A report: How companies should prepare for Brexit and cope with the changes in trading patterns with regard to the issues of hiring migrant workers, the changing exchange rate and tariff and non-tarriff barriers.

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Introduction:

Our report aims to provide firms with an outline of how Brexit could influence their businesses and how they can respond to these changes to get the best from Brexit. We have identified three factors that we consider to be of key importance to our topic: migration patterns, the issue of tariffs and non-tariff barriers, and the exchange rate, and aim to provide firms with solutions in the form of advice they can take to prepare for Brexit.

1. Migration patterns:

Although the outcome of Brexit is not yet clear, we can summarise the two main possible outcomes as a 'soft' or a 'hard' brexit:

- Under a soft Brexit: the UK will remain in European single market, resulting in little to no change to the status of migrant workers.
- Under a hard Brexit: the UK will be outside the European single market and there will be a restriction on the free movement of labour.

It is in the interest of firms to maintain a flexible supply of labour otherwise 'tighter labour market conditions are likely to put upward pressure on both wages and prices' and could negatively affect the UK's productivity and competitiveness, as well as consumers.[1]

Even if there is greater investment in training and development of existing staff (migrants incl.) and the UK workforce is important; business groups such as the British Chambers of Commerce and the Institute of Directors state that migrant workers are still needed to fill certain skill gaps,[2] at least in the near future.

[1] Raoul Ruparel, Stephen Booth, Vincenzo Scarpetta, *Where next? A liberal, free-market guide to Brexit* (Open Europe, 2016), p.33.
[2] Ruparel et al, p.34.

i. Proposed alternative systems

Therefore migrant worker access to the UK job market must be maintained, for example by emulating a points based system similar to those used in Canada and Australia. The proposed alternative to the EU single market free movement would be based on the tiered system already in use for non-EU nationals (see figure 1). Proposed amendments will be to increase the quota of tier 1 and 2 (see figure 1) visas and introduce tier 3 for unskilled migrant workers, to fill labour shortages.

Figure 1: table of non-EU migration tier based system[3]

Tier 1:	For 'high-value migrants' and covers entry of entrepreneurs, investors, and those very few people who come under the 'exceptional talent' visa.
Tier 2	For 'skilled workers' with a job in the UK. It includes skilled workers who are transferred to the UK by an international company, skilled workers where there is a proven shortage in the UK, ministers of religion and sportspeople.
Tier 3	This category is designed for low-skilled workers filling specific temporary labour shortages but the Government has so far never allocated any visas under this scheme as it views the demand is supplied under EU free movement rules.
Tier 4	For students aged over 16 who wish to study in the UK. Applicants must have a place at a registered UK educational establishment before they can apply.
Tier 5	Contains six sub-tiers of temporary worker including creative and sporting, charity, religious workers, and the youth mobility scheme which enables about 55,000 young people every year to work in the UK on working holidays. The visas are awarded to young people from countries that have reciprocal arrangements with the UK.

Political editor Ian Dunt emphasises that '[m]igrants go to countries where they think there are job opportunities and where they expect to be treated fairly'.[4] Therefore changes in status, alongside the possible devaluation of the pound, may dissuade migrants from choosing the UK as a destination when in search of work. Under the tiered visa system, it is likely the employee

[3] Ruparel et al. p.38.

[4] Ian Dunt, *Brexit: What the hell happens now?* (Surrey: Canbury Press, 2016), p.184.

would be unable to claim benefits and access to the NHS would only be possible by paying a health surcharge.[5] There is also the possibility that UK firms will no longer need to adhere to European standards in the case of workers' rights, and could no longer have to answer to the European Court of Justice. In this hypothetical situation, it is possible that British workers' rights could change,[6] either positively or negatively, the latter perhaps discouraging migrant workers from taking jobs in the UK.

In order to continue attracting the necessary workforce from the EU firms could:

- **Compensate for extra costs** their employees may face under the new tiered visa system
- Ensure their wages and working regulations are **in line with European standards** regardless of any currency devaluation or negative change in the UK law

(for example; one European working regulation which could change is the Agency Workers' Directive, which gives temporary workers the same rights as full-time workers.)[7]

Note: EU workers and non-EU workers will now be on equal footing, meaning their access to the UK job market will be based on their skills and qualifications rather than their country of origin.[8]

ii. The Issue with Seasonal Workers in the Agri-food sector.

Despite affirmations by certain politicians that, in comparison with 'the highly skilled people that the City wants', unskilled workers are unnecessary to the British economy[9], the reality is that the Agri-food sector relies heavily on these unskilled seasonal migrant workers from the EU. In the past, a scheme called the Seasonal Agricultural Workers Scheme (SAWS) was used in place of a Tier 3 visa and ensured that firms had access to seasonal workers from the EU2 countries of

[5] https://www.gov.uk/healthcare-immigration-application (last accessed 07/06/17).
[6] https://www.theguardian.com/politics/2017/may/14/theresa-may-must-protect-workers-rights-post-brexit-says-union-chief (last accessed 07/06/17).
[7] https://woodfordfunds.com/economic-impact-brexit-report/ p.9 (last accessed 08/09/17).
[8] https://woodfordfunds.com/economic-impact-brexit-report/ p.9 (last accessed 07/06/17).
[9] Nigel Lawson: "There will be some changes on the immigration front … but it's people like the Romanian fruit pickers who we don't need. It is not the highly skilled people that the City wants - who will always be welcome." http://www.hortweek.com/mounting-frustration-horticultural-labour-crisis-response/fresh-produce/article/1432907 (last accessed 07/06/17).

Romania and Bulgaria. However, this scheme has now closed. Since the outcome of the EU referendum, Andrea Leadsom has pledged that British farmers will continue to have access to migrant workers for seasonal labour after Brexit,[10] with some hoping for a revival of the SAWS scheme or the introduction of a Tier-3 visa.

Action firms can take:

- **Lobbying** for a revival of the SAWS work scheme for seasonal labour, or a similar scheme (Tier 3) which will continue to allow migrants to work seasonally in the UK

iii. Supporting Current EU/EEA Employees:

It is a priority to confirm the right of EU/EEA nationals and their dependants currently living and working in the UK to continue to do so post-Brexit. This includes their continued access to public services.

There is currently no information on how the rights of EU/EEA workers and their dependents currently in the UK may be affected after Brexit.

In the meantime, employees may wish to take some or all of the following steps:

- Applying for **British Citizenship**
- Applying for **Confirmation of Permanent Residency**, provided they have been resident of the UK for more than five years
- Applying for a **Registration Certificate**

There has also been an increase in hate crimes following the result of the EU referendum.[11] In addition to the state of uncertainty about their futures, employees may feel at risk of racist attacks.

[10] http://www.telegraph.co.uk/news/2017/01/04/british-farmers-will-have-access-migrant-workers-brexit-andrea/ (last accessed 07/06/17).

[11] http://www.bbc.co.uk/news/uk-38976087 (last accessed 07/06/17).

Firms can support their current EU/EEA employees by:

- **Running workshops** for employees to provide them with information on the application processes and access to **legal advice**, and to help them complete the application itself.
- **Reimbursing** the costs of any applications they may make.
- **Circulating informative guides** to employees, such as the following: https://www.freemovement.org.uk/wp-content/uploads/2017/01/EU-residence-rights-workers.pdf
- **Lobbying** the government to support workers' living rights.
- Supporting employees who may feel at risk of racist attacks by fostering a **culturally inclusive and supportive environment** within your company.
- Supporting external cultural **NGOs**.

2. Tariffs and Non-Tariff Barriers:

i. Tariffs:

Tariffs are the tax imposed by a government on certain imports, currently the UK enjoys tariff free access to and from the EU, as well as those countries the EU has conducted agreements. When the UK leaves the EU, it will automatically leave all Free-trade agreements (FTAs) negotiated by the latter organisation with other countries around the world. The UK cannot legally start formally negotiating trade deals until after it has formally left the EU, instead it will revert to World Trade Organisation (WTO) terms.[12] Any UK firm which export any goods or products to countries with FTA's with the EU, such as South Korea, will see an increase in costs, as they will have to pay tariffs. Furthermore, UK companies will have to contend with EU tariffs, which are 2.3% on average (although higher for some goods such as motor vehicles).[13] The UK will also presumably raise tariffs in response, thus increasing the cost of goods in many cases, particularly those from the EU.

ii. Non-tariff barriers

Non-tariff barriers (NTB) include restrictions on trade such as licensing, quotas and embargoes.[14] For an advanced and largely service based economy like the UK, NTBs can be especially disruptive.[15] Two main NTBs have been identified and are discussed here: Passporting and Country of origin (COO) rules.

As a member of the Single Market UK banks and financial service providers may operate freely in other EU/EEA states, whilst primarily being regulated by British regulations.[16] This 'single passport' allows for example American banks to set up branches in the UK and thus operate

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[12] Malcolm Sweeting, *Clifford Chance: The Future of trade for the UK the guide for business* (2017), p.28.

[13] http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/index_en.htm, (last accessed 06/06/17).
Yvan Decreux, Chris Milner and Nicolas Péridy, 'Some New Insights into the Effects of the EU-South Korea Free Trade Area: The Role of Non Tariff Barriers' in Journal of Economic Integration Vol. 25, No. 4 (December, 2010), p.787.

[14] http://www.investopedia.com/terms/n/nontariff-barrier.asp (last accessed 07/06/17).

[15] https://globalconnections.hsbc.com/downloads/trade_forecasts/gb.pdf (last accessed 07/06/17).

[16] https://www.bba.org.uk/wp-content/uploads/2016/12/webversion-BQB-3-1.pdf (last accessed 07/06/17).

under one set of regulations within the EU. Losing this entry to the EU market for financial services could make it less attractive for foreign financial operators to set up offices in London.

Within the EU Customs Union goods and intermediate goods can flow freely across borders, often eliminating the need for companies to hold a large inventory.[17] Even in the event of a future trade deal including tariff-free trade with the EU, UK businesses could be tied by COO rules. This could come in the form of costly and time-consuming border checks that might disrupt the efficiency of the supply chain, and thus the competitiveness, for many UK businesses.

iii. How companies can face the challenge of tariff and non-tariff barriers

1. Lobby the government: The UK government should strive to protect British companies. It has been suggested that adding the UK as a separate signatory to the EU's FTAs should be part of the Brexit negotiations and negotiating a similar system to passporting would support the financial industry. Furthermore, Passporting is vital for the attractiveness of the City, Keeping status quo or implementing a similar framework should be part of the Brexit negotiations.
2. Relocate: For multinational companies it might make economic sense to move certain services or parts of production from the UK to the European mainland or vice versa, to lower the burden of tariffs and NTBs.
3. Find alternative suppliers: As the UK negotiates with different countries outside the UK framework, it might make economic sense to switch supplier, either to a company within the UK or to a country with a more favourable tariff system.
4. Find alternative markets: As the UK government negotiates new FTA's, different markets might become more attractive to British companies' exports.
5. Change pricing structures: The complications around importing and exporting might mean companies will have to change their pricing structures to take the price of tariffs and NTBs into their cost analysis.
6. Simplify supply chains. Fewer countries involved in a company's supply chain will make it less time-consuming and expensive, making it easier to comply with COO laws.

[17] https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm (last accessed 07/06/17).

3. Exchange rate and Brexit

Source 1

Exchange rate is one of the fundamental variables that affects trading patterns for UK businesses. Simply, exchange rate is the value of one currency compared to the value of another currency. The exchange rate portrays the strength or weakness of a particular currency, influencing the volume of exports and imports within a country.

By analysing key past events involving the Brexit campaign and monitoring the reaction of the exchange rate (pound to euro), this will enable a more reliable prediction of the exchange rate fluctuations, once article 50 has been triggered. Depending on how the exchange rate varies, a solution will be formulated for businesses on how to remain competitive and cope with Brexit.

One significant event took place on 23rd June 2016, in which Britain voted to leave. The graph (Source 1) shows the pound fluctuated around €1.25 and €1.45 between 2015 and mid-2016. Before, the voting, the exchange rate settled at €1.3099, however once the results were released, a significant drop occurred, plummeting the value of the pound in a very short space of time,

reaching €1.20585 within 5 days. This change is caused by uncertainty within investors. Leaving the EU is very high risk and many investors are not certain of the final outcome. This is due to '*anticipation of the UK facing inferior trading relationships after its withdrawal*'[18]. Leaving the EU will cause disruption within the international supply chains of particular goods. This will inevitably '*discourage both portfolio flows and inward investment*'[19], consequently reducing the demand and therefore value of the pound.

As you can see this carried on throughout most of the year, declining in value. It reached its lowest at €1.10849 during November, portraying investors' negative view on Brexit in general. This could be a signal that the pound will reduce further once article 50 is invoked as investors may hold a pessimistic view.

Industries and the exchange rate of the £

Industries are interconnected with the movement of the £. The massive fallings down of the £ were beneficial for some sectors of economy such like agriculture meanwhile the rest suffered from the horrible consequences. On 24th June some hours after the referendum the £ dropped roughly by 15%.[20]

[18] https://blog.bham.ac.uk/business-school/2017/03/30/how-has-brexit-affected-exchange-rates/ (last accessed 07/06/17).

[19] http://www.economicshelp.org/blog/21011/economics/why-would-pound-sterling-fall-after-brexit/ (last accessed 07/06/17).

[20] http://money.cnn.com/2016/07/06/investing/brexit-pound-drops/index.html (last accessed 07/06/17).

On 6th July the £ slumped its lowest point in the decade because the 3 big asset management firms pulled out their money from the UK real estate market due to a post-Brexit shock.[21] This step almost led the collapse of the industry and government intervention that has not happened since 1992. On 15th August, a survey issued by The Royal Institute of Chartered Surveyors (RICS) found that the previously experienced systematic increasing of the house prices slowed down and stopped at that time.[22] However, this was the first time when it became visible that the decreasing exchange rate of the £ could make profit for some industries. Data from the British Retail Consortium (BRC) showed that UK retail sales increased by 1.1%. This had been the strongest growth among the industries since January.[23] After the Ministerial statement on 5th September, which clearly stated the UK would leave the EU the Bloomberg, said the prices on the car market increased by 2%. As a comparison, they stated the cost of the Peugeot 308 hatchback had gone up by £435.[24] After many hard months on 15th October, one of the world's biggest banks voted for confidence in London and moved 40 traders (20 from Amsterdam 20 from Brussels).

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[21] http://money.cnn.com/2016/07/05/news/economy/real-estate-funds-uk-brexit/index.html?iid=EL (last accessed 07/06/17).
[22] http://www.bbc.co.uk/news/business-37037964 (last accessed 07/06/17).
[23] https://www.icas.com/ca-today-news/brexit-what-we-learnt-last-week-15-august-2016 (last accessed 07/06/17).
[24] https://www.bloomberg.com/news/articles/2016-08-10/brexit-bites-back-as-peugeot-joins-dell-in-lifting-prices (last accessed 07/06/17).

"…even after Brexit London has and will continue to have a deep labour talent pool to support our business," said Percy Rueber, head of ING Financial Markets.[25]

In parallel, the Reuters reported that despite Brexit, the advertising market had hit its highest in more than two years.[26]

On the 4th of December the £ reached its highest level since 23rd June. A survey by the Confederation of British Industry's (CBI) showed that private sector growth gathered a little bit of speed compared with the last half a year.[27] However, in the post-referendum they also called the attention to the fall in the value of £ that can cause massive inflation and hurt the competitiveness of the market for a long term. The first shock of 2017 happened on the market on 15th January when Theresa May announced that the UK government is preparing for a hard Brexit and the EU must accept it.[28] Furthermore, the possibility of quitting the single market and the customs union was presented as well. Furthermore, a prominent German newspaper said it seemed UK would become a tax haven by further lowering corporation tax.[29] On 23rd February

[25] http://www.standard.co.uk/business/brexit-cheer-as-ing-traders-move-to-london-a3369236.html (last accessed 07/06/17).
[26] http://uk.reuters.com/article/uk-britain-advertising-idUKKCN12B2SW (last accessed 07/06/17).
[27] http://uk.reuters.com/article/uk-britain-economy-idUKKBN13T003 (last accessed 07/06/17).
[28] https://www.theguardian.com/politics/2017/jan/15/theresa-may-uk-is-prepared-to-accept-hard-brexit (last accessed 07/06/17).
[29] http://www.bbc.co.uk/news/uk-politics-38628428 (last accessed 07/06/17).

The Times published that the GDP increased by 0.7% and the exports rose by 4.1 % compared with the previous quarter and the imports fell by 0.4 %. Furthermore, due to the collapse of the £ the business investments fell by 1% compared with the last year.[30]

On 12th March Article 50 was passed by the Lords and Theresa May announced she would ask the EU to pay back £9 billion.[31] In parallel the BBC said the construction industry overall has risen by 0.3% and the growth led by especially the civil engineering.[32] On 22nd April Michael Saunders, economist at the Bank of England said a positive prediction to the finance industry after Brexit. As he stated independently from the current panic on the market the number of financial jobs in London grew by 17% in March, which in his opinion, allows us to predict a positive outcome.[33] Since the beginning of the election camping the exchange rate of the £ has been falling down systematically day-by-day. Analysts say it is caused by only the uncertainty around UK politics, but after 8th June the £ will be stabilised again.

[30] https://www.thetimes.co.uk/edition/news/gdp-growth-accelerates-after-eu-vote-t7cmvhmjf (last accessed 07/06/17).
[31] http://news.sky.com/story/brexit-bill-likely-to-be-passed-by-lords-on-monday-10798799 (last accessed 07/06/17).
[32] http://www.bbc.co.uk/news/business-36956418 (last accessed 07/06/17).
[33] http://news.sky.com/story/city-continues-to-be-jobs-magnet-despite-brexit-uncertainty-10843619 (last accessed 07/06/17).

Solutions

Based on the movement of exchange rate of £ generated by Brexit the biggest impact may be perceived on the following industries:

Finance: based on the analyses of the Bank of England the finance sector still can maintain its growth (i.e. 17% in March). However, experts warn that the inflation can cause harm on currency market especially EUR/GBP, USD/GBP. We recommend that run short-term investments avoiding from real estate investment in the UK meanwhile try to take benefit from the unbalanced movement of the £ on the stock market.

Real estate: Since Brexit, the prices on this market are decreasing or stagnating. However meanwhile the expected increasing of the house prices (just like in the US or France) do not happen due to the massive inflation of the £, the construction prices are increasing systematically. First it seems logical to remove the capital from market but we recommend rather to wait until the end of the general election because it can stabilise the £ in long term.

Car industry: A hard Brexit for car manufacturing means foreign parts are more expensive. We would recommend businesses to buy car parts from domestic firms where possible to try to reduce the cost of manufacturing. In addition, we would recommend focusing on increasing sales of cars in foreign markets as UK cars become less expensive for foreign countries, boosting sales. On the other hand, a soft Brexit would mean foreign parts are cheaper. Buying foreign car parts would be suitable to reduce further the cost of manufacturing. Secondly, it is important to stay competitive in the domestic market by reducing car prices as competitors may lower prices due to the reduced costs in manufacturing. In addition, a strong pound will mean less attraction from foreign markets so it is important to have a reliable flow of sales from the domestic market.

Construction: 20-30% of the workers came from the EU, so after a hard Brexit this industry needs to face a massive labour shortage. In the case of a soft Brexit they need to take into

account that over the last year a massive 20% devaluation of the £ happened what leads to increasing wages. The companies that are less competitive may be broken by the inflation. We recommend asking for support from the government through labour union or a taxation reform. It is proposed to the bigger companies that possibly can cope with the inflation to make investments rather in the countryside.

Conclusion

In conclusion, in this report we have outlined some changes that could take place and affect firms, in the case of a 'hard' or 'soft' Brexit. With regard to the hiring of migrant workers, we have explored the challenges that firms could face in the event of a change in migration patterns, and developed some possible solutions and steps that firms could take to counter these challenges. This should provide them with some guidance on how they can continue to access a necessary migrant workforce of both skilled and unskilled workers. In addition, it advises them on how they can provide support for their current EU/EEA employees in the face of any changes to their status in connection with Britain's membership of the EU single market.

As for barriers, tariff and non-tariff, firms have no actual power to change the rules under which they trade. However, firms can lobby the government to work for their interests in trade negotiations, which is a long-term approach as trade deals usually takes years to materialise. In the short term, we suggest they do an assessment of their cost structures, examining their entire supply chain. To which extent will different scenarios of future trade agreements, like a rollback to WTO rules, affect their costs and revenue?

Furthermore, we advise firms to be wary of potential inflationary pressures generated by further devaluations of the £. We suggest that firms take a proactive approach, do their research and comes up with strategies on how to make the best of Brexit.

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