

Mr. Michel Barnier  
Chief Brexit Negotiator  
European Commission  
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BE - 1049 – Brussels

The Rt Hon David Davis MP  
Secretary of State for Exiting the European Union  
9 Downing Street  
London - SW1A 2AS  
United Kingdom

Brussels, 26 June 2018

**Subject : Importance of Trade in Services in the EU-UK Future Relationship**

Dear Mr. Barnier, Dear Mr. Davis,

The European Services Forum (ESF) is a European private sector grouping that represents the interests of the European services industry in international trade and investment negotiations related to services. It comprises major European service businesses and European service sector federations covering service sectors including (but not limited to) financial services, telecommunications and IT services, maritime transport, business and professional services, distribution, postal and express delivery, audio-visual and education services. Our membership comprises businesses and associations from all EU member states, including the United Kingdom.

Given that ESF's focus is on trade and investment negotiations, we have so far refrained from commenting on the negotiations over the United Kingdom's withdrawal from the European Union. Now that the European Council has agreed to authorise the negotiators to turn to the future relationship, we would like to offer you some views on points of critical importance to our members.

Trade in services will have a central role in the future EU-UK relationship. Services are the basis of both economies representing 74% of EU GDP and 73% of the EU labour force and 80.4% of UK GDP and 83.5% of the UK labour force. Services trade related issues are often not seen as decisive in trade negotiations, but in this case and without any doubt, they will be. Services constitute a sizable share of the EU's overall trade, and in particular of EU27-UK bilateral trade. It will be extremely important to avoid unnecessary damage to this significant source of European and UK jobs, growth and competitiveness.

Whilst being aware of both parties' "red lines", ESF calls for clear-headed decisions on the future EU-UK relationship as early as possible. The services sector supports a close and flexible future relationship that enables as closely as possible the frictionless and barrier-free trading arrangements currently permitted under the Customs Union and Single Market arrangements.

So far, goods-related issues seem to have dominated the debate on the future relationship, with a focus on customs and controls at the borders. While recognizing this is a crucial element, it also needs to be remembered that cross-border flows of goods depend on services, including air, rail and sea transport, port services, road haulage, logistics, freight forwarding, customs clearance, delivery services, professional services, trade finance, insurance and insurance intermediation. Action is needed on many aspects of regulatory frameworks in services sectors, including arrangements that secure contract continuity, to ensure unbroken flows of goods and services. There is a crucial and broader need, as part of maintaining EU-UK civil justice cooperation, to deliver a regime for the mutual recognition and enforcement of judgments in EU and UK jurisdictions, to ensure legal continuity, in the interests of parties to contracts in the EU, the UK, and globally.

We note the proposed post-Brexit transition period of 21 months, ending on 31 December 2020. ESF welcomes this transition period, as it gives more time for businesses to adapt. But we urge the negotiators to avoid a "cliff-edge" scenario at the end of the transition period, should no agreement

for the future relationship be in place by that time. Indeed, we would like to underline that such a transition period should be used by the parties not only to implement changes in their own legal systems pursuant to the withdrawal agreement, but also ensure an orderly transition to the future EU-UK relationship. Based on our experience of trade negotiations, we are concerned that - even with the strongest political will from both sides - a period of 21 months is unlikely to be sufficient to cover all the stages needed to put in place the future relationship (completion of negotiations, agreement in principle, legal scrub of agreed texts, signature, ratification and implementation). We therefore call on negotiators to provide clarity as soon as possible on the Withdrawal Agreement and to allow for some flexibility in the management and duration of the transition period included therein.

The EU is the largest services exporter in the world (€1884.3 billion in 2016, incl. intra EU28, hence including EU27 & the UK - €844.8 billion Extra EU), with a strong surplus (+€133 billion – Extra EU), which contributes to offsetting the EU's goods deficit.

The UK is the largest services exporter among the EU28 to Extra EU countries, at €189.2 billion, representing 22.4 % of total EU28 services exports. According to Eurostat, the EU27 exported €92.8 billion services to the UK in 2016 and the UK exported €110.2 billion services to the EU27. The EU27 and the UK trade in services are highly integrated as a result of progress towards the EU single market in services. Eleven EU27 countries are among the UK's top 20 services suppliers, and ten EU27 countries are among the UK's top 20 export markets for services. These figures underline the degree of interdependence between the EU27 and the UK in services business, and the need for an efficient and open future relationship between both.

The services economy as it has developed within the EU28 covers more than international flows of digitised services or other cross-border trade in services such as transport and tourism, but also the movement of consumers and service professionals. It also encompasses a web of other relationships including foreign direct investment, such as the establishment of subsidiaries and cooperative ventures, and services embedded in goods and related to the movement of goods. All these activities are interdependent, with implications for growth and jobs across all EU member states. According to the Trade in Value Added (TiVA) database developed by the OECD and the WTO, in 2011, 37.1% of the value of UK total exports of goods is in fact "goods-related services" and this figure rises to up to 39.9% for the EU28. The TiVA database shows that the services value-added content rises to 63.5% of UK total global exports and 58.4% of EU total global exports. This again demonstrates the importance of trade in services between the two parties.

The United Kingdom's exit from the European Union risks creating major disruption in these service sector relationships, with the danger of adverse consequences in terms of employment and wealth-creation across the EU. The business community requires legal certainty as early as possible. We therefore call on the negotiators to take all necessary actions to minimise business disruption, in particular to make sure that the future relations between the EU and the UK are supported by a sound regulatory framework. This can be achieved, among others, through unilateral measures by both sides and through bilateral trade in services and investment negotiations.

The ESF and its members will continue to monitor closely the evolution of these talks and look forward to playing a constructive role as this develops. We will work on more in-depth position papers capturing both horizontal and sector specific issues. We remain at your disposal for contributing in detail to the discussions on the EU-UK future relationship.

Yours sincerely,



Noel Clehane  
ESF Chairman

## List of ESF Members supporting the Position here above

1. Accountancy Europe
2. Amfori
3. Architects' Council of Europe –ACE
4. British Telecom Plc
5. BDO
6. Bureau International des Producteurs et Intermédiaires d'Assurances – BIPAR
7. BUSINESSEUROPE
8. BUSINESSEUROPE WTO Working Group
9. Danish Shipping
10. Deutsche Telekom AG
11. Deutsche Post DHL
12. DI – Confederation of Danish Industries
13. Digital Europe
14. EK - Confederation of Finnish Industries
15. EuroCommerce
16. European Community Shipowners' Associations – ECSA
17. European Express Association – EEA
18. European Federation of Engineering and Consultancy Associations – EFCA
19. European Public Telecom Network – ETNO
20. European Savings Banks Group – ESBG
21. European Satellite Operators Association - ESOA
22. European University Association - EUA
23. Fédération de l'Industrie Européenne de la Construction – FIEC
24. HSBC Group
25. IBM Europe, Middle East & Africa
26. Inmarsat
27. Insurance Europe
28. Irish Business and Employers' Confederation - IBEC
29. Law Society of England & Wales
30. Le Groupe La Poste
31. Microsoft Corporation Europe
32. Oracle Europe, Middle East & Africa
33. PostEurop
34. SELDIA – European Direct Selling Association
35. Svenskt Näringsliv (Confederation of Swedish Enterprise)
36. Telenor Group
37. The CityUK
38. Thomson-Reuters
39. UPS
40. Zurich Financial Services