

## The Malta Chamber of Commerce, Enterprise and Industry initial reactions to the House of Lords' EU committee report entitled 'BREXIT: trade in goods'

### Factors to be taken into consideration

**Premise 1:** This document was published prior to Prime Minister May invoking article 50.

**Premise 2:** Given the level of uncertainty and the fact that the European Council met a few days ago to discuss its initial recommendations and terms of reference for the EU's chief negotiator with Britain, it is difficult to conclude the exact stance which will be taken by the EU institutions. Nevertheless, on the 3<sup>rd</sup> of May the Council issued its recommendations<sup>1</sup> to the Commission to open negotiations with the UK.

**Premise 3:** This document was published before the statement by the UK Prime Minister to call for an early election in the United Kingdom in June. This development could change the whole spectrum of the debate. It is expected that the Conservative Party will win an absolute majority in the next election which will give a stronger mandate to the UK's Prime Minister during the negotiations with the EU. This could have long lasting effects on the same negotiations.

### Malta Chamber's reactions to the document

It is very likely that the BREXIT process will have a somewhat negative impact on the Maltese economy, at least in the short to medium term due to how the Maltese economy is exposed to the UK economy across the board. In fact, in 2013, Maltese exports to the UK amounted to 7.8% of the national GDP with foreign direct investment stock in the UK making up 11.8% of GDP.

It is practically inconceivable that some form of trade arrangement will not be retained, with an agreement similar to what the EU currently has with third countries such as with EFTA or other models. However, considering any potential future tariff and non-tariff barriers the cost of trade might inevitably increase. On the other hand, should the UK's cost-base decrease, it could make productive activities and subsequent exports highly competitive. Should this be the case, the current negative trade balance Malta has with the UK (-€287 Million in 2015) will in all likelihood widen, potentially at the expense of similar products from other member states.

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<sup>1</sup><http://www.consilium.europa.eu/en/press/press-releases/2017/04/29-euco-brexite-guidelines/>  
[https://ec.europa.eu/info/sites/info/files/recommendation-uk-eu-negotiations\\_3-may-2017\\_en.pdf](https://ec.europa.eu/info/sites/info/files/recommendation-uk-eu-negotiations_3-may-2017_en.pdf)

Delving deeper, when considering local production, food imports from the UK do not compete significantly with local produce, with the greatest exposure lying in products like snacks and biscuits. Little major impact on local production in other sectors is forecast. The yachting, shipping and aircraft sectors are also expected to weather the storm, seeing as its success comes out of Malta's favourable registration regime rather than EU membership.

One very real concern, that is already being felt, refers to electrical goods as well as stainless steel, again due to the possibility that UK production would command a lower-cost base. Although, this is expected to be partially offset by an increase in cost of non-UK components due to the weak sterling.

The House of Lords' report concludes the following:

- Britain's manufacturing supply chains are integrated into EU-wide supply chains, meaning supplies and components may cross the Channel multiple times during production. Tariffs on UK-EU trade in goods could be imposed every time, increasing costs significantly. Many UK businesses cannot easily substitute their imports from the EU, or find alternative export destinations.
- Leaving the EU customs union would mean "significant additional administrative burden for companies and delays to consignments of goods, incurring additional costs."
- Leaving the customs union could mean the imposition of "rules of origin," a system which would drive up tariffs. Rules of origin would apply under both a free-trade agreement with the EU or under World Trade Organisation regulations. Avoiding a divergence in regulatory standards from the EU was a "pressing concern" for business.
- Manufacturing and commodities sectors are vital British employers, and trade in goods between the UK and the EU is worth almost £357 billion each year — the bulk of UK trade. Ensuring those industries do not face additional barriers to trade will be "essential" to driving growth across the UK.

From the above it can be clearly surmised that the House of Lords concludes that BREXIT is not the best solution for British traders but given the circumstances, both the EU and the British Government cannot take a protectionist stance. The Malta Chamber does not believe that a protectionist stance should be the appropriate approach to be taken given that the stakes are so high. It is imperative, that the Maltese Government as one of the member states which more likely could stand to lose if this approach is taken does promote the element of compromise.

### [Freedom of movement of goods \(Chapters 1\)](#)

It is the Chamber's belief that Britain should be given access to the Single Market, provided that it respects all of the four freedoms that are essential to the functioning of the Single Market. Should this be the case, freedom of movement of goods and freedom to provide services should not be hampered in any way by national legislation.

### [Customs Union \(Chapter 29\)](#)

It is vital that both parties safeguard provisions relating to customs union in order for UK businesses to be able to engage in cross-border business with the EU, should the UK retain its respect for the four freedoms of movement. Provisions that should be retained are the EU Customs Code and its implementing Provisions, the combined nomenclature, common customs tariff and provisions on tariff classification, customs duty relief, duty suspensions and customs control of counterfeit and pirated goods.

In addition, it must be ensured that neither EU or UK businesses and citizens suffer disproportionately as a result of hard line and inflexible positions on both ends. As it is clear that the UK intends to request full access to the Single Market, one has to keep in mind that this is built on the four cornerstones of freedom of movement of goods, services, capital and people. These are intertwined in existing single market legislation, and it would be premature and destructive to imagine one or more without the other. Furthermore, the EU already provides access to its Single Market to non-members that fully respect and comply with all obligations in order to reap its benefits. Setting a different standard would result a dangerous precedent.