

written evidence submitted by Make UK's (FRE0006)

Q1: Does the Government's negotiating mandate meet the needs of your sector? The UK manufacturing sector is export orientated, with around half of goods exports currently going to the EU. Our manufacturers are also often part of pan-EU supply chains that have developed thanks to the frictionless trade that the single market for goods currently permits. While accepting that the UK's departure from the EU will lead to new barriers to trade with the EU, our sector naturally wants those barriers to be minimised generally, but particularly in the initial stages of our new trading arrangements. The Government's negotiating mandate does not do that. It prioritises questions of sovereignty and regulatory autonomy over facilitating UK-EU trade, thereby envisaging a relatively distant trading relationship with the EU and a relatively swift end to the status quo. The consequence of this is that manufacturers will face greater costs and disruption than they would have done under a relationship which prioritised a closer economic relationship with the EU and will have a relatively short time to prepare for a very different trading relationship, the precise details of which are as yet unclear.

If not, what would you like to see different?

Manufacturers would prefer an approach which balances economic pragmatism with political considerations. Because goods have to be produced to the rules of the markets where they are sold, not where they are made, UK industry will continue to follow – in the main – EU standards. There is therefore little appetite for divergence from the existing rules. We would prefer the Government to negotiate continued preferential access to EU markets on that basis, rather than the current approach and in areas where it does decide to move forward into new approaches, have a more transitional attitude towards implementing change. The current approach imposes economic costs on business in order to deliver a 'right to diverge' which is unlikely to deliver significant benefits to manufacturers.

Q2: How do the areas of disagreement between the UK and EU affect your sector?

Significantly. Clearly, if these remain so fundamental that an agreement cannot be reached at all, then the impact will be widespread, particularly for sectors such as manufacturing that currently trade extensively with the EU. And if failure to reach agreement on the range of level playing field issues results in – for example – additional tariff and non-tariff barriers being raised to UK exports then that would also have a significant impact.

Given the areas where both sides appear to agree, has this helped your sector's ability to plan for the remainder of the transition period?

To a limited extent. The acceptance that there will be some trade frictions has meant, for example, that manufacturers have ramped up preparations for new

customs processes. However, even before the current COVID-19 crisis, which is taking up all our sector's bandwidth right now, most manufacturers were adopting a 'wait and see' approach before making significant business decisions. Our members are now fully focussed on saving their businesses and protecting jobs, and are not prioritising further Brexit-related planning.

Q3: Views on the Government's proposed consultation and approach to engaging with business.

We welcome the Government's proposals to consult with stakeholders, although this commitment has understandably been overtaken by the current COVID-19 crisis. However we note that a more conventional approach to trade negotiations – as has been followed by the Government in respect of its proposed FTAs with third countries – would be to produce an economic analysis before negotiations commence. As things stand, the only such analysis available in respect of UK-EU trade is the one undertaken by the previous Government, which indicated significant negative economic impacts from the type of FTA the current Government is seeking. We would be keen to know whether the current Government agrees with this analysis or, if not, what alternative impact it considers is likely.

In terms of wider engagement with business, we again note a difference between the approach taken by the Government in its negotiations with the EU as compared to third countries. While the traditional approach of seeking industry input and identifying economic benefits has been adopted in respect of non-EU negotiations, this process has not been followed in respect of the EU discussions. While industry has, of course, been able to express its views, these have not been explicitly requested by Government through any formal consultative process.

Q4: How confident are you that the Government and UK negotiators have understood the needs of the business sector? What about trade-offs?

We believe that the Government does have a good understanding of the needs of the business sector. However its ability to meet these needs is constrained by its decision to prioritise questions of sovereignty and regulatory independence over economic considerations. We do believe the Government is trying to meet the needs of business in so far as that is possible within the broader political restrictions it has set itself.

The Government has not engaged in a formal discussion with business about trade-offs that may be made during the course of the negotiations. The Government has, however, accepted that its decision to pursue a relatively limited FTA with the EU means that there will be new barriers to trade, border frictions, and additional regulatory costs. Business groups have explained on many occasions what the practical and economic consequences of these barriers is likely to be and the probable consequences of them being imposed rapidly.

Q5: Applying the lessons of trade with the rest of the world to EU trade.

Many manufacturers already have experience of trading with the rest of the world. In the short term, this means that they know what new processes they need to introduce for EU trade from next year. They are also aware, however, about the implications of barriers such as tariffs and rules of origin requirements. They are aware that, in the medium term, however, these issues may well drive strategic business decisions about the location of manufacturing and the types of export markets that they seek. For example, high-volume, low-margin manufacturing in the UK - with significant exports to the EU - may no longer become viable, with production moved elsewhere.

Q6: Sources of advice

Manufacturers tend to seek advice from trade associations, chambers of commerce, freight forwarders and customs agents. However, anecdotal evidence suggests that finding customs agents with the necessary skills is currently challenging, given the likely need for a very significantly increased numbers of these people to manage the new border control systems. We note the recent announcements by the Government to ramp up capability in this regard.

Q7: Assumptions about future trading conditions once the UK has left the transition period

Our members consistently say that they need time – at least six months – from the point at which the future trading relationship is clear in order to implement the necessary arrangements. While some preparations can be done now, regardless of outcome, the fine details of the UK-EU FTA (such as tariff rates or rules of origin percentages) will have a material impact on trade. This means that other decisions – such as the pricing of contracts – cannot realistically be made until these details are known.

Q8: Do you have enough information to understand the NI Protocol?

No. Businesses trading between NI and GB, or with supply chains that cross the Irish Sea, need to understand how they will be affected. Key questions – such as which regulatory regime will apply, or what will happen at the Irish Sea ports – remain to be resolved. The differing public statements of the UK Government and the European Commission have further confused businesses. Until there is clarity, it is unlikely that businesses will commit significant sums to preparing for the new arrangements,

Q9: Impact of Coronavirus

The main impact of the current crisis has been to divert all management time and resource in manufacturing to ensuring immediate economic survival. While businesses had to some extent put in place plans for a 'no deal' Brexit, as urged to do by the Government during 2019, very little has been done to update these and amend them in the light of the current FTA negotiations.

In the current circumstances therefore it is very hard to see most businesses being able to spend time or money preparing for new trading arrangements. It is also important to remember that, in order to do so, they are partly dependent on the parallel Government arrangements – for things such as immigration policy, customs, and new national regulatory bodies – being clarified and implemented. Much of this work has, understandably, slowed down because Government resource has been diverted elsewhere.

Q10: Preparedness

This question is more relevant for an individual business than a trade association.

Q11: Progress by June

Manufacturers have always been clear that a trade deal with the EU, containing preferential market access, is essential, given the extent to which our goods trade is focussed on EU markets. We would want to see both parties express realism about the nature and timescale of the task in June, and set out a credible process to resolving outstanding differences.

If that is not forthcoming, then business will assume that trade from January 2021 will be on the most basic of terms, with no preferential EU market access (and vice versa). That will feed through quickly into business decisions about future strategy, locations of facilities, and supply chains. The longer the gap between the end of the transitional period and the entry into force of any new trade deal, the more wide-ranging these decisions will be.

May 2020



25 March 2020

Tim Figures
Director of Technology, Sustainability and Innovation
Make UK
Broadway House
Tothill Street, London
SW1H 9NQ

Dear Tim

The Committee on the Future Relationship with the EU invited you to give oral evidence this week as part of its inquiry into the progress of the negotiations between the UK and the EU. It has not been possible to hold this public meeting in Westminster due to the impact of the coronavirus pandemic.

I would like to thank you for your interest in giving evidence to the Committee and, as you were unable to give oral evidence in person, I wanted to invite you to submit your views in writing. In particular, I would welcome your answers to the questions below:

Q1 Does the UK Government's negotiating mandate meet the needs of your sector?

- If not, what would you like to see different?

Q2 Given the published negotiating mandates for both the UK and the EU, the feedback from the first round of negotiations, and the published draft text from the EU, how do the areas of disagreement between the UK and the EU affect your business sector?

- Given the areas where both sides appear to agree, has this helped your sector's ability to plan for the remainder of the transition period? If so, how?

Q3 The Government has said it will "invite contributions about the economic implications of the future relationship from a wide range of stakeholders via a public consultation", and that this process "will begin later this spring". What are your views on the proposed consultation?

- How do you view the government's overall strategy to engage with business in advance of publishing its approach to the negotiations?

Q4 How confident are you that the Government and the UK negotiators have understood the needs of the business sector?

- How well has the Government explained to you the trade-offs that may have to be made in the negotiations? And what opportunities have you had to explain to the Government the implications of such trade-offs?

Q5 How are businesses applying the lessons of trading with the rest of the world to the probable trading relationship with the EU?

- What proportion of your sector has that experience of trading with non-EU countries which it can apply in future to trading with EU countries?

Q6 Where do businesses in your sector go for advice on trading outside the single market and customs union?

- What is your experience of using services such as freight forwarders and customs agents, and what are the barriers to accessing such services?

Q7 What assumptions, if any, are you making about likely future trading conditions once the UK leave the transition period?

- On the basis of these assumptions, what actions are businesses taking now?
- What is a best estimate for how long your business would need to implement any Government guidance on the future trading conditions, once they are certain?

Q8 Do you have enough information in order to understand the requirements of the NI Protocol for business?

- What more information do businesses need so that on 1 January 2021 they know what they need to do in order to trade a) from GB to NI and b) from NI to GB?

Q9 What do you see as the main impact of Coronavirus on the mechanics of the negotiations and the likelihood of a successful conclusion to the negotiations?

- How is your sector balancing the need to prepare for the end of the transition period and its response to the Coronavirus pandemic?

Q10 How prepared is your business currently for the checks and customs declarations that will be required from 1 January 2021 whether a deal is reached or not?

- What discussions are you having with your trading partners in the EU in order to make contingency plans for leaving without a trade deal in place on 1 January 2021?

Q11 How much progress would you need to see at the high-level summit in June, to give you confidence that a deal will be done?

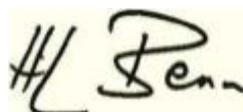
- If it appears in June that a trade deal is unlikely, how do you expect this to affect business behaviour?

If there are any other views that you would like to express then please submit them along with the response to these questions. You may find it helpful to consult the terms of reference to our inquiry which can be found on the Committee's website:

<https://committees.parliament.uk/work/138/progress-of-the-negotiations-on-the-uks-future-relationship-with-the-eu/>

The Committee staff will be happy to discuss the inquiry, the issues raised, or the process for submitting written evidence. You can contact them at freucom@parliament.uk.

Yours sincerely



**Hilary Benn Chair
of the Committee**