techUK

What tech exporters want from Brexit

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Introduction

Brexit is an unprecedented political undertaking. Regaining power over some policy areas may boost competitiveness and better target support for growing UK industries in some instances. However, there are significant risks around accessing European markets and severe disruption, additional costs and burdens for businesses trading abroad.

This paper outlines priorities to ensure the current flow of trade is not disrupted and complements an existing techUK paper 'Leaving the Customs Union' which focuses specifically on the fundamental importance of getting a customs system ready in time for Brexit.

While there may well be opportunities for reform post-Brexit, the overall message from techUK members is that **there should not be new barriers in the movement of goods between the UK and the EU**, particularly for just-in-time services that are increasingly important to support products with wrap-around digital service contracts and a vibrant and growing e-commerce market. Getting this wrong jeopardises UK exports.

Transitional or implementation deal

Securing a 'status quo' transitional deal is a key priority for the tech sector. This is vital to ensure that Government has the correct infrastructure in place to deliver the future EU/UK customs relationship, and businesses have time to adapt to working within these new structures. While the UK and the EU agree that it is best for both parties for there to be a transition period, until the text of such an agreement is formalised there remains significant uncertainty. techUK members have postponed investment decisions and are starting to move some operations to the EU. The longer uncertainty persists, the further this process will proceed, weakening the UK's economy and creating substantial costs and disruption for businesses.

A transitional deal must:

a. **Be agreed early in 2018:** techUK is pleased progress has been made and an agreement should be formalised by the EU Council on 23 March. There has been progress on the transitional or implementation deal, however further delay would decrease the time available to negotiate the future relationship.

b. **Last for at least two years:** the final length of the transition must be based on evidence, not on political expediency, and be as long as is necessary to enable the conclusion of negotiations on the future relationship, and a smooth and orderly transition to it. This must allow both the UK and the EU to be ready for new customs arrangements from the first day. Setting an artificial deadline risks creating a new cliff edge and weakens the UK's negotiating position. Unless further details of the post-Brexit systems required are provided swiftly, even two years will become an increasingly tight timeframe to deliver the necessary infrastructure.

c. **Ensure that businesses only have to adjust once:** divergence will impose potentially substantial extra costs and delays on businesses if they need to adjust processes and operations more than once.

d. **Aim not to increase the base price for products:** there needs to be as little divergence on regulatory issues and standards as possible to ensure the trade of technology products and services flows. Diverging from existing standards increases manufacturing complexity and businesses may not be able to absorb additional costs.

The current impacts of uncertainty

Some tech companies have already started adapting their processes and operations, such as moving goods into the UK in anticipation of border issues. This makes companies much less productive, increases overheads associated with storage and warehousing, and diverts spending and investment.

Other firms are moving operations and personnel to the EU, especially larger firms with EU customers that need a centralised operational structure. Specific examples from techUK members include:

Example one: Japanese IT provider.
A major Japanese provider of ICT equipment and services currently uses the UK as a European hub for operations. As contracts are generally five years plus, warehousing, engineering and servicing are now moving into the EU to maintain quality of service and pricing structures.

Example two: UK IT services supplier.
A UK ICT services supplier importing goods to the UK where they are configured for sale abroad. Operating a UK centre serving the EU market is no longer justified with such little information about the future UK/EU relationship and a business decision has been made to relocate the distribution centre to the Netherlands.

Example three: UK cyber security company.
A decision was made that international software sales would need to be conducted from the US and distributed from US based servers, with no input from the UK subsidiary. This is because the current UK licensing regime does not support the quick and meaningful distribution of software without End User Undertakings. The US also allow distribution to destinations that include China, Russia and the Ukraine within the same open distribution regime.

Finally, there is also the significant issue of currency devaluation. Sterling has decreased 20 per cent against the Euro since June 2016 which impacts businesses, particularly those basing prices in Euros. More widely the decreasing value of the pound has eroded margins in an already very competitive technology environment.

Mitigating uncertainty

The UK Government needs to minimise the negative impacts of ongoing uncertainty by **reforming the customs system, spelling out options for negotiations and avoiding a 'no deal' outcome**.

Customs

There has been welcome further clarity from HMRC but there is still a chance that the Customs Declaration Service will not be ready by the January 2019 deadline. HMRC and suppliers are making good progress on contingency planning. techUK supports extending CHIEF (Customs Handling of Import and Export Freight) as a possible contingency. Overall, there needs to be a revised Customs 2020 plan which gives significantly more detail on options for the Irish border and how it fits in with the wider UK/EU relationship.

Furthermore, the Government's own white papers on customs and the Irish border refer to 'tech solutions' and we are keen to understand what exactly these solutions are. The tech sector needs to understand the specifications and desired outcomes to develop, package and test the right products and solutions.

Specific reforms to customs have been explored in another techUK paper 'Leaving the Customs Union: Challenges and Opportunities for a Digital Global Britain', but a new simplified process for declarations, more accessible Authorised Economic Operator registration and online VAT declarations are all opportunities which can support a frictionless customs system.

Set out negotiation options

techUK also encourages the Government to **set out options during negotiations** to allow for flexibility in negotiations, which will enable businesses to make informed decisions. In recent weeks there has been more willingness to compromise and having a more open dialogue. This is a positive step.

Avoiding a 'no deal' outcome

A so called 'no deal' outcome would be the worst possible outcome for techUK members. It would mean raw materials and items not within the Information Technology Agreement (ITA) would have tariffs applied to them, resulting in supply chain disruption, price rises, and orders potentially being lost to overseas competitors. Furthermore, reverting to WTO terms would not address non-tariff barriers to trade, such as regulations and standards.

The opportunities: Making the best of Brexit

Away from potential problems, Brexit could be an opportunity to simplify regulations and re-examine onerous export procedures, which can dampen competitiveness vis-à-vis other international exporters such as the USA. This includes **reforming export controls, a new dual-use goods policy and 'Virtual' Free Trade Zones**.

Reforming export controls

Industry supports effective and robust export controls, especially for dual-use items. However, the UK licencing regime is among the most complex and lengthy in the EU, despite having to follow the same EU-derived regulations. As a result, many firms export controlled items from European subsidiaries to fulfil contractual obligations which results in a loss of UK revenue and tax.

The UK Government should also streamline procedures around end-user undertakings which can cause unnecessary delays to contracts, sometimes for time-critical goods such as medical equipment or international aid supplies. There needs to be more flexible licencing and better processing to make the whole export licencing process smoother and quicker. More generally, Government should consult on reducing the overall administrative burden related to export and international trade compliance.

A new approach to Dual-Use goods

Dual-Use items are a UK success story. While industry supports harmonisation with EU regulations, Brexit is an opportunity to develop a new policy on dual-use goods, particularly by increasing UK input into Wassenaar and simplifying the relevant Open General Export Licences. The recast EU Dual-Use Regulation will probably not pass the EU legislative procedure until the transition period and clarity is needed on the adoption of EU rules during this period. Until then, the UK Government should continue to work within the EU to avoid the EU Control Lists diverging from those agreed by international export control regimes and avoid the imposition of burdensome and unworkable end-use controls. Further forward the UK Government should set out a long-term vision for the treatment of Dual-Use goods being exported.

UK businesses will continue to be strongly affected by EU Regulations, particularly if they wish to sell into the EU. The UK Government should ensure it retains, as far as possible, influence in the formulation of future changes to the EU Regulations, including through continuing close cooperation with the EU on export control issues. In considering any divergence from future EU Regulations, the UK Government should consult closely with industry and take full account of the costs and benefits. It should conduct a review of Dual-Use arrangements in non-EU countries such as the USA, Israel and Switzerland and consult on adopting the most successful parts of these regulations.

The Government should also advise whether the EU 27 remaining countries will be added to a new UK Dual-Use Open General Export Licence, with the current EU GEA 001 countries. The UK should also seek to be added at the point of departure to the current EU GEA 001 Open Licence. If this is the case, UK companies should continue to benefit from the current audit requirements of the EU GEA 001 for is new Open General Export Licence.

Exploring Virtual Free Trade Zones

The UK should also consider **creating 'Virtual' Free Trade Zones** (VFTZs) to mitigate the disadvantages of the introduction of customs declarations, checks, VAT and duties on UK-EU trade after the UK leaves the Customs Union. These tech-enabled virtual zones streamline import/export and customs processes by having web-based portals. They are particularly beneficial to the international trade in IT products.

It is possible to establish VFTZs under the Taxation (Cross-Border Trade) Bill. VFTZs are treated as existing outside of the common customs area and unlike a customs bonded warehouse, they permit the processing of materials without having import duties and taxes imposed. VFTZs would benefit those importing materials to the UK for configuration and then subsequently exporting the finished article. By adopting VFTZs, the high level of public investment in infrastructure will be reduced.

Summary of recommendations

With negotiations underway our recommendations would deliver more certainty which helps tech exporters continue investing and operating in the UK. Furthermore, they would provide more opportunities for export sales of technology products and help businesses remain competitive by reducing costs. The recommendations are:

Ensure there are no new barriers in the movement of goods between the UK and the EU, nor an increase in base prices for products. This is key to maintaining UK competitiveness in the tech and digital sectors.

Transitional deal terms should be outlined early 2018 and be results driven and business ready. A transitional deal should last as necessary to put in place the physical and digital infrastructure needed to deliver a seamless post-Brexit customs system. This will be at least two years and may need to be longer and should follow a project management system with key milestones.

Reform export controls. The UK has taken the lead from Europe on a variety of export control policies and Brexit is an opportunity to reform, future-proof and simplify onerous export control regulations.

Consider other Dual-Use arrangements. The Dual-Use Regulation will not pass in time to be accounted for under the processes in the EU Withdrawal Bill, and the UK should set out a long-term strategy for promoting the exports of Dual-Use goods.

Consider 'Virtual' Free Trade Zones. Using tech, 'Virtual' Free Trade Zones can allow for smooth processing of goods and allow for frictionless trade.

Reform the customs system. Whilst the CHIEF – CDS transition is happening already, there is an opportunity to properly revise the whole suite of customs procedures.

Flexibility in the next stage of Brexit negotiations. Businesses need to know where the UK and EU will be flexible and to what extent to better justify investment decisions.

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