

Position Paper on the Future EU-UK Relationship

June 2020

1. Introduction

The Japan Business Council in Europe (JBCE) is a European association representing over 90 multinational companies and firms of Japanese parentage in EU policy discussions. Since our founding in 1999, our members have been active in Europe across many sectors, including digital, information and communication technologies, electronics, automotive, pharmaceuticals and chemicals.

The JBCE members have developed broad and complex supply chains across the EU and the UK, and represent the strong investment, trade, and cooperation that characterise Japan's relations with both partners. An open trade environment between the EU and the UK has always been a key driver of our members' presence in both geographies.

We believe that preserving existing economic relations should be a top priority for both negotiating partners, and any “cliff edge” situations should be avoided at all costs. Considering the limited time for an agreement to be reached, **both parties should narrow down the scope of the negotiation as much as possible to ensure a deal can enter into force by the end of the transition period, on 31 December 2020.**

2. JBCE Recommendations to EU and UK negotiators

Having a deal in place by the end of the year, even if it is less ambitious, could significantly alleviate the economic burden for businesses caused by Brexit. To make this possible, in our view, parties should focus, if possible, on 5 main pillars over the coming weeks: **Tariffs, Rules of Origin, Trade Facilitation, Data Flows and MRA.**

These elements can limit the rise in operating costs on both sides after the transition period. If nothing is agreed, industries might not be able to continue to operate in both the EU and the UK, leading to job losses on both sides and slowing down a much-needed economic recovery.

a) Tariffs

Trade flows should be preserved tariff and quota free. The imposition of tariffs and/or quotas on industries that operate broad and complex supply chains across the EU and the UK would increase manufacturing costs and decrease competition between businesses.

b) Rules of Origin

The application of the FTA will imply a significant administrative burden for traders – some of which have never had to deal with third countries before. **Both parties should therefore provide a phase-in for operators, with simplified rules of origin.** In addition, the **application of duty drawback** should also be considered to further support businesses.

c) Trade Facilitation

Ensuring efficient customs procedures should also be at the top of the negotiating agenda. Additional time or cost burdens would place supply chains across the EU and the UK under severe strain. The JBCE recommends that the UK and the EU recognize each other as **Authorised Economic Operators**, while aiming to achieve further simplification for exporters/importers in the future. Investments in **enhancing customs facilities, reinforcing the number of custom officials and the systemizing of procedures** are also essential in this moment. The JBCE also recommends that the two parties agree on an implementation period to provide sufficient lead time for business preparations for administrative and product impacting changes.

d) Data Flows

The UK and the EU have also a very tight relationship in terms of data flows, i.e. digital trade. These data flows are already significant in terms of quantity and value, but they are bound to increase dramatically in the future, both in terms existing sectors, such as finance and banking and traditional IT services, but also with regard to the ongoing digitisation of industry as a whole, including the manufacturing industry. Additionally, more and more manufacturers provide service with their goods (e.g. cars, electronics), which relies heavily on data flows between producers and business customers and private consumers, including related to the products they use). **It is of fundamental importance that such data flows can take place as smoothly as possible.** The JBCE therefore calls upon negotiators on both side to work as speedily as possible towards a data flows framework (i.e. adequacy).

e) MRA(e.g. Marking)

The UK and the EU should aim to reach an agreement on mutual recognition in key areas. Particular attention should be paid to ensuring mutual recognition of qualifications, conformity assessment procedures, certificates and authorisations issued by conformity assessment bodies, standards, test report, and markings and labelling. The JBCE recommends that **the UK and The EU agree on an implementation period to provide sufficient lead time for business preparations for administrative and product impacting changes.**

3. Outlook

The current timeframe – whereby the transition period will come to a close by the end of the year, rendering the EU-Japan EPA's provisions inapplicable in the UK – has placed much pressure on negotiators' shoulders. The impact of the COVID-19 outbreak on the negotiating schedule has decreased businesses' faith that an agreement can be reached in time. The unparalleled challenges posed by the current health crisis to businesses in the UK and the EU render the need to avoid a "cliff edge" scenario even more pressing.

Therefore, we advise both partners to reject a “No Deal” scenario, and instead **focus on a pragmatic package of measures to protect EU-UK trade**. In view of avoiding any “cliff edge” and enhancing the possibility of an agreement entering into force in time, the JBCE recommends that **both sides prioritize the critical issues identified in the ‘5 pillars’** above which, if not decisively addressed, will have a destructive impact on the real economy. Negotiations on such key issues could also be held in parallel, thereby expediting the process even further.

Companies such as the JBCE members are truly on the front line in the currently unpredictable trade environment and bring decades of expertise in navigating the international commercial landscape. Thus, we call upon both parties to engage with the industry as these talks progress, in order to maintain a focus on designing a future EU-UK trade relationship that is pragmatic, positive, and brings prosperity to all.