

Opinion on the second phase of the Brexit negotiations

16 March 2018

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Keidanren (Japan Business Federation) and the JBCE (Japan Business Council in Europe) welcome the progress achieved in Brexit negotiations, following the December 8 agreement in principle on the priority areas identified during the first phase of talks.

However, it is the second phase – insofar as it relates to the transition period and the future EU-UK economic relationship – that will have the most significant effect on business strategies. A “no-deal” Brexit remains the worst possible scenario. We strongly urge the EU and the UK to make the utmost effort to negotiate by putting the economy first so that any adverse impacts - not only on Europe but also on the global economy - be limited as much as possible, taking into consideration following points.

1. Transition period

Agreeing on transitional arrangements as soon as possible should continue to be the highest priority, with reference to the following terms:

- (a) First of all, the entire EU *acquis* should remain in force in the UK such that all economic activities may be maintained under the status quo. Above all, this necessitates the UK's continued participation in the Single Market and the EU Customs Union.
- (b) Secondly, it is desirable that the period of transition be long enough to give both partners sufficient time to reach an agreement on a future relationship, and for businesses to prepare for the necessary operational changes.

Should the terms outlined above not be respected, businesses will be forced to implement contingency plans based on a “cliff edge” scenario. The continuity and stability of business activities is furthermore predicated on any agreement on a future relationship entering into force immediately after the end of the transition period. Both sides should remain open to the extension of the transition period if this condition cannot be achieved. Additionally, we strongly hope that the ratification and entering into force of the withdrawal agreement by both sides will be achieved as early as possible.

2. Future EU-UK relationship

Regarding the future EU-UK relationship, we call for the establishment of a framework to cultivate an economic relationship that is as close as possible, in addition to the establishment of close partnerships in areas of security, defence and foreign policy. Any agreement reached

on the future relationship must be made public as soon as possible to ensure predictability for businesses. We call on both parties to commit to a future relationship that prioritises the following elements:

- Achieving the broadest possible level of market access and maintaining tariff-free trade between the EU and the UK.
- Securing simplified customs procedures and appropriate rules of origin (maintaining the EU AEO system, and achieving cumulative rules of origin which can be extended to third country FTA partners).
- Securing regulatory coherence between the UK and the EU across as many economic sectors as possible, through specific arrangements including mutual recognition agreements or functional equivalence procedures.
- Guaranteeing the validity of approvals, registrations, authorisations, licenses or any other kind of rights by introducing grandfathering measures for a time after the end of transition period.

Additionally, it is desirable that the UK continue to participate in various EU programmes, including those dedicated to research and innovation. This participation should be maintained beyond the end of any transitional arrangements.

3. The future of EU bilateral and multilateral agreements

Measures are needed to extend the rights and obligations under bilateral agreements, including third country FTAs, and multilateral agreements concluded only by the EU to the UK during and after the period of transition.

In particular, if the EU-Japan Economic Partnership Agreement has entered into force before Brexit, we call upon the EU, the UK and Japan to take necessary measures so that all parties, including the UK, benefit from the agreement after the EPA has entered into force and for the duration of the transition period. If the EPA has entered into force after Brexit, the parties should benefit from the EPA for the remaining transition period.

Regarding a possible future Economic Partnership Agreement between the UK and Japan, this should enter into force immediately after the end of the transition period.

We will continue to closely follow the negotiations and express our views collectively or individually.
