



# EU and UK after Brexit

Idea paper for the future economic  
relations between the EU and the UK

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# Idea Paper for the future economic relations between the EU and the UK

Since 1 February 2020, the United Kingdom (UK) is no longer a member of the European Union (EU). After the transition phase, which lasts until 31 December 2020, the German economy will face new challenges in its economic relations with the UK. By leaving the Single Market including the customs union, the UK is moving away from its commitment to EU rules and standards. The UK is now a partner, but also a competitor in global trade.

In times of the Coronacrisis, increasing trade conflicts and global protectionism, it is in the interest of German and European companies for the EU to keep relations with the UK as close as possible (see also the DIHK-position [„Europe’s role in the world“](#)). German companies have prepared thoroughly for Brexit, also thanks to the [„DIHK-Brexit-Checklist“](#). More than 55,000 users of this list indicate that the need for advice remains high, especially among small and medium-sized enterprises. Without a legal framework there can be no planning security for trade and investment.

To agree on future relations comprehensively and conclusively by 31 December 2020 is extremely ambitious, especially given the current impact of the Corona-crisis. Although there is the possibility of a one-off extension of the transitional phase until 31 December 2022, the British side does not wish to do this currently. Therefore, the negotiations up to the end of 2020 must at least regulate the basic framework of the relationship and the most time-critical issues. A basic framework, however, means a low level of depth and more trade barriers. It is therefore in the interest of German companies that such a basic framework be used swiftly as the basis for indepth agreements in order to keep the period of uncertainty for companies as short as possible and to come to a solution supportive of investment and planning security for companies.

## Economic Relations UK and Germany

The United Kingdom is the seventh largest trading partner of Germany. However, since the British Brexit referendum in 2016, there has been a significant decline in imports and exports. The volume of trade between Germany and the UK in 2019 was around 117 billion euros. Around 750,000 jobs in Germany depend on trade with the UK. German companies have built up investments worth over 160 billion euros. Around 2,500 branches of German companies exist in the UK. They employ more than 400,000 people. According to the [DIHK Brexit survey](#) (March 2020), British companies have 1,500 branches in Germany and employ around 270,000 people.

## The German Chambers of Industry and Commerce and the German-British Chamber of Industry and Commerce as local contact partners

The 79 Chambers of Industry and Commerce (IHKs) and the [German-British Chamber of Industry and Commerce \(AHK in London\)](#) are points of contact for affected companies in Germany. The AHK was founded in 1971 and is a business-to-business organization with around 750 member companies. It offers business contacts, information and advice and helps about 20,000 companies each year to enter new markets and expand their export activities.

DIHK and the Chambers of Industry and Commerce have jointly supported companies in their preparations for Brexit via more than 350 information events and a road show in cooperation with the Federal Ministry of Finance. In addition, a monthly [Brexit newsletter](#) as well as the [„DIHK-Brexit-Checklist“](#) provide comprehensive and practical information for affected companies.

## Main demands for future relations with the UK

- The integrity of the EU Single Market must be preserved
- Clear institutional legal basis for future EU-UK agreements
- Level Playing Field: Close dynamic UK alignment to EU rules, for example on state aid law, taxes and standards
- Free trade agreement for duty-free trade in goods including SME chapter

## About the negotiations

Rearranging the EU's relations with the United Kingdom is likely to last for many years and will also be relevant to the EU's future relations with its neighbourhood. These negotiations must therefore be a priority for EU trade policy.

Ensuring the cohesion of the EU-27 remains the No1 priority. German business clearly stands by the **inseparability of the four freedoms of the Single Market**, as it offers the best framework for successful business throughout the EU. According to the DIHK business survey on the European Elections (2019), 85% of the companies would also accept losses in trade with the UK in order to maintain the EU Single Market. According to the DIHK [Brexit survey](#) (March 2020), German companies see the greatest Brexit risks in the areas of customs bureaucracy and new tariff barriers. The increasing use of the „Trade in goods“ section of the DIHK Brexit checklist also hints at this. Companies also consider legal uncertainties and exchange rate risks as great challenges.

Relations with the UK must **comply with WTO law** and must not damage relations with third countries, especially the EEA, EFTA and the Turkey Customs Union. This is even more relevant as the UK, as a trade policy partner and competitor, is negotiating with other third countries in parallel with the EU. The UK has already published a provisional customs tariff which is to be applied as of 2021 on all imports of goods from third countries without preferential agreements – i.e. potentially also on the EU. It mirrors the EU customs tariff to a great extent but can be changed unilaterally by the UK at very short notice which means legal uncertainty for companies. The expected deviation of the UK from EU trade defence measures and export control requirements also means legal uncertainty. **Sectoral access to the Single Market** and the customs union must be ruled out. Sovereignty in [rule-making](#) and EU trade policy must be guaranteed. **For companies, EU standards are important in a free trade agreement as they design their products accordingly.**

The Brexit negotiations have been conducted in a transparent manner by the EU so far. This should continue. Close stakeholder involvement is also important to minimise the ongoing uncertainty. **Finally, the general trade negotiation rule applies: Content before speed.**

## Ideas for a close EU-UK partnership

From the point of view of German business, the closest possible EU-UK partnership be important in the future. Relations must be sustainable, dynamic and comprehensive. Institutionally, the architecture of future relations must preserve EU legal and operational autonomy, provide legal certainty and guarantee the effective implementation of agreements. **A horizontal monitoring and dispute settlement mechanism for all areas** would be important to this end. In principle, future EU-UK agreements should be bundled into as few agreements as possible and have a clear institutional treaty basis to avoid excessively bureaucratic structures.

Continued **participation of the UK under third country conditions in EU programmes** such as Horizon or Erasmus is also in the interest of German business. In addition, companies depend on secure **data flows, energy supply, mobility of skilled workers, smooth transport and traffic**. The transit of EU goods via the British land corridor must also function smoothly as it is used for around 80% of intra-EU trade between Ireland and to the EU-26.

## Ensuring a level playing field

The prerequisite for the closest possible economic relations with the UK is a **level playing field** to ensure negotiations on equal terms for free and fair competition. Access to the EU Single Market must not be accompanied by unfair competition, for example through dumping. This would be to the disadvantage of German companies. The UK should therefore be as closely aligned as possible with EU law in the areas of competition, state aid, taxation and environmental-, food-, consumer-, data-protection and industrial standards, but also regarding future areas of regulation. Close cooperation should also be agreed in the areas of trade defence instruments, investment screening, export controls including dual-use regulations and sanctions.

## Free Trade Agreement

There should be **no tariffs or quantitative restrictions** between the EU and the UK. Depending on the possible negotiation timeframe, the FTA should **prevent trade barriers as comprehensively as possible**. This includes both goods-, services- and procurement-markets with an outcome that goes beyond the WTO Procurement Agreement. The **closest possible EU regulatory alignment** should be agreed with the UK in order to keep non-tariff barriers to a minimum. A **progressive chapter on SMEs and digital trade** should also be included. Data and intellectual property of companies must be protected and standards and norms – where possible – harmonised for digital trade. Modern trade rules are needed for the embedded services („Mode 5“) used in the production of physical goods.

## Customs Preferences

The DIHK [\*customs paper\*](#) includes concrete proposals to make trade agreements easier to use, especially for small and medium-sized enterprises. To enable as many companies as possible to benefit from trade agreements, first, simple rules of origin should be defined. In addition, unbureaucratic procedures for the required proof of origin must be set up. Those should be easy to understand and easy to apply in practice for manufacturers and exporters. It is important to avoid extraterritorial controls. The complexity of rules of origin as well as the red tape involved in providing proof of preferential origin determine whether companies make use of a trade agreement, i.e. whether they make use of the preferential tariff rates agreed therein. The future free trade agreement between the EU and the United Kingdom should take these aspects into account in order to keep bilateral trade as smooth as possible. Furthermore, a swift accession of the UK to the preferential trade area "Pan-Euro-Med" with uniform rules of origin would be in the interest of both sides: Both EU and UK business source supplies from Pan-Euro-Med countries that help to achieve preferential status. This possibility would cease to exist were the UK not to become a member of the Pan-Euro-Med area.

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