
BRITAIN AND THE EU: MANUFACTURING AN ORDERLY EXIT



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FOREWORD

Terry Scuoler

CEO of EEF, The manufacturers' organisation

The UK has voted by a majority in a referendum to leave the European Union (EU) and Prime Minister Theresa May has committed to enact the wishes of the British people.

However, in doing so, the exact terms of how we exit the EU and the nature of our future relationship is far from clear. What is certain is that the forthcoming negotiations on our exit will have long-term implications for businesses in the UK.

For manufacturers, a carefully-engineered Brexit is vital to both supporting and protecting industry in the UK. We strongly support ambitions to be an even greater global trading nation based on a new approach to backing British industry. However, ministers and officials must avoid a rushed or clumsy exit plan, which could do lasting damage to manufacturing in the UK and the wider economy.

The Government should develop its Brexit negotiation strategy in close consultation with business to ensure the UK's long-term economic interests are not harmed.

This report sets out some of the important issues highlighted by manufacturers who want to see a smooth exit with minimum disruption to trade. While retaining access to the single market and maintaining free movement of employees are not necessarily politically convenient or easy to resolve as part of a negotiation, they do underline the need to tread carefully as the Government prepares the ground for our eventual departure from the EU.

Terry Scuoler

CEO of EEF, The manufacturers' organisation

EXECUTIVE SUMMARY

The UK has undergone significant integration with the EU over the last four decades of membership. From the adoption of EU laws in areas of employment, health and safety and the environment to common EU programmes which underpin research and innovation, such as Horizon 2020. Many aspects of day-to-day business dealings are affected by EU rules and regulations. Unpicking this relationship is complex and will take time. Establishing core principles will be key to reassuring businesses that the process being managed by the British Government will be carefully and appropriately managed.

In this report manufacturers in Britain set out their key priorities ahead of negotiations to achieve a smooth process of decoupling from the EU. While highlighting some areas for concern, they are also keen to seize the opportunities that leaving the EU might throw open. One of these is a serious effort on the part of government and industry to rebalance the UK economy and strengthen our own industrial footprint. Our research among voters is clear that this is highly popular in the face of the Brexit referendum decision. Just 5% of UK adults think that loss or damage to the manufacturing sector is a price worth paying for leaving the EU.¹

Above all, manufacturers want to continue to trade freely with countries across Europe and around the world. Eighty four per cent of manufacturers surveyed export directly or indirectly to the EU and beyond². For Britain's makers and exporters, the UK's exit negotiations must ensure access to - not necessarily membership of - the EU's single market.

British companies have a global outlook and a desire to drive towards greater international competitiveness. The Government can do a great deal to create the best platform for manufacturers to take advantage of opportunities around the world and compete on a global stage.

In June we published "What next for Britain and

the EU?" a paper which set out our initial priorities for the sector following the referendum result. We highlighted the need for the UK Government to move quickly to stabilise the economy and reassure business that it will prioritise the protection of our trading relationship with the EU. EEF called for the UK Government to develop a new vision for the UK focused on four priorities for manufacturers:

1. Access to key markets for goods and services, looking at the EU and existing trade deals in the first instance, as well as looking towards opportunities in new markets. The UK must be prepared to make a contribution to the EU in order to achieve this as part of its negotiating strategy.
2. Ensuring regulatory certainty, including addressing the interwoven legal systems, developing regulatory cooperation with the EU and, in time, focusing on a flexible legislative environment for the UK with a Comprehensive Legislative Review.
3. Addressing the UK skills gap, calling for the Government to maintain the current skills base and a new immigration policy, which enables manufacturers to access much needed skills.
4. Establishing domestic policies focused on shoring up investment, supporting productivity, enhancing investment through a new industrial strategy for a stronger manufacturing base, and a pause on meeting the deficit target; both of which have since become Government policy.

¹Research conducted by 3Gem on behalf of EEF between 19th - 26th August 2016 among a GB nationally representative sample of 2,000 adult respondents. In response to: 'When Britain leaves the EU, which of the following, if any, do you agree with?'

²Research conducted by telephone by GfK 16/09/15-27/10/15 amongst 500 senior decision makers from manufacturers that are EEF members. In response to: 'Which of the following most closely describes your company's export strategy?' This was asked of all respondents.

It is essential that the UK negotiates a deal with the EU that is bespoke and addresses Britain's needs, as well as protecting the integrity of the rest of the EU. We need a UK model, which takes account of the specific relationship between the EU and the UK, not a Swiss, Norwegian or Canadian 'bolt on' model.

An orderly and stable exit is required to avoid long-term damage to manufacturers' interests, growth and investment opportunities. The EU is a major export destination, so unrestricted access to the single market in goods and services is, for EEF members, vital (73 % of manufacturers see the advantage of one set of trading rules and regulations in Europe).

In addition the Government must address the uncertainty around the Customs Union and the need to support business. To remain in the Customs Union the negotiation would need to achieve some form of dispensation for the UK to continue to pursue its own FTAs with the rest of the world. This form of trade-off highlights the complexity of the negotiations, but would help exporters. It's critical that the Government is bold and ambitious in its thinking and not pressured into making hasty and potentially damaging decisions.

During the referendum campaign, control of immigration and the return of British sovereignty over decision-making were key drivers and have become central goals for Government. This means that the UK cannot submit to the current rules on freedom of movement, one of the four pillars of the single market, as they stand. The negotiation will be an opportunity to look at alternatives to the complete freedom of movement. These alternatives will be in the interests of both the UK and the EU, and should support greater security across borders, maintaining a fair

flow of employees between countries, whilst providing appropriate curbs to discourage social migration.

Manufacturers have a vital requirement to access skilled people and to be able to deploy people to the EU and from the EU as part of complex supply chains and links. Any change in freedom of movement rules must not compromise the ability of businesses to operate smoothly.

Regulatory stability is also key to supporting a smooth exit. For many manufacturers and exporters the clear preference is for the UK to absorb much of the existing regulatory framework, in the short term, in order to maintain existing trading links across the EU. However, leaving the EU in the long term will allow some freedom to review aspects of EU law which act as a drag on global competitiveness.

In addition to addressing regulatory concerns, the UK Government must set out how manufacturers can continue to benefit from common EU programmes, such as the internal energy market and innovation funding through Horizon 2020. If the decision is made not to participate, the Government must set out what alternatives will be in place to ensure business certainty and how damage to investment in the UK will be avoided.

Looking to global trade, we must understand the status of the existing EU Free Trade Agreements (FTAs) and begin the negotiation of new trade and investment deals. The priority must be to establish, in parallel, new FTAs with Rest of the World. For businesses the focus on non-tariff barriers, such as regulations and product standards, are as important as tariffs in negotiating our exit from the EU and all future trade deals.

“It is essential that the UK negotiates a deal with the EU that is bespoke and addresses Britain's needs, as well as protecting the integrity of the rest of the EU.”

ACCESS TO THE SINGLE MARKET AND FREE TRADE

The Government has on a number of occasions declared that success in international markets is central to rebalancing the UK economy and has previously supported a target to increase the value of UK exports to £1 trillion by 2020, while also seeking to increase the value of foreign direct investment to £1.5 trillion.

Britain can only hope to achieve such ambitious targets by retaining access to the biggest market on its doorstep, that is, the single market. Manufacturers are clear that while almost half of what is made in the UK is destined for Europe, ensuring tariff free access to this market for goods and services remains a key priority. It will be for negotiators and political leaders to determine how this can be achieved, while leaving the EU as an institution. However, industry in the UK would suffer if additional tariff barriers and, of equal significance, non-tariff barriers are imposed, which restrict our ability to export goods competitively.

Benefits of the single market:

The ability to trade freely with the EU cannot be underestimated, with 45 % of UK exported goods going to the EU. In addition, the effect on manufacturers is even greater, with 52 % of total manufactured exports, by value, going to the EU in the 12 months to April 2016 (this excludes the three smallest sectors of furniture and wood products, repair and maintenance and the manufacture of petroleum products).

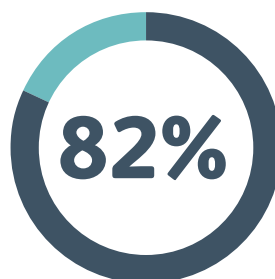
In trade terms, the EU is more than a free trade area. It is a Customs Union and it is important to understand the difference between the two:

- A free trade area removes all tariffs on trade between states within the area.
- A Customs Union additionally has a common commercial policy on trade between that area and the Rest of the World. So, for example, all the members of a Customs Union apply the same tariffs on imports coming in from outside the area; they have the same customs' rules and procedures; unfair trade remedies apply across the entire area.

In addition, the EU is also a single

market which goes far deeper than simply tariff free trade. It essentially establishes, as closely as possible, (amongst other things) the same legal environment for the manufacture and sale of goods and services across the entire area. Ultimately it is about eliminating barriers to trade, most notably non-tariff barriers, which create licensing and regulatory constraints to supplying goods and services.

When surveyed, 73 % of manufacturers said that one set of trading rules and regulations in Europe is an advantage, with 71 % seeing the EU as lowering the cost of doing business, through this single regulatory and legal environment³.



of manufacturers agree that it doesn't make sense for the UK to cut itself off from its major market

Source: EU Referendum - EEF Survey (conducted by GfK UK), 2 Nov 2015

A new model of EU membership for the UK:

There has been much debate about the benefits, or otherwise, of the various third party relationships the EU currently enjoys with, among others, Norway, Switzerland and Canada. We are clear that for the manufacturing sector none of the existing options are appropriate to be bolted on as a new UK deal. They each present significant disadvantages, not least in areas such as how the sector is regulated, control over future free trade deals and cooperation on key projects and programmes of common benefit.

In economic terms the relationship between the UK and the other 27 member states is far more significant than the combined contribution of Norway, Switzerland and Canada.

The UK will need a completely different model for its relationship with the EU. Such a bespoke deal is one that not only meets the needs of manufacturers in the UK, but one which delivers for manufacturers across Europe. Companies in the UK are linked in many ways through complex supply chains across the EU and worldwide, and it is simplistic to suggest that the UK can simply fit into an existing model of associate EU membership.

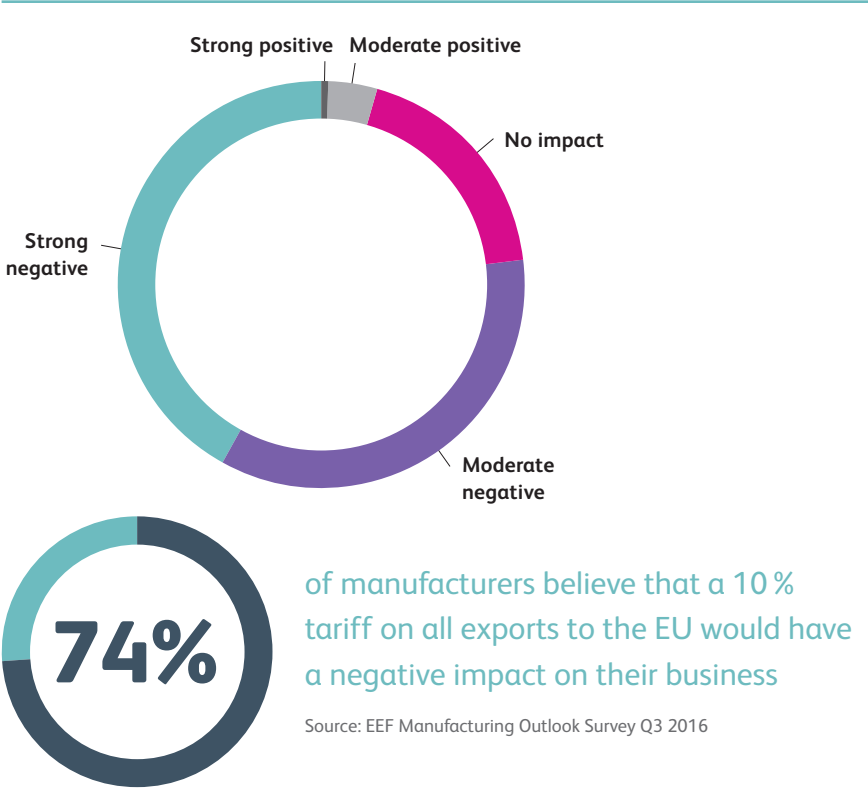
The Government must also carefully consider the full risks of leaving the Customs Union and avoid damaging the manufacturing sector. Manufacturers in the UK are often part of complex global and European supply chains. One of the main concerns would be any increase in cost and administrative burden for manufacturers. Lengthy customs checks could act as a break on UK exports to the EU. It will also be important to consider what impact changes to Rules of Origin

Table 1: Gross domestic product based on Purchasing-Power-Parity (PPP) share of world total

Country	Units	2014	2015	2016
Canada	Percent	1.463	1.438	1.415
Norway	Percent	0.318	0.314	0.307
Switzerland	Percent	0.434	0.425	0.417
United Kingdom	Percent	2.377	2.36	2.333

Source: International Monetary Fund, World Economic Outlook Database, April 2016

Graph 1: What effect would a 10 % tariff on all exports to the EU have on your company?



Source: EEF Manufacturing Outlook Survey Q3 2016

³EU Referendum - EEF Survey (conducted by GfK UK), 2 Nov 2015

would have for manufacturers in these complex supply chains. These factors, and others, could risk an increase in the cost of doing business with our biggest market, the EU, and could have high impact on UK manufacturing supply chain, potentially causing re-structuring of supply chains outside of the UK.

In the event of failing to reach an agreement with the EU, the UK would have to work under World Trade Organisation rules. This would result in a significant increase in tariffs (taxes on trade) and would, for instance, include tariffs of 4.6 % on chemical exports and 10 % on cars. Taken in totality without a trade deal, goods imported to the EU would face an average tariff of 5.3 %⁴. This would significantly impact on UK manufacturers' ability to competitively trade with the EU.

Non-tariff barriers:

While negotiating access to the single market, the Government must also

ensure that non-tariff barriers are given equal consideration.

The significance of non-tariff barriers to exporters - such as regulatory issues, technical barriers, standards and measurements - has largely increased over the past years, as tariffs steadily decline and governments worldwide introduce more regulatory requirements to address health, safety or environmental concerns.

The single market has helped reduce these barriers within the EU, with the EU Commission particularly focussed on tackling technical barriers to trade⁵.

In a recent survey, manufacturers overwhelmingly highlighted that a number of non-tariff barriers impeded them accessing markets, both in the EU and the Rest of the World (see Graph 2).

The challenge of managing such complexity as part of our negotiation

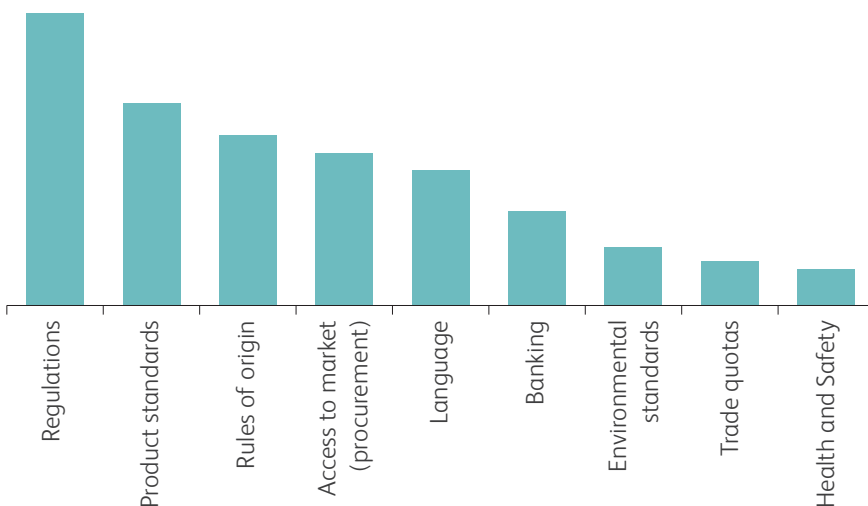
“ While negotiating access to the single market, the Government must also ensure that non-tariff barriers are given equal consideration. ”

on leaving the EU cannot be underestimated. These non-tariff barriers reinforce the important role of ministers and officials who, working closely with businesses, must ensure these issues are properly addressed.

World Trade Organisation:

While the UK negotiates its new relationship with the EU, it must also begin the process of establishing new and enhanced relationships in the global economy. In doing so the UK should seek to be a haven for investment, focused on supporting investors and entrepreneurs and driving exports.

Graph 2: Non-tariff barriers experienced by companies trading in other countries



Source: EEF Manufacturing Outlook Survey Q3 2016

⁴WTO, ITC and UNCTAD, 2015 <https://www.ifs.org.uk/uploads/publications/comms/r116.pdf>

⁵http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150987.pdf

There are clearly a number of opportunities resulting from greater freedom, particularly in negotiating more flexible trading relationships with established and emerging economies. In order to enable the UK to seek out these opportunities, certainty is needed over the UK's relationship with a number of international bodies and platforms, not least the World Trade Organisation (WTO). It is essential that these relationships are confirmed in parallel with, and ahead of completion, of the negotiations on a new deal with the EU.

The EU and each of its member states are all members of the WTO. The European Commission negotiates on behalf of the EU, based on a mandate from the European Council. As the EU is a Customs Union⁶, there is one single external tariff against the Rest of the World, applied by all Member States.

The tariff bindings that the EU has committed to are equally binding on the UK. Therefore if the UK leaves the Customs Union, those same tariffs may apply to all the UK's imports from all sources, including the EU and the European Economic Area (EEA).

Whilst the UK is currently a standalone member of the WTO, it is unclear how the UK would detach itself from the EU and regularise its position with the WTO. Currently each WTO member has a schedule of commitments (including agriculture, industrial goods, services and quotas) for each of the agreements

setting out the terms on which it trades. The UK is bound by EU-wide schedules, negotiated by the bloc on their behalf, and therefore a process would need to be set up to copy the EU commitments. However, for this to happen, no other WTO member (currently 162) can object.

Alongside this, the UK's domestic policy already puts UK exporters at a cost disadvantage due to policies affecting business on energy, business rates and apprenticeships.

EEF does not believe the WTO framework alone would be the best option for manufacturers. While the EU would not be able to impose discriminatory or punitive tariffs after a UK exit due to WTO rules, new tariffs would still be imposed on around 90% by value of the UK's goods exports to the EU⁷, causing UK exporters to become less price competitive.

Therefore in parallel with negotiations on leaving the EU, the UK Government will need to review the terms of its WTO membership.

In addition, the UK will need to establish how it would operate so-called trade defence instruments on leaving the EU, to prevent countries dumping goods, such as steel, chemicals and ceramics, illegally in the UK.

Trading with the Rest of the World:

The UK currently enjoys access to 39 EU trade agreements, covering 50

countries. Manufacturers are already exporting into these regions and it is important for manufacturers that the UK is able to continue to benefit from the rights and obligations under the EU's bilateral and regional trade agreements.

From its inception, the European Economic Community negotiated agreements with neighbouring countries, with this process accelerating due to the collapse of communism and widely seen failures at the Doha round of negotiations.

It is rare that any two agreements are identical in their wording and, on the face of things, it would appear that agreements where the UK is already a signatory would continue to have effect after the UK leaves the EU, unless the other party abrogates it, or the agreement has a specific clause dealing with changes in the composition of EU membership.

New Free Trade Agreements:

It is important to look towards the UK forging ahead with its own trade agreements around the world.

The UK could prioritise deals with the most economically advantageous and market-attractive countries, such as; China, India, USA and Australia. However such trade deals are likely to take a significant amount of time, and therefore the Government should also focus on emerging markets and regional trading blocs.

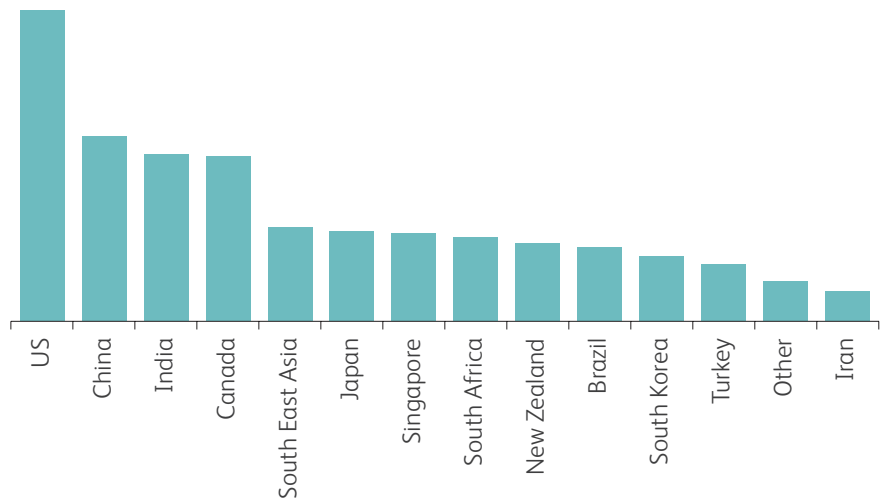
⁶The EU Customs Union is a trade bloc composed of a free trade area, which has common external trade policy (external trade tariffs) and common rules on anti-dumping. It came into force in 1958. The EU Single Market includes free trade, but is predominately focused on internal issues, such as competition, standards, environmental and technical.

⁷<http://researchbriefings.files.parliament.uk/documents/SN06730/SN06730.pdf>

While such deals are highly desirable, there are currently a number of barriers to entry, especially around standards, local procurement, language barriers and access to finance. Therefore it is essential that the UK takes its time to reach quality trade agreements through regular consultation with industry to ensure that there is no unintended damage to vital businesses in the UK.

Now more than ever the Government's assistance to exporters, through the newly established Department for International Trade (DIT), must be refocused and expanded to become far more supportive of companies wanting to access new markets along with additional export finance and credit insurance.

Graph 3: Priorities for free trade outside of the EU



Source: EEF Manufacturing Outlook Survey Q3 2016

SUMMARY:

- Manufacturers require tariff free access to the EU single market for goods and services, but the UK Government must not neglect Non-Tariff Barriers (NTB) and ensure regulatory cooperation
- The UK Government must be prepared to negotiate a contribution to the EU in return for access to the market
- Modern Free Trade Agreements are more about NTB (NTB - procurement, standards, regulations, customs, languages etc.) than tariffs
- The UK Government must move to establish and confirm the conditions of the UK's membership of the World Trade Organisation (WTO)
- Existing Free Trade Agreements should be rolled over, and the conditions of trade maintained, without the UK seeking to renegotiate existing trade deals with these trade partners
- Avoid 'quick and dirty' deals in establishing new trade and investment partnerships with the Rest of the World. The UK needs modern, considered Free Trade Agreements addressing all non-tariff barriers
- Prioritise deals with the most economically advantageous countries, such as China, Russia, India, USA and Australia. However these trade deals are likely to take a significant amount of time, and therefore the Government should also focus on emerging markets and regional trading blocs.
- Significantly boost Government support for companies looking to trade outside of the EU through support from DIT and other Government agencies – Government needs to be seen to be selling UK businesses across the world, whilst at the same time looking to agree free trade deals.

MAINTAINING A STABLE REGULATORY ENVIRONMENT

The challenge posed by undoing Britain's relationship with the EU is underlined by the complexity of EU law, which affects manufacturers and other businesses in the UK and reinforces the need to tread carefully in negotiating our departure.

For the most part UK companies will need to continue to comply with employment, product and other regulations devised by the EU in order to trade. Therefore in the short term at least, accepting existing EU law and regulatory compliance is on the whole considered to be the best position for companies exporting and operating in the EU.

For manufacturers in Britain, regulatory co-operation has become a key component of modern trade and investment agreements. As the UK continues to trade with the EU it will be subject to large amounts of EU legislation. This will certainly be true of product legislation, for example, environmental and consumer protection regulations. The UK must therefore prioritise a strong level of ongoing cooperation and consultative engagement with the EU on regulatory developments and changes, even after Britain leaves the EU and creates a new form of relationship.

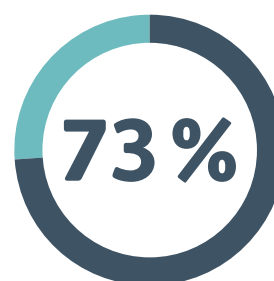
Over the four decades of the UK's membership of the EU, UK law has become deeply interwoven with EU legislation.

At a UK level, via the 1972 Act, all EU law (Treaties, Regulations and Directives) and the Jurisprudence of the European Court of Justice directly apply in the UK.

The technical differences between these various origins will be of some importance both during the process of negotiating the UK's withdrawal from the EU and as the basis of the UK's future relationship with the EU. There is likely to be a significant degree of ambiguity and misunderstanding of the point at which EU law ends and UK law begins.

What is clear is that EU regulation will apply far into the future, irrespective of any deal on the UK leaving the EU, as much of the EU regulatory environment is fundamental to our trading with the bloc.

In the short to medium term, and certainly throughout the development of a new relationship with the EU, key legislation in the areas of labour law, health and safety, and energy and environmental policy should be *grandfathered* (full transposition of existing regulations) across from the current rules to ensure regulatory stability.



of manufacturers see the advantage of having one set of trading rules and regulations in Europe.

Source: EU Referendum - EEF Survey (conducted by GfK UK), 2 Nov 2015

As the nature of the new relationship with the EU unfolds, Britain could seek agreement with the EU to achieve the shared objectives of legislation, while not following the increasingly prescriptive rules set out in the European acquis. The UK could move away from the so-called EU precautionary principle towards a more flexible legislative environment with regulation only where absolutely necessary.

Leaving the EU opens up opportunities to review how businesses are

regulated in the UK. The drive towards better regulation at the EU level has been largely led by the UK and the key principles laid out in both the renegotiation ahead of the referendum and the Business Taskforce Report in 2013 remain valid. In time, once the exact nature of the relationship between the UK and the EU is established the Government, in consultation with industry, should carry out a Comprehensive Legislative Review grounded in the key principles of the UK's well established better regulation agenda and the Red Tape Challenges.

“In time, once the exact nature of the relationship between the UK and the EU is established the Government, in consultation with industry, should carry out a Comprehensive Legislative Review.”

SUMMARY:

- EU law is interwoven with UK law, and cannot be swiftly separated – it forms the basis of many individual and commercial agreements which will subsist long after the UK leaves the EU
- EU regulation will apply far into the future, irrespective of any deal
- Certainty and stability are required to be the key components of any future deal
- A single regulatory regime is needed – not a patchwork
- The UK Government should seek a significant regulatory cooperation with the EU post Brexit
- EEF recognises the direction of future legislation in the UK will be heavily influenced by new trading agreements with the EU
- In time the Government should carry out a Comprehensive Regulatory Review, focusing on Better Regulation and a move away from the ‘precautionary principle’.

EMPLOYMENT REGULATIONS AND SOCIAL SECURITY

Manufacturers need stability and certainty from labour market regulation. Employers in general need certainty in order to achieve compliance. Few would wish to see any fundamental change to areas such as equality or maternity entitlements.

In terms of the labour market, the UK should seek as part of its negotiation with the EU to grandfather the entirety of EU law into UK law; there is little to be gained for employers by attempting a potentially antagonistic carve out from a particular aspect of EU labour law, such as working time, particularly as this is largely either now underpinned by contractual entitlements or has been gold-plated by UK law. Attempting a surgical removal will for many employers be disruptive, costly and painful.

This is not to say that after the UK has left the EU it should not, over time, consider some changes to specific areas of regulation which could improve the UK's competitiveness.

Business transfers are regulated by the Acquired Rights Directive. The UK has gold-plated these, and a repeal of the law would put businesses at commercial

risk and create legal uncertainty. Whilst a niche area, there may be some appetite amongst businesses to revise the rules dealing with changes to terms and conditions, which EU law currently to a large extent prevents.

EU rules on working time have for the UK been a totemic issue for some time. UK manufacturers are unlikely to see any need for urgent change, but over time certainty can be improved by the UK legislating upon issues such as the calculation of holiday pay and the carry-over and accrual of leave. The bulk of the *acquis* is, however, unlikely to change, with employers being contractually bound to provide the same or better terms to their employees.

The areas where post-Brexit change is likely to be considered are therefore niche and limited to where the UK's style of labour market regulation has never dovetailed well with the EU's. But, even post-Brexit, the bulk of current EU labour market regulation will for a variety of practical and legal reasons continue to apply. There is therefore little to be gained by any attempt to slice off any particular area during the period of the

UK's negotiation with the EU.

In addition the UK's future relationship with the EU is likely to centre again on the extent to which EU citizens working in the UK will, post-Brexit, be entitled to in-work benefits. The UK, post-referendum, will need to demonstrate that EU migrants who come to the UK can support themselves and their families without relying on public funds, in the same way as non-EEA migrants are currently required to, at least until an acceptable record of social security contributions has been established.

Employers sending workers to EU member states to work are likely to want the current rules on the payment of the employee and employer social security contributions to continue. These rules allow both the employer and employee to continue to contribute to their home social security system for up to five years, enabling the employee to continue to build up their entitlement in their home member state whilst they work elsewhere in the EU. Any alteration to these rules is likely to act as a significant disincentive to employees working within the EU and create both administrative and financial barriers to employers.

SUMMARY:

- The UK's labour market regulations are largely based upon legal instruments which stem from EU membership
- EEF believes that in the short term there is little to be gained from changing legislation. It therefore supports grandfather (full transposition of existing regulations) in the first instance
- Dependant on the final deal with the EU there are opportunities to streamline EU labour laws
- The UK Government must prioritise Social Security Coordination, including taking part in the discussions on current reforms. Ultimately, the UK needs reciprocity with the EU.

HEALTH AND SAFETY REGULATION

EU directives underpin the majority of UK health and safety legislation. The UK's Health and Safety at Work Act 1974 is considered by many to be the 'blueprint' for the EU Health and Safety Framework Directive.

Member States are free to adopt stricter rules for the protection of workers when transposing EU directives into national law. Therefore, legislative requirements in the field of safety and health at work can vary across EU Member States with some countries imposing higher standards on their industries. In the UK there is very little evidence of so called gold-plating in this area.

Most UK health and safety law derived from EU Directives has been in place for many years and is embedded in

company investment decisions, company policies, management systems, safe systems of work and working practices. This is particularly true of multinational businesses, which in many cases have adopted the UK's health and safety model as the baseline standard for operations both in and outside Europe.

Fundamental change is likely to be extremely disruptive to those businesses who use Health and Safety performance as one important aspect of their Corporate Social Responsibility credentials.

EEF members argue that all UK Health and Safety legislation derived from EU directives should be grandfathered across when we exit the EU and then individually reviewed following exit.

“Most UK health and safety law derived from EU Directives has been in place for many years and is embedded in company investment decisions, company policies, management systems, safe systems of work and working practices.”

SUMMARY:

- EU directives underpin the majority of UK Health and Safety legislation, which consist of different classes of worker protection directive
- Much of EU Health and Safety law is embedded in company investment decisions, company policies, management systems, safe systems of work and working practices
- Fundamental change is likely to be extremely disruptive; EEF members support grandfathering EU regulations in the short to medium term
- However there are in due course opportunities to repeal certain areas of regulation without reducing levels of employee protection.

PRODUCT SAFETY REGULATION

Goods exported from the UK are subject to rules around product directives and product standards, many of which will have been established jointly by the EU and by national standards bodies such as the BSI.

In order to facilitate a single European market for goods, the EU sets objectives for the harmonisation of technical rules affecting the health and safety of new products by design and construction. The aim of which is the removal of barriers to trade by requiring all products to meet common minimum health and safety objectives, which would be supported by agreed standards at the product level. All EU member states are required to implement these European Product Supply Directives into national law and provide for their enforcement.

A new legislative framework was adopted in 2008. It is a package of measures that aim to improve market surveillance and boost the quality of conformity assessments. It also clarifies the use of CE marking⁸.

European companies (including the UK) that wish to export to Australia, Canada, Japan, New Zealand, the USA, Israel or Switzerland can currently take advantage of Mutual Recognition Agreements (MRAs) and the designated Conformity Assessment Bodies (CABs). MRAs promote trade in goods between the European Union and third party countries and facilitate market access. They are bilateral agreements, and aim to benefit industry by providing easier access to conformity assessment.

When the UK leaves the EU, companies who wish to continue trading in the EU (through CE marking) would have to continue to meet the EU product safety directives and the product standards which are mutually recognised across Europe. This would include market surveillance. EEF members want to see the UK retain existing Product Safety Directives so that they can easily trade in Europe by manufacturing to the same product standards.

SUMMARY:

- EU product safety rules have been developed by European and national standards bodies and are supported by a number of EU directives
- To continue trading in the EU UK manufacturers would have to continue to meet the EU product safety directives and the product standards which are mutually recognised across Europe
- EEF members want to see the UK retain existing Product Safety Directives
- UK Government and companies must have the ability to influence the development of future standards and regulations.

⁸<https://www.gov.uk/guidance/ce-marking>

ENVIRONMENTAL REGULATION

EU-led regulation accounts for a significant majority of the UK's domestic environmental legislation. Since joining the EU, the UK has contributed, along with the other EU member states, to the agreement of common approaches to set a wide range of environmental standards in a number of different areas of key interest to manufacturers including:

- **Chemicals legislation** – Regulation, Evaluation and Authorisation of Chemicals (REACH); Biocidal Product Regulation (BPR)
- **Waste legislation** – including the Waste Framework Directive, and the Waste Electrical and Electronic Equipment (WEEE)
- **The Circular Economy**
- **Industrial Emissions Directive.**

Substantial progress in environmental standards has been made with EU legislation and manufacturers are keen to see this upward trend continue.

Most companies surveyed are in favour of seeing this environmental legislation remain (Graph 4).

Even when asked about EU chemicals legislation, which is considered one of the most ambitious and burdensome for industry, the majority of manufacturers would like to see this continue to be adopted. We assume this is because a major piece of chemicals legislation – REACH (Restriction, Evaluation and Authorisation of Chemicals) is a considerable way through implementation, with UK businesses already taking action for the last registration deadline in June 2018. UK businesses will still need to adhere

to REACH in some capacity in order to export chemicals and other articles to other EU member states.

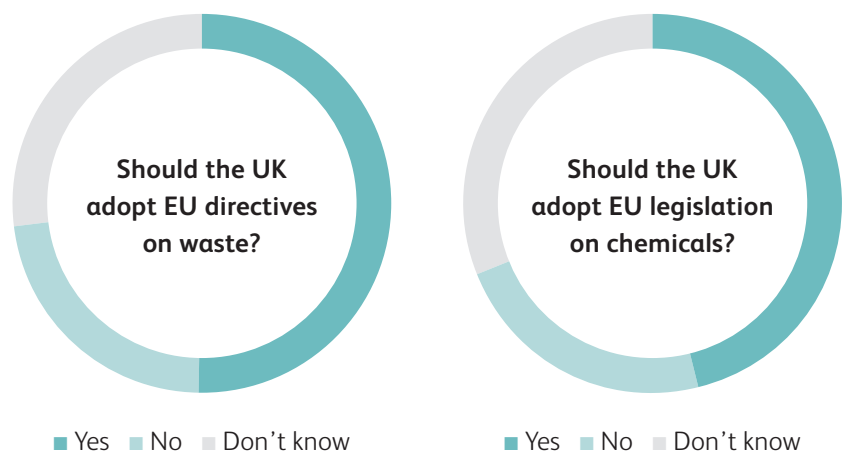
A key point highlighted by manufacturers is that a great number of these regulations and directives are already deeply embedded within UK businesses. The process to repeal them and replace them with UK-owned legislation could be costly and highly disruptive.

In the short term there are areas of environmental legislation where companies would benefit from further clarity. For example, the final registration for the REACH regulations is due in June 2018 with a number of UK companies, including a considerable number of Small and Medium-sized Enterprises (SMEs), leading the complex and costly registration dossiers, either

for their own use of chemicals or as representatives for their non-EU chemical suppliers. A number of these chemicals are critical for manufacturing companies and sustained uncertainty about the UK's position, in respect to how this regulation will apply post-Brexit, would be detrimental to long-term business planning.

In the long term, manufacturers recognise the opportunities arising from Brexit to explore implementing an alternative UK-specific approach for certain environmental outcomes. For example, EEF has been vocal in its support for the Commission's EU Circular Economy proposals, as they would aim to streamline environmental regulation, protect manufacturers from raw material volatility (both price and availability), drive innovation and reduce harmful emissions.

Graph 4: Findings from a recent survey of manufacturers, when asked if the UK should continue complying with EU environmental regulations and directives



Source: EEF EU Referendum Impact Survey 2016

In areas such as air quality, the UK has made significant improvements in reducing industrial emissions. These improvements are largely a result of the collaborative action across the EU, namely the EU's Industrial Emissions Directive (IED). UK manufacturers have been making considerable headway in ensuring they are compliant with IED and many have made substantive investments in doing so. Against the backdrop of these costs, the steel industry welcomed the Government's

announcement in October 2015 which granted it flexibility and an additional 4.5 years to comply with the IED. EEF calls for UK manufacturers to remain aligned with our EU counterparts when it comes to tackling industrial emissions. If we are not obligated on similar terms, not only does it undermine the sizeable investment already made in achieving these targets, but it does little for future action and investment in addressing industrial emissions.

“Even when asked about EU chemicals legislation, which is considered one of the most ambitious and burdensome for industry, the majority of manufacturers would like to see this continue to be adopted.”

SUMMARY:

- Environmental regulations and directives are already deeply embedded within UK businesses. To repeal them and replace them with UK-owned legislation could be costly and highly disruptive
- In the short term, the sheer scale of EU-led environmental legislation means that anything other than a full transposition of existing environmental regulations seems impractical
- There are areas of environmental legislation about which companies need swift clarity, for example REACH registration in 2018
- In the long term, EEF members recognise that there will be opportunities for reducing red tape and exploring alternative UK-specific approaches
- In areas such as air quality, the UK has made significant improvements in reducing industrial emissions and, to avoid undermining investments, the UK needs to remain aligned to the EU
- As in other areas of EU generated regulation the UK must continue to call for greater transparency and greater flexibility in implementing regulation and for utilising fully independent impact assessments.

MAINTAINING A FAIR FLOW OF LABOUR

EU workers are constantly employed by manufacturers, often helping to fill vital skills gaps and providing a valued and positive economic contribution to the UK.

The UK's future relationship with the EU is unlikely to be one which simply retains all the current rules, but any new model needs to facilitate, and manage, but not impede, the fair and sensible movement of labour to and from the EU.

EU member states already have widely differing models of migration, with "free-movement" being a mixed concept which covers many differing forms of migration. For the UK, any new model of EU migration is likely to allow the UK Government to place substantive restrictions which will impact both the numbers and type of EU citizen entering the UK. While these restrictions do not need to be as robust as those which the UK currently imposes upon non-EEA migrants, and some restrictions may be indirect, the package will need to be capable of reducing, over time, the headline rate of migration into the UK from the EU.

However in negotiating its position, the Government should avoid a one-size-fits-all approach to reducing migration from the EU and recognise that EU workers with varying skills are needed by the UK. This must not then simply be an exercise in restricting migration with the blunt tools of wage and skills levels.

While students, short-term visitors, business travellers and those who would qualify as highly-skilled under the current points based system are unlikely to be controversial, ministers must recognise that for manufacturers, a spectrum of EU workers provide a valuable contribution, often bringing badly needed skills into the sector. The demands of the sector will not solely be met from the UK labour market in any foreseeable time-frame.

The flow of skilled workers both into and out of the UK must therefore be facilitated by the UK's new agreement

with the EU, without additional administrative barriers.

The UK should seek to agree a new model, building upon the restrictions which other member states already use, segmenting fair movement in differing ways. For example those who are economically active are already capable of being treated differently from those who are economically inactive, and member states can already restrict the right to free movement on grounds of public policy. There already seems to be common ground that EU nationals in the UK will retain many of their current entitlements in exchange for similar treatment of UK nationals in similar circumstances and reciprocity can be expected in terms of the treatment of UK nationals living in the EU. The UK therefore needs to seek a pragmatic and balanced model which seeks to manage migration and not prevent it.

SUMMARY:

- Manufacturers need fair access to labour and the ability to deploy people to and from the EU
- It is clear that the UK Government will want to address immigration following the referendum result, however a one-size-fits-all approach should be avoided
- Manufacturers need to see the facilitation of skilled workers in and out of the UK
- The UK Government must move quickly to confirm the status of EU nationals in the UK living or working in other EU states.

SUPPORTING INVESTMENT AND INNOVATION

Access to EU research and innovation funding is vitally important to Britain's manufacturers. The UK is lagging behind its main partners in terms of its investment in research and innovation.

Gross expenditures on research and development totalled just 1.73 % of GDP in 2012, well below the Organisation for Economic Co-operation and Development (OECD) average of 2.4 %. Business innovation is low by international standards and has been subdued since the outbreak of the financial crisis, acting as a drag on UK productivity performance.

EU research programmes have been a major source of funding for the UK research community, including the private sector. The UK received € 7 billion between 2007 and 2013 under the EU Framework Programme 7 (FP7), making it the second largest beneficiary of the programme among the EU 28 member states. Although the major part was directed to public and not-for-profit entities, mainly higher or secondary education establishments, EU funding to UK businesses still amounted to over € 1.2 billion under FP7, helping to support some 10,000 companies.

This trend looked likely to continue under the current framework programme Horizon 2020.

The UK has, again, been the second biggest beneficiary of Horizon 2020 with €1.8 billion received so far. A growing share is being granted to the private sector: 22 % of total EU funding to the UK under Horizon 2020 went to private businesses, up from 18 % under FP7. More than 1,000 UK companies are currently part of EU-funded projects, either collaborative partnerships or single-partner instruments, with total funds amounting to € 411 million. Approximately € 80 million was allocated to SMEs.

With access to finance often pointed to as the major barrier to innovation, it is therefore important to secure access to EU research funds. As EEF's 2016 *Innovation Monitor* highlighted, 35 per cent of surveyed firms believe their company is short of resources to innovate successfully. This share goes up to 40 per cent for SMEs. This is in line with the latest Department for Business, Energy and Industrial Strategy (BEIS) Innovation survey, in which availability of finance was the first self-reported major barrier to innovation.

EEF's 2016 *Innovation Monitor* survey shows that European instruments are the second most popular direct support scheme for innovation⁹. This is particularly the case for SMEs: one in seven surveyed SMEs had used European funding instruments for innovation. This share falls to 8 % for the SMART programme, 7 % for the Catapult centre and 4 % for the Small Business Research Initiative.

Benefits from participation in EU research programmes go far beyond financial support. They allow UK businesses to be part of high-level research networks and improve their performance both at home and abroad.

This makes EU research programmes critical to UK business innovation. There is a growing consensus that international cooperation in innovation enhances domestic innovation capabilities and opens the way to a wider knowledge base.

Cooperation is particularly crucial for higher level innovation as academic literature points out¹⁰. Yet the UK ranks as an innovation follower rather than

⁹After Knowledge Transfer Partnerships. This excludes R&D tax incentives, which are by far the most common instrument used by innovative businesses.

¹⁰Tether, B. (2002), "Who co-operates for innovation within the supply-chain and why? An Analysis of the United Kingdom's Innovation Survey", Centre for Research on Innovation and Competition, Discussion Paper No. 35, July 2000

an innovation leader. In 2016 EEF's Innovation Monitor survey reported that one in four companies judged they are falling behind their competitors due to the level of innovation. The UK has hence the most to gain from maintaining close ties with the EU research community.

The EU has currently several cooperation arrangements with third countries that rule their participation in EU research programmes:

- **Association with Norway and Iceland as members of the European Economic Area (EEA):** Norway and Iceland have long been associated with EU research programmes within the framework of Protocol 31 of the EEA agreement. Entities from both countries are

eligible for participation and funding from the European Commission under the same conditions as for entities from EU Member States.

- **Partial association with Switzerland:** Switzerland and the EU have agreed on partial association following a Swiss referendum to restrict immigration. In this regard, Switzerland is fully associated with the first pillar of Horizon 2020 ("Excellent Science"), but participates to the second ("Industrial Leadership") and third ("Societal Challenges") pillars as a third industrialised country. While the Swiss model provides ground for collaboration in EU projects, Swiss entities need to seek domestic funding for their part of the project should they join European consortiums. Furthermore, they are not entitled to single-partner

EU funding instruments such as the SME instrument.

- **Association with Israel under the European Neighbourhood Policy:** the EU-Israel association agreement follows the will of both parties for improved cooperation and integration within the framework of the Euro-Mediterranean partnership. Entities from Israel participate in EU research programmes under the same conditions as those from Member States.

The Government must either ensure that industry continues to have access to these EU sources of funding or provide assurances that alternative and commensurate funding will be made available while still encouraging close collaboration with our European partners following Brexit.

SUMMARY

- The UK is lagging behind its main partners in terms of research and innovation
- While access to finance remains a major barrier to innovation, it is important to maintain access to EU research funds, even if this requires ongoing UK financial contributions to the appropriate programmes
- EU research programmes have been a major source of funding for the UK research community, including the private sector
- The UK has been the second biggest beneficiary of Horizon 2020 with a growing share being granted to the private sector
- Benefits from participation in EU research programmes go far beyond financial support
- The EU has currently several cooperation arrangements with third countries
- Access to levels of support under EU programmes are essential and will require continued UK financial contributions.

ENERGY AND CLIMATE CHANGE

As with so many other areas that shape the environment in which manufacturers operate, energy and climate change policy in the UK has been heavily influenced by the EU.

The EU's jurisdiction over energy policy is officially limited to measures that do not 'affect a Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply'. The EU has introduced a number of largely beneficial measures to liberalise and integrate national energy markets, to improve security of supply and increase interconnection rates. However this official restriction has been in effect circumvented on occasion. For example, the Renewable Energy Directive and the Industrial Emissions Directive, have manifestly impinged on the UK's ability to independently decide upon its own energy mix.

A post-Brexit energy policy framework should utilise the increased flexibility that life outside of the EU could offer, whilst trying to maintain involvement with those elements that have proved beneficial to the UK, such as measures on market integration and security of supply.

The EU's powers in relation to climate change allow it to set minimum

standards, targets and objectives leaving member states the option to implement their own more stringent requirements. The UK has chosen to implement this option through the introduction of the Climate Change Act 2008 going beyond what EU commitments require, albeit modestly. Moreover the UK has also been at the forefront of progress made on climate change within the EU, pushing for more ambitious emissions reduction targets and leading calls for the introduction of an EU wide emissions trading scheme.

Providing policy certainty:

Even in advance of the referendum, investor confidence in the energy sector had been damaged¹², and this is now being exacerbated by the referendum outcome, the subsequent change of Government, departmental changes and further delays to the Hinkley Point C decision. This uncertainty raises the cost of financing projects at a time when huge levels of investment are required¹³ in our energy infrastructure. This cost increase must ultimately be borne by energy consumers and could run to the hundreds of millions of pounds.¹⁴

The Government must now set out a clear strategy to allay investor concerns about further changes in policy direction. These should include:

- Providing concrete details of post 2020 arrangements for the Carbon Price Floor and Contracts for Difference Auctions
- A refreshed 'energy policy statement' that confirms and builds upon the policy direction set by the Government's statement in November 2015¹⁵
- The Emissions Reduction Plan, due to be published by BEIS at the end of the year, must build on the energy statement providing details on how the Government intends to deliver power sector emissions reductions required under the Fifth Carbon Budget
- The uncertainty around Hinkley Point C must be finally brought to an end with a decision to not proceed accompanied by a clear statement on proposed alternatives.

¹¹HM Government (2014) *Review of the Balance of Competences between the United Kingdom and the European Union: Energy Report*, noted that "...respondents, from across all sectors, regarded the EU internal energy market legislation as a fundamental element of EU energy policy and one which had delivered significant benefits for the UK." and "Stakeholders, particularly from downstream sectors, highlighted a number of benefits flowing from the EU's actions to enhance energy security and improve interconnection."

¹²House of Commons Energy and Climate Change Committee (2016) *Investor Confidence in the Energy Sector* noted that "There has been a dip in investor confidence since the election in May 2015." Caused by, amongst other factor, numerous unexpected policy changes, poor transparency in decision making and, a lack of a long-term vision.

¹³The National Infrastructure Commission estimate some £23 billion of investment will be required in the energy sector each year through to 2020/21. <https://www.gov.uk/government/publications/national-infrastructure-pipeline-july-2015>

¹⁴Vivid Economics (2016) *The impact of Brexit on the UK energy sector*

¹⁵<https://www.gov.uk/government/speeches/amber-rudds-speech-on-a-new-direction-for-uk-energy-policy>

EU EMISSIONS TRADING SYSTEM

The UK's long-term participation in the EU Emissions Trading System (EU ETS) will be contingent on whatever future relationship is negotiated. Access to the single market may entail continued participation in the EU ETS, (the case for EEA members), the operating of our own trading scheme with the aim of linking this to the EU ETS (bi-lateral Swiss agreement), or another option yet to be identified. Continued participation in the EU ETS does have some advantages; participating installations would experience less disruption (particularly those operating in multiple EU countries) and an EU-wide trading scheme is likely to be far more cost effective than a UK standalone system, due to the greater number of decarbonisation options available.

However, as the UK is the second largest emitter behind Germany, such an arrangement is likely to be far from ideal unless the UK Government has a formal role in shaping the future of the scheme. UK manufacturers would be extremely wary of participating in an emissions trading scheme which the UK Government could only indirectly influence. Furthermore, it is possible that without the reformatory drive that the UK has brought to the table in recent years there would be little appetite for necessary reform of the scheme; without which it is questionable whether continued participation would be worthwhile.

At this stage it is unclear what arrangements would best suit the UK; continued EU ETS participation, a linked UK ETS, and independent ETS, or a more straightforward carbon tax. All options should remain on the table until a clearer picture evolves. Industrial voices must be central to ongoing discussions.

While there is uncertainty concerning the UK's longer term participation in the EU ETS, it is critical that the UK Government remains an active participant in the ongoing post-2020 reform negotiations. The Government must continue to ensure that the views of UK manufacturers are represented and robustly catered for.

Greater Flexibility on decarbonisation options

One of the major areas where EU energy policy has infringed upon the UK has been in our choice of energy mix. Whilst it is possible that successive UK governments could have made similar choices, EU legislation such as the Renewables Directive, has reduced the UK's flexibility to decide its own energy mix in the most cost effective way possible. The fact that we are highly unlikely to meet our 15% renewables target by 2020¹⁶ indicates that the UK may have taken a different route to decarbonisation had it been outside of the EU.

The UK Government has opposed the introduction of further renewables and energy efficiency targets for 2030, arguing that a single emissions reduction target is preferable. In line with this thinking the Government should use our exit from the EU as an opportunity to extract the UK from any further specific commitments on energy efficiency and renewable target and retain these as entirely national competencies. Whilst some EEA members continue to meet the requirements of the Renewables Directive, it would not be in the best interests of the UK to do so should EEA membership be a future option.

Internal Energy Market:

The ultimate aim of the Internal Energy Market (IEM) is to establish a reliable and cost competitive single market for electricity across the EU. Central to achieving this has been the gradual establishment of a common set of rules and regulations for systems operation and markets as well as the building of the necessary infrastructure to ensure all EU countries are sufficiently interconnected. Ultimately this delivers benefits to energy consumers through access to a larger, more competitive energy market with lower prices across the EU. In a report for National Grid published in March 2016 it is estimated

¹⁶National Grid (2016) *Future Energy Scenarios* projects hitting the 2020 target sometime between 2022 and 2029 depending on the scenario.

that losing access to the IEM could cost energy consumers up to £500 million a year by 2020¹⁷.

Continued access to the IEM has clear financial benefits to energy consumers which the UK should therefore seek to retain wherever possible. However, full participation in the IEM, including the need to implement regulatory changes, could be disadvantageous if, which is likely, the UK loses its official voice at the table. Moreover, IEM access may also entail continuing to meet renewables targets set at EU level.

A series of bi-lateral agreements, whilst complex, may present the UK with the best option to enable the UK to

continue to extract the energy trading benefits of the IEM without binding the UK to regulatory changes over which we have no or limited influence.

Research, development and demonstration funding for low carbon technologies:

The 2050 Industrial Decarbonisation and Energy Efficiency Roadmaps¹⁸ published in 2015 set out the challenges and potential opportunities UK industry faces in decarbonising. Industrial sectors, such as steel and cement, require significant capital investments in an array of innovative low carbon technologies in order to undertake the major transformation the UK's climate targets require.

The UK's departure from the EU casts much doubt over industry's ability to have continued access to these funding streams. While some non-EU member states can still access forms of EU funding, it is often limited and with little ability to influence where the money should be spent. Therefore, the UK must seek to continue to source EU funding for these programmes by continued contributions to the EU budget or commit to matching the funds domestically. Not to do so would not only put at risk reaching our 2030 and 2050 climate targets, but also limit the UK's longer term industrial competitiveness.

“A post-Brexit energy policy framework should utilise the increased flexibility that life outside of the EU could offer, whilst trying to maintain involvement with those elements that have proved beneficial to the UK, such as measures on market integration and security of supply.”

SUMMARY

- Energy and Climate Change Policy are shared competencies of the UK and the EU. The EU has had a significant impact on the direction of policy in this area but the UK has maintained a high degree of control and has shaped EU policy a great deal as well
- The biggest impact of the referendum result has been an increase in uncertainty for investors in the energy market, which could increase the cost of new infrastructure. Government must act quickly to end this uncertainty
- Unless we see a major change in mood from the Government, the scale of climate change ambition post-Brexit is unlikely to change much. The UK's own domestic climate targets are at a similar or higher level than its EU Commitments
- Brexit should not have a major impact on the security of the UK's energy supplies but it could increase the cost of maintaining a similar level of security.
- Decisions on future large scale energy infrastructure projects, such as new nuclear and tidal lagoons, should be made as soon as possible.

¹⁷Vivid Economics (2016) *The impact of Brexit on the UK energy sector*

¹⁸<https://www.gov.uk/government/publications/industrial-decarbonisation-and-energy-efficiency-roadmaps-to-2050>

NEW OPPORTUNITIES

For manufacturers to take advantage of the opportunities arising from new trading relationships the UK Government must provide support through a new approach to industrial strategy, one which has a global outlook and one that is rooted in international competitiveness.

With the establishment of the Department for Business, Energy, and Industrial Strategy, manufacturers have welcomed a re-energised commitment to a UK industrial strategy. It is essential Government departments across Whitehall share this ambition. Manufacturers require domestic policies which support rebalancing the economy and which drive investment in new technology, exploit opportunities arising from big data, and which help develop solutions to environmental and societal challenges.

Above all, manufacturers require the policy landscape to remain stable and be driven towards delivering a more productive, investment and export-driven economy.

This autumn, EEF will publish recommendations for this new approach to industrial strategy including a number of policies aimed at ensuring business certainty and maintaining confidence during the negotiations with the EU and the Rest of the World.

“Above all, manufacturers require the policy landscape to remain stable and be driven towards delivering a more productive, investment and export driven economy.”

SQUIRE PATTON BOGGS

VIEWPOINT

As a global law firm, with a major presence in the UK and Europe, we are acutely aware of the effects Brexit could have on the manufacturing industry and have analysed them for various industries, areas and sectors from the UK's, the EU's and the Rest of the World's perspective. There are a number of critical issues, which include:

Access to the single market and free trade

– The UK is currently a member of the WTO under the terms of its EU membership. This will cease when the UK is no longer a member state. It is unlikely that upon leaving the EU the UK would still be bound by the tariffs negotiated by the EU. Therefore the UK will have to re-negotiate the terms of its WTO membership with other WTO members. It will be important for the UK government to ensure in these separate WTO negotiations that the interests of the UK manufacturing sector are properly looked after.

Maintaining a stable regulatory environment

– Our regulatory framework may vary depending on the post-Brexit approach that will be taken as part of the negotiations. If the European Communities Act (ECA) 1972 were to be repealed, EU law implemented via primary legislation would be unaffected whereas secondary legislation made under

the ECA would fall away. To avoid a disruptive legislative transitional period, it will be important that the existing directly applicable EU regulations continue to apply in the UK in the short to medium term.

Maintaining a fair flow of labour

– Given concerns relating to the current skills shortages in manufacturing, engineering and STEM disciplines, immediate reassurance should be given to EEA nationals already working in the UK. Any future UK immigration policy should have a clear and effective mechanism for assessing existing needs to avoid any potential shortage in the sector.

Supporting investment and innovation

– Startup businesses and SMEs have become increasingly reliant upon funds originating from the EU to fund innovation and growth. The position is exacerbated by the relative lack of funding for this stage of business from UK domestic sources. It is important that the government recognises this potential shortfall and provides financial support in recognition of the important role that these businesses play in our economy.

The protection of innovation via the current patent, trademark, design and copyright frameworks is key and the

government should ensure Brexit does not negatively impact this system.

Energy and climate change

– Environmental protection and tackling climate change has been a feature of EU law and policy since 1970 and has had substantial positive effects. Post-Brexit the government will have scope to adopt either stronger or weaker environmental standards than at present. The worry is that this could result in a less ambitious approach than that adopted by the EU in a number of areas, including air pollution, recycling, and aspects of nature conservation.

Whatever the future outcome, as we have already seen in the immediate aftermath of the referendum, sterling is likely to remain volatile and there will be ongoing market uncertainty. This market fluctuation is likely to become even more unpredictable during exit negotiations. Therefore companies are advised to check their risk exposure and identify which aspects of their business will be most affected by Brexit. It could be prudent to set up a team to assess potential areas of impact, with the aim of giving your organisation a head-start on planning and strategy once a clear Brexit plan begins to emerge. Until then manufacturers are best advised to keep a close eye on proceedings, and try to plan accordingly.



120 YEARS
BACKING
BRITAIN'S
MAKERS

EEF is dedicated to the future of manufacturing. Everything we do, from business support to championing manufacturing and engineering, is designed to help our industry thrive, innovate and compete locally and globally.

In an increasingly uncertain business environment, where the UK is now on a path to leave the European Union, we recognise that manufacturers face significant challenges and opportunities. We will work with you throughout this period of uncertainty to ensure that you are on top of any legislative changes and their implications for your business.

Furthermore, as the collective voice of UK manufacturing, we will work tirelessly to ensure that our members' voices are heard during the forthcoming negotiations and will give unique insight into the way changing legislation will affect their business.

Our policy, employment law, health, safety and sustainability and productivity experts are on-hand to steer you through Brexit with rational, practical advice for your business.

www.eef.org.uk



Through our long-standing relationship with the EEF, we are pleased to work in partnership on this key industry report.

For more than 100 years, manufacturing, engineering and distribution companies have looked to Squire Patton Boggs for creative solutions to their legal challenges. Years of working closely with manufacturers and their suppliers has strengthened our commercial and business understanding of the sectors we serve. Our lawyers' industry expertise coupled with our strength in advising on public policy matters enable us to stay ahead of the financial, regulatory and intellectual property issues faced by our clients in fast changing environments. They are familiar with our clients' diverse products, technologies and business models.

With one of the strongest integrated global platforms, we can help you manage your industry concerns in the UK and overseas as you navigate the challenges and opportunities following the Brexit vote. So whether your interests are in the EU, established or emerging markets, we have a proven track record in supporting our clients as they do business around the world.

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