

## Written evidence submitted by the Canada Europe Roundtable for Business (FRE0053)

Do you believe the UK and the EU will reach a deal on a negotiated FTA by the end of the Transition Period? If so, why so? If not, why not?

- Politically, the two sides appear far apart, and I do not believe that there is sufficient time to close negotiations and ratify, especially in light of the various restrictions placed on officials as a result of Covid

Given the time constraint imposed by the Transition Period, what sort of trade agreement do you believe can be struck by 31st December 2020?

- I don't believe that a deal will materialize. However, were one to transpire, it would be very skinny and likely limited to tariffs and possibly some provisions on border facilitation and a financial services equivalence agreement. Forward work plans for regulatory and other such measure could be agreed in theory, but I suspect the EU would balk at this request. However, trade negotiations tend to be single undertakings for a reason – it is much easier to achieve comprehensive progress when everything is on the table and available for negotiations (i.e. trade-offs). More limited, sectoral arrangements typically fail.

What issues should each side be prioritizing?

- Both sides should prioritize tariffs, market access, rules of origin, customs and border arrangements, financial services, labour mobility/temporary entry

On which areas does each side have the most negotiating leverage?

- The EU has greater leverage in general. The US, Japan, Canada or whomever, will not form the basis of a substitute for the UK's commercial relations with the EU. Due to the relative size of the UK versus the EU, the impact of a no deal will be more profound for the UK. Even after a hard Brexit the EU would also have trade deal in place with Japan, Canada, Korea etc., whilst the UK will not, giving the EU another advantage.
- It is difficult to determine who has more leverage on a particular issue. However, red lines appear to be drawn on state aid (EU position may not be as firm as they let on), fishing rights (UK) and a level playing field from a regulatory perspective (EU). The EU orientates its external policy around regulation – that is, they push to have their regulatory approaches adopted by third parties, in large part because it's the main card they have to play. They have generally been effective in this approach – GDPR is a good example.

If the UK and the EU are close to reaching agreement on an FTA in the Autumn, how likely are they to provide for a phased implementation of its provisions pending ratification?

- Unlikely. The phase in of a treaty with the EU typically occurs because it is deemed mixed competency, requiring some elements to be ratified by all member states, such as the investment components of CETA. I doubt they would want to have to unpack an agreement into several constituent chapters then implement them at varying times, in large part because the more issues that are out there unresolved and the longer a treaty approvals and implementation process goes on, the more likely it is to get targeted and picked apart by civil society and politicians.

Do you believe that both the UK and the EU are equally committed to reaching a zero-tariff, zero-quote FTA as envisaged by the Political Declaration by the end of the year? If not, which side do you believe is more committed and why might this be the case?

- No. I believe that the UK government intends to use Covid as cover for the economic fallout of a Hard Brexit. This government does not appear to have made a serious effort to understand, let alone achieve, a comprehensive trade negotiation. It not entirely their fault, as it takes decades to build up institutionally competency in this area. However, they could at least acknowledge this reality instead of continuing to blithely state that a deal is imminently doable if we just double down and do it.
- There appears to be a let's just get on with it and leave and hope for the best strategy on the part of the UK Government – it remains almost an entirely political exercise that pays lip service to the technical realities of the future relationship negotiations. That said, the EU could also show more flexibility on some issues, such as state aid, especially in light of Germanies massive green stimulus spend which may well contravene EU state aid rules itself.

The UK Government initially stated that it would seek a “best in class” FTA with the EU. Do you believe this is still the case?

- I believe that they believe they do, but I don't think the UK Government understands what a best in class agreement would look like

At the same time, the UK Government has also stated that it is simply seeking a deal similar to those that the EU struck with Canada, Japan or South Korea. Does this represent a “best in class” agreement? If so, why so? If not, why not?

- It does but in the context of a more traditional FTA. CETA is the best of the group of deals, although the Japanese deal is very similar. These deals represent a more limited form of economic integration; as you would expect to see between countries/trading blocks that are geographically distant from each other and for whom the EU is not their principal market.

The EU has repeatedly emphasized that the FTAs it has reached with Canada, Japan or South Korea are unrealistic models for any trade deal struck with the UK. Why is that? Do you believe the EU's concerns about geographical proximity and economic interdependence are merited? If so, why so? If not, why not?

- In general, their concerns are merited. Take rules of origin as an example. Typically, local content (the portion of goods overall value that is created in the country of origin) is set at 60%. Less than this and exemptions, or quotas, are negotiated as a work around the threshold and are typically limited in size and value. 60% usually means production of a good occurs amongst the closest trading partners on the basis of comparative advantage for the production of inputs. These same partners typically deepen cooperation in other areas such as border clearance, standards and approvals to make trade and supply chains more efficient. In the case of Canada, the starting point in its negotiations with the EU was “recognize that our principal economic partner is the US and we have many industries that are highly integrated within NAFTA. Ironically, this is the starting point for both the UK and EU in their negotiations (for both parties they are each other's closest and most integrated trading partners) but highly unusually they are negotiating to diverge – to move farther apart from each other. The EU views this as a choice the UK has made and as the far larger market feels little need to compromise on its red lines.

A number of specific areas – for example governance, fisheries and level playing field provisions – are seen by many commentators as key issues in the FTA negotiations. Do you agree with this analysis? And what further areas, if any, do you believe are particularly critical to the likelihood of an overarching trade agreement being reached?

- The real question is what level of integration are the Parties willing to accept? As the demandeur it is ultimately contingent on the UK to clearly define their positions in negotiations, which they have failed to do.

Looking at recent FTA negotiations between the EU and Canada on CETA and between the EU and Japan on their EPA, what lessons do you think the UK could have learned/should have learned/is learning/may yet still learn about negotiating an FTA as a third country with the EU?

- It will take much longer than you think
- It is increasingly a politicized process on the continent (and may become so in the UK)
- The EU likes to claim that its approvals process is clear and transparent, which it is not
- There are many representatives in the EU institutions that are not only hostile to liberalized trade, and for that matter commerce, but willfully ignorant of even their basic tenants. In the European Parliament, in particular, this is especially pronounced. The good news is there is typically enough balance in this, and other institutions, to get things passed.
- The heads of the EU institutions are conscious that various member states may view certain outcomes for the UK in negotiations with the EU as provisions that they also want granted to them. Therefore, the European Commission, and to a lesser extent the European Council, will be very tough in terms of defending what they see as European interests – in particular, the framework that underpins the single market, which is viewed as Europe's single greatest achievement. The most important factor for the EU in negotiations with the UK may well be to make clear to its 27 member states that the integrity of the single market cannot be undermined, rather than securing an outcome with the UK.

Looking at the UK's role as a Member State in those same negotiations, what lessons do you think the EU could have learned/should have learned/is learning/may yet still learn about now negotiating with the UK as a third country?

- Who thought Wallonia could scupper and international trade deal?

Looking at further FTA negotiations the EU is holding with other third countries, how important do you believe they are to the potential conclusion of FTA negotiations with the UK? In which areas is the EU particularly concerned that conceding to the UK's requests might lead to other trading partners of the EU asking for the same, and to what extent are these fears justified?

- Could be an issue but I don't think it's a going concern. The EU and UK currently have full convergence, and this will guide their talks. I doubt that ten years on from now the two sides will have diverged that far from each other. On the other hand, other trading partners are nowhere near as integrated with the EU, so even if certain provisions that are granted to the UK were available, it is unlikely that they would be able to satisfy the requirements. This is of ratcheting, as it is known in trade terms, would apply more to market access for certain goods.

Looking at FTA negotiations the UK is holding with the United States and Japan, what impact might these have on the UK potentially reaching an FTA with the EU?

- Neither of those negotiations will go anywhere until the outcome of the UK EU talks are known. The EU knows this and will not be swayed by the UK strategy of trying to gain negotiating leverage by conducting these talks concurrently. They are also aware that the UK does not have the negotiating capacity and experience to conduct one, let alone several of these negotiations.

At the beginning of FTA negotiations, what progress did you expect would have been made by this month's High-Level Conference?

- It's about where I thought it would be

To what extent, do you believe the negotiations are ahead of/behind this schedule? How important could the High-Level Conference be/has it been in shaping the final outcome of the UK-EU FTA negotiations?

- It seems much like its arguing with the architect over the style of the house you want built when you have to move into something in 6 months.

What would be the main differences between a UK-EU trading relationship as roughly set out in negotiating mandates published by the two sides and that resulting from a no-deal scenario? If only a limited trade deal is agreed, what are the possible consequences for areas that are not covered? What scope is there for temporary or transitional measures either agreed between the two parties or put in place unilaterally?

- Very limited for reasons outlined earlier

It is clear from negotiations held thus far that the EU wants a single overarching agreement and that the UK is seeking several separate agreements. In your view, how would these different governance arrangements affect how any future trading relationship between the two parties might operate? For example, what are the standard forms of dispute resolution contained in FTAs? To what extent do these differ based on the scope of an FTA?

- In my view its irrelevant as neither the EU, nor any other partner for that matter, will agree to this. The best comparison is likely Switzerland, who has built up a series of agreements with the EU over decades to the point where they are highly integrated. If the UK wants separate agreements, this would be the best path forward that they can hope for in my estimation. Note that there would also be some complications regarding the role of the ECJ in this scenario.

It appears the UK and the EU differ in their interpretation of what is legally required to take place during the Transition Period to fulfil respective obligations under the Withdrawal Agreement. Would a failure to fully implement the Withdrawal Agreement by either side prevent agreement on a future trading relationship being reached? What areas of implementation are proving most controversial? How might they be resolved?

What impact has the COVID-19 pandemic had on the FTA negotiations? Have the UK and EU been similarly affected? To what extend have negotiations been limited due to the absence of face-to-face discussions? What further consequences might the pandemic have on the progress of the negotiations and the nature of any future trading relationship?

- Negotiators do better when face to face
- Covid is creating economic and social anxiety and spurring nationalism. Neither tend to feature well in trade negotiations

- However, the UK is an open and dynamic economy and British politicians typically do not support state intervention. The mission of the European Commission is to ensure that there is a competitive single market, given the preference of some wealthier EU member states, in particular, for more open markets. The UK would be wise to position itself as a partner on this mission philosophically, even if there remain issues about its place in the single market itself.

***July 2020***



# Committee on the Future Relationship with the European Union

House of Commons, London, SW1A 0AA

Email: [freucom@parliament.uk](mailto:freucom@parliament.uk) Website: <https://committees.parliament.uk/committee/366/committee-on-the-future-relationship-with-the-european-union/>

2 July 2020

Mr Michael Izza  
Chief Executive  
Institute of Chartered Accountants in England and Wales

Dear Mr Izza,

The House of Commons Committee on the Future Relationship with the European Union is inquiring into the progress of the negotiations between the UK and the EU. Under normal circumstances, the Committee holds regular oral evidence sessions in Westminster. However, measures to prevent the spread of the coronavirus make this difficult.

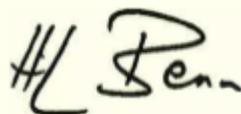
The Committee is keen to gather as much evidence as possible to inform its deliberations so I am writing to you to ask whether you would be willing to help us with our work by making a written submission. We welcome general responses to our [call for evidence](#), which was published on 4 March. We also hope that you would be willing to answer some of the more specific questions set out below on the mutual recognition of professional qualifications. Submissions need not address every bullet point and can include other matters that you think are relevant to the negotiations and should be drawn to the attention of the Committee.

- What are the key priorities of your members and your sector in general regarding mutual recognition of qualifications in the negotiations between the UK and the EU? Has the Covid-19 pandemic changed any of these priorities? What might be the consequences of a deal which does not meet these priorities?
- To what extent did the UK Government consult your sector before publishing its negotiating aims and draft texts? How well does what the Government has proposed meet its needs? What further provisions would you have advised the Government to seek?
- How do the UK and the EU's positions in the negotiations compare with regard to mutual recognition of professional qualifications? On which areas are the UK and EU's aims farthest apart? Where do their positions align? What is your assessment of the level of technical detail the negotiators have grappled with on this topic to date?
- How does the EU's position on mutual recognition of professional qualifications compare to that which it held in negotiations on CETA with Canada and the EU-Japan FTA? To what extent are these FTAs suitable precedents for a UK/EU deal?
- To what extent is the UK seeking provisions on mutual recognition of professional qualifications unprecedented in existing free trade agreements? What would be the advantages and disadvantages of agreeing these provisions for each party? Why might agreeing such provisions prove difficult?
- How is responsibility for, and competence over, professional qualifications divided between the European Union, national governments, and trade associations and professional bodies? To what extent does this complicate the mutual recognition of professional qualifications aspect of the UK/EU future relationship negotiations? What impact might it have on the implementation of any future deal?
- To what extent have you engaged with your counterparts in EU Member States to progress mutual recognition of qualifications on a bilateral basis, outside the framework of a future UK/EU agreement; and if you have, what progress has been made?
- Could you sketch out a possible compromise between the UK and the EU on mutual recognition of professional qualifications and how it might be achieved?

- Based on the parameters set out by the UK and EU draft legal texts, could reaching an agreement with the EU restrict the UK's ability to pursue a free trade agreement covering mutual recognition of professional qualifications with third countries? If so, how?
- What would happen if agreement was not reached between the UK and the EU on mutual recognition of professional services? What would be the international legal baseline they would fall back on? What would be the consequences of this for your members and your sector in general?
- What implications could other provisions of a future UK/EU agreement have on your members and your sector in general (for example, those related to cross-border trade in services or labour mobility)?
- Is it clear what your members and employers in your sector must do to prepare for the end of the transition period? How much progress have been made on preparations so far? Do SMEs face any additional challenges?
- What provisions exist in the Ireland/Northern Ireland Protocol on mutual recognition of professional qualifications? How might the all-island economy be affected by the UK leaving the transition period with different forms of UK/EU future relationship?

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

Yours,

A handwritten signature in black ink, appearing to read 'H Benn', written in a cursive style.

**Hilary Benn**  
Chair of the Committee