

CBI response to the Exiting the European Union Committee Inquiry: UK's negotiating objectives for withdrawal from EU

The CBI welcomes the opportunity to respond in writing to the Committee's inquiry, to provide the business view on the UK's negotiating objectives for withdrawal from the EU and supplement the evidence CBI Director-General Carolyn Fairbairn provided to the Committee on Wednesday 7th December 2016. More detailed information can be found in our recent report [Making a Success of Brexit](#), where we state clearly that the business community is committed to making this work, and work well. At the same time, we will make no apology for highlighting the complexity of the task facing the country or for setting out the steps needed to get Brexit right.

The CBI is a confederation of 140 trade associations alongside businesses of all sizes from every region of the UK. The 190,000 businesses we represent employ nearly 7 million people, about one third of the private sector workforce. Our members come from every sector of the economy, including agriculture, automotive, aerospace and defence, construction, creative and communications, financial services, IT and e-business, management consultancy, manufacturing, professional services, retail, transport, tourism and utilities.

The CBI has consulted comprehensively with its membership on the subject of the EU since the referendum result. This submission to the Exiting the European Union Committee will draw on that consultation to argue that:

1. Negotiating a tariff-free, barrier-free relationship with our largest, closest and most important trading partner is vital
2. The UK-EU negotiations and the future of regulation are inextricable: business needs a clear plan for regulation that gives certainty in the short-term, and it needs the negotiations to strike the right balance in terms of influence, access and opportunity for the long-term
3. Business stands ready to help shape the UK's future migration system, global economic relationships, and funding strategies throughout the negotiations and beyond
4. The Government must seek a smooth exit from the EU, avoiding a "cliff-edge" that causes disruption
5. To make the difficult decisions presented by the UK-EU negotiations, the Government and industry should work in close partnership

1. Negotiating a tariff-free, barrier-free relationship with our largest, closest and most important trading partner is vital

- 1.1 **The EU is the UK's most important single trading partner, and that should be the context for the UK's negotiating strategy.** Around 44% of UK products are exported to the EU and 53% of UK imports are from the EU¹. For companies, that means major suppliers, customers, contractors and components are based in the EU. Many UK companies have business models predicated on integration with the EU, as a result of deliberate government policy choices over the past 40 years. Additionally, the EU is the largest market in close proximity to the UK and will continue to be so for the foreseeable future. This matters because trade with nearby nations is of particular significance for industries that deal in heavy goods – such as chemicals or machinery – or perishable products.

¹ ONS, UK Perspectives 2016: Trade with the EU and beyond

72% of UK agricultural exports are destined for the EU², as they are less likely to expire or be damaged before they reach customers' shopping baskets.

- 1.2 **Keeping the cost of UK-EU trade low should be one of the UK Government's primary objectives, negotiating for zero tariffs and minimal non-tariff barriers on all UK-EU goods trade.** Without a preferential trade arrangement with the UK, the EU would be legally obliged to apply the same WTO Most Favoured Nation tariff rates and quotas on UK goods as it does on those from any other third country. This would threaten the competitiveness of exporting businesses on which the EU imposes high tariffs. For example, the EU imposes a 12% tariff on clothing³ imported from third countries and an average 22% tariff on food and drink products⁴. However, tariff-free UK-EU trade is also important for industries where end products are zero-rated but interim products are not, and for keeping supply chain costs low.
- 1.3 **Additionally, new non-tariff, technical barriers to trade such as rules of origin declarations, labelling and packaging requirements would create costs and delays, and require skilled employees to navigate.** Avoiding additional non-tariff barriers to UK-EU trade wherever possible is of particular importance to small businesses who have limited resources. It is possible that SMEs will increasingly turn to large companies to facilitate EU trade rather than develop expertise internally if it is made more complex
- 1.4 **Minimal barriers to trade in services between the UK and the EU should be a key objective of the future negotiations.** UK companies currently benefit from the ability to sell into and receive services from the EU under preferential terms. To avoid barriers to UK-EU trade in services, the UK should seek to negotiate the rights for UK companies to simply establish and provide services across borders, without the discrimination faced by third countries. This should be a reciprocal arrangements: the UK is a global leader in services and international service companies create competition and drive innovation in the UK. As the EU single market in services is still developing, a long-term view to cooperation in services will be important, and continued regulatory equivalence with the EU in these areas should be explored.

2. The UK-EU negotiations and the future of regulation are inextricable: business needs a clear plan for regulation that gives certainty in the short-term, and it needs the negotiations to strike the right balance in terms of influence, access and opportunity for the long-term

- 2.1 **Businesses are seeking greater clarity on how the government will approach EU regulation after the UK leaves the EU.** This is because EU regulation plays a significant role in the UK domestic framework, providing the foundations for its relationship with the single market. The government has stated its intention to "carry over" much of the European *acquis* through the Great Repeal Bill. The intention to provide companies with as much continuity as possible has been broadly welcomed, however it is not yet clear how the Great Repeal Bill process will result in a complete and rigorous legal framework. This will be important to secure, as a stable regulatory environment is one of the factors considered in investment decisions. Business is looking for clarity over the future role of EU regulators, domestic regulators that primarily enforce EU requirements, European standards, and European court judgements. All of these are referenced throughout the European *acquis* to be carried over, and throughout existing domestic primary and secondary legislation.
- 2.2 **The UK must seek to negotiate a wide-ranging agreement on regulation that maintains preferential trading arrangements with the EU.** The current system of harmonised rules makes

² FDF, UK Food and Drink export statistics for 2015

³ [WTO, World Tariff Profiles 2013](#)

⁴ [Open Reason//Liberal Democrats, Food, Drink and Brexit](#)

the process of doing business across borders significantly easier, with particular advantages for small trading businesses. It is critical that – in a range of areas – the EU agrees that the UK's regulatory system meets its requirements and allows UK-EU trade to continue on a preferential basis. The reverse is also true to allow two-way trade. How to achieve this for financial services has been the subject of a significant amount of research and debate, but mechanisms for maintaining preferential trade on all goods and a wide range of services will be critical to making a success of Brexit.

- 2.3 **It is crucial that new levels of domestic regulatory control do not come at the cost of the access to EU markets the government must negotiate.** Leaving the EU may present opportunities for more domestic flexibility in the EU's regulation. However, businesses are clear that this domestic flexibility must not come at the cost of a preferential trading relationship with the EU. Companies in a range of sectors – including construction, transport, food and drink – have highlighted this as critical. There may, therefore, be most opportunity for long-term flexibility around areas that do not put up extra barriers to trade. This includes areas of EU regulation that the UK has over-implemented, which could be streamlined without harming preferential trading with the EU. And industry has suggestions for areas where the government can use its existing powers to improve domestic regulation now. The government should consider these opportunities before leaving the EU in order to boost UK competitiveness.
- 2.4 **Business and government must work together to agree how to secure long-term regulatory cooperation between the EU and UK markets after the UK leaves.** The EU is not a static organisation and its regulatory framework will continue to evolve after the UK leaves. This presents numerous challenges. It is not in the UK's interests to be a rule taker, but the business community is still debating how long-term regulatory cooperation between the UK and EU could work, including, for example: what form mechanisms for equivalence arrangements should take for vital services sectors; whether adequacy agreements in the technology industry are sufficient to support data flows; and how harmonisation of standards and practices should continue in manufacturing, food and drink and energy.
- 2.5 **Throughout the negotiation, the UK must remain involved in the processes of creating and implementing EU regulation at the moment. As the negotiations are ongoing, the UK will remain a member of the EU and will be obliged to continue implementing EU legislation.** It must therefore remain involved in these processes. The Government has approached ongoing regulatory processes – such as the implementation of the General Data Protection Regulation and REACH regulations – in a sensible manner, which has been welcomed by business. This approach places the UK in the best possible position to seek continued regulatory cooperation, as it has continued to take its obligations as a current EU member seriously.

3. Business stands ready to help shape the UK's future migration system, global economic relationships, and funding strategies throughout the negotiations and beyond

- 3.1 **Business needs a migration system that allows it to access the skills and people it needs to create growth, while recognising public concerns.** Reassuring EU citizens currently in the UK workforce and UK citizens in the EU must be an early priority as part of that. It is important that the UK's new immigration system allows business to access non-graduate labour where there are increasingly hard-to-fill vacancies – in areas such as construction workers and care workers for example. Openness to highly-skilled people must also be championed, while a long-term solution is sought for skills in the UK through co-ordination and collaboration between industry, government and the education sector. Additionally, the advantages of mobility must be protected: workers regularly move between countries, particularly the UK and EU, to provide expertise where it is needed for short periods of time. Business stands ready to contribute to the design of a new migration system that meets these needs.

- 3.2 **Business is excited by the possibilities presented by an ambitious new international trade agenda, but business is also clear that the UK-EU deal must come first, and that the UK's position in the WTO must be reshaped in parallel to the negotiations.** This makes early discussion with the EU about the UK's position in the WTO very important. Business also wants to see early discussion about the UK's current preferential trade agreements and mutual recognition agreements with other third countries. It will be important to preserve as much of these preferential access agreements as possible to prevent companies facing disruption in additional markets. When the time comes to seek new international trade deals, the business community is keen to work closely with government to help prioritise future markets, lay out the benefits of comprehensive deals covering services as well as goods, and to support the negotiation process.
- 3.3 **The current levels of UK contribution to the EU budget will inevitably play an important part in the UK-EU negotiations.** There are specific EU programmes where the UK's continued involvement – and therefore continued contributions – should be explored, as they provide benefits beyond the money provided. Specifically, there are no comparable international alternatives to the European Investment Bank or the EU's multilateral collaborative research programmes – currently Horizon2020 – and as such, continued involvement should be seriously considered.

4. The Government must seek a smooth exit from the EU, avoiding a “cliff-edge” that causes disruption

- 4.1 **Business wants to see a new UK-EU trading relationship secured from the day the UK leaves the EU.** As they plan for the future, businesses are trying to understand the flow of events throughout the Article 50 period – and are looking for the negotiation process to be as smooth as possible. Businesses are therefore considering that a deal may not be possible in the time allowed by Article 50. If the time allowed by Article 50 does come to an end before that new trading relationship is secured, there may be a need for temporary interim arrangements to ensure UK and EU businesses do not face significant disruption.
- 4.2 **To leave the EU without a new preferential trading arrangement in place would create a “cliff-edge” with very real challenges for businesses.** The effects of a “no deal” or scenario would be felt right across the economy. The EU would be obliged under WTO law to treat the UK as a third country, with no preferential access – including all the tariffs and non-tariff barriers that would incur. The UK's services businesses would no longer have preferential rights to offer services in the EU, and existing service provision would be open to challenge. In this scenario, regulatory confusion and uncertainty would affect businesses in every sector. It is critical that the UK does not leave the EU in this sudden fashion. Business is therefore looking for a commitment from the UK government to seek a temporary interim arrangement to govern this period, should this scenario arise.
- 4.3 **Once the UK and EU have agreed a deal, an implementation period will be needed for necessary adjustments to be made.** It is in the interest of both UK and EU governments and businesses for this to take place, as new guidance must be produced, new skills taught to staff or brought in, and IT systems updated. Those companies with cross-border supply chains may need to alter them. Contracts with EU regulations written in may need to be renegotiated. Infrastructure may need updating – particularly if more land is required for storage of goods. The length of this implementation period will depend on the scale of the changes required.

5. To make the difficult decisions presented by the UK-EU negotiations, the Government and industry should work in close partnership

- 5.1 **To make the careful assessments needed to make the difficult decisions it faces, government should reach out more widely than ever before across the UK's business community, to companies of all sectors, all sizes and – vitally – from all parts of the UK.** The UK-EU negotiations are likely to present additional, and unanticipated, challenges in the months ahead. The business community should and will do all it can to provide evidence and insight that government cannot gather on its own, with individual companies providing views and experts at sectoral trade associations offering specialist advice and data.
- 5.2 **This partnership between business and government is not and should not be restricted just to the UK-EU negotiations.** How the UK shapes its new relationship with the EU and the rest of the world is one of the business community's leading priorities – however it is not the only one. There are numerous areas where work is needed to get more firms hiring, training, innovating and expanding. Government should take ambitious steps now to put the UK in the best position possible after the UK leaves the EU. The business community should and will aid this process, offering the big ideas on skills, tax, innovation and infrastructure that can spread prosperity to all.