

CPA Guide to National Membership of the European Political, Trade and Monetary Unions

The Building Centre | 26 Store Street | London WC1E 7BT

tel: 0207 323 3770 | www.constructionproducts.org.uk

Chief Executive: Dr Diana Montgomery. Registered Office: 26 Store Street, London WC1E 7BT.

As the United Kingdom heads towards the start of its complex negotiations to exit the European Union by the invocation of Article 50, the differences between the numerous European political, trade and monetary unions will take on far greater significance. National membership of these groupings overlap with one another but each union has its own distinct entity. Knowing what each union represents and which European states belong to which union is often confusing.

This guide serves to clarify the differences between these national unions and categorises which countries belong to which grouping with the aim of assisting the membership to more easily understand the Brexit process as it unfolds.

Some “Points to Ponder” have been incorporated against each of the definitions of these European groupings as to what effects the UK leaving this organisation will have on the construction supply chain. It is worth remembering, but not included in these “Points to Ponder”, that the Great Repeal Bill will be placed before the UK Parliament to repeal the European Communities Act. This is expected to include a clause enabling all current EU legislation to be enshrined into UK law.

Table I: European National Unions, their membership and *raison d’etre*

European National Unions	Definition
<p>European Union (EU)</p>	<p>An economic, political and customs union, confirmed by the <i>Lisbon Treaty</i>, consisting of 28 European Member States plus 4 special members. Collectively it has 7.3% of the world’s population (more than 510m). The EU generates around 24% of global nominal GDP.</p> <p>Along with the European Free Trade Association (EFTA), the EU forms the European Economic Area (EEA).</p> <p>The EU has free trade arrangements with many countries both within and outside of Europe including Turkey and Ukraine and those countries applying to join the EU.</p> <p>Points to Ponder</p> <p>Brexit for the construction industry supply chain would mean leaving the:</p> <ul style="list-style-type: none"> • Single Market: - <ul style="list-style-type: none"> ○ Ending the free movement of people, goods, services and capital ○ Potential reduction in lucrative export markets due to the EU imposing import tariffs [approximately 60% by value (£3.5bn) of UK construction products are exported annually to the EU duty free.] ○ The availability of skilled labour for the construction industry would also be affected. ○ Closing off of European duty-free imports will lead to raised costs due to the re-introduction of import tariffs. . ○ This would be a temporary issue for UK construction product manufacturers while they increase production to meet demand.

	<ul style="list-style-type: none"> • EU Customs Union – <ul style="list-style-type: none"> ○ Ending the benefit of the common tariff system ○ UK imports would be subject to the common external tariff for non-EU states ○ This would lead to temporary price rises for construction products until such time as UK manufacturer increased production to meet demand. ○ UK exports to the EU would no longer be duty free, but would be subject the EU common external tariff <p>Around 12% of construction products used in the UK are imported from the EU. Imports of construction products over the past four decades have fluctuated in line with construction activity. These imports are most important when their proportion of the overall requirement rises significantly; i.e., when demand rises following a significant recession to fill the gap until UK manufacturers increase production to meet demand.</p> <p>The UK’s desire to control immigration and be able to strike trade deals outside the EU would mean our remaining in the Single Market or the Customs Union, is off the table. To facilitate these two aims, may mean the UK re-establishing independent membership of the World Trade Organisation then trying to agree a trade deal with the EU.</p> <p>If the UK unilaterally scrapped import tariffs it would reduce the cost of construction products on the market, however, this could lead to job losses in UK industry if imported products ended up at a lower cost than those manufactured here.</p>
<p>European Free Trade Association (EFTA)</p>	<p>Is a free-trade area comprising of 4 European states (Iceland, Liechtenstein, Norway and Switzerland). It is separate from the EU but operates in parallel. All EFTA members participate in the Single Market. EFTA and the EU together form the European Economic Area.</p> <p>As a free trade area, EFTA has no tariffs, taxes or quotas on goods and services between its member states. This is not a universal arrangement as some industry sectors are exceptions to these rule e.g. agriculture and fisheries.</p> <p>Imported goods must comply with the laws of the country in which they are being sold e.g. it is possible to have a free trade agreement with the USA but still ban imports of GM foods or to have different safety standards for some goods and, therefore a free trade agreement is different from a Customs Union.</p> <p>Points to Ponder</p> <p>If the UK were to re-join EFTA it would gain access to a large global free trade network working to World Trade Organisation rules. To benefit from this, the UK construction product manufacturing sector would have to seriously consider expanding exports.</p>

	<p>The EFTA states have developed a large network of free trade agreements spanning over 60 countries and territories around the world, including the EU. Combining the European Economic Area (EEA) and Free Trade Areas with non-EU countries, around 80% of EFTA's total merchandise trade is conducted under preferential arrangements.</p> <p><u>EFTA's Free Trade Agreement with the World by Regions</u></p> <p>Europe: - European Union, Albania, Bosnia & Herzegovina, Georgia, Macedonia, Montenegro, Serbia, Turkey & Ukraine.</p> <p>Middle East/ North Africa: - Egypt, Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia & UAE), Israel, Jordan, Lebanon, Morocco, Palestine & Tunisia.</p> <p>Algeria is negotiating to join.</p> <p>Sub-Saharan Africa: - Southern African Customs Union – Botswana, Lesotho, Namibia, South Africa & Swaziland.</p> <p>Joint declaration of cooperation/dialogue on trade relations under way with the East African Community (Burundi, Kenya, Rwanda, Tanzania & Uganda), Mauritius.</p> <p>America: - Canada, Central American States (Costa Rica, Guatemala & Panama), Chile, Colombia, Mexico & Peru.</p> <p>Joint declaration of cooperation/dialogue on trade relations under way with Mercosur (Argentina, Brazil, Paraguay, Uruguay and Venezuela) & United States (trade policy dialogue).</p> <p>Asia Pacific: - Hong Kong, Republic of Korea, Philippines & Singapore.</p> <p>India, Indonesia, Malaysia, Thailand & Vietnam all negotiating to join.</p> <p>Joint declaration of cooperation/dialogue on trade relations with Mongolia, Myanmar & Pakistan.</p>
<p>European Economic Area (EEA)</p>	<p>Comprises of the 28 full EU Member States plus 3 EFTA countries (Iceland, Liechtenstein and Norway) to facilitate the free movement of people, goods, services and capital within the Single Market of the EU. Switzerland, an EFTA country, is not a member of the EEA.</p> <p>Points to Ponder</p> <p>There are two schools of thought:</p>

	<ul style="list-style-type: none"> • The UK is a part of the EEA by virtue of its membership of the EU confirmed in the <i>Lisbon Treaty</i> – UK Government view. • British Influence (a pro-EU Think Tank) state that the UK can only leave the EEA in a separate move to our leaving the EU as membership of the EEA is through the <i>EEA Agreement</i> which is different to the <i>Lisbon Treaty</i> giving us membership of the EU. <p>If the UK re-joined EFTA, then it could maintain its membership of the EEA, however, it would still be subject all the EU laws as if it had not left.</p>
<p>Single Market (Internal Market)</p>	<p>Is composed of the 28 EU member states plus the 4 EFTA nations. It permits people, goods, services and capital to move around freely as if it were a single country by eliminating tariffs, quotas and taxes on trade.</p> <p>It creates a level playing field, something that does not happen in a free trade zone. Thus, the EU is not a free trade area but is a single market.</p> <p>Citizens can study, live, shop, work and retire in any member state.</p> <p>The Single Market for goods has existed since 1992, but that for services is still “work in progress”. Similarly, differences in national tax systems still exist as do requirements for e-commerce, financial services, energy and transport plus a few other areas.</p> <p>The Single Market also strives to remove non-tariff barriers e.g. different rules on packaging, safety and standards and many others are replaced with the common rules and regulations applying across member states.</p> <p>When the UK leaves the Single Market, there would be no point in being part of the Customs Union as the UK needs to be in a position to negotiate its own trade deals. However, from an economic view point, would it be beneficial for the UK not to leave the single market or the customs union - but this would not be Brexit?</p> <p>Points to Ponder</p> <p>Brexit would mean that the UK can: -</p> <ul style="list-style-type: none"> • Apply its own customs tariffs to imports from outside of the EU • Conclude its own trade deals with non-EU countries • Set its own rules on immigration, however, domestic skilled labour is in short supply for the construction industry • Pursue a more permissive free trade approach to non-EU states • Export to the EU would be hit by increased import tariffs in the Single Market.
<p>Eurozone</p>	<p>A monetary union comprising of 19 of the 28 EU Member States which have adopted the euro (€) as their common currency and sole legal</p>

	<p>tender. Of the 9 remaining countries, 7 are obliged to adopt the Euro once they meet the laid down criteria. Only the United Kingdom and Denmark are not obligated to join the Eurozone.</p> <p>Points To Ponder</p> <p>Once the UK withdraws from the EU, will it avoid having to make future contributions to the Eurozone bail out of EU countries if further monetary problems arise?</p>
<p>Printing of Euro bank notes</p>	<p>Legally, both the European Central Bank (ECB) and the National Central Banks (NCBs) of the Eurozone countries have the right to issue Euro bank notes. In practice, only the NCBs of the Eurozone physically issue and withdraw Euro notes. Monaco, San Marino and the Vatican City are not members of the EU or the Eurozone but they have a special agreement with the EU to print euro banknotes.</p>
<p>Schengen Area</p>	<p>These 29 European countries have abolished passport and any other border controls at their mutual borders thus allowing for the free and unrestricted movement of people, goods, services and capital in harmony with common rules for controlling external borders and fighting criminality by strengthening their common judicial system and police co-operation.</p> <p>Iceland, Norway and Switzerland are associated members of Schengen as they are not members of the European Union.</p> <p>The Azores, Madeira and the Canary Islands are special members of the EU and are part of the Schengen Area, even though they are geographically outside the European continent.</p> <p>Romania, Bulgaria, Croatia and Cyprus are seeking to join.</p> <p>Points to Ponder</p> <ul style="list-style-type: none"> • The UK opt-out from the main Schengen Agreement still allows it to check people coming from the rest of the EU to see if they are entitled to enter the country or not. Under EU rules the UK must admit EU citizens and their family members unless there is some indication that they are fugitives from justice or they are using a stolen passport. • Because of this UK opt-out and that Ireland has not joined the Schengen Area, therefore, after Brexit there is no need to re-instate a physical border control between Northern Ireland and the Republic. • The UK has opted into the less controversial parts of the Schengen system covering criminal law and policing rules.
<p>EU Customs Union</p>	<p>Is a custom free union comprising of the 28 EU Member States, Monaco and some UK territories (Akrotiri and Dhekelia, Guernsey, Jersey and the Isle of Man) which are not part of the EU, together with Andorra,</p>

	<p>San Marino and Turkey. The Customs Union deals with goods but not services and, therefore, is different from a free trade area such as EFTA.</p> <p>Members have:</p> <ul style="list-style-type: none"> • A common external tariff for exporting goods to non-EU Custom Union states • Adopted a common external tariff (CET) for goods imported from outside the customs union. This revenue goes to the EU budget fund. • Agreement that once goods have cleared customs in one country, they can be shipped to other countries in the Customs Union without further tariffs being imposed. However, they may be subject to excise duty and VAT. • Common “rules of origin” exist to demonstrate that goods qualify as having originated from within a member country • A common definition of customs value <p>A legal framework exists:</p> <ul style="list-style-type: none"> • Ensuring that the common tariff is applied in the same way at all external borders • Introducing a common approach on warehouse procedures • Facilitating movement of goods in “custom transit” • Replacing the wide variety of customs documents with a single administrative document. <p>Members cannot negotiate their own trade deals with third countries.</p> <p>Points to Ponder</p> <ul style="list-style-type: none"> • UK exports and imports with the Customs Union would be subject to a common external tariff. <p>It has been argued that the UK could remain within the Customs Union when it leaves the Single Market. This would be detrimental to the UK’s independence to negotiate its own trade agreements with non-EU states as we would still be subject to the Customs Union rules.</p> <p>The UK’s desire to control immigration and be able to strike trade deals outside the EU would mean our remaining in the Single Market or the Customs Union, is off the table. To facilitate these two aims, may mean the UK re-establishing independent membership of the World Trade Organisation then trying to agree a trade deal with the EU.</p> <p>If the UK unilaterally scrapped import tariffs it would reduce the cost of construction products on the market, however, this could lead to job losses in UK industry if imported products ended up at a lower cost than those manufactured here.</p>
<p>Council of Europe</p>	<p>Comprises of 47 European countries (28 are members of the EU) which promote democracy and protection of human rights and the rule of law within Europe. It defines the EU’s overall political direction and priorities, however, it is not one of the EU’s legislative institutions so does not negotiate or adopt EU laws. There are no fixed members to</p>

	<p>the Council of Europe, instead, countries send their minister responsible for the policy area being discussed.</p> <p>Points to Ponder</p> <p>The referendum held on 23rd June 2016 was to leave the EU not the Council of Europe.</p>
--	--

Table 2: Economic integration between European Member Groupings

Economic Integration between Countries	No Internal Trade Barriers	Common External Tariffs	Factor ¹ & Asset Mobility ²	Common Currency	Common Economic Policy
Free Trade Area	X				
Customs Union	X	X			
Single Market	X	X	X		
Eurozone (Monetary Union)	X	X	X	X	
Economic Union	X	X	X	X	X
<p>Notes:</p> <p>1 The means of production - labour, capital and land (within industry sectors and cross industry)</p> <p>2 Cross border movement for members</p>					

Below is a pictorial representation depicting the national members of each of the European groupings.

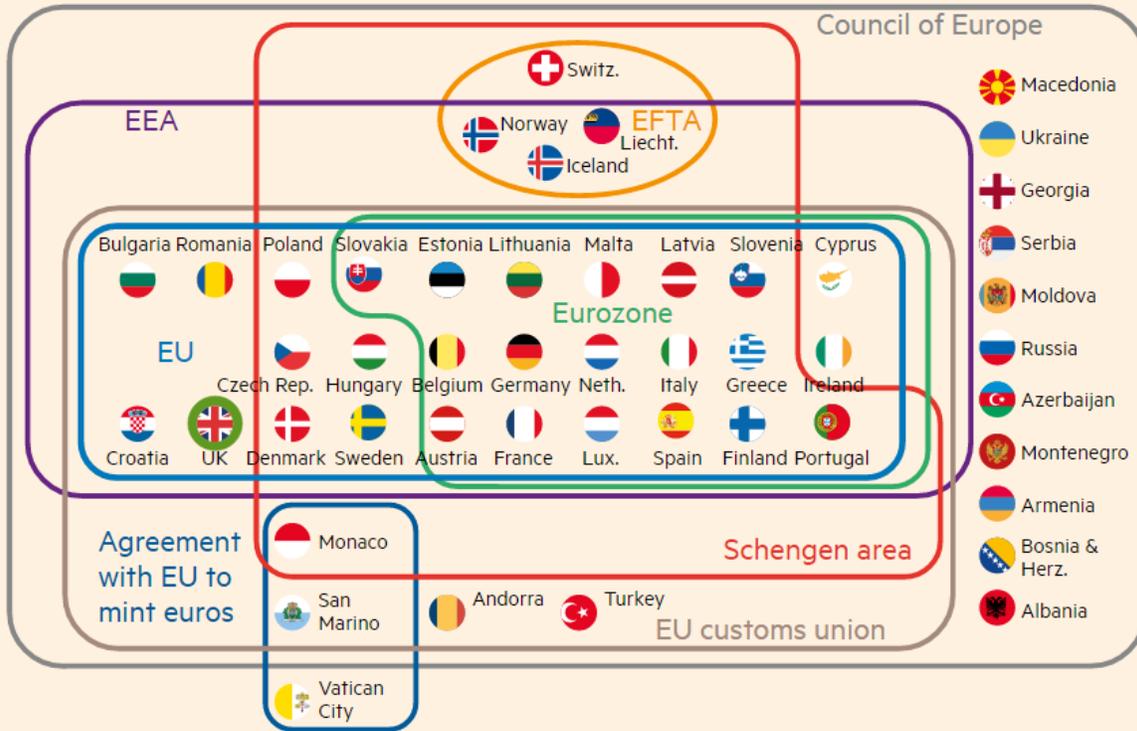


Fig 1: European National membership of various European groupings

We have dissected this diagram into a standard spread sheet (see Page 9, below) to more easily show which countries belong to which policy unions. The spread sheet depicts membership of the individual policy unions based on the full membership of the European Union shown by a blue X.

Membership of the European Political, Trade and Monetary Unions									
European Countries and Other Territories	European Union Member States (28 Full + 4 Special)	European Free Trade Agreement (EFTA) (4 Full)	European Economic Area (EEA) (28 EU + 3 EFTA)	Single Market (28EU+4EFTA)	Eurozone (19)	Print Euros only (3)	Schengen Area (29+7)	EU Customs Union (EUCU) (28 EU + 4 Others)	Council of Europe (No fixed membership)
United Kingdom	X		X	X				X	
Andora								X	
Azores	x ¹						X ⁶		
Austria	X		X	X	X		X	X	
Belgium	X		X	X	X		X	X	
Bulgaria	X		X	X			x ³	X	
Canary Islands	x ¹						X ⁶		
Croatia	X		X	X			x ³	X	
Cyprus	X		X	X	X		x ³	X	
Czech Republic	X		X	X			X	X	
Denmark	X		X	X			X	X	
Estonia	X		X	X	X		X	X	
Finland	X		X	X	X		X	X	
France	X		X	X	X		X	X	
Germany	X		X	X	X		X	X	
Greece	X		X	X	X		X	X	
Hungary	X		X	X			X	X	
Iceland		X	X	X			x ⁴		
Ireland	X		X	X	X			X	
Italy	X		X	X	X		X	X	
Latvia	X		X	X	X		X	X	
Liechtenstein		X	X	X			X		
Lithuania	X		X	X	X		X	X	
Luxembourg	X		X	X	X		X	X	

Madeira	x ¹						x ⁶			
Malta	x		x	x	x		x	x		
Monaco						x ²	x ⁵	x		
Netherlands	x		x	x	x		x	x		
Norway		x	x	x			x ⁴			
Poland	x		x	x			x	x		
Portugal	x		x	x	x		x	x		
Romania	x		x	x			x ³	x		
San Marino						x ²	x ⁵	x		
Slovakia	x		x	x	x		x	x		
Slovenia	x		x	x	x		x	x		
Spain	x		x	x	x		x	x		
Sweden	x		x	x			x	x		
Switzerland		x		x			x ⁴			
Turkey								x		
Vatican City						x ²	x ⁵			
Notes:										
	x ¹ Special members of the EU					x ² Have an agreement with EU to print euros	x ³ Countries in the process of joining.	x ⁴ Associate members.	x ⁵ Have open borders but are not Schengen members.	x ⁶ EU special members and full Schengen members.