

Trade in Goods

Challenges caused by Brexit

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U27-UK Trade Matters!

The EU and the UK enjoy very close trading relations, dating back well before Britain joined the European Economic Community. Having developed into the second-largest economy within the EU (after Germany), the UK is a key player in intra- and extra-EU trade. It accounts for 16 per cent of EU GDP.

Brexit will severely disrupt the economic relationship, entailing costs for both the EU27 and the UK, with considerably higher costs for the UK. In 2016, seven of the top ten export destinations of the UK were EU27 countries, and regarding imports, it were six of the top ten.

- **Strong EU27-UK trade** in machines, electronic devices, motor vehicles, chemical products, pharmaceuticals, minerals, basic metals, petroleum, rubber, and plastic products.
- **The UK has established particularly strong trading relations with Germany**, accounting for €85.9 billion in imports from Germany and €35.7 billion in exports to Germany in 2016.
- **The UK serves as an attractive destination for FDI**, with EU27 investors having created 1.4 million jobs in the UK (as of 2014).

15,8%

Increase in volume of merchandise trade between the EU27 and the UK (2002-2016)

€467
billion

Total trade in goods (total imports + total exports) between the EU27 and the UK (2016)

Source: Eurostat Database <http://ec.europa.eu/eurostat/>, (accessed December 19, 2017).

BDI Core Recommendations

Ensure the Integrity of the EU

German business fully supports the integrity of the European Union. The cohesion of the remaining EU27 should remain a negotiating priority. The political stability, integration, development, and competitiveness of the EU27 has precedence over the quality of the future relationship between the EU27 and the UK. At the same time, the EU27 and the UK should ensure a respectful future relationship with each other.

Allow for a Transition Period and Create Business Certainty

To prevent a cliff-edge scenario, the EU27 and the UK should decide on a clearly defined transition period that allows for sufficient time to negotiate the future relationship between the two parties. The interim agreement should extend the current regime and only change once to the future final arrangement.

Avoid a Hard Brexit

No agreement on the future relationship between the EU27 and the UK would lead to a hard Brexit. This should be avoided, as it would lead to severely deteriorated trade relations between the UK and the EU27.

Aim at Deep Integration of EU27-UK

While acknowledging the political difficulties, German business prefers a governance model which ensures deep integration, i.e. a model that continues the single market and customs union. A comprehensive free trade agreement (FTA) – while being better than no deal at all – would not be sufficient to guarantee frictionless trade. Not just tariffs but also non-tariff barriers need to be prevented.

Customs Facilitation

Both the EU27 and the UK need to invest in hard and soft infrastructure to ensure efficient customs clearance. They should negotiate customs cooperation agreements, allowing the UK to become a party of the Common Transit Convention. They should also mutually recognize their Authorized Economic Operators (AEO) schemes. Self-assessment schemes, centralized clearance, and one-stop shops can help mitigate costs.

Future EU27-UK Trade Relations – 4 Options Assessed



Single Market plus Customs Union

German business favours a governance model which ensures deep integration, i.e. a model that continues the single market (incl. all 4 freedoms) and customs union. Such a model, while politically facing many hurdles, would allow for a comparatively soft Brexit.

The single market and customs union should:

- encompass all sectors of the economy,
- feature no physical customs at the border between the EU27 and the UK,
- foster trade by streamlining and facilitating communication between businesses and administrations on trade related tax issues and statistical matters.

Customs Union-only

A customs union, while not offering the same degree of economic integration as the single market, would still be a viable option from a business point of view.

A customs union should:

- encompass all sectors of the economy,
- foster regulatory cooperation between the EU27 and the UK to prevent new non-tariff barriers,
- address services and investment as well as trade+ issues like government procurement, competition, and protection of intellectual property rights,
- streamline and facilitate communication between businesses and administrations on trade related tax issues and statistical matters.



Deep and Comprehensive FTA

While being better than no deal at all, an FTA would not be sufficient to guarantee frictionless trade.

An ambitious EU27-UK FTA should i.a.:

- introduce no tariffs and quantitative barriers,
- contain simple rules of origin incl. cumulation,
- have clear and restrictive rules on subsidies,
- foster regulatory cooperation to prevent new non-tariff barriers,
- address services and investment as well as trade+ issues (e.g. competition and intellectual property rights),
- introduce a committee structure to monitor implementation and compliance; as well as a mechanism for dispute settlement.

Hard Brexit

If the UK and the EU27 fail to reach an agreement governing their future relationship, the consequence will be a hard Brexit. The UK would become a so-called third country to the EU. Hence, tariffs bound at the WTO would apply, and new layers of barriers at the border, non-tariff barriers, and other forms bureaucracy would be introduced. Also costly customs procedures and delays will impact EU27-UK trade.

Leaving the EU, the UK loses preferential market access to the 34 EU-FTAs and three customs unions – necessitating origin procedures for EU27 goods with British components. Thereby, trade relations would be severely disrupted. German business is strongly opposed to such a cliff-edge scenario.



Mitigating Costs of Customs Procedures

To ensure smooth customs procedures and mitigate likely costs, the following steps should be taken:

- **Customs Infrastructure:** Apart from investments in physical infrastructure at key arteries for EU27-UK trade, the UK should also invest in soft infrastructure by replicating the Union Customs Code in domestic law, and upgrading its computer systems for electronic customs declarations.
- **Processing and Customs Authorisation:** A general risk analysis including businesses' process-based controls is preferable over transaction-based controls. The UK should set up an AEO scheme to enable simplified customs procedures for imports and exports. The EU27 and the UK should mutually recognize the trusted traders' status of companies domiciled in the partner's customs zone. Moreover, self-assessment schemes, centralized clearance, and one-stop shops should be utilised to mitigate costs.
- **Prohibition and Restriction in Export:** Simplified export control procedures and provisions should be implemented for EU exports of dual use as well as for defence goods to the UK.