Brexit: Deal or No Deal

Written Testimony for the UK House of Lords EU Select Committee Inquiry

Introduction

1. The U.S.-UK Business Council represents the interests of investors with significant equities on both sides of the Atlantic interested in the outcome of the current EU-UK negotiations. We welcome the opportunity to submit comments for the House of Lords EU Select Committee's inquiry on the impact of a "no deal" Brexit outcome.

2. The Council believes that a mutually-agreeable outcome is strongly in the interests of both the United Kingdom and the European Union. We appreciate the UK government's willingness to meet with and listen to the views of interested stakeholders.

3. It is clear that the most disruptive outcome would be a "no deal" Brexit scenario, with no clear rules governing the future terms of trade, regulatory oversight, or labor mobility. With a firm deadline of March 29, 2019 set out by Article 50 of the European treaties, it is vital for the UK and EU to move swiftly to discuss a transition as well as the terms of a future trade agreement.

4. Parliament should move forward with the withdrawal legislation that transposes EU law into domestic British law. This will help limit the immediate shock to the system and provide increased certainty to business.

5. The American business community has a significant stake in the outcome of the UK-EU negotiations. U.S. firms' investments in Britain are worth nearly $600 billion, and they employ roughly 1.2 million Britons directly and millions more indirectly. Many of these U.S. investments were made to reach both British and other consumers across the EU. U.S. subsidiaries in the rest of Europe are equally interested in seeing minimal disruption to their supply chains and business ties across the Channel into the UK.

PM May's Florence Speech

1. The business community was encouraged by Prime Minister May's Florence speech. We welcome May's call for a strong partnership with the EU moving forward, underlining the UK's commitments to meet its financial obligations, as well as underlining its desire to negotiate a transition period leading to a comprehensive trade agreement.

2. It is vital to use the goodwill created by Prime Minister May's Florence speech to make rapid progress at the negotiating table on the exit priorities related to the Irish border, citizens' rights, and the financial settlement.

3. Clearly, none of these issues will be easy to resolve. It is also clear that none of them can be solved in a vacuum. The Florence speech provides useful clarity to help move the talks to the next phase.

Consequences of a "No Deal" Scenario

1. If no exit agreement is ultimately agreed, the consequences will be both immediate and severe.

2. On trade, the so-called WTO option is not a fail-safe. For one thing, the WTO has not liberalized international trade and 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.

3. Additionally, the UK's independent membership in the WTO is contingent on all WTO members signing up to its revised tariff-rate quotas in agriculture 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 in this area.

4. Tariff increases will lead to rising costs for businesses and consumers on a range of everyday items, such as food and medicine. These cost rises are likely to be exacerbated by pressures on exchange rates and a loss of value for the British pound.

5. Additional costs will be incurred by major delays at the border. In fact, HMRC estimates indicate that customs declarations at ports like Dover will increase fivefold, from 55 million annually to over 255 million per year. It is difficult to imagine how ports like Dover or the Channel Tunnel will be able to handle the

dramatically increased traffic and customs requirements as they transition from the current situation where the vast majority of trucks and ships passing through are destined for markets within the common market and Customs Union. These delays will have significant real-world consequences if citizens cannot get access to perishable items or medicines quickly.

Key Components of a Transition Period

1. **Any transition period between the UK's membership in the EU and an eventual EU-UK free trade agreement must be based on the existing structure of EU rules and regulations.** A transition period is essential to avoid a sudden and damaging shock to trade and investment flows, and will ensure that businesses, workers, and citizens need adjust only once to accommodate the new terms of the relationship.

2. Both sides have agreed that there is neither the time nor the ability to negotiate a bespoke agreement for the transition period. It must clearly be based on the idea that the UK will remain in compliance with the full set of EU rules and regulations, including any new provisions that are agreed to during the period of the transition.

3. This transition period should be used for the EU and the UK to set the terms of their future trade relationship. The UK should also begin negotiating new trade agreements with third countries like the United States during this time, to be approved and implemented once the UK has exited the EU.

4. A transition period of no less than three years will be necessary to provide certainty to the business community, allow sufficient time to plan, and prevent major disruptions to inbound investments into the UK. Without such assurances, companies will begin to seek access to the broader EU market by other means, including by shifting investments away from Britain and moving operations into other EU member states. Some of these decisions are already being made, and businesses have to assume a worst-case "no deal" scenario until the evidence points otherwise.

Possible Consequences if No Transition Agreed

1. Failure to secure an agreement on transitional arrangements would carry significant consequences for U.S. investors. The oft-cited fallback option of reverting to WTO rules for UK-EU trade is a considerably more difficult scenario than is commonly realized. It may take several months or even years

for the UK to agree upon new tariff rates and negotiated quotas with the other WTO members. An immediate loss of financial services passporting rights may require U.S. financial services providers to move portions of their operations to other jurisdictions, with significant employment consequences across Britain. Short of passporting, even a move toward a model of regulatory equivalence will take significant time to implement effectively. Similarly, U.S. investors with headquarters in other member states may be unable to service UK-based customers in a dramatically changed regulatory environment.

2. We are concerned that the UK government would be unprepared for a cliff-edge Brexit. It will take years to hire and train a sufficient number of customs officers and establish regulatory agencies that can address a rapidly-changing and integrated global economy. This lack of preparedness will have major negative consequences on the British economy and will prevent British workers and consumers from benefitting from the latest innovations as the UK struggles to catch up.

3. On the other side of the Channel, the EU may cut off regulatory approvals and delay transport of goods and people to and from Britain as it reevaluates its relationship with Britain. A failure to agree on an exit arrangement would needlessly increase political pressure on European leaders undermining the chances for an eventual agreement on a future partnership.

4. It is clearly in the common interest of the UK, EU, and U.S. businesses active across Britain and Europe that these disruptions are minimized and economic growth not be hampered by a disorderly UK exit.

Conclusion

1. Britain's departure from the European Union without a deal to govern its future relationship with its largest trading partner would carry high economic and political costs. Such a development would sap the goodwill needed to build a free trade partnership between the UK and EU. Businesses would be forced to deal with dramatically altered terms of trade, limited market access, and no clarity on future regulatory policy. The UK government would likely be unprepared to handle the logistics of increased customs checks and tariff barriers, and there would be no regulatory regimes in place to govern approvals for new medicines, vehicles, or other products.

2. A far better outcome would be for the EU and UK to agree, as soon as possible, on the terms of a transition period. This would give both sides the time necessary to negotiate a future free trade partnership.

3. The Council's earlier submissions to the UK government outlining the importance of a transitional arrangement and our views on the policy areas to be addressed in a UK-EU future partnership agreement are attached.

4. The business community calls upon the Parliament to continue its outreach to stakeholders to ensure that the potential impacts of different scenarios are well understood by policymakers.

5. The U.S.-UK Business Council looks forward to continuing its active engagement with the UK government, EU institutions, and the member states to ensure a successful long-term future relationship between the UK and EU. This will also have an important impact on the future ties between the United States and its closest partners and allies.

About the U.S.-UK Business Council

The U.S.-UK Business Council is a Washington-based business advocacy organization dedicated to strengthening the commercial relationship between the United States and the United Kingdom. The Council's mission is to promote a mutually beneficial bilateral economic relationship, as well as ensure that the voices of the private sector are heard as the UK resets its relationship with the EU.