



# EU-UK future relations: a trade oriented Brexit

March 2017

## Executive Summary

*This paper provides initial input from EUROCHAMBRES to the negotiations on the UK's exit from the EU. It builds on a survey conducted among members in February 2017 to gauge priorities and concerns in relation to Brexit. Responses were received from 27 countries (23 EU plus 4 non-EU). EUROCHAMBRES will provide additional input on specific issues as the process evolves and the parameters become clearer.*

Chambers of Commerce & Industry are instinctively supportive of free, fair and inclusive trade and market access. The pragmatic and business oriented view of Chambers is evident from EUROCHAMBRES' advocacy and activities regarding the EU's commercial relations, negotiations and agreements with other major economies around the world. The same principles apply to our stance on future relations between the EU and the UK, which is why EUROCHAMBRES underlines the need for a trade oriented Brexit.

The decision of the UK to leave the EU will have a significant impact on the European economy as a whole. EUROCHAMBRES will work with the EU's negotiators to minimize the negative impact on its members – nearly 20 million European businesses from across all sectors of the economy. That process relates directly to future trading relations between the EU and the UK, but also to the impact on the EU more widely. There is a consensus among EUROCHAMBRES' members that the integrity of the single market and the EU as a political and economic project must not in any way be undermined by the terms of the UK agreement; just as 'Brexit means Brexit', so must the EU mean the EU.

Various existing EU agreements are cited as precedents for post Brexit EU-UK relations, such as those with Norway, Switzerland, Canada or South Korea. Although specific elements from these agreements may be applicable, none is in its entirety even closely comparable, given that the UK is a major global player that has deep economic and close geographic links with the remaining EU member states.

Indeed, approximately 44% of UK total exports in goods and services go to other EU countries. Underlining that distance still matters for trade, more than half of UK goods are sold elsewhere in the EU, while the UK is effectively the largest export market for the rest of the EU (the USA is a close second).

Most meaningfully and atypically of other EU agreements of course is the fact that the UK is leaving the EU after nearly 45 years of membership. The negotiations on Brexit and future EU-UK relations are uncharted territory for everyone.

Many variables will come into play and the formal process has only just begun. Nonetheless, some elements have become clear since the UK referendum on EU membership last June. This paper and the initial views of our members are conditioned particularly by the fact that the British Government has declared its intention to pursue a 'hard Brexit', extracting the UK fully from the single market and seemingly also the customs union, with a view to pursuing a free trade agreement with the EU. The content refers to some of the key elements for a trade oriented Brexit. However, at this stage in the process, comments on EU-UK post Brexit relations remain necessarily general.

In summary, at this early phase in the process, EUROCHAMBRES advocates:

- A measured approach to negotiations, with a clear and realistic timeframe, giving strong consideration to a fixed term transition period;
- Mechanisms to mitigate the escalation of non-tariff barriers and regulatory and administrative divergence;
- Zero or close to zero tariffs on goods;
- Practical, business-friendly new rules and procedures for trade in goods and services that are as simple as possible, minimizing additional costs;
- An inclusive attitude by EU negotiators, based on close and regular cooperation with stakeholders, notably the business community and therein representatives of small & medium sized enterprises (SMEs);
- Early assurances regarding the rights of legally established EU27 citizens in the UK and UK citizens in the rest of the EU;
- A fair and swift EU budget deal.

## **1. A measured approach with a clear and realistic timeframe**

Businesses crave political and economic certainty and the absence of either is already undermining EU-UK commercial relations. This is set to continue throughout the negotiations and is currently exacerbated by euro:sterling exchange rate fluctuations, bearing in mind that the low value of the pound is impacting negatively on EU27 exporters. Nonetheless, the longer term cost of a hurried and unsatisfactory outcome would be greater. The expression 'more haste, less speed' is apposite to the EU-UK negotiations; progress will be smoother and ultimately faster if it is not rushed.

Many UK commentators have emphasised the need to avoid a 'cliff edge' at the end of the article 50 negotiations, yet the British Government still hopes that a free trade agreement can be struck during this two year period. EUROCHAMBRES considers this unrealistic (it is worth noting that the CETA agreement with Canada took seven years to negotiate), but agrees that efforts should be made to avoid a vacuum between completion of the Brexit negotiations and the introduction of a future EU-UK FTA. For this reason, the option of a transition period that extends beyond the two years of the article 50 process should be strongly considered. EU law should continue to apply in the UK during that period, the duration of which should be fixed so as not to heighten levels of uncertainty.

## **2. Mitigate regulatory and administrative divergence**

The combination of the British Government's intent to pursue a 'hard Brexit' and its future non-involvement in EU policy making will inevitably lead to regulatory and administrative deviation. Individual obstacles will not surface from day one and it seems that the UK Government is set initially to convert all EU law into British law upon its formal exit from the EU through the announced 'Great Repeal Bill'. However, regulatory divergence and administrative complication will doubtless emerge as separate EU and UK legislative processes advance post Brexit.

Although an inevitability, efforts should be pursued to put in place mechanisms and processes to mitigate the scale of this regulatory divergence. The economic arguments for doing so are compelling for both parties and Chambers hope and sense that the political will is also there.

## **3. Trade in goods**

EU businesses would like as much as possible to avert tariffs on goods traded with the UK so, without entering into specific sectors, EUROCHAMBRES' general view is that reciprocal tariffs should be minimized. Indeed, there is arguably a case that tariffs on all goods could be avoided given that they are not currently in place between the EU and the UK: this is a positive starting point compared to most EU negotiations on tariffs.

Our February 2017 survey revealed that non-tariff barriers are in fact considered to be potentially of greater significance after Brexit than tariffs. This reflects concerns over regulatory divergence and the incremental, even unintended, nature of non-tariff barriers. It also reflects the fact that the absence of tariffs within the EU has been a given for decades, so the deepening of the single market has focused on simplification of rules, standards and procedures, all underpinned by the dispute settlement role of the European Court of Justice.

The post Brexit drip effect of non-tariff barriers could be minimized through the introduction of ex ante notification procedures in relation to potential modifications of rules pertaining to goods.

The UK Government has expressed its intention not to remain in the customs union, as it insists on freedom to negotiate trade agreements with third countries. This indicates a need to introduce customs controls between the EU and the UK. The impact of this will be most acute at the border between Ireland and Northern Ireland, which – apart from the negative economic consequences of Brexit on both sides – also presents particular logistical, legal and political challenges. Beyond this, customs controls with the UK will have a much wider effect on trade in goods and ever more complex transnational supply chains.

The call for simple and cost-effective new rules and procedures applies particularly to the field of customs, so creative, workable solutions should be considered and pursued. An initial discussion among customs experts from the Chamber network in March 2017 already highlighted one or two existing ideas that might be replicable vis à vis EU-UK borders and EUROCHAMBRES remains ready to provide input.

#### **4. Trade in services**

Invited to identify which sectors will be most effected, members' responses to our February 2017 survey were wide, but services received slightly more votes than manufacturing.

The preoccupation with non-tariff barriers of course applies even more to the services sector. The UK economy is based heavily on services, so this is a significant factor in ensuring business-friendly post-Brexit trading conditions. As with goods, the most pragmatic solution would be for the UK to convert all EU law relating to the services sector into British law as part of the Great Repeal Bill. The onus would then be on the UK to remain in line with EU law, but both parties could contribute to the minimization of divergence through timely and effective dialogue on potential changes. This will be more complex given that the services single market is still evolving, but it seems the most viable approach at this stage in the discussions.

## **5. An inclusive and open approach**

It is crucial to Chambers that the two-way flow of information between policy-makers and key stakeholders is regular and effective throughout the process of negotiating the UK's exit from the EU and the parameters of future EU-UK relations. This will allow the potential implications of specific aspects on businesses to be gauged and considered with the EU negotiators. An institutionalized, structured dialogue with stakeholders, particularly with SME representatives, is therefore necessary.

## **6. Ensure the rights of legally established citizens**

The issue of free movement of people is clearly one of great sensitivity and was seemingly a prominent factor in the outcome of the UK referendum. This will not be dealt with swiftly, but Chambers strongly encourage the negotiators to draw a clear distinction between discussions on the status of already legally established EU and UK citizens and discussions on the terms of future movement. Indeed, we share the view that is increasingly voiced at EU level that the former aspects should be one of the first items addressed during the negotiations. Whether such an agreement can be achieved swiftly will be seen as a litmus test for the entire process. From a business perspective, it would offer companies from the EU27 that have posted workers to the UK or established branches there some reassurance and allow them time to prepare for the broader implications of Brexit.

## **7. A fair EU budget deal**

We will not enter into the complex discussions on the balance of payments due to be paid as part of the Brexit agreement. Nonetheless, it is an element of the process that is already acquiring a certain symbolism and has a significant impact, so it is important that a mutually acceptable agreement is reached sooner rather than later, paving the way for constructive negotiations on other issues.

## **8. Maintain the integrity of the single market and revitalize the EU**

Brexit must not have a negative knock-on effect on the process of completing the single market or on the development of the EU project more generally. We must remember that this incremental process – which can prove painfully slow and sometimes frustrating and confusing to business – is about much more than market access. Nor should we forget the reasons that underpinned the initiation of the process over 60 years ago and the incredible achievements over the intervening years, which we sometimes now take for granted. That is why the term 'Brexit means Brexit' must be counter-balanced to ensure also that 'the EU means the EU'.

While they seek an amicable divorce from the UK, the remaining 27 member states must renew their vows to the EU and commit to the four freedoms. Despite all of its negative implications, Brexit can and indeed must prove a catalyst for a positive future EU agenda.

*Chambers of Commerce and Industry from across the EU27 remain ready, willing and able to contribute to the process of negotiating the terms for the UK's departure from the EU and of the future economic relationship and insist on close involvement throughout at national and EU level.*

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## **Annex: summary of February 2017 survey of EUROCHAMBRES members on the implications of Brexit**

- Responses were received from 27 countries (23 EU plus 4 non-EU): Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Luxembourg, Malta, Montenegro, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey and Ukraine.
- The potential aspects of Brexit identified as being of greatest significance were identified as:
  1. Non-tariff barriers
  2. Tariffs
  3. Restrictions on free movement of labour/skills
  4. Regulatory divergence

Other aspects that featured less prominently included EU budget implications, aggressive UK tax reforms, exchange rate risks and the potential knock-on effect on the global trade agenda.

- Invited to identify which sectors will be most effected, services received slightly more votes than manufacturing. Various specific sectors within these broad categories were also mentioned, but the general sense among Chamber is that it remains speculation at this stage in the process.
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*EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 98% of which are SMEs – through members in 43 countries and a European network of 1700 regional and local Chambers.*

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