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**Immediate Release Monday 27 March 2017**

## **EU trade under WTO rules will add up to 10% to trade costs**

How companies deal with uncertainty and standards are Brexit's main challenges

Two-thirds of mechanical and electronic engineering companies expect trade barriers and cross frontier admin to cause problems post Brexit according to the report from the Engineering and Machinery Alliance (EAMA) published today. If the extra admin associated with exporting to the rest of the world applies to the UK's, EU exports companies say that will increase their costs by between three and ten per cent.

Other findings, beyond the immediate hurdles that make international trade more difficult include, the imbalance between EU imports and exports, the role of standards in frictionless trade, companies' positive but realistic views when considering their future business development opportunities and the powerful impact of specialist exporters and importers.

It's the uncertainty that could potentially be so damaging over the next few years. Businesses can't effectively plan for the future in some areas, for example if they don't even know if they will be able to retain employees currently working for them from other EU member states.

Martin Walder, chairman EAMA: "On the other hand there are some clear and obvious unvarying 'immutable's. Brexit doesn't change geography. The UK will remain immediately adjacent to the world's biggest single market. In the natural order of commerce, UK-based companies will want to sell into that market and many companies are already used to meeting overseas customers' standards in various markets including the US as well as the EU.

"It will be up to companies, organisations and trade bodies to ensure they remain up-to-speed with any future changes in standards, ensuring there's no unintended creeping divergence between their standards and those of their EU customers. Digital platforms will help manage the required precision and flexibility."

As different companies implement different solutions over the next couple of years, the UK market is likely to undergo some significant changes turbocharged by industrial digitisation, providing big opportunities for some to raise their productivity. For example, if immigration numbers are tightened some companies may well see that as an opportunity to invest in capital plant and mechanisation.

The Engineering and Machinery Alliance (EAMA) report summarises the post Brexit views and expectations of 144 mechanical and electronic engineering companies.

The EU's drive to ease trade means that trade tariffs, rules of origin, delivery times, cross frontier admin and non-tariff barriers are all much less of a problem trading within the Single Market than when exporting into it from outside the Union.

There's broad agreement amongst the vast majority of firms that trade with the EU post Brexit won't be any easier, although two-thirds of micro and small businesses anticipate that non-tariff barriers won't get in their way, when importing into the UK. On the other hand 60% per cent of large companies expect to be hit negatively by changes in this area post Brexit.

The problem is that although the 'lower hurdles' are less visible generally, two in five companies think that rules of origin, delivery times and non-tariff barriers will all affect their businesses negatively.

Companies typically estimate the added cost of exporting to the Rest of the World at an extra 3-10% and imagine that this is the sort of increased cost they will have to absorb to be competitive if they continue to supply into the EU as they have in the past, but under WTO rules.

The report dispels some preconceptions about UK exporters' reliance on the EU market to the exclusion of the Rest of the World, but rather 'rubs it in' when it comes to importing. The reality of the UK's supply chain dependence on imports is laid starkly bare.

In this survey EAMA estimated that exporting accounts for 24% of turnover but EU exports only 10%: turnover £4.7 billion, exports £1.1 billion, EU exports £464 million.

But calculations on same basis show the same companies racked up £1.6 billion in imports (35% of turnover), with the EU accounting for £1.0 billion (62%) of it, reflecting how dependent the UK is on the EU's supply chains for components and technology. There's enticing scope for improving the UK's balance of trade in this area.

Returns also show how tightly some firms focus their activities with approximately a third of companies specialising in exporting, exporting 50+% of their turnover (designated SEs), and similar proportions focused on importing 50+% or more (SIs) and others regularly both importing and exporting (Exlms). About one firm in 25 belongs to all three segments.

The SEs account for 73% of all exports, the SIs 76% of all imports. Just under half (48%) of SEs are medium sized. Small firms form the largest slice of the SIs (45%). Medium companies do 37% of the export trade and 30% of the importing. Small firms about a fifth of importing and less than 10% of exporting.

Martin Walder again: "When it comes to exporting and the services and support needed to be truly competitive and internationally successful, Government could do a lot worse than engage with the SE and Exlm type companies, particularly those medium size firms that are also up for investing in innovation as well as developing new markets."

Smaller companies depend more on importing than exporting as distributors (e.g. micros 69% importing, 8% exporting). Exporting and importing are more evenly balanced sources of turnover for the larger companies (medium 35% import, 30% export; large companies 29% import, 23% export).

Looking forward three years, companies were asked to rate their chances of gaining and losing business in the EU and the UK on a probability score of 0 to 3.

Over half (52%) think they have good chances to win more EU business (probability score 1.7), 73% the same for UK (1.9). Only 10% think they are likely to lose EU business and a similar proportion for UK (8%).

The most confident group of companies are the third of companies that regularly export and import, with over two-thirds expecting to gain EU business (probability score 2.0). They are also the most confident group with a score of 2.1 when it comes to gaining business in the UK (73%). Micro firms and medium size businesses are equally confident (72% high or medium likely).

*(ends)*

#### **Notes to editors:**

1. EAMA's 14 trade associations represent 2,000 firms: Agricultural Engineers Association, -- British Automation and Robot Association -- British Compressed Air Society -- British Fluid Power Association -- British Paper Machinery Suppliers Association -- British Plastics Federation -- British Turned Part Manufacturers Association -- Gambica -- Gauge and Toolmakers Association -- Manufacturing Technologies Association -- Printing Industry Confederation -- Processing and Packaging Machinery Association -- Solids Handling and Processing Association -- UK Industrial Vision Association