Making Brexit Work for British Business

Peter Sands, Ed Balls, Sebastian Leape, Nyasha Weinberg

HARVARD Kennedy School
MOSSAVAR-RAHMANI CENTER
for Business and Government

The Policy Institute at King's

HARVARD Kennedy School
MOSSAVAR-RAHMANI CENTER
for Business and Government

Making Brexit Work for British Business: Key Execution Priorities

Peter Sands, Ed Balls, Sebastian Leape, Nyasha Weinberg

June 2017

M-RCBG Associate Working Paper Series | No. 77

Table of Contents

Abstract, Acknowledgements and Affiliations 2
1. Executive Summary 3
Introduction 3
Key Findings 4
2. Introduction 11
Objectives 11
Approach 11
Structure of the Paper 13
3. Recap of Fundamental Deal Options 15
Remaining within the Single Market 16
Leaving the Single Market, but remaining in the Customs Union 17
Leaving the Single Market and the Customs Union and crafting a Free Trade Agreement with the EU. 18
Leaving the Single Market and the Customs Union and relying on WTO terms for trade with the EU 19
4. Trade 21
Trade with the EU the Top Priority 24
Striking Trade Deals Elsewhere 28
Supporting Trade More Effectively 33
Reinforcing Trade in Services 36
5. Regulation 38
The Risk of Increasing the Regulatory Burden 38
The Quality of EU Regulation 41
Opportunities to Adapt Regulation to Britain 43
The Importance of EU Regulatory Agencies 46
6. Industry Sectors 50
Sectors with Highly Integrated Supply Chains Across the EU 50
Sectors Reliant on Regulatory Harmonisation 54
Sectors Dependent on EU Protection and Subsidies 56
Sectors Relying on Direct EU Funding 59
Sectors Reliant on Access to EU Labour 63
7. Implementation Priorities 69
Executing the Brexit transition 69
Implementing Effective and Efficient Policies and Processes 70
Enabling Companies to Exploit and Adapt to the Changing Business Environment 75
8. Conclusions 77
Appendices 80
Appendix 1 – List of Interviewees 80
Appendix 2 - Members of Parliament 82
Appendix 3 - EU Agencies 83
Appendix 4 – Bibliography 86

Abstract

Brexit implies profound changes for British businesses: from how they trade, to how they are regulated and how they employ people. To explore the challenges and opportunities we interviewed over 50 mid-sized British businesses and trade associations, with the objective of identifying the key execution priorities for Brexit from their perspective. The paper sets out the findings from the interviews and draws conclusions for policymakers. Key themes emerging include: the overwhelming importance of securing a good trade deal with the EU; the concern that Brexit would lead to an increased regulatory burden not a reduction; the need for continued engagement with EU regulatory agencies; the fact that Brexit will necessarily trigger a fundamental rethink of policy towards some sectors, in particular agriculture; and the need to upgrade customs control procedures and revamp the immigration system.

Acknowledgements

We would like to thank all the companies and trade associations we interviewed for this research for making the time to share their perspectives with us. These are listed in Appendix 1. We would also like to thank the Members of Parliament who helped us identify companies to interview and the individuals from various academic institutions and think tanks who gave us their insights. These are listed in Appendix 2. Finally, we would like to thank those who took the time to review the draft report and provide us with comments.

The authors take full responsibility for the content and conclusions of this report, including any errors and omissions.

Affiliations

Ed Balls - Senior Fellow - Mossavar-Rahmani Center for Business and Government - Harvard Kennedy School and Visiting Professor, Kings College, London

Peter Sands - Senior Fellow - Mossavar-Rahmani Center for Business and Government - Harvard Kennedy School

Sebastian Leape - MPP Candidate - Harvard Kennedy School

Nyasha Weinberg - MPP - Harvard Kennedy School

1. Executive Summary

Introduction

What does Brexit mean for British business? Two starkly different visions are put forward. Brexit proponents - and for that matter, the current British Government ("the Government") - suggest that leaving the European Union ("EU") will be a boon for British business. Britain's commercial spirit will be unshackled from the enterprise stifling burden of EU regulation[1]. British exporters will enjoy a "golden opportunity" for trade[2]. In this portrayal, Brexit is the step towards a more successful, prosperous "Global Britain"[3].

By contrast, Remainers portray a much gloomier picture of the future: Britain will lose frictionless access to the world's biggest economic zone and the UK's largest trading partner by far[4]. Tariffs and non-tariff barriers will impact the competitiveness of British business. Integrated supply chains will be disrupted by customs procedures and delays. Foreign investment will falter once the UK is no longer a platform for doing business across Europe[5].

Much of this rhetoric is a legacy of the Referendum campaign, or position-setting ahead of the negotiations with the EU. Leavers (and indeed now the Government) typically exaggerate the opportunities and downplay the risks. Remainers often overstate the threat to British companies and the UK's economic prospects.

In this paper, we seek to cut through this noise to identify the key execution priorities that must be got right if Brexit is to work for British business. In addition to reviewing the ever-expanding literature on the subject and engaging in discussion with academic experts, we conducted more than 50 interviews with small and medium sized British businesses and their trade associations, from different sectors and across the UK. We asked those running such companies where they saw the opportunities and how they were thinking about the risks to their businesses. We explored the issues that loomed largest for them: from trade barriers and new markets, to regulation and access to skills. Rather than simply reiterating all that has already been written, we wanted to ground our analysis on the perspectives of the business owners and managers whose decisions on investments and job creation will shape Britain's future prosperity.

1 EU regulations blamed for 'swamping' businesses, The Financial Times, 2 February 2016https://www.ft.com/content/658bd8e0-c91d-11e5-be0b-b7ece4e953a0
2 "Officials: Brexit Would Mean a 'overhaul' of UK Laws." Mail Online, 18 March 2016
3 Theresa May, 'A Global Britain', Lancaster House Speech, 17 January 2017
4 UK faces a struggle to redesign trade relationships, The Financial Times, 3 February 2017
5 Dhingra, Swati, et al., The impact of Brexit on foreign investment in the UK, LSE Centre for Economic Performance, 2016

Our findings revolve around four key themes: first, making sure Brexit enables trade rather than stifles it; second, ensuring Brexit streamlines regulation rather than inadvertently expanding it; third, helping industry sectors adapt to the specific challenges many face as a result of Brexit; and fourth, implementing Brexit in a way that ensures a smooth transition to avoid a disruptive "cliff edge", and that government policies and processes, such as customs procedures and immigration arrangements, are made fit for purpose for a post-Brexit world.

Key Findings

Trade

Britain's businesses want a Brexit that enables trade, not stifles it. Given that roughly half of the UK's trade is with the EU, it should be no surprise that the top priority for almost every business is getting the right trade deal with the EU. Almost all businesses we interviewed expressed a preference for remaining in the Single Market and Customs Union. If these options are unavailable, firms expressed a strong preference for a free trade agreement ("FTA") that replicates the Single Market's relatively frictionless trading arrangements for goods and services as far as possible.

All the companies we spoke to expressed concern about the potential impact of increased tariffs, non-tariff barriers and customs controls on their costs and competitiveness should the UK leave the Single Market. Many were particularly worried at the prospect of the UK leaving without a deal and thus defaulting to the World Trade Organisation's ("WTO") Most Favoured Nation ("MFN") status since for many this would lead to a sharp increase in tariffs and non-tariff barriers when exporting to their largest market.

Companies recognise that leaving the Single Market and Customs Union would give the UK the opportunity to negotiate new trade deals that more closely reflect British priorities and that focus on the fastest growing economies in the world. However, the businesses we spoke to were highly sceptical about the potential to replace unfettered access to the EU market with growth elsewhere. 61% of British goods and services exports go to the Single Market or to countries with which the UK already has an FTA via the EU; half of the remainder is represented by the US. Companies pointed to the fact that most of the UK's major export markets outside the EU, such as the US, Canada, Switzerland and Korea already have relatively low or no tariffs as a result of EU FTAs and other trade facilitation arrangements, such as Mutual Recognition Agreements ("MRA"). There is therefore limited potential for Britain to become more competitive in these markets as a result of tariff reductions. They emphasised the importance of retaining these advantages. While welcoming the efforts to secure FTAs with smaller, more distant markets, they also highlighted the limited potential of such opportunities, given scale, distance, pervasive non-tariff barriers or lack of demand for UK goods. Put simply a massive increase in trade with such countries would be needed to offset a small reduction in trade with the EU.

However, many of the firms we spoke to thought Brexit could have some positive impact by focusing policy attention on other impediments to trade, particularly non-tariff barriers in services, and on broader shortcomings in British companies' competitiveness. They highlighted the importance of harmonising standards and regulation, of mutual recognition of credentials and of enhancing support to smaller companies seeking to enter new markets. To illustrate the importance of increasing the underlying competitiveness of our industries, some pointed to the fact that Germany already exports almost four times as much to China as does the UK[6], despite facing the same tariff and non-tariff barriers. Lack of familiarity with the market, competitive shortcomings and the limited appeal to Chinese customers of some British products have held back British exporters. Companies acknowledged that while most of these impediments to increased export success could in theory have been addressed without leaving the EU, Brexit gives tackling them new urgency.

Regulation

Companies want Brexit to lead to streamlined regulation, not more regulation. Yet none of the firms we spoke to expect a regulatory "windfall". Indeed, many expressed concern that Brexit would paradoxically result in an increased regulatory burden. If British regulations diverge from EU standards, companies that export to the EU will now have to comply with an additional set of regulations. We also heard repeated concerns about the potential costs associated with employing EU citizens if companies are forced to navigate complex new immigration rules.

Contrary to much of the media and political commentary, the majority of businesses we interviewed were broadly satisfied with current regulatory approaches in their sectors. While there are always examples of specific aspects of regulation that seem overly burdensome or inappropriate, many spoke to the overall quality of EU regulations and rulemaking processes, claiming that the process of securing input and agreement from 28 member states usually helped weed out poor quality regulation.

Firms recognise that Brexit will provide the opportunity to adapt regulations to the British context, but most thought that this would result in only minor benefits to their businesses. In many areas, the UK Government has been one of the most influential voices in determining EU regulations, so these already typically reflect UK priorities. Some firms highlighted employment regulation and to a lesser extent, health and safety and environmental protection as areas that the UK might look to deregulate. However, most businesses expressed limited appetite for such changes, and the Government has thus far indicated that it intends to maintain EU labour protection standards[7].

Many firms expressed significant concerns about the loss of British engagement in EU rule-making processes. Firms that trade with the EU will still have to comply with EU regulations, but will no longer have the opportunity to influence these rules. This is particularly important in areas where British companies have particular strengths and distinct regulatory priorities, such as in financial services, the energy sector or the creative industries.

[6] UK export data 2015, The Observatory for Economic Complexity. http://atlas.media.mit.edu/en/
7 The United Kingdom's exit from and new partnership with the European Union White Paper, UK Government, 2 February 2017

Many businesses specifically highlighted the important role specialised EU agencies such as the European Medicines Agency ("EMA") or the European Aviation Safety Agency ("EASA"), play in regulating their sectors. When explaining the importance of these agencies in the creation of quality regulation some businesses expressed anxieties about losing the ability to influence the policies of these agencies, or to benefit from their expertise.

Industry Sectors

All the businesses we spoke to highlighted a range of sector-specific issues posing particular challenges or questions. The most significant stem from five changes that Brexit will bring:

First, businesses dependent on highly integrated supply chains across Europe will face increased frictional costs. Companies that have taken advantage of the Single Market to build highly integrated supply chains, including the automotive, aviation and chemicals sectors, are intensely worried about the potential costs and delays associated with new tariffs, customs procedures, taxes and regulatory divergence.

Second, businesses that rely heavily on harmonised regulation fear additional costs, loss of competitiveness and loss of influence on future regulations. Industries significantly affected include pharmaceuticals, since drug approval is harmonised across the EU, financial services, given the importance of "passporting" in enabling provision of financial services across the EU, and the creative industries, given their reliance on EU rules on intellectual property, data privacy and digital rights.

Third, businesses that currently depend on EU protection and subsidies, such as agriculture and fishing, face considerable uncertainty, since Brexit will result in significant changes to the relevant tariffs and subsidy regimes and will force the British Government to confront some difficult policy choices. While it is premature to predict the outcome of such policy debates, on the whole domestic food producers are likely to be losers, facing increased exposure to international competition and potential impediments to exporting to the EU, while consumers and some intermediaries may benefit.

Fourth, those sectors that rely heavily on direct EU funding, such as for scientific research and venture capital, face uncertainty and potential funding shortages. The UK has benefited disproportionally from support from EU funding mechanisms to the particular benefit of the scientific, creative and technology sectors.

Finally, companies across most sectors expressed concerns about continued access to EU labour, from highly skilled scarce talent in the creative, scientific and financial sectors, to seasonal low skilled labour in agriculture and hospitality. For some sectors, such as the creative industries and universities, flexible access to EU talent is their over-riding concern arising from Brexit. While firms acknowledge the imperative of upskilling the domestic workforce, they expressed scepticism about the scope to replace EU skills in any meaningful timeframe, particularly in fast-growing, innovative sectors where there are global skill shortages.

None of the companies we spoke to, across any sector, saw their industry benefiting unambiguously from Brexit. Even sectors like fishing, which sees advantage in re-establishing British control over UK waters, also recognise the challenges presented by the imposition of tariffs given that the EU is the biggest export market for UK fish and seafood, accounting for over £1billion of exports, almost double the £550 million exported to other countries[8]. Most companies saw many more challenges for their sector than opportunities.

Implementation Priorities

Throughout our interviews, the businesses we spoke to emphasised that effective implementation will be as important as the policy outcomes. They focused on two aspects of implementation: first, execution of the transition to minimise disruption and potential “cliff-edge” effects; and second, the effectiveness and efficiency of new policies and processes, such as customs procedures, immigration rules and sector-specific regulation.

Given the scale and complexity of the issues and the need to negotiate a vast array of new agreements, companies are highly sceptical that these matters will be all resolved by 29 March 2019 (i.e. within the two-year timeframe from the Government’s issuance of the Article 50 letter), particularly as companies will need time to adapt once the policy outcomes are known. They are concerned that the need to reach rapid agreement on complex, interdependent issues will lead to inadequate consultation (particularly of smaller firms) and poor outcomes. They are also concerned that they will face significant disruption to their business as they, their suppliers and customers, and their regulators struggle to adapt to policy outcomes that may be known only weeks before Brexit takes place. There is therefore intense interest in the process and timetable of key policy choices and a strong desire for transition arrangements to extend beyond the two-year timeframe to smooth the adjustment.

Companies also expressed deep concerns about the ability of the Government to upgrade critical capacities and procedures. Many cited the need for highly efficient customs procedures, given the imperative for businesses to minimise additional frictional costs or delays. Many also stressed the importance of a workable immigration system that enabled the access to skilled or seasonal EU labour without significant incremental costs and bureaucracy. Furthermore, most companies emphasised the importance of the UK simultaneously remaining active in influencing EU regulations and minimising unnecessary regulatory divergence.

Brexit is taking place at a time when rapid technological change and profound shifts in the global economy are transforming competitive dynamics, business models and customer behaviour across all sectors. For many firms, these trends represent even bigger threats and opportunities than leaving the EU. Both companies and trade associations stressed that Brexit must be implemented in a way that enables British businesses to take advantage and adapt to the rapidly changing business environment.

---

8 Being part of the EU is better for fish and seafood, http://nffo.org.uk/eu-referendum/2016/05/12/defra-being-part-of-the-eu-is-better-for-fish-and-seafood The Department for Environment, Food and Rural Affairs, 12 May 2016

Conclusions

From our interviews and research it is clear that for the small and middle-sized British companies that comprise the backbone of the UK economy, Brexit poses significant challenges and some opportunities, although the potential upsides appear relatively limited in scope and scale. Making Brexit into a success for British business will require resolving some difficult trade-offs and implementing some complex procedures in a very short timeframe. Based on our research, we see the key execution priorities as being:

Negotiating a new trade deal with the EU that keeps as close to the Single Market as possible

Most British businesses would prefer to remain in the Single Market, but this currently looks extremely difficult to reconcile with the political constraints in the UK and EU. On the one hand, the Government has been committed, reflecting the result of the Referendum, to escape the obligations of freedom of movement and to leave the ambit of the European Court of Justice ("ECJ"). On the other hand, the EU has repeatedly asserted that adherence to the principle of freedom of movement of people and to ECJ jurisdiction are non-negotiable pre-requisites to membership of the Single Market. Finding a path through this conundrum is arguably the central challenge in negotiating Britain's new relationship with the EU: how much of the Single Market's advantages will Britain be forced to sacrifice to secure the degree of freedom from ECJ jurisdiction and the obligations of freedom of movement that UK domestic political pressures require?

From the perspective of British business, the ideal outcome might be an FTA that preserves the most critical features of the Single Market, alongside a deal on labour mobility that constrains freedom of movement, but met the ongoing needs of British business for access to skilled and seasonal EU labour. In addition, a set of arrangements that enabled effective arbitration of trade and regulatory disputes without conceding full ECJ oversight will be needed. Yet while it is possible to describe such an outcome, achieving this result would require a greater degree of flexibility from the EU than has so far been indicated. Money will no doubt play a critical role: the UK's willingness to continue to make substantial ongoing contributions to the EU Budget is likely to be a key factor in determining EU flexibility.

By contrast, an outcome in which the UK fails to secure a deal with the EU, so that Britain's trading arrangements with the EU revert to WTO norms, could be immensely damaging to British business given the cost of resulting tariffs and non-tariff barriers.

Sustaining and developing Britain's relationships with other major trade partners outside the EU

While it is important to pursue opportunities to secure new trade deals, the higher priority must be to ensure existing arrangements, such as the EU's FTAs with Korea, Mexico and Canada, or the underlying agreements that facilitate trade with the US, are not adversely affected by Brexit, but sustained and expanded. Failure to protect existing arrangements would result in British companies facing new impediments to trade in the most important markets outside the EU, not just within the EU. Achieving this should in principle be easier than securing entirely new FTAs, since there should be mutual interest in avoiding disruption to trade, but is by no means automatic or assured.

Devising arrangements to minimise unwarranted regulatory divergence and duplication and to ensure continued influence on EU rule-making

Whilst there may be opportunities to tailor some regulations to UK priorities, British businesses are generally more concerned about the twin threats of loss of influence on EU rule-making and additional regulatory burdens arising from differences between UK and EU regulations. The solutions here are likely to vary by industry, but are likely to involve some forms of continued membership of specialised regulatory agencies. This in turn will require agreement around applicable enforcement mechanisms, since all of these agencies operate under ECJ jurisdiction[9].

Implementing an immigration framework that enables British business to access skilled and seasonal EU labour, while meeting the political imperative for tighter immigration control

Reconciling the needs of British business for flexible access to skilled and seasonal labour with the desires of the broader populace for much tighter control on immigration will be challenging. Achieving this will require a combination of deft political leadership to navigate the domestic pressures, effective negotiation with the EU given the interaction with securing a Single Market/FTA deal, and the rapid design and implementation of new procedures. Moreover, there is a clear need to upgrade skills development in the UK to reduce the need to import skilled labour.

Implementing new customs controls and procedures to minimise the incremental costs and delays to British businesses trading with Europe

Upgrading UK customs controls and procedures represents a significant technology implementation and change management challenge given the timeframe, and is therefore a significant concern for many businesses. Moreover, for British businesses exporting to the EU it is the efficiency of customs controls and procedures at EU entry points like Calais that matter most. Upgrading the capabilities and infrastructure at these points of entry may not be such a priority for other EU governments.

---

[9] Competences of the Court of Justice of the European Union, EU Fact Sheets, European Parliament. http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_1.3.10.html

Making the critical policy choices in those sectors where Brexit necessitates a radical rethink

A number of UK sectors face fundamental strategic challenges as a result of Brexit, necessitating a broad rethink of the policy approach. This is most obviously true in agriculture, where policy-makers face acute trade-offs between opening up British food markets to the benefit of consumers, and continuing to protect and subsidise British farmers. These choices involve politically sensitive considerations around consumer welfare, the future of rural communities, the environment and food security. The opportunity to reconsider the national strategy towards critical sectors of the economy could be beneficial. However, it remains to be seen whether policymakers will have the capacity to engage properly in such broader thinking given the immense workload and tight timeframe of Brexit.

Ensuring the way Brexit is implemented enhances rather than detracts from British businesses' ability to take advantage of broader changes, including technological developments and shifts in the global economy

Brexit is happening against a backdrop of rapid technological change with artificial intelligence, robotics and cloud computing amongst the many developments which are transforming business models and competitive dynamics. It is therefore of crucial importance that the decisions made in implementing Brexit are informed by an understanding of the implications of these trends. This implies paying particular attention to continued support of scientific research, attracting scarce skills, and creating a supportive regulatory environment. In implementing Brexit, the Government has to deliver an environment for business in the UK that enables companies to adapt to and exploit technological innovation, and continues to attract investment and talent

Brexit is an opportunity for a wide-ranging rethink about how Britain sets sectoral priorities, builds capabilities, nurtures new businesses and trades with the world. It is clearly of vital importance that the Government comes up with convincing solutions to the many challenges Brexit poses. Yet it is also important to that policymakers grab this opportunity to look afresh at multiple aspects of policy, including the way we regulate businesses, train people and help smaller companies grow and penetrate new markets.

This set of priorities represent a daunting policy making and execution agenda for the next two years. In fact, there seems little chance of all of this being achieved by April 2019, which highlights the importance of the Government securing EU agreement to transitional arrangements to minimise the risk of "cliff-edge" effects. Even if the transition itself can be successfully navigated, resolving the issues arising from Brexit is likely to dominate the dialogue between business and Government for many years to come.

2. Introduction

In this introductory section, we set out: our objectives in researching and writing this paper; our approach; and the structure of the rest of the paper.

Objectives

The idea for this paper came when we realised that despite (or perhaps because of) the vast amount written on Brexit it seemed remarkably difficult to distil what matters most for British business and thus for jobs and growth across the UK. Much of the existing literature falls into two categories: it looks at the economic consequences for the UK as a whole or it dives into extraordinary detail around the impact on a specific industry sector. We sought to bridge this gap and identify the aspects of how Brexit is implemented that would make the most difference for British business.

Our objective is simple: to draw out the key execution priorities for policymakers as they work towards crafting Britain's post-Brexit arrangements. We are not seeking to reopen the debate on Brexit, nor even to argue for any one particular outcome from the negotiations with the rest of the EU. Instead we sought to understand the most critical choices and implementation actions for policymakers from the perspective of typical British companies.

Approach

The views of middle-sized British businesses ground our analysis. We interviewed more than fifty small and middle-sized British companies and trade associations. To identify the companies to interview, we reached out to MPs from across the political spectrum and different parts of the country, asking them to suggest companies in their constituencies we could contact (a list of those MPs who responded is attached in Appendix 2 - Members of Parliament).

We deliberately focused on smaller companies, rather than the FTSE100. Although they obviously play a leading role in the British economy, the UK's multinationals have much greater ability to shift staff and production capacity to other locations than mid-sized companies, so the impact of Brexit on such multinationals is not so clearly correlated with the impact on the wider UK economy. Moreover, larger companies have many more opportunities to express their views. Drawing on a similar logic, we chose not to focus on foreign multinationals with a presence in the UK. Moreover, small and medium sized enterprises play a huge role in the UK economy: they employ almost 14.5 million people and contribute almost 50% of the nation's Gross Value Added[10]. Making Brexit a success for such businesses is important not just for their individual owners and managers, but for their employees and their trade unions, and more generally, for job creation and prosperity across the country.

[10] Briefing Paper Number 06152, House of Commons Library, 23 November 2016

While we sought to interview companies from a range of different sectors and from across the country, including both those that supported and opposed Brexit, we do not claim that our sample is statistically robust. Yet despite the diversity of the companies we interviewed, we found a remarkable consistency of views, at least at the level of the broad themes that inform our conclusions. However, in section **6. Sectors**, where we discuss sector-specific issues, we draw mainly on the views of trade associations, rather than individual companies, to ensure we take a broad enough perspective.

The interviews with companies and trade associations inform the findings in this paper. The opinions and concerns of those we interviewed are woven into the text of the report and drive our findings. To illuminate specific points, we also give examples of comments from individual companies and trade associations we spoke to.

We are hugely appreciative of the time our interviewees devoted to answering our questions and to their candour in giving us their opinions. However, the authors take full responsibility for any conclusions drawn.

Alongside these interviews, we reviewed the ever-expanding literature on Brexit, and consulted prominent commentators and academics on both sides of the debate. We do not claim to have performed a comprehensive review, since new reports are published almost every day and the Government's policy stance seems to evolve with every week.

We recognise that the best outcome for British businesses may diverge from the preferred outcome for the broader populace. This tension is most obvious in three areas. First, British companies' desire for relatively unfettered access to EU labour could be difficult to reconcile with widespread public concern about levels of immigration. Second, in industries such as agriculture, which could change significantly as a result of Brexit, what's best for British business interests may well be in conflict with the best outcome for British consumers. Finally, relaxation of regulations in areas like labour protection or environmental protection might benefit individual businesses, but run contrary to the broader public interest. We try to highlight these tensions where they arise.

More generally, this paper does not attempt to deal with some of the broader issues influencing the Referendum, apart from as they relate to businesses. For example, sovereignty is only discussed in the context of the ECJ's jurisdiction over regulatory agencies and rules that impact UK businesses. We touch upon the impact for the devolved administrations, particularly in the context of businesses in Northern Ireland, but make no claims about the broader implications of Brexit for devolution.

Finally, we do not attempt to offer new estimates of the overall economic impact of Brexit on the British economy. While our discussions with business suggest that the direction of impact is fairly unambiguous, we believe there are simply too many uncertainties about the outcome of the negotiations to be able to predict with any precision the aggregate impact on GDP. That said, many of the businesses that we spoke to expressed concern that Brexit would result in a downturn in overall economic growth, which in turn could have an impact on consumer demand for their products and services. They expressed anxiety about both the potential shock to consumer and business confidence if the UK leaves the EU in an abrupt manner without a deal, and the medium-term impact on economic growth prospects of increased tariffs and trade frictions.

Structure of the Paper

In the rest of this paper we provide a brief summary of the fundamental options for a new deal with the EU, then step through what we learned from our interviews and research about four key policy arenas that together will determine the impact of Brexit on British businesses.

In order to frame the subsequent discussion, in section **3. Recap of Fundamental Options** we provide a brief description of the fundamental options available to the UK that will determine the shape of deal with the EU, setting out in turn the key implications of: remaining in the Single Market; leaving the Single Market but remaining in the Customs Union; moving to an FTA; and reverting to a WTO MFN basis.

In section **4. Trade** we explore British companies' priorities for trade policy. The UK's arrangements for importing and exporting goods and services will undergo significant change as a result of Brexit, particularly if the UK leaves the Single Market and Customs Union. The Government must agree a new trade deal with the EU, will need to protect or replace trade agreements with non-EU countries with which the EU has FTAs or other arrangements, and can seek trade deals with countries with which the EU does not have specific trade agreements in place.

In section **5. Regulation** we discuss British companies' concerns and priorities with respect to regulation, which will change considerably as a result of Brexit. A significant proportion of the regulation affecting British companies comes from EU regulation embedded into British law. Moreover, EU agencies, such as the European Medicines Agency, the European Banking Authority and the European Patent Office administer a significant proportion of sector-specific or specialist regulation. Britain has hitherto been highly influential in shaping EU regulation, but is now likely to lose its place at the table. While the purpose of the proposed Great Repeal Bill is to enshrine existing EU regulations into British law, the policy challenge is to determine how these regulations will be developed and administered following Brexit.

In section **6. Sectors** we highlight some of the specific challenges faced by certain industry sectors as a result of Brexit. While the specific challenges vary by industry, they primarily arise as a result of a combination of the following five factors: the impact of leaving the Single Market on supply chain costs; the impact of moving away from harmonised regulation; the ending of EU protection or subsidies; the removal of direct funding support from the EU; and the impact of losing unfettered access to EU labour.

In section **7. Implementation** we explore the priorities for how Brexit is implemented from the perspective of British companies. Key priorities include both the critical issues in managing the transition process, and the effectiveness and efficiency of the new policies and processes that will be required, such as customs controls and the immigration system.

Finally, in section **8. Conclusions** we draw some conclusions about key execution priorities for the Government implementing Brexit. These are the critical things the Government must get right to make Brexit work for British business.

3. Recap of Fundamental Deal Options

To frame the discussion of the execution priorities in making Brexit happen it makes sense to recap the basic options for a deal with the EU. Although there are numerous potential variants, and the UK's ultimate deal will likely be something novel, the fundamental deal options boil down to four:

3.1 Remaining in the Single Market
3.2 Leaving the Single Market but remaining in the Customs Union with a Free Trade Agreement ("FTA") with the EU
3.3 Leaving the Single Market and the Customs Union and crafting an FTA with the EU
3.4 Leaving the Single Market and the Customs Union and relying on World Trade Organisation ("WTO") Most Favoured Nation ("MFN") terms for trade with the EU

Figure 1 provides a highly-simplified characterisation of these options across various attributes of the trade and broader economic relationship. Given the complexity of the individual arrangements a crude "yes", "no" "some" characterisation inevitably glosses over the nuances, but the table gives a flavour of how the different options provide distinct opportunities and obligations.

Figure 1: Existing models of EU trade relationships

Feature	(3.1) Single Market			(3.2) Customs Union (Turkey)	(3.3) FTA (Canada)	(3.4) WTO MFN status
	Full EU membership	EFTA (EEA)	EFTA (Switzerland)			
Duty-Free Access to Single Market for Goods	Yes	Yes	Yes	Yes	Yes	No
Duty-Free Access to Single Market for Services	Yes	Yes	Some	No	Some	No
Free movement of capital	Some	Some	Some	No	No	No
Free movement of people	Yes	Yes	Some	No	No	No
Acceptance of Single Market Rules	Yes	Yes	Some	No	No	No
Input to Single Market Rulemaking	Yes	No	No	No	No	No
Bound by ECJ Decisions	Yes	Yes	Some	No	No	No
Bound by EU Common Commercial (Trade) Policy	Yes	No	No	Yes	No	No
Bound by EU Common Agricultural Policy	Yes	No	No	No	No	No
Contribution to the EU Budget	Yes	Yes	Yes	No	No	No
Participation in EU regulatory agencies	Yes	Yes	Yes	Some	Some	No
Member of the EU VAT area	Yes	Yes	Yes	No	No	No

Remaining within the Single Market

Full EU membership

As of now, the UK, as a full member of the EU, has unfettered access to the Single Market. This means British companies have full duty-free access to the Single Market so are able to import and export goods without customs controls, tariffs or regulatory constraints. In services and capital, the aspiration is similar, but in practice there remain many more impediments. In services the degree of seamless access depends on the sector, with some sectors offering almost completely free access (e.g., aviation), some in the process of developing a Single Market framework (e.g., the Digital Single Market), and others still largely fragmented across the EU (e.g., legal, medical). While bank "passporting", Banking Union within the Eurozone and the forthcoming European Payments Service Directive ("PSD2") are among many measures facilitating the free flow of capital and financial services across the EU, the Single Market in capital is still incomplete.

Participation in the Single Market as a full member of the EU entails acceptance of EU Single Market rules and regulations, participation in EU regulatory agencies, engagement in EU rule-making and acceptance of ECJ jurisdiction, since ultimately EU law is the basis on which EU regulation and regulatory agencies function.

As a member of the EU, participation in the Single Market also involves acceptance of EU authority on commercial policy. The EU's common commercial policy ("CCP") aims to apply uniform principles across all members of the Single Market with respect to changes in tariffs, trade agreements beyond the EU, trade policy, and measures to protect trade from dumping and subsidies. This includes membership of the Customs Union, which entails delegation of all trade negotiating authority to the EU. EU members are also bound by the Common Agricultural Policy ("CAP"), which drives EU trade policy for agricultural products, must make contributions to the EU budget and have to accept freedom of movement of people.

It is worth noting that some of elements of this set of rights and obligations are logically connected, in that it would be inherently difficult to do one without another, whilst for others the connection is more political, in that they are seen as complementary elements of the broader European project. For example, it would be difficult to have totally seamless trade in goods without adherence to common regulatory standards, since otherwise the ability to trade would render any standard meaningless. On the other hand, the link between seamless trade in goods and freedom of movement of people or budget contributions is more of a political imperative than a logical necessity. This is not to underestimate the EU's commitment to the indivisibility of the "four freedoms" (goods, services, capital and people), more to point out that they are not intrinsically inseparable.

European Free Trade Association

Countries that are not part of the EU, but are members of European Free Trade Association ("EFTA") have access to the Single Market and accept many of the obligations of EU membership, including contributions to the EU budget and freedom of movement of people[11]. However, EFTA countries are not part of the Customs Union (although they coordinate trade policy with the EU), do not have a vote on EU rule-making, do not participate in all EU regulatory agencies and only accept partial ECJ jurisdiction. They are also outside the EU VAT area and are not bound by the CAP. EFTA is not monolithic: Norway, Iceland and Lichtenstein are part of the European Economic Area ("EEA") and have a common set of arrangements with the EU, whilst Switzerland has series of interlinked bilateral agreements with the EU.

In many respects these are the same, but in some they differ, most notably around freedom of movement of people. While the EEA agreements have an "emergency brake" clause on immigration, in practice this has never been used[12]. In the wake of a November 2014 Referendum that rejected unfettered freedom of movement of people, Switzerland has been testing the willingness of the EU to accept some constraints on EU immigration to Switzerland, including prioritising Swiss citizens for employment and restricting residency for those without employment[13].

For the UK, EFTA offers the advantages of the Single Market without EU membership. However, EFTA membership would leave the UK subject to EU regulation with far less ability to influence it, and as a consequence under partial ECJ jurisdiction without being of the ECJ. Moreover, EFTA membership would entail accepting freedom of movement, at least for those with employment. Thus far the Government has indicated that it does not intend to pursue this route - although the Swiss experience does suggest that a tailored compromise is not impossible.

Leaving the Single Market, but remaining in the Customs Union

Leaving the Single Market but remaining in the Customs Union with an FTA would enable Britain to trade goods with the EU without customs restrictions and to benefit from the EU's trade arrangements with other countries, without conceding freedom of movement of people or full ECJ jurisdiction. This is the model that Turkey has adopted: the Turkish version applies to industrial goods, but excludes services, agriculture and public procurement[14].

---

11 EFTA Official Websitehttp://www.efta.int/eea/policy-areas - http://www.efta.int/faq

12 Within the EEA agreement there are 'safeguard mechanisms' contained in Articles 112 and 113. The grounds for triggering the mechanism are very broadly drawn: "If serious economic, societal, or environmental difficulties of a sectorial or regional nature liable to persist are arising, a contracting party may unilaterally take appropriate measures under the conditions and procedures laid down in Article 113."

13 No quotas in 'compromise' Swiss immigration bill, BBC News, 16 December 2016http://www.bbc.com/news/world-europe-38340407

14 Reinvigorating EU-Turkey Bilateral Trade, The European Parliament, March 2017

Compared to simply agreeing an FTA, remaining in the Customs Union has two advantages. It would reduce frictional costs relating to customs controls since there would be no need for checks on "rules of origin" since there would be common external tariffs. It would also enable the UK to benefit from the EU's established array of trade arrangements and from the EU's negotiating power as the largest economic bloc in securing new trade deals.

However, such an approach would entail a significant degree of conformance with EU regulation (since goods exported to the EU would have to adhere to EU regulations), without input into rule-making, and hence acceptance of some degree of ECJ authority. Furthermore, the UK would surrender the ability to strike trade deals with other countries, undermining the argument that Brexit enables Britain to become more "global". The Government has thus far rejected this option.

Leaving the Single Market and the Customs Union and crafting a Free Trade Agreement with the EU.

In principle, leaving the Single Market and Customs Union and agreeing an FTA with the EU would give the UK tariff-free access to the Single Market for goods (and potentially, services) without conceding control over immigration, trade agreements with other countries, or conceding to ECJ jurisdiction.

However, access to Single Market via an FTA is not equivalent to being a full participant in the Single Market or even to having an FTA within the Customs Union. The Single Market removes non-tariff barriers and extends into services. Being within the Customs Union obviates the need for "rules of origin" checks to ensure goods from other countries are not being routed via the UK to evade EU tariffs. Outside the Customs Union, even the tariff-free movement of goods under an FTA would need customs clearance. Official estimates suggest the possibility of a "fivefold" increase in the number of customs declarations[15], creating substantial incremental costs for both customs authorities and businesses, plus the potential for damaging delays. Moreover, under an FTA, goods exported to the EU will still have to comply with EU regulations that the UK will no longer set.

The scope and specifics of the FTA will be subject to intense negotiation. Retaining anything like the current level of access to the EU market for goods and services would likely require the UK to make significant contributions to the EU budget, accept jurisdiction of EU regulatory agencies (and thus ultimately, the ECJ) and make concessions on intra-EU labour mobility.

The challenge will be negotiating a deal that is acceptable to both sides within the two-year timeframe from issuing Article 50. The UK will need to determine which specific aspects of Single Market access it wants to preserve in return for which obligations to accept. This will require making difficult trade-offs between different sectors and political priorities. For its part, the EU will need to determine which aspects of Single Market access it is prepared to concede in return for securing British agreement to a

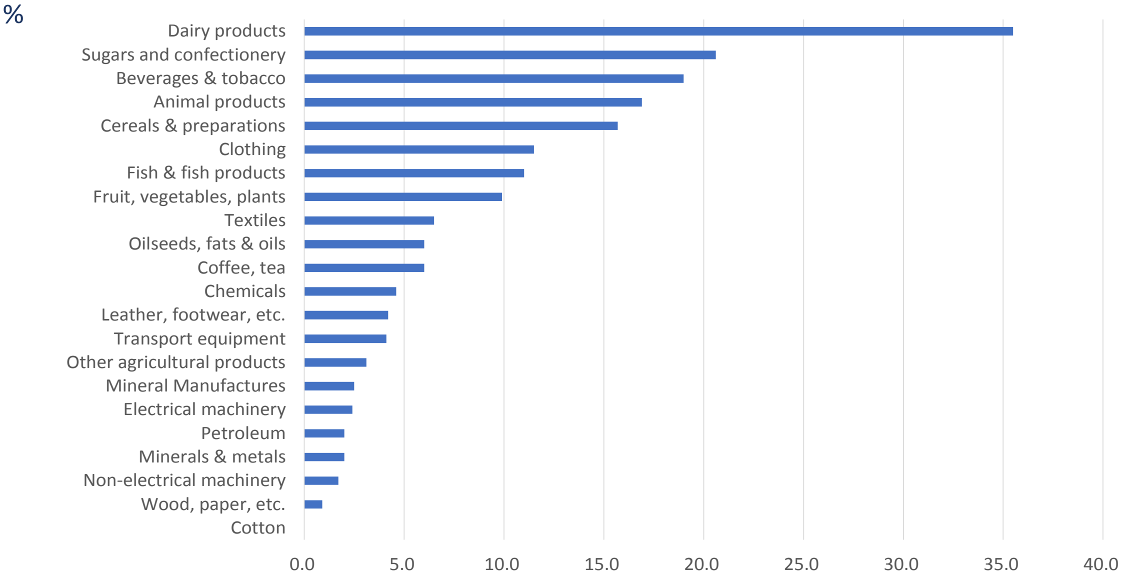
[15]The UK's Future Economic Relationship with the European Union, The Treasury Committee, UK Parliament, 7 February 2017

combination of concessions on financial contributions, migration and regulatory conformance. This will entail reconciling the interests of the European Commission, the European Parliament and each of the 27 member states, all of which have their own priorities, and possess an effective veto on the deal. Since FTA deals typically take 5-10 years to negotiate[16], it is hard to see how this can be accomplished within the two-year Article 50 window.

Leaving the Single Market and the Customs Union and relying on WTO terms for trade with the EU

Leaving the EU without a FTA would entail the UK reverting to WTO MFN terms of trade with the EU. The benefit of this option would be that the UK would in principle secure complete autonomy. However, the risks are substantial. British companies could find themselves shifting almost overnight from seamless access to the Single Market to facing the EU's common external tariff and a host of non-tariff barriers. For example, tariffs of around 10% in the automotive industry would disrupt the highly-integrated supply chains of British car manufacturers, while tariffs of up to 30% in the food industry would render much of British agriculture and fishing uncompetitive. Figure 1 shows a range of average EU import tariffs by product group. In addition, a myriad of rules that effectively discriminate against non-EU products and services would come into play. Since the EU is by far the UK's largest export market such changes would have significant impact on many companies and the economy as a whole. Moreover, since UK exports to other countries often contain EU inputs, trade with the rest of the world would also be affected.

Figure 2 - EU Average Tariffs on Imports by Product Groups, 2015



Source: WTO Statistics Database

[16] CETA: EU and Canada sign long-delayed free trade deal, BBC News, 30 October 2016

The degree of autonomy achieved by taking this route might be less than some anticipate. UK businesses continuing to trade with the EU would still be obliged to comply with EU regulations on product standards, the environment and safety, competition rules, etc., but the UK would have no say over these regulations. The UK's trade and broader commercial policies would be subject to WTO MFN rules and arbitration. This means, amongst other things, that the EU would be unable to lower tariffs for the UK for any sector without applying that new tariff to all WTO trading partners[17].

Nonetheless, the Government has indicated that it is prepared to contemplate this option, on the basis that "no deal is better than a bad deal"[18]. This might make sense as a negotiating stance, but the reality is that this option could cause significant economic damage to the UK and the rest of the EU.

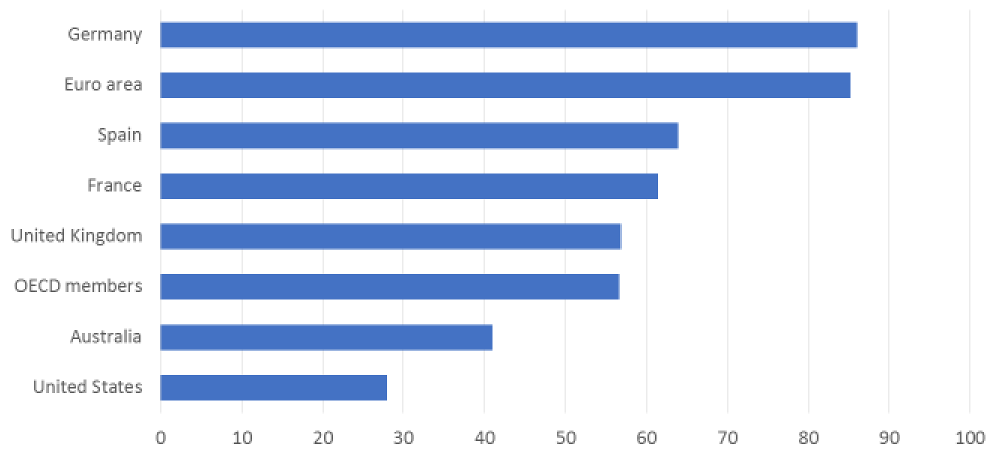
[17] Principles of the world trading system, World Trade Organisation, March 2017
[18] May renews threat to walk away from EU without a deal, The Times, 1 May 2017

4. Trade

If the UK leaves the Single Market, or more precisely, the Customs Union, the UK will be able and obliged to negotiate new trade deals with countries elsewhere in the world. In this section, we discuss the priorities for these trade negotiations from the perspective of the middle-sized companies we interviewed.

A few facts help set the scene. Trade in goods and services is a key driver of UK economic growth and prosperity. As Figure 3 shows, trade is a high percentage of UK GDP in comparison to other major economies such as the United States and Australia, but lower than European neighbours.

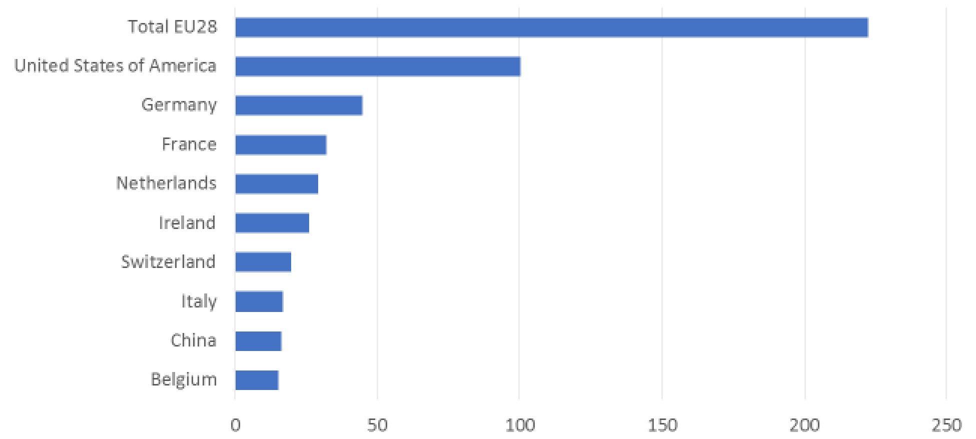
Figure 3 – Trade as a percentage of GDP, 2015
%



Source: World Bank

The UK is particularly strong in services: it is the 9th largest exporter of goods, but the 2nd largest exporter of services[19]. Ranked by country, the US is the largest destination for UK exports followed by Germany, France and the Netherlands as Figure 4 shows.

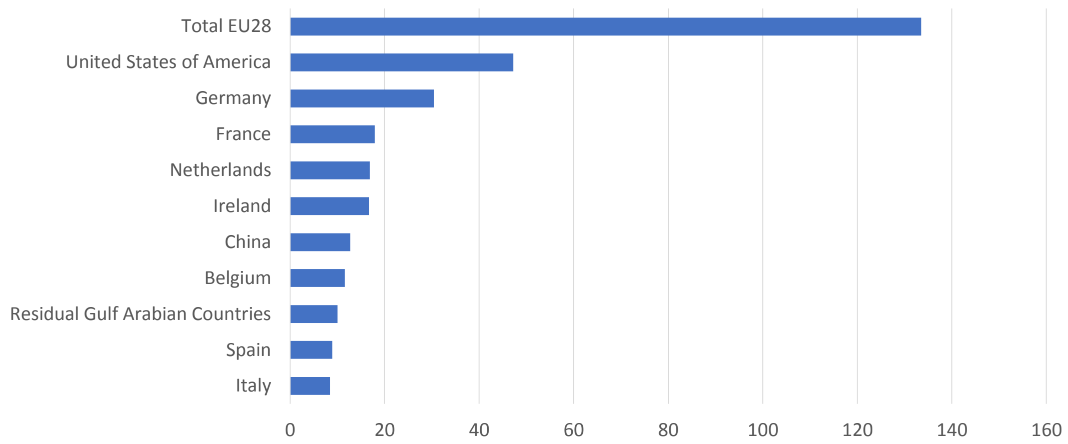
Figure 4 – The UK's top goods and service export destinations, 2015
£bn



Source: Office of National Statistics Pink Book (Geographical break down of the current account)

However, taken as a whole, the EU is the UK's biggest trading partner by far. As can be seen in Figure 5, in 2015 £133 billion of the UK's goods exports went to the EU while £47 billion went to our next largest trading partner, the US.

Figure 5 – UK Goods Exports by Destination, 2015
£bn

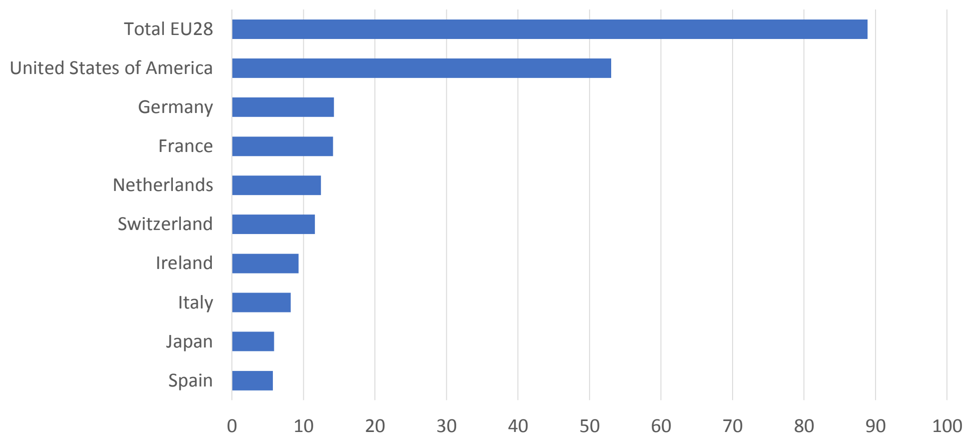


Source: Office of National Statistics Pink Book (Geographical breakdown on the current account)

[19] Commercial service exports data, World Bank, 2015 - http://data.worldbank.org/indicator/TX.VAL.SERV.CD.WT

The UK runs a trade deficit in goods, but a trade surplus in services. As Figure 6 shows, the destination of UK service exports is similar to those of goods exports, with more than half of the UK's top ten trading partners being EU countries.

Figure 6 – UK Service Exports by Destination, 2015
£bn



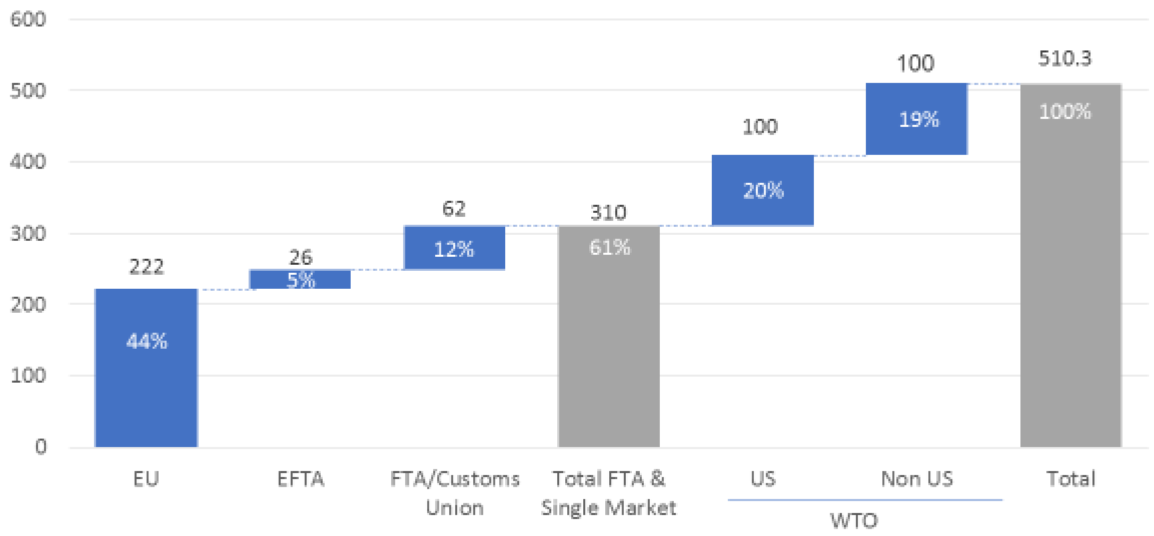
Source: Office of National Statistics Pink Book (Geographical breakdown on the current account)

The value of the UK's exports to the EU have risen by 68 percent between 1999 and 2015 when the relevant trade statistics were first collected[20]. Estimates from the Centre for Economic Performance at the London School of Economics ("LSE") suggest that the trade agreements negotiated by the EU over the past two decades have reduced the quality-adjusted prices of imports into the UK by over one-third[21].

[20] UK Balance of Payments, The Pink Book: 2016, The Office for National Statistics (FY 2015 data)
[21] Breinlich et al., Brexit 2016, The Centre for Economic Performance, 2016

The importance of the EU for UK trade extends beyond the EU itself, given EFTA and the FTAs negotiated by the EU, as Figure 7 demonstrates. 61% of UK exports go to the Single Market or countries with which the UK already has FTAs through the EU; half of the remainder go to the US.

Figure 7 – UK Goods and Services Exports by Market Type, 2015
£bn



NB: FTA/Customs Unions excludes Central American States, Georgia, Serbia and Montenegro where data unavailable

Source: Office of National Statistics Pink Book (Geographical breakdown on the current account)

Trade with the EU the Top Priority

Given that trade with the EU is far greater than with any other part of the world for many major sectors of the economy[22], It should be no surprise that all the companies we interviewed regarded the EU as their most important international market[23]. The overwhelming majority of businesses interviewed emphasised that securing a good deal with the EU, should be the top priority for the Government.

> Hart Biologicals is a manufacturer of medical biologicals in the North East. Hart exports more than 80% of its production, with over three times as much being exported to Germany as to the US. Hart is also dependent on Europe as a source of inputs. As a result, Hart sees a good deal with the EU as a top priority for the UK government.
>
> WB Creative Jewellery is a jewellery manufacturing company based in Newcastle. It primarily supplies the UK market, but also exports to the EU. Europe is the most obvious location for the company to expand exports given its geographic proximity and European consumers' affinity towards UK jewellery styles.

[22] UK export data 2015, The Observatory for Economic Complexity. http://atlas.media.mit.edu/en/
[23] A conclusion also reached by 'The long-term economic impact of EU membership and the alternatives, HM Treasury, 2016 and 'The consequences of Brexit for UK trade and living standards', The Centre for Economic Performance, 2016.

Ledwood Engineering is a firm with operations in Pembrokeshire and the North East that primarily provides equipment and services for major engineering projects in the oil and gas sector. They see the EU as providing the UK with a special relationship with US clients who use the UK as a gateway to Europe.

Europa is a freight business based in Newcastle. 80% of its business involves goods distribution between the UK and Europe; Europa completes around 400,000 European shipments per year.

The Federation of Small Businesses ("FSB") offers businesses' advice, financial expertise, support and a powerful voice in UK government. Research undertaken by FSB on the impact of Brexit on small firms revealed that small businesses that export and/or import are more likely to say that trading with the EU is easier, less costly and better value when compared to non-EU markets. The ease of trading, (this could include paperwork, logistics, language, culture, payment etc.) is the most important factor for small firms, therefore maintaining 'borderless' trade is paramount especially when they are trading on thin margins and with limited resources.

The British Plastics Federation ("BPF") is the trade association representing the UK plastic industry with over 500 members across the plastics industry supply chain, representing over 80% of the industry by turnover. Europe is the largest market for British plastics as well as the largest source of plastics imports. Securing a good deal with the EU is therefore their top priority.

The British Retail Consortium ("BRC") is the trade association for the UK retail sector. About 70% of the imported food that we sell in the UK comes from the EU. From the BRC perspective, securing a good deal with the EU to minimise disruption to these trade flows will be crucial to the retail sector and consumers.

The Chemicals Industry Association ("CIA") is a trade association representing the chemical and pharmaceutical industry. The industry in the UK is the 4th largest in Europe and represents companies with an annual turnover of £500 billion.The Brexit committee within the CIA identified tariff free access to the single market as a key priority for the UK government heading into the Brexit negotiations.

Almost all the companies we spoke to expressed a preference for remaining in the Single Market and Customs Union. If this proves unachievable, most firms expressed a strong wish to see agreement on an FTA with the EU that replicates the Single Market's relatively frictionless trading arrangements as far as possible. In our interviews, most firms did not distinguish between and FTA within the Customs Union and an FTA outside the Customs Union: the differences appear to be not widely understood.

> Structure-flex is a Norfolk based firm specialised in the use of PVC and high frequency fabric welding technology. Structure-flex is highly integrated into global supply chains with 75% of its inputs imported and 60% of sales exported. Structure-flex is familiar with the existing business environment in terms of tariffs and regulations and fear any changes will only increase their costs. It would like to see the UK remain in the Single Market and Customs Union.
>
> Purico is one of the biggest private family enterprises in the UK and employs more than 3,000 people worldwide in the Automotive, Care, Construction, Hotel & Leisure, Investment, Paper and Property sectors. Purico fears leaving the EU will damage its business and hopes that the future trading agreement will replicate as many existing benefits as possible. Purico is particularly concerned that any future free trade agreements don't sacrifice manufacturing to support the services sectors.
>
> The Pension and Lifetime Savings Association ("PLSA") are the voice for UK workplace pension schemes and business members such as asset managers. The PLSA emphasised that to maintain the success (and solvency) of pension funds companies must have efficient access to global markets, and avoid transaction cost increases that inflate risk levels
>
> The Environmental Services Association are the established trade association for companies providing waste management and related environmental services. They told us that remaining in the Single Market or Customs Union is the best option for the UK. If this proves impossible to achieve, an FTA allowing for tariff free trade to maintain as much of the current operating processes as possible.

Most companies we interviewed expressed concerns about the potential impact of tariffs and customs controls on their costs and competitiveness should the UK leave the Single Market.

> Europa estimates that customs costs could double if the UK leaves the Customs Union. This would lead to £15 a consignment charges for customs clearance on exports, and £45 a consignment on imports. These charges will come before tariffs, adding significantly to the costs of shipping. In addition, the customs clearance process could delay shipping times by up to 24 hours. Despite these costs and delays, Europa remains optimistic that these losses could be offset by an expansion in trade with China and growing East Asian economies who view the UK as a 'safe haven' in Europe.
>
> Munro Instruments is a small company with 8 employees specialising in meteorological equipment, air sampling equipment and forensic instruments. Munro worries that leaving the Single Market would increase their input and export costs as a result of customs controls and tariffs.

Penderyn Whisky is a small whisky distillery employing 50 people in South Wales. Penderyn expressed the view that for low margin, high volume businesses any increase in costs through tariffs or customs controls would risk making them uncompetitive. Luckily for Penderyn, whisky is a relatively high margin business, better insulating the company from such threats.

Increased trading costs are a particular concern for businesses in Northern Ireland ("NI"), which are often highly integrated into the Irish economy, with many products crossing the border several times during the manufacturing process[24].

The Local Enterprise Agency in Newry and Mourne border region in Norther Ireland houses around 160 businesses providing business start-up support and growth support. The agency identified Brexit as a significant concern for many local businesses. They highlighted the potential challenges for Warrenpoint harbour, the second biggest port in Northern Ireland: almost half of the traffic through Warrenpoint goes to the Republic of Ireland.

Several trade associations were particularly worried at the prospect of the UK leaving without securing an FTA and thus defaulting to the WTO's most favoured nation status, since this would lead to a sharp increase in tariffs and non-tariff barriers for companies in some sectors exporting to their largest markets.

The Pension and Lifetime Savings Association expressed concern about the government failing to strike a deal at the end of two years, and the UK ending up with 'no-deal' WTO environment. This could trigger a major economic shock with severe consequences for both defined benefit and defined contribution pension provision.

Hart Biologicals has made contingency plans for sourcing many of their raw materials, but is still concerned about the impact of tariffs on the prices for high-value imported materials such as blood plasma, blood platelets and ristocetin. Hart's margins are already relatively low, given hospitals' efforts to control costs. Since most of Hart's products are exported to the US and Europe, the combination of tariffs on imported inputs and the exported final products could cause problems for the company.

The Association of British Travel Agents ("ABTA") is the UK's largest travel association, representing travel agents and tour operators that sell £32 billion worth of holidays and other travel arrangements each year. ABTA is particularly worried about the UK leaving the EU without securing an agreement on aviation with the EU and other major markets. Aviation is excluded from the General Agreement on Trade in Services and so the UK must negotiate new aviation agreements outside of the WTO on a bilateral basis.

[24] Northern Ireland and the Disunited Kingdom, The New York Times, 28 February 2017

Seamless access to the EU market is also perceived as important in attracting international skills and investment to the UK. This is important to many smaller British companies, since they are suppliers to major international players that have established operations in the UK.

> Jellyfish is a digital agency based in the UK with operation in the US and South Africa employing 120 staff in US, 120 in UK. It sees UK membership of the EU as important in providing the UK with a special relationship with US clients who use the UK as a gateway to Europe. Even just the perception that business with the EU will become harder from the UK might be enough to deter some US clients from investing.

> Hydrogen is a leading global recruitment agency, with a large UK operation, focused primarily in the life sciences, legal, technology, finance and energy sectors. Hydrogen believes that the impact of an impending Brexit and the uncertainty that it brings means that it's naturally getting harder for UK employers to attract EU citizens to their businesses. This is further increasing the skills gap in the UK.

> Norwich Research Park is a community of over 75 businesses, 3000 scientists, researchers and clinicians based outside of Norwich. Norwich Research Park believes that businesses see the UK as an English-speaking foothold in Europe with a good reputation for doing business, that can act as a launchpad for other operations on the continent.

Striking Trade Deals Elsewhere

Many commentators have mentioned that leaving the Single Market and Customs Union will give the UK the opportunity to negotiate new trade deals that more closely reflect British priorities and that focus on the fastest growing economies in the world, such as China and India. Some companies were attracted by the prospect of new markets.

> The University of Greenwich is a university with three campuses in London and Kent. The University told us that universities are moving into new markets to attract foreign students including China, India and Nigeria, which are the three top markets for non-EU students studying in the UK. However, EU students make up half of all international students and will likely remain the major source of foreign students for the foreseeable future.

> Tangerine is a design consultancy based in London with 31 employees, which exports 80% of its work outside of Europe, primarily to Japan, Korea and China. Tangerine would like to see the UK government prioritise China, South Korea, Japan and India as potential growth markets for design services given the strong growth in manufacturing and infrastructure development in these countries.

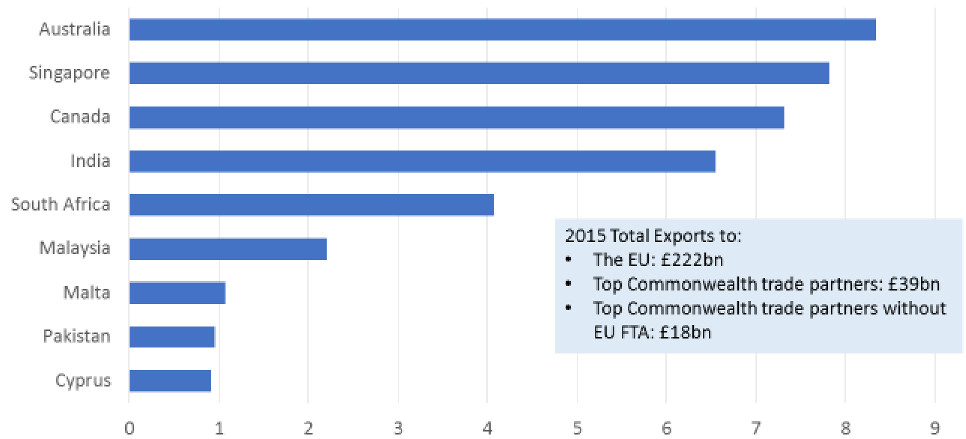
However, all the businesses we spoke to were highly sceptical about the potential to replace unfettered access to the EU with growth elsewhere. Companies pointed to the fact that most of the UK's major export markets outside the EU, such as the US, Canada and Korea have no tariffs or relatively low tariffs already as a result of EU FTAs and other trade arrangements.

Some suggested the UK could seek to increase exports to Commonwealth countries, but recognise that current export volumes with Commonwealth partners, as shown in Figure 8, amount in total to less than a quarter of the £222 billion the UK exports to the EU. Moreover, the UK can already benefit from FTAs with two of the top four Commonwealth trading partners, Canada and Singapore.

> The Chemicals Industry Association believes the EU-Canada Comprehensive Economic and Trade Agreement is the best trade agreement that the EU ever struck and should be used as a model for future British agreements. It will eliminate 98% of tariffs, delivering around £130 million savings for UK chemicals businesses annually

Put another way, to compensate for a 5% reduction in trade with the EU, the UK would have to increase trade volumes with the top ten Commonwealth trading partners by around 28%.

Figure 8 – UK Goods and Services Exports to Top Commonwealth Trade Partners, 2015 £bn



NB: ONS data only available for selected Commonwealth countries

Source: Office of National Statistics Pink Book (Geographical breakdown on the current account)

Both companies and trade associations emphasised the importance of retaining and building on current trade arrangements with major non-EU trade partners. Since the UK's trading arrangements with many of its major trade partners are secured through FTAs negotiated by the EU or underpinned with multiple agreements on non-tariff barriers agreed at an EU level, it is essential that these are replaced or enhanced. The US is the top priority on this context, given that it is by far the largest trade partner after the EU.

Some of the companies we spoke to suggested that an FTA with the US represents a significant potential upside from Brexit. From this perspective, the UK will be able to negotiate a deal much more swiftly and effectively than the EU has thus far achieved with the Transatlantic Trade and Investment Partnership ("TTIP"), since the Government will no longer have to accommodate the different interests of the other 27 EU member states.

However, current goods tariffs between the EU and US average only 2.5%, limiting the potential upside from a FTA focused on tariff barriers. Most of the value from a new US trade deal will arise from reducing non-tariff barriers, particularly on services, which as the protracted negotiations on TTIP demonstrate, is much more difficult to achieve.

Furthermore, negotiating a new trade agreement with the US will open up challenging questions across a number of sectors on both sides of the Atlantic. For example, agriculture is the sector with highest tariffs. Reducing these tariffs might benefit consumers, but would have a profound impact on UK farmers. Moreover, US farmers are likely to want to challenge current EU restrictions on the import of genetically modified foods and meat produced with the use of antibiotics for growth enhancement. Conceding on these points would require a reversal of UK policy.

In the automotive sector, US cars currently face a 10% tariff when exporting to the EU, while EU cars face a 2.5% tariff when exporting to the US, so US manufacturers will understandably want to see a sharp reduction in tariffs to export to the UK. However, this will be difficult to reconcile with the UK's need to maintain near friction-free trade with the rest of the EU in the automotive sector, since UK plants would then be able to import US components at lower rates than the rest of the EU. In a similar vein, US manufacturers will be wary of the prospect of European car manufacturers exporting cars with high EU content to the US from the UK.

In healthcare, the US pharmaceutical industry will likely try to use negotiations around an FTA to weaken the ability of the National Health Service to secure lower prices for prescription drugs. Arguably, this would be politically impossible for the Government to concede.

The point is not that it will be impossible to negotiate an FTA with the US, but that it will inevitably involve difficult trade-offs and take time. Moreover, such an FTA will not remove many of the challenges that UK companies face in doing business in the US, many of which relate to regulatory issues at a state level.

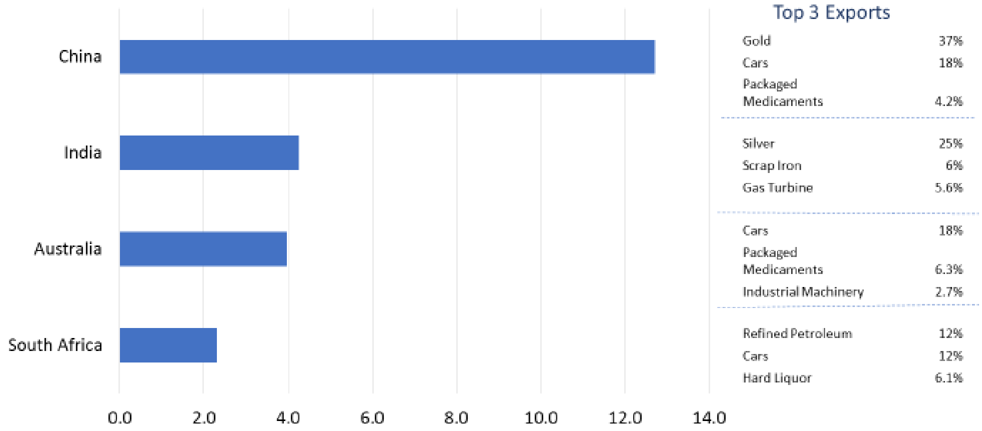
> Jellyfish told us about the difficulties they have had opening new offices in the US for their digital agency. Regulatory divergence between US states requires them to register an office opened in Baltimore separately from one opened in California, a costly and time-consuming process. No trade agreement will be able to overcome internal regulatory barriers of this sort.

Ensuring continuation of current trading arrangements with major markets is not assured or automatic. Some countries may try to alter the terms of trade, not least because the UK, as a smaller market than the EU as a whole, has less bargaining power. Moreover, leaving the EU may create complications around local content rules, since the test will now be applied at the level of the UK rather than the EU. This is particularly important in industries that have developed highly integrated supply chains across Europe, such as car manufacturing.

> The Society for Motor Manufacturers and Traders is the trade association for the UK automotive industry. They described how the auto industry has successfully exploited the Single Market potentially more than any other sector. UK cars have (on average) 41% UK content, and 59% overseas content, of which two-thirds is from the rest of the EU. Leaving the Single Market will not just make it more difficult to trade competitively and have frictionless customs procedures, but also to meet local content tests though Rules of Origin requirements since these are currently applied at the EU level, rather than just for the UK
>
> The Federation of Small Businesses argued that small firms that operate as part of global supply chains are often a 'hidden' factor which will need to be seriously considered if cross-border trade is made more complex or difficult.

The companies and trade associations we interviewed welcomed the new emphasis on securing FTAs with high potential, high growth markets that are currently less well penetrated by UK exporters. However, they also highlighted the limits to the potential of such opportunities, given scale, distance, pervasive non-tariff barriers or simply lack of demand for UK goods. To offset a small reduction in trade with the EU would require a massive increase in trade with such countries. For example, trade with India would have to increase by more than 170% to offset a 5% fall in exports to the EU[25].

Figure 9 – Top 3 UK Goods Exports to Selected High Potential Markets, 2015 £bn



Source: Office of National Statistics Pink Book (Geographical breakdown on the current account) and UN COMTRADE

[25] UK Balance of Payments, The Pink Book: 2016, The Office for National Statistics (FY 2015 data)

Furthermore, increasing UK exports to these high potential countries is unlikely to be straightforward. India is a good example. Whilst one of the most rapidly growing economies of the world, India currently represents only 1.3% of UK exports. Moreover, gold represents 23% of the UK exports to India, reflecting London's leading role as a bullion marketplace rather than British strengths in manufacturing or services. Goods exports to India are hampered by high tariffs, often over 35% once all additional taxes are included[26], and multiple non-tariff barriers. Services exports face multiple impediments in many key sectors, including financial services, legal, education and aviation. Securing an FTA with India will likely prove challenging, as none of India's three largest trading partners, the EU, China and the US have managed to secure a FTA. The EU is India's largest trading partner accounting for 13.5% of India's trade, ahead of China and the US at 10.8% and 9.3% respectively[27]. Yet EU/India FTA negotiations have stalled repeatedly. Thus far only 13 of the 28 FTA negotiations launched by India have been signed, predominantly with countries from the Association of Southeast Asian Nations ("ASEAN")[28]. The UK represents India's 5th largest export destination with annual goods and services exports totalling £6.5 billion in 2015[29]. As such, the UK is India's top export destination within the EU, representing 17% of the total. Bilateral FTA negotiations with India will have to surmount a number of difficult issues, not least immigration, since India is likely to seek enhanced visa arrangements for India citizens wanting to work in the UK.

China is another example where bullion is the largest component of UK exports, with gold representing 37% of total goods exports[30]. The UK's limited success in exporting goods to China appears to have little to do with being in the EU. While exporters to China face significant tariff and non-tariff barriers, other EU countries have done better than the UK. Germany, for example, has exports to China amounting to over £72 billion. Here the issue seems to be more about familiarity with the market and the underlying competitiveness and appeal to Chinese customers of British products.

> The British Plastics Federation ("BPF") suggested that UK plastics companies' interest and investment in expanding into Chinese markets is often limited. BPF run a pavilion at the China plastics fair events year and suggested that in comparison to German firms, there were very few British firms represented at the trade fair.

[26] A guide for British businesses interested in selling goods and services to India, UK Government, 12 November 2016
[27] Trade Policy with India, The European Commission. http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/index_en.htm
[28] International Trade Agreements, India Department of Commerce. http://commerce.nic.in/trade/international_ta.asp?id=2&trade=i
[29] UK Balance of Payments, The Pink Book: 2016, The Office for National Statistics (FY 2015 data)
[30] UK export data 2015, The Observatory for Economic Complexity. http://atlas.media.mit.edu/en/

> The Federation of Small Business said that many small firms appreciate the high economic potential of certain emerging markets, especially China and India. However, these markets can also be perceived to be more challenging to enter. With the right support, small firms can capitalise on new opportunities to trade with non-EU markets (for example, by targeting support for specific markets the UK wants to prioritise FTAs with, and through incentives such as export vouchers and tax credits)[31].
>
> The Creative Industries Federation ("CIF") is the national membership organisation bringing together all of the UK's arts, creative and cultural education industries. The companies and institutions within the creative arena are extremely diverse, ranging from museums and libraries to fashion and the performing arts. The CIF noted the difficulties in exporting creative products to some territories arising from challenges in protecting and enforcing intellectual property rights.

The companies we interviewed also discussed the scope to negotiate new trade agreements that are better tailored to UK needs. Whereas EU trade agreements reflect a compromise across different EU members' priorities, in principle, UK trade negotiators could put greater emphasis on securing market access in sectors where the UK has particular strengths in exchange for conceding greater access to UK markets in sectors that are less strategic for the UK. For example, the UK might be prepared to reduce tariffs on agricultural imports in order to achieve greater access on services. However, such decisions would have significant ramifications. While some have argued that abandoning the EU's protectionist policies towards agriculture would lead to significant reductions in food prices and substantial welfare gains for British consumers[32], such a step would also have a dramatic impact on British farmers and food producers, and by extension, rural communities.

Supporting Trade More Effectively

Many of the companies and trade associations we spoke to thought Brexit might have a positive impact, simply because it forced British policymakers to put greater focus on the importance of trade. Some remarked that they were already seeing more focus and action on non-tariff barriers, particularly in services, and on broader shortcomings in British companies' competitiveness. They highlighted the importance of harmonising standards and regulation and mutual recognition of credentials and of enhancing support to smaller companies seeking to enter new markets. While many of these issues could in principle have been tackled without leaving the EU, companies welcomed the Government's apparent intent to support trade more effectively. The importance of helping smaller companies access new markets came up in many of our interviews. Small companies can find it expensive and difficult to develop market knowledge and relationships and to navigate foreign regulations and tendering processes. Some businesses suggested they need stronger support from the Government.

[31] Keep Trade Easy: What Small Firms want from Brexit, Federation of Small Businesses, March 2017
[32] Minford, Brexit and Trade: What are the options? Economists for Brexit, 2016

> Ledwood Engineering described that even though there are few formal barriers to trade with Europe, Ledwood have struggled to sell services on the continent in part because they lack the personal relationships and familiarity with the tendering processes at major European firms.
>
> The Creative Industries Federation pointed to the importance of business networking at the local level as a facilitator of trade in services. The EU provides support for such company level interactions which is critical in helping exporters understand local contexts. This is one of many ways in which the UK's arts and creative industries have been supported through various EU funding streams that have encouraged exports, helped drive innovation in small businesses, finance regional infrastructure projects and stimulated cultural exchange.

The companies we spoke to had mixed views on the scope to increase manufactured exports.

> Purico suggested the competitiveness of UK manufacturing was hampered by high energy and land costs as well as limited access to finance. As a result of this, Purico has been unable to expand its UK manufacturing operations. Purico has however expanded its operations in Germany and Hungary, where costs are cheaper and access to the EU market is guaranteed.
>
> The Agricultural Engineers Association is optimistic about the prospects for manufacturers and exporters of agricultural machinery and outdoor equipment. As an example, they identified increasing Chinese demand for British agricultural technology. British companies' capabilities remain ahead of Chinese technological developments in this arena so they can expect a sustainable competitive advantage.

The most significant way in which the Government can support trade more effectively will be to negotiate good trade agreements. However, several firms and trade associations expressed concerns about the Government's capacity to negotiate new trade deals effectively and rapidly. Even with perfect execution, new trade deals may take significant time creating costly disruption and uncertainty in the interim. For example, the EU/Canada FTA took 7 years to negotiate.

> Quicke's Cheese is a small cheese business with a turnover of £3.5 million that exports 40% of its cheese, mostly to Australia and the US. It stressed concerns about the Department for Rural Affairs' ("DEFRA") negotiating capacity since agricultural policy and trade arrangements have been led by the EU for the last 40 years.

Yet some companies and lobbying groups are optimistic that not only will the UK be more able to negotiate deals better suited to Britain's interests, but will be able to do so more quickly since it will no longer be necessary to secure agreements with the other 27 member states and the European Parliament[33]. On the other hand, the UK is likely to have significantly less bargaining power in new trade negotiations than the EU, given its smaller size[34]. Companies are also aware of the practical constraints on the UK's ability to replace existing trade deals and negotiate new arrangements. Since the EU has taken the lead on trade negotiations for the last 40 years, the UK has been building negotiating capacity from scratch since the Referendum[35].

It is worth noting that a few companies suggested British business could find growth in import substitution as well as growing exports. This opportunity might arise as a result of increased trade barriers which would reduce the competitiveness of products from the EU. In this case, the interests of British companies may not align with the UK as a whole. While increased trade barriers with the EU may enable British companies to increase share or enhance margins in the UK domestic market, this could be at the expense of British consumers. Yet exploiting import substitution opportunities of this kind may catalyse the development of new competitive strengths by British businesses.

> Princes Gate is a bottled water producer based in Pembrokeshire. It anticipates a potential opportunity for an increase in UK sales after Brexit due to a change in consumer preference away from imported brands and towards British brands.

Many companies also argued that in the short term, the depreciation of sterling had improved the competitiveness of UK exporters. On the other hand, some British companies that depend on imports are facing the prospect of sharp price increases.

> Ledwood Engineering indicated that the depreciation of the sterling had already enabled them to win a contract with a European client it would not have otherwise won.
>
> WB Creative Jewellery described the movement in the exchange rate as the most significant effect of Brexit to date. It has given the company the competitive advantage required to move the manufacturing of some lines of precious jewellery back to the UK from China.
>
> Crowdsurfer is an independent crowd finance data company. Crowdsurfer said weaker sterling could be an opportunity to win new market share in overseas markets with more competitive pricing.

---

33 Ordinary legislative procedure explained, European Parliament. http://www.europarl.europa.eu/aboutparliament/en/20150201PVL00004/Legislative-powers

34 Dhingra, Ottaviano, Sampson & Van Reenen, 'The consequences of Brexit for UK trade and living standards', Centre for Economic Performance, 2016

35 T. Sampson, Four principles for the UK's Brexit trade negotiations, LSE, 2016

> The Environmental Services Association is the trade association for the UK's resource and waste management sectors. The fall of sterling has led to increased costs for members seeking to treat waste in European facilities under Euro denominated contracts. This is a concern to members of the association as three million tonnes of waste material are exported to the EU for treatment each year.

Some companies took a pragmatic and positive attitude towards the changes that may result from Brexit.

> A technology based start-up commented: "who knows what regulation will do to exporting, but I think a typical entrepreneurial spirit would indicate that you just have to crack on and assume that you'll work out how to deal with any complications down the line!"

Reinforcing Trade in Services

Many of our interviewees raised the importance of enhancing trade in services given UK strengths in key service sectors, such as financial services, business services such as law and consulting and the creative industries. While there are typically few formal tariff barriers to trade in services there are often a multitude of non-tariff barriers such as regulations on local qualifications, local presence, foreign equity limits and compliance with local standards. While the Single Market is far from seamless in services, significant progress has been made to facilitate provision of services across the EU.

> The Creative Industries Federation reports that the EU Professional Qualifications Directive has helped advance trade in services by allowing British creative professionals such as architects to practice in Europe without having to obtain additional qualifications.

Many of the service companies we talked to welcomed the Government's increased focus on negotiating further deals to facilitate trade in services. However, they acknowledged that achieving progress on such types of agreement can be very difficult because there are fewer precedents, it can be hard to liberalise incrementally and it is difficult to quantify reciprocity. Moreover, obtaining data for enforcement is more problematic than with goods. Overcoming non-tariff barriers to trade in services requires even more detailed and complex agreement clauses than the typical FTA (the proposed TTIP between the US and the EU being perhaps the best example). Developing such agreements will be resource intensive, and will require the Government to make difficult decisions in politically sensitive areas such as the provision of healthcare services, media and data privacy regulation.

KEY FINDINGS
TRADE

Britain's businesses want a Brexit that enables trade, not stifles it. Given that roughly half of the UK's trade is with the EU, it should be no surprise that the top priority for almost every business is getting the right trade deal with the EU. Almost all businesses we interviewed expressed a preference for remaining in the Single Market and Customs Union. If these options are unavailable, firms expressed a strong preference for a free trade agreement ("FTA") that replicates the Single Market's relatively frictionless trading arrangements for goods and services as far as possible.

All the companies we spoke to expressed concern about the potential impact of increased tariffs, no tariff barriers and customs controls on their costs and competitiveness should the UK leave the Single Market. Many were particularly worried at the prospect of the UK leaving without a deal and thus defaulting to the World Trade Organisation's ("WTO") Most Favoured Nation ("MFN") status since for many this would lead to a sharp increase in tariffs and non-tariff barriers when exporting to their largest market.

Companies recognise that leaving the Single Market and Customs Union would give the UK the opportunity to negotiate new trade deals that more closely reflect British priorities and that focus on the fastest growing economies in the world. However, the businesses we spoke to were highly sceptical about the potential to replace unfettered access to the EU market with growth elsewhere. 61% of British goods and services exports go to the Single Market or to countries with which the UK already has an FTA via the EU; half of the remainder is represented by the US. Companies pointed to the fact that most of the UK's major export markets outside the EU, such as the US, Canada, Switzerland and Korea already have relatively low or no tariffs as a result of EU FTAs and other trade facilitation arrangements, such as Mutual Recognition Agreements ("MRA"). There is therefore limited potential for Britain to become more competitive in these markets as a result of tariff reductions. They emphasised the importance of retaining these advantages. While welcoming the efforts to secure FTAs with smaller, more distant markets, they also highlighted the limited potential of such opportunities, given scale, distance, pervasive non-tariff barriers or lack of demand for UK goods. Put simply a massive increase in trade with such countries would be needed to offset a small reduction in trade with the EU.

However, many of the firms we spoke to thought Brexit could have some positive impact by focusing policy attention on other impediments to trade, particularly non-tariff barriers in services, and on broader shortcomings in British companies' competitiveness. They highlighted the importance of harmonising standards and regulation, of mutual recognition of credentials and of enhancing support to smaller companies seeking to enter new markets. To illustrate the importance of enhancing the underlying competitiveness of our industries, some pointed to the fact that Germany already exports almost four times as much to China as does the UK[1], despite facing the same tariff and non-tariff barriers. Lack of familiarity with the market, competitive shortcomings and the limited appeal to Chinese customers of some British products have held back British exporters. Companies acknowledged that while most of these impediments to increased export success could in theory have been addressed without leaving the EU, Brexit gives tackling them new urgency.

5. Regulation

A huge body of EU regulation is embedded into UK law from the EU. The House of Commons Library estimates that up to 50% of UK legislation "with a significant economic impact" originates from EU legislation[36]. EU originated regulation includes both industry specific regulations, such as in financial services or pharmaceuticals, as well as more general regulations covering issues like, labour, health and safety and environmental protection.

The Risk of Increasing the Regulatory Burden

Companies want Brexit to lead to streamlined regulation, not more regulation. Yet when talking about their own business and industry sector, none of the firms we spoke to expect a regulatory "windfall", despite the claims of many proponents of Brexit. Indeed, many firms expressed concern that Brexit would paradoxically result in British companies facing an increased regulatory burden. If British regulations diverge from EU standards, companies that export to the EU will now have an additional set of regulations to comply with. We also heard repeated concerns about the potential costs of navigating new immigration rules on employing EU citizens.

British companies do not expect to see significant benefits from reduced regulation following Brexit. While there may be some opportunities to adapt regulations to the UK's particular needs and priorities, as discussed below, companies do not believe that whole swathes of EU regulation can be repealed. Since the UK has had significant influence in determining EU regulatory standards, in most cases these are close to what the UK would have established in any case.

In fact, firms are more concerned that Brexit will increase the burden of regulation. Most internationally active companies are going to have to continue to comply with EU regulations since it is their largest export market. To the extent that British regulations are different, firms will face the cost of having to comply with another set of rules. The Great Repeal Bill is designed to ensure EU regulations are incorporated into UK law from the date of Brexit. As the Government has put it, this legislation "will preserve all the laws we have made in the UK to implement our EU obligations"[37], thus serving to "freeze" EU regulation in UK as of 29 March 2019. However, there appear to be at least two significant problems with this approach. First, the Great Repeal Bill can only confirm the continued validity of existing EU regulation from a UK legal perspective. Many trade-related regulations rely on reciprocal recognition across the EU which cannot be assured once the UK has left. This will be need to be achieved through explicit agreement with the EU. Second, the pace at which regulations change mean that UK regulations will rapidly diverge from those of the EU, unless there is a deliberate effort to maintain alignment. From week one of Brexit, UK regulations will start to diverge from EU regulations. Companies accept that they may be areas where such differences are justified, but they also fear that some differences will occur simply as a result of issues of regulatory capacity and process.

---

[36] Brexit: Impact across policy areas, The House of Commons Briefing papers CBP-7213, 26 August 2016

[37] Legislating for the United Kingdom's Withdrawal from the European Union, UK Government, 15 May 2017

The optimal balance between alignment with EU regulations versus deliberate deviation will vary by sector. In some industries, such differences may be desirable or relatively unimportant. However, in industries with highly integrated supply chains, or where the EU market is particularly important, such as automotive, aviation and pharmaceuticals, the costs of complying with multiple regulatory standards make close alignment an imperative. The challenge here is that the UK will no longer have direct influence over the determination of the regulations it seeks to align with. In these cases, the UK may find that it has become a “rule-taker” rather than a “rule-maker”.

> Structure-flex fears additional costs from compliance with new sets of regulations and from tariffs. Given their current integration into the EU market, all products will continue to comply with EU regulation even if the UK leaves. Any reduction in regulations for the UK market would have little difference on manufacturing practices and would add the additional costs of monitoring multiple sets of regulations.
>
> Munro Instruments suggested that leaving the Single Market would result in increased paperwork and bureaucracy from having to comply with multiple sets of regulations. This would lead to increased costs which would ultimately be felt by the consumers.
>
> The Federation of Small Businesses argued that the main concern of small businesses following Brexit will be to avoid any short-term discontinuity in the small business regulatory framework as the UK exits the EU and in the immediate aftermath. Significant problems could be incurred by smaller firms due to regulatory uncertainty caused by ‘gaps’ emerging in the regulatory framework. However, small businesses also anticipate opportunities for improving the regulatory environment, and engaging more directly in international fora.
>
> The Chemical Industries Association described the existing body of EU regulations, which includes the Registration, Evaluation, Authorisation and Restriction of Chemicals framework (“REACH”), as critical to companies operating in the UK. These companies would be keen to avoid the costly dual regulatory burden which would arise should the UK divert from the existing REACH guidelines.
>
> The City of London is the local authority with responsibility for the financial district. In order to protect the financial services London exports to the EU, they would like to see as much harmonisation with EU regulation as possible. Ideally this would involve the UK maintaining passporting rights, though short of this, recognition of “mutual equivalence” in financial services regulation would be another option.

> The Agricultural Engineers Association (AEA) is the trade association representing agricultural engineers. The AEA argued that many of the technical standards in this arena are international and are unlikely to change as a result of Brexit. They highlighted that common standards reduce the paperwork and bureaucracy of doing business so creating distinct UK standards would add costs.
>
> The British Plastics Federation described how the plastics industry is looking for regulatory equivalence with the EU so that exporting companies do not have to comply with two different sets of regulations.

Given the ongoing importance of EU regulations to their businesses, many firms expressed concern about the loss of influence on EU rule-making, which many British firms will continue to have to comply with (including firms which do not export directly to the EU, but are suppliers to larger companies that do). Without the British Government at the table, EU rules are less likely to evolve in ways which suit British business, making it more likely that UK regulations will need to be different. Companies also expressed concerns about the quality of future regulation, with many businesses identifying the UK as a positive influence on the European regulatory process.

> The British Retail Consortium suggested that the UK has had a positive influence on EU regulation as it tended to be more consumer facing, competition-oriented and liberal than other governments. They now worry the UK will no longer be able to exert this influence, even if it remains in the Single Market. They hear from Norwegian colleagues who say they have their rules sent to them via what they call ‘Fax Diplomacy’, and have to put enormous resources into having any influence on decisions.

Another concern we heard expressed relates to the devolved administrations. At present, EU law prevents significant divergence between regulations, standards and policies across England, Scotland, Wales and Northern Ireland. After Brexit, the devolved administrations will have the legal power to devise distinct regulations. While this might enable regulations to be tailored to the specific needs of the different parts of the UK, it could also lead to a significantly increased regulatory burden for some businesses.

> The British Retail Consortium told us that after the Great Repeal Bill the transfer of powers to the devolved administrations might lead to each government trying to do different things. British Retail Consortium members believe that regulatory divergence within the UK is a significant risk for companies and could lead to significantly increased costs.

EU laws help to prevent companies paying double tax when conducting business across the EU. Legislation that prevents double taxation includes a range of mechanisms such as the EU Parent Subsidiary Directive that provides relief from withholding taxes on dividend payments. Perhaps most important to British businesses engaged in importing or exporting with the EU are the arrangements around indirect taxation: being within the VAT area ensures consistent, streamlined treatment for goods and services supplied across the EU, avoiding double burdens or arbitrage. Service providers benefit from the Mini-One–Stop-Shop (MOSS) system that avoids companies providing services across multiple member states having to register in multiple jurisdictions[38]. Thus far, it has looked as if the UK will leave the EU VAT area following Brexit, which would mean significant changes to these arrangements.

> SkyBet said EU legislation prevents them paying double VAT on services. To continue successfully exporting betting services it is seeking assurance from the UK government that these arrangements will remain in place.
>
> ABTA worries about the disappearance of the Tour Operators Margins Scheme which helps tour operators avoid the obligation to register for VAT in each member state and simplifies VAT arrangements for operators that work across multiple jurisdictions.

The Quality of EU Regulation

Contrary to much of the media and political commentary, the majority of businesses we interviewed were broadly satisfied with current regulatory approaches directly affecting their business and industry sector. While it is always possible to find examples of specific aspects of regulation that might seem overly burdensome or inappropriate, and all those we spoke to were familiar with anecdotes of unnecessary EU regulation, none of the businesses or trade associations we interviewed expected a significant benefit from the elimination of EU regulations. In fact, many highlighted the overall quality of EU regulations and rulemaking processes, claiming that the process of securing input and agreement from 28 member states usually helped weed out poor quality regulation. To our surprise, we were more often told about specific regulations firms wanted to retain, than regulations they wanted to get rid of.

> Osborne, a construction business, expressed concern that the regulatory environment post-Brexit may deteriorate, as the quality of EU regulation was typically high. In its view the UK tends to over legislate in the construction sector and recent major pieces of legislation, such as the Bribery and Competition Act and the Modern Slavery Act, had good intent but were challenging to implement. The EU on the other hand is more careful in drafting regulations. The EU rule-making process involves 28 countries disputing the details, which is painful, but ultimately ensures high quality regulation.

[38] VAT MOSS: VAT on Sales of Digital Services in the EU, UK Government, 1 February 2016

> Quicke's Cheese was supportive of the quality of EU regulations which are founded on "good science" and of the support EU institutions provide businesses such as Quicke's to implement regulations effectively.

In our interviews, we repeatedly heard that the UK was often the driver of more stringent regulations in EU rule-making in many areas, including electrical standards and health and safety rules. Firms expressed concern that without other EU countries pushing back, UK regulations could get even stricter. They also remarked that EU regulatory standards in some areas might slip without British pressure, which could cause problems for British companies importing EU goods. However, on the whole, businesses asserted that the UK has been a positive influence and a leading voice in many areas of EU regulation, including construction, environmental protection and financial services, pushing up standards and bringing expertise.

> The Building Engineering Services Association ("BESA") is the leading trade association for building engineers' services contractors, and is responsible for around 4000 businesses with a combined turnover of £10 billion. Potential withdrawal from GCP Europe, the European mechanical engineering member body, and the Conformité Européene (CE) stamp, a mandatory conformity marking for products sold in the EU, might lead to falling regulatory standards. BESA pointed out that the UK has frequently been responsible for 'gold plating' regulations that govern work in the construction industry. Britain currently represents and leads the highest standards on most health and safety, procurement and technical legislation and often acts as a guide to other countries aspiring to the same standards.

> Osborne, a construction business, outlined that in many areas of regulation relating to the construction industry, the UK had tended push the EU to adopt stricter standards than they otherwise would. Furthermore, the UK has a tendency to regulate on its own, and the extensive consultative process required for EU regulation has ensured that bad ideas get weeded out.

> The Creative Industries Federation said the UK has been one of the most influential voices in the ongoing debates around the design of the Digital Single Market. Since more than 50% of the digital content in the EU is from the UK, the British creative industry has more at stake than any other. Losing influence over the evolution of the Digital Single Market – which establishes common controls around copyright, data transfer rights, ISP platforms, data privacy, would be hugely detrimental for British players.

> The City of London pointed out that the George Osborne used to take pride in claiming the UK was the 'envelope' pushing for more rigorous financial services regulation in the EU. Much of EU regulation was designed and driven by British civil servants and regulators, given the depth of expertise in London.

> The Environmental Services Association believes the EU's influence in the environmental sector has been constructive. The Waste Framework Directive[39] and Landfill Directive[40] governs a large proportion of its members' activities. For companies in this sector it will be very difficult to drive business strategy without knowing whether the UK will continue to follow the EU's strategic policy direction and the corresponding targets for household and packaging recycling and municipal waste. As the economics of the sector are highly influenced by policy imperatives, gaining clarity around the direction of future policy is the main priority.

Many firms also drew attention to the challenges the UK will face in replacing the specialist regulatory expertise that currently resides in EU agencies, the EU Commission, and the EU Parliament. Some of the approximately 1100 British civil servants currently employed by EU Commission Services might be attracted back to the UK to contribute their expertise, but even this is unlikely to fill all the gaps.

> The Chemicals Industries Association told us that the complexities of regulations such as REACH means that any UK replacement body would need significant resources to administer parts of the legislation that are currently managed by the European Chemicals Agency.

Opportunities to Adapt Regulation to Britain

British companies acknowledge the argument that Brexit provides the opportunity to adapt regulations to fit the British context more effectively[41]. A number of companies made clear that they want the Government to take advantage of Brexit to lighten the regulatory burden on British business (although they tended to express this wish in general terms rather than pointing to specific regulations affecting their own businesses). Some expressed frustration that they currently see little indication that this will happen. In fact, most of the companies and trade associations we interviewed considered such changes as likely to result in only minor benefits. In many areas, the UK has been one of the most influential voices in determining EU regulations, so these typically reflect UK priorities to a large extent already.

With respect to sector-specific regulation, financial services and agriculture were most often mentioned. In terms of regulations that cut across multiple industries, some firms highlighted employment regulation, for example the Working Time Directive and to a lesser extent, environmental protection, as areas that the UK might look to deregulate[42].

---

[39] Directive 2008/98/EC, The European Parliament and Council, 19 November 2008
[40] Directive 1999/31/EC, The European Parliament and Council, 26 April 1999
[41] Government presses pause button on new burdensome yet implemented EU regulations, Brexit Central, 17 September 2016
[42] Directive 2003/88/EC, The European Parliament and Council, 4 November 2003

In the financial services arena, firms suggested there may be opportunities to modify or streamline regulations that are seen as overly burdensome or poorly designed, such as EU rules on bankers' compensation, which even the Bank of England opposed[43], or the regulations emanating from the Second Markets in Financial Instruments Directive (MifiD2), which impose significant reporting requirements and may be over-engineered, at least for growth equity markets such as London's AIM. However, the benefits of such modifications will have to be weighed against the benefits of maintaining "passporting" and mutual recognition of regulatory equivalence. Too much divergence from EU regulatory norms will lead to incremental costs for firms active in Europe. Moreover, many of the key rules, at least in the banking arena, are determined at global level through the Basel Committee and the Financial Stability Board.

> Crowdsurfer explained that for fintech businesses, the key issue to watch will be passporting between the UK and EU. For fintech start-ups that are solving compliance, processing, reporting challenges derived from MiFiD II or market abuse ("MAR") regulations, a "hard" Brexit could mean those ventures losing access to EU countries. Firms seeking to avoid having double offices may decide to leave London.
>
> The City of London suggested the UK financial sector has generally been satisfied with most EU regulation, which largely derives from global agreements set at Basel and the G20. However, there had been frustration with the alternative investment fund manager's directive and the clampdown on banker's bonuses, which was appealed at the European Courts of Justice.
>
> The Pension and Lifetime Savings Association ("PLSA") described how the institutions for occupations retirement provision directive ("IORP") sets a broad framework for workplace pension schemes in the UK. The new version, IORP II, is due to be implemented in member states by January 2019. The PLSA suggested that any EU regime on pensions solvency, which could form part of a potential future version of the IORP Directive, could be damaging for defined benefit pension schemes. The European Commission and the European Insurance and Occupational Pensions Authority have been trying for some years to subject pensions to the same rules as insurance brokers, and this would be bad news for British companies with pensions schemes as new reporting regimes could add up to an additional €210 million (£167 million) a year to costs[44].

Some companies and trade associations in the food and agriculture arena suggested that there may be opportunities to reform applicable regulations to make them more risk-based, and more rigorously grounded in scientific evidence. They gave as examples of regulations that may have been distorted by ideological imperatives, crop protection, water cleanliness, and genetically modified plants. Basing regulatory approaches on a more scientifically rigorous risk assessment framework may unlock some economic opportunity, although the need to be able to export to the EU is likely to prove a constraint in some areas.

---

[43] Bank of England Deputy Governor condemns EU bonus cap, The Guardian, 16 October 2014
[44] European Insurance and Occupational Pensions Authority Opinions https://eiopa.europa.eu/publications/eiopa-opinions

The Building and Engineering Services Association emphasised that the period immediately after the Referendum was not a time to be making huge legislative changes, but that a more risk-based approach to health and safety legislation could be desirable over the long run.

EU labour regulation, such as the Working Time Directive, was most often mentioned as an area where the UK might want to relax regulations. However, many businesses were ambivalent about making such changes. Moreover, the Government has previously suggested it does not intend to weaken labour protection[45].

Much of the environmental law that is currently in place in the UK stems from EU legislation. Most firms pointed out that continued access to EU markets would require continued compliance with EU regulations, including in the area of environmental law. However, the UK would, under arrangements outside the Single Market, lose its ability to influence the direction of environmental law, and may result in the UK having to comply with more stringent environmental legislation through loss of formal influence.

The Chartered Institute of Ecology and Environmental Management is the professional body which represents and supports ecologists and environmental managers in the UK. They indicated that the EU provided an independent and objective body for monitoring the UK's environment. They expressed concern about compromising the high standards provided by European environmental protection. Yet they also suggested that local institutions could improve on work at the European level as the biogeographic spread of Europe means that some of the environmental regulations are quite generic meaning that there are some advantages to legislating at the local level.

The British Plastics Federation also highlighted that the EU has been seen as a leader in the environmental space, and they wouldn't want the UK to have lower environmental standards than the EU.

Several companies argued that following Brexit, the UK would have greater degrees of freedom in the design and levels of taxes, particularly indirect taxation, that might benefit their businesses and the broader business environment. However, these firms acknowledged that significant changes could involve difficult policy trade-offs and might have ramifications for continued access to EU markets.

SkyBet pointed out that duties on betting are considerable - and leaving the EU offers the possibility of making betting and gaming zero-rated. Any such decision would be subject to considerable scrutiny and debate, but Brexit would provide this additional freedom.

Munro instruments told us that greater freedom to reduce business tax rates would always be welcome. However, they also said business tax rates were not a major issue in terms of their competitiveness.

[45] The United Kingdom's exit from and new partnership with the European Union White Paper, UK Government, 2 February 2017

Shore Capital, a leading provider of broking and capital market services to mainly mid-sized British companies, told us that with Brexit, the UK has the opportunity to make itself even more attractive as a place to invest and do business. However, this won't happen automatically – the Government has to seize the opportunity by reducing the regulatory and tax burden.

The Importance of EU Regulatory Agencies

Through our interviews, it became clear that for British businesses, the EU regulatory agencies that develop and administer EU regulations are as important, or more important than the regulations themselves. These specialised bodies constitute a critical part of the EU regulatory structure, and thus comprise a key component of the underlying infrastructure of the Single Market. Their numbers have grown rapidly: from 2 in 1990 to 35 today. These 35 agencies employ far more officials than the European Commission itself and address an extraordinary range of issues from medical regulation, border control, environmental protection, military procurement, to network and information security.

Many of the companies we spoke to stressed that the UK's membership of these EU agencies provides benefits to firms in specific sectors not just through their role in designing and administering effective regulation, but as reservoirs of deep technical expertise and through the negotiation of international agreements extending well beyond the EU. In many industries, the UK has no institutions that currently have this depth of expertise.

The European Medicines Agency ("EMA") is one of the most important of these agencies. Currently based in London, with 890 staff on the secretariat, the EMA is the EU agency responsible for the protection of public and animal health through the scientific evaluation and supervision of medicines, and input into the supervision of advanced therapies and medical devices. All prescription and over-the-counter drugs have to be approved by the EMA before they can be prescribed or bought within the EU. The EMA has mutual recognition and bilateral working agreements with equivalent regulatory authorities in key markets such as the United States, Japan, Canada and Australia. For the global pharmaceutical and biotech industries, including Britain's highly successful companies in this sector, the EMA and the US Food and Drug Administration ("FDA") are the most critical regulatory agencies by far, since they control approval and access to the lion's share of the global market. If the UK leaves the EMA, it will face the cost of creating a replacement. Moreover, UK pharmaceutical and biotech companies will still put primary focus on securing FDA and EMA approval given the scale of the markets they control.

The incremental cost of creating a replacement is not unique to the EMA. Several businesses commented that British membership of EU agencies reduces costs to the UK taxpayer through sharing the administrative costs with 28 member states. Creating equivalent agencies for the UK alone will likely cost a multiple of what Britain is currently paying, particularly as the UK will need to create new entities and attract employees with scarce skillsets.

> The Aerospace, Defence, Security and Space Group is a trade organisation representing over 1000 companies in the UK Aerospace, Defence, Security and Space Sectors. They highlighted the crucial role the European Aviation Safety Agency ("EASA") plays for the British aviation sector. EASA is headquartered in Cologne, Germany and receives approximately 70% of its funding from industry fees. The UK Government's contribution to EASA's budget is estimated by ADS to be less than £1 million per annum. If the UK leaves EASA, the UK Civil Aviation Authority ("CAA") would need to take on the role. However, ADS estimate it would take 10 years for the CAA to develop in full the expertise to execute the role at a significantly higher cost to the UK taxpayer.
>
> The University of South Wales described the importance of UK membership of EURATOM which has allowed the UK to influence many things aspects of nuclear policy and regulation. Similarly, UK membership of the European Medical Agency has enabled the UK to influence European pharma regulations, a sector in which the UK is a leader. The UK has much greater ability to shape EU regulations when compared to the UK's capacity to influence regulators in other parts of the world, for example the US Food and Drug Administration ("FDA").

Many companies we spoke to would like to see the UK remain engaged with the EU agencies regulating their particular industry after Brexit. The challenge with this option is that these agencies are both empowered and restrained by EU law, the arbiter of which is the ECJ. As a result, British businesses would also remain subject to the jurisdiction of the ECJ in those areas would continue to be directly regulated by these agencies. Moreover, budgets are set and monitored by the European Parliament. However, there may be scope to devise innovative approaches to enable continued UK engagement, perhaps building on the models used by the EFTA countries.

> The Aerospace, Defence, Security and Space group highlighted Switzerland's membership of the European Aviation Safety Agency as a potential model for the UK to follow with this and other agencies. Under current arrangements, disputes involving Switzerland are adjudicated by a joint committee dispute settlement mechanism rather than by the ECJ.

Underpinning many sector-specific regulations are an array of international standards. The UK's membership of international standards organisations such as the International Standards Organisation ("ISO") and the International Electrotechnical Commission ("IEC") will not be affected by Brexit. But the UK is also a member of three European standards organisations: CEN[46], CENELEC[47] and ETSI[48] These independent organisations coordinate 33 member countries in the making, dissemination and adoption of European Standards and the withdrawal of conflicting national standards, in order to facilitate market access and regulatory harmonisation. The British Standards Institute ("BSI"), which represents the UK across all European and International standards organisations expects to retain UK membership of these European standards organisations, stating that that it will "remain a full member and influential participant in the single European Standards system as well as an EU Notified Body"[49]

> The Environmental Services Agency told us that common standards make certain forms of trade easier. They provided the example of the export of environmental services to support sustainable energy initiatives such as offshore wind farms. The export of environmental services typically requires EU environmental assessments on the basis of Directive 2011/92/EU to be conducted on projects within the EU. This will continue to be the case, even if the UK is ostensibly no longer bound by Single Market rules.
>
> Ledwood Engineering argued that British engineering standards were historically of high quality and went on to form the benchmark for European standards. Reviving British engineering standards could give British engineering products an advantage in some markets.

[46] The European Committee for Standardization (CEN)
[47] The European Committee for Electrotechnical Standardisation (CENLEC)
[48] The European Telecommunications Standards Institute (ETSI)
[49] BSI and Brexit, BSI Group. https://www.bsigroup.com/en-GB/about-bsi/media-centre/BSI-and-Brexit/

KEY FINDINGS
REGULATION

Companies want Brexit to lead to streamlined regulation, not more regulation. Yet none of the firms we spoke to expect a regulatory “windfall”. Indeed, many expressed concern that Brexit would paradoxically result in an increased regulatory burden. If British regulations diverge from EU standards, companies that export to the EU will now have to comply with an additional set of regulations. We also heard repeated concerns about the potential costs associated with employing EU citizens if companies are forced to navigate complex new immigration rules.

Contrary to much of the media and political commentary, the majority of businesses we interviewed were broadly satisfied with current regulatory approaches in their sectors. While there are always examples of specific aspects of regulation that seem overly burdensome or inappropriate, many spoke to the overall quality of EU regulations and rulemaking processes, claiming that the process of securing input and agreement from 28 member states usually helped weed out poor quality regulation.

Firms recognise that Brexit will provide the opportunity to adapt regulations to the British context, but most thought that this would result in only minor benefits to their businesses. In many areas, the UK Government has been one of the most influential voices in determining EU regulations, so these already typically reflect UK priorities. Some firms highlighted employment regulation and to a lesser extent, health and safety and environmental protection as areas that the UK might look to deregulate. However, most businesses expressed limited appetite for such changes, and the Government has thus far indicated that it intends to maintain EU labour protection standards[1].

Many firms expressed significant concerns about the loss of British engagement in EU rule-making processes. Firms that trade with the EU will still have to comply with EU regulations, but will no longer have the opportunity to influence these rules. This is particularly important in areas where British companies have particular strengths and distinct regulatory priorities, such as in financial services, the energy sector or the creative industries.

Many businesses specifically highlighted the important role specialised EU agencies such as the European Medicines Agency (“EMA”) or the European Aviation Safety Agency (“EASA”), play in regulating their sectors. When explaining the importance of these agencies in the creation of quality regulation some businesses expressed anxieties about losing the ability to influence the policies of these agencies, or to benefit from their expertise.

6. Industry Sectors

All the businesses we spoke to highlighted a range of sector-specific issues posing particular challenges or questions. The most significant stem from the impact of Brexit on: 1) sectors dependent on highly integrated supply chains across Europe, such as automotive; 2) sectors reliant on harmonised regulation, such as financial services, pharmaceuticals, road haulage and aviation; 3) sectors that currently depend on EU protection and subsidies, such as agriculture; 4) sectors relying heavily on direct EU funding, such as life sciences and venture capital; and 5) sectors reliant on access to EU labour, from highly skilled scarce talent to seasonal labour.

It is beyond the scope of this paper to discuss the challenges affecting specific sectors in detail. Reports produced by the relevant trade associations and Government departments provide much more granular analysis of these sector specific problems and opportunities. Our objective here is simply to highlight the importance of these five broad issues, illustrating their impact by giving some examples of how they affect different sectors. In this section of the paper we draw primarily on the views provided by trade associations in order to ensure we portray more of an industry-wide view, rather than the specific concerns of individual companies.

Most sectors are affected by some combination of these five issues, but the relative importance of these different challenges varies enormously across sectors. To be effective in helping British companies adapt and flourish in the post-Brexit world, the Government's industrial strategy will need to address these issues head-on. The Industrial Strategy Green Paper, published in January 2017, proposed actions to address a number of challenges different sectors face, but falls short of addressing these five issues in full. For example, the Green Paper does not consider how to avoid the impact of incremental friction on highly integrated supply chains, the need to align with or influence EU regulation, the UK government's future role in sectors currently reliant on EU funding, nor does it address many industry sectors' requirements for accessing highly skilled and seasonal labour from the EU[50].

Sectors with Highly Integrated Supply Chains Across the EU

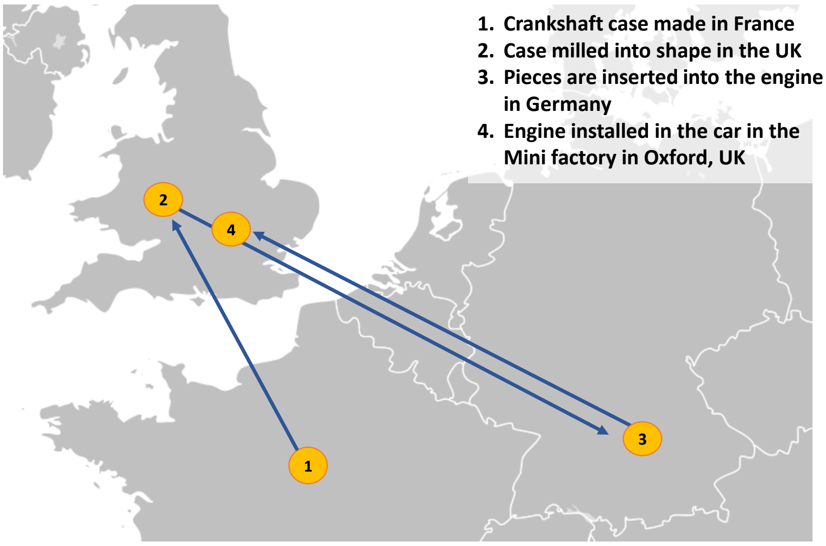
Businesses that run or are part of highly integrated supply chains across Europe face the prospect of increased frictional costs. Companies in sectors that have evolved to take full advantage of the Single Market by building highly integrated supply chains, such as the automotive, chemicals and plastics and aerospace sectors, expressed deep concern about the potential costs and delays associated with new tariffs, customs procedures, taxes and regulatory divergence.

[50] Building our industrial strategy, Department for Business, Energy & Industrial Strategy, 23 January 2017

Automotive

The automotive sector represents 9.6% of the UK exports, of which 48.5% go to the EU[51]. Mid-sized companies in the automotive sector typically operate as part of pan-European supply chains, importing raw materials and parts from other parts of the EU and providing their components to sub-assembly or final manufacturers across the EU (as illustrated in Figure 10). Just-in-time manufacturing processes throughout the industry depend on friction-free and highly dependable supply chains. Companies in this sector are therefore deeply worried about the impact of leaving the Single Market on their costs and competitiveness and fear that future investment in the sector will shift elsewhere in the EU.

Figure 10 – The Journey of a Mini's crankshaft



Source: The Guardian

Major car manufacturers are better placed to adapt than smaller manufacturers and component suppliers. Although the composition varies by manufacturer and model, UK built cars have on average about 41% UK content and 59% overseas content, of which two-thirds is from the EU[52]. Since roughly 20% of the content comes from outside the EU, car manufacturers already have the systems and processes to handle customs controls, tariffs and rules of origin.

However, smaller manufacturers and UK-based component suppliers will likely find it much more difficult to adjust. UK-based component manufacturers operating as part of pan-European supply chains will be disadvantaged versus EU-based competitors since their products will have to pass through customs controls and may attract tariffs. Such companies emphasise that minimising delays through customs is as important as avoiding the imposition of tariffs, since any interruption to the manufacturing cycle can be immensely expensive.

[51] UK export data 2015, The Observatory for Economic Complexity. http://atlas.media.mit.edu/en/
[52] BMW, UK car industry say Britain needs to keep tariff-free EU trade, Reuters, 17 January 2017

> The Society of Motor Manufacturers and Traders, the trade association for the UK automotive industry, believes that maintaining as close as possible to current Single Market arrangements is critical given the potential negative impact of reverting to WTO arrangements on the competitiveness of UK manufacturers and component suppliers, on future investment in the industry, and on consumer choice.

Plastics

The plastics sector is one of Britain's largest manufacturing sectors representing 1.7% of UK exports, of which 66% go to the EU[53]. As with the automotive sector, UK companies within plastics typically operate as part of complex, highly integrated cross-border supply chains. It is not atypical for a single product to cross multiple borders during the manufacturing process.

Since most of the large firms in the plastics sectors are foreign owned, leaving the Single Market may trigger consideration of moving facilities to elsewhere in the EU to avoid the frictional costs of customs controls and tariffs.

> The British Plastics Federation described how the British plastics industry is fully integrated into global supply chains with 80% of members being exporters, and 40%, foreign owned. The plastics industry hopes to maintain existing trade relationships as far as possible. While they recognise the opportunities for increased exports to non-EU nations they see a limit to the potential from such new trade deals.

Aerospace

The British aerospace industry is tightly integrated into European supply chains, not least because of Airbus. With an annual turnover of £31 billion and 128,000 direct employees[54], aerospace has been one of the Britain's fastest growing manufacturing sectors, having grown by 29% since 2010[13]. British companies' roles in the Airbus supply chain following Brexit could be undermined by the incremental costs arising from customs controls and through exclusion from EU research and development funding, as well as by political pressures.

> The Aerospace, Defence, Security and Space Group has outlined the costs and delays from customs checks as the biggest potential threat to the UK's aerospace industry and its competitive position in the Airbus supply chain.

[53] The UK Plastics Industry at a Glance, British Plastics Federation, 2015
[54] The UK Aerospace Sector Overview, ADS Group, 2016

Northern Ireland

Many goods that are manufactured in Britain cross UK-EU borders several times before the product is finalised. This is particularly true across the border between Ireland and Northern Ireland, given the absence of border controls of any sort and the relatively small scale of the local economies.

> According to the Newry and Mourne Local Enterprise Agency, the intense integration of supply chains across the border – for example, for companies utilising Warrenpoint Harbour - has been a critical driver of economic growth on both sides of the border.

Diageo is a good example. In producing Guinness, whisky and other drinks, Diageo make some 18,000 crossings per year of the border between the Republic and Northern Ireland, as illustrated in Figure 11. They reckon that even relatively short delays for customs procedures might add £100 to the cost of each of these trips, even before consideration of any additional tariffs.[55]

In all sectors that rely on tightly integrated supply chains, the challenge will be how to minimise the additional frictional costs of customs controls, tax rules and tariffs, which will otherwise disadvantage UK players operating in these industries. This is why the companies and trade associations in these sectors consistently expressed a preference for remaining in the Single Market and Customs Union. If that proves impossible, they would like to secure an FTA which is provides as close to the Single Market's frictionless access as possible (in these sectors the distinction between an FTA within the Customs Union and an FTA outside is better understood).

Figure 11 – The Journey of a Guinness

Source: Bloomberg Report, confirmed by Diageo

[55] Guinness exposes debate over a hard border with Ireland after Brexit, Bloomberg, 7 April 2017

Sectors Reliant on Regulatory Harmonisation

Many important sectors, including those with highly integrated supply chains, depend on an underpinning of harmonised regulation. This is particularly true in sectors where regulatory approval of products or entities is critically important and costly, and sectors where the service is inherently cross-border (or not geographically determined) in nature.

Pharmaceuticals and financial services

In both pharmaceuticals and financial services, having well established regulatory approval and licensing processes at an EU level significantly reduces the costs versus securing country by country approvals. Securing EMA approval enables pharmaceutical and biotech manufacturers to sell their drugs across the EU. Through “passporting”, financial services firms can serve clients across the EU from London without needing separate licenses for each jurisdiction. In both cases, leaving the EU regulatory sphere will result in additional costs, although there should be scope to mitigate these through agreements on “regulatory equivalence”.

> The Association of the British Pharmaceutical Industry (“ABPI”) is the industry body representing the UK pharmaceutical industry, covering biopharmaceutical companies of all sizes. They indicated that the single EU regulatory system for pharmaceuticals provides the scale and certainty required to bring innovative, effective and safe medical technologies to UK patients quickly. Creating a standalone UK regulator would require significant resource, time and expertise, and would likely still leave the UK behind the US and EU for new product launches, given relative market scale and priority. The APBI are therefore pushing for the UK to maintain alignment with the EU regulatory system, and continued participation in EMA processes, which could be achieved through a regulatory cooperation agreement negotiated with the EU[56].
>
> The City of London has asked the Government to prioritise protecting passporting rights in Brexit negotiations. The City of London pointed out that an Oliver Wyman study has estimated that should the UK fail to secure passporting rights or regulatory equivalence, 40-50% of EU-related activity (approximately £18-20 billion in revenue) and up to an estimated 31-35,000 jobs could be at risk, along with approximately £3-5 billion of tax revenues per year[57].

---

56 Maintaining and growing the UK’s world leading Life Sciences sector in the context of leaving the EU, UK EU Life Sciences Transition Programme Report, The UK EU Life Sciences Steering Committee, 6 September 2016

57 The Impact of the UK’s exit from the EU on the UK-based financial sector, Oliver Wyman, 2016

> Algebris, a leading London-based hedge fund, told us that it could adjust to the regulatory implications of Brexit relatively easily by strengthening its presence in Luxembourg. However, Algebris commented that Brexit would effectively increase the minimum viable size of a London-based hedge fund – smaller funds would find it difficult to cover the fixed costs of maintaining offices in both London and within the EU to meet the different regulatory requirements. Algebris also noted that London and the UK Treasury would lose out from the way funds like Algebris would adjust to Brexit, since well-paid jobs that would have been in London would now be elsewhere.

Tourism and aviation

Tourism and aviation are examples of inherently cross-border industries. The EU accounts for 76% of Britons' holidays abroad and the EU is the primary source of tourists coming to the UK. Consistent rules on tax, amongst other standards, facilitate cost-effective provision of holiday packages both ways. Smaller tour operators and travel agents will find adapting to a less seamless system, expensive. The British Business and General Aviation Association also highlighted the importance to the sector of maintaining access to a highly mobile workforce including pilots, crews and other staff.

Air travel within the EU is facilitated the European Common Aviation Area ("ECAA"), which liberalised aviation by allowing any company from an ECAA member state to fly between any ECAA airports. Moreover, the EU is also responsible for managing the multilateral agreements that govern the use of European airspace and reciprocal rights with other countries, including the US-EU Open Skies agreement. If the UK withdraws from the ECAA the UK's reciprocal rights with 36 other countries would need to be renegotiated. This might jeopardise Heathrow's role as Europe's leading international airport, and the attractiveness of the UK as a base for low cost airlines.

> ABTA suggested that businesses with long planning cycles that extend beyond two years, such as airlines, may move to Europe to minimise risk of withdrawal from the US-EU Open Skies agreement following Brexit.

Digital entertainment and services

Another sector for which regulatory harmonisation has strategic importance are the digitally-delivered creative industries, such as computer games and other information, education or entertainment services provided over the internet. As by far the largest provider of digital content in Europe, the UK is deeply involved in the development of the "Digital Single Market", which establishes common rules across several areas including copyright protection and licensing, data protection, and the taxation of cross-border sales.

In sectors like these, for which harmonised regulation is enormously important, the companies and trade associations we spoke to expressed a strong desire to remain engaged with the relevant EU regulatory agencies in one way or another, to influence the future direction of regulation across Europe and to maintain alignment between UK and EU regulation as far as possible.

Sectors Dependent on EU Protection and Subsidies

Agriculture

Sectors dependent on EU protection and subsidies face considerable uncertainty. The most obvious example is agriculture, which accounts for 0.7% of UK GDP[58]. Under the broad heading of the Common Agricultural Policy ("CAP"), the EU has a substantial effect on nearly every aspect of UK agricultural production, from the provision of subsidies to farmers and tariffs on agricultural imports, to regulations determining almost every aspect of agricultural production including the use of pesticides, environmental set-aside, animal welfare and food safety.

Leaving the CAP will force the UK to face up to some big choices about the future of British agriculture. In principle, the Government could sharply reduce external tariffs, to the benefit of British consumers, but this will expose British farmers to global competition. The Government could also reduce the scale and allocation of subsidies paid to farmers through the CAP to the benefit of UK taxpayers. The CAP constitutes 40% of the EU budget and is the largest single component of UK payments to the EU[59]. Furthermore, the Government could also look to reduce the burdens of environmental and food safety regulation, perhaps taking a more permissive approach to genetically modified foods and a more risk-based approach overall. Such wide-ranging reconsideration of long established policies around farming and food supply could result in significant benefits. However, the scale and complexity of Brexit negotiations means that policymakers may lack the capacity to consider and consult on such broader issues.

We heard very different views about the policy options for agriculture, but all the companies and trade bodies we spoke to emphasised the fundamental nature of the trade-offs involved. These decisions could have profound consequences, not just for UK farming, but for rural communities, food security, and the countryside and environmental protection.

> Court Farm, an agricultural business in South Wales explained that area-based CAP subsidies lead to bigger farmers receiving more support even though large farmers don't always use the land in the most productive ways. Court farm described how many in the farming community feel positive about using Brexit as a chance to rethink the system and to direct subsidies more effectively to support systems that improve food production, food security, water management, and carbon capture.

[58] Agriculture value added as % of GDP, The World Bank, 2015
http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS
[59] CAP post-2013: Key graphs & figures, The European Commission, March 2017

British farmers are vulnerable not just to a loss of subsidies and reduced protection from external competition, but also to the prospect of much higher tariffs when exporting their produce to the EU. Some 72% of British agricultural exports are to the EU and the EU maintains a combination of high tariffs and quotas to constrain imports from elsewhere in the world. For example, the external tariff on lamb products is as high as 67%, tariffs on bovine meat over 85%[60]. It has been reported that without subsidies, 90% of UK farms would cease to exist and land prices would fall dramatically[61]. We heard the view that subsidies were essential to the continued viability of many farms from both farmers themselves and other companies involved in food production.

> Quicke's Cheese lauded the quality of support they currently receive from the EU in the form of science-based policy and access to expertise. It also stressed the importance of agricultural subsidies to small farms in the UK, suggesting that the majority of small scale farms who not be economically viable without existing levels of subsidies.

The introduction of tariffs on agricultural inputs and on exports could also have a significant effect.

> The Agricultural Industries Confederation is a trade association covering agricultural manufacturing and farm inputs. Given that 50% of fertiliser is not manufactured in the UK, tariffs on imports would lead to increased input costs for farmers, and a devalued pound has already led to increases of some 15% in raw material costs. As an example of the impact on exports: between July 2015 and June 2016 the UK exported, 450,000 tonnes of oilseed, 95% of total exports, and 2.2 million tonnes of wheat to the EU - over 70% of total exports[62]. If we were to revert to WTO MFN status, tariffs would 6%, or some $12 a tonne on these exports.

On the other hand, some firms in the sector spoke to us about opportunities for expanding exports elsewhere, in particular by leveraging Britain reputation for quality and high standards of animal welfare. At the other end of the spectrum, there may also be opportunities to export by-products in the beef and sheep sector – e.g. animal organs and feed not suitable for domestic consumption – to Asia. Other opportunities may arise for UK agricultural businesses, including taking advantage of reduced external tariffs to import substitutes for subsidised and protected produce from outside the EU. For example, Tate and Lyle, a British sugar refiner and distributor, has argued in favour of Brexit, saying that EU tariffs on imported sugar cane have discriminated against sugar cane refiners in favour of EU beet sugar producers, estimating that this has cost the British economy £50m per year in lost added value[63].

---

[60] Implications of a UK exit from the EU for British agriculture, Study for the National Farmers' Union (NFU), April 2016

[61] Brexit: Impacts on UK and EU Agriculture Policy and Trade, Informa Agribusiness Intelligence, February 2017

[62] Data on Durum Wheat, Common Wheat Seed & Common Wheat Exports by Season, HM Revenue and Customs, 2016

[63] Brexit: a golden opportunity, Tate & Lyle Sugars, February 2016

> The Agricultural Engineering Association ("AEA") told us that the UK is a net importer of agricultural products. If barriers to trade remain high there could be significant benefits to UK manufacturers of agricultural machinery from Brexit. For example, the UK imports tractors from the EU. However, the AEA stated that if our markets are liberalised beyond the EU, some global suppliers have the potential to undercut our domestic suppliers. For example, Chinese companies have recently been demonstrating more interest in the market.
>
> The Chartered Institute of Ecology and Environmental Management ("CIEEM") stated that the loss of the rural development policy, or "second pillar", of the CAP will require the UK government to rethink policy. The second pillar of CAP provides funds to contribute to growth and employment by promoting sustainable rural development. Under pillar two funds are provided to "restore, preserve and enhance agricultural and forest ecosystems". The CIEEM emphasised that the UK government must think about the need to subsidise activities that preserve agricultural and forest ecosystems as they provide substantial environmental and public health benefits.

Given the scale of the likely changes to subsidies, tariffs and regulation, Brexit will almost certainly result in radical changes to the UK's agriculture sector with significant consequences for rural communities, food prices, food security and the landscape. Thus far, the Government has committed to maintaining agricultural subsidies until 2020[64], but the policy strategy beyond this point seems unclear. Even among Brexit proponents there appears little consensus, with widely divergent views on how to strike the balance between consumer and producer interests, the importance of food security, environmental considerations and the support of rural communities.

Fishing

Like agriculture, fishing is likely to undergo radical change in the wake of Brexit. However, unlike many British farmers, most fishermen in the UK appear to believe they will benefit from leaving the EU.

Fishing comprises 0.5% of UK GDP and 0.31% of UK exports[65]. It employs some 12,107 people[66]. Fishing is concentrated in some of the most deprived parts of Britain, including Scotland and Cornwall. The industry has been in decline for many years.

The British fishing industry is largely shaped by EU's Common Fisheries Policy ("CFP"). This establishes a common fishing zone across the EU as a whole, allocates quotas to fleets and individual fishing boats, manages shared fisheries (e.g., with Norway), sets standards (e.g., product labelling) and regulations (e.g., on discarding catch) and provides protection from foreign competition through tariffs[67].

---

64 Chancellor Philip Hammond guarantees EU funding beyond date UK leaves the EU, HM Government News Story, 13 August 2016

65 UK Seas Fisheries Statistics, Marine Management Organisation, 2015

66 UK Sea Fisheries Statistics, House of Commons Briefing Paper 2788, November 2016

67 Facts and figures of the Common Fisheries Policy, The EU Commission

Most participants in the British fishing industry are vocal supporters of Brexit, believing that the current EU arrangements around rights of access and quotas disadvantage British fishermen.

> The National Federation of Fishermen's Organisation ("NFFO") is the trade association for fishermen that represents nearly 1000 vessels. The NFFO believes the EU's current fisheries policy systematically punishes British fishermen. The NFFO contends that UK fishermen are net losers in the current arrangement, as Denmark gets 85% of its catch in UK waters, and Normandy 80%. In their view, Brexit would enable Britain to get a better deal for the fishing industry, providing an opportunity for Britain to 'regain control of its waters' after decades of 'common grazing' rights assigned to European neighbours.

However, the British fishing industry could also lose from Brexit. The loss of EU subsidies and tariff protection of around 11% could have a significant impact. Losing tariff-free access to EU could also be enormously damaging, since 49% of domestic British fish production goes to the EU[68]. Fishermen elsewhere in Europe have already made clear that they believe continued tariff-free access to EU markets should be contingent on EU fishermen retaining access to UK waters. Furthermore, the UK would still be bound by international treaties requiring cooperative management of shared fisheries.

Sectors Relying on Direct EU Funding

Sectors that rely heavily on direct EU funding, such as scientific research and venture capital face considerable uncertainty and potential funding shortages. Companies in some of the UK's more deprived areas also benefit from EU regional development funds.

EU funding of scientific research

Scientific research in the UK receives EU support through various channels, of which the most significant is the Horizon2020 programme, the biggest EU Research and Innovation programme with nearly €80 billion of funding available over 7 years to take research ideas to market. The UK benefits disproportionally from such support, having contributed €5.4 billion from 2007 – 2013 and received €8.8 billion [69]. Companies in sectors benefiting from such research, such as those in the pharmaceutical and biotech, chemicals and aerospace sectors, as well as the universities themselves, expressed significant concerns about exclusion from such programmes and uncertainty about replacement schemes.

---

[68] Brexit: Fisheries, House of Lords European Union Committee, 2016-17 session

[69] UK research and the European Union The role of the EU in funding UK research, The Royal Society, 2015

> Hart Biologicals depends on a knowledge transfer partnership with Manchester University to enable the company to draw on EU funded research, and has also accessed EU financial support through Local Enterprise Partnership, locating its headquarters in the Tees Valley Enterprise Zone.
>
> Norwich Research Park is a community of over 75 businesses, 3,000 scientists, researchers and clinicians which aims to support innovation. Many of its researchers receive EU R&D funding. Given the multi-year nature of these research programmes, any disruption to funding support could have long-term consequences.
>
> The Chemical Industries Association described the importance of the Sustainable Process Industry through Resource and Energy Efficiency (SPIRE) program, a contractual public-private partnership funded under Horizon 2020. SPIRE has allied different sectors: cement, ceramics, chemicals, engineering, minerals and ore, non-ferrous metals, steel and water, to help them cope with high resource dependence and sustainability issues.

Universities, in particular, voiced deep concerns about losing EU support and funding.

> The University of South Wales runs two projects funded by the Welsh Government’s Academics for Business programme supported by European funding: the first leverages academic expertise in mobile technology in cooperation with local businesses to develop and launch new mobile phone applications; the second focuses on the use of advanced battery technologies to store renewable energy. These funding streams provide important support to the university’s research agenda and the development of new businesses in Wales.
>
> According to the University of Greenwich, ongoing access to research collaboration and funding is essential – Horizon 2020 provides around £5 million annually to the university, representing around 20% of total research funds. This money funds a range of work activities, including advanced manufacturing and agriculture and these schemes facilitate collaboration with local businesses.
>
> The London School of Economics (“LSE”) is very dependent on EU funding such as Horizon 2020: on average 25-30% of their research funding is from the EU which totalled around £8m in 2016. The LSE’s EU funding as a proportion of total research income is one of the highest in the UK.

The Government has looked to ease such concerns[70] by stating that researchers can and should continue to bid for EU research funding, such as Horizon 2020, while the UK remains a member of the EU. The Government has said it will guarantee to underwrite grants awarded, even when specific projects continue beyond the UK's departure from the EU[71]. Yet given the importance of scientific research to innovation and productivity growth in UK industry and the long lead times involved in many research projects, there would seem to be some urgency in clarifying the Government's longer term strategy for supporting research and development in the UK.

EU support to venture capital

The UK has a vibrant technology-driven start-up and venture capital scene. This receives financial support from the EU via mechanisms like the European Investment Fund ("EIF") which supports technology start-ups both directly and through investment in venture capital funds and the British Business Bank ("BBB"). The EIF is part of the European Investment Bank Group ("EIB"), which is owned by the EU. The EIB is the world's largest multilateral borrower and lender and provides finance and expertise for sustainable investment projects that contribute to EU policy objectives. It has been estimated that the EIB holds £9 billion of UK assets[72] .

As of the end of 2015, the EIF was supporting 144 UK funds and almost 30,000 small businesses. The EIF estimated that €3 billion in equity capital in 2015 had been enabled by its €655 million direct investment that year[73] [74]. The Government has yet to confirm whether the BBB will be funded to replicate the activity of the EIB going forward, and both venture capital firms and start-ups themselves expressed concerns about the impact of losing this source of funding.

> Mustard Seed is a London-based investor in early-stage businesses that generate both financial and social returns. It commented that the EIF has been a large source of capital for UK venture funds and stated there would be a funding shortfall if a replacement is not established, which could result in failed follow-on rounds and more tempered valuations. This will not be good, as the sector relies a great deal on a sense of momentum.
>
> The Federation of Small Businesses also stated that if the UK is no longer be a part of the European Investment Bank or EIF post-Brexit that the British Business Bank should be given additional resources to continue work supporting small business finance.

70 The United Kingdom's exit from and new partnership with the European Union, HM Government, February 2017
71 Chancellor Philip Hammond guarantees EU funding beyond date UK leaves the EU, HM Treasury Press Release, 13 August 2016
72 Theresa May's Foolhardy Strategy to Destabilise the European Investment Bank Group, The Financial Times, 13 March 2017
73 The risk to the UK start-up funding after Brexit, The Financial Times, 24 June 2016
74 Annual Report, The British Business Bank, 2016

> A start-up in the food industry said it was unsure as it enters its Series A raise whether uncertainty over Brexit will impact prospective investors: “if it does, then things could be very challenging indeed. That would make us look more closely at the US”.

EU support to creative industries

The UK creative industry is a major recipient of EU funding, both through regional development schemes and specific cultural development and innovation funds. EU funds have played an often-critical role in facilitating the development of the UK creative industry. The UK receives more funding than almost any other country through Creative Europe; it is second only to Germany in the amount it receives from Horizon 2020.[75] The EU not only provides funding but also enables networking between creative producers, facilitating innovation as well as creating new markets for export.

> Make Works is a UK based NGO that helps connects artists and designers with manufacturers to help bring their designs to production. Make Works pointed out that that designers and artists that they work with are only able to hold shows across Europe, and enter new markets, because they receive EU funding. Make Works argue that this funding is essential for the survival of many of their artists who need clarity about future funding streams to enable business planning today.

EU Structural Funds

The EU provides five main funds aimed to support economic development across all EU countries. From the perspective of British Business, the most important of these is the European Regional Development Fund (“ERDF”). The ERDF provides convergence funds to regions that have GDP per capita below 75% of the EU average, plus regional competitiveness funding to less developed regions that do not qualify for convergence funding. In the UK, only Cornwall and the Isles of Scilly qualify for convergence funds[76] but there are 9 regional competitiveness and employment programmes in England with different levels of funding dependent on the relative need.

> The Federation of Small Businesses (“FSB”) told us that EU Structural funds are important as they provide support for growth and productivity in many regions of the UK. The FSB would like to see these investments continue once the current funding round (2014-2020) comes to an end. Replacement funds should be delivered through growth funds responsive to the needs of local business communities. The FSB has also identified opportunities for reforming future structural funding including: reduced bureaucracy, improved awareness of different funding opportunities, and improved evaluation of the efficacy of funds.

[75] Brexit report: The impact of leaving the European Union on the UK’s creative industries, Creative Industry Federation, December 2016

[76] European Regional Development Funding, Department for Communities and Local Government, December 2016

The funds are awarded to public, private and voluntary sector organisations to support local area economic growth managed through Local Enterprise Partnerships. Companies in these regions benefit from these funds in a variety of ways, including: direct participation in EU funded infrastructure programmes; support from business incubators; and access to lower cost energy. The Government announced in October that it would guarantee continued funding for EU funded structural and investment projects, including agri-environment schemes, for all schemes signed before the UK leaves the EU[77].

Sectors Reliant on Access to EU Labour

Many UK companies across different sectors depend heavily on access to EU labour, whether highly-skilled scarce talent, or relatively low-skilled, seasonal workers.

Maintaining access to highly-skilled EU talent

For many companies we spoke to, maintaining the flexibility to hire and retain highly-skilled EU employees is a top priority. Firms and trade associations in the creative industries, healthcare, technology, financial services, other professional and business services, life sciences and aviation all expressed acute concern about this issue.

> The Royal Academy of Engineers is extremely concerned about maintaining labour mobility within the EU. This is to enable transfers between the research, business and university sectors which are critically important in the engineering business, where talent is extremely geographically mobile.
>
> The University of Greenwich, with around 2,600 students from the EU, has prioritised defending the rights of its EU national staff and students. 22% of academic staff are non-UK EU nationals, and they are essential to maintaining British universities' capabilities and reputation, especially in STEM subjects. Clarification around existing EU students' fees and status in the UK is also needed. UK students' continued ability to participate in schemes such as ERASMUS also remains an important unanswered question.

Companies in these sectors recognise their responsibility to play their part in enhancing the training and development of UK citizens to fill skill gaps, but argue that this is a long-term project and moreover, that sustaining world-class capabilities and competitiveness will always require access to overseas talent. Indeed, some see the UK's ability to attract exceptional talent as one of Britain's strategic advantages that the Government would be mistaken to undermine.

[77] Further certainty on EU funding for hundreds of British projects, HM Treasury Press Release, 3 October 2016

Hydrogen mentioned that the UK skills gap is a significant challenge for Hydrogen's clients, forcing many to search across Europe in order to find the right skills to fill UK roles. Hydrogen believe that addressing the skills gap is a long-term project that will require changes to the education system and the apprenticeship system as well as changing the attitudes of young workers.

EBAC is the only British based manufacturer of washing machines, dehumidifiers and water coolers. It mentioned its desire to build a strong domestic talent pool rather than importing talent from abroad and believes the UK should develop an industrial policy that helps them achieve this and reverses the decline of manufacturing.

Algebris said that if the highly skilled European talent that the hedge fund needed to recruit found it more difficult or unattractive to come to London following Brexit, Algebris would simply hire them to work from another office in Europe such as Luxembourg or Milan. This would be a loss to the UK economy.

A start-up providing environmental waste management solutions to the catering industry remarked that it would be a disaster to have significantly restricted movement of labour: "We sell into Europe and therefore have a very European team. To be competitive, we need to keep it that way".

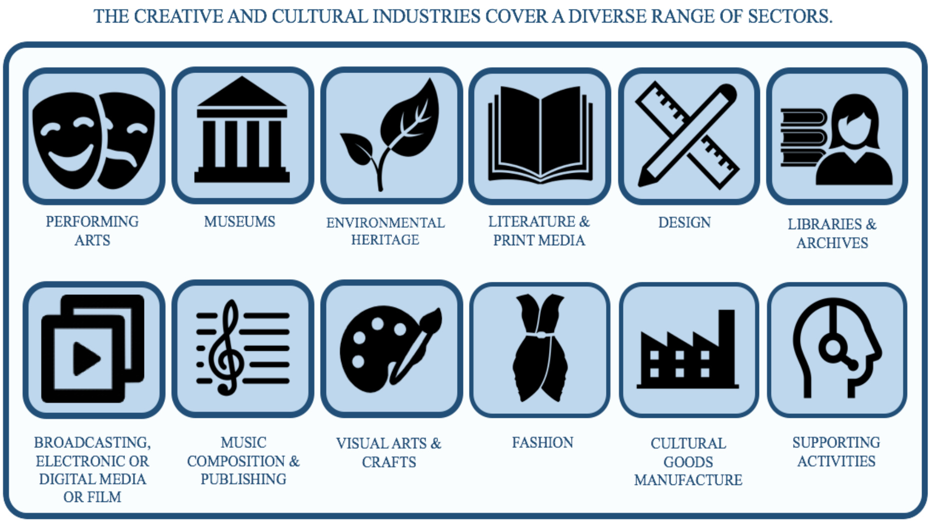
The importance of being able to hire skilled talent came up frequently in interviews with companies across all sectors. Two very different sectors, the creative industries and construction, provide good examples.

Creative Industries

The UK is a world leader in creative industries, an umbrella term for a broad range of activities including press, film, theatre, games, advertising, architecture and fashion. Taken together, the creative industries contribute over £87 billion to GDP (2.9%), are growing at double the rate of the rest of the economy and contribute £20 billion (4.7%) of exports, of which 52% goes to the EU[78].

[78] Brexit report: The impact of leaving the European Union on the UK's creative industries, Creative Industry Federation, December 2016

Figure 12 – Overview of the Creative and Cultural Sectors in the UK



While there are many differences across this diverse range of business, they share a reliance on highly skilled and often, highly mobile talent. For this sector, sustaining flexible access to talent is the overwhelming challenge of Brexit:

> A senior animator suggested the animation sector would face difficulties recruiting European professionals to work on short-term contracts, and emphasised that any factors complicating access to talent for short-term projects risks damaging this highly successful industry in which the UK is a world leader.
>
> The Creative Industries Federation sees ensuring continued and flexible access to EU talent as the most important Brexit issue. Companies in this sector rely heavily on EU talent and are concerned that a visa system for EU citizens could prove highly burdensome, and even unworkable, given current experience with existing immigration procedures.

The potential skills shortage is significant. For example, 30-40% of individuals working in the film industry, including at intake level, are from the EU. If film production companies cannot access the talent they need, they will move production to other locations. In these industries companies go where they can access the talent. At the moment, the UK is the dominant hub for creative talent in the EU.

While companies in the creative sector acknowledge the opportunity to build stronger domestic talent pools in key areas, they see this a long-term project, and unlikely to shift the dynamics in the near term. Moreover, attracting highly skilled talent from overseas is likely to be a complement rather than a substitute for developing homegrown talent. In these industries people typically acquire skills from working with the best.

Companies fear that unless significant changes are made the immigration system will cause huge problems in accessing talent – problems they already encounter when seeking to recruit talented individuals from outside the EU. One issue is speed: much of the work in this sector is project based, such as a film or a theatre production, requiring the rapid assembly of a cast and production teams to a tight timeframe, which can be very difficult to do using current immigration procedures. A second challenge are the criteria: if salary level or formal qualifications are used as determinants for granting a visa, many of the most innovative individuals in theatre, gaming, fashion or animation might not be approved. Finally, companies in this sector, many of which are very small, worry that the incremental costs and bureaucracy of navigating immigration procedures may prove crippling.

Construction

The construction industry relies heavily on EU workers to meet their need to deploy specialised skills at short notice for specific projects. Given that skills shortages in specific trades often arise in this sector, companies in the construction industry expressed concern about the pressure on costs that would result from more restricted access to EU labour. Any future visa process should be flexible and simple to reduce the costs to getting the right people at the right time. Labour markets are highly flexible and hard to predict, so businesses were concerned about government attempt to set quotas to regulate supply.

> Osborne, a construction business, estimates that 50-70% of the labour on construction sites in central London are EU nationals. This varies from trade to trade, but having access to a network of skilled EU workers is essential, particularly on projects where it is difficult to determine precisely at the start the range and timing of skills requirements.
>
> The Building Engineering Services Association described how most contractors work freelance and migrate from project to project. They are employed as part of a large supply chain which can have five different tiers of subcontractors. Larger sub-contractors are likely to be affected by an ageing workforce exacerbated by a potential skills migration leading to a vacuum and rising labour costs, which will occur unless the UK can secure ‘free movement of skills’.

Businesses recognise the opportunity to build more domestic skills in construction trades, but see this as a long-term solution that will take several years. The Government has identified skills development as a major priority area: for example, the Department for Business, Energy and Industrial Strategy (BEIS) recently announced an overhaul of technical education, including action to tackle the shortage of STEM skills, and new opportunities for lifelong learning[79].

[79] Building our industrial strategy, Department for Business, Energy & Industrial Strategy, 23 January 2017

Maintaining access to seasonal and low-skilled labour

Many UK companies rely on seasonal and low-skilled labour from the EU. Indeed, research from the Migration Observatory indicates that the presence of foreign-born workers has increased fastest in low-skill occupations, particularly food processing, where the foreign-born share of the workforce amounts to 41%[80]. Those companies that recruit and retain large numbers of relatively low-skilled workers, often on a seasonal basis, expressed significant concerns about their continued access to EU labour. These sectors include agriculture, food and drink, construction and hospitality, leisure and tourism. Businesses we spoke to in these sectors stressed the challenges of securing low-cost and seasonal labour and anticipate significant upward pressure on costs from losing access to EU labour pools. The British Hospitality Association predict that the hospitality sector could face a recruitment gap of one million workers by 2029 if there is no new migration from the EU[81]. The National Farmers Union ("NFU") has warned that food will 'rot in fields' unless the UK continues to have access to seasonal workers from the EU after Brexit[82]. In 2016, almost half of companies providing agricultural labour surveyed by the NFU were unable to fulfil demand for workers from July to September. The NFU attributed this sharp decrease in labour supply to changes in perceptions about the UK among Eastern Europeans following Brexit.

Here the Government faces some challenging policy trade-offs. Imposing restrictions on unskilled labour from the EU seems a logical response to the widespread public concern about levels of immigration that underpinned the Referendum result. However, such restrictions are likely to result in severe labour shortages in areas dependent on seasonal work including agriculture, food and drink, and hospitality, leisure and tourism industries. In non-tradeable sectors, such as hospitality, leisure and tourism, increased costs across the industry are unlikely to impact relative competitiveness, but may have an impact on demand. In agriculture, increased costs will exacerbate the challenges discussed earlier and from a consumer perspective, may offset some of the potential benefits from leaving the CAP. In retail, increased wages, while welcome, may accelerate the shift from physical shops to online retailing.

[80] Overview of migrants in the UK labour market, The Migration Observatory at the University of Oxford, 2016
[81] Labour Migration in the Hospitality Sector, A KPMG report for the British Hospitality Association, March 2017
[82] UK farmers warn of Brexit-triggered labour crisis, The Financial Times, 29 November 2016

KEY FINDINGS
INDUSTRY SECTORS

All the businesses we spoke to highlighted a range of sector-specific issues posing particular challenges or questions. The most significant stem from five changes that Brexit will bring:

First, businesses dependent on highly integrated supply chains across Europe will face increased frictional costs. Companies that have taken advantage of the Single Market to build highly integrated supply chains, including the automotive, aviation and chemicals sectors, are intensely worried about the potential costs and delays associated with new tariffs, customs procedures, taxes and regulatory divergence.

Second, businesses that rely heavily on harmonised regulation fear additional costs, loss of competitiveness and loss of influence on future regulations. Industries significantly affected include pharmaceuticals, since drug approval is harmonised across the EU, financial services, given the importance of “passporting” in enabling provision of financial services across the EU, and the creative industries, given their reliance on EU rules on intellectual property, data privacy and digital rights.

Third, businesses that currently depend on EU protection and subsidies, such as agriculture and fishing, face considerable uncertainty, since Brexit will result in significant changes to the relevant tariffs and subsidy regimes and will force the British Government to confront some difficult policy choices. While it is premature to predict the outcome of such policy debates, on the whole domestic food producers are likely to be losers, facing increased exposure to international competition and potential impediments to exporting to the EU, while consumers and some intermediaries may benefit.

Fourth, those sectors that rely heavily on direct EU funding, such as for scientific research and venture capital, face uncertainty and potential funding shortages. The UK has benefited disproportionally from support from EU funding mechanisms to the particular benefit of the scientific, creative and technology sectors.

Finally, companies across most sectors expressed concerns about continued access to EU labour, from highly skilled scarce talent in the creative, scientific and financial sectors, to seasonal low skilled labour in agriculture and hospitality. For some sectors, such as the creative industries and universities, flexible access to EU talent is their over-riding concern arising from Brexit. While firms acknowledge the imperative of upskilling the domestic workforce, they expressed scepticism about the scope to replace EU skills in any meaningful timeframe, particularly in fast-growing, innovative sectors where there are global skill shortages.

None of the companies we spoke to, across any sector, saw their industry benefiting unambiguously from Brexit. Even sectors like fishing, which sees advantage in re-establishing British control over UK waters, also recognise the challenges presented by the imposition of tariffs given that the EU is the biggest export market for UK fish and seafood, accounting for over £1billion of exports, almost double the £550 million exported to other countries[1]. Most companies saw many more challenges for their sector than opportunities.

7. Implementation Priorities

In many of our discussions with businesses and trade associations, they emphasised that effective implementation of policy decisions will be as important as the policy decisions themselves. Firms focused on two aspects of implementation: first, execution of the Brexit transition to minimise disruption and potential "cliff-edge" effects; and second, the effectiveness and efficiency of the new processes necessitated by Brexit, such as customs procedures, immigration rules and new sector-specific regulations. The companies we spoke to also stressed the importance of looking beyond Brexit to take account of broader developments in the business environment, so that Brexit is implemented in a way that helps British businesses adapt and flourish in a rapidly changing world.

Executing the Brexit transition

Given the breadth and complexity of the issues and the difficulty of negotiating so many deals simultaneously, the companies we spoke to are sceptical that these matters will be resolved within the two-year timeframe initiated by the Government's issue of the Article 50 letter. One estimate suggests that the Government will have to renegotiate 759 international agreements, of which 295 relate directly to trade and 202 are concerned with regulatory cooperation[83]. Even when the deals have been negotiated and new policies defined, companies will need time to adapt their business models and processes. The firms we interviewed are concerned that the need to reach rapid agreement on complex, interdependent issues could well lead to inadequate consultation (particularly of smaller firms) and poor outcomes. They are also concerned that they will face significant disruption to their businesses as they, their suppliers and customers, and their regulators struggle to adapt to policy outcomes that may be known only weeks before the Brexit deal is finalised. Businesses have shown intense interest in the process and timetable of key policy choices, and to cope with the lack of clarity around the transition arrangements businesses have expressed a desire for transition arrangements to extend beyond the two-year timeframe to smooth the adjustment.

> WB Creative Jewellery hopes the transition minimises disruption, as it is concerned that a sudden exit could cause a macro-economic shock that would affect all businesses in the UK, and lead to reduced consumer demand for their jewellery.

[83] BREXIT: UK faces renegotiating 759 treaties with non-EU countries, Out-Law (Legal news and guidance from Pinsent Masons), 31 May 2017

The Aerospace, Defence, Security and Space Group highlighted the potential for Brexit to cause extreme disruption to the aerospace sector in the case of a 'no deal' outcome. If the UK reverts to WTO status the UK would cease to be under the oversight of the European Aviation Safety Authority and overnight fall under the jurisdiction of a British replacement, probably the Civil Aviation Authority ("CAA"). However, this would incur the substantial risk that the newly created CAA would be unable to certify new parts in the timescales required, adding substantial cost and uncertainty to the manufacturing process.

The Federation of Small Businesses described that small businesses' main concern is avoiding any short-term discontinuity in the small business regulatory framework. Smaller firms could incur significant problems if 'gaps' emerging in the regulatory framework cause uncertainty.

Firms stressed the importance of effective communication throughout the transition process. They recognise that there will be tensions between the optimal communication strategy for the negotiating process and the communication requirements of companies, but underlined the needs for companies to be given time to adapt to changes to avoid disruptive "cliff-edge" effects. Furthermore, they emphasise the importance of having two-way communications, so that their priorities were reflected in Government's negotiating approaches. Smaller companies in particular are concerned that in the haste to get deals done, their needs will be overlooked.

The Royal Academy of Engineers described how many of the big engineering business have the resources to think globally and move to growth areas, but that companies further down the supply chain, such as sub-contractors in the construction industry, are less agile.

Make Works pointed out that for small companies, much of the creative industries ecosystem is dependent on grants and support from the EU. These companies and freelance traders are concerned about what will replace support from Creative Europe, and are concerned that their needs and priorities will be neglected during the negotiations.

Implementing Effective and Efficient Policies and Processes

Companies also expressed deep concerns about the ability of the Government to upgrade critical capacities and procedures. Many cited the need for highly efficient customs procedures, given the imperative for businesses to minimise additional frictional costs or delays. Many also stressed that the UK needs a workable immigration system that enables the necessary access to skilled and seasonal EU labour without significant increases in incremental costs and bureaucracy. Furthermore, most companies stressed how important it is for the UK to simultaneously remain active in influencing EU regulations and minimise unnecessary regulatory divergence.

Implementing new customs procedures

The concern most frequently raised was the potential for lengthy and expensive delays resulting from increased customs procedures. Leaving the Single Market and Customs Union and moving to either an FTA or WTO trade rules will require declarations of goods at borders between the UK and EU. Given that trade with the EU accounts for roughly half of Britain's total trade, putting EU trade through customs procedures might roughly double the number of customs checks. At Dover even lorries from Switzerland, with whom the EU has a close trading relationship, can take anything from twenty minutes to an hour to complete customs checks[84]. Projections suggest that up to 300 million additional declarations may be made annually[85]. British companies are concerned about the ability of Her Majesty's Revenue and Customs ("HMRC ") to scale up to handle this increase to avoid incremental costs and delays jeopardising just-in-time manufacturing procedures, and schedules for the delivery of perishable goods. Companies are also concerned about the upgrading of customs infrastructure and capabilities at key entry points in the EU, such as Calais, which alone handles a significant percentage of UK exports to the EU[86]. This may not be a top priority for other EU governments.

> Europa emphasised that customs clearance has two main costs: the cost of customs clearance itself, which is typically around £15 a consignment for export clearance; and the impact of delays on overall supply chain costs.

Many smaller companies have limited understanding and experience with customs procedures, since they have focused their international trade on the EU.

> Munro Instruments export 60% of their output abroad, and are therefore sensitive to any increase in trade transaction costs, for example increased costs resulting from customs checks. They currently remarked that trade with the EU is easy and requires minimal paperwork, and are concerned about how this might change.

The businesses we spoke to stressed the need for HMRC to invest in systems and staff to be able to handle the larger volume of goods requiring declarations post-Brexit. They also advised us a range of potential policy options to mitigate the potential impact, including the introduction of 'earlier' sale allowing importers to simplify valuation processes, removal of rules requiring businesses to guarantee duty that might become liable and introduction of inward processing relief[87].

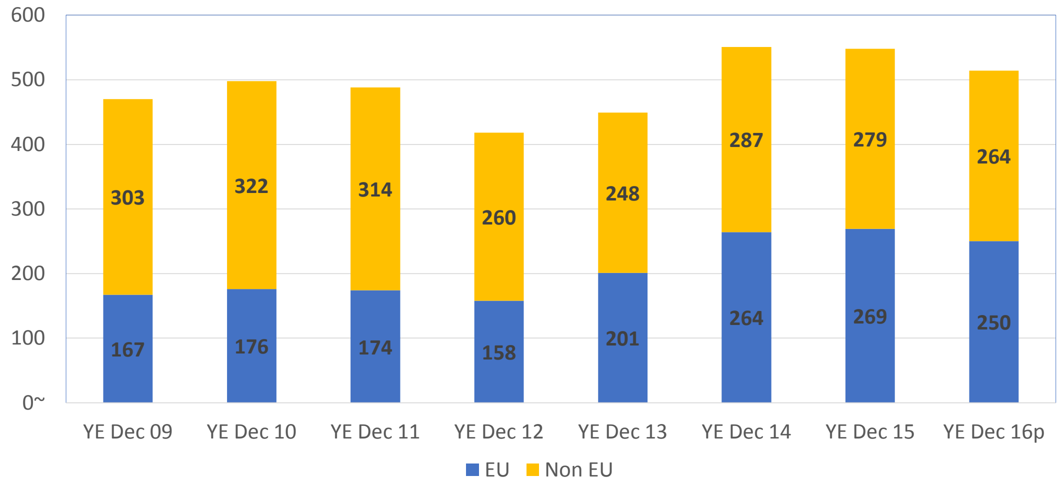
---

84 To see how trade may work after Brexit visit Dover's docks, *The Economist,* April 6 2017
85 The UK will get 240m extra customs declarations after Brexit, *Business Insider,* 31 March 2017
86 Trade Realities Expose the Absurdity of a Brexit 'no Deal', *Financial Times*. Accessed June 5, 2017
87 Brexit: The aftermath, Deloitte, 2016

Implementing the immigration system and procedures

A second significant area of concern relates to how the government revises the immigration system and procedures. Many companies we spoke to emphasised the imperative to implement “fit for purpose” procedures that would enable continued and flexible access to EU talent and seasonal labour.

Figure 13 – UK Inward Migration, 2007-2016
Thousands



Source: Long-term international migration estimates, Office for National Statistics

Part of the challenge in designing the new immigration system is simply overcoming the challenge of volume. While data on inward migration remains somewhat disputed, as the Office of National Statistics estimates for 2016 were substantially lower than the number of new national insurance numbers issued by HMRC, it appears that roughly half of the immigrants to the UK are from the EU[88]. EU immigrants are more highly educated, younger, more likely to be employed and less likely to claim benefits than the UK-born population[89]. Whatever the precise figures, shifting EU workers to a visa system would likely double or triple the volume of visas to be processed and firms fear that the current system will simply be overwhelmed. This would create long delays and additional costs for companies.

> Crowdsurfer is concerned that a shortage of skilled talent will slow down UK companies. Only 4 of Crowdsurfer’s employees are from the UK and the long periods that it takes to sponsor non-EU visas will restrict the quality of talent that can be recruited if stringent visa requirements also apply to EU nationals.

[88] Migration statistics quarterly report: February 2017, Office for National Statistics, 2017
[89] Wadsworth, Dhingra, Ottaviano and Van Reenen, Brexit and the impact of immigration on the UK, Centre for Economic Performance, 2016

> Osborne, a construction business, described how much of the work in construction relies on skilled EU labour. Osborne told us that when the construction work on High Speed Two, the UK's new high-speed rail network, begins it may be extremely difficult for contractors to find access to labour. The Government may also struggle to issue the appropriate number of visas for different skills as it is extremely hard to predict skills shortages in advance.

In our interviews, companies and trade associations emphasised the need for carefully designed and flexible criteria for work visas.

The Creative Industries Federation stated companies in the creative sector rely heavily on EU talent and are concerned that a visa system for EU citizens could prove unworkable, given current experience with immigration procedures for non-EU citizens. New immigration procedures would need to be designed to accommodate freelance workers, since this is the prevailing employment model in many creative businesses. They also pointed out that a salary threshold of say, £30,000 would exclude many skilled workers in the creative sector, such as actors or designers.

Similar concerns were expressed by start-ups and venture capital firms in the technology sector. Many of the teams founding start-ups in the UK involve EU nationals. Many of these came to the UK without a specific job and in the early days of a start-up's life and often pay themselves low salaries to minimise cash burn. Given the importance of these sectors to the UK's future prosperity, it would seem unfortunate to inadvertently exclude such entrepreneurs.

The current visa system for non-EU nationals includes mechanisms such as the Tier 2 Shortage Occupation List, which currently specifies includes 17 occupations for which visas to non-EU workers are granted on an expedited basis[90]. Companies stated that this sort of mechanism would become even more critical and would need to be managed much more dynamically and flexibly (the current version of the Tier 2 Shortage Occupation List was last updated in November 2015) given the difficulties involved in anticipating occupational skills shortages. One approach may be to extend and develop this approach to include EU nationals in light of anticipated skills shortages post-Brexit.

Smaller companies and their trade associations expressed concern about the costs and bureaucracy involved in navigating immigration procedures. Larger companies have Human Resources departments which can handle such procedures, but in smaller companies this falls to general management.

> SkyBet told us that they rely on digital skills which are in short supply in the UK, so they are nervous about the potential effects of Brexit on recruitment from overseas.

> WB Creative Jewellery is concerned about the effect of Brexit on finding replacements for their manufacturing operatives who have highly-specialised skills which are in short supply in the UK.

[90] Tier 2 shortage occupation list, UK Government, October 2015

In parallel with devising an efficient and flexible immigration system, there is a need to strengthen the education and training of UK nationals in key skill areas. Many companies and trade associations see better education and training as an important part of the answer to the skill gaps they face, and a potential boon to their local economies. Moreover, companies recognise they can play a part in such skill-building initiatives through offering apprenticeships and on-the-job training schemes. However, many companies and trade associations pointed out that significant changes will be needed in both Further Education and Higher Education to make such an aspiration a reality. Some companies pointed out that this is not a new goal: successive governments have sought to improve UK labour force skills development with limited success. Companies stressed that such skill building programmes, whilst welcome, are only part of the answer: it will take time before the incremental investments in education and training yield returns. Moreover, there will always be some areas where the domestic pools of scarce talents are insufficient to meet the requirements of companies striving to be globally competitive.

> Hydrogen have first-hand experience of the impact UK skills gap within life sciences and new technologies. They have to frequently search across Europe in order to find the right skills for their UK roles. They believe that successive governments have been somewhat being 'behind the curve' in thinking about national skills gaps and have not supported organisations or individuals who have invested in on-going professional development.

Implementing new regulatory arrangements

As discussed in **5. Regulation**, many of the companies we spoke to are concerned that Brexit might paradoxically lead to an increase in the burden of regulation. Firms are consequently anxious about multiple aspects of how regulatory frameworks will be developed and administered following Brexit, including: the establishment and governance of new UK regulatory entities; how the direction of UK regulations might evolve; and how the UK will continue to have a 'seat at the table' in EU agencies where this is important. One of the most pressing questions is how the UK will set up the entities that will be responsible for managing and administering sector-specific UK regulation following Brexit, since in many cases this will need to be created from scratch. Firms and trade associations are concerned about the feasibility and costs of establishing and staffing these new organisational entities within the required timeframe.

Enabling Companies to Exploit and Adapt to the Changing Business Environment

Several companies stressed to us the importance of taking a forward-looking perspective. Brexit is taking place at a time when rapid technological change and profound shifts in the global economy are transforming competitive dynamics, business models and customer behaviour across all sectors. While leaving the EU is clearly a significant development for British businesses, technological changes and shifts in the global economy may well have a bigger impact in the longer term. For many firms, technological advances such as artificial intelligence or gene therapy, or the increasing importance of Asian markets and companies, loom larger as threats and opportunities than Brexit. It is important that the decisions taken in implementing Brexit take account of this broader perspective. Companies emphasised the need to be operating in a regulatory and funding environment that enables them to exploit and adapt to such trends.

> Renewable UK is the UK's leading not for profit renewable energy trade association. It discussed the impact of Brexit on the UK's renewable energy market, describing how the UK is the global leader in offshore wind, wave and tidal energy. Companies in the renewables sector take a long-term perspective and often rely on EU funding for their developments. For example, wave and tidal power developers currently fund a large component of their research and development under Horizon 2020. They are also worried that the substantial resources in the Department for Business, Energy and Industrial Strategy going into the Brexit negotiations will detract from substantive discussions about the UK's long term renewables targets which are essential for companies facing lead times on projects of between five and ten years.
>
> The Chemical Industries Association identified the supply of competitively priced energy and the development of a policy framework that encourages scientific progress as two priority areas for the Government to prioritise going forward to enable growth in the chemicals industry.

The firms we spoke to had mixed views on the impact of Brexit on their ability to take advantage of technological advances and shifts in the global economy. On the one hand, Brexit might allow regulation to become more flexible and responsive to innovation, and trade policy could be more oriented towards the fastest growing economies in the world. On the other hand, restricting access to EU talent and research funding might hinder innovation, and the immense amount of work involved in adjusting to Brexit would distract policymakers and management teams from the challenges and opportunities presented by technological change and new markets.

In discussing the impact of Brexit on the ability to flourish in a rapidly changing environment, individual firms often referred to the importance of the broader "ecosystem" in which they operate (using various terms to capture this notion). Particularly in sectors where innovation or skills drive success, such a technology, bio-tech, finance and the creative arts, firms thrive on interaction with similar firms, simultaneously competing and collaborating with each other. The impact of Brexit on the health and vibrancy of such "clusters" will be an important determinant of the effect on individual firms.

KEY FINDINGS
Implementation Priorities

Throughout our interviews, the businesses we spoke to emphasised that effective implementation will be as important as the policy outcomes. They focused on two aspects of implementation: first, execution of the transition to minimise disruption and potential "cliff-edge" effects; and second, the effectiveness and efficiency of new policies and processes, such as customs procedures, immigration rules and sector-specific regulation.

Given the scale and complexity of the issues and the need to negotiate a vast array of new agreements, companies are highly sceptical that these matters will be all resolved by 29 March 2019 (i.e. within the two-year timeframe from the Government's issuance of the Article 50 letter), particularly as companies will need time to adapt once the policy outcomes are known. They are concerned that the need to reach rapid agreement on complex, interdependent issues will lead to inadequate consultation (particularly of smaller firms) and poor outcomes. They are also concerned that they will face significant disruption to their business as they, their suppliers and customers, and their regulators struggle to adapt to policy outcomes that may be known only weeks before Brexit takes place. There is therefore intense interest in the process and timetable of key policy choices and a strong desire for transition arrangements to extend beyond the two-year timeframe to smooth the adjustment.

Companies also expressed deep concerns about the ability of the Government to upgrade critical capacities and procedures. Many cited the need for highly efficient customs procedures, given the imperative for businesses to minimise additional frictional costs or delays. Many also stressed the importance of a workable immigration system that enabled the access to skilled or seasonal EU labour without significant incremental costs and bureaucracy. Furthermore, most companies emphasised the importance of the UK simultaneously remaining active in influencing EU regulations and minimising unnecessary regulatory divergence.

8. Conclusions

From our interviews and research it is clear that for the small and middle-sized British companies that comprise the backbone of the UK economy, Brexit poses significant challenges and some opportunities, although the potential upsides appear relatively limited in scope and scale. Making Brexit into a success for British business will require resolving some difficult trade-offs and implementing some complex procedures in a very short timeframe. Based on our research, we see the key execution priorities as being:

Negotiating a new trade deal with the EU that keeps as close to the Single Market as possible

Most British businesses would prefer to remain in the Single Market, but this currently looks extremely difficult to reconcile with the political constraints in the UK and EU. On the one hand, the Government has been committed, reflecting the result of the Referendum, to escape the obligations of freedom of movement and to leave the ambit of the European Court of Justice ("ECJ"). On the other hand, the EU has repeatedly asserted that adherence to the principle of freedom of movement of people and to ECJ jurisdiction are non-negotiable pre-requisites to membership of the Single Market. Finding a path through this conundrum is arguably the central challenge in negotiating Britain's new relationship with the EU: how much of the Single Market's advantages will Britain be forced to sacrifice to secure the degree of freedom from ECJ jurisdiction and the obligations of freedom of movement that UK domestic political pressures require?

From the perspective of British business, the ideal outcome might be an FTA that preserves the most critical features of the Single Market, alongside a deal on labour mobility that constrains freedom of movement, but met the ongoing needs of British business for access to skilled and seasonal EU labour. In addition, a set of arrangements that enabled effective arbitration of trade and regulatory disputes without conceding full ECJ oversight will be needed. Yet while it is possible to describe such an outcome, achieving this result would require a greater degree of flexibility from the EU than has so far been indicated. Money will no doubt play a critical role: the UK's willingness to continue to make substantial ongoing contributions to the EU Budget is likely to be a key factor in determining EU flexibility.

By contrast, an outcome in which the UK fails to secure a deal with the EU, so that Britain's trading arrangements with the EU revert to WTO norms, could be immensely damaging to British business given the cost of resulting tariffs and non-tariff barriers.

Sustaining and developing Britain's relationships with other major trade partners outside the EU

While it is important to pursue opportunities to secure new trade deals, the higher priority must be to ensure existing arrangements, such as the EU's FTAs with Korea, Mexico and Canada, or the underlying agreements that facilitate trade with the US, are not adversely affected by Brexit, but sustained and expanded. Failure to protect existing arrangements would result in British companies facing new impediments to trade in the most important markets outside the EU, not just within the EU. Achieving this should in principle be easier than securing entirely new FTAs, since there should be mutual interest in avoiding disruption to trade, but is by no means automatic or assured.

Devising arrangements to minimise unwarranted regulatory divergence and duplication and to ensure continued influence on EU rule-making

Whilst there may be opportunities to tailor some regulations to UK priorities, British businesses are generally more concerned about the twin threats of loss of influence on EU rule-making and additional regulatory burdens arising from differences between UK and EU regulations. The solutions here are likely to vary by industry, but are likely to involve some forms of continued membership of specialised regulatory agencies. This in turn will require agreement around applicable enforcement mechanisms, since all of these agencies operate under ECJ jurisdiction[91].

Implementing an immigration framework that enables British business to access skilled and seasonal EU labour, while meeting the political imperative for tighter immigration control

Reconciling the needs of British business for flexible access to skilled and seasonal labour with the desires of the broader populace for much tighter control on immigration will be challenging. Achieving this will require a combination of deft political leadership to navigate the domestic pressures, effective negotiation with the EU given the interaction with securing a Single Market/FTA deal, and the rapid design and implementation of new procedures. Moreover, there is a clear need to upgrade skills development in the UK to reduce the need to import skilled labour.

Implementing new customs controls and procedures to minimise the incremental costs and delays to British businesses trading with Europe

Upgrading UK customs controls and procedures represents a significant technology implementation and change management challenge given the timeframe, and is therefore a significant concern for many businesses. Moreover, for British businesses exporting to the EU it is the efficiency of customs controls and procedures at EU entry points like Calais that matter most. Upgrading the capabilities and infrastructure at these points of entry may not be such a priority for other EU governments.

---

[91] Competences of the Court of Justice of the European Union, EU Fact Sheets, European Parliament. http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_1.3.10.html

Making the critical policy choices in those sectors where Brexit necessitates a radical rethink

A number of UK sectors face fundamental strategic challenges as a result of Brexit, necessitating a broad rethink of the policy approach. This is most obviously true in agriculture, where policy-makers face acute trade-offs between opening up British food markets to the benefit of consumers, and continuing to protect and subsidise British farmers. These choices involve politically sensitive considerations around consumer welfare, the future of rural communities, the environment and food security. The opportunity to reconsider the national strategy towards critical sectors of the economy could be beneficial. However, it remains to be seen whether policymakers will have the capacity to engage properly in such broader thinking given the immense workload and tight timeframe of Brexit.

Ensuring the way Brexit is implemented enhances rather than detracts from British businesses' ability to take advantage of broader changes, including technological developments and shifts in the global economy

Brexit is happening against a backdrop of rapid technological change with artificial intelligence, robotics and cloud computing amongst the many developments which are transforming business models and competitive dynamics. It is therefore of crucial importance that the decisions made in implementing Brexit are informed by an understanding of the implications of these trends. This implies paying particular attention to continued support of scientific research, attracting scarce skills, and creating a supportive regulatory environment. In implementing Brexit, the Government has to deliver an environment for business in the UK that enables companies to adapt to and exploit technological innovation, and continues to attract investment and talent

Brexit is an opportunity for a wide-ranging rethink about how Britain sets sectoral priorities, builds capabilities, nurtures new businesses and trades with the world. It is clearly of vital importance that the Government comes up with convincing solutions to the many challenges Brexit poses. Yet it is also important to that policymakers grab this opportunity to look afresh at multiple aspects of policy, including the way we regulate businesses, train people and help smaller companies grow and penetrate new markets.

This set of priorities represent a daunting policy making and execution agenda for the next two years. In fact, there seems little chance of all of this being achieved by April 2019, which highlights the importance of the Government securing EU agreement to transitional arrangements to minimise the risk of "cliff-edge" effects. Even if the transition itself can be successfully navigated, resolving the issues arising from Brexit is likely to dominate the dialogue between business and Government for many years to come.

Appendices

Appendix 1 – List of Interviewees

Businesses (Consenting to be Named)
Algebris – Davide Serra – Founder and Chief Executive
Capital Economics – Roger Bootle, Chief Executive
CERA – Mahiben Maruthappu, Co-Founder
Crowdsurfer – Emily Mackay, Chief Executive
EBAC – John Elliot, Founder and Chairman
Europa – Andrew Baxter, Managing Director
Court Farm – Colin Passmore, Owner
Hart Biologicals – Alby Pattinson, Managing Director
Hydrogen Group – Ian Temple, Chief Executive
Interfrigo - Ross Reed, Director
Ledwood Engineering – Nick Revel, Managing Director
The London School of Economics – Julia Black, Interim Director
Jellyfish – Chris Lee, Chief Executive
Make Works – Fi Scott, Founder
Munro Instruments – Isobel Daley, Managing Director; Edmund Daley, Business Development Director
Mustard Seed – Henry Wigan and Alex Pitt, Co-Founders
Norwich Research Park – Dr Sally-Ann Forsyth, Chief Executive
Osborne – Andrew Osborne, Chief Executive
Penderyn Whisky – Nigel Short, Director
Princes Gate Water – Endaf Edwards, Operations Director
Purico – Professor Nat Puri, Founder
Quicke's Cheese – Mary Quick, Founder
Shore Capital – Simon Fine, Chief Executive
SkyBet – Richard Flint, Chief Executive
Structure-Flex – Ian Doughty, Managing Director
Tangerine – Martin Darbyshire, Chief Executive
University of Greenwich – David Maguire, Vice Chancellor
University of South Wales – Julie Lydon, Vice Chancellor
WB The Creative Jewellery Group ("WB Creatives") - Nick Isaacs, Finance Director

Trade Associations
Aerospace, Defence, Security & Space Group - Jeegar Kakkad, Director of Policy
The Agricultural Engineers Association ("AEA") – Stephen Howarth, Agricultural Economists
The Agricultural Industries Confederation ("AIC") - Paul Rooke, Head of Policy Animator
The Association of British Travel Agents ("ABTA") – Mark Tanzer, Chief Executive
British Business and General Aviation Association ("BBGA") – Marc Bailey, Chief Executive
British Plastics Federation – Philip Law, Director General
British Retail Consortium ("BRC") – Ray Symons, Head of EU Affairs
The Building Engineering Services Association ("BESA") – Rob Driscoll, Legal and Commercial Director
The City of London Corporation ("the City") – Damian Nussbaum, Director of Economic Development; Jeremy Browne, Special Representative for the City to the EU
The Chartered Institute for Ecologists and Environmental Management ("CIEEM") – Jason Reeves, Policy Manager
The Chemicals Industry Association ("CIA") – Ian Cranshaw, Head of International Trade
Confederation of British Industry – Carolyn Fairbarn, Director General; Ben Digby, Head of Trade; Steven Altmann-Richer, Head of Brexit.
The Creative Industries Federation ("CIF") – Harriet Finney, Deputy Chief Executive and Policy Director; Jack Powell, Policy and Communications manager
The Energy and Utilities Alliance – Isaac Occipinti, Head of External Affairs
Environmental Services Association ("ESA") – Jacob Hayler, Executive Director
The Federation of Small Businesses ("FSB") - Charlotte Chung, Policy Advisor for Enterprise; Jessica Smith, Public Affairs Advisor
The National Federation of Fishermen's Organisations ("NFFO") – Barrie Deas, Chief Executive
The Pension and Lifetime Savings Association ("PLSA") – James Walsh, Policy Lead EU and International
The Royal Academy of Engineers ("RA-Eng") - Alan Walker, Head of Policy
The Society of Motor Manufacturers and Traders ("SMMT")
Renewable UK – Emma Pinchbeck, Executive Director

Other
Business for Britain – Matthew Elliott, Founder
City University - Professor Tim Lang
Massachusetts Institute of Technology - Professor John van Reenen,
London School of Economics – Professor Hanwei Huang
London School of Economics - Professor Thomas Sampson
Harvard University – Professor Jose Maria Beneyto
Harvard University - Professor John Haigh
Harvard University - Professor Robert Lawrence
Harvard University - Professor Lawrence Summers
Harvard University - Professor Richard Zeckhauser
Newry and Mourne Local Enterprise Agency – Conor Paterson, Chief Executive

Appendix 2 - Members of Parliament

Members of Parliament providing introductions to companies in their constituencies

Rachel Reeves, Leeds West, Labour
Norman Lamb, North Norfolk, Liberal Democrat
Simon Hart, Carmarthen West and South Pembrokeshire, Conservative
Iain Wright, Hartlepool, Labour
Yvette Cooper, Normanton, Pontefract and Castleford, Labour
Crispin Blunt, Reigate, Conservative
Vernon Coaker, Gedling, Labour
Ian Duncan Smith, Chingford and Wood Green, Conservative
Ben Bradshaw, Exeter, Labour
George Freeman, Mid Norfolk, Conservative
Michael Gove, Surrey Heath, Conservative
David Davies, Monmouth, Conservative
Stuart McDonald, Cumbernauld, Kilsyth and Kirkintilloch East, SNP

Appendix 3 - EU Agencies

Name	Location	Year Founded	Function
European Centre for the Development of Vocational Training ("Cedefop")	Thessaloniki	1975	Dialogue/ information
European Foundation for the Improvement of Living and Working Conditions ("Eurofound")	Dublin	1975	Dialogue/ information
European Environment Agency	Copenhagen	1990	Information
European Training Foundation ("ETF")	Torino	1990	Executive
The European Monitoring Centre for Drugs and Drug Addiction ("EMCDDA")	Lisbon	1993	Information
European Medicines Agency ("EMA")	London	1993	Regulation
Office for Harmonisation in the Internal Market ("OHIM")	Alicante	1993	Regulation
European Agency for Safety and Health at Work ("EU OSHA")	Bilbao	1994	Dialogue/ information
Community Plant Variety Office ("CPVO")	Angers	1994	Regulation
Translation Centre for the Bodies of the European Union ("CdT")	Luxembourg	1994	Executive
European Police Office ("Europol")	The Hague	1995	Information
European Union Agency for Fundamental Rights (FRA) (previously European Monitoring Centre on Racism and Xenophobia)	Vienna	2007 (1997)	Information

European Police College (“CEPOL”)	Hook	2000	Training
European Union Institute for Security Studies (“ISS”)	Paris	2001	Information
European Union Satellite Centre (“EUSC”)	Torrejón de Ardoz	2001	Information
European Food Safety Authority (“EFSA”)	Parma	2002	Risk assessment/ regulation
The European Union's Judicial Cooperation Unit—(“EUROJUST”)	The Hague	2002	Coordination
European Maritime Safety Agency (“EMSA”)	Lisbon	2002	Regulation
European Aviation Safety Agency (“EASA”)	Cologne	2002	Regulation
European Network and Information Security Agency (“ENISA”)	Heraklion	2004	Information/ risk assessment
European Railway Agency (“ERA”)	Lille/ Valenciennes	2004	Regulation
European Centre for Disease Prevention and Control (“ECDC”)	Stockholm	2004	Information
European Defence Agency (“EDA”)	Brussels	2004	Procurement
European GNSS Agency (“GSA”)	Brussels	2004	Executive
Community Fisheries Control Agency (“CFCA”)	Vigo	2005	Regulation
European Agency for the Management of Operational Cooperation at the External Borders (“FRONTEX”)	Warsaw	2004	Border Control
European Chemicals Agency (“ECHA”)	Helsinki	2007	Regulation

European Institute for Gender Equality (“EIGE”)	Vilnius	2007	Information
European Securities and Markets Authority (“ESMA”)	Paris	2010	Regulation
European Banking Authority (“EBA”)	London	2010	Regulation
European Insurance and Occupational Pensions Authority (“EIOPA”)	Frankfurt	2010	Regulation
Body of European Regulators for Electronic Communications (“BEREC”)	Riga	2011	Regulation
EU Agency for the Cooperation of Energy Regulators (“ACER”)	Llubljana	2011	Regulation
European Asylum Support Office	Valletta	2011	Regulation

Appendix 4 – Bibliography

1. ABTA, *What Brexit might mean for UK travel*, 2016
2. ADS Group, *Our Sectors*, 31 March 2015, https://www.adsgroup.org.uk/about/our-sectors/
3. Agra Europe, *Brexit - Impacts on UK-EU Agriculture Policy and Trade*, February 2017, https://agribusinessintelligence.informa.com/resources/product-content/brexit-impacts-on-uk-eu-agriculture-policy-and-trade
4. Agricultural Industries Confederation, *Brexit Briefings 1*-4, 2016-17, https://www.agindustries.org.uk/brexit/aic-brexit-briefings/
5. Begg, I., Mushovel, F., *The economic impact of Brexit: jobs, growth and the public finances,* London School of Economics, 2016, https://www.lse.ac.uk/europeanInstitute/LSE-Commission/Hearing-11---The-impact-of-Brexit-on-jobs-and-economic-growth-sumary.pdf
6. Bioindustry Association*, EU Referendum - The BioIndustry Associ*ation. 2016. http://www.bioindustry.org/policy-and-regulation/eu-referendum
7. BBC, *Ceta: EU and Canada Sign Long-Delayed Free Trade Deal*, BBC News, 30 October 2016. http://www.bbc.co.uk/news/world-europe-37814884
8. BBC, *No Quotas in 'Compromise' Swiss Immigration Bil*l, BBC News, 16 December 2016. http://www.bbc.co.uk/news/world-europe-38340407
9. Brexit Central, *Brexit News for Friday 31 March,* 31 March 2017, http://brexitcentral.com
10. The British Business Bank, *Annual Report*, 2016, http://british-business-bank.co.uk/wp-content/uploads/2016/07/British-Business-Bank_Annual_Report_2016.pdf
11. British Plastics Federation, *About the British Plastics Industry*, 2016 http://www.bpf.co.uk/Industry/Default.aspx
12. British Plastics Federation, *Brexit and the plastics industry*, August 2016.
13. British Retail Consortium, *A Fair Brexit for Consumers - the Tariff Road Map for the Next Government*, Apr-17, https://brc.org.uk/media/154186/brexit_road_map_fa_184.pdf
14. British Retail Consortium*, How would Brexit affect Retail?,* Mar-16, https://brc.org.uk/media/45930/10003-how-would-brexit-affect-retail_lr.pdf
15. BSI Group, *BSI and Brexit*, https://www.bsigroup.com/en-GB/about-bsi/media-centre/BSI-and-Brexit/
16. BSI Group, *Standards Policy on the UK leaving the EU*, https://www.bsigroup.com/en-GB/about-bsi/uk-national-standards-body/EUReferendum
17. Burrage, M., *Myth and Paradox of the Single Market: How the trade benefits of EU membership have been mis-sold*, Civitas, January 2016, http://www.civitas.org.uk/publications/myth-and-paradox-of-the-single-market/
18. Business Insider, *The UK Will Get 240 Million Extra Customs Declarations a Year after Brexit – and the System Needs Urgent Action*, 31 March 2017. http://uk.businessinsider.com/customs-declarations-service-brexit-surge-risk-2017-3

19. Butcher, M., *UK faces triple whammy from skill shortfall, visa restrictions and Brexit uncertainty,* Tech crunch, February 2017, https://techcrunch.com/2017/02/21/uk-faces-triple-whammy-from-skills-shortfall-visa-restrictions-and-brexit-uncertainty
20. Caird, J.S., and Lang, A., *Legislating for Brexit: The Great Repeal Bill*, House of Commons Library Briefing Paper, Number 7793, May 2017.
21. Campos, N., F. Coricelli and L. Moretti., *Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union Using the Synthetic Counterfactuals Method*, 2015, http://anon-ftp.iza.org/dp8162.pdf
22. The Chartered Institute of Ecology and Environmental Management, *Brexit and the Natural Environment,* 2017, https://www.cieem.net/eu-referendum
23. Chemical Industries Association*, Brexit: The UK Chemical Industry Response*, 2016, http://files.chemicalwatch.com/CIA%20Brexit%20survey.pdf
24. City of London, *The City of London Corporation Brexit Strategy*, December 2016
25. Confederation of British Industry, *EU Regulation and the UK*, , March 2017, http://www.cbi.org.uk/insight-and-analysis/eu-regulation-and-the-uk/
26. Confederation of British Industry, M*aking a Success of Brexit,* December 2016, http://www.cbi.org.uk/cbi-prod/assets/File/pdf/making-a-success-of-brexit.pdf
27. Confederation of British Industry, *The Future of Trade for the UK: A Guide for Business*, February 2017. http://www.cbi.org.uk/insight-and-analysis/the-future-of-trade-for-the-uk-a-guide-for-business/
28. Confederation of British Industry, *The Great Repeal Bill White Paper: What Companies Need to Know*, Confederation of British Industry, 2017, http://www.cbi.org.uk/insight-and-analysis/the-great-repeal-bill-white-paper-what-companies-need-to-know/
29. Crafts, N., *Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union Using the Synthetic Counterfactuals Method*, Social Market Foundation, April 2016, http://www.smf.co.uk/wp-content/uploads/2016/04/SMF-CAGE-The-Growth-Effects-of-EU-Membership-for-the-UK-a-Review-of-the-Evidence-.pdf
30. Creative Industries Federation, *Brexit Report: The Impact of Leaving the EU on the UK's Creative Industries*, 2017, http://www.creativeindustriesfederation.com/news/brexit-report-the-impact-of-leaving-the-eu-on-the-uks-creative-industries
31. Deloitte Ireland, *Lessons Learnt from Considering Post Brexit Scenario*s, March 2017. https://www2.deloitte.com/ie/en/pages/globalmarkets/articles/brexit-dealing-with-aftermath-now-a-reality.html
32. Department for Business, Energy & Industrial Strategy, *Building our industrial strategy*, 23 January 2017, https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf
33. Department for Communities and Local Government, *2014 to 2020 European Regional Development Fund Operational Programme*, 7 July 2015. https://www.gov.uk/government/publications/draft-european-regional-development-fund-operational-programme-2014-to-2020

34. Department for Rural Affairs, *Being part of the EU is better for fish and seafood*, 12 May 2016. http://nffo.org.uk/eu-referendum/2016/05/12/defra-being-part-of-the-eu-is-better-for-fish-and-seafood
35. Dinghra, S., et al., *The consequences of Brexit for UK trade and living standards,* Centre for Economic Performance, CEP Brexit Analysis 2, 2016, *cep.lse.ac.uk/pubs/download/brexit02.pdf*
36. Dhingra, S., Gianmarco, O., and Sampson, T., *Should we stay or should we go? The economic consequences of leaving the EU*, Election Analysis Paper 22, Centre for Economic Performance, 2015
37. Ebell, M., and Warren, J., *The long-term economic impact of leaving the EU*, National Institute Economic Review 236, 2016
38. Economists for Free Trade, '*A vote for Brexit: what are the policies to follow after and what are the economic prospects?*', 13th July 2016, https://www.economistsforfreetrade.com/a-vote-for-brexit
39. Economists for Free Trade, *The Economy After Brexit*, 2016, https://static1.squarespace.com/static/58a0b77fe58c624794f29287/t/58a4ae6aebbd1a42255ba534/1487187590771/Economists_for_Brexit_The_Economy_after_Brexit.pdf
40. Electrical Contractors' Association (ECA), *Brexit Survey,* Electrical Contractors' Association (ECA), the Building Engineering Services Association (BESA) and Scotland's trade association for the electrical industry SELECT, 6 September 2016, https://www.thebesa.com/news/survey-major-building-sector-unfazed-by-brexit/
41. The Engineer, *Brexit Britain: the impact on UK businesses,* January 2017, https://www.theengineer.co.uk/brexit-britain-the-impact-on-uk-businesses/
42. European Commission, *EU – US Cooperation*,
43. The Environmental Services Association, *Press Comment: ESA welcomes House of Lords report on impacts of Brexit on UK environment and climate change*, 14 February 2017, http://www.esauk.org/reports_press_releases/press_releases/20170214_ESA_welcomes_HoL_report_into_impacts_of_Brexit_on_UK_environment_and_climate_change.pdf
44. https://ec.europa.eu/growth/industry/international-aspects/cooperation-governments/eu-us_en
45. European Commission, *Facts and Figures of the Common Fisheries Policy*, European Commission -Basic Statistical Data, 2016
46. European Commission, *Landfill Directive*, Directive 1999/31/EC, 26 April 1999, http://ec.europa.eu/environment/waste/landfill_index.htm
47. European Commission, *Payment Services Directive 2,* Directive 2015/2366, https://ec.europa.eu/info/law/payment-services-psd-2-directive-eu-2015-2366_en
48. European Commission, *Waste Framework Directive,* Directive 2008/98/EC, , 19 November 2008, http://ec.europa.eu/environment/waste/legislation/a.htm
49. European Commission, *Working Time Directive,* Directive 2003/88/EC, 4 November 2003, http://ec.europa.eu/social/main.jsp?catId=706&langId=en&intPageId=205
50. European Free Trade Association, EFTA Homepage, http://www.efta.int/

51. European Insurance and Occupational Pensions Authoritn, *India - Trade - European Commission*, Europa Opinions, http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/index_en.htm
52. European Parliament, *An Assessment of the Economic Impact of Brexit on the EU27,* March 2017, *www.europarl.europa.eu/RegData/etudes/STUD/.../IPOL_STU(2017)595374_EN.pdf*
53. European Parliament, *Competences of the Court of Justice of the European Union*, EU Fact Sheets, European Parliament http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_1.3.10.html
54. European Parliament, *Legislative Powers of the European Parliament*, http://www.europarl.europa.eu/aboutparliament/en/20150201PVL00004
55. European Parliament, *Reinvigorating EU-Turkey Bilateral Trade: Upgrading the Customs Union*, http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2017)599319
56. European Parliament, *The Common Agricultural Policy Post-2013*, EU Fact Sheets, European Parliament. http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_5.2.9.html
57. Federation of Small Business, *A skilful exit: What small firms wants from Brexit*, Federation of Small Business, 2017. https://www.fsb.org.uk/docs/default-source/fsb-org-uk/a-skilful-exit---what-small-firms-want-from-brexit.pdf?sfvrsn=0
58. Federation of Small Businesses*, Keep Trade Easy: What small firms wants from Brexit*, 2017, https://www.fsb.org.uk/docs/default-source/fsb-org-uk/keep-trade-easy_-what-small-firms-want-from-brexit-21-march-2017.pdf?sfvrsn=0
59. Financial Times, *After Brexit: The UK Will Need to Renegotiate at Least 759 Treaties*, 30 May 2017
60. Financial Times, *EU Regulations Blamed for 'swamping' Businesses, The Financial Times*, 2 February 2016. https://www.ft.com/content/658bd8e0-c91d-11e5-be0b-b7ece4e953a0
61. Financial Times, *Post-Brexit Delusions about Empire 2.0*, 7 March 2017. https://www.ft.com/content/bc29987e-034e-11e7-ace0-1ce02ef0def9
62. The Guardian, *Bank of England Deputy Governor Condemns EU Bonus Cap*, , 16 October 2014
63. House of Commons Library, *Business Statistics*, 23 November 2016. http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06152
64. Humphries, S., Stoloff, D., *Brexit Implications Down Under,* Geneva Group International, http://www.wardhadaway.com/knowledge/brexit-view-abroad/#australia
65. IATA, *The impact of Brexit on UK air transport*, June 2016
66. Lomas, N., *On data protection, Brexit means mirroring EU rules confirms UK minister*, Tech crunch, February 2017, https://techcrunch.com/2017/02/01/on-data-protection-brexit-means-mirroring-eu-rules-confirms-uk-minister/
67. May, T., *'A Global Britain'*, Lancaster House Speech, 17 January 2017
68. Mail Online, *Officials: Brexit Would Mean a 'overhaul' of UK Laws*, Mail Online, 18 March 2016

69. Mail Online, *BMW, UK Car Industry Say Britain Needs to Keep Tariff-Free EU Trade*, 17 January 2017
70. Migration Observatory, *Migrants in the UK Labour Market: An Overview*, 1 December 2016. http://www.migrationobservatory.ox.ac.uk/resources/briefings/migrants-in-the-uk-labour-market-an-overview/
71. Miller, V., et al, *Brexit: Impact across Policy Areas*, 26 August 2016. http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7213
72. Minford, P., et al., *Should Britain Leave the EU?: An Economic Analysis of a Troubled Relationship*, Edward Elgar Publishing, 2015
73. National Farmers Union*, Implications of a UK exit from the EU for British agriculture - NFU Online***,** 2016, www.nfuonline.com/assets/61142
74. National Federation of Fisherman's Organisations, *Weekly Commentary: The NFFO Sketches A Post-Brexit Future*, 22 May 2017. http://nffo.org.uk/news/weekly-commentary-the-nffo-sketches-a-postbrexit-future.html
75. Office for National Statistics, *Migration statistics quarterly report*, Office for National Statistics, February 2017
76. Office for National Statistics, *UK Balance of Payments, The Pink Book: 2016 (FY 2015 data)*. https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2016
77. Oliver Wyman, *The Impact of the UK's Exit from the EU on the UK-Based Financial Services Sector*, 2016. http://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF
78. Olszewski, T., *Startups and Venture Capital in the United Kingdom: The Global Startup Hub – but for how long?*, Medium, April 2017, https://medium.com/at-the-front-line/startups-venture-capital-in-the-united-kingdom-8d77017ef1cc
79. Pensions and Lifetime Savings Association*, Brexit and pension schemes: Getting the right deal for Britain's savers*, http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0612-Brexit-and-Pension-Schemes-Getting-the-right-deal-for-Britains-savers.aspx
80. Simoes, A.J.G.,Hidalgo, C.A., *The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development*, Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence, 2011
81. Sampson, T., et al., *Economists for Brexit: A Critique*, BREXIT 2016, 2016
82. Sampson, T., *Four Principles for the UK's Brexit Trade Negotiations*, Centre for Economic Performance, December 2016
83. Singham, S., *A Blueprint for UK Trade Policy,* The Legatum Institute, April 2017, https://lif.blob.core.windows.net/lif/docs/default-source/default-library/170427-final-trade-blueprintweb.pdf?sfvrsn=0
84. Society of Motor Manufacturers and Traders, *Automotive Priorities for the UK's Withdrawal from the European Union: SMMT Position Paper,* 7 December 2016 https://www.smmt.co.uk/wp-content/uploads/sites/2/1207-SMMT-position-on-UK-Brexit-negotiations.pdf
85. The Times, *May Renews Threat to Walk Away from EU without a Deal*, 1 May 2017. https://www.thetimes.co.uk/article/may-renews-threat-to-walk-away-from-eu-without-a-deal-2wk3hfnw7

86. UK Government, *Chancellor Philip Hammond guarantees EU funding beyond date UK leaves the EU*, 13 August 2016. https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu
87. UK Government, *A guide for British businesses interested in selling goods and services to India*, UK Government, 12 November 2016. https://www.gov.uk/guidance/exporting-to-india
88. UK Government, *Further certainty on EU funding for hundreds of British projects*, 3 October 2016. https://www.gov.uk/government/news/further-certainty-on-eu-funding-for-hundreds-of-british-projects
89. UK Government, *The Long-Term Economic Impact of EU Membership and the Alternatives*, HM Treasury, 18 April 2016 https://www.gov.uk/government/publications/hm-treasury-analysis-the-long-term-economic-impact-of-eu-membership-and-the-alternatives
90. UK Government,*The Government's Negotiating Objectives for Exiting the EU: PM Speech*, 17 January 2017. https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech
91. UK Government, *The Great Repeal Bill: White Paper*, 30 March 2017 https://www.gov.uk/government/publications/the-great-repeal-bill-white-paper.
92. van Berkum, S. et al., *Implications of a UK exit from the EU for British agriculture*, National Farmers Union, April 2016. http://edepot.wur.nl/377860
93. UK Parliament, *Brexit: Fisheries Inquiry*,17 December 2016. http://www.parliament.uk/brexit-fisheries-inquiry
94. UK Parliament, *The UK's Future Economic Relationship with the European Union*, 7 February 2017 http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/the-uks-future-economic-relationship-with-the-european-union/oral/46819.html
95. Wadsworth, J., et al., *Brexit and the Impact of Immigration on the UK*, Centre for Economic Performance, 2015
96. The World Bank, "*Commercial Service Exports (Current US$) Data*." 2015