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Interpretation of “*BREXIT – Voices of European Business Report*”

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Introduction

COBCOE research has been based on:

- initial benchmarking survey to determine research themes
- qualitative research via 27 roundtables across 18 countries of EU27
- final report

Introduction

It contains relevant information on the losses EU firms expect from various possible Brexit outcomes.

It is not alone:

- - many studies have tried to quantify the Brexit costs for UK and EU27
- - others have focused on business sector perceptions: for UK business [BoE (2017), Sands et al. (2017)] and for EU27 business [COBCOE (2017)]

Introduction

- The results of these studies are almost unanimous: in the medium/long run, both UK and EU27 will lose economically from Brexit, with the largest losses concentrated in UK.
- The amount of economic losses will depend on **the type of separation agreement** reached.
- On this issue the COBCOE research analyze the opinion of businesses around EU27

Introduction

- The starting point has been the UK decision to exit the EU (BREXIT).
- The main points discussed during the round tables, where:
 - How important is UK for the company business?
 - What, if any, impact has Brexit already had on business
 - Expected impact of Brexit on business
 - What are the preferred results of the negotiation process for the business

Introduction

Major results:

- a) Businesses don't like uncertainty
- a) For businesses no deal is a bad deal

Uncertainty

We don't know much about what type of agreement will be agreed upon.

Uncertainty has always been a big enemy for firms.

However, compared to few months ago when the report has been written we know something more. After last week speech in Florence by the British Prime Minister Theresa May, we know something more:

- 2-year transition period after March 2019
- UK aims to create a “deep and special economic partnership” with EU (in between the Norwegian and the Canadian models)

Uncertainty

- In any case EU businesses don't like this uncertainty about the economic environment in which they will end up.
- The report shows that some companies have adopted a wait-and-see attitude, delaying some investments in UK
- Some investment cannot be delayed for ever and important decisions are taken without sufficient information

Uncertainty

- The phased approach to negotiation adopted by the EU is criticized for exacerbating uncertainty

No deal is a bad deal

EU businesses aim is to have a stable economic environment similar to the one in which they have been operating before Brexit.

As a consequence a no deal for them constitute a doomsday risk.

However, the recent acknowledgment by the British Prime Minister of the necessity of a transition period has most probably eliminated this outcome from the feasible ones.

Which deal for trade and investments?

- EU businesses recognize how important is the UK for EU trade and finance activities.
- They are afraid of an increase of trade barriers between EU and UK.
- Their biggest concern is not much on tariff reintroduction, but on non-tariff barriers and regulatory divergence.
- In such a situation, many European centred global value chains might be disrupted

Which deal for trade and investments?

- The report doesn't suggest any type of institutional agreement as an outcome for Brexit negotiation.
- But the message is very clear. If “Exit Brexit” is not politically feasible, then the solution is for UK and EU to negotiate an agreement as close to the Single Market as possible.

Which deal for trade and investments?

Feature	(3.1) Single Market			(3.2) Customs Union (Turkey)	(3.3) FTA (Canada)	(3.4) WTO MFN status
	Full EU membership	EFTA (EEA)	EFTA (Switzerland)			
Duty-Free Access to Single Market for Goods	Yes	Yes	Yes	Yes	Yes	No
Duty-Free Access to Single Market for Services	Yes	Yes	Some	No	Some	No
Free movement of capital	Some	Some	Some	No	No	No
Free movement of people	Yes	Yes	Some	No	No	No
Acceptance of Single Market Rules	Yes	Yes	Some	No	No	No
Input to Single Market Rulemaking	Yes	No	No	No	No	No
Bound by ECJ Decisions	Yes	Yes	Some	No	No	No
Bound by EU Common Commercial (Trade) Policy	Yes	No	No	Yes	No	No
Bound by EU Common Agricultural Policy	Yes	Yes	No	No	No	No
Contribution to the EU Budget	Yes	Yes	Yes	No	No	No
Participation in EU regulatory agencies	Yes	Yes	Yes	Some	Some	No
Member of the EU VAT area	Yes	Yes	Yes	No	No	No

Source: Sands et al. (2017)

Which deal for trade and investments?

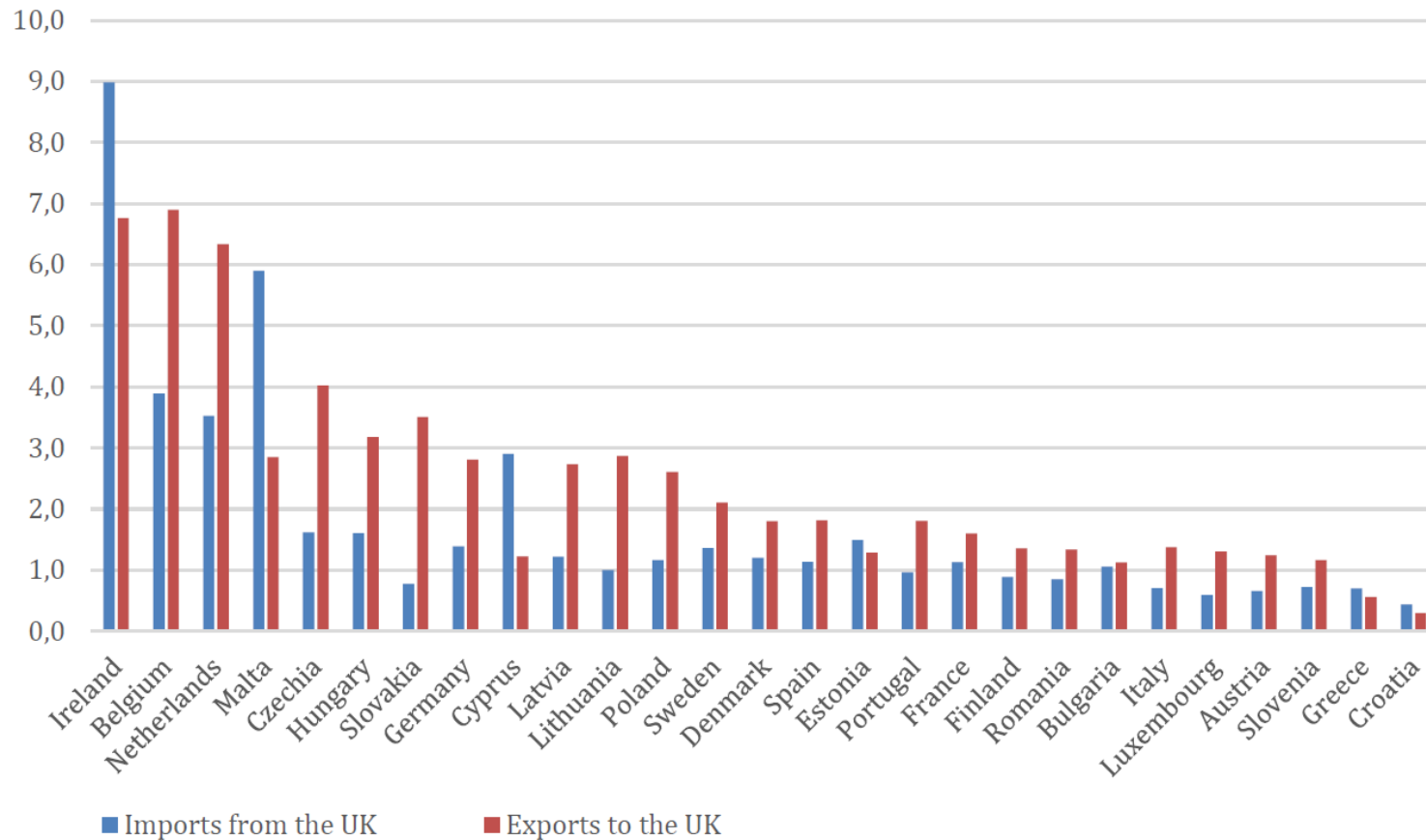
- The Single Market will stay in force for UK only with the Norwegian solution: the European Economic Area.
- And this would be the first best for businesses, but it contains freedom of people movement, contributions to EU budget and European Court of Justice ruling. Three elements not appreciated by the British government.

Which deal for trade and investments?

- Moving towards other type of agreements, some frictions/barriers are introduced to trade in goods and services
- A weaker solution is a bespoke agreement Swiss style (137 bilateral agreements with EU!). No more appreciated by EU.
- Even weaker solutions are: Turkish model (custom union), Ukraine's model and Canada's one.

source: IMCO (2017)

Figure 2: Goods Imports and Exports of EU 27 with the UK, % GDP



source: IMCO (2017)

Table 2: Trade in goods between the UK and EU27, by product, 2015

	EU27 Imports (€bn)	Share in total	EU27 Exports (€bn)	Share in total
Animal and vegetable oils, fats and waxes	0.5	0%	1.0	0%
Beverages and tobacco	3.5	2%	5.7	2%
Chemicals and related products	33.4	18%	50.9	17%
Commodities and transactions not classified elsewhere	4.1	2%	2.6	1%
Crude materials, inedible, except fuels	2.9	2%	6.5	2%
Food and live animals	11.5	6%	32.2	11%
Machinery and transport equipment	62.4	34%	126.7	41%
Road Vehicles	19.3	10%	58.8	19%
Aircraft, associated equipment	8.8	5%	4.7	2%
Ship, boat, float. structures	0.4	0%	0.3	0%
Manufactured goods classified chiefly by material	19.0	10%	33.4	11%
Mineral fuels, lubricants and related materials	21.7	12%	10.6	3%
Natural Gas	3.0	1%	0.8	0%
Petroleum and petroleum products	17.7	6%	8.3	3%
Miscellaneous manufactured articles	25.2	14%	36.9	12%
All products	184.2	100%	306.4	100%

Source: UN Comtrade statistics

source: IMCO (2017)

Table 3: Total trade in services between the UK and EU27, 2015

	Import (€bn)	% GDP	Export (€bn)	% GDP	Trade (€bn)	% GDP
EU27	122	1	94	0.8	216	1.8
UK	94	3.6	122	4.7	216	8.4

Source: Eurostat

source: IMCO (2017)

Table 5: Foreign direct investment of UK and EU27 worldwide, total flows and stock, 2015

	Flow				Stock			
	Inward		Outward		Inward		Outward	
	bn Euro	% GDP	bn Euro	% GDP	bn Euro	% GDP	bn Euro	% GDP
EU27	360	3%	494	4%	5,692	47%	7,033	58%
UK	36	1.4%	-55	-2%	1,314	51%	1,386	54%

Source: Eurostat.

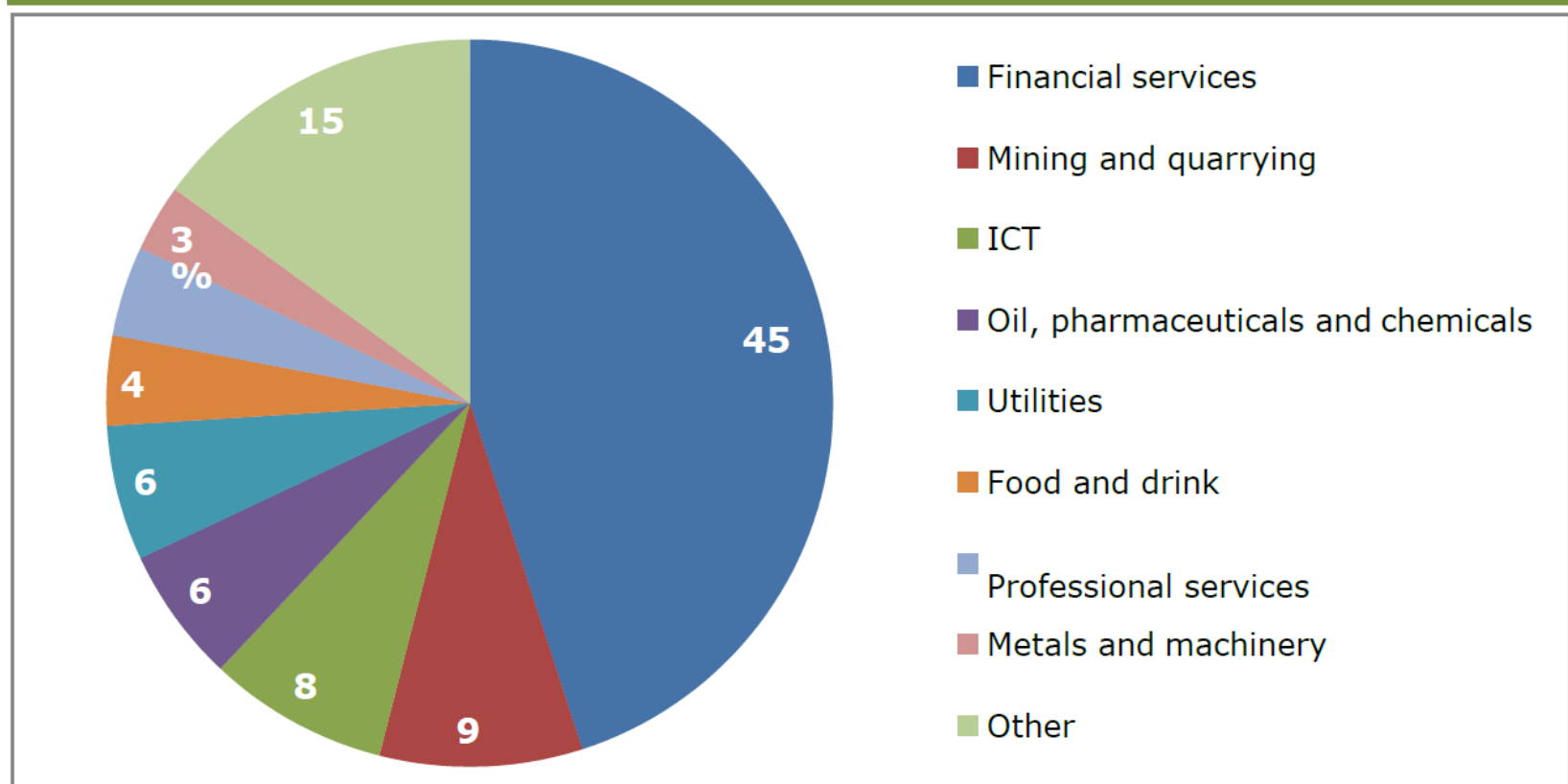
Table 6: Foreign direct investment: bilateral between the UK and EU27, total flows and stock, 2015

	Flow				Stock			
	Inward		Outward		Inward		Outward	
	bn Euro	% GDP	bn Euro	% GDP	bn Euro	% GDP	bn Euro	% GDP
EU27	3.7	0.0%	-73	-0.6%	683	5.6%	985	8.1%
UK	-73	-2.8%	3.7	0.1%	985	38.2%	683	26.5%

Source: Eurostat.

source: IMCO (2017)

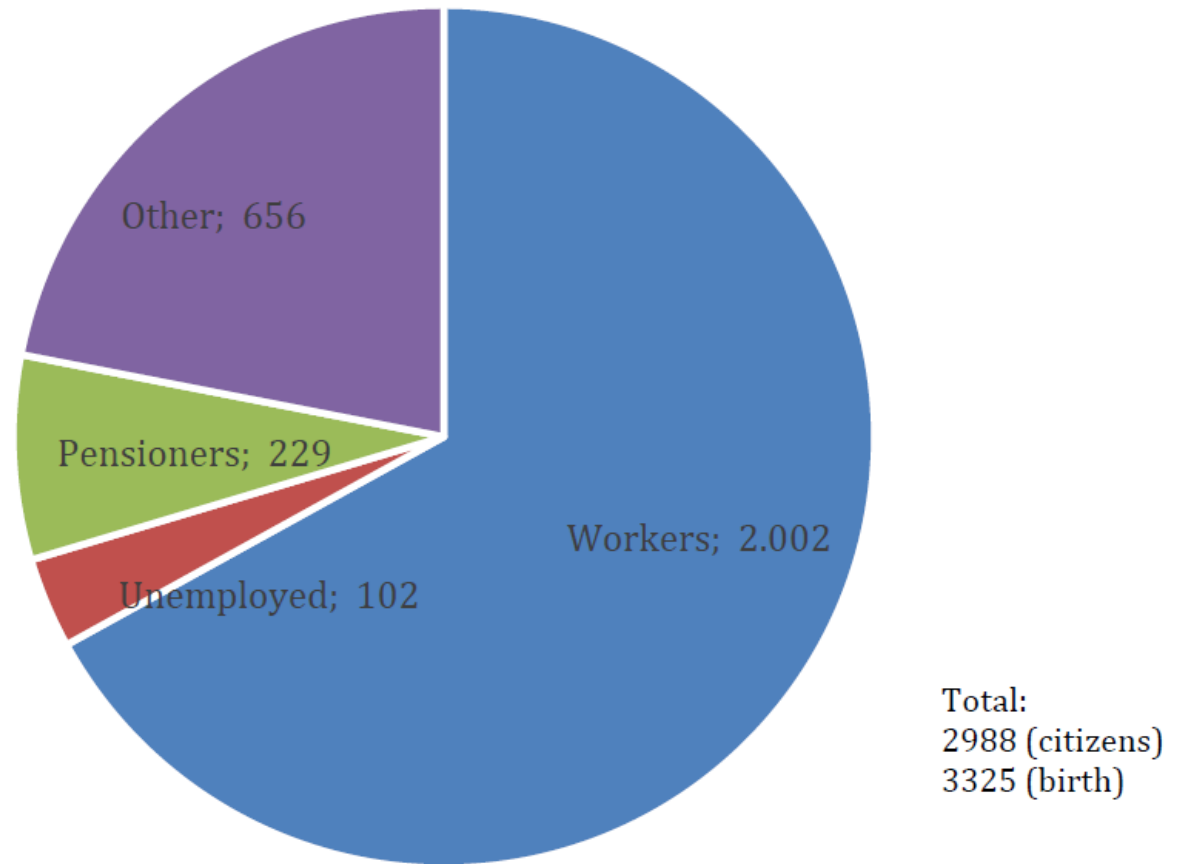
Figure 3: Inward foreign direct investment stock in the UK from EU27, by sector



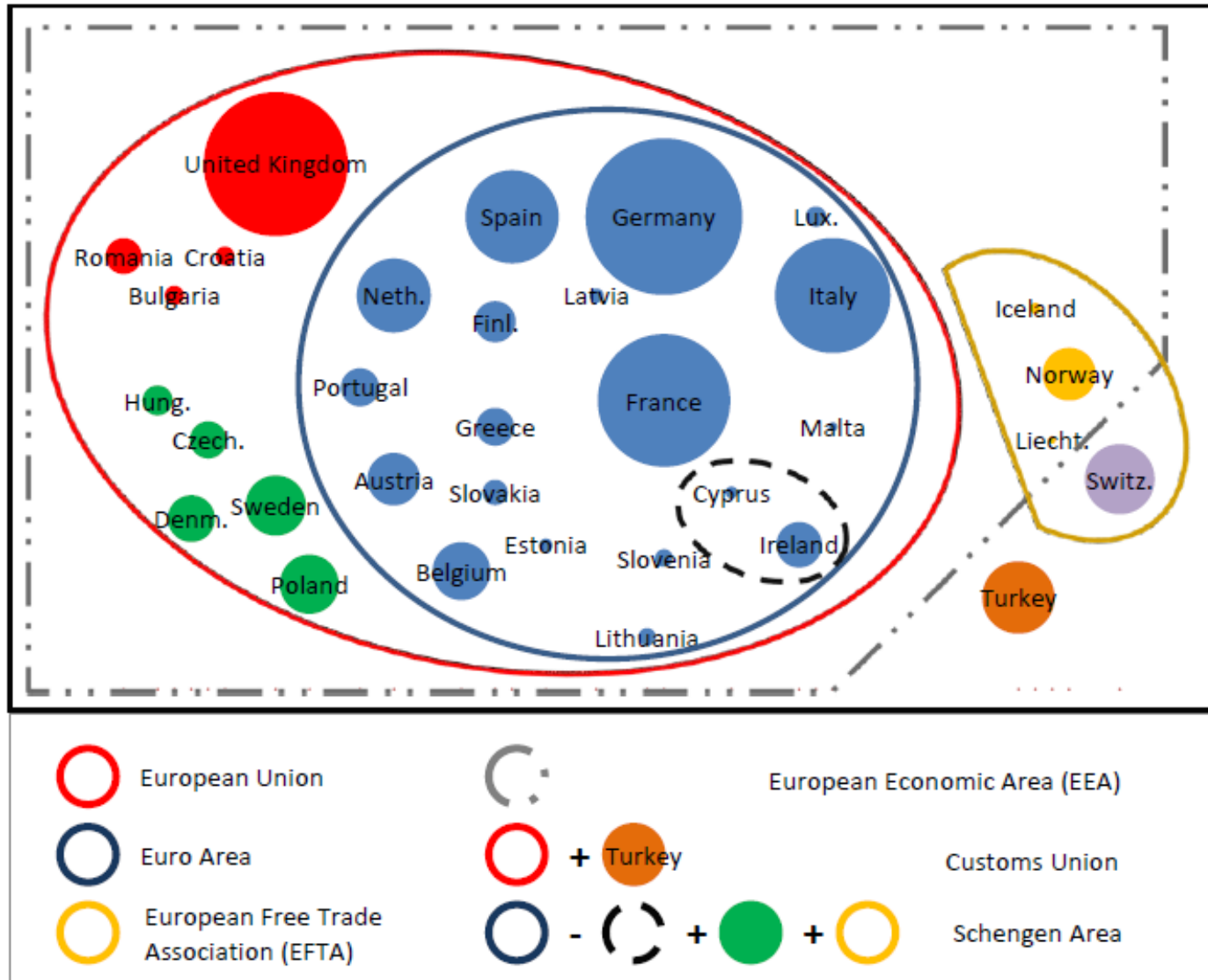
Source: ESRI, 'Scoping the Possible Economic Implications of Brexit on Ireland', 2015.

source: IMCO (2017)

Figure 4: EU27 citizens living in the UK, 2015



Economic ties within Europe



Source: Illustration based on EU, IMF and ECB data.

(1) The size of each country's circle represents the country's GDP in 2015.

Source: Cappariello (2017)