Next steps for UK-EU trade

In the eighteen months since the UK-EU Trade & Cooperation Agreement (TCA) came into force at the beginning of 2021, UK business have worked hard to adapt and change their operations to the new relationship with their closest trading partner.

Despite this work, businesses are still seeing significant challenges and costs: from visa processes to customs bureaucracy to persistent supply chain issues, there are still major ongoing problems for business in conducting everyday operations in trading with the EU. UK goods exports are 4% down on December 2020[1], imports from the EU are down 25%[2], and UK GDP is 5.2% lower than that of comparative countries[3].

These changes to trade have come alongside many significant headwinds: rising energy costs, supply-chain disruption, workforce challenges, unprecedented inflation. In turn, these are increasing the cost of living for consumers and workers.

There are steps that the UK and EU can take together to start tackling these challenges. Businesses understand that these issues will not be resolved overnight and building significant levels of ambition on the TCA will be a marathon, not a sprint.

The CBI has identified seven practical actions both sides can take to stabilise relations and strengthen relations and trade links within the parameters of the TCA. Ranging from acceding to Horizon Europe to simplifying business travel – and compiled in consultation with businesses of all sizes, shapes, and sector – there are significant opportunities for deepening the economic relationship within the current framework. However, the lack of progress from both the UK and EU in resolving the implementation of the Northern Ireland Protocol has blocked the full potential of the UK-EU relationship from being reached.

Now is the moment for a radical agenda to tackle the rising cost of living through long-term economic growth. As businesses are facing major spikes in the cost of doing business, the UK's trading relationship, in particular with its most important trading partner, is a key component in the country's mission to boost economic growth. Taking these steps in the short, medium, and long-term will help protect the trading relationship in the years ahead and critically drive growth and keep costs down for businesses and consumers.

---

[1] Office for National Statistics
[2] Centre for Economic Performance (April 2022)
[3] Centre for European Reform (CER) (June 2022)

Summary of recommendations:

Short-term

1. Agree Lasting Solutions for the Operation of the NI Protocol
2. Secure association with Horizon Europe
3. Government should prioritise exports to the EU as businesses adjust to the post-TCA trading relationship

Medium-term

4. Smooth out business travel issues, speed up visa processes, and establish mutual recognition agreements across professional services sectors
5. Continue the dialogue on Financial Services

Long-term

6. Agree a bespoke veterinary agreement to reduce SPS checks.
7. Advance linkage between the UK and the EU ETS to show leadership on tackling climate change

Recommendations

1. Agree Lasting Solutions for the Operation of the NI Protocol

For many Northern Irish businesses, the Protocol has worked well, and they have been able to grow by having access to both the Great Britain and EU markets at their doorstep. However, for others like the food and retail sectors – where the goods deemed at risk of entering the EU Single Market - there are still challenges in customs complexity and regulatory burden of administering checks. One car retailer had to complete 300 declarations a month at cost of £10k, yet two thirds of these for goods not at risk. The Northern Ireland economy is also dominated by SMEs who have limited human and financial resources to absorb the additional compliance costs in trading with GB.

While both the UK and EU have been deadlocked on finding a long-term resolution for eighteen months, business remains committed to a negotiated outcome as the best path to a permanent solution. Following the UK's introduction of the Northern Ireland Protocol Bill that will give powers to the UK Government to take unilateral action on the Protocol, business has remained committed to a negotiated solution.

We know there is a landing zone on many of these issues, and a pathway to finding agreement on them collaboratively between the UK and EU. There is a need to ensure that solutions do not resolve issues for one sector whilst causing issues for another sector, that economies of scale are recognised, and that solutions do not make it economically unattractive for businesses to trade in NI by reducing choice and potentially increasing costs for consumers. Businesses are united in supporting the Protocol as the best and most sustainable path for Northern Ireland.

The existence of the Protocol is an acknowledgement that unique solutions are needed for a unique problem. The EU inflexibility and UK unilateralism are significant blocks in building a mutual relationship of trust and agreeing solutions. Business has put forward technical solutions since the Protocol was signed and remains optimistic that agreement can be found that creates that stability and certainty that protects prosperity in NI. To both unlock the full potential of the UK and EU relationship and for the UK and NI to tackle unprecedented economic pressures for businesses and consumers, the UK and EU will have to work together to find a long-term negotiated outcome for implementing the Northern Ireland Protocol.

2. Government should prioritise exports to the EU as businesses adjust to the post-TCA trading relationship

Many CBI members have told us that their experience of exporting to the EU has become more complicated since Brexit. In the distribution sector, new rules of origin rules have made businesses putting warehouses in the UK less attractive as they face tariffs. For companies in the chemicals and medical industries, regulatory divergence is meaning businesses are having to go through burdensome duplicate checks to sell into the EU. And for many companies, the added paperwork and time needed for customs declarations customs duties, and VAT has led to a reduction in export volumes, and in some cases, businesses withdrawing from trading with the EU entirely.

It is crucial that the Government acts to support businesses to trade with the UK's large trading partner. Firstly, ongoing business engagement to understand how businesses are adjusting to Brexit would be a welcome opening step. The Export Support Service has been useful in providing businesses with a way of asking queries on specific trade concerns but business organisations are best placed to provide government with cross-sector feedback from all parts of the UK.

Secondly, within the current trading environment, there are changes the government could make to ensure companies can trade more freely. Companies have told us that finding guidance on exporting has been time-consuming and not fruitful. The government should provide companies with full guidance with specific advice on exporting to different countries. Current rules mean that companies that import and export products, are subject to paying VAT which is often expensive and burdensome to comply with.

Finally, there are things the UK Government can do now to make customs arrangements easier for traders. Expanding the definition of temporary imported goods would help the events industry. Extending cabotage easements, recently applied to the live music industry, to the whole economy would help ease the issues caused by Rules of Origin changes and make the UK a more attractive distribution hub. Finally, the UK should expand the number of points where documents can be checked at the border to prevent delays that are adding to companies' lead times.

3. Secure association with Horizon Europe

The TCA agreement confirmed the UK's association to Horizon Europe in principle for £15 billion but this has yet to be formally ratified. The programme is the EU's ninth R&D programme and with a €95.5 billion budget, it is an important source of long-term research and innovation funding. Horizon Europe and its predecessor programmes enable unique collaborative opportunities, raise the quality of UK research and innovation, and enable UK businesses and universities to have a voice shaping the international research agenda.

The business community, in both the UK and the EU, continues to see association with Horizon Europe as a key priority. The networks, international partnerships, and opportunities to shape research direction offered by Horizon Europe association are unique and will be extremely difficult to replicate within the UK. Delays have already reduced the attractiveness of UK businesses as partners in collaborative bids and has questioned the value of time and resource businesses spend on the application of funding.

As the UK seeks to be a science superpower, participation in Horizon Europe will play a crucial role in facilitating collaboration and enabling UK industry to take a leading role in shaping the direction and delivery of key international research. The EU would also benefit from having the UK's world-class research involved in its scheme, making association mutually beneficial.

Medium-Term

4. Smooth out business travel issues, speed up visa processes, and establish mutual recognition agreements across professional services sectors.

Now that the worst of the Covid-19 pandemic has passed, business travel has resumed and many companies are having to adjust to new rules regime. The TCA set out the scope of visa-free, short-term business trips between the UK and Europe for specific purposes, limited to 90 days in any 180-day period, which was welcomed by businesses across the UK and EU member states. The nuances vary depending on the member state, meaning that a 'country-by-country' understanding will be required by businesses who have individuals travelling to the EU countries to deliver services such as selling goods or services directly to the public.

Therefore, the business knowledge of the extent of these new requirements is still very low. Business welcomes the UK government's publication of individual member state guidance, but complying with the new rules is challenging and resource intensive for many businesses – particularly SMEs without large HR departments, adding new costs and time pressures.

Businesses who are moving staff to EU countries are reporting challenges such as lengthy visa and work permit delays. The length of time to process visas and increased volumes as travel resumes is a concern due to the potential knock-on impact on supply chains and damage to the business model. Both sides should work together to speed up and improve these processes, so required documents are processed as quick as possible ahead of travel resuming to normal levels.

In the professional services sector, the EU provided mutual recognition of professional qualifications across the services sector. Though the automatic mutual recognition of professional qualifications (MRPQs) between the UK and the EU has ended, the TCA creates a pathway for future agreements being struck between the UK and individual EU member states via the Partnership Council. Recently the process of mutual recognition agreements, through consultation with regulatory bodies, was announced but no negotiations have started.

The loss of automatic recognition adds significant levels of complexity and administrative challenges for firms, particularly in the professional services sector. Newly qualified individuals in regulated sectors will not be able be allowed to work or to deliver services in the EU without this recognition, leaving UK professionals and businesses losing business to EU competitors.

The CBI welcomes the steps that have already taken place by the UK government in supporting regulator-to-regulator recognition across the UK and Ireland, with many agreements already made in various sectors. But the pathway for more agreements, as set out in the TCA, should be established as quickly as possible to support the trade in services on both sides. The EU should work constructively with the UK to facilitate this dialogue through the relevant governance mechanisms.

5. Continue the dialogue on Financial Services

With the UK leaving the EU Single Market, the financial services sectors' relationships with the EU market fundamentally changed once the TCA was implemented. Though the TCA did not include provisions on financial services, it did introduce the scope for continued talks, and in March 2021 both sides concluded technical negotiations for a UK and EU Memorandum of Understanding (MoU) on financial services.

When finalised, the MoU will pave the way for greater regulatory cooperation on financial services, leading to better services for customers on both sides. It is critical that this happens quickly to ensure critical services such as clearing and payments are not disrupted, which could cause harm to both the financial system and the whole economy.

Building on the momentum of the negotiations, conversations must continue between relevant authorities to ensure future financial stability, support increasing flows of sustainable finance and to tackle cybercrime. Together with earlier draft data adequacy decisions, businesses will want this Memorandum of Understanding to signal growing services cooperation between the two trading partners.

Long-term

6. Agree a bespoke veterinary agreement to reduce SPS checks.

The introduction of Sanitary and Phytosanitary (SPS) checks for agri-food goods moving between the EU and the UK, means that business face new document and even physical checks on products of animal and plant origin – including live animals, meat, and plant products – that pose potential bio-security threats. While the UK government took the unilateral decision to extend the grace period for SPS checks on products entering from the EU to 21 January 2022, SPS checks on UK exports to the EU have been enforced from the 1 January 2021.

The impact that these checks have range from increased costs for businesses to obtain Export Health Certificates from vets, to long delays at ports while waiting for checks to take place, with the risk of whole perishable consignments being spoiled. This has been felt more acutely for goods moving between Great Britain and Northern Ireland. The EU SPS certification regime is not designed to be retrofitted for GB-NI movements, with data showing that in January and February this year 20% of all SPS checks in the EU took place in Northern Ireland[4].

Once lasting solutions are found to the Northern Ireland Protocol, a bespoke veterinary agreement, that meets the challenges for GB-NI and EU-GB movements, would significantly reduce the burden of SPS checks. To agree it, a tailored solution where a mechanism of equivalence on animal welfare and standards would have to be developed and work for both the UK and EU. This would then create a Veterinary Agreement that responds to the unique nature of GB-NI and EU-UK supply chains that is needed to overcome this issue. For more information on this, see the CBI's paper on a UK-EU Veterinary Agreement.

7. Advance linkage between the UK and the EU ETS to show leadership on tackling climate change

Making meaningful progress on the linkage between the UK and EU ETS would reaffirm the UK and the EU as climate leaders and show that the UK remains a strong advocate for international carbon markets. A linkage between the UK and EU ETS would align

[4] Northern Ireland Statistics and Research Agency, Overview of Northern Ireland Trade, 15th June 2020

decarbonisation pathways, create a stable environment for investment into low-carbon technologies, and show continued UK leadership in tackling climate change.

The advantages of linkage are clear in terms of liquidity, price discovery, and the ability to attract abatement from across Europe rather than just the UK. It would also create a level playing field in terms of carbon pricing, avoiding competitive distortions, and leading to aligned cost implications for industry across the UK and the European Economic Area (EEA). This would be beneficial for international commerce, minimise the risk of carbon leakage, and lower the costs of achieving Net Zero, thereby facilitating trade and investment between the Parties as per the objective of the Chapter on energy in the TCA.

Both sides should start the process of linking the new UK Emissions Trading System (UK ETS) with the EU's Emissions Trading System (EU ETS) as soon as practical. Business welcomes the commitment to 'serious consideration' which the UK and EU have given to linking their respective carbon pricing systems in the Trade and Cooperation Agreement (TCA) and believes that linkage negotiations should begin as soon as possible. Given the similarities between the UK and EU's carbon trading regimes, there should be no two Emissions Trading Systems that are easier to link. As both proceed with revisions to their respective trading systems to ensure they are aligned with their emissions trajectories, it is more urgent to initiate linkage before divergence increases. The UK ETS already exists at a premium to the EU ETS due to its lower liquidity, and planned reductions in free allowances risks widening that gap further, damaging UK industrial competitiveness in the process.

Linkage is especially important given the introduction of CBAM in 2023 which aims to reduce carbon leakage in the EU. The UK should coordinate and engage with trade partners and likeminded countries, such as the EU, on ways to address carbon leakage and avoid possible import tariffs on carbon intensive goods.

How the CBI determines its policy

The CBI represents a wide range of business voices across the whole UK.

The CBI is a non-political, Royal Charter organisation that speaks for 190,000 businesses, employing seven million people, equating to one-third of the private sector workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

Our mandate comes from our members who have a direct say in what we do and how we do it.

The CBI Council is the main governance body of the CBI and is made up of all the CBI Councils and Standing Committees comprised of over 1,000 council and committee representatives from over 700 CBI member companies. 80 per cent of CBI Council members are from non-FTSE 300 businesses. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions. Each quarter we engage these councils and committees on our work for either a steer, for information or for sign off and this is supported by wider member engagement from other committees, working groups, events and member meetings.

For further information on the details of this submission, please contact Lewis Keller.