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CLEAN BREXIT

Foreword by Lord Lawson

Postscript by Lord Owen

Policy Exchange

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Foreword

By Lord Lawson, Chancellor of the Exchequer, 1983-89

The decision by the British people in June 2016 to leave the European Union has created an historic opportunity. The question now before Government and Parliament is how best to implement the referendum decision and make the most of this great opportunity.

This excellent paper by Liam Halligan and Gerard Lyons provides the answer. Its analysis is thorough and lucid and its conclusion is compelling. That, in common with the rest of the world, we should be outside both the so-called Single Market and the Customs Union, is incontrovertible. This is not a "Hard" Brexit: it is Brexit.

As for the authors' third finding, that we should offer the EU27 the opportunity of continuing to trade on tariff-free terms, with no strings attached, while making clear that, if this offer is rejected, we are happy to fall back on World Trade Organisation rules, I would add just one observation.

In practice, we must accept that our free-trade offer will be rejected and that no remotely acceptable post-Brexit trade agreement between the UK and the EU is negotiable. This is not, for the most part, out of hostility to the UK.

It is largely because, throughout the EU today, the political establishment is threatened by the rise of anti-establishment political parties, many of them somewhat unsavoury, such as the *Front National* in France, which (it is believed) would gain strength from anything that could be remotely construed as giving a Brexit benefit to the UK. This is the overriding political context in which the Article 50 talks will take place.

We need to accept this as a fact of European life. It is understandable that Foreign Office officials, traumatised by the referendum result, will seek to spin out the Article 50 talks for as long as possible, in the hope that somehow, at the end of the day, Brexit might never happen. But (quite apart from the massive weekly cost of EU membership) a prolonged period of uncertainty is the worst possible outcome for British business and the British economy.

I warmly commend this paper.

Nigel Lawson, January 2017

Overview

The Prime Minister, Theresa May, has pledged to “trigger” Article 50, therefore starting the process by which the UK leaves the European Union, before the end of March 2017. This would mean we must formally leave the EU, at the latest, by March 2019.

In our view, and starting immediately, the British government should:

Explicitly rule out remaining in the EU’s Single Market - whose economic benefits are exaggerated and which does little to help the UK’s service sector, which accounts for four-fifths of our economy.

> Leaving the EU, as was clearly stated during the referendum campaign, means leaving the Single Market. Inside the Single Market, we remain liable for multi-billion pound annual payments to the EU and under the jurisdiction of the European Court of Justice. “Freedom of movement”, in addition, is almost certain to continue. This is not Brexit.

Rule out remaining in the EU Customs Union too.

> Once the UK leaves, around 85per cent of the world economy will be outside the EU. Inside the Customs Union, we remain unable to cut our own UK-focused trade agreements with such nations. Customs Union membership also means the Common External Tariff (CET) stays on UK imports, making consumer goods, particularly food, dearer. Leaving the Customs Union is manageable logistically and opens up future freedoms and opportunities.

Offer the other 27 EU nations a deal to carry on trading under existing tariff-free arrangements, but make clear we are also happy with World Trade Organisation (WTO) rules, operating under “Most Favoured Nation” (MFN) status.

> “WTO rules” is often presented as “deeply damaging” and “the hardest of hard Brexits”. We disagree. Tariffs under WTO rules are relatively low and falling. We already conduct around half of all our trade under WTO rules - beyond the Single Market or other formal free trade agreements (FTAs) - with the rest of the world. Both the US and China trade heavily with the EU, under WTO rules and we can do the same. Already, our WTO-rules trade is not only the biggest part - it is also fast-growing and records a surplus.

State that while WTO rules are fine, the UK remains happy to discuss either sector-based FTAs with the EU, or a broader multi-sector deal. Such an UK-EU agreement can - if needed - be struck after the two-year Article 50 "negotiation window".

With WTO rules as a solid platform, there is no need to strike a complex over-arching UK-EU trade deal by March 2019. The EU's election timetable and the complexity of negotiating a deal with 27 governments, themselves with conflicting interests, plus the need for ratification by multiple national Parliaments and the European Parliament, means such a deal may be impossible in that time - or, indeed, ever. But we must remain open for negotiation. Less ambitious, but still important, sector-based agreements (in automobiles, for instance) may be possible during the two-year window - not least as they also benefit the EU27.

Make clear that if the EU imposes WTO tariffs on us, we will reciprocate.

Some of those backing Brexit believe we should give the EU tariff-free access to the UK, even if they impose WTO tariffs on us. We disagree. "Pure free trade" is attractive in theory, and lowers prices, but, for now, would be politically naïve. Once outside the EU, trading under WTO rules and free of the Article 50 deadline, the UK will be well-placed to strike a multi-sectoral FTA with the EU. Having WTO tariffs that we can offer to remove will strengthen our hand in such negotiations. The UK should be committed to free and fair trade, reducing when appropriate not only tariffs but also non-tariff barriers too.

Insist that the UK will negotiate FTAs with the rest of the world, even while we remain in the EU.

Some EU officials claim the UK cannot strike a trade agreement with non-EU countries before we leave. But FTAs negotiated before March 2019, which do not come into force until we have left, breach none of our EU Treaty obligations.

Make clear to the British public and the EU27, that while non-EU trade deals are attractive, they do not need to be agreed within the Article 50 window.

The UK's biggest export destination is the US - where we sell around 17per cent of our exports. The EU - and by definition, the UK - has no formal US trade deal. Our third-biggest trading partner is China - again, with no trade deal. In sum, we already sell 56 per cent of our exports outside the EU, the majority of those goods and services sold to countries where the EU has no FTA. The notion that we must have a string of trade deals in place before the Article 50 window closes, or our trade will collapse, is wrong.

Explain that a "Clean Brexit" is not only best for Britain, but also for the EU.

Under a "Clean Brexit" we leave the Single Market and Customs Union. The UK quickly regains control of sensitive issues such as EU contributions, legal jurisdiction and border controls. This is better for Britain, the EU27 and, crucially, our continuing relationship - given the need for co-operation and partnership.

Explain that the UK does not want a tumultuous and potentially explosive "Messy Brexit" negotiation with the EU over "freedom of movement" and Single Market "access".

A "Messy Brexit" would give the UK Government no control over the central aspects of Brexit. It would also maximise business uncertainty, seriously damage UK-EU relations and could even end in a disastrous stalemate.

Put the "Great Repeal Bill", highlighted by the Prime Minister, before Parliament.

This Bill - bringing all EU law relating to the UK onto the British statute book - should be passed soon, ready to be applied when we formally leave. On "Brexit Day", then, nothing would change across a range of domestic sectors. This makes the "cliff edge" less dangerous as March 2019 approaches and would reassure businesses and the public. Passing the Act soon would allow politicians of all parties to consider which areas of law they would like to amend.

Ahead of March 2019, it is vital that Whitehall, Westminster and the country prepares to leave the EU.

Having declared Clean Brexit, there would then be a clear need to re-introduce systems to manage UK-EU immigration and ensure trade can be facilitated outside the Customs Union, while making transition arrangements for other sectors. The last-minute brinkmanship of a "Messy Brexit", on the contrary, could result in political, diplomatic and even economic chaos.

During the two-year negotiation, using the prospect of WTO rules as a strong platform, work to achieve sector-specific trade deals with the EU.

> The scope for trade relating to sectors such as automobiles and the City outside the Single Market and Customs Union should be purposefully explored. To start this process, the Prime Minister could claim the moral high-ground by making it clear that EU nationals living and working in Britain at the time of our Brexit referendum are welcome to stay.

Brexit need not shatter UK-EU relations - and we certainly hope it does not. The UK is leaving the EU, not "Europe". Avoiding an acrimonious renegotiation over Single Market and Customs Union "membership" and "freedom of movement" should calm nerves in Brussels, Berlin and Paris - and, by maintaining good faith, make an eventual over-arching FTA between the UK and EU more likely.

Demonstrating at the same time that important issues such as immigration are once again under the jurisdiction not only of UK ministers, but also of Parliament and the British people, should allow MPs and the country as a whole to move on from the divisiveness of the referendum campaign and recognise the opportunities presented by Brexit.

What We Should Rule Out

Ahead of the negotiations with the EU, the Government needs to be clear in its own mind that it can rule out staying in both the Single Market and the Customs Union. It would also be a mistake to attempt to replicate one of the existing country-specific deals between the EU and, for instance, Norway, Liechtenstein or Switzerland. None of these models are suitable for Britain, even as a "staging post" to Brexit.

Single Market

The Single Market is central to the EU. "Inside" the Single Market, the UK would remain subject to the *acquis communitaire* relating to goods, people, services and capital, bound by the full body of EU law in such areas, under the jurisdiction of the European Court of Justice (ECJ). [1] Being a "member" of the Single Market also means paying on-going multi-billion pound contributions to the EU.

Most crucially, Single Market "membership" almost certainly means accepting "freedom of movement" - or something very close. This is a major drawback - in that it would cause deep concern among many UK voters. The public was told Brexit would lead to a system of managed immigration, controlled by the UK government. This should allow for an inflow of skilled and unskilled labour based on domestic economic needs, rather than today's effectively open borders between the UK and the rest of the EU.[2] Such a system is almost certainly impossible while remaining inside the Single Market.

While immigration has benefits, both economically and culturally, the scale of UK immigration, in recent years, has become a legitimate and contentious concern for millions of voters in Britain. Net immigration has doubled since 2012 and is up seven-fold since 1997. [3] Net annual migration reached 335,000 in 2016 - a figure equivalent to the population of Cardiff. That figure doubles if you include those granted a national insurance number who stayed less than 12 months. Even if they make lengthy visits to work in the UK for many years in succession, such workers are currently excluded from the headline numbers. On that basis, though, annual net UK migration in 2016 was close to the population of Leeds.

For workers in relatively low-skilled trades - including construction, food-processing and catering, hospitality, business service outsourcing and non-unionised transport - wages have been suppressed in some localities, even if the impact on national average wages appears not to have been large. Increased immigration has clearly added to pressure on public services and housing costs.[4] While many incoming UK migrants are highly skilled, many more, particularly from relatively new EU member states, are competing for low-skilled employment - undermining wage levels for many financially insecure UK voters already working in such sectors.

Britain needs to return to a system of "managed immigration" - designed by UK ministers, with the legislation going through Parliament in the normal way. This will allow us to access the overseas labour that our economy needs, while retaining broad public support for immigration. As the rest of the EU struggles with a Schengen arrangement that is sapping confidence and fueling intolerance, the UK has a chance to put its immigration policy, and the nation's inherently positive and generous attitude to migrants, back on a stable footing. Negotiations over Single Market "membership" must not be allowed to stop that.

The economic benefits of being in the Single Market are anyway grossly exaggerated.[5] Over the last decade, the EU has been the slowest-growing economic bloc in the world, accounting for a diminishing share of UK trade. In 1999, some 61 per cent of our exports went to the EU. Now that has fallen to 44 per cent, despite Single Market "membership" - and is expected to drop to 35 per cent by 2025. In fact, the EU's share of UK trade is already down to 38 per cent on some estimates, due to the so-called "Rotterdam effect" - given that a sizeable share of UK goods sent to that port are then sent on to markets outside the EU. [6] [7]

The reality is that there is no need to be "inside" the Single Market to trade with the EU. American exports of goods and services to the EU totalled $247 billion during the first eleven months of 2016, despite the US being "outside" the Single Market.[8] Countries including China, Japan, Australia and the US all enjoy "access" as a result of meeting EU regulatory standards on specific goods and, where necessary, paying relatively low tariffs. That does not compel the taxpayers of those countries to accept a raft of other much broader EU-derived laws and regulations, including annual contributions and "freedom of movement".

The UK's comparative advantage is services - accounting for four-fifths of our economy. But, when it comes to services, the benefits of the Single Market seem weak. Despite having no trade deal with the US, the UK recorded a surplus on services with America of £32 billion in 2015, but a surplus of just £21 billion with the EU. The Single Market in services is far from "complete" - with numerous trade restrictions still in place - so being outside is less of a concern for the UK. Being in the Single Market also makes it impossible to negotiate services-oriented free-trade agreements (FTAs) with countries outside the EU once we have left, as we discuss below.

Single Market "membership" has another major drawback. It means all UK firms must adhere to often onerous EU rules and regulations, not just exporters. This piles extra costs on the substantial share of UK companies - estimated at 92-95 per cent - that do not export to the EU.[9] This may help explain why owners of small and medium-sized firms backed Brexit in such large numbers during the referendum campaign. Their large corporate counterparts, many of whom strongly supported Remain and continue to press for the UK to stay in the Single Market, may view related EU regulation as a convenient barrier to the growth of smaller rivals.

Customs Union

It also makes sense for the UK to leave the Customs Union. This is a highly protectionist body which stops us cutting our own UK-specific trade deals. Remaining in the Customs Union would prevent the UK from pursuing a genuinely free trade agenda.

Outside the Customs Union, the EU will no longer have "exclusive competence" over Britain's trading arrangements. That means we can negotiate our own trade deals, to the benefit of UK commercial interests and our broader economy. As such, we can position ourselves far better with the much faster-growing and more dynamic areas of the world economy across the non-EU - not least the large emerging markets where we may already have a language in common, shared institutional practices or other historical ties.

Even while we remain in the EU during the Article 50 period, the new Department for International Trade is legally entitled to negotiate such deals on a "Heads of Terms" basis - as long as they are enacted only once we have left. [10] Since our Brexit vote, numerous countries have shown interest in a bilateral UK trade deal, including Australia, Brazil, Canada and the US. Indeed, the signs are that, when it comes to striking a FTA with the US, Britain is now "at the front of the queue". [11]

It is impossible to make significant progress in such negotiations, though, when our non-EU counterparts do not know if the UK will be inside or outside either the Single Market or Customs Union once we have left. That is another reason we should make clear now, that on exiting the EU, we will be outside both, allowing the UK economy to negotiate in good faith, so benefiting from non-EU FTAs as soon as possible after the Article 50 period ends in March 2019. [12]

One argument often cited for remaining in the Customs Union is that we remain party to, and so benefit from, existing trade deals negotiated by the EU. Yet such deals are relatively inconsequential in size. Despite years of trying, the EU has no trade deal with either the US or China - the world's two largest economies - not least because the objectives of the various EU nations so often conflict.[13] Although the EU has agreed some 53 FTAs, these have been mainly with very small countries. The combined GDP of the nations involved is just one tenth of the world economy.

Such EU trade deals that have been struck are, moreover, far from UK-oriented. The EU's negotiating approach has long been to "gold plate" agriculture and protect it at all costs - given the overwhelming influence of the Franco-Benelux axis. Yet agriculture is just 0.6 per cent of the UK economy, less than a third that of France. As one of 28 members, the UK's requirements when EU-level trade deals are struck - not least the promotion of trade in services - have not figured highly.

The Customs Union also imposes a Common External Tariff (CET) on non-EU imports, making them more expensive for our consumers. This argument was rarely aired during the referendum campaign, but is extremely important. Some estimates suggest the price of food in the UK is no less than 17 per cent more expensive than it would be outside both the Single Market and the EU - given the Common External Tariff, not helped by the Common Agricultural Policy (CAP). [14]

Given that poorer households spend a larger proportion of their income on food, leaving the Customs Union would not only allow the UK to strike more business-friendly FTAs, but could also help low-income households to manage. In the future, when negotiating FTAs, the UK would have the option of lowering tariffs on food and numerous other consumer goods.

If we were to leave the Customs Union, UK exporters would be subject to the CET when selling to the EU - unless we have come to an agreement with the EU. The scale of these tariffs, though, should be a manageable business cost, not a deterrent to doing business from the UK. The average EU tariff to be paid is 5.1 per cent in simple MFN terms and 2.7 per cent in trade-weighted terms. While for non-agricultural goods, the simple tariff is 4.2 per cent and 2.3 per cent in trade-weighted terms, for agricultural products the averages are 10.7 per cent and 8.5 per cent respectively. [15]

While we accept there are logistical drawbacks to leaving the Customs Union, they are manageable - as we discuss below. Rather than remaining in the Customs

Union in a bid to secure a "bespoke EU deal", we believe the Government should now rule out that possibility - not least to facilitate the early negotiation of FTAs across the vast majority of the world economy outside the EU. This would also go some way towards giving businesses greater clarity about our future plans, bolstering the UK economy.[16]

Country-specific deals

A number of countries have a special relationship with the EU - and all follow different models. Bespoke country deals with the EU do exist. But none of the deals other countries have struck are suitable for the UK, if we are to escape ECJ jurisdiction and regain control of our borders, so allowing us to reintroduce a migration policy that maintains public confidence, while meeting our economic needs.

1 - "Norwegian model"

The "Norwegian model" refers to membership of the European Economic Area (EEA) – of which Norway is a member, along with Liechtenstein and Iceland. Some cite EEA membership as an acceptable "soft Brexit" compromise. As an EU member, the UK is also already in the EEA. While legal opinion is divided, it should be relatively easily to leave the EU while retaining EEA membership. EEA members, outside the EU, can sign non-EU trade deals and also have near-full access to the Single Market.

Being in the EEA requires the UK to continue making multi-billion pound annual payments to the EU. As an EEA member, Norway makes a per capita contribution around two-thirds of that which the UK currently makes inside the EU. On that basis, our annual net contribution could remain substantial - around £6 billion, compared to £8.5 billion today. In future years, it may rise further.[17]

EEA membership also means remaining under ECJ jurisdiction.[18] While inside the EU, we currently have at least some influence in shaping such legislation. Within the EEA we would have far less - and possibly none. Remaining subject to ' judgments, but with scant influence in shaping underlying laws, would not only raise "sovereignty" issues at odds with our referendum result, but could also leave the UK dangerously exposed. The ECJ is increasingly expanding its remit. Within the EEA, with the Single Currency still in serious difficulty, and further bail-outs almost certain, the UK Government or even our private financial institutions could find themselves legally obliged to fund such bail-outs.

A major additional problem with EEA membership is that, because members are effectively "inside" the Single Market, negotiating FTAs with non-EU nations relating to services - an area where we excel - would remain impossible. Striking such agreements, after all, means negotiating on domestic regulations - and, as EEA members, such regulations would not be under the UK's direct control. This is a significant problem.[19] The UK economy should gain significantly once we can negotiate our own service-oriented FTAs. But that cannot happen from within the EEA, as our own domestic regulations would remain effectively under ECJ jurisdiction, and therefore beyond our control.

The most significant drawback to EEA membership, though, is that it almost certainly means accepting "freedom of movement" - again given effective Single Market membership. As such, while not delivering for the UK economy, EEA membership does not reflect our referendum result either - so is a non-starter.

2 - Liechtenstein model

Liechtenstein, despite EEA membership, has negotiated its own tailored EU immigration policy, leading some to suggest it could act as a model for Britain outside the EU but retaining Single Market "membership". Liechtenstein, though, is a rather densely-populated microstate, while the UK is the second-largest EU economy and a major immigrant destination.

It is almost impossible, given growing public disquiet across the EU relating to Schengen, that the EU27 would grant the UK the perceived economic benefits of EEA/SM membership, while waiving "freedom of movement". Were Britain to gain such a concession having voted for Brexit, that would fuel already growing demands for EU referenda across other large members states - something Brussels and incumbent EU leaders are desperate to avoid.

3 - Swiss model

A member of the European Free Trade Association, Switzerland has had a FTA with the EU since 1972. While the country considered joining the EEA twenty years later, along with Norway, Iceland and Liechtenstein, this was rejected in a referendum. Switzerland, though, has partial access to the Single Market via a series of bilateral treaties and can strike its own FTAs with non-EU nations.

Despite this complex arrangement, "freedom of movement" remains a highly-contested issue - with the EU constantly pushing for Swiss acceptance and voters fiercely resisting. In 2014, the Swiss electorate voted to introduce legal quotas on the number of EU migrants who could enter the country. Some EU officials, in response, suggested “a further referendum” to “change the logic”. Brussels then refused further negotiation, insisting free movement is a condition of Single Market membership, while warning of future trade restrictions. The Swiss government is now working on a compromise, allowing free movement but with hiring preference for citizens over EU migrants, amidst continued protests from disgruntled voters.

Since our Brexit vote, some have called for Britain and Switzerland to work together. After all, in the words of the former Swiss Ambassador to London, Switzerland is trying to achieve “exactly the same trade-off as the UK”. [20] Brussels has subsequently toughened its stance towards Switzerland in recent months, seemingly so any Swiss success in securing a better “trade/immigration” compromise from the EU does not act as a precedent for the UK.

The case of Switzerland shows that when it comes to linking freedom of movement to Single Market “membership”, the EU is absolutely determined not to give ground. That is particularly true now, given growing public concern over Schengen. If the UK is granted Single Market access, while taking back control of its borders, other EU governments will demand rule changes, backed by vociferous voters calling for national referenda. That would call into question the entire “European Project".

No Staging Post

Some argue that the UK could use EEA membership, or one of the other “country-models” outlined above, as a “staging post” before “full Brexit”.

One problem is that taking this route prolongs business uncertainty well beyond the two-year Article 50 process. Additional negotiations may take many years - during which we would still have on-going EU contributions, ECJ jurisdiction and, most visibly, “freedom of movement”. Political tensions could escalate, as would doubts over the final settlement - making life difficult not just for UK and EU citizens, but for businesses in Britain and beyond. Confidence would be hit and investment could fall, harming jobs and growth.

An additional danger is that a “temporary fix” becomes “semi-permanent”, preventing the UK from honouring the referendum outcome. This could very easily happen. As Former Trade and Industry Secretary Peter Lilley MP has so aptly stated, membership of the EEA is “more like an ante-room to the EU, while the UK is in the departure lounge”. [21]

Why Clean Brexit Makes Sense

There is much talk of “Hard Brexit” versus “Soft Brexit. These labels do little to clarify the issues involved - and may be misleading. The terms “Clean Brexit” and “Messy Brexit” are more accurate and, in our view, the Government should declare now that it prefers a Clean Brexit. This would be a clean break, under our complete control, with the UK leaving both the Single Market and the Customs Union. In contrast, a Messy Brexit is complicated, fraught with problems and might not even be achievable. In subsequent chapters we explain how to make Clean Brexit work, with the UK trading under WTO rules and pursuing UK bilateral trade deals across the globe, while seeking a sector-specific deal with the EU.

While the UK has long seen the EU mainly through an economic and financial lens, for most of the EU27 the approach has been largely political. This is one reason why a Clean Brexit - avoiding British attempts to “have our cake and eat it” by trying to bend the EU’s core principles to our will - makes sense.

It is also worth stating explicitly that the UK will leave the Single Market and Customs Union ahead of upcoming French and German elections - due this spring and summer/autumn. In both countries, influential business lobbies will be mindful of the benefits of maintaining favourable trading arrangements with the UK in specific sectors. For them, Britain is a rather substantial market with which they have large trading surpluses accounting for countless jobs and billions of euros of profit.

If we declare our preference for Clean Brexit in March 2017, before the French and German elections, and ahead of a possible Italian election too, corporate leaders in the largest and most powerful EU economies will remind prospective leaders during their election campaigns that relatively free trade with the UK makes a lot of sense, hopefully securing valuable promises. During the upcoming elections, then, the EU’s export-oriented business community could help do the UK’s future lobbying for us.

Messy Brexit

Before the referendum, we were able to see how far apart the UK and the rest of the EU were in terms of the deal that David Cameron tried to negotiate. While the EU’s political establishment claimed it offered the UK a good deal, it was anything but. We asked for little, and received even less in return. That should temper expectations ahead of our Article 50 discussions. There are areas where it makes sense for the UK and EU to reach accord during our exit negotiations - whether for economic, defence, security or domestic political reasons. If we ask for too much, though, or either side approaches the negotiations in the wrong self-interested way, negotiations would likely become very messy.

Think of this in terms of the three key issues from the Brexit campaign: sovereignty, migration and the economy. To regain sovereignty and to have a sensible system of managed immigration, while negotiating our own trade deals, including for our all-important service sector, the UK must be outside both the Single Market and Customs Union - ruling out the "Norway option". But if we wanted to somehow negotiate economy-wide access to either the Single Market or Customs Union then it would involve negotiations over both sovereignty and migration - which would cause significant problems.

Even if such a complex deal could be negotiated, it would then require agreement not only by each of the 27 EU governments, but also their parliaments and a number of other regional legislatures - as well as, ultimately, the European Parliament. That would be extremely time-consuming and result in many dead ends. At every stage, there would be enormous uncertainty and drama, with the terms of the deal unknown, both in detail and outcome, until the very last moment. A drawn-out, acrimonious, negotiation, then, could not only do serious damage to UK-EU relations, but also to business sentiment, investment and jobs.

An up-against-the-clock diplomatic and political battle, pitting the UK's soon to be newly-established sovereignty against the survival of the entire "European project" cannot end well. During such a negotiation, politicians on both sides of the Channel, under enormous pressure, would inevitably use rhetoric that could provoke dangerous cross-border tension. A Messy Brexit then, would leave a bitter legacy. And it could easily happen that, after 24-months of heated discussion, the UK and EU27 cannot agree - resulting in a disastrous stalemate. Business uncertainty would then become "semi-permanent", doing serious economic damage across both the UK and EU27.

It may be that, in theory, "membership" of the Single Market and "freedom of movement" are "not inviolable and inextricably interdependent", as Treasury Select Committee Chairman Andrew Tyrie has rightly highlighted. "Purism by EU negotiators on this question," as he says, "would not only be inconsistent with reality but would also clash with member states' economic interests". [22] In the end, if politics requires it, then even treaties and rules can be distorted or violated altogether - as the Maastricht convergence criteria clearly showed, as did the EU's much-abused Stability and Growth Pact. [23]

That said, a tortuous Article 50 negotiation, involving complex trade-offs between trade access and partial "freedom of movement", will only emerge, if it emerges at all, during the final moments before the two-year window closes. [24] Such brinkmanship does considerable harm and leads to bad policy and chronic business uncertainty.

The UK Coalition Government's Competency Report on Agriculture, for instance, reported problems in the sector arising from last-minute horse-trading in previous EU negotiations[25]. We do not want our future domestic agricultural policy, important to many regions including Scotland, Northern Ireland and Wales, subjected to such opaque, chaotic decision-making. Likewise, there are numerous other key policy outcomes - not least our immigration system - which should not be allowed to emerge from last-ditch, closed-door discussions. Clean Brexit avoids such last-minute, unaccountable deal-making.

EU Commissioners and populist politicians talk tough about "punishing Britain" for leaving the EU. In reality, this would go against the EU's own Treaty of Lisbon.[26] More importantly, perhaps, powerful exporters in Germany, France and Italy - and their large workforces – understand, though, the importance of maintaining orderly trading arrangements with the UK. While our £89.5 billion annual EU trade deficit and £110 billion current account deficit suggest it makes commercial sense for "Europe" to do a deal, the EU's political fragility poses risks - not least given widespread concerns that "making an exception for Britain" would result in the "European project" starting to crumble.[27]

Attempting a fiercely-negotiated "Messy Brexit", then, is not wise - not least when the EU itself is embroiled in various crises, ranging from migration to the fragility of the eurozone, which threaten its very existence. It would be far more responsible, and ultimately in the UK's interests, to opt for Clean Brexit.

Clean Brexit

A Clean Brexit is a clean break. The UK would first pass a short Act of Parliament - the "Great Repeal Bill" highlighted by the Prime Minister in her Party Conference speech last October. This would absolve the UK of its responsibilities under the 1972 European Communities Act and "onshore" all EU-derived law relating to the UK back onto the UK statute book. This Bill should be passed as soon as possible, ready to come into force in March 2019 when the Article 50 window expires.[28]

Clean Brexit means being outside both the Single Market and Customs Union - which returns to the UK control over our borders while freeing us of ECJ jurisdiction, so re-empowering our Parliament. The Brexit process would also be dependent upon the British Government, so voters would see, following our referendum, the manner in which we are leaving the EU. And any changes we make to EU laws, rules and regulations currently applying to the UK would be under UK control.

It is important to appreciate the advantages offered by declaring Clean Brexit now and starting to prepare to leave the EU. Taking this option gives the UK a lot of negotiating flexibility. A Clean Brexit means we are able to walk away without a deal from the Article 50 negotiations, if any deal which is offered is poor.

The UK Government should say we are fully prepared to trade with the EU27 outside the Single Market and Customs Union, under WTO rules, with so-called "Most-Favoured Nation" status - so the EU cannot legally discriminate against the UK, even if some Commission bureaucrats say that might happen. If the EU insists on WTO-tariffs on UK goods and services, then the UK will retain those tariffs on them in return. And because we know we can walk away, that should encourage the UK to keep the Article 50 negotiations as simple as possible, giving us the scope to seek sector-specific deals - and that, indeed, is what we would advocate.

Under a Clean Brexit, with the UK trading under WTO rules with the EU if a separate agreement has not been reached, our exporters would have access to, but not membership of, the Single Market. But if that two-year timeframe looked unrealistic, then a Clean Brexit could keep open the option, too, of a future relationship with the EU, based on trade-related criteria. Clean Brexit allows the UK to use WTO rules as a platform from which to build trade relations on its own terms - not just with the EU, but the rest of the world.

When considering the merits of a Clean Brexit, one needs to differentiate between the short-term and the long-term. Short-termism is one of the perennial problems of UK economic policy-making. In the mid-70s, we joined the then European Economic Community in part given the perceived short-term gains of coupling with what was seen as a successful economic region. At the time, the UK was widely seen as "the sick man of Europe". But EEC membership has since resulted in longer-term costs, with competency being forfeited in many areas as rules and regulations have been harmonised.

The short-term costs of leaving the Single Market and the Customs Union should similarly not divert our attention from the longer-term benefits - not least swapping an FTA with the world's slowest-growing bloc for the ability to make UK-specific deals and trade more freely with nations far more populous and fast-growing. Clean Brexit also returns crucial decisions unequivocally back to our own elected ministers and Parliamentarians, restoring vital powers to institutions directly accountable to the British electorate.

Quick and predictable, then, Clean Brexit helps make leaving the EU as smooth as possible - for both the UK and the EU27. By acknowledging we will be outside both the Single Market and Customs Union now, the Government can then also put policies in place for changes we know need to happen by the time Article 50 expires - avoiding the "cliff edge" scenario business leaders have rightly highlighted. These preparations range from updating immigration and customs controls, to planning for new farming support, plus preparatory work on striking new FTAs with the rest of the world.

Declaring Clean Brexit now, and putting it at the forefront of our thinking, helps avoid a dramatic policy change overnight for which we are unprepared. It also allows ministers and officials to reach out to various sectors for their on-the-ground advice, helping the Government to secure long-term UK-EU trade arrangements that ultimately benefit our people. That said, we recognise the scale of the challenge. As has often been said, the UK needs to scale-up in terms of the number of trade negotiators we employ, along with customs officials and even Whitehall civil servants. All the more reason to acknowledge now, then, that we will be outside Single Market and Customs Union, so we can make the relevant preparations - which we outline in the next three chapters.

We understand why the Government has so far kept its detailed negotiating position with the EU a closely-guarded secret. Despite endless cries of "there's no plan", it is obvious there are downsides to the UK giving away its negotiating strategy. That said, there is much sense in the Government now confirming - to Parliament, the EU27 and the world as a whole - that the UK intends to leave both the Single Market and the Customs Union, as part of our broader exit from the EU. We should also make clear that while we are very happy to trade with the EU under WTO rules, as a consequence of a Clean Brexit, we would also be willing to strike UK-EU sector-specific deals of mutual benefit.

To assume that the UK must strike any form of trade deal with the EU, though, during the two-year Article 50 window, would be a major strategic error. There is no need at all for the Government to attempt to shape any form of trade negotiation between now and March 2019, if the EU27 is not so inclined. All we should do is state - publicly and repeatedly if necessary - that we are ready and happy to negotiate.

We should also remember that, while trade deals are useful, and we obviously want to pursue them, trade goes on regardless. On the latest figures, the US and EU did almost $629 billion of trade between January and November 2016 - with no formal FTA, under WTO rules.[29] Businesses trade across borders not because politicians sign trade deals but because it makes commercial sense. Trade deals can help keep barriers as low as possible but the majority of trade in the world, not least that between the three biggest blocs - namely EU-US, and US-China and EU-China - is conducted outside of formal bilateral FTAs.

Preparing for Brexit: Detailed Planning

Under Clean Brexit, then, we are outside the EU's Single Market and trading under WTO rules outside the Customs Union. As such, detailed preparations need to be made between now and March 2019, with the UK rejoining the WTO and setting its tariff schedules. Being outside the Customs Union will also mean training more customs staff and specialists to make "rules of origin" judgments in order to calculate appropriate tariffs.

Re-taking our seat at the WTO is not without complications and resources will need to be mobilised in certain areas for us to operate outside the Customs Union. Highlighting these issues should not distract us from the benefits of and opportunities arising from negotiating our own free trade agreements (FTAs) outside Customs Union as an independent WTO member. But it does point to the need for careful planning ahead of March 2019.

Operating outside the Customs Union

Although we need to escape the Customs Union and its uniform rules and regulations so we can pursue our own FTAs, UK firms wishing to sell into the EU will still need to abide by such EU rules. But at least those rules are uniform across all member states, making compliance easier. And UK exporters must anyway abide by the rules and regulations of every major market that they sell into - so the EU would be no different.

At present, goods entering the UK from outside the EU require an import declaration. Usually this is done via the logistics providers carrying the goods as agents. After a Clean Brexit, UK-EU trade would be subject to such requirements, with costs varying from a few pounds to "£25 plus for declaring a sea container".[30] Last year the UK made 70.5m import and 6.5m export declarations. Then there is the cost of physical inspections, from between £52 to £1,540 per consignment.

Given that the EU accounts for just under half of our trade, the number of customs declarations would rise sharply, probably almost doubling after Brexit. We would also need to agree with the EU on how many cargoes are to be inspected. This points to a number of costs. Ports (on both sides of the Channel) would need to be equipped to cope with an increased inspection workload, including more customs staff. Additional officials would need to be trained to determine the origin and valuation of goods so tariff duties can be calculated. There would also likely be some additional red tape to show the origin of goods.

While this amounts to extra bureaucracy relating to UK-EU trade, being outside the Single Market would mean, on the other hand, that the **90 per cent** plus of UK firms that do not export would not be bound by EU red-tape, as they currently are. The FTA deals we strike outside the Customs Union, with the non-EU and potentially the EU itself at some stage, could cut red-tape further.

Some of this added bureaucracy outside the Customs Union may be welcome, though, given the importance of ensuring safety standards. And leaving the Customs Union could kick-start the use of new technology relating to declarations and inspections, given that a first-world economy like the UK should be able to ensure goods flow relatively quickly through the ports, with minimal delay - ultimately lowering costs.

Increasingly, customs and related processes are electronic and thus scalable, able to handle larger volumes. The average "dwell time" of consignments of non-EU goods entering via French ports, for instance, is less than six minutes. The US and Canada are not in a Customs Union, yet more goods cross the US/Canadian border each year than do the EU's external border - with no delays. Providing we get the bodies that check standards for the EU market accredited here in the UK before we leave, the vast majority of UK-EU customs clearance once we are outside can be done electronically, as happens within the North American Free Trade Agreement.[31]

In many cases the costs of adapting to leaving the Customs Union are one-off. As technology is enhanced, this investment will result in falling variable costs. And while remaining in the Customs Union would avoid such initial outlays, that would compromise our future trading relationship with the rest of the world - which is ultimately of far more economic significance.

The disruption to the business models of some firms, and sectors, from no longer automatically having access to the Customs Union, or indeed the Single Market, should not be dismissed. It should be remembered, though, that for many sectors tariff rates are low - and much of the service sector is, anyway, not affected. Given potential disruption, there is also scope for temporary "transition" deals to be struck, allowing time for various sectors of the UK and EU economies to adjust, and as systems and technology relating to UK-EU commercial flows bed down before we move entirely to the new trading regime. Again, such mutually-beneficial deals are more likely if we are not publicly arguing over EU principles such as "freedom of movement" and Single Market "membership".

We should keep our eyes on the main prize relating to leaving the Customs Union - the ability to cut UK-specific trade deals that put our interests first. There is no reason why the Department for International Trade cannot begin negotiating such deals before 2019 - as long as they are not enacted until we actually leave the EU. But any such preparations are pointless unless our potential FTA counterparties know unequivocally that we will be outside both the Single Market and the Customs Union.

Operating under WTO rules

The World Trade Organisation operates a system of trade rules, and provides a Geneva-based forum for governments to negotiate trade deals and settle trade disputes. It is central to global trade, with 164 countries as members and another 22 in the process of joining. Only about a dozen countries are not in the WTO. [32]

The UK is a member but its current relationship is as part of the EU - which represents all 28 EU countries. After Brexit, the UK will regain from the EU its competency for negotiating trade deals and determining its own trade relationships. As a result the UK would no longer be represented by the EU and instead would reoccupy its own seat at the WTO.

During the referendum campaign, WTO Director Robert Azevedo warned that in such circumstances the UK would face tortuous negotiations with WTO members, as effectively we would have to accede to membership. Following the referendum result, though, Azevedo changed his tone, acknowledging that the UK would remain a member.[33] The question, then, is on what terms and what this would mean? Each WTO member has its own tariff schedules that determine the basis of its trade. In addition, members of the WTO are able to conduct their own FTAs with others.

One worry often expressed is that the UK would not be able to operate as a member of the WTO without its own schedules and that these could not become effective unless agreed by all other WTO members. When said like this, it sounds daunting, but it need not be. It should be a straightforward process, in fact, but naturally when so many other countries are involved, there could be challenges. If there were difficulties, though, the UK would still be able to trade.

To limit potential problems, it is important that the UK outlines the process it must follow to take up its WTO seat. This means identifying potential problem areas, and addressing them. For instance, agriculture, as outlined below, poses challenges, but these are surmountable and may be an opportunity. Far from being a problem, WTO membership should provide a solid foundation from which the UK can negotiate future FTAs with both the non-EU and, hopefully, the EU itself.

If the UK proposes tariff schedules that leave any WTO member worse off than before, then they can object. So, in establishing our schedules, the UK needs “equivalence of concessions” which means UK tariffs are “not less favourable” to other WTO members than those currently adopted by the EU. Thus, the tariffs we impose on others would be equivalent to, or less than, those we have now. The choice is ours. The key point is that it should not be a problem as long as the UK does not want to become more protectionist than the EU currently is, and there is no reason to think we would, or should.

The other principle is that members of the WTO agree to accord “Most-Favoured Nation” status to each other and they would then be charged “the normal non-discriminatory tariff” on imports. The exceptions to this include when a Member is in a Customs Union or does a trade deal with a country, in which case both parties can treat each other better.

So the EU treats each country the same within its Customs Union, but has a tariff wall around it for those outside. Tariffs are high on agricultural imports. According to the previous Coalition Government's Competency Report on Agriculture[34], tariffs on agricultural imports to the EU “range between 18 per cent and 28 per cent”. They are also high in autos, around 9.6 per cent. These tariffs are a legacy of the EU's origins, largely reflecting a desire to protect French farmers and German automakers. Over time, though, globalisation has driven tariffs down - and, on balance, that looks set to continue. Britain could simply adopt existing EU tariff schedules if the Government wanted to avoid delay. But as a WTO member the UK could also negotiate new concessions, modify or even withdraw concessions. We could cut existing tariffs on agricultural imports, for instance.

Naturally, we need to ensure we have all the preparatory work in place on the fine details of WTO membership. This will cover a wide array of areas, in addition to the key ones outlined above. We should be aware, for instance, of uniform regulatory standards and conformity with technical standards in existing agreements.[35] Some countries that trade freely under WTO rules may have specific bilateral arrangements in place to facilitate trade in some sectors. The UK is starting from a strong position, though, not least as we already trade extensively outside the EU. All this reinforces the importance of non-tariff barriers (NTBs) - and, outside the EU, Britain will be well-placed to play a leading role in NTB reduction. The point is the devil is in the detail.

Complaints to the WTO are not uncommon and take time to be settled. But they do not prevent trade in the interim. The EU has had 97 cases as a complainant at the WTO, against a total of seventeen countries: 33 of these against the US, followed by 10 with India and 8 with China and Brazil.[36] These do not stop overall trade, but they do force countries to sort out problems.

Because the EU is so protectionist in agriculture it is hard to imagine the UK would want to raise import tariffs on food. That, after all, would raise food prices in the UK. In fact, there is a strong case to cut and eradicate them instead, reducing food prices in the process. In addition, there is ample opportunity to eradicate cumbersome agricultural regulations.

Where agriculture is concerned, other WTO countries would keep a close eye on any subsidies the UK might wish to give to exporters or to domestic producers, Attention would also be paid to any tariff rate quotas (TRQs) we might apply, which are the amounts of certain produce that can be allowed into a country without tariffs. This should not deter the UK from opting for WTO rules, but we must do our homework on the detail. For instance, agricultural issues fit into what are called blue, green or amber boxes, and it is only the amber box that contains trade distorting subsidies, and these are expected to be few and far between when it comes to the UK.

For the UK, while agriculture is important, it is not seen as a defensive area. Outside the Customs Union, our agricultural exports to the EU would face a high tariff wall. We may opt for a deal in this area, or compensate farmers instead. For now, the UK has confirmed it will replicate farmers' existing support from the EU's Commons Agricultural Policy until 2020.[37]

One of many areas where the UK will regain competency on leaving the EU is regional policy. This is important, particularly given income discrepancies between the various parts of the UK. It is worth noting that the European Commission's own QUEST model shows that the effectiveness of EU structural and regional funds on GDP is negative in no fewer eight countries, the UK being one of them.[38]

In the future, Parliament could decide to support agriculture and link it to production. The regional aspect is important as in Northern Ireland, for instance, direct payments from the CAP currently represent 80 per cent of farmers' incomes, while exports of Welsh lamb to the EU may be impacted by TRQ once we are outside the EU.[39] Again, these issues are readily identifiable and should be seen as transition costs or opportunities to rethink the way we support farming, with money perhaps shifting away from larger to smaller landowners.[40]

Any change from the status quo will be painful for those who benefit from it, but may be necessary to force through change aimed at improving competitiveness and productivity. New Zealand's agricultural sector was opened up in 1984 - and then saw considerable improvement.

Trading under WTO rules, then, while the most straight-forward option, still requires preparations - retaking our WTO seat and setting tariff schedules, while enhancing the physical and technical infrastructure enabling UK customs checks. The Government also needs to put in place transition arrangements for specific sectors like agriculture, currently receiving sizeable EU-administered support. Such preparations for Brexit, while significant, are far from insurmountable. But they still need to be done.

Preparing for Brexit: Sector-Specifics

Any negotiation about our future relationship with the EU will involve both economic and non-economic issues. Either in the two year Article 50 negotiation period, or as part of a future trade deal with the EU, there are a number of sectors that will receive focus. It is important to get the balance right, as the incentive for many firms is to overstate near-term challenges in the hope of ensuring as little change as possible, or gaining subsidies or transitional help from the Government.

There are a number of sectors where an UK-EU deal makes sense. Being outside the Customs Union implies a tariff wall for some future UK exporters to the EU. This is highest for parts of the agricultural industry and also for autos. There is a big imbalance in UK-EU trade in both these sectors, though, highlighting the importance of the UK market for the rest of the EU. Agriculture has been mentioned above, in the context of the WTO and now we consider autos.

Automotive Sector

The UK has a strong position in the auto industry. While investment has continued since the referendum, some have raised fears this part of our manufacturing industry will run into problems.

Britain is the headquarters for seven main car manufacturers, eight premium manufacturers, seven formula one teams, six design studios, thirteen R&D centres and over 100 specialist brands. Car production in the UK reached its highest level since 1999 last November, hitting 170,000 vehicles, a 17-year high and up 12.8 per cent on the same month in 2015. Some 1.6m cars were produced during the first 11 months of last year, with exports up 14 per cent - no doubt helped by the fall in the pound since the Brexit vote.[41]

While a weaker currency has been useful for car exporters, it is not the only factor and obviously not one we should depend on. Outside the Customs Union, we calculate that the likely total tariff the auto sector would pay on exports to the EU is about £1.9 billion, based on 2015 full-year motor vehicle exports of £25.6 billion.[42] Although there are exports and imports as part of the supply chain, and hence parts may flow back and forth, you do not pay the tariff twice on the same component or other car parts.

This auto sector tariff cost could be covered, to some degree, by some of the UK's current EU contribution, if the Government so wishes. Ministers may feel, on the other hand, that such tariffs are a business cost, particularly given the recent depreciation of sterling. On top of that, the case for a post-Brexit auto-sector trade agreement is strong, given the two-way flow of car exports between the UK and EU - and the extent to which EU-based companies are themselves owners of UK car plants.

One possibility to explore would be a special FTA agreement in which both sides agreed that in all industries where the UK keeps the same external tariffs as it does now (the EU's Common External Tariff), rules of origin would not be checked. Such a deal makes sense for the auto-sector as both the UK and EU want to keep value-chains going, and considering all components, the EU still runs an auto-sector surplus with the UK.[43]

The City

Overall, the City of London - and our broader financial services industry - should be positive about its future outside the EU. There are issues to be addressed, though, linked to passporting and equivalence, and also to liquidity, euro clearing, where the market is and clients wish to be. We must also consider the City's ability to be innovative and develop new products, plus its access to skilled labour. During the negotiations it is this access to skilled staff, as one in eight City workers is from the EU, together with the passporting issues, that are likely to attract most attention.

London will remain the financial centre of Europe. At the time of the debate on whether we should join the euro, the competition to London was seen to be Amsterdam, Paris and Frankfurt. While there are niche financial centres across Europe, such as Zurich, Geneva, Luxembourg and Dublin among others, none have the infrastructure and combination of skills, knowledge and exercise that can be found in London.[44]

In reality, London is competing with global financial centres - such as New York and Singapore. Remaining in the EU poses serious challenges to London. This is often overlooked, but it was highlighted in the previous Coalition Government's Competency Report on Financial Services, that talked of a declining ability of the UK to influence the regulatory agenda within the EU, as with the financial transactions tax, the ban on short-selling or bankers' bonus tax.[45]

The same official report pointed out the scale of EU regulatory intrusion into domestic retail markets. So, even though the political debate is now focused very much on how wholesale markets will fare after Brexit, domestic retail markets will avoid future intrusion once we are outside the EU. Were we to focus on remaining in the Single Market or Customs Union once we have left the EU, the City would remain vulnerable to negative issues highlighted in that Competency Report, without being able to influence the future regulatory agenda. This would not be ideal, to say the least. Being free of EU involvement completely, while regulating our own financial services as London further develops its global reach, is the best approach.

There is much alarm about preserving the "passporting of financial services" post-Brexit - rights we would probably retain within the EEA. Such concerns appear overdone in general, but do matter for some firms. For some sectors - such as Japanese, Swiss or US investment banks or Lloyds of London - passporting impacts their current business model, but only to a rather limited degree. To put this in perspective, the issue affects around 4 per cent of Lloyds of London's business, as that is the share of the firm's activity with the EU.

That said, there is now an active debate as to whether passporting is critical or dispensable for London - a debate dominated by large and highly-influential financial institutions keen to preserve the status quo. It has even been suggested that to guarantee passporting rights, the UK might negotiate away euro-clearing. In addition, to help plan for change, some in The City are lobbying both the UK Government and the European Commission, seeking an extended "transition deal" for financial services.

It is important and understandable that to prevent knee-jerk decisions, with a damaging economic impact, the concerns of The City are taken seriously. Solutions should be sought to short-term challenges, while not losing sight of the need for a credible longer-term approach that benefits London's global competitive position.

The fact is that passporting works both ways. There are significantly more EU-based financial services firms doing business in the UK that have been awarded "inbound" passports than there are British-based firms operating in the EU with "outbound" passports. This reflects the importance of the City as the financial centre of Europe. But some London-based firms, especially larger ones, have multiple passports for the EU - which means the total number of passports outbound from the UK heavily exceeds the number of inbound ones.[46]

Britain, though, plays a vital role as "investment banker" for the whole of Western and Eastern Europe - where, for many years, large corporations and governments have developed relationships in the City which help them meet their on-going capital needs. All this highlights UK-EU interdependence - and the extent of the vested interests on both sides who will want to make this work.

Many non-EU members already now trade financial services across the EU using “equivalence” rules that would surely apply to the UK too - given that our financial services industry is currently, by definition, EU-compliant. While for some firms passporting is vital to their business model, for others the regulatory equivalence of the UK and hence of The City of London will be of more importance.[47]

There may need to be a bespoke regulatory arrangement, where firms have the option to opt-in if, for them, being in the Single Market is important, while others have the ability to opt-out. The important point is that one size does not fit all. The UK’s global insurance industry, for instance, is suffering under the burden of the EU’s Solvency II regulations - and parts of it may fare better once we have left.

An “expanded equivalence” model for the UK outside of any EU control or a “financial sector” model where the UK establishes a market-friendly regulatory approach have been suggested, both addressing issues and offering future opportunities. A financial services deal will need to be cut but, ahead of negotiations, it is clear the UK has a strong hand.

Elsewhere

What about other services? The Customs Union does not apply to services anyway. Not having Single Market membership is also not a major setback for our service sector. According to the Trade Policy Observatory, EU economies are in general fairly open in financial services, telecoms and retailing, but “not in professional service sectors (and to a lesser extent transportation) where access for foreign providers is restricted”. In particular, “lawyers and accountants looking to provide such services in the EU are up against major restrictions”.[48] As this is the current situation, being outside the Single Market is unlikely to make a huge difference to such sub-sectors. In the future, though, the UK will be able to join the plurilateral Trade in Services Agreement (TISA) under WTO auspices, where the EU currently acts on the UK’s behalf. Operating alone, or teaming up with other service-oriented economies, may mean the UK is able to secure a better deal.

It is perplexing that the science community and many working across the university sector have been so negative about the prospect of Brexit. Their analysis seems driven largely by concerns over their current EU funding - and a determination, in this context, to secure replacement funds from the UK

Government. As with some other sectors, there may indeed be a case for some compensation for universities, at least in the short-term, to ease transition.

The reality is, though, that the UK can continue to collaborate in science from outside the EU, not least as over a third of the countries in the EU's current funding network are also outside (16 of 44). The UK could contribute to the European Research Council separately, highlighting the benefits of sovereignty and cooperation where it makes sense. There are also other avenues apart from EU membership that exist to be involved in Horizon 2020 - for instance outlined in article 7 of the regulation that set it up.[49]

We agree that research mobility is important for a country's scientific strength but note from the UNESCO science report "Towards 2030" that countries with systems of managed immigration, like Canada and Australia, are just as active as the UK in scientific collaboration, actually recruiting a higher percentage of overseas researchers than does the UK within the EU. Perhaps the most important aspect of leaving the EU is that the UK will escape the EU precautionary motive, which could inhibit our future ability to be innovative and benefit in science from the coming "fourth industrial revolution".[50]

Preparing for Brexit: Global Deals and Networks

At the time of our 1975 referendum, the British public saw "Europe" as "the future". This is no longer the case. The UK's eyes are now set wider. Leaving the EU allows Britain to position itself far better in a changing global economy.

The UK can now put forward a clear vision to the rest of the world. We are Global Britain, not Little Britain: a truly global economy. A leading place to do business in, with and from, producing quality goods and services, at a competitive price. Post-Brexit Britain can sell not just into the Single Market from outside the EU, but into many markets across the globe - and on favourable terms, benefitting from free-trade agreements (FTAs) negotiated by the UK, with Britain's economic interests at heart.

As the web site of the European Commission Director-General for Trade states: "Over the next 10 to 15 years, 90 per cent of world demand will be generated outside Europe".[51] As many British businesses have discovered, not only is the EU slow at conducting trade deals, but the demands of the UK are only one of 28 counties, and services, the mainstay of the British economy, rarely feature.[52]

Some medium-sized economies, in contrast, like South Korea and Singapore, are frequently able to secure FTAs on their own terms. We have a great opportunity to learn from their example, making UK-focused trade deals that boost our exports and investment, but we need to rebuild our skill-set to do such deals. Outside the EU, the UK will seek to strike deals that play to our strengths, are set in our best interests, that are iterative in the sense of being able to be replicated with many more countries and - above all - are with the fast-growing regions of the world.

While UK goods and services need to be competitive, though, we must avoid a race-to-the-bottom on price. There are different facets to this. One is the need to safeguard workers rights. Some fear these will be eroded outside of the EU. There is no reason this should be the case. Whereas such rights are currently set by Brussels, in the future they will be determined by politicians in Westminster, responsive to the wishes of the UK electorate.

This also reinforces the need to compete on quality, as we already do in many areas, whether in high-quality manufacturing or business services. Some have characterised the fall in sterling since last June's referendum as proof the UK economy is worse off. Yet just a few years ago, the Government was seeking a more competitive pound to encourage "the March of the Makers".[53]

When considering this entire debate about the UK's relationship with the EU, we need to avoid short-term politics and focus on the longer-term economics to achieve the best outcome for the UK. A weaker pound was necessary, and in our view would have happened anyway, whatever the referendum outcome, given the scale of the UK current account deficit.[54] Although there will be a temporary one-off rise in import costs and inflation, the latter possibly squeezing real incomes, the Bank of England's policy remit should ensure any price pressures resulting from a weaker sterling are, beyond that, relatively contained.

Meanwhile, the weaker pound has given a huge boost to export competitiveness, while increasing the attractiveness of the UK as an economy in which to invest. This is all good news. The pound, after all, is a shock absorber - and since we have been inside the EU has fluctuated between near-parity and over 2.40 against the dollar.

It is surely right to position the UK in a global context. We can distance ourselves from the plethora of potential crises that lie ahead within the EU, with an unstable euro at its core. At the same time we need to identify the Indo-Pacific as the innovative region with which we must compete, stretching from India, through ASEAN, China, Japan and the USA.

We should recognise opportunities in other regions, too. In Africa, for instance the working age population is set to rise by 435m over the next fifteen years, based on Africans already born. This is twice the expected increase in the working-age populations of India and China combined. While this poses challenges for Western Europe in terms of potential migration, it also provides a huge opportunity in terms of future growth markets. The City of London, meanwhile, is positioning itself to be a global offshore centre for the Chinese currency as well as a major market for Islamic finance.

In an era of globalisation, technical change and innovation, the UK needs to send a clear and bold signal that it is moving beyond the centralising, controlling and regulating environment that comes with membership of the EU. In particular, we need to leave the protectionist Customs Union and reject the onerous, anti-democratic conditions of being "inside" the Single Market. The economies that succeed over the coming decades will need to be global in their outlook, adaptable and flexible, controlling their own destiny to the greatest possible extent. Being outside the EU then starts to become a sizeable opportunity. The UK needs to embrace free trade beyond Europe, think globally, and focus on pro-growth policies driven by increased investment, infrastructure and innovation, with services, The City, manufacturing and media, artistic and cultural exports all playing their part.

No one should be complacent, of course, about the challenges involved in loosening the ties of a relationship that we have been in for 43 years, particularly given the legal and political complexity. So we need Clean Brexit - keeping it simple and being clear about our aims. We should, in turn, be more confident about our adaptability and ingenuity. The Economic Bulletin of the European Central Bank recently contained one telling chart, illustrating the flexibility of labour and product markets and also the flexibility of institutions. The UK fared as one of the most adaptable and agile economies in the UK, well-suited to economic change.[55]

A multifaceted approach is needed. We need to be preparing the groundwork now, as has already been outlined by the Secretary of State for International Trade, Liam Fox. While we cannot do trade deals until Article 50 is concluded, we can signs “Heads of Terms” before that, positioning ourselves to benefit once we leave - but only if we declare now that the UK will be outside the Single Market and Customs Union, so we can negotiate in good faith.

It must be recognised that it is not governments and bureaucrats that trade. It is business people and companies which, between them and across international borders, identity commercial opportunities of mutual benefit. In that respect, government must ensure an enabling environment in which trade can occur. This relates not only to FTAs themselves, but to domestic economic and regulatory policies. As such, UK regions need to be focused on improving global connectivity, so they can achieve increased trade penetration.[56]

Taking a regional, bottom-up approach would not only reinforce the Government's industrial strategy but could also unlock innovative opportunities. While there are 3,500 free trade zones across the world, including 250 in America, in the UK there are none - as EU state aid laws and our Customs Union membership prevent us from setting-up such zones. A recent study showed how such zones could further boost Britain’s ports sector, for instance, already the second-largest in Europe.[57]

The UK also needs to be working very closely with the WTO itself and many other non-EU nations, particularly those with which we need to be closely-aligned in any future WTO negotiations. Knowing we will be outside the Single Market and Customs Union, we must also vigorously pursue agreements with like-minded economies such as Australia, Canada, America and New Zealand. This has variously been referred to as a Global Free Trade Association of free economies, the Anglosphere countries, or as a “Prosperity Zone” grouped around common goals such as openness to trade and inward investment, competition and the protection of property rights.

The Commonwealth is often mentioned as a grouping the UK could harness. Some may view this as a sentimental attachment to our colonial past, but that would be wrong. There are many sizeable economies within The Commonwealth - with whom the UK could develop deeper future trade and business ties. At the very least, we should reach out to them, identifying opportunities and issues. For some, agriculture may be their sticking point, as it often has been in their dealings with the EU. Once we have left the EU, though, the UK could cut agricultural import tariffs - providing scope to do broader trade deals. For India, as we have already seen, migration might be a potential hurdle given the importance of future two-way services trade. But again, once we have left, the UK has a chance to negotiate and overcome such issues, to mutual advantage.

The UK clearly has tremendous opportunities in trade in services. Such trade is largely about domestic regulations and within many of the trading options proposed for staying close to the EU, the UK would not be able to control these. Outside the Single Market and the Customs Union, though, we will be able to strike service-oriented FTAs, allowing us to exploit our comparative advantage on a global scale.

Too much of the referendum debate gave the wrong impression that, by leaving the EU, the UK would be retreating from the world. The very opposite is true. As we are seeing, this includes reaching out to the banks and firms based here, listening to their concerns and reassuring them. It is not about picking winners or protecting industries, but about equipping the people with the right skills and enabling firms based here to succeed.

Since June, some have been warning of Britain’s “economic isolation” outside the EU. But the UK will actually be in a position to reaffirm our status as one of the world’s most open and tolerant societies. A policy of sensible managed immigration will help, giving us the opportunity to lay out clear rules, restoring public confidence, while highlighting our long commitment to taking in genuine refugees. In recent years the scale of migration has limited or even prevented wage growth in some areas, deterred some firms from investing in their staff’s training and added to pressure on public services and housing, creating unnecessary tensions. This not only highlights the need for a sensible approach to immigration, but also for the Government to invest more in infrastructure and boost house-building. All this can now happen.

There are, in addition, strong economic benefits if the UK regains its historic role as an advocate of free trade. Removing EU tariffs on food, which are high, and other consumer goods would benefit UK households and importers, boosting the economy - a point often over-looked. It should be stressed, however, that tariff rates are falling around the world and non-tariff barriers (NTBs) - key for trade in services - are now a big part of trade negotiations. Once outside the EU, the UK can look to negotiate away NTBs, helping to strike future FTAs.

There are respectable arguments, though, in favour of not cutting tariffs entirely at the outset. These include the economic dislocation to sectors currently behind the tariff wall - such as agriculture and some parts of manufacturing.[58] While we do not favour subsidising producers at the expense of consumers, we are conscious of the regional impact from exposing some domestic sectors to global competition. Tariffs can be reduced gradually, then, alongside temporary "transition" payments within certain sectors, if that is what the Government decides.

Even with such transition measures, there is much scope once outside the EU for the UK to return to the forefront of worldwide efforts to secure free trade among major economies, just as it has been at the forefront of lower corporation tax whilst preserving workers' rights. Keeping some tariffs, in fact, helps us to negotiate away trade barriers maintained by other countries, as does our inter-dependence. Consider, for instance, that while UK exports to Germany are estimated to support some 752,000 British jobs, around 1.3m German jobs depend upon their exports to the UK. This pattern is repeated across other EU countries.[59]

A fully-sovereign UK, exploiting its links with Europe but not bound by them, while harnessing its influence across the rest of the world, will also be extremely well-placed to influence the direction of global governance. Far from being "isolated", we will have more ability to influence the global standards increasingly governing cross-border commerce.

The reality is that a large and growing part of the law that comprises the Single Market is now made by global institutions, and handed to the EU, which in turn transfers it to member states.[60] Food standards, for instance, are determined by the United Nations and the World Health Organisation, while a number of safety standards, including for autos, are determined by global groups.

Numerous energy-related regulations also have their origins in the Kyoto accord on climate change and other international agreements. Financial services, particularly since the 2008 collapse, are also overseen at a global level, via the Basel Committee on Banking Supervision and the G20 Financial Stability Board.

Our own elected politicians and officials answerable to them are currently unable to play their natural role at global forums on commercial standards, frequently hamstrung by a common EU position which often does not reflect British interests. On-going membership of the Single Market, and related subjugation to ECJ jurisdiction, would mean such constraints continue, preventing the UK from fulfilling fully the global governance role that our history and on-going commercial and military prowess suggests that we should.

No Second Referendum

"You are voting on whether we leave or remain in the European Union … the government will implement your decision". That was the message printed in an "Information Leaflet" produced by the Government and posted to each of the UK's 27 million households ahead of the June referendum.[61]

Despite those words, a number of lobby groups, supported by numerous senior MPs and peers, say they are "fighting Brexit". They refer to the referendum as "advisory and non-binding". Many then go on to demand a second referendum - "not on the principle of Brexit, but the terms of the deal" - while claiming they "accept the will of the British people".

Regardless of the politics, the point to stress here is that holding a second Brexit referendum could damage the UK economy - and our long-term trading position. If the Government agreed to a second referendum after our Article 50 negotiations, that would increase the likelihood of an agreement that goes against our economic interests. The EU - keen to retain the UK's significant budget contribution and discourage others from leaving - would have every incentive to offer us very little, while making the two-year process as uncomfortable as possible.

That would make it more likely, in turn, that the terms of the deal would be rejected in a second referendum, returning the UK to the status quo ex ante. If, in contrast, we make clear that we are definitely leaving, with no second referendum, there is a clear incentive for the EU to try to strike agreeable terms with us - not least sector-specific deals - given the value of British markets to so many EU companies.

A second referendum, in addition, would also prolong business uncertainty - posing a serious threat to investment and jobs. Were a second referendum to reject "the deal", what would then happen? Would the UK then revert to the pre-June 2016 situation inside the EU? Or would we have another negotiation and yet another referendum? Our political system could become paralysed by splits and confusion. Financial markets, at the very least would factor in on-going uncertainty and instability, seriously undermining sterling, equities and the broader business environment. Even though the weaker pound since last summer has been good for the economy, a depreciation long overdue, a sharp future drop, reflecting a loss of confidence in political decision-making, would be counterproductive - causing inflation to spike.

Under these circumstances, the UK could lose its hard-won reputation as a relative haven of stability, with a predictable political environment. At a time when the sustainability of the Western world's "extraordinary monetary measures" is being questioned, with sovereign bond yields having already risen from all-time lows, a British "neverendum" could weigh heavily on UK bond prices - leading to a sovereign downgrade.

The political and therefore the economic and business risks of a second referendum are enormous, then, given the potential impact on our investment climate and even our financial stability. A damaging political risk premium would be added to the UK - by both portfolio and long-term strategic investors. This would filter through to the domestic economy, pushing up borrowing costs for businesses and ordinary households.

Financial markets understand that political instability is a fact of life - even in an advanced economy like the UK. Since last summer, though, investors have come to terms with the fact that "Brexit means Brexit" and there is now an overwhelming desire for "the political classes" to "just get on with it".

It must be recognised, in that context, that some of those arguing for a second referendum are simply trying to secure a different result. We believe, if only for the sake of the UK economy and investment climate, this view should be rejected.

The House of Commons voted by a majority of six-to-one for a bill to allow a UK referendum on EU membership, one that also passed the Lords. Given that, most observers - and the vast majority of the business community – judge that Parliament has given its consent for the UK to leave the EU.

Attempts to reverse the Brexit vote would not only risk public discontent, which is hard to measure, but also trigger genuine alarm among investors both in the UK and abroad. We believe, then, that the Government should now press ahead, declaring its plan to achieve Clean Brexit, stressing not only the business and trading advantages, but also democratic principles.

Some retort they "did not vote for a Hard Brexit". We reject that term. The repeated use of this phrase is an attempt to make leaving the EU seem an extreme position. "Hard Brexit" suggests isolation, pain and a bleak economic future. "Soft Brexit", conversely, conveys the idea of a comfortable, on-going relationship with the EU, one where Britain remains "part of the club".

The reality is different. Clean Brexit - leaving the Single Market and Customs Union, while eschewing a long-drawn out negotiation in favour of using WTO rules as a platform for striking future trade deals - is a practical, transparent, democratically-mandated position. We believe it will limit uncertainty, minimising the damage done to the UK, the EU and their important continued relationship.

Clean Brexit means taking back full control of our laws and borders, leaving the EU in a pre-announced, planned manner, rather than exposing us to a chaotic, last-minute negotiation that would damage business confidence. The alternative is a Messy Brexit - pushing UK businesses unprepared towards a perilous “cliff-edge”, or even a deeply-damaging stalemate.

As well as being the most economically efficient way to leave the EU, we would also suggest Clean Brexit is the most democratic. Repealing EU law and returning powers to the UK will put ministers and Parliament fully in charge of policy-making, able to decide systematically what EU-sourced legislation we keep, amend or discard.

There is no justification for another referendum on our Brexit deal. Following the Great Repeal Bill, the UK’s “deal” would be whatever our government and Parliament decides we want to do with our inherited EU legislation, over successive Parliaments and governments. Outside the Single Market and the Customs Union, laws relating to our labour market, financial services and a host of other areas would, once again, be determined by elected politicians.

A second referendum puts all those potential gains at risk, while exposing the UK - and the whole of Europe - to years of economic uncertainty and financial instability. And in the immediate term, not ruling out the prospect of a second referendum weakens the UK’s hand as we enter the two-year Article-50 “negotiating window”.

Negotiating Principles

Brexit needs to be seen alongside the Government's domestic economic agenda. The two, in combination, should help deliver strong and sustainable growth, improving living standards, and lasting prosperity for the British people. Brexit is also an opportunity for the UK to take a leadership role at a time when the world economy needs it, with a focus on free and fair trade.

Below, we outline a series of negotiating principles we believe that the Government should adopt during the two-year Article 50 period.

Principle 1: Outline a vision statement for the UK

The Government should set out a clear and purposeful direction of travel and, within this, reinforce a positive message to the country as well as international businesses and investors. This is not about giving away the UK's negotiating position. It should highlight there is a clear strategy in place, stressing that the UK's domestic economic and industrial agenda goes hand-in-hand with the international policy agenda. This would refute the assertion Brexit will fail because of a disconnect between those who led, and those who voted for, the campaign. We will aim to rebalance the economy and protect workers rights while trading under WTO rules, positioning the UK for future free trade agreements (FTAs) and for a bespoke or sector-specific agreement with the EU.

Principle 2: Outline a sensible UK immigration policy

We need a credible migration policy that serves domestic economic and social needs. That does not amount to "ending migration" or "pulling up the drawbridge". We need to identify in which sectors are the labour-gaps and skills-gaps holding back progress. Subject to this, we should limit unskilled migration - which has suppressed wages in some areas and put pressure on public services and housing, while adding to benefit costs and deterring some firms from investing in their staff. We should also adopt a strategy for skilled migrants - not based only on wages as the pay of skilled staff in the arts, say, may be low, but based on an allocated numbers of visas. Passing such legislation and preparing for implementation should be manageable within the Article 50 "window" - not least as the UK has had such a managed immigration system in the relatively recent past.

We should decide, as soon as possible, how to treat EU citizens currently living and working in the UK. There is a strong argument to guarantee the right of every EU citizen living here at some prescribed date - for instance, the time of the referendum. This gesture would win the UK much goodwill across the EU as we trigger Article 50 - and Brussels would probably be forced to reciprocate.

Principle 3: Leverage off forthcoming European elections

Highlight and promote the importance of the UK market for EU jobs and exports, so encouraging business leaders, unions and other lobbyists across the EU27 to push their governments for a favourable UK-EU deal, of mutual benefit to both sides.

Principle 4: To achieve a bespoke UK-EU deal, be prepared to walk away

The terms “Hard Brexit” and “Soft Brexit” are misleading. The choice is between a “Clean Brexit”, where we leave the Single Market and Customs Union, and a “Messy Brexit”, where any deal with the EU27 is out of our hands. Messy Brexit ultimately depends on the whims of numerous other governments and legislatures, often with conflicting motives - and, ultimately, on the European Parliament. It could easily end up in negotiating stalemate, or be blocked at the last moment, leading to prolonged business uncertainty. In seeking to negotiate a UK-EU deal we need to keep our demands simple and be prepared to walk away. No deal is better than a bad deal. A Clean Brexit gives our government and Parliament control over crucial issues. Using WTO rules as a platform, also allows us to seek a bespoke UK-EU deal, while allowing future UK-focused FTAs with the rest of the world.

Principle 5: Being outside both Single Market and Customs Union makes sense

From an economic and financial perspective we do not need to be in either the Single Market or the Customs Union. Many of those arguing to stay in one or both do so because it suits their present business model. Remaining in the Single Market means continuing to burden all UK firms with EU rules and regulations, even though only around 5 per cent of UK companies export to the EU. Single Market membership also hinders our ability to strike FTAs relating to services.

Some financial institutions benefitting from the status quo argue to stay in the Single Market - but that could prevent the City from competing effectively with other global financial hubs. Within the Customs Union, we remain unable to strike UK-focused FTAs with the 88 per cent of the global economy that will be outside the EU once we have left.

Big businesses like the Single Market, of course. By tying up all UK firms in EU red-tape, including those that do not even export to the EU, it keeps smaller rivals in check. The Customs Union, also, helps big incumbent exporters - while preventing the UK from cutting meaningful trade deals and making imports more expensive for us all.

Attitudes need to change: Brexit is not about making the best of a bad job, it is about realising a huge opportunity - and to do that we must be outside both the Single Market and the Customs Union. The short-term transition costs of leaving them are manageable and dwarfed by the long-term benefits. We have been in both the Single Market and Customs Union for decades now, and neither has served the UK economy well. They have stopped us from setting our own laws, controlling our borders and realising our global economic and commercial potential.

Principle 6: Outlining a sector-by-sector menu helps deliver a UK deal

We need to plan how we treat key sectors of the UK economy during the upcoming Article 50 negotiation. This improves the chance of a bespoke FTA - if not during the two-year window, then after. It also helps identify whether sector-specific transition deals or even temporary subsidies are needed after Brexit - and if so, for how long. These should cover areas including the auto sector and its supply chains, agriculture, fisheries and food and drink, pharmaceuticals, science and innovation and The City and financial services. While there are other important sectors from health through to retail, these areas are likely to figure more in the exit negotiations. A sector-specific approach will help identify short-term transition costs and also longer-term features that need to be put in place - such as bigger port cargo-checking capacity and an expanded customs staff.

The City's combination of skills, knowledge and infrastructure cannot be easily replicated. London is competing not on a regional, but a global scale. While some firms may lose passporting rights, the overall impact is manageable and financial services will anyway benefit from "regulatory equivalence". Within the City, one size does not fit all but London will remain Europe's financial capital and can only compete globally outside the Single Market.

Principle 7: Determine transitional arrangements on leaving the EU

There may need to be "transition arrangements" to help certain sectors once we have left the EU. These make sense if they are short-term and focused, helping avoid a "cliff-edge" that damages investment, rather than becoming permanent. There is a case for liaising with business over this transition strategy during the

Article 50 period. Once outside the EU, small- and medium-sized businesses in particular should find it easier and cheaper to communicate with government via their local MPs, rather than attempting to lobby Brussels.

Principle 8: Outline that it will be relatively easy and beneficial to trade under WTO rules

The UK is a WTO member but currently operates there as part of the EU. We can re-occupy our WTO seat, adopting our own tariff schedules. While some legal concerns have been mentioned, taking up our seat should be straight forward. As long as no other country is worse off than now (with us as an EU member), they cannot complain about our new schedules. But even if they do, we can continue to trade. Complaints are common at the WTO. The EU has had 97 dispute cases as complainant, 83 as respondent and 159 as a third party. So we should not unduly worry about complaints, even though we do not intend to trigger them.

In formal terms, our schedules must "maintain a general level of reciprocal and mutually advantageous concessions not less favourable". This means we cannot be more protectionist than the EU is now. That is unlikely anyway. Action can be triggered by other WTO countries only when there is actual or alleged harm from our new schedules. One particularly sensitive area is agriculture - where we must ensure tariff rate quotas do not cause such a problem that other countries feel worse off. WTO rules allow us to trade freely and seek FTAs with like-minded countries across the world. We can build on this.

Principle 9: Prepare for future Free Trade Agreements across the world

Leaving the Customs Union would allow the UK to position itself to increase trade flows with the rest of the world. While Article 50 negotiations are proceeding we should seek to develop new networks across the globe. FTAs should play to our strengths, be iterative in the sense of being easy to replicate and be with big or fast-growing markets such as the USA and China among others. Such deals are easily possible, as economies smaller than us like Singapore and South Korea have demonstrated. This is particularly so, negotiating on our own strengths, rather than as only one in a bloc of 28 countries, often with conflicting interests. Our FTA deals should have as their underpinning access for the services sector, access for investment flows, intellectual property rights and a commitment to remove tariff and non-tariff barriers (NTBs).

Principle 10: Separate out non-economic issues in our exit negotiation

There are many non-economic areas where the EU would benefit from future close ties with us, whether in defence, security, environmental protection, scientific research, or educational and cultural exchange. We can choose how to incorporate these into our exit negotiations, to our advantage.

Principle 11: Parliament and the Government should prepare and pass legislation on domestic regulation

We need to dispel the myth that the UK is going to adopt a "race-to-the-bottom" mentality - for instance, diluting workers' rights. This is nonsense. In the future, UK rules and regulations will be determined not by Brussels but Westminster, responding to the wishes and needs of voters based in Britain. Preparatory work is needed so, following the Great Repeal Act, we can replace the EU's Single Market regulations with UK-based laws. We can be adaptable and responsive in many ways, and to a far greater degree than the big EU economies with their vastly differing interests.

Principle 12: Decide how best to use our EU money

The amounts we pay to the EU are significant - a net £180 million a week. Over a five-year period, this comes close to the amount of "budget austerity" under the previous Chancellor. We should not waste this money on trying to buy Single Market "access", paying to tie ourselves into EU regulations, future control and the usurping of our democracy. Parliament could decide instead to temporarily subsidise UK-based exporters if they have to pay to sell into the EU. A commitment to assist UK agriculture has already been made to 2020. Spending our gross EU contribution at home is a significant plus for the domestic economy. Within the EU, once policy is decided it is hard to reverse, even if wrong. Outside the Customs Union and Single Market, the UK should be more flexible and responsive.

Principle 13: Decide as part of a Clean Brexit by how much to lower import tariffs

Outside the EU, the UK should adopt, as a point of principal, the promotion of free trade around the world. Cutting import tariffs, ultimately to zero, benefits UK consumers and importers of intermediate goods. This means aiming to reduce and eventually eradicate both tariff barriers and NTBs. While shifting to WTO rules and MFN-status, though, we would advocate a more pragmatic, gradual approach. It is important to recognise the dislocation that could be caused to some sectors - reinforcing the importance of the UK's domestic industrial and regional strategy. While we should offer the EU a deal to mutually remove WTO tariffs, as part of a broader FTA, we should retain such tariffs if such a deal is refused - using them as a bargaining tool when trying to achieve zero-tariffs in a future FTA.

Principle 14: Build an innovative economy geared to benefitting from the "Fourth Industrial Revolution"

Outside the Customs Union, the UK will be better able to cope with the potential dislocation facing the world economy in coming decades through the "Fourth Industrial Revolution" - encompassing advances in a wide range of areas, such as genomics, artificial intelligence, life science and stem cell research, robotics, nano- and green-technology and fintech. Even the European Central Bank has acknowledged the UK is one of the EU economies best able to cope with change. So we have nothing to fear, and much to anticipate outside the Customs Union and Single Market, trading under WTO rules. Freed from the EU's "precautionary principle", and implementing the Government's industrial policy, the UK has the ability to be an innovative success, helping its science base and university sector, and being attractive to inward investment.

It is right for the UK to make a commitment to a leadership role in free trade. In doing so, though, we need to align this aim fully with the domestic economic agenda. The will allow tariffs to be removed of reduced when it is right to do so, recognising the economic benefit through lower prices for UK households and importers, while taking account of the possible impact on regions and sectors. Negotiating the reduction of NTBs will also be central to the UK's future approach to trade.

Principle 15: Scale-up Whitehall

There have been many warnings that we do not have enough skilled staff in key areas of Whitehall and the broader civil service - including trade negotiators and customs officials. Such warnings should be taken seriously. In addition to scaling-up Whitehall, we should consider how best to structure the civil service to reflect the return of competencies from Brussels. For instance, the Department of International Trade should become permanent - allowing the UK to manage and constantly seek to widen the scope of our FTAs around the world.

Principle 16: Use Brexit to forge wider improvements

Embrace free and fair trade and alongside it continue with domestic economic plans, including future fiscal stability and greater monetary discipline, aimed at achieving a more balanced economy with improving living standards for all.

Postscript

By Lord Owen, Foreign Secretary 1977-79

I am delighted to add a Postscript to this important and timely paper by Liam Halligan and Gerard Lyons - two economists I respect and whose writings I follow closely.

As someone who campaigned for the UK to join the European Economic Community back in 1971, in defiance of a three-line Labour Whip, I am an instinctive "pro-European". Yet ever since Maastricht in 1991 I have become progressively more and more dismayed at the extent to which the eurozone has created a dysfunctional EU. It has also virtually destroyed the social element in the "social market".

The Single Currency was a fatal step too far and can only work if an inner federalist eurozone core emerges sooner than the French Presidential candidate Macron is demanding. With Nigel Lawson, on a cross-party basis, I have campaigned since 1999 against the UK having anything to do with such a development. We are still to some extent in a cross-party phase post the 2016 referendum.

In reality, the 27 EU Member States' absolutist demand for "freedom of movement" is part of the founders' dream, necessary for a federalist Single Currency but not for a Single Market. Exiting the EU allows the UK, in the wider Europe, to trade as freely as possible in a neighbourly way, while cooperating under numerous other headings - including crime prevention, security and defence, science and technology, education and culture. That means the UK can also pursue our own free-trade agreements with the rest of the world - particularly with the fast-growing emerging markets that, increasingly, will bestride the global economy.

The best way to ensure this happens, as Halligan and Lyons argue, is for the Government to declare now a "Clean Brexit" - with the UK operating formally outside the all-embracing Single Market and the Customs Union. A deal that trades-off sovereignty with regard to our border controls in return for "market access", could easily, as the authors state, lead to a messy and disastrous stalemate.

The impending Article 50 negotiating window, with its in-built "cliff edge", will bring surprises, no doubt. And even if we do declare "Clean Brexit", some kind of transitional arrangement may well be needed.

The cardinal point for the British Government is that they should carve-out a negotiating position with options. Opting and preparing for "Clean Brexit" puts the British Government in a strong position to strike sector-based deals with the EU, and ultimately a broader free-trade agreement, while preparing to trade as a sovereign nation once more.

Limiting business uncertainty is very important for the EU and the UK. Personally, I think the negotiating timetable should be: out of the EU by 1 March 2018 and fully out of any transitional arrangements no later than 1 March 2020. This means the May 2020 fixed-term General Election can take place with the referendum result honoured and normal party political engagement restored.

I am pleased to recommend this paper.

David Owen, January 2017

Endnotes

[1] The "Single Market" is designed to guarantee the free movement of goods, capital, services, and people (the "four freedoms") within the EU - although, in practice, trade in services remains significantly restricted. Originally referred to as the "Internal Market", the name has shifted as its scope has been extended.

[2] The UK is not part of the Schengen Agreement. On that basis, in a leaflet distributed to all UK households ahead of the June 2016 referendum, the then government said "we control our own borders" within the EU. We do not. Being outside Schengen means EU nationals must show a passport as they enter the UK. But they still have the right to live, work and claim benefits here.

[3] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/dec2016

[4] For a good discussion of immigration see Cambridge University's Professor Robert Rowthorn, "The Costs and Benefits of Large-scale Immigration", Civitas, December 2015. Rowthorn notes that "unskilled workers have suffered some reduction in their wages due to competition from immigrants" and also highlights the pressure on public services.

[5] A useful summary is Roger Bootle, "Six Reasons why post-Brexit Britain can be like others and thrive outside the Single Market", Daily Telegraph, 11.9.16

[6] UK Balance of Payments, The Pink Book 2016, Background Notes, p.27

[7] http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/

[8] https://www.census.gov/foreign-trade/balance/c0003.html

[9] The share of UK companies exporting to the EU is often stated as 8 per cent, but estimates based on HMRC data at https://fullfact.org/europe/how-many-businesses-export-eu/ suggest the figure is 5 per cent.

[10] This point has been made forcefully by Francis Hoar of Field Court Chambers, Gray's Inn - who is a member of http://www.laywersforbritain.org

[11] "[The UK] will take a front seat and I think it will be our priority to make sure we deal with them on a trade agreement initially but in all respects in a way that demonstrates the long-term friendship we've had for so long" - Bob Corker, Chairman, US Senate Foreign Relations Committee, 09.01.17. "It would be logical to expect [a UK-US trade deal] might be high on the Commerce Department's list of priorities" - aide to Wilbur Ross, incoming US Trade Secretary, 17.12.16

[12] Article 50 of the Lisbon Treaty gives any EU member the right to leave the EU and also outlines the procedure for doing so. Before the Treaty was signed in 2007, there was no way legally to leave. Article 50 gives the leaving country two years to negotiate an exit deal. Once in motion, it cannot be stopped or extended beyond two years, unless there is unanimous consent among EU member states.

[13] The problems encountered by the EU in finalising the recent Canada-EU Trade Agreement (CETA) - not least bloody-minded last-ditch opposition by farmers in Wallonia - reminds us of the difficulties the EU has in securing trade deals.

[14] See http://www.economistsforbrexit.co.uk Over-priced food within the EU should be no surprise. The July 1971 white paper on the UK's entry to the European Economic Community states that "membership will affect food prices gradually over a period of about 6 years, with an increase of about 2.5 per cent each year in retail prices". Paragraph 88, p.23

[15] For the EU's most recent tariff schedule, see http://stat.wto.org/TariffProfiles/E28_e.htm

[16] Before the referendum, questions were raised about the political nature of the economic forecasts produced by, in particular, HM Treasury. To this, now, can be added genuine concerns about the underlying economic methodology and the "gravity models" underpinning official pre-referendum estimates of the impact of Brexit. "The Treasury do admit that the data is troublesome...it is not obvious that these results can be applied to a well-developed open economy like the UK". See "The Macroeconomic Impact of Brexit", Graham Gudgin, Ken Coutts and Neil Gibson, Centre for Business Research, University of Cambridge, Working Paper No.483, January 2017, pp.20-21

[17] https://fullfact.org/europe/norway-eu-payments/

[18] In principle, EEA members are subject to judgments by the court of the European Free Trade Association (EFTA), based in Luxembourg. In practice, this court largely accepts and adopts legal precedents based on EU policy and law - not just relating to the "four freedoms" of goods, persons, services and capital, but transport, competition, social policy, the environment and state aid to companies. In other words, despite Brexit, broad aspects of the UK's domestic law and policy-making would remain bound by supranational court judgments.

[19] See Shanker Singham, "Cost of EEA Membership for UK", Legatum Institute Special Trade Commission Briefing, November 2016

[20] https://www.ft.com/content/4c8efca6-7b28-11e6-b837-eb4b4333ee43

[21] http://www.conservativehome.com/platform/2016/09/peter-lilley-brexit-should-be-swift-heres-how-to-do-it.html

[22] http://openeurope.org.uk/intelligence/britain-and-the-eu/giving-brexit-meaning/

[23] Both the Maastricht convergence criteria and the Stability and Growth Pact (SGP) have been honoured more in breach than observation. The SGP, enacted in 1997, was created to establish rules designed to ensure that all countries within monetary union help maintain the value of the euro by enforcing fiscal responsibility - with annual budget deficits at 3 per cent of GDP or less, and national debts limited to 60 per cent of GDP. By 2003, both Germany and France were consisting breaking the rules, uniting to make sure that neither faced sanctions for doing so.

[24] Article 50 of the Lisbon Treaty gives any EU member the right to leave the EU - and also outlines the procedure for doing so. Before the Treaty was signed in 2007, there was no way legally to leave the EU. Article 50 gives the leaving country two years to negotiate an exit deal. Once in motion, it cannot be stopped or extended beyond two years, unless there is unanimous consent among EU member states. The Prime Minister has ruled-out this option.

[25] See HM Government, "Review of the Balance of Competencies between the United Kingdom and the European Union: Agriculture", Summer 2014, paragraph 2.78 page 49

[26] Article 8 of the Treaty of Lisbon requires the EU to seek out cooperation with countries on its borders. "The Union Shall develop a special relationship with neighbouring countries," the Treaty states, "aiming to establish an area of prosperity and good neighbourliness founded on the values of the Union and characterised by close and peaceful relations based on cooperation".

[27] See Table 9.1 of the annual "The UK Balance of Payments Report: The Pink Book 2016", released 29.07.16. The figures quoted here are annual data for 2015.

[28] This point has been made by Lord Lawson and Lord Owen in "Stop Dithering: We Must Leave the EU", City AM, 04.07.16 http://www.cityam.com/244673/lord-owen-and-lawson-stop-dithering-we-must-leave-eu

[29] https://www.census.gov/foreign-trade/balance/c0003.html

[30] Professor Andrew Grainger, "The Unforeseen Cost of Brexit - Customs", The Conversation, 22.07.16.

[31] The NAFTA signatories are America, Canada and Mexico

[32] See World Trade Organization, https://www.wto.org/

[33] "The UK is a member of the WTO today, it will continue to be a member tomorrow. There will be no discontinuity in membership. They have to renegotiate [terms of their membership] but that does not mean they are not members. I will be working hard, I will work very intensely to ensure that this transition is fast and is smooth". Robert Azevado 26.10.16

[34] See HM Government, "Review of the Balance of Competencies between the United Kingdom and the European Union: Agriculture", Summer 2014, paragraph 2.20 page 35.

[35] Dr Richard North has written extensively in this area. See "Flexcit, The Definitive EU Exit Plan for Britain," published by The Leave Alliance, 13.07.16, Version V.08

[36] For WTO dispute cases involving the EU, see:
https://www.wto.org/english/thewto_e/countries_e/european_communities_e.htm#members_may04

[37] "The government will...match the current level of agricultural funding until 2020, providing certainty to our agricultural community, which plays a vital role in our country". Chancellor Philip Hammond, 13.08.16. https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu

[38] See Column 1 of Table 3 - QUEST Cumulative SCF (Structural and Cohesion Funds), "Review of the Balance of Competencies between the UK and the EU: Cohesion Policy, Summer 2014, p. 47

[39] Comments made by Peter Ungphakorn, former Senior Information Officer, WTO Secretariat, on 09.12.16 at, "International Trade Arrangements after Brexit: Establishing the Facts", Loughborough University London Campus

[40] The economist Warwick Lightfoot, based at Policy Exchange, is exploring post-Brexit reform options for UK agricultural support. https://policyexchange.org.uk/what-is-the-future-of-farming-policy-and-agriculture-after-brexit/

[41]https://www.smmt.co.uk/2016/12/1-6-million-cars-roll-off-uk-production-lines-in-first-11-months-as-global-demand-reaches-new-high/

[42] UK Pink Book, 2016, Table 2.1. Based on 77.3 per cent of exports going to the EU, this would be £19.8bn, implying a £1.9bn tariff. Another lower estimate based on exports of £15.6bn comes from "Brexit: the automotive industry reacts", 24.06.16, by Richard Aucock on http://www.motoringresearch.com. With a tariff of 9.6 per cent, this is £1.6bn.

[43] While 56 per cent of UK car exports got to the EU, 12 per cent of EU (minus UK) car exports go to the UK. At SITC-2 digit level, EU exports to UK are still larger than UK exports to EU, according to research cited by The Trade Observatory Centre at Sussex University, in "A Special Deal for the Car Industry: How Would It Work?"

[44] While there is much expertise in financial services across the EU, Frankfurt barely makes the world's top-20 financial capitals and Paris and Amsterdam are both outside the top-30.

[45] "Review of the Balance of Competencies between the UK and the EU: The Single Market, Financial Services and the Free Movement of Capital", Summer 2014

[46] See "EU Financial Markets Access after Brexit", by Karel Lannoo. http://www.ceps.eu Paper given in Tokyo 16.11.16. There are 5,476 UK-based firms with a least one outbound passport to the EU, and 8,008 EU-based firms with at least one inbound passport to the UK. The importance of multiple passports for large UK firms, though, means the total number of outbound passports is 336,421 and inbound passports is 23,532. See letter from the CEO of the Financial Conduct Authority to the Chairman of the Treasury Committee

http://www.parliament.uk/documents/commons-committees/treasury/Correspondence/AJB-to-Andrew-Tyrie-Passporting.PDF

[47] See Barnabas Reynolds - "A Blueprint for Brexit: The Future of Global Financial Services and Markets in the UK, Politeia 2016 - for an excellent discussion of the equivalence options. http://www.politeia.co.uk/wp-content/uploads/2016/11/Barnabas-Reynolds-A-Blueprint-for-Brexit-2.pdf

[48] "Services Trade In The UK: What is at Stake?", Briefing Paper 6, November 2016, UK Trade Policy Observatory, University of Sussex

[49] See Scientists for Britain, http://www.scientistsforbritain.uk including work by Dr. Lee Upcraft and Dr. Chris Lee

[50] See, for instance, "Masters of the Revolution: Why the Fourth Industrial Revolution should be at the heart of Britain's new Industrial Strategy", by Alan Mak MP

[51] "Trade, Growth and Jobs: European Commission contribution to the European Council", February 2013. http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151052.pdf

[52] See "The Europe Report: A win-win situation", Greater London Authority, August 2014. http://www.eureferendum.com/documents/lyonsbrexit.pdf

[53] "The March of the Makers," Budget Speech, House of Commons. 23.03.11

https://www.gov.uk/government/news/2011-budget-britain-open-for-business

[54] See Liam Halligan, “Brexit shouldn’t carry the can for sterling’s woes”, Sunday Telegraph, 08.10.16 http://www.telegraph.co.uk/business/2016/10/08/hard-brexit-shouldnt-carry-the-can-for-sterlings-woes/

[55] European Central Bank Bulletin, Issue 5/2016, Chart 8, p.82

[56] See, for instance, “Brexit means success: Evaluating the impact on the economy of the West Midlands Combined Authority and Wider Economy”, West Midlands Economic Forum, 06.01.17

[57] See Rishi Sunak, “The Free Ports Opportunity: How Brexit could boost trade, manufacturing and the North”, Centre for Policy Studies, November 2016

[58] See Gerard Lyons, “Brexit would help UK manufacturing survive in a global market”, The Guardian, 14.06.16 http://www.theguardian.com/business/economics-blog/2016/jun/14/brexit-uk-manufacturing-global-market-eu-referendum?client=safari

[59] See Politeia Blog, Bernard Jenkin MP, “Free and Fair Trade: A Simple, Clear, Effective Guide to Leaving the EU”, 09.12.16

[60] This point is well made in Roland Smith, “The Liberal Case For Leave”, Adam Smith Institute blog. 30.03.16. https://www.adamsmith.org/the-liberal-case-for-leave/

[61] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/515068/why-the-government-believes-that-voting-to-remain-in-the-european-union-is-the-best-decision-for-the-uk.pdf