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EUnited Competitiveness Review & Dinner Debate 2017

Trade After Trump and Brexit – what are the implications?



Does President Trump signal the end of free trade as we know it? Are our companies sufficiently prepared for Brexit? These questions were at the heart of EUnited's 2017 Competitiveness Review which was kicked off by EUnited's President Wilfried Eberhardt. He told the audience that the Trump Presidency and Brexit would influence the future of Europe and societal stability, whatever their outcome. The implications for trade would go far beyond cars – referring, of course, to the backdrop in the Autoworld Brussels.

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He was pleased to introduce the two speakers for the evening, Dr. Josef Braml (German Council on Foreign Relations) and Mr. Ross Melzer (Brexit Director, Euractiv).

Josef Braml said that while President Trump is a self-professed free-trader, what we are seeing is the opposite of free trade, namely **protectionism**. Braml reflected upon a survey that he had studied 3 years previously, in which a sample of Americans were asked what concerned them most. The response was not terrorism or immigration, but rather that too much power was in the hands of too few (i.e. businesses). In fact, the survey said that only 13% of Americans “cherished” the business world, compared to China and India where the same Burson Marsteller survey quoted around 70% support for the businesses. His conclusion on reading the survey was that Americans are tired of business-as-usual and that Trump was smart enough to realise that and to capitalise on the lack of legitimacy of the political system. Trump managed to make himself common with people and suddenly a billionaire was Joe-six-pack’s best friend. Hillary Clinton didn’t help herself at all.

Braml referred to **Trump’s inauguration speech** in which he repeatedly referred to foreign investment stealing US companies and taking US jobs. No longer he said, from now on it would be **America First and only America First**. This all happened at the same time as **Xi Jinping** was defending the liberal order in Davos against America. We are in trouble when China is defending the liberal order, Braml warned.

Braml concluded with a warning to those in the room: *Trump only does **zero-sum thinking** - I can only win if you lose. **TTIP** is dead in the water and it’s time to get real and think about what other options we have because our businesses and our democracies depend on it.*

Ross Melzer painted a terrifying picture of what the worst-case scenario in terms of the outcome of Brexit could mean for business on both sides of the Channel. He said that the event was taking place at a critical phase in the negotiations, at a time during which the UK was desperately trying to prove that it was making sufficient progress, particularly with regard to the financial agreement between the EU and the UK, and also the Irish border.

With reference to the 14th December Council Summit at which a vote would take place to decide whether or not negotiations could move on to trade issues, **Donald Tusk** was said to be “cautiously optimistic” following recent talks with **Theresa May**. Theresa May herself also felt optimistic following talks with Tusk, **Emmanuel Macron** and **Leo Varadkar**. But **Michel Barnier** has consistently said that talks were in “**deadlock**” as more clarity was needed from London as to its willingness to meet **financial obligations** following its departure. **David Davis** has repeated that it’s possible that the UK will not reach a deal.

Melzer gave his view on what **deal or no deal** would mean in practice:

A deal, according to Melzer, means a “softer” Brexit, implying a smooth transition to a new framework of cross-border trade. This could take the form of CETA or EFTA or an association deal like the deal between the EU and Morocco. It would mean Customs Union agreement. It could also be a standard FTA such as the Agreement between EU and S. Korea. But he warned that from the EU’s point of view, if there were to be a trade deal, it couldn’t be too close to current relationship. He also reminded participants that two of Theresa May’s “red lines” were that the UK would leave Single Market and the Customs Union.

No deal would mean a **hard Brexit or cliff edge**. This would mean no transition period, a reversion to WTO rules and no access to Single Market or the Customs Union. Melzer

cautioned that no deal would mean a seizing up of cross-border activity, and gridlock in ports and airports.

Melzer went on to list specific implications of both a softer Brexit and a hard Brexit. In the case of a softer Brexit, he said it would mean:

- a **reduction** or **elimination of tariffs** on most goods. An FTA also could be used to agree some form of **customs facilitation** such as elimination of tariffs on low-value goods, or cooperation at borders;
- confirmation of preferential terms for **exporters of services** in both directions. UK economy is 80 % services;
- creation of a bespoke **dispute settlement arrangement** between the two sides through which market-access issues could be discussed.

On the other hand, in the event of a **hard Brexit**:

- Leaving the EU and the EEA would leave the UK outside single market and customs union;
- In its hardest form, Brexit would mean no new or interim trade agreement between the EU and the UK, leaving the UK in the same position as Europe's third country trading partners such as **Haiti or Ethiopia**;
- It would leave rates of duty as set out in EU's common rates of tariff. For example 10% tariff rates on motor cars and up to 86% on food and drink!
- UK would be removed from regulatory frameworks, so it would require new regulatory regimes that currently apply directly from EU level. This gives rise to several other questions: what about UK's ability to take part in Patent system? Data protection? Duplication and divergence in standards?
- No mutual recognition would lead to additional costs from additional burdens and more red tape.

In conclusion, Melzer predicts that increased costs for industry will, in the end, be passed onto consumers (reducing competitiveness). However, in terms of preparation for Brexit, he set out 6 questions every business should ask themselves and prepare for:

1. Do my supply chains straddle the EU and the UK in a way that could expose my organisation to new tariffs post-Brexit?
2. Are my exports to EU markets going to meet rules of origin requirements sufficiently to ensure preferential treatment?
3. How well can my business model adapt to the need to process all imports and exports between the EU and the UK through different customs systems on both sides? What does this imply for inventory management and routes to market?
4. In the services sector, to what extent does the regulatory position of my cross-border business depend on EU status?
5. How dependant am I willing to be on third party dispute settlement systems for enforcing the rights of my operations in the EU?
6. How concerned should I be about the possibility that the UK and the EU will no longer mutually recognise the products standards, licencing decisions, and regulatory decisions that apply in each market. Does this mean duplicating product approvals or operating licences?

The evening's moderator **Frédéric Simon** (Editor, Euractiv) compared Trump and Brexit to inseparable twins. He said supporters of Trump and Brexit claim to be pro-business, but are actually anti-trade. Both have profound dislike for EU and international organisation all of which was a worrying mix for supporters of free trade and open economies.

The debate centred around the real impacts that businesses are already seeing and expect to see as a result of Trump and Brexit. Representing the American owned UK manufacturer of professional cleaning equipment, Truvox, David Overell, said that, due to the size of Truvox the main fear was a lack of infrastructure to move quickly outside the UK, he also said that contingency plans were very difficult to prepare for Brexit, given that it hasn't happened yet.

Markus Asch, Managing Director of Kärcher, which has considerable investment in UK, said that the only way to prepare was to freeze investments and raise pricing. In terms of preparing for the worst-case scenario, Kärcher would reduce operations as much as possible, but keep sales and services present as far as possible.

Representing KUKA, Wilfried Eberhardt said that the UK was a very small market for the company, so no contingency plan in place at KUKA. The biggest growth markets were in Asia. Nevertheless, the combination of the protectionism from the US and what Brexit could mean for Europe in the future, were of concern to KUKA too.

On a positive note after worrying signals from the US and the UK, there was a general hope that Brexit would mean a sea change in Europe. Already the Macron's election win and the failure of populists in the Netherlands were seen as wins for Europe. Everyone agreed that a soft Brexit would be best for the UK and for Europe, and in particular for trade.

In Conclusion, Wilfried Eberhardt said that whilst the world is not rational, and is changing, we cannot live in fear and business need to change with it. These crises that we see should be the impetus for this change and that **togetherness in Europe** is the key.

Please find here below the links for the photos.

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