The facts about Brexit

June 2017
The first week of June saw the close of the UK general election campaign then with the result known Brexit negotiations could finally begin in earnest. Brexit Secretary David Davis and Michel Barnier, the European Commission’s Chief negotiator, confirmed that talks began on Monday 19th June.

Mr Davis said there was a "long road ahead" but predicted a "deep and special partnership". Maybe even longer given that credit ratings agencies Moody’s and S&P have previously warned that the election results that meant the Conservatives lost their majority may delay the process.

**Initial focus**
The initial round of discussions will focus on the amount Britain may have to pay as a cost of leaving, the Northern Ireland border and the status of EU nationals living in the UK as well as UK nationals living in the EU. These are the European Union’s priorities.

Initially the Brexit Secretary had insisted that these areas would be negotiated in parallel with a future trading arrangement but now progress will have made on the initial three first.

Theresa May has said that she would not permit the European Court of Justice to continue to be the final port of call for the UK but the Brexit Secretary has said he would consider setting up an arbitration body that would include European officials for future trade disputes.

**The cliff edge**
Another area of confirmation is that there will be a "phased process of implementation" - or "transition period" - to avoid a "cliff-edge" scenario as new arrangements kick in. At the same time Mr Davis is expecting the UK to have left the customs union by March 2019.

This is still not confirmed yet, in fact The Organisation for Economic Co-operation and Development (OECD) still assumes that Britain will revert to World Trade Organisation rules in its most recent forecast. Under this assumption they believe that UK growth would fall to 1% in 2018. Researchers from the London School of Economics estimate that such a trading arrangement would cost 2.6 per cent of GDP by 2020, rising to 9.5 per cent by 2030.

The CBI actually went the other way and recently upgraded its growth predictions for 2018 from 1.1% to 1.4%.

The Financial Services industry is already making its own plans with Irish authorities announcing that the IDA has fielded more than 80 inquiries since the referendum and more than a dozen institutions having already decided on Dublin as a location.

**Clearing the path**
These negotiations will be long and complicated, David Davis compared them to the mission to land on the moon, and as such Parliament will now sit in a two-year session rather than the traditional one. While this gives MPs and peers more time to examine legislation it also means the government will not have to face a vote on its legislative programme a year from now.

MPs will also not have to face the prospect of a further referendum on Scottish Independence either as Nicola Sturgeon confirmed it would not happen until “the terms of Brexit are clearer.” To be specific she is now looking at some point between autumn of 2018 and spring of 2019.

The UK has also pledged to maintain duty-free access with 48 developing countries – including Bangladesh, Sierra Leone, Haiti and Ethiopia – once it has left the EU.  

"My clear view, and I believe the view of the majority of people in Britain, is that we should prioritise protecting jobs, protecting economic growth, protecting prosperity as we enter those negotiations and take them forward,"

Chancellor Philip Hammond
Hard vs Soft

Respondents to a survey from the Institute of Directors said that an EU trade deal should be the overall priority for this government but 65% thought that uncertainty over government make up was ‘a significant concern’ for the UK economy.

While the conclusion of the UK election allows the Brexit process to start the fact that the Conservatives lost their majority has meant that some of the exact objectives may be less clear and in some cases may even have changed.

In media terms Britain may now be more likely to head for a soft Brexit than a hard Brexit. In simple terms it means that Britain now appears to have a greater chance of remaining inside the single market at the end of negotiations. This is despite the Chancellor and Brexit Secretary confirming that the country will leave.

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More than 30 Labour MPs have written an open letter demanding the Jeremy Corbyn campaign to remain in the single market whilst Scottish Tory Leader Ruth Davidson has called for a more economically minded Brexit deal in the wake of the election.

Samir Assaf, Chief of HSBC’s investment bank recently told investors that he no longer expected a hard Brexit and would be very happy to remain in London.

Germany’s Foreign Minister, Sigmar Gabriel, has suggested that such a deal is still possible and new French Prime Minister Emmanuel Macron has even suggested that the UK still had the option to remain as a full member if it so wished.

Senior figures from the Conservative party also believe they the idea that the UK may walk away without a deal is now dead. “If such a scenario is looming, they would have the numbers to pass an amendment to the EU repeal bill... cancelling (it),” the BBC’s Political Editor Nicholas Watt said.

A recent report by former Shadow Chancellor Ed Balls and Peter Sands, a senior fellow at Harvard, suggests that a bad deal would be as bad as no deal in respect to British jobs, investment and growth.
Skills shortages

Non-UK Nationals in the UK labour force
(Source: Deloitte, 2017)

Considering leaving within five years
36%

Considering leaving within three years
26%

How likely are you to leave the UK before the conclusion of Brexit negotiations?
(Source: Baker Makenzie, 2017)

‘Highly likely’ or ‘quite likely’
46%

The UK is starting to see the potential impact of Brexit on the workforce. The Recruitment & Employment Confederation (REC) has announced that sharpest drop in available permanent candidates in nearly a year. The REC’s Director of policy Tom Hadley, pointed to data previously mentioned in this report from the Office for National Statistics that showed immigration from the EU had fallen and emigration had risen in recent months.

“Employers seeking to fill vacancies are running out of options,” he said.

Similarly, a survey by Lloyds found that more than half of UK businesses are experiencing difficulties hiring skilled labour in the six months to May, this has increased from just 31% I the six months to January.

Applications from EU nationals to join the Nursing and Midwifery council register has fallen 96% since the Brexit vote from 1,304 in July 2016 to just 46 in April 2017. The farming sector experienced a 17% shortfall in harvest workers for May, a job almost exclusively done by EU Nationals (just 14 of the 13,400 roles filled this year were British). This compares with a shortfall of just 4% in May 2016.

Gaps expected to deepen
Almost three-quarters (72%) of HR professionals told the CIPD Resourcing and talent planning survey that they believe the situation will get worse once Britain leaves the EU. A separate report by the CIPD (Facing the future, tackling post-Brexit labour and skills shortages) provided some reasons for their pessimism as it suggested that one in three employers in low-paying sectors - such as food manufacturing, hospitality and care - employ EU nationals because they cannot attract UK nationals. This would make it very difficult to replace any workers that were to leave once Britain leaves the EU.

Heather Rolfe, Associate Research Director at NIESR, said: “Our research adds further weight to evidence that employers don’t recruit EU migrants in preference to British workers, but because they attract too few British applicants.”

With this in mind The Independent has launched its Drop the Target campaign, which suggests that the proposed immigration cap would further exacerbate the skills shortages. Research from consultancy form RepGraph suggests that a more sensible model would be to base immigration policy on economic needs.

Kevin Green, Chief Executive of the REC, had a similar plan suggesting an independent body, much like the Low Pay Commission.

Intentions to leave
A survey by consultancy firm Deloitte suggested that almost half of the highly
These results were echoed by law firm Baker Mackenzie who surveyed EU nationals working in FTSE250 companies and found that 56% were ‘highly likely’ or ‘quite likely’ to leave the UK before the conclusion of the Brexit negotiations.

Research from the REC highlights specific areas which could be most heavily impacted and its reflects previous reports. The problem would be particularly acute in London where one in every six workers is an EU national. The financial and business services sector is the largest employer of EU nationals (190,000) whilst the construction sector is the most exposed with more than a third of its workforce accounted for. Retail and Hospitality sectors also have a high proportion of EU nationals in their workforce, more than one-fifth.

**Skills shortages (cont'd)**

Across the UK the manufacturing sector has the most EU workers
(Source: The Times, 2017)

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of EU nationals</th>
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<tbody>
<tr>
<td>All sectors</td>
<td>7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.6%</td>
</tr>
<tr>
<td>Retail &amp; Hospitality</td>
<td>8.8%</td>
</tr>
<tr>
<td>Transport</td>
<td>8.5%</td>
</tr>
<tr>
<td>Construction</td>
<td>8.4%</td>
</tr>
<tr>
<td>Agriculture, forestry &amp; fishing</td>
<td>7.8%</td>
</tr>
<tr>
<td>Financial and business services</td>
<td>7.3%</td>
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<tr>
<td>Other services</td>
<td>5.4%</td>
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<tr>
<td>Energy and water</td>
<td>5.4%</td>
</tr>
<tr>
<td>Public admin, education and health</td>
<td>4.1%</td>
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So far it doesn’t seem that UK businesses are doing anything to combat these issues. Part of the reason for that, according to the Resolution Foundation, is that they are not ready for the expected future immigration system. Almost half of businesses have made ‘totally unrealistic assumptions’ according to the foundation.

“Many British firms are totally unprepared for [Brexit changes], particularly when it comes to migration,” said Torsten Bell, Director of the Resolution Foundation. “Ministers have compounded this uncertainty by choosing not to answer questions over what a post-Brexit immigration regime might be.”

Stephen Clarke, Policy Analyst at the Resolution Foundation, added: “There’s a stark gap between what businesses want and expect from our post-Brexit immigration regime, and what the government has pledged to deliver. Reconciling these differences, and giving businesses enough to plan for a new regime is absolutely vital.”

UK employers need to start understanding exactly what their current skills gaps are but also what they might potentially face. Once they understand these possibilities they can start looking at potential solutions to different scenarios – even the totally unrealistic ones.

Skilled EU workforce are considering leaving the UK within the next five years. Overall this would account for more than a third of all non-UK nationals in the workforce, or 1.2 million roles.

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What this means
The UK recruitment market is already a difficult place to operate and it seems likely this will only get harder if there are less EU nationals in the workforce. This won’t be kept to a specific sector either and both low and high skill roles will be affected.
Citizenship & workers rights

June finally saw the UK set out the situation for EU nationals who want to remain in the UK after Brexit.

The 15-page document said that all EU nationals who have been lawfully resident for at least five years will be able to apply for ‘settled status’ and be able to bring over spouses and children. They will have two within which to finalise their application but the right is not automatic.

Those who are granted settled status will be able to live, work, study and claim benefits just as they can now. The cut-off date for this application process is yet to be defined but will be no later than 29th March 2019. For those that were not working the government will also no longer require evidence of ‘comprehensive sickness insurance’.

There are currently an estimated 3.2 million EU nationals living in the UK so this would be the number of potential applications that the government would have to process. The government has said it intends to use an online system similar to the one used to process 2.5 million visas and seven million passports each year.

Any family members that EU nationals wish to join them as part of this deal will need to arrive in the UK before the cut-off date or they will be subject to the same immigration restrictions as other foreign nationals joining British citizens.

Those that have been here for less than five years will be allowed to continue living and working and then apply once they have been in the UK for the required length.

EU nationals that arrive after the agreed cut-off date will only be allowed to stay temporarily.

Rights
Under this proposal the UK Government will create new rights in UK law for qualifying EU citizens resident here or before exit. This will be enforced by UK courts. The European Court of Justice will not have jurisdiction in the UK.

Other rights will include:
- EU citizens will no longer be able to vote in local elections.
- EU nationals will be allowed to keep sending their UK benefits to other countries in the EU - such as child benefit - if they were already doing so before the ‘cut-off date’.
- The UK will continue to pay out state pension within the EU to qualifying EU nationals.
- The UK will protect healthcare arrangements for EU citizens who arrive in the UK before the “cut-off date” for UK nationals living in the EU.
- The UK will protect a UK European Health Insurance Card (EHIC) so British citizens can continue to benefit from free temporary healthcare while in the EU.
- EU citizens who arrived before the “cut-off date” will continue to be eligible for student loans, and “home fee” status in line with persons with settled status in the UK.

How these rights will be administered is still a subject of some debate. The EU wants them to be administered by the European Court of Justice which is something Theresa May has said she would not accept. Although not confirmed there are reports that the UK is currently investigating the option a new body to fill the role as a compromise.

Reaction
While many suggested this was a step in the right direction, German Chancellor Angela Merkel called it a ‘good start’, there was a general view that the document may actually create more questions than it provides answers.
Michel Barnier, the EU’s Chief negotiator, asked for “more ambition, clarity and guarantees” suggesting that it didn’t match the EU’s goal which was the same level of protection as EU law.

Claude Moraes MEP, the Chair of the European parliament civil liberties, justice and home affairs committee, said “the government’s offer is full of holes and threatens the rights of both EU citizens in the UK and UK citizens in other EU countries. It will create yet further uncertainty.”

Those with a vested interest were even less impressed. The 3million group, which represents EU citizens in the UK, described the offer as “neither fair or really serious”. And the Joint Council for the Welfare of Immigrants said it could not understand why those who already had permanent residence were being asked to re-apply to obtain the new status.

In the UK the British Chambers of Commerce welcomed the document but questioned why it was not made a year ago.

**Citizenship applications**

Even before this offer the levels of EU nationals applying for British citizenship was high, more than 9,000 in the first quarter of 2017. This is three times the level seen at the same point last year.

At the same time British citizens have been increasing their interest in citizenship for other countries.

Applications from the UK for Irish passports with 70,000 issued in 2016 compared to an average of 50,000 before that according to Ireland’s ambassador to the UK. More than 1,300 Britons applied for French citizenship last year, up from 385 the year before. There was also a 13% rise in the numbers becoming German citizens in 2016.

**What this means**

While this is only the first step it does at least alleviate fears that all EU nationals currently in the UK workforce would have to leave as soon as the UK left the European Union. This gives businesses a little more stability for the near future.

This said the offer to stay does not mean workers are guaranteed or even that they will want to so businesses need to be aware of any areas of vulnerability they might have.
Steps to UK leaving the European Union

Nov 2016: Legal challenge to government’s right to invoke Article 50 without consulting Parliament succeeds. MPs approve bill in March 2017

29 Mar 17: UK invokes Article 50 of the Treaty on European Union

Remaining 27 EU countries meet 29 April to discuss withdrawal

Negotiations begin between UK and EU

Draft deal put to European Council (27 leaders)

Needs approval from at least 20 countries with 65% of the population

Ratification by European Parliament

UK introduces Great Repeal Bill to revoke the 1972 European Communities Act

After two years, negotiations can be extended if all 27 countries agree but if not EU treaties cease to apply to the UK

The UK leaves the European Union

Great Repeat Act comes into force, copying EU laws into UK law, to give time for UK to amend or repeal them.