

Brexit: Ceemet position on future relationship between the EU & the UK

Priorities for a smooth Brexit

Ceemet has been clear since the outset about our key priorities for the European Technology and Industry sector to ensure a smooth exit for the UK from the EU. This report explores four priorities providing background and setting our specific recommendations for the future relationship between the EU and the UK.

Ceemet will continue to press for a smooth and orderly Brexit, one that will deliver continued prosperity and investment in jobs alongside economic growth both across Europe and in the UK, it is in our mutual interest. Our sector's key concerns are that we retain the tariff-free and as frictionless as possible movement of goods to and from Europe and a flexible approach to accessing labour. Furthermore, we must ensure a meaningful transitional period for as long as is necessary for the negotiations to conclude and ensure legal certainty, a stable and predictable legal framework for companies and avoiding a two-step adjustment.

Ceemet's key priorities

1. Maintain free and frictionless trade, avoiding tariff and non-tariff barriers to the movement of goods and services while ensuring the integrity of the Single Market;
2. Enable people to move freely across borders to support complex supply chains and address the sector's skills gap;
3. Ensure a single regulatory environment, supported by mutual recognition and regulatory cooperation;
4. Consult industry to ensure negotiations deliver a deal which works for manufacturers across Europe and in the UK.

European Technology and Industry sector

About 70% of the sales of the European Technology and Industry sector are realised thanks to exports which increased by approximately 50% over the past decade and represent around 46% of the total exports of goods in the EU. This underlines one of the main challenges posed by Brexit for EU manufacturers and their non-EU trading partners which are part of Customs Unions. Manufacturing of fabricated metal products, mechanical engineering and the automotive industry are the export heavy weights of our industries in Europe and are the sectors most likely to be affected by a no-deal Brexit scenario.

ABOUT CEEMET

Ceemet represents the metal, engineering and technology-based industry employers in Europe, covering sectors such as metal goods, mechanical engineering, electronics, ICT, vehicle and transport manufacturing.

Member organisations represent 200,000 companies in Europe, providing over 17 million direct and 35 million indirect jobs.

Ceemet is a recognised European social partner at the industrial sector level, promoting global competitiveness for European industry through consultation and social dialogue.

Many multinationals in our sector choose the UK as a base to export to the rest of the EU, with over 50% of exported UK goods destined for the EU market.

Exports returned to pre-crisis levels in 2013 and have increased steadily since; this is especially thanks to exports to markets outside the EU – about 32.3% in 2002. In 2018 this rate had increased to more than 36.3%.

With the number of already existing, and more in the pipeline, EU free trade agreements, this is a key growth area for the future. A no-deal Brexit scenario will hamper both the EU and UK participation in these future growth opportunities.

EU and UK manufacturing intertwined

Ceemet member companies form critical parts of complex European and global supply chains. They have evolved to take advantage of the development of free and frictionless trade enabled by the European Union and specifically the Single Market and the European Customs Union.

For manufacturers in both the EU and the UK the ability to import and export manufactured goods and related services seamlessly across borders is critical to these business models. Manufacturers in the EU and the EEA have also benefited from the ability of EU and UK citizens to travel and work in other EU Member States. It is essential that the sector retains this ability particularly in order to carry out pre-existing contracts, service equipment across all EU Member States and to widen our national labour markets, to the EU28 labour market – especially where skills gaps exist, whether in the top management or at the production line.

In addition, companies represented by Ceemet members across Europe have benefited from the ability to trade seamlessly across the continent under a single set of rules and regulatory standards. This uniformity within standards and rules gives manufacturers the opportunity to create one product for multiple markets rather than multiple products for multiple markets.

Transitional Period

The length of the transition period should be driven by the time needed to adjust to a new trading relationship and not by any political timetable
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While a transition period has been delivered, Ceemet continues to advocate that an extension to the transitional period must be delivered as early as possible.

Companies need certainty to plan business investment decisions. Manufacturers are now making their business plans which will have serious consequences for jobs and investment. An extension to the transitional period will allow companies to take the decisions that have been on hold.

It is of paramount importance that during the process of the UK exiting the EU and commencing their new economic partnership with the bloc, a cliff edge scenario is avoided at all cost. Such a scenario would most definitively have a negative economic effect on both the EU and the UK. A cliff edge scenario would have wide-reaching and damaging consequences for investment and trade, as firms would review their investment plans and business strategies.

Bd A. Reyers Ln 80
1030 Brussels – Belgium

 www.ceemet.org

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Manufacturers' production processes can crisscross over European borders with many multinational companies taking advantage of particular technology, know-how and skills in various locations across Europe.

While the agreed transition period will avoid sudden changes at borders which would have had a dramatic impact on operations, costs, profitability and viability going forward, the length of the transition should be driven by the time needed to negotiate a stable future relationship. In the past the Brexit timetable has too often be subject to political pressure, in the second phase we should pursue a timetable which is realistic and allows time for meaningful negotiations. Furthermore, it is of utmost importance to give manufacturers time to react, plan and implement new procedures and systems once the future relationship has been agreed upon.

Thus, the need for a long transition to avoid this situation is key to offer certainty and stability for industry in the short term. We will also need this time to arrange the future partnership between the EU and UK and enable industry to start preplanning their own potentially altered trading relationship.

Free and frictionless trade

1. Tariff free trade
2. Frictionless borders for goods and services between the EU and the UK
3. Common set of Rules of Origin recognising current trade flows

Establishing a new partnership between the EU and the UK, it is a clear priority of the MET sector that trade continues to flow as seamlessly as possible between the two economic partners. Manufacturers in the EU and the UK are often part of highly integrated and complex supply chains across Europe and globally, this holds true for EU manufacturers and their non-EU trading partners which are part of Customs Unions.

To extricate the industry from this long-established trading system would be costly and require a gradual adjustment process to ensure a smooth and successful transition to a new economic partnership. The EU represent the UK's largest market for manufactured goods and is one of the largest single markets in the world with over 500 million people.

Manufacturers are often reliant on customers beyond national borders and the level playing field created by the EU's Single Market has primed significant expansion of exports over the past decade.

Ceemet's economic analysis in 2016 suggested that there would be a substantive impact on GDP growth, particularly for the manufacturing sector, if the UK left the EU (**Brexit lose-lose**). Ceemet's own analysis of academic literature of the last two decades suggested that Brexit would have a significant economic impact on the UK. Leaving the EU without a deal would depress productivity gains in the industrial sector. The literature review suggested that although there would be a negative impact on the industrial sector in the UK through the direct effect on trade and foreign direct investment, the greater impact would be a significant indirect negative impact on industrial productivity. Ceemet's analysis suggested an overall impact of Brexit could trigger a downward effect on annual GDP growth of -0.5% over 15 years.

In order to avoid this significant impact for the EU and the UK, Ceemet recommends that tariff-free and frictionless trade should be a priority for the negotiations on the future relationship. One of our main concerns is any increase in cost and administrative burden for manufacturers – such

Bd A. Reyers Ln 80
1030 Brussels – Belgium

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Goods travel across borders multiple times, parts of products sometimes need to travel across borders up to three or even four times before they are finalised. Furthermore, as we operate in just in time production, some of these parts spend very little time on the factory floor before the need to be moved again for further production.

as lengthy customs controls and rules of origin compliance. It is essential that any future negotiated Customs arrangement minimises friction, avoiding any tariff and non-tariff costs.

Any new arrangement should ensure tariff free access, the free flow of goods at the border and continued access to the preferential arrangements that they are currently operating under, both in the region and with the rest of the world, for both manufacturers in the EU and the UK.

Movement of people

1. Free movement of workers within the UK and the EU, with a one-step registration afterwards
2. Rules should allow for the movement of all skill levels
3. Rules over the movement of workers should be compatible with the EU Treaties

Companies in both the UK and the EU should have access to a wide labour market at all levels of skills, with minimum restrictions. A flexible system for the movement of labour and skills between the EU and the UK is essential. Companies represented by Ceemet members need the ability to employ and deploy staff across borders with ease and simplicity.

Free movement has helped industry develop agile production models and supply chains. The ability to utilise and tap into a far wider labour market than the national one has been of huge benefit to our industry which suffers from a persistent skills mismatch. Equally important is the ability to deploy employees across borders for short term periods. Flexible posting of workers is key for filling technical, training or management positions or to provide services, conclude contracts and make urgent repair to a piece of machinery. The free movement of workers has enabled the sector to thrive and create jobs across Europe.

While this skills gap prevails companies and societies will continue to need access to a wider talent pool. Companies represented by Ceemet members cannot wait for lengthy administrative processes and due diligence if a customer needs urgent support and advice. We must maintain this huge asset to be able to send employees across borders at short notice when they are needed. This is essential for manufacturers across the continent.

Regulation

1. One single regulatory framework must be applied by companies trading within the single market
2. We must ensure a level playing field across Europe, with a mechanism to enable regulatory cooperation and avoid regulatory divergence

EU Manufacturing companies wish to operate in a single legislative environment. Ceemet believes that significant regulatory parity should be maintained, and mechanisms introduced to avoid regulatory disparity between the EU and the UK.

Regulatory equivalence, mutual recognition of standards, and an agreed process to eliminate or prevent non-tariff barriers behind the border on an

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In our sector, we have European assembly lines, but also European factory floors and European management. European employees at all skill levels are working at our production sites.

ongoing basis are essential components of a future partnership. Manufacturers want to produce one product for multiple markets rather than multiple products for diverging markets.

The EU and the UK have both stressed that they want to see each respective partner moving forward stronger rather than weaker. The UK has assured the EU of having no intention of attempting unfair advantage or gaining an upper hand through regulation divergence. It is in both the EU and UK interest to converge as much as possible. Any added friction would have a negative impact upon manufacturers.

Industry consultation

Industry involvement and engagement is essential for a reasonable deal and a mutually beneficial future relationship

Ceemet stresses the need to establish a process of regular and meaningful consultation particularly as negotiations focus on the future relationship. This consultation is essential as the decisions made at a political level will have ramifications felt on the factory floor and the board room of all manufacturers across Europe.

Business involvement and engagement in these talks on a long-term future relationship proposal is essential to achieving a good deal economically. Negotiators must work with industry to build mechanisms to feed directly into the negotiation of a new comprehensive economic partnership. Manufacturers across Europe have an important role in identifying key choices and priorities when pursuing trade policies, programs and services that assist businesses to compete in the global economy. This consultation will avoid a downturn in trade and investment caused by creating unnecessary friction at the border for goods, people, or services.

Industry consultation is key as we can provide an accurate sounding board for any potential new relationship. Without said consultation, industry could be blindsided by potential non-tariff barriers to trade with our nearest trading partner.

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