



BRITISH EXPORTERS ASSOCIATION

12th January 2017

International Trade Committee Inquiry

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/international-trade-committee/inquiries/parliament-2015/uk-trade-options-beyond-2019-16-17/>

UK trade options beyond 2019 inquiry

Overview of BExA

The British Exporters Association (BExA) is an independent national trade association representing the interests of the UK's exporters. Our membership is drawn from across the exporting community, including capital goods manufacturers and international traders (large corporates, MSBs, SMEs and Micro exporters), and their bank, credit insurance and other service providers. BExA seeks to promote the interests of its members and all UK exporters, with a particular focus on trade finance and export credit insurance.

BExA Response to the International Trade Committee Inquiry's Questions

1. Sequencing of the steps towards Brexit

BExA would have preferred delaying the invocation of Article 50 until the Brexit strategy was established and trade teams were in place. However the Government has set itself a deadline of March 2017.

BExA is concerned that, having outsourced our trade negotiations to the EU, we do not have a body of trained negotiators for establishing trade arrangements both with the EU and to other countries and trading blocs. It has been reported that a bilateral trade agreement requires a trade team of between 50 and 100 experienced individuals¹. Although some of this number could conceivably work on simultaneous trade deals, it is fair to say that in order to negotiate the number of trade deals required, that the DIT and DExEU will require in excess of this number of trade specialists. Work has commenced on recruiting additional resource to meet this demand but question marks remain on the depth of the available talent pool and ability to staff-up in the short timeframe.

Although the UK is prohibited from entering into or negotiating trade agreements with other countries prior to the conclusion of the Article 50 process it would be unwise to extract ourselves from the EU without first exploring preference trading with key export destinations.

BExA recommends:

- Explore preference trading arrangements with "friendly" export destinations such as Commonwealth countries prior to the conclusion of the Article 50 process.
- Brexit provides a once in a lifetime opportunity for the UK to define its global trading relationships. DIT and DExEU must continue to resource their trade negotiation teams with the best talent and given the importance of this event should not inhibit this process by applying public sector salary caps.

¹ <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-trade-committee/uk-trade-options-beyond-2019/oral/43978.html>

2. Transitional arrangements

For those countries with trade agreements with the EU it would make sense to utilise the terms of the existing EU agreements as a transitional arrangement until a dedicated mutually beneficial trade agreement can be agreed.

Transitional arrangements with other countries should not be required as these will continue on WTO terms provided that the UK's accession to member status is. Whilst the likelihood of a country blocking our membership of the WTO is remote it is a possibility and one that should be considered by the DIT.

BExA recommends:

- The terms of existing EU-3rd Country trade agreements are used as the basis of transitional arrangements with those 3rd countries.
- WTO terms to continue to be used for nations with no current trade agreement with the EU.

3. Soft Brexit v Hard Brexit

BExA does not view the distinction between a Soft Brexit and Hard Brexit as a useful one. Whatever the form of Brexit achieved by the Government, it will be a negotiated position.

4. The difference between membership and access

Membership of the EU single market confers the requirements to accept all terms and conditions of that membership, namely the four freedoms; free movement of people, goods, services and capital across borders. Access to the EU single market infers a negotiated position that may or may not include the four freedoms. However it is difficult to see a situation where access is granted to the UK to access the single market for free movement of goods, services and capital without the free movement of people.

5. Possible trade-offs in securing privileged access

The free movement of people was seemingly one of the main drivers in the UK's referendum decision to leave the EU and this appears to be the one area that the UK public would want to see removed from any future agreement with the EU. However the UK's economy has benefited from free movement of skilled workers, and exporters will need to continue to be able to draw upon the best talent in order to remain innovative, creative, and at the leading edge of their respective industries.

BExA recommends:

- The UK Government ensures that exporters retain the ability to attract the best talent from across Europe and the globe to ensure our businesses remain competitive.

6. Implications of Single Market Access for UK trade in services, particularly passporting in respect of financial services.

The UK's services sector is a huge exporter and financial services generate some 11.5% of all UK tax receipts. CityAm reports that 50 Financial Services firms paid a total of £71bn in tax in the year to April 2016, an increase of over 7% on 2014-15². Lawyers would seem to be anticipating the loss of passporting by registering on the Irish roll of solicitors, but other industries, including financial services and the arts have also benefitted from Freedom of Services for their firms without the opportunity to gain rights as individuals.

The recent EU-Canada Comprehensive Economic and Trade Agreement (CETA) provides Canada with services market access on a par with EU member states without needing to accept free movement of people. This precedent suggests that UK service providers could retain their passporting rights without the UK ceding their position on free movement of people.

BExA recommends:

- DExEU prioritises the continuation of the UK's passporting rights to offer services to the EU.

² <http://www.cityam.com/assets/uploads/content/2016/12/cityam-2016-12-06-58460d0d9cc04.pdf>

7. Membership of EFTA, the EEA and bilateral arrangements with the EU

Membership of the EFTA would appear to fit the aim of UK Government to promote free-trade as the standard for international trade. Membership of the EFTA does not automatically obligate the member to join the EEA. The EEA requires the member states to abide by the four freedoms. As a member of the EU, the UK is already a member of the EEA; however the EEA has no provision for exiting like the EU's Article 50 and there may be legal ramifications of doing so. It is not clear if the UK would leave the EEA on leaving the EU. This would not appear to be compatible with the UK's exit strategy and as such, if successful in leaving the EEA, the UK could join the EFTA and negotiate its own bilateral arrangement with the EU.

BExA recommends:

- The UK to enter into a new bilateral trade arrangement with the EU following its exit. This will provide the greatest scope for an ongoing agreement that meets the needs of both parties.

8. Bespoke arrangements

The post Brexit models that have been repeatedly discussed in the press, such as the Norwegian and Swiss, models have disadvantages that appear to out-weigh their advantages. Brexit will be a negotiated position bespoke to the UK.

The Continental Partnership model proposed by Bruegel³ has its merits and provides a solution that could work for the UK however it could be argued that a similar arrangement would be reached through a comprehensive free-trade agreement.

9. Maintaining a customs union with the EU

A Customs Union would retain the benefits of the current ease of trading between the UK and EU countries. The UK would leave the EU Customs Union on leaving the EU but could negotiate retaining access on a bilateral basis as part of a wider free-trade agreement.

BExA recommends:

- Access to the EU Customs Union should be seen as an essential part of any trade agreement with the EU. This will ensure that UK exporters to the EU are not disadvantaged by new customs regulations post Article 50.

10. A bilateral free-trade agreement such as CETA with Canada

This appears to offer the flexibility required by the UK and will give both entities the widest scope when negotiating the UK's exit. As an advocate of free-trade it gives Government the opportunity to demonstrate the power of free-trade by its ability to negotiate a deal that allows UK exports to flourish in the EU.

Much of the success of this particular route is dependent on the EU's negotiating position, too short-term and reactionary and this may prevent an agreement of this type, however if taking the long term view on trade and relationship with the UK there is a clear argument for ensuring that any deal struck is mutually beneficial.

BExA recommends:

- See recommendation in point 7.

11. Trading under WTO rules.

The UK is a full and founding member of the WTO but its status following Brexit is unclear. One train of thought runs that it is a formality that the UK retains its WTO status and adopts the schedules set out in the GATT and GATS⁴. The other train of thought counters that the ability of the UK to simply adopt existing schedules is not straightforward and would need to be negotiated and agreed by all WTO member states⁵.

Access to the WTO would also rely on the UK's ability to agree trade schedules with the WTO. The EU currently has a single trade schedule with that covers the individual member states which includes non-tariff quotas for the EU member states as a whole. The UK will

³ <http://bruegel.org/2016/08/europe-after-brexit-a-proposal-for-a-continental-partnership/>

⁴ <http://www.ictsd.org/opinion/understanding-the-uk>

⁵ <http://www.ictsd.org/opinion/nothing-simple-about-uk-regaining-wto-status-post-brexit>

need to unpick the UK's trade volumes from these EU quotas to ensure we are not unduly disadvantaged under a standalone WTO trade schedule.

BExA recommends:

- Care is taken on the calculation of the non-tariff quotas that are submitted to the WTO to ensure that they are adequate to ensure that no UK exporters will be worse off than under the current EU arrangement.

Summary

The UK has a robust export 'industry' but it will need increased support in this 'year of exporting' to help win business overseas now that we have potentially cut ourselves away from the European free trade zone. While the pound is weak, we have an advantage in terms of price, but this is likely to be eroded over time especially for exporters with EU or global supply chains. Our exporters need tangible Government support in; (i) discovering and accessing new markets and (ii) developing new products and services to suit those new markets. It is very costly to prospect for business, work up tender documents, and negotiate watertight contracts especially for the SME businesses that will drive export growth in the UK.

The Government must bring together all relevant Government Departments and focus on its 'Whole Government approach to exports'. BExA has set out a list of recommendations in its Manifesto for Brexit⁶, including integrating trade support with our development objectives, exporting our standards, values and education through DfID sponsorship, also by providing support for SMEs including through export houses, revitalizing UK Export Finance, and for DIT to seek opportunities, proactively encourage trade and support high value opportunities, support the risks of bidding abroad, including in foreign currency, and with fees allied to export orders won.

The UK's GREAT products and services need to be sold on commercial terms that are affordable by overseas customers in this increasingly cash-restrained business environment. Freed of EU 'state aids' regulation, UK Export Finance will have the opportunity to become more proactive, and we recommend that this is achieved through working energetically and responsively alongside commercial providers and providing seed support for payment risk, an increased range of funding, and making available low cost fixed interest rate financing on all capital goods exports.⁷

The Government needs to be clear about what support will be available for exporters. There is much talk of Britain becoming "... the world's brightest beacon and champion of open trade ..."⁸. The terms of what is meant by "... open trade ..." need to be clear. (For example, is Export Credit Agency support for exporters consistent with "... open trade ..."?). Similarly, a "Whole Government" approach needs to ensure that financial regulation does not inhibit support for trade from the financial sector.

All financial regulations should be audited to check that they do not adversely impact on trade and SMEs. Exporters, particularly SME exporters, often have to bear the cost of regulatory and compliance requirements imposed by bank regulators.

"Championing" trade means a more proactive approach to Export Credit Agency support. For example, exporters, particularly SME exporters, would benefit from "lines" of support from UKEF.

Exiting the EU is a massively complex but singular opportunity for the UK to define its future trading relationships and it cannot afford to get this wrong. The UK's exporters need to be able to continue to trade with the EU but also have the ability to trade with new markets with the lowest possible barriers to entry. The post Brexit success of our economy depends on trade. BExA calls on the UK Government to ensure that trade is placed at the forefront of our EU exit strategy.

⁶ <http://www.bexa.co.uk/wp-content/uploads/BExA-Manifesto-for-Exporters-Aug-2016.pdf>

⁷ <http://www.bexa.co.uk/wp-content/uploads/BExA-2016-UKEF-ECA-Comparison-Paper-Final.pdf>

⁸ See for example "... Britain is going to be open for business like never before, and we will use our new found position outside the EU to become the world's brightest beacon and champion of open trade ...". Dr Liam Fox (Daily Telegraph 24 September 2016 <http://www.telegraph.co.uk/news/2016/09/24/liam-fox-britain-will-be-great-again-after-brexit/>)