
BREXIT BRIEFING

BREXIT – MAKING IT WORK FOR MANUFACTURING



THE CHALLENGE OF BREXIT

British engineering and manufacturing has been a national success story for centuries. Britain was the cradle of the industrial revolution and that dedication to innovation, quality, speed and precision remains visible and relevant today, with many firms, large and small, seen as global hallmark brands. The fourth industrial revolution is fast approaching, and Britain aims to be at the forefront of the digital and robotics revolution, with many firms primed to take full advantage. We are the world's ninth biggest manufacturing nation, and the UK exported over £275 billion worth of goods last year, providing employment for almost 3 million people in a sector that pays higher than average wages.

These are also jobs and industries that the British public cares about deeply. A combination of heritage, quality and cutting edge expertise is something that captures the essence of our country, its strengths and its future. Today almost 90% of the public believe we need a strong manufacturing base and 74% recognise that manufacturing generates jobs across the country. Critically, people believe that manufacturing should be a bigger national priority: 79% want Government to place more value on the sector and 66% agree that the UK should target becoming one of the five biggest global manufacturing nations. It is demonstrably clear that the public wants our manufacturers to be successful, to grow and to be at the heart of our industrial future.

EEF has been proud to represent manufacturers and engineers for over 125 years. UK manufacturers have always adapted to and overcome every challenge they have faced; we have no doubt that they can and will manage the changes caused by Brexit.

But to do so, it is critical that our departure from the European Union is managed effectively, delivered efficiently and at its heart, puts practical concerns ahead of short term political aspirations. There has been extensive media commentary about what our long term relationship with the EU might look like, but there has been far too little focus on the practicalities of leaving the most integrated customs union and single market relationship ever achieved.

In just six months' time, Britain will step away from a state of full economic alignment with 27 other countries and define a new position of either partial alignment or total withdrawal, something never attempted by a major global economy before. Further, this unique attempt follows a 40 year journey towards that union which has created increasingly deeper and ever more complex trading relationships which often span multiple countries across the EU. 81% of manufacturers say it is important that the Government ensures, within the new arrangements, that there are no tariffs and 77% say it is important to ensure full access to the single market. The evidence shows that this sector is hugely reliant upon a strong relationship with the EU and prioritises ongoing simple trading arrangements with them in the future.

With the EU so important for our members it is of great concern that so much recent debate has focused on the final destination, with often increasingly extreme positions being considered. It is important that our country defines the potential end state, but such debate cannot be at the expense of considering what route we should follow, how we avoid risks and allow adequate time to arrive safely. After four decades of steady progress in one direction, it is simple common sense to recognise that any attempt to reverse away at speed is likely to lead to a major economic incident.

The impact of the uncertainty faced by UK businesses, and the speculation about a hard

Brexit is already doing great damage. High profile manufacturers are announcing the movement of production to other countries, reductions in factory operating hours and suspension of operations for lengthy periods. Over half of the country's manufacturers are clear that a no deal exit from the EU next March would make operating more difficult and close to a fifth believe a move to WTO tariffs would mean that their business would become untenable. Further, with just six months to go before we leave the EU, 83 % of manufacturers are clear that they are not prepared for a no-deal Brexit, and a quarter say that as a result of Brexit that they have already experienced or expect to experience losing investment, skilled EU workers or new contracts. This is not 'project fear' but a clear statement of reality for those businesses, big and small, that make up the backbone of British industry.

Accordingly, it is clearly incomprehensible to try and argue that a no-deal outcome would be in the UK's best interests, inaccurate to suggest that the negative impact would last for a short period and dangerous to imply that a 'hard Brexit' would not lead to significant economic hardship and put at risk many thousands of jobs in every corner of the UK. Businesses can deal with change and manufacturing businesses have decades of experience of adapting and achieving success. However, failures are avoided and success will be maximised when there is a realistic assessment of where we are now, where we want to get to, and most crucially, a plan for how we want to get from one to the other. Simply suggesting that the process is easy is a recipe for disaster and puts the livelihoods of tens of thousands of businesses, and the wellbeing of millions of employees and their families at risk.

Over the next few weeks the UK Government needs to identify and agree the nature of its future relationship with the EU, finalise an implementation period, confirm the key principles

that will govern the process of exiting, and submit the detail to Parliament for scrutiny and approval; a huge challenge in a short period of time.

The EU must follow a similarly exacting timetable. To ensure that the UK's economy has the certainty, stability and clarity it needs to adapt to these changes, EEF is calling on the Government and the major political parties to accept a range of key principles and outcomes that will help ensure that the Brexit process can be managed with the care and efficiency which is consistent with our desire for the UK to remain one of the world's strongest economies.

Specifically these outcomes include:

- A properly planned and open ended implementation period for leaving the EU, linked to allowing trade negotiations sufficient time to conclude and the outcome to be implemented swiftly but sensibly
- An agreement that maintains the free flow of goods at the UK border, levying no tariffs on the import of goods and ensuring British companies can continue to operate 'just in time delivery' logistics as part of an integrated supply chain; effectively retaining the majority of the benefits we currently enjoy as members of the Customs Union but within a new framework
- An ability for workers to move into and out of the UK, ensuring British companies can fill vacancies where they have visible skills gaps and send workers overseas to meet the requirements of service contracts and other commercial opportunities
- A commitment for Britain to maintain mutually recognised, close regulatory alignment with the EU, supported by a common system of arbitration and standard setting, ensuring that British firms can produce goods that can be easily traded across Europe with clear protections in place

IMPLEMENTATION PERIOD

The importance of an implementation period cannot be overstated; without one there is a very high risk that Brexit will cause major economic disruption, particularly if the degree of change faced is significant. The current plan for a 21 month implementation period is inherently flawed. Almost any realistic future scenario will take several years to agree and then prepare for, and a radical departure from the EU may require close to a decade of preparation and adjustment. The Government should agree that the implementation period is flexible, and should last long enough to cover both the negotiation of a new trade deal with the EU and a subsequent implementation period where business can procure and implement new systems and processes. The reality is that the UK is changing course after spending 40 years moving steadily towards closer integration. An oil tanker cannot be turned quickly and the UK cannot reverse four decades of economic and commercial strategy overnight.

EEF campaigned for and welcomed a commitment to a transition, but a time period that stretches solely from April 2019 to the end of December 2020 is far too short. In this period the UK Government will need to not only reach a comprehensive agreement on trade with the EU, it will then also need to communicate the detail to British business, allow them sufficient preparation time as well as introduce new technology and systems to support the revised arrangements. For the manufacturing sector this will be particularly relevant in areas such as customs duties, export logistics, proof of origin and VAT payments.

The reality of our experience, and that of international partners, is that comprehensive global trade deals routinely take five to seven years to conclude. There are many complex matters to address and detailed regulations to change. Given the unique nature of the discussions in this case, and the depth of the existing arrangements from which we must extricate ourselves, it seems wholly unrealistic to assume that we can agree a new deal on trade with the EU in a 21 month period. It is clearly stretching credibility to believe that even if we could move through this process quickly by adapting an existing model, for example, it would be impossible for manufacturing businesses to then sensibly assess the implications for their business, make changes to the needed operating processes and invest in the new systems that would inevitably be required.

SMALLER BUSINESSES

For smaller businesses, which the economy relies on, the challenge of making these changes quickly is particularly acute, and for many the need to make a major financial investment in a very small space of time may prove fatal. In practical terms, if we wish to minimise any negative economic impact from our departure, we need to ensure that a suitably pragmatic timetable is allowed for businesses which employ millions of people and generate billions of pounds of economic value, to prepare and adapt.

ECONOMIC NECESSITY

The timetable for implementation should be driven by economic necessity and the reality of the business cycle, not a knee jerk and partisan desire to leave the EU as quickly as possible nor a narrow domestic political timetable. Such an approach is reckless and risks causing greatest harm to those employees whose livelihoods depend on our trade with EU members. In our sector, this is particularly acute for those firms who are integral members of integrated supply chain arrangements which span Europe.

For these reasons a far longer and more flexible transition period is vital, linked to the actual time needed to negotiate a trade deal, rather than a finger in the air estimate that doesn't recognise the complexity of the challenge or the risk of getting this wrong.

CUSTOMS UNION

FAST MOVING SUPPLY CHAINS

EEF is clear that a key outcome of the negotiations with the EU must be to retain many of the benefits we currently enjoy as members of the Customs Union. Over the last 40 years, particularly the last two decades, the benefit of being within the EU has allowed the economy to grow substantially and encouraged both domestic and foreign investment. British companies of all sizes have been able to expand and develop world class specialisms. As a consequence, UK based firms are now deeply embedded within fast moving supply chains, where goods move at speed between factories and processing sites across the EU on a 'just in time delivery' basis. The Customs Union - alongside membership of the single market - has been an instrumental component in delivering this - their loss would have damaging consequences for much of our sector.

As an illustration of the significance of these arrangements, the Port of Dover can now process over ten thousand goods vehicles a day, alongside the additional volume which enters the UK through the Channel Tunnel. The simplicity of simple customs arrangements provided by participation in the Customs Union have allowed firms in many fields, including automotive, pharmaceuticals, aerospace and food production, to thrive in an environment where they can fulfil the requirements of 'just-in-time' delivery arrangements. Manufacturers have emerged and flourished at all ends of the supply chain, from car assembly lines, to manufacturers of jet aircraft and their engines, to precision engineers who produce the highest quality specialist parts, alongside companies that provide specialist software.

The Customs Union, in tandem with the Single Market, allows the movement of these goods across countries in the EU and allows ports like Dover to manage huge volumes of traffic without significant delay, meaning products arrive at their destination reliably, in volume and as scheduled. And all without the inconvenience of customs checks, paperwork, bureaucracy, tariffs, and duties. Further, through the high quality systems and software which have been developed to help support this, both prime contractors and mid-sized suppliers have been able to benefit from 'just-in-time' delivery arrangements, ensuring that product is produced and delivered exactly when needed.

This has created enormous efficiencies and savings on resources such as warehousing and storage, thereby reducing the unit cost of goods and enhancing British competitiveness. The re-introduction of customs arrangements and the related paperwork, charges, and delays as well as restricting the ability to offer just in time services, not only damages the business prospects of UK firms operating within supply chains but also will drive up prices for British consumers, reduce the choice of products available on supermarket shelves and increase the time it takes for our orders to arrive from overseas.

We are clear that as well as the prioritising the simple physical movement of goods, the future customs arrangements must also maintain the existing absence of administrative and financial burdens for exporters and supply chain members. In particular, we must preserve a low administrative threshold for manufacturers, tariff free, red-tape free and quota free movement of goods and rules of origin that facilitate trade with the EU and the rest of the world.

Maintaining these benefits is key to the financial health of the manufacturing sector. Failure to do so would dramatically increase the cost and complexity of sending or receiving goods across the EU border and increase the trend for businesses to invest and grow in Europe rather than the UK. It is highly likely that this would lead to the loss of many jobs and contraction of the UK manufacturing sector.

Any future framework will need to need to balance out the access that UK companies have to existing EU Free Trade Agreements with many major overseas markets, and an ability for our country to pursue its own independent trade policy. EEF firmly believes that any agreement with the EU also include within its scope, continued access to these agreements for UK companies as least as part of the longer and more practical implementation

period mentioned above. In the longer term, we hope that the Government considers the wider benefit of access to these trade agreements and considers solutions which might provide longer term access to them and potentially involvement in the agreement of future EU trade deals as a third country, where there would be a mutual benefit for all parties.

SINGLE MARKET AND THE MOVEMENT OF LABOUR

ACCESSING SKILLS

The Government has established a clear red line with a firm commitment to withdraw from the jurisdiction of the European Union’s Court of Justice. If upheld, that position will mean that the UK must leave the Single Market. The Single Market has been a powerful force for economic good within our sector, which, alongside membership of the Customs Union has helped British manufacturers compete on a level and fair playing field, accessing skills and capabilities efficiently with recourse to legal remedies when needed. Any future relationship with the EU must therefore i) allow for the flexible movement of workers, ii) have closely aligned regulation between the EU and UK, and iii) be supported by a system of arbitration that works for the UK, the EU, businesses and consumers alike.

Access to skills is a major concern for UK manufacturing - already struggling with a significant and well-documented domestic skills gap – with close to a third of all vacancies in the sector being considered ‘hard to fill’ as a result. And for many years we have relied on EU workers to fill those gaps. Couple this with record low unemployment, and we are left with areas of the UK with little – or no – flex in the domestic labour market.

To maintain our profitability and keep safe the jobs our industry delivers, Government must invest heavily in our skills base – a massive injection of skills and training coupled with better levels of educational attainment would help make a success of Global Britain. However, this is a generational issue to resolve and not a quick fix. Put simply, it’s not possible to turn a skills tap on overnight; it will take at least 10 years to filter down through the labour market and the supply chain in a meaningful way, and this activity will need to be more successful than previous attempts if it is to have the desired effect.

As a result, we must in parallel ensure that the new arrangements with the EU allow for the flexible movement of workers from across Europe. We recognise that there is concern about some aspects of the free movement of labour across Europe; EEF is clear that the economy needs and will benefit from the inward movement of workers at all skill levels to fill vacancies in a sector where these skills

are in short supply, so that we can maintain current levels of productivity and have the capacity to grow. The new systems put in place by the UK to regulate these movements must be light touch and not overly focused on academic qualifications or salary levels: the need within the UK labour market ranges from the unskilled, through those with vocational qualifications to the highly skilled, and experience and proven capability is often the key requisite in the former two of these groups.

UK WORKERS

Additionally, the friction-free movement of UK workers into Europe is similarly critical. The capital goods market has a highly developed link between the sale or leasing of a product and the servicing and maintenance contract that accompanies it. These contracts are frequently pan-European in their coverage and often guarantee response times that are measured in hours rather than days, whatever the location of the good. These contracts, which are essential for the competitiveness of our products and the profitability of our companies, could not be serviced from the UK in an environment where workers would need to apply for visas or work permits prior to travel and would be untenable if UK workers lose all their current entitlements to work in Europe on both short-term and longer term contracts.

It is also vital that the UK reassures EU workers who have already made such a significant contribution to the UK, upon whom we are so heavily reliant

many of whom have been disconcerted by much of the public dialogue about this issue. The Government must act quickly and decisively to ensure that these individuals and their families are given an unambiguous permanent right to remain and work in the UK as soon as possible.

GOODS AND SERVICES

It is also critical that any future arrangement must recognise the umbilical link that now exists in the modern economy between manufacturing and services. Many manufactured products are now leased rather than sold, and across both of these markets, a high proportion of product is sold as part of a staged finance package and service contract. Any distinction between these two constituent parts fails to recognise the way in which the modern manufacturing sector works.

REGULATORY ALIGNMENT

Beyond labour market issues it is also critical that there is high regulatory alignment with the EU to protect our current trading relationships. The EU remains our biggest market: the UK exports manufactured goods worth over £33bn to Germany, £21.7bn to France, £17bn to Ireland

and £13bn to the Netherlands, for example. The benefit of having a common rule book and a uniform regulatory environment has been critical to achieving this level of performance and maintaining it relies on a comparable relationship in the future. It is also key here that we are not simply a rule taker, the UK has a mass of technical expertise which we can contribute and we want Government to negotiate a position where we have a say at the decision making table – both in creating new regulation or adapting what already exists. EEF is calling on the Government to secure a mutual recognition principle that applies to the EU and UK regulatory systems.

STANDARDS

Although a separate issue, the need for common regulation should also be accompanied by a clear and consistent approach to standards. Any agreement on regulation and market operation, must respect and protect the position of the British Standards Institute (BSI). The BSI must be a fully-fledged member of the European standards setting agencies and in a position to lend its considerable knowledge to this complex issue.

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Make UK champions and celebrates British manufacturing and manufacturers. We are a powerful voice at local, national and international level for small and medium sized businesses and corporates in the manufacturing and engineering sectors.

We're determined to create the most supportive environment for UK manufacturing growth and success. And we present the issues that are most important to our members, working hard to ensure UK manufacturing remains in the government and media spotlight.

Together, we build a platform for the evolution of UK manufacturing.

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