

THE BREXIT DEAL FOR REGULATION

It is essential that negotiators get it right on rules to deliver frictionless trade

One of the toughest jobs in the months ahead for both the UK Government and EU Commission will be agreeing the future of thousands of shared rules that have been built up over the last 40 years. For the UK's companies, this matters for a number of reasons:

- EU rules affect almost every aspect of business – from tax to HR
- EU rules underpin and enable easy, fair trade
- EU rules have played an important role in keeping consumers trusting in high quality

If policy makers get it wrong on the future of rules, the consequences will be far-reaching. Firms voice concerns about court action, entire business models becoming illegal overnight, customer contracts in confusion, and a sudden drop off in access to our closest market for some of our leading industries.

Businesses fully support the Government's proposals for a free trade area for goods based on a common rule book

For trade to be frictionless at borders, two things are needed: a customs deal and a deep relationship between UK and EU rules.

Frictionless trade matters to keep the just-in-time supply chains of aerospace and car plants functioning, to ensure perishable food and flowers get to supermarkets fresh and medicines arrive at hospitals when they're most needed.

But it also matters to construction firms building homes with timber from Sweden, telecoms firms installing fibreoptic cables from Germany and energy firms installing turbine blades from Denmark. And frictionless trade is valued, not just by trading firms, but by cafes, pubs, pet shops, hairdressers and hotels ordering from catalogues and wholesalers, as well as consumers shopping online

The CBI has consulted thousands of businesses on the future of UK-EU rules, and of 23 industry and service sectors, 18 prefer a close relationship between UK and EU rules. There are opportunities for rules to change as the UK leaves the EU, but these are limited and are vastly outweighed by the costs that will be incurred if the UK's rules change so much that it reduces smooth access to the EU's market – particularly for goods. And while international rules are increasingly important to businesses, a close regulatory relationship with the EU will continue to be essential for decades to come.

“Success for UK automotive depends not only on mutual free and frictionless trade, but also on shared regulation allowing us to sell vehicles and components without restriction anywhere in the EU. Convergence with EU regulation governing everything from safety and emissions to data and intellectual property will be essential if we are to safeguard future growth, investment and consumer choice,” – SMMT, representing automotive firms

“SMEs mostly see continued close alignment to EU rules and regulations as hugely important,” – Engineering and Machinery Alliance

The Government's proposal of a free trade area based on common rule book, if negotiated correctly, should deliver this. One of its key benefits will be avoiding the need to go through multiple processes to sell the same product into both the UK and the EU – something that would leave UK firms less competitive. Without

a common rule book, estimates suggest car manufacturers would need to spend upwards of £350,000 for each type of cars and medicine approvals could be delayed by up to 3 months.

CASE STUDY: A thriving cosmetics start-up

To sell a cosmetic product to both the UK and EU, this firm currently has to register each one online with the EU Commission, providing information on its ingredients, its manufacturing processing, animal testing data and more. It also has to ensure there is an EU office address on the label.

Without a common rule book, the firm will have to go through the complex registration process twice instead of once, and set up separate production lines for UK and EU products to ensure cosmetics sold in the EU have an EU address on and cosmetics sold in the UK have a UK address on. This means having offices on both sides of the Channel. This is unaffordable for most small cosmetics sellers.

CASE STUDY: A family-run toy manufacturing company

To sell a toy in both the UK and the EU, this firm currently has to send each of its products to a testing facility to ensure it meets EU rules for toys. This can be a complicated and costly process but makes sure each toy is safe for children to play with – with no loose parts or lead paint for example.

Without a common rule book, the firm would have to go through this process twice in order to sell products both in the UK and the EU. This would make its products more expensive to make. If the UK and EU rules on toys changed over time, it would mean two different processes and more money spent on lawyers and on admin instead of on growth.

There is no need for the UK to be a rule-taker if it negotiates the right deal

If the UK approaches negotiations in the right way, it can ensure that UK goods businesses are not rule takers, even while sharing a common rule book. There is precedent for this. Norway, for example, can:

- participate in European Commission regulation and programme committees
- submit written comments to EU legislative and other policy initiatives
- place national experts in key policy units of the European Commission
- participate in EU agencies

Other third countries with close ties also participate with some agencies, such as Turkey having observer status in EFSA. These agencies and committees can be hugely impactful, setting rules not just in the EU but influencing the development of Chinese standards, of Canadian chemicals regulation and of New Zealand’s data regulations – to name just a few examples.

Services are regulated differently to goods, and negotiators will need to agree a unique deal

Services scorecard – how does the Government’s plan stack up so far	
	Removing the cliff-edge for trade for services
	Negotiating ambitious mutual market access for service firms
	Ensuring access to and movement of the people who are essential to services trade
	Securing the free flow of data between the UK and EU

The EU single market for services is not complete in the same way the single market for goods is. The rules for some sectors – like

financial services and broadcasting – are deeply integrated between the UK and EU, while others rely on cross-sector rules to enable trade. This means services need a deal that is different from the deal for goods, but not one that damages market access.

Maintaining the right level of influence over services rules

Government has made progress on many of the things that services sectors have been looking for, but there is still a way to go on others. Businesses are keen to see more detail as soon as possible.