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BREXIT – OPPORTUNITIES AND CHALLENGES FOR SW CONSTRUCTION SECTOR

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Speakers

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Introduction

- **Current State of Play**
- **Opportunities and Challenges**

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Current State of Play

- Construction Industry Confidence

  June 2016 the biggest contraction since early 2008

  September 2016 highest level of confidence since May 2016

- Survey citing improving confidence among clients and a reduced drag on demand from Brexit uncertainty
- Large amounts of construction activity
- Houses, schools and roads still need to be built
- 8 November 2016 CITB downgraded growth forecast, however
- 2016 saw construction industry grown for 14th consecutive quarter

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- 7 November 2016 80% of electrical and building services contractors maintained / increased turnover in Q3
- UK construction companies recorded sustained expansion of business activity in October – Construction Purchasing Managers Index
- Q3 of 2016 marked decrease in number of construction companies in financial distress
- 20 October 2016 RICS indicate construction workloads in UK continue to rise
- 20 October 2016 construction output fell by 1.3% in August across the 28 EU countries

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Opportunities and Challenges

- Depends on hard or soft Brexit

What are the options?

3 main models of relationship with EU

1) The Norway model. Inside the European Economic Area (internal market providing free movement of persons, goods, services and capital. 31 countries – EU 28 member states plus Norway, Iceland, Liechtenstein).

- Norway model is the most integrated with the single market

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Norway Model

- Includes many of the key obligations of EU membership
- Norway contributes to EU spending
- Required to follow most rules of single market
- Has to accept free movement of people

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Opportunities and Challenges

<u>2) Negotiated bi-lateral agreement – Swiss Model</u>

- Limited access to single market – some combination of tariff – free trade, open access to services market
- Rarely go far in addressing non tariff barriers
- Switzerland's arrangements go furthest in replicating EU benefits.

Switzerland brings an increased proportion of obligations – accept free movement of people – making a significant contribution to EU spending – compliance with the majority of rules governing single market

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Opportunities and Challenges

- EU – Canada agreement does not give tariff free access to all Canadian manufactured goods and a number of key service sectors

3) WTO Membership

- UK is a member of the WTO
- Enables participating states to negotiate trade agreements. 162 member countries.
- If UK has not negotiated an agreement with the EU within 2 years then WTO model by default

4) Interim Deal?

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WTO Model

- Just like Brazil’s trade with EU
- No preferential access to single market or any of the 53 markets with which EU has negotiated free trade agreements
- Would affect price of imported goods paid by UK consumers if reciprocal tariffs imposed on imports from EU

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Scenarios for EU exit

- New trading relationship with EU will be negotiated
- Membership of European Economic Area (soft Brexit)
- Trading under World Trade Organsation rules (hard Brexit)

Issues :

- Extent to which UK needs to adopt EU rules and influence over
- Acceptable extent of free movement of labour

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Opportunities and Challenges

Tariffs

- WTO members may not treat a member less advantageously – prevents discriminatory tariffs
- 2013 EU's average tariff was 2.3% for non-agricultural products (average)
- Higher on some products e.g. EU tariff on cars 10%
- UK important market for rest of EU
- In 2014 eighteen of the other 27 EU member states had a trade surplus with UK

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Opportunities and Challenges

- Germany’s surplus £25billion
- UK exports more to non EU countries than to EU member states

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Opportunities

- UK may be able to establish regulatory regime more favourable to overseas investors than EU
- UK may be able to streamline bureaucracy e.g. OJEU procurement rules but note soft Brexit requirement to follow rules
- Possibility to not make EU budget contributions

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Opportunities

- Opportunity to do Nissan style deals. Under investigation by EU re state aid laws. Will not apply post Brexit
- Reduced cost of projects due to deregulation
- UK's contribution to EU net of receipts estimated at £8.5billion in 2015 – 0.5% of GDP

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Challenges

- Likely tariffs exporting to EU and increased cost of materials imported to UK due to tariffs
- Threat to foreign direct investment? Our regulatory regime may be attractive
- Free movement of labour – new rules?
- Increased cost of materials due to tariffs/currency fluctuation
- Inflation
- Possible move to rules for non EU migrants i.e. economic migration for high skilled migrants only

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Opportunities and Challenges

- Estimated if EU employees have to meet visa requirements only 12% of EU employees currently in UK will qualify
- London Chamber of Commerce has warned could lead to shortage of low and high skilled workers
- Sectors with highest proportion of workers from EU countries :

  accommodation and food services 13% at Q1 2016

  manufacturing 10%

  construction 9%

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Opportunities and Challenges

- RICS states 59% of UK’s construction material imports originate from the EU – depending on the model, quotas or tariffs could apply when importing / exporting.

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<u>Conclusion</u>

"It's not enough to concentrate on what we might lose. We need to consider what could be better, if in Brexited Britain. That is dauntingly openended until we establish who's and which interest we want to press" – Zoe Williams, The Guardian

Any questions?