

All-Party Parliamentary Manufacturing Group Submission

Exiting the European Union Select Committee Inquiry into ‘Britain’s Negotiating Objectives for Withdrawal from the EU’

This document is a submission on behalf of the **All-Party Parliamentary Manufacturing Group** (APMG) and its associate members, to the inquiry by the ‘Exiting the European Union Select Committee’ on the negotiating objectives for the UK government in the withdrawal from the EU.

The APMG represents 26 manufacturers and manufacturing trade associations across the British manufacturing sector. Broadly, these companies and bodies interact and trade within the EU extensively. The aim of this submission is to recommend to the select committee the views of the APMG on negotiation priorities to – as far as possible – maximise and maintain existing EU benefits, whilst minimising the risks and uncertainty to the manufacturing sector presented by Brexit.

This submission focusses on **three main policy/negotiation areas of prime importance to the manufacturing sector**:

- Markets and Trade
- People and Skills
- Regulation and Standards

In addition this submission is based on one key premise; various “alternative” models of interaction with the EU have been discussed such as the Switzerland, Norway, Canada, or Turkish options. However, the UK’s relationship is both fundamentally different and more substantive and significant than any of these nations. None of the existing models are appropriate for the British manufacturing sector. **The process of triggering article 50 must be used by the British government as an opportunity to shape a brand new settlement for the UK’s future interaction with the European community on brand new terms.**

Executive Summary

The APMG recommends that the British government prioritises its negotiation to:

Markets and Trade

- Maintain the non-tariff benefits of the Europe-wide harmonisation of regulations and standards, by negotiating a bespoke membership of the EU customs union.
- Retain maximum access to the European single market for services and goods through a comprehensive UK-EU trade deal, with tariff-free trade a priority target. This must contain protections for established pan-European supply chains.
- Maintain existing EU anti-dumping measures and trade defence instruments.
- Allow continued availability of the EU's 53 Free-Trade Agreements, initially on an interim transitional basis, to allow Britain to negotiate new agreements. Protect the open land border between Northern Ireland and the Republic of Ireland, and allowing the continuation of free trade.

People and Skills

- Acknowledge that the staffing demands of the manufacturing sector cannot be met on any conceivable timescale from the UK labour market alone, therefore continued migration is essential.
- Formulate a flexible migration policy that allows British businesses to access the wide skills and diversity of EU workers, avoiding a one-size-fits-all policy, and understanding that EU workers at all skill levels are required.
- Protect the right to remain for all EU citizens already living and working in the UK

Regulation and Standards

- Prioritise a strong level of ongoing cooperation and consultative engagement with the EU on regulatory developments, multi-national initiatives, and European standards. Including continued BSI and industry participation in ISO technical committees.
- Continuation of extensive European regulations such as REACH, the Machinery Directive, and CE standards which denote product safety and authenticity of exported products. This will include avoiding the inadvertent imposition of trade barriers upon manufacturers through reductions in regulatory burdens.
- Ensure that any transposed regulation will keep up with European standards.

Markets and Trade

- **Maintain the non-tariff benefits of the Europe-wide harmonisation of regulations and standards, by negotiating a bespoke membership of the EU customs union.**
- **Retain maximum access to the European single market for services and goods through a comprehensive UK-EU trade deal, with tariff-free trade a priority target. This must contain protections for established pan-European supply chains.**
- **Maintain existing EU anti-dumping measures and trade defence instruments.**
- **Allow continued availability of the EU's 53 Free-Trade Agreements, initially on an interim transitional basis, to allow Britain to negotiate new agreements. Protect the open land border between Northern Ireland and the Republic of Ireland, and allowing the continuation of free trade.**

The continuance of the healthy and profitable trading relationship the UK has with our closest and largest market, the European Union, is the issue that causes the most uncertainty in the British manufacturing sector with regards to Brexit. The British government has in the past supported targets of £1 trillion of UK exports by 2020, and to achieve this target our relationship with the European market must be strengthened, rather than weakened. 52% of exports manufactured in the UK (by value) went to the EU in 2016 – more than the national average for goods and services, meaning manufacturers would be especially affected by any restrictions on access to this market. Building new trading relationships and developing existing ones with countries such as the USA, Canada, Brazil, India and China is a laudable aim, but must be done in parallel with our European trading.

The EU is more than simply a free trade area, also constituting a customs union, meaning all members have common commercial trade policies and harmonised external tariffs and customs procedures. The Customs Union provides non-tariff benefits which have received significantly less attention than tariff benefits of EU membership. Many manufacturers identify retention of these non-tariff benefits as having more, or at least equal, importance as tariff-free access to the single market. The imposition of customs checks at borders caused by customs union withdrawal will insert time penalties into vital cross-border supply chains – a significant penalty to manufacturers characterised by just-in-time deliveries. The Prime Minister has made clear that continued full membership of the customs union is not possible, as this would restrict the negotiation of new international trade treaties. Thus the APMG recommends that the UK prioritises negotiation of a bespoke membership of the European customs union that retains the majority of non-tariff benefits. A clear precedent for such an arrangement is Turkey's relationship with the EU; Turkey is a member of the customs union for goods without being a member of the single market or adherence to the principle of freedom of movement.

The issue that has dominated debate both before and after the Brexit referendum has been the tariff-free trading relationship the UK currently has with the EU as a virtue of our membership of the single market. Continued membership of the single market is incompatible with the Prime Minister's stated aim of imposing controls on freedom of movement, and therefore assuming we leave the European single market the UK must negotiate a new unprecedented trading relationship with member states. The negotiation of a comprehensive UK-EU trading deal which preserves the tariff-free access to the single market must be a priority for the UK government, as the imposition of

World Trade Organisation (WTO) tariffs would be extremely unwelcome for manufacturers and exporters. The EEF estimate that imposition of WTO rules would result in an average tariff of 5.3% being applied to all goods, with tariffs as high as 10% in the automotive sector.

As Britain has an established relationship with the European market, with several large multi-national organisations based here, particular focus when discussing tariffs must be applied to supply chains. Many manufacturers import sub-assemblies for integration into products here, or vice-versa, export high-technology components to European consumer organisations. Therefore special care must be taken to avoid the double-imposition of tariffs on supply chains, i.e. levying the tariff once on an imported sub-assembly and a second time on the final exported product.

The European Union, by benefit of its size as a dominant trading partner, has been able to negotiate several anti-dumping and trade defence agreements with foreign countries. These prevent countries dumping products such as steel or chemicals in the UK market, at subsidised prices, disrupting domestic manufacturers and economies. For example, there are five anti-dumping regulations which prevent the unfair importing of products from China and South Korea into the UK. In the period after the UK leaves the EU and the British manufacturing sector undergoes a transition to adapt to the new trading relationship, this sector must be protected from the grave threat of undercutting and dumping. Therefore the UK government must work with our European partners to maintain these regulations *en bloc*.

The UK is currently party to the 53 Free-Trade Agreement (FTAs) that the EU has negotiated with other nations and trading blocs. The Prime Minister and her Secretaries of State have expressed the desire for Britain to negotiate new trading arrangements with counties across the globe. The UK will exit the European Union 2 years after the triggering of Article 50, however trading agreements are complex and on average agreements of this size take between 4 and 7 years to complete. To bridge this gap between the cessation of our existing FTAs and the negotiation of new ones, or the so-called “cliff-edge”, the UK must negotiate transitional agreements such that the UK can continue to benefit from our existing FTAs until such a time as is judged suitable. In this time-scale the UK can begin to freely negotiate new treaties whilst avoiding a punitive interim period in which we are not covered by any international trade treaties.

Finally, special consideration must be given to trade around the UK’s only land border with the Republic of Ireland. Many goods are freely traded between the two nations across the land border, and concentrating here only on the non-political implications, imposition of border controls between the two nations would be undesirable for manufacturers and consumers. Any deal that the UK negotiated with the EU must include special and exceptional considerations for this border.

People and Skills

- **Acknowledge that the demands of the manufacturing sector cannot be met on any conceivable timescale from the UK labour market alone, therefore continued migration is essential.**
- **Formulate a flexible migration policy that allows British businesses to access the wide skills and diversity of EU workers, avoiding a one-size-fits-all policy, and understanding that EU workers at all skill levels are required.**
- **Protect the right to remain for all EU citizens already living and working in the UK**

The freedom of movement for citizens of all member states of the European Union has proved to be one of the more controversial issues of debate during and after the referendum – and thus the Prime Minister has stated that a clear aim of the government is to impose immigration controls on European migrants to Britain. The views of manufacturers has been markedly different, with many manufacturing firms in the UK having benefited significantly over previous decades from the ready flow of people across the political union. It is therefore essential to state a core of this section of the submission upon which the majority of manufacturers and politicians agree; for the foreseeable future it will be impossible for the staffing demands of the British manufacturing sector to be met by the UK labour market alone. Continued access to a larger and broader workforce, and the balancing of this demand with political considerations, is therefore an essential demand of the manufacturing sector.

The UK government must negotiate a flexible migration policy with the European Union that allows British manufacturers and businesses to access the wide skills and diversity of EU workers. This cannot be a one-size-fits-all policy, and may be focussed or targeted into specific skill-sets or sectors. However it must also acknowledge that a huge range of different skills are essential to fill existing skills gaps in the UK manufacturing sector, and that staff of all skill-levels are required. These immigration tools cannot become blunt or a frustration to recruitment by manufacturers, but must adapt to the needs of all employment sectors and national requirements.

As mentioned above, many multi-national companies are based in the UK as a gateway to the European markets. Many of these companies may consider their long-term UK base if restrictions on the inter-company transfer of staff becomes impossible or the regulatory burden becomes too great. For example, many European head offices of multi-national businesses are based in London, a situation that is unsustainable in the long-term if immigration restrictions are judged to be too tight. This also applies to highly technical or specialised staff, which businesses currently benefit from being able to move around the continent at short notice.

Finally, to provide for companies the maximum in stability and certainty in our transition out of the EU, the British government must ensure and guarantee the continued security of existing EU citizens working in the UK. Providing right to remain for these workers will provide the basis upon which companies can adapt their recruitment to the new relationship between the UK and the EU.

Regulation and Standards

- **Prioritise a strong level of ongoing cooperation and consultative engagement with the EU on regulatory developments, multi-national initiatives, and European standards. Including continued BSI and industry participation in ISO technical committees.**
- **Continuation of extensive European regulations such as REACH, the Machinery Directive, and CE standards which denote product safety and authenticity of exported products. This will include avoiding the inadvertent imposition of trade barriers upon manufacturers through reductions in regulatory burdens.**
- **Ensure that any transposed regulation will keep up with European standards.**

One large benefit of European Union membership, cited by almost all the members of the APMG who contributed to this submission, was the standardisation and harmonisation of manufacturing legislation and regulation across the union. This standardisation of the regulative burden on companies has allowed products to be sold across the UK's biggest export market, without modification or additional certification. Additionally it has allowed SMEs who previously didn't have the resources to devote to manufacturing to export, access to a new and huge market.

The most important observation on this topic is that whether EU regulation is reproduced into UK law by the 'Great Repeal Bill' or not, most UK companies will need to continue to comply with EU regulation so as to continue their existing trade relationships. Thus, the APMG request that the UK government prioritise a strong level of ongoing cooperation with the EU on regulation, and ideally for the UK to continue to have a voice in debates where these laws are formulated. Any exercise, such as the 'Great Repeal Bill', to transpose EU law will rapidly become out of date as EU law adjusts and new legislation is devised, therefore our continued participation in these exercises is essential. Continued input to large multi-national high-level initiatives mean that UK manufacturers will continue to trade on a level playing field with their European counterparts.

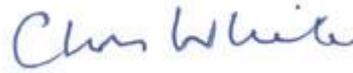
The safety, authenticity, conformity, and interoperability of products manufactured in the UK are demonstrated through a long-established system of European accreditation and certification. This process, or processes, of product standardisation and compliance is paramount to manufacturers to continue their international trading, and critical to avoiding reputational risk. Therefore UK manufacturers want the British government to continue their commitments to large European-level regulation such as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), the Machinery Directive, and European Conformity (CE) standards. The British Standards Institution (BSI) and individual UK-based companies already contribute to the development of EU technical, product or machinery standards through International Organization for Standardization (ISO) technical committees, and in the future this cooperation must continue.

Finally; some parties wish to use the United Kingdom's exit from the EU as a vehicle to reduce the regulatory burdens on companies. It must be noted that past a certain point this would damage, rather than free up, British manufacturers, as the removal of these regulations and standards would be equivalent to the erection of trade barriers between the UK and the European continent. This is not desirable for a trading nation, and at all costs differential regulation must be avoided.

This report is signed by the co-chairs of the All-Party Parliamentary Manufacturing Group:



Barry Sheerman MP



Chris White MP

This submission was prepared by Dr. George Dibb, Head of Manufacturing, Design and Innovation at Policy Connect, and secretariat to the APMG (George.dibb@policyconnect.org.uk/0207 202 8586).

This report has been contributed to by:

- British Coatings Federation
- Food and Drink Federation
- Manufacturing Technologies Association
- Institute for Export
- Confederation of Paper Industries
- Unite the Union
- EEF – the manufacturers’ organisation

The following representatives are willing to give oral evidence to the Exiting the EU Select Committee:

- Tom Bowtell, CEO, British Coatings Federation
- Ian Wright CBE, Director General, Food and Drink Federation
- James Selka, CEO, Manufacturing Technologies Association
- Andrew Large, Director General, Confederation of Paper Industries
- Tony Burke, Assistant General Secretary, Unite the Union

