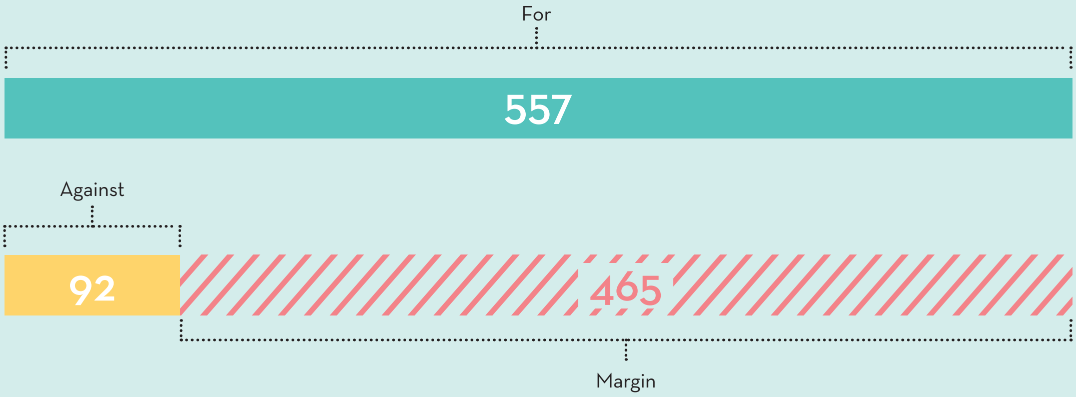
THE ADECCO GROUP

The facts about Brexit

October 2017

EU says not enough progress

Non-binding motion in the European Parliament that EU leaders should conclude that Brexit talks have not made sufficient progress in order to justify opening trade negotiations with Britain



(Abstentions: 29)

October 2017 saw Brexit negotiations hit a potential brick wall. The European Union passed a motion stating that insufficient progress had been made to justify opening negotiations on the subject of a future trade agreement with the UK. Although non-binding, the motion was overwhelmingly backed by a margin of 465 votes and the parliament will have a veto over any final agreement.

European Commission President Jean-Claude Juncker and European Union Chief Negotiator Michel Barnier spoke to the parliament in agreement with the Union's stance before the vote. European Council President Donald Tusk said that the EU would have to reconsider its Brexit strategy if the UK fails to improve the current offer by the end of the year.

Irish Foreign Minister Simon Coveney added that talks cannot progress without clarity over the future situation regarding the border between Northern Ireland and the Republic of Ireland.

Confusion over Brexit negotiations

Chief Negotiator for the European Parliament, Guy Verhofstadt, suggested that the lack of progress was down to splits within the UK Cabinet, specifically Chancellor Philip Hammond and Secretary for International Trade Liam Fox: "There is a lack of clarity, there is even disunity," he said. This view was further echoed by Labour's Hilary Benn, Chair of the Commons Brexit Committee.

The British Chambers of Commerce (BCC) believes the split is harming business confidence in the UK.

This might explain some recent comments from European leaders suggesting that the EU does not actually know what the UK wants to achieve from negotiations; both European Parliament President Antonio Taiani and Irish Prime Minister Leo Varadkar were equally confused. Labour leader Jeremy Corbyn also agreed following a meeting with Mr Barnier.

However, Prime Minister Theresa May, in addressing the House of Commons, said that she has already set out her position and is waiting for the EU27 to respond.

Newly re-elected German Chancellor Angela Merkel remains positive concerning negotiations: "I have absolutely no doubts that if we are all focused...that we can get a good result. From my side there are no indications at all that we won't succeed," she said.

May takes control

An ORB poll completed for the Telegraph newspaper in October showed that six out of ten respondents want Theresa May to remain Prime Minister until the Brexit process is complete. During the last month, May appears to have taken this to heart and been at the forefront of the process.

She told her party conference that she was prepared to walk away from negotiations if the deal on offer was not suitable, appointed a new representative to the House of Lords, and held a number of meetings with European leaders – including a previously unannounced trip to Brussels for dinner with Michel Barnier and Jean-Claude Juncker.

She has also stated that negotiations will not herald the return of a hard border in Ireland, and that there will be no transition period unless the EU first agrees to a future trading relationship.

What this means

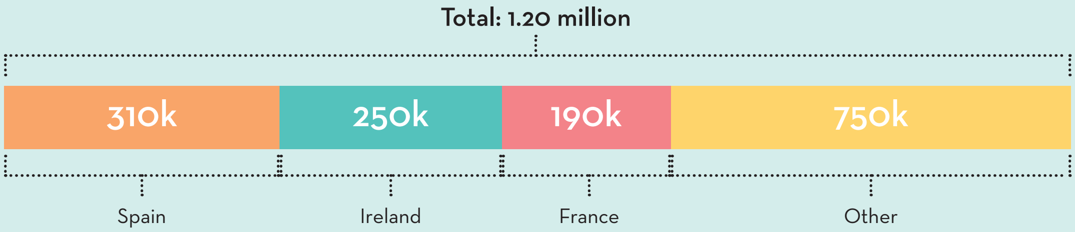
With only a matter of months until the negotiation period is concluded, it seems that the European Union is prepared to dig its heels in to get what it wants.

From a recruitment point of view, this spells more uncertainty in terms of both future strategy and the availability of non-UK EU nationals in the workforce. If they have not already done so, employers should be mapping the key skills in their organisation and assessing areas of potential weakness.

Is no deal now a possibility?

UK Citizens Living in the EU

(Source: Trends in International Migrant Stock: Migrants by Destination and Origin, 2015 revision, table 16, United Nations)



This month saw a distinct increase in conversation about the possibility of no agreement being reached between the UK and EU, and the UK walking away and reverting to World Trade Organisation (WTO) rules in the process.

While 'no-deal' is not the government's preferred option, Theresa May has confirmed that it is a possibility. In fact, First Secretary of State Damien Green confirmed this month that it is a possibility the government is preparing for, despite saying it was 'very, very unlikely'.

Shadow Chancellor John McDonnell has said that the Labour party would block any attempt by the current government to leave without a deal. Although the current government lacks an outright majority and could be out-voted, parliament does not currently have the authority to block the deal. They have been promised a vote but it is still unclear whether that option would be included in this vote.

Conversely, Donald Tusk categorically stated that the EU is not preparing for this option. "We hear from London that the UK government is preparing for a 'no deal' scenario," Tusk told EU regional leaders in Brussels. "The EU is not working on such a scenario. We are negotiating in good faith, and we still hope that the so-called 'sufficient progress' will be possible by December." Jean-Claude Juncker has also said he is assuming that Britain won't end up with 'no deal'.

Former Irish Prime Minister John Bruton said this month that the consequences of Britain leaving the EU without a deal 'would be devastating' for Ireland and the peace process. He suggests it would inevitably lead to a hard border.

Spain's Foreign Minister Alfonso Dastis also spoke out this month, stating that UK emigrants would be permitted to remain in the country even if no deal was agreed. The country is host to the largest number of British citizens living abroad (308,805, of which just over a third – 101,045 – are aged 65 or over).

Michel Barnier has suggested that he expects a short transition period (limited to 20 months), with a future trade deal negotiated over 'several years'. He drew parallels with the deal made between the EU and Canada.

Impact of 'No Deal'

Speaking of the possibility of a no-deal scenario, Barnier said: "We do not want it at all, but we do not exclude any option. Such a scenario would cause us problems, and much larger [ones] in the UK.

"I will give you some examples. In London, to leave the Euratom treaty without an agreement would mean immediate problems for the import of nuclear material, whether for nuclear power plants or hospitals.

"That would mean leaving the single European sky agreement, and no longer being able to mutually recognise pilot qualifications or get take-off or landing clearance. And what would happen to the food products imported into the United Kingdom? There would immediately be customs controls, perhaps taxes. That's why I want a deal."

Philip Hammond even said that it would be 'theoretically possible' that air traffic between the UK and the 27 member states would be halted. Willie Walsh, Chief Executive of British Airways' parent company IAG told the House of Commons Transport Committee that he did not believe this would happen, a view echoed by Sophie Dekkers from Easyjet and John Holland-Kaye, Head of Heathrow Airport.

Banking and financial services company Rabobank became the latest to publish a report on the potential impact of Brexit, suggesting that leaving the single market without a trade deal could cost up to 18% of UK GDP by 2030 – a value of £400m. The report suggested that the UK would immediately enter a two-year recession. On the other side the EU would suffer a cumulative loss of 2% in GDP by 2024.

Should the UK and EU include any form of restriction on movement or trade then both sides would almost certainly be required to increase spending on enforcement, including recruiting. Analysis by the Financial Times surmises that many EU countries would take at least a year to increase staffing levels appropriately given existing training procedures.

Secretary of State for Exiting the European Union, David Davis, expects the HMRC to require between 3,000 and 5,000 additional staff. Other estimates have been higher however, with the Institute for Government believing that the Home Office alone would require 5,000 more staff members, and Deloitte suggesting that 30,000 recruits could be needed across the whole of Whitehall.

Len McCluskey, General Secretary of Unite, believes that 'no deal' would cause the current UK government to collapse and Jeremy Corbyn would be elected in the next General Election.

What this means

Businesses should start planning seriously for a scenario where the UK leaves the European Union without any form of deal and reverts to World Trade Organisation (WTO) rules. This should include considerations about talent management; if businesses previously relied upon a flow of non-UK EU nationals then alternatives will need to be found. These could include upskilling the existing workforce, employing more apprentices, or considering an increase in older workers.

Business demands action

More than 70% of Creative Industries Federation (CIF) members employ EU nationals and two in three said they could not fill those roles with UK nationals

(Source: Global Talent Report 2017, Creative Industries Federation)

The European Union is not alone in worrying about the lack of progress concerning Brexit negotiations: various elements of UK business were again vocal about the matter during October 2017.

The British Chambers of Commerce (BCC) Director General Adam Marshall said it would be 'unforgiveable' for politicians to choose 'disruption over thriving trade' and that further delays 'would create a lose-lose scenario for everyone'.

The BCC was also among the signatories on a letter to David Davis, Secretary for Leaving the EU, which urged the government to agree the plans for a transition deal before firms finalise 2018 budgets and implement contingency plans. The letter was also signed by the Confederation of British Industry (CBI), Institute of Directors (IoD), Federation of Small Businesses (FSB) and manufacturers trade body EEF.

Mayor of London Sadiq Khan said that his regular conversations with businesses suggest 'they're not bluffing'.

Carolyn Fairbairn, Director-General of the CBI, added weight to the discussion in affirming that 40% of UK businesses have altered and reduced their investment plans as a result of the current uncertainty.

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A Department for Exiting the EU spokesman said: "The Prime Minister proposed a strictly time-limited implementation period in her Florence speech and was clear in her Article 50 letter that agreeing this principle early in the process would help minimise unnecessary disruption to businesses in both the UK and the EU.

Financial services firms to decide by Christmas

Sam Woods, a Deputy Governor at the Bank of England said this month that financial services firms would activate contingency plans if no transition period had been decided upon by Christmas 2017. TheCityUK agreed, given the time it takes to approve new licences for the continuation of cross-border banking after Brexit in March 2019.

Similar views were heard this month from Katherine Braddick, Director General for Financial Services at the UK Treasury, Barclays Chairman John Macfarlane, and RBS Chairman Sir Howard Davies. Mr Davies believes that job losses to the continent will be heavier the longer it takes for a deal to be achieved.

Xavier Rolet, Head of the London Stock Exchange, asserted that the lack of a clear plan could cost the City of London up to 230,000 jobs.

The Bank of England has said it would decide by year-end whether London branches of EU banks must become subsidiaries if there is no transition deal in sight.

While outgoing HSBC Chief Executive Stuart Gulliver warned that clarity and detail would still be vital, and that he would delay his decision to move 1,000 staff to France for as long as possible.

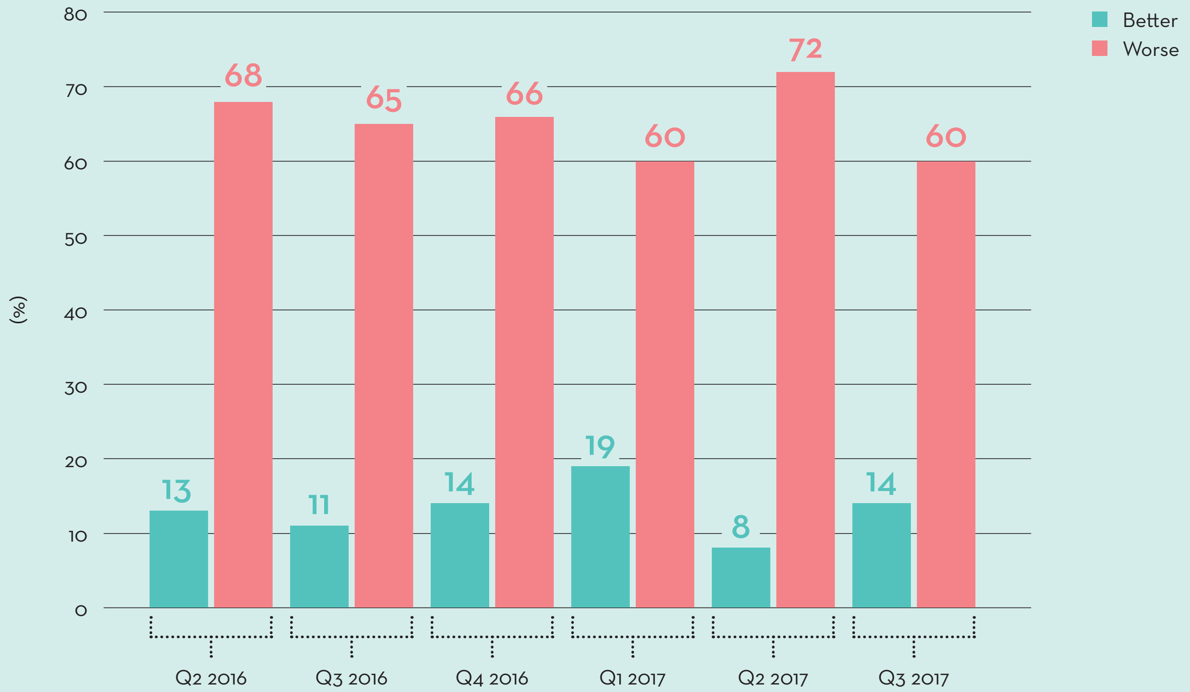
Warnings of impending doom

The Financial Services sector has long been a vocal critic of all things Brexit, and October saw other old foes speak up – but also some new ones.

The British Retail Consortium (BRC) announced that 22% of its members have reported staff returning to the continent, and predicted rising prices and slower deliveries if this were to continue. EEF announced that UK

Business demands action (cont'd)

How will the UK's exit from the European Union affect the business environment
(Source: Deloitte CFO Survey Q3 2017)



manufacturers have reduced the amount they are investing into plants and machinery by 1% of turnover.

Britain's advertising industry spoke for the first time as the Advertising Association launched a campaign backing the free movement of labour. According to LinkedIn, half of all staff joining London's advertising and marketing businesses are from the EU; the industry is responsible for £120bn in turnover and more than a million jobs.

A similar point was made by the Creative Industries Federation (CIF) which found three-quarters of their members employed EU workers and two-thirds said they could not fill those roles with UK nationals. Phil Dobree, CEO of Jellyfish Pictures, which worked on the latest Star Wars movies, said there was a risk that the UK could lose its competitiveness without access to the same broad range of skills.

New research from accountancy firm Moore Stephens suggested that 20% of restaurants in the UK, a little under 15,000 outlets, face closure. The study showed that the number of restaurants rose by 13% in the 12 months to March 2017.

Silver linings

A recent poll of Chief Financial Officers carried out by Deloitte actually found a slight softening of worries over Brexit in recent months. The percentage of CFOs that believe Brexit will damage the business environment dropped from 72% to 60% over the last three months, and the amount that think it is a good time to invest in riskier projects has grown to 24% from 8% compared to the period just after the referendum.

In terms of perceived risk, Brexit did fall slightly but it was still the highest rated risk on the list, above weak UK demand and the prospect of higher interest rates.

Goldman Sachs Chief Executive Lloyd Blankfein continues to affirm that the bank is investing in London with a new European headquarters under construction. Mr Blankfein intends to fill the 1.1 million square-foot building with staff.

The EY Global Capital Confidence Barometer confirmed that despite slowing economic growth and Brexit negotiations the UK is still the most popular country to invest in throughout Europe. The UK was third behind China and the United States, ahead of both Germany and France.

"Doing deals is in the DNA of UK companies," said Steve Krouskos, EY's Global Vice Chair of Transaction Advisory Services. "The UK is home to the most important assets sought by dealmakers – technology, talent and intellectual property – so it always has been and always will be a major player."

What this means

UK business is still generally inclined to feel negatively towards Brexit and its impact, as it always will towards uncertainty and change. It is likely that positivity will increase as soon as concrete plans are put in place. One way or another, this should happen during the next six months.

It is possible that this uncertainty could affect 2018 talent management and investment plans, including the traditionally busy January hiring period. Given the strength of the UK recruitment market and the various skills shortages that exist it is equally possible that companies will carry on hiring as they look to acquire talent whenever it is available.