

Introduction

As a sector that imports and exports both goods and services, which moves people across borders and which possesses mainland Britain's only physical link to the continent, getting Brexit right for the rail industry will be a barometer for whether the deal will enable Britain to prosper in the decades ahead.

There are many aspects of Brexit which poses risks and opportunities for rail. This discussion paper poses questions relating to trade aspects and challenges the industry to think about how it wants to operate after the UK has exited the EU.

This paper specifically excludes Northern Ireland.



The rail sector contributes up to **£10.1bn** to the British economy each year

Freight and customs

The EU Customs Union is managed on the ground by 28 national customs services of Member States acting as if they were one. Customs officers supervise goods traffic in the EU, both at external borders, which means ports, airports and land border crossings, and within the EU territory. Customs are mainly involved with commercial traffic, but they also check passengers for illegal or dangerous goods like drugs or firearms, and for goods, that, for example, pose a risk by carrying animal diseases for example.

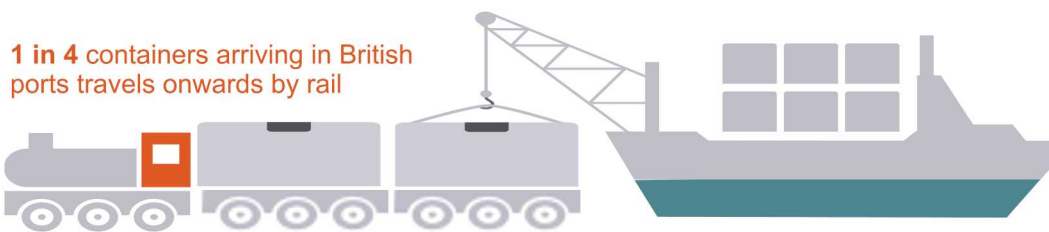
Membership of the EU Customs Union currently allows UK businesses to export and import goods without rules of origin declarations, health, veterinary and safety controls, and the delays in transit these incur. This has had the consequence that current infrastructure of the UK's ports and international railway stations has been designed with a simplified process for goods from the EU - half their trade.

It is important to take into account the complexity any customs arrangement could have for rail freight going directly via the Channel Tunnel, as well as the impact delay and congestion of goods would have on ports. This can lead to cancellation, poor loading and hence poor revenue for rail freight operators. Overall, trade reduction would have a significant impact on rail freight movements across Great Britain.

From a passenger operator's point of view, leaving the Customs Union could have a significant impact on the passengers' experience, too. Even if the UK adopted lighter controls, the EU side could still choose to adopt a very different method. This could lead to inconsistencies of customer experience on both sides.

22,340,000 tonnes of freight is transported through the Channel Tunnel each year (including Le Shuttle)

1 in 4 containers arriving in British ports travels onwards by rail



Policy Questions

- Is membership of the Customs Union, in agreement with the EU, the only solution?
- How would delays caused by border controls affect the supply chain and lead times to import/export goods?
- What changes to the infrastructure would be needed to accommodate changes to the UK's customs regime?
- Is there any investment required in the industry to mitigate the risks of changes to border controls?
- How would changes in customs regimes affect passenger operations?
- Would any transitional arrangements be required?
- What timeframe would be needed for transitional arrangements?
- Will any staff in the rail industry require training to cope with changes?

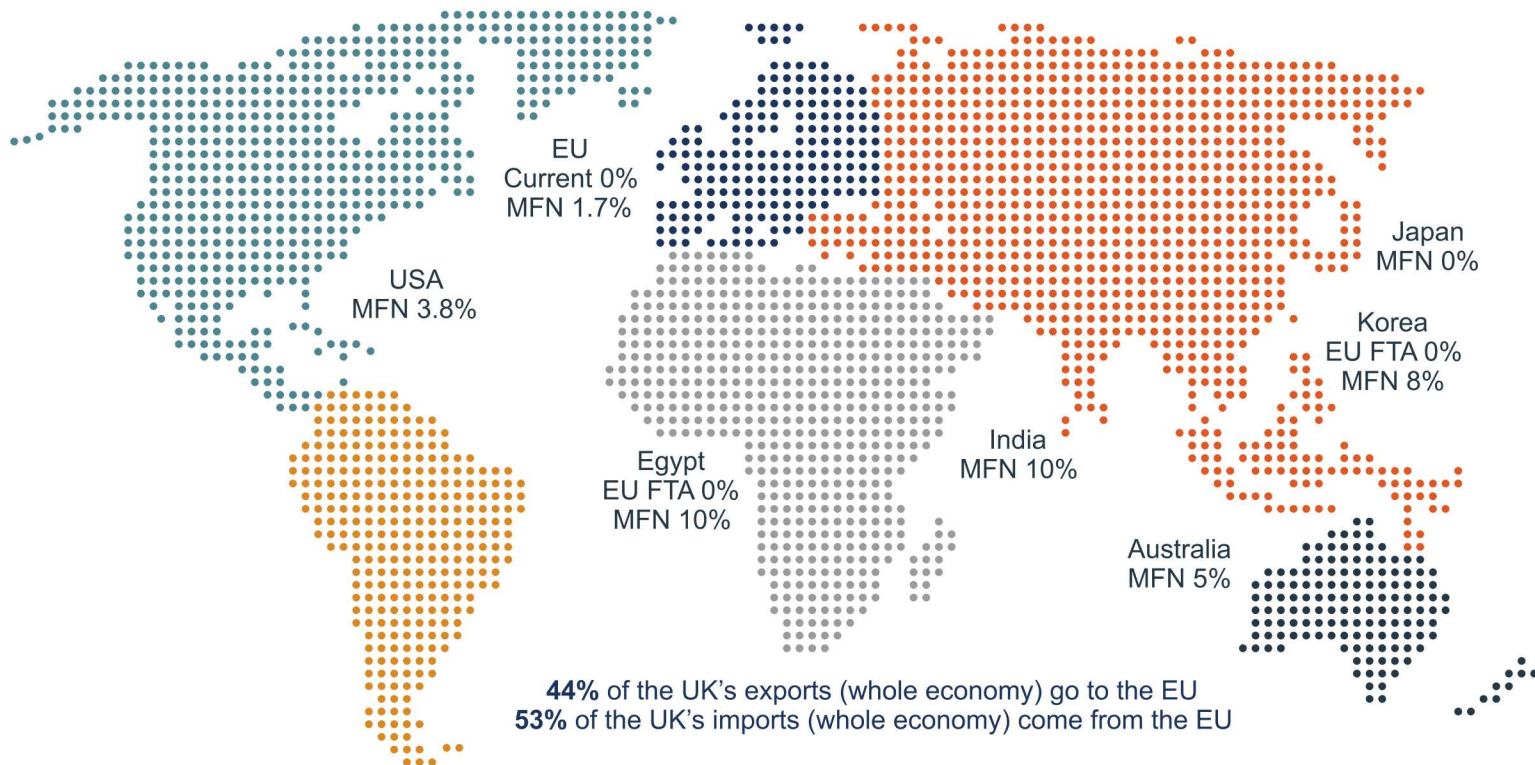
Trade in Goods and Services

The principle of non-discrimination means that WTO members must not treat any member less advantageously than any other: grant one country preferential treatment, and the same must be done for everyone else.

There are exceptions for regional free trade areas and customs unions like the EU, but the principle implies that, outside of these, the tariff that applies to the 'most-favoured nation' (MFN) must similarly apply to all.

In practice, this should prevent the EU introducing tariffs on the UK which would discriminate against us or punish us, or the UK introducing similar tariffs on the EU. The maximum tariff that can be applied will be the same as the tariff applied to the MFN.

Tariffs when importing and exporting signalling equipment: A simplified illustration



Standardisation

Technical Specifications for Interoperability (TSIs) are the specifications by which each subsystem or part of subsystem is covered in order to meet the essential requirements and to ensure the interoperability of the EU's rail systems and specifications for products to be traded. The TSIs are designed as a suite of specifications which are interlinked. The TSIs define the interfaces between the sub systems. The interdependent nature of the TSIs mean that sometimes benefits of one TSI can only be realised by the implementation of another.

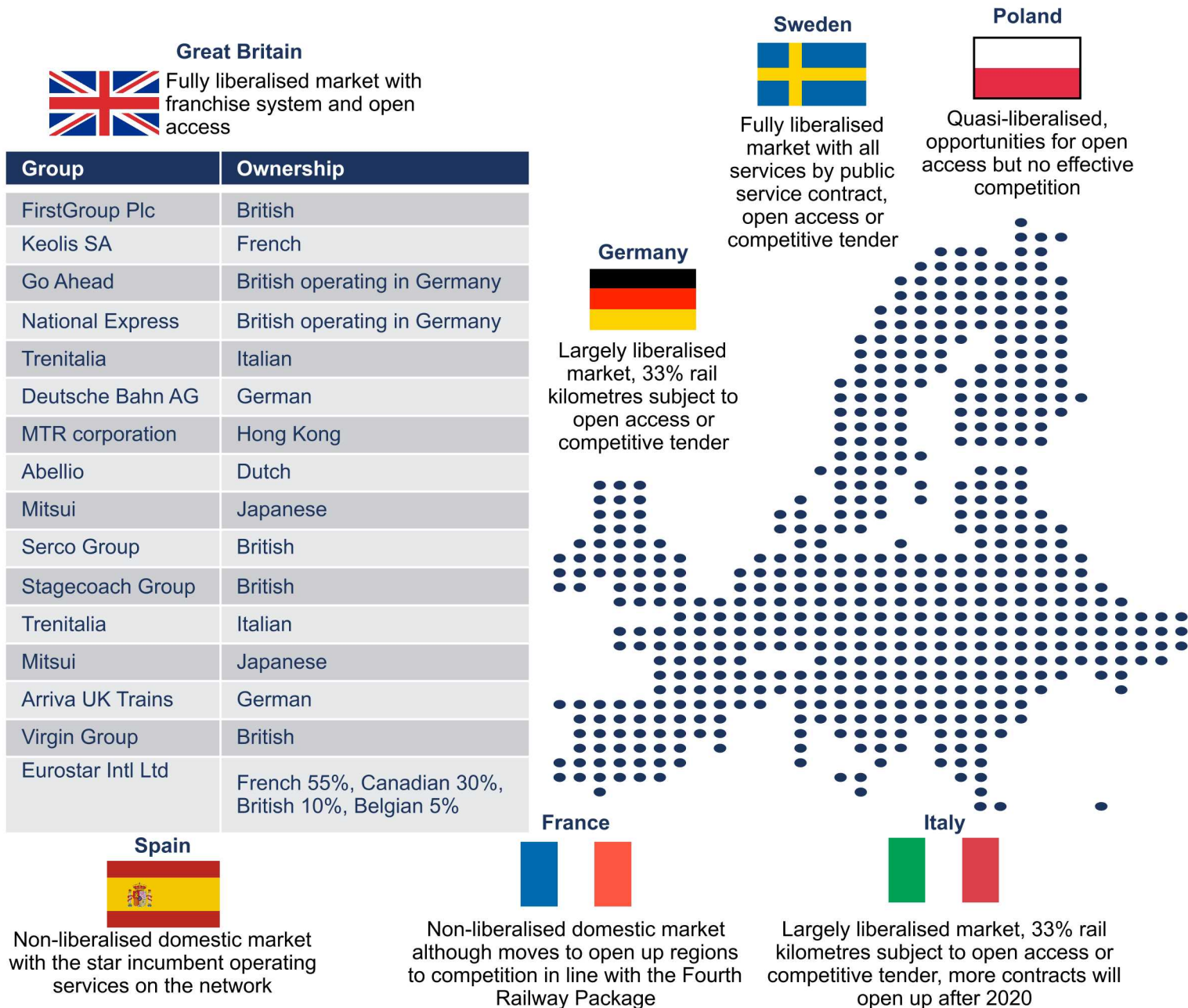
For rail products and services which will also be marketed in the EU, compliance with EU standards will still be necessary in a similar manner to complying with mandatory standards and regulation of any other market outside of the EU. For example, international freight and passenger operators, will in any event be required to comply with European standards. Adhering to standards also creates benefits as a result of economies of scale.

Policy Questions

- Is there an opportunity to reduce some of the tariffs with non-EU member states post-Brexit?
- What impact on business would the introduction of tariffs post-Brexit to EU countries have?
- The World Trade Organisation indicates one of the most significant opportunities is in providing maintenance and repair services for rail, what is the appetite to export this outside the EU?
- What is the balance to be struck between applying all standards to facilitate trade and misapplying standards to potentially make domestic projects cheaper or easier to export?
- How important is membership of the European Union Agency for Railways? Do we need to remain a member?
- What are the alternatives to membership of the European Union Agency for Railways?
- How likely is it that the UK will have a trade deal in place with non-EU Member States in a timely manner? How can we support Government put this in place?
- What are the consequences of not having a trade deal in place?

The Passenger Market

The EU has enhanced opportunities for international trade for British companies. The Fourth Railway Package, dubbed the 'final step' towards the legal framework for a single European rail area was finalised by the end of 2016 and will seek to open up the European rail market to greater competition. Therefore (not withstanding Brexit) there will be greater opportunities for British operators to access public service contracts in Europe. As Britain has been at the forefront of liberalisation, and British operators have demonstrated an ability to win and run successful public service contracts (franchises), they are well placed to win this international work.



Policy Questions

- There is no obvious substitute for access to this market as there is not a policy of competitive tendering in other countries. How can the industry influence this and open opportunities?
- How important is the mutual recognition of standards when a British business bids for an EU passenger services contract?
- What is the trade off between the benefit of mutual recognition for bids and the potential savings from misapplying standards domestically?
- How would a reduction in participation of non-British operators affect our franchise market?
- What would be the main barriers to entry for EU and non-EU operators post-Brexit?
- Given the reluctance of many Member States to effectively open up their markets will there really be a perceptible loss?
- What opportunities does leaving the EU give the sector to decide its own industry structure and method of running passenger services?

Our Key Principles

1. The British rail network is among the safest in Europe; legislative or regulatory changes as a result of the UK exiting the EU **should not compromise safety**.
2. It is crucial to retain **legal certainty**. In the short term any currently applicable legislation should not be disapplied by stealth. Any departure from current jurisprudence should be as a result of a clear change in government policy in consultation with stakeholders.
3. The industry needs to retain the ability to **access a skilled workforce**, in particular in areas where there are currently skills shortages.
4. Freight and passenger operators who currently run international services need to retain the ability to **access non-UK infrastructure** without undue delay, cost or operational boundaries. Marginal economics in cross-border business mean that members might find it impossible to economically run a service if hindered by significantly divergent operating regimes or by lack of mutual recognition.
5. RDG members need to **retain access to the EU market** to offer passenger and freight services overseas, and sell expertise and consultancy.
6. RDG members would be concerned if all **technical standards** had to be applied, regardless of operational necessity or business case, where the industry had no influence over how they were designed. The industry could support disapplication, but rather would seek a mode to influence standards. Keeping common standards in place for the limited number of lines/systems used for international traffic would also avoid problems.
7. Members need to retain **access to the findings of EU research** and innovation programmes

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Rail Delivery Group



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