

The United Kingdom is leaving the EU..... But how and when?

Presented by:

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The future of Europe



Where we are

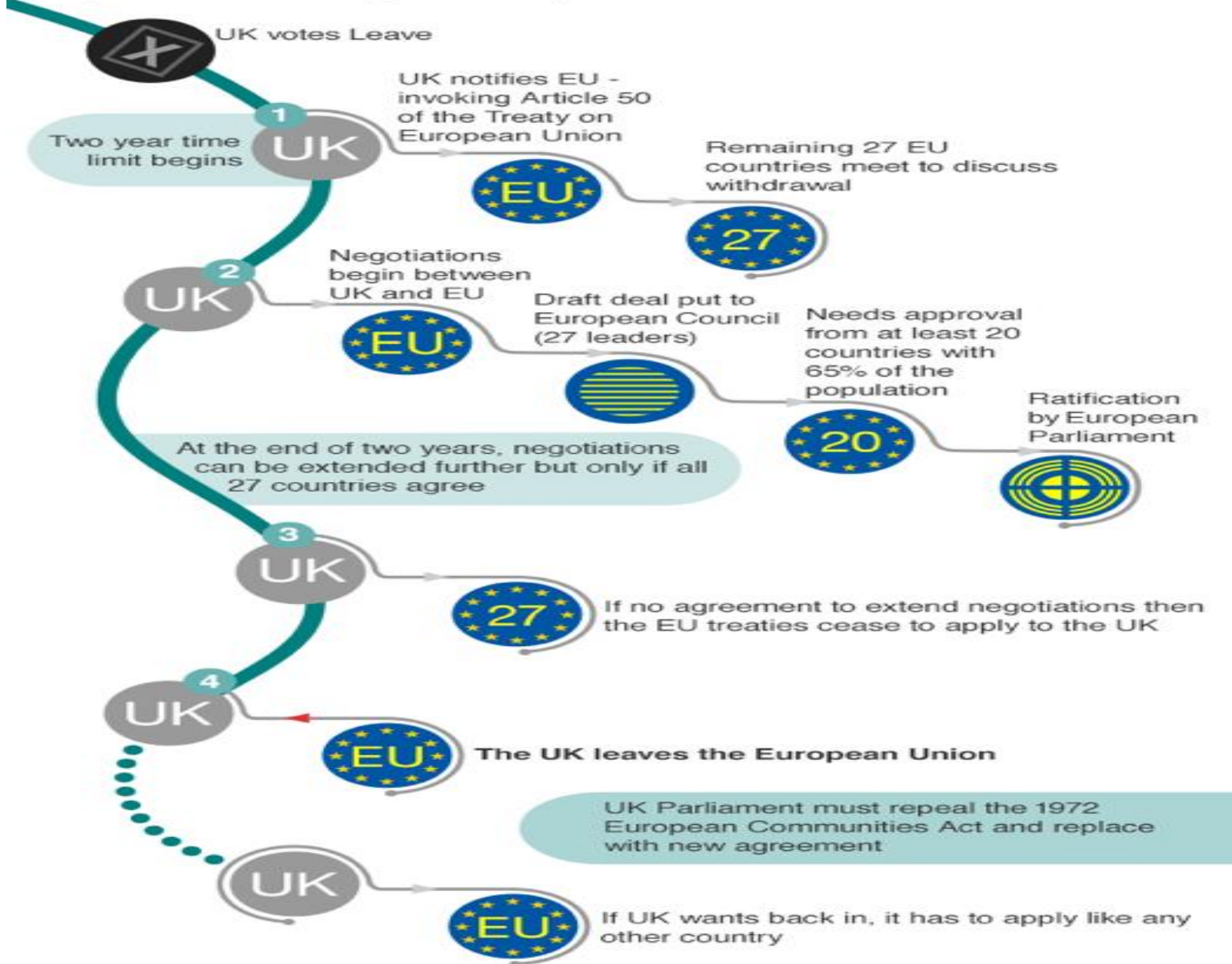
- New Conservative government must deal with exit negotiations,
 - Brexit Minister: David Davis
 - Foreign Secretary: Boris Johnson
 - Minister for Int'l Trade: Liam Fox
 - All "Leavers!"
 - Exit process triggered by UK invoking "Article 50 of the Lisbon Treaty",
 - Period of up to 2 years to negotiate exit agreement,
 - No formal discussions until then,
 - No timescale or formal obligation for UK to "press button",
- Nothing likely to change until Summer 2018!**

What happens next?

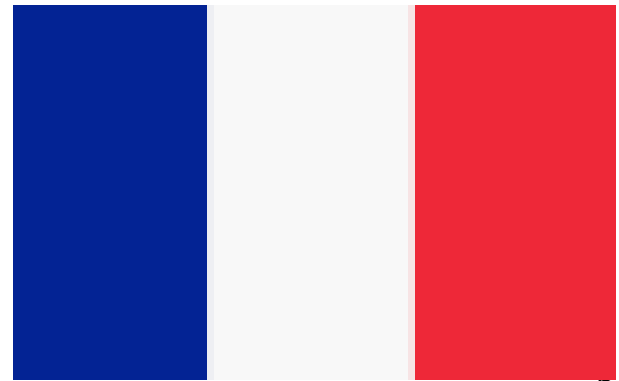
A Game of Poker!

- Negotiations will define nature of post-Brexit UK.
- Exit agreement terms must be ratified by “Qualified majority” within European Council (leaders)
 - min 20 of remaining EU MS, with 65% of population,
- Then ratified by European Parliament,
- Possibility for negotiations to be extended after 2 year deadline...
- ... But only with agreement of all 27 other MS!
- If 2 year passes without agreement or extension, UK leaves anyway!

Steps to UK leaving the European Union



- French President Francois Hollande is among those who have said that, for the UK to enjoy continued free access to the single market, it would need to accept free movement of people.



- Italian Prime Minister Matteo Renzi has said it will be "impossible" for Brexit talks to result in a deal that gives Britons more rights than others outside the EU.





“The European Union has a massive surplus in goods with the UK. Who does it harm more if we end up in a new tariff environment?”

Liam Fox, International Trade Secretary



But Dr Fox was talking about goods, not services.

In 2015, the UK trade figures show the UK exported £134bn worth of goods to the EU and imported £223bn worth.

The question Dr Fox asked was who it would harm more if there were tariffs introduced, which damaged that trade.

In cash terms, clearly the EU has more to lose. But in percentage terms the picture is different.

But

- UK exports of goods to the EU in 2015 accounted for 47% of total goods exports.
According to the *NIESR, EU goods exports to the UK account for about 16% of its total exports of goods.
- So if you're looking at whether the UK or the EU would risk a greater proportion of their trade from tariffs, clearly the UK would lose more.

The General Landscape

Most UK legislation is based on EU,

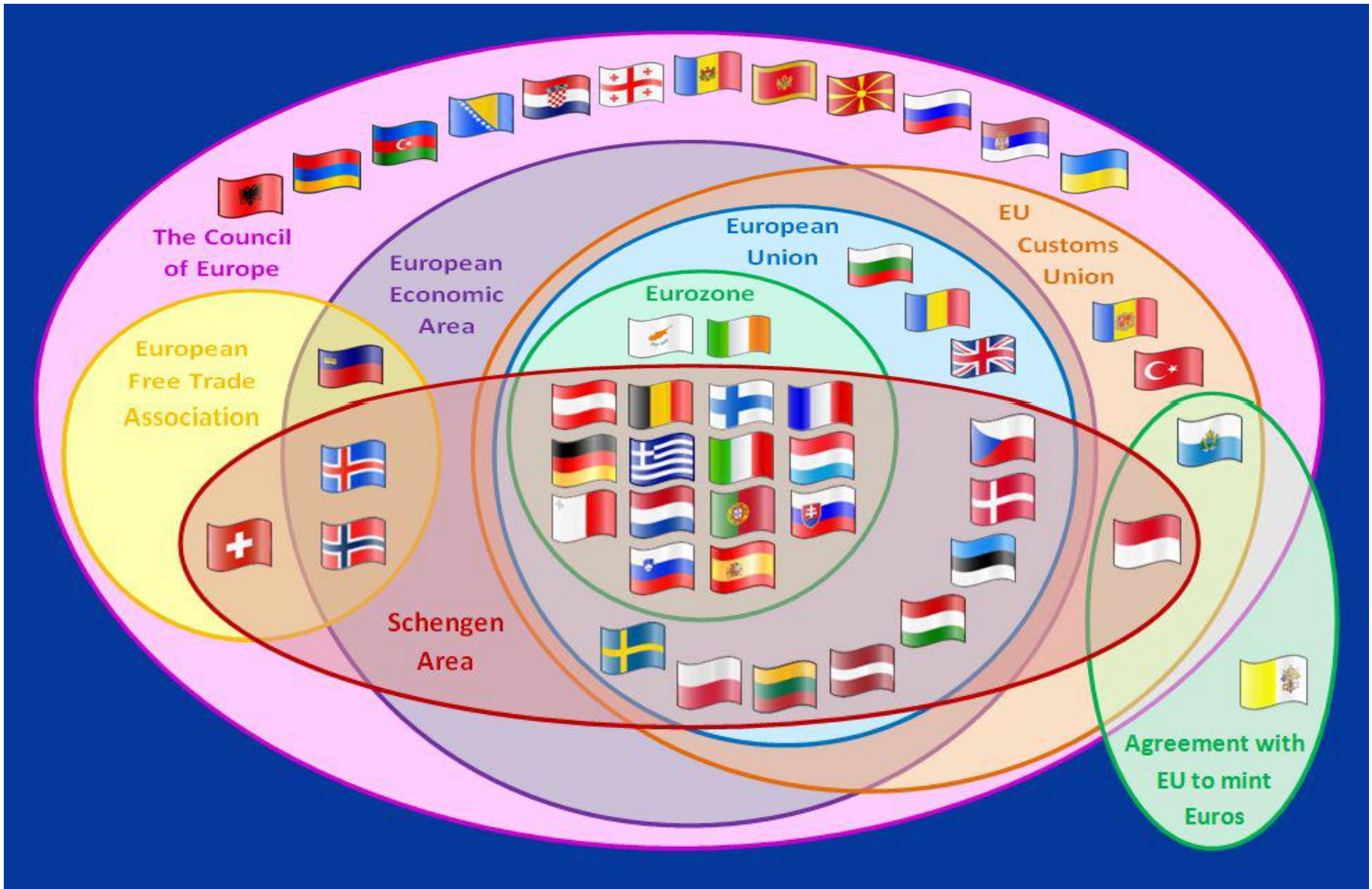
- Customs, export licencing, compliance,
- Trade policy,
 - (Non-trade barriers, trade defence mechanisms, anti-dumping duty),
- Documentary / regulatory / consumer legislation,
- Standards
 - CE Marking etc
- Intellectual property,
 - (European Patents, Trademarks,)
- Services,
 - (Service Directive, sector-specific legislation)

Will need to write new legislation in many areas –

The Customs Environment

- Current Customs legislation based on Union Customs Code
 - Introduced May 2016, ... but still bedding in!
- Share EU customs tariffs
 - CN (Combined Nomenclature) – Exports
 - TARIC (Tariff Tarif Intégré Communautaire) – Imports
- Last significant UK Customs legislation:
 - Customs & Excise Management Act 1979.
- UK remains membership of World Trade Organisation and World Customs Organisation
 - Access to “Most Favoured Nation” treatment... in theory!

The European Jungle



What is “The Single Market”?

Underpinning principles, 4 freedoms, (Freedom of movement of goods, services, people & capital),

- Barrier-free movement of goods within market,
 - (no tariffs, quantitative restrictions, non-tariff barriers)
 - not the same as no customs formalities!
- Common (EU) regulatory framework for most goods / sectors,
 - Removing protective national regulations which restrict trade,
 - Common standards in many sectors,
- Harmonised minimum public procurement rules,
 - Common framework for procurement processes
- Single Market for Services,
 - Right to provide or receive services in another EU MS,
 - EU Services Directive (doesn't cover all services),
 - Sector- specific legislation (telecoms, finance, post, broadcasting etc)

Possible Models for UK - EU trade

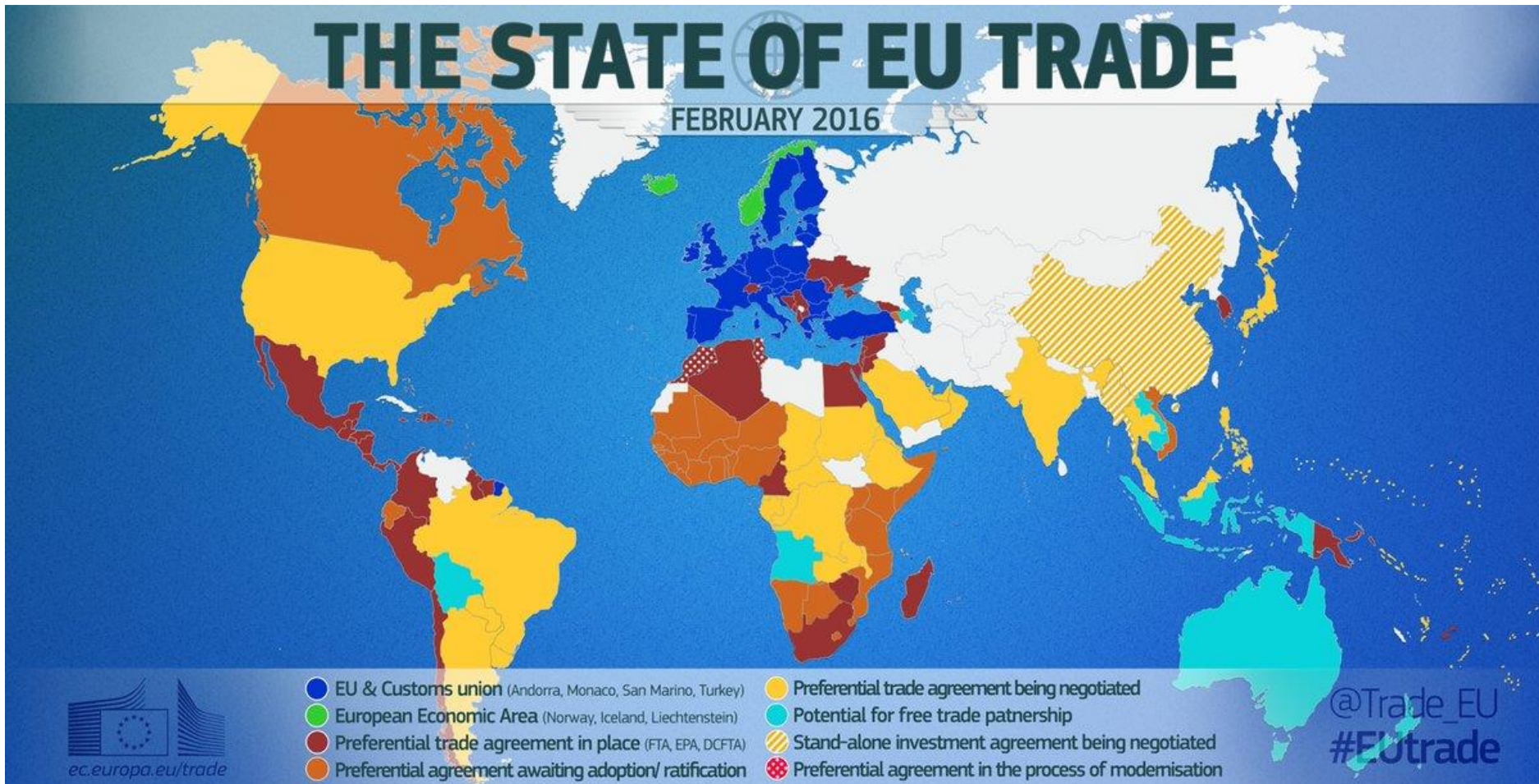
As we are	The Norway model (EEA membership)	The Turkey model (EU Customs Union)	The Switzerland model	Go it alone, based on WTO membership.
Free movement of goods, services & people, No customs clearance for Union Goods	Free movement of goods & people, Customs clearance, exit / entry	Customs clearance, exit / entry. Free movement of goods,	Customs clearance, exit / entry, free movement of goods, bilateral agreements on legislation	No preferential trading terms with EU. Customs clearance exit / entry,
No tariffs	Tariff free, dependent on origin of goods	Tariff free, for most free circulation goods, some exceptions	Tariff free, dependent on origin, some restrictions on people, services	Import duties on goods – based on WTO MFN rate – unless agreements negotiated
Contribute to EU	Contribute to EU		Contribution to EU,	No contribution to EU
Compliance with EU product / technical / consumer standards	Compliance with EU product / technical / consumer standards	Compliance with EU product / technical / consumer standards	Mutual recognition of conformity, must comply with EU standards to sell	Must comply with EU product / technical / consumer standards in order to sell.

Trade outside EU

In principle, unaffected ...

- “Third country” exports remain same,
- But...
- UK Companies currently take advantage of EU Free Trade Agreements,
 - Liberalise, facilitate trade between countries,
 - Provide reduced / zero import duties for qualifying goods,
 - Provides competitive advantage for EU traders vs other countries competitors,
- May have to fall back on WTO MFN tariffs, but... may be problem!

Current EU Trade Agreements



Trading Alliances

Free Trade Area	Duty free trade between members, but members set on tariffs on external imports,
Customs Union	Common external customs tariff, often tariff free internal movements of goods, common trade policy, common technical standards.
Economic Union	Integration of economic policy, free movement of goods & people, harmonisation of taxation, usually requires common, or fixed currencies
Free Trade Zone	Defined area where goods can be traded without customs barriers, may act as place of manufacture in market, in favourable conditions,
Trade Agreements	<p>Regional Trade Agreements; bilateral agreements between two or more countries, can include Free Trade Agreements, Economic Integration Agreements and Custom Unions.</p> <p>Preferential trade Agreements: Usually one-way, duty-reduction agreements between specific states (ie: General System of Preferences</p>

What is Origin?

- Concept of origin generally based on WTO principles
- ... but specific rules to define origin can vary:
 - Different types of C/O,
 - Different issuing countries,
 - Different destination countries,
- Origin usually based on:
 - 1) “Wholly produced or originating”.
 - i.e.: Manufactured in UK / EU from raw materials or components of UK / EU origin.
 - 2) Acquiring origin by last substantial economic process
 - By virtue of processing or manufacture that goods undergo,
 - Usually based on change of tariff code or added value.

Understanding origin of goods can be vital to business!

Trade Agreements / preferences

Many sourcing arrangements factor in trade agreements & preferences,

- Reduced import duty from specific countries,
 - Bilateral agreements,
 - General System of Preferences

- Exit from EU might remove access to preferences, unless;
 - Exit agreement includes UK in existing UK agreements,
 - UK negotiates separate agreements,

Agreements with suppliers

- Contractual terms with suppliers may be based on EU legislation / principles,
 - CE certification, other technical standards
 - Arbitration / dispute resolution,
 - Intellectual property,

May need to review terms of agreements with suppliers,



Transport / Distribution implications

- May be consequences for delivery / lead times,
- Customs clearance / security procedures may delay / disrupt transits,
 - Movements to / from EU to be covered by New Computerised Transit System (NCTS?)
- Possible transit guarantees / carnets for hauliers?,
- Removal of cabotage may affect availability of services / carriers within Europe,
 - Or encourage UK domestic transport industry?
 - Depends on negotiations on movement of people & services,



What next?

- Institute spoke to its members and asked
- How many of you think long term that your business will shrink, stay the same or grow?

- | | | |
|-------|-----|-----|
| ▪ 36% | 35% | 41% |
| ▪ 47% | 60% | 48% |
| ▪ 17% | 4% | 11% |



Biggest risks?

- Island mentality 21%
- Threat of delays to goods 15%
- Exchange rates 23%
- Added costs through duties or taxes 42%



Trade Agreements

Priority markets

- USA 70%
- China 69%
- India 66%
- Canada 64%

- Surprisingly Australia only 50%



- However, most popular and urgent by far 94% said EU

- So 'Brexit means Brexit' could mean absolutely anything until we know how we are going to approach this journey
- No SAT NAV for this but the route we take will impact on many people's lives ... not just business

Any Questions ?

- Contact lesley@export.org.uk