The UK in a Changing Europe

WALES AND THE EU INTERNATIONAL TRADE

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The Wales and EU Hub has been created to provide and disseminate non-partisan and independent research on Wales and the EU. The project is part of The Wales Governance Centre.

This report is one of a series examining the implications of EU membership for Wales, and the legal and policy considerations presented by the EU referendum vote. The full set can be found at http://sites.cardiff.ac.uk/wgc/eu/

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INTERNATIONAL TRADE

The referendum on 23rd June 2016 sees the UK electorate vote on whether the UK remains a member of the European Union (EU). This is one in a series of papers which outline the current division of power between the EU, UK, and Wales, and the specific implications for Wales of any change in the UK's relationship with the EU across a range of policy areas of key significance to Wales. This paper looks at extra-EU trade and investment (i.e. undertaken with third countries that are not in the EU).

IN BRIEF

- The EU is an important actor in international trade, it is one of the largest trading powers and the largest economy in the world, accounting for around 15 % of the world's trade in goods. It is both the world's leading host and source of Foreign Direct Investment (FDI).

- UK trade with countries outside the EU has recently be increasing in importance due to the strong economic growth of developing countries. Of the 28 Member States, the UK was the second largest exporter and importer in 2015. Welsh exports to non-EU countries exceed those to EU Member States with the USA, Germany and France key trading partners.

- The UK is the most attractive country in the EU for Foreign Direct Investment (FDI). In 2015 the UK captured 35% of all European headquarter (HQ) moves and achieved a leading market share of 29% of US projects in Europe. It was the main destination for investment in Europe from Japan, Australia, Canada and India. FDI projects in Wales increased by 75% in 2014 with employment created reaching over 2,970 jobs.

- The EU has the power to negotiate and conclude international trade agreements on behalf of its members under its Common Commercial Policy. Competence may also be shared with the Member States however, and on some matters States may still be signatories to or members in their own right of international agreements.

- Currently trade agreements are in place with more than 50 different countries guaranteeing free trade for 60% of the UK's trade. This will rise to nearly 90% if pending Free Trade Agreements such as Transatlantic Trade and Investment Partnership (TTIP) are signed.

- The UK government would regain competence for trade and investment on a UK withdrawal from the EU, within the confines of any international obligations or agreements (e.g. WTO, GATT) that the UK is signed up to. Wales can participate through national channels such as the Joint Ministerial Committee.

- If the UK remains in the EU, the UK will automatically become part of the TTIP (assuming it is approved) and other international trade agreements currently being negotiated.

- If the UK were to leave the EU, new trade agreements would need to be negotiated with the EU and third countries. Otherwise trade could be subject to WTO rules, which is generally less beneficial. The UK could create a multitude of bi- or multi-lateral agreements, including with the EU, and / or applying to join a pre-existing FTA such as the European Free Trade Agreement (EFTA). Under EFTA, the UK would not automatically become party to EFTA's free trade agreements with more than 60 countries as they are agreed on a bilateral basis.

WHAT DOES THE EU DO IN THIS AREA?

The EU is an important actor in international trade – one of the largest trading powers (alongside China and the USA) and the largest economy in the world.[1] It accounts for around 15 % of the world's trade in goods,[2] with the sum of extra-EU exports and imports in 2015 valued at EUR 3 517 billion and a trade surplus of EUR 64 billion (up from EUR 11 billion in 2014).[3] International trade has increased and changed significantly in the last 60 years and been a key driver of global economic growth. The rules and framework governing trade and investment have also evolved with a multi-lateral trading system embodied within the World Trade Organisation (WTO)[4] complemented by pluri- or bi-lateral trade arrangements amongst different countries. As new rounds of negotiations under the WTO have stalled, many countries have attached increasing emphasis to agreements with smaller number of participants – the EU single market is inspired by the same principles as those of WTO.[5] Trade and investment are inter-dependent and complementary - the EU is both the world's leading host and source of FDI.

The 28 Member States present a united front as a block of countries in international trade, with the EU granted powers under the Treaties to negotiate and conclude international agreements on behalf of its members under its Common Commercial Policy. Part V of the Treaty on the Functioning of the EU (TFEU) covers EU external action; specifically, Title II deals with the Common Commercial Policy, Title V with the conclusion of international agreements and Title VI with the EU's relations with international organisations and third countries. The EU has the legal power ('competence') to enter

[1] It should be noted however that emerging economies are capturing an increasing share of the global market. The EU's share of global GDP has fallen in the twenty years between 1993 and 2013 from 30% to 24% due to higher growth rates in the BRIC (Brazil, Russia, India and China) economies. See: http://ec.europa.eu/economy_finance/international/globalisation/international_trade/index_en.htm

[2] The EU-28's exports of goods were surpassed for the first time since the EU was founded and pushed from top stop in 2014 by those of China (15.5%).

[3] http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods

[4] The WTO was established in 1995 at the end of the Uruguay round of negotiations. It replaced the 1947 General Agreement on Tariffs and Trade (GATT) as the main organisation responsible for international trade rules and has 162 members.

[5] http://www.europarl.europa.eu/ftu/pdf/en/FTU_6.2.2.pdf

into international agreements in this area where specific Union objectives or internal acts necessitate such action rather than having a specific external competence per se.[6] Agreements are negotiated by the European Commission[7] on the basis of instructions or a mandate from the European Council in consultation with committees made up of Member State representatives. The European Council then adopts the agreement by Qualified Majority Voting (QMV) in all areas except those where unanimity is required for internal rules – in which case unanimity is also required.[8] The assent or consultation of the European Parliament is required for some agreements.

In a number of areas, where the EU and Member States share competence, or in areas where there is doubt as to the precise scope of the EU's competence, a "mixed agreement" is concluded e.g. the EU-Turkey Association Agreement. EU Member States that are signatories to or members in their own right of international agreements, such as WTO or a Free Trade Agreement, will participate directly in all areas where there are elements of Member State Competence. The agreement then requires unanimous agreement or ratification by all Member States.

The EU is a member in its own right in two international organisations: the WTO and the FAO (Food and Agricultural Organisation of the UN). The WTO is an example of where both the EU and Member States are represented and participate in decision-making; constant management of the cooperation and positions across the different parties is required as the EU, in addition to being a member in its own right, also represents the Member States. The Council mandates the Commission to negotiate on behalf of the EU and the Member States mandate the Commission to negotiate on their behalf. Under the FAO, the exercise of membership rights alternates depending upon their respective competences and in line with the principle of sincere cooperation outlined in Article 4.3 TEU.

Common Commercial Policy (CCP)

The CCP (introduced in Articles 206 and 207 TFEU) is the commercial policy adopted by the EU towards countries outside the Single Market. It governs such things as changes in tariff rates, the conclusion of tariff and trade agreements, the commercial aspects of intellectual property, foreign direct investment and trade protection in the event of dumping or subsidies. Article 207 provides for legislation (under the ordinary procedure i.e. with the Council and EP as co-legislators) to be made for the purpose of implementing the CCP. It is also the legal base for a number of measures in the customs union field. The Council acts by a qualified majority except in trade agreements on services, commercial aspects of IP, foreign direct investment, cultural and audiovisual services and social,

[6] Under the doctrine of implied powers, provided for in Article 3.2 TFEU and through CJEU case law which establishes the parallelism of internal and external competences. The authority of the EU to enter into international agreements arises from conferral by the Treaties or else flows from provisions of the treaties and measures adopted by EU institutions. Internal EU measures cannot be separated out from external relations as once internal measures are adopted Member States can no longer enter into external obligations that affect the relevant rules or subject area as it would be incompatible with the Internal Market and the uniform application of EU law.

[7] For an explanation of the EU institutions and their law making powers, see http://ukandeu.ac.uk/explainers/the-european-union-the-institutional-system-explained/

[8] Under QMV the number of votes accorded to each member state weighted roughly according to the size of the Member State. A qualified majority is considered to have been reached (and the legislation approved) if 55% of the Member States representing more than 65% of the EU population are in agreement

education and health services are taken by unanimity, as are decisions in areas where unanimity is required for the adoption of internal rules.

The CCP is an area of exclusive EU competence. In other words, it is the EU and not Member States which has the power to conclude international agreements that regulate trade between the EU and non-member countries. The competence often overlaps with other objectives of EU action, such as environmental protection or the protection of public health e.g. trade of contaminated agricultural products.[9] See *Chernobyl I,* but the CJEU has determined that the primary or predominant purpose will form the legal basis for the measure.

As part of the Customs Union, the Common Customs Tariff sets common customs duties on imports. Any charges connected with imports are prohibited in intra-EU trade and harmonized or uniform across all the Member States regardless of the country of importation. The Generalised System of Preferences (GSP) establishes a full or partial suspension of customs duties for goods from developing countries and links to the objectives of the EU's development policy through incorporating references to sustainable development[10]. No charges on imports from non-Member States can be applied by Member States in national law alone.

The EU can legislate to protect against dumped or subsidised imports from non-Member States where they cause injury to the Union industry; this will need to be compliant with broader WTO obligations. For example, in 2015 and 2016 the EU imposed anti-dumping measures (effectively a tax on imports) on Chinese steel following a flood of cheap imports threatened the EU's steel industry.[11]

WHAT POWERS DOES THE UK AND WALES HAVE IN THE AREA OF INTERNATIONAL TRADE AND INVESTMENT?

The CCP falls under the exclusive competence of the EU (with the exception of the field of transport which is an area of shared competence) and hence only the EU can legislate. The UK is able to negotiate international agreements and participate in international fora alongside the EU where it has shared competence.

Foreign policy and the regulation of foreign trade are non-devolved matters. The Welsh Assembly will have no legislative power, and the powers of Welsh Ministers will be limited. The UK government

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[9] See *Chernobyl I,* C-62/88 Greece v Council [1990]. The Court of Justice of the EU has determined that the primary or predominant purpose will form the legal basis for the measure.
[10] The EU's GSP allows developing countries to pay less or no duties on their exports to the EU, giving them vital access to EU markets and contributing to their economic growth.
[11] http://www.euractiv.com/section/competition/news/eu-hits-china-with-new-steel-anti-dumping-probes/

represents the interests of all constituent parts of the UK internationally and in negotiations at EU level, whether through direct participation in the negotiation or through input into the European Foreign Affairs (Trade) Councils and special committees. However, the UK government must consult with the Devolved Administrations to ensure that their views are taken into account when developing the UK line. The Memorandum of Understanding between the UK government and the Devolved Administrations in Northern Ireland, Scotland and Wales establishes a Joint Ministerial Committee (JMC) for the purposes on consultation and coordination of the overall relationship between the administrations. It specifically considers non-devolved matters which impinge on devolved responsibilities, and devolved matters which impinge on non-devolved responsibilities. Devolved Administrations' positions on EU matters are discussed and agreed in the JMC (Europe) which meets quarterly to discuss matters bearing on devolved responsibilities that are under discussion within the EU.

The UK Government and the Devolved Administrations have 'concurrent powers' in the promotion of international trade and inward investment. UK Trade & Investment have lead UK responsibility, and the Devolved Administrations are able to devise and implement additional programmes to meet their particular needs.[12]

WHERE WOULD POWER AND RESPONSIBILITY FOR INTERNATIONAL TRADE AND INVESTMENT RETURN TO IN THE EVENT OF BREXIT?

Wales has no legislative competence in this area - under schedule 7.4 of GOWA the regulation of international trade is specifically excluded. The UK government would therefore regain competence for trade and investment on a UK withdrawal from the EU. It would be able to set its own external tariffs and regulatory requirements, negotiate its own Free Trade Agreements with third countries and have an independent trade and investment policy, albeit within the confines of any international obligations or agreements such as WTO, GATT that the UK is signed up to. However, trade with the EU and wider would have to be regulated somehow and it is unclear whether the new trading relationships would be based on current third-country trade partners or whether a different form of relationship would be negotiated.

ISSUES FOR WALES IN RELATION TO REMAINING OR LEAVING THE EU

[12] D4.22, Memorandum of Understanding between the UK Government and the Devolved Administrations at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238423/7864.pdf

UK trade with countries outside the EU has recently be increasing in importance due to the strong economic growth of developing countries. Of the 28 Member States, the UK was the second largest exporter and importer in 2015 contributing 12.9% of the EU-28's exports of goods to non-member countries and accounting for 15.2% of all imports.[13] Welsh exports for the first quarter of 2016 measured £1.12 billion in intra-EU trade and £1.85 billion in trade with non EU countries.[14] For the year end Quarter 1 2016 the largest trading partners for Wales were the USA (£2.8 billion), then Germany, UAE, Ireland and France for exports and Germany, China, France, USA and Canada for imports[15].

The EU has negotiated a series of bilateral trade agreements which secure access and cheaper, faster and more stable trade for EU businesses with wider international markets as well as increasing investment potential. Currently trade agreements are in place with more than 50 different partners; Open Europe calculates that the EU and its Free Trade Agreements guarantee free trade for 60% of the UK's trade and that this would rise to 88% if pending FTAs are signed.[16] The UK Government's Balance of Competence Review - which sought to audit what the EU does and how this affects the UK and UK national interests – concluded that the UK, through EU membership, achieves results that are in the national interest mainly as a result of the increased weight and influence of the EU in global trade negotiations although this is watered down by the compromises that of course must be made in promoting the UK's own interests. It also notes the 'rules' of global trade are influenced or made by the standards set internally to the US or EU for example, that then spread across different parts of the world.

Current negotiations on Transatlantic Trade and Investment Partnership (TTIP) with the United States of America is expected to have significant positive impact on the EU economy and, therefore positive benefits for the Welsh economy and businesses. The European Commission estimates that, by 2027, TTIP could boost the size of the EU economy by £94bn or 0.5% of GDP. The Department of Business, Innovation and Skills estimates that the gains to the UK would be £4 billion to £10 billion annually (0.14% to 0.35% of GDP) by 2027. However, critics argue that it could lead to European job losses and a net fall in EU exports, as well as social costs stemming from the alignment of regulatory standards in areas such as consumer safety, environmental protection and public health. Nevertheless, TTIP *is expected to be* a "mixed competence" agreement (EU and member state competence) meaning it will require adoption/ratification by the European Council, the European Parliament and all 28 EU member states in order to enter into force.[17]

A withdrawal from the Single Market without the adoption of any alternative trade agreement would mean that UK exporters to the EU would be required to pay the EU's common external tariff. In the absence of any new relationship being established, the UK would be constrained to acting within

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[13] http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods
[14] https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Exports
[15] https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx
[16] http://openeurope.org.uk/today/blog/trade-set-to-be-key-battleground-in-eu-referendum/
[17] http://www.theguardian.com/business/2015/aug/03/ttip-what-why-angry-transatlantic-trade-investment-partnership-guide; http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06688

the boundaries of WTO rules and its 'most favoured nation' rules. These concern equal treatment - every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners. This is not generally considered a particularly beneficial arrangement for the UK:[18] in the case of food, exporters would be required to pay an average tariff of 15% on exports to the EU, whilst cars (the UK's largest goods export) would be subject to a tariff of 10%.[19]

The Ernst and Young Attractiveness Survey for 2015 shows that the UK is the most attractive country in the EU for Foreign Direct Investment (FDI) and the fourth most attractive in the world. In 2015 the UK captured 35% of all European headquarter (HQ) moves and achieved a leading market share of 29% of US projects in Europe. It was the main destination for investment in Europe from France, Japan, Australia, Canada, India and Ireland. [20]

Figures show a significant improvement in the amount of FDI in the Welsh economy over previous years, with a 75% increase in 2014 in the number of FDI projects recorded in Wales. Employment created in Wales from FDI in 2014 stood at 2,971 jobs according to the Ernst and Young report, although this is not broken down into EU/non-EU FDI.[21] Welsh Government figures point to over 500 firms from other EU member states being based in Wales, providing over 59,000 jobs. The links into supply chains and the multiplier effect of these investments should additionally be considered although less evidence exists on these indirect effects.

The upcoming referendum on European Union membership is reported as a major risk to FDI however - 72% of investors surveyed cited access to the European single market as important to the UK's attractiveness and 31% of investors stating that they will freeze or reduce investment until the outcome of the referendum is known. Stability and political predictability feature as key attributes considered by investors and ones in which the UK has traditionally scored highly, but the referendum is potentially changing this perception for investors and potentially undermining the attractiveness and influence of the UK.[22] A recent poll of 782 business leaders in the UK, conducted by the Economist Intelligence Unit, found that nearly one third would reduce or relocate their capacities in the U.K. in the event of Brexit. As the scenario painted was one in which the UK still had access to the Single Market i.e. an agreement in line with that of Norway and Switzerland, a total divorce from the Single Market could be expected to cause an increase in these figures.[23]

PARTICIPATION POST-BREXIT

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[18] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/279629/bis-13-865-balance-of-competences-review-trade-and-investment.pdf; http://thebrexitblog.ideasoneurope.eu/2015/12/13/eu-responds-british-withdrawal-will-determined-five-key-factors/

[19] https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/pb_britishtrade_16jan14-8285.pdf

[20] http://www.ey.com/UK/en/Issues/Business-environment/2015-UK-attractiveness-survey

[21] Ibid.

[22] http://www.cer.org.uk/publications/archive/policy-brief/2014/great-british-trade-impact-leaving-eu-uks-trade-and-investmen

[23] http://www.politico.eu/article/business-tells-britain-dont-go-eu-stay/

Free Trade Agreements (FTA)

In the event of Brexit, the UK could consider creating Free Trade Agreements with trading partners (bi- or multi-lateral), including with the EU, and / or applying to join a pre-existing FTA such as the European Free Trade Agreement (EFTA), or create a new FTA such as, for example, one with Commonwealth countries.

In the first instance – the establishment of a FTA with the EU – any agreement would require a decision by QMV of the remaining 27 member states of the EU to such an agreement. Commentators point to the possibility that an 'acrimonious break-up' of a 40-year relationship between the EU and UK would be seen as a hostile act that should be punished in order to avoid any domino effect of other countries following.[24] Depending on the depth of the FTA provisions, the UK and its businesses could be required to abide by elements of EU legislation in order to access the Single Market. A number of existing EU Free Trade Agreements have been advocated as potential models for the UK in the event of a Brexit – for the most part however the agreements would not be wholly compatible with UK interests as they tend to exclude services for example. The length of time taken to secure the FTAs also suggest significant delay and uncertainty for investors and exporters. Many EU FTAs additionally include chapters on public procurement and competition law, suggesting that the UK could continue to be bound by these regulatory requirements.[25]

Should it not be possible to negotiate a UK/EU FTA, WTO membership would enable the UK to trade with the EU under 'most favoured nation' terms but, as mentioned above, the common external tariff and anti-dumping rules and duties would apply. The WTO also has made little progress in freeing up trade in services, so UK access in this area could be limited. The CER note that 'very few trading relationships of the scale and complexity of the one between the UK and the EU are undertaken under mere WTO rules'.[26]

Those in favour of a 'going it alone' approach argue that the European markets are not those with greatest GDP growth and that the UK's membership of the EU distorts trade in favour of countries which are relatively in decline. The GDP growth rate of the Commonwealth countries has been heralded as one reason to re-focus UK trade away from the EU and to new markets - whilst the growth rate has fallen in the Eurozone from an average of 3.8% in the 1970's to only 0.6% in recent years, the growth rate of the Commonwealth in 2013 was 3.7%.[27] However, the 53 Commonwealth countries do not have a FTA and there is currently no proposal to create one nor to act collectively on international trade. Three of the Commonwealth countries are already members of the EU, but 88.6% of members are either developing or less-developing countries. When a FTA with the

[24] Anatole Kaletsky, An ugly divorce, Prospect magazine, December 2015, available at: http://www.prospectmagazine.co.uk/features/why-brexit-could-be-britains-biggest-diplomatic-disaster

[25] The FTA with South Korea is the most ambitious ever signed by the EU in terms of scope (covering both goods and services) and the speed with which it aims to remove trade barriers http://trade.ec.europa.eu/doclib/html/148303.htm

[26] https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/pb_britishtrade_16jan14-8285.pdf

[27] http://www.worldeconomics.com/papers/Commonwealth_Growth_Monitor_0e53b963-bce5-4ba1-9cab-333cedaab048.paper

Commonwealth was considered by the House of Commons Foreign Affairs Committee in 2013, the committee concluded the change would be risky and that there would be no guarantee benefits would outweigh the disadvantages[28].

Should the UK go for a wider range of individual/bilateral trading agreements, a significant amount of negotiation and diplomacy would be required to replace the 50+ arrangements in place as a result of EU membership. However, in the event of Brexit, the focus of many third countries in negotiating future trade deals is more likely to be trading with the larger EU market on the UK's doorstep rather than the smaller isolated UK market. In late October 2015 the US trade representative indicated that the US would not look to establish a separate trade agreement with the UK if it left the EU, that would be any more beneficial in relation to tariffs than that offered to Brazil, China or India.[29] President Obama, on his recent visit to the UK, stressed again that the UK would not get preferential treatment from the US as their preference would be the larger EU market. In the House of Commons Foreign Affairs Select Committee Inquiry into the costs and benefits of EU membership, evidence has identified the risk to the UK's special relationship with the US of any change in the relationship with the EU, stating that Washington would be increasingly likely to do business / negotiate with other EU capitals over London in the event of a UK withdrawal from the EU.[30] As an individual country the UK would also have reduced influence in negotiating such agreements and additionally in international fora such as the WTO where the European Commission is acknowledged to have taken a 'high profile'.[31]

Customs Union – Turkey

Turkey has been a member of the EU customs union since 1995, although the scope of the customs union is limited to industrial products and processed agricultural products. In these areas Turkey must apply the EU common external tariff (CET) with respect to imports from the rest of the world. The Customs Union foresees that Turkey is to align to the *acquis communautaire* in internal market areas, for example in regard to industrial standards.

The CER (2014) comment that Turkey's relationship with the EU is not really a 'union' - tariffs are decided in Brussels with no Turkish input and Turkey must follow the EU's preferential agreements with non-European countries. If the UK were to follow this model it would mean no input into EU trade policy but being required to comply with it, EU product standards and all other relevant EU legislation.[32]

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[28] http://www.regents.ac.uk/media/1460304/SEE-Background-paper-final-Feb-2015.pdf
[29] http://www.walesonline.co.uk/news/wales-news/leading-wels h-economist-says-eu-10374843
[30] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/foreign-affairs-committee/the-costs-and-benefits-of-uk-membership-of-the-eu/written/24059.html; http://www.regents.ac.uk/media/1460304/SEE-Background-paper-final-Feb-2015.pdf; http://www.theguardian.com/politics/2016/apr/24/leave-campaign-obama-trade-warning-eu-referendum
[31] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/279629/bis-13-865-balance-of-competences-review-trade-and-investment.pdf
[32] https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/pb_britishtrade_16jan14-8285.pdf

Bilateral agreements - Switzerland

Switzerland's relationship with the EU is regulated through a series of more than 120 bilateral sectoral agreements that incorporate a broad raft of single market and four freedom provisions. Switzerland has access to the Single Market in many areas but is required, each time a new piece of Single Market legislation is agreed, to put in place a new agreement with the EU. Of relevance to the UK is the fact that the Swiss services and financial services sectors are excluded from the Single Market as no agreement has been brokered; these form 75% of the UK economy and hence it is unlikely that the 'Swiss' model would be suitable for the UK. Commentators also suggest that the lengthy nature of the negotiations (9 years for the 'Bilaterals I' package) leave Swiss economic actors with considerable uncertainty[33].

European Free Trade Association (EFTA) and the European Economic Area (EEA)

EFTA is a free trade area established in 1960[34] to promote trade between its members - there is free movement of goods between the participating states and EFTA has negotiated free trade agreements covering more than 60 countries, which is similar to EU FTAs in terms of numbers. However, as FTA's are agreed on a bilateral basis between EFTA members and the third countries concerned, the UK would not automatically become party to them if it acceded to the EFTA. In addition, the CBI reports that FTA's negotiated by EFTA with third countries are weaker than those of the EU, reflecting the latter's more significant economic and political clout globally[35]. In terms of world trade in merchandise, EFTA is 12th in the world with 1.81% of world trade, whilst the EU is world leader with a 32.04% share of world trade, well in excess of second-placed China which represents an 11.03% share of world trade. In commercial services EFTA is 7th with 2.69% and the EU again tops the league with a 40.57% share of world trade, 2nd in line is the US with only 12.12%[36].

The EEA consists of all EU Member States and Iceland, Norway and Liechtenstein and surpasses a traditional FTA in its scope by extending the full rights and obligations of the Single Market and the four freedoms (of goods, people, capital and services) to the EEA countries. This means that non-EU EEA members are required to implement all EU legislation in these areas without being fully involved in their negotiation. Any failure to implement the legislation results in the potential suspension of membership by the EU and adoption. The sectoral coverage of the Single Market under the EEA is lower than under the EU as agriculture and fisheries are not included and EEA-EFTA members are not part of the EU Customs Union. That means that exporters are required to

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33 http://www.economist.com/news/britain/21692883-why-britains-eu-budget-burden-no-longer-valid-eurosceptic-gripe-budget-didnt-bark; http://www.regents.ac.uk/media/1460304/SEE-Background-paper-final-Feb-2015.pdf

34 Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom were the founding members. EFTA then came to incorporate additionally Finland, Iceland and Liechtenstein. Today the EFTA Member States are Iceland, Liechtenstein, Norway and Switzerland, with all other previous members having left to join the EU.

35 http://www.regents.ac.uk/media/1460304/SEE-Background-paper-final-Feb-2015.pdf

36 http://www.efta.int/publications/this-is-efta-2015

pay customs duties when they trade with the EU, can be subject to anti-dumping rules, and also assume administrative costs of working with tariffs etc.