Statement of the U.S. Chamber of Commerce

ON: The Challenges of Brexit and the Opportunities of an Expanded U.S.-UK Economic Relationship

TO: U.S. House Foreign Affairs Committee
Subcommittee on Europe, Eurasia, and Emerging Threats

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The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Introduction

Good afternoon, Mr. Chairman and distinguished members of the subcommittee. My name is Marjorie Chorlins, and I serve as Vice President for European Affairs at the U.S. Chamber of Commerce and Executive Director of the Chamber's U.S.-UK Business Council. Thank you for this opportunity to testify on the economic impacts of Brexit and opportunities to strengthen the economic relationship between the U.S. and the United Kingdom.

The Chamber established the U.S.-UK Business Council to provide a platform for American businesses to be heard as the UK resets its relationship with the EU and its position in the global economy. We have provided input to Brussels and London on our priorities for future UK-EU economic relations; the urgent need for a transition period to give business and governments the time needed to adjust to the new circumstances; and the dangers of a "no deal" Brexit. These reports are appended to our written testimony, and I appreciate their inclusion in the record.

The longstanding 'special relationship' between the United States and the United Kingdom is built on deep and abiding economic, foreign policy, and security ties. The durability of this alliance derives from the two countries' shared commitment to rule of law, democratic norms, and free enterprise. American companies have looked to the UK as a safe and certain market in an increasingly uncertain world.

Brexit has the potential to disrupt the geopolitical and strategic relationship between key American allies in Europe. We are encouraged that both the EU and the UK have consistently stressed the need for continued intelligence sharing and security cooperation, even after the UK leaves the EU. A fractured and distracted Europe is in no one's best interest, particularly at a time when we face significant threats to our shared security and joint prosperity.

Similarly, If Brexit is mismanaged, or if the UK crashes out of the EU without an agreement on their future relationship, the economic consequences would be substantial, and thousands of U.S. firms and their employees would be directly affected.

The Depth of the U.S.-UK Special Economic Relationship

Brexit matters because the economic ties U.S. and the UK are deep and enduring. We are each other's single largest foreign investors, and more than 2.5 million jobs depend directly on those investments. Two-way trade totals more than $235 billion annually.

U.S. companies have invested approximately $600 billion in the UK, which represents nearly a quarter of U.S. investment in Europe, and approximately 12% of all U.S. foreign investment worldwide. This investment directly employs nearly 1.4 million Britons and millions more indirectly.

Similarly, the United States has greatly benefitted from British investment across the country. More than 1.1 million Americans work for British companies in the U.S., and British companies have invested more than $480 billion here. This accounts for more than 15% of all foreign investment into the U.S.

Every American state has jobs that are connected to, or originated from, an investment by a UK company. California, New York, Texas, Pennsylvania, and Illinois are the five states with the most employment by British firms. American jobs supported by British investment are high quality and highly paid—in manufacturing, chemicals, pharmaceuticals, information technology, and financial services, among other sectors.

Mr. Chairman, according to the British Embassy, UK companies directly employ more than 98,000 people in California, and California's exports to the UK support an additional 105,000 jobs. Mr. Ranking Member, New York has over 103,000 employees of British firms, while New York exports to the UK support an additional 81,000 jobs.

In terms of trade, the UK is our 4th largest export destination, and our 7th largest trading partner overall for goods and services. U.S. goods and services exports to the UK total about $121 billion, yielding a $15 billion U.S. trade surplus. Today, over 42,000 American firms directly export to the UK, and more than 7,500 American companies have operations in the UK.

It is also worth comparing U.S. investments in the UK with investments in other countries. Of note, as of 2016, U.S. companies had invested only 13% as much in China as they have in the United Kingdom.

Obviously, it is in our national interest to build on this solid foundation and work to further strengthen our commercial relationship, up to and including negotiation of a bilateral free trade agreement when the time is right.

Brexit: Where Are We and What's Next?

In March 2017, the UK started a two-year countdown clock to exiting the European Union. As the subcommittee knows, this complicated "divorce" proceeding is politically sensitive on both sides of the English Channel. The level of complexity in unwinding more than 40 years of economic, strategic, and political union should not be underestimated. Pursuant to the terms of Article 50 of the European Union treaties, Britain will no longer be a member of the European Union as of March 29, 2019. Were the UK to arrive at that date without agreement on at least the framework of the new UK-EU trade relationship, the disruption in UK-EU ties—and the attendant effects on U.S. companies—would be devastating.

With that in mind, we have called on negotiators to agree to a transition period of no less than three years during which the UK would continue to operate under EU rules while the two sides negotiate a comprehensive trade agreement.

To date, progress at the negotiating table has been limited. The Europeans have identified three areas where "sufficient progress" must be made before negotiations can commence on the future UK-EU trade relationship. These areas include treatment of EU citizens living and working in the UK and vice versa; how to manage the border between Northern Ireland and the rest of Ireland once the UK exits; and agreement on the UK's financial obligations in light of previously agreed spending commitments.

In October, the European Council, comprised of EU heads of state and government, noted that while some progress has been made on each of these issues, it is not yet sufficient to move to the second phase of negotiations.[1] European leaders did, however, instruct the European Commission to begin internal preparations for discussions towards a future trade agreement with the UK. Our hope is that the Council will agree to move forward with this broader discussion at its meeting later this month, on December 14-15. It seems like a potential compromise may be within reach, but the deal has not yet been finalized.

Still, even if the UK and the EU agree to move on to the trade talks later this month, that would give the two sides less than a year to negotiate the final terms of the UK's exit and to outline the terms of their future relationship, including security cooperation, research and development, trade, investment, and regulatory cooperation. The negotiating window is narrow given the amount of time it will take to have the agreement ratified.

Why Does Brexit Matter to the U.S. Business Community?

Given the extent of our existing relationships, Brexit matters deeply for American business. It is important to underline that much of the U.S. investment in the UK was made so companies could seamlessly access the much larger EU Single Market.

A future UK-EU trade agreement will almost certainly not replicate the economic advantages of Britain's current membership in the Single Market. For example, financial services firms are likely to lose their "passporting" rights to operate in all EU jurisdictions from their UK European headquarters. This would similarly affect companies whose headquarters are in other EU member states in terms of their ability to do business in the UK.

Changes in the regulatory space are also anticipated. Since the UK does not have its own fully-functioning regulatory agencies covering important sectors like pharmaceuticals or aviation, it will likely remain reliant on, and subject to, EU rules for at least the foreseeable future. Once outside the EU, the UK will need to develop its own regulatory regimes and hire and train new regulators. A lack of clarity as this shift occurs is among the most important concerns of many companies.

Digital privacy compliance mechanisms could also be in legal jeopardy if the EU and UK do not negotiate an agreement on data flows or if, for example, the UK no longer qualifies for data transfers under the rules of the U.S.-EU Privacy Shield arrangement. This will negatively affect every American company that does business on either side of the English Channel, and costs will rise for consumers who use the goods and services that these companies provide.

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[1] European Council Conclusions, October 20, 2017. http://www.consilium.europa.eu/en/press/press-releases/2017/10/20/euco-art50-conclusions/

In the case of aviation, once Brexit occurs, the UK will need to have in place revised Open Skies aviation agreements with both the United States and with the EU. Otherwise, flights stop on day one—until a new agreement can be negotiated. We understand the U.S. government and UK government are already negotiating to maintain this access moving forward, which is an important step in the right direction.

The prospect of a "no deal" Brexit, with no negotiated outcome governing the future terms of trade, regulatory oversight, or the movement of labor, would be a disaster for U.S. companies. If no exit agreement is reached, the consequences will be both immediate and severe.

For trade, implementing the so-called default World Trade Organization (WTO) option would likely lead to sizeable losses in two-way trade and investment. Of note, the WTO has not liberalized international trade in services to nearly the same degree as the Single Market. That matters in an economy like Britain's where more than 80% of jobs and GDP are in the services sector. Since services represent an outsized share of U.S. companies' investment and exports from Britain, a lack of equivalent market access would be particularly damaging in this area.

On goods, WTO-level tariff increases will lead to rising costs for businesses and consumers on a range of everyday necessities, such as food and medicine.

Additionally, the UK's independent membership in the WTO is contingent on all WTO members signing up to its revised tariff schedules and tariff-rate quotas as agreed with the EU. A wide range of agricultural exporters including the U.S., Australia, Argentina, Brazil, and New Zealand have already objected to the EU and UK's initial offer on the latter.

Additional costs also will be incurred by major delays at the border. In fact, the UK's customs authority estimates indicate that customs declarations at ports like Dover will increase fivefold, from 55 million annually to over 255 million per year.[2] It is difficult to imagine how Britain's ports or the Channel Tunnel will be able to handle the dramatically increased traffic and customs requirements as the UK exits the EU. There is also a lack of skilled talent to fill the dozens of additional customs clearance positions which will be needed post-Brexit. Significant delays at the border would directly harm U.S. manufacturers that depend on seamless supply chains that often require multiple border crossings from Europe into the UK and vice versa.

Consumers will also face increased costs. Pallets, containers, and crates that carry automotive parts, fresh fruit and vegetables, and fast-moving consumer goods will be subject to tariffs not applied today, which will raise costs on essentials in Britain and beyond. This will directly impact the bottom line for U.S. firms in the manufacturing, retail, and logistics sectors.

How Could Brexit Impact Jobs and Investment?

[2] HMRC Chief Warns post-Brexit Border and Tax Checks Could Cost up to £800 million. The Guardian. https://www.theguardian.com/politics/2017/sep/14/hmrc-chief-warns-post-brexit-border-and-tax-checks-could-cost-up-to-800m

The tremendous uncertainty surrounding Brexit and the UK's future relationship with the EU is already having a negative effect on the business climate. A study in October revealed that fully 82% of foreign businesses operating in Britain, including American ones, are either "not very" or "not at all confident" that a positive outcome for the UK can be achieved in the Brexit negotiations. Similarly, 55% of these companies think Brexit will have a negative impact on their future investments in the UK.

Without knowing the terms of the future UK-EU relationship, it is difficult to quantify the potential jobs impact. What we do know is that for U.S. financial services firms with European headquarters in London, losing passporting rights will require them to shift at least some positions to other EU member states. Other firms are awaiting further clarity before green-lighting new investments in the UK. American investors also have developed worst case contingency plans, which they may be forced to execute if clarity isn't forthcoming soon. All of these developments have potential job impacts.

How Can the U.S. Strengthen Ties to a Post-Brexit United Kingdom?

Regardless of the future of UK-EU relations, the UK is and will remain a vital economic partner for the United States. The UK has a talented, English-speaking, and tech-savvy workforce. Its government has traditionally preferred a regulatory model that rewards innovation and encourages competition—much like the American model. The UK has been one of the most forward-leaning voices in Europe on key issues such as promoting the digital economy, ensuring regulatory decisions are fact-based and rest on sound science, and supporting a predictable and transparent business climate.

It is essential that we build on our existing relationship, and we should explore all options including a possible bilateral free trade agreement with the UK when the time is right. To that end, we appreciate, the preliminary work being done under the auspices of a newly-formed U.S.-UK Trade and Investment Working Group.

For now, the focus of the business community must be on the UK-EU negotiations. At present, the UK is still subject to the EU's Common Commercial Policy, making it unable to negotiate its own bilateral trade agreements. Secondly, the UK government's limited trade negotiating resources are largely focused on the EU discussions. Lastly, it is impossible to gauge the potential terms of a bilateral U.S.-UK agreement until we know what the UK and EU have agreed in terms of market access and regulatory oversight. It's possible the EU will seek commitments that limit what the UK can do with third countries in the future.

What we do know already is that any commercially meaningful U.S.-UK agreement should focus heavily on the services sector and on setting global standards in important areas like digital trade, regulatory cooperation, investment protection, creating opportunities for small and medium-sized enterprises, competition, and treatment of state-owned enterprises.

While traditional market access barriers are low between the U.S. and UK, removing all tariffs would still yield significant benefits. This is especially true for small companies for which a 5% tariff or an extra customs form may be the difference between a profitable sale and a missed opportunity.

Finally, it is important to underline that even as the U.S. moves to expand its trade and investment ties with the UK post-Brexit, strengthening our economic ties with the rest of Europe must remain a top priority. For over 70 years, the United States has actively pursued a more integrated Europe and this has proven beneficial in both national security and commercial terms. With that in mind, we should endeavor to deepen our trade and investment ties with both Britain and the EU in the years ahead.

Conclusion

I would like to thank the Subcommittee for the opportunity to testify today. The U.S. business community is eager to be heard during the Brexit negotiations, and to play a productive role in deepening the ‘special relationship’ between our two countries. The Chamber and its members look forward to working closely with the Congress to achieve these goals.

Attachments to Testimony

I would like to submit the following with my statement:

1) *Priorities for a New EU-UK Economic Partnership*
https://www.uschamber.com/report/priorities-new-eu-uk-economic-partnership

2) *The Future of UK-EU Relations: Priorities of the U.S. Business Community*
https://www.uschamber.com/report/the-future-uk-eu-relations-priorities-the-us-business-community

3) *Toward a New UK-EU Relationship: The Importance of Transitional Arrangements*
https://www.uschamber.com/report/toward-new-uk-eu-relationship-the-importance-transitional-arrangements

4) *Brexit: Deal or No Deal? Business Stresses Need for Negotiated Agreement*
https://www.uschamber.com/issue-brief/brexit-deal-or-no-deal-business-stresses-need-negotiated-agreement

5) *Business Needs Clear Progress from Brexit Negotiators*
https://www.uschamber.com/above-the-fold/business-needs-clear-progress-brexit-negotiators

6) *U.S.-UK Business Council Welcomes PM May's Latest Remarks on Brexit*
https://www.uschamber.com/press-release/us-chamber-s-us-uk-business-council-welcomes-prime-minister-may-s-latest-remarks

7) *Brexit Begins: Business Seeks Open Minds, Clarity on Way Forward*
https://www.uschamber.com/above-the-fold/brexit-begins-business-seeks-open-minds-clarity-way-forward

8) *7 Things the U.S. Business Community Wants from the Brexit Negotiations*
https://www.uschamber.com/above-the-fold/7-things-the-us-business-community-wants-brexit-negotiations

9) *The Challenges of Brexit and the Case for a U.S.-UK Trade Agreement*
https://www.uschamber.com/above-the-fold/the-challenges-brexit-and-the-case-us-uk-trade-agreement