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European Association of  
the Machine Tool Industries

## The Impact of Brexit on European Manufacturing

When I speak with member companies in the UK about Brexit they focus on the potential business impact. They stress the importance of tariff free access to the European single market, frictionless trade as part of the Customs Union and Regulatory equivalence.

Free movement of goods is of utmost importance for most of the UK machine tool builders as approximately half of UK production is exported to the EU.

The UK is certainly a strong market for important sectors such as aerospace, automotive, energy and medical, however the overall consumption of Machine Tools is about 2% of the European market. This means that the UK manufacturing technology providers consider Europe as their “home” market.

The single market was established in 1992 and has been developing since then. It is no surprise that UK Machine Tool companies have embraced the opportunity of a local large homogeneous market and have also used the Customs Union to develop seamless logistics solutions for the distribution of completed machine tools across Europe, the warehousing and distribution of spare parts and also to benefit from the European supply chain for key components and technologies. The harbor of Antwerp and Rotterdam is used extensively for shipping machines from the UK and also for importing machine tools from other parts of the globe. The logistics models include use of bonded warehousing, simplified administration, tax and VAT arrangements and are all facilitated by the Single Market and Customs Union. Uniquely in 2016 the consumption of machine tools in Belgium was only 16% of imports, and 15% of exports; very different from the other EU countries clearly illustrating the importance of Belgium as a trading hub for the industry.

The UK Government’s objective is to negotiate a free trade deal with the rest of the EU to mitigate the effect of Brexit on goods manufacturers, something that the thriving automotive sector in the UK is demanding. However, should the negotiations result in additional bureaucracy and cost then the UK manufacturers will be forced to look at their logistics models. In that respect the intention of both the UK and EU to agree transitional arrangements for a period of around two years is seen as critical in allowing companies to adapt to any new arrangements with the minimum of disruption.

Based on my investigations I have to admit that none of the companies I solicited plans to reduce manufacturing capacity in the UK, however there is concern that if the final Brexit arrangements damage their competitiveness it may reduce the level of future investments.

It is important to note that a post-Brexit free trade deal may not cover all the complexities of manufacturing and supply chains, and each element must be carefully negotiated. Most companies will expect the free movement of engineers between the UK and Europe for short term visits (commercial and technical) even if rights of permanent residency are restricted. Another issue that must be specifically addressed is “rules of origin”, which may then be applied for exports to qualify as free and frictionless trade. Fortunately, the machine tool companies which already did an initial analysis, state that their machine tools will continue to be classified as “UK origin”, due to the significant local added value and content. However, a detailed analysis will need to be done by all UK manufacturers, as many UK suppliers are importing equipment from the EU with no added value.

On a different note, machine tools are classified as “dual use” goods, according to the International agreements on export control. Unless specifically dealt with in the Brexit process, there could be an additional administrative burden to acquire export licenses for UK built machines destined for the EU and vice versa.

The message, I got from a UK business perspective, is disappointment and concern about the British decision to leave the European Union. Mr. Marcus Burton, Yamazaki Mazak U.K said to me: “The single market is effectively the “home” market for UK manufacturers. For UK machine tool builders, their UK manufacturing companies have a much bigger market as part of the EU, as opposed to the UK alone. This gives the critical mass for competitive manufacturing. With a common regulatory framework, they can supply goods as easily to Milan as Edinburgh. The expectation is that the arrangements agreed post transition will preserve these benefits.

All in all, as a governmental affairs guy and not a business man, I have to add that the UK government’s interpretation of the UK referendum result - meaning that the UK should leave the single market / customs union - was a political judgement with potential unintended consequences for manufacturers and supply chains that need to be mitigated. I very much hope that the UK will set out the kind of the future relationship our UK member companies want to have with the EU and that the necessary assurance will be provided to UK manufacturers to reduce uncertainty.

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