CBI

BREXIT BRIEFING

TOP 5 CONSEQUENCES OF "NO DEAL"

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Securing a comprehensive new economic relationship between the UK and the EU matters for businesses and consumers on both sides of the Channel. Without this new relationship, and a transitional arrangement that provides certainty until this new relationship is in force, businesses in every sector will face a serious economic cliff-edge. The follow briefing has been compiled to help policy-makers and CBI members understand the top 5 consequences of "no deal":

- Rising costs for consumers and businesses
- Disruption at ports and airports
- Confusion over everything from contracts to chemicals regulation
- Uncertainty for 4million citizens
- Cross-border services in disarray

1. Rising costs for consumers and business

A "no deal" scenario would be costly for businesses and consumers. One of the most obvious costs would be tariffs. In a "no deal" scenario, the UK would face tariffs on 90% of its EU goods exports by value. The CBI has estimated the potential costs on exports if UK-EU trade were carried out under WTO Most Favoured Nation terms. Under these, the average tariff on UK goods exports to the EU would be around 4%. If this were applied to total UK goods exports to the EU – the increase in tariff costs would be between £4.5-6 billion per year. These additional costs are likely to significantly impact the competitiveness of UK exporters. Meanwhile, the cost of tariffs paid by UK consumers and businesses on imported goods could be more than double this, between £11bn-£13bn (around 0.6% to 0.7% of GDP, with an average tariff rate of almost 6%).

This is seen as a real concern across the whole business community, even firms operating in sectors with low tariffs on end-products and in services, which want to avoid vehicles, machinery and other supply chain costs rising. Trade in some goods is subject to particularly high tariffs, such as the automotive industry, where tariffs on exports and imports are around 10%, and agri-food where the average tariff is 22%. And the costs of a "no deal" scenario would also come in the form of non-tariff barriers – like recruiting extra staff to meet new compliance requirements, or paying twice for licenses, once for the UK and once for the EU.

What does that mean in practice?

A single car produced in the UK has around 30,000 individual parts, around 60% of which are imported, according to SMMT (the Society of Motor Manufacturers and Traders). The majority of these parts come from the EU, crossing the Channel multiple times before the vehicle is completed. Due to its size and relatively high tariffs (10% on vehicles and 4.5% on components), the automotive sector would have to pay export cost of between £800 million and £1.5 billion.

A life sciences company in Reading selling medicines they design to the UK and the EU will face having their products tested and certified separately for the UK and the EU, creating additional costs and the potential for delays for patients.

What are companies saying?

"Our business buys, sells and physically moves thousands of different items between the UK and the rest of the EU on a daily basis. In the best case, Brexit means we sell our goods at a higher price. In the worst case, tariffs and/or administration burdens have the potential to destroy our century old business," - women's fashion clothing retailer

2. Disruption at ports and airports

Without a deal, UK business would face new paperwork requirements making trade more complicated and less efficient. It's likely this could have a bigger impact on competitiveness than tariffs, especially for small companies.

The first group of non-tariff barriers are known as 'at the border' measures and covers customs procedures and quotas. It includes paperwork requirements to determine the appropriate level of duties to be applied, including rules of origin, processing history and food traceability, so that customs officials know where goods have ultimately come from.

A 'no deal scenario' would pose big question marks over whether the UK's ports and airports would be able to deal with the high volumes of EU trade we do. In many facilities, there simply isn't the space for customs. At ports, such as Dover, offices, warehouses and production units will have to be built where customs houses would need to go. A delay of just two extra minutes to process a lorry at Dover would cause queues of over 17 miles. Freight Transport Association calculate delays at UK ports cost £3.20 per truck per minute.

What does that mean in practice?

A technology company has branches in several different countries. Currently, it ships the specialist products it makes in the EU directly to customers in the UK. However, the goods it produces in Norway and Switzerland have to be shipped to one of the company's UK sites. This is because the products from outside the EU (even inside the EEA) have to be accompanied by VAT paperwork showing the cross-border price. This has to be removed before the good is sent to the customer. If the same arrangement was required for all the company's products entering from the EU, additional warehousing would be needed, along with extra staff and machinery. Estimated order times would also have to be increased as it would take longer for products to reach customers.

A florist in Southampton, importing from the Netherlands will face new paperwork and customs checks which will mean delays at ports in Rotterdam, and mean fewer of the flowers arriving in good condition

What are companies saying?

"There are huge concerns that leaving the customs union and single market could lead to delays. There are questions about sequencing, and how we'll adapt in time," - UK port

3. Confusion over everything from contracts to chemicals regulation

The other set of non-tariff barriers are 'behind the border'. These relate to domestic legislation governing common product standards, such as how products are processed, tested, licensed, labelled and packaged.

Responsibility for enforcing these rules rests with a combination of national bodies, 35 pan-European regulators, and international courts. UK firms operate under these rules whether they are producing for the domestic market or for export. However – if the UK left without a deal – the responsibility for making sure UK exports comply with EU rules would shift from UK regulators to EU customs officials.

The EU Withdrawal Bill will enshrine EU regulations into UK law, but it cannot guarantee reciprocal recognition across the EU and nor will it deal with the likelihood that UK and EU regulations will diverge over time. It is not clear how the EU Withdrawal Bill will result in a complete legal framework, and a stable and competitive system of regulation and tax is vital to the UK's ability to maintain its international reputation as a good place to do business.

What does that mean in practice?

The chemicals sector in the EU is highly regulated. The main regulation, REACH, ensures companies register the chemicals they use. If the UK is outside that system, even if it "cut and pastes" all the same rules, it will be more complicated to trade chemicals with the EU – creating costs for businesses.

An automotive company in England, selling cars into Europe will have to get new cars tested and certified twice for sale in the UK and the EU, creating costs and delays for consumers on both sides. That is because the Vehicle Certification Agency (VCA) in the UK currently provides testing and certification for vehicles, systems and components. The VCA provides UK automotive manufactures with a certificate that licenses them to sell that type of vehicle throughout the EU. Without an agreement otherwise, this simultaneous licensing will no longer be possible.

What are companies saying?

"We're seeking clarity over a huge range of issues. Climate and environmental regulation, status of material imports, eurocodes, standards, CE marking and Scotland – just to name a few," - multinational building materials company

Example: "We have all the same legislation and labels when we sell with EU countries. US cheese has to be labelled separately in pounds and ounces, and little changes like that can add a lot of complication and cost," - medium-sized Somerset dairy farmer and cheese manufacturer

4. Uncertainty for 4 million citizens

Without a deal or unilateral action, there will be uncertainty over the status of 4 million European and UK citizens who live across borders. The CBI and TUC have called this continuing uncertainty "intolerable" and a "blight on the values of our nations".

EU citizens account for 10 per cent of registered doctors and 4 per cent of registered nurses across the UK. Millions more work in the public and private sectors delivering public services and making a vital contribution to our economy.

This also creates serious questions for the economy. Data from the CBI/Pertempts Employment Trends Survey 2016 indicates 31% of firms are concerned about current access to highly skilled migrants, and 50% anticipate access to labour supply will be a top threat to competitiveness in the future.

What are companies saying?

"There's a massive short-term labour need during the Christmas turkey season which we couldn't fulfil from the UK labour market alone, but there is an all-year round need," - medium-sized poultry farm

"We find it a real challenge to hire engineers experienced in building offshore wind farms. There's a very specific skillset involved, and at the start of new projects we inevitably need to draw on a global talent pool," - British electricity generation company

"We want government to understand that we may hire people from the EU at low levels, but we train them up to be team leaders and managers. They're looking to us for assurances they'll be able to stay, and we're looking to the government in turn," - large fruit processor

"We already struggle vastly to attract across the business for all positions. Any attempt to restrict this will have devastating effects on us and the industry as a whole," - independent hotel business

5. Cross border services in disarray

Services industries – in particular – would not be able to rely on WTO rules. These account for 80% of our economy. If the UK is unable to secure agreements covering access to the single market in services, companies in some of our most successful exporting sectors would be unable to export specific types of services at all. Those industries include financial services, airlines, broadcasting and a range of professional and business services.

Services trade is complex, and regulatory co-operation is particularly important for businesses in these sectors, where for the most part negotiations will have to address regulations that will determine market access in much the same way that product regulations or sanitary rules determine market access for goods. And for many service providers, WTO rules alone would not provide the legal basis to export services to the EU.

What does that mean in practice?

In the legal sector JP Morgan highlights that in five EU member states that law firms are not allowed to provide legal advice without EU/EEA nationality or admission to the Bar in an EU member state. Leaving without a deal could mean UK law firms losing out to companies on the continent and put a question mark over the UK's position as a European hub for global law firms.

In a 'no deal' scenario, a German bank may not be able to authorise a payment request from a German tourist in Edinburgh wanting to use a credit card to pay for a hotel, disrupting business in both countries.

What are companies saying?

"Without an unprecedented agreement on cross-border audio-visual services as part of a trade deal with the EU, we will no longer be able to broadcast a number of successful channels from our European HQ based here in the UK. It is becoming increasingly likely that we will have to move operations into Europe within the next few months," – multinational broadcaster