



House of Commons  
Business, Energy and Industrial  
Strategy Committee

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# **The impact of Brexit on the aerospace sector: Government response to the Committee's Sixth Report**

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**Tenth Special Report of  
Session 2017–19**

*Ordered by the House of Commons  
to be printed 15 May 2018*

## Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Energy and Industrial Strategy.

### Current membership

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[Vernon Coaker MP](#) (*Labour, Gedling*)

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### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/beis](http://www.parliament.uk/beis) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Chris Shaw (Clerk), Ben Sneddon (Second Clerk), Jeanne Delebarre (Assistant Clerk), Ian Cruse and Becky Mawhood (Committee Specialists), James McQuade (Senior Committee Assistant), Jonathan Olivier Wright (Committee Assistant) and Gary Calder (Media Officer).

### Contacts

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# Tenth Special Report

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On 19 March 2018, the Business, Energy and Industrial Strategy Committee published its Sixth Report of Session 2017–19, on the impact of Brexit on the aerospace sector. The response from the Government was received on 11 May 2018. The response is appended below.

In the Government response, the Committee's conclusions and recommendations appear in **bold text** and the Government's responses are in plain text.

## Appendix: Government Response

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### Introduction

1. The Government welcomes the BEIS Select Committee's report, 'The impact of Brexit on the aerospace sector'. The report and its recommendations are a valuable contribution to the overall programme of work the Government is delivering in respect of the United Kingdom's departure from the European Union.
2. UK aerospace has world-leading R&D and manufacturing bases with strengths in some of the most technologically advanced parts of aircraft, including: wings; engines; and advanced systems such as landing gear. The UK has been well placed to compete successfully in the global market. Our Industrial Strategy will be key to maintaining and growing the UK as one of the world's largest aerospace nations.
3. The Prime Minister has [set out the Government's vision](#)<sup>1</sup> for the future economic partnership between the UK and the EU. The Government is confident that the UK will get a good deal. Agreement reached at the December European Council opened a new phase in the negotiations. Since then, we have made rapid progress on the wider Withdrawal Agreement. Following the agreement of the Implementation Period at the March European Council, that good deal is clearer and closer than ever. We are pleased these events help to provide certainty and clarity for businesses and address recommendations made in the Select Committee's report.
4. Since the June 2016 referendum, the Government has sought the views of the civil aerospace community and will continue to do so.

### Trading with the EU after Brexit

**As a result of the WTO Agreement and the EU's Inward Processing Regime, tariff barriers are not a significant concern for the UK aerospace sector after Brexit. The Government should integrate the relevant articles of the EU's Inward Processing Regime into any future UK customs code in order to ensure that the sector can continue to import raw materials for use in aerospace without incurring duties. (Paragraph 12)**

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1 Prime Minister Theresa May's speech on our future economic partnership with the EU <https://www.gov.uk/government/speeches/pm-speech-on-our-future-economic-partnership-with-the-european-union>

5. It is a significant advantage that the UK is party in its own right to the WTO Agreement on Trade in Civil Aircraft. The Government will continue to resolve the UK's tariff schedules so as to resume its full rights and duties under WTO rules.

**It is in the UK's national interest for its aerospace sector to remain deeply integrated in European supply chains after Brexit, and there is little to be gained for this sector by not having closely-aligned customs. Any additional customs procedures resulting even in relatively short delays could detract from the UK's industry's ability to compete for work and investment in those supply chains. We recommend that the Government should seek to secure as near frictionless trade as possible between the UK and EU for the aerospace sector after Brexit, with the minimum amount of customs procedures. (Paragraph 18)**

6. The Government has been clear it wants UK companies to have maximum freedom to trade with, and operate within, European markets with as little disruption to industry as possible. In its August 2017 [Customs Future Partnership Paper](#),<sup>2</sup> the Government set out its three strategic objectives for a future customs relationship with the EU. The objectives are: ensuring UK-EU trade is as frictionless as possible; avoiding a 'hard border' between Ireland and Northern Ireland; and establishing an independent international trade policy. These were reiterated in the October 2017 [Customs Bill White Paper](#).<sup>3</sup> Both papers state that in assessing our options for a future relationship, Government will be guided by what delivers the greatest economic advantage to the UK.

7. The European aerospace sector, including its supply chains and labour market, is highly interconnected and collaborative. Integrated supply chains in Europe support cutting-edge R&D and technological exploitation, and productive and innovative manufacturing techniques and in-service support (maintenance, repair and overhaul (MRO)). European aerospace competes in the global market to strengthen what it offers business customers and consumers. It is therefore in the interests of both the UK and EU to maintain deep integration.

8. The Government has considered two broad approaches to a future customs relationship with the EU that would facilitate the UK's objectives:

- *A highly streamlined customs arrangement* based on having an efficiently managed customs border between the UK and EU. We would look to agree bilateral customs facilitations with the EU alongside implementing efficient processes in the UK;
- *A new customs partnership with the EU* seeks to avoid a UK-EU customs border by aligning our approach to the external customs border. For example, by potentially mirroring the EU's requirements for imports from the rest of the world whose final destination is the EU.

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2 Future customs arrangements - a future partnership paper <https://www.gov.uk/government/publications/future-customs-arrangements-a-future-partnership-paper>

3 Customs Bill: legislating for the UK's future customs, VAT and excise regimes <https://www.gov.uk/government/publications/customs-bill-legislating-for-the-uks-future-customs-vat-and-excise-regimes>

## Regulatory alignment

The evidence we have received from aerospace businesses, unions and academia is unanimous in support of the EU [sic] continuing its membership of EASA. Close global regulatory alignment in aerospace has resulted in benefits in terms of safety, the ease of global trade and efficiency, while it is unclear that there are any benefits from divergence at this time. *Accordingly, the Committee notes and welcomes the Prime Minister's statement in her Mansion House speech on 2nd March 2018 that the Government will explore with the EU the terms on which the UK could remain part of EASA, with the consequent appropriate financial contribution.* (Paragraph 29)

In its negotiations with the EU, the Government should prioritise maintaining the UK's EASA membership, while retaining as much influence within EASA as possible. At present, EASA's regulations preclude the UK retaining its voting rights as a non-EU member state. *The Government should seek a deal to retain those voting rights; however, even without voting rights, the UK is likely to retain greater influence on global aerospace regulation from within EASA than without.* (Paragraph 33)

9. The Government is aware that the UK's future relationship with EASA is an important issue for the aerospace sector. EASA approval is, and will continue to be, critical for R&D and market entry for civil aerospace goods and services throughout the EU and the rest of the world.

10. As noted by the Select Committee, in her March 2018 speech on the [UK's future economic partnership with the EU](#),<sup>4</sup> the Prime Minister confirmed the Government's ambition to explore the terms on which we could remain in the EASA system. The UK's continued participation in the EASA system would be beneficial for both the UK and EU. The UK supplies vital components to aerospace exporters within the EU, and EASA itself benefits from the UK's expertise and technical input.

11. The Government accepts this would mean abiding by the rules of EASA and making an appropriate contribution. However, the UK Parliament would remain sovereign. It could decide to not accept these rules, but with consequences for our membership of EASA and our ability to access key markets. The precise form and nature of the UK's future relationship with EASA is however subject to negotiations.

12. The UK has been, and is, influential within EASA. UK expertise has contributed significantly to the high standards of aviation safety in Europe and being outside the EU will not change the UK's approach. The UK is committed to maintaining current levels of safety and will continue to strive to improve these after leaving the EU.

13. The harmonised aviation safety regime has raised standards across Europe, facilitated the development of integrated cross-border supply chains, and supported the growth of the European aerospace industry.

**In practice, ECJ judgements have not been an issue for the aerospace sector. In her Mansion House speech on 2nd March 2018, the Prime Minister acknowledged that "the decisions of the ECJ will continue to affect us" after Brexit and said that if "the UK should continue to participate in an EU agency the UK would have to respect the remit**

4 The Prime Minister's speech on our future economic partnership with the European Union <https://www.gov.uk/government/speeches/pm-speech-on-our-future-economic-partnership-with-the-european-union>

**of the ECJ in that regard.” This is preferable to the alternative of securing an escape from ECJ jurisdiction at the cost of influence in EASA. The Committee welcomes the Government’s pragmatic approach, which is especially suitable for the aerospace sector and regarding ECJ jurisdiction over EASA. (Paragraph 36)**

14. In leaving the EU, we will bring about an end to the direct jurisdiction of the Court of Justice of the European Union (CJEU) in the UK. There are a number of existing precedents where the EU has reached agreements with third countries that provide for a close, cooperative relationship without direct CJEU jurisdiction over those countries. For example, Switzerland participates in the EASA system without being subject to direct CJEU jurisdiction.

15. The UK will engage constructively to negotiate an approach to enforcement and dispute resolution which meets the key objectives of the UK and the EU, underpinning the deep and special partnership we seek. During the Implementation Period, we have agreed that the existing EU mechanisms for supervision and enforcement will apply, including the role of the CJEU.

### **Trade opportunities after Brexit**

***The Government’s priority in terms of opportunities for aerospace to trade beyond the EU after Brexit should be to secure the roll-over of EASA’s existing BASAs. This could be achieved by maintaining the UK’s membership of EASA in some form. (Paragraph 39)***

***The Government should also aim to secure UK participation in these and any other future agreements. (Paragraph 40)***

16. As part of the arrangements for an Implementation Period, as set out in the Withdrawal Agreement, the EU’s international agreements with third countries will continue to apply. The Government is in discussion with the three countries with whom the EU has BASAs currently in force (US, Canada, and Brazil).<sup>5</sup> There is a collective understanding and ambition to minimise disruption and deliver continuity of service to industry.

17. Aside from EASA and airworthiness certification, we want to have the greatest possible tariff- and barrier-free trade with our European neighbours, as well as to negotiate our own trade agreements around the world. We want to ensure that UK companies have the maximum freedom to trade with and operate within European markets and to let European business do the same in the UK.

18. During the Implementation Period we will be able to step out into the world and forge our own way by negotiating, ratifying and signing trade deals with new partners across the world. We will only bring new arrangements into force after the conclusion of the Implementation Period.

19. Also, during the Implementation Period, the EU has stated that the UK is to be treated as a Member State for the purposes of international agreements. This is a positive and significant step and will enable the UK to secure continuity in our relationships with third countries.

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<sup>5</sup> The EU is in the process of negotiating a BASA with China. However, these negotiations are due to conclude following UK departure from the EU.

## The impact of leaving EASA

**It is clear that leaving the EU and EASA with no deal would be highly costly and disruptive to the UK aerospace sector and aviation, as well as its EU counterparts. Given that no alternative arrangements are being developed, the Government should rule out this possibility. (Paragraph 44)**

20. In her March 2018 speech on the [UK's future economic partnership with the EU](#),<sup>6</sup> the Prime Minister confirmed the Government's ambition to explore the terms on which the UK could continue its participation in the EASA system. Nevertheless, the Government and the CAA continue to make the necessary contingency plans to minimise disruption to industry.

## Skills

**The Government should prioritise ensuring that our key manufacturing sectors such as aerospace retain sufficient and timely access to essential skills. The Government should seek to maintain the UK's openness to skilled workers from the EU, as well as looking to which skills and qualifications could be attracted from beyond the EU. (Paragraph 49)**

**The Government should ensure that intra-company transfers and posted worker arrangements are flexible, rapid and require the minimum level of administration after Brexit. (Paragraph 50)**

21. The Government recognises the aerospace workforce is highly skilled, and that the majority are employed by companies operational throughout the world. Large aerospace companies in the UK account for around 80% of total UK employment and turnover.<sup>7</sup> International mobility is necessary for UK aerospace to remain competitive and attract international talent, and for those who are UK-based to participate in the sector worldwide.

22. The UK will remain an open and tolerant country; one that recognises the valuable contribution migrants make to our society and welcomes those with the skills and expertise to make our nation better still. At every step of the EU exit negotiations we will work to ensure the best possible outcome for the British people.

23. As the Prime Minister said in her Mansion House speech on our future economic partnership with the EU, we want to agree an appropriate labour mobility framework that enables UK businesses and self-employed professionals to travel to the EU to provide services to clients in person and over the phone or internet.

## Research and development

**The Government should seek to maintain the UK's membership of Horizon 2020, the Clean Sky Joint Understanding and other collaborative R&D programmes, and secure UK participation in future programmes. In doing so, it should recognise that the primary benefit of these programmes for the UK comes from the cross-border collaborative opportunities they offer, rather than the financial return, and form its negotiating priorities accordingly. (Paragraph 53)**

6 The Prime Minister's speech on our future economic partnership with the European Union <https://www.gov.uk/government/speeches/pm-speech-on-our-future-economic-partnership-with-the-european-union>

7 ONS Business Activity, Size and Location, November 2017.

24. International collaboration for aerospace R&D is important as EU aerospace nations apportion risk, costs and capabilities to compete for a higher proportion of the global market share. Design and manufacturing are becoming increasingly integrated, with emphasis placed on R&D and technological capability. Aerospace is one of the most R&D intensive sectors in the UK, accounting for 7% of total business R&D (£1.5bn in 2016, a 12% annual increase).<sup>8</sup>

25. From the future partnership paper, [Collaboration on Science and Innovation](#),<sup>9</sup> through to the Prime Minister's [Florence Speech](#)<sup>10</sup> (both September 2017) and March 2018 speech on the [UK's future economic partnership with the EU](#),<sup>11</sup> the Government recognises the UK and EU's shared interest in maintaining and strengthening research collaboration between researchers and businesses across Europe. We seek continued association with Framework Programme 9 (the successor to Horizon 2020) recognising that this would involve an appropriate financial contribution in line with other associates. We would like to discuss the details of this with the European Commission.

26. The UK and EU negotiating teams have reached another important milestone in the Brexit process by agreeing the terms of a time-limited Implementation Period. The progress made on this agreement was welcomed by the March European Council. Across citizens' rights and the financial settlement, we have managed to translate all the commitments we made in December 2017, delivering on our promise to reflect the [Joint Report from the European Commission and UK Government](#)<sup>12</sup> in the Withdrawal Agreement.

27. The Withdrawal Agreement will ensure that UK entities' right to participate in EU programmes will not be affected by UK withdrawal from the EU, for the lifetime of projects financed by the current Multiannual Financial Framework (MFF). UK based organisations will be able to bid for funding, and participate in and lead consortia, until programme closure. This includes the Smart, Green and Integrated Transport work programme, and Clean Sky 2.

28. In addition, the underwrite guarantee ensures all UK beneficiaries will receive funding for any successful projects bid for before exit, irrespective of the outcome of Exit negotiations.

29. The Government is working with the sector on a long-term partnership, underpinned by a joint government-industry commitment to funding £3.9bn of civil aerospace research and innovation between 2013 and 2026. Much of this investment is directed towards the development of new technologies for more environmentally-friendly aircraft. Considerable investment is also being made in new design and manufacturing processes to raise

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8 ONS Business Enterprise Research and Development (BERD) bulletin, November 2017.

9 Collaboration on science and innovation - a future partnership paper <https://www.gov.uk/government/publications/collaboration-on-science-and-innovation-a-future-partnership-paper>

10 The Prime Minister's Florence speech: a new era of cooperation and partnership between the UK and the EU <https://www.gov.uk/government/speeches/pms-florence-speech-a-new-era-of-cooperation-and-partnership-between-the-uk-and-the-eu>

11 The Prime Minister's speech on our future economic partnership with the European Union <https://www.gov.uk/government/speeches/pm-speech-on-our-future-economic-partnership-with-the-european-union>

12 Joint report from the negotiators of the EU and UK Government on progress during phase 1 negotiations under Article 50 TEU on the UK's orderly withdrawal from the EU [https://ec.europa.eu/commission/publications/joint-report-negotiators-european-union-and-united-kingdom-government-progress-during-phase-1-negotiations-under-article-50-teu-united-kingdoms-orderly-withdrawal-european-union\\_en](https://ec.europa.eu/commission/publications/joint-report-negotiators-european-union-and-united-kingdom-government-progress-during-phase-1-negotiations-under-article-50-teu-united-kingdoms-orderly-withdrawal-european-union_en)

productivity and improve the cost competitiveness of UK suppliers.<sup>13</sup> The Aerospace Technology Institute provides expert advice on strategic deployment of the funding, which will be guided by a market-aligned technology strategy.

## Certainty and clarity

**It is in the interests of the UK and the EU27 that both sides in the Brexit negotiation reach a firm agreement in the coming weeks on the arrangements for a transition or implementation period after March 2019, to avoid firms having to commence costly contingency plans. Looking beyond transition, the Government and its EU counterparts should also offer clarity on the future UK-EU relationship as soon as possible, so that firms on both sides can invest with confidence. (Paragraph 57)**

### *Implementation Period*

30. We welcome the endorsement by the March European Council of the agreement on the terms of an Implementation Period. Between 30 March 2019 and 31 December 2020, the UK will no longer be a Member State of the EU. Market access between the UK and EU will continue on current terms. Therefore, businesses have certainty that common rules will remain in place until the end of 2020 and that they will be able to trade globally as they do now.

31. The legal text on the Implementation Period will form part of our overall Withdrawal Agreement. Rapid progress is being made and both sides aim to conclude by October 2018. The Withdrawal Agreement will then be legislated for in the UK Parliament and ratified by the European Parliament.

### *Future Economic Partnership*

32. The UK wants to move on to negotiations about our future partnership as soon as possible. Article 50 makes clear that the withdrawal agreement needs to take account of the future relationship, so we will know the terms of our new partnership with the EU by the time of our exit.

33. We are pleased the March European Council agreed guidelines for the next stage of negotiations on this future relationship. While parliamentary approval will still be required for the agreement as a whole, and the UK Parliament will scrutinise the implementing legislation, it will not be able to table amendments to the text of the Withdrawal Agreement.

34. While there are some differences between our initial positions, the guidelines are a useful starting point for the negotiations. Now it is important for talks to progress, so we can agree the terms of our future relationship with the EU to provide vital certainty to businesses and citizens.