

# SHAPING OUR FUTURE

Key business principles for the UK-EU negotiation

21 JULY 2016





## Introduction

*The UK has voted to leave the European Union. Now there are important questions that must be answered on the future of the country's relationship with the European Union and the rest of the world.*

*As the source of economic growth, jobs and opportunity in our communities and regions, business now has a vital role in maintaining stability and helping the Government to plot its future. Working together, we must make the most of the vote to leave identifying opportunities outside of the EU while safeguarding the benefits of a close relationship with the EU, to build a prosperous UK economy that works for everyone.*

This document aims to assist Government in their approach to the negotiations outlining how to provide short-term clarity and reassurance for business, the principles the business community has agreed and the balances that will need to be considered in safeguarding the benefits of EU membership and respecting the vote of the public.

In the weeks since the vote to leave, the CBI has consulted with over 500 of its members on their views.

Opinions vary between businesses depending on how they interact with Europe, but there are some clear areas where Government and business can work together. Government

should look to negotiate a new relationship with the EU along the following principles:

- **Retaining the ease of UK-EU trade that businesses get from the single market**
- **Balancing regulatory equivalence with the EU with flexibility and influence over the domestic environment**
- **Ensuring the UK's migration system allows companies to access the people and skills they need, while recognising public concerns**
- **Developing a clear strategy for international trade and economic agreements**
- **Protecting the economic and social benefits of EU funded projects**

A new, deep partnership between Government and business of all sizes from across the United Kingdom will be needed for this to work. In order to move forward successfully, Government needs input from business and companies need reassurance on a number of issues.

Now there is a new Prime Minister, the Government can help business engage by:

- **Laying out a clear timetable and plan to provide business with certainty**
- **Maintaining a partnership between Government and business of all sizes from across the UK**
- **Continuing UK influence over EU legislation during the negotiation**

*Having consulted with over  
500 CBI members, the  
principles to underpin the UK's  
negotiation with the EU are  
clear...*

## The CBI's members have called for 5 principles for the EU negotiations



### 1. RETAINING THE EASE OF UK-EU TRADE THAT BUSINESSES GET FROM THE SINGLE MARKET

With 45% of the country's exports destined for the EU and 53% of imports drawn from it, continuing easy access to this market, with minimal barriers, is the business community's leading concern. Certain sectors of the economy would experience disproportionate consequences from tariffs on goods traded between the EU and UK. Exporting businesses in the manufacturing sector – particularly the UK's agri-food, aerospace, automotive, textile and chemicals industries – are likely to experience a reduction in their exports' competitiveness if tariffs are applied. **Keeping UK-EU trade tariff free should be one of the Government's highest priorities.**

Access to the single market also means access for the UK's services businesses, which account for 77% of the UK economy. EU membership has meant that UK companies have a right to establish themselves in other EU member states and provide and receive services across the EU. To take just one sector, the financial services passport has allowed international finance businesses to use the UK as a launch-pad to the rest of the EU. The whole UK economy benefits from a strong financial services sector, as it enables access to finance that supports growth. **The right of UK services companies to establish and provide services in other EU countries should be maintained.**

Non-tariff barriers have the potential to impede trade as much as tariffs. Membership of the EU customs union – with the agreement of a common external tariff that this entails – currently allows UK businesses to export and import goods without rules of origin declarations, VAT payments and the delays these incur. The lack of these non-tariff barriers have had particularly significant benefits for small and supply chain businesses who do not possess the resource to overcome them.

It has also had other consequences: the current infrastructure of the UK's ports has been designed with a simplified process for half their trade. Business acknowledges that control of the UK's external tariff is important for future trade negotiations with third countries, but UK-EU trade must be open and easy – particularly for small businesses. **Non-tariff barriers on UK-EU trade should be kept as low as possible.**

## **2. BALANCING REGULATORY EQUIVALENCE WITH THE EU WITH FLEXIBILITY AND INFLUENCE OVER THE DOMESTIC ENVIRONMENT**



A certain level of regulatory equivalence between the UK and the EU is required for access to the single market, with particularly integrated arrangements in areas like financial services regulation, the Common Aviation Area, the digital single market – from data flows to intellectual property – and the internal energy market. This also includes areas which are regulated by pan-European authorities – such as the European Medicines Agency which licenses pharmaceuticals across Europe. And there are some areas like climate change strategy which cannot be adequately handled by countries in isolation. **Mechanisms for continued UK involvement in areas where the EU currently facilitates international collaboration will have to be negotiated.**

However, regulatory equivalence also requires influence. It could be detrimental to UK businesses if the UK is forced to implement EU rules without some say over their creation – for example over employment rules. And while the extent to which the UK will implement some EU law in the future is unclear, UK policymakers must continue to engage on the EU legislative agenda. **A long-term strategy for influencing new EU rules and standards that may still apply to UK businesses after exit will have to be established.**

Where there may be areas for domestic flexibility going forward, a careful balance must be maintained between opportunities for new approaches and the regulatory equivalence required for access to the single market in highly tradable sectors. **Close cooperation between Government and businesses of highly tradable sectors will be necessary when approaching complex regulatory issues.**

### 3. ENSURING THE UK'S MIGRATION SYSTEM ALLOWS COMPANIES TO ACCESS THE PEOPLE AND SKILLS THAT THEY NEED, WHILE RECOGNISING PUBLIC CONCERNS



The UK's immigration system must be one that has the confidence of the public, and it must be open and outward-looking. Access to people from across the world is vital for companies which need talent for growth. That access must be at all levels of the labour market. It is vital to recognise how deeply integrated the UK has become after 40 years of close partnership, and the reciprocity of the relationship.

**Reassurances should be made for EU migrants already in the UK and UK citizens resident in the EU. Clarity should also be given on their future status, once the UK has left the EU.**

The UK's labour market is supporting the highest employment rates ever recorded- including a record number of UK nationals in work. However, companies have been increasingly unable to fill the jobs that are least attractive to British workers. This is particularly apparent in the agricultural and hospitality sectors, where skills shortages are becoming more severe. While it is vital that the UK looks to upskill the domestic workforce, free movement from the EU has helped businesses overcome skills and labour shortages, and brought valuable talent to our workforces. Businesses also benefit from being able to move their employees around the EU, to share knowledge and foster innovation. The UK benefits from attracting jobs that could be based in a number of countries, as they boost productivity and living standards. **Business and Government should work closely together to build an immigration system that works for the economy and for society.**

International students contribute to the local economies in which they are based and provide vital income streams for our world-leading universities. Guaranteed protections for students should be considered. **European students currently applying to study in the UK, and UK students currently applying to study in the EU, should be encouraged to continue.**

#### 4. DEVELOPING A CLEAR STRATEGY FOR INTERNATIONAL TRADE AND ECONOMIC AGREEMENTS



Disruption should be avoided where UK businesses currently benefit from preferential access to world markets through EU trade deals. Existing trade agreements are of particular importance to sectors which face high tariffs and sectors which have experienced significant growth as a result of individual deals. For example, South Korea became the second largest export market for the UK's ceramic tableware sector after the EU deal was implemented, and the EU deal with Vietnam was set to cut a 45% tariff on Scotch whisky imports to zero. Securing access to EU-third party trade agreements that are currently in force, as well as those currently undergoing ratification, will provide UK businesses with new prospects for growth without the need for extensive negotiation. **Preferential access to markets through EU-third party trade deals – in force and close to completion – and WTO deals should be protected.**

Agreements that the EU has made with third-countries on other policies that facilitate trade and investment are also important. Before the UK leaves the EU, new arrangements must also be in place for airspace agreements such as the 'Open Skies' regime which manages Trans-Atlantic flights. **Initial continuity on all international agreements currently managed through the EU should be established.**

The opportunities for new UK trade deals with established and growing markets are exciting. Although it may not be possible to launch formal negotiations or sign trade deals with new markets until the UK's relationship with the EU is clear, the UK Government should identify priority markets and undertake necessary diplomatic action to lay the foundations for broadening future trade relationships. The most valuable trade deals for business are those which are deep and comprehensive, covering regulatory cooperation to reduce non-tariff barriers, as well as traditional market access commitments and cooperation on trade rules. Much has been made of the need for civil service resource to be focused in this area, complementary to the trade strategy. Where the skills for this lie in the private sector, business

should be willing to help. **International markets should be carefully prioritized to make the most of new opportunities.**

## **5. PROTECTING THE ECONOMIC AND SOCIAL BENEFITS OF EU FUNDED PROJECTS**



The status of current EU funding commitments and UK organisations' ability to apply for funding in the future is currently uncertain. These projects – often focused on areas of economic or social deprivation – support investment in infrastructure, small and medium enterprises, research and innovation, and the rural economy. As there is a requirement for EU funds to be matched at the domestic level, private partners are seeking urgent assurances that transitional arrangements will be put in place and promises honoured. This is particularly true for private partners involved in long-term infrastructure investments. **Where EU funding commitments have already been made, protection and reassurance is needed, with particular mind to projects scheduled for completion beyond the UK's expected date of exit from the EU.**

Uncertainty is also already affecting UK businesses and universities applying for EU funding. Many bids for funding are made with partners from other EU countries. Organisations are reporting that opportunities to participate in and coordinate such projects are shrinking. It may be necessary to continue to contribute funds to the EU budget for access to collaborative programmes like Horizon 2020. **Clarification is urgently needed for funds that have not yet been allocated and the future of the UK's involvement in collaborative projects.**

In the long-term, work will have to take place at the domestic level to establish priorities for investment in the areas currently covered by EU funding. The future of agriculture, regional funding to spread prosperity across all regions of the UK, and a strategy for research and development will need to be established. To avoid pauses in vital areas of the UK's growth, the majority of this work will have to take place before the UK's departure from the EU, when the new economic landscape is clear. **New strategies will be required for domestic investment in the areas currently covered by European funds.**

*Government must work closely  
with business to plan its  
approach to the negotiation*

## The CBI's members have outlined the need for a clear process to be set out



### **1. LAYING OUT A CLEAR TIMETABLE AND PLAN TO PROVIDE BUSINESS WITH CERTAINTY**

Government must look to provide as much certainty for business and the UK economy as possible. For businesses to continue to have confidence to invest in the UK, Government should outline, as soon as possible, clear processes and a timetable for negotiating a new relationship with the EU. Business would welcome clarity on when Article 50 will be invoked, and how the Government will develop and communicate the principles to underpin the negotiation.

Article 50 of the Lisbon Treaty provides a framework for withdrawal, and a two-year timetable. However, there is uncertainty over this, as the treaty says that the withdrawal agreement will *'take account of the framework for its future relationship with the Union'* but does not explicitly outline that the withdrawal agreement will include the future relationship. It is critical that the UK Government takes time to set out a plan for the negotiation of a new relationship with the EU before triggering the Article 50 process.

### **2. MAINTAINING A PARTNERSHIP BETWEEN GOVERNMENT AND BUSINESS OF ALL SIZES ACROSS THE UK**

Close and deep collaboration between business and Government is vital to help shape the country's future economic relationships. There needs to be a new kind of partnership, reaching out more widely than ever before across the UK's business community. It should involve companies of all sizes, all sectors, and, vitally, from all parts of the UK. Never has there been a more important time to put the interests of the UK ahead of party politics. Leaders of all parties and First Ministers in all parts of the UK must work together to provide clear messages to business and to limit uncertainty.

Businesses have so far welcomed the efforts of Government to reach out to businesses across the country and understand how Britain's exit from the EU will impact them. Business would like to see this dialogue continuing. The business community is willing to help, and the CBI is ready to help Government work with representatives from across the economy on this important issue. Clear points of contact for business within relevant Government departments – including the Department for Exiting the European Union – would simplify this process.

Ensuring that the needs of the devolved nations are represented in the discussions on the UK's future is of vital importance. The implications for all regions and nations of the UK must be understood by all who have a role in negotiations with the EU. The agri-food sector in Northern Ireland, for example, is three times bigger than in the UK as a whole, with disproportionate economic importance to the region. Leaving the EU will therefore have significant practical implications in the context of the border between the Republic of Ireland and Northern Ireland. The manufacturing sector is significant in the economies of both North and South Wales, responsible for 17% of GVA. There are over 19,000 EU students at Scottish Universities, and 23% of jobs in the UK energy sector are in Scotland. To ensure the nuances of the implications are understood and represented in the negotiations, representatives from each nation should be involved from the start. Devolved nation Governments should be able to nominate senior civil servants to work in the Department for Exiting the European Union and provide a liaison point for those business with operations in the devolved nations.

### **3. CONTINUING UK INFLUENCE OVER EU LEGISLATION DURING THE NEGOTIATION**

The UK has been, and must continue to be, an influential voice in Brussels, helping to shape EU legislation to protect the competitiveness of business. EU legislation will continue to apply to the UK throughout the negotiations, and some possibly after, therefore the UK Government must continue to engage in Brussels across all policy areas. In particular, in parallel to the negotiations, Government must continue to influence the EU legislative agenda across areas of vital importance to business, such as the digital single market, financial services and energy and climate change.

This is a time for partnership, and the UK is at its best in Brussels when it builds alliances on the continent. While the result of the referendum makes this more difficult, the UK's voice is a respected one and now, more than ever, it will be important to proactively and constructively work with our EU partners on issues of mutual importance.

# A NEW PARTNERSHIP BETWEEN GOVERNMENT AND BUSINESS

**Business is delivering value to people in communities across the UK. The economic growth that business generates provides jobs, opportunity and prosperity across the country. As the new Government strives to build a country that works for everyone, making the most of the vote to leave the European Union, business can help.**

**The principles that business has laid out will help guide the negotiations between the UK and the EU in a way that will best help the Government build a more prosperous society that works for everyone.**

## **Retaining the ease of UK-EU trade that businesses get from the single market**

- Keeping UK-EU trade tariff free should be one of the Government's highest priorities.
- The right of UK services companies to establish and provide services in other EU countries should be maintained.
- Non-tariff barriers on UK-EU trade should be kept as low as possible.

## **Balancing regulatory equivalence with the EU with flexibility and influence over the domestic environment**

- Mechanisms for continued UK involvement in areas where the EU currently facilitates international collaboration will have to be negotiated.
- A long-term strategy for influencing new EU rules and standards that may still apply to UK businesses after exit will have to be established.
- Close cooperation between Government and businesses of highly tradable sectors will be necessary when approaching complex regulatory issues.

## **Ensuring the UK's migration system allows companies to access the people and skills that they need, while recognising public concerns**

- Reassurances should be made for EU migrants already in the UK and UK citizens resident in the EU, and clarification clearly given on how they can remain once the UK has left the EU.
- Business and Government should work closely together to build an immigration system that works for the economy and for society.
- European students currently applying to study in the UK, and UK students currently applying to study in the EU, should be encouraged to continue.

## **Developing a clear strategy for international trade and economic agreements**

- Preferential access to markets through EU-third party trade deals – in force and close to completion – and WTO deals should be protected.
- Initial continuity on all international agreements currently managed through the European Union should be established.
- International markets should be carefully prioritised to make the most of new opportunities.

## **Protecting the economic and social benefits of EU funded projects**

- New strategies will be required for domestic investment in the areas currently covered by European funds.
- Clarification is urgently needed for funds that have not yet been allocated and the future of the UK's involvement in collaborative projects.
- Where EU funding commitments have already been made, protection and reassurance is needed, with particular mind to projects scheduled for completion beyond the UK's exit from the EU.

## **It is important that Government provides the best environment possible to enable this partnership by:**

- Laying out a clear timetable and plan to provide business with certainty
- Maintaining a partnership between Government and business of all sizes from across the UK
- Continuing UK influence over EU legislation during the negotiation



## Looking forward

Over the coming months, the CBI will be collating the views of companies of every sector, working to coordinate a response to the vote to leave the European Union which encompasses the whole business community.

This response will evolve with events across the regions and nations of the UK and Brussels. At the moment, the business community is just beginning to come to terms with what the UK's vote to leave may mean. As the landscape becomes clearer, business will be able to provide detailed views and assistance to Government on the questions it now faces.

Business will have to be flexible and adapt to a rapidly changing environment, and the CBI will help prepare them to do that. The CBI will also be an active partner in Brussels, supporting the UK Government's efforts to secure the best settlement through our relationships with the European business community and Governments in other member states.

Throughout this process, it is vital that the aims are clear. Securing the best settlement possible between the UK and the EU is an important part of building a prosperous UK economy that works for everyone. The business view must be at the heart of the negotiation, as business is the source of economic growth, jobs and opportunity in our communities and regions.

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