Review of European business views on the Transition Period

Findings and key contents to be considered

By COBCOE

The Council of British Chambers of Commerce in Europe

Findings from the COBCOE review of European business views on the Transition Period and key contents to be considered

The following report is a synopsis of opinion from:

- A series of roundtables held in EU countries with the European businesses that provided input for the report 'Brexit – the Voices of European Business' published in September 2017
- An internet-based questionnaire
- Barometer of opinion across presidents and chairmen in our membership network of bilateral chambers of commerce

A fundamental discussion area has been the need for and character of the Transition Period discussed by both the UK Government and EC negotiators. The response from the participants was universal; that the Transition Period must be to a known end state, otherwise it would better not to have it, as a transition period of any length to an undefined end state would just prolong uncertainty. A period of 18 months to two years was seen as optimal. (This was supported by the questionnaire where >50% of respondents wanted a Transition Period of no more than two years.)

Milestones in the Transition Period were also seen as important. These could possibly be every six months, or even sector or subject based, thus enabling adaptation to be phased and monitored. Participants saw that there would be a massive amount of work to be done and sequencing of adaptation would be vital to maintain order in supply chains. Various sectors saw different challenges within the Transition Period and the establishment of the end state. Examples of these are:

- The UK cannot be treated as a 'third country' (the EC term for countries with no FTA that are outside the EEA or Customs Union during or after the Transition Period. There is no economic sense for the EC to create barriers for either EU goods into the UK, or UK goods into the EU. EU companies' global competitive position will be eroded if barriers go up (creating inefficient supply chains) or if finance costs go up. This will damage Europe as a whole.
- EU27 savings/pensions/asset management sectors will face issues if they cannot continue to freely invest in the London markets (nowhere else has the depth or product breadth). Presently, EU entities (individual and corporate) have long-term investments through the London market. The Transition Period must not disrupt this, so controlled exit from investments should be allowed, if necessary. If not, major losses will occur in EU27 entities and this will roll over into EU27 citizens' wealth and pensions.
- A big issue is that for several months now, the EC has not been inviting UK regulators to discuss future regulation in all sectors, which is creating the environment for inevitable regulatory divergence in the lead up to the Transition, let alone at the end state, as UK regulators are not fully aware of what is being discussed. Worse still, it is

the UK that has the greater skill set in many of these areas, not the EC (in finance and IT especially), so uncoordinated regulatory change may not be optimal.

- The other key issue is not only whether or not to implement higher duties, but to ensure that there are common recognition agreements and special regulatory requirements for certification, etc. Simple access to/from the Single Market is not sufficient. Some sectors face horizontal or vertical requirements (e.g. data transfers and IP) which must be taken into account in the Transition Period.

The Transition Period is being viewed differently by large companies and SMEs. Large companies, to a great extent, have already implemented contingency plans where necessary and see the Transition Period as a time where fine tuning of their new structure based on the detail of the agreement will occur. SMEs, however, seem to have done little or nothing to prepare for Brexit and are waiting to see what the end state will be. They hope that that the end state will be a 'soft Brexit', requiring little change to their operations or systems; but will only implement change when they know what they must do. As this sector employs most Europeans and makes up the largest single part or even most of Europe's economy, this is a major risk factor to Europe's economic future.

Costs of preparation for Brexit are un-accountable according to participants, as there are visible and hidden people costs, regulatory costs, operational costs as well as capital costs. Large companies can manage and have taken relatively large hits in advance (especially in the Finance sector) in implementing contingency plans. But SMEs have tended to do nothing, hoping for a clear outcome so that they can then change. Therefore, there are big cost and structural risks if the result is 'hard'. Both large and small companies are concerned about the trans-European supply networks that they all either depend on or are part of. Transition needs to recognise that "the change process cannot blow this out of the water" to quote a participant.

This is why each company has its own approach to Brexit preparation, and positions vary from a 'wait and see' attitude, to contingency plan implementation on the basis of no deal on 31st March 2019. While it is yet difficult to quantify each category, the trends are for SMEs to be in a watching position, while large and very large companies are moving ahead with their plans and their reprioritization of the rest of the world versus the UK.

A selection of typical insights from the roundtables

> "There is less conviction in our country that European leaders should seek to punish or penalise Britain for Brexit or the way in which it manages negotiations. There continues to be mild incredulity that the UK would want to do this (exit the EU)! However, Britain's pending exit has encouraged more commentators and observers that influence business to reconsider the value of the European club and there is greater willingness to question any expressed open support for the EU institutions and Brussels. Recent political developments will reinforce this trend, at least in the short term."

> "From the perspective of our country, it seems that everyone agrees that it would like the least damaging Brexit possible (for both the EU and the UK), and our government has

officially stated, for example, that UK persons resident here will be able to keep their residency rights post-Brexit. Of course, we will be obliged to follow the terms of the final Brexit deal. In addition, whilst our government is not aggressively marketing the country as a possible post-Brexit jurisdiction for UK companies wishing to maintain an EU presence, it has – for obvious reasons – quietly been promoting its advantages."

"In terms of the negotiations, nearly everyone is unhappy with the current status and level of progress. The perception – which is difficult to argue against – is that the EU has been making all the running, and is organised and prepared, whilst the UK Government is beset with in-fighting and cannot even decide to what end point it is trying to negotiate. Even after the Prime Minister's Mansion House speech on 2 March, there are still many key points that are unclear."

Conclusions and observations

The output from these roundtables yet again underlines how complex the withdrawal process is and how interlinked all the economic and business aspects are. It is clear that to get the process done at all, let alone with the smallest level of disruption to both sides, it is vital that the UK is recognised as being compliant with EU norms during the Transition Period, and hopefully in as many areas/sectors as possible in the final settlement.

The British Government needs to formally lay out its position on as many aspects of the withdrawal terms as possible to push back on the perception (if it is not correct) that it is doing little and has no detailed plan, and directly engage on its proposed terms with EU27 governments.

The EC needs to engage with European business to understand what it needs during the Transition Period as well as the final shape of the Brexit deal vis-à-vis the economy.

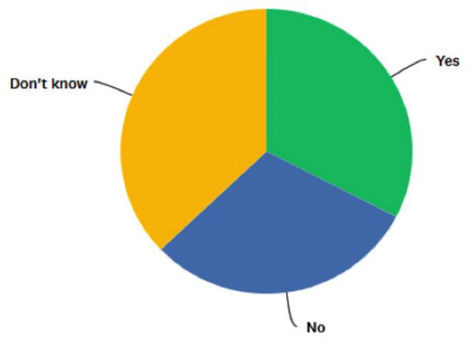
EU27 governments need to talk to the SMEs in their countries to help them plan for a post Brexit Europe. Ideally, governments should provide the funding for SMEs to receive advice on the changes they need to make to their operations and systems.

David Thomas, Executive Chairman, COBCOE
Warsaw, Poland
March 2018

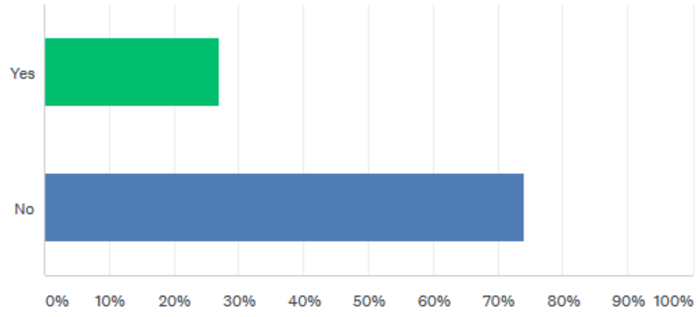
Output from web-based poll

(Responses December 2017-February 2018)

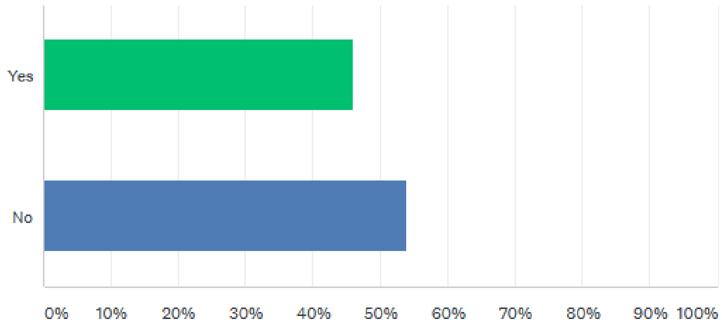
Are companies in your industry or sector making adjustments to prepare for the impact of Brexit?



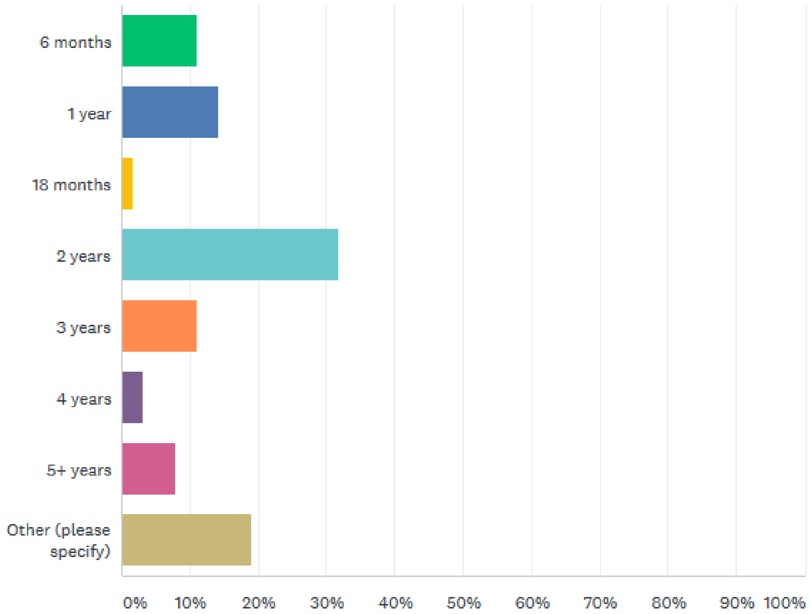
Is your company making preparations in case the UK leaves the EU without a deal?



If YES, is this creating additional costs?



What length of transition period do you feel your business realistically requires to be ready for the UK trading outside the EU?



"Other" was used as an expression of opposition to Brexit as an event i.e. no time period.

About COBCOE

COBCOE is the membership organisation for British chambers of commerce and business associations in Europe. With members in most countries across the region, COBCOE represents a unique network of around 12,000 businesses and is the only pan-European British business network.

Apolitical, independent and non-profit making, COBCOE is supported by its members and corporate partners. In recent years, COBCOE has become a driving force for international trade and business by working with its members to remove barriers, provide practical solutions and deliver thought leadership projects.

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