

## EUROPEAN FORUM FOR MANUFACTURING – IMPACT OF BREXIT

Wednesday 6 December 2017 European Parliament

**Sir Jonathan FAULL**      **Chair, European Public Affairs Brunswick Group**



Brexit is a challenge for all of Europe, its politicians and its businesses. We may be entering a new and crucial phase soon.

The discussion of the long term relationship between the UK and the EU is moving up the agenda. The recent focus on Ireland points the way to the forthcoming debate on the future trade relationship between the UK and the EU. Are integrated supply chains and productions systems at risk? Have Governments understood what is at stake?

Trade today is more about regulation than tariffs. The protection of workers, consumers, public health, investors and the environment, essential features of a social market economy, is carried out by regulatory measures affecting how goods and services are made, distributed, sold, bought and consumed.

The manufacturing sector has long argued for a genuine single market in the EU (and the UK was usually a champion of measures to bring it about). But not only did manufacturers debate and lobby, they also acted and implemented industrial strategies based on the reality of a market of 28 countries (31 in the European Economic Area), more than 500,000 consumers. As a result of these efforts, the single market became a reality, although more so for goods than for services. To separate the UK from the single market behind hard borders would be a costly exercise. So it is not surprising that concepts like non-divergence, convergence, alignment are now under discussion. The next few months will be decisive and the manufacturing sector and all its stakeholders should make their views known to Governments and the European institutions.

**Uwe Combüchen Director General CEEMET**



Dear Chair, Sir Jonathan, Members of the European Parliament, colleagues, friends, ladies and gentlemen I would like to thank EFM for the opportunity to speak here at this timely event at this crucial juncture. For those who do not know: Ceemet has member associations from 22 countries, which in total represent over 200,000 companies, providing 35 million direct and indirect jobs - of which over 1 million direct jobs have been created since 2013. It will not be new to you that business needs certainty.

The certainty to plan business decisions and carve out their long-term strategies. The outcome of the Brexit referendum of 23 June 2016 threw this certainty into jeopardy. Unfortunately, the signals received since the beginning of this week put a lot of question marks on the Brexit negotiations. Will next week's EU Council agree that sufficient progress be made to open the negotiations for the second phase?

On Brexit, Ceemet has been actively working. In February 2016 we published the results of a study saying that Brexit would be a lose-lose situation for manufacturing

and economies overall. As we were providing evidence based conclusions, you will not be surprised that we got global media coverage. This study was followed by:

- a joint statement with our trade union counterpart industriAll in June 2016;
- a Ceemet statement of Article 50 trigger in March 2017;
- a political statement on the ongoing (or should I say, 'not going') EU-UK negotiations two months ago.

When on 29 March 2019 the UK will no longer be member of the EU and its single market then we should remind ourselves of what EU chief negotiator, Michel Barnier, said: "Whatever outcome of Brexit negotiations, there will be no business as usual."

Ceemet has not the role of a politician, but exists to promote and defend the interests of all manufacturers across Europe, including in the UK. And we will continue to do so. We continue calling negotiators on both sides of the table to respect 5 key points:

1. We need a time limited transition period, reducing the risk of economic shocks;
2. We must maintain free and frictionless trade, avoiding tariff and non-tariff barriers to the movement of goods and ensuring the integrity of the single market;
3. We have to ensure that people can move freely across borders to support complex supply chains and address the sectors skills gap;
4. Industry requires a single regulatory environment, supported by mutual recognition and regulatory cooperation;
5. Consultation of industry is essential in ensuring negotiations deliver a deal which works.

I will elaborate these 5 key points for you.

#### 1. Time limited transition

No one expects a reasonable Brexit deal can be finalised by March 2019. Therefore, without a time-limited transition for existing trade and customs regimes, manufacturing would get into massive trouble.

The temporary "status quo" Ceemet calls for, would provide business certainty as companies have the time to anticipate and adapt to the new situation. So we do not favour the scenario of a 2-stage exit process or postponing the process of the UK exiting the EU.

EU and UK negotiators have a responsibility to ensure minimal disruption for businesses, for employers as well as for employees!

#### 2. Free and frictionless trade

Manufacturers in Europe form part of complex global supply chains. The ability to import and export manufactured goods and related services seamlessly across borders is an important pillar of current business models. Did you know that parts for components often cross borders over 10 times before they are installed in an end-product? And did you also know that global supply chains drive global competitiveness of European manufacturing, innovation, quality and productivity? Go to our website and download our study!

No deal is not an option for European manufacturers. And for those who are not aware: WTO rules would lead to a massive disruption and increase of costs.

Any sudden changes at borders could have a dramatic impact on operations, admin burdens, costs, profitability and the viability going forward. This complexity and the consequences of a possible decision needs to be understood by the negotiators.

### 3. Enable people to move freely across borders

Companies should have access to a wide labour market at all levels of skills, with a minimum of restrictions.

A flexible system for the movement of labour and skills between the EU and the UK – in both ways - is essential. Manufacturers need the ability to employ and deploy staff across borders with ease and simplicity to renew business contracts, carry out service related activities, project work or training.

The negotiations around the concepts of “settled status” and “temporary status” seem to go into the right direction. The skills gap is real. Labour mobility is therefore essential for manufacturers across the continent!

### 4. A Single Regulatory Environment

Manufacturers wish to operate in a single legislative environment. This, while maintaining a significant regulatory parity and introducing mechanisms to avoid disparity.

Essential elements for the future are regulatory equivalence, mutual recognition of standards and an agreed process to eliminate or prevent non-tariff barriers behind the border.

Manufacturers want to produce one product for multiple markets rather than multiple products for diverging markets!

### 5. Consultation of Industry

Allow me to ask you: Who knows industry better than industry itself? Ceemet encourages negotiators to work WITH industry to truly understand the impact of the decisions they discuss from a political angle.

Europe’s manufacturers are reaching out their hand to contribute and to help identifying key choices and priorities when pursuing trade policies, programs and services that assist businesses to compete in the global economy.

I want to conclude that we, Ceemet, will continue to press for a smooth and orderly Brexit, one that will deliver continued prosperity and investment in jobs and economic growth both across Europe and in the UK.

We must ensure that negotiations on the UK exit deliver “a reasonable deal in a reasonable time” for all European manufacturers, while protecting the integrity of the single market and the future of the European Union.

Thank you for your attention.

## Thomas BECKER Vice President, Governmental & External Affairs BMW



### Position Brexit

#### Background BMW Group UK:

- The UK is the fourth largest market for the BMW Group worldwide, with over 250.000 vehicles sold every year.
  - The BMW Group is the third largest vehicle manufacturer in the UK with production in Oxford and Swindon (MINI), Hams Hall (engines) and Goodwood (Rolls-Royce Motor Cars).
  - 76 per cent of MINIs and 85 per cent of Rolls-Royce Motor Cars are exported. Nearly 60 per cent of the engines produced in Hams Hall are exported to BMW Group plants outside the UK.
- About 80 per cent of parts and components that are used to build an average MINI are imported from the EU and rest of world. UK, the EU and the rest of world are deeply integrated within the BMW Group production and sales network.
  - BMW directly employs about 8.000 people in the UK, together with the dealer network the BMW Group employs over 24.000 people and supports nearly 50.000 UK jobs in total.
  - With over £1.7bn invested since 2000 the BMW Group is thus a major UK automotive player.

#### Situation after the UK Referendum:

- The current lack of clarity about the UK's future relationship to the EU and third countries creates uncertainty for BMW with regard to
  - a) future trade relations of the UK with the EU and with third countries
  - b) regulatory continuity, e.g. possible changes in UK automotive regulation
  - c) free movement of workers and access to the worldwide employee and skills market.
- Leaving the EU will cause additional costs for the BMW Group – independently of the setup of a future UK-EU relationship.

#### BMW Group Position:

- The result of the EU referendum creates a high level of uncertainty for business and industry. Uncertainty is not helpful when it comes to making long-term business and investment decisions. However, until it becomes clear what the result of the negotiations between the UK and the EU will be, the BMW Group continues to operate “business as usual” at its four manufacturing bases in the UK.
- BMW Group urges for complete access to the Single Market to ascertain beneficial trading and production conditions with EU member states now and in the future and to cushion additional costs for companies producing and operating in the UK. On the other hand, frictionless access to the UK market should be granted.
- Negotiations should be conducted in a productive manner. Principles for the new relationship between the EU and the UK should be integrated into the scope of negotiations as far as possible in order to minimize the lack of planning certainty for business and industry.

#### BMW Group Priorities:

- Regarding the new UK-EU **trade relationship** the BMW Group favors a simple model

without tariffs or any additional administrative burden. A customs union can guarantee the free movement of goods and services without limitations on local content.

- The BMW Group favors **regulatory continuity** in the automotive sector. When separating the UK legal and regulatory system from that of the EU, a mechanism needs to be implemented to further maintain EU automotive regulation in the UK and not to introduce divergent separate UK regulation.
- Regulatory continuity should be ensured in the field of European or UNECE standards and regulation such as safety, homologation and type approval. Furthermore, for CO2 and emissions regulation, recycling, data protection, intellectual property and the EU framework for chemical substances (REACH).
- Access to the EU and global skills market, employment opportunities and **free movement of workers** is a decisive factor for the BMW Group. 13 per cent of BMW Group associates in the UK are European citizens but not British. Complete access of current non-UK workers and employees legally UK resident to the UK job market needs to be ensured.
- The withdrawal agreement must incorporate the full set of rights citizens currently enjoy, such that there is no material change in their position, and it must ensure reciprocity, equity, symmetry and non-discrimination for EU citizens in the United Kingdom and UK citizens in the European Union. Export of social security benefits such as old-age pensions and simplified administrative procedures (e.g. aggregation of periods for benefit claims) for EU citizens and vice versa must be secured.
- Eligible EU national residents and children born after the United Kingdom's withdrawal should fall within the scope of the withdrawal agreement as family members and not as independent right holders. Future family members should continue to benefit from right of residence under the same provisions as current family members and documents should be declaratory in line with EU law, that any burdensome administrative procedure should be avoided and that all benefits defined in EU / UK legislation should be exportable. Complete access of current non-UK workers and employees legally UK resident to the UK job market needs to be ensured.

**Marcus BURTON    Director, Yamazaki Mazak UK Ltd**



Yamazaki Mazak is a privately owned Japanese family company based in Nagoya and a global leader in the manufacture and supply of metal cutting machine tools. The European HQ is in the UK where the European Manufacturing plant, established in 1987, is located. About 85% of Mazak's UK production is exported to the EU and around half of the machine tools that have been installed by Mazak in Europe were manufactured in the UK. Mazak also has nine subsidiary organisations across Europe to support sales, service, and local engineering applications.

Yamazaki Mazak has made representations to the UK Government arguing for tariff free access to the European single market and more importantly Customs Union and Regulatory equivalence to continue the free movement of goods and "frictionless" borders. In parallel we are developing contingency plans for any loss of competitiveness that may be caused by the UK becoming a "third country" in the eyes of the EU.

The European MT market is about €16bn of which the UK represents about 4.5% (Germany:

38%, Italy 21%)

The main supply of machine tools for the European market comes from within Europe and Japan. I do not envisage a major disruption to European Manufacturers caused by any issues in the supply of Machine Tools as these supply chains will continue as before and also because Mazak does not have any current plans to reduce manufacturing capacity in the UK.

Our UK manufacturing has strong advantages as we have invested in the UK for 30 years, have a know-how and skills base not easily replicated elsewhere and the costs in the UK are generally competitive.

There is no doubt that Brexit will reduce the overall advantage of the UK as a headquarters for Europe, however the main consequence of Brexit on our manufacturing will be to affect the level of future investments in new capacity in the UK rather than threaten our existing investment. This is reassuring for our existing dedicated workforce but not so positive for the UK economy generally as future investment could be reduced, not only by Mazak but by other manufacturers serving the European market. The final decision on future major investments in the UK can only be made once we are clear what Brexit actually means!

Turning to the market, Mazak provides Machine Tools (MT) for important sectors such as Aerospace, Automotive, Energy, Medical (and others). Any negative impact of Brexit on these sectors in the UK will affect MT demand in the UK market, however this may be compensated by an increase in demand within the EU. Even so this could be negative for Mazak because we have an additional competitive advantage for industries operating in EU.

Looking at our European organisation, the UK is the entity we use to import machine tools to Europe from Japan, Singapore and China into a bonded warehouse in Antwerp for distribution to our European customers (including the UK) via our European subsidiaries. This is currently a “seamless” operation possible because the UK is part of the EU. The bonded warehouse, importing administration and also tax and VAT arrangements for distribution in Europe are enabled through membership of the EU, single market and customs union. Failure to achieve equivalence post Brexit will mean this activity may be better handled by one of our EU subsidiaries.

One of Mazak’s key competitive advantages is the supply of spare parts 365 days per year with 97% of parts shipped within 24 hours. We operate a European centralised parts warehouse in Brussels that supplies parts for all customers in Europe including parts for UK customers using UK built machines. Failure to agree a comprehensive trade deal will require costly modifications to our business model, particularly for UK customers.

The European HQ also manages commercial operations for countries in the EU where we do not have a Mazak subsidiary (e.g. Ireland, Sweden, Finland, Spain, Portugal and others). The implications of Brexit will necessitate review of where we manage those commercial operations in the future.

It is important to note that a post Brexit free trade deal may not cover the complexities of manufacturing and supply chains and each element must be carefully negotiated. An example will be the rules of origin definition that may be applied in order for exports to qualify for free, “frictionless” trade. Fortunately our initial analysis shows that Mazak’s machine tools will continue to be classified as “UK origin” due to the significant local added value and content. However a detailed analysis will need to be done by all UK manufacturers because many UK suppliers are importing equipment from the EU with no added value.

Machine Tools are classified as “dual use” goods according to the International Agreements on export control. Unless specifically dealt with as part of Brexit there will be an additional administrative burden to acquire export licences for UK built machines destined for the EU.

Furthermore we have the benefit of free movement of engineers across Europe which allows those with the required technical knowledge and skills to support customers as needed across borders. Any administrative burden or delay in allowing staff to visit customers will be negative for our business. This includes Japanese engineers based in the UK on a visa and travelling to the EU. This issue could also be affected by export control regulations as well as immigration administration.

We also have a small number EU nationals working in our EU HQ that make a valuable contribution by bringing skills and talents that we could not easily find locally. I am confident that they will receive the assurances they need post Brexit to stay and thrive in the UK, however I support the stance of the CBI and TUC to guarantee their rights in advance of the Brexit negotiations.

From our business perspective it is difficult to see anything positive in the UK’s decision to leave the European Union. The single market is effectively the “home” market for UK manufacturers. From Mazak’s perspective our UK manufacturing company has a “home” market of €16bn as part of the EU as opposed to less than €1bn in the UK. This gives the critical mass for competitive manufacturing. With a common regulatory framework we can supply goods as easily to Milan as Edinburgh. The impact of Brexit in our sector is negative for UK manufacturers without a major consequence for European manufacturers. For this reason access to the single market, regulatory framework and Customs Union equivalence must be negotiated.

There are countries outside the European Union that enjoy the benefits of the single market and customs union so the UK government’s interpretation of the UK referendum result to “leave” meaning that the UK should leave the single market / customs union was a political judgement with negative consequences for UK manufacturing.

### **Steven COVENTRY, Head of Government Affairs, Siemens plc**



Dear Members of the European Parliament, Ladies and Gentleman

Let me begin by thanking the Forum for inviting me to represent Siemens here tonight.

Siemens regrets that the UK is leaving the European Union, but we respect the decision and we will adjust to the new reality, whatever that is. Importantly, we will continue to do business and invest in the UK and undertake cross-border activities in the future. But like other businesses represented around this room, that activity has been, until now, relatively ‘frictionless’.

We have an integrated European business model with goods, services, capital and employees moving freely across EU borders, both within our company and to and from our suppliers and customers. Our current reading of the political situation is that this model will be disrupted after Brexit. But the extent of that disruption will depend on the way in which Britain’s leaves the EU and what comes afterwards.

In addition, the impact will vary across our business. Siemens is a conglomerate in the strictest

sense of the word. In the UK we have 15,000 employees and businesses in a range of sectors. That portfolio includes:

- ∂ Energy – the manufacture of wind turbine blades, gas and steam turbines and equipment and services for the grid

- ∂ We have a mobility business supplying trains and traffic equipment

- ∂ Siemens Healthineers in the UK is a world leader in imaging and diagnostics equipment

- ∂ We supply Building Technologies and we also have a range of industrial businesses providing the technology and software that is helping to shape the 4<sup>TH</sup> industrial revolution

- ∂ And finally have a bank in the City of London, providing finance to support industry and infrastructure.

With that multiplicity of businesses comes a multiplicity of business models. The majority of our activity is for the UK market. But around £1bn of our £6bn UK revenue is derived from exports. Mostly to the EU, but some to non-EU countries. As part of that a number of our UK facilities are part of our own internal supply chain, with much of their output shipped to Germany for assembly or onward processing. We were asked to give specific examples, and this is the case for Siemens Magnet Technologies in Oxford, which provides magnets for assembly in MRI scanners. On the other hand we also have businesses which are, in effect, sales and service offices, with the actual product imported from the EU.

So the impact of Brexit will vary. And we will not be passive participants - where we can mitigate the impact we will, ensuring that we remain competitive and deliver on our obligations to customers. But that is difficult to do or plan for, when we still have no clarity about the final outcome of the Brexit negotiations.

Nonetheless, we have identified three key risk areas:

Firstly, tariffs – this is less of an aggregate concern for us in comparison to some sectors, but it *will* affect some of our businesses disproportionately, both in the UK and in the EU.

Next, customs - we are all aware of the potential problems here, which could affect for example, 'just in time' manufacturing and our responsiveness to customer demands.

Finally, people. The vast majority of our employees - 93% - are UK passport holders. But it is often the remaining 7% that fill critical skills gaps. Our business also makes significant use of intra-company transfers, as well as undertaking more than 10,000 business trips a year between Britain and the EU and sending hundreds of field engineers and construction workers on projects across Europe. So an end to Free Movement will have a practical impact on our business. But we do have the ability to adapt. So our overwhelmingly priority is at a human level, because of the uncertainty the current situation is creating for our employees and their families.

There are, of course, other specific issues which we will need to consider - from the mutual recognition of qualifications (an important factor for our ability to provide cross-border services), to product standards and the potential impact of the UK being outside EU research

frameworks in the future. And ultimately our success also depends on the impact of Brexit on our customers.

The question then becomes, what should be done about all of this? We understand that this is a complex negotiation and recognize that a deal needs to work for both the EU and UK.

But we hope that the discussions will progress and proceed in a constructive manner, recognizing the need for an orderly withdrawal process.

However, time is running out and business needs time to prepare. As such, and subject to agreement by both sides, we would support a transitional period to minimize Brexit disruption. We envisage that this would mean the UK continuing to adhere to Single Market rules and participating in a customs union with the EU.

At the end of that we would like to see a comprehensive agreement between the EU and UK, which recognizes that free trade and broader collaboration will continue to be in all of our interests.

To conclude and summarize: Siemens is a global business. We are used to working across multiple jurisdictions and we will adjust to the new Brexit reality come what may. But it will create costs and disruptions, both for our UK and EU based-businesses. The extent of this will ultimately depend on the final outcome of the negotiations and the practical arrangements that emerge in any future EU-UK agreement. To this end we welcome this opportunity to highlight potential challenges to European policy-makers tonight. Thank you and I am happy to answer any questions now or in more detail later, should you have any.

**Mark DORSETT      Global HR Services Director, Caterpillar**



When most people think of Caterpillar, they picture big yellow machines. But what we offer our customers goes well beyond bulldozers and diggers.

For over 90 years, Caterpillar has provided sustainable solutions for our customers in a wide variety of markets. As our customers grow, and attitudes to digital technology evolve, we aim to be at the forefront of providing the services and solutions of tomorrow.

A multisector organization and with sales and revenues in excess of \$36 billion, Caterpillar is the world's leading manufacturer of:

- construction and mining equipment,
- diesel and natural gas engines,
- industrial gas turbines and
- diesel electric locomotives & so on.

In 1951, Caterpillar chose the United Kingdom for its first manufacturing facility outside the United States. Today, over 60 years later and with 18 locations, we are a major inward investor and have around 10,000 people, making the U.K. one of the largest centres of operations outside the US. Adding to that are around 9,000 employees in other facilities across Europe, including Germany, France, Italy and Belgium. These numbers exclude our dealers and our supply chain. It's easy to see why Caterpillar has a vested interest in ensuring the policymakers in the U.K. and the EU understand the business issues regarding the U.K.'s withdrawal from the EU:

- Approximately 85 percent of our manufactured products in the U.K. are exported, to the EU and globally, which makes us one of the U.K.'s most significant exporters.
- But the EU-U.K. trade relationship goes in both directions – Backhoe Loaders, built in Leicester / U.K., are a concrete example: 30% of the parts we need to build one comes from continental Europe. And half of the final products go back on the continent, with a significant proportion to Germany. Tariff or non- tariff barriers, diverging regulations, standards or conformity procedures, don't seem to be a good idea, for us and others. There are obvious challenges associated with the U.K.'s decision to leave the EU.
- And that's why we also started to work within a team of experts, from all key work streams. The work of this team is ongoing and supports both our business leaders in their decisions as well as the information we feed into European Institutions and governments as they look to business and industry to understand the key issues going forward. Together with our experts we have identified the following priorities for Caterpillar:
  - On tariffs: Secure tariff free movement of goods between the U.K. and the EU
  - On people: Get assurance of rights for EU workers and their families in the U.K. and secure access to the EU skills market
  - On customs: Secure movement of goods between the U.K. and the EU that is free of burdensome customs checks
  - On regulation: Secure ongoing regulatory convergence with the EU
  - On international trade: Maintain the preferential terms that currently exist with third countries
  - And on a transitional agreement: It is critical that a deal is reached, including a comprehensive implementation phase with transitional arrangements. The result of the referendum was not what we had hoped for, but we will be ready. And we respected the outcome of the vote, despite the unprecedented level of uncertainty it created. Caterpillar U.K.'s trading relationship with the EU is tightly interwoven, with complex pan- European supply chains and a diverse, skilled workforce, 15% are from the EU, and contribute daily to the productivity, innovation and growth of our businesses. Any imposition of tariffs/duties would drive incremental costs and complexity into our sourcing actions and would impact our customers' costs. Securing a future agreement that includes zero tariffs and allows frictionless trade is critical to Caterpillar for the future competitiveness of our business, and to enable us to serve our UK., EU and global customers.

**Bart VANDEWAETERE                      Assistant Vice President, Head of Corporate Communications and Government Relations Nestlé**

FoodDrinkEurope contribution on Brexit

Overall priorities

- Brexit must not negatively impact the economic and political stability and prosperity of the EU, or the assurance of consistent quality standards and continuity of supply of food to EU consumers;
- The EU27 and the UK must work on a post-Brexit



arrangement that recognises their significant economic interdependency and that enables business and workers to remain competitive and thrive into the future;

- An extended period of transition will be needed to prepare for new arrangements affecting food and agricultural products as well as food and drink supply chains;

- Free trade, access to human and financial capital, regulatory consistency and mutual recognition of standards are in the common interest;

- The EU-UK negotiations must swiftly clear up any uncertainty for business.

Background FoodDrinkEurope and its European food and drink industry members regret, but respect, the choice of the citizens of the UK to leave the EU. As a consequence of the Brexit referendum, both the UK and the EU27 are facing an unprecedented and challenging situation, and a considerable level of uncertainty.

On 29 March 2017, the formal two-year negotiation period starts in which both parties will have to negotiate the exit conditions; comprehensive transitional arrangements should also be negotiated as early as possible, as well as an ambitious and balanced future EU27-UK agreement. Prolonged uncertainty must be avoided at all costs.

Key facts: FoodDrinkEurope is committed to playing an active role in the Brexit process. Our goal is to ensure the least disruptive outcome for the food and drink sector – one that would enable us to continue to support jobs in Europe and achieve our ambition of 2.5-3.5% annual growth by 2025<sup>1</sup>.

The food and drink industry is the largest manufacturing sector in the EU in terms of turnover (more than €1 trillion), value added (€212 billion) and employment (4.25 million jobs) and the UK is an important player in this context. It is the single largest trading partner of the EU27 with a total value of food and drink trade of €44.6 billion in 2015<sup>2</sup> - 41% of Irish food exports go to the UK as do more than 10% of food exports from each of Belgium, Denmark, France, Italy, The Netherlands and Poland.

Moreover, the food and drink industry transforms 70% of all agricultural raw materials produced on European farms. The size and success of the food and drink sector in Europe is attributable in large part to integrated supply chains involving operations in both the EU27 Member States and the UK.

The food and drink industry: a priority sector in the upcoming negotiations As the leading European manufacturing sector, the food and drink industry has an important role to play regarding growth and jobs. The industry faces economic, social and environmental challenges that demand intensified efforts to create sustainable growth and employment. Minimising uncertainty is essential for growth and investment, as is the maintenance of friction-less trade in raw materials, ingredients and finished food and drink products<sup>3</sup>, and ensuring consistent high food standards; they will all be crucial elements in the negotiations

<sup>1</sup> See <http://www.fooddrinkeurope.eu/publication/a-competitive-food-and-drink-industry-for-growth-and-jobs/>

<sup>2</sup> EU27 food and drink exports to the UK: €31.6 billion ; EU27 food and drink imports from the UK: €13 billion; EU27 food and drink trade balance with the UK: +€18.7 billion (as defined by NACE rev.2) □ Note: Total value of EU27-UK agri-food trade (HS Chapter 1-23) is even greater at €56.3 billion –includes agricultural commodities □

<sup>3</sup> This trade takes place internally within companies as well as between businesses. □ for our industry. It will be vital to ensure there is adequate time for transition to new arrangements for the many highly integrated and complex supply chains that exist in the EU food industry.

## Priority areas

FoodDrinkEurope has identified the following key priority areas that must be considered in the Brexit discussions:

### 1. An ambitious and balanced EU27-UK agreement

Negotiators on both sides must commit to establishing an ambitious and balanced future agreement that prioritises continued friction-less trade, long-term growth, investment, stability and the preservation of reliable and consistent high standards of hygiene, safety and quality, to ensure the continued competitiveness of the EU food and drink industry.

Today's success of the EU food and drink industry is built on the Single Market with its common regulatory frameworks, and its free movement of people, goods, capital and services. The legal certainty and predictability provided by the Single Market and the EU customs union have been key drivers for food and drink company investments in production plants, in the creation of jobs and in research and development.

Moreover, it is thanks to the Single Market and EU customs union that companies have established integrated supply chains that stretch across the EU including the UK. Such supply chains create the scale and efficiencies necessary for growth and sustained employment. They also strengthen Europe's position in the global market. Avoiding disruption of existing supply chains is of paramount importance to the European food and drink sector's ability to continue to contribute to robust economic activity in the EU. Regarding the special case of the island of Ireland, it is encouraging that the EU's lead negotiator, Michel Barnier considers ensuring a "frictionless" north – south border post-Brexit as a priority.

### 2. Clear transitional arrangements supportive of EU27-UK supply chains

Clear and pragmatic transitional provisions must be secured to allow European businesses sufficient time to plan and adapt to the new future, long-term EU27-UK terms of trade. We expect that transitional provisions will be required to bridge the gap between the completion of the UK exit process and the entry into force of the future EU-UK agreement. Transitional provisions will be essential in order to avoid unnecessary legal uncertainty and the possible reversion to high WTO MFN tariffs on (EU and UK) imports of food, drink, and agricultural products. Any disruption to current supply chains, through tariffs and/or non-tariff barriers, including new burdensome customs procedures, is likely to be passed on to consumers in the form of higher prices and would almost certainly have a negative impact on jobs. It is critical that companies retain as full an access as possible to all markets throughout the region.

Given the importance of the European food and drink manufacturing sector, and of the UK as a trading partner, FoodDrinkEurope urges policy makers to

- i) treat the food and drink industry as a priority sector in the Brexit negotiations
- ii) collaborate in good faith and spirit to secure short and long-term stability and prosperity for businesses, employees and citizens
- iii) closely involve stakeholders in the process of shaping the transitional arrangements, and
- iv) agree rapidly on a clear roadmap outlining the scope of the negotiations and

realistic future transitional arrangements, until an ambitious and balanced deal is in place.

A hard Brexit would significantly impair the competitiveness of EU exports to the UK. If no EU27-UK agreement is in place when the UK leaves the EU, trade relations revert to WTO rules, including WTO 'most favoured nation' (MFN) tariffs.

For example, the implementation of WTO MFN tariffs<sup>1</sup> would increase the cost of French and Irish cheeses exported to the UK by 58 and 56% respectively. Export of Italian pasta and processed vegetables would also see their costs increased by 20 and 17%.

1% increase in price of food exported to the UK reduces quantity of exports by 4.85%<sup>2</sup>. Therefore, higher trade prices will cause export volumes from the EU27 to the UK to drop significantly, which may put thousands of EU jobs at risk.

<sup>1</sup> based on approximations of the WTO MFN tariffs

<sup>2</sup> Source: European Commission

Transitional arrangements must prioritise:

- Avoiding tariffs and import quota regimes
- Avoiding requirements for new customs procedures (e.g. documentation and certification) which would create barriers to trade, delays in the movement of goods, and increase administrative costs. Importantly, customs procedures must be dealt with as part of the first phase of Article 50 negotiations and a suitable extended transition period to any new arrangements will be essential.

### 3. Minimal regulatory divergence

The transitional arrangements and future long-term EU27-UK agreement must ensure that regulatory barriers are kept to a minimum. This is a priority area which, if not properly addressed, could become a huge non-tariff barrier over time. There are more than 2,300 laws<sup>4</sup> covering agriculture and food which would be affected by Brexit. Current EU food and drink regulations and standards must be recognised and maintained by both parties on exit day, and during the transition to the future EU27-UK relationship. Any future EU27-UK trade agreement must involve maximum collaboration on sanitary and phytosanitary measures and technical standards and minimal divergence in the application of such standards, so as to ensure minimal disruption to trade. Administrative barriers to trade must be minimised through mutual recognition of standards and effective regulatory cooperation.

### Conclusions

Finally, it is in the interest of all parties to promote a strong and stable EU. The European food and drink industry is the envy of the world for its diversity, quality, innovation and competitiveness. Its reputation is built on the stability and flexibility it has enjoyed for decades within the Single Market. This has allowed producers to develop highly efficient and frictionless supply chains that ensure consistency of quality and food standards for consumers, fair treatment of EU ingredient suppliers and farmers and global competitiveness for the industry as a whole.

The Brexit negotiations provide an important opportunity to secure an efficient and competitive food and drink industry, as the EU re-configures its relationship with the UK.

FoodDrinkEurope is ready and willing to work with the EU to contribute to the future

negotiating process, to support the detailed planning activities needed for transition and the future arrangements, to ensure the best outcome for all parties, and to deliver a successful and forward-looking Europe that meets the needs of businesses and citizens.

**Wolfgang WEBER Vice President Communication and Government Relations  
Europe/EMEA BASF GROUP**



BASF priorities in the Brexit negotiations

UK is and will remain an important market and operating base for BASF. The BASF UK accounts for around 3-4% of our global turn-over, and 1,400 staff.

It serves manufacturing customers in the auto- motive, aerospace, and agricultural sectors, as well as other chemical companies. It is at the base of nearly all manufacturing supply chains.

Failure to secure a transitional period and a new UK-EU trade agreement would see the UK fall back on WTO “Most Favoured Nation” (MFN) status: Petro-chemicals

Re-introduction of import duties on chemicals trade representing a two-digit Mio € cost increase for BASF.

Introduction of rules-of-origin requirements and other non-tariff trade barriers across EU FTAs.

New and divergent customs procedures and requirements - leading to extra costs and possible border delays negatively impacting cash flow. Enable the easy flow of goods, minimize delays, as well as avoid additional tariff and customs related costs of companies. Non-tariff barriers are obstacles to trade and increase the costs of trade. The UK Government’s announcement to transform current EU law into UK law is a positive outlook for the short-term, but increases uncertainties for the long-term.

- BASF has identified 14 EU Regulations and Directives of most impact on our current product portfolio. The most significant are REACH, the Biocides Regulation and the Plant Protection Regulation. BASF UK has already invested and continues to invest significant capital in ensuring REACH compliance. In case a divergent UK chemicals legislation would be developed, BASF would incur significant costs, in migrating our near 100 registrations from the UK to Germany, and rearranging supply chains.

Avoid variances in compliance and addition operational complexity.

Science & Innovation lie at the heart of the chemicals industry. Currently, there are almost 200 ongoing partnerships between BASF, British universities, institutes and SMEs.

- Integration of UK companies and science organizations into consortia for H2020.
- Additional costs are expected for trademarks (TM) and design.
- Negative impact on the innovation climate in the EU as the UK often voiced industry and innovation friendly positions. The EU and UK should develop an ambitious new partnership in the area of Research & Innovation and use companies’ expertise to help develop it. Free movement of workers, especially considering BASF’s capacity

to attract skilled labor is a key priority for our company.

- We expect little impact on UK permanent staff which is mainly British at present time, but could be more impacted at one site employing a contractor who is relying on Eastern European workers. Moreover, British nationals employed by BASF around the world could be affected. Prevent difficulties in hiring British and EU27 talents in the future and that would damage their access to global job opportunities.

There is a small but important number of risks and opportunities in the area of energy.

- We need to ensure the continuing expansion and operation of continental interconnectors, and mutual recognition of regulatory standards. There is a possibility that the UK will leave the EU Emissions Trading Scheme, at the end of the third phase in 2021. Moreover, the UK will leave the EU's climate framework, and negotiate their own contribution to the Paris Agreement.

The UK's exit must not result in a higher emission or cost burdens for existing installation, both in the UK and the EU.

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