



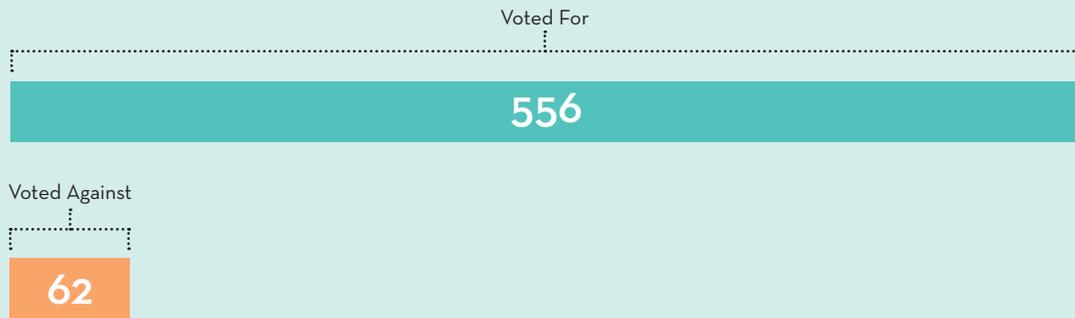
THE ADECCO GROUP

The facts about Brexit

December 2017

Talks move to second stage

European Parliament votes for non-binding motion judging that 'sufficient progress' has been made to allow talks to move to the next phase.



The final month of 2017 saw the UK and European Union make significant progress in Brexit negotiations. The European Commission said enough progress had been made that talks could now move the second phase, onto the topics of trade and a transition period. This agreement was subsequently ratified at a summit of leaders from the EU27 which followed a vote in favour by the European Parliament (by 556 votes to 62).

Talks had previously reached an impasse over the status of the Irish border including objections raised by the Democratic Unionist Party (DUP) in Northern Ireland. The second deal was endorsed by their leader [Arlene Foster](#) who had said she would not allow a deal that creates “regulatory divergence”.

The text of this agreement currently states that should London and Brussels fail to agree a final Brexit deal, the United Kingdom will maintain “full alignment” with those rules of the internal market and customs union that help to protect north-south cooperation in Ireland. Additionally, the document said the “United Kingdom will continue to ensure the same unfettered access for Northern Ireland’s businesses to the whole of the United Kingdom internal market,” unless the Northern Ireland Assembly agreed it was necessary.

One possible solution that the UK has considered is the use of technology to enable a “frictionless border” but that idea was dealt a blow in December as the House of Commons committee for Exiting the EU called the idea “untested” and “to some extent speculative”.

One other area of uncertainty is whether the deal itself is legally binding. [Guy Verhofstadt](#), [Chief Negotiator for the European Parliament](#) has said he believes the agreement should be written into a binding treaty. [Michel Barnier](#), [Chief Negotiator to the European Commission](#) told MEPs that he believed it would be done “rapidly”. This view was endorsed by Secretary for Exiting the EU David Davis but after he had told the BBC that he viewed the document as “a statement of intent more than anything else.”

Special deals

Moving onto trade as a topic unearths a whole new set of challenges, the one

discussed in December 2017 was whether a deal would cover just physical products.

David Davis has already been very clear that the UK expects to treat goods and services as inseparable however Mr Barnier said in December that it was ‘unavoidable that British banks and financial firms would lose the passports that allow them to trade freely in the EU’. The latter suggests the EU is planning to separate goods and services.

“There is no place [for financial services]. There is not a single trade agreement that is open to financial services. It doesn't exist.” He said the outcome was a consequence of “the red lines that the British have chosen themselves. In leaving the single market, they lose the financial services passport.”

Mr Barnier had said there was ‘no way’ Britain could combine the trade benefits enjoyed by single market member Norway with the simpler but less comprehensive deal offered to Canada. However, Prime Minister Theresa May told the House of Commons that every trade deal is bespoke and that this had been made clear to the EU.

London Mayor Sadiq Khan used the agreement reached on Northern Ireland as justification for London receiving its own special deal.

EU Withdrawal Bill

By the end of 2017 the EU Withdrawal Bill had completed its committee stage in the House of Commons, it will now move through report stage and third reading in the middle of January and onto the House of Lords at the end of the month.

The government lost a vote on Amendment 7 and as a result now requires a separate act of parliament to approve any deal on Brexit. In essence parliament will have to power to reject any deal agreed by the government, even if it is already approved by the rest of the EU27.

The government accepted amendments allowing ministers the power to amend the time and date of leaving and the establishment of a new House of

Talks move to second stage (cont'd)

“There is not a single trade agreement that is open to financial services. It doesn't exist.”

Michel Barnier, European Chief Negotiator for the United Kingdom exiting the European Union

Commons committee for review of statutory instruments. The current date (29 March 2019 at 11.00 PM) has been retained in the document but ministers will be allowed to edit it should the UK leave on a different date. The new committee will review all proposed legal changes as EU legislation is converted into British law.

Amendments that would allow for the UK to remain in the Customs Union and hold another referendum were defeated as well as a clause requiring assessment of the impact on international treaties.

Impact assessments

David Davis has referred to impact assessments for more than 50 sectors in previous months but in December told the House of Commons committee for Exiting the EU that they did not exist. He told the committee that the government had carried out 'sectoral analysis' but differentiated them from any form of forecast as it would not be useful.

Researchers from Birmingham University's City Region Economic and Development Institute have performed an assessment impact on UK regions and the rest of the EU based on share of labour income and reliance on the EU for GDP. They found that the UK was 4.6 times more exposed than the rest of the UK whilst it was the Midlands and the North that were the most exposed regions. Ireland was the most exposed country in the EU followed by Germany and the Netherlands.

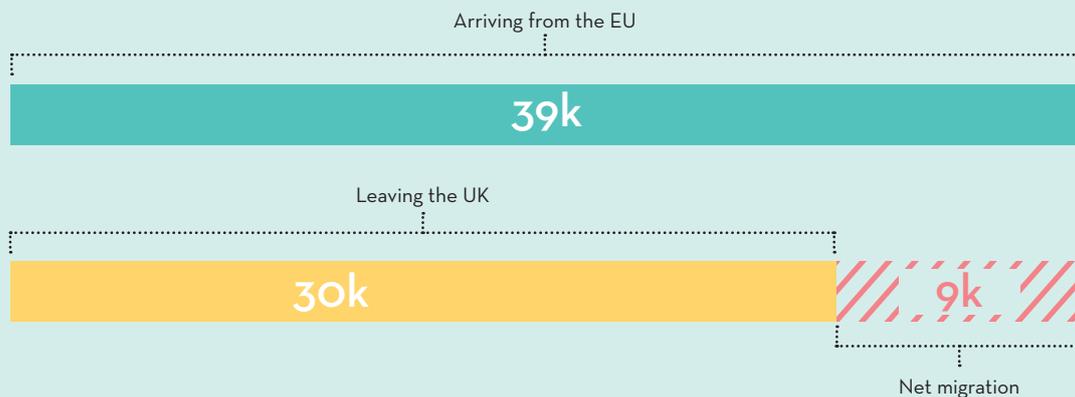
EY continue to track 222 financial services companies in the UK and claims that the number of jobs that are planned to be relocated has now fallen from 12,500 to 10,500. Nearly one in three (31%) of tracked companies have said they are considering or have confirmed the movement of some of their operations and/or staff out of the UK. Financial Times research focussed on just the largest international banks but found a figure of only 6% suggesting a job losses could be less than 5,000.

The Association of British Pharmaceutical Industry (ABPI) has said investment decisions are currently being delayed. A view echoed by the British Chambers of Commerce (BCC) as it downgraded its growth expectations for 2018 to 1.1%.

Immigration & skills availability

Migration between the UK and EU in Q2 2017

(Source: Office for National Statistics, December 2017)



December saw new migration figures published by the Office for National Statistics (ONS) following a request from the Financial Times. These figures covered the period of April to June 2017 and showed that net migration from the EU was only 9,000. The ONS has only been publishing quarterly immigration data since the start of 2015 but this is the lowest figure in that period.

Madeleine Sumption, director of Oxford university's Migration Observatory said that although the small number of data sets made it difficult to compare the 'sheer suddenness of the fall in EU net immigration' was interesting and "the fact the decline was so sudden and the timing coincidental with the referendum suggests Brexit has played a significant role".

The bigger question seems to be whether the fall is permanent or just associated with the current uncertainty, according to Jonathan Portes who is a professor of economics and policy at King's College London.

Either way December saw UK business report issues with attracting or retaining talent.

Fortnum and Mason's, a department store in London, has been struggling to recruit chefs specifically with their chief executive blaming a fall in the value of the pound and anti-immigrant sentiment putting off applicants.

The National Farmers' Union reported a 29% shortfall in seasonal workers from September which led the chief executive of UK winemaker Chapel Down to suggest the UK will be forced to import more fruit.

A recent survey by the Home Builders Federation (HBF) suggested that the construction sector can be expected to be affected by this change as more than one in six employees (17.7%) are from an EU27 country.

Evidence recently given to the Economy, Jobs and Fair Work Committee of the Scottish Parliament by representatives of the food and drink, tourism, health and social care sectors suggests that Scotland is currently unable to fill many roles.

"For us, Brexit isn't something that we are waiting to happen, it's something that is already starting...we are hearing anecdotally in the last year that more

and more individuals are working out that it is more profitable for them to work back in their own country," said [Dr Donald Macaskill, CEO for Scottish Care](#).

Job site Indeed reported that while Britain is still the most popular choice for Europeans searching for a job in another European country (31.8% of all searches) it is down from two years ago.

"For much of the past decade, Britain's dynamic labour market has made it a poster boy for ambitious Europeans keen to progress their careers," said [Mariano Mamertino, economist for Europe, the Middle East and Africa, at Indeed](#).

"Last year's Brexit vote hasn't stopped that attractiveness in its tracks, but it is clearly giving many European jobseekers pause for thought," he said.

"Britain remains a net importer of talent from the EU, but the surge of interest in European roles among UK-based job seekers suggests the cross-Channel traffic is no longer just a one-way street," he added.

What this means

December 2017 showed that things are starting to move in the UK, businesses are certainly starting to feel a very tangible impact. This impact is likely to start nudging business to react.

This was a reaction that Adecco has perceived in our quarterly Brexit Tracker survey where the percentage of businesses who have not yet taken action edge down to 46% in our autumn survey.

While UK businesses are currently unable to know if the current drop in the flow of EU nationals is temporary they can undertake some processes that place them in a better position to act when they are sure. Only 12% have currently identified roles where the share of EU nationals is particularly high and only 8% have audited their workforce.

Immigration & skills availability (cont'd)

Percentage of EU workers in specific construction skills in London

(Source: Home Builders Federation, 2017)

