
EEF and UK Steel submission to the Trade and Investment Review of the Balance of Competences

Overview

1. EEF, the manufacturers' organisation, is the voice of manufacturing in the UK, representing all aspects of the manufacturing sector including engineering, aviation, defence, oil and gas, food and chemicals. With 6,000 members employing almost 1 million workers, EEF members operate in the UK, Europe and throughout the world in a dynamic and highly competitive environment.
2. UK Steel, a division of EEF, is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processors.
3. Trade and investment are vital to the health of the UK manufacturing sector. A significant proportion of manufacturing output is destined for markets overseas and foreign firms have invested a considerable amount in the sector – the stock of inward foreign direct investment in the manufacturing sector was approximately £135 billion in 2011.
4. Our members have benefitted from the lower barriers to trade within Europe, the result of being part of the single European market and the customs union. Lowering trade and investment barriers with the rest of the world would be beneficial for the UK economy and UK manufacturers, bringing more jobs, higher wages, higher output and boosting economic growth. As such, greater liberalisation and the removal of barriers to trade and investment should be at the forefront of UK policy on these issues.
5. When thinking about the relationship between the UK and the EU in relation to trade and investment we believe:
 - a. Operating as part of a trading bloc strengthens both the UK and Europe's bargaining power and ability to lower trade barriers and support investment;
 - b. The European Commission plays an important role representing EU and UK interests in trade negotiations and the implementation of trade policy;
 - c. Member states need to be able to promote their own advantages and use their international connections to attract trade and investment;

- d. Export and import controls and export credits are governed currently by international arrangements and therefore there would be little movement if the competence balance were to change;
- e. Free trade agreements and greater harmonisation are key opportunities for boosting UK trade and investment;
- f. The current balance of competence over trade policy is integral to the functioning of the internal market and would, therefore, be difficult to change while remaining part of that market.

International Trade and Investment Negotiations

Question in this section:

- What are the advantages and disadvantages of the EU's competence over trade and investment, particularly in relation to international trade and investment negotiations?

Trade policy should be focused on greater trade liberalisation

- 6. The UK's historical policy position has been to push for greater trade liberalisation and less protectionism. Significantly removing tariff and non-tariff barriers to trade around the world would have a measurable positive impact on growth, job creation and higher wages. The effects of trade liberalisation will be visible through an increase in the pace of innovation, a faster pace of resource reallocation, and higher productivity.
- 7. An OECD report *The Impact of Trade Liberalisation on Jobs and Growth*¹ shows that reducing trade barriers (both tariffs and non-tariff barriers) would generate more jobs, higher real wages and increased exports. According to this report, a 50% reduction in trade barriers around the world would have both long-run and short-run benefits for the UK. It would, for instance, increase:
 - long-run employment of lower and higher skilled workers by 1.9% and 2.3% respectively;
 - unskilled and skilled workers' wages by 3.8% and 4.6% respectively;
 - the value of imports by 13.2% and the value of exports by 14.2%; and
 - long-run GDP by 6.6%.

Operating as part of a trading bloc strengthens the UK and Europe's bargaining power

- 8. The EU is the largest single market in the world so has a strong bargaining position in trade negotiations. Europe, as an integrated market with the free movement of goods, is

¹ OECD, *The Impact of Trade Liberalisation on Jobs and Growth*, January 2011

seen as a fully functioning manufacturing supply chain by countries outside of the union. On its own, the UK, with its relatively small market, would not be as attractive for third countries to negotiate with and would not be able to have the bargaining power. Indeed, in relation to the current Transatlantic Trade and Investment Partnership (TTIP), US officials said there would “little appetite” to negotiate a bilateral deal with the UK if competence was at a national level. TTIP benefits for the UK have been estimated at a top level of an increase in GDP by £10bn and an increase in exports of 2.9%².

9. The EU-South Korea Free Trade Agreement had an immediate and sizeable impact on the UK's trade with South Korea. UK exports to South Korea grew over 80% in 2012 after the FTA came into force, growing from £2.5 billion in 2011 to £4.5 billion in 2012. Much of this growth was in mineral fuels, lubricants and related materials. In 2012 the UK ran a trade surplus with Korea for the first time, of £1.4 billion, after running trade deficits since the mid-1990s.
10. One eye must also be kept on the future, it must be taken into consideration that other nations have plans and are coming together to form blocs and economic communities and are becoming more integrated, e.g. , the UK would not want to find itself isolated and without the clout to successfully negotiate trade deals.
11. But to be part of the bloc requires compromise in the mandate phase, and the UK may not be able to negotiate on areas that other member states want to be off the table. This points to the UK needing to continue to be fully involved and vocal at this stage of the process. Furthermore, the UK frequently acts as a rallying point for those member states that tend to be more liberal within the EU. If the UK were to repatriate competence for trade negotiations, the EU's stance on trade policy could become more protectionist to the detriment of the economic growth within the whole bloc, including the UK.
12. Trade negotiations are a point where influence and success are achieved by acting as a collective unit, and so competence at the EU level remains in the interest of the UK.

The European Commission plays an important role in trade negotiations and implementation of trade policy

13. The European Commission has considerable resources devoted to trade negotiations and the implementation of trade policy. It would be costly for the UK to replicate all these functions.
14. The Commission has also effectively defended the EU's trade interests through the World Trade Organisation (WTO) dispute settlement procedures, in particular in removing non-WTO-compliant barriers against EU exports. WTO dispute settlement can become very political, particularly during the end-game and there is greater strength in numbers when fighting major economies such as the US and China. It is, for example,

² CEPR, *Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership Agreement between the European Union and the United States*, March 2013.

self-evident that the withdrawal of concessions by the EU is a far greater deterrent to trade barriers than would be the case if the UK were acting alone.

15. The EU's application of the WTO's trade defence mechanisms (anti-dumping, countervailing and safeguards) is generally fair and effective. It is essential that these "safety valves" built into the WTO are used robustly when needed, but the EU's WTO-plus approach ensures that a balance can be struck between the conflicting interests of domestic parties. It is in the interests of UK manufacturing that this balanced approach is maintained.

Trade and Investment Promotion

Question in this section:

- What are the advantages and disadvantages of having trade and investment promotion largely at the national level? How well has this delivered on UK objectives?

Member states need to be able to build on their advantages and international connections to attract trade and investment

16. Trade needs to be an important consideration in looking at the relationship between the EU and the UK. Trade is a key contributor to the overall economic growth of the UK, goods exports totalled £299 billion or 20% of GDP and goods imports were £407 billion or 27% of GDP; trade with the EU is the single biggest market for UK exports with half of total goods exports going to EU member states in 2012.
17. Our own research shows that around 90% of EEF members export to the EU; indeed it is often a first export destination and a gateway into exporting into countries further afield for UK based companies. The UK's national export targets want export levels to be at £1 trillion by 2020 and for 100,000 new companies to be exporting by the same date. Trade promotion and guidance can be shaped and focused to help achieve these national targets – if there were a situation where by national targets were set but promotion was at an EU level, this may lead to a mismatch in priorities and a lack of specificity that would not help the national aim.
18. Having trade promotion at a national level means that support, advice and help can be tailored to UK companies, and the strengths and niches that are country and company specific. The promotion can also build on top of national brands and capitalise on events like London Olympic Games 2012. Trade promotion and overseas activity is closely tied to activity in national embassies and consulates worldwide. They are able to provide in country support whilst having a clear understanding of national aptitude and home country procedure. Historical ties to other markets also make the focus of trade different to other countries in the EU.

19. There is an importance distinction between participation at the EU level in trade negotiations and work at the national level to promote trade and investment. Regarding trade negotiations, though compromises will generally need to be made to agree a joint mandate, there will be advantages in working together as a larger group to secure access to export markets. In contrast, trade and investment promotion are best handled at the national level, where the government can shape what it does to capitalise on the UK's particular strengths.
20. Being part of an economic area, which accounts for 20% of world output, is critical to Britain attracting inward investment. However, the UK must be able to show and promote why its own advantages as a base for trading with the rest of the EU. The UK is very successful in being the investment destination of choice for non-EU companies setting up facilities in Europe, and one of the selling points is access to the single market. For example, Japan's foreign direct investment accounts for 4% of the stock of inward investment to the UK and represents over £31 billion of UK-based investments. The Japanese government's input to the Balance of Competences is a case in point:

*"The UK, as a champion of free trade, is a reliable partner for Japan. More than 1,300 Japanese companies have invested in the UK, as part of the Single Market of the EU, and have created 130,000 jobs, more than anywhere else in Europe. This fact demonstrates that the advantage of the UK as a gateway to the European market has attracted Japanese investment. The Government of Japan expects the UK to maintain this favourable role."*³

Export and Import Controls and Export Credits

Question in this section:

- What are the advantages and disadvantages of the current division of competence over export and import controls and export credits?

International arrangements govern current controls and guidelines

21. Manufacturers often report problems getting export licences, especially for 'dual-use' items – i.e. materials, goods, software, technology and documents that can be used for civil and military applications. The list of dual-use items subject to UK export controls stems from EU legislation.

³ The UK Government's Review Of The Balance Of Competences Between The United Kingdom And The European Union, Contribution by the Government of Japan, http://www.uk.emb-japan.go.jp/en/japanUK/governmental/130711_UKEU.html

22. Opting out of this legislation would have a limited impact on the licensing process. The EU-derived list of controlled items is based on a number of international export control regimes to which the UK was party before the EU legislated in this area. So unless the UK decided to unilaterally withdraw from regimes, a change in the balance of competence would have no effect on this issue.
23. The guidelines for export credits fall under the OECD's arrangement, whose purpose is to provide a framework for the use of officially supported export credits which will provide a level playing field. This ensures that competition is based on the price and quality of the exported goods and not the financial terms provided. This suggests that the competence of the EU negotiating with the OECD on matters is adequate as the UK would need to comply with OECD rules if at a national level⁴.
24. The possibility of a single EU export credit agency would raise questions on how it would interact with differing financial systems across Europe, and the currency it would work in. With the distinct possibility that two member states could be competing for the same work, there are also queries on how such an agency would choose who to back with financial help. Currently UK Export Finance is linked to and accessed through national banks, and there are therefore questions as to how this could work if the agency was at an EU level. Similarly, export finance is guaranteed by national treasuries and there would be challenges establishing an equivalent EU level agency, which could act in an effective and timely manner.

Future Challenges and Opportunities

Question in this section:

- What future challenges/opportunities might we face on trade and investment policy and what impact might these have on the UK national interest?

Free trade agreements and greater harmonisation are key opportunities for making trade and investment policy more effective

25. As outlined earlier in this submission, furthering the removal of trade barriers and greater trade liberalisation would have significant payoffs for the UK.
26. The prospects for the successful conclusion in the medium term of a further comprehensive multilateral trade round under WTO auspices look remote. Therefore progress on trade liberalisation will hinge on continuing bilateral agreements and deals.

⁴ The EU exercises a further level of control over government export credit insurance through its state aid regime (OJ C392 of 19 December 2012), but this falls outside the scope of the current consultation.

As evidenced by the US response to a potential UK exit from the EU, the best outcome for the UK will be achieved as part of the EU negotiating as a bloc.

27. Trade disputes will continue to flare up. As the EU has been effective in defending EU and UK trade interests, acting as a bloc when disputes arise will give the best prospective of successful resolutions in the interest of the UK.
28. The use of trade restrictions as part of the fight against climate change continues to be raised by academics, Non-Government Organisations and some member states. Given the nature and potential cost to businesses of climate change policies, the UK needs to be at the centre of any such discussions.
29. Completion of the single market and further moves towards harmonisation of standards will also help trade and investment as EU standards drive action elsewhere in the world. This will make it easier for UK businesses to trade and reduce compliance costs. For example, one medium sized manufacturing company told us that they spent between £70,000 and £80,000 getting products through all of the various certifications. This can be a significant cost for businesses, especially for SMEs, and progress towards harmonising these across both the EU and the world would be positive for UK businesses.

Other issues

Question in this section:

- Are there any general points you wish to make which are not captured above?

Trade policy competences are integral to the functioning of the internal market

30. In EEF's view, the questions posed in the consultation avoid a more fundamental aspect of EU competence over trade policy.
31. EU competence over trade has been crucial to the creation of the Common Commercial Policy (CCP), i.e. to the establishment of the common set of rules and tariffs that define the EU's border with the external world. The CCP in turn is integral to the Internal Market. Trading within the EU would be vastly more complex and administratively burdensome if each member state is able to maintain its own tariffs on extra-EU imports, its own rules of origin, its own trade defence measures etc. Furthermore, trade flows within the EU would be distorted (as imports into the EU would be routed through the member states with more liberal and lower cost trade barriers) and thereby less economically efficient.
32. Therefore, EEF's view is that repatriation of trade policy competences would threaten the integrity of the Internal Market. Put another way, it is doubtful the UK would be permitted

to remain within the Internal Market if it regained competence for the setting of rules and tariffs with regard to its extra-EU trade and then used that competence.

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