LONDON CHAMBER of COMMERCE AND INDUSTRY

CONNECT. INFLUENCE. SUPPORT.

TWO YEARS ON FROM THE EU REFERENDUM

What London businesses need from Brexit

June 2018

Brexit Series Vol. 3

FOREWORD

We are now two years on from the result of the EU Referendum. Since June 2016, London Chamber of Commerce and Industry (LCCI) has regularly taken soundings from our members as well as surveying wider business sentiment among the capital's firms each and every quarter.

That activity, part of it outlined in this publication, has assisted the formulation of evidence based proposals and suggestions the chamber has made in our reports, external meetings and through media channels, to Government, Parliament and City Hall on how London firms view Brexit and what they need from the process.

Yet, two years on there is an absence of detail from Ministers on the absolutely key requirements for our members and wider business:

- What are the envisaged terms of trade that London businesses will have to operate under?
- What processes will exporters and importers have to navigate at Ports of Entry between the UK and the EU?
- What procedures will employers have to make preparation for to secure specific non-UK labour in a new immigration system?

Alongside the limitation of detail on such fundamentals, business has been told that the Brexit transition period will end on 31st December 2020 – that will equate to around 90 weeks.

Is that really enough time for all businesses to prepare for a – as yet undefined – new trading environment? Is it realistic to expect all businesses to secure whatever new software, plant and machinery, people and finance they may need? Finally is a 90-week transition period enough time for new UK border and customs infrastructure to be trialled and installed at our seaports and airports?

We have doubts that 90 weeks is enough time. It is notable, that from soundings with other metro area chambers there appears to be a common business view that a longer transition period is necessary. The Prime Minister, and the Mayor of London, should take note.

Colin Stanbridge, Chief Executive, LCCI

METHODOLOGY

This report marks the two-year anniversary of the UK's referendum on EU membership, held on 23 June 2016, with a focus on what London businesses need from the Brexit process, and the impact of the negotiations and potential Brexit scenarios on their companies.

The report is primarily informed by polling of the London business community LCCI commissioned from leading polling agency ComRes. Every quarter since the EU referendum, ComRes has interviewed more than 500 London business decision makers on behalf of LCCI on topics including Brexit. In addition, ComRes polled more than 1,000 London business decision makers (excluding sole-traders) between 27th April and 2nd June 2017, on behalf of LCCI and London Councils. All polling data have been weighted to be representative of all London businesses by company size and broad industry sector. *Any data reproduced should be fully referenced.* ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at www.comresglobal.com.

Other data sources used for this report include:

- economic analysis commissioned from the Centre of Economics and Business Research (Cebr)[1]; and
- discussions and interviews with a wide range of London business leaders, including to prepare case studies of London businesses referenced throughout this document.

This publication is the third in a line of LCCI reports indexing the views of London businesses on Brexit. The October 2016 report *London Businesses and Brexit: Reactions, expectations and requirements* assessed London businesses' initial response to the EU referendum outcome, and the June 2017 report *Moving Towards Brexit: London business views one year on from the EU referendum* assessed what London businesses expected from the Brexit process going forward. Other LCCI publications on Brexit include our proposals for a practical migration system for post-Brexit London,[2] joint work with the Alliance of European Metropolitan Chambers,[3] and our Chamber.Online Terms of Trade campaign with Greater Manchester Chamber of Commerce and Business West.[4]

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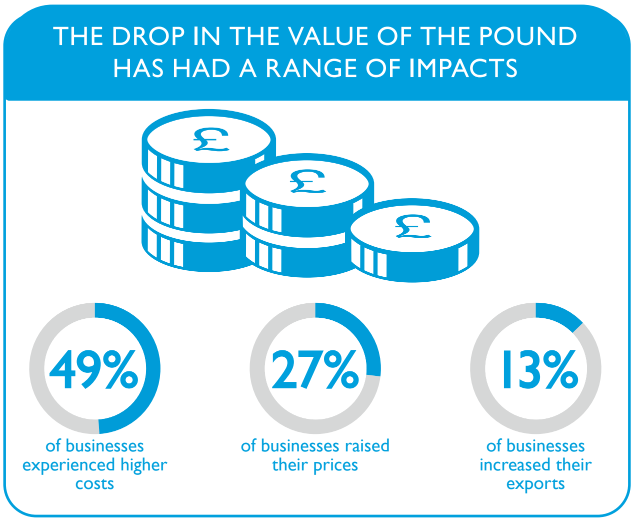
1 Cebr (November 2016) *Working Capital: The role of migrant workers in driving London's economy;* Cebr (March 2018) *Brexit and the Metropolitan Areas: Impact of potential Brexit scenarios on Greater London, Greater Manchester and Greater Bristol.*
2 LCCI's November 2016 report *Permits, Points and Visas: Securing practical immigration for post-Brexit London* examined how to plan to process the future migrant workers London will need.
3 On 5 April 2017 the Alliance of European Metropolitan Chambers adopted a declaration at a City Hall conference, on working together in a post-Brexit era.
4 The March 2018 campaign *Terms of Trade: The reality of Brexit for business* explored the everyday impacts of the most widely discussed Brexit scenarios on three English metro areas. For more information, please visit https://chamber.online/brexit-eu-negotiations.

THE IMPACT OF BREXIT ON LONDON BUSINESSES TO DATE

LCCI's October 2016 *London Businesses and Brexit* report found that following the EU referendum many London business leaders had concerns about the impact the Brexit vote would have on their business – at least until a new relationship with the EU would be agreed.

Many of the concerns were related to **costs**.[5] This was substantiated in the months following the Brexit vote, when half (49%) of London businesses reported that their costs had increased because of the decline in the value of the pound in the six months up to June 2017.[6] In addition, a quarter (27%) of firms reported that the lower exchange rate had caused an increase in their prices, although 13% said their exports had increased.



Another key concern stipulated in LCCI's first Brexit report, was the apprehension over London businesses' current and future **access to EU staff**.[7]

Indeed, a joint LCCI-London Councils survey (excluding sole traders) between April and June 2017 found that 36% of respondents expected that over the next 12 months Brexit would impede their recruitment efforts, while 26% thought it would negatively impact on their staff retention – with significantly higher figures among the 39% of businesses that employed EU staff.[8]

Despite the UK Government's stated support of the protection of rights for EU citizens living in the UK post-Brexit, uncertainty surrounding this issue remained until December 2017, when the UK reached an agreement with the EU on citizens' rights. While the agreement did help to alleviate some of the uncertainties, to an extent the damage had already been done; by the second quarter of 2017, three in ten (31%) London businesses with EU staff (excluding sole traders) reported that some of their non-UK staff had left the country due to the electorate's decision to leave the EU (28% for micro businesses, 40% for larger businesses).

Although these are key issues, concern around the value of the pound and the status of EU nationals were not the only uncertainties to come out of Brexit. **LCCI polling reported uncertainties in a wide range of other areas including the continuity of EU regulations, the status of European regional funding and trade and customs barriers**.[9] This may help explain why the confidence and outlook of London's businesses continued to decline after the EU referendum, as is evidenced by LCCI's *Capital 500* Quarterly Economic Survey results.

LCCI's *Capital 500* Quarterly Economic Survey

The *Capital 500* – based on responses from over 500 London businesses each quarter – is London's largest, regular business survey and has been measuring business performance and general confidence levels across the capital since the second quarter of 2014.

With two years of data before and after the referendum, the survey offers an important insight into the impact that the Brexit process has had on London businesses to date.

Overall, two main trends can be identified:

- A significant drop in the balance figures[10] for all analysed business performance and confidence indicators in the capital in the first *Capital 500* poll following the EU referendum.[11]
- Since then – figures that have generally remained lower than before the referendum outcome.

Additionally, many indicators showed a smaller, second dip after Article 50 was triggered on 29 March 2017.

5 ComRes polling for LCCI in the third quarter of 2016 showed that for 57% of London businesses the future value of the pound was causing uncertainty for their business following the EU referendum, while 44% responded they expected the Brexit vote to have a negative impact on their business' costs until a new relationship with the EU is agreed.

6 From June to October 2016 (based on monthly averages), the value of the pound fell by 14% against the euro and by 12% against the US dollar. After that, the exchange rate with the euro roughly stabilised, while sterling slowly regained most of the decline in value against the dollar until April 2018 when it started to fall again.

7 Following the referendum vote, a quarter of London businesses (excluding sole traders) said that the current immigration status of their EU employees (24%) or their future immigration status (25%) were causing uncertainty for their business.

8 53% of businesses with EU staff expected a negative impact on recruitment, while 39% expected a negative impact on retention according to the *London Business 1000* survey. Figures were weighted to be representative of all London businesses by company size, broad industry sector and borough.

9 For example, in the third quarter of 2016, 29% of London businesses reported that the rules for trading with EU countries were causing uncertainty for their business, while 22% were experiencing uncertainty over whether compliance with EU directives and regulations will be enforced.

10 Balance figures represent the percentage of firms that report an increase minus the percentage that report a decrease.

11 Including domestic demand, export demand, employment, recruitment and training, cashflow and investment, economic outlook and business prospects. For an overview, please visit www.londonchamber.co.uk/capital500.

IN THEIR OWN WORDS

"We import and distribute lighting from the EU, Canada and China, and suffered an immediate impact due to the overnight devaluation of the pound. The continued loss in strength of the pound over the last two years has driven a substantial increase in business costs and caused margin erosion, creating significant challenges when trying to remain competitive and profitable."

Ulysse Dormoy, Managing Director, Atrium

"We specialise in the supply of equipment, process plant and machinery to the oil and gas industry, and uncertainty is the most pressing concern for us. The ability to move goods without incurring tariffs is a key issue within the industry, and if we end up leaving the customs union that would have a serious impact on us. Therefore, we are already moving part of our operation as a contingency plan to Berlin, to prevent us from having to pay a heavy levy on import duties after Brexit."

Karim Fatehi MBE, Managing Director, United Corporation

"We received a big initial boost when the pound fell against the dollar but that has largely returned to the status quo today. But the new customers we acquired then have remained with us. What we need is a quick resolution of the deal, either to stay in or leave the EU completely, as uncertainty is not good for any business."

Anthony Gould, Executive Chairman, RussiaTeleRadio Worldwide

"One of the key issues is the shortage of EU candidates to employ. In the tourism market, the summer seasons are particularly busy and high staffing levels are required. EU staff are particularly important to this sector due to their language skills. Since the referendum, recruiting staff has become difficult requiring us to hold many more assessment days to find the right number of staff, and even then, we have been falling short."

Rita Beckwith, Chief Executive Officer, City Cruises

"Over the last year we have noticed that the London property development market has been slowing down and become less predictable. We can see some of our stakeholders being concerned about London's outlook and are looking at more export-focused business models, which we have also been doing. I believe that until our government has clear trade deals in place, there will continue to be some hesitation in the property development market, and as a consequence there will be a slowdown in business. At the moment, the UK market has only been showing small incremental growth, hence we have been extending our efforts internationally to continue our company's strategic growth ambitions."

Peter van der Kolk, CEO, John Cullen Lighting

"Following the referendum, my translation and interpretation company has unfortunately lost some export-import companies' translation tasks. As we are strongly in connection with global trade, we are expecting that any changes to the export-import environment as well as new immigration laws will affect us substantially."

Susanna Toth, Managing Director, H-Net Translation Ltd

"The only real impact was the slowing of activity in the architectural market in London, due to uncertainty and lack of market confidence, for the first 18 months after the referendum. Thankfully, our studio has a lot of activity outside Europe which has helped to mitigate any of the damage caused by the initial post-referendum decline."

Ian Bogle, Managing Director, Bogle Architects

"A lack of clarity regarding the UK's future trading relationship with the European Union has led to contracts not being signed and work being deferred. The uncertainty has made business erratic and has led to huge peaks and massive troughs in trade. Our main worry is that potential tariffs and barriers on trade between the UK and the EU will cause further uncertainty and cost UK based importers and exporters time and money, which will affect everyone."

Will Tyler, CEO, Octink

"Initially, the result of the referendum caught most of us off guard, which resulted in a reluctance to commit to holding events in the short-term. Thankfully, the end of 2016 and start of 2017 saw a steady return to business, and 2017 was another strong year for us. However there continues to be a sense of unease in the market which is causing a delay in some of our clients' decision-making processes, resulting in a large proportion of short-notice events across the industry. But ultimately London is still the place to do business, host events and work within unique and iconic venues regardless of the Brexit negotiations."

Stuart Jenkins, Managing Director, Blue Strawberry Event Caterers

FIGURE 1: EXPECTATIONS AND OUTLOOK FOR THE NEXT 12 MONTHS

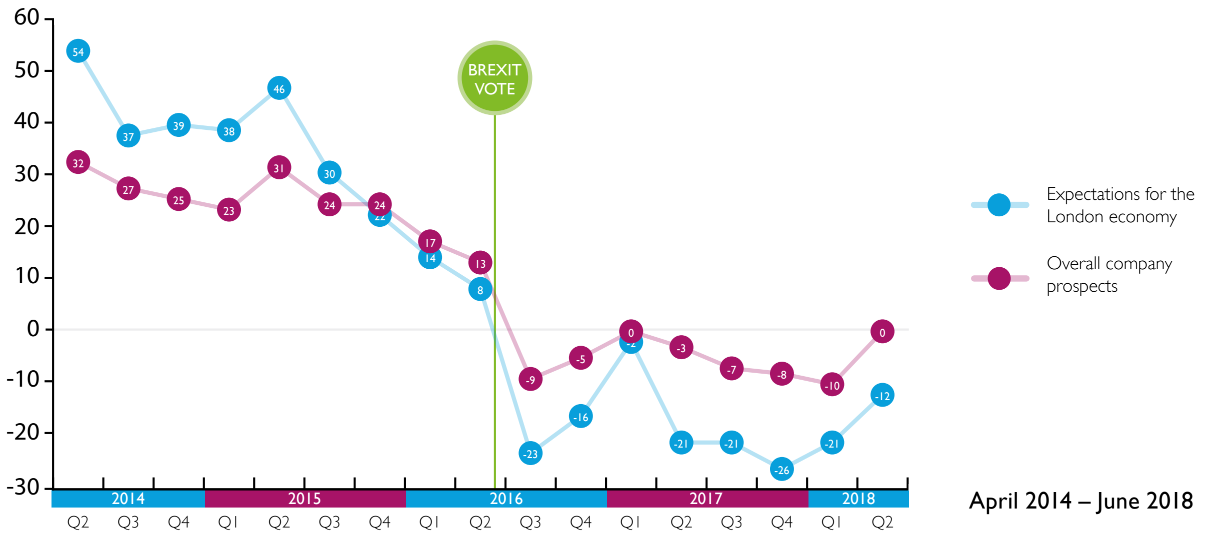


FIGURE 2: EXPECTATIONS FOR PRICING AND EMPLOYMENT OVER THE NEXT 3 MONTHS

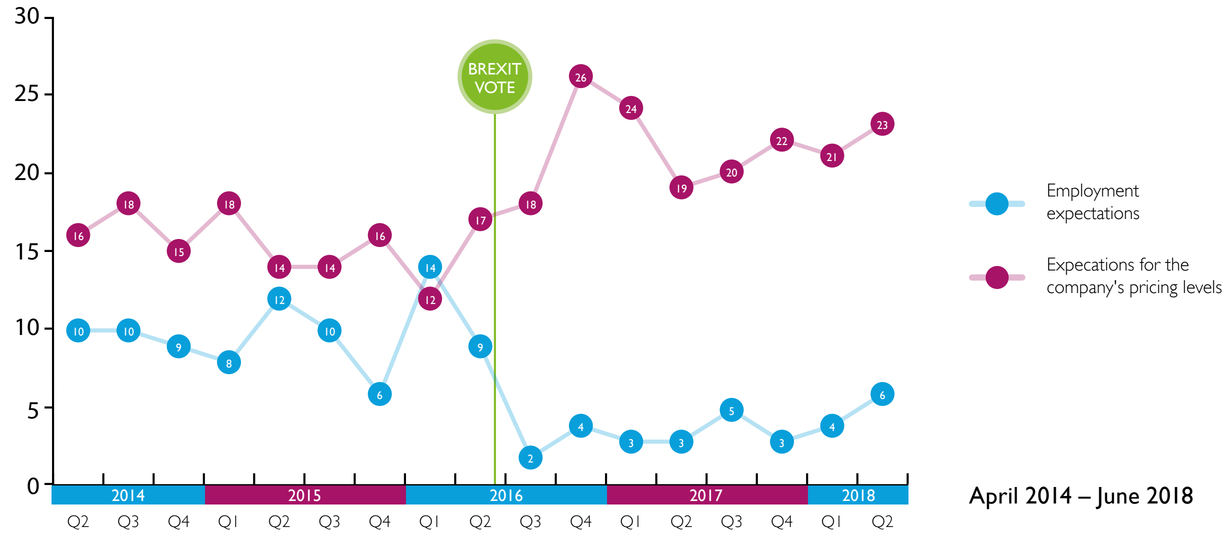


FIGURE 3: CHANGES IN PLANNED INVESTMENT OVER THE PAST 3 MONTHS

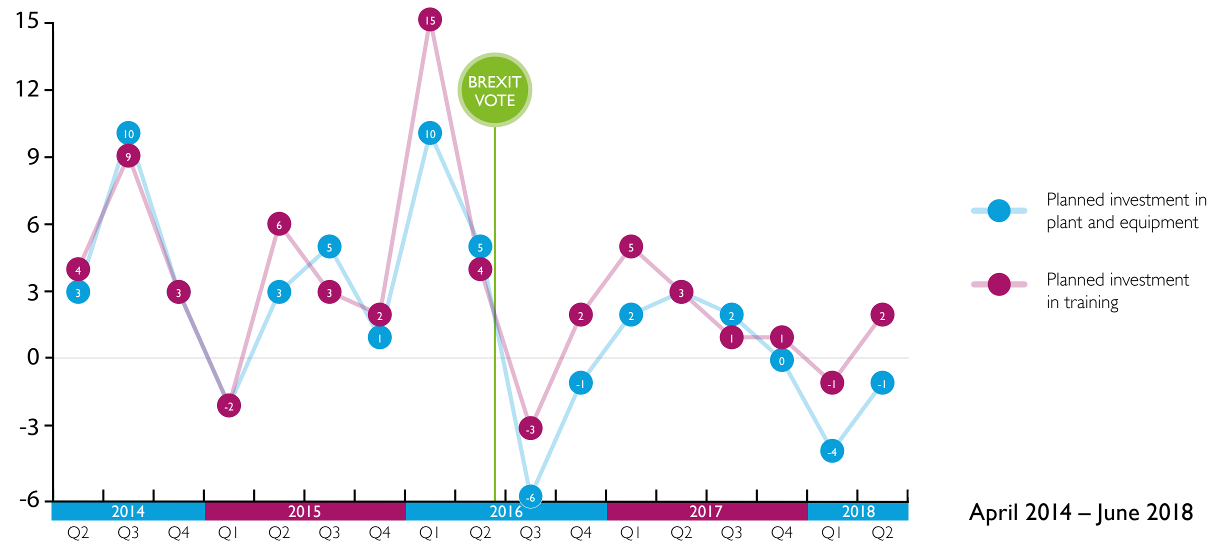
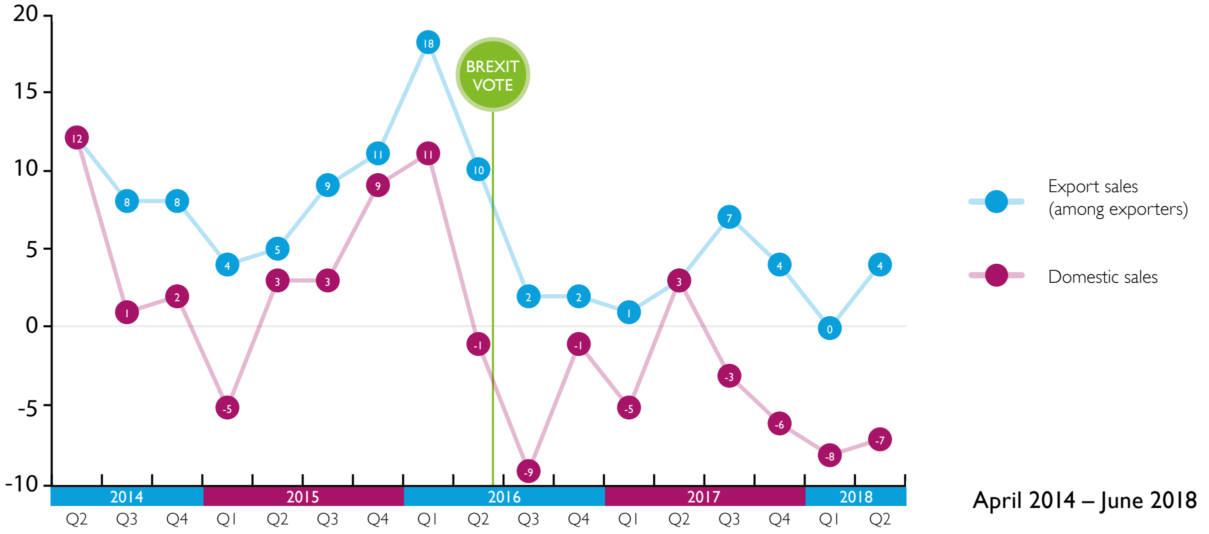


FIGURE 4: CHANGES IN DEMAND OVER THE PAST 3 MONTHS



CAPITAL 500 FIGURES BEFORE AND AFTER THE EU REFERENDUM

Confidence and outlook – Two of the most substantial drops in *Capital 500* figures following the referendum have been in the balance for expected growth of the UK economy and expected growth of the London economy over the next 12 months. There has also been a substantial decline in the figures for expected profitability and turnover.

Overall company prospects have largely remained in negative territory since the first poll after the referendum; every quarter following the referendum has seen more or the same proportion of businesses expecting their overall situation to worsen than improve over the next 12 months.

Employment – Expectations for overall employment levels, on balance, also dropped after the Brexit vote. This is in line with a marginal dip in businesses' recruitment efforts. In the eight quarters up to the referendum, an average of 18% of businesses reported they were trying to recruit, while the average fell to 14% in the eight quarters after.

Prices – Meanwhile, following the Brexit vote, an increased number of businesses, on balance, also expected that they would raise their prices over the next three months. This, in itself, is not necessarily a cause for concern. However, in this case it is strongly aligned with a rise in the number of businesses saying they faced pressures to raise prices due to increased raw material costs. This may well be due to a drop in the value of the pound (and consequently higher import costs) after the referendum.

Investment – The post-referendum decline in investment plans (for both capital investment and training) has been comparatively modest, although figures before the referendum, on average, do continue to be substantially higher than after the referendum.

Sales – Businesses' sales, both domestic and internationally, also dropped after the second quarter of 2016. For example, the domestic sales balance has been positive in only one of the last nine quarters, having previously been positive in the majority of quarters. Export sales have, despite a decline, not (yet) turned negative which may, at least in part, be due to the favourable exchange rate for exports.

This cannot be the new normal for London business. The Government needs to provide assurances to London businesses, to consolidate their growth efforts and alleviate their concerns. This will be a particular challenge for the capital's smallest businesses, which have by and large been reporting lower *Capital 500* figures than their larger counterparts.

To achieve this, concrete steps will be required to address the capital's long-term domestic priorities, including:

- making sure young Londoners have the right skills to succeed in the jobs of tomorrow;
- ensuring that rising business costs are addressed before they can undermine competitiveness; and
- ensuring the capital's pressing 'megacity' infrastructure needs are met
    - for example, construction of Crossrail 2, additional fixed river crossings in East London and a new runway at Gatwick, after Heathrow.

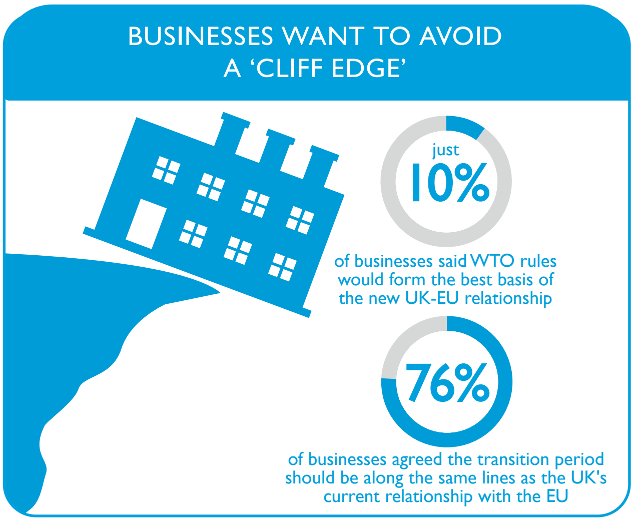
Most importantly, a Brexit deal is needed that works for London and boosts confidence and performance amongst the capital's businesses. Two of the key elements to addressing this (and which will be discussed in the next two chapters of this report) are to ensure the UK's withdrawal from the EU will be orderly, and to secure a positive new relationship with the EU.

Avoiding a cliff edge

LCCI polling since the referendum has consistently found that avoiding a 'cliff edge' is the top priority for London business leaders.

Business leaders have agreed that a formal deal with the EU needs to be reached, and reiterated the need for a period of continuity after the UK leaves the EU to adapt to the new circumstances.

In the third quarter of 2016, only 10% of London businesses said that WTO rules would form the best basis for Britain's future relationship with the EU, while the vast majority (89%) were in favour of a more integrated relationship. Additionally, in the second quarter of 2017, 80% agreed that a transition period should last until the UK and EU have determined their new relationship and 76% agreed that the transition period should be along the same lines as the UK's current relationship with the EU.[12]



The idea that businesses should have a transition period has long been the desired approach for London business leaders. **As early as mid-summer 2016, when LCCI hosted a set of roundtables with business leaders from a wide range of sectors and company sizes, many participants noted that they would need at least several years to prepare their business for any significant changes to the economic landscape enacted by tariffs or non-tariff barriers, reduced access to EU workers or value chain complications**. This was again emphasised during a second set of Brexit roundtables LCCI hosted in spring 2017, and interviews with many SME business leaders since.

Securing a transition period that works for London business

Since the start of the Brexit negotiations, LCCI has emphasised the need to avoid a cliff edge and introduce a post-Brexit transition period. In April 2017, one week after Prime Minister Theresa May triggered Article 50, LCCI hosted representatives from the Alliance of European Metropolitan Chambers (AEMC) to sign **a joint declaration calling for a realistic transition period after Brexit**, to ensure businesses (and governments) would have sufficient time to adjust to the new situation.[13]

Now, following the announcement on 19 March 2018 that the UK and EU have agreed a transition period of around 90 weeks proposed to end on 31 December 2020, LCCI is concerned this would not allow enough time for the bulk of UK firms to adapt to the new trading environment – whatever that will be.

> *"There is a lot of concern, and politicians are not coming up with any answers. People just don't know what is going to happen, and I actually don't think we will know much at all until the actual Brexit day. So, a longer transition would be good for us, as in the end, we as SME's we can't influence what is being decided but will have to adapt to it – and then we need to simply take what comes at us."*
>
> Martin Lewis, CEO, NCPI Solutions

Many businesses, particularly SMEs, will need much longer to model the impact of potential tariffs, assess potential non-tariff barriers, identify, recruit and induct any new staff required to process the changes, and order and install new plant and machinery and software. **The transition period that has now been proposed looks unrelated to business needs.**

That is why on 29th March 2018, an alliance of LCCI, Greater Manchester Chamber of Commerce and Business West, proposed that **three to five years would be a reasonable period for transition.**[14]

Indeed, a recent report by the Institute for Government points out that precedents suggest 21 months is nowhere near enough to prepare for a programme of change of the size of Brexit. For example, for changes to the Union Customs Code (UCC), plans were agreed in 2013, introduced in 2016, and government and business were given until 2020 until they needed to be compliant.[15]

LCCI believes a longer transition would be especially important if the final detail of the new EU-UK relationship will not be known until much later, perhaps even during the transition period – and this does not seem unlikely given a lack of agreement among the EU27 on the required level of detail needed for the text on the future relationship before Brexit day on 29 March 2019.[16]

<u>Recommendation:</u> *The proposed 90-week transition period is not enough for London business. A three to five-year transition, under the current UK-EU arrangements, would be a reasonable period to support business needs*

[12] Asked more specifically about what the transition period should look like (in the third quarter of 2017), seven in ten London businesses said that they would support the UK staying in the Single Market (71%) or Customs Union (71%) for a set period of time after Brexit, to give businesses time to adapt.

[13] The AEMC declaration was signed on 5 April 2017 at London City Hall by representatives of the chambers of commerce of Athens, Berlin, Brussels, Dublin, Frankfurt, London, Luxembourg, Madrid, Paris and Turin.

[14] For more information, please see the Chamber.Online *'Terms of Trade'* campaign at https://chamber.online/brexit-eu-negotiations

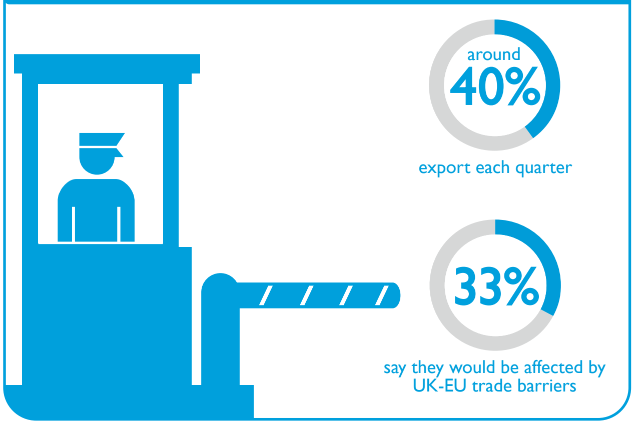
[15] Institute for Government (June 2018) *Preparing Brexit: How ready is Whitehall?*

[16] The Guardian: Brexit: first talks on future UK relationship with EU begin, 18 April 2018; Open Europe: UK-EU future trade deal negotiations will not start before Brexit, say EU officials, 16 April 2018.

THE UK'S FUTURE RELATIONSHIP WITH THE EU

LCCI's June 2017 *Moving Towards Brexit* report focused on three key aspects of the UK's future relationship with the EU: terms of trade, regulation and migration. This report revisits those areas and presents new data and evidence on the needs of London business.

TRADE BARRIERS WILL IMPACT LONDON BUSINESSES DIRECTLY



Terms of trade and customs arrangements

There are serious concerns among London businesses about the impact of potential UK-EU trade barriers post-Brexit.

In the fourth quarter of 2017, a third (33%) of London businesses reported they would be *directly* affected by the introduction of UK-EU customs procedures, tariffs on selling goods and services to the EU, or tariffs when buying goods and services from the EU.[17]

For the Chamber.Online *Terms of Trade* campaign,[18] LCCI commissioned Cebr to analyse what the impact of different Brexit scenarios would be on London's trade, including if new trade barriers were set up and businesses were to **trade under WTO rules**.[19] This scenario, it was estimated, could have a negative impact of more than £20 billion on trade with the EU after 15 years, or 5% of London's GDP. Although the overall impact would over the long term not necessarily be negative (under a selected set of assumptions), Cebr concluded that a "WTO based deal looks to be a worse option than any other option as it would leave services, including the financial sector, particularly exposed."[20]

LONDON EXPORTERS' EXPOSURE TO UK-EU TRADE BARRIERS

Since the start of LCCI's *Capital 500* Quarterly Economic Survey in the second quarter of 2014, each quarter around 40% of respondents reported they had been exporting goods or services during the previous three months, including 60% or more of businesses with ten or more employees.

In the first quarter of 2018, businesses that had identified as exporters were asked which countries they had been exporting to:

- 68% reported they had exported to the Single Market (or 29% of all businesses)
- 54% had exported to other OECD member states outside the Single Market (or 23% of all businesses)
- 44% had exported to other countries (or 18% of all businesses)

Some firms had been more dependent on exports than others. One in ten (9%) London exporters reported that, in pound value, more than three quarters of their sales went to the EEA (10% for micro businesses and 5% for businesses with ten or more employees), and a further 6% reported that between 51% and 75% of their sales went to the EEA (5% for micro businesses and 10% for larger businesses). This indicates that even when looking at a three-month timeframe, around **three in ten (28%) London businesses were exporting to the EEA**, and that around one in seven of them (15%, or 6% of all London businesses) were dependent on EEA exports for more than half of their sales – indicating a significant exposure to potential UK-EU trade barriers.

"Eighty per cent of the products we work with today are from the EU. We couldn't go to other parts of the world and source the same, or similar products. For us, it is essential that we can continue to work with suppliers in Europe without financial or operational impact. The fact that at present, we can collect goods from all of our European partners with ease is a fantastic thing. Under the current proposals it won't be that easy and it's likely that we will have to hire more people or incur additional costs from our transport partners, making us less competitive."

Daniel Gay, Managing Director, Coexistence

[17] Other more indirect impacts include wider effects on the UK economy that would affect London businesses as well as effects on businesses that do not trade directly with the EU but have EU companies in their supply chain.
[18] For more information, please see the Chamber.Online *'Terms of Trade'* campaign at https://chamber.online/brexit-eu-negotiations.
[19] The UK's fall-back option if no new deal with the EU is agreed, which would mean that exports to the EU are subject to the same customs checks, tariffs and regulatory barriers that the UK and EU currently charge on trade with countries such as the US.
[20] Cebr (March 2018) *Brexit and the Metropolitan Areas: Impact of potential Brexit scenarios on Greater London, Greater Manchester and Greater Bristol*, p. 5.

Businesses with exports to the EU could be affected directly by any UK-EU trade barriers that could be introduced post-Brexit, as could London businesses that are currently benefitting from the trade agreements the EU has signed with more than 70 countries around the world.

To avoid such negative impacts, LCCI has been campaigning for positive new trade arrangements with the EU, while keeping tariffs on trade with the bloc as low as possible and minimising non-tariff barriers including customs procedures and documentation, as well as divergence of standards and regulations.

This position is strongly supported by London business leaders. For instance, in the first quarter of 2017, 70% of London businesses indicated that they consider it important to minimise customs procedures on trade with the EU post-Brexit, including 36% that consider it very important. Similarly, minimising licencing requirements (68%) and potential restrictions on the quantity of goods (66%) were deemed important to the UK's Free Trade Agreement.

These are all factors that need to be considered when setting up the new arrangements with the EU. In addition, leaving the EU could create significant opportunities to increase trade with the rest of the world, through new trade agreements.[21] However, for this to be the case such deals should be agreed in addition to, not instead of, comprehensive trade arrangements with the EU.

"If it is made more difficult to buy from us, our EU customers could easily buy from other security equipment distributors based in the EU. The problem for us is not just tariffs or duties, but rather the increase in required export paperwork which would be a huge burden. The amount of extra work that could be involved in processing orders to the EU is massive. Already, we have recruited another person into the team, who is an expert in export documentation. And although we feel that might be an overkill, it is actually better to have someone trained and in place rather than risk not having someone when the Brexit decisions are made."

Peter Ball, Divisional Director of Sales-Export, Norbain SD

Finally, it will be important to consider the benefits of trade agreements the EU has signed with more than 70 countries around the world, and to seek a 'grandfathering' approach towards those, to ensure that post-Brexit, London businesses can continue to trade on preferential terms.

Regulations and standards

London businesses in principle support the concept that the UK should 'take back control' over UK laws after Brexit. In the first quarter of 2017, almost two thirds (63%) of respondents agreed that it was important to the new UK-EU trade agreement that the UK controls the extent to which UK businesses have to comply with EU product standards in the post-Brexit period, while 25% considered it unimportant.

Whereas the analysis that LCCI commissioned from Cebr also asserts that the UK could benefit from Brexit-induced deregulation,[22] care must be taken when changing laws and regulations after Britain leaves the EU. Access to the EU market will inevitably also be altered if the EU no longer recognises the UK's regulations.

This is not just relevant to manufacturers and exporters of goods – which are of course impacted by product standards – but equally to services exporters. For instance, in the second quarter of 2018, considerable numbers of exporters working in the services sector reported they would be negatively impacted if there were limits to the recognition of professional qualifications (28%), or intellectual property rights (26%) between the UK and EU, whilst also expressing concerns about barriers to the free flow of data (39%) and constraints to selling services in the EU without being based there (43%). The new UK-EU arrangements would have to address these concerns.

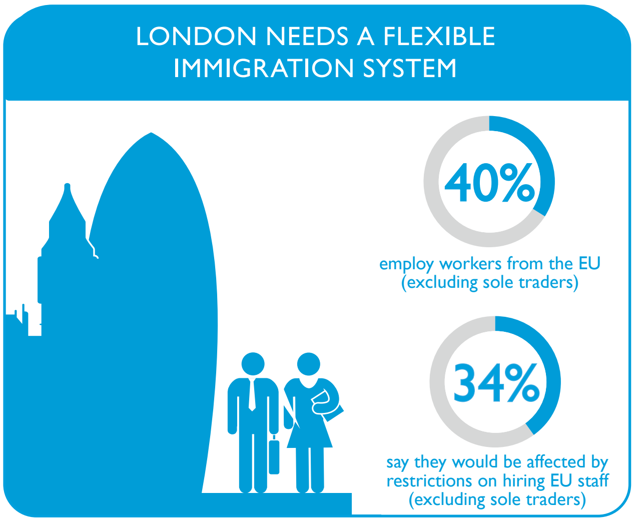
Finally, there is a range of other areas where common regulation and recognition are required, for example in relation to aviation, specific sectors, transport and to enable and protect investments either side of the Channel.

"With barely nine months to go until Brexit day the continuing uncertainty about the future economic relationship with the European Union is the single biggest commercial risk for businesses with European suppliers and customers. There is urgent need for clarity on what all parties in the supply chain will need to do, in order to ensure Britain can keep trading smoothly with its biggest export market once we leave. Political posturing is no substitute for commercial confidence."

James Hookham, Deputy CEO, Freight Transport Association

EEA membership could in theory achieve most of this, but the UK Government has already ruled that out as an option.[23] In some areas, 'mutual recognition' or 'equivalence decisions' could also provide a solution but there would be risks attached, and options for divergence from the EU rules would remain limited.[24] New and creative solutions need to be found that go beyond those options, while it should also be recognised that limiting divergence from many EU regulations post-Brexit would also provide certainty and could help boost confidence across the UK economy.

[21] This was supported by the report LCCI commissioned from Cebr, which projected that the negative impact on trade caused by leaving the EU could in the long-term be compensated for by new trade deals with emerging market economies.
[22] Cebr (March 2018) *Brexit and the Metropolitan Areas: Impact of potential Brexit scenarios on Greater London, Greater Manchester and Greater Bristol,* pp. 21-22
[23] And would also turn the UK into a 'rule-taker', with limited direct influence on new EU regulations.
[24] Mutual recognition will be difficult to achieve, due to the UK's position to end free movement of people and end the jurisdiction of the European Court of Justice (which enforces the Single Market's rules). Even if the EU would be open to agreeing mutual recognition in some areas, the EU will likely still set strict limits to the scope the UK will have to set its own regulatory standards. In other areas, it may be possible for the UK to be covered under the EU's equivalence decisions, but the range of areas this applies to is limited and can only be extended through new EU legislation or a treaty. Finally, there is a risk that the EU could unilaterally withdraw equivalence, and the potential to alter regulations would still be limited, as the outcomes of the UK's new regime would need to be considered sufficiently similar to the outcomes of the EU's regime. Based on: Institute for Government (November 2017) *Options for equivalence.*



Migration and skills

LCCI's previous two Brexit reports highlighted migration as the primary concern for many London business leaders following the referendum.

That is why in November 2016, LCCI launched its *Permits, Points and Visas* report, offering practical proposals to secure workable immigration policies for post-Brexit London. Although there has been wide-ranging support for these proposals.[25] LCCI believes **now is the time to act**, and for London's political leaders to prepare for a scenario where the Government would be unable to develop a system that meets London's needs – and **design options for a regionalised approach to immigration**.

The underlying reason is that London remains far more reliant on migrant workers than any other region in the country.[26] For example, ComRes polling for LCCI and London Councils in April-June 2017 suggested that two in five (40%) London businesses (excluding sole traders) employ workers from the EU, often for their skills, education and experience. In addition, a quarter (23%) of respondents said that more than 25% of their *high-skilled staff* were non-UK EU nationals, and 11% reported this was the case for more than half of their workforce.

There are many concerns among London businesses about the impact that a stricter migration system for non-UK EU nationals would have. Concerns over economic growth aside,[27] many London firms believe that an increase in restrictions on hiring non-UK EU staff would affect them. In the fourth quarter of 2017, 34% of businesses (excluding sole traders) said they would be affected. This was 30% among micro businesses with less than ten staff, and 56% among larger businesses.

Similarly, among exporters working in the services sector (polled in the second quarter of 2018), 40% thought that any visa requirements for non-UK EU nationals in order to work and to deliver services in the EU would have a negative impact on their business.

"We have concerns about Britain and London becoming less attractive to overseas students and staff due to lack of financial support and complicated, timely and costly visa application processes. If that does occur Britain's universities will lose out on key talent and will become less competitive."

Sophie Bowen, Chief Operating Officer, Middlesex University

"Being in the hospitality industry our biggest concern surrounding Brexit is the availability of quality hospitality staff. A huge percentage of the hospitality workforce come from outside the UK, so the restriction of movement between EU and non-EU countries will certainly affect us."

Mark Maher, Events Director, Boulevard Events

"The retention of the right of EU nationals to remain and work in the UK after Brexit is a key issue for us, as 15 per cent of our staff and 25 per cent of our volunteers are from the EU, who all help to reflect St. Vincent's Family Project's highly diverse client families and children. Also, losing access to the EU's Erasmus programme would be a challenge for us, as Erasmus students on placements have been a real help for the charity over the last couple of years."

Albie Stadtmiller, CEO, St. Vincent's Family Project

Altogether, it is not surprising that three in five (60%) London businesses believed that minimising restrictions to the free movement of workers between the UK and the EU would be important for the UK's future agreement with the EU, when asked in the first quarter of 2017.

The analysis LCCI commissioned from Cebr reached similar conclusions, listing the potential loss to the service sector due to reduced migration as one of the biggest Brexit related risks for London. Specifically, the report estimated that a no deal scenario (assuming a reduction of migration to the tens of thousands) could leave the London economy almost £7 billion a year worse off after a 15-year period. Additionally, a Canada plus model, allowing for some agreement on migration, would also have negative implications. A liberal migration policy could help counteract this and minimise losses from abandoning the free movement of labour from the EU.[28]

While the long-term solution to addressing London's labour and skills needs must include upskilling the resident labour force, it is clear that London businesses must also have access to overseas workers with the skills their businesses need to grow and succeed.

[25] For example, the final report of the APPG on Social Integration's inquiry into the integration of immigrants (June 2017) built on LCCI's proposals to conclude that the government should consider creating a certain number of region-specific visas (p. 29) and the House of Lords Economic Affairs Committee inquiry on the impact of Brexit on the UK labour market (July 2017) explained: "we are persuaded there may be some merit in a regional immigration system for Scotland and London" (p. 32). The Mayor of London's *Immigration: a Future Approach report* (October 2017) commented: "The City of London/PwC and the London Chamber of Commerce and Industry published reports last year on how regionalisation might be developed [which] were useful contributions in starting a wider discussion on how London, and other areas of the country, can remain open to talent and skills" (pp. 11-12).

[26] Cebr (March 2018) *Brexit and the Metropolitan Areas: Impact of potential Brexit scenarios on Greater London, Greater Manchester and Greater Bristol*, pp. 21-22.

[27] For example, in the last quarter of 2016 of the *Capital 500*, half of London businesses (52%) reported that they expected a decrease in the level of immigration to London would have a negative impact on economic growth.

[28] Cebr (March 2018) *Brexit and the Metropolitan Areas: Impact of potential Brexit scenarios on Greater London, Greater Manchester and Greater Bristol*, pp. 21-22.

Given London's reliance on foreign labour, it is vital that London will get the flexible migration system it needs post-Brexit. An important step to achieving this could be the introduction of a Capital Work Permits system, to provide controlled access for future migrant workers and meet London employers' need for skilled labour. In addition, a Shortage Occupation List for London (LSOL), like Scotland already has, should be introduced to make it easier for London businesses to attract the skills and talent necessary to ensure the long-term sustainability of the capital's economy.[29]

Recommendation: *With the clock ticking on Brexit, LCCI urges the Mayor to look at drawing-up a template for a dedicated Shortage Occupation List for London (LSOL) – like Scotland already has – and to convene the capital's civic and business leaders to design a proposal for a future work permit system for our capital*

IMPLEMENTATION

Once the new UK-EU agreement has been established, care must be taken to ensure it is implemented in an effective manner, providing businesses with **sufficient time and support to adapt to the changes**. For example, in the second quarter of 2017, two thirds (67%) of London businesses said that the change from the old to the new agreement should happen gradually, over the course of a few years once the UK-EU trade deal is agreed on.[30]

In addition to time, many businesses will need practical support to make the required changes. In the second quarter of 2018, 33% of London businesses reported they would need external support to work out and/or implement adaptations to their business for at least one of the changes to trade with the EU post-Brexit that were tested (rising to 55% among those who would be affected by at least one of those changes). This percentage was the highest for potential changes to data regulations between the UK and EU (24%), followed by VAT legislation when selling into the EU (21%) and limitations on access to the EU's current free trade agreements with non-EU countries (21%).[31]

Since the referendum outcome, LCCI has been calling on the on the Mayor to liaise with LCCI and other business groups on creating a **Brexit Help Desk resource**.

"What is happening now with Brexit, is that we're being sent a lot of information. But as a small business owner, you just don't have time to read up on all of that, you're just too busy. What a small SME actually needs, is not just off the shelf information, but information that is tailored to you. We need practical advice – this is what you should do: from step one, to step two, to three. And not just that; as a small business you will eventually need practical support to make it happen. With information alone, you are not going to get it done."

Kennedy Zvenyika, Managing Director, GIC Capital

In anticipation of the impacts of Brexit, it is more important than ever that London businesses have access to the information they need on topics like customs and migration, as well as the more complex areas that Brexit may affect including contract law, intellectual property rights, origin documentation, VAT and which regulatory agencies businesses should work with. LCCI is concerned about the lack of progress in this area, while the needs for information and advice are abundantly clear.

Recommendation: *The Mayor of London should look to minimise insecurity for London businesses by liaising with LCCI and other business groups on creating a Brexit 'Help Desk' resource to offer advice and information to London businesses*

Capitalising on new opportunities

Finally, London businesses will need support to capitalise on the opportunities to come out of Brexit, including as a result of new trade agreements with countries around the world. Many of them want to increase their exports, but face barriers to doing so. For example, ComRes polling in the first quarter of 2018 indicated the following are the main barriers among London exporters:

- difficulties finding overseas customers, agents or distributors (38%);
- the cost and quality of international transport connections (20%);
- difficulties sourcing the required marketing information or identifying export opportunities (15%); and
- lack of access to labour with the appropriate skills to enable further exports (also 15%).

LCCI has been facilitating international trade since 1881, and knows from experience that it is vital to actively encourage and support businesses, SMEs in particular, to engage in international commerce to help build a strong and prosperous UK economy. Given the number of barriers that businesses face, in terms of both costs and lack of information, there is undoubtedly an important role to be played by the Department for International Trade (DIT), as well as other trade-supporting bodies, to make the most of the opportunities to increase trade with the rest of the world that Brexit will offer.

Recommendation: *In light of Brexit, the Government should consider stepping up efforts to support exports growth, including through subsidised trade missions and increased funding for the Department for International Trade (DIT)*

[29] For more information, please see LCCI's November 2016 report *Permits, Points and Visas: Securing practical immigration for post-Brexit London.*
[30] When asked about the *most important* areas to implement these changes gradually, London businesses most commonly selected EU directives and regulations that affect UK businesses (24%), tariff and non-tariff trade barriers (21%) and immigration (13%).
[31] Other tested areas were the introduction of tariffs on goods when selling into the EU (19%), a need to amend existing contracts that make reference to the EU, the UK's EU membership or rely on EU regulation (19%), the introduction of licensing requirements when selling specific goods into the EU (18%) and the introduction of proof of origin requirements when selling goods into the EU (15%). Between 21% and 27% of businesses that would be affected by each of the changes to trade said they would need support both to work out and implement the adaptation required, while between 17% and 24% said they would be able to work out the changes required but would need support implementing these.

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