

November 2017

## CBI response to the DIT trade white paper of October 2017

The CBI welcomes the white paper as an important milestone toward defining and delivering the UK's future trade strategy, and values the opportunity to input on the priorities within that strategy. Covering every nation and region of the UK, we speak on behalf of 190,000 businesses of all sizes and sectors which together employ around one-third of the private sector workforce. Our mission is to help businesses create a more prosperous society.

Trade is central to our members, and always a key priority regardless of their interests being in goods, services or agriculture. Historically, not only does trade account for nearly 60% of UK GDP but more than 60% of national productivity growth is attributable to exporting firms; making our trade arrangements fundamental to future UK prosperity.

As the UK negotiates its exit from the European Union, our future trading relationship with our closest and largest partner remains the top priority for our members across every sector. Looking ahead, as the nation charts a new independent course for trade, business will be seeking a close and meaningful partnership with government to develop a strategy that truly seizes the opportunities of trade to the benefit of all parts of the UK. This white paper represents an important step in that journey and hopefully the beginning of a wider dialogue to define the substance of the next phase.

### Summary

#### 1. The role of trade in an economy that works for everyone

- a. It is crucial that both government and business play a central role in advocating the benefits of free trade, as well as taking a more proactive stance on how to ensure the benefits of trade are felt by all corners of the UK through our Industrial Strategy
- b. Given the UK's significant trade deficit and low participation of firms in export activity, there remains a large challenge we must still address in creating a culture of export.

#### 2. Trade that is transparent and inclusive

- a. We support DIT's ambition to be as transparent and inclusive as possible, and look forward to more detail on how this new approach will work in practice.
- b. Key to success in policymaking will be learning from the experience of great trading nations and setting up a formalised engagement architecture to draw on trade expertise from across the country. Urgent action is needed to bring forward this framework to support DIT capacity in the very near term.

### **3. Supporting a rules-based global trading environment**

- a. The UK should always continue to be a proponent of the World Trade Organisation, and support the plurilateral and multilateral agenda for further liberalisation.
- b. The technical rectification of the UK and EU schedules at the WTO will be an important test of the UK's commitment to free and fair trade, and business is hoping for a fully transparent process to secure the UK's status and standing.

### **4. Boosting our trade relationships**

- a. The commitment to pursue a transitional arrangement to allow both Government and business to invest in infrastructure and implement the necessary changes to their trade and customs systems is crucial. However, business needs more clarity that this period of transition will be on the 'status quo' terms of the Single Market and a Customs Union with the EU, to avoid firms having to make multiple alterations to processes.
- b. Given the complexity of supply chains that now transcend Member State borders and with a substantial trade surplus in services selling into the EU, our members remain steadfast that pursuing frictionless trade with the EU should remain the Government's first trade goal.
- c. Agreements in principle to replicate the terms of current EU FTAs with third countries is heartening for business, but more detail on the progress and process on the detail of these agreements is crucial for business planning in the immediate term.
- d. It is vital that the UK's future trade strategy maintains substantial capacity to develop trade policy options outside traditional free trade agreements, focusing on cooperation with partners on a bilateral, regional, plurilateral and multilateral basis.

### **5. Supporting developing countries to reduce poverty**

- a. The CBI fully endorses the Government's commitment to supporting developing countries through preferential access agreements and reaffirms the role of trade in reducing poverty in these countries.
- b. Business values the replication of all current existing EU preferential arrangements beyond just LDCs, and on the exact same terms as the EU to ensure simplicity under current time and capacity constraints.

### **6. Ensuring a level playing field**

- a. DIT has done excellent work to define the principles and main attributes of the future legal and analytical framework for the UK to operate trade defence measures. As the framework develops further, there remains a question about how to ensure as much objectivity as possible and clear lines of accountability for action or inaction in these cases.

## Part 1

### **The role of trade in an economy that works for everyone**

The CBI is highly supportive of the Government's efforts to craft a narrative around the role of trade in the economy. Trade is indeed fundamental to our economic growth, and our future prosperity will be built on encouraging barrier-free trade with our partners to our mutual benefit. However, there is an appreciable slowdown in the growth of global trade flows. It is therefore important that we have the ambition of countering the dangerous uptick in protectionism, with Government and business partnering to constantly reaffirm the benefits of free trade.

The negotiations of the Transatlantic Trade & Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) have taught all nations an important lesson that we cannot take for granted that the public will see and value the benefits of free trade agreements. Trade negotiations have, for too long, been conducted with too little transparency. This leads to pockets of society viewing such negotiations with suspicion and jeopardises the legitimacy of the final product. To ensure the democratic legitimacy of British trade policy in the future, a new approach to engaging the public will be needed.

In this process, it is very heartening to see the Government acknowledge in the paper that the past benefits of trade have not always been evenly distributed or felt by all corners of society. Moreover, it is important that Government and business continue to acknowledge that there are some structural challenges and competitive pressures inherent in free trade which must be managed appropriately to avoid negative impacts focused on particular sectors or regions. Because globalisation is blamed for the economic difficulties that parts of the UK have experienced, there remains a need to reassure communities that there is a plan to make free trade work for them.

As our national trade strategy develops further, business will be looking for clear plans for how the Government will coordinate its work on Industrial Strategy across Whitehall to ensure that trade policy and domestic planning of the economy are working in tandem. However, these challenges are not solely for Government, and business looks forward to further discussions on how to create a sustained national dialogue on the importance of free trade and how to make it deliver for all parts of the UK.

There remains a challenge which both Government and business must acknowledge in encouraging a revolution in the culture of exporting. With the UK running a trade deficit since 1998, which has grown more than four and half times in the intervening period, it has never been more important to encourage companies into export or to expand their export activity.

As only roughly 20% of SMEs currently export and just 5% planning on starting export activity in the next five years, there is a noticeable gap in risk appetite and ambition to reach overseas markets.<sup>1</sup> However, our research confirms the potential is there as most regions of the UK have between 10%-15% of firms that have the characteristics similar to other firms in their sector that are exporting already.<sup>2</sup>

DIT already undertakes excellent work to connect businesses with information and support on everything from identifying buyers to market-specific regulatory hurdles, on top of the wide array of financial and risk-management products available through UKEF. While the CBI continues to work with DIT to improve awareness of these services, there is still a need to promote the value of exporting to business and celebrate the ways in which businesses from across the UK have found success in overseas markets. This will help build a business culture of 'international by default'. The UK's future trade policy strategy will be vital for providing a framework for business to operate within, but the key

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<sup>1</sup> [Thinking Global: The route to UK exporting success](#), October 2016

<sup>2</sup> [Unlocking Regional Growth](#), March 2017

to our trade deficit will remain the challenge of pushing businesses producing high quality UK goods and services toward new market opportunities.

## Part 2

### **Trade that is transparent and inclusive**

The CBI and our members have appreciated taking part in the department's stakeholder engagement programme to date. Across the department there is a sincere understanding that consultation on trade policy cannot take place using conventional means of consultation documents, calls for evidence and a small series of individual meetings.

Business fully supports the ambition to find new means of engaging across Parliament, regional authorities, business, wider civil society and the public. Central to this will be ensuring the needs and economic ambitions of the devolved administrations are fully supported. Each nation of the UK has different economic strengths and weaknesses which future trade policy must take into account. To be truly inclusive, the formulation of trade policy must be conducted as part of a 'whole UK' effort with in-depth consultation of and collaboration with devolved institutions.

As stated in the previous section, building transparency in the process of formulating trade policy will be key to ensuring its legitimacy with the public and ultimately, ratification through our democratic structures. We look forward to continued discussions with Government about new and innovate means of opening forums for information transfer and dialogue on policy choices.

However, transparency and inclusivity are not the only goals of stakeholder engagement. To augment the capacity of the Department for International Trade, it is imperative that the department now take urgent action to create an engagement structure to draw in trade expertise from across business and wider civil society. Following the example of great trading nations like the United States or Australia, the UK will need a bespoke and formalised architecture that regularly convenes the nation's experts on specific areas of trade policy, sector dynamics, and overseas market access issues, to support the work of officials.

The experience of our trading partners in crafting trade policy is that the best outcomes are those which are informed by the expertise from people actually engaged in trade. Given the myriad of complex policy choices which face the government with respect to our trading relationship with the EU, potential future negotiations with third countries, and strategies for encouraging business into trade, there is ample room to add to DIT's reach and depth of analysis. Failure to act on this issue now risks a situation where Government will take policy decisions without the benefit of pivotal commercial knowledge on the risks and opportunities that exist across every unique component of our economy.

The CBI and its members have already submitted a number of ideas on this issue and stand ready to work with the department (and wider civil society) to create a trade expert engagement architecture to support the work of officials. We hope for further discussion on the next steps as a top priority issue.

## **Supporting a rules-based global trading environment**

Our membership is hugely supportive of the Government's commitment to the global rules-based multilateral trading system. The UK has always been and should always continue to be a proponent of the World Trade Organisation, and its efforts to standardise and liberalise trade frameworks to the benefit of all nations. British business is enthusiastic about the opportunity for the UK to meet the demand for more leadership at the WTO; working to generate progress to further liberalise everything from fishery subsidies to e-commerce.

As the UK seeks to take up its independent seat at the WTO, business will be closely monitoring the UK's proposed technical rectification of its schedules of commitments; separating the UK from its current status within the EU schedules of commitments. Businesses of all sectors have an interest in the technical rectification proceeding as smoothly as possible, as these commitments not only affect agriculture, goods, and services but will also materially impact the UK's future participation in crucial plurilateral agreements such as the Government Procurement Agreement and the Trade in Services Agreement. In the coming months, business will be looking to both the UK Government and the EU Commission to ensure the subsequent process and methodology for rectification is as simple as possible, fully transparent and fair to all WTO members.

## **Boosting our trade relationships**

### 1. Transition

Businesses are pleased to see the Government's acknowledgement of the need for a transition phase once the UK has left the EU. This will be vital in allowing Government as well as companies in both the UK and EU to make the required adjustments to customs arrangements including infrastructure, IT systems, process upgrades, personnel, staff training and border capacity enhancements.

However, the details behind the Government's plans for an interim period remain unclear and will need to be negotiated with the EU. The business community will need the UK to maintain full participation in the Single Market and a new customs union agreement with the EU on the exact terms as at present until a new deal is in force. The benefits of such an implementation phase are not just about giving businesses the time to make essential adjustments to customs systems and processes, but also about minimising the significant cost entailed in such adjustments by ensuring companies only have to make one adjustment to a new customs system, not iterative changes to adjust to multiple new arrangements over time.

The issue of transition to a new customs arrangement is not just imperative for changing business systems, it is equally crucial for upgrading government systems and capacity. For customs to work smoothly, a time-consuming process will need to take place to ensure that the new systems and infrastructure put in place by business are fully aligned with the equally substantial alterations within Government systems and processes. Not only does HMRC need to invest further in upgraded systems capacity, but an expected five-fold increase in transactions and declarations will mean an urgent need to recruit and train border and customs staff at a rate not seen before. Given that all these changes require substantial lead-in time, Government simply needs more time for implementation to ensure confidence in the system from its business users.

Consequently, a transition period is essential to ensure that government and businesses of all sizes have the time to plan and develop strategies, processes and capacity for the implementation of new customs arrangements. Given the length of time it will take both government and companies to be ready, and the importance of certainty to investors and trading partners, the agreement of such a transitional period by year end is absolutely vital.

In order to deliver a transition arrangement on 'status quo' terms once the UK has left the EU, a number of procedural and diplomatic steps will need to have been taken both with our EU partners and other parties (e.g. members of the European Free Trade Association). Businesses look forward to further detail from the Government on progressing these discussions, and are willing to support in an effort to make the case for the necessity of this transition arrangement.

## 2. Trading with the EU

The CBI welcomes the white paper's acknowledgement of the EU as our largest single trading partner and commitment to securing a 'deep and special partnership' with that partner. Given the complexity of supply chains that now transcend Member State borders and a substantial trade surplus in services selling into the EU, our members remain steadfast that pursuing frictionless trade with the EU should remain the Government's first trade goal.

While negotiations on the UK's exit continue in Brussels, there remains some work to be done at home to weigh the potential models for a future EU trading relationship, and define the priorities for the expected negotiation. In the spirit of transparency outlined by the white paper, businesses are urgently seeking clarity on the Government's planning for this negotiation as well as a dialogue on business priorities within the various models for this future relationship.

## 3. Trading with the rest of the world

Businesses are pleased to hear that the Government is committed to seeking continuity of trading relationships covered by current EU free trade agreements (FTAs). Some of these FTAs have been fundamental to the export profile of the UK, such as the deal with Korea which more than doubled UK goods exports in its first four years alone. It has been positive to hear the Government of South Korea has given agreement in principle to replicating the terms of the EU agreement with the UK, to avoid any disruption to trade on day one of leaving the EU. It has been equally positive to hear similar such agreements from countries such as Canada and Japan.

The CBI is highly conscious of the short time scales for ratification of these third-party agreements and the unresolved complexities of the terms (e.g. cumulation of rules of origin and disaggregation of EU quotas). In order to plan appropriately and make investment decisions in the best interests of the UK economy, businesses require certainty on these terms. While certainty is not possible in the near term, business would benefit from urgent clarification on the process for moving beyond an agreement in principle, the progress so far, unresolved terms of agreement, and expected timescale for agreement and ratification.

The CBI is also concerned with the status of less well-known FTAs, such as that with Chile. Nearly 90% of UK goods exported to Chile are done so under the terms of the EU FTA, demonstrating an exceptionally high value of the deal to those sectors with an interest in Chile. For the remaining FTAs, which are not unilateral preferences aimed at developing countries, business requires clarity on the

Government's current assessment of these deals and any process for replicating the terms of these agreements before the UK's departure from the EU.

Finally, the white paper does not address the issue of trade-related bilateral agreements which are not formal FTAs. The EU provides a platform on which UK business utilises the benefits of hundreds of bilateral agreements with over a hundred countries, such as the customs cooperation agreement with India. So that business can plan accordingly, more clarity is needed from the Government on its assessment of these agreements and how feasible it will be to carry over such agreements before leaving the EU.

#### 4. Improving our bilateral trading relationships

Business strongly supports the Government's commitment to utilising the full range of policy tools available to deepen market access and strengthen investment relationships in third countries.

Once the UK has left the EU and the following customs union transition period, comprehensive free trade agreements (FTAs) will be an important ambition to both reduce trade barriers and support UK businesses into new markets. However, because FTAs are often lengthy negotiations, it is vital that the UK's future trade strategy also maintains substantial capacity to develop trade policy options on a bilateral, regional, plurilateral and multilateral basis. For instance, while many FTAs make modest improvements on aspects of trade in services, much of these export-leading sectors' strengths have been built on bilateral cooperation (e.g. Financial Markets Regulatory Dialogue with the USA) or show greater promise with future plurilateral agreements (e.g. Trade in Services Agreement at the WTO).

The CBI has appreciated the opportunity to feed into the process for the DIT trade scoping dialogue with the United States. Business is encouraged by the Government's proactive efforts to begin scoping work on current and potential future trade arrangements with more than a dozen countries not currently covered by an EU FTA. Business is eager to support more of these dialogues and ready to provide evidence on the current nature of trade with these various countries.

The department is also playing an active role in encouraging overseas direct investment (ODI) from the UK, which plays a critical part in deepening our future bilateral trade relations. Promoting the role of UK investment in various countries provides a useful lever for the Government to begin or advance conversations on market access issues through its network of overseas posts.<sup>3</sup> For instance, our Sterling Assets work in China has demonstrated a unique trend of UK-originating investment redirecting toward inland provinces of China; following the Chinese Government's Belt & Road ambitions and supporting the conversations of UK officials examining current barriers to trade activity.<sup>4</sup>

#### **Supporting developing countries to reduce poverty**

The CBI fully endorses the Government's commitment to supporting developing countries through preferential access agreements and reaffirms the role of trade in reducing poverty in these countries. Our members are clear that maintaining these zeroed or minimal barrier arrangements will be important to the future growth of these countries and to ensuring continuity of the products that UK

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<sup>3</sup> [International trade, foreign direct investment and global value chains](#), October 2017

<sup>4</sup> [Sterling Assets: China](#), November 2017

consumers enjoy. Any disruption to the current terms after leaving the EU would damage the advancement of these countries, and impact affordability and availability of goods for UK consumers.

We welcome the commitment to replicate the terms of unilateral preferences for Least Developed Countries (LDCs), and note the aim to do the same for non-LDC countries currently trading with the UK under Generalised Scheme of Preferences, or under negotiation with the EU through the Economic Partnership Agreements framework. For continuity purposes, businesses value the replication of all current existing EU preferential arrangements beyond just LDCs, and on the exact same terms as the EU to ensure simplicity under current time and capacity constraints. Further liberalisation of these terms should remain the UK's ambition once we have left the EU.

The key technical aspect of interest to business within these agreements is around cumulation of rules of origin. For instance, regional cumulation as part of the GSP is, at present, only allowed across 4 countries. If regional cumulation was extended across all GSP countries, it would be hugely beneficial for all involved owing to the increased growth of supply chains between these developing countries. Many of our members stress that because of more complexity in supply chains as they develop more innovative final products, the pressure on rules concerning non-originating materials only grows. To ensure that developing countries are not locked out of tomorrow's global value chains, the UK should eventually seek the most liberal cumulation regime possible.

### **Ensuring a level playing field**

The CBI has valued engagement to date with DIT on the subject of trade remedies and disputes. The department has done excellent work to define the principles and main attributes of the future legal and analytical framework for the UK to operate such trade defence. The CBI supports the design principles of impartiality, proportionality, efficiency and transparency. Moreover, it is clear that the prime aim of the framework will be ease of use by complainants, which we acknowledge as a worthy ambition.

Our primary overarching concern for the framework remains the issue of accountability. While it is the ambition of the framework to create objective criteria for all areas of analysis (e.g. economic interest test), many of our businesses remain unconvinced that enough reliable data exists to make balanced objective decisions on absolutely all measures and in all cases. In these instances, the decision to utilise trade defences or not becomes partially subjective and political. As the design of the framework continues to evolve, the CBI would value further discussion on how to be transparent about the process of decision-making and where ultimate accountability for these decisions rests (e.g. ministerial or official).

There are a number of sector-specific issues which may impact functionality of the framework, and we will continue to engage DIT on these aspects as the framework develops further.

### **Conclusion**

The white paper on trade policy represents a useful milestone as the UK seeks to define an independent trade strategy outside of the EU. Within it are many important commitments and ambitions to maintain, support and further the free trade arrangements that are the basis on which business builds the UK's export success. Given the scale of the task in taking back competency of all trade policy from the EU, the department has done an admirable job of outlining the first steps



toward a national trade strategy. However, as the UK steps ever closer to exiting the EU, more urgency is needed to define the next steps and specific detail of how this strategy could and should work.

In the spirit of the white paper's aims, what is essential now is greater transparency on the process, progress and key obstacles for achieving the ambitions as set out. While clarity of outcome cannot be offered on many of these issues, more clarity of the particulars of departmental analysis and progress would go far toward building confidence that the paper's aims will be achieved before the UK leaves the EU. As businesses plan using long lead-ins, time is at an absolute premium. This detail on process could prove pivotal to ensuring that business perceptions of risk are not over-estimated and contingency plans which assume the worst remain shelved.

Given the scale of these tasks which the department has embarked on, there is certainly a role for business and wider civil society to play in supporting individual projects with evidence-gathering, testing assumptions, analysis, and even diplomacy with third parties. As other countries have learned, many of these problems need not be burdens for the government to shoulder alone. It is now integral for the department to follow the example of other major trading nations and prioritise bringing in this expertise to help define the next phase of UK's future trade strategy.

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