



THE ADECCO GROUP

The facts about Brexit

— July 2018 —

adeccogroup.co.uk

Chequers agreement causes multiple resignations

With July heralding the start of the Commons summer break, it was always likely to be a noisy month politically, and so it proved.

Prime Minister Theresa May appeared to be making progress with the announcement of a new approach that was backed by the whole cabinet following a meeting at Chequers, the Prime Minister's country residence. By the end of the month Mrs May had suffered ten government resignations as a result of this deal, including the Foreign Secretary Boris Johnson and Secretary for Exiting the EU David Davis. The other resignations included one Parliamentary Under-Secretary, four Parliamentary Private Secretaries and two Conservative Party Vice Chairs.

Who resigned over the Chequers Agreement?

- 1 Boris Johnson, MP for Uxbridge and South Ruislip, resigned from position of Foreign Secretary
- 2 David Davis, MP for Haltemprice and Howden, resigned from position of Secretary for Exiting the EU
- 3 Steve Baker, MP for Wycombe, resigned from position of Parliamentary Under-Secretary to the Department for Exiting the European Union
- 4 Robert Courts, MP for Witney, resigned from position of Parliamentary Private Secretary to the Foreign and Commonwealth Office
- 5 Chris Green, MP for Bolton West, resigned from position of Parliamentary Private Secretary to the Department for Transport
- 6 Conor Burns, MP for Bournemouth West, resigned from position of Parliamentary Private Secretary to the Foreign Secretary
- 7 Scott Mann, MP for North Cornwall, resigned from position of Parliamentary Private Secretary to HM Treasury
- 8 Maria Caulfield, MP for Lewes, resigned from position of Conservative Party Vice Chair for Women
- 9 Ben Bradley, MP for Mansfield, Nottinghamshire, resigned from position of Conservative Party Vice Chair for Young People
- 10 Guto Bebb, MP for Aberconwy, resigned from the position of Minister for Defence Procurement at the Ministry of Defence

The government produced a whitepaper outlining the newly agreed plan. The paper sets out five main areas of focus:

- **The economy:** “developing a broad and deep economic relationship with the EU that maximises future prosperity ... and minimises disruption to trade between the UK and the EU, protecting jobs and livelihoods – at the same time making the most of trading opportunities around the world.”
- **Communities:** ending free movement with a new immigration system, support for farming and fisheries, and what is called a “shared prosperity fund”.
- **The union:** protecting the Northern Ireland peace process, avoiding a hard Irish border, safeguarding the constitutional integrity of the UK and devolving appropriate powers.
- **Democracy:** leaving EU institutions and reclaiming UK sovereignty, ensuring laws are made in the UK.
- **The UK’s place in the world:** promoting general principles such as openness and liberty.

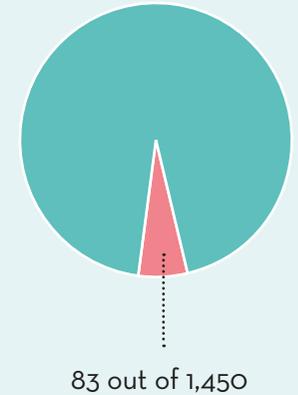
The new approach that the paper suggests is a Facilitated Customs Arrangement, often referred to as ‘Max Fac’ which is short for Maximum Facilitation. This suggests a ‘combined customs territory’ but only for goods. If the trader is trusted and can prove the destination for the goods the relevant tariff will be applied, otherwise the highest possible tariff will be applied and repayments will have to be applied for.

With respect to the workforce, free movement of labour between the UK and EU would end. New arrangements will be brought in to help businesses get the right staff, and for all UK citizens to travel visa-free for temporary business trips.

Subsequently, new Brexit Secretary Dominic Raab distributed a new whitepaper on the last day before the summer recess that announced that the UK would retain all EU law for the duration of the transition period.

Whether MPs would actually read these papers can be questioned after the Department for Exiting the European Union announced that only 83 of the 1,450 MPs have visited the restricted access reading room where the Brexit Impact papers are held, since they were released in December 2017.

Brexit impact papers viewing requests made by just 6% of MPs



Source: Freedom of information request made by Citizens4Britain

White paper reaction

The European Union was not in favour of the paper, with Chief Negotiator Michel Barnier saying the plan would weaken the single market and create burdens for business. He did, however, also say that it 'opened the way for constructive discussion'.

This was the view of many areas of the business community in the UK. Dr Adam Marshall of the British Chambers of Commerce called it 'welcome direction' and was pleased that businesses now have a comprehensive understanding. The Institute of Directors (IoD) agreed but wanted more information for industries beyond the financial services. Chief Executive of the Recruitment and Employment Confederation (REC) Neil Carberry said the white paper was pragmatic but left too many questions unanswered.

The Federation of Small Businesses spoke of the need for 'tangible and comprehensive details' and the British Retail Consortium identified the need for 'a frictionless customs system'.

This need was spelled out in a survey by the IoD which reported that 55% of 800 respondents said they believe that maximising EU market access and minimising regulatory divergence was most important for their organisation.

What is most important to your business:



Source: Institute of Directors, July 2018

Not everyone was glad of the facts provided though. HM Revenue and Customs predicts that this plan would cost UK businesses over £20 billion a year in administration.

Although there were details for financial services, the industry did not seem to like them. Inga Beale, Chief Executive of Lloyd's of London said it would hasten the departure of firms from the UK. Both TheCityUK and The City of London Corporation were disappointed by a lack of customs agreement surrounding services.

Planning and stockpiling begins in the absence of a direction

With only nine months until transition is due to begin, July started to see reports of business-planning for what would happen if the UK left the European Union without a deal being made.

New Secretary for Exiting the EU Dominic Raab (former minister for housing, communities and local government) has decided to publish 70 documents that include technical advice on how to prepare for such an eventuality. The EU has already published similar documents.

Whitehall officials have claimed these documents have limited significance given that the UK has shown little evidence that new regulatory bodies are being created or considered. Further evidence of this came when the UK confirmed it would retain EU laws, including a continuing role for the European Court of Justice, through the transition period.

That said, the Government has admitted to planning for the possibility. Simon Stevens, Chief Executive of the National Health Service (NHS), also told the BBC's Andrew Marr Show that there had already been 'significant planning' to ensure their supply chain remains operational. The new Secretary of State of Health and Social Care, Matt Hancock, also confirmed he had met with business leaders about building up reserves of vaccines and medicines while Dominic Raab confirmed preparations were being made to stockpile food.

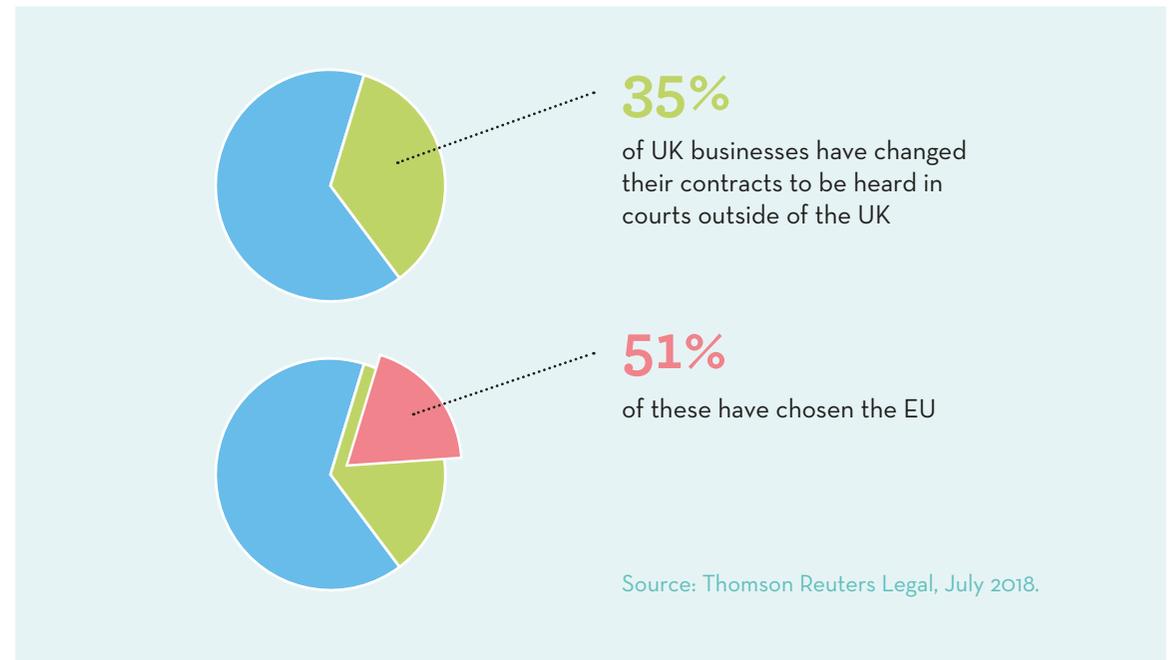
“ With only nine months until transition is due to begin, July started to see reports of business-planning for what would happen if the UK left the European Union without a deal being made. ”

Business leaders have been making the same plans, as The Royal Pharmaceutical Society, Airbus and Rolls Royce all said they were looking at their supply chains. Research by the Federation of Master Builders showed that they are already facing three-year waiting times for materials.

Similarly, 35% of businesses in a recent Thomson Reuters survey said they had changed the jurisdiction for their legal contracts away from the UK. Nearly four in ten (39%) of the remainder will review that status unless significant progress is made in negotiations before March 2019.

At the same time, France's state rail operator SNCF has announced plans to make physical changes to Paris' Gare du Nord to address the challenges of Brexit.

July also saw Britain and the EU formally begin the process of separating their rights and obligations within the World Trade Organisation for the first time in its 23-year history.

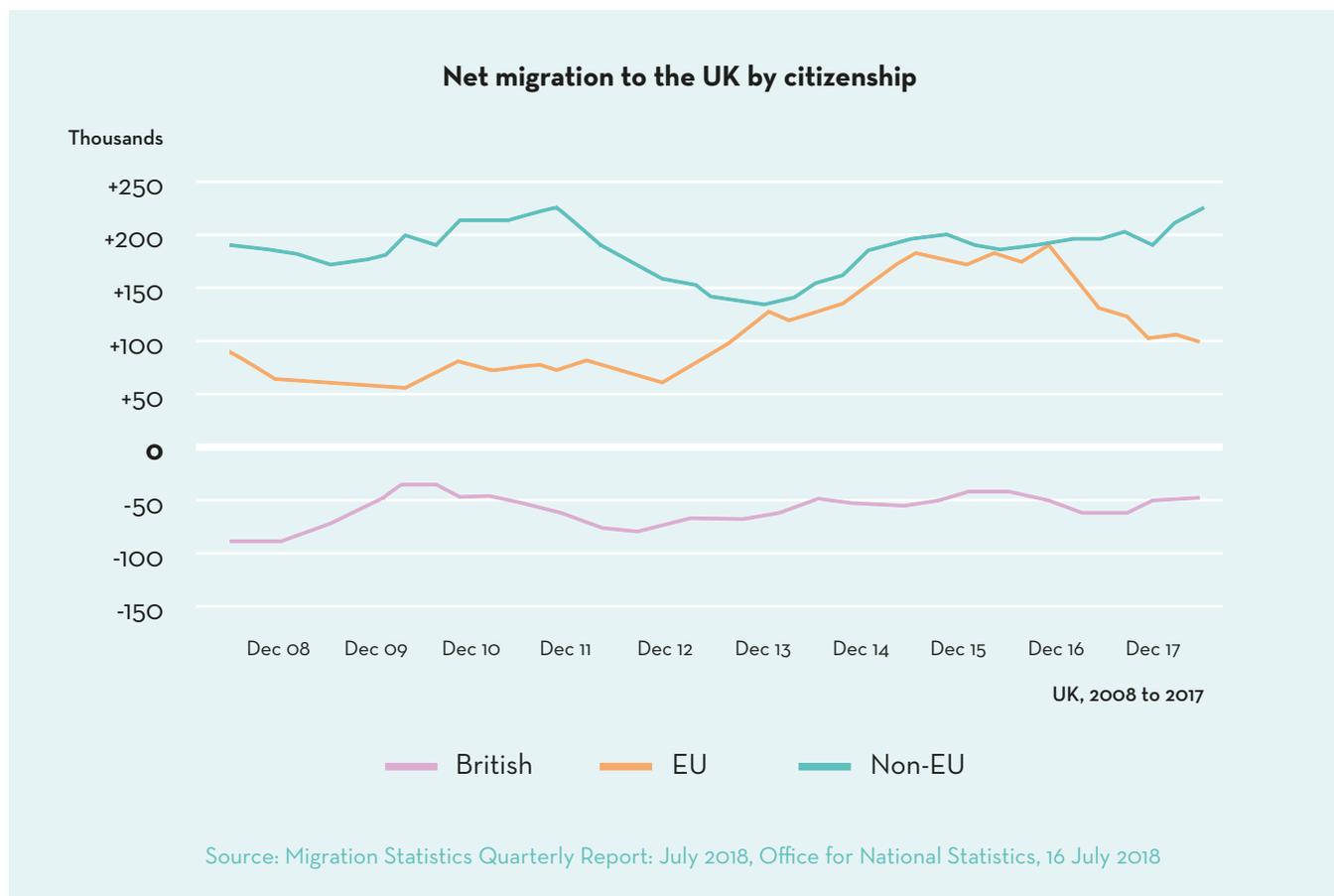


Fall in EU migration

The impact of Brexit seemed very real in July when the Office for National Statistics (ONS) reported the lowest net migration level for EU nationals in four years, but it is worth taking account of the context first.

While net migration for EU nationals has been falling consistently since the referendum, it is still higher than the steady level that existed between 2008-12. Additionally, although EU-nationals migration is falling, net immigration from non-EU nationals is rising, this culminated in a net figure for 2017 (+282,000) that was actually higher than 2016 (+249,000).

“ The ONS reported the lowest net migration level for EU nationals in four years. ”



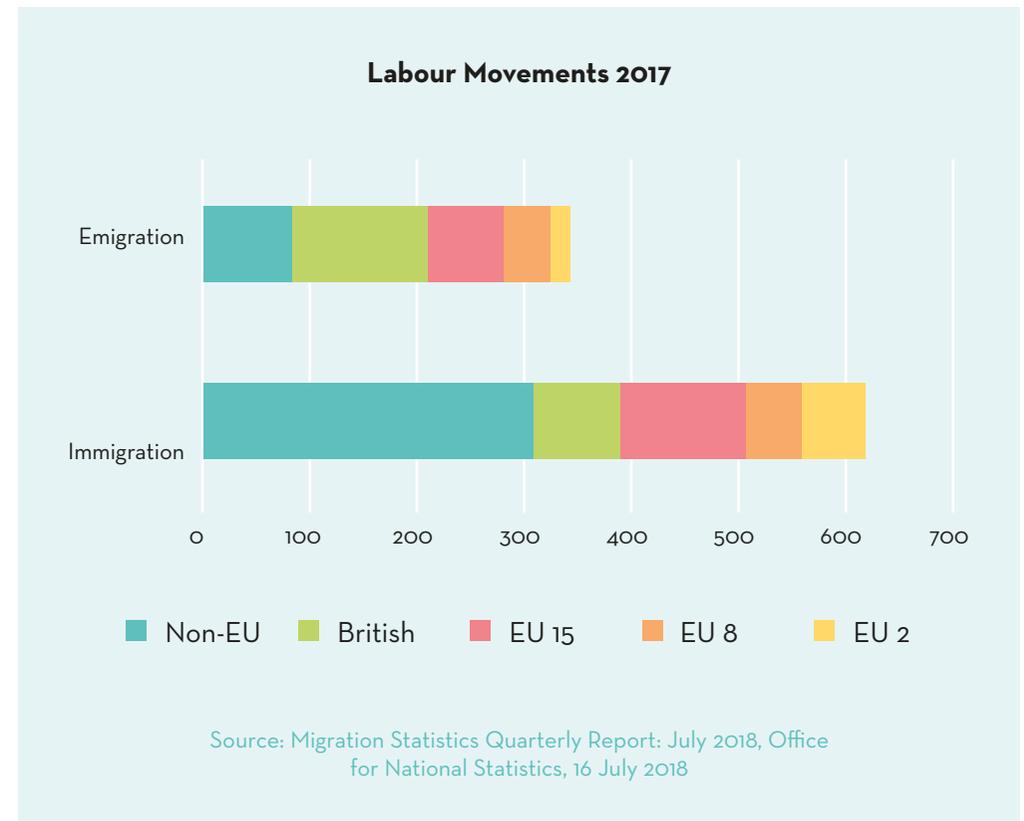
Immigration from the EU accounted for 38% of all immigrants in 2017, while non-EU nationals accounted for almost half (49.37%). While EU nationals accounted for a similar portion of emigration, non-EU nationals only account for 24%.

Immigration from non-EU nationals reached 311,000 - this was the highest level since 2011.

This is often not reflected in the workforce as non-EU nationals have a far lower employment rate (63%) than UK nationals (76%) while EU nationals are even more likely to be employed (82%). There are currently twice as many EU nationals employed in the UK than non-EU nationals: 2.29m vs 1.25m. This is despite the first fall in the EU-working population since 2010.

Definitions:

- **EU15** - original 15 member states of the EU, in this case it refers to the other 14 omitting the UK (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden)
- **EU8** - eight of the ten countries that joined in 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia) - excludes Cyprus and Malta as low incomes make comparisons unfavourable.
- **EU2** - Countries that joined the EU in 2014 - Bulgaria and Romania



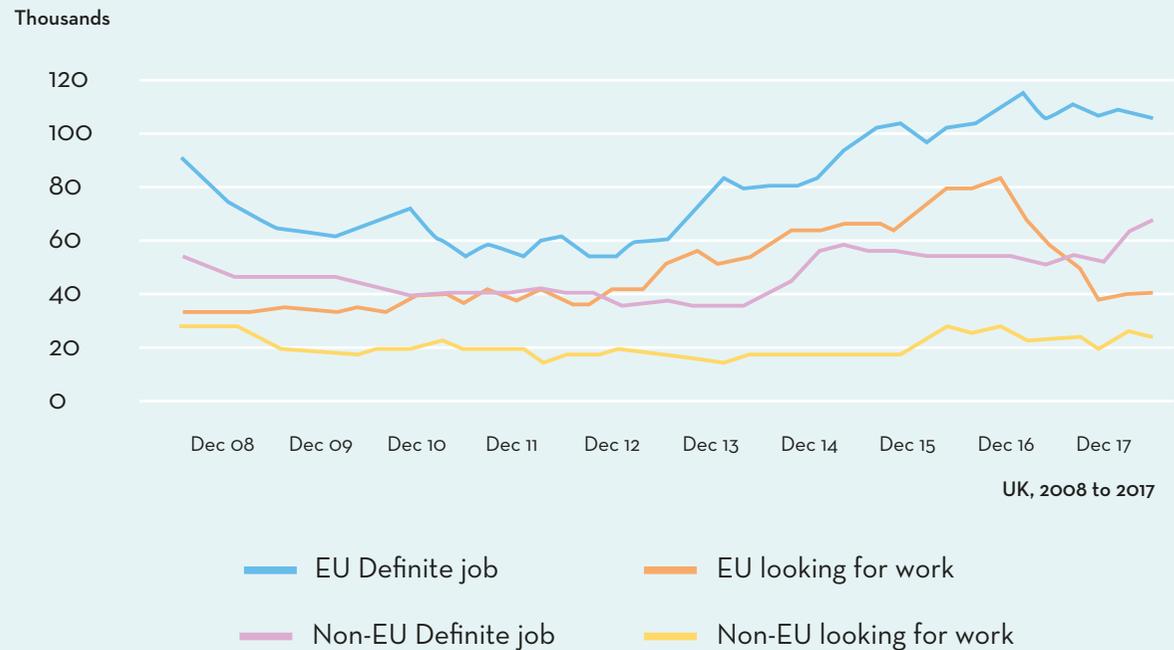
Emigration increased across all three EU blocks (EU15, EU8, EU2) in 2017, at the same time immigration fell across two (EU15, EU2). In total 240,000 EU nationals arrived in the UK during 2017 and 139,000 left. Around half of each figure was from the EU 15.

It should be noted that the ONS discourages YoY comparisons and recommends looking at broad trends instead. While this is good advice, in this case it is worth looking at some of the shorter timeframes given that significant events have occurred in the relatively recent past.

With all this in mind, it is worth remembering that while the rate of immigration is falling, the overall number is still positive, i.e. that the UK workforce is still growing by immigration. Despite talking about falls and declines, it should still be noted that even the level of net EU migration in 2017 was above the 100,000 level that the Government has noted it wanted to be at for ALL immigration.

Poland is now the most common non-UK country of birth and nationality for usual residents of the UK according to the ONS. Romania and the Republic of Ireland are also in the top five for both lists.

EU and non-EU immigration to the UK for work-related reasons

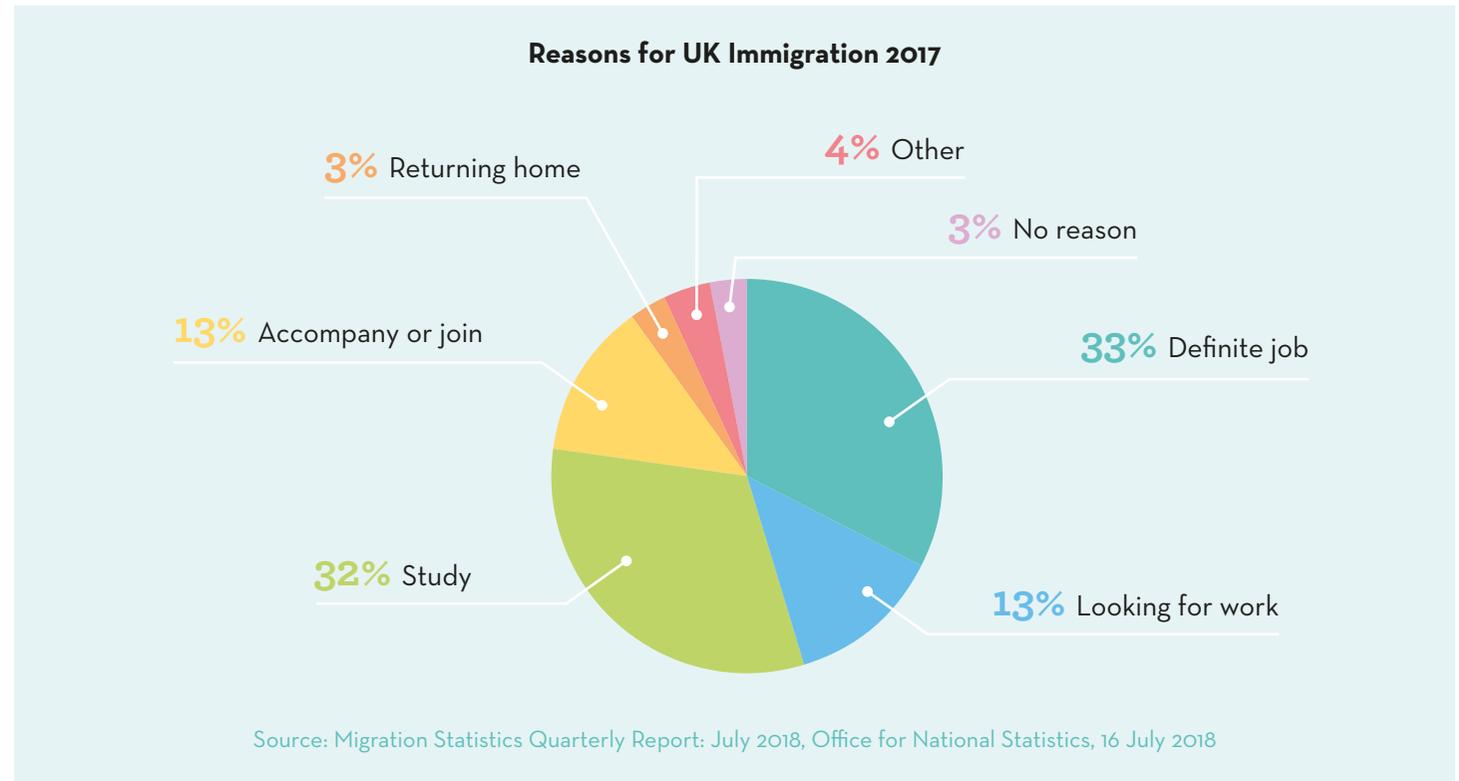


Source: Migration Statistics Quarterly Report: July 2018, Office for National Statistics, 16 July 2018

Work is still the biggest driver for immigrants

A big driver for this falling net migration of EU nationals is specifically a fall in those arriving in the UK without a definite job offer and still seeking employment. This has fallen sharply since the middle of 2016, again in line with the timing of the referendum. Over the same period those arriving in the UK from the EU with a definite job has remained stable. This is after a sustained period of significant growth for both figures, since the middle of 2012.

It is unclear from this data whether the levelling off of those arriving with a job offer is due to fewer employers making offers or fewer candidates searching for jobs. Research from the Migration Advisory Committee has suggested that the volume of EU nationals searching for jobs in the UK online has dropped noticeably since the EU referendum.



Work (either looking for a role or having one before arrival) is overall still the most common reason for all migration, ahead of studying in terms of immigration and returning home for emigration.

The potential impact that a change to immigration levels could have on the UK can be seen in research published by the REC this month. Four out of five (81%) of employers who offered temporary or seasonal work hired EU staff to fill these roles.

Meanwhile, three out of five (60%) recruiters in the warehousing sector said at least half of the temporary staff they hire comes from the EU, as did 56% of those providing workers to businesses involved in food and drink supply chains and 52% who supplied agency workers to the hospitality sector.

According to figures from the National Farmers Union, just 0.6% of the 85,000 workers who harvest the UK crops is British and they estimate a workforce shortfall already this year of 30%.

“People who take on temporary and seasonal jobs are vital to our economy and help to keep work here that may otherwise be done elsewhere,” said REC Chief Executive Neil Carberry. “Ignoring the potential for new jobs and UK competitiveness this creates would be blinkered.

“The hospitality, warehousing and food and drink sectors rely heavily on EU nationals and if they can’t continue to fill these roles we risk damage to supply chains that will affect all our daily lives.”

A majority of businesses in key sectors get at least half of their temporary staff from EU nationals

60%

Warehousing sector

56%

Food and drink manufacturing sector

52%

Hospitality sector

Source: Recruitment and Employment Confederation, Jobs Outlook July 2017