IBISWorld

WHERE KNOWLEDGE IS POWER

Special Report
March 2019
Alexander Green

Tariff Trouble: Sectoral Impact of No-Deal Brexit

Last week, MPs voted to extend Article 50. However, any extension must be ratified by the European Union at the meeting of the European Council on 21-22 March. No-deal remains the default on 29 March should no further agreements be reached.

IBISWorld produces comprehensive Brexit Impact Statements for all the 443 reports in our UK collection

IBISWorld provides Brexit Impact Statements for each of the 443 reports in our UK collection, assessing the impact the vote has already had, and industry threats and opportunities beyond the UK's exit. The government's latest plans include cutting tariffs to nought on 87% of goods imports by value, and an assurance that there will be no customs or duties on the island of Ireland. Currently there are zero tariffs on the 52.9% of UK imports that come from the European Union, and the UK also benefits from minimal tariffs from countries with which the EU has a Free Trade Agreement. The average UK most-favoured nation tariff will fall from 7.7% to approximately 0.7%, according to the UK Trade Policy Observatory. As these agreements will be lost following the UK's exit, the government's plans are not as significant a liberalisation as they initially appear and, naturally, are not reciprocal. The chief recipients of tariffs are motor vehicles, as well as a number of agricultural products, and a range of clothing items.

The measures have been less than warmly received by British business, with the Confederation of British Industry (CBI) citing the 'imposition of new terms of trade at the same time as business is blocked out of its closest trading partner' as a 'sledgehammer' to growth.

Agriculture

- The framework offers some protections to UK agriculture, from the full external tariff for sheep meat, through tariff-rate quotas for beef, and poultry. For cereals, fruit & veg and eggs, however, the tariff on imports will be zero. On average, imports satisfy of 39.6% of demand.
- No deal would significantly decrease the competitiveness of UK farm exports; two-thirds of UK agri-goods are destined for the EU, and the Union could impose tariffs of up to 48%.
- The industry has already been hit by labour shortages, and stakeholders have stated that maintaining access to migrant labour is vital, something that would be lost in a no-deal scenario.

Tariff Trouble: Sectoral Impact of No-Deal Brexit

Manufacturing

• The cost of non-tariff barriers for EU exports is 11.7%, according to the CBI, with 20% of manufacturing revenue coming from the EU. Imports satisfy 56.5% of sectoral demand.
• Automotive and aerospace particularly rely on just-in-time manufacturing. Whilst car parts will have no import tariffs applied, non-tariff barriers could lead to significant delays, with Honda estimating £850,000 for every 15 minutes. The SMMT has stated that the tariffs 'do not come close' to offsetting disruption.
• The Department for Business, Energy and Industrial Strategy has highlighted that regulatory divergence would pose the strongest threat, as an inability to ratify goods would prevent trade.

Financial Services

• According to the House of Commons Library, 10% of revenue in the financial services sector is derived directly from the European Union.
• Passporting rights are the most pressing concern for FS firms. The UK government has created a temporary permissions regime for EEA companies, but applications must be made by 28 March, whilst the onus is on individual UK companies to ensure their arrangements are in place.
• UK clearing houses have been approved to continue EU business even in the event of a no-deal Brexit, following a decision by the European Securities and Markets Authority.

Construction

• In an open letter, construction industry bodies stated that no-deal Brexit could cause construction output to fall by 4% in 2019, with falls of 10% in the commercial and residential markets. Weak confidence has already hit investment and weighed on the pipeline.
• 10% of construction sector employees are EU nationals, with up to 40% of the London workforce of EU origin. Barriers to free movement would therefore heavily affect capacity.
• 4% of construction products were imported in 2017. Whilst EU ratification would be domesticised, and WTO construction good tariffs are minimal, border delays would affect project timeframes.

Healthcare

• 63,000 NHS staff are EU nationals, 5.6% of the total, whilst 12.7% are non-British in origin.
• Research and innovation would also be affected by the government's £30,000 immigration salary floor, and firms such as AstraZeneca have frozen their investment due to uncertainty.
• UK clinicians would be required to leave European Reference Networks, locking out 114 NHS trusts. New EU Clinical Trial Regulation will not be incorporated into UK law, but the UK will still align where possible without delay.
• Pharmaceutical companies have built up a six-week stockpile of essential medicines, and a plane has been chartered to fly in other drugs, but trusts remain highly concerned about availability.

Wholesale & Retail Trade

• Whilst many food items will see no tariffs, goods such as clothing and a number of fresh and frozen foods will remain subject of tariffs up to 12%.
• The British Retail Consortium warned that non-tariff barriers 'will have the greatest impact on consumers', leading to delays, lack of stock and price rises.
• One-third of UK food comes from the EU, with 90% of lettuces, 80% of tomatoes and 70% of soft fruit sourced from EU in March, according to the British Retail Consortium.

Tariff Trouble: Sectoral Impact of No-Deal Brexit

Transportation & Storage

• Measures allowing ongoing cross-border trade for road operators through 2019 have been agreed, and flights have also been protected in a no-deal scenario.
• No-deal Brexit would lead to additional costs of between 5% and 35% on the UK's supply chain.
• The Freight Transport Association has highlighted that no-deal Brexit would lead to 'short-term gridlock, restrictions in labour...and severe delays.'
• The need for stockpiling has already boosted warehousing operations, with some operators reporting a 50% uplift in demand, particularly those with links to the automotive sector, whilst refrigerated warehouses have benefited from healthcare demand.