

EUROPEAN CHEMICAL INDUSTRY JOINT STATEMENT ON BREXIT AND THE FUTURE

NOVEMBER 2017

Importance of EU Chemicals Industry

The European chemical industry is a key pillar for a sustainable society, providing high quality employment to 1.2 million people in Europe and acting as a solution provider to other sectors of the economy for all major sustainable development challenges in the area of energy and climate, transport, health, food, hygiene, housing, ...

The UK chemical industry represents about 7% of total EU-28 sales. EU-27 exports to the UK reached 22.6 billion EUR in 2016, about 4.5% of total EU-27 sales, while imports from the UK totalled 19.3 billion.

The UK's decision to exit the European Union presents a political and economic challenge that creates significant uncertainty for companies and their employees.

Cefic and the UK Chemical Industry Association (CIA) are united in their concern about the adverse impact Brexit could have on the viability, international competitiveness and employment within Europe's chemical industry on either side of the channel.

Supply Chains

The chemical industry and its suppliers and customers are part of highly integrated European and global industry value chains, with complex supply chains often crossing borders on many occasions both inside the EU and across the external EU border. Chemicals may cross the EU-27 and UK borders several times, either in the form of final chemical products or integrated in (intermediate) products made with chemicals (e.g. car parts). Even in the case of the most advanced trade agreement, customs procedures will be much more complex and costly than in the single market of today.

Retaining duty free access for chemicals across the future UK border with the EU-27, along with terms of trade between the UK and the rest of the world no worse than those for the EU-27, is therefore an important concern for us, as well as for many other industrial sectors which rely on chemicals, notably the manufacturing sector. Placing additional burden on supply chains will increase production costs, impact negatively on consumers and cause disruption that will put jobs of industrial workers at risk.

Tariffs

There is still a lot of uncertainty about the future trade and investment relations between the UK and the EU-27. Whatever form it will take, it almost certainly seems to fall short of the current single market, with important consequences for companies and their employees. Even the most advanced Free Trade Agreement (FTA) falls short of the conditions prevailing in a single market.

Failure to secure a transitional period and a new UK/EU trade agreement would see the UK fall back on WTO Most Favoured Nation (MFN) status. This would mean the reintroduction of **import duties on chemicals trade** between the EU-27 and the UK. Assuming the UK would take over the same WTO commitments as the EU, this would mean a maximum tariff level of 5.5% or 6.5% on chemicals trade, amounting to roughly 40 billion EUR annually. An average import duty of 3-4% results in about 1.5 billion EUR additional input costs for the chemical industry per year. In a globally competitive industry it will be difficult to pass on these costs to customers and most of the burden will fall on the industry, resulting in reduced profitability, lower investments and less future growth.

Customs Procedures

Whatever the future long-term EU-UK relationship will be, the UK is likely to step out of the Single Market and customs procedures will be different, even with the most advanced FTAs.

Within the Single Market, documents follow the goods transported between the EU and UK. After Brexit, documents will need to precede the goods. Specific customs simplifications will cease to apply to flows between the EU-27 and the UK (e.g. centralized clearance, single authorization, Inwards and Outwards processing...). Also VAT and Excise formalities, as well as simplifications (deferrals, etc.) will cease, bringing a level of increased complexity for internationally operating companies in the EU-27 and the UK. In addition, a new set of rules of origin will need to be developed in case of a trade arrangement. Some companies, most probably SME's, trading between the EU and UK will also need to register as exporters and get familiar with customs requirements.

New and divergent customs procedures and requirements - such as documentation requirements, customs clearance procedures, or verification standards (e.g. REACH related) - will arise alongside the reintroduction of the border, and add administrative burden and costs on companies. Possible border delays may also occur – for example, due to the lack of trained customs officers, new IT tools and lack of physical infrastructure, new customs requirements and procedures - disrupting global value chains. Delays would consequently substantially increase costs, transport times and inventories for companies and potentially lead to adverse impacts on products currently providing just-in time solutions for consumers, as well as negative implications on cash flows (ex: VAT, guarantees).

We therefore consider that any agreement reached on the future EU-UK relationship must be the least disruptive possible so as to enable the easy flow of goods, minimize delays and the additional customs related costs of companies.

Free Movement of People

As regards possible restrictions on the **free movement of skilled people**, we would like to point out that the chemical industry is a global industry, with complex supply chains crossing multiple borders. Within those supply chains there are many different specialisms, and it is not possible to develop talent for all of them in one country. It is then typical to find highly-skilled people of many nationalities working, either as permanent staff, or as contractors, in chemical plants in the UK, EU-27 or across the globe. The continued free movement of skilled labour between the EU-27 and the UK is a high priority for us. Chemical companies understand the importance of providing local economic benefits including employment, but for a variety of business reasons, including skill shortages, they need access to the global talent pipeline. Securing the best can help secure employment for the rest.

Investment

Brexit could cut not only **FDI inflows** into the UK from Europe or third countries, but could also make Europe altogether a less attractive place to invest. The UK and EU-27 should therefore ensure that both remain attractive places to invest. We note with concern that other regions in the world have targeted industrial policy strategies that aim to develop their chemical and manufacturing industry more generally. Cefic and CIA therefore welcome the European Council conclusions of June 2017, which underline “the essential role of industry as a major driver for growth, employment and innovation in Europe”. We agree that concrete measures must be taken to avoid further investment leakage impacting the European chemical industry. We believe that a forward looking industrial policy strategy that upholds the social values in both the UK and the EU-27 is the best answer to concerns of people over globalisation, digitalisation and automation. This should be achieved by industrial policy strategies that encourage and support European-wide manufacturing, underpinned by robust safety, health, environmental and social standards.

Regulatory Consistency

Following Brexit, UK sales in the EU27 will need to comply with all relevant product safety regulation including REACH, biocides and pesticides legislation. Duplication of regulation and its associated cost should be avoided through securing regulatory consistency and continued collaboration with the relevant EU agencies such as ECHA. We would support the grandfathering of those substances that have been obtaining a registration or authorisation under any of these legislations. The free trade of these products should be guaranteed under the same conditions as is the case right now, and this should apply after March 2019 until the authorisation has to be renewed or the registration updated.

Also with respect to other legislation impacting the chemical industry (IED, ETS, environmental regulations) we call for measures to provide for regulatory consistency and clarity to economic operators and to uphold robust and equally high health, safety, social and environmental regulatory standards on either side.

Transition and Legal Certainty

The timeframe for the Brexit negotiations is extremely short and we therefore call for an appropriate transition period with pragmatic and workable arrangements on legal jurisdiction and dispute resolution to help European chemical businesses and the wider economy to prepare business for the UK's exit from the EU.

Summary

In summary Cefic and CIA:

- Consider that the UK's exit from the EU without a new trade agreement in place is the worst possible outcome for companies and their employees in both the UK and EU-27. A transitional period between Brexit and the new trade relationship should be adopted to avoid disruption of chemical markets;
- Call for the least disruptive agreement in terms of customs procedures. It should maintain the easy flow of goods, minimize delays and additional costs for companies related to new and different customs procedures and requirements;
- Stress the need for the continued free movement of skilled labour between the EU-27 and the UK;
- Call for concrete measures to avoid further investment leakage in the European chemical industry
- Call for regulatory consistency upholding the level playing field between the EU-27 and the UK. Social, safety, health, environment standards should remain at equally high levels. Provisions should be foreseen in the future trade agreement to ensure health, safety, environmental and social standards remain at a high level;
- Stress that a healthy and viable chemical industry is essential for the preservation of the social model that has been built up in Europe in the past 50 years. The UK and EU-27 should take positive measures to stimulate innovation in the chemical industry so that it can thrive and contribute to jobs and growth creation on both sides and offer high-quality employment;
- Call therefore on the authorities of the EU-27 and of the UK to develop forward looking industrial policy strategies that ensure that Europe remains an attractive place to invest; and
- Emphasise the need for a well-managed transition that addresses the need for commercial reassurance and legal certainty over market access, jurisdiction and dispute resolution.



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