

C|B|I|



What comes next?

The business analysis of no deal preparations

July 2019

Brexit and EU Negotiations



Contents

Foreword	3
Summary	5
Analysis of Preparedness	9
No Deal Timeline	15
Recommendations	17
Detailed Analysis	29
1. Movement of goods	31
2. Regulated goods	43
3. Tariffs and Taxation	57
4. Northern Ireland	64
5. Regulated services	73
6. People	91
7. Data	101
8. Competition Policy	104
9. Global Relations	109
10. EU programmes	117
Conclusion	123

Foreword

Business has huge belief in this country. The UK economy has so many strengths: a skilled workforce the envy of the globe; world-leading universities working to solve the great challenges of our time; global hubs of service, manufacturing and creative excellence across our country. Together with our language, location and ease of doing business, 'Brand Britain' is a powerful global calling card – a mark of quality and a magnet for international investment.

The UK's close relationship with the EU, providing a launchpad for firms into a market of 500 million consumers, has been part of this calling card. Since the 24th June 2016, firms have been working hard to support the development of an ambitious and deep future economic relationship between the UK and the EU. Securing a good deal with our most important trading partner will open up doors that have been closed by uncertainty. Companies of all sizes believe a deal can and must be done by the greatest negotiators on the continent and in Whitehall.

No one is ready for no deal

However, the expectation of achieving such a deal has been falling steadily for the last 18 months. Instead, for business, the risk of no deal feels greater than ever. Businesses, the UK government, the European Commission and Member States must all take responsibility for preparing to leave without one.

The CBI has analysed the no deal preparations of the UK, the EU and businesses in 27 key areas of the economy and we have concluded that – despite existing mitigations – disruption is likely in 24 of those areas immediately after no deal.

At the moment, this analysis shows there are no areas of relevance to the economy where the UK, the EU and the business community are all prepared well enough for no deal. In all 27 areas analysed, negative impacts are anticipated in either the short- or long-term.

But that can change.

It is the responsibility of everyone to make no deal more manageable

There are ways of mitigating some of the consequences of no deal. The CBI firmly believes that it is the responsibility of business and governments on both sides to do what they can to get ready. Working in close partnership with businesses of all sizes and Trade Associations of every sector to compile this report, **the CBI has made over 200 recommendations for improving no deal contingency measures.** For the UK government, these range from essential updates to preparedness advice, to the business-facing communication campaign that it is vital the government gets right to reach underprepared small firms. For the EU, these include a call for the European Commission

and Member States to match the UK's sensible temporary mitigations in a range of areas – from data to customs.

Taking strides forwards to reduce the impact of a cliff-edge Brexit is the right thing to do. But the new government must dedicate just as much effort to striking a deal as preparing for a failure to agree one **because there is no such thing as a no deal without negative consequences for jobs and growth.**

The effects of no deal would ripple on for years

Should no deal occur, the short-term shock will be severe. Queues at the UK border are inevitable, with the warnings of major supermarkets making clear the fears for food supply. Thousands of services firms will simply be legally unable to fulfil their obligations to their customers across borders – though many large regulated companies have made the changes they need to in order to mitigate no deal, it is prohibitively expensive for many small firms to do so. Meanwhile, no deal will mean everything from trucks crossing the Irish border to the free flow of data will be mired in legal uncertainty.

The IMF estimates that, in the long-term, no deal could knock 8% off the level of UK GDP compared to remaining in the EU. Trade barriers will become permanent, removing a key to the UK's attractiveness as a place to create jobs. These barriers will make queues at borders a regular occurrence and risk fragmentation of the UK's leading services sectors – from broadcasting to legal practices.

And we have to remember why a deal is important. In all the talk of backstops, Brexit bills and obscure sections of international law, it must not get lost why a deal with the EU adds to the UK's strengths and is one of the building blocks to the prosperous UK we all want to see. It is not just today's jobs that rely on a smooth withdrawal from and deep relationship with the EU, but the jobs of the decades ahead.



Carolyn Fairbairn
CBI Director General



Executive Summary

The UK government

The UK has made many welcome proposals for reducing the impact of no deal. The Treasury has allocated £4 billion to prepare for negative impacts between 2016 and 2019/20; efforts to ensure the UK has a robust legal framework as it exits the EU have led to the laying of hundreds of Statutory Instruments; government departments have published over 100 pieces of advice for businesses, citizens, Universities and local authorities.

However, not all of this advice has been communicated well, been understood or is yet trusted by business. Additionally, many of the government's plans delay negative impacts but do not remove them, as it has tended towards prioritising short-term stability and temporary measures, creating a gap for the long-term that feeds uncertainty.

To improve its readiness, the CBI recommends the UK government:

- Put the civil service back onto a no deal footing and bring forward a plan for business engagement immediately
- Review and update all technical notices and Brexit preparedness advice by the middle of August
- Launch a targeted communications campaign with simple and clear advice for firms by the beginning of September
- Confirm plans to make additional parliamentary time by the beginning of September to complete the legislation necessary for no deal and begin promised consultations for the post-no deal UK
- Publish crucial preparedness measures by the beginning of October to provide transparency and confidence in government readiness
- Have scaled up trials of crucial IT systems by the middle of October

The European Union

By some way, the EU has taken fewer steps to reduce the damage of no deal than the UK has, having taken a noticeably less generous, more limited approach to reducing the disruption of no deal, with only a small number of limited temporary measures made – such as allowing UK HGV licenses to be valid for 9 months from no deal and permitting UK aeroplanes to continue flying for 6 months.

To improve its readiness, the CBI recommends the EU:

- Start drafting further communications to be released to priority audiences in the event of no deal by the middle of August
- Bring forward the ability for UK firms to apply for essential licenses as a third country by the start of September
- Begin preparations by the start of October – both at an EU and Member State level – to be able to move quickly into no deal negotiations should the UK crash out of the EU

- Discuss priorities for temporary standstills or extensions of temporary measures at the next European Council in October
- Match, at least for a period of time, the UK's temporary mitigations if no deal occurs
- Encourage a pragmatic approach from authorities and Member States to liability and citizens if no deal becomes a reality

The Business Community

Businesses have spent billions of pounds preparing for a no deal Brexit. Headlines have been made as companies have shifted HQs, licenses and activity from the UK to the EU. Highly-regulated sectors like financial services, broadcasting and life sciences firms are well prepared for the immediate impact of no deal.

However, despite this activity, much of the business community will not be ready for no deal. For hundreds of thousands of small companies, diverting precious resource – both human and financial – to Brexit preparedness measures is out of reach. The change in the scheduled date for no deal has also had an impact on business readiness.

To improve its readiness, the CBI recommends the business community:

- Resume no deal preparations immediately
- If resource allows, have made plans to communicate additional needs for mitigations to the UK and the EU governments by the start of September
- Have agreed and reinforced communication routes into government by the middle of October
- Prioritise people if no deal occurs

Recommendations for joint action between the UK and the EU

As a result of both negotiating mandates and politics, the UK and the EU have taken very few joint actions to reduce the impact of no deal. While business understands the political constraints, the lack of joint action between the UK and the EU for no deal has been disappointing, not least on the topic of rights for citizens, where a joint approach would be both compassionate and rational.

However, should no deal occur then – at the very least – joint action will be needed in the case of the Irish border, which cannot be solved by unilateral measures alone, and negotiation will rapidly be required to secure a long-term aviation deal. As such, no deal does not remove the need for negotiation between the UK and the EU – it only changes the circumstances in which those talks take place.

If no deal occurs, the UK and the EU together should:

- Immediately enter emergency talks to provide temporary resolutions for Northern Ireland
- Attempt to re-open full negotiations as soon as possible
- Share information between authorities to closely monitor potential crunch points together

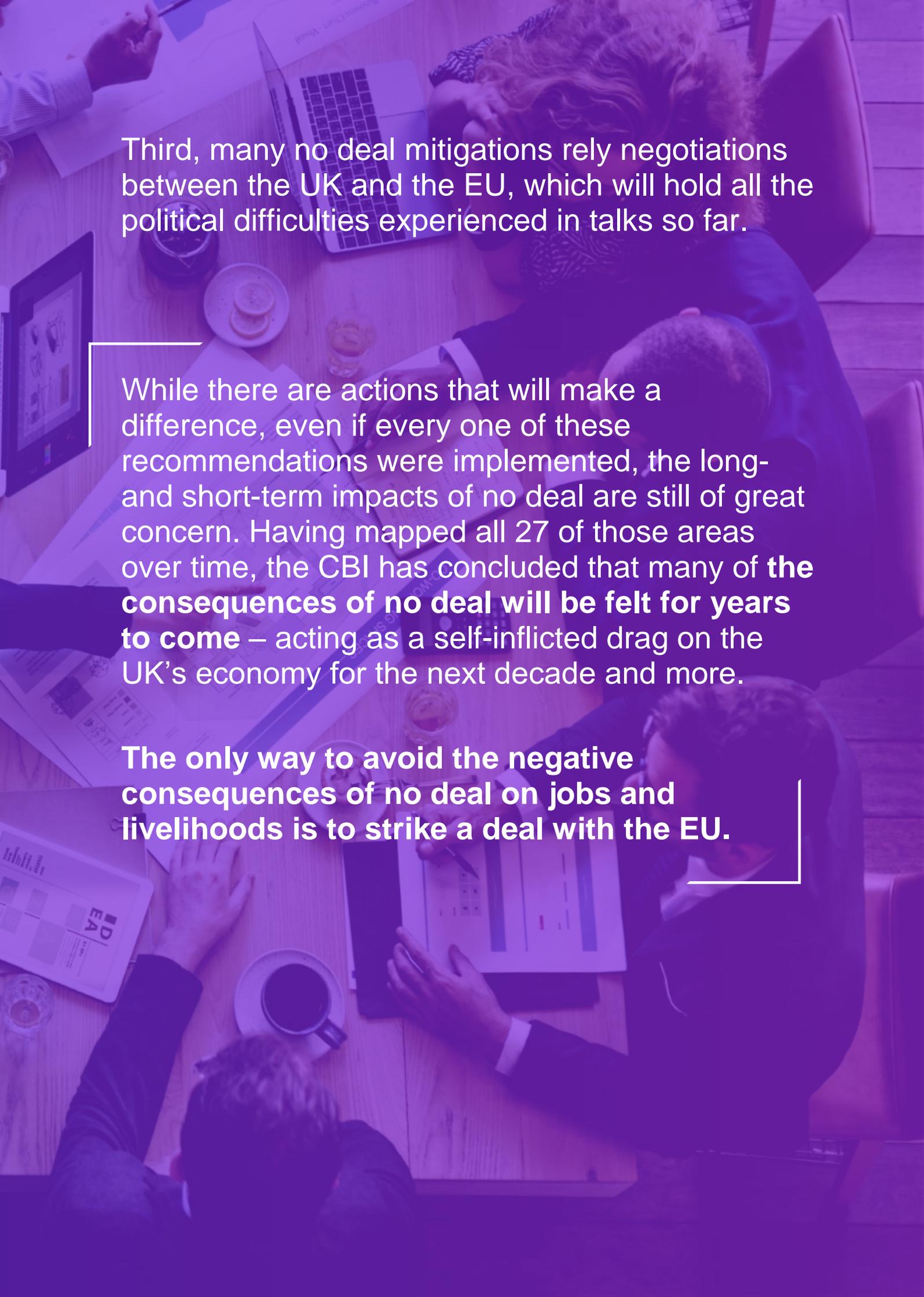


The CBI has compiled this report 'What comes next? The business analysis of no deal preparations' primarily to support efforts to mitigate a potential cliff-edge Brexit where the UK falls out of the EU without a deal or transition period.

In doing so, the CBI has come to 3 conclusions.

First, it's time to escalate preparations. Having analysed Brexit preparations by the UK government, the European Commission, EU Member States and companies in the 27 areas of the UK's relationship with the EU that are most important to businesses, the CBI has concluded that **no one is ready for no deal.**

Second, preparations can have a material impact. Working with its member businesses and Trade Associations, the CBI has compiled **over 200 recommendations for reducing the harm of no deal.**



Third, many no deal mitigations rely negotiations between the UK and the EU, which will hold all the political difficulties experienced in talks so far.

While there are actions that will make a difference, even if every one of these recommendations were implemented, the long- and short-term impacts of no deal are still of great concern. Having mapped all 27 of those areas over time, the CBI has concluded that many of **the consequences of no deal will be felt for years to come** – acting as a self-inflicted drag on the UK's economy for the next decade and more.

The only way to avoid the negative consequences of no deal on jobs and livelihoods is to strike a deal with the EU.

Analysis of Preparedness

The CBI has examined the no deal preparations made by the UK government, the European Commission, Member States and companies in 27 areas of the UK-EU relationship that are most important to business.

This comprehensive analysis has ranged from provisions for hauliers that will be carrying the nation's goods to and from Europe, to the measures taken to ensure auditors can continue providing services across the continent after no deal. In addition, this analysis has looked at unilateral areas of UK preparedness, such as domestic legislation designed to provide replacements for EU funding, and areas that have required action on an international scale, such as the UK's position at the World Trade Organisation in no deal and the state of its Free Trade Agreements with third countries.

The conclusions are clear.

- The UK has made many welcome proposals for reducing the impact of no deal – however, many of its plans delay negative impacts but do not remove them
- By some way, the EU has taken fewer steps to reduce the damage of no deal than the UK has
- Very few joint actions to mitigate no deal have taken place, creating a high number of areas where continued UK-EU negotiations are inevitable
- Businesses have been making efforts to get ready for no deal, but have been hampered by unclear advice, tough timelines, cost and complexity

KEY



Negative impact anticipated from Day 1 of no deal



Some provisions made to reduce the negative impact, but risks around scope, communication and/or implementation may mean some disruption from no deal



Good temporary provisions to avoid disruption on Day 1 of no deal, but no long-term solution



Sufficient preparations for the short- and long-term

	Area	UK readiness	EU readiness	Joint readiness	Business readiness
Movement of goods	Customs	●	●	●	●
	UK border	●	●	●	●
	Haulage	●	●	●	●
Regulated goods	Regulated manufacturing	●	●	●	●
	Chemicals	●	●	●	●
	Life sciences	●	●	●	●
	Agri-food	●	●	●	●
	Tariffs	●	●	●	●
	EU Tax Directives	●	●	●	●
Northern Ireland	Irish Border	●	●	●	●
	Common Travel Area	●	●	●	●
	Integrated Single Electricity Market	●	●	●	●
Regulated services	Financial services	●	●	●	●
	Professional and Business Services	●	●	●	●
	Energy	●	●	●	●
	Broadcasting	●	●	●	●
	Aviation	●	●	●	●
People	Current residents	●	●	●	●
	Mobility	●	●	●	●
	Future immigration	●	●	●	●
	Data flows	●	●	●	●
	Competition	●	●	●	●
Global relations	Free Trade Agreements	●	●	●	●
	World Trade Organisation	●	●	●	●
	International Agreements	●	●	●	●
Programmes	Research and Innovation	●	●	●	●
	Regional funding	●	●	●	●

The UK has made many welcome proposals for reducing the impact of no deal – however, many of its plans delay negative impacts but do not remove them



In 4 areas, the UK has made sufficient preparations for the short and long-term of no deal, in 11 areas it has temporary provisions but not permanent ones, in 9 areas it has made some mitigations but negative consequences are still anticipated, and in 3 areas significant negative impact is expected from Day 1 of no deal

The UK has made a range of positive provisions for no deal. The Treasury has allocated £4 billion to prepare for negative impacts between 2016 and 2019/20¹; efforts to ensure the UK has a robust legal framework as it exits the EU have led to the laying of hundreds of Statutory Instruments; government departments have published over 100 pieces of advice for businesses, citizens, Universities, local authorities and charities.

However, by the end of 2017/18, the six key Brexit departments had only spent £400 million on Brexit and it is expected that this cost will have risen to £900 million in 2018/19². In comparison, Aston Martin is publicly reported as having spent £30 million on Brexit preparations³, Pfizer has spent £80 million and GlaxoSmithKline £70 million⁴ – while in financial services, Barclays is reported as spending up to £200 million and Bank of America has spent over £300 million⁵. There are at least another 100 Statutory Instruments that need to be laid or altered⁶, and a number of pieces of advice published by government – while a good start – are out of date, insufficient or incomplete.

In preparing for no deal, the UK government has tended towards prioritising short-term stability and temporary measures – for example, through its plans to ease friction at customs and its approach to licenses for regulated EU goods imports. This is welcome, and business is confident that the mitigations will reduce some of the disruption that no deal could have created.

Nevertheless, temporary measures only push out the problem to another day, including on some fundamental issues such as arrangements for the Irish border and the UK's tariff schedules. While this is understandable from a political perspective, planning cycles in the private sector can be around 3-7 years, so short-term solutions are of limited usefulness to companies attempting to win investment. As a result of this strategy in particular, no deal will do very little to remove the uncertainty for businesses which has been holding the economy back. As the Governor of the Bank of England has said, "crystallising the thing that businesses are most worried about is the worst way to resolve that uncertainty"⁷.

¹ HM Treasury, Budget 2018

² Institute of Government, Costing Brexit: what is Whitehall spending on exiting the EU?

³ Reuters, Brexit casts shadow over stands at Geneva car show

⁴ The Wall Street Journal, Brexit Deal's Failure Prolongs Corporate Uncertainty

⁵ Reuters, Barclays says it has spent up to 200 million pounds on Brexit

⁶ Hansard, Exiting the European Union Questions in the House of Commons, 27 June 2019

⁷ Evidence to the Treasury Select Committee, 26 June 2019

By some way, the EU has taken fewer steps to reduce the damage of no deal than the UK has



In 5 areas, the EU has made sufficient preparations for the short and long-term of no deal, in 1 area it has temporary provisions but not permanent ones, in 6 areas it has made some mitigations but negative consequences are still anticipated, and in 15 areas significant negative impact is expected from Day 1 of no deal

The EU appears in some ways more prepared for no deal than the UK. It published almost 100 preparedness notices over 8 months before the UK did to help stakeholders get ready. It has laid or readied all of the regulations it views to be necessary. French, Irish, Dutch and Belgian customs authorities moved quickly to announce their intentions to hire hundreds of new officials to undertake checks. Additionally, some Member States have made bold and significant gestures towards preparedness for their businesses, from website tools to preparedness vouchers.

However, overall preparedness of businesses and authorities in the EU is much lower than in the UK, with the exception of the Republic of Ireland. In February, 17.6% of Germany's Mittelständler reported being well-prepared for Brexit, whereas 77% believed it would not affect them⁸, while a Swedish survey showed 32.7% of Swedish firms were ready for no deal but 48% had not started preparing for such a scenario⁹. Though of course this preparedness may have increased, and while it is true the exposure of EU firms to Brexit is much lower than that of UK firms, no deal effects will likely catch greater numbers of EU-based firms by surprise. This was also marked in a 2018 survey by French business organisation MEDEF, where a third of its members thought Brexit wasn't going to happen and a third of its members thought Brexit had already happened.

In comparison to the UK, the EU has taken a noticeably less generous, more limited approach to reducing the disruption of no deal, with only a small number of limited temporary measures made – such as allowing UK HGV licenses to be valid for 9 months from no deal and permitting UK aeroplanes to continue flying for 6 months.

The combination of the EU and UK's different approaches creates an imbalance, where EU goods and services exports will have easier access to the UK than UK goods and services exports will to the EU. From the business perspective, the UK has taken the more responsible approach, but it has also put the UK in a position of relative weakness for negotiating with the EU in the future. Additionally, over time the UK's temporary easements will expire, creating new no deal challenges in the following months and years. In contrast, the EU's approach will mean a more disruptive impact immediately, with high barriers from Day 1.

⁸ The Economist, Germany's Mittelstand are hardly prepared for Brexit

⁹ The Local, Are Swedish businesses ready for a hard Brexit? Not really, survey suggests

Very few joint actions to mitigate no deal have taken place, creating a high number of areas where continued UK-EU negotiations are inevitable



In 3 areas, the EU and UK have made sufficient joint preparations for the short and long-term of no deal, in 8 areas they have temporary provisions but not permanent ones, in 4 areas they have made some mitigations but negative consequences are still anticipated, and in 12 areas significant negative impact is expected from Day 1 of no deal

As a result of both negotiating mandates and politics, the UK and the EU have taken very few joint actions to reduce the impact of no deal. Some exceptions to this rule have occurred at the agency and private sector level, where UK and EU actors regularly collaborate and work together. For example, the EU and UK have agreed memoranda of understanding covering supervisory co-operation, enforcement and information exchange for financial services, and there have been some informal conversations between ports and their operators about approaches to no deal.

While business understands the political constraints, the lack of joint action between the UK and the EU for no deal has been disappointing, not least on the topic of rights for citizens, where a joint approach would be both compassionate and rational. The failure to cooperate has also had practical impacts, as it has made taking actions necessary to prepare for no deal much more difficult for some sectors. For example, in the cosmetics industry, firms have had to re-submit data that the European Commission holds to a newly-created UK authority to maintain their licenses to sell everyday goods such as eyeliner and toothpaste. This has been burdensome, requiring – in some cases – full-time resource dedicated to the process over weeks and months, as the data has to be manually submitted for each and every product on sale. A simple act of co-ordination could have seen the EU’s data uploaded in bulk straight into the UK’s, and saved that additional cost for UK and EU firms.

Ultimately, while little joint action to mitigate no deal has taken place to date, in no deal it will be inevitable. At the very least, joint action will be needed in the case of the Irish border, which cannot be solved by unilateral measures alone, and negotiation will rapidly be required to secure a long-term aviation deal. As such, no deal does not remove the need for negotiation between the UK and the EU – it only changes the circumstances in which those talks take place, making it more difficult for the UK to achieve its aims.

Businesses have been making efforts to get ready for no deal, but have been hampered by unclear advice, tough timelines, cost and complexity



In 4 areas, business has made sufficient preparations for the short and long-term of no deal, in 9 areas it has temporary provisions but not permanent ones, in 10 areas it has made some mitigations but negative consequences are still anticipated, and in 4 areas significant negative impact is expected from Day 1 of no deal

Businesses have spent billions of pounds preparing for a no deal Brexit. Stockpiling in the run up to March was so significant that it drove never-before-seen distortions in Markit PMI data. Headlines have been made as companies have shifted HQs, licenses and activity from the UK to the EU. In November 2018, 57% of firms surveyed by the CBI planned to or had begun to adjust supply chains outside of the UK, while 45% planned to or had engaged the services of a customs broker, freight forwarder or logistics provider, and 31% had undertaken hedging against currency fluctuations¹⁰.

However, despite this activity, the business community is not ready for no deal. 4 out of 10 SMEs that trade internationally have no contingency plans for Brexit¹¹. For hundreds of thousands of small companies, diverting precious resource – both human and financial – to Brexit preparedness measures is out of reach. They cannot hope to have access to anything like the in-house advice available to large companies, and government funds that can help them to do so have been poorly advertised and are now closed. 87% of CBI members have cited a lack of, or inconsistent, information making it difficult to prepare for Brexit, while 41% cite the cost or the lack of resources as a major concern¹².

The change in the scheduled date for no deal has also had an impact on business readiness. While the majority of businesses responding to CBI surveys say the extension has had no impact on their plans, for others it has in significant ways. For retailers and consumer goods firms, no deal taking place 7 weeks before Christmas and 4 weeks before Black Friday is a nightmare. At this time of year, available warehousing is at its lowest levels and demand is significantly higher – with the UK Warehousing Association already saying the sector is running full. In the meantime, manufacturers have been running down the stock they held for April, believing the risk of no deal has decreased or having to use items ranging from printer cartridges to medicines before their use by dates. Having only 6 months' warning to bring forward orders is, in some cases, impossible. Overall, it is likely many goods firms will be less prepared for no deal in October than they were for March – though some companies have been able to make good use of time to sort through outstanding legal issues.

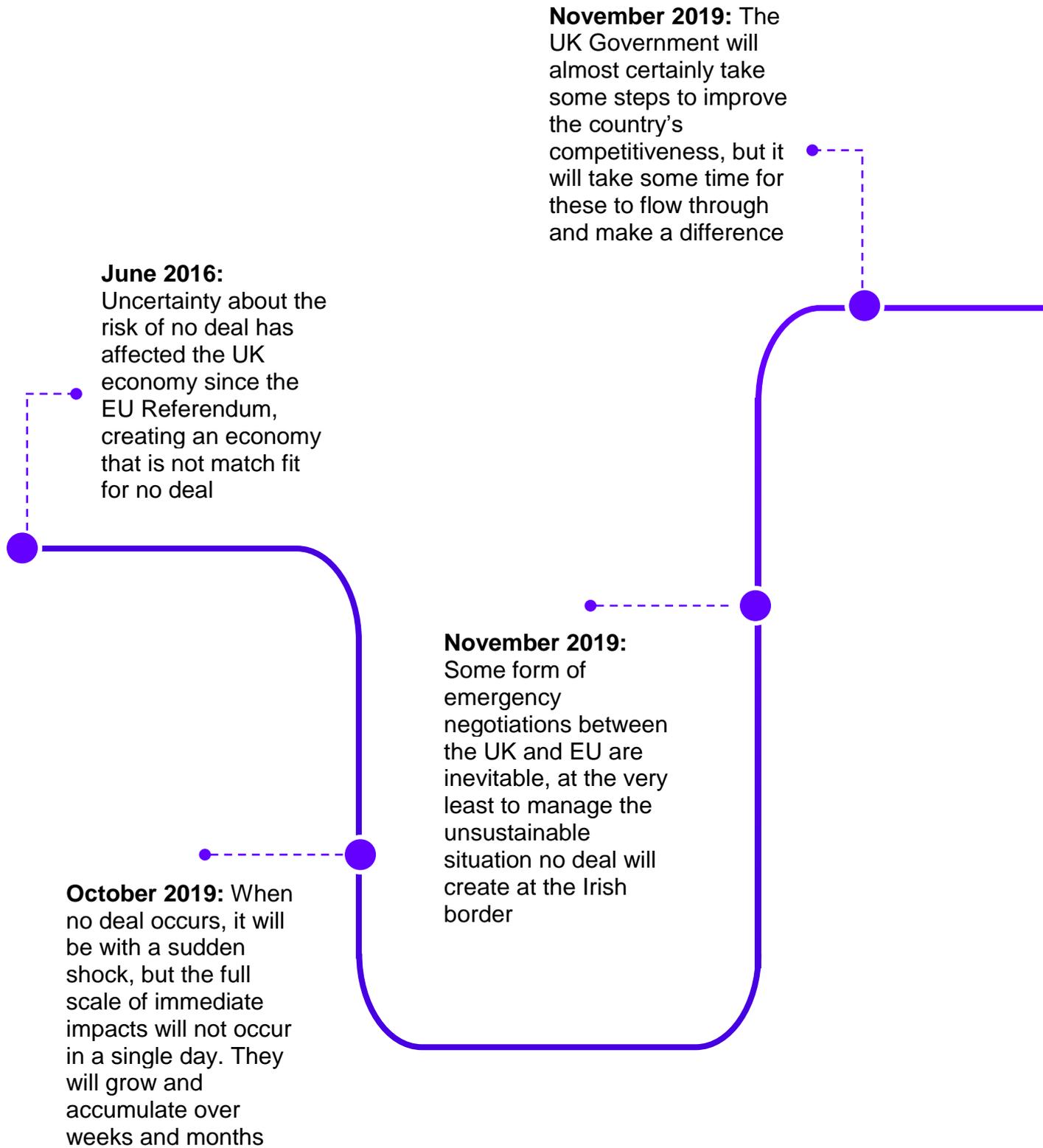
In the long-term, most businesses will, of course, adjust to the new reality of no deal. However, the cost of that adjustment should not be discounted, including the risk of bankruptcy for small firms at risk of cash flow issues and movements of activity and jobs from the UK to the EU. A number of sectors will lose a key aspect of their competitiveness in no deal, including agri-food businesses priced out of their most important market, and professional and business services firms no longer able to freely operate across the European border. And many UK trading firms will see their exporting functions tied up in red tape, having to comply with multiple sets of regulations to function for the foreseeable future. Business preparations for the long-term in no deal have hardly begun, but when they do it will inevitably be to the detriment of the UK economy.

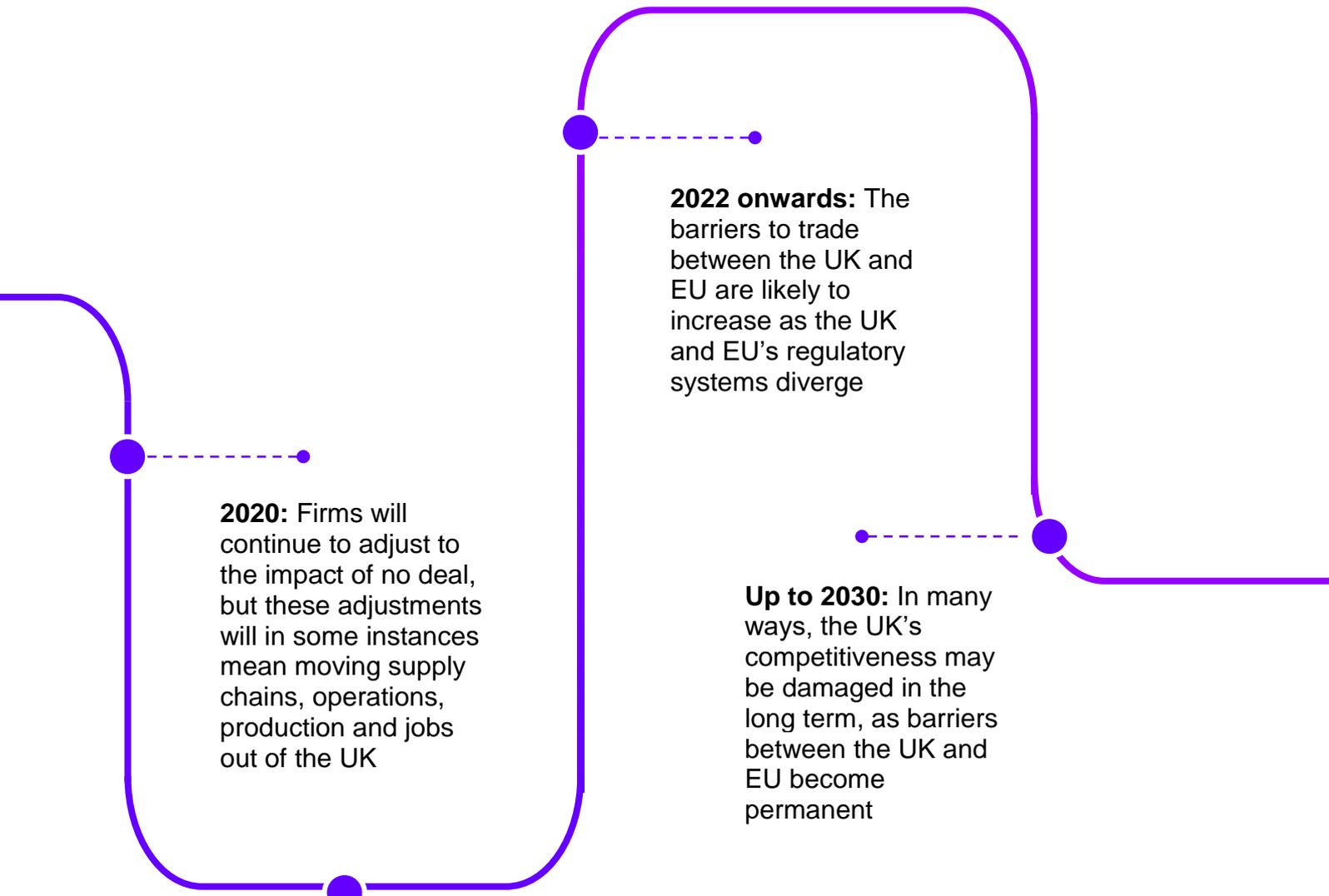
¹⁰ CBI, Brexit survey November 2018

¹¹ HMRC, Evidence to the Public Accounts Committee

¹² CBI, Brexit survey November 2018

No Deal Timeline





2020: Firms will continue to adjust to the impact of no deal, but these adjustments will in some instances mean moving supply chains, operations, production and jobs out of the UK

2022 onwards: The barriers to trade between the UK and EU are likely to increase as the UK and EU's regulatory systems diverge

Up to 2030: In many ways, the UK's competitiveness may be damaged in the long term, as barriers between the UK and EU become permanent

2020-2021: The EU and UK's temporary mitigation measures will fall away at different times post-Brexit, exposing the UK economy to the full impact of no deal over months and years

Recommendations

Recommendations for the UK government

1. Immediately put the civil service back onto a no deal footing and bring forward a plan for business engagement

If the new UK government truly wants to take all necessary steps to prepare for no deal, it should begin with the civil service. In the run up to April 2019, across 11 departments 1,878 staff were moved from their regular work streams onto no deal preparations – but 78% of them have since returned to their day jobs¹³. Some of the functions that businesses believe have dropped off as a result of this change in resource are essential to be ready for no deal – such as monitoring stocks of Category 1 goods in the UK, critical goods for government-secured capacity like medicines and vital food ingredients, which must be resumed.

Ordering an increased number of civil servants back to work on no deal quickly is essential because recruiting from within Whitehall will take some time, as will any handover of work they are currently doing. Additionally, time to provide training should be considered if non-expert individuals are to be performing functions such as advice to companies.

One of the key functions the civil service will need to undertake as part of no deal preparations is engagement with stakeholders. This has been on pause since April. Monthly meetings of the EU Exit Business Advisory Group should resume within the first month, in order to ensure the progress of business preparedness is communicated to the Chancellor and the Secretaries of State for Exiting the EU and Business. The architecture for sectoral business consultation – currently a mix of government engagement at Trade Association forums and department-convened conversations across BEIS, DExEU, MoD and Defra - should be re-examined for suitability in a no deal scenario.

This engagement should be undertaken with a two-fold objective: to share information and better prepare the UK economy for no deal, but also to have vital communication routes, relationships and structures ready and established for if no deal occurs.

2. By the middle of August, review and update all technical notices and Brexit preparedness advice

The main source of government-to-business advice for no deal preparations has been the 100+ technical notices that have been produced. The existence of these notices has been successfully well publicised, but a number of challenges exist with them that the new government should seek to rectify within its first two weeks:

- Firstly, the new government should order a complete review of all technical notices to update obsolete advice and information. The vast majority of technical notices have not been updated since the second extension of Article 50 was secured in April, and businesses accessing this advice have been left

¹³ BBC Newsnight, Fol requests

confused as a result. For example, current advice on aviation states that EU air freight operators can continue operating as they do now up until 27 October 2019, 3 days before the UK's exit from the EU. Hauliers looking for advice on permits are currently being instructed to email the Driver and Vehicle Standards Agency to apply for short-term permits if they're transporting goods in April 2019, with no advice about October. A rapid rectification of this state of affairs is an essential first step.

- Secondly, the new government should begin to define what it means by 'temporary' in its definitions of temporary measures, in order to provide firms with a long-term horizon for planning purposes. For example, the temporary tariff schedules the government intends to introduce for the UK in the event of no deal will have a significant impact on how businesses function and, ultimately, their bottom line. Being able to understand the government's intentions for tariff schedules in the longer-term will support firms in both their financial planning and their investment conversations. Government plans for Northern Ireland are another area where provisions are only temporary, but the lack of definition of 'temporary' is causing concern in one of the most sensitive areas of the UK.
- Third, government should look to take on some of business' suggestions about the accessibility of information displayed in technical notices. Currently, a small canned food business that trades a patented product with the EU and who employs an EU citizen will be presented with 48 different documents to read and act on. This is overwhelming and leads to disengagement. Some of the filters the government has applied to its no deal advice are very sensible, for example dividing by sector or area, but to be truly business-friendly it would focus in on the absolute essentials. It would also allow filtering by role, so that HR Directors could access information about EU employees easily and Chief Financial Officers can access information about tax and tariffs, without worrying about other elements.

Taking these steps will reduce uncertainty and increase the uptake and effectiveness of existing government advice.

3. By the beginning of September, launch a targeted communications campaign with simple and clear advice for firms

As the Prime Minister has rightly identified, government has taken positive steps towards preparedness for no deal but in many cases awareness of those steps is very low. For example, the government's proposals for Transitional Simplified Procedures at ports could substantially improve the smooth flow of goods, but fewer than 10% of firms¹⁴ eligible to access these mitigations have applied for them. In the CBI's engagement with smaller trading businesses, it is clear that many firms do not know these procedures are available to them.

¹⁴ BBC, UK firms 'not even close to ready' for no deal

Launching a wide-scale, well-resourced communications campaign is the only way to reach companies that have so far not engaged with preparing for no deal. To get it right, the government should focus its communication on three things:

- Firstly, on simplicity, to provide clear and simple reassurances on issues such as EORI numbers and settled status for EU workers, emphasising the free and simple nature of provisions which can make a big difference.
- Secondly, on issues that have received the least attention – for example, problems with the free flow of data and non-EU trade deals in no deal – which could come as nasty shocks to firms. A week-long focus on each ‘hidden issue’ would be an effective way of campaigning to raise awareness.
- Third, the government should explore what further personalised pieces of advice it can provide to firms – for example, providing reassurances on the Common Travel Area through townhalls in Irish border towns, and micro-targeted online advertising about the UKRI online portal for potential Horizon2020 users. This approach should avoid firms being overwhelmed by information and worried about issues that are not relevant to them.

4. By the beginning of September, confirm plans to make additional parliamentary time to complete the legislation necessary for no deal and begin promised consultations for the post-no deal UK

The UK is still not Brexit-ready from a legislative perspective, and needs to be before October. This includes major pieces of legislation, such as the Trade Bill which has not been advanced, and Statutory Instruments (SIs), where approximately 100 are still outstanding in some form¹⁵. This number includes some SIs that are essential to business continuity in the event of no deal, for example the SI that would establish the UK’s new tariff schedules and the SI that would provide new electricity connection codes, vital for the functioning of the UK’s electricity market in no deal.

To achieve this legislative feat, reducing Summer and Conference parliamentary recesses and/or extending the parliamentary week may be necessary. This should be actively considered by government before it is too late.

Additionally, beginning to bring forward consultations on important aspects of the future will help businesses to focus on long-term opportunities – before departure has even taken place. If the new government intends to deviate from the last government’s plans on immigration, for example, then the current consultation on the Immigration White Paper will need to be quickly edited and extended. Similarly, a consultation on the UK Shared Prosperity Fund, the successor to EU structural funds, has been promised since 2018. Beginning this as soon as possible will demonstrate the government’s commitment to growth across the UK after Brexit.

¹⁵ Hansard, Exiting the European Union Questions, 27 June 2019

5. By the beginning of October, publish crucial preparedness measures to provide transparency and confidence in government readiness

Some of the concerns from businesses – and indeed citizens – are occurring because of a lack of clear information. When businesses receive information about UK preparedness through reports by the National Audit Office and Freedom of Information requests by journalists, it can create a negative impression. The new government should adopt a refreshed, transparent approach to no deal preparedness, being unafraid of areas where preparedness is low if it has plans to mitigate the gap. This could be a particularly positive step if it demonstrates increased preparedness over time in the run up to no deal.

Some of the key areas for transparency for businesses are simple. Publishing border resourcing plans for ports and customs authorities in no deal in order to provide logistics providers and significant traders with the information they need would help them adjust their supply chains accordingly. Additionally, making public the legal advice that government has received on the Irish border should reassure firms operating in that region that doing so in the event of no deal will not put firms at risk of liability.

However, some of the areas where business needs more information will require additional policy development and detail added to technical notices. It is therefore important that work begins on these areas as soon as possible. Some priorities highlighted by firms include further information on the implications for carbon pricing in no deal, as current levels of detail do not allow companies to plan for the future. Additionally, providing detail on how the guarantees for underwriting EU funding will operate will provide businesses and universities with the tools they need to reassure their partners in collaborative projects.

6. By the middle of October, have scaled up trials of crucial IT systems

To minimise the disruption no deal risks creating, it will be important that many of the major changes no deal presents do not happen all on the same day for the first time, that all systems are in place ahead of time and ready for a surge of demand. Trials of new and existing IT systems, particularly those related to customs and new procedures required at the UK border, should begin as quickly as possible with major traders to get both authorities and businesses used to operating in a new way. These trials need to include how the customs systems CDS and CHIEF operate under no deal conditions when in a real-life environment, as the systems are currently operating in tandem in a way they were never designed to do. The New Computerised Transit System also needs to be trialled to understand how it copes with increased levels of traffic. Similarly, the systems necessary for ensuring market access, such as those for registering chemicals, need to be sufficiently robust to absorb a rush of last-minute applications.

Trials of new systems are a standard aspect of launching major changes, and the trialling of the EU Settled Status scheme is proof that if improvements can be made during the experimentation period, it can make full launches much easier. Additionally, updating the current UK customs declaration system CHIEF to CDS demonstrates how important trials are: the update was meant to be implemented by January 2019 and has stalled, incomplete because of practical difficulties faced in the process, which began in October 2013 when the EU introduced the Union Customs Code. Had CDS been launched in full immediately, the UK's customs system would have failed.

Recommendations for the EU

1. By the middle of August, start drafting further communications to be released to priority audiences in the event of no deal

Confusion will be one of the biggest initial consequences of no deal, and clear, consistent communication from the EU will be vital to reduce that confusion if no deal occurs. Some of the key reassurances that firms based in the EU will be looking for will be around essential elements like corporate structures, provision of financial services and legal use of UK products. But it will not just be businesses looking for messages of reassurance from the EU. UK students at institutions across the continent and frontier workers will be particularly anxious about the future. The European Commission will play an important role in communicating itself to these audiences, but some of these messages will be best received if given by Member State governments, which the European Commission can support to ensure consistency across boundaries where possible.

As it works on drafts, the EU should consider the possibility of launching these communications jointly between the UK and the EU if no deal occurs. While the political situation may well make joint action impossible, a united front around some of the basic messages would be well received across Europe – and, indeed, heard by investors and companies across the world.

2. By the start of September, bring forward the ability for UK firms to apply for essential licenses as a third country, before the UK leaves

There are a range of contingency actions businesses cannot take until the UK has left the EU. For example, UK certification bodies currently cannot apply for European Commission approval for UK organic food to be sold – a process that usually takes up to four months. As a result, specialist UK producers will be temporarily shut out from the high-margin €37 billion European organic market¹⁶. The free flow of data is another case in point. The UK cannot ask the Commission to judge that the UK has ‘essentially equivalent’ protection for personal data until it has left the EU. Until it does so, UK companies will be forced to pay for costly legally uncertain work-arounds to transfer data.

It would be a fairly simple step for the European Commission to take to say that UK authorities and firms can begin to make applications as a third country before it has left. As the companies and bodies affected have to prove they are meeting the rules required by the EU, there would be no additional impact on the sanctity of the Single Market – but it would remove some unnecessary disruption.

There is precedent for the EU to grant the UK status only otherwise granted to third countries as part of its contingency measures. In April 2019, the EU granted the UK listed third country status as the first step towards permission for UK-based farms and factories to export live animals and goods of animal origin to the EU. Extending this approach to other areas would be a pragmatic move.

¹⁶ Research Institute of Organic Agriculture, Europe: Organic Retail Sales 2017

3. By the start of October, begin preparations – both at an EU and Member State level – to be able to move quickly into no deal negotiations should the UK crash out of the EU

If no deal occurs, the need for negotiations between the UK and the EU will not disappear. In some ways that need will intensify, for example because the UK and the EU will be operating in regulatory purgatory with regard to the Irish border. The UK will also need to apply to the EU as a third country for a range of very specific deals that are available to third countries that meet the right standards, including equivalence for audit to ensure firms in the EU using UK auditors do not have to rapidly change companies, and an equivalence determination on financial services to limit the impact on financial stability, market integrity, investor and consumer protection and fair competition.

In the months leading up to the UK's scheduled exit from the EU, the European Commission must start to consider how it would organise for these emergency talks. This should begin with initial conversations with the Sherpas that attend the EU's General Affairs Council to stress test an approach, a proposal for an organisational structure to handle these conversations and the selection of individuals who would be required. These preparations must be insulated from the scheduled changes in the EU's political leadership as it looks forwards to starting its new 2019-24 legislative mandate.

One aspect the European Commission should also consider in advance is the approach Member States should take to bilateral talks with the UK on issues of national competence. In no deal, the UK would be utilising all the diplomatic routes that it could to negotiate bilaterally with Member States to achieve, for example, reciprocal healthcare deals for its citizens living abroad. Supporting Member States to consider this early would speed up the process and reduce any length of disassociation on important issues for people.

4. At the next European Council in October, discuss priorities for temporary standstills or extensions of temporary measures

By the European Council in the mid-October, there should be a clearer indication of whether the UK is leaving the EU with a deal or if another extension is to take place. At this last-minute meeting between Europe's political leadership, big decisions will have to be taken. If no deal is a likely outcome, the EU should offer a range of final hour temporary standstills in order to reduce the disruption of no deal.

Business' priorities for temporary measures or 'mini extensions' would include borders and data flows. Even simple measures like allowing continued sharing of customs systems could make a difference to the flow of goods – including food – between the UK and EU.

For European Prime Ministers and Presidents to be adequately prepared to have such a conversation at the October European Council, papers would need to be drafted and agenda items tabled in advance. At the very least, a preliminary conversation would need to be had in the first or second week of October with representative Ambassadors from the Member States. Early thinking about this possibility is therefore vital.

5. If no deal occurs, match, at least for a period of time, the UK's temporary mitigations

Given the imbalance between the UK and EU's approaches to no deal, there are many temporary measures that the UK has adopted which the EU should also match to make a big difference to the initial disruption from no deal. For example, to reduce the possibility of chaos at borders, the UK has granted temporary rights for cabotage for EU aviation and haulage, as well as mutual recognition of the EU's Authorised Economic Operators (AEOs). These are sensible steps and would likely be important parts of any economic relationship that could be agreed at some point in the future between the UK and the EU.

These additional actions should not be limited to managing the visible effects of no deal on goods trade however, but should also take into consideration the immediate impact of no deal on services trade. These additional actions should not be limited to managing the visible effects of no deal on goods trade, but also take into consideration the impact of no deal on services trade. Replicating the UK's temporary permissions regime for financial services is one step that the EU could take in order to ensure continuity of regulated services for customers – both corporates and citizens – reliant on the UK's financial services. Additionally, measures to allow cross-border legal advice would be important so as not to disrupt ongoing legal activity across the EU.

The pan-European employers' organisation BusinessEurope has written to the European Commission already outlining its priorities for further no deal measures on reciprocal basis, including continued recognition of UK standards to maintain exchanges of data; coordinated measures at ports to protect supplies of food and medicines; grace periods in regulation of energy, food and chemicals; continued information exchange in customs, public health and consumer safety; and measures to address gaps in the temporary permissions regime for financial services such as cross-border mortgage contracts.

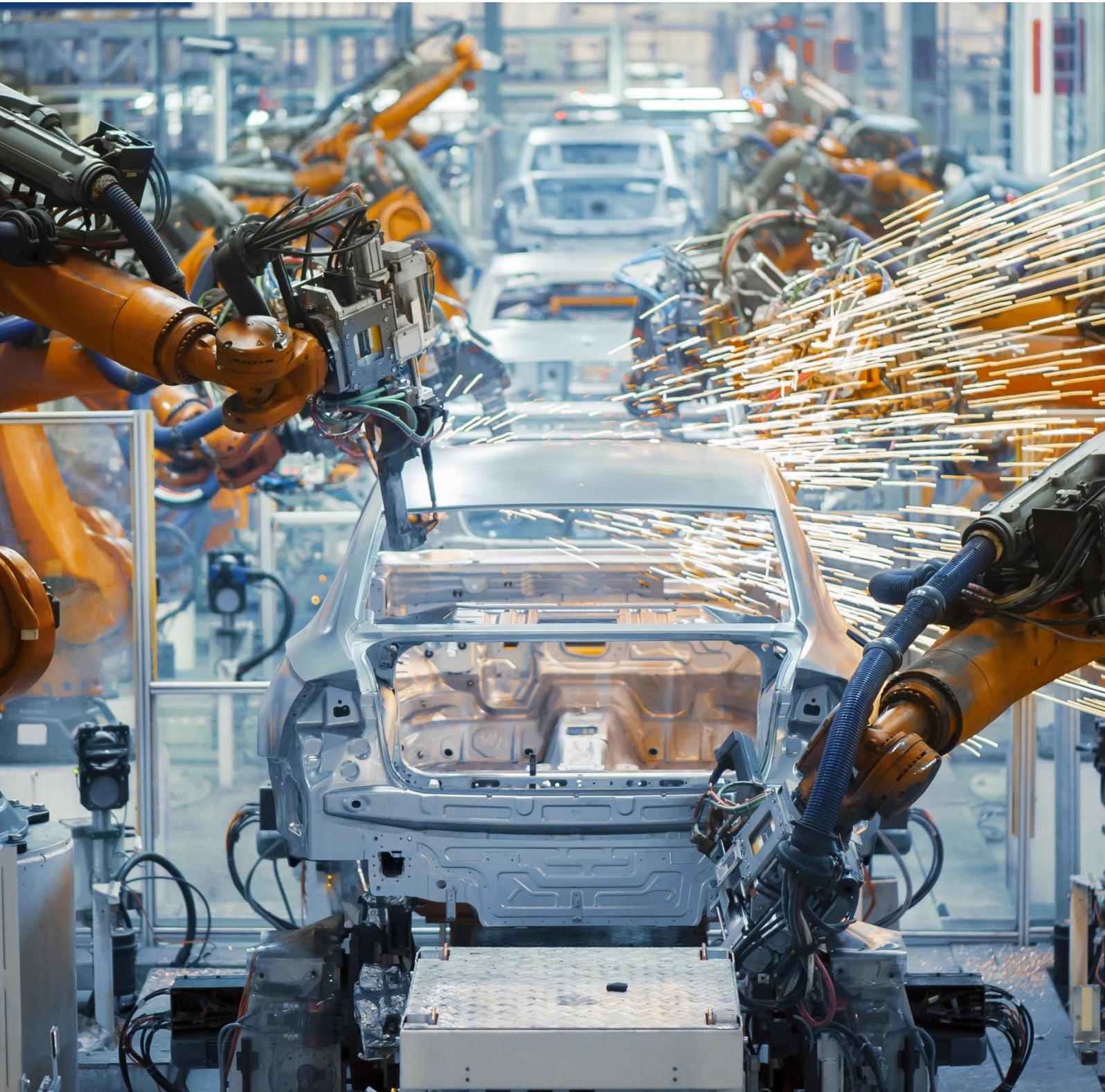
6. If no deal occurs, encourage a pragmatic approach from authorities and Member States to liability and citizens

While the legal status of the UK will change overnight if it leaves the EU without a deal, the level of requirements on businesses set out in UK law will not reduce. Neither will the actions being undertaken by the overwhelming majority of businesses operating legitimately across the UK. Their goods will be exactly the same from one day to another, their approach to compliance will not have altered, and their standards and processes will be no different. The only things that will have changed from a practical perspective when it comes to compliance is that the EU will no longer have a role in enforcing the law in the UK, and UK firms will report into UK authorities as well as EU ones when they want to trade.

Given the extensive similarities between the UK and EU both as no deal occurs and in the weeks and months after exit, as well as the extraordinary circumstances of no deal, the European Commission should encourage a pragmatic approach to liability by Member States and authorities. Some examples of where this will be important include at borders. If hauliers and logistics providers can demonstrate best endeavours to try and meet new requirements, customs authorities should be pragmatic about small errors made in haste. Similarly, in Member States, a level of understanding about UK citizens having to rapidly adjust to new immigration rules would be compassionate and sensible. EU Data Protection

Authorities could also consider approaching enforcement in a no deal Brexit as it did when the EU's Safe Harbour arrangements with the US fell.

The need for pragmatism is particularly relevant if emergency talks between the UK and the EU are being convened. Actions perceived as disproportionate by the UK or the EU during sensitive talks may further endanger strained relations and jeopardise efforts to find solutions for the Irish border.



Recommendations for joint action between the UK and the EU

1. If no deal occurs, immediately enter emergency talks to provide temporary resolutions for Northern Ireland

The first flight the UK Prime Minister must take if no deal occurs is to Belfast, and the same is true for the Irish Taoiseach and the President of the European Commission. The legal status of the Irish border in a no deal scenario is unclear, uncertainty is rife for citizens and businesses on both sides, and the Police Service of Northern Ireland has frequently warned about their concerns over smuggling rates in no deal. That is an unsustainable and unstable situation, particularly in an area that has experienced and continues to experience unrest. At the very least, a temporary negotiated settlement for the Irish border is essential to agree within the first weeks of no deal.

This settlement should ensure no hardening of the border North-South or East-West for Northern Ireland, and it should be remembered during these talks that 80% of businesses in the region prefer the backstop to the consequences of no deal.

The complication of the lack of devolved government in Northern Ireland is a serious one. Ideally, parties in Northern Ireland should attempt to reach an emergency compromise to restore governance in the region for the period of no deal talks. If this ideal situation cannot be reached, then representatives from parties across Northern Ireland should be closely involved in agreeing temporary resolutions. Any solution for the Irish border, even one that operates for only a short period of time, will not last if it is implemented without the consent of residents in the region.

2. If no deal occurs, attempt to re-open full negotiations as soon as possible

No deal is an untenable state of affairs. A number of negotiations will need to begin rapidly, for example on an aviation agreement in order to ensure that flights between the UK and the EU can continue 6 months after no deal. But more broadly, to have such steep barriers between two peaceful, allied neighbouring markets such as the UK and the EU will have in the event of no deal is unheard of in modern economic times. In the long-term, it is inevitable that the aims of both sides will be to strike an ambitious Free Trade Agreement – it makes sense from an economic perspective to make the gap between EU membership and a Free Trade Agreement as limited as possible. Both sides should attempt, therefore, to re-open full negotiations as soon as possible.

The business community is not unaware of the political barriers to striking such a deal, but it has to be optimistic. Both sides should make it a primary objective to restore the stability of the transition period as laid out in the Withdrawal Agreement, where the UK is within the Single Market and Customs Union for the period of negotiation and implementation. The alternative is a lengthy period of unnecessary disruption, which will impact jobs and growth as well as distracting politicians from the task of negotiation.

It will undoubtedly be for the UK government to request talks with the EU to resume, though the business community would like to see a reasonable and open response from the EU in turn. When the UK makes this step, it would be in its interest to do what it can to have amassed a parliamentary majority for its opening mandate for talks with the EU.

3. If no deal occurs, share information between authorities to closely monitor potential crunch points together

At present, UK and EU authorities work closely together. This takes place in a range of ways, including through formal structures such as those provided by EU agencies like the European Chemicals Agency or European Insurance and Occupational Pensions Authority. It also takes place in more informal ways, through working groups, networks and committees.

In no deal, ensuring authorities can communicate with each other on vital issues is essential, as joint remedial action is likely to be much more effective than action taking in isolation. Both sides should monitor passenger delays, goods delays, services disruption, financial markets, and – crucially – disturbances around the Irish border as areas of priority. If and when disruption does occur in these areas, authorities that cooperate will have the fullest range of information and therefore stand the highest chance of being able to reduce the impact on people's everyday lives and livelihoods.

The methods for this communication will depend upon the structures that exist today, but to avoid complication the structures for no deal coordination should look as similar as possible to the structures for every day cooperation. It is likely that it will need action from the UK government, European Commission and EU Member States to encourage this cooperation – and businesses will be looking for policymakers to show responsible leadership here.



Recommendations for Businesses

1. Immediately resume no deal preparations

The possibility of no deal is rising and the CBI is advising all its members and businesses to prepare – again – for a potential no deal Brexit. The cost and what it diverts resource from cannot be ignored, neither can the difficulty of time, logistics or uncertainty, but it is time to ramp up efforts. For every firm, these preparations will take a different form, but three principles for business preparation for no deal are important:

- The first is the art of the possible. With the time available for firms to prepare for another no deal deadline, it is almost certain that the economy will be less prepared than it was in March 2019. Therefore, focusing on the fundamentals rather than every detail will be essential.
- The second is leadership. Preparing for no deal is a significant undertaking, and uniquely uncertain. Every employee will have a different opinion about the likelihood of no deal and what it means, which affects willingness to work on preparedness efforts. Renewing no deal preparations within businesses therefore starts with clear direction from the leadership on the importance of no deal as an organisational priority, reinforced by consensus of the leadership team that must be sustained for the full period running up to the no deal deadline.
- The third is communication. Many of the biggest risks that the CBI has identified come from conflicting and unclear messaging leading to EU companies ‘playing it safe’ by avoiding doing business with the UK. For UK firms, EU suppliers and customers are the priority audience for that communication and many had drafted communications to send in the event of no deal to that audience. Those communications will need to be reviewed in light of the new no deal deadline, and partners kept closer than ever during this period of uncertainty.

CBI members looking for a place to start preparing for no deal can access MyCBI, the member portal, for all the directions they need to begin. Any business can contact the CBI's Brexit helpdesk at EUNegotiations@cbi.org.uk to request further information.

2. By the start of September, if resource allows, have made plans to communicate additional needs for mitigations to the UK and the EU governments

Mitigations to ease the challenges of no deal will only be successful if all sides take whatever steps that they can to reduce harm. This analysis of no deal preparations demonstrates clearly the gap between preparations made by the EU and preparations made by the UK – and firms with European headquarters, suppliers or other relationships should reach out to any political contacts they have in the European Commission or Member States if they have concerns about current levels of preparations.

Trade Associations and business organisations can be helpful to companies here, particularly those that operate on a pan-European basis already today. These organisations have close relationships, both with the UK civil service and the European Commission, and can support firms that have similar concerns to work together to achieve their aims.

3. By the middle of October, have agreed and reinforced communication routes into government

If no deal does occur, communication routes between the business community and government will be key to ensuring the response is effective and well calibrated. Company leadership teams or internal Brexit committees should take steps in advance of no deal to ensure they have agreed routes into government for any crisis information sharing, and have confirmed those communication action plans with their partners in advance.

Larger firms, particularly those handling critical goods such as those essential for the supply of food, energy and medicines, or managing critical infrastructure like financial services, tend to have well-established relationships into the civil service, government Ministers, and the key authorities. Companies with these relationships should consider actively beginning these conversations and requesting clarity from these Ministers, civil servants and authorities as to who their primary points of contact should be if no deal occurs and how information provided by firms in no deal – particularly commercial sensitive information – will be handled and communicated to the appropriate actors.

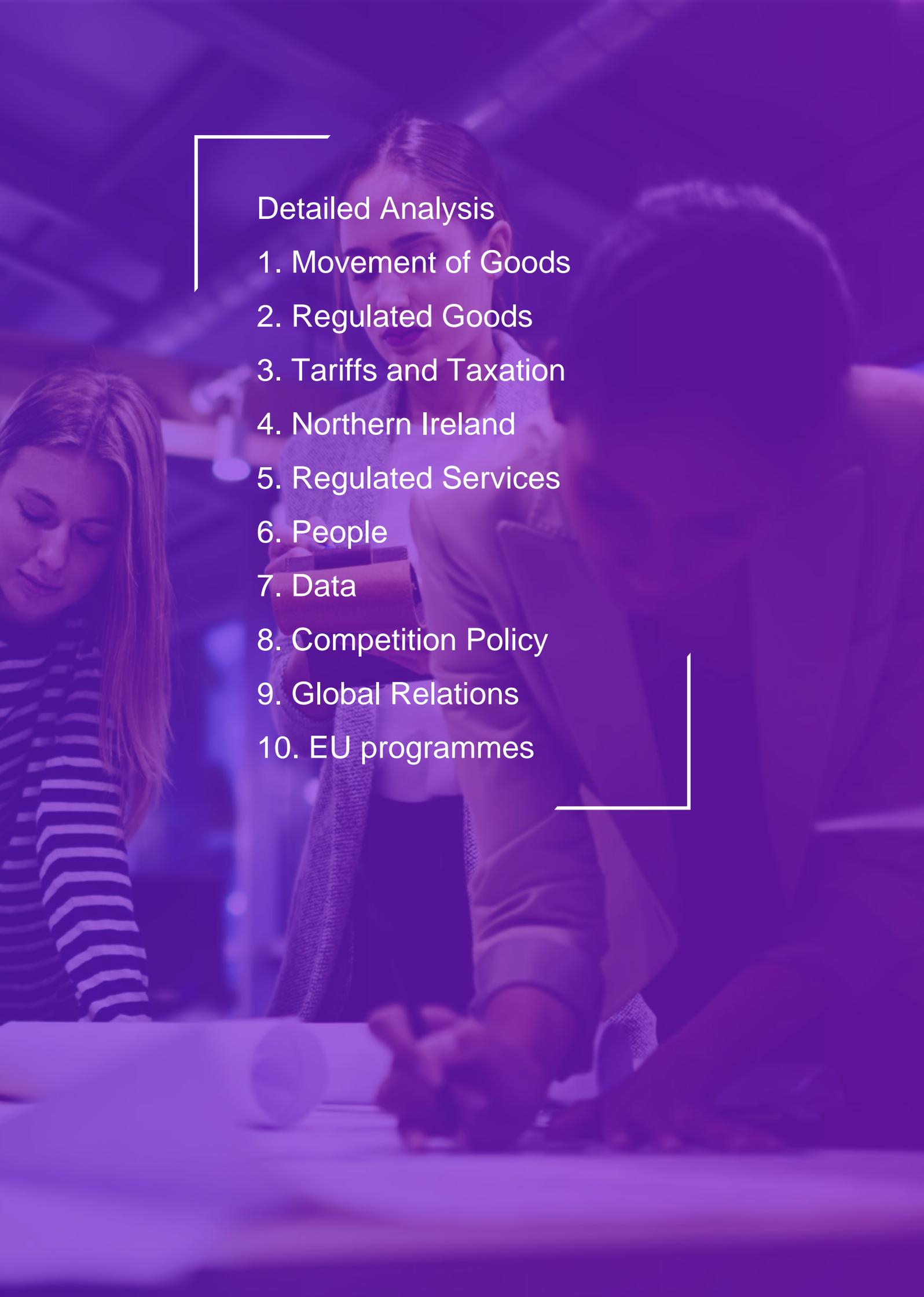
For smaller firms and those without equivalent deep routes into government, Trade Associations and business organisations are likely to be a vital point of contact. The CBI has established a crisis communications framework in preparation for no deal, and committed to staff its helpdesk at EUNegotiations@cbi.org.uk 7 days a week to manage the fall out from no deal. Any business, whether a member of the CBI or Trade Association or not, will be able to contact this helpdesk to access information in the event of no deal, and to provide the CBI with real-time information on the impact no deal is having to pass on to the highest levels of government.

4. If no deal occurs, prioritise people

Relatively positive steps have been taken to ensure that EU citizens in the UK and, to a lesser extent, UK citizens in the EU have a route to settlement, allowing them to continue to live and work in the countries they have made their home. However, there have been confusing messages about these processes, and these communities have been experiencing significant anxiety and uncertainty since the referendum. If no deal occurs, business' internal communications processes should be geared towards reaching out and reassuring these employees. It will be important to have communications prepared and signed off in advance of no deal occurring, in order to be ready to send very quickly to this audience.

Some of the steps that businesses have found to be effective with EU citizen employees in the UK include sharing government advice with staff in regular updates as it is produced, and undertaking efforts to buddy EU citizens with lower levels of English language skills with native speakers. HR and internal comms teams of firms that are members of the CBI also have access to a guide to communicating with EU citizen employees, produced in partnership with Deloitte, which can be found on the [CBI's website](#).





Detailed Analysis

1. Movement of Goods
2. Regulated Goods
3. Tariffs and Taxation
4. Northern Ireland
5. Regulated Services
6. People
7. Data
8. Competition Policy
9. Global Relations
10. EU programmes



Movement of Goods

Frictionless trade in goods has been built up between the UK and the EU for the last 40 years, facilitated by the integration of rules and processes through the single market and customs union. That facilitation has created efficient and low-cost webs of finely tuned supply chains spanning the continent, relied upon by both consumers and businesses. These supply chains are expected to be severely disrupted by no deal, creating wide-spread economic effects. The IMF, for example, believes that the trade disruptions in no deal would be severe and are estimated to cause in the first and second year, respectively, a decline in UK GDP of 1.4% and 0.8% and a decline in EU GDP of 0.2% and 0.1%¹⁷.

- **Are all parties prepared for the effect of no deal on movement of goods?** No, and many firms are actually anticipated to be less prepared for no deal in October than in March, not least due to Black Friday and Christmas pressures
- **What does no deal mean for movement of goods in the long-term?** Supply chains may settle over time and officials become used to enforcing new processes, but no deal means movement of goods becoming permanently more costly and difficult
- **Is it possible to have no negative consequences on movement of goods without a deal?** No, without a deal and significant amounts of joint cooperation, disruption is inevitable

Customs

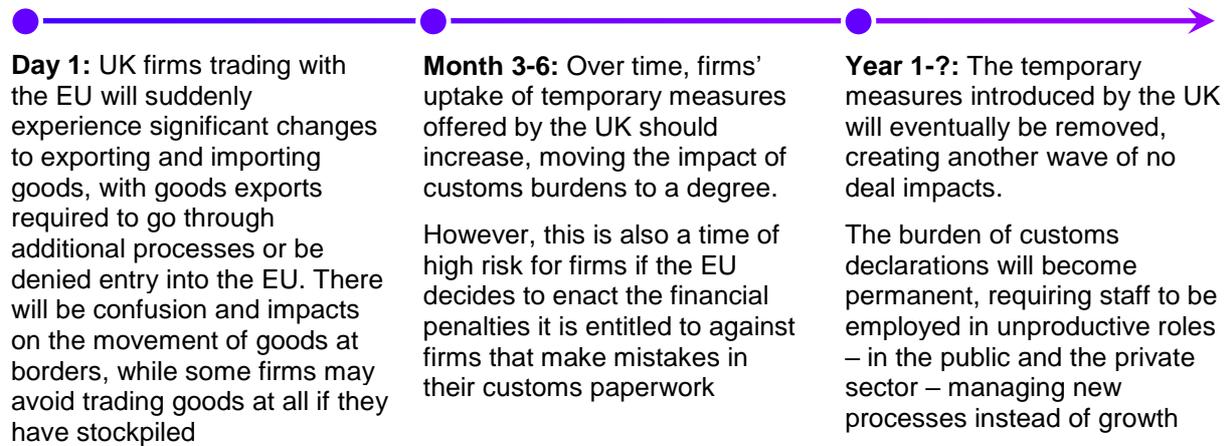
A range of new customs requirements will be introduced for firms in the event of no deal, with the immediate and then increasing application of a number of laws regulating importing, exporting and the movement of goods as well as health and safety requirements. Almost all measures that facilitate the trade and transportation of goods that the UK currently has with the EU will fall away, leaving businesses to face burdensome customs procedures, declarations and consequent delays at the border. The government has previously estimated that these would range from 4% to 15% of the cost of goods transported¹⁸, while an OECD study found that documentation and customs compliance requirements, lengthy administrative procedures and other delays can increase transaction costs by between 2%-24% of the value of the good¹⁹.

¹⁷ IMF, World Economic Outlook

¹⁸ Institute for Government, Implementing Brexit: Customs

¹⁹ OECD Trade Committee, Trade Costs, What have we learned? A synthesis report

The introduction of customs requirements in no deal would have immediate and severe impacts on businesses importing and exporting goods between the UK and the EU



Customs is one of the areas where the UK government has offered the greatest number of mitigations possible, yet this has not been reciprocated and disruption is still anticipated

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Developed Transitional Simplified Procedures (TSP) which businesses can apply for, with the aim of reducing the amount of information that importers from the EU need to give on a declaration when goods cross the border. These measures will allow importers to defer giving a full declaration until after the goods have crossed the border, and to pay any duty owed a month after the import • Made £8 million available to help private customs intermediaries and businesses increase their customs capacity to manage no deal, though these grants are no longer available • Published documentation outlining that in a no deal scenario the government will introduced postponed accounting for import VAT on goods brought into the UK • Produced a 'partnership pack' with over 100 pages of guidance for businesses on customs processes and procedures • Proactively organised stakeholder engagement meetings for a number of businesses and organisations to feed into the UK government's contingency 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Renew and properly raise awareness of the Intermediaries Grant Scheme which was supporting businesses to upskill their staff in customs procedures • Commit to rapidly rolling out a program of trials and tests of new no deal IT systems and procedures – including TSP, online registration portals and the promised deferred accounting system for VAT • Consider automatically issuing EORI numbers, which are essential for trade, to all VAT registered companies • Ensure that the new Customs Declaration System (CDS) that is taking over from the old system CHIEF is fully rolled out at all ports ahead of 31st October and is stress tested for handling the increased volume of declarations • Communicate a clear mechanism for feedback from firms managing the complications of third country customs with the EU for the first time • Take a pragmatic approach to compliance and liability in the first days following exit as firms adjust to new requirements

<p>plans and be updated on the latest developments</p> <ul style="list-style-type: none"> • Written three times to 145,000 VAT-registered businesses that trade with the EU to provide them with guidance • Organised regular and free webinars in order to update businesses on no deal plans and explain the new customs processes 		<ul style="list-style-type: none"> • Increase and target a communication campaign to businesses on preparing for no deal, particularly with small, non-VAT registered businesses that may never have encountered customs before • Provide free customs training for traders, hauliers and supply chains in order to quickly upskill staff at the 250,000 businesses expected to be encountering UK and EU customs for the first time²⁰ • Prepare to draft in emergency human resource in order to handle a surge in applications for EORI numbers and TSPs • Consider extending TSP to goods arriving in the UK from Turkey
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Published preparedness notices stating that UK firms trading goods into the EU will experience third country checks from Day 1 of no deal, with import VAT and customs duties due when the goods arrive in the EU and trusted trader schemes such as Authorised Economic Status no longer recognised • Prepared to various degrees for increased customs requirements in France, Belgium, the Netherlands and Germany in particular 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Temporarily recognise the UK's trusted trader program of Authorised Economic Operators (AEO) so that businesses that already have it can continue to be recognised in the EU • Authorities in the EU as well as the UK should be pragmatic and act in good faith when, through no deliberate subversion or fault of the business, possible errors and unwanted infringements occur • Give clarification on the administrative requirements and steps related to the authorisations that were granted before March 2019 will expire and need to be renewed • The European Commission should monitor Member State implementation of customs procedures and readiness for no deal to ensure that borders continue to work smoothly, and business is not obstructed
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Continue to share trade and customs-related data, potentially via Intrastat to ease the burden on businesses • Start building forums to join together the UK and EU Member States to work together on long-term customs facilitation, as well as EU ports and UK government to ensure that no deal mitigations, processes and systems are

²⁰ National Audit Office (NAO), The UK border: preparedness for EU exit

		<p>in the best possible shape to reduce delays and errors that will occur if processes are developed in isolation</p> <ul style="list-style-type: none"> • Work together to ensure the UK's swift re-entry into the Registered Exporter System (REX) in line with the appropriate rules provided for the existing access of non-EU countries
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Some firms have registered for EORI numbers if they have not had them before, in order to allow them to trade. However, the latest reports were that only 80,000 firms had registered, with 145,000-250,000 companies needing to register for them²¹ • Some firms have registered for TSPs in order to facilitate EU imports. However, as of May 2019, only 17,600 of the estimated 240,000 firms expected to require have done so – or around 10% of the total number of companies that trade²² 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Ensure that they have registered for an EORI number and TSP as soon as possible • Talk to their freight forwarders, hauliers and supply chains in order to ensure that as many companies as possible can be aware and ready for the changes • Assess workforce and resourcing requirements needed to be able to handle the higher demand for preparing their imports and exports for customs • Begin to train staff or upskill their workforce on customs procedures if necessary

Though the UK government has done a lot of work to make no deal customs procedures as smooth as possible, there is much that can be done to improve them. For example, auto-issuing EORI numbers to the 60,000+ VAT-registered businesses that still need them would reduce the risk of thousands of companies arriving at the border without one, and being turned away especially as it can take 3 days to fully process any registration and that timescale may increase if significant numbers of firms are all applying at the same time. The key for the UK government will be to ensure these schemes are deliverable through trials, testing and training, and to communicate their existence. An ambitious customs communication campaign on a large scale, emphasising the free and simple measures available to reduce the disruption of no deal, as well as a re-introduction of adjustment funding, could be very effective.

The UK government operating in isolation can only make so many mitigations. EU Member States enforce regulations set at the EU-level on the other side of the border, and have not offered the same degree of easements for UK firms exporting to the EU as the UK has for EU firms exporting to the UK. There are steep political barriers to the EU matching the UK in its customs contingencies, as the EU's current position on trade is that not enforcing the full measure of requirements would be *“a dereliction of duty by public authorities that have a duty to ensure public health and the safety of consumers, protect against unfair competition and enforce public policies and international agreements”*²³. Yet even if EU authorities coordinated more closely with the UK's customs authorities, the EU could provide some lowering of the disruption customs requirements will cause.

²¹ National Audit Office, The UK border: preparedness for EU exit

²² BBC, UK firms 'not even close to ready' for no deal, 12 June 2019

²³ Sabine Weyand, Twitter, 3 February 2019

Ultimately, it is essential to remember the scale of the customs challenge in no deal. Up to 5,000 new HMRC staff will be required to manage the volume of new customs declarations and checks in the long-term²⁴. That staffing level will have to be matched to some degree by the private sector, with costs estimated to be around £20 billion a year from customs declarations alone²⁵. If no deal becomes a permanent state, these costs will count against investment cases for manufacturing firms considering the UK and will make it much more difficult for SMEs in particular to trade, creating an over-reliance on logistics providers instead of growth of in-house trading expertise.

In the long-term, even once the initial disruption has reduced, customs requirements of no deal will have new impacts as temporary measures fall away. For example, TSPs which are intended to last over a year after the UK enters into no deal, with a review into the policy 3-6 months after its introduced. That review will determine how much change companies will experience when changes come again. Additionally, the UK has prioritised the flow of goods over security or revenue collection, which is the right choice for the short-term, but ultimately unsustainable. This creates the potential for multiple timelines for firms to adapt to in no deal.

The UK Border

Note: Separate provisions are in place for the UK's land border with Ireland, and this is not referred to in this section. More details on no deal for the Irish border can be found on page 62

Ports and airports, as the first point where traded goods will encounter the UK border, will immediately bear the brunt of a no deal. The main challenges for the UK's border will flow from new requirements at customs, with ports which handle significant amounts of trade with the EU expecting to see increases in customs declarations of over a hundredfold in no deal if uptake of Transitional Simplified Procedures (TSPs) does not increase²⁶. Ports and airports have had to work closely with their governments to rapidly revise infrastructure, train extra staff to manage new procedures, and work with local authorities and police forces in order to manage delays and queues.

Delays are expected to have a huge impact at the UK border in no deal; research has found that two extra minutes spent on each vehicle at the border could more than triple queues on the M20 to 29 miles²⁷. Ports in EU Member States are also highly concerned about queues and delays of UK imports and exports: the Netherlands is one of the UK's closest trading partners and Allard Castelein, the CEO of the Port of Rotterdam – which handles 40 million tonnes of goods to and from the UK per year – has warned publicly about the impact of drivers arriving from across the EU with goods destined for the UK but without the correct paperwork, which would prevent them from entering the terminals and cause tailbacks on Dutch roads.

It is important to remember the scale of the challenge of no deal at the UK border. The EU is the single biggest destination for UK maritime port traffic, accounting for 55% of all international traffic though UK ports and accounting for a total of 116.7 million tonnes entering the UK from EU ports in 2017²⁸.

²⁴ House of Commons Treasury Committee: Oral Evidence: HMRC Annual Report and Account 2017

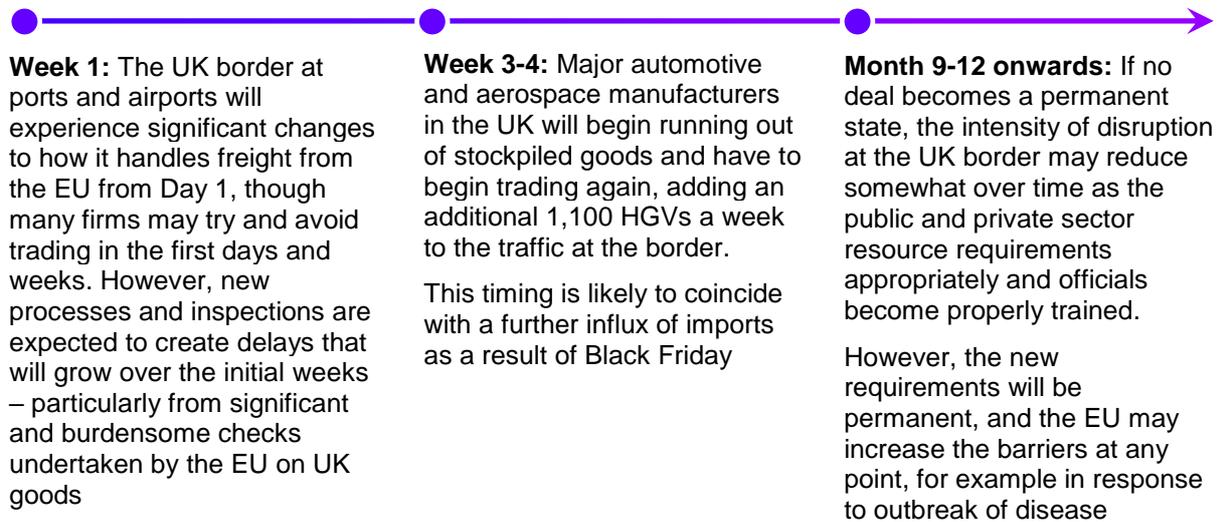
²⁵ House of Lords European Union Select Committee, The Customs Challenge,

²⁶ Institute for Government, Implementing Brexit: Customs

²⁷ Imperial College London, M20/A20 Congestion Prediction with Post-Brexit Border Delays

²⁸ Department for Transport, UK Port Freight Statistics, 2017

Delays at the UK border are likely to grow in the weeks after no deal, and though some easing may happen over months, they are likely to be regular occurrences for the long-term



A lot of resource has been expended on preparing for no deal at the UK border – but it has not been and will not be sufficient

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Worked with devolved and local governments to find and manage sites that can be used to park lorries to manage tail backs that could occur at ports, such as at Anglesey • Engaged widely with stakeholders that will deal with the border, including businesses, and worked with them in confidence to plan for a no deal scenario • Listened to feedback from businesses and expanded the new TSPs for goods imported from the EU to all ports in the UK for all EU traffic • Stated that for live animals and germplasm from the EU, traders will have to notify the Animal and Plant Health Agency (APHA) or the Department of Agriculture, Environment and Rural Affairs (DAERA) in Northern Ireland at least 24 hours in advance. • Implemented a replacement to the EU's import system TRACES (Trade Control and Expert System) with a new UK system called the Import of products, animals, food and feed system (IPAFFS) 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Work closely with non-Ro-Ro ports to support them operating TSP, as the new processes were not initially designed for other types of cargo • Be transparent about its resourcing plans at the border so that ports, airports and businesses can plan and prepare based on greater understanding of the government's intentions • Continue trials and practice runs for no deal with ports, local authorities and police forces to make sure that infrastructure and contingency plans are fully in place for delays at ports and tailbacks on roads • If no deal becomes a permanent state, push forward with a rapid plan for the introduction of Border Inspection Posts, focusing on ports that currently do not have BIPs but have the capacity and space available to build them in order to relieve pressure from those few that do

<p>for non-EU imports with paper-based system for EU</p>		
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • EU Member States that are particularly exposed to the impacts of no deal at the border have taken steps to prepare • France is in the process of training and employing 700 extra customs officials, while the Netherlands has hired over 900 extra customs officials and 145 veterinarians and Germany intends to hire a further 900²⁹ • France has announced it will spend €50 million expanding its port infrastructure and parking for permanent Border Inspection Posts to be either expanded or constructed for the first time in Cherbourg, Calais and the Channel Tunnel among others. This may require new roads, car parking areas, buildings, control areas and equipment to deal with delays caused by customs checks 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Provide constructive links between Member State authorities that are more prepared for no deal with those that are less in order to ensure full readiness of supply chains – so that, for example, when a truck from Romania drives to the UK via Calais, their drivers have the right information in the right language • Work with Member States to monitor and coordinate a comprehensive guide of Member State preparations at the border, for example where BIPs have been built or are planned to be, so that businesses can plan for how best to handle their exports to the EU • Work with the Republic of Ireland to give clarity needed on where mandatory checks will take place on goods moving from UK to ROI
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • In lieu of the UK and Member States being able to work together on no deal planning, port authorities have been communicating with each other to share each other's plans and to do what it is possible to mitigate the worst potential impacts of no deal and join up the different governments' approaches 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Set up an emergency co-ordination forum in the event of no deal, staffed by officials from customs agencies, port representatives, the European Commission and UK government to enable immediate trouble-shooting in the event of no deal • If the UK has left the EU with no deal, the UK and Irish, French, Belgium, Dutch and German governments as well as devolved should work together on a communication campaign to ensure that both businesses in the EU and UK have clear, end-to-end guidance on how ports, airports and traders will have to navigate the new operational changes at the border • Facilitate and join up EU and UK ports so that they can work together to mitigate any delays that could go on to impact others
<p>What has business done so far?</p> <ul style="list-style-type: none"> • 83% of firms are very concerned about delays at borders arising from a 'no deal' 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Traders should ensure that if they want to import live animals from the EU, that

²⁹ Institute for Government, Other EU countries' preparations for no deal

<p>scenario³⁰, suggesting that preparations are not as complete as might be hoped</p> <ul style="list-style-type: none"> Affected ports and airports have worked hard to manage the concerns of their customers and stakeholders through close communication, and ensured government and airports have all the information they need about their traffic, processes and requirements 		<p>they understand what ports and airports have Border Inspection Posts (BIPs) and adjust their routes accordingly</p> <ul style="list-style-type: none"> Businesses that move products of animal origin can register for IPAFFS now, and create notifications for consignments arriving after the UK has left the EU Re-assess, in the light of the October 2019 deadline, their capacity for handling delays and their need for stockpiling in order to manage a potentially unpredictable flow of stock to their production lines
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The UK and EU have both focused a lot of their preparations for no deal at the UK border. Around 7,000 people have been hired or will be hired by public authorities to manage additional requirements, both sides have provided very clear notices on their intentions, and additional land has been requisitioned or purchased. However, preparations thus far have been insufficient to avoid disruption. The UK border will still see additional delays and complications.

Part of the reason for this is timing and space. Expansion needed at some pinch points for UK-EU trade to manage the extra burdens on trade effectively is significant, and there simply has not been enough time or clarity to undertake them. A good example of the time needed for projects of that ambition is the 'Calais 2015' project, which was designed and developed between 2009 and 2014, with phases of public debate and inquiry, planning and tendering. The new terminal will cover 44 hectares, has a total cost of €862.5 million, of which €662.3 million will be spent on the actual building works³¹. Building works commenced in the final quarter of 2015 and the new facilities are anticipated to enter into service in January 2021³². UK ports and airports have had nowhere near this level of time or organised planning.

However, even with sufficient time and resource available to plan, delays and disruption at the UK border is inevitable in no deal – not just over the initial months, but over years if no deal becomes permanent. At the Turkish border with Bulgaria, queues have reached 17km in length, with 30-hour delays. Bulgarian Border Police released 4 warnings of heavy traffic at the Turkey-Bulgaria border in April this year alone³³. The average wait time for traffic crossing between Norway and Sweden is 20 minutes, while the average wait time to cross the Swiss-French border with a HGV is reported to be 20 minutes to 2 hours³⁴. All these countries have some form of cooperation with the EU, through a privileged relationship with the EU's customs union or single market – yet the UK will have none of these facilitations with the EU in no deal.

³⁰ CBI Survey, February 2019

³¹ Port Boulogne Calais, Calais Port 2015

³² Société des Ports du Détroit, Works schedule

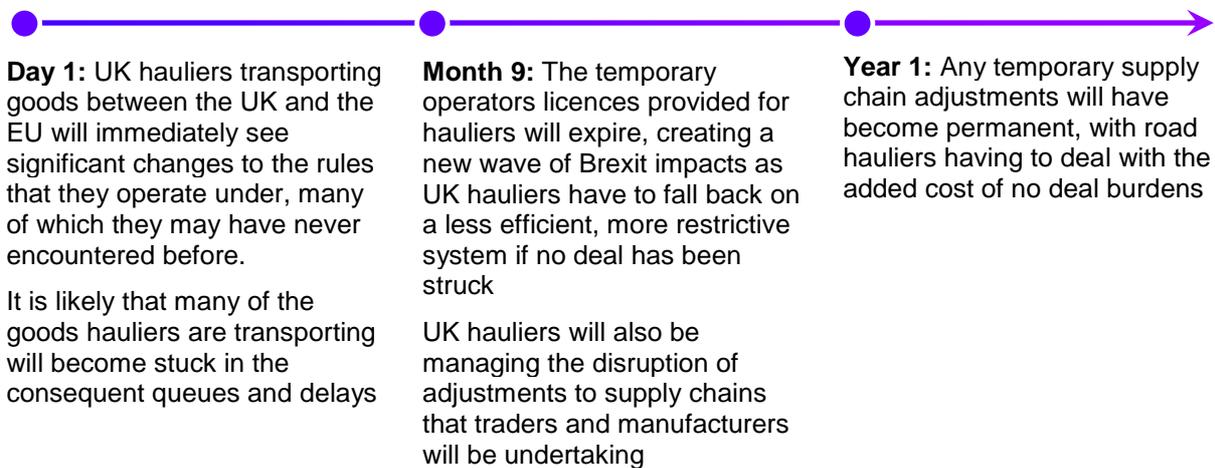
³³ CBI research on Novinite

³⁴ International Road Transport Union

Haulage

In no deal, hauliers will be responsible for navigating the new customs systems and procedures, which alone are significant challenges. But in addition to these, road hauliers will also immediately encounter further additional challenges through new rules for vehicles, licences for drivers and permits for trailers, creating complexity upon complexity and – ultimately – costs for customers. With 3.5 million goods vehicles travelling between Europe and Great Britain in 2017³⁵, and with more roll-on-roll-off (Ro-Ro) lorry movements between the UK and EU through major ports each year than there are container shipments to and from the UK and the rest of the world³⁶, this will be a substantial challenge. The consequences of no deal for the haulage sector will ripple through the economy, not least for food and drink trade, with food products accounting for 15% of all commodities exported via road and 36% of imports³⁷.

Many of the steps to reduce the impact of no deal for hauliers are alarmingly temporary



No deal would have immediate impact on road hauliers moving goods between the EU and UK

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Confirmed that the UK will stay in the Common Transit Convention (CTC) after no deal, which allows companies to move goods across certain borders without paying import duties until the goods arrive at their final destination. To move goods under CTC in no deal, companies will only be required to have 	<p>RAG</p>	<p>What more could the UK do?</p> <ul style="list-style-type: none"> Publish clear end-to-end guidance for road haulage operators and customers on what they will need to know and prepare for Work in partnership with the haulage industry to develop plans to deliver ‘offices of departure destination’ – substantial new locations for customs

³⁵ Department for Transport, International Road Freight Statistics, United Kingdom 2017

³⁶ Institute for Government, Implementing Brexit: Customs

³⁷ Department for Transport, International Road Freight Statistics, United Kingdom 2017

<p>one additional piece of additional paperwork</p> <ul style="list-style-type: none"> • Committed to support traders and hauliers that have made best endeavours to be compliant but have not been able to comply fully when arriving at the border, promising to take a pragmatic approach where border officials will – on a case by case basis – allow goods to continue on their journey into the UK and allow the trader to submit the necessary paperwork afterwards, except where the goods are controlled or excise goods • Temporarily agreed to allow European operators to continue to undertake limited cabotage in the UK until 31st December 2019. This will allow hauliers to undertake multiple deliveries in multiple countries before returning to their point of origin – which is essential for the profitability of the cross-border industry • Stated that EU hauliers' Community Licences and CPC documents will still be recognised, and that EU hauliers will not require ECMT permits to operate in the UK • Stated that EU and EEA driving licence holders visiting the UK can continue to drive on valid EU and EEA licences 		<p>formalities which are needed to allow goods to transit across multiple borders</p> <ul style="list-style-type: none"> • Simplify the Safety & Security declaration (or Entry Summary declaration) system for imports, as current proposals require a complete resubmission of shipment data for each consignment on a lorry by the haulier prior to departure from the EU. This presents a substantial challenge as lorries can have anything between 1-13,000 individual shipments inside³⁸ • Extend the temporary measures for cabotage beyond 31st December 2019
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Put forward a set of temporary and limited measures to ensure basic road freight and road passenger connectivity in order to mitigate the most severe disruption. However, some of these – such as the ability for vehicles to operate across the EU without ECMT permits – are currently scheduled to phase out from the end of 2019 • Stated that UK drivers will need International Driving Permits (IDPs) when entering many EU Member States and EEA countries, including France, Netherlands and Norway, at a cost of £5.50 each per driver – though there are three different IDPs required to travel across Europe, with one for Lichtenstein, one for Cyprus, Republic of Ireland, Malta, Spain and Iceland, and one for all other EU countries (though UK licence 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Reciprocate the UK's plan on cabotage and allow UK operators to continue to undertake cabotage in the EU • Coordinate a cross-Member State communication strategy for EU road hauliers which travel into the UK to do business • Extend ECMT permits that are due to expire in 2019 to mitigate the disruption

³⁸ Road Haulage Association, Urgent actions needed for 31 October

<p>holders will not need an IDP in the Republic of Ireland). This will add an extra burden on hauliers as they will have to trust the drivers to have sorted their licence in advance</p> <ul style="list-style-type: none"> • Confirmed that as per the Vienna Convention, UK commercial trailers over 750kg and all trailers over 3,500kg will need to be registered before being towed to the EU • Stated that UK drivers for EU operators will have to achieve a Driver Certificate of Professional Competence issued by an EU country, which requires 35 hours of training for each driver to achieve in many Member States – though there are different approaches in each nation 		
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Harmonise action taken separately so far to ensure operational efficiency
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Only 37% of businesses in the logistics industry have taken any action to prepare for Brexit, with just 17% having created a plan for Brexit and only 9% having started to implement that plan³⁹ 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Ensure that their drivers, lorries and operators have the correct permits and paperwork, as well as 6 months left on their passport • Ensure that their customers who have little to no customs experience at least are aware of the changes that will take place and make the basic steps of registering for an EORI number and TSPs • Operators should investigate the requirements for setting up to use CTC if they have not already done so

Haulage companies will be at the front line of no deal, and firms from independent eBay traders to enormous manufacturers and retailers will be reliant on them being ready for no deal. Given their significance, the UK and the EU have both taken steps of varying effectiveness to reduce the immediate impact of no deal. Some of these are fundamental to the movement of goods and people, such as measures to allow UK-licensed road hauliers and coach and bus operators to continue moving so long as equivalent rights are conferred by the UK onto EU operators. However, many of the steps that have been taken are temporary, and further, rapid negotiation would be needed between the UK and the EU in no deal if both sides wanted to avoid additional disruption when those measures fall away.

Whether further measures are taken to reduce disruption or not, costs for haulage companies to operate in no deal will spiral rapidly. For example, for companies to use CTC, they will need a cash

³⁹ Freight Transport Association, FTA Logistics Report 2019

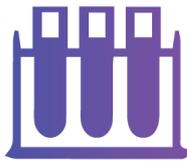
guarantee, either an individual guarantee for single movements or a comprehensive guarantee for several. For companies to operate a bilateral permits system with the EU, the Road Haulage Association estimates that, with administration cost and the need for multiple permits for UK operators, would add approximately £53 per movement in and out of the UK for UK operators and about £26 for EU operators⁴⁰. On top of new costs of administrative processes over the additional costs of delays in terms of driver wages and running costs, not least for specialised HGVs that have to maintain constant temperatures to keep medicines, meats or chemicals at the right temperature. One firm has calculated that a day's delay will cost £400 per lorry⁴¹.

As the average hauliers only operates a 2% profit margin⁴², the costs of no deal complications will be passed onto their customers, from the NHS to supermarkets, and ultimately consumers and taxpayers. The costs for users of haulage firms will also be exacerbated if the delays and chaos at the UK border put EU operators off dealing with the UK at all.

⁴⁰ Road Haulage Association, Policy Paper: Brexit – Unimpeded Access for International Road Haulage

⁴¹ The Guardian, For lorries queuing at congested Calais, no-deal Brexit looms large

⁴² Freight Transport Association, FTA Logistics Report 2019



Regulated Goods

Much of the goods trade that the UK does with the EU is underpinned by joint rules, processes and testing – which means that goods cleared for sale in the UK are automatically allowed to be sold in the EU. Some products do not require testing, but a huge range of goods do – including toys, safety equipment, goods for military use, chemicals, medicines and more. The rules that underpin these regulated goods remove non-tariff barriers to trade. In no deal, these non-tariff barriers are expected to be equivalent to an additional tariff of 6.5% on UK exports to the EU – nearly double the average WTO Most Favoured Nation tariff⁴³.

The effect of this on the manufacturing sector will be substantial; manufactured goods trade are expected to see the greatest hit in the event of a no deal, with additional trade costs on UK-EU trade estimated to be equivalent to 9%-17% of the value of trade compared with today's arrangements. Specifically, GVA in the motor vehicles sector is expected to be approximately 23% lower in the long-run compared to remaining in the EU⁴⁴. These consequences are a mixture of a range of no deal consequences – including customs, tariffs, uncertainty and the labour market – but non-tariff barriers are a bigger challenge for regulated goods firms than those producing non-regulated goods.

- **Are all parties prepared for the effect of no deal on regulated goods?** No, some small businesses are unprepared – but regulated industries are more prepared than non-regulated industries
- **What does no deal mean for regulated goods in the long-term?** UK businesses exporting regulated goods to the EU will face double sets of rules and testing, and will be rule-takers in the UK's largest market, eroding their competitiveness
- **Is it possible to have no negative consequences on regulated goods without a deal?** No, not without a deal permitting close joint cooperation between EU and UK authorities and ongoing regulatory convergence

Regulated manufacturing

For much of the UK's manufacturing base, no deal will come with significant complications to doing business. To export to the EU, companies must ensure that their products conform to detailed EU rules, often supported by the use of European standards. Higher risk goods also require this conformity to rules to be proven, via testing by trusted third parties. For example, before a car or part is put on the market to be sold, all motor vehicles, trailers and their systems, components and separate technical units must go through rigorous testing to ensure they meet the necessary technical, safety and environmental standards. A range of EU rules must be adhered to, such as the Pedestrian Protection Regulation which requires all cars to have energy absorbing bonnets and front bumpers. Similarly, cosmetics manufacturers have to comply with EU Cosmetics Regulations to ensure product safety and efficacy, and 30 types of products have to comply with very specific rules known as the New Approach Directives. For example, the Pyrotechnic Articles Directive sets out the rules for the

⁴³ CBI, Brexit briefing The Trade Costs of a "No Deal" Scenario

⁴⁴ HM Government, EU Exit: Long-term economic analysis

production and sale of fireworks, and the Personal Protective Equipment Directive sets out the rules for a range of goods including equestrian helmets, paintballing goggles and oven gloves.

In a no deal, while these basic product rules are likely stay the same for the immediate future, companies will no longer be able to get approvals in the UK that are valid in the EU. UK firms will need to use two different testing bodies, paying for approval twice over to export – and after an initial transition period, EU exporters to the UK will have to do the same.

UK manufacturers and importers will also need to apply a new system of product markings which will supersede the present CE mark. The CE mark is used across the EU to show that products meet specific quality standards, including for safety. In no deal, the UK will introduce its own UKCA mark, but UK companies will still be legally obliged to use CE markings in the EU. To achieve a CE mark requires an often complex process which may include an independent conformity assessment by a testing organisation called a Notified Body (costing thousands of pounds), testing and technical documentation, all of which EU and UK traders will have to do twice over in no deal.

For regulated manufacturing, the complications and difficulties of no deal will increase over time



There will be quite significant changes for regulated manufacturing if no deal occurs

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Converted EU legislation and regulations into UK law, so that the underlying rules setting out the rules for conformity assessment will stay the same and so that current EU 'harmonised standards' are carried across as UK 'designated standards' Introduced UK approval regimes and accepted, where appropriate, existing EU approvals and converted them to UK 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Ensure that EU regulations are transferred into UK law with the minimum of friction for business by testing that the necessary implementation infrastructure is in place, as has been done for example with UK notifications for cosmetics. Publishing the result of any review of this should bolster confidence in the business community

<p>approvals – for example by issuing provisional UK-type approvals for vehicles. These approvals are based on existing approvals, will be valid for 2 years and will allow continued sales of EU vehicles on the UK market</p> <ul style="list-style-type: none"> • Stated that it will introduce a new UKCA marking system, in the mould of the EU’s CE marking system • Committed to continue to recognize CE marking in ‘a majority of cases’ for a ‘time-limited period’ • Stated it will allow companies in some cases to place markings on packaging or manuals, reducing the need to substantially change production processes • Offered an 18 month transitional period for importers to provide details required by regulations on accompanying documentation rather than labelling the goods themselves 		<ul style="list-style-type: none"> • Specify how long the transition period will be for UK companies to convert CE product markings to UKCA product markings • Clarify whether UKCA markings have received parliamentary approval, as some businesses have reported confusion as to whether this is the case
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Stated that UK Notified Bodies – which test products to ensure they meet the required standard as well as having the power to grant CE marks – will lose their status as notified bodies and their right to make conformity assessments that are valid in the EU market • Made clear that UK manufacturers will be obliged to use a Notified Body or responsible person in an EU Member State for new CE markings • Confirmed that UK authorised representatives and responsible persons – which are required for certain highly regulated products like medical devices and cosmetics – will no longer be recognized and that UK companies will need to appoint these in EU Member States • Advised that it will continue to recognize existing CE markings on UK goods regulated under New Approach rules, so long as they have already been placed on the EU market before Brexit. However, goods requiring conformity assessment by a notified body, such as medical devices, will not be granted this and will need to be reassessed by an EU based body or have their files transferred to an EU recognized body 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Agree grace periods for UK CE markings for critically important products, such as continued authorisation in the EU27 of medical technologies CE-marked by a UK-based Notified Body • Allow continuing UK participation in key data sharing platforms, such as EUDAMED for medical technology, to maintain high standards of safety across the continent • Commission and publish a survey of EU-authorized Notified Bodies to gain a greater understanding of how many products may still be in the process of gaining approvals at the date of no deal

<ul style="list-style-type: none"> • Provided some facilitation for type approvals for auto-vehicles by allowing new type-approvals to be based on test reports already presented in the United Kingdom • Advised that Member States can invoke derogations under Medical Device Directive and In-Vitro Diagnostics Directive to help patients access the devices from the EU that they need 		
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No specific actions taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Agree to take a pragmatic approach to enforcement in the first weeks of no deal, as many companies will struggle to conform to rule changes and both sides are starting from a position of regulatory conformity
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Many firms have shifted or duplicated product registrations and notifications to Notified Bodies or Responsible Persons to EU. This has been a costly and complex process 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Ensure that they comply with relevant regulations as required under EU and UK law • Work with UK government to give constructive feedback on the implementation of new UK regulatory regimes

A number of limited mitigations have been put in place to provide continuity for some months for manufacturers producing regulated products. Some UK goods already placed on the EU market will not need to be tested again, and the UK will continue to recognize the CE marking for certain products for an unspecified transition period. But products requiring third party testing like medical devices will have to be certified by EU based notified bodies from Day 1.

These actions have been matched by those of the business community. Many UK companies are taking on extra costs as they pay to test and register products in the EU and the UK. Additionally, due to the hard work of the British Standards Institute – with the support of the UK government – it is expected that BSI’s membership of CEN and CENELEC, the European Committees for Standardization and Electrotechnical standardization, the UK will maintain a voice in the development of European Standards that, used voluntarily, show good business practice across 34 European countries.

However, the sheer variety of products covered by EU legislation means it will be very difficult for every UK company to be ready on Day 1. The short-term impact is likely to be confusion for many companies, with a risk that some UK exporters will lose market access while UK retailers may lose product lines. The Commission and UK Government will need to concentrate their attention on those products pose critical risk to health and safety, such as medical devices and cosmetics.

Additionally, many of the measures are only temporary – creating additional waves of no deal impacts that will prolong uncertainty.

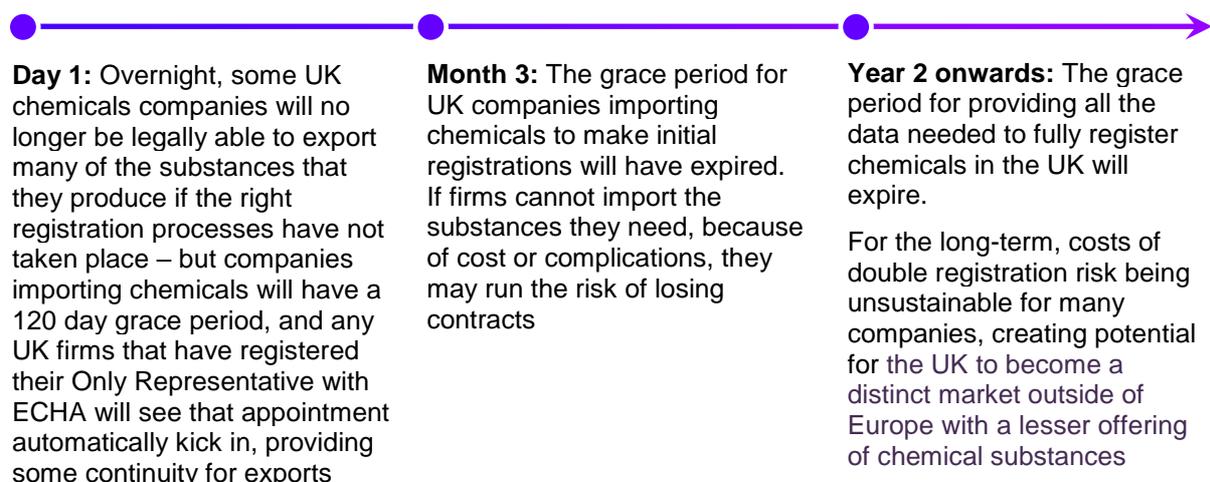
Chemicals

In no deal, the UK chemicals sector will face a complex and costly regulatory wall falling between it and the EU, which currently accounts for 60% of its exports and 75% of its imports and raw materials⁴⁵. Any UK company exporting chemicals to the EU will need to ensure that its chemicals are registered with an EEA based organisation. In many cases, achieving this means setting up an EU subsidiary. Meanwhile, any UK company importing chemicals will need to ensure that those substances are registered in the UK's new chemicals. There are 21,000 chemicals registered in the EU REACH system in total, 5,000 of which are registered by UK-based companies. In the worst-case scenario, the UK industry would risk losing access to up to 16,000 substances in no deal⁴⁶.

While chemical registrations in the EU can be transferred to the UK, this is difficult because many chemicals have been registered with the European Chemicals Agency (ECHA) by groups of companies under confidential legal agreements. This means UK companies now have to pay to release the data – which in some cases is confidential – that is needed to re-register a chemical in the UK. Additionally, instead of sharing the registration costs across a wide group of EU firms, there will only be a small pool of potential UK partners to share the costs with. There is also no obligation for EU-based companies to share data with UK businesses, and in some cases there is commercial advantage not to. As a result, no deal will mean some UK companies will be forced to duplicate testing to register EU substances in the UK, including in some cases through animal studies.

The choice for chemicals firms in no deal is stark: pay more for the right to use chemicals they previously had access to or cease to use them altogether. And the costs are significant. One firm reported that the cost of repeat registrations for the 3000 substances it would be responsible for would be €15 million, considering only costs for registration fees, excluding costs to negotiate data access. At the macro-economic level, analysis suggests that, in the long-run, the chemicals, pharmaceuticals, rubber and plastics sector would be amongst the hardest hit sectors in event of a no deal. Sectoral GVA is estimated to be 22% lower in a no deal scenario compared with today's arrangements⁴⁷.

Many of the no deal provisions for chemicals are only temporary, creating the potential for a challenging period whereby grace periods have expired but registrations not carried over



⁴⁵ Chemical Industries Association, 10 July 2019 'Brexit uncertainty equals British disinvestment'.

⁴⁶ House of Lords EU Committee, Brexit: Chemicals Regulation, 7 November 2018

⁴⁷ HM Government, EU Exit: Long-term economic analysis

Both the UK and the EU have made steps towards mitigating the disruption of no deal for chemicals businesses, but these will not be sufficient

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Passed legislation bringing the provisions of the EU chemicals regime REACH into UK law • Announced that the UK's Health and Safety Executive (HSE) will take over functions currently provided by the ECHA. • Permitted re-registering of existing EU-REACH registrations to allow chemicals to be marketed in the UK. However, this is not without costs as companies will still have to pay, first in providing initial information within 120 days of no deal and then by submitting a full data package within two years of no deal if it has become a permanent state 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Guarantee that the new UK REACH-IT system will be ready on Day 1, as well as expanding trials and testing • Provide a clear process by which businesses can operate under the REACH 'one substance, one registration' objective in no deal • Work with chemicals businesses to improve the usability of the new UK REACH-IT system, as companies participating in trials have so far found the IT system difficult to understand and use • Order a review of HSE capability as its budget was cut by 40% between 2010 and 2017 and has not had a permanent Chief Executive since June 2018 • Step up its communications with business to ensure that companies are aware of their responsibilities to transfer REACH registrations, emphasising the fact that EU registrations can be transferred to the UK without a fee • Set out measures to minimise the need for additional animal testing where companies need to re-run trials • Reduce UK REACH registration fees to ensure they reflect the UK's smaller market size • Provide a route for firms to have additional time to submit full registrations in the event of the need to re-run testing
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Stated that, in order to place chemicals on the EU market, UK companies will need to transfer existing registrations to the ECHA • Confirmed that UK applicants for authorisation must transfer their applications to an EU based company, and that EU importers of chemicals from the UK will have to register • ECHA have opened a Brexit window in REACH-IT to assist transfers online. This has been extended to the end of October 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Provide a grace period of 180 days from no deal for UK manufacturers to transfer registrations to the EU market, as many firms have not yet completed this process and are not likely to commit to the required expenditure until no deal occurs • Provide a grace period of 180 days for EU companies that become new EU REACH importers for substances registered in the UK

<ul style="list-style-type: none"> ECHA have also identified a legal fix to enable UK companies to appoint an 'Only Representative' before leaving the EU allowing appointments to be ready to automatically take effect on the date the UK withdraws from the EU 		
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint actions taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> Jointly commit to reciprocal grace periods for REACH registrations Jointly commit to continuing co-operation between UK and EU agencies and a mechanism to allow data sharing
<p>What has business done so far?</p> <ul style="list-style-type: none"> Begun but by no means completed transfers of registrations. As of the end of April 2019, REACH registrations of 463 substances had been transferred to EU Member States, while 718 remained registered only by registrants established in the UK⁴⁸ In a recent CTPA survey, all companies had taken action to ensure compliance with EU REACH, but only 1 out of 9 companies that are UK-based registration holders confirmed that they would complete the preliminary UK registration within 120 days of no deal. None could confirm that they would go to the expense of completing the full registration after the 2-year transition 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Complete transfer of outstanding registrations For larger companies, keep working with SMEs in supply chains, as supply chains can only be as strong as the weakest link

A number of partial mitigations are available to the chemicals sector in no deal, but they are expensive and difficult to implement before an October deadline. The UK government has made a number of sensible steps, including basing its new chemicals regime on the existing EU regulatory regime or REACH, while on the EU side ECHA has found some technical facilitations to support some continuity.

This approach is welcome, but cannot negate the fact that the practical changeover to the new system is estimated to create up to half a billion pounds of extra costs for business, according to the Chief Executive of the Chemicals Industries Association⁴⁹. As a result of the daunting scale of these costs, and the political uncertainty, many chemicals firms have been waiting until the last possible minute to take the steps they need to for no deal. One downstream user of chemicals confirmed to the CBI that 81% of its suppliers had yet to confirm their plans. And the backdrop for the sector managing these changes is important to remember; the chemicals sector is already suffering the chilling effect of no deal, with companies reporting a halving of capital expenditure, reductions in exports and lost jobs and more companies predicting a fall in margins in July 2019⁵⁰.

⁴⁸ European Commission Communication on Brexit Contingency Preparations, 12 June 2019

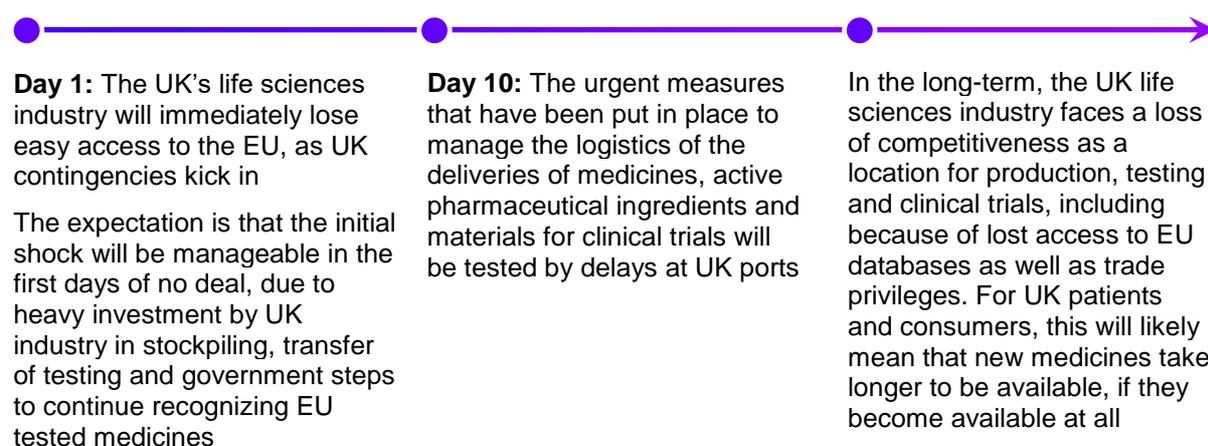
⁴⁹ Reuters, EXCLUSIVE – UK chemicals industry says Brexit could cost sector 500 mln pounds, 28 February 2019.

⁵⁰ Chemicals Industries Association, 10 July 2019

Life sciences

No deal will put considerable strain on this life enhancing economic relationship between the UK and the EU’s life sciences industries. As it falls out of EU rules, the EU will no longer recognize UK testing of medicines and medical devices and the UK will lose access to critical databases for checking safety of medicines. Flow of medicines will be acutely vulnerable to delays at the border. As every month 45 million finished packs of medicine move from the UK to the EU, and 37 million move from the EU to the UK, this is a serious concern.

Due to measures taken by the business community and government, no deal should not be immediately too disruptive for life sciences – but in the long-term, competitiveness will be lost



The UK and industry have made sensible steps to protect life sciences trade in no deal, but it is unfortunate that the EU has not reciprocated these in such an important area

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Committed to recognizing EU testing of medicines, allowing continuing import of EU produced medicines Issued guidance requesting companies increase stocks of medicines, rerouting supply chains and additional warehousing Developed a framework contract to secure freight capacity for medicines and medical consumables and committed to prioritising medicines at the border Secured warehouse space for stockpiled medicines and given pharmacists emergency powers to switch patients to similar drugs in the event of a shortage 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Set out credible plans to ensure medicines, clinical trial materials and Active Pharmaceutical Ingredients (APIs) are not delayed at the border Communicate simple explanations of import and export requirements for medicines in the event of a 'no deal'

<ul style="list-style-type: none"> Amended UK Human Medicines Regulations to: reflect the fact that the Medicines and Healthcare products Regulatory Agency (MHRA) will act as a standalone regulator outside the EU network after the withdrawal date; permit the UK to recognise prescriptions from the EEA notwithstanding the UK's withdrawal; permit regulations that temporarily modify the UK Human Medicines Regulations to address any serious shortages of medicines due to Brexit; incorporate EU guidance as it exists on the day prior to withdrawal date 		
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Stated that UK testing of medicines will not be recognised and medicines without licenses in the EU will be unable to be sold Stated that UK firms will no longer have access to the safety databases that allow information to be shared about outbreaks of disease and faults in medicines 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> Introduce a measure to allow continued recognition of UK-based testing of medicines, at least until they can be transferred to the EU Enable the continued UK participation in key data sharing platforms that protect public health and medicines safety in Europe, such as the central data hub for the Falsified Medicines Directive Introduce plans for priority routes into ports for medicines, clinical trial materials and APIs and move paperwork and regulatory checks away from the border
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> Co-ordinate their plans to fast track Medicines, APIs and clinical trial materials through ports Conclude an emergency Mutual Recognition Agreement covering testing, clinical trials, manufacture and regulation of medicines
<p>What has business done so far?</p> <ul style="list-style-type: none"> Spent considerable amounts on contingency plans – for example, Pfizer has spent £80 million and GlaxoSmithKline £70 million⁵¹ Many firms have built up stocks of medicines, and looked at alternative supply routes including by air transport Transferred batch testing to the EU in many cases 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Continue to work closely and communicate with government about any new concerns – for example, about preparedness in the light of the October no deal date

⁵¹ The Wall Street Journal, Brexit Deal's Failure Prolongs Corporate Uncertainty

The life sciences sector has made huge efforts to prepare for no deal Brexit. The industry has worked closely with UK government and the NHS, and spent hundreds of millions of pounds to put in place mitigations, including duplicating regulatory requirements, changing supply routes and increasing stocks of medicine held in the UK in line with Government guidance. This has reduced the likelihood of some of the worst fears for public health. But these cannot be ruled out altogether because there are things outside of the control of industry, such as logistical breakdowns. Additionally, stockpiling and transport of medicines are subject to some obvious practical constraints, particularly for time-sensitive medicines like flu vaccines.

While the short-term costs of no deal will be measured by the risk to patient safety, long-term the UK's risks the erosion of its most research-intensive industry⁵² as regulatory obstacles oblige companies to relocate high value work elsewhere. The long-term damage to one of its most productive sectors due to new regulatory barriers and extra costs is of great concern.

Agri-food

Food and drink is one of the most exposed sectors to a no deal Brexit. UK exports will face costly and damaging regulatory changes from day one. These will include veterinary checks at the European border, where stringent hygiene tests are carried out. Food will have to be diverted to Border Inspection Posts (BIPs) at or near the European border, where a range of tests will be undertaken - from examining the levels of heavy metals in white crab meat and the levels of salmonella in pork, to undertaking veterinary checks on feathers and trophy animals; ensuring pet food is correctly labelled to comparing certificates for frozen fish against the real products, and much more. Firms will also face changes to labelling and packaging, and a potential de facto embargo in areas like organic foods as – in a Brexit regulatory Catch 22 – these need approvals to be sold that can only be given once the UK has left the EU. And with 30% of the food consumed in the UK comes from the EU⁵³, concerns about no deal in the UK retail sector are so high that Asda, Sainsbury's and Tesco have all issued warning about food price hikes and empty shelves.

The sector will also be affected by changing tariffs – which will make UK exports to the EU less competitive while opening UK producers to foreign competition – and by uncertainty on the Northern Ireland border as cross-border agri-food trade is critical to the NI economy. Both issues are covered in separate sections.

These combined effects of no deal are likely to mean that UK food exporters lose market share in the first chaotic months and may struggle to recover their previous competitiveness on the EU market. One recent analysis suggests that UK Food and Drink manufacturers will face a fall of £3.4 billion in event of no deal.⁵⁴ For some parts of the food industry, however, particularly those affected by big tariff changes such as sheep farmers, no deal could have devastating consequences.

⁵² Office of National Statistics, Gross Domestic Expenditure for Research and Development, 2017

⁵³ Defra Food Statistics Pocketbook, Origins of Food Consumed in the UK 2017.

⁵⁴ UK Trade Policy Observatory, "Hiccups that Make Us Reel" 15 July 2019.

There are a number of potential changes that agri-food businesses will have to schedule in if no deal occurs, changing in steps



The UK has done more than the EU to prepare for no deal in agri-food, but businesses are struggling with the shorter and more difficult timeline of an October no deal

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Provided a 21 month transition for labelling in most areas, so many EU firms will not have to make immediate changes to labelling to sell in the UK • Committed to maintaining SPS regulatory alignment with the EU for 9 months to smooth imports • Stated it will continue with the status quo in areas of food import, such as continuing to accept EU certified seed potatoes in England, Wales and Northern Ireland for one year following exit • Made provisions to adopt a risk-based approach with minimal checks at the border – although remote checks will be carried out on high-risk products and there are mandatory administrative requirements – including pre-notification of the consignments – on high risk products • Stated it will introduce a new Geographical Indications (GIs) scheme based on WTO models and using the 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Provide further information and clarity on whether the new Import Products, Animals, Food & Feed Systems (IPAFFS) which replaces the existing EU system will work for all imports, raising awareness of its functions • Explain how UK businesses importing Products of Animal Origin from the EU for co-packing in UK and re-export will be able to obtain an Export Health Certificate • Set out how the new UK GI scheme will work

<p>same classes as the EU scheme. This will continue to protect existing GIs for UK products, such as Stilton Cheese, but makes no explicit Indications for EU products such as Parma Ham</p>		
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Confirmed that UK agri-food exports will be treated as exports from a third country from Day 1 of no deal without grace periods or transitional measures • Granted the necessary third country approval from the EU for export of animals and products of animal origin in time for the April extended no deal deadlines • Stated that exports of animals to the EU will require an export health certificate which must be signed by an official veterinarian and must enter the EU through an approved Border Inspection Post • Provided guidance that changes for food labelling required for all new products on Day 1 • Confirmed that approvals will be required for exports of meat products, organic food, live plants and seed potatoes from the UK to the EU • Reassured Northern Irish firms that it will continue to recognise Geographical Indications for products from Northern Ireland – such as Irish Whiskey – but has given no clarity on products for GIs from the rest of the UK. In practice, GIs for UK products are likely to continue since they would need to be delisted, but UK exporters might be obliged to reapply 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Maintain third country recognition of UK as an exporter ahead of the EU's departure: covering live animals, meat products, organic food, live plants and seed potatoes • Provide grace periods for SPS checks, certification schemes and pallets • Provide an equivalent transition period for labelling changes for products placed on the EU market as provided for by UK • Keep the full access of the UK to the Rapid Alert System on Food and Feed and the Administrative Assistance and Cooperation System to avoid fraud • Publish further information about current progress updating infrastructure to hire veterinarians and install BIPs in particular – with one in Calais promised but no understanding of whether it is complete, for example. To emphasise the scale of resource needed if full SPS checks are required on food, just one Northern Irish firm estimates there would need to be 35 vets required on a daily basis to certify the food it sends across the Irish borders, with something as simple as an egg and bacon sandwich requiring two certificates, one for the bacon, one for the egg
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint actions taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Co-ordinate planning and communications for checks on food at ports • Continue to exchange information, for example on food safety • Commit to continuing to recognize Geographical Indications on each other's products
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Manufacturers stockpiled ingredients, packaging and finished product in the UK ahead of April – as well as finished 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Continue to stockpile where possible for no deal, given the constraints of timing

<p>products in the EU – but are struggling to do the same again in October because it coincides with peak demand for Halloween and peak Christmas production period where there is no space capacity in terms of either storage or processing</p> <ul style="list-style-type: none"> • UK retailers have taken extensive action including stockpiling especially of groceries, while recognizing that fresh food will be in pinch point, working intensely with suppliers and employing extra customs experts 		<ul style="list-style-type: none"> • Begin to confirm the necessary routes into government – either directly or through trade associations – so that in no deal communication routes about food are already well established
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The UK has put in some valuable mitigations to facilitate trade of food in no deal. For example, the UK has made efforts to secure the flow of imported food by establishing transition periods for EU legislation and prioritising flow of goods at UK borders. But these mitigations risk being less effective in practice given the vulnerability of perishable foods to delays and the asymmetrical approach being taken by the European Commission. While stockpiling can mitigate for some effects of no deal, this is also constrained by the 31 October deadline as warehouse capacity will be limited in the run up to Christmas. Additionally, perishable food imports to the UK will still be vulnerable to border delays if queues develop on either side of the channel, risking gaps on the supermarket shelves and higher prices.

The most significant thing that the EU could do to reduce the disruption of no deal on agri-food is to reflect the mitigations that the UK has taken, providing sensible transition periods instead of an abrupt change. There also needs to be more clarity on whether each side will recognize each other's so-called Geographical Indicators which protect the authenticity of specific products from a specific location, such as a Melton Mowbray pork pie.

"We spent 0.5% of our 2019 annual revenue on our Brexit preparation in order to cover a no-deal Brexit scenario in March 2019. This included the acquisition of additional warehouse capacity in the UK and Ireland, building up buffer stock, and admin-related tasks like contracting additional resources for customs declaration. Now we're looking at having to spend all that again," - appliance wholesaler employing several hundred people





Tariffs and Taxation

The UK's commercial relationships are tied up with the EU, through a range of tariff schedules and taxation provisions. The joint tariff schedules that exist at present mean that the 49% of the UK's exports in goods which go to the EU, as well as 53% of its goods imports, do so without the need to pay tariffs. This is fundamental in helping UK companies sell to European consumers at lower prices, as well as enabling manufacturers and shoppers to benefit from less costly products and inputs coming from the continent. Without tariffs, goods can move more quickly and more cheaply across the UK-EU border, boosting trade and supporting supply chains. The removal of tariffs is a central pillar to any liberalising trade policy. The reintroduction of tariffs to the UK's trade with the EU (as well as a number of other markets around the world) would represent a huge step backwards for UK business and UK trade policy.

Similarly, where taxation is intertwined between the EU and the UK, and steps to unravel this must be taken with care.

- **Are all parties prepared for the effect of no deal on tariffs and taxation?** No, many firms are not or cannot be prepared for the effects from Day 1
- **What does no deal mean for tariffs and taxation in the long-term?** UK products will become more expensive in the EU market in comparison to competitors, and so less appealing to European consumers
- **Is it possible to have no negative consequences on tariffs and taxation without a deal?** No, there is no legal way to avoid tariffs on exports without some form of agreement

Tariffs

In no deal, the UK plans to scrap many tariffs, allowing duty-free access across almost all imports into the UK from both the EU and from the rest of the world. This may limit pressure on price rises in some specific areas, but it will have highly concentrated impacts on specific sectors and regions of the economy. This means some industries will face sudden competition from an influx of cheap goods, duty-free, from around the globe. Cereal, eggs and most fruit and vegetables, for instance, will no longer be afforded any tariff protection.

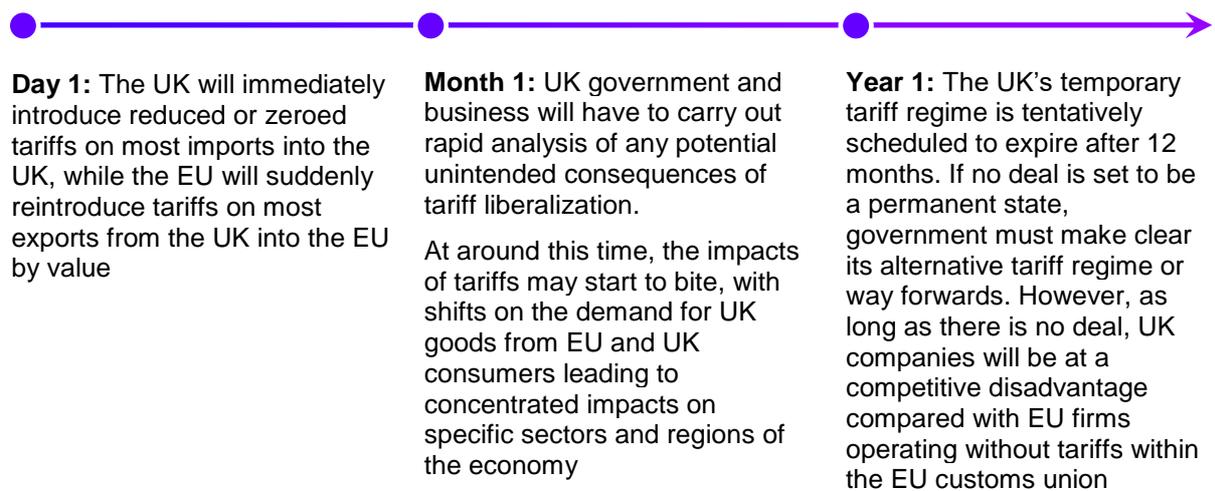
In contrast, some sectors and products will see the sudden implementation of higher import tariffs in no deal. This will create significant damage for those sectors integrated into regional EU supply chains as well as those companies which import lots of finished goods from the EU. The UK's fashion sector, for instance, last year imported almost £730 million worth of products from Turkey tariff-free. These goods will face an average import tariff of 12% in no deal⁵⁵. This will lead to additional, and in some cases unmanageable, added costs for the many small and micro businesses importing from Turkey.

UK businesses trading into the EU will also pay tariffs on exports for the first time in 46 years in no deal. These will be applied on 90% of UK exports by value, with the total increase in costs payable on duties estimated between £4.5 billion to £6.0 billion per year. Some UK sectors will face extraordinarily high costs. For instance, tariffs in the automotive sector – including 10% on vehicles and 4.5% on components – would lead to added export costs of between £800 million and £1.5 billion extra a year.

⁵⁵ UK Fashion and Textiles, UK fashion and textile tariffs in a no deal Brexit, March 2019

If passed onto consumers, these duties would raise the price of UK-built cars sold in the EU by an average of £2,800 – affecting demand, profitability and jobs⁵⁶. This effect will be exacerbated for firms integrated into European regional value chains, as tariffs on parts may be paid more than once as shipments cross the UK-EU customs border multiple times. Just one crankshaft used in a car can cross the Channel three times in a 2,000-mile journey before the finished car is complete. Each crossing into the EU could potentially incur tariffs in a no deal scenario.

In no deal, UK companies will be at a sudden and long-term disadvantage when trading with the market, facing immediate tariffs on exports to the EU



Without an agreement, the UK government will scrap a large volume of tariffs on trade without UK companies seeing reciprocal tariff reductions from the EU and other countries around the world

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Released details of the new rates of customs duty payable on imports into the UK in a no deal – which state that a large volume of tariffs will be scrapped, with 87% of total imports to the UK (by value) eligible for tariff-free access⁵⁷, lessening the costs of inputs for UK firms but also increasing exposure to overseas competition Stated that, in some areas, new duties will apply – for example there will be a mixture of tariffs and quotas on beef, lamb, pork, poultry and some dairy products; tariffs will be retained on finished vehicles; and tariffs will be 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Put in place a summer 2019 campaign to advertise details of the published tariff schedules. This should reach businesses of all sizes across the country, urging firms to analyse the new duties, assess likely impacts on their business and plan how to prepare Learn from the experience of March 2019 and communicate any further changes to tariff schedules well in advance of their imposition Monitor the effects on industries most likely to be exposed to greater competition from overseas businesses as a result of new, lower tariff levels

⁵⁶ SMMT, 2019 UK Automotive Trade Report, June 2019

⁵⁷ HM Treasury and Department for International Trade, Temporary tariff regime for no deal Brexit published, March 2019

<p>retained on protected goods, including certain ceramics, fertiliser and fuel</p> <ul style="list-style-type: none"> • Said that the new tariff schedule will be temporary, applicable for up to 12 months while a full consultation and review on a permanent approach to tariffs is undertaken 		<ul style="list-style-type: none"> • Publish an Impact Assessment detailing analysis of predicted impacts across different sectors of the economy • Publish the necessary Statutory Instruments enacting the new tariff schedules • Release information on how businesses can communicate to civil servants details of any negative and unintended consequences relating to the new schedules, should a no deal occur. This could include material on the evidence firms will be expected to provide and how government would plan to respond • Clarify the status of goods in transit at the points of no deal, guaranteeing that any goods in transit before the UK leaves the EU will pay duties at the pre-exit level • Release details of the expected duration of the temporary tariffs to ease uncertainty. This should include details about the information government would require from businesses to help finalise future rates of duty in the long-term. It should also include information on how products that are likely to require the closest scrutiny will be monitored • Publish explicit details of any planned compensation, adjustment and assistance for those companies and industries worst impacted • Provide additional support for SMEs as they will find the sudden introduction of tariffs and the extra administrative burden especially challenging, and will be less able to source outside support. This should include working with banks to support businesses with cashflow issues anticipated from no deal • Provide greater clarity over how government intends to manage new TRQs, including if the expertise is in place to do so, how companies will access the quotas and how companies will know when TRQ limits have been reached
<p>What has the EU proposed so far?</p> <ul style="list-style-type: none"> • Confirmed EU third country MFN tariffs will apply to UK exports into the EU Customs Union 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Without an agreement between the UK and the EU, there is no legal means through which the EU could offer UK goods reduced or zero tariffs without extending the same offer to all WTO

<ul style="list-style-type: none"> Published a technical notice on customs which outlines how the UK will be treated as a third country in a no deal scenario for customs and VAT and excise duties, that UK Authorised Economic Operator (AEO) authorisations will not be recognised in the EU, and that UK content for rules of origin will no longer qualify as EU content within the EU's Common Commercial Policy 		<p>members in line with the MFN clause found in Article I of the WTO's General Agreement on Tariffs and Trade (GATT)</p>
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> Suggested taking existing EU Tariff Rate Quotas (TRQs) and splitting them between the UK and EU27 after Brexit, in proportion to the shares of imports ending up in each. However, at present, key trading partners such as the USA, Canada and New Zealand have said this leaves other World Trade Organization members worse off and does not honour existing TRQ access commitments 		<p>What could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> Resolution to questions around tariffs will require the UK and the EU to return to negotiations, resolve the Withdrawal Agreement and move on to discussions around the future economic partnership Cooperate on no deal planning in the most affected areas and pinch-points for trade, including with Ireland, France, Belgium and the Netherlands Authorities should be pragmatic and act in good faith when, through no fault of the business, possible errors and unwanted infringements occur in the aftermath of the tariff changes
<p>What has business done so far?</p> <ul style="list-style-type: none"> Many firms have analysed the new tariffs and assessed impact of them. But there remain large numbers of companies unaware of the proposed changes, or who have yet to establish the implications for their own company Business is finding it hard to make pricing decisions given the uncertainty, leading to reduced efficiencies and complex relationships with EU customers Stockpiling in the EU to avoid potential future tariffs implying additional warehousing costs 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Use government guidance around commodity codes, customs and duty declarations to assess how potential changes will impact costs to the company Assess their exposure to EU MFN tariffs to ensure compliance and allocate sufficient fiscal headroom to factor in the new potential duties Proactively reassure customers, if feasible, in the EU regarding ongoing service provision in an MFN tariff scenario. Businesses should assess their exposure to the new rates of duty to be applied to imports into the UK, mapping potential changes onto key imports to assess if this is likely to lead to potential benefits or challenges in the short and long-term

Tariffs is one of the areas where the UK and the EU have taken the most starkly imbalanced approaches to no deal. The UK has a short-term – even potentially short-sighted – approach that contains great risk. The EU has stated that it will immediately impose third country status on the UK, with little mitigations, and significant disadvantage for UK firms.

The UK's approach has created a large amount of uncertainty around levels and for the duration they can be expected to be in operation, which is a huge concern for firms – with 57% of CBI members stating they are extremely concerned and 19% stating they are moderately concerned about them⁵⁸. Intentions for no deal tariff reductions are sensible in paper but are intended to be in operation for a temporary period of up to 12 months. Realistically, changes to tariffs are rarely temporary and it will be hard to raise tariffs once they have been lowered.

The EU's approach to tariffs in no deal means UK firms will be forced to pay duties on exports to the EU. Together with the added costs of administration, as well as tariff accumulation on inputs crossing the Channel several times, UK business will take a huge hit to their competitiveness. Over time, this is likely to have knock on effects both for domestic UK companies and international suppliers servicing the EU market, who will assess if the UK remains the most efficient location for their facilities given the new burden of customs declarations, administration and the cost of the tariffs themselves. Meanwhile those companies subject to greater exposure from foreign competition in the UK, as a result of the UK's tariff reductions, will face a double whammy. Only a deal with the EU can resolve this. Pretence otherwise only exacerbates the uncertainty.

It is also important to remember that the UK is not totally prepared for no deal when it comes to tariffs. The UK's Tariff Rate Quotas are still an issue of contention at the WTO, straining relations with over twenty other international partners, including the U.S., China, Brazil and India. This is covered further in the Global Relations section starting on page 107.

EU Tax Directives

No deal will mean that the UK will no longer be treated as an EU member state for the purposes of the EU legal framework, and in the field of taxation this means that EU Directives – specifically the EU Interest and Royalties Directive and Parent Subsidiary Directive – will no longer apply to the UK. These Directives currently allow, in certain circumstances, associated companies to make payments of interest, royalties and dividends between companies located in EU Member States without the company making the payment being required to deduct tax before the payment is made, paying it over to the government in the country in which the payer is located. This is known as withholding tax.

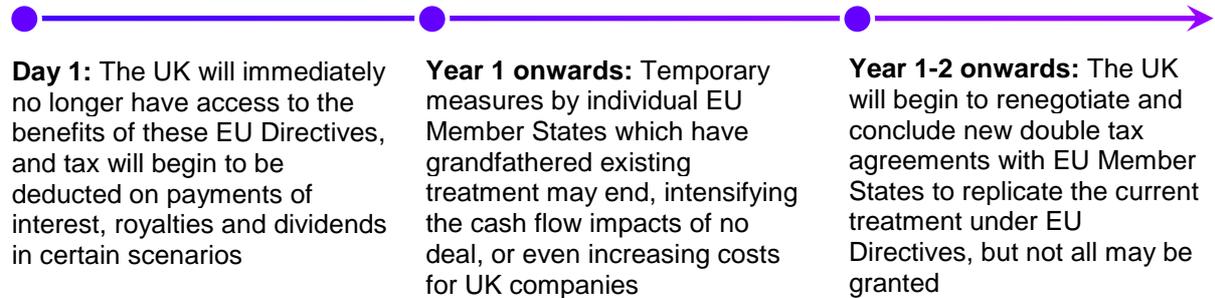
Removing withholding tax obstacles between associated company transactions creates freedom for firms to organise their group structure in the jurisdictions of their choice within the EU, creating consolidations and efficiencies.

The impact of the EU Tax Directives no longer applying to the UK could be serious. Some EU Member States will start withholding tax on the payment of interest, royalties or dividends from companies located in their jurisdiction. This could result in a significantly increased tax burden for businesses

⁵⁸ CBI Survey, March 2019

which have material investment and/or transaction flows with these jurisdictions. At best, this would be a cash flow impact, but at worst, it could create an increase in costs if companies are not able to obtain a full tax credit for the tax withheld.

Over time, the UK may be able to renegotiate double tax agreements, but there could be short-term costs. Longer-term, the status quo may not be preserved across the EU



Negotiations between the UK and EU Member States will be required to reduce cashflow issues and restore the current easements

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Published guidance clarifying where the treatment under the EU Directives is mirrored in UK law for the payment of interest, royalties and dividends from UK companies to EU companies in no deal Outlined the additional compliance steps that businesses need to take to continue to be entitled to make payments free of withholding tax if no deal occurs 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Start preparing now to invite EU Member States to renegotiate double tax agreements once the UK leaves the EU
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Some EU Member States, for example Italy, have confirmed that in a no deal scenario they will continue to temporarily grandfather the current treatment. 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> EU Member States should review the current treatment of payments of interest, royalties and dividends to UK companies in the absence the EU Directives applying. If, as a result of no deal, withholding tax will apply they should consider grandfathering the current treatment
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> The UK and EU Member States should work together to renegotiate double tax agreements to replicate the current treatment of these EU Directives once the UK leaves the EU

What has business done so far?

- Most large businesses have reviewed their current group structures to determine whether the UK no longer being an EU member state gives rise to withholding tax liabilities

What more could businesses do?

- Continue to monitor the position of Member States and whether they take steps to grandfather the current treatment of the EU Tax Directives
- Review HMRC guidance – as well as that available in EU Member States – to determine if they have additional administrative requirements to make payments of interest, royalties and dividends free of withholding tax once the UK leaves the EU

The UK Government’s guidance clarifying where in UK law the treatment under the EU Interest and Royalties Directive and Parent Subsidiary Directive will be mirrored has been welcomed by companies, as have the information about steps businesses need to take to ensure they continue to be entitled to make payments from UK companies free of withholding tax.

Following the UK’s exit from the EU, it is important that the government works swiftly in approaching EU Member States to renegotiate those double tax agreements which apply a positive withholding tax rate to ensure treatment in the EU Directives is mirrored.



*“There has been limited consultation on what is a very complex policy area and where changes could have significant and varied impacts for UK importers and domestic producers,”
large UK-wide retailer*



Northern Ireland

As a result of its unique economic, geographic, social and political factors, Northern Ireland is the region of the UK most vulnerable to a no deal Brexit. This is borne out by every serious economic analysis of no deal, with some estimating Northern Ireland's GVA could be 9.1% lower if the UK fails to secure a deal – an annual loss of almost £5 billion by 2034⁵⁹. Added to this, forecasts suggest 40,000 jobs in Northern Ireland could disappear, especially in industries such as agri-food and haulage⁶⁰. With 142 areas of cooperation between Northern Ireland and the Republic of Ireland⁶¹, and peace and prosperity irrevocably intertwined, Northern Irish businesses are deeply worried about the impact of no deal not just on the economy but on social stability on the island.

In the initial days of no deal, the main impacts for Northern Ireland are likely to be more related to uncertainty more than to concrete changes. However, the long-term impacts are serious. These risks are further heightened by the absence of a devolved government in Northern Ireland since January 2017. For businesses this has resulted in policy paralysis where key issues – from infrastructure to skills – have seen little, or no, progress. This is not only impacting decisions which need to be taken to prepare for a no deal but risks the effective and efficient decision making that will be essential for business to continue operating after no deal due to a lack of clarity over ownership and decision-making responsibility at government level.

- **Are all parties prepared for the effect of no deal on Northern Ireland?** No, there is still a distinct lack of information about what no deal would mean for Northern Ireland
- **What does no deal mean for Northern Ireland in the long-term?** In the long-term, as well as tens of thousands of anticipated job losses, the Northern Ireland and the Republic of Ireland economies would turn inwards, losing productivity gains from their all-island market
- **Is it possible to have no negative consequences on Northern Ireland without a deal?** No, Northern Ireland is the reason that no deal cannot be allowed to persist – it is an utterly unsustainable position for the island and it will be essential that talks resume as soon as possible

The Irish Border

No deal at the Irish border – a 310-mile-long stretch of land which contains 208 border crossings⁶² - is anticipated to be one of the most complex and disruptive aspects of no deal, both from an operational perspective as the only land border between the UK and the EU, and from a political perspective due to the unique challenges and history of the island of Ireland. Current plans for no deal and the Irish border are temporary and untenable, providing little reassurance for firms operating across the island of Ireland.

The scale of the challenge of no deal at the Irish border should not be understated. Estimates vary, but suggest there may be around 758,000 non-farming cross-border export deliveries from Northern

⁵⁹ CBI analysis based on HMG figures from EU exit: Long term economic analysis

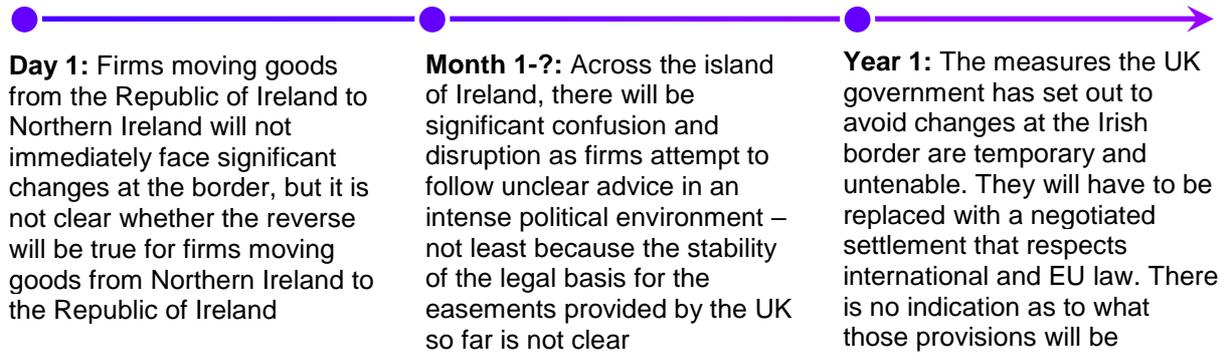
⁶⁰ Stormont's Department for the Economy, Northern Ireland trade and investment data under 'No Deal'

⁶¹ European Commission, Negotiations on Ireland / Northern Ireland: Mapping of North-South cooperation & Implementation bodies

⁶² Department for Infrastructure and Department of Transport, Tourism and Sport, Public Road Border Crossings between the Republic of Ireland and Northern Ireland

Ireland to the Republic of Ireland each year – or around 14,000 a week – as well as approximately 410,000 import deliveries⁶³ the other way around. 74% of Northern Irish exports to the south are by businesses with fewer than 50 employees⁶⁴, which will struggle the most acutely in no deal, particularly as they mostly make regular but low-value consignments.

Current contingency plans for Northern Ireland are unsustainable for the long-term



Neither the UK nor the Republic of Ireland have been able to be clear in their plans for the Irish border so far, creating confusion and consternation for individuals and businesses

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Published advice stating that it will not introduce any new checks or controls on goods at the land border between Ireland and Northern Ireland, including no customs requirements for nearly all goods, no application of import tariffs on goods crossing from Ireland into Northern Ireland and no need for traders only operating on the border to register for EORI numbers, for a temporary period of time Confirmed some new checks and declarations will be required on NI-ROI trade even during the temporary period – including electronic notification for some chemicals and a range of plants entering Northern Ireland, and licenses to export dual-use goods that can be used for military purposes Stated that Irish businesses exporting to Northern Ireland will need to register with HMRC and ensure VAT is paid, but 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Agree and publish a workplan and timeline for agreeing next steps if no deal occurs – including the definition of ‘temporary’ for avoiding checks and its no deal tariff schedules Publish advice from the government’s legal service as to the legal basis for the temporary Northern Irish border plans – including any requirement to lay legislation should it exist – in order to reassure firms in Northern Ireland that they will be operating without contravening international law by following UK government advice Begin preparing ideas and temporary solutions to discuss with the Republic of Ireland and the EU should no deal become a reality, in consultation with a trusted community of Northern Irish businesses and UK-ROI wide economic operators

⁶³ NISRA and the Department for the Economy (Northern Ireland), Cross-order Supply Chain Report (2015, 2016)

⁶⁴ NISRA and the Department for the Economy (Northern Ireland), Cross-order Supply Chain Report (2015, 2016)

<p>that enforcement of this will not take place at the border</p> <ul style="list-style-type: none"> Invest NI has supported businesses through a Brexit assessment tool and a Brexit preparation grant, worth £50,000 for client companies to support efforts to get ready 		
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Discussed but not yet reached any conclusions as to how to control or otherwise the South side of the Irish border The Republic of Ireland has confirmed that North-South trade will no longer be as frictionless as it is today, due to the impact of tariffs, customs, SPS requirements and other checks The Republic of Ireland has undertaken significant communications and training with businesses, including for 4,000 participants at Local Enterprise Offices, a ports campaign engaging directly with truck drivers, a media campaign reaching 90% of the population, and the distribution of 750,000 leaflets to raise awareness⁶⁵ The Republic of Ireland has stated that it will increase contingency actions by writing individualised letters to all traders, following up with phone calls and providing dedicated support teams, as well as a major national checklist campaign and further communication through departments and agencies on specialised aspects such as medical devices and chemical regulations 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> The EU and Republic of Ireland should increase the pace of discussions on how the Irish border ought to operate on Day 1 of no deal, in order to allow the Republic of Ireland to provide specifics that have been lacking. Ideally the EU would allow a commitment to mirroring the UK's temporary easing measures at the Irish border, and if not to at least provide some concrete guidance for firms on both sides
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> InterTradeIreland has a Brexit advisory service in operation, alongside two voucher support schemes that are available for SMEs – with up to £2,000 to plan for Brexit and up to £5,000 to implement changes required by Brexit 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> In the event of no deal, leaders from the UK and Republic of Ireland should be prepared to meet immediately in order to negotiate at least temporary measures to reduce disruption and provide reassurance to citizens and businesses on the island of Ireland
<p>What has business done so far?</p> <ul style="list-style-type: none"> Northern Irish business organisations have convened hundreds of firms for Brexit preparedness workshops 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Continue to be prepared for further, more specific information from governments on both sides of the border

⁶⁵ Government of Ireland, Preparing for the withdrawal of the United Kingdom from the European Union: Contingency Action Plan Update – July 2019

- However, with the lack of clarity, preparations are challenging – as an AIB survey revealed, 56% of SMEs in Northern Ireland have yet to start planning⁶⁶

Northern Ireland is not ready for the impact of no deal on the border, first and foremost because it is still not clear what the changes at the border will be. Advice from the UK government regarding operations at the Northern Irish border were not published until the middle of March 2019, and the Republic of Ireland and the EU still have not made their own intentions clear. This means that businesses do not know what to prepare for and, as the Northern Ireland Audit Office has stated, *“Northern Ireland’s capacity to implement any changes necessary may be constrained given the short time available”*⁶⁷.

Even if short-term plans were published and detailed, that would not be sufficient to avoid disruption due to the huge uncertainty and complexity of no deal in Northern Ireland. Firms doing legitimate business on the island are particularly concerned about what the UK government’s plans will mean for smuggling across the Irish border, firstly and most obviously because the proceeds of smuggling in Northern Ireland are used to fuel crime within communities. Smuggling will only be encouraged by the tariff differentials arising from the UK government’s temporary plans not to impose tariffs on goods moving from the Republic of Ireland into Northern Ireland. The Northern Ireland Food and Drink Association has estimated that a 28t lorry can expect to have a tariff differential North-South of £70,000 for beef or £52,000 for cheese and butter, creating huge incentives to dodge duties.

While no infrastructure is likely to be erected at the Irish border in the short-term, firms may be cautious and either avoid exporting cross-border where possible or adjust procurement strategies to focus inwards, with Northern Irish operators preferring suppliers and customers in the North, and Republic of Ireland operators switching attention to the South. As a result, trade and its associated activities may drop and become less efficient.

The worst-case scenario is that, in the long-term, no deal persists and infrastructure is resurrected at the border, surveillance is introduced, mobile enforcement patrols increase and a significant burden of costly and complicated checks descend on businesses intending to operate on both sides of the Irish border. This will disrupt integrated supply chains and create costs and delays, damaging normal operations that had previously been simple. Given the scale and intensity of the problem of the Irish border, if no deal persists in the long-term, job losses are predicted by every credible economic authority. The UK government, Northern Irish political parties, the Irish government and the European Commission will all have to work very closely together in no deal, making this one of their top priorities to resolve if no deal occurs.

⁶⁶ AIB, Brexit Sentiment Index – April 2019

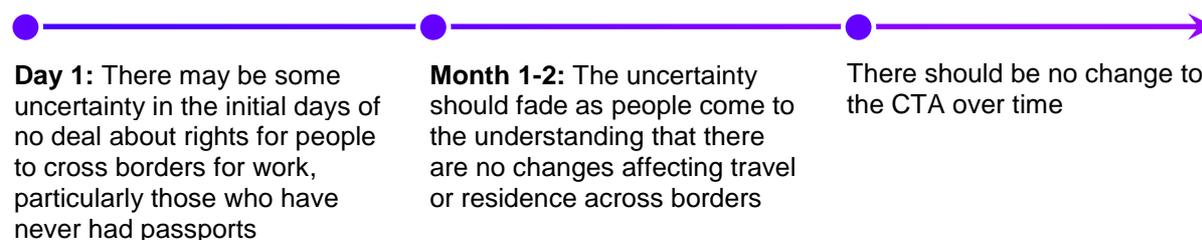
⁶⁷ Northern Ireland Audit Office, The UK Border: how prepared is Northern Ireland for exiting the EU?

The Common Travel Area

If no deal occurs, the Common Travel Area (CTA) will be maintained, which is of huge importance to firms across the UK and Ireland as - not only does it support movement for work purposes that can be as simple as crossing the Irish border for work in the morning – but it has also encouraged many citizens to take up residency in their neighbouring jurisdiction for work, study or retirement purposes. The main disruption arising from no deal on the CTA is that some people are worried there will be changes, despite commitments to the contrary.

The numbers of people benefiting from the CTA at present is substantial. According to Ireland’s 2016 Census, the number of people born in the UK and living in Ireland is 277,200 with 57,000 of these UK citizens coming from Northern Ireland. As a result, UK citizens in Ireland make up 5.6% of its population, 8% of its workforce, and 10% of students. Of the 57,000 Northern Ireland citizens living in Ireland in 2016, 47% – or 27,000 – were living in counties along the border⁶⁸. According to the most recent estimates, during 2018 there were 34,000 residents in Northern Ireland who were born in Ireland and who mainly lived near the land border⁶⁹.

No deal would see both UK and Irish governments ensuring continuity of the CTA



The UK and Irish governments’ commitment to maintain the CTA provides much needed certainty for citizens across the British and Irish isles

Current Contingency Plans	RAG	Recommendations
What has the UK/NI done so far? <ul style="list-style-type: none"> No unilateral action taken 	Green	What more could the UK/NI do? <ul style="list-style-type: none"> No unilateral action required
What has the EU done so far? <ul style="list-style-type: none"> No unilateral action taken 		What more could the EU do? <ul style="list-style-type: none"> No unilateral action required
What have the UK and EU done together so far? <ul style="list-style-type: none"> The governments of the UK and Ireland have signed a Memorandum of Understanding reconfirming their commitment to protecting existing CTA 	Orange	What more could the UK and EU seek to do together? <ul style="list-style-type: none"> A joint UK-Republic of Ireland issuance of guidance and clarification through an ambitious town hall communications

⁶⁸ Central Statistics Office, Irish Census 2011

⁶⁹ Northern Ireland Statistics and Research Agency (NISRA), Overview of People Movement, Migration and Transport in Northern Ireland 2019

<p>rights on social insurance, child benefit and pensions, as well as equal access to public health and education services, deal or no deal</p> <ul style="list-style-type: none"> • Within this agreement is also a commitment to making no practical changes to either countries' approach to immigration or movement of UK/Irish citizens within the CTA 		<p>campaign, to reassure citizens and business of their commitment to the CTA</p> <ul style="list-style-type: none"> • Clarify how they will identify those vehicles who are crossing the Irish border under the CTA vs those crossing under EU regulation - defined by the Department for the Economy as non-economic vs economic purposes
<p>What has business done so far?</p> <ul style="list-style-type: none"> • No action needed 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Ensure any concerns from employees or customers are communicated with the CBI and UK or Irish governments

The UK and Irish governments' commitments to maintain the CTA provides much needed clarity for business on the rights of UK and Irish citizens at a time of more than sufficient uncertainty and instability. It will ensure that business retains its access to the 30,000 strong talent pool of frontier workers crossing the Irish border every day. Yet with these promises being made against a backdrop of uncertainty across the UK, there is a lack of public confidence and trust in this commitment being met in the event of a no deal. A joint United Kingdom-Republic of Ireland issuance of guidance and clarification through an ambitious communications campaign would certainly be a positive step to reassuring citizens and business of this commitment to the continuation of the CTA.

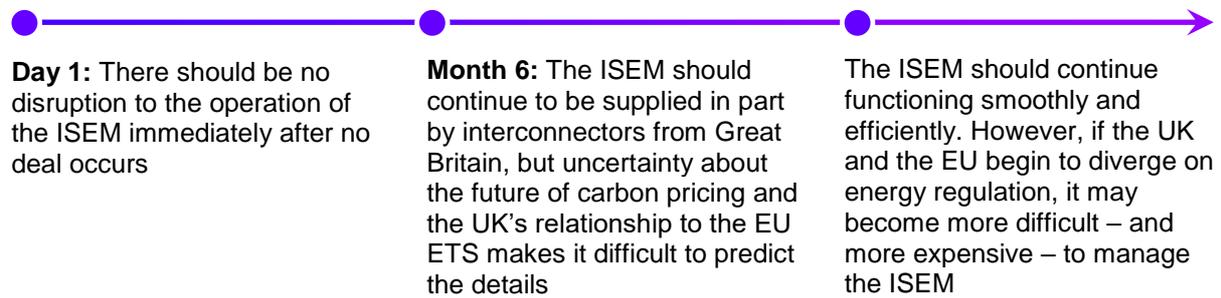
The Integrated Single Electricity Market

No deal may have a complicating effect on efforts to improve the Integrated Single Electricity Market (ISEM) which operates between Northern Ireland and the Republic of Ireland. This unique structure is deeper than any other cross-border wholesale energy market, is helping to underpin the security and competitiveness of electricity supply in both jurisdictions, and has led the way as a model for the operation of cross border markets within the EU as well as for the EU Single Energy Market that is now being created.

At present, a project to build a North/South Interconnector is under development to fully link the energy markets, in order to secure operational efficiency of the ISEM, support wider all-island energy needs, and reduce the risk of an all-island black-out – something which could cost up to £568.5 million per day⁷⁰. These developments are being planned to sustain economic growth and undertaking them will consolidate the ISEM as a proven example of the benefits provided by an all-island economy of scale when designing, planning and delivering essential infrastructure. No deal may reduce the benefits of this work in the long-term but will not cause immediate disruption.

⁷⁰ Blackout Simulator from the Energie Institut as assessed on 14th February 2017

No deal is more of a concern for the Integrated Single Electricity Market over the medium- and long-term than in the immediate days and weeks following no deal



Preparations are well underway for no deal when it comes to the Integrated Single Electricity Market, but reassurances over divergence would reduce concerns

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • The UK government and the Department for Economy in Northern Ireland have worked together to put plans in place and make assurances that the ISEM will be protected and that security of electricity and gas supply will not be impacted in NI by a no deal Brexit • Laid all Statutory Instruments to facilitate the decoupling of the UK from the Internal Energy Market, which will have wider impacts on NI energy supply • Worked with Ofgem and National Grid to ensure measures are in place to deliver continuity of supply - but admitted trade on interconnectors will nevertheless be less efficient • Stated it or the Northern Ireland Utility Regulator will seek to ensure adequate generation capacity is in place through the Capacity Market - a competitive procurement process • Promised it will use existing legal powers and maintain market operation as far as possible, but begun to explore the possibility it may be necessary to seek additional powers from National Grid to preserve security of supply • The Northern Ireland Utility Regulator published advice on electricity trading arrangements, stating that trade with Great Britain will continue, unaffected, in the Intraday Markets and that the ISEM will continue to operate as an isolated, 		<p>What more could the UK/NI do?</p> <ul style="list-style-type: none"> • Finalise changes to domestic industry codes (the technical rules of the domestic electricity system) and licenses in order to continue governing the movement of electricity and gas • Make efforts to produce cross-party, and therefore long-lasting, assurances that regulatory divergence will be kept to a minimum in the longer-term and that the ISEM will continue to be protected • Produce guidance on the future governance arrangements of the ISEM, in clear and simple terms for users of energy on the island of Ireland

<p>all-island market within the Single Day Ahead Coupling, but with no connection between the ISEM, GB and the wider EU market</p>		
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> The Irish government has passed an Omnibus Bill to enable the Commission for Regulation of Utilities to amend licences in an effort to protect the operation of the ISEM 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> Provide an extension of at least 9 months for the UK to continue to be coupled with the Pan European Day Ahead market, in order to ensure that the energy sector can continue to set the price today for tomorrow's electricity in the most competitive way possible, for the benefit of users on the island of Ireland as well Great Britain
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> Both UK and Irish governments and utility regulators have expressed a commitment to working with each other in order to maintain a long-term state of interconnection and minimise any inevitable lack of efficiency within the market ⁷¹ 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> Provide immediate assurance that, despite market access rules changing for energy trading across interconnectors, electricity will still be imported and exported to and from Europe to the UK and NI
<p>What has business done so far?</p> <ul style="list-style-type: none"> NI firms have stockpiled electricity and gas generation hardware and software, such as parts for wind turbines and engines, in the event of a no deal Brexit 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Market participants will need to register under REMIT with an EU regulatory authority for purposes of market monitoring and to avoid disruption to cross-border trade in no deal

With 5% of the UK's electricity exports having come from interconnectors with Ireland in 2017⁷², the commitments made by both Ireland and the UK to maintaining the ISEM have been welcome news to businesses and meant they can safely presume that interconnector flows will continue in no deal.

However, some disruption will still occur in the event of no deal. Leaving the EU without a deal will mean that the operation of interconnectors will be less efficient than today, which risks having wider impacts on market liquidity and on the cost of electricity in the long-run. Additionally, moving ISEM from operating on a pool to a bilateral basis may lead to changes in the number of businesses participating in the EU ETS, creating price distortions within the electricity and carbon markets.

Reassurances in the form of cross-party commitments to minimise divergence from EU energy policy are needed. Divergence would lead to further impacts on cost and efficiency of energy flows, with implications for the security of supply for both Ireland and the UK. Not only will this undermine the development of the North/South interconnector and its potential to bring sustained economic growth to the island of Ireland, but it would also have a knock-on impact on the cost for consumers.

⁷¹ Utility Regulator Northern Ireland, Amendments to our regulatory frameworks in relation to the UK's exit from the EU

⁷² House of Commons Library, Energy imports and exports

“We repair medical equipment in hospitals across Ireland. We ship in parts for broken equipment from Europe, for delivery by courier to dropboxes by the homes of their engineers within 24 hours. The engineers pick up the parts in the morning, and drive in their cars to hospitals on both sides of the border in order to repair the equipment that same day – sometimes crossing multiple times, to hospitals on both sides of the border. This is a very time-sensitive process, and cannot be disrupted,” – Medical devices firm working across the UK and Ireland





Regulated Services

The UK services sector is a great British success story, accounting for nearly 80% of the UK's GDP⁷³. It also employs 4 in 5 workers across the country, the majority of these outside London and South East, including in the booming business, professional and financial service centres in Leeds and Edinburgh, the growing tech presence in the North East and Bristol, and creative hubs in Birmingham, Liverpool and Glasgow. The UK is the world's second largest exporter of services and the EU is the largest recipient of UK services exports – which were worth £109 billion to the UK economy in 2017 and equivalent to 40% of the UK's total services exports⁷⁴.

- **Are all parties prepared for the effect of no deal on regulated services?** No, though firms in highly regulated sectors have spent billions of pounds on contingency plans
- **What does no deal mean for regulated services in the long-term?** Movement of jobs and operations from the UK to the EU will only increase, as the only way to avoid the inevitable barriers no deal creates to serving European customers
- **Is it possible to have no negative consequences for regulated services without a deal?** No, without a deal the ability to operate some services for EU customers from the UK will become impossible

Financial Services

In the event of no deal, UK financial services firms will overnight lose the ability to access the Single Market through the 'passport' which allowed them to provide services into any other EU Member State once it has been authorised in one EU Member State. It will become more expensive and complicated for them to provide regulated financial services in the EEA. They will therefore be required to adapt their business models or cease providing such services to citizens within the EU27 and EEA unless they establish a third country branch or subsidiary within the EU, or utilise the various contingency measures that have been adopted by the EU or EU Member States. However, these will not provide a long-term solution for impacted businesses.

The process to establish such a presence is expensive and time consuming. European regulators require that the new establishment has adequate governance, risk management, controls, capital and liquidity and is not simply a brass plate operation. Additional risks of no deal include outstanding unmitigable risks, unforeseen risks, risks of feedback from wider economic impacts and risks of retaliatory action from the EU on not granting equivalence or imposing tighter regulatory controls.

Financial services firms are feeling the impact of uncertainty over no deal. The CBI's latest Financial Services Survey⁷⁵ shows that sentiment continues to drop after three years of flat or falling optimism. There are also concerns among a number of financial services businesses that no deal or a deal that does not provide adequate market access will have a long-term detrimental effect on the future of the UK's financial services. This will have a wider impact on the UK economy as financial services firms

⁷³ ONS, Pink Book 2017. Based on the latest available data for 2017

⁷⁴ ONS, Pink Book 2017. Based on the latest available data for 2017

⁷⁵ CBI/PwC, Financial Services Survey, July 2019

play a crucial role in enabling growth across the economy, helping households save and invest by providing everyday services such as bank accounts and mortgages, and channelling much-needed capital for businesses to grow through lending or access to capital markets.

No deal would lead to disruption for businesses and consumers and a loss of capital, liquidity and expertise from the UK



Most steps to prepare financial services have been taken by the UK but the EU still needs to reciprocate in many areas

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Put in place legislation to ensure that the legal and regulatory regime for financial services will continue to function Delivered plans to ensure that UK residents, businesses and organisations will continue to be able to send and receive Euros electronically; use UK credit or debit cards in the EEA; rely on personal and business insurance, personal pensions and annuities from the EU, Norway, Liechtenstein and Iceland; and bank with a UK branch of an EEA based firm. However, despite this, there may be additional costs and delays for firms Created a Temporary Permissions Regime (TPR) to allow branches of EEA firms to continue to operate in the UK while they seek authorisation to stay permanently 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Put in place legislation to implement the domestic state aid framework and to ensure EU legislation that begins to apply during the Article 50 extension period can operate effectively as long as it is needed Put in place legislation to allow for effective implementation of in-flight EU legislation that does not apply at exit day and so is not automatically on-shored such as the Financial Services (Implementation of Legislation) Bill Ensure that the changing political situation in the UK does not pose a risk to the current No Deal arrangements Seek to ensure that retail clients, especially UK expatriates, living in the EU and seeking savings and investment services from UK-based firms can continue to do so with minimum additional cost and regulatory

<ul style="list-style-type: none"> • Put in place a Financial Services Contracts Regime for EEA firms to wind down their operations in the UK in an orderly manner should they need to • Delegated temporary transitional powers to UK regulators which will enable them to phase in specific changes to regulatory requirements for firms post-exit • Legislated to ensure that UK businesses can continue to use clearing services provided by EU-based clearing houses • Created temporary regimes for credit rating agencies, trade repositories, CCPs, central securities depositories and MiFID data reporting service providers • Legislated for EU asset management firms to continue operating and marketing existing funds in the UK after exit 		<p>intervention. This will require inter-alia smooth data flows to and from the UK after Brexit; minimal barriers to trading from the UK on exchanges within the EU; and the ability to provide advice by electronic means direct from the UK at least to individuals with a UK passport</p> <ul style="list-style-type: none"> • Put in place an equivalence decision to recognise EU trading venues to allow UK investors to access major pools of liquidity for a number of EU27 shares and derivatives • Formulate its own assessment on the availability and implications of the various types of equivalence in both directions, undertaking timely consultation with industry stakeholders
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Confirmed people living in the EEA will continue to be able to send and receive Euros electronically, use UK credit or debit cards in the EEA and bank with a UK branch of an EEA based firm – although the costs and time for people to do so may increase • The European Commission has provided a temporary and conditional equivalence decision in respect of the UK's regulatory framework for CCPs and CSDs • Certain individual EU Member States have created their own temporary emergency legislation and regulation to manage no deal risks, though – aside from the pan-EU measures – this differs by Member State and is a patchwork in terms of its scope and duration • The European Insurance and Occupational Pensions Authority (EIOPA) has issued non-binding recommendations for competent authorities to support a consistent approach to the treatment of the UK insurance firms in no deal • The European Securities and Markets Authority (ESMA) has tried to reduce the potential impact of no deal by significantly reducing the scope of share 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Confirm that people living in the EEA can still receive the financial services and products that are already in place, such as: current accounts, credit cards or mortgages; insurance, personal pensions or annuities; and retail investment services and advice without triggering local licensing requirements • Reciprocate the UK's TPR in its entirety across the whole of the EEA so that UK firms that are still going through the process of renewing or obtaining authorisation in an EU Member State can continue to provide financial services into the EEA • Issue Europe-wide requirements for the insurance sector so that there would be a complete and consistent approach to provide certainty to insurance firms that they can continue to fulfil their insurance contracts across borders • Apply measures allowing UK expats in the EU to enjoy full benefits of the investment and savings contracts they had entered into before Brexit • Make equivalence determinations for the UK trading venues under EMIR and MiFIR to minimise the disruptive impact on EU27 market participants and European equities and derivatives markets

<p>trading obligations so that it does not apply to shares with a GP ISIN</p> <ul style="list-style-type: none"> • ESMA has issued temporary recognition decisions for the three UK CCPs and UK CSD to limit the risk of disruption in central clearing and settlement and to avoid any negative impact on the financial stability of the EU • The European Payments Council (EPC) has confirmed that the UK will remain a member of the Single Euro Payments Area (SEPA), meaning that UK payment service providers will retain access to the SEPA payment schemes 		<ul style="list-style-type: none"> • Confirm the intention to extend equivalence to UK clearing houses when the current decision expires in March 2020 and in light of the new equivalence framework being introduced through EMIR 2.2 • Put in place a temporary equivalence decision to recognise trading venues for shares and derivatives
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • Agreed Memoranda of Understanding (MoU) covering supervision of credit rating agencies and trade repositories and supervisory co-operation, enforcement and information exchange including agreed cooperation agreements that enable EU asset managers to delegate the management of their assets to the UK 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Work together to agree reciprocal equivalence determinations under applicable regulatory frameworks, including for trading venues is particularly important, for example to ensure that investors can continue to access major pools of liquidity and to ensure that UK exchange traded derivatives are not considered OTC derivatives under EMIR and thus subject to the EMIR which could have an impact on business models • Seek to limit the practical impact on firms of potential duplications of transaction reporting regimes, including under MiFIR, for example by enhanced information and data sharing
<p>What has business done so far?</p> <ul style="list-style-type: none"> • UK firms have determined jurisdiction-by-jurisdiction and on a product and service specific basis whether continuing to service existing EU-based customers from the UK will constitute regulated activity triggering local licensing requirements • UK firms – including foreign owned banks that have utilised the UK as an EU hub – have moved business into the EU27 • UK firms have applied for the temporary emergency arrangements in the Member States in which they operate, where possible; have established third country branches or subsidiaries in the EU and have begun to transfer staff and capital to the EU 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Assess their contingency plans to ensure that they are ready for a no deal as at 31st October 2019 • Focus on gaining approvals from customers to move or change their contracts, or to change the way they deliver investment services and advice • Urge EU counterparties to put in place alternative contractual arrangements to ensure continuity • Be prepared that over time regulators may tighten up their approaches to managing and authorising regulated subsidiaries and branches

- UK banks have repapered or transferred many EU clients to subsidiaries or branches in the EU
- UK firms have established access to TARGET2 through their EU branches or subsidiaries or correspondent relationships with other banks
- UK and EEA firms have reviewed their existing arrangements their financial market infrastructure and have established new relationships or access arrangements where needed
- UK firms have undertaken Part VII transfers to their EU subsidiaries or cross border mergers to enable the transfer of business to the EU and to allow EU contracts to be serviced from the EU subsidiaries.
- EEA firms have applied for the UK's TPR and have established third party branches and subsidiaries within the UK

Financial services firms have spent the past three years and, as confirmed by EY, £4 billion on no deal planning to date⁷⁶. Firms have sunk costs to adapt to no deal and have prepared themselves as much as they can. The UK government and financial institutions have taken steps to minimize the disruption of a no deal Brexit, providing sensible steps on many fronts through the regulators in order to preserve financial stability. The TPR is invaluable to the UK's financial services sector, as an international financial services centre, and continuing supervisory co-operation between the UK and the EU will be crucial. The UK Government must ensure that the evolving political situation does not impact the current no deal arrangements.

Minimizing the disruption of no deal to EU citizens is only possible if the EU reciprocates the UK's measures centrally, rather than relying on individual Member States to decide how to respond, as has been the case to date. Further guidance and certainty would give the business community comfort and enable them to improve their plans. However, based on feedback from the EU, CBI members are not expecting the EU to respond.

Even if some of the initial disruption is reduced by the EU taking further steps, the transfer of jobs, capital, liquidity and expertise from the UK to EU would accelerate if there is no deal. To counter these effects the UK must maintain and increase its long-term international attractiveness as a place to do business and preserve its global competitiveness in the global marketplace.

It is worth noting that, even in the event of a deal, some of these concerns remain valid. The Political Declaration is a very good starting point and the section on financial services is a good example of negotiation by the UK. The Political Declaration aims to gain market access through 'equivalence'. The Government should provide clarification on how they would make equivalence work for the financial services sector. The current equivalence framework is incomplete as a number of key regulations, such as the Capital Requirements Directive IV and Insurance Distribution Directive, do not include regime based on equivalence. Currently equivalence determinations can also be withdrawn

⁷⁶ EY, Financial Services Brexit Tracker

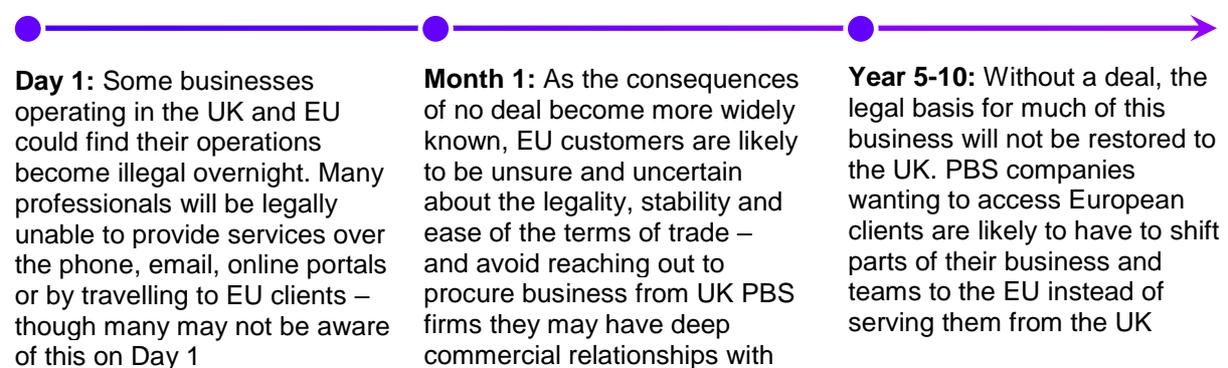
unilaterally and with little notice. While, the UK and EU may look to improve existing equivalence regimes are not a substitute for passporting, and improvements would be uncertain and may take a long time to secure.

Professional and Business Services

Under a no deal scenario, many Professional and Business Services (PBS) firms will lose the legal basis to export to the EU overnight. This is because rules on services provision are not just set by the EU, but also Member States, where rules for the provision of services are patchy. For regulated businesses such as those providing legal advice and representation, audits and the preparation of financial statements, the barriers to doing business can often be very high – not least for small businesses. Leaving the EU without a deal could, therefore, leave cross-border trade in business and professional services in disarray, hitting hundreds of thousands of customers, companies, and ultimately jobs. The Law Society predicts the loss of 12,000 jobs in the legal sector alone by 2025 in the event of no deal⁷⁷, while the Royal Institute for British Architects (RIBA) estimate a no deal would reduce UK architecture exports by £73 million a year⁷⁸.

With many of the impacts of no deal for PBS firms occurring behind closed doors in offices across the continent, the consequences will be less visible than those taking place at ports but no less concerning for the economy. For example, failure to take additional steps risks audit reports no longer being regarded as legally valid – leading to legal uncertainties and questions around financial stability and market integrity across the UK and the EU. The costs to firms have the potential to include the loss of entire contracts, with the potential need to sub-contract business in order to maintain continuity of service for clients, as well as difficult conversations with the potential to damage relationships with customers. Grave and widespread issues of liability and responsibility should be taken seriously by the EU and the UK.

Disruption for PBS firms will happen behind the scenes and, in all likelihood, be more significant in the long-term as activity shifts from the UK to the EU



⁷⁷ The Law Society, Legal services sector forecasts, August 2018

⁷⁸ RIBA, Global Talent, Global Reach, December 2017

Very few effective steps have been taken by the UK or EU governments to provide for continuity for the PBS industry

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Laid legislation to update the Provision of Services Regulations to provide a legal frame for services firms in the UK after Brexit • Confirmed EU services firms will no longer have preferential access rights and protections in the UK, which make it easier for businesses to establish themselves, and to provide services cross-border on either a temporary or permanent basis • Advised UK firms in the EU to check national regulations to understand how they will be affected by becoming a third country provider • Published a website with a country-by-country guide on national rules and regulations on service provision if the UK leaves the EU without a deal • Confirmed EU and Swiss lawyers practicing in the UK will no longer be able to provide all the legal activities they currently provide • Confirmed only auditors in possession of a qualification recognised in the UK will be able to sign audit reports on behalf of an audit firm • Have sought to provide continuity by offering a transitional period until December 2020 for EU qualified lawyers and auditors to convert their qualifications to UK ones 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Launch an ambitious communication campaign as the impacts of a no deal on services are largely hidden, emphasising the possible regulatory barriers when providing services to EU states under a no deal. This should be focused on supporting SMEs to prepare • Become party to the Hague Convention on Choice of Court Agreements 2005 in its own right, and the Hague Convention on International Recovery of Child Support and Family Maintenance 2007, to avoid difficulties in enforcing EU judgements in the UK and UK judgements in the EU • Replicate Rome I and Rome II Regulations to reduce complexity in the choice of law in contractual and non-contractual obligations in English, Scottish and Northern Irish law • Apply to the Swiss Federal Council to join the Lugano Convention, and retain UK judgements pending Lugano membership, to reduce the complexity of managing the enforcement of judgements • Commit to removing nationality requirements for the ownership and editor of media organisations to avoid UK businesses being subject to discriminatory behaviour when trying to acquire media organisations based in the EU
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Confirmed UK services firms will no longer have preferential access rights and protections in the EU. UK services will therefore face additional legal, regulatory and administrative barriers to trade depending on the rules of the EU country where the service is being provided 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Allow pragmatic discussions immediately between authorities at national, regional and local level to co-ordinate contingency planning and messaging to services businesses and the corporates they serve

What have the UK and EU done together so far?

- No joint action taken

What more could the UK and EU seek to do together?

- Work together to rapidly secure UK adequacy with the EU’s regulatory framework for audit, to enable UK auditors to issue legally valid audit reports, which are required for entities seeking to be listed on regulated markets in the EU
- Issue a joint public statement that UK and EU corporate structures will continue to be able to operate as law firms on both sides of the Channel. This would help law firms using UK legal structures that have not taken the decision to restructure before the UK exits to continue to operate legally in a no deal.
- Negotiate and agree that EU and UK lawyers can practice on both sides of the Channel for a temporary period if no deal occurs, in order to ensure the continuation of cross-border legal advice in person
- Make a public commitment on the right for UK and EU auditors to own and operate audit firms together – avoiding the need for restructuring at significant financial loss and possible loss of a considerable number of jobs

What has business done so far?

- Some audit and accountancy firms have begun to reskill staff in EU offices to mitigate possible disruption of UK staff being prevented from providing services in the EU
- Some audit firms and others across the PBS sector are looking further afield and are moving to America, Africa and the Far East for expansion, rather than Europe. They are actively restructuring in these new markets
- Some legal firms have used Brexit as a chance to diversify, relocating some services elsewhere in the EU including Dublin, Amsterdam, Paris and Frankfurt
- Since May 2019, a total of 2,970 England and Wales solicitors have been admitted to the Irish Roll of Solicitors since January 1st, 2016 – with 600 more applications being processed so UK lawyers can register to practice in Ireland and undertake work across the

What more could businesses do?

- UK firms providing services to the EU will often be subject to the rules of the EU country where they are being provided. Businesses will therefore need to understand their exposure by examining the regulatory framework for third countries in individual EU Member States
- UK lawyers practicing in an EU Member State who have not registered with a competent authority should consider doing so as soon as possible
- UK auditors wishing to provide services in the EU will need to understand how their qualifications will be recognised by that Member State, including the Republic of Ireland. Auditing firms should make themselves aware of specific accounting and reporting requirements of any Member State in which they operate
- UK businesses listed on an EU market may wish to make themselves aware of

<p>EU⁷⁹. One large firm registered their staff en masse</p> <ul style="list-style-type: none"> • Some tech firms have been considering offers to invest in other countries to mitigate regulatory barriers. In one example, this included moving part of their operation which would previously have been invested 100% in the UK, to 50% UK and 50% France⁸⁰ • SMEs in particular have found it difficult to prepare for a no deal. A RIBA survey found 90% of architecture firms with under 10 staff had less capacity to plan⁸¹, while a techUK survey found 30% of smaller firms were unable to plan because they lacked the time and money⁸² 		<p>EU third country requirements for listed entities</p>
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The UK has made a number of significant steps towards providing continuity for PBS firms in important industries such as the legal and auditing sectors. However, there is concern that these do not go far enough and that companies are not ready. For example, a techUK survey showed around 42% of tech members had taken no active steps to prepare for no deal, rising to 65% of firms with fewer than 10 people⁸³.

Routes do exist to secure continuity for UK firms operating in the EU and to gain access in the future. However, these are lengthy, complex, costly and a long way from the current arrangements. For example, a UK registered auditor, can currently achieve recognition in an EU Member State, and the right to practise in audit, without the need to undertake the entire qualification procedure of the relevant national profession and associated bodies. Presently, it is necessary only to pass an aptitude test in that Member State. There is no requirement for audit experience specifically in the EU host Member State and the aptitude test purely covers the specific divergence between the home country qualification training and that of the host body. In the absence of an agreement between the UK and the EU in this area, a UK auditor would be required to complete a full re-qualification in the Member State in which they wish to practise. This would mean the completion of new exams and the completion of a minimum three years of monitored practical experience requirements, all of which could take up to five years.

PBS companies are deeply concerned about no deal, and uncertainty about this is have an effect now: optimism in the professional and business services sector has been declining over the last 4 quarters⁸⁴. The long-term cost of reduced competitiveness for PBS firms is high on the list of worries – and will impact not just PBS companies themselves, but the wider economy, as there are few business activities that do not require accountancy and audit, legal, engineering, architectural, recruitment, consultancy, advertising, research or assurance services.

⁷⁹ Irish Law Society, June 2019

⁸⁰ Exiting the European Union Select Committee, The Consequences of "No Deal" for UK business, July 2019

⁸¹ Exiting the European Union Select Committee, The Consequences of "No Deal" for UK business, July 2019

⁸² techUK Brexit survey response, January 2019

⁸³ techUK Brexit survey response, January 2019

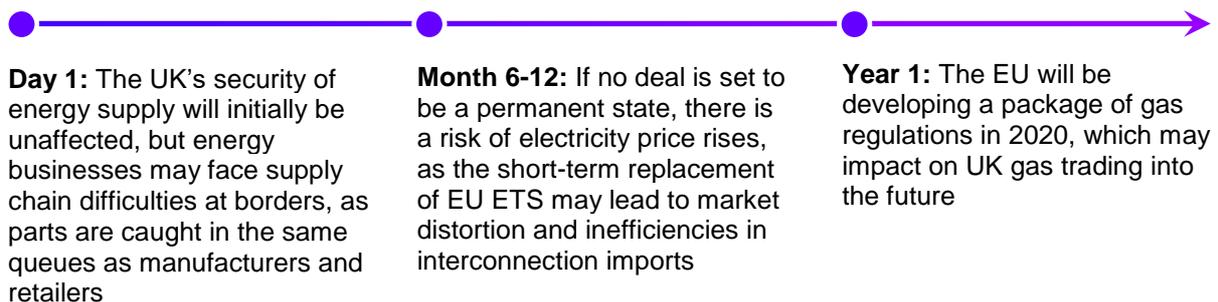
⁸⁴ CBI, Q1 2019 Services Sector Survey

Energy

The relationship between the UK and the EU on energy policy and regulation is deep and detailed, and no deal creates the need for complex overnight changes. One of the biggest concerns about no deal on energy comes from the fact that no deal means the UK decoupling from the highly intricate Internal Energy Market (IEM) it is currently a part of. The IEM is a long-term project to liberalise and harmonise the energy markets of EU Member States to make energy supply more affordable and secure, through regulations, interconnectors – the physical links that allow the transfer of energy across borders – and common network codes that facilitate the harmonisation, integration and efficiency of the market.

Removing the UK from this system would prove to be a mammoth task, cast doubts on the efficiency of interconnection flows and potentially lead to energy price rises. This will make achieving the energy sector’s key aim – ensuring the lights stay on, at the right cost and with the least impact on the environment possible – more difficult in the years ahead. This is particularly challenging given the current date for the UK’s exit from the EU, which falls in the middle of the high-demand winter season for energy suppliers.

Disruption to UK businesses within the energy sector is inevitable, and longer-term concerns remain around imports via interconnectors, electricity prices and future EU Directives



Progress has been made to prepare the energy sector for no deal, but important actions remain unsolved and energy prices may rise over the long-term

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Put plans in place to reduce risks to security of electricity and gas supply in no deal Laid the majority of Statutory Instruments required to facilitate the decoupling of the UK from the IEM Provided guidance on future interconnection flows to and from the mainland 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Complete the laying of remaining Statutory Instruments, ensuring regulations for electricity connection codes are retained before exit Provide clarity on the replacement carbon pricing scheme required when the UK leaves the EU ETS, including more detail on the Carbon Tax and the plans to implement a linked UK ETS

<ul style="list-style-type: none"> • Worked with Ofgem and the Northern Ireland Utility Regulator to support interconnectors and ensure new market access rules are approved in Great Britain • Confirmed that, with no deal, a Carbon Tax at £16/tco2 will be introduced – a number that has been legislated for and included in the Finance Bill 2018/2019 • Ensured there will be no changes to the current charging arrangements for gas and that PRISMA will continue to manage gas trading and gas agreements • Provided guidance on licencing requirements for UK firms importing and exporting nuclear materials, and passed legislation so the Office of Nuclear Regulation can implement UK-based nuclear safeguards • Signed new international agreements with the International Atomic Energy Agency (IAEA) to replace trilateral agreements between the IAEA, Euratom and the UK 		<ul style="list-style-type: none"> • Publish further information on the implications of the extension for carbon pricing in the UK, as UK installations do not currently know which carbon pricing system they are under (EU ETS or carbon tax) for 2019. They have no visibility of carbon pricing and therefore electricity prices post-2019
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Published preparedness notices on the IEM, on guarantees of origin of electricity from renewable energy sources, on the EU ETS and Euratom. • Decided to temporarily suspend issuance of EU ETS allowances by the UK (whether in the form of free allocation, auctioning or exchange of international credits) as of 1 January 2019 • The Commission and the Agency for the Cooperation of Energy Regulators (ACER) has provided guidance on EU's Regulation on Energy Market Integrity and Transparency (REMIT) re-registration process for UK firms and data collection. UK market participants will need to register with an EU regulatory authority for the purposes of market monitoring to avoid a disruption to cross-border trade, trade within EU wholesale energy markets, or trade within the Single Electricity Market 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Prepare now to work in close partnership with EU Member States to provide immediate assurances in no deal that, despite market access rules changing for energy trading across interconnectors, electricity will still be imported and exported to and from the EU to the UK
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • UK and EU Member States trading energy together should work together to

		<p>ensure commercial contracts are not affected in the case of no deal</p> <ul style="list-style-type: none"> • Interconnectors in the UK and the EU should work with market parties to ensure that new arrangements (access rules) are understood, and any transition goes smoothly • The UK government, the European Commission, ACER and Ofgem must support activity to smooth uncertainty at interconnectors
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Reviewed their supply chains and procurement systems to ensure they have good visibility of what they will need • Revisited contracts with EU partners and suppliers to ensure those contracts will remain valid post-Brexit • Ensured they adapt to their new regulatory framework by reviewing and adapting their reporting methodology • Stockpiled electricity and gas generation hardware and software – such as parts for wind turbines and engines – where they see fit in the event of a no-deal Brexit • Established third country branches in the EU to ensure continuity of business and access to EU energy markets 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Reassess their March contingency plans to ensure that they are ready for a no deal from 31st October 2019 • Ensure they obtain the correct paperwork and confirmations – such as OGEL for example – to ensure goods can still be imported and exported

No deal provisions for the energy sector have been particularly under lock and key, with very little being given away on either side. While some steps have been taken by the UK to minimize the impact of no deal on energy firms – such as coordinated plans for the nuclear sector and ensuring the continuity of gas trading via PRISMA – ultimately, wider-reaching doubts remain.

The UK government continues to lay Statutory Instruments and is having ongoing discussions with interconnectors on new market access rules to ensure the flow of electricity and gas in the long run. Businesses also continue to prepare as best they can by reviewing their supply chains and procurement systems, revisiting contracts with EU partners and suppliers and in some cases, stockpiling goods in the event of border blockages.

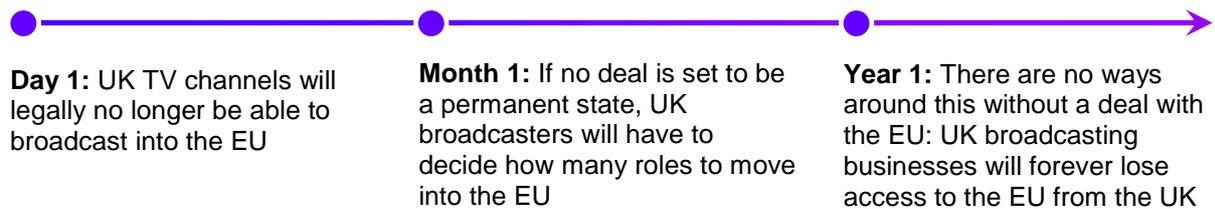
However, further questions exist as to the UK's fate as it leaves the EU ETS. Firms are anticipating potential market distortion the longer decisions go unmade in this area. This concern is so significant that 1 in 3 Energy Institute members believe Brexit is the single greatest challenge facing the industry in 2019⁸⁵. Even if some of the short-term disruption can be managed, in the longer-term, businesses and consumers may have to juggle energy price rises as a result of no deal as well as reduction in interconnector efficiency and increased pressure from new EU Directives and increasing demand.

⁸⁵ Energy Institute, Energy Barometer 2019

Broadcasting

There are more than 600 TV channels in the UK that broadcast from the UK internationally, with a combined value of over £1 billion, beaming content from music to sports across the globe, and without a deal their right to do so freely into the EU will fall away⁸⁶. This puts at risk the UK’s status as Europe’s leading international broadcasting hub, endangering its trajectory of growth – currently at 17% a year for international channels⁸⁷.

No deal would permanently remove a key to the competitiveness of UK broadcasters



Most steps to get the broadcasting industry ready for no deal have been taken – but the fundamental challenge for the sector cannot be avoided without an unprecedented deal

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Laid a Statutory Instrument to provide a legal framework for audio-visual firms in the UK after Brexit Confirmed that TV channels from 20 EU countries – as well as the Irish channels of TG4, RTÉ1 and RTÉ2 – will be able to continue operating in the UK providing they obtain a UK licence Requested that broadcasters from 7 EU countries – Belgium, Denmark, Greece, Ireland, Luxembourg, the Netherlands and Sweden – operating in the UK apply for licenses from Ofcom Provided guidance to firms having to adjust their licenses through Ofcom 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Commission and publish a report from Ofcom on preparedness of the TV channels broadcasting into the UK from the EU by September Consider how to incentivise investment from media companies in order to offset the damage done to its global competitiveness by no deal, particularly its attractiveness to multi-nationals and the eco-system of 27,600 SMEs that they support⁸⁸, and in domestic policies for the long-term – including immigration policird
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Published a preparedness notice on audiovisual media services, advising that EU member states will be able to 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> Ensure there is sufficient resource allocated to licensing authorities to process applications – particularly in Belgium,

⁸⁶ Oliver & Ohlbaum Associates, The value of international channels to the UK

⁸⁷ Oliver & Ohlbaum Associates, The value of international channels to the UK

⁸⁸ Department for Digital, Culture, Media & Sport, Sector Economic Estimates: Audiovisual

restrict reception and retransmission of audiovisual media services from the UK if they have not shifted licenses		Denmark, Greece, Ireland, Luxembourg, the Netherlands and Sweden – to avoid a drop off in legal supply upon the UK’s exit from the EU
What have the UK and EU done together so far? <ul style="list-style-type: none"> • No joint action taken 		What more could the UK and EU seek to do together? <ul style="list-style-type: none"> • Explore the potential for formal cooperation between national authorities in order to help ensure audience protection
What has business done so far? <ul style="list-style-type: none"> • Applied for licenses to operate in other European nations. Several large audiovisual companies – such as Discovery, NBCUniversal and Turner which operates CNN and Cartoon Network – have made this publicly known, but many more so are undertaking these measures more quietly 		What more could businesses do? <ul style="list-style-type: none"> • The UK broadcasting industry is relatively well organised, and most significant companies have undertaken the work that they need to in order to continue serving their customers. However, that will likely come at the cost of jobs in the UK and, in the medium- to long-term, the UK’s status as Europe’s leading television hub

Overall, the broadcasting industry is perceived as being as prepared as it can be for no deal. To provide further reassurance and confirmation of that perception, the UK could encourage transparency from Ofcom, while the European Commission could do the same for licensing agencies in priority Member States. This would give the business community greater confidence.

However, ultimately there are no realistic steps that can be taken to change the fundamental challenge: in no deal – or indeed if a future deal does not cover broadcasting rights – the UK audiovisual sector’s ability to broadcast freely into the EU will fall away, and greater movements of jobs from the UK to the EU are inevitable. To deal with this risk, broadcasting businesses have been applying for licenses in the EU. This will entail some short-term operational change, as EU regulations on audio-visual services require firms broadcasting within the EU to have substantial operations based there. While many companies may be able to minimise operational change in the short term, there is a clear risk that companies will divert more investment to the EU in the medium to long-term, as the UK slowly loses critical mass and other Member States continue to develop their infrastructure and become more attractive as a place to invest.

Aviation

Both the UK and EU have repeatedly stated that, in the event of the UK leaving the EU without a deal, aeroplanes would continue to be able to fly to and from the UK and EU. Temporary steps have been taken by both sides to ensure this would be the case. However, aviation falls outside the remit of the WTO, and so, unlike other sectors, there is no automatic fall-back when the UK leaves the EU. A deal must therefore be agreed that is sustainable and endures for the long term.

This is not just vital for holidays, but for the economy as well. In an increasingly interconnected world, the aviation industry is one of the great facilitators, contributing significantly to economic growth in the

UK and within the EU. 63% of business travellers and 77% of inbound leisure visitors reach the UK via air⁸⁹, while goods transported by air are usually high value, perishable or required for ‘just in time’ manufacturing activity, as well as personal post. The aviation industry directly contributes £52 billion to UK GDP and supports 961,000 UK jobs⁹⁰.

A long-term aviation agreement is also important for reasons of safety. The UK’s current automatic access to the EU Single Aviation Market is underpinned by a web of common rules that have helped develop a level playing field in areas like safety and the environment, as well as providing the infrastructure needed to co-ordinate 26,000 flights across the continent every day, flights which carry 164 million passengers between the UK and the EU each year⁹¹. In no deal, the UK aviation industry will be excluded from this infrastructure, from sharing the insights of experts and best practice, as well as access to services run by the European Aviation Safety Authority (EASA) such as training for all national aviation authorities to ensure all aircrew are certified in the same way – so that the conditions for a pilot or engineer’s license, the credits for training, and the medical fitness tests across Europe are all at the same standard.

Though planes will fly on Day 1 of no deal, this is provided for by temporary measures only, and these are due to lapse in March 2020



Most steps to get the aviation sector ready for a no deal have been taken – but these steps are temporary, and a deal on aviation is therefore essential

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Published technical notice stating the UK will grant EU airlines with a level of access to the UK that is at least equivalent to the rights granted to UK airlines under the EU’s draft regulations on basic air connectivity until March 2020 Stated it will allow EU-registered airlines to operate within the UK until 27 October 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Rapidly update cabotage in the UK for EU carriers. Currently, the deadline stated is 27 October 2019 – established prior to the March 2019 extension but now out of date Work with the aviation industry to draw up its negotiating position on the future UK-EU air transport agreement, which

⁸⁹ Office for National Statistics, Overseas Residents Visits to the UK 2016

⁹⁰ Sustainable Aviation, UK Aviation Industry Socio-Economic Report

⁹¹ Department for Transport, Flights protected in no deal Brexit scenario, March 2019

<p>2019 provided they satisfy the requirements of the UK's regulatory authority, the Civil Aviation Authority (CAA)</p> <ul style="list-style-type: none"> • Outlined its intention to allow EU airlines to operate all-cargo air services where the origin or destination is situated in the EU • Permit EU aircraft with or without crew to be transferred between carriers – a process called 'dry leasing' or 'wet leasing' – subject to approval from the CAA • Confirmed that the CAA will continue to recognise EASA certification, approvals and licenses for use in the UK aviation system and on UK-registered aircraft for at least two years after the UK leaves 		<p>would replace the contingency measures</p> <ul style="list-style-type: none"> • Start work with the aviation industry if no deal persists for over 6 months to establish the conditions in which the CAA might cease to recognise EASA certification, in order to reduce long-term uncertainty
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Adopted contingency regulations that provide the basis for EU countries to give UK airlines permission to operate flights to and from the EU until March 2020 • Adopted contingency regulations that provide for temporary recognition of UK-issues safety-related certificates until 31 December 2019 where those certificates cannot be transferred to their EU equivalent licences prior to the UK's exit • Provided temporary measures within these contingency measures for ownership and control issues, as well as temporary measures that would entitle UK airlines to operate all cargo services from the UK to a point in the EU and onwards to a third country, but capped these all-cargo flights at 2018 levels • Been clear that cabotage for UK owned and controlled airlines would end, and that those airlines will no longer be able to operate intra-EU services, except where they are eligible for the temporary ownership and control contingency measures • Has maintained that UK aviation businesses operating in the EU may need new or changed certification, licences and documentation to undertake activities involving the design, production, maintenance and operation of aircraft between the UK and the EU 		<p>What more could the EU do?</p> <p>Extend deadlines including in the EU's air connectivity and aviation safety contingency measures to reflect the new circumstances, including for airlines that need resolve EU-ownership requirements</p> <ul style="list-style-type: none"> • Reciprocate the UK's ambition on cabotage, providing continuity by allowing UK airlines to operate intra-EU services. • Ensure passenger delays at airports are identified and reported, including monitoring by the European Commission to ensure Member States are conducting efficient implementation of passport checks • Extend the deadline for EU recognising UK for 'one-stop security' purposes by at least another 6 months. This is something the European Commission has recognised, saying they will 'continue to monitor developments and assess if any extension to the time limits of the Regulations will be necessary', but to provide reassurance to passengers it should act sooner rather than later to provide this

<ul style="list-style-type: none"> Made clear its intentions to recognise the UK aviation security regime and include it in the One Stop Security system for passengers and cargo until December 2019 		
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> Identify in advance of no deal the experts and negotiators that would be involved in negotiating a permanent and long-term deal for aviation services – so resourcing and relationships can be in place from the start Immediately convene, if no deal occurs, alongside aviation operators to establish timescales and a workplan for negotiation on continuity for aviation services beyond the 5 months currently provided for
<p>What has business done so far?</p> <ul style="list-style-type: none"> Sped up applications for licences and documentation to undertake activities involving the design, production, maintenance and operation of aircraft between the UK and the EU In some cases, such as that of Ryanair and easyJet, sought to shift and re-structure their ownership provisions, often at significant cost and disruption to internal organisation 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Continue to prepare for EU's ownership requirements, whereby airlines must be majority EU owned and controlled to qualify for operating licences Continue to monitor and address whether the airline, its staff and crew and its suppliers have the correct licences to operate in a no-deal scenario

The UK and the EU have both taken sensible approaches to ensure that disruption is reduced in the immediate aftermath of no deal for aviation. The UK has gone further than the EU in many ways, for example by allowing EU-registered airlines to continue to operate UK domestic routes for a period of time. In contrast, if UK carriers are flying between EU Member States, the EU will allow UK airlines to make stops in the EU for non-traffic purposes including maintenance and re-fuelling, but not for embarking or disembarking passengers.

However, both parties need to urgently re-examine those plans and their timescales, particularly in the context of the extension of Article 50. For example, the EU's plans to allow security screening requirements for all direct passenger flights to and from the UK to remain in place are now only valid for 2 months after no deal, when in March they would have provided for 9 months of continuity. Additionally, the EU will only allow airlines that are not more than 50% controlled by EU nationals to continue flights for 6 months if a plan is put in place to resolve these ownership and control issues beyond these 6 months. Similarly, the UK needs to update its own contingency plans for cabotage, which at date of this report going to print are due to expire 3 days before no deal occurs.

The temporary nature of provisions is a fundamental concern for the UK and European aviation industry, because without a deal these contingency plans will elapse and remove the rights of UK airlines to fly to the EU. This is not just about functioning without disruption, but functioning at all.

Continued extension of current measures will not be sufficient in the long-term as they are limited in many ways. One of the most significant restrictions in current provisions is that no new EU flight slots will be permitted, removing flexibility to set up new routes or adjust existing ones. Further negotiation with the EU will therefore be essential for aviation even in a no deal scenario.



“If we have to move our editorial team to Europe, lots of other teams would follow too. It makes sense to keep sales in the UK but the creative energy will follow the bosses,” - International broadcaster with a number of European TV channels



People

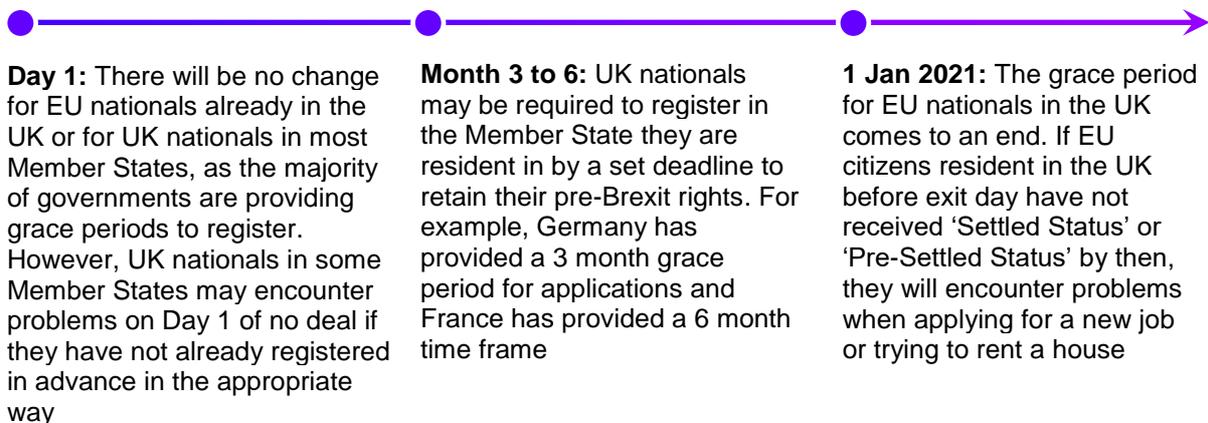
With an estimated 3.6 million EU citizens living in the UK⁹², 1.3 million UK citizens living in EU Member States⁹³, and thousands of employers who have built their businesses on the ability to easily move staff across the Channel – whether to carry out short-term work, provide ‘fly-in-fly-out’ services, or go on longer-term secondments – the effect of no deal on people is just as important as the effect on trade. The uncertainty about the impact of no deal on people’s everyday lives is so widespread that 74% of CBI members are extremely or moderately concerned about uncertainty for EU citizens as a result of no deal⁹⁴.

- **Are all parties prepared for the effect of no deal on people?** No, but the UK Government is more prepared than the EU in the short term
- **What does no deal mean for people in the long-term?** It will be more expensive and difficult for people to work, study and live across borders
- **Is it possible to have no negative consequences on people without a deal?** No. A deal is needed with the EU to avoid a negative impact for people on both sides of the Channel

Current residents

No deal would throw into doubt millions of people’s ability to continue to live, work and study – as well as their access to healthcare, benefits and social services – wherever they are. It would cause unnecessary uncertainty for hundreds of thousands of families, and confusion as Member States attempt to protect citizens’ rights in different ways, to varying degrees and with different deadlines, cut-off dates and grace periods. Additionally, the current lack of coherent provisions means more work for individuals – and employers looking to support their staff – as they try to understand the differences a no deal Brexit means.

The UK has provided a sensible grace period to allow current EU citizens resident in the UK to apply for ‘Settled Status’, but the arrangements for UK citizens in the EU are less clear



⁹² ONS, Population of the UK by country of birth and nationality, January to December 2018

⁹³ UN Trends in International Migrant Stock, 2017 revision

⁹⁴ CBI Brexit Survey, February 2019

The UK has gone a long way to protect the rights of EU nationals in the event of no deal, but a much more complex situation faces UK nationals living in the EU

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Launched the EU Settlement Scheme which provides a route for every single EU national who is resident in the UK by Brexit day to apply for protection for their rights and a route to permanent settlement • Provided an entitlement to healthcare for EU citizens resident in the UK on exit day to continue to be able to use the NHS as they do now for a temporary period until December 2020 • Stated that EU citizens in the UK who have already had their professional qualifications recognised in the UK by exit day will be fully protected. Applications for recognition which have been made, but not yet received a decision, will be concluded under the same rules as far as possible • Confirmed that UK nationals resident in the EU will still be entitled to continue receiving their UK State Pension, and that this will be uprated across the EU in 2019 to 2020 • Reassured UK nationals resident in the EU that they will continue to get their benefits – including child benefit and disability benefit – transferred to them in the EU as before 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Immediately issue reassurance, in a high profile way, to EU citizens in the UK that their rights and eligibility for the EU Settlement Scheme will continue to be guaranteed in the event of no deal • Renew the direct marketing campaign for the EU Settlement Scheme to raise awareness in the run up to exit day • Continue to keep FCO guidance for UK nationals in the EU regularly up to date, including signposting and providing links to relevant EU Member State information and webpages • Keep key GOV.UK pages regularly up to date including 'Important EU Exit information for UK nationals if there's no deal' and individual 'Living in Country' guides. Updates should include the headline 'what you should do' at the top of each national page
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Published a No Deal Contingency Action Plan which calls upon Member States to take a "generous approach to UK nationals who are already resident in their territory" • Called on Member States to take measures so that all UK nationals legally residing in a Member State on the day the UK leaves the EU will continue to be considered as legal residents of that Member State without interruption • Several Member States have already given political assurances to UK nationals about their residency rights, but the nature and scope of these vary significantly across the EU 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Provide clear and accessible information on maintaining rights of UK citizens and undertake pro-active efforts to reach out to affected people • Give an EU-wide guarantee that UK students studying in the EU will be able to continue their studies in no deal – on the same fee status and for the duration of their studies • Every EU Member State should commit to protecting the rights of UK citizens in the EU in the event of no deal, reciprocating the UK's offer to EU nationals. UK nationals should be able to stay in the Member States that they live and their rights to employment,

<ul style="list-style-type: none"> • Most EU countries have put in place guarantees to ensure UK students can continue their studies in no deal, but circumstances will vary by both country and higher education provider • Stated that Member State decisions on the recognition of UK qualifications taken before the withdrawal date will not be affected by the UK's exit from the EU and their recognition will still valid post-Brexit 		<p>healthcare, education, benefits and services should be protected</p> <ul style="list-style-type: none"> • EU Member States should put in place processes for UK nationals that are as simple, straightforward and low cost as Settled Status • EU Member States should amend their immigration rules to reciprocate the UK's offer on family reunion – allowing close family members to join until 29 March 2022 (if the relationship existed before Brexit) and 31 December 2020 (for new relationships developed after Brexit) • EU Member States should follow Commission guidance “to take into consideration the fact that the application was made while the UK was still a Member State” when it comes to applications for recognition of UK qualifications which are still pending
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken, but citizens' rights and immigration rules are national competencies of Member States, so in the absence of signing the Withdrawal Agreement there is limited scope to provide joint protections 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • UK and EU Member States should reach bilateral agreements to maintain healthcare rights as a top priority, as UK nationals living in the EU may find their access to healthcare will change under no deal and this will depend on decisions taken by each Member State
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Many businesses have already begun communicating information and actively supporting their current staff impacted by Brexit. But this is dependent on HR Directors and teams having the capacity to develop a plan and implement it. This is particularly difficult for SMEs that may not have a central HR function 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Be proactive in communicating information and supporting both their EU staff in the UK and UK staff in EU • Consult and use resources in the official Home Office Employer Toolkit on the EU Settlement Scheme, as well as the CBI-Deloitte guide <i>'EU Staff and Brexit: five questions for every business'</i>

The UK has gone a long way to reduce uncertainty for EU citizens living in the UK, ensuring their rights will be protected in a no deal Brexit. Over 900,000 people have applied for the EU Settlement Scheme so far⁹⁵, but it will still be a significant challenge to get all EU nationals signed up by 31 December 2020 in a no deal scenario. Government should therefore quickly but calmly resume efforts to raise awareness that the Settlement Scheme is open to all EU citizens who are resident in the UK by Brexit day regardless of whether a deal is agreed or not.

In contrast, the EU has done rather less on the rights of UK citizens currently living in the EU, with a patchwork of rules, deadlines, processes and expectations across the EU. For example, there is no guarantee that registering as a permanent resident will protect UK nationals' status and rights in the

⁹⁵ EU Settlement Scheme statistics – June 2019, Home Office, 18 July 2019

country they are living in; this will depend on the individual approaches taken in each Member State. It is even more important in the EU, therefore, that information for UK citizens is clear and readily available. Businesses across Europe want to see every Member State match the UK's offer and commit to protecting the rights of UK citizens in the event of no deal – with all EU countries providing a grace period after no deal, to provide time for UK citizens to complete the necessary paperwork and administrative processes required to stay in the countries they call home. The European Commission should also consider what else it has in its power to undertake for UK citizens, particularly when it comes to healthcare and students.

Mobility

No deal would cause immediate overnight disruption for UK businesses which rely on sending their staff to the EU for short-term work or to provide 'fly-in-fly-out' services. These range from British engineers flying to Germany to carry out emergency repairs on a grounded plane, through to French lawyers catching the Eurostar to London to provide legal services; from staff of an American tech firm – whose European HQ is in the UK – moving for a work placement in their Barcelona office, through to an Italian sound technician travelling to the UK on tour with a famous music artist. The UK would default to third-country status for Member States' immigration rules, stopping much of the frictionless movement for the thousands of work-related trips made by staff between the UK and EU every single day. If a mobility framework between the UK and EU is not agreed, then many firms which depend on easy travel for work or to provide services will simply relocate operations to the EU or lose the business that is currently possible.

No deal would significantly and permanently damage businesses who regularly send UK staff to the EU for short-term work or provide "fly-in-fly-out" services



The UK has taken nearly all the steps it can to mitigate the impact of no deal on mobility, but EU Member States have not reciprocated and disruption for UK staff is expected

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Confirmed EU nationals will not need to apply for any immigration status or visa if they do not intend to stay in the UK for more than 3 months. This will enable EU nationals to continue to travel on a short-term basis for work or to provide 'fly-in-fly-out' services after a no deal Brexit. This interim arrangement will be in place until the new UK immigration system comes into effect in 2021. It also allows EU 'frontier workers' to continue to travel from another Member State (i.e. Ireland or France) to the UK daily for work Amended domestic legislation via a Statutory Instrument to ensure there is a system for the recognition of qualifications for professionals arriving in the UK with EEA or Swiss qualifications under a no deal exit Published full and updated guidance for UK regulatory bodies on recognition of professional qualifications Reached bilateral agreements with both Switzerland and the EFTA countries of Norway, Iceland and Liechtenstein, to protect healthcare arrangements in a no deal scenario Published draft Statutory Instruments in relation to the social security treatment of individuals in case of a 'no deal' Brexit to maintain the current EU principles and rules on social security coordination. The amendments only focus on UK law, including retained EU law, and do not affect the social security position in other EU Member States 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Publish guidance to provide clarity for workers who are currently posted to the UK but whose date of posting goes beyond the scheduled date of Brexit – advising them of the conditions of their stay
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Adopted legislation granting UK nationals visa-free travel in the event of no deal, allowing visits for 90 days in any 180 days 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> EU Member States should adopt pragmatic application of their immigration rules for UK nationals – recognising that no deal and the immediate end of free movement is likely to cause significant disruption for UK nationals travelling to the EU for work or to provide a service Adopt a pragmatic approach to application of rules for UK 'frontier

		<p>workers’ – both those travelling to the EU from the UK daily for work (i.e. to Calais) or between EU Member States</p> <ul style="list-style-type: none"> • Monitor reporting of passenger delays at the border to ensure Member States are conducting efficient implementation of passport checks • Member States should review, and amend where necessary, their national legislation to ensure there is a mechanism for UK nationals to seek first recognition of their UK qualifications after Brexit – just as the UK has done for EU qualifications
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Seek agreement on core mobility provisions, as in the draft political declaration on the future relationship between EU-UK, including movement to provide services, intra-company transfers, social security coordination and mutual recognition of professional qualifications • Agree reciprocal healthcare arrangements (at the Member State-UK level) to protect both UK and EU visitors travelling to each other’s countries after a no deal Brexit • The UK and EU Member States should work closely together to ensure that the current EU principles and rules on social security coordination are maintained
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Businesses which regularly send UK staff to EU for work or provide ‘fly-in-fly-out’ services have begun to assess whether this could continue under respective Member State third-country immigration rules. However, this risk assessment and planning has been limited to large business which regularly send staff to the EU and firms where this is part of their core business model 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • All businesses which send staff to the EU to undertake work, intra-company transfers or provide ‘fly-in-fly-out’ services should consider hiring specialists in European immigration law to assess whether their specific activity could continue in the Member State they travel to • Businesses could consider sending staff who travel to the EU to perform business critical operations to the required EU Member State immediately prior to date of a potential no deal Brexit, to avoid any immediate confusion and chaos – though this will not be possible for short-term roles

The UK's approach to mobility of EU staff – while temporary – is sensible and has been welcomed by businesses. The challenge on the EU side is of much greater concern for firms because, while the EU has proposed visa-free travel, this is not an entitlement to work or provide services.

Leaving the EU without a deal means the UK will default to third-country status for Member States' national immigration rules. Therefore, UK nationals travelling to provide services or undertake a placement or intra-company transfer in the EU will need to check whether a visa or work permit is required to work or rent, even if it is not required at the border. Some of the UK's most successful industries are some of the most mobile, and therefore most at risk of impact from a restrictive approach to the temporary movement of workers. For example, one leading professional services firm reported its employees takes as many as 10,000 trips to the EU each year. Additionally, it is difficult to plan contingencies for UK staff who perform short-notice tasks such as engineers carrying out 'fly-in-fly-out repairs' on machines and aeroplanes.

The consequences of this are real. There is a risk – for example – that, if UK contractors and service providers cannot deliver for EU customers due to restrictions on mobility, this business the UK does with the EU will be replaced as customers seek out more reliable, easier and less expensive providers. In worst case scenarios, it could mean that UK firms are in breach of contract. As this issue is unlikely to be resolved without negotiation both between the UK and the EU and bilaterally with Member States, this competitive disadvantage is likely to take some time to resolve, if it ever can be without a UK-EU deal.

Future immigration

No deal will not only have consequences for the movement of staff on a short-term basis, but also longer-term internal secondments in European offices, placements with external clients or suppliers, and long-term employment. UK employers have benefited from being able to easily draw on the talent, skills and labour of over 500 million people – and concern about losing this is high. 63% of CBI members are extremely or moderately concerned about the impact of no deal on the ability to attract talent from around the world⁹⁶. This is because, if firms cannot hire the skills they need, it limits their growth and has knock on impacts on domestic employment. The Bank of England has calculated that, even in the prepared no deal scenario, with net migration of 100,000 the UK unemployment rate rises to 4.5%, and output per hour falls – leading to lower productivity growth, lower incomes and lower consumption⁹⁷.

⁹⁶ CBI Brexit Survey, February 2019

⁹⁷ Bank of England, EU withdrawal scenarios and monetary and financial stability: a response to the House of Commons Treasury Committee

No deal would immediately restrict UK nationals’ ability to move to the EU for work – creating difficulties overnight for businesses



The UK has proposed a sensible transition to its new immigration system in the event of no deal – but this has not been reciprocated

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Acknowledged it will not be ready to introduce a new immigration system the day after a no deal Brexit and free movement ends • Confirmed there will be no immigration controls at the border and EU nationals will be able to come to the UK for up to 3 months without requiring a new immigration status or visa • Clarified that employer right to work checks will not be changing until 2021 • Stated that after 3 months, EU nationals will be required to apply for European Temporary Leave to Remain, granting them up to 36 months to stay in the UK to work, live or study. Once this expires, EU nationals will need to apply for an immigration status under the new system, which is scheduled to come into effect from 1 January 2021 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Reduce confusion for businesses on the enforcement of European Temporary Leave to Remain through a simple, easy to understand communication aimed at HR Directors • Review the proposed 36-month length of European Temporary Leave to Remain in the context of students, who could be starting courses on an immigration status that is shorter than the duration of their course if they’re studying in Scotland, doing a course that offers a year in business and therefore takes 4 years, or studying to be a veterinarian, doctor or dentist – courses which take 5 years or more to complete. Providing clarity on immigration rules for EU students should be a priority before they commence new courses in Q3 of 2020
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • No action taken 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Member States should adopt pragmatic application of their immigration rules for UK nationals – recognising that no deal and the immediate end of free movement is likely to cause significant disruption for UK nationals looking to move to the EU on a long-term basis for work or intra-company transfer
<p>What have the UK and EU done together so far?</p>		<p>What more could the UK and EU seek to do together?</p>

<ul style="list-style-type: none"> No joint action taken, as access to labour markets remains a Member State competence and the UK-EU have not discussed immigration rules for long-term work 		<ul style="list-style-type: none"> Eventually agree to put migration, as well as mobility, on the table in any future trade negotiations should there be a no deal Brexit. Despite being a Member State competence, there is precedent for limited arrangements to be agreed such as the EU Blue Card and Intra-Corporate Transfer Directives. This is important for UK firms to be able to deal with a single set of migration rules, rather having to navigate a myriad of 27 different systems
<p>What has business done so far?</p> <ul style="list-style-type: none"> Businesses that regularly hire from the EU have found it difficult to assess the impact of immigration rule changes as the new system has yet to be announced by government. However, based on the Immigration White Paper, businesses are beginning to assess the impact of increased restrictions, costs and complexity of recruiting EU workers Some employers are actively taking steps to prepare for reduced access to labour – which in some cases has meant re-examining their domestic hiring and training strategies, but in others has meant moving operations from the UK to the EU 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> All businesses that send UK staff to the EU on long-term work placements or permanent positions should consider hiring specialists in European immigration law to assess whether this could continue in the Member State they regularly move to

While the UK government has made sensible steps on temporary mobility and current EU citizens living in the UK, concerns from businesses about its long-term plans for future immigration are extremely high. This concern is so significant that some firms are already taking steps to move production, operations and associated jobs out of the UK. For example, an agricultural producer in the East of England has trialled importing spring onions from Ghana over the summer months, when these can and have been grown in the UK. An international manufacturer is actively planning to move 300 jobs from the UK to the EU, as it does not believe it will be able to find the language skills it needs in the UK after Brexit; 80% of affected roles are currently filled by EU nationals, but it will mean job losses for the 20% of UK staff as well. In addition to existing jobs and operations being moved, firms are considering future access to workers in the UK as they make investment decisions, and it is counting against the UK as a place to invest, with reports of factories being opened in Poland and in France instead of the UK as a result.

Even the proposed short-term measure to provide a temporary system for registering EU citizens wanting to work in the UK in the event of no deal, while sensible and welcome, have drawn confusion. For example, the Home Office has stated that while European Temporary Leave to Remain will be in place following a no deal, employers will continue to only have to check an EU Identity Document such as a passport or driving licence. This is positive, but it also raises legal questions for employers. Despite lawfully carrying out a correct right to work check at the start of employment, firms could end up inadvertently employing an EU national who is in the UK illegally – if the individual fails to apply for European Temporary Leave to Remain after 3 months. This risk is placing employers in an uncertain

legal position. It is also unclear how European Leave to Remain will be effectively enforced without right to work or rent checks – as these are key mechanisms for enforcement within the UK immigration system.

Similar confusion will occur for EU students planning to study in the UK for longer than the 3 years provided for by European Temporary Leave to Remain. With 21,600 EU students currently enrolled with universities in Scotland – around 9% of the total student population – in 2017-18⁹⁸, this is a significant number of potential future students who need clarity.

Further efforts by the UK government to consult and communicate would be welcomed by businesses, as well as citizens across the EU considering the UK as a place to make their home and livelihoods.

⁹⁸ HESA, Higher Education Student Statistics: UK, 2017/18



Data

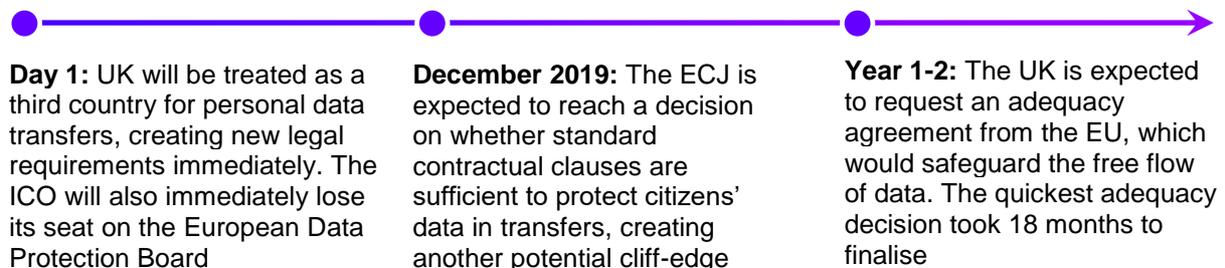
Cross-border data flows are the life-blood of the modern economy, especially for sectors such as advanced manufacturing, logistics, financial services, and IT. The UK is an international leader for data flows, which have increased 28 times between 2005 and 2015. The UK currently has the largest data centre market in Europe⁹⁹, worth over £73 billion to the economy¹⁰⁰, and over 75% of UK data transfers are with EU countries¹⁰¹.

- **Are all parties prepared for the effect of no deal on data?** No, awareness of the impact of no deal on data is low, particularly among SMEs which have struggled to prepare
- **What does no deal mean for data in the long-term?** The UK's position as a global hub for data flows is at risk until an adequacy decision is reached
- **Is it possible to have no negative consequences on data without a deal?** No, though ramping up preparations for SMEs and preparing to start the process of requesting an adequacy decision will help

The UK's mantle as a global hub for data flows is at significant risk from no deal, due to increased legal costs, interrupted data flows and reduced investment in data centres that will begin from Day 1, as the UK will immediately become a third country under EU law and additional legal safeguards will be required to facilitate the transfer of personal data to the UK. This is of great concern to businesses – with 53% of CBI members either extremely or moderately concerned about their ability to manage cross-border data flows in the event of no deal and only 10% unconcerned¹⁰². The risk of no deal on data has meant UK companies have already undertaken costly legal processes to update existing contracts, led some UK firms to shift jobs abroad in data-intensive areas such as HR, and seen investment in data centres in EU countries in place of UK ones.

The effect of no deal on data will be invisible compared to the disruption at ports, as it will be experienced in offices and legal departments, but no less impactful, with the worst-case scenario impact of UK companies losing contracts with EU customers who no longer wish to deal with UK partners. For example, a UK conference centre might lose bookings from EU companies that would be in breach of personal data rules if they sent attendees' data outside of the EU without the right contractual safeguards. There is a risk of litigation to prevent data flows being made to the UK, even if European companies have updated their contracts.

No deal will create disruption for data flows and leave the UK at a competitive disadvantage until an adequacy agreement is reached



⁹⁹ DataCentreNews, UK's third party data centre market largest in Europe (2018).

¹⁰⁰ Digital Realty, The Data Economy Report (2018).

¹⁰¹ TechUK, Priorities for European Exit Negotiations (2017).

¹⁰² CBI, Brexit Survey (March 2019)

There is an imbalance in mitigations for no deal on data between the UK and the EU

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Confirmed that the UK will continue to recognize and align with EU standards of personal data, and will permit export of personal data to the EU and EEA states and institutions. Agreed deals (some on a temporary basis) with other third countries that have adequacy agreements with the EU, including the US, Japan and Canada. Data flows between these countries and the UK will continue after exit The Information Commissioner’s Office (ICO) has released comprehensive guidance to help firms prepare for no-deal 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Build on existing guidance and launch a public data campaign ahead of the 31st October deadline to target SMEs companies that are unprepared Begin preparations to immediately request an adequacy agreement on data with the EU if no deal occurs
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Upheld that the UK will be treated as a third country in no deal, explicitly outlining that EU companies will be in breach of EU law if they export personal data into the UK without sufficient legal provisions Confirmed that companies in the UK importing personal data from the EU will be required to introduce additional clauses into legal agreements Stated that UK firms whose lead supervisory authority is the ICO will no longer benefit from the One-Stop-Shop mechanism that currently allows firms to work with only one authority to transfer data across the EU. This means firms will likely need to engage with multiple EU supervisory authorities Specified that UK businesses without an office in the EU but offering goods and services to, or monitoring the behavior of, EU individuals will need to appoint an EU representative responsible for GDPR compliance and a point of contact for European citizens 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> Encourage Member State Data Protection Authorities to take a pragmatic enforcement approach, in line with the precedent set by the negotiation of Privacy Shield after Safe Harbour had been struck down in 2015 Begin preparations to request and prepare evidence for an adequacy decision with the UK as a third country as soon as possible
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> Recognise the unprecedented alignment on data standards between the UK and the EU and support a temporary standstill non-enforcement arrangement

		to avoid a cliff-edge in the movement of personal data
<p>What has business done so far?</p> <ul style="list-style-type: none"> • Businesses with the legal expertise and capacity to invest and make judgements on data flows have, in many cases, implemented standard contractual clauses to allow the continued import of personal data. However, many smaller firms have been unable to take similar steps 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Large firms should work with supply chains to check that smaller companies are no deal ready and provide advice on the appointment of EU representatives and working with EU data protection authorities

The UK government’s approach to no deal goes some way towards supporting firms preparing for no deal on data, helped by the fact that there is international precedent that firms can learn from. Getting ready for the free flow of personal data to fall away is a resource intensive and costly process. Some smaller firms are holding off investing significant money and resources into no-deal preparations until there is certainty that the expenditure is necessary. The UK government must ramp up its preparation to ensure SMEs are aware of the impact of no deal on data.

Getting ready for no deal on data is made even more complex and risky as the European Court of Justice is currently reviewing the validity of standard contractual clauses that are business’ main option for maintaining data flows in no deal. If it rules against them, the options to ensure the free flow of personal data between the EU and UK will be reduced.

In a no deal situation, until an adequacy decision is reached, the UK’s digital economy will be less competitive in a fast-growing global market. Achieving an adequacy decision with the EU Commission will be vital for the UK in both a deal and no deal scenario. The UK has unprecedented alignment with the EU on data protection standards and the ICO is internationally renowned regulator which will support the UK’s negotiating case. Yet gaining an adequacy agreement following a no deal scenario is likely to take more than a year, with the quickest adequacy decision so far being finalised after 18 months. As a third country, the UK’s national security legislation – in particular, the Investigatory Powers Act – will be heavily scrutinised for its compatibility with the GDPR, potentially lengthening the uncertainty.





Competition Policy

Competition between business make markets work better and is a key driver of productivity and innovation. The prevention of anti-competitive activities helps businesses to grow and to protect consumers, ensuring they benefit from low prices and high-quality products and services. For example, European Commission decisions prohibiting cartels from forming were estimated to generate a benefit to consumers in the range of €5-6 billion in 2013¹⁰³. After Brexit, it is imperative the UK retains its reputation as an open economy that encourages competitive markets, effectively enforced by clear legal frameworks.

- **Are all parties prepared for the effect of no deal on competition policy?** It is not clear
- **What does no deal mean for competition policy in the long-term?** Competition policy is likely to diverge between the UK and EU over time, meaning businesses will have to go through different, complex processes
- **Is it possible to have no negative consequences on competition policy without a deal?** No. Without a formal cooperation agreement between the UK and EU on competition, duplications will occur

While there may be some changes to parts of the UK's merger and antitrust regimes in a no deal, they should remain largely familiar, subject to any separate non-Brexit related changes the UK Government implements. The biggest short-term impact will be on firms that are partway through a European Commission merger control or anti-trust investigation, as well as companies which are determining whether a new transaction is likely to be caught by the EU or UK merger regimes. In the longer-term, divergence between the UK and the EU's competition regimes has the potential to add far more disruption.

Businesses operating in both the UK and the EU will face a greater level of uncertainty and bureaucracy from having to deal with different competition regimes in no deal



¹⁰³ European Commission, Competition: Making markets work better

No deal will create potential disruption for businesses that are part way through a European Commission merger, anti-trust investigation or are considering a new transaction

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Published a technical notice on state aid, which outlines the government's intention to create a UK-wide subsidy control framework to ensure the continuing control of anti-competitive subsidies • Transposed the seven EU Block Exemption Regulations – which exempt certain types of agreement from competition rules where there are benefits to consumers – into UK law, ensuring businesses that benefit from them will continue to be exempt under UK law • Transposed EU state aid rules into UK domestic legislation under the Withdrawal Act, a move which applies to all sectors and mirrors existing block exemptions under the current rules, including in Agricultural and Fisheries • The Competition Markets Authority (CMA) has released guidance that states they will not reopen cases if the European Commission has undertaken an investigation or reviewed a transaction and issued a decision on or before the UK exits, regardless of whether UK thresholds are met – unless the decision is annulled following appeal • Confirmed that, where the European Commission has opened an investigation before the UK's exit from the EU but has not yet issued a formal decision, the CMA is free to conduct investigations into breaches of UK domestic law before and after Exit Day – meaning businesses subject to investigations may be exposed to parallel EU and UK investigations • Allocated £43.6 million of Brexit funding to the CMA between 2017-2020 to help it prepare for the expanded functions it will take on from the EU • The CMA has said it is “well advanced” on its target of recruiting an extra 240 staff, a rise in personnel of almost 40%. 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Ensure the UK's competition authorities are ready to take on new expanded functions with immediate effect on Day 1 of no deal • Publish a review into the preparedness of the CMA, Ofwat and Ofcom to take on their anticipated additional burdens in a no deal scenario. For example, the CMA estimates it will need to handle an extra 30-50 phase 1 merger cases a year after Brexit, bearing in mind that these will likely be larger and more complex deals with a bigger impact on the authority's resources¹⁰⁴. It is important it has a full complement in time for a no deal to avoid delays • Continue to consider the impact of Brexit and competition policy development in the EU when undertaking reviews of domestic competition policy

¹⁰⁴ Andrea Coscelli, CMA Chief Executive, Speech on the CMA's role as the UK exits the European Union, February 2017

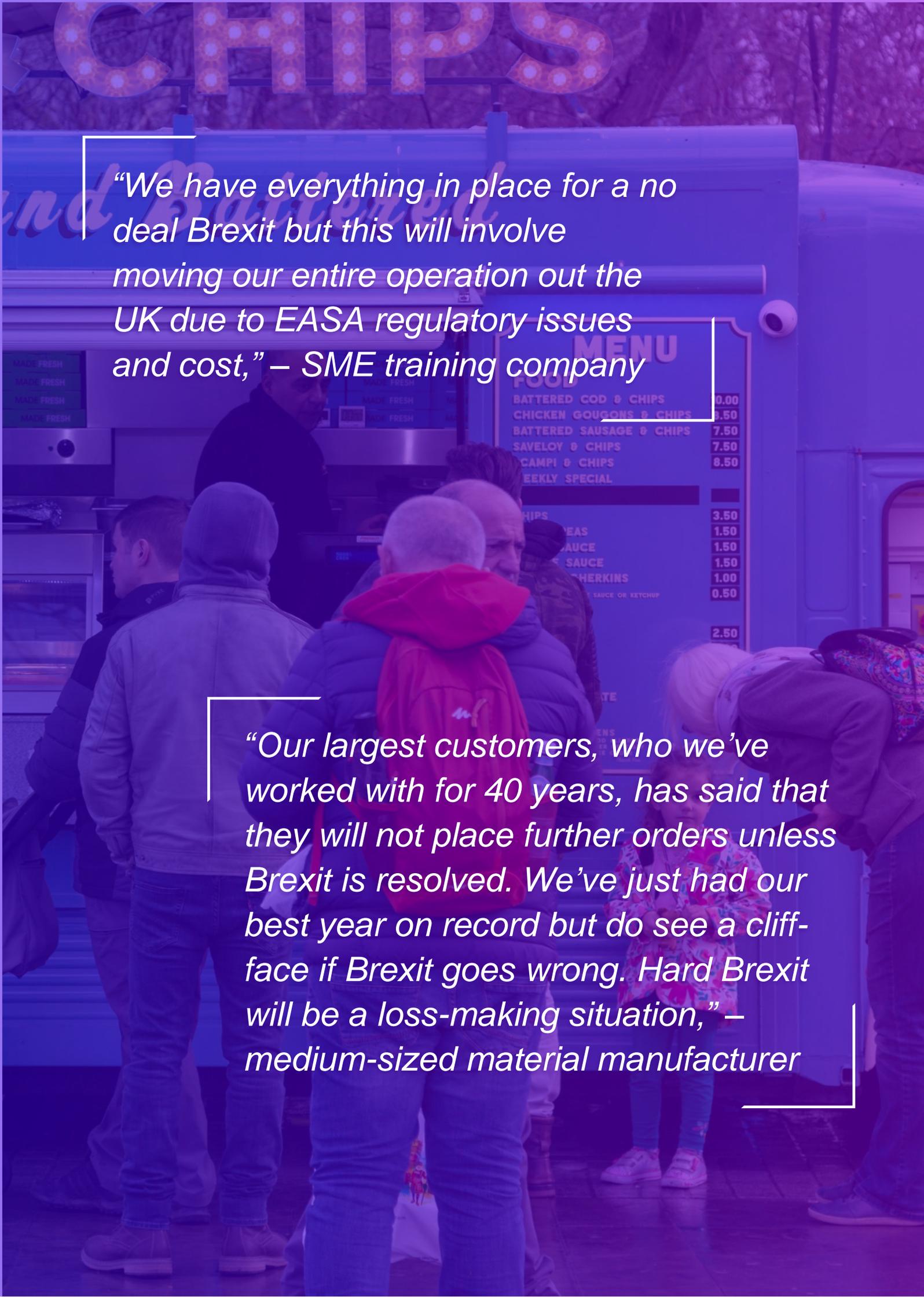
<p>It has also set a target of 50 extra people for its state aid division</p> <ul style="list-style-type: none"> • Has allocated £43.6 million of Brexit funding to the CMA per year between 2017-2020 to help it prepare for new expanded functions from the EU 		
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Published a preparedness notice stating UK firms that act in a way that affects competition in the EU will continue to be subject to EU competition law • Stated that UK businesses operating in the EU that meet EU turnover thresholds for merger review will still be required to notify the European Commission • Confirmed that the EU's 'one-stop shop' for mergers will be unavailable to UK companies, meaning firms considering a merger that will have an impact in UK and EU markets will need to comply with both EU and UK merger rules • Established that, in no deal, firms may be investigated by both EU and UK authorities in parallel for breaches of UK and EU anti-trust rules where there are affects in both markets 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Allow continued consideration of UK input into reviews of EU competition policy, given the interconnectedness between the two economies
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Agree to set out a clear division of responsibility between the UK and EU for merger and trust cases that will have effects on UK markets in order to reduce the level of uncertainty and bureaucracy for businesses dealing with two different competition regimes • The European Commission and the European Court of Justice should work in good faith with the CMA and, where possible, avoid parallel investigations in the antitrust and merger control fields which would cause an increased burden on businesses
<p>What has business done so far?</p> <ul style="list-style-type: none"> • The risk of no deal has meant UK companies considering transactions have postponed these decisions due to the uncertainty around existing thresholds • Companies with live transactions have sought legal advice as well as 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Consider early engagement with the CMA to manage live transactions already being reviewed by the European Commission but raising issues in the UK • Seek legal advice as to whether include additional conditions in merger agreements

commercial advice on the financial risk of continuing with a transaction

- Consider delaying transactions at the planning stage, even if expected to meet EU thresholds, which may be updated to reflect the UK's exit
- Prepare for mergers that currently meet relevant EU thresholds, in some cases, to be reviewed by both the CMA and the European Commission

It is imperative that the UK retains its reputation as an open economy that encourages competitive markets after Brexit. Providing continuity on competition policy and ensuring it is effectively enforced through clear legal frameworks and strong authorities will ensure this. This is important for businesses in the UK and the EU. The UK has given a number of reassurances to this effect to give firms greater certainty and reduce disruption and delays. As most firms will not be affected by changes to competition policy, business' main outstanding concern is that of the burden of no deal on the CMA which will face a range of new responsibilities. These new functions include state aid enforcement, a swathe of competition cases under merger control rules, anti-competitive agreements (including cartels) and abuses of dominant market position, all of which were previously reserved to the European Commission.

The measures taken by the EU and the UK so far will nevertheless mean disruption and costs from competition in a no deal in the short-term to ongoing activity, in the medium-term due to duplication of investigations and procedures, and in the long-term if there is divergence between UK and EU regimes. For example, the UK is currently conducting its 5-yearly statutory review of the competition regime. Meanwhile, the EU is discussing whether to adapt its competition regime in certain sectors with the intention of allowing for the evolution of European champions able to compete with large inbound businesses from the world's major economies, such as China and the US. Without an agreement between the EU and the UK on future collaboration on competition policy, the UK could find itself at a competitive disadvantage in markets dominated by a few large players in receipt of government support.

A photograph of a food truck with a menu board. The truck is white with a blue and red color scheme. The menu board lists various food items and their prices. A line of customers is waiting at the counter. The image has a blue tint.

“We have everything in place for a no deal Brexit but this will involve moving our entire operation out the UK due to EASA regulatory issues and cost,” – SME training company

“Our largest customers, who we’ve worked with for 40 years, has said that they will not place further orders unless Brexit is resolved. We’ve just had our best year on record but do see a cliff-face if Brexit goes wrong. Hard Brexit will be a loss-making situation,” – medium-sized material manufacturer



Global Relations

The UK is party to 1,261 international agreements with third countries as a member of the EU¹⁰⁵. These include around 40 Free Trade Agreements (FTAs) but also stretch to regulatory, transport, customs, nuclear and agricultural agreements, as well as a number through the World Trade Organisation (WTO). Most important for UK business are the FTAs, including with markets such as Japan, Switzerland, Mexico, Turkey and Canada. Together, the EU and the third country partners it has concluded negotiations with account for 41% of global GDP¹⁰⁶. In no deal, the UK would see significant tariffs and other market access barriers appear around the world.

- **Are all parties prepared for the effect of no deal on global relations?** No, there will be disruption from Day 1
- **What does no deal mean for global relations in the long-term?** It will be for the UK to choose to replicate these deals or not, but it is clear some will be on less favourable terms than now
- **Is it possible to have no negative consequences on global relations without a deal?** No, because a lot of the consequences are out of the UK's control and in the hands of third countries

Free Trade Agreements

In no deal, the UK will automatically lose access to the FTAs it has through EU membership. This puts at risk some of the gains UK firms have made in international markets as a result of these FTAs, which can be in the hundreds of millions of pounds. The EU-South Korea agreement, for example, is worth £500 million to UK companies every year¹⁰⁷. The EU-Canada deal, CETA – which saw UK meat exports to Canada increase by 36.3% and wine exports grow by 16.6%¹⁰⁸ after it came into force – is one of those at risk, but some deals have been carried over and are no longer of major concern, such as the EU-Chile deal which supported UK exports to Chile to grow by 16% on average each year, with a total increase of 351% since 2003¹⁰⁹. A lack of continuity in some FTAs may force UK firms to stop exports into certain markets altogether due to the exorbitant tariffs they would face, which would make them instantaneously uncompetitive. A 10% tariff on finished vehicles exported to Turkey and a 49% tariff on scotch whisky to Morocco, for example, would be a huge hit to competitiveness of specific firms and could even wipe out their exports to particular countries entirely.

There is also significant concern from businesses that EU firms may seek to replace UK companies in their supply chains so that they can qualify for zero tariffs through EU FTAs as they will not be able to in no deal. There is also a risk that large international manufacturers could relocate to mainland Europe to stop significant tariffs arising on their trade with the EU, and that consumers may adjust their purchasing preferences - whether it's French Cognac instead of scotch whisky or a Mercedes over a Land Rover.

¹⁰⁵ European Union External Action Service, Treaties Office Database

¹⁰⁶ CBI analysis using IMF data

¹⁰⁷ Department for International Trade, Doing business in South Korea: South Korea trade and export guide

¹⁰⁸ Department for International Trade, UK trade with Canada up 14% since new free trade agreement introduced

¹⁰⁹ Department for International Trade, UK and Chile sign continuity agreement

No deal on FTAs will not just impact goods trade across the world but services firms as well, as modern deals protect intellectual property, enhance digital trade, open procurement opportunities and enable data flows. CETA, for example, includes mutual recognition of professional qualifications, meaning doctors, pharmacists and architects – among others – are automatically recognised as qualified in Canada based on minimum training conditions. Similarly, the FTA with Mexico gives access to procurement opportunities for UK firms, which is vital in this regard as Mexico is not signed up to the WTO’s Government Procurement Agreement (GPA). The worry about this is widespread among the business community – with 31% of CBI members extremely concerned and 29% moderately concerned about the effect of third country FTAs falling away in no deal¹¹⁰.

Businesses operating in both the UK and the EU will face a greater level of uncertainty and bureaucracy from having to deal with different competition regimes in no deal



Businesses operating in both the UK and the EU will face a greater level of uncertainty and bureaucracy from having to deal with different competition regimes in no deal

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Worked very hard and dedicated a lot of resources to carry over the FTAs that it can, including with Andean countries – including Colombia and Peru, the CARIFORUM trade bloc, Central America – including Costa Rica and Honduras, Chile, the Eastern and Southern Africa trade bloc – including Zimbabwe, the Faroe Islands, Iceland, Norway, Israel, Liechtenstein, the Pacific States of Papua New Guinea and Fiji, the Palestinian Authority, South Korea and Switzerland 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Build on existing guidance and launch a targeted public campaign ahead of the 31st October deadline to raise awareness with firms that trade with affected markets Increase the speed and honesty with which rolled over continuity agreements are published and made available, so that UK businesses are no longer hearing the details from third country parties Continue engaging with third countries to ensure the rollover of bilateral agreements that are not yet concluded,

¹¹⁰ CBI Brexit Survey, March 2019

<ul style="list-style-type: none"> Published guidance about changes to terms of trade with EU third countries in a no deal scenario The Department for International Trade ran regular briefings for companies and business organisations, but these have been paused 		<p>to avoid the scenario whereby British businesses become less competitive internationally</p> <ul style="list-style-type: none"> Publicly identify the which are not anticipated to be agreed before October 31, and clearly explain the consequences of this for business Restart regular briefings for business undertaken by the Department for International Trade, as having effective communications as well as adequate technical advice is imperative
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Published a Brexit preparedness notice stating that EU preferential trade agreements with third countries will no longer apply to the UK Advised that UK inputs into EU products will no longer be counted as EU-originating content for the purposes of benefiting from zero tariffs in FTAs with third countries 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> If the UK had secured a Withdrawal Agreement, the EU committed to use diplomatic contacts to request third countries treat the UK as an EU Member State for the transition period. While this may support continuity for the UK, it is highly unlikely that this will take place in no deal
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> No joint actions available
<p>What has business done so far?</p> <ul style="list-style-type: none"> Some firms exporting to third countries where FTAs are at risk of falling away paused exports to those nations in advance of April 2019 and are considering doing so again Some firms have already rerouted supply chains to take account of the expected lack of continuity in international agreements Some companies have raised awareness of difficulties with their domestic supply chains 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> Communicate closely with European customers to monitor their levels of concern about UK inputs no longer being considered to be of EU origin, securing early awareness if those customers intend to exclude the UK from their supply chains

The UK government has dedicated a lot of time and resource to signing a number of ‘rollover’ FTAs, to avoid disruption for firms. However, there is not enough time before no deal or the political window needed to secure all of them, with FTAs with Canada, Japan and Turkey particularly highlighted as unlikely to be secured. Trade with those countries will be under ‘WTO terms’ in no deal, with tariffs in place and other market access barriers erected.

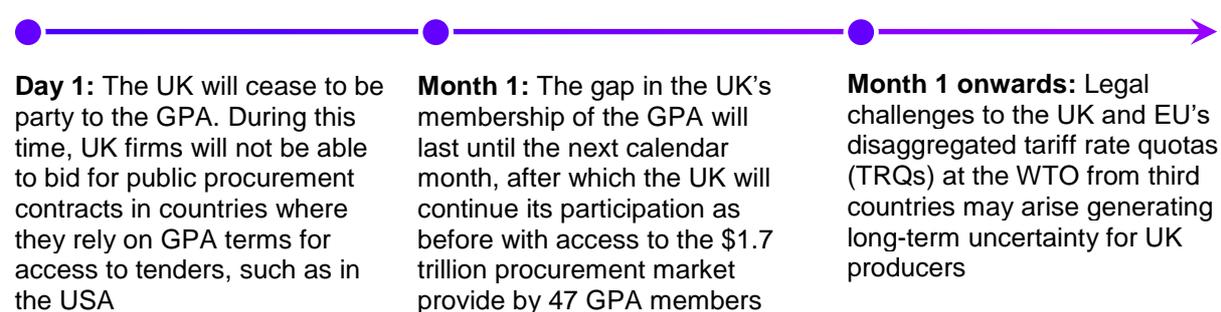
Additionally, in some markets where new agreements are ready and in place for no deal, they are not yet comprehensive enough to secure complete continuity of trade. Some of these rollover FTAs include sunset review clauses, which creates uncertainty for businesses as they do not promise long-standing continuity. In other FTAs, the deals fall some way short of being as comprehensive as the ones the UK has as a member of the EU. For example, the agreement with Norway and Iceland is a

very basic, goods-only agreement. Services firms which enjoy a close Single Market relationship with a lot of access to Norway may have to apply for new licenses in no deal, and will no longer benefit from easy movement of staff across borders. Similarly, the rollover agreement with Switzerland only preserves 3 out of 20 mutual recognition agreements we currently. For the 17 that fall away, testing and inspection of goods manufactured in the UK will no longer be recognised in Switzerland – forcing significant duplication for businesses exporting goods such as medical devices and machinery.

WTO agreements

As the UK leaves the EU, it will shift from being predominantly represented by the EU due to its exclusive competence over trade policy, to a full independent member. As a result, there is a need to ensure continuity in Geneva. This is particularly important as the UK’s membership of the WTO’s Government Procurement Agreement (GPA) is due to its EU member status, and accession to the GPA needs to, and has been secured for the UK in its own right. The UK is a party to several multilateral agreements at the WTO that provide valuable benefits, protections and facilitations for British business around the world.

There will only be a very temporary drop off in the UK’s participation in one of the most affected areas of no deal on the UK’s involvement in WTO agreements



All the steps that are needed to maintain the UK’s position at the WTO have been taken

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Confirmed that it will continue to participate in the WTO’s GPA, though accepting that there would be a temporary gap in membership of this agreement during no deal 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Reassure UK producers regarding the long-term stability of the existing disaggregation of EU TRQs
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Published a Brexit preparedness notice on public procurement confirming that UK firms will no longer have privileged access to the public procurement 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> No further action required

<p>opportunities provided at present – instead having to fall back on lesser access provided by the WTO GPA</p> <ul style="list-style-type: none"> • Endorsed the revised tariff rate quotas at the WTO as agreed with the UK • Accepted UK accession to the WTO GPA, as unanimous agreement of all WTO members was required 		
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • The EU and UK have closely collaborated on splitting their TRQs 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Continue closely collaborating at the WTO to ensure that the disaggregation process for TRQs satisfies third countries and is based on the latest data
<p>What has business done so far?</p> <ul style="list-style-type: none"> • No particular actions taken 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Pay close attention to the timelines for the future publication of international procurement opportunities which coincide with the UK’s exit from the EU • Keep track of WTO discussions on UK and EU TRQs

The UK has done almost all that it can to secure its position at the WTO. It has helped that, for many aspects, it has not had to take action. For example, there is no sign up required to continue partaking in the Information Technology Agreement (ITA) which provides 0% tariffs on goods like computers, phones and semiconductors. The UK will be able to benefit from the commitments of all other ITA members and no further steps are needed. Similarly, the UK will continue to benefit from the Agreement on Trade-Related Intellectual Property Rights (TRIPS) – subject to maintaining TRIPS-complaint levels of domestic intellectual property protection. As such, UK copyright works will continue to be achieve some protection in all WTO member countries. Additionally, the UK can continue to benefit from the Trade Facilitation Agreement, which contains provisions for expediting the movement, release and clearance of goods.

On the important GPA, the UK’s secured accession will mean only a temporary drop off – which, with the right planning from applying businesses, may not have any real impact as relevant international public sector contracts can have relatively generous application timelines. However, it should be noted that this does not create a level-playing field for UK companies competing for EU public procurement contracts as the WTO provisions are not as extensive as that granted to EU members. This is significant, as the European Commission estimates that (excluding utilities) public expenditure on goods, publicly-procured work and services in the EU amounted to £1.5 trillion in 2015¹¹¹.

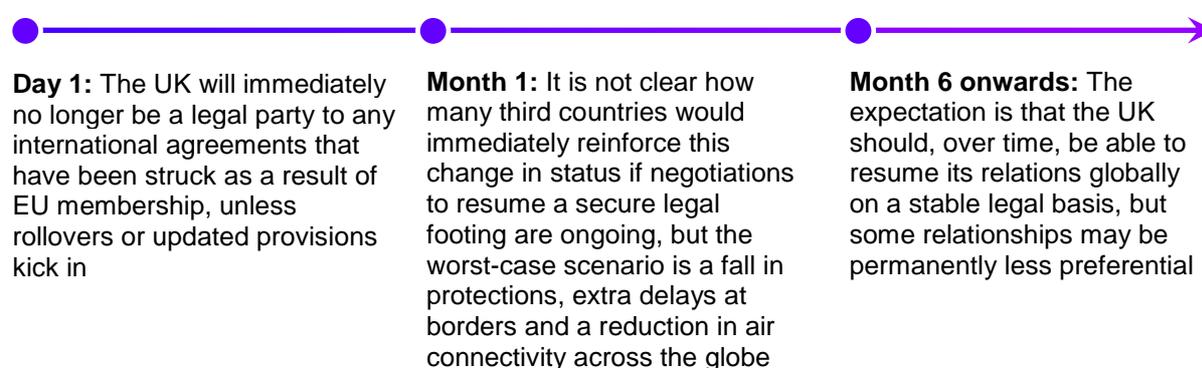
The UK and EU have thus far displayed excellent cooperation at the WTO regarding the splitting of their existing tariff rate quotas (TRQs) that largely concern agricultural products. However, over 20 third countries, including the U.S., China, Brazil and India, have objected to these joint plans and a WTO legal challenge on the viability of these revised TRQs would appear likely with concerns the UK may be forced into an arduous renegotiation with third countries.

¹¹¹ European Parliament, Consequences of Brexit in the Area of Public Procurement

Other international agreements

No deal will also have an impact on more specific agreements gained through EU membership that facilitate trade outside of FTAs and make it much easier for UK companies to sell to global markets. The UK government has stated that not all of these agreements require action; that some have been superseded, and some are not of direct or immediate relevance to the UK. The Secretary of State for Exiting the European Union outlined in January that around “1,000 [EU] treaties had a relevance to exit, which slipped down to just under 400 with a direct impact, and a very low number—in the tens—of more material issue from exit day”¹¹².

Over time, any drop off in international agreements should be restored, but there may be short-term disruption and long-term lower privileges for UK firms



A significant amount of resource has been dedicated to carrying over international agreements, but current information indicates this is not a task that is yet complete

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> • Struck an agreement with the US, who have updated their standards of compliance for the EU-US Privacy Shield agreement to allow continued transfer of personal data to and from the UK after Brexit • Rolled over an aviation agreement with the US to provide continuity for air services across the Atlantic • Come to agreements on direct insurance and taxation with Switzerland • Negotiated an agreement on prudential measures for insurance and reinsurance with the US 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> • Conclude air services agreements with Serbia and Bosnia and Herzegovina to maintain air connectivity • Finalise agreements with Mexico on mutual recognition of spirits, with the US on sanitary measures for live animals and animal products, and on continuation for the mutual recognition agreement with Japan • Dedicate appropriate resource to ongoing negotiations with all major partners for customs cooperation and Authorised Economic Operator (AEO) agreements, including the USA,

¹¹² House of Lords Select Committee on the European Union, Uncorrected oral evidence: Scrutiny of Brexit Negotiations, 23 January 2019 4pm

<ul style="list-style-type: none"> • Concluded 13 air services agreements, including the USA, Canada, Israel and Switzerland, allowing commercial air transport services between the signatories' territories • Secured sectoral mutual recognition agreements with Australia on wine and conformity assessments, with New Zealand on conformity assessments and sanitary measures for live animals and animal products, and with the US on spirits, wine, marine equipment, and sectoral mutual recognition • Finalised international motor vehicle carriage agreements with Belarus and international road transport agreements with Switzerland, Norway, Serbia, Ukraine, and Kazakhstan • Struck nuclear co-operation and safeguards agreements, including with the USA, Canada and Australia • Announced its accession to the Common Transit Convention (CTC), an important step that allows a single declaration when goods are transported across CTC member countries rather than repeated declarations across borders while in transit • Secured other international agreements including on aviation, customs and mutual recognition 		<p>Canada, New Zealand, India, China, Japan, and South Korea</p> <ul style="list-style-type: none"> • Continue ongoing engagement with Japan to secure a nuclear cooperation and safeguards agreement
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • No action taken as international agreements are a UK-only competence 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • No further actions available
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • Spain and the UK have undertaken negotiations regarding Gibraltar 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • No joint actions available
<p>What has business done so far?</p> <ul style="list-style-type: none"> • A very small number of specialised, large firms have taken aspects of the UK's international relationships into consideration as they have been making long-term investment decisions 		<p>What more could businesses do?</p> <ul style="list-style-type: none"> • Companies participating in the EU-US Privacy Shield to transfer data must ensure that any public commitment to comply with the Privacy Shield confirms that this commitment extends to personal data from the UK • Firms should continue to monitor the UK government's website updates on international agreements in the run up to Brexit Day

The UK Government has worked hard to carry over as many crucial international agreements as it can in time for Day 1 of no deal. Diplomatic effort has been expended across the globe, and some tough negotiations concluded with major powers such as the US, Canada and Israel. However, the job is not yet done. Some agreements were not ready for the original Article 50 deadline in March and have yet to be rolled over, including air services agreements, customs cooperation agreements, mutual recognition agreements, trade in organic products agreements, and a nuclear cooperation agreement. A government list identifies 158 agreements that it is seeking to replace by exit day.

If further steps are not taken to secure continuity for international agreements, there will be significant consequences. If further air services agreements are not concluded, it would severely limit air connectivity to and from the UK and the Balkans. If the mutual recognition agreement in operation with Mexico falls away, UK spirits such as Scotch Whisky and Mexican tequila will no longer be protected terms in the respective markets. Extra delays at the border, and reduced data sharing to combat fraud and hazardous products would result should customs cooperation deals become invalid.

Additionally, some deals that come into operation in the event of no deal are not as ambitious or beneficial as the UK currently has through EU membership. For example, while the US rollover deal of 'Open Skies' protects established airline rights, new routes can only be established by airlines that have substantial ownership and control in the UK or USA thus limiting the scope for new services from international entrants. This creates long-term competitiveness risks, as the UK will not have the clout that the EU has to strike more beneficial deals.



“Not hard to imagine how bad no deal could get, for commercial property the effects are being seen now in UK attractiveness and the exchange rate,” - real estate services



EU Programmes

The UK is involved in a number of EU-organised programmes and funding schemes as an EU member. One of the most important for business is Horizon 2020, the EU's research and innovation programme that brings together businesses, academics and Universities across Europe to work together on solving global problems.

There are also a number of other programmes and funding schemes the UK is a part of through the EU, ranging from the European Maritime and Fisheries fund which in 2018, among other things, provided £2 million to develop Whitby East and West Piers and £236,000 to upgrade facilities at Brixham fish market¹¹³, to the PEACE programmes in Northern Ireland which provide funding and support for cohesion-building initiatives in areas around the Irish border, particularly focused on young people, social inclusion and combating poverty. Some EU programmes such as Creative Europe, which has supported collaborative projects run by organisations from the Royal Opera House to arts organisation Writing West Midlands, have benefits beyond funding – namely in the form of collaboration with partners across geographic territories. In the event of no deal, the UK should eventually be able to re-join many of these, but there is likely to be a drop off in between and participation will not be on the same terms as today.

- **Are all parties prepared for the effect of no deal on EU programmes?** No, there are still outstanding actions to be taken
- **What does no deal mean for EU programmes in the long-term?** Most EU programmes can be replaced or re-joined, but many only on less-preferential terms
- **Is it possible to have no negative consequences on EU programmes without a deal?** No. As long as the UK is a third country, it will not be able to have the same benefits of EU research and innovation programmes

Research and Innovation

No deal puts at risk the huge benefits UK Universities, businesses and the research community have found from participation in European research and innovation programmes. This is because the UK will no longer be able to apply for most new opportunities for over a year, and even then on much less favourable terms. This is a problem for three reasons. Firstly because these programmes have been an important source of long-term funding, UK businesses having received over €5,101 million in the current funding round, or just over €1.275 million a year¹¹⁴, representing a substantial addition to UK Research and Innovation's annual budget of £7,458 million¹¹⁵. Secondly, these programmes have provided unique collaborative opportunities and access to specialist expertise, allowing industrial innovators to work together on challenges that can only be solved through cross-border collaboration, such as medicine, cyber-security, robotics and big data. Third, the programmes have offered an opportunity to influence regulations from the earliest stage and enable Universities and businesses to have a voice shaping the international research agenda.

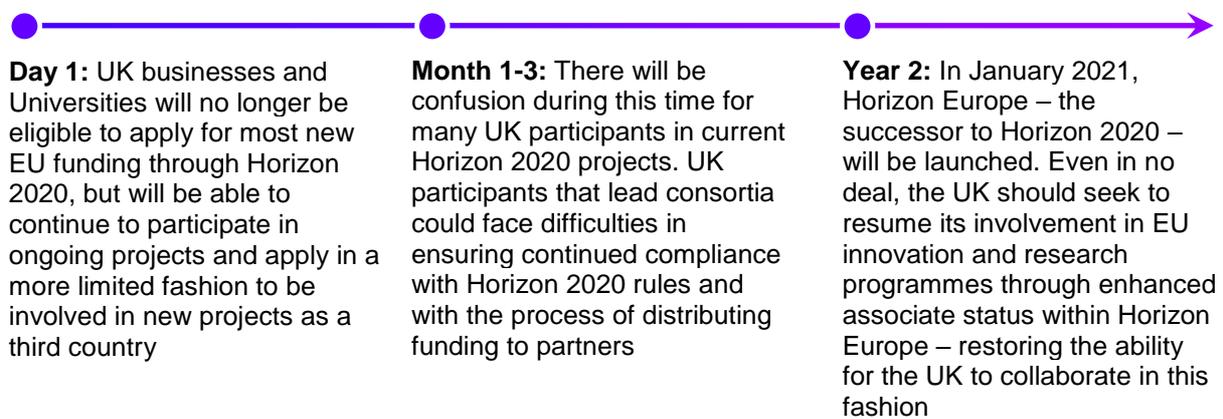
¹¹³ Marine Management Organisation, EMFF Panel: 21 March 2018

¹¹⁴ BEIS, UK participation in Horizon 2020: September 2018

¹¹⁵ UKRI, Delivery Plan 2019

The concern about no deal's impact on UK firms' involvement in EU research and innovation programmes is already having consequences. Feedback suggests that ongoing uncertainty about no deal is making European research institutions nervous about entering into projects with UK partners – such that UK researchers have been shut out of partnership bids. A study by UCL of 9 leading Universities saw the number of Horizon projects led by UK researchers in the universities surveyed dropped from 49 in 2016 to just 20 in 2018. The percentage of projects the universities are leading declining from 15% in 2016 to 9% last year, and the total number of Horizon projects the institutions were involved in dropped by a third, from 331 in 2016 to 227 last year¹¹⁶. This is affecting businesses as well. Under Horizon 2020 – the EU's current research framework programme – the UK has been placed second only to Germany in its number of project participants and share of funding¹¹⁷. However, the latest figures from BEIS show that, when compared with October 2016, UK businesses have fallen from the second highest recipients of funding in the EU – to fifth overall¹¹⁸.

UK involvement in research and innovation programmes will suffer in no deal, but in the long-term the UK should be able to resume involvement – albeit on less favourable terms



The lack of communication and confusion on Horizon 2020, particularly from the EU, may lead UK businesses and Universities to be unfairly disadvantaged in no deal

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Guaranteed that UK organisations will continue to receive funding over a project's lifetime if they successfully bid into EU-funded programmes before exit day Guaranteed funding for successful bids open to third country participants from exit day until the end of 2020 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Use digital communication channels to urge businesses and universities to sign up to UKRI's online portal for organisations currently in receipt of Horizon 2020 funding Communicate rapidly with UK businesses and Universities registered with the UKRI portal as to how the underwrite for EU grants will work in

¹¹⁶ University College London

¹¹⁷ BEIS, UK participation in Horizon 2020: September 2018

¹¹⁸ BEIS, UK participation in Horizon 2020: September 2018

<ul style="list-style-type: none"> • Launched an online portal for UK organisations currently in receipt of Horizon 2020 funding so that UKRI has the information it needs to underwrite payments in the event of no deal • Commissioned Professor Sir Adrian Smith to provide advice on the design of future UK funding schemes for international collaboration, innovation and research – with a 5-week consultation that ran in April-May 2019 • Warned that access to some programmes – including the European Research Council and Marie Skłodowska-Curie Actions funding – would be lost entirely in no deal 		<p>practice, including who will administer funds, who will make funding decisions and what the requirements of businesses and Universities in receipt of funds will be</p> <ul style="list-style-type: none"> • Make a firm commitment as soon as possible to seek enhanced associate membership of Horizon Europe even in the event of no deal – seeking full access to all pillars of the framework programme, the ability for UK businesses and researchers to lead consortia, as well as the ability to influence the development of the programme and its shape • Include in this indication of intention the UK’s willingness to pay into Horizon Europe’s budget, based on similar terms to other participating nations, in order to demonstrate full commitment to association – making firm this commitment in a Spending Review should one take place • UK politicians, universities and businesses should signal the UK’s intent to participate in future schemes by continuing to engage with discussions on the direction and design of Horizon Europe while still a member of the EU
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> • Informed Horizon 2020 participants that, in the event of no deal, British applicants will cease to be eligible to receive EU funding (while continuing, where possible, to participate) or be required to leave the project on the basis of Article 50 of the grant agreement 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> • Ensure that Horizon Europe includes provisions for third country participation based on fair access for fair participation
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> • No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> • Agree on a mechanism by which UK coordinators would be able to continue to disburse EU funding to other partners in a no deal scenario. This will help ensure that the UK remains at the centre of collaborative science and research • Communicate a clear plan for projects where the UK’s change in status from EU Member State to third country could lead to concerns about ongoing compliance with Horizon 2020 rules, for example, where a consortium no longer meets the threshold for Member State and/or Associated Country participants

What has business done so far?

- The reassurance from the UK government has meant businesses, Universities and other organisations have not needed to make significant steps in the short-term – beyond communication and reassurance to their partners. However, this has been an intensive process at times, in particular where the UK has led programmes

What more could businesses do?

- Organisations in receipt of funding should register their details on UKRI's portal. The portal will be used as a channel for UKRI to keep UK researchers and businesses informed of the next steps if the government needs to underwrite Horizon 2020 payments

The UK government has had all the right intentions when it comes to mitigating the impact of a potential no deal on UK businesses, Universities and researchers that participate in European research and innovation programmes. The practical steps the UK government has taken to prepare for no deal have been the right ones, and the signals being sent on the importance of the UK remaining an open nation for science and innovation much welcomed.

Yet the challenges of uncertainty already affecting UK firms and higher education will be further heightened if no deal takes place. The UK's ability to collaborate with European research partners will be greatly hindered and organisations will lose out on access to valuable funding support. Some institutions have very high numbers of Horizon 2020-supported projects running simultaneously: the University of Oxford has participated or is participating in 423 projects, for example, while the University of Edinburgh has involvement in 258¹¹⁹. Managing the fall out of no deal on research and innovation collaboration will be a complex distraction for these organisations working on important projects from AI to super-pixels.

In the long-term, the UK should be able to seek to associate with the next EU research and innovation programme, Horizon Europe, and businesses would welcome a firm commitment from the new government that it intends to do so. Though the UK can take action domestically to support research and innovation, the EU framework programmes are unique in scope and scale and the full benefits of membership will not be fully replicated.

Regional Funding

Following the UK's exit from the EU in no deal, the UK will lose access to £2.4 billion annually from European Structural and Investment Funds (ESIF). ESIF provides funds to address regional imbalances in Member States by supporting skills, infrastructure and innovation in local areas. These are administered by government and allocated based on a range of criteria. Of the money guaranteed by the EU and match funded by UK private and public institutions, less than 20% has actually been spent with a further 72% of funding agreed, as of November 2018. The remainder must be agreed by 2020 and spent by 2023¹²⁰.

There are five funds that are collectively referred to as ESIF – but two are particularly important for the business community. First, the European Regional Development Fund – worth €5.8 billion to the UK

¹¹⁹ BEIS, UK participation in Horizon 2020: September 2018

¹²⁰ House of Commons library, UK funding from the EU

between 2014-2020 – which promotes economic and social cohesion within the EU through the reduction of imbalances between regions or social groups. This fund is also the source of the funding for Northern Ireland’s PEACE programme. Second, the European Social Fund – worth €4.9 billion to the UK between 2014-2020 – which provides financial assistance for vocational training, retraining and job creation schemes. Programmes granted monies under ESIF range from loans for social enterprises and voluntary groups in South Yorkshire, to bringing superfast broadband to 15,000 people in Cornwall and supporting NEETs in Norwich to find fruitful employment.

The current timelines for the replacement of regional funding risks a drop off in funding continuity for businesses if no deal is agreed



Regional funding is in the UK’s control in no deal, and a prime area where the impact of Brexit can be mitigated entirely, but has not been yet

Current Contingency Plans	RAG	Recommendations
<p>What has the UK done so far?</p> <ul style="list-style-type: none"> Announced plans to launch new UK Shared Prosperity Fund (UKSPF) that replaces ESIF – but not yet consulted on it Announced a guarantee that covers the full 2014-2020 ESIF programme period, including new spending commitments up to 2020. This extension provides assurance and stability in funding to UK communities and organisations in the event of a no deal scenario for this period of time, meaning that all projects can continue business as usual 		<p>What more could the UK do?</p> <ul style="list-style-type: none"> Open up consultation with businesses and stakeholders to ensure that the transition from ESIF to UKSPF does not result in a break in the pipeline of projects that are supporting growth in the regions and devolved nations Use the development of UKSPF as an opportunity to streamline and simplify UK regional funding, as the various funding streams should have clear and distinct objectives while working effectively together without unnecessary duplication or complication Align the UKSPF closely with the Local Industrial Strategies, in the Mayoral Combined Authorities and LEP areas
<p>What has the EU done so far?</p> <ul style="list-style-type: none"> Passed a regulation to ensure that the PEACE IV co-operation programme providing cohesion support to Northern Ireland continues even if there is no deal 		<p>What more could the EU do?</p> <ul style="list-style-type: none"> Not applicable
<p>What have the UK and EU done together so far?</p> <ul style="list-style-type: none"> No joint action taken 		<p>What more could the UK and EU seek to do together?</p> <ul style="list-style-type: none"> None required

What has business done so far?

- The reassurance from the government has meant businesses do not need to make significant steps in the short-term
- Some, but not many, firms have begun to consider what the impacts of a gap in regional funding would mean

What more could businesses do?

- Feed in to the government consultation on the UKSPF once it is opened up
- Consider alternative routes of funding available should the UKSPF not be fully-functioning in time

The UK government, thus far, has had all the right intentions when it comes to mitigating the impact of no deal on access to regional funding. The steps to underwrite current programmes were highly reassuring, for example, and honouring this commitment will be key.

However, concern is growing about the delivery of these intentions. The UK government has proposed a new UK Shared Prosperity Fund (UKSPF) to replace EU funds and deliver sustainable, inclusive growth based on the Industrial Strategy. The consultation was due to begin at the end of 2018 but this has been delayed and is still yet to start – creating uncertainty for businesses about future funding streams, particularly in some of the more vulnerable areas of the country. This creates a genuine risk of a delay in the pipeline of new projects once the current funding window ends at the end of 2020. This is because for continuity of projects in the regions, bids for projects post-ESIF will need to begin in 2020.

In the long-term, there is no doubt that these streams can be restored. The UK has a great opportunity to ensure cohesive, streamlined funding for the regions, more closely meeting the UK's economic aims than ever before. But action is needed quickly to ensure a new funding regime is in place for 2021.



Conclusion

The CBI has compiled this report '*What comes next? The business analysis of no deal preparations*' primarily to support efforts to mitigate a potential cliff-edge Brexit where the UK falls out of the EU without a deal or transition period.

In doing so, the CBI has come to 3 conclusions.

First, it's time to escalate preparations. Having analysed Brexit preparations by the UK government, the European Commission, EU Member States and companies in the 27 areas of the UK's relationship with the EU that are most important to businesses, **the CBI has concluded that no one is ready for no deal.**

Second, preparations can have a material impact. Working with its member businesses and Trade Associations, the CBI has compiled **over 200 recommendations** for reducing the harm of no deal.

Third, many no deal mitigations rely on negotiations between the UK and the EU, which will hold all the political difficulties experienced in talks so far.

While there are actions that will make a difference, even if every one of these recommendations were implemented, the long- and short-term impacts of no deal are still of great concern. **Having mapped all 27 of those areas over time, the CBI has concluded that many of the consequences of no deal will be felt for years to come** – acting as a self-inflicted drag on the UK's economy for the next decade and more.

The only way to avoid the negative consequences of no deal on jobs and livelihoods is to strike a deal with the EU.

Report Authors



Abigail Agopian
Principal Tax Adviser
abigail.agopian@cbi.org.uk



Amy Brooker
Policy Adviser, EU Negotiations
Amy.Brooker@cbi.org.uk



Nicola Hetherington
Senior Policy Adviser, EU
Negotiations
Nicola.Hetherington@cbi.org.uk



Russell Antram
Principal Policy Adviser, EU
Negotiations
Russell.Antram@cbi.org.uk



Mark Corbett
Senior Policy Adviser, Regional
Policy
Mark.Corbett@cbi.org.uk



Will McGarrigle
Senior Policy Adviser, International
Trade
Will.McGarrigle@cbi.org.uk



Tom Barrett
Senior Policy Adviser, Immigration
Tom.Barrett@cbi.org.uk



Charlotte Dendy
Senior Economist
Charlotte.Dendy@cbi.org.uk



Judith Parsons
Financial Services Brexit lead
Judith.Parsons@cbi.org.uk



Tanisha Beebee
Senior Policy Adviser, Energy
Tanisha.Beebee@cbi.org.uk



Jess Dickinson
Principal Policy Adviser,
International Trade
Jessica.Dickinson@cbi.org.uk



Ben Thom
Senior Policy Adviser, Europe
Benjamin.Thom@cbi.org.uk



Jonathan Brenton
Principal Policy Adviser, EU
Negotiations
Jonathan.Brenton@cbi.org.uk



Khushali Dodhia
Policy Adviser, Digital
Khushali.Dodhia@cbi.org.uk



Elsa Venturini
Principal Policy Adviser, Europe
Elsa.Venturini@cbi.org.uk

Produced by the [Brexit and EU negotiations](#) team
To share your views on this topic or ask us a question, contact:



Nicole Sykes
Head of EU Negotiations
Nicole.Sykes@cbi.org.uk