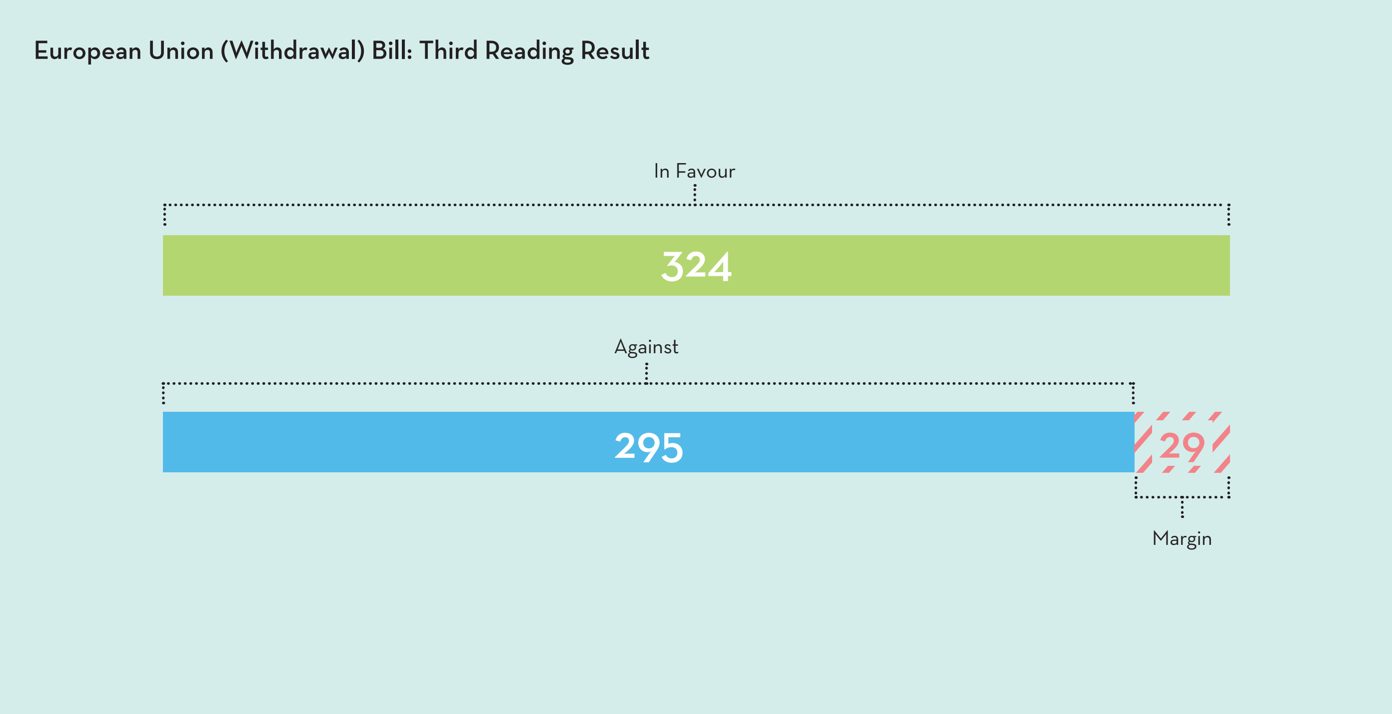
THE ADECCO GROUP

The facts about Brexit

January 2018

Progress on the process



The first month of 2018 saw the EU Withdrawal Bill pass through the House of Commons by a margin of 29 (324 in favour and 295 against) with Labour opposing its third reading.

On January 30th, the bill passed to the House of Lords who can choose to pass the bill or amend it and send it back to the Commons. The chamber tabled more than 20 amendments in the first session of debates and saw nearly 200 speakers - almost one-in four members, easily a record.

Although the Conservatives have the largest representation in the 794-member chamber with 248 it is not a majority so they will require support from other areas. There are 197 labour members and 100 Liberal Democrats, a further 210 have no political affiliation.

In advance of the debate, the Lords Constitution Committee published a report warning that while the legislation is necessary it risks "undermining the legal certainty it seeks to provide" and gives "overly broad" powers to government ministers.

Baroness Taylor of Bolton, who chairs the committee, said: "We acknowledge the scale, challenge and unprecedented nature of the task of converting existing EU law into UK law, but as it stands this bill is constitutionally unacceptable". The report also warned of uncertainty and ambiguity arising from the new 'retained EU law' and 'significant constitutional recessions' without the agreement of devolved governments of Scotland and Wales.

A second referendum and re-joining

Members of the Lords, known as Peers, may use this as an opportunity to either push for a second referendum to approve the final terms of any deal or remain in the single market.

Jean-Claude Juncker, President of the European Commission and Donald Tusk, President of the European Council, have both said in January 2018 that Britain would be able to re-join should it wish to. They confirmed that it was legally possible under Article 49 of the Treaty of the European Union but this would still require unanimous agreement from all other 27 states. Although a case submitted to Scotland's Court of Session (highest court in the land) this month argues that Britain would be entitled to change its mind about leaving the single market without any agreement from the other members (this case would eventually have to be decided by the European Court of Justice).

"The government want us to believe that you either accept the deal on offer or you crash out on March 29 2019 with no deal" said Joanna Cherry QC, one of the petitioners and MP for the Scottish National Party.

Nigel Farage became the latest to voice interest in the idea of a second referendum this month.

"Maybe, just maybe, I'm reaching the point of thinking that we should have a second referendum...on EU membership," said the former leader of the UK Independence Party (UKIP).

Arron Banks, Co-founder of the leave EU campaign also admitted to considering the options as he felt "if we do not act radically now, we will sleepwalk into a faux Brexit, in name only".

To date Prime Minister Theresa May has ruled out any option of a second referendum on the subject of leaving the European Union.

Future options

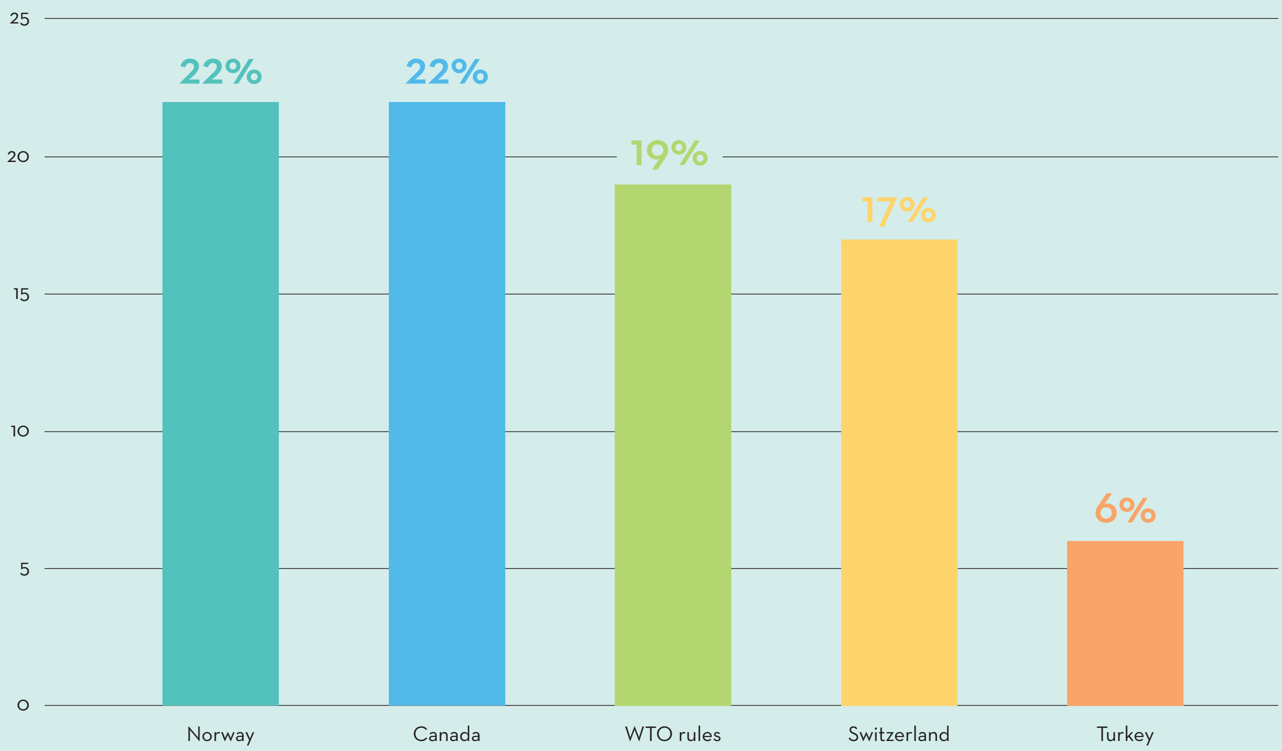
Michel Barnier, Chief Negotiator for the European Commission has formally offered the UK the ability to retain its membership for 21 months after Brexit as a transition period but during that time the UK must continue to accept EU rules during that period.

There remains no agreement on what form a future relationship between the UK and EU would look like. Chancellor Philip Hammond has refused to rule out staying in a long-term customs union with the EU in response to a letter from Treasury Select Committee Chair Nicky Morgan asking for clarification on the matter.

Carolyn Fairburn, Director General of the Confederation of British Industry (CBI) has advocated staying in the single market. Foreign Secretary Boris Johnson responded that this position 'made no sense' given that the Prime Minister has already confirmed the UK will leave.

Progress on the process (cont'd)

What trade deal model should the UK aim for?
(Source: RSM Middle Market Tracker)



Belgian MEP Philippe Lamberts, member of the Brexit steering group, said in January that the UK has agreed a deal 'in principle' for situation similar to that agreed by Norway. In this scenario, the UK would accept free movement of labour and have access to the single market for a fee. This has not been confirmed by the UK government.

A survey carried by YouGov for accountancy firm RSM found that Britain's midsized companies do not currently favour any of these options. Less than half of respondents to the RSM Middle Market Tracker want the country to leave the single market and customs union.

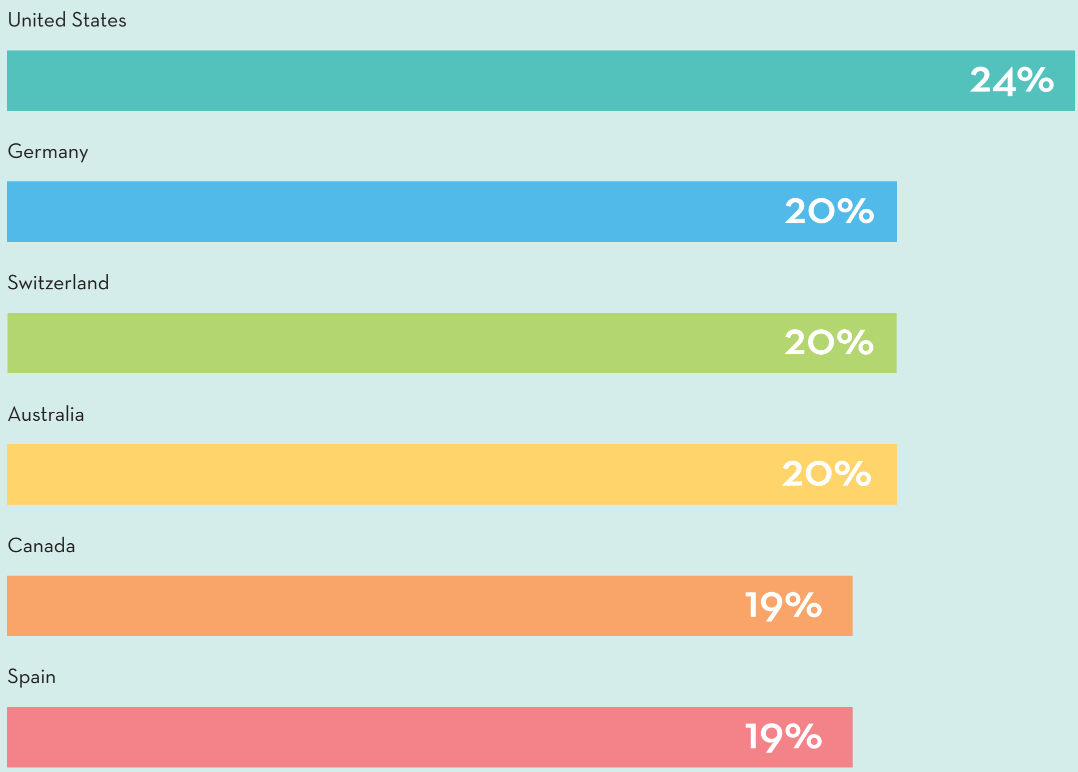
When asked about possible options just 22% opted for the model adopted by Norway and 17% like the idea of Switzerland's situation.

What this means

In practice, the House of Lords will not stop the legislation becoming law, Baroness Taylor admitted that they understand the necessity of it, but the peers can slow things down and give more power to parliament. Elongating the process will impact the time-frame during which UK businesses can react to the changes and length the period of uncertainty. The Bank of England this month confirmed that this uncertainty is affected both investment and therefore productivity growth.

Impact on the business

Top 6 countries to relocate: Employees from Europe
(Source: Perceptions of Employee Mobility in a Climate of Change, BDO, September 2017)



Oxford Economics became the latest to predict the impact that leaving without a deal would have. They believe it would cost the remaining 27 countries in the EU just under £100 billion in lost trade by 2020. In comparison, it would cost the UK economy around £125 billion.

A similar report commissioned by London Mayor Sadiq Khan, carried out by Cambridge Econometrics suggested the figure would only be £54 billion and by 2030. The report predicted economic output that was 3% lower on average. This was in line with figures published by the IMF and National Institute of Economic and Social Research (NIESR).

A report for the Scottish Government suggested that all future options it considered would impact the economy with the potential impact up to £16 billion per year. The report compared this to a growth of £3.6 billion if Scotland remained in the single market and achieved further expected integration in digital energy and services industries.

Following previous comments by Minister for Exiting the EU David Davis that there were no analysis papers on the impact of leaving the EU a confidential report was published by Buzzfeed News in January. Entitled "EU Exit Analysis – Cross Whitehall Briefing" it says that all UK industries will be worse off following Brexit with the worst impact expected in the West Midlands, North East and Northern Ireland.

- In a comprehensive free-trade agreement with the EU, UK growth over the next 15 years will be 5% lower than current forecasts.
- Under a "no deal" situation in which Britain returns to World Trade Organization rules, growth will be cut by 8%
- If the UK has continued access to the single market through membership in the European Economic Area, long-term growth will fall 2%

Prime Minster Theresa May responded by saying she would provide parliament with 'appropriate analysis' before it votes on the final deal.

Labour supply

January 2018 was the second consecutive month that the UK reached its cap on skilled visas for non-EU workers. The limit was previously only broken once, in June 2015. There are 20,700 permits available each year; 1,436 were available in December 2017 and 1,651 available in January 2018.

Although there is no data currently on immigration from the EU over this period it is assumed that the reason for these limits being breached was a fall in the supply of EU nationals. The latest figures (released in January 2018) showed the net immigration dropped almost a third in the year to June 2017.

This impression may be true as a report from accounting firm BDO found that the UK is no longer among the top six of countries that EU nationals would want to work in. In 2012 the UK was joint third (with Australia and Switzerland) as 20% of EU citizens cited it as a preferred destination.

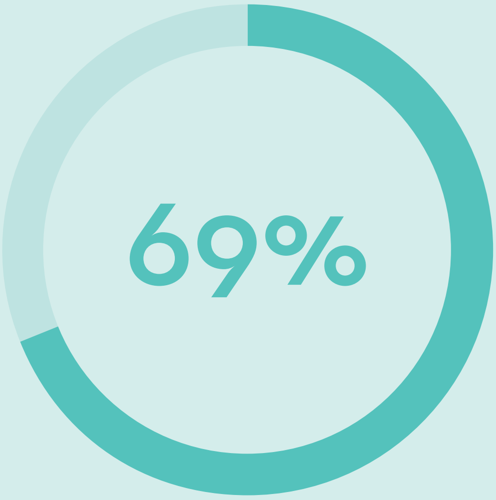
Further evidence comes from the British Chambers of Commerce (BCC) which found the highest levels of skills shortages on record. According to their research 71% of businesses in the service sector and 75% in the manufacturing sector are finding it difficult to hire the right workers.

"Labour and skills shortages are set to be the biggest potential drag anchor on business in 2018" said BCC Director General Dr Adam Marshall.

Impact on the business (cont'd)

69% of business leaders or 'captains' surveyed by Ipsos Mori on behalf of the House of Lords disagreed that they were confident in the government's ability successfully handle negotiations on Britain exiting the European Union.

(Source: EU Financial Affairs Sub-Committee, House of Lords)



60% of UK companies had either implemented contingency plans to cope with the risk of Britain's crashing out of the EU without an agreement or intended to do so.

(Source: Confederation of British Industry, November 2017)

Business relocation

According to a report from the House of Lords released in January 69% of business leaders are not confident in the government's ability to successfully handle Brexit negotiations. At the same time 85% said it was vital to their business, so it is no surprise that January sees more businesses make decisions about their future in the UK.

A CBI survey found that 60% of companies had either implemented contingency plans to cope with the risk of Britain's crashing out of the EU without an agreement or intended to do so by March 2018.

January 2018 saw insurance company Lloyd's of London announce it will open an office in Brussels by the end of the year in order to continue serving clients after Britain leaves the EU. Despite this move Chief Executive Inga Beale still expects to lose half of the business the company gains from the EU (which currently accounts for 11% of total revenue).

In a similar move, Irish aviation company Ryanair has applied for a UK Air Operator's Certificate from the Civil Aviation Authority. This is not an unusual move as it has also been made by Wizz Air, an airline from the continent. EasyJet is also currently seeking a licence from Austrian operators.

There was positive news from Deutsche Bank which announced it would be moving fewer than the previously estimated 4,000 roles to Frankfurt. Chief Executive John Cryan said that initially several hundreds of jobs will be created in the bank's German headquarters with additional roles in cities such as Milan and Paris.

"Mainly bankers, technology experts and traders work in London and they want to stay there," Cryan was quoted as saying. "The booking center will move for sure, but that affects less jobs than many think."

This was echoed by Stefan Hoops, Head of their Capital Market Division in Germany who talked of hundreds not thousands. At the same time, it was a climb down from Mr Cryan's comments last July when he said the bank was preparing for an outcome that was 'worse than people can imagine'.

Jeremy Browne, Special Representative for the City of London to the EU has also said this month that financial services firms are planning to move fewer roles out of the UK than previously thought.

Despite this, future trading relations with the European Union is the most serious threat to the UK financial sector according to a recent survey from the CBI.

What this means

There is mounting evidence now that the supply of EU nationals in the workforce has reduced and that employers are starting to find the labour market more challenging. If this proves to be true then employers may well see wages increase more rapidly than they have been.

Employers should understand what areas of their workforce are most exposed to EU nationals and consider how they might react to losing this section of the workforce.