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Rebuilding the Bridge

Recommendations for a Strong UK-EU Economic Corridor

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Introduction

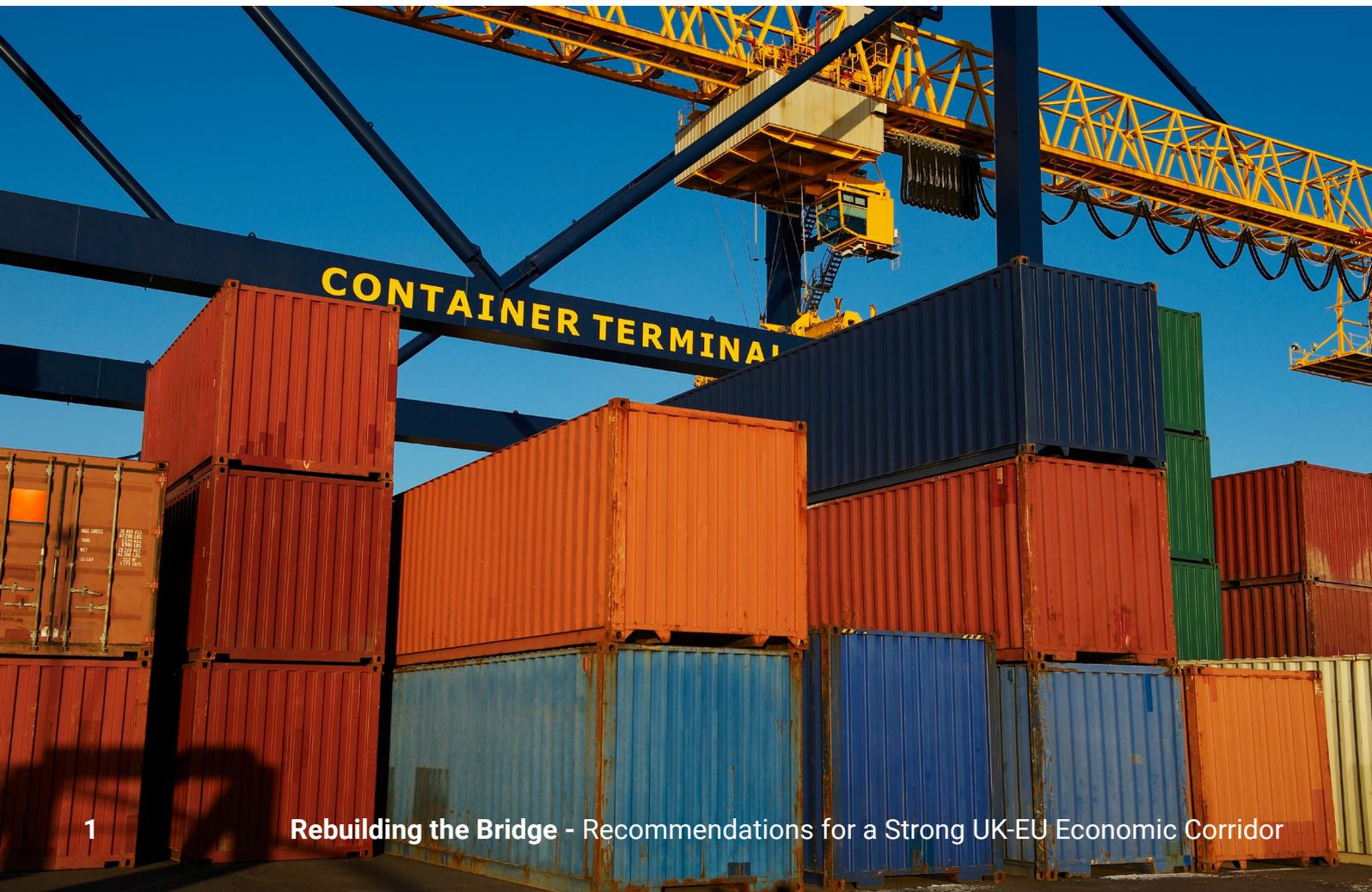
At midnight on the 31st of January 2020, the United Kingdom (UK) left the European Union (EU), after having been part of it for 47 years. Now in 2022, one year after the end of the Brexit transition period and signing of the UK-EU Trade and Cooperation Agreement (TCA) and two years after the UK's official departure from the EU, it is clear that it will take time and constructive engagement to forge a new UK-EU economic relationship and rebuild the bridge.

While there remain challenges as the post-Brexit settlement between the UK and EU is developed, the overall confidence in the UK remains high.¹ Most businesses adapted to changing regulations, adjusted their supply chains, and utilised existing government support services to continue trading across Europe over the last several years.

Representing over £479.2 billion in foreign direct investment in the UK, the US business and investment community will continue to play a key role in the UK's post-Brexit future.² However, companies that operate across the transatlantic corridor have also indicated that the future development of the UK's relationship with the EU, including a resolution to the current dispute over the Northern Ireland Protocol, will influence their confidence in the UK as a place to do business and invest.³

This White Paper seeks to offer pragmatic recommendations that can guide future decisions regarding the shared economic corridor between the EU and UK. The paper reflects feedback BAB has received from members over the past 15 months, as well as guidance from BAB's Policy Steering Committee.

At its core, the paper follows the calls set out in the BAB 2021-2022 Policy Agenda – published in October 2021 – which maintains that the UK and EU should seek to remedy immediate trading issues and pursue a constructive trade and economic relationship, guided by ongoing business engagement.⁴



State of Play

The signing of the UK-EU Trade and Cooperation Agreement (TCA) in December 2020 marked the culmination of months of negotiation between the UK and EU, and a long period of uncertainty for businesses operating within the UK. Over the course of 2021, businesses engaged in trade with the EU had to adjust to changing rules regarding tariffs, rules of origin, customs, agri-food exports, VAT, services exports, labour mobility, data flows, and other key trading terms.

Now in 2022, reports from industry groups demonstrate that while businesses are largely equipped to operate in the new trading environment, there are still challenges for businesses trading between the UK and EU, including labour shortages, supply chain issues, and complex customs procedures.⁵ The UK Government has taken positive steps to mitigate some of these difficulties, including delaying the full implementation of customs checks on EU imports.

The current political debate around the implementation or adjustment of the Northern Ireland Protocol brings another layer of complexity to trade between Great Britain, Northern Ireland, and the Republic of Ireland.⁶ The introduction of the Northern Ireland Protocol Bill by the UK Government and the resumption of legal action by the EU in response have cast uncertainty over the UK-EU relationship at a time when the stability of the trading corridor between both economies is crucially important to businesses.

These developments, however, should not be seen as a reason to forsake the important economic and political relationship the UK shares with the EU. Operating under the benefits of the TCA, the UK is the EU's third largest trading partner, and trade with the EU still represents 48% of total UK trade.⁷ The significant flow of trade and investment between the two sides will be of particular importance in recovering from the pandemic and responding to shared global challenges and will continue to drive transatlantic business and investment.

Recommendations for a Strong UK-EU Economic Corridor

The UK should pursue a constructive political and economic relationship with the EU, encourage cross-border trade and investment, and take pragmatic steps to make new trading terms workable for businesses.

Our recommendations focus on areas that received the most attention in our membership over the past few months. They encourage greater cooperation and alignment between the two parties to avoid duplication and unnecessary red tape, (particularly in instances such as product standards or professional qualifications where the UK and EU are already largely aligned) reduce existing trade or immigration irritants, and encourage transatlantic investment and expansion into the UK.

Customs Facilitation

The TCA allows for trade in goods between the UK and EU without tariffs or quotas. However, businesses in the UK are still faced with non-tariff barriers caused by the increased complexity or additional costs that accompany trade in both directions.

A report by the British Chambers of Commerce indicated that 46% of businesses surveyed had difficulty in

buying or selling goods as a result of the requirements of the TCA. Anecdotal evidence from businesses with operations across the UK and EU suggests there is also ongoing confusion over customs rules, resulting in an inconsistent application of customs requirements for UK goods across the EU.⁸

While some of these disruptions are short-term effects of the new trading terms as businesses adapt to new rules, the increased time, cost, and complexity of customs formalities means there will also be longer-term effects on trade between the EU and UK.

The UK Government has sought to mitigate these disruptions and prepare businesses for the gradual implementation of new customs rules by addressing customs intermediary capacity and publishing comprehensive customs guidance.⁹ Given that full customs checks have yet to be introduced, customs facilitation should continue to be a key area of focus for the Government in its trade relationship with the EU. Guided by business input, the UK and EU should look to:

- Utilise the TCA's Specialised Committee on Customs Cooperation and Rules of Origin to discuss and address ongoing customs issues.¹⁰
- Maintain support and guidance for businesses in preparation for full implementation of customs changes.
- Issue joint UK-EU guidance on customs and other trade issues that is readily accessible to businesses across the UK and member states.
- Increase information-sharing and legislative alignment to avoid unnecessary duplication in regulations and customs processes.

Labour Mobility

As many of the world's economies look to recover from the disruptions caused by the Covid-19 pandemic, they have also had to grapple with widespread labour shortages.¹¹

While the TCA does not include provisions on immigration, the new "points-based" immigration system introduced by the UK at the end of the transition period has substantially changed worker flows between the UK and EU. Employers in the UK have reported difficulty hiring for positions typically filled by EU workers, a lack of information on new immigration rules, and fear that new regulations will make it more difficult to recruit EU workers.¹²

New restrictions on labour mobility introduced by the TCA also have implications for UK service providers, who now face a more restrictive regime for short-term labour-market mobility. UK service providers must fall within specific criteria, as well as fit within country-specific requirements, in order to travel to the EU to deliver services.¹³

The UK Government has taken some welcome steps to mitigate these challenges, including introducing a new short-term visa for foreign HGV drivers.¹⁴ The UK has also amended existing business mobility and immigration routes into the UK under the new Global Business Mobility routes, introduced in April 2022.¹⁵ While these are important steps to address an issue affecting businesses across the UK, it is important that the UK Government continues to work with businesses to identify long-term labour mobility solutions.

To continue addressing the need for talent and labour across the UK economy, the Government should:

- Introduce short-term visas for sectors impacted by labour shortages.
- Work with the EU to reduce the complexity of, and increase opportunities for, cross-border labour mobility.

- Continue to monitor the implementation of new visa schemes introduced in the UK, such as those included under the new Global Business Mobility routes, to evaluate if they are effectively resolving immigration and business mobility challenges.

Services

The services sector is a vitally important part of the UK economy, accounting for nearly 80% of GDP.¹⁶ As the EU is the largest recipient of UK services exports, terms of EU market access, labour mobility, or professional qualifications under the TCA—as well as parallel agreements with the EU on financial services or digital trade—have had important implications for services providers with operations across the UK and EU.

For professional services, new trading terms meant the end to the mutual recognition of professional standards between the UK and the EU. Service providers must now comply with individual professional qualification requirements in member states they wish to operate in, adding to the complexities facing businesses with operations across the UK and EU.

While some service providers have been able to respond to the challenges posed by Brexit and the pandemic by delivering more services remotely (an increase of 17% in remotely supplied service exports from 2018 to 2020), it is also important that the UK maintains its data adequacy agreement with the EU to continue the cross-border exchange of data and digital services.¹⁷

In this context, ongoing priorities related to services should include:

- Strengthening UK-EU cooperation in the services sector by establishing ongoing regulatory cooperation in areas like financial or digital services.
- Continuing to provide clarity and certainty for service providers, particularly on how future UK regulatory divergence will impact the flow of services to the EU. To support this, both the EU and UK must preserve their shared data adequacy agreement.
- Increasing activity around the mutual recognition of professional qualifications between the UK and EU.

Northern Ireland

Northern Ireland has featured heavily in ongoing debates around Brexit and the Northern Ireland Protocol has been the most disruptive issue in the UK's post-Brexit relationship with the EU. Now in June 2022, the Protocol continues to be a sticking point in the future development of the UK-EU relationship.

As uncertainty around the Protocol continues, businesses in Northern Ireland have faced a very real set of challenges, including increasing costs, supply chain difficulties, and the additional complexity of complying with new trading terms. There are also concerns that potential future regulatory divergence in the UK will present new challenges for businesses in Northern Ireland with supply chains across Ireland and the UK. Accordingly, all parties should:

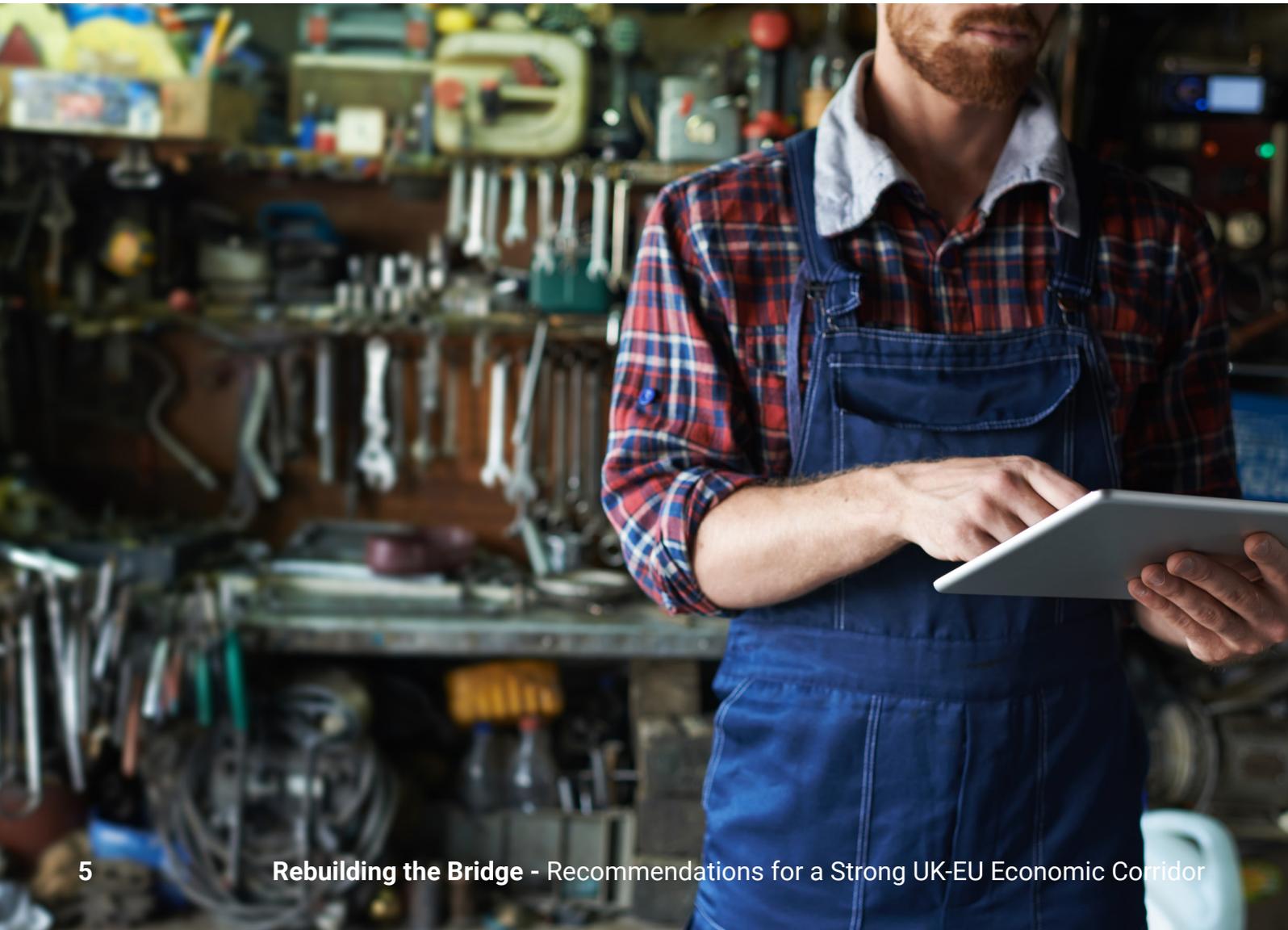
- Acknowledge the shared responsibility to respect the Good Friday Agreement and implement trading arrangements in a way that provides political and economic certainty for Northern Ireland.
- Seek pragmatic changes to make current trade arrangements workable and flexible for businesses in Northern Ireland, such as recent changes by the EU to guarantee the supply of medicines from Great Britain to Northern Ireland.¹⁸

- Provide additional support for businesses and SMEs navigating the additional complexities of trade between Northern Ireland and Great Britain.
- Work constructively to ensure that debates over the implementation of the Protocol do not jeopardize other important and mutually beneficial aspects of UK-EU cooperation such as the Horizon research funding program.
- Identify ways to promote Northern Ireland's unique position between the UK internal market and EU single market to continue to make Northern Ireland an attractive destination for trade and investment.

Small and Medium-Sized Enterprises (SMEs)

Small and Medium-Sized Enterprises (SMEs) have faced new administrative burdens and costs since the end of the Brexit transition period. Often without the resources or expertise of larger corporations, SMEs have had to deal with additional complexities while adjusting to new trade rules with the EU.

BAB has welcomed the UK Government's efforts to increase support and guidance for SMEs over the past year, including the introduction of the new Export Support Service or the SME Brexit support fund. However, with additional changes to customs processes to come in 2022, it is particularly important the UK Government continues to provide adequate support for SMEs and engages with the EU or Member States to make trade terms workable and consistent.



Specific recommendations to support SMEs include:

- Provide ongoing support and resources for businesses in the lead up to new customs changes in 2022.
- Increase opportunities for SME engagement and feedback on current trade rules and regulations, as well as on contentious issues such as the Northern Ireland Protocol.
- In the long term, the EU and UK should ensure that SMEs and other relevant stakeholders should be given formal opportunities to feed into the review of the TCA in 2026.¹⁹

Rebuilding the Bridge

A little over a year since the end of the transition period, it is clear that forming a new economic relationship between the UK and the EU is no easy undertaking. It will take time, reason, and openness to new solutions to harness the full benefits of the TCA for the benefit of businesses and consumers across the UK and EU.

Even as the UK Government pursues new trading relationships with other parts of the world, UK-EU trade continues to be a vital artery for the UK economy and the many transatlantic businesses that operate in the UK. Future developments in this relationship will influence confidence in the UK as a place to do business. Rebuilding the bridge between the UK and the EU must therefore be a priority.

Both the EU and UK must cooperate to enhance cross-border trade and investment and address the very real challenges experienced by businesses on both sides. Issues related to customs facilitation, labour mobility, services, the Northern Ireland Protocol, and SMEs require joint political dialogue, as well as ongoing engagement with business stakeholders.

The UK should prioritise its long-standing partnership with its closest neighbours and pursue a constructive working environment in which to address current and future challenges that arise from trade arrangements under the TCA.

Beyond trade, the UK should continue to seek a constructive political relationship with the EU. As the ongoing crisis in Ukraine demonstrates, maintaining strong political and economic ties between proven partners is needed to effectively respond to global challenges.

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