

ADS Contribution

Government Review of the Balance of Competences between the United Kingdom and the European Union

Call for Evidence – Free Movement of Goods - (HMRC & Department for Business, Innovation and Skills)

About ADS

ADS is the premier trade association advancing the UK's Aerospace, Defence, and Security industries, with Farnborough International Limited, the organisation that runs the Farnborough International Airshow (FIA), a wholly-owned subsidiary. ADS comprises around 900 member companies across all four industries, with over 850 of these companies identified as Small and Medium Size Enterprises (SMEs). Together with its regional partners, ADS represents over 2,600 companies across the UK supply chain.

The UK is a world leader in the supply of Aerospace, Defence, Security and Space products and services. With strengths in both manufacturing and innovation, the four sectors that ADS represents support one million UK jobs, export £22bn and invest around £3bn in Research & Development on an annual basis.

Summary of ADS Contribution

- ***Free Movement of Goods across the EU is vital for UK businesses***
The UK's aerospace, defence and security industries rely on the free movement of goods and the internal market for their ability to grow. Large, pan-European companies and their supply chains depend on the internal market to ensure the on-time delivery of systems and products across the EU.
- ***Effective implementation of regulations is critical to the success of the internal market***
The harmonisation of regulation benefits the free flow of goods and services. However, poor implementation processes on regulations, as seen through the REACH directive, can cause significant costs to UK industry.
- ***The Defence industry must be protected from further EU integration***
Whilst safeguards and harmonisation of the Defence industrial technology base throughout Europe is welcomed, the defence industry should remain a member state competence and be protected from further EU integration across the internal market.
- ***Internal market must ensure that the EU attracts trade with new and emerging markets***
On-going development of the single market in the EU must allow for the greatest environment possible for the EU to develop trade links with emerging regions and economies. Such development will allow UK industry to grow and sustain market strength.

1. EU Free Movement of Goods Competence and the UK Aerospace, Defence and Security Industries

- 1.1. The UK aerospace, defence and security industries operate in a global market. The ability to trade both within Europe and across the world into both existing and new emerging markets is essential for industry growth. In particular, the aerospace industry in the UK represents the largest in Europe, with sales to the EU in 2011 totalling £7.64bn. The free movement of goods across the European Union is therefore vital to both the large companies which have a considerable stake in the UK, and also across the supply chain where the EU continues to be its largest trading market.
- 1.2. Large aerospace companies require the quick and efficient movement of goods across customs barriers in the EU due to the pan-European nature of their businesses – with facilities across a number of large member states. In addition, the UK's supply chain relies on the ease of ability to move its goods around the EU. ADS believes that any change to the UK's capacity to participate in the internal market for goods would harm companies throughout the UK's defence, aerospace and security sectors.
- 1.3. As such, ADS's contribution will seek to consider key areas of EU competence surrounding the free movement of goods which impact specifically upon the UK's aerospace, defence and security industries. It should be noted that the purpose of this contribution is not for ADS to determine whether the UK would benefit from either being part of or independent of the European Union. ADS believes that as the EU and its institutions currently play a key role in shaping the operating environment for UK companies, the UK must seek to maximise its influence – in whichever capacity – in order to support and expand economic growth, trade and global competitiveness.

2. REACH regulations and the Internal market

- 2.2. Whilst the UK benefits from its inclusion in the EU's internal market, the implementation of regulations within this market can be cause for concern. In particular, the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals, (REACH), which entered into force on the 1st June 2007 has had a significant effect on the UK's aerospace industry.
- 2.3. The intention and aims of the REACH regulations are supported by ADS. The need to ensure that there is relevant protection of human health and the environment from risks of hazardous chemicals, and the raising of these standards is required across Europe, is essential. Indeed, under REACH, the long term benefits of the reduction or removal of hazardous substances from products or processes in the sector through robust impact assessment will be advantageous to UK industry. However, the implementation, understanding and communication of such regulations must be improved for the directive to succeed. The increasing use of global supply chains and the regulation of materials used in a product of their origin are likely to cause significant issues both inside and outside of the EU.
- 2.4. Despite this, the UK would not benefit from imposing such regulations at a unilateral level. Indeed, the UK would almost certainly have to comply with EU regulations if not a member state as the EU would remain its largest trading partner. With the UK's involvement in the European Chemicals Agency (ECA) and the development of the REACH initiative, there may be future opportunities to agree common frameworks and standards for the collection and communication of product data, in order to avoid re-processing of this data, which is currently impacting industry.

3. The Defence industry and the Internal Market

3.1. Whilst the trade in defence materials and products is primarily a member state competence, the EU has begun to increase its harmonisation of regulations within the European defence industry. Internal measures such as the 2009 Defence Package (Directive's 2009/81 covering defence procurement and Directive 2009/43 covering intra-community transfers) have created significant scope within the EU to develop greater internal competency of the EU Commission in the defence trade. Whilst the above directives were established to create safeguards on security of information and strengthen the technology industrial base across Europe, open competitive procurement should not be developed at an EU level, due to the complex nature of defence procurement and the inherent lack of expertise many nations have on such procedures. The UK must utilise its position in the EU to protect member state competence and scale back any further internal market measures which seek to then extend external trade competence.

3.2. In addition, following the above discussion of REACH, the UK must ensure that there is a consistent approach across all member states to the exemptions on defence materials within this directive. Currently, in some cases there is ambiguity of the inclusion of the defence industry, and for the UK it is therefore desirable that when an exemption is granted in one member state, it must be transferrable and implemented across all EU Member states.

4. The Free Movement of Goods must create an environment for external trade with emerging markets

4.1. UK involvement in the single market which allows for the free movement of goods, is essential not only for intra-European trade but also for trade with emerging markets. Regulatory framework which is implemented across 28 member states is more likely to invite new trade agreements with new emerging economies or regions, as they see the benefits of access to many new markets and consumers. In addition, companies within the UK currently find it easier to trade with EU rather than non-EU countries. Greater development and refinement will therefore make it easier for companies to deal with new trading partners. However, ADS would urge that the UK use its influence as a strong member state to improve implementation processes, and deliver only effective regulation. In addition, the UK could benefit if it were able to invest in alternative technologies ahead of some regulatory action, being in a position to then exploit and invest in those technologies.

5. Conclusion

5.1. For the UK's aerospace, defence and security industries, the UK's participation within the internal market has ensured greater access to a market of 500 million consumers, strengthened by the harmonisation of customs laws, regulations and processes. In addition, as part of this market, the UK has been able to benefit from inward investment and trading from non-EU countries recognising the positive aspects of accessing the world's largest trading bloc.

5.2. However, despite the positive aspects for businesses within the four sectors that ADS represents, potential over-regulation and fragmented implementation of measures must be addressed. Whilst some harmonisation is beneficial to businesses as it intends to simplify procedures for cross-border trade, potential over-regulation can prove counter-productive to the internal market, if impact assessments are not robust and member state flexibility is not secured. Areas such as the increasing desire for the EU commission to gain greater competence over the defence industry is of particular concern, and is an area where the UK must protect member state competence.