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Indicative Influence: Sectoral Concerns

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.

Whilst MPs were unable to reach an agreement, the amendment to introduce a customs union received the greatest support

Last month, IBISWorld assessed the government's no-deal tariff plan, ahead of the indicative votes in parliament. The plans included 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 EU imports, which account for 52.9% of the total, and the UK also benefits from minimal tariffs from countries with which the EU has a Free Trade Agreement.

However, events in parliament dictated that the United Kingdom did not leave on 29 March as, with no deal agreed, MPs voted to postpone the exit date, which now stands at 31 October.

Although the series of indicative votes did not lead to a defined outcome, Kenneth Clarke's amendment to include the addition of a new customs union 'at minimum' to any proposed deal lost in the second round by only three, providing a degree of consensus and hinting at the future direction negotiations may take. Importantly, a customs union would not include the free trade of services, which accounted for 44.3% of UK exports to the EU in 2017. As part of a customs union, the United Kingdom would have to maintain its external tariffs on covered goods and sectors in line with those of the rest of the members, and UK market access to non-customs union markets would have to be negotiated bilaterally.

Consequently, IBISWorld has updated the no-deal guidance below, first provided 18 March 2019, to include industry comments on the delay, and the issues surrounding a customs union.

Agriculture

- The NFU has welcomed the avoidance of no-deal, however it has also stressed that ongoing uncertainty is weighing on investment and the long-term planning decisions required by the sector, emphasising that full single market access and customs union membership is preferable.
- A customs union arrangement including the agricultural sector would ensure the maintenance of existing external tariffs, protecting UK agriculture from being undercut by imports, but would prevent the further development of new export markets through independent trade deals.
- Should the United Kingdom choose to exit the Common Agricultural Policy, it is likely that any customs union arrangement would include agricultural or fishing industries, limiting access to the EU market.
- Imports satisfy of 39.6% of demand, whilst two-thirds of UK agri-goods exports are destined for the EU. The imposition of any customs checks and border controls, which would persist to some extent in a customs union, would be detrimental due to the perishable nature of agricultural produce.
- The sector has already been hit by labour shortages, and access to migrant labour would be significantly hampered by the government's proposed immigration scheme.

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Manufacturing

- Uncertainty has weighed on investment, with a number of automotive plants on shutdown, and the Confederation of British Industry has urged the government to work to ensure that the threat of no-deal is not repeated in October, supporting a 'comprehensive' customs union arrangement, that would help ensure regulatory alignment, and thereby reduce the need for border checks, as well as avoid tariffs.
- The cost of non-tariff barriers for EU exports is equivalent to an 11.7% tariff barrier, according to the CBI, with 20% of manufacturing revenue generated from EU exports. Imports satisfy 56.5% of sectoral demand.
- Ongoing membership of a customs union would allow UK manufacturers to continue to participate in EU R&D programmes and allow free EU trade.
- The UK is working with partner countries to bring into force bilateral agreements that will ensure continuity for the effects of existing EU trade agreements, regardless of the form of the UK's exit from the European Union.
- Automotive and aerospace particularly rely on just-in-time manufacturing. Non-tariff barriers could lead to significant delays, with Honda estimating £850,000 for every 15 minutes.
- 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. Forms of Brexit that leave the single market, or fall short of a comprehensive customs union involving regulatory alignment, expose the sector to upheaval and reduce competitiveness.

Financial Services

- According to the House of Commons Library, 10% of revenue in the financial services sector is derived from the European Union.
- Services accounted for 44.3% of total UK exports in 2017, one of the highest levels in the world.
- Membership of a customs union, without bespoke agreements regarding standards, access and regulatory alignment, would provide no access for services, leaving the UK financial service sector firms trading on WTO terms.
- Passporting rights are the most pressing concern for FS firms and the onus remains on individual UK companies to ensure their arrangements are in place.
- UK financial institutions have written a letter requesting 'urgent action by the UK authorities to adopt equivalence decisions regarding EEA trading venues under EMIR UK and MIFID UK.'
- 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.
- The 'close and structured partnership' of the Political Declaration falls short of the City's emphasis on mutual recognition.

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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 construction pipeline, with the Purchasing Managers Index falling through February and March.
- 10% of construction sector employees are EU nationals, with the figure standing at 40% in London. Barriers to free movement as part of an exit from the single market would therefore heavily affect capacity, and ongoing membership of a customs union would not assuage the industry's labour concerns in the face of the government's proposed immigration scheme.
- 24.4% 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, though membership of a customs union would greatly reduce checks.

Healthcare

- 63,000 NHS staff are EU nationals, 5.6% of the total, whilst 12.7% are non-British. A customs union arrangement would lead to immigration barriers.
- Research and innovation would also be affected by the government's £30,000 immigration salary requirement, and firms such as AstraZeneca have frozen their investment due to uncertainty.
- 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.
- Medicines imports from the European Union total 37 million patient packs a year. Minimisation of border checks by remaining close to the single market and customs union and mutual recognition of the Conformité Européene (CE mark) scheme has been supported by industry bodies.
- The BMA has also argued for close ties with the EMA through a 'formal agreement to continue to support and participate in their assessments for medicines approvals'.
- UK clinicians would be required to leave European Reference Networks under a no-deal Brexit, 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.