Inspiring business

The Business of Brexit

Smoothing the UK's departure

Election 2017 | Let's push things forward

Overview

The next government will have a mammoth task on its hands in delivering on the outcome of last year's EU referendum. It will in effect be the first trade agreement the UK has negotiated for itself in more than forty years, and to ensure businesses face minimal disruption as we leave the EU it is essential that they are kept involved at every possible stage. 80% of IoD members have some commercial link to the EU[1] , and while they are responsible for engaging with the process and planning for future changes, the next government must commit to helping with this preparation.

Not all of this is about the negotiations themselves, as there are a host of domestic fundamentals which must be bolstered in order to ensure the UK economy remains resilient as these changes begin to take shape. In particular, trade promotion and trade policy will be essential levers for the government to pull as the UK navigates its way into a post-Brexit world. EU negotiations, however, remain by far and away the most important and pressing set of trade talks for IoD members[2] . Accordingly, sufficient priority and resources must be allocated to this in terms of building up government capacity and infrastructure to cope with the repatriation of policy competences in tandem with the Great Repeal Bill.

Proposals for all parties:

1. Help businesses prepare for Brexit by easing the costs of scenario planning

The incoming government should be prepared to help firms identify their exposure to EU exit, and plan accordingly, through a Brexit voucher scheme or introducing a specific tax relief to offset the costs associated with this preparation.

2. Publish a detailed list of negotiating priorities soon after the election

The European Commission has published the negotiating mandate agreed by the EU member states, laying out both the process and the priorities from their point of view. These negotiations are not going to be conducted in complete secrecy, so it would be better for the UK government to be up-front about what it wants to achieve.

3. Establish a joint customs committee between the UK and the EU as quickly as possible to help prevent customs chaos

There needs to be a smooth transition between membership of the EU customs union and a new customs agreement coming into effect. A joint committee should be established as part of the withdrawal negotiations to discuss potential solutions and transitional customs measures. The UK should commit to maintaining EU's Common External Tariff in the interim until a new agreement is reached.

4. Expand the functions and resources of UK regulators so they are ready to assume powers as they are repatriated from Brussels

Oversight bodies such as the Medicines and Healthcare products Regulatory Agency (MHRA) and the Health & Safety Executive need to be in a position to negotiate mutual recognition agreements with their EU counterparts as negotiations move on to discussing our future trade relationship.

1 Navigating Brexit: Priorities for Business, Options for Government. Institute of Directors. February 2016, p14 https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Europe%20and%20trade/Navigating_Brexit_Priorities_for_business_options_for_government.pdf?ver=2017-02-20-174338-027

2 Navigating Brexit: Priorities for Business, Options for Government. Institute of Directors. February 2016, p15

Helping businesses plan and prepare for Brexit

Just under half of IoD members have engaged in any scenario planning for the UK's EU exit. While this may reflect an assumption that Brexit will not have an impact on their businesses, it is critical that all companies take steps to identify their potential exposure in particular to a worst-case "no deal" scenario. This is a demanding task, and many SMEs do not have the time or resources to draw up contingency plans themselves or take external professional advice. Given the inevitable uncertainty negotiations will present, the next government should commit to providing both guidance and relief for firms to help ensure they are prepared for all outcomes as best as possible.

Our proposals:

- Introduce a scheme similar to the Growth Voucher to enable more businesses to receive access to specialist strategic advice on Brexit planning OR allow companies to treat this as enhanced tax deductible expenditure to be written off against profits – either by introducing this as a new tax relief category or allowing this to be treated as R&D spend, so that tax relief is given for 230% of the expenditure incurred

- Commit to publishing an impact assessment of a shift to World Trade Organisation/Most Favoured Nation rules for UK-EU trade and any related guidance for businesses on doing by summer 2018

- More widely agree to push for a minimum 18 month notification period before implementing any changes to trade or migration-related arrangements between the UK and the EU (most EU regulations have a 2-year time window for Member States to implement them)

- Publish more guidance on rules of origin, authorised economic operator (AEO) status and related compliance requirements for businesses to increase industry awareness, drawing on the experience of firms and port operators already engaged in non-EU trade

Transparency and Wider Business Engagement

While business accepts the need for some level of secrecy in trade negotiations, it is important to remember that this is not a normal trade agreement. The potential for immediate disruption to business - particularly from a disorderly Brexit - is significantly and materially higher for a much wider share of firms than from most trade deals. There are steps the next government can take to help smooth the process and send confidence-boosting messages without revealing their negotiating strategy at every step of the way.

Our proposals:

- Commit to publishing a negotiating mandate or further White Paper with more detailed objectives that the government hopes to achieve – such as retaining access to Erasmus, the European Research Area and the Europe Enterprise Network, maintaining a robust competition policy framework between the UK and EU, and keeping enforceable non-discrimination rules that go well beyond the agreements and commitments at WTO level

- Announce progress on important issues that could have an impact on timescales , such as reciprocal rights for UK and EU citizens and any transitional or bridging arrangement, at the earliest stage possible during the Article 50 process – this will also require the EU to be flexible on its hitherto “nothing is agreed until everything is agreed” approach to negotiations

- Ensure that consultation and engagement continues throughout Brexit negotiations – establish business stakeholder working groups/ parties within each department for the duration of talks

- Commit to publishing draft forms of any forthcoming new customs and immigration bills for consultation, which the government has opted against doing for the great repeal bill

Bolstering Government Infrastructure and Capacity

If there is one area where speed is the utmost priority for Brexit and trade, it is ensuring that government machinery is ready to cope with changes from day one. While this further underlines the need for transitional/bridging arrangements to be discussed earlier in the process with the EU, it is not an excuse for putting off decisions about upgrading the functions of Whitehall and regulatory agencies. Some of this will be impacted by the evolution of the great repeal bill and Brexit negotiations themselves, but there are steps and processes the next government can get underway to give business confidence in the prospect of deliverance continuity from the UK's end.

Our proposals:

- A potentially five-fold increase in customs declarations that HMRC handles, along with a new Customs bill and eventual departure from the Customs Union, means the next Chancellor should allocate a significant chunk of funding to boost HMRC's staff numbers, and bring in expert training on managing IT systems changes – particularly as the new Union Customs Code implementation continues.

- As a matter of priority the UK should push the EU to agree to establish a joint customs cooperation committee as quickly as possible during Article 50 negotiations and agree to maintain the EU's Common External Tariff until a new customs agreement is in place

- Expand the functions/powers and resources of regulatory agencies (MHRA, Health & Safety Executive and oversight bodies) in order for them to be in a position to negotiate mutual recognition agreements with their EU counterparts as Article 50 negotiations move to discussing our future trade relationship.

- Prioritise flexibility with respect to ending the jurisdiction of the European Court of Justice – this should be limited to constraining its "direct effect" and the next government should be willing to accept its continued application in the UK during any transitional or bridging arrangements. It is unlikely that a suitable replacement enforcement mechanism for cross-border relations will be created within the next two years, and enforcement is a key issue for businesses, particularly those dealing with intellectual property and VAT issues

Turning "Global Britain" into a tangible policy strategy

The new Department for International Trade is undergoing its latest iteration of transformation, but this time with a completely new mandate and clear purpose as the UK exits the EU. Its success should not be gauged on the basis of how many full free trade agreements it can do at speed, but rather on how the various strands of trade policy and trade promotion within its remit are channelled into one comprehensive strategy. The next two years are a period for the government and business to work hand-in-hand to develop its policy priorities in terms of markets, liberalisation objectives, trade defence system and tools to help drive internationalisation of UK enterprise through trade and investment.

Our proposals:

- Bring forward the pilot Export Voucher initiative to better integrate the private sector in facilitating business expansion overseas – this should not however take the place of International Trade Advisors but rather act as a supplementary specialist advice resource for companies

- Agree with the EU a cut-off date or draw a line among its ongoing negotiations between those which will apply to the UK and those which will not. Business needs clarity and a steer on what EU trade negotiations will include the UK so as not to focus on two different sets of talks with the same market

- Categorise market priorities for future trade negotiations along three main lines – opening closed markets, building like-minded trade alliances and breaking down barriers in moderately open medium-high growth countries

- Make labour mobility a priority for future trade talks – as a services-based economy the UK will benefit hugely from facilitating cross-border skilled talent flows. This is not about recreating free movement, but expanding mutual recognition of professional qualifications, fast-tracking and creating new preferential visa procedures, and simplifying temporary movement requirements (intra-corporate transfers and fulfilling contracts)

- Develop a trade defence/remedies strategy which puts an equal emphasis on transparency, consultation and investigation with the whole of the supply chain (both producers and consuming/processing industries) rather than simply on speed and reaction

- Drop the exports target – this is a blunt, crude tool for measuring and encouraging business internationalisation and created a culture of boxticking within DIT's predecessor that focused on quantity over quality. There are many factors which make trade patterns - and in turn statistics - volatile that are entirely outside the control of the UK government

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