THE ADECCO GROUP

The facts about Brexit

September 2018

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29 March 2019 is on the horizon

September 2018 saw some significant developments in the political arena as the date for the UK to leave the European Union (29 March 2019) edges ever closer.

The Labour Party conference witnessed the party confirm an official policy on Brexit as Shadow Secretary for Exiting the EU, Sir Kier Starmer, announced that they are preparing to vote against the deal they expect to be offered by Prime Minister Theresa May.

Labour believes this deal will fail to meet the six tests they set out in 2017:

1. Does it ensure a strong and collaborative future relationship with the EU?
2. Does it deliver the 'exact same benefits' as we currently have as members of the Single Market and Customs Union?
3. Does it ensure the fair management of migration in the interests of the economy and communities?
4. Does it defend rights and protections and prevent a race to the bottom?
5. Does it protect national security and our capacity to tackle cross-border crime?
6. Does it deliver for all regions and nations of the UK?

In addition, Sir Starmer said that Labour would be open to a second referendum with the option of remaining in the EU.

The UK Treasury also announced that the Autumn Statement, traditionally released in November, would be held on Monday 29 October. This is to provide MPs with time to debate before the Commons' recess on 6 November and the special European Council on 17 and 18 November.

On top of this, the Migration Advisory Committee (MAC) produced its long-awaited report on European migration to the UK.

Migration Advisory Committee – EEA Migration in the UK: Final Report

In July 2017, then Home Secretary Amber Rudd commissioned the MAC to produce a report on the migration patterns of residents of the European Economic Community (EEA) to the UK and the impacts of that migration.

The report finds that, overall, migration has been a benefit to the UK over the last 15 years. Except in certain low-wage areas, there are no conclusive sectors or industries where it has widely affected employment opportunities or wages for UK nationals. In fact, EEC nationals tend to have a positive impact on productivity and innovation in the workforce, especially in high-skill areas.

A UK based EEC migrant contributed £2,300 more to the public finances in 2016/17 than the average adult in the UK.

Source: The Fiscal Impact of Immigration on the UK, June 2018, Oxford Economics

Recommendations:

The MAC recommended that despite their benefits, EEA nationals should not be treated any differently to non-EEA nationals when applying to work here. For reasons of simplicity there should be one visa structure which should be closely aligned to the existing scheme.

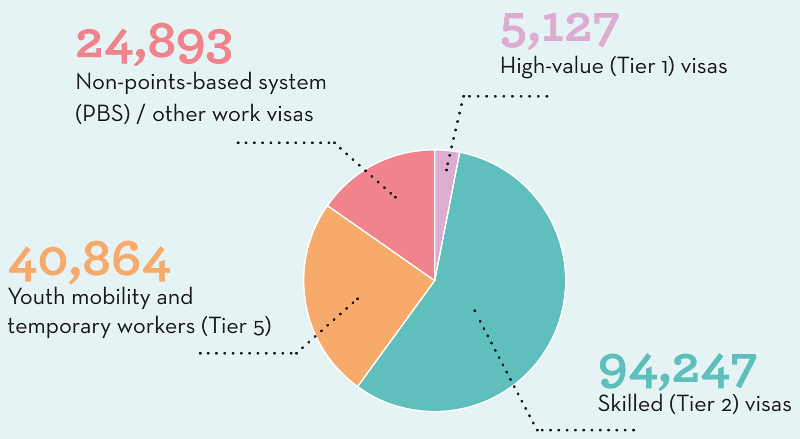
The committee recommended removing the existing cap on the number of Tier 2 visas issued nationally, with each application based purely on individual circumstances. To account for the range of jobs required, these visas will now be available to roles except RQF Levels 1 and 2. The existing salary threshold (£30,000) would be retained.

Employers would be required to sponsor applications and pay an Immigration Skills Charge of £1,000 per visa year.

The committee does not advocate variation of this scheme for different regions or sectors, with the possible exception of agriculture where a pilot is already in place for seasonal workers.

The MAC recommended favouring high-skill migration, but understands that low-skill candidates may also be required. They state that an extension of the Youth Mobility Scheme or refocus of the Shortage Occupation List could be a solution here.

There were 165,131 work-related visas granted in 2017, an increase of 1% on the previous year. These included:



Source: Migration Statistics Quarterly Report: July 2018, Released 16 July 2018, Office for National Statistics

Reaction:

While the cabinet has gone on to accept these recommendations, there was disapproval from a number of UK sectors that rely on low-skill labour. **Brian Berry, the Chief Executive of the Federation of Master Builders**, warned that his industry would be crippled by the recommendations. **Richard Burnett, Chief Executive of the Road Haulage Association** called the report 'both ignorant and elitist'.

The Confederation of British Industry (CBI) believes that preferential treatment should be given to countries that are amenable to agreeing trade deals with the UK.

YouGov identifies 'Crossover Day'

Another report released in September 2018 saw research by YouGov that suggested a majority of British voters would vote to remain in the EU by the time Brexit happens in March 2019.

By analysing voting and death patterns, former President of YouGov Peter Kellner was able to determine that overall every single day in the UK 1,300 more people would support Remain – assuming they would vote the same today and that young people becoming eligible vote in a similar pattern to their peers.

According to Mr Kellner, writing in the Independent newspaper, the 'crossover day' would be 19 January 2019 under these assumptions.

Demographic changes affecting Brexit opinions:

Remain voters increase by 235,000 per year
(395,000 reach voting age and 160,000 pass away)

Leave supporters fall by 260,000 a year
(60,000 reach voting age and 320,000 pass away)

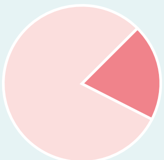
Source: YouGov on behalf of the People's Vote campaign, September 2018

Planning and Contingencies

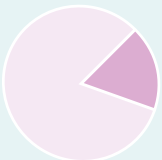
Research from the British Chambers of Commerce (BCC) shows that two in three UK companies are not prepared for Brexit.

Two in three companies are not prepared for Brexit

20%
of UK companies said they would reduce investment if there was no deal



20%
of UK companies said they would move part or all of their business to the EU



18%
of UK companies said they would cut recruitment

Source: British Chambers of Commerce

With the UK leaving the EU in less than six months, businesses with long supply chains on the continent are being forced into making some choices about the future. With the Office for National Statistics (ONS) announcing that business investment in the UK has fallen for the fourth successive quarter, they can hardly choose not to take action now.

This affects the manufacturing sector and specifically automotive, yet they seem even less prepared than the rest of the country.

Manufacturing trade body, EEF says that 80% of UK manufacturers are unprepared for a 'no-deal' Brexit scenario. Furthermore, one in six believe that reverting to World Trade Organisation (WTO) rules would make their business 'untenable'.

> “Business investment in the UK has fallen for the fourth successive quarter.”

Manufacturers are not ready for 'no-deal' Brexit

8/10
are not prepared for
'no-deal' Brexit scenario

1/6
believe that reverting to World Trade Organisation (WTO) rules would make their business 'untenable'.

Source: EEF, September 2018

The Society of Motor Manufacturers and Traders (SMMT) announced that UK automotive production fell 13% in August (the third consecutive monthly fall) and is now down 5% for the year compared with 2017.

The UK is the world's ninth biggest manufacturing nation in terms of the value of products made and employs 2.5M people.

Expected Action

> McLaren Automotive is looking at having its cars certified by both a British and European agency, and is planning to stockpile critical components and change when it sells into the EU if there is disruption.

That said, a number of high profile manufacturers have announced some plans.

McLaren Automotive, which builds around 5,000 cars a year at its English factory, is looking at having its cars certified by both a British and European agency, and is planning to stockpile critical components and change when it sells into the EU if there is disruption.

'I will sell a little more in January and February and plan to pick the volume up in May and give us a leaner period through the change point,' said **Chief Executive Mike Flewitt.**

BMW already has an annual summer-time shutdown at its Mini plant near Oxford but will move this to April next year. The company is also looking for storage options on both sides of the channel.

Honda has said it will close its Derbyshire plant if a 'no-deal' Brexit was to happen, but they would be unable to say for how long.

Marvin Cooke, Director of Toyota's site in Burnaston said: 'My view is that if Britain crashes out of the EU at the end of March we will see production stops in our factory.'

The stoppages could last 'hours, days, weeks – even months,' he added.

Finance Makes More Brexit Decisions

The finance industry continues to be active in terms of Brexit decisions. So far, 77 out of the 222 firms on EY's Financial Services Brexit Tracker have said they were considering moving, or would shift some operations or staff to somewhere else in Europe.

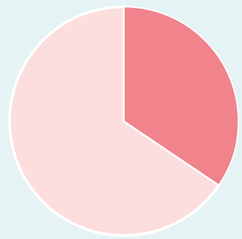
Swiss bank UBS is the latest to confirm it will move its European base of operations away from London to the German finance hub of Frankfurt.

Fast-growing fintech firm Revolut, which tripled its customer numbers in 2017, was personally courted by French president Emmanuel Macron but has thus far chosen to keep its options open. The company has, however, decided to apply for an e-money licence in Luxembourg.

At the same time, Poland's largest investment bank, Pekao, has opened a new London office as they look to take advantage of the opportunities Brexit might bring.

London remains 'Europe's premier financial hub,' said **Michal Krupinski, Pekao's Chief Executive.**

He added: 'I think regardless of what is going to happen [after Brexit] London will remain the main hub for sponsors and portfolio investors. I do not anticipate that we will have a lot of our clients moving to other cities. The UK market is an attractive one.'



77/222 organisations
were considering moving, or would shift some operations or staff to somewhere else in Europe:

56/222 organisations
have confirmed at least one relocation destination in Europe

Source: EY Financial Services Brexit Tracker, September 2018

The London office is not currently licensed as a subsidiary, although Pekao is considering applying so it can deliver services directly from the London office as well as taking deposits. The bank will take a decision in the first half of next year, when there is more clarity on Brexit, Krupinski said.

Despite all the decision making in the sector, a Reuters survey suggested that, to date, as few as 630 UK-based finance jobs have been moved or created overseas as a result of Brexit. There is still a 'wait and see' atmosphere, but there is also a lot of planning.

> "London remains 'Europe's premier financial hub,' said Michal Krupinski, Pekao's Chief Executive."