government but worry that a Europhobic Conservative Party could return

to power in 2028 or 2029. They also think that the UK press may be capable of deflecting any British government from a pro-EU course. They have noticed the caution with which Labour front-benchers talk about the EU. Thus, a Labour government will start with a large credibility problem.

Priorities in the short term: unilateral measures

Labour leaders could take some useful steps, both before and after the election. Starmer should make a big speech in a European capital, setting out his agenda and priorities, so that Europe's political class gets to know him. 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, some of which are listed in the next section of this paper, will not suffice. The possibility of Donald Trump's return 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 many of its interests in the global agenda. He could point to the scope for closer co-operation in areas like defence, internal security, energy, health, climate and safeguarding supplies of critical minerals.

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. The government should encourage officials to build up their networks in EU capitals and make efforts to tap the knowledge held outside government, for example in businesses and think-tanks. A European secretariat should be re-established in the cabinet office, to co-ordinate the various ministries in their dealings with the EU. It should include a new unit to monitor EU legislation – and take a view on whether the UK should mimic new rules in Brussels.

Labour should commit to adopting new EU business regulations unless there is a good reason not to do so. Businesses like regulatory certainty and dislike having to comply with different rules on either side of the channel. Such a step would help to reassure the EU over the 'level playing field'; it worries that the UK could seek to follow the 'Singapore-on-Thames' model, by which it would steal 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, but it would reduce bureaucracy for UK exporters and UK firms reliant on EU supply chains. It would also generate goodwill on the EU side, as would a promise to maintain the EU's current standards on environmental protection, health and safety for workers, employment and consumer rights.

Alignment would help sectors like cars, chemicals, pharmaceuticals, aerospace and agri-food. But there may be sectors where it would suit the UK to set its own rules, for example in emerging technologies like AI, gene editing or quantum computing. That could also be the case for a number of service industries.

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 if the divergence is moderate.

Priorities in the short-term that need to be discussed with the EU

The Trade and Co-operation Agreement (TCA) of December 2020 is subject to review every five years. Therefore, soon after taking office a Labour government will be haggling with the EU over possible revisions. Before deciding on how it wants to reform the TCA, Labour should consult businesses, trade unions, farmers, fishermen and NGOs on what sort of changes they would like to see. EU officials stress that the review is merely about checking on the agreement's implementation, rather than rewriting it. But if Labour has generated sufficient goodwill, the EU may turn out to be more flexible. Here are some suggested asks:

Create structural links on foreign and defence policy. Johnson spurned formal links with the EU on foreign and defence policy, which has left the only consultations as ad hoc and informal. Closer ties on foreign policy would give the UK more opportunities to influence the 27, learn what was going on in the EU, and forge friendships and alliances. There should be regular meetings at official, ministerial and prime ministerial level. Most EU governments would welcome a more formal UK involvement in their foreign and defence policy – especially given the geopolitical context – because it has much to offer in terms of expertise and capability. Concerning EU military missions, a mechanism should be created that allows the UK to participate and for it to be represented in the relevant headquarters, proportionate to its contribution.

Negotiate a chapter on mobility. 'Free movement', in the sense of the right to work permanently in another EU country, is not going to be on the agenda. But the TCA makes it difficult for people to make short work-related trips from the EU to the UK and vice versa, without a visa. Many British orchestras and other groups of artists have almost given up touring in the EU, because of the difficulties. The new chapter should cover school trips from EU countries to the UK, which have dropped dramatically, partly because the Home Office now insists that children have pass-

ports rather than identity cards. The UK should also negotiate a youth mobility scheme, similar to those it has with Japan and Canada, which allow young people to come and work in the UK for two years, and rejoin the EU's Erasmus student exchange programme.

Recognise EU rules on plant and animal health, and food safety. If the British agreed to follow changes to EU rules, they might get a deal like Switzerland's: with each side recognising the other's rules as equivalent to its own, there would be a massive reduction in border checks on plants, animals and food, to the great relief of farmers and businesses.

Negotiate the mutual recognition of professional qualifications and certification bodies. The first objective would allow, for example, British accountants, architects, engineers and lawyers to 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. The second objective would reduce the hassle for companies that export. Now that Britain has left the EU, the makers of goods that require product approval, such as car parts and medical equipment, must go through separate certification processes in the EU and the UK. But if the EU recognised UK certification bodies, British exporters would be saved a lot of bother. The EU has agreed to this kind of mutual recognition with Australia, Canada, Israel, Switzerland and the US – but said no to the UK during the Brexit talks. Given time, European attitudes may change.

Merge the British and EU emissions trading systems (ETSs), so that carbon allowances can be traded between them. Unless this happens the EU's incoming carbon border adjustment mechanism (CBAM) will create a lot of extra bureaucracy for some UK exporters to the EU: importers of certain British goods will have to demonstrate how much embedded carbon they contain – and sometimes pay a tariff. But if the two ETSs merge, the CBAM would not apply to the UK.

Set up a review to consider which EU agencies the UK should rejoin or associate 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 is having to set up its own approval system. The government estimates that British chemicals companies will spend £2 billion on compliance with the new UK regime. These firms will still need to get their chemicals approved by ECHA, so that they can sell into the EU. Rebuilding links to agencies like ECHA would not be cost free: the UK would have to forgo voting rights, pay a membership fee and perhaps accept ECJ rulings in relevant areas. It is not self-evident that the UK should seek ties with all the EU agencies.

Ask the EU to ease local content requirements. The TCA is supposed to enable tariff-free trade between the UK and the EU. But goods 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. Some on the EU side have no desire to help the UK by easing local content requirements. But if the UK sought to join the Pan-European Mediterranean Convention (PEM), which covers rules of origin between the EU and 20 countries, including Israel, Turkey, Norway and Switzerland, the EU would probably agree. Inside PEM, British manufacturers could more easily comply with rules of origin, for example if their supply chains extended into Norway, Switzerland or Turkey.

The longer term

If these ideas were implemented, they would help to foster greater trust between the two sides. But they would not do a great deal to undo the economic harm inflicted by Brexit. Starmer says that one of his top five priorities is for the UK to have the strongest growth rate in the G7. If he is serious about that, he will have to revisit the fundamentals of the UK-EU relationship.

The difficulty with closer economic ties is that 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 they say that if one country, like Britain, was allowed to be an exception, others would ask for the same and before long the market would unravel. So, a Labour government will find it hard to change the basic structure of the UK’s economic relationship with the EU. Some EU leaders are in no hurry to help the UK economy. But if a Labour government adopted a serious long-term strategy that restored trust in the UK, the EU might at some point see the potential benefits of a more intimate and bespoke relationship.

A Labour government wanting closer ties will find the domestic politics challenging. Hard-Brexiteers and their media allies would claim that Britain was trying to rejoin the EU by the back door. The best response would be to focus relentlessly on economics and security: the Conservative version of Brexit is holding back the economy, and in an increasingly dangerous world, closer co-operation on foreign and defence policy would make us more secure.

Could Britain aspire to be, de facto, in parts of the single market? Put this to European officials, and they talk about no cherry-picking. But probe a little deeper with some of them 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 in the UK? It would have to agree to follow relevant EU rules – but a consultation mechanism could be created. And the UK would have to accept a role for the ECJ. The same principles could apply to other areas where both sides could see mutual benefit in a closer British involvement.

In the long run one could envisage UK integration into large parts of the single market for goods. At some point the EU would probably insist on free movement of labour as a *quid pro quo*. But when that point was reached would depend on how much goodwill the UK had generated in the meantime, and what it was prepared to offer. For example, it could propose an energy partnership (which the UK's copious wind power would make attractive), contributions to European security, co-operation on the post-war rebuilding of Ukraine, payments into EU programmes (the sort that Norway and Switzerland make), greater mobility (the EU regrets the loss of people-to-people contacts) and fish (EU boats have greater need of access to UK waters than vice versa).

The evolution of the EU's thinking on enlargement could help. Because of the slowness of the accession process, EU leaders are now talking seriously about giving would-be members access to parts of the single market before they become full members with voting rights. If future members can be allowed into parts of the market – without a vote – why not ex-members?

The Labour Party will go into the next general election promising not to rejoin the EU customs union, which would rule that out for the first term of a government. But in the long run Labour will come under pressure from manufacturers to think again. A customs union with the EU would be of huge benefit to many industries, including cars, chemicals and pharmaceuticals, which would face greatly reduced bureaucracy at the border. It would at a stroke solve the problem of rules of origin – which are not controlled within a customs union.

Rejoining the customs union would mean giving up an independent trade policy for manufactured goods. Britain would not get a vote on trade deals but the EU would give it a consultation mechanism. There would have to be a complex negotiation in which the UK's trade policy was folded into that of the EU. 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 new trade deals that the Conservatives have negotiated since Brexit, including the CPTPP, are negligible – and in any case the EU has trade deals with nine of the eleven. Furthermore, the UK would still be free to forge its own trade agreements on services with other countries.

In the long run the best possible deal for UK economically would be something akin to the ‘Jersey model’. 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, goods crossing between the EU and the UK would face no controls. This would be quite similar 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 Parliament. It is not impossible to imagine, in the long run, the EU agreeing to something similar, if the British government was strong, had restored trust with EU institutions and governments, and had made a substantial offer to the EU.

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 to restore trust and confidence with EU partners. It may also take Labour leaders 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 costs that build up in the meantime will be considerable. The best way for a Labour government to deal with the timing problem is to start restoring trust with EU capitals as soon as possible, before the general election, through speeches and visits. And before it takes office, Labour needs to work out a clear strategy of what it wants in Europe.

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Notes

- 1 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.
- 2 John Springford, ‘Are the costs of Brexit big or small?’, CER Insight, May 2023.