CETA: THE FACTS

Throughout the Brexit negotiations, the EU-Canada Comprehensive Economic and Trade Agreement (CETA) has been proposed as a model for the UK's future relationship with Europe. A deal like Canada's would eliminate most tariffs and deliver control over immigration and trade policy. However, outside a customs union, the UK would face customs declarations and a hard border between Ireland and Northern Ireland. The services sector (80% of UK GDP output), would also face much reduced access for trade. And the lack of a common rule book would create a number of serious regulatory barriers.

A CETA-like deal would pile burdens on manufacturers and food firms

Selling into separate UK and EU markets would become less efficient as firms would be forced to get two sets of licenses, permissions and approvals instead of one.

- To sell products both in the EU and Canada, businesses must comply with two sets of rules, get products cleared by two sets of regulators and pay for two sets of licenses before goods can cross the border.
- Having to go through complex testing and approval processes to sell into the UK and the EU as separate markets will affect an enormous range of products – from aeroplanes to oven gloves.
- The time to clear medicines for sale across the UK and EU could increase by up to 3 months[1] and doubling safety tests on different machines can add £5,000-£500,000 of costs.

"Our industry has spent £billions adopting REACH regulations, the EU rules for chemicals. Under CETA, UK industry and EU industry will have to pay commercial rates to allow the use of existing data to be migrated into an alternative UK REACH system. This will be cost prohibitive for many companies and the UK will lose access to critical chemical materials," - **European distributor of chemicals and additives**

The biggest losers of a CETA-like deal are the UK's services companies

Highly regulated sectors including broadcasting, transport, financial services and professional services companies would face much reduced access for trade.

- Under CETA the 5476 UK and 8008 EU financial services firms[2] currently based in the UK would be extremely restricted under the equivalence regime, with areas such as lending, primary insurance and commercial banking excluded. Access may also be revoked at any time by the European Commission.
- The UK's 758[3] exporting TV channels would also be unable to provide services from their current locations and broadcasters would be forced to move jobs and investment from the UK to the EU.

For Canada, this arrangement is acceptable because services trade is less vital than it is to the UK.

- Whereas the UK's top exports to the EU are financial services and business services, Canada's are pearls, semiprecious stones and precious metals[4].
- NIESR suggests the reduction of services trade under an FTA would be equivalent to trading under WTO terms[5]. This concern is concentrated regionally - the South East, the North East and West Midlands send about half of their services exports to the EU[6].

"We may have to move our license to Europe if we don't secure market access, and have already started scoping out options in the Netherlands," - **American TV channel**

"Canada+, etc makes no difference in terms of sector regulation unless there is an agreement covering our sector (such as the Land Transport Agreement the EU has with the Swiss)," - **Road Haulage Association**

[1] Office of Health Economics, Public Health and Economic Implications of the UK exiting the EU and the Single Market
[2] Letter from Financial Conduct Authority to Chairman of the Treasury Select Committee
[3] European Audiovisual Observatory, Audiovisual services in Europe
[4] CBI; UN Comtrade; OECD.
[5] NIESR, Will New Trade Deals Soften the Blow of Hard Brexit?
[6] UK Trade Policy Observatory, Brexit and Regional Services Exports: A Heat Map Approach

A CETA-like deal would fail to deliver frictionless trade

In a CETA-style FTA without a customs union, UK firms would face customs declarations, which means filling out an extensive 12-page form for each batch of goods sent to customers. Every consignment will also need a VAT registration and certificates of origin.

- The EU would be required to undertake checks on lorries and ships coming from the UK. The Port of Dover has estimated that a delay of just 2 extra minutes to check and process a lorry would cause queues of over 17 miles.
- Just-in-time manufacturers cannot withstand significant delays, holding just enough stock for a limited time – from 4 hours to 9 days at best. Unipart has put the cost of closing their production line at £1 million per hour[7].

These barriers are manageable for Canada but would not work for the UK.

- Canada's trade with the EU is fundamentally different to the UK's (Canada exports 10% to the EU[8], while UK exports 45% to the EU[9]).
- As the EU is only 20 miles from Great Britain and next door to Northern Ireland, the UK also relies on the EU for a significant amount of food, with 29% of the food on the shelves coming from the EU[10]. In contrast, the US alone sells 4 times as much food to Canada than all the EU nations added together[11].

"Our medicine has a half-life of 11.4 days and crosses multiple borders in Europe before arriving in the UK. Potential interruptions and delays in the supply chain associated with importation requirements would risk timely and safe access to this treatment for patients," – **Multinational pharmaceutical company**

Without a customs union and a common rulebook for goods, a CETA-like deal would lead to a harder border on the island of Ireland

CETA would bring down the barriers to trade with the EU and fail to recognise the unique relationship between UK and the Republic of Ireland (ROI), where companies on both sides and supply chains are deeply integrated into an all-island market.

- 177,000 HGVs and 208,000 light commercial vehicles cross the border between Northern Ireland and the ROI each month, using some 200 roads[12]. Over 37% of Northern Ireland's total exports go to the ROI, equivalent to £3.4 billion per annum[13].

Creating customs barriers within the all-island market would be deeply damaging.

- According to one estimate, complying with the requirements of leaving the customs union and adopting the sort of checks Canada undertakes when trading with the EU would add over €458 to the cost of shipping every consignment of goods across the border[14]. For an SME sending just 2,200 batches of goods across the border in a year (6 or 7 each day), this raises an additional cost of over €1 million.

The UK can and must do better than a CETA-like deal with the EU

The UK and the EU are deeply integrated social and economic partners and will remain so. However, a CETA-like deal – particularly one without a customs union – would place **significant barriers in the way of trade.** Ultimately, a CETA-like deal would lead to higher prices, less choice for consumers and a less productive and competitive UK. The UK and EU can and must do better than an off-the-shelf FTA like CETA, because **Canada is an ocean away from what businesses, employees and citizens need.** A common rulebook, a customs union, unprecedented ambition for services and digital products, as well as a deal on migration are all vital – and **a CETA-like deal would fail to deliver them.**

[7] John Neil, CEO Unipart, Mail on Sunday, May 2018
[8] House of Commons Library, Statistics on UK-EU trade
[9] European Commission, Canada trade statistics
[10] DEFRA, Food Statistics in your pocket 2017
[11] WITS, Canada Food Imports by Country 2016
[12] DG Internal Policies of the Union, Smart Border 2.0
[13] NISRA, Broad Economy Sales and Export Statistics
[14] DG Internal Policies of the Union, Smart Border 2.0

For more information, contact:
Akash Gohil, Policy Adviser
Akash.Gohil@cbi.org.uk
0207 395 8241