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briefing

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Brexit: Thoughts on the implications for exporters

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Brexit: The story so far

On June 23, 2016 the United Kingdom voted to leave the European Union. Applying the concept that Parliament is sovereign on such matters, and as instructed by the UK Supreme Court, Parliament voted on February 9, 2017 to instruct the Prime Minister to formally notify the decision to leave the EU as required by Article 50 of The Lisbon Treaty. This requires the agreement of the House of Lords and Royal Assent.

The process in the Lords began on February 20, 2017, and based on simple arithmetic, the Government Whips do not have the numbers to ensure the immediate passage through the Lords for Royal Assent and notification of the formal start of the two-year exit period at the next Council of Ministers Meeting on March 8-10, 2017. It is more likely the UK will invoke Article 50 on or about March 15.

We would anticipate it being done before the informal meeting of the Council of Ministers on March 25, 2017 (the date of the EU's 60th birthday!)

The EU will need to organise a special meeting of the Council of Ministers which usually takes six to eight weeks to organise, and at that meeting the Prime Ministers/President of the 27 remaining countries will set down the guidelines from

which the EU Commission will negotiate on behalf of 'The 27' the terms of the UK's exit. These timeframes are loose and of my creation but they must be seen in the context of elections being held in France, Germany and The Netherlands. Domestic issues could be more important for the incumbents in Germany and The Netherlands. The French President is not seeking re-election.

What we know as at February 22, 2017

The UK has voted to leave the EU and Prime Minster May has in her Lancaster House speech of January 17 set out her 12-point Brexit plan, these being:

1. *Provide certainty about the process of leaving the EU*
2. *Control of our own laws*
3. *Strengthen the union between the four nations of the United Kingdom*
4. *Maintain the Common Travel Area with Ireland*
5. *Brexit must mean control of the number of people who come to Britain from Europe*
6. *Rights for EU nationals in Britain and British nationals in the EU*
7. *Protect workers' rights*
8. *Free trade with European markets through a free trade agreement*
9. *New trade agreements with other countries*
10. *The best place for science and innovation*
11. *Co-operation in the fight against crime and terrorism*
12. *A smooth, orderly Brexit*

Prime Minster May has also confirmed the UK will leave both the Single Market and the Customs Union.

It is worth noting that both the Official Leave and Remain campaign groups – as recognised by the Electoral Commission – explicitly stated in their campaign material that the UK would not leave the Single Market.

In my opinion, the UK did not vote for a hard Brexit but a hard Brexit is the only intellectual result if a country is seeking trade deals with third countries and wishing to control immigration; the free movement of people being a cornerstone of the Single Market.

Issues facing exporters from the UK

The issues facing exporters is whether a tariff wall will spring up between the UK and the EU at some point post March 2019.

Tariffs have not existed for UK exports to other members of the EU since 1973, when Britain joined what was then called the European Economic Community (EEC), colloquially called 'The Common Market'. This has allowed British exports to these countries to be tariff-free. For goods, which are the key target of tariffs, these were worth £134bn in 2015, (although the UK still has a trade deficit in goods with the rest of the EU). That latter point is important.

So for UK companies exporting goods to the rest of the EU, there will be concern that once Brexit takes place, possibly in 2019 (but realistically, 2021 or later), the remaining 27 countries of the EU will impose duties on British exports. The EU is a customs union with common external customs tariff rates, so Britain will not be able to strike individual deals with separate member states on reducing duties bilaterally.

Also, some industries will be more worried than others. Under a worst case-scenario for the Brexit talks, where the rest of the EU refuses to allow British exporters special access to its markets, UK exports would probably be hit by bound tariff rates that the EU has promised to respect under its agreements at the World Trade Organisation (WTO). Typically, these keep tariffs low (or at zero) for goods that the EU needs to import, especially raw materials and basic manufactured goods. We have set out below the worst case scenarios for certain industry sectors of what average tariffs could be if that scenario arose:

Dairy Products	**35.5%**
Beverages & Tobacco	**19.0%**
Clothing	**11.5%**
Animal Products	**16.9%**

For goods Europe needs, some examples are as follows:

Cotton	**0.0%**
Minerals & Metals	**2.0%**
Non-electrical machinery	**1.7%**

So exporters will need to keep a close eye on the two years of talks that would follow Britain triggering Article 50.

The likely outcome

We are gazing into a 'muddy puddle' and what follows is pure speculation from our perspective. I think the following would be a good result for both sides:

1. *The UK pays the exit fee of circa £60bn (to fund already agreed expenditure to which the UK has signed up)*
2. *In tandem with the exit fee, a comprehensive free trade is agreed by 2021 not 2019 as 2019 is unattainable*
3. *The rights of citizens of the UK and EU countries to remain where they were located at 23 June 2016 is guaranteed*
4. *Access to the Single Market for UK financial institutions is retained*
5. *A soft border is maintained between the Republic of Ireland and Northern Ireland.*

At the end of the day, a tariff war is of little benefit to the UK or the EU. There are simply too many pan-European sectors with common goals where tariffs and import entry delays could stall production. The hope is that common sense will prevail and a deal will be struck that is not as good as full membership of the EU but *is* close enough to facilitate the mutual trading that both sides enjoy and need.

I am quite sure M. LeClerc of Bordeaux does not want his finest claret subject to a 32% tariff on entry to the UK.

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