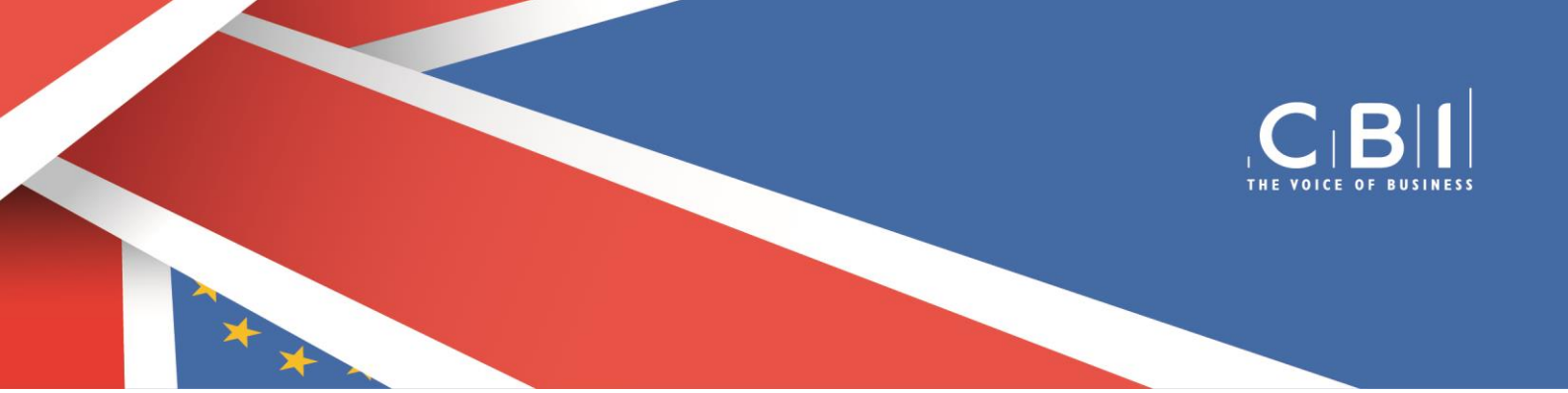

Briefing for Members - Brexit: What happens next?

The British people have made the choice to leave the European Union. The priority for Government is to reassure the markets and provide strong and calm leadership. Many businesses will be concerned and need time to assess the implications. But they are used to dealing with challenge and change and we should be confident they will adapt. Over the next few weeks, the input of CBI members will be critical as we work to shape the agenda of the negotiations on the UK's place in the world. Business' role in this is crucial, as the impact of this decision will be felt by every business in the UK. The CBI has therefore prepared the following guide to help members understand and influence our work on this issue.

CBI members can inform our approach to what happens next

14 July, 11-12pm: All members are welcome to attend a webinar briefing on the outcome of the referendum, with more information on the next steps for the renegotiation, and advice on how to make plans for your business. Contact **peter.mcmanus@cbi.org.uk**

27 June – 17 July: Members of the CBI's 'Business Parliament' - Regional Councils, Policy Committees, Trade Association Council, Chair's Committee and President's Committee – will receive electronic consultation questions or invites to formal consultation events.

July – September: Members across the country will receive invitations to regional and national briefing events in their regions over the next weeks.

A helpline has been established for all members to contact the specialist EU team at the CBI with any and all questions, and for input into the consultation. The team can be reached at any time at:

- EURef@cbi.org.uk

The inbox will be staffed over the weekend.

This consultation will produce an initial CBI report to influence the Government's priorities on the referendum by the end of next month. Further, more detailed sectoral analysis will follow throughout the autumn.

The legal relationship will remain the same for the next two years

Whilst we are anticipating a level of political and economic upheaval over the next few days, the UK is still a member of the EU for at least the next two years. A withdrawal agreement must now be negotiated, but the legal situation is currently the same.

It is important, however, that companies thoroughly assess the various ways their organisations might be affected by the UK's withdrawal from the European Union.

Areas you may wish to consider for your own business, customers and suppliers include:

1. The potential impact of tariffs, customs charges and rules of origin declarations on EU trade
2. The potential impact of non-tariff barriers to service trade with the EU
3. Trade outside the EU in countries with which the EU has trade deals
4. Current regulations and standards influenced by the EU which may now be renegotiated
5. Upcoming European legislation, its application in the UK and the significance Brussels may have going forward
6. Disruption to EU programmes and funding
7. The future of migration, including current EU residents and future immigration policy
8. Potential for further devolution in the UK
9. Investment decisions, contracts and licenses that refer to EU legislation

How the UK can leave the EU

Article 50 of the Lisbon Treaty sets out the formal process for leaving the EU, which will begin when the UK notifies the European Council of its intention to leave. The next meeting of the European Council is Tuesday 28th – Wednesday 29th June, but the UK Government does not have a legal obligation to provide this notification immediately.

The 27 remaining Member States will decide on some guiding principles by which the European Commission is to negotiate a withdrawal agreement with the UK. The process allows two years to conclude this agreement, but can be extended if Member States agree unanimously.

The future of the UK-EU trading relationships may not be the focus of this initial withdrawal agreement. There are many complex institutional considerations including:

1. The future of EU nationals in the UK and UK nationals elsewhere in the EU
2. The potential for continued UK participation in EU programmes such as Erasmus and Horizon 2020
3. How to approach current EU funding commitments through Social and Regional Development Funds
4. The UK's commitments to contribute to the EU's 2014-2020 budget
5. The future of the UK's MEPs, Commissioner, civil servants and Presidency

Article 50 dictates that 20 of 27 Member States in the Council and a majority in the European Parliament will have to agree the deal.

The CBI is prepared to react to a rapidly changing situation, as use of Article 50 is unprecedented. Whilst the theoretical process set out above is clear, there is a lot that remains uncertain.

The alternatives under debate

If the future of the UK's trading relationship is not considered as a part of the withdrawal agreement, a separate process will have to be established. However, a general understanding of how close the UK wishes to remain to the EU will have to be decided very swiftly. This will be the focus for the CBI over the coming weeks.

Join the European Economic Area (EEA)

In the EEA as in the EU, there are no tariffs on trade and the services passport that allows financial services firms to operate cross-border is maintained. However, trade in goods would require additional bureaucracy in the form of VAT payments and rules of origin declarations at borders.

Free movement with the EU is a pre-condition of EEA membership. Contributions to the EU budget and the EEA budget are required, and EEA members transplant extensive EU regulations into their own law without a formal mechanism to influence them.

To join the EEA, the UK would have to seek unanimous permission of the other members - Norway, Lichtenstein and Iceland.

Join the European Free Trade Area (EFTA)

Switzerland is the only country in the EFTA but not in the EEA. Through 120 bilateral arrangements and 27 Joint Committees, Switzerland's businesses have partial access to the Single Market.

The relationship the UK could secure if emulating Switzerland would be very similar to membership of the EEA – but only in certain areas of the economy.

As the relationship between Switzerland and the EU has become strained, it is not clear that the EU would accept another agreement of this sort.

A Free Trade Agreement (FTA)

The scope of EU FTAs vary extensively. The UK could secure tariff-free trade and some access for service businesses. There is no requirement for free movement or budgetary contributions except for specific programmes.

Once an FTA is secured, it cannot evolve to respond to additional needs unless a new FTA is negotiated.

The negotiations to secure an FTA take around 5 years. Any complex, mixed trading agreement covering trade in both services and goods will be the subject of votes in the European Parliament and referendums in a number of Member States.

Without a new deal, the UK will trade with the EU under World Trade Organisation rules

Leaving the EU without an agreement permitting Single Market access would result in the UK having to trade with the EU via WTO rules. That would mean the return of tariffs and customs borders on trade between the EU and the UK.

Separate negotiations will be required with the countries with which the UK wishes to maintain Free Trade Agreements with. Deals with 53 international partners have been secured through the EU.