

Response to Lords EU Select Committee *Brexit: 'Deal or No Deal' Inquiry*

26 October 2017

1. London Chamber of Commerce and Industry (LCCI) is the largest capital-focused business advocacy organisation, representing the interests of over 3,000 companies from small and medium-sized enterprises through to large, multi-national corporates. Our member companies operate within a wide range of sectors across all 33 London local authority areas – genuinely reflecting the broad spectrum of London business opinion.
2. As the voice of London business, we seek to promote and enhance the interests of the capital's business community through representations to central government, the Mayor and the GLA, Parliament and the media, as well as relevant international audiences. Through member surveys and commissioning research, LCCI seeks to inform and shape the debate on key business issues.
3. Avoiding a post-Brexit 'cliff edge' is a top priority for London business leaders. Post-Brexit, there must be a suitable arrangement in place to regulate Britain's relationship with the European Union (EU), rather than a fall back on WTO rules (the 'no deal' outcome).
4. Through our research, and the soundings we have taken of London businesses, we know that for many businesses their top priorities post-Brexit include avoiding adding additional barriers to trade, ensuring we maintain a flexible system of migration, and securing aviation links with the rest of the world. Crashing out of the EU without a deal, or without pragmatic transitional arrangements covering many of these areas, would have serious implications for many businesses who currently trade with the EU, and could cause chaos at our ports and airports.
5. To date we have published three papers on Brexit since the referendum result:
 - **Moving Towards Brexit: London business views one year on from the EU referendum**
June 2017
 - **Permits, Points and Visas: Securing practical immigration for post-Brexit London**
November 2016
 - **London business and Brexit: Reactions, expectations and requirements**
October 2016¹
6. LCCI will continue to work towards realising the best possible outcome for London business from the Brexit process. The priorities set out in this document, based on input from London business leaders from a wide range of industry sectors and company sizes, aim to contribute towards that goal.
7. We would be happy to clarify or provide further comment on any matters raised within this response, or to give evidence directly to the Lords EU Select Committee as part of its inquiry.

¹ http://www.londonchamber.co.uk/lcc_public/article.asp?aid=170

LCCI Key Positions

- It is important that negotiations between the UK and EU move on to talks on trade and transition before the end of 2017, with certainty on transitional arrangements secured as early as possible in 2018.
- Post-Brexit, there must be suitable transitional arrangements in place to regulate Britain's relationship with the EU, rather than a fall back on WTO rules.
- Businesses need to see progress and certainty across a number of business-critical issues, including future customs arrangements, migration rules and aviation regulation, as soon as possible.

8. Is the Prime Minister's Florence speech a good basis for the UK and EU to reach agreement in the Article 50 negotiations?

9. The Prime Minister's speech was a welcome and constructive intervention, particularly regarding assurances on EU citizens' rights.
10. The success of the speech will, however, ultimately be judged on whether it helped break the current impasse in negotiations, an impasse that has contributed to ongoing uncertainty amongst businesses in recent months.
11. We understand that the government's intention is for a transition/implementation period to come into effect after Brexit in 2019, by which time there will hopefully be a negotiated 'deal' with the EU 27 on our future trading relationship with the bloc. Businesses would subsequently use the implementation period to adapt to new arrangements, i.e. new customs or immigration rules and processes.
12. Time is, however, increasingly a factor. As trade agreements often take many years to be negotiated, it is unlikely this 'final' deal can be achieved within the remaining 18 months. If talks on trade and transition are delayed significantly, the risk increases that there will be insufficient time to progress detailed discussions on our future trading relationship ahead of the UK's exit from the EU in 2019. It remains unclear what will happen under a scenario in which the UK departs the bloc without a final deal agreed, and how this might impact upon, or affect, any transitional periods (the absence of which potentially generating damaging, 'no deal' outcomes).
13. LCCI believes it is essential that we move on to talks on trade and transition as soon as possible, ideally before the end of 2017, and achieve clarity on what a transition period will look like as soon as possible in early 2018.

14. What potential stumbling-blocks remain? Under what scenarios might the outcome of the negotiations be 'no deal'

15. Public disagreements within the government have no doubt impacted business confidence in its ability to move towards a successful outcome to Brexit negotiations. This includes apparent differences between senior figures within government about the prospects or merits of a 'no deal' outcome, with some urging the threat of the UK walking away from talks as a negotiating tactic.
16. The prospect of a 'no deal' outcome is a concerning one for many of our members. This has, broadly, two components. Firstly, the prospect of the additional burdens and costs (particularly non-tariff barriers to trade) that a 'no deal' outcome would incur. Secondly, the risk that a 'no deal' outcome comes about at, or close to, the UK's EU exit date, compounding difficulties for businesses that might have little time to adapt.
17. To mitigate uncertainty, businesses want to see progress, and a clearer direction of travel, across many business-critical areas including future customs and migration arrangements, as well as sector specific agreements such as those regulating the Single Aviation Market.

18. What would be the implications, good and bad, of 'no deal'? Is a transition arrangement a necessary component of any lasting agreement, and if so, why?

19. London businesses have expressed a clear desire for a pragmatic transition period following Brexit, towards a good final deal that minimises tariff and non-tariff barriers to trade, rather than which falls back to WTO rules.
20. In ComRes polling² of London businesses undertaken on behalf of LCCI in June this year, 77% of London businesses agreed that an interim arrangement should be put in place to avoid the sudden reposition of tariffs and non-tariff barriers following Brexit, if an EU-UK Free Trade Agreement has not been agreed on by the time the UK leaves the EU.
21. 80% agreed that any interim agreement should last until the UK and EU agree on a permanent agreement and 76% agreed any interim arrangement should be similar to the UK's current arrangement with the EU.
22. More recently, our polling³ showed a significant majority in favour of staying in the Single Market until the new free trade and customs deal with the EU is agreed, with similar levels of support expressed for staying in the Single Market for a set period of time after the new free trade and customs deal with the EU is finalised.
23. LCCI does not want to prescribe what exactly a potential transitional arrangement should look like – whether that be a single new agreement, EFTA/EEA membership, or a series of sector or issue agreements – we believe all options should be explored in the coming

² ComRes survey for LCCI of 530 London businesses, May-June 2017, weighted to be representative of all London businesses by company size and broad industry sector.

³ ComRes survey for LCCI of 569 London businesses, August-September 2017, weighted to be representative of all London businesses by company size and broad industry sector.

months. However, given the complexity of the task of untangling from our 40+ year relationship with the bloc, we believe that any interim arrangement should either reflect current arrangements, or already include parts of the final agreement the EU and UK aim to sign – for example in relation to specific sectors.

24. Such a move would ensure a minimal amount of change for firms, by ensuring there is only one set of changes to have to adapt to.

25. Business priority areas

26. LCCI has received particular feedback from our members on issues and concerns in relation to future custom regimes at UK points of entry, issues associated with leaving the EU's single aviation market, and the future of immigration in the context of ongoing skills shortages. These are detailed below.

27. Non-tariff barriers

28. LCCI members are in general agreement with the broad aims expressed by the government to pursue the 'freest and most frictionless trade possible'.

29. During a recent visit to the Ports of Dover and Calais, LCCI was briefed on the potential implications of a sudden imposition of non-tariff barriers on our EU trade.

30. The Port of Dover handles £119 billion of trade every year and the goods that are transported must often get to businesses at the exact moment they are required. The magnitude of a sudden disruption to 16,000 lorry movements a day through Dover by the imposition of additional customs checks on trade with the EU would, without significant new infrastructure, be crippling. If the UK reverts to WTO rules and regulatory and tariff barriers between the U.K. and the EU are implemented, short lived bouts of disruption, including long tailbacks of lorries subject to check and controls, risk becoming chronic very quickly.

31. The European Commission has said that if Britain leaves the customs union and the single market, the concept of a frictionless border "is not possible".

32. Whilst we hope that negotiations will result in a system that minimises disruption and delay, we must plan for and assume that the status quo will not be maintained. This makes it doubly important that businesses have both the time to adapt to any new barriers – be it though training staff to handle necessary paperwork or adapting business models – but also that the UK (and our European neighbours) has sufficient time to develop the necessary infrastructure (physical and digital, including options such as pre-clearance customs and immigration controls that are offsite and away from chokepoints) to ensure that any future customs arrangement remains as frictionless as possible, anticipating it will not be as 'frictionless' as today.

33. Aviation

34. For the aviation sector, there is no World Trade Organisation 'fail safe' in the event no deal is reached. The ultimate danger is that without a deal, flights from the UK and to the EU and other parts of the world will be grounded on exit day – a little over 18 months' time.
35. And without an early deal – meaning clarity for airports, airlines and travellers as soon as possible in 2018 – the uncertainty around what might happen will begin to weigh on the decision making of those considering travel. We believe that government understands this and we know achieving certainty is a priority; however as yet nothing is set in stone.

36. Migration

37. Immigration has underpinned London's economic, social and cultural development over centuries, making it the great city it is today.
38. London businesses are enduring a chronic skills shortage, and are deeply concerned about the potential impact of policies that might impact upon the status of EU nationals within their workforce, or on their ability to recruit workers from overseas in future to fill employment gaps.
39. Indeed, recent polling by LCCI of London businesses showed that twice as many believe that London should prioritize economic growth – even if that means increasing EU immigration – than believe London should prioritize reducing EU immigration even if that means reducing economic growth **(29%)**⁴.
40. We understand that under the European Union (Withdrawal) Bill 2017-19, EU-derived law will transfer into UK law unless changed. To this extent, the 'cliff-edge' risk of ending free movement overnight could only be of the UK's own making should it seek to change the immigration system without a transition period.
41. Nonetheless, the Home Office will not receive the report from the Migration Advisory Committee on the role of EU nationals within the UK economy until September 2018 - nearly a year away.
42. We do not believe that London can afford to wait for clarity and certainty on the key issue of migration, and have urged the Mayor of London to look at drawing-up a template for a dedicated Shortage Occupation List for London - like Scotland already has. Likewise, London's civic and business leaders could come together to design a proposal for a future work permit system for our capital.
43. These proposals for a post-Brexit migration system for the capital are outlined in our November 2016 report ***Permits, Points and Visas: Securing Practical Immigration for Post-Brexit London***⁵.

⁴ ComRes survey for LCCI of 502 businesses, November 2016.

⁵ <http://www.londonchamber.co.uk/docimages/14742.pdf>

44. The proposals reflect the capital's unique reliance on workers from overseas and businesses' clear call for a new system that is flexible and based on need, rather than arbitrary caps on numbers.

45. How long should the transition period last?

46. The required transition times will not be the same for every sector or every change to the policy environment. Some changes may require more time to adapt to than others, and how much time is needed will also depend on the deal that is eventually agreed, and specifically how far removed that is from the current arrangements.

47. The two-year figure cited by the Prime Minister should be considered a minimum. More realistically, we believe that a transition for some sectors or area might take longer, potentially 3 – 5 years.

48. Critically, a transition should not be used as a means simply to extend the negotiation period but should apply once the destination for businesses is known, allowing them time to adapt. A 'transition' period during which uncertainty about destination remains risks simply deferring the 'cliff edge', rather than avoiding it.

Further Information

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