

Brexit: some reflections on the potential impact on the UK economy

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Outline

What is the Centre for Brexit Studies

Some Trade Scenarios

Understanding the sectoral impact

Preparing your business: The way forward?



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What is the Centre for Brexit Studies?

- Interdisciplinary research and public engagement unit est. at BCU in January 2017
- Provide a platform for research and debate on Brexit from both perspectives
- Strong focus on regional engagement
 - Links with Chambers of Commerce, Local Authorities etc.
 - Annual conference



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What is the Centre for Brexit Studies?

- Current research projects
 - Brexit and regional disparities: the need for new measures
 - CBS “Brexit Roadshow” (series of public engagement/focus group research exploring current attitudes to Brexit)
 - Sectoral impact analysis on Automotive and Aerospace



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The referendum result

- “Brexit means Brexit” (Theresa May, July 2016)
- “Brexit is what you make of it” (Jeremy Corbyn, February 2018)
- Suggests a range of options are possible, but these ultimately depend on EU willingness..



Trade scenarios



EEA (Single Market)

Continued **European Economic Area** (Single Market) membership and a “close” customs union (to be defined but likely to involve regulatory alignment similar to the single market in goods).



Swiss Model

The Kier Starmer Option / **Swiss Model** (“close” customs union and regulatory alignment in some or all sectors, but no EEA membership). Loose migration conditions.



Turkey “Plus”

A looser customs union (some regulatory divergence but finessed to avoid a border in Ireland – likely to involve alignment of phytosanitary regulations and some goods regulations). Moderate migration



Canada “Plus, Plus”

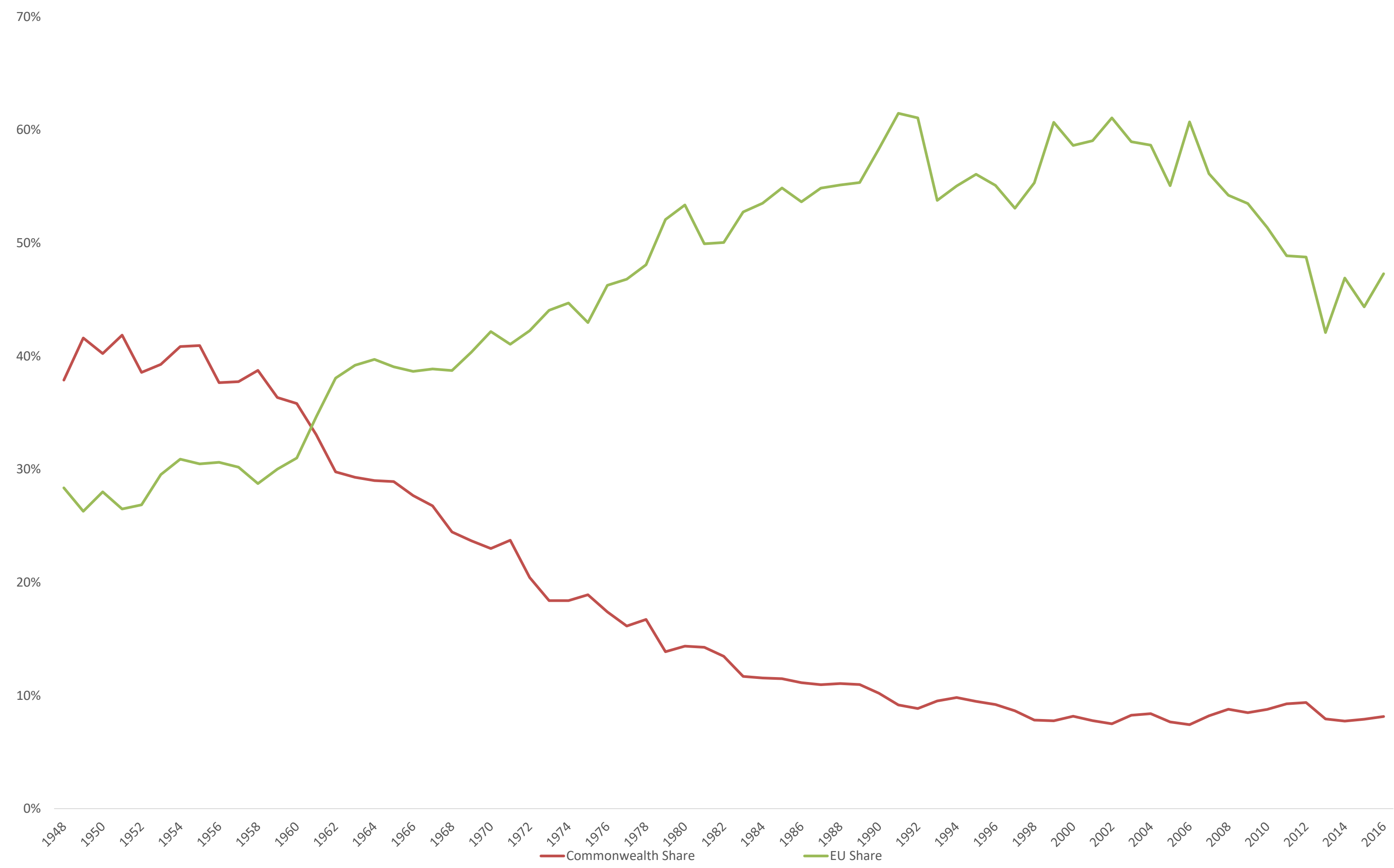
Free Trade Agreement (Canada/Canada Plus) but NO customs union and potential for regulatory divergence (sector by sector basis). Future migration as per non-EU.

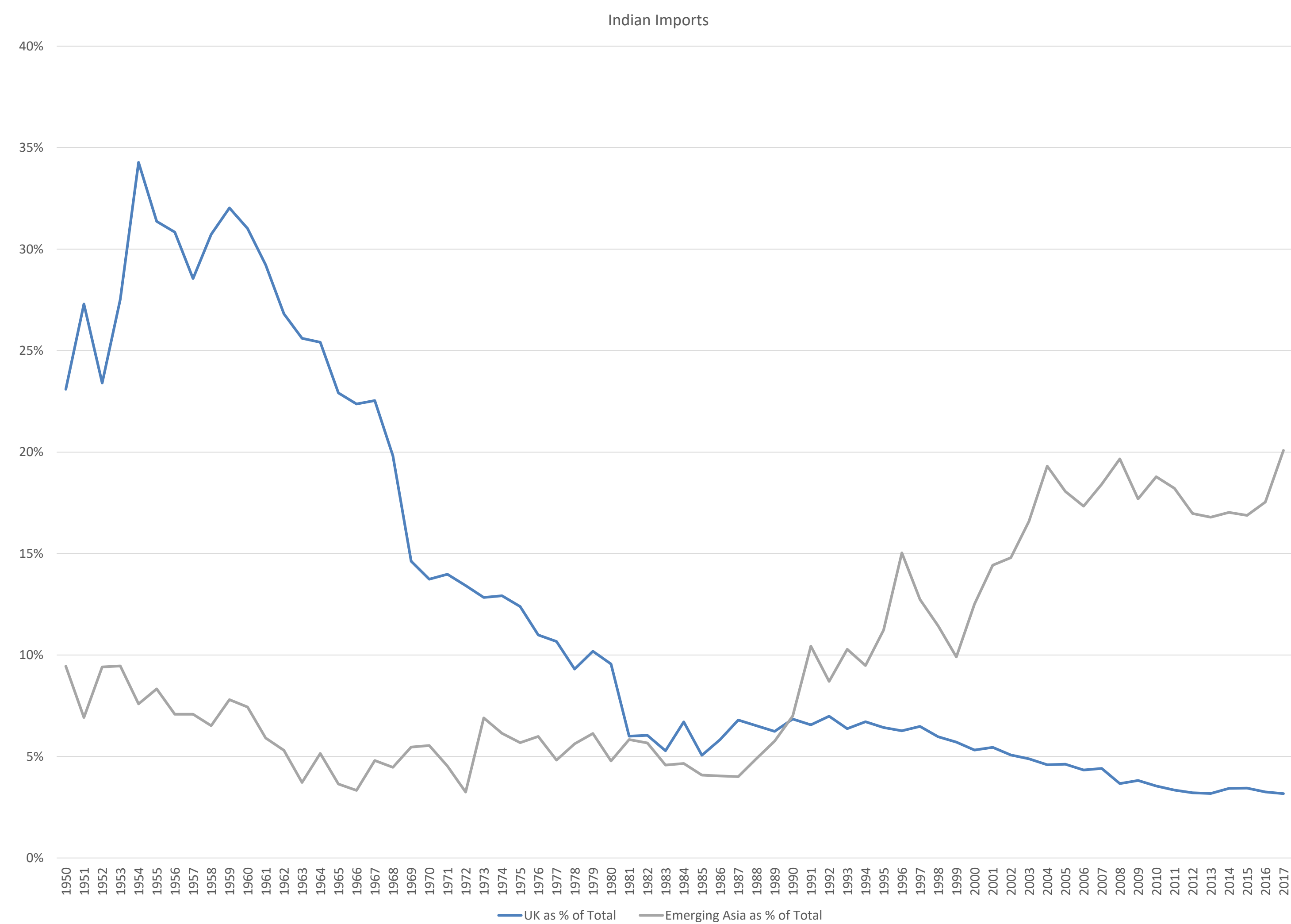
- Trading on a WTO basis with tighter migration requirements.

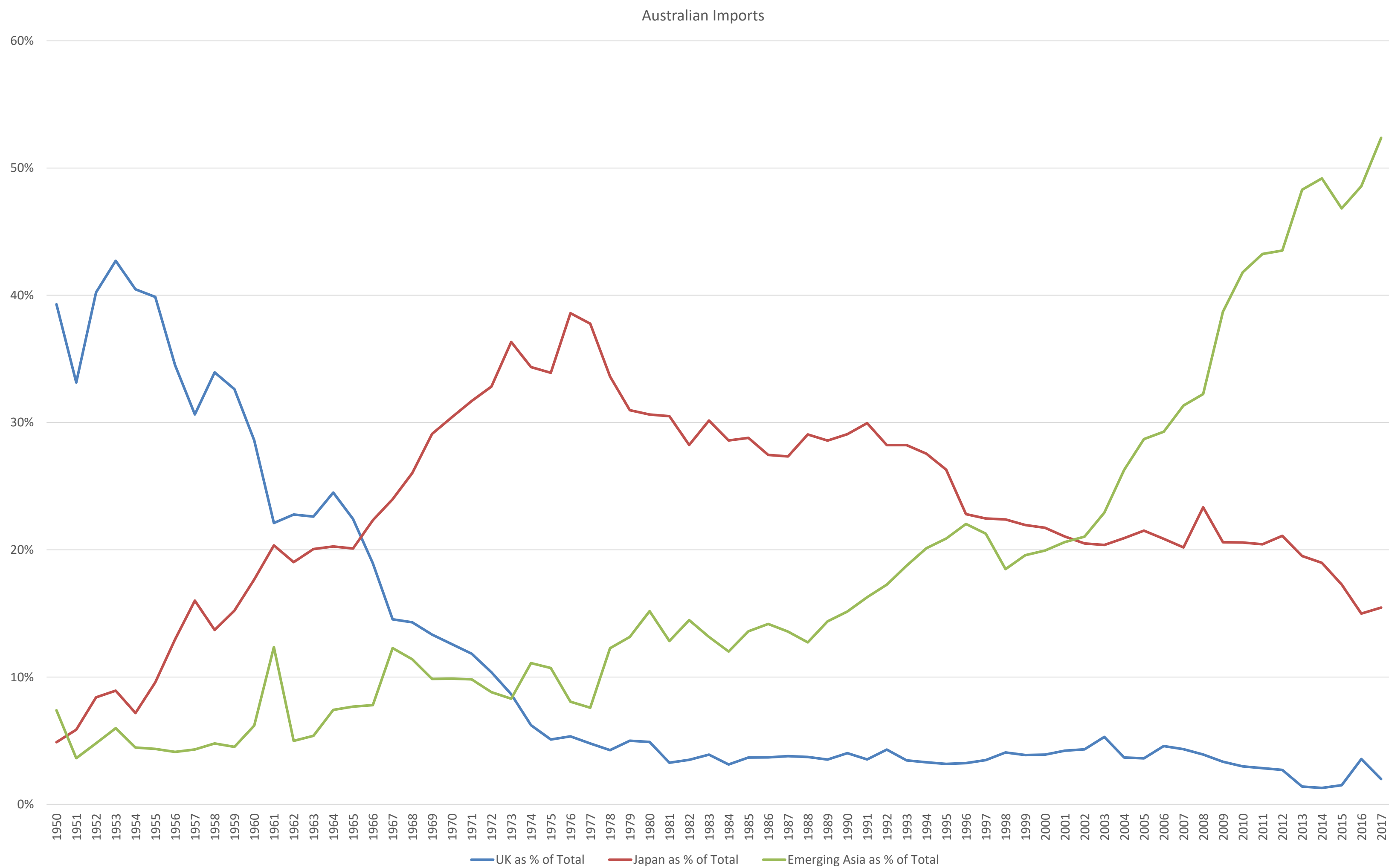


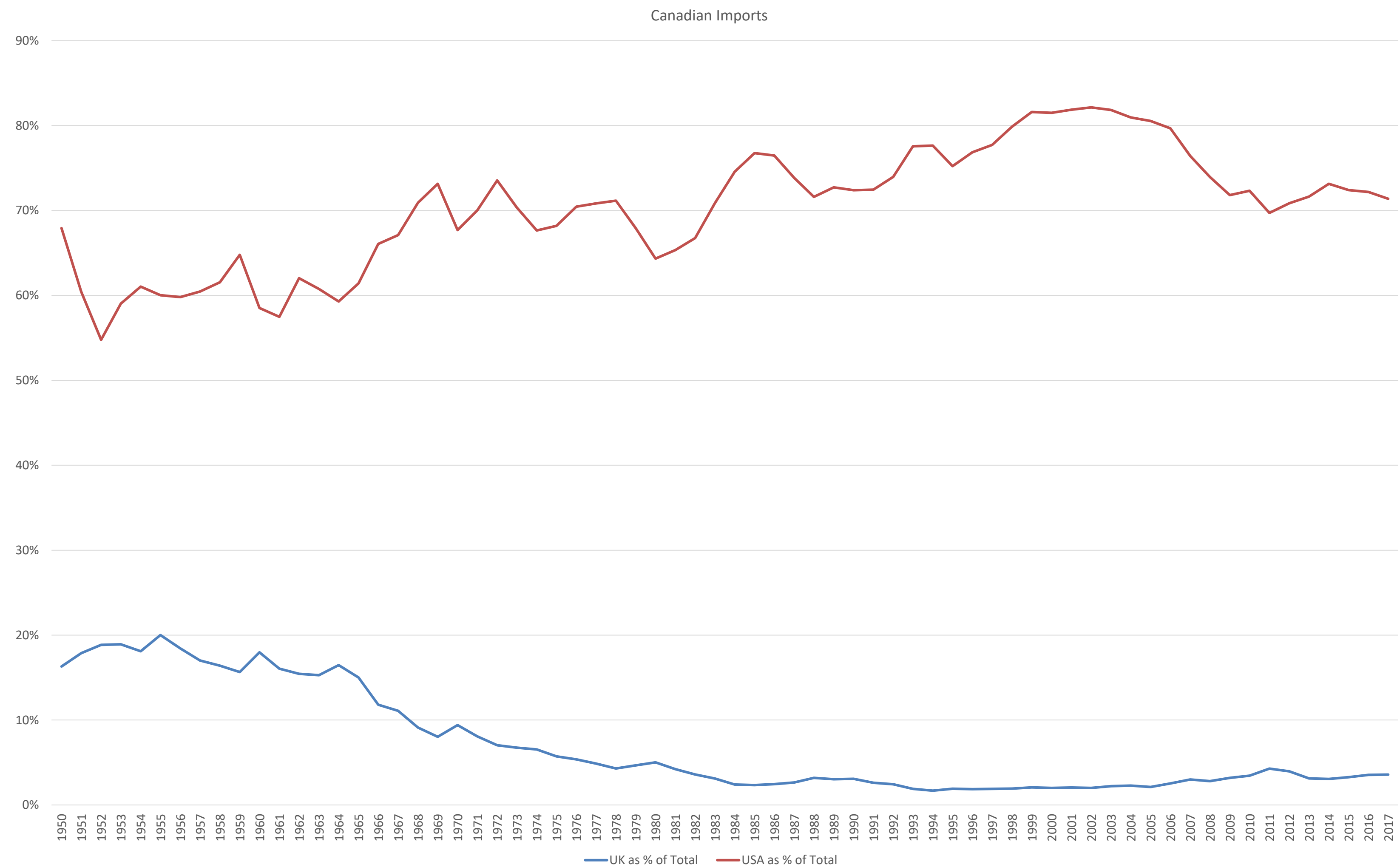
Share of UK Exports

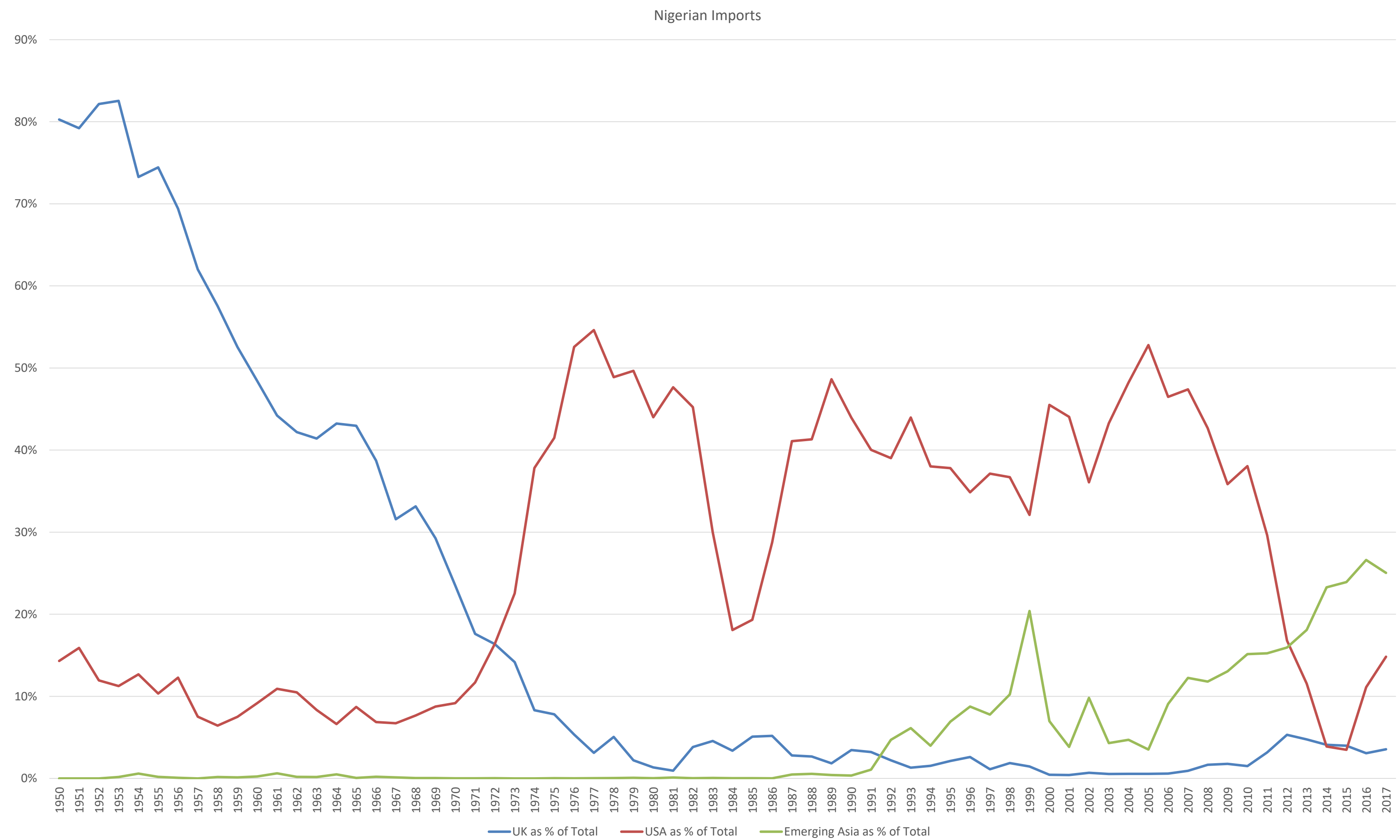
Source: IMF Direction of Trade Statistics











The Impact of Brexit

- Government's approach today seems to be of selective alignment with Single Market, i.e.,
 - Fully aligned sectors
 - Sectors with equivalent regulations
 - Sectors with divergent regulations
- These would still require border checks... Continuing problem of Northern Ireland border..



A reflection on Ireland: June 21st 2016

- *“If we were out of the European Union, with tariffs on exporting goods into the EU, there would have to be something to recognise that between Northern Ireland and the Republic of Ireland. And if you pulled out of the EU and came out of free movement then how could you have a situation where there was an open border with a country which was in the EU and had access to free movement?”*
 - Theresa May. Source: *Irish Times*

<https://www.irishtimes.com/news/world/uk/may-to-lay-out-britain-s-three-track-approach-to-eu-regulations-1.3412007>



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Brexit is Coming: understanding the challenge to business

- Non-tariff barriers are likely to dwarf impact of tariffs
 - WTO rules on Technical Barriers to Trade (TBTs) will have impact in limiting how quickly customs checks can emerge:
 - regulations, standards and technical provisions will be identical on 1st January 2021 to those appertaining on 31st December 2020.
 - regulations around “rules of origin” and the need for customs checks to ensure compliance with the common external tariff (if UK signs FTA or applies different tariffs to the EU) will still apply...



Brexit is coming..

- Barriers to trade will raise the cost of production and exporting, whilst Sterling depreciation will have the opposite effect - the ultimate impact will thus be ambiguous although given the importance of “just-in-time” for UK automotive, it is likely that the overall impact will be negative.

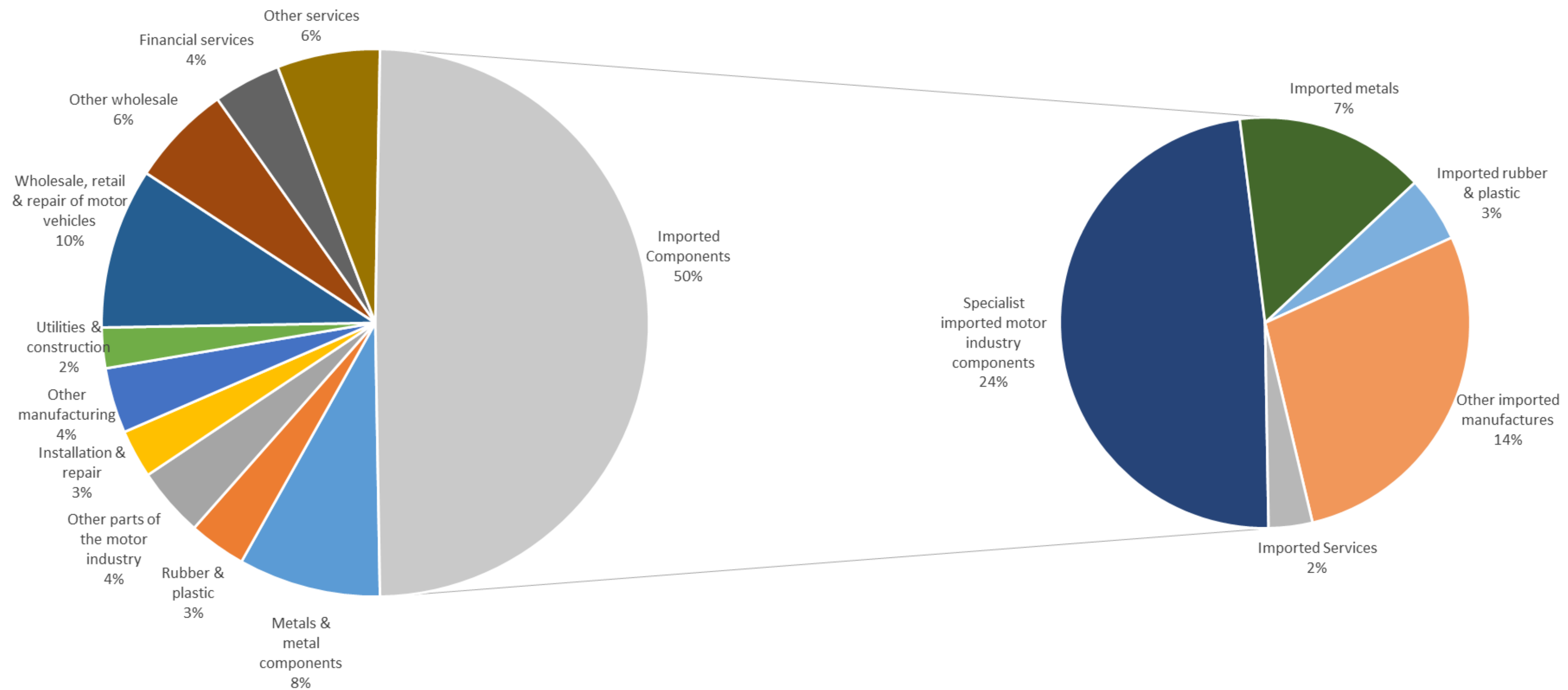


Automotive Figures

- Added value = £13.2 bn (of which two-thirds are wages)
- Imported Components = £18.1 bn
- Domestic Components = £18.5 bn
- Components from all sectors – even spent £47m on food! (for canteens etc.)



The Wider Supply Chain for Manufacturers in the Motor Vehicle Sector

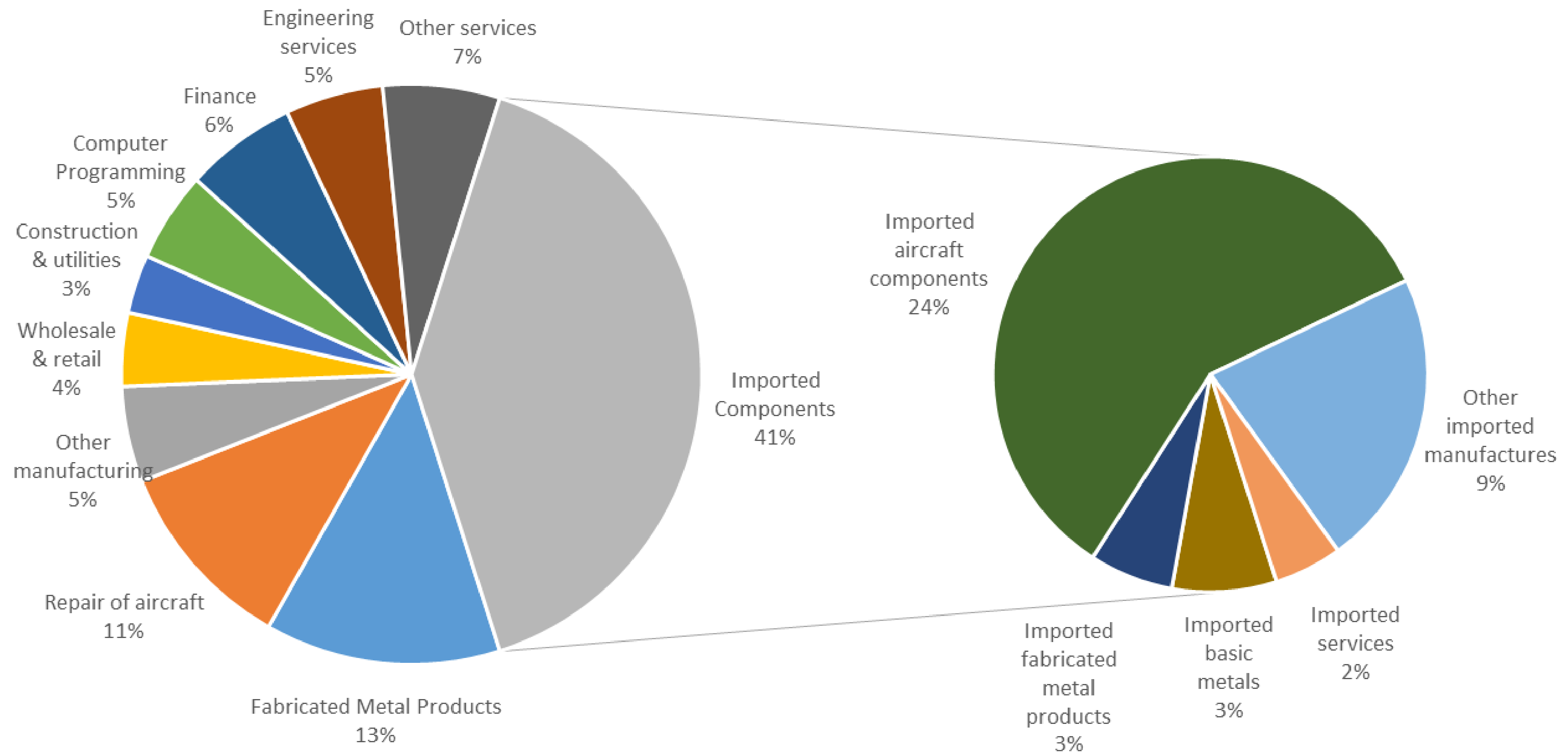


Aerospace Figures

- Added value = £6.2 bn of which 72% is wages
- Imported components = £6.5 bn
 - Of which £3.8bn are specialist components
 - Supply chains criss-cross national borders (particularly in Europe)
- Domestic components = £9.7 bn



The Wider Supply Chain for Manufacturers in the Aerospace Sector



Brexit is coming...

- Impact on different business areas (current research)
 - HR
 - Operations
 - Supply Chain and Procurement
 - Legal/Compliance
 - Customer Relations



Brexit is coming..

- Implications for supply chain – 2 scenarios:
 - Cost-benefit dynamics of sourcing from UK suppliers v. EU counterparts will change. Potential for reshoring? i.e., how to extend their UK supply chain? OR
 - If plant closures inevitable then clear need to understand logistics around facilitating supply-chain management during transition to a continental base.



Thank you. Any questions?



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