MOVING TOWARDS BREXIT

London business views one year on from the EU referendum

June 2017
A year has passed since the UK voted to leave the European Union (EU). Since then, it seemed that some questions and queries had been answered – with Article 50 triggered and the UK due to leave the EU on 29 March 2019. A Government White Paper was published outlining a direction of travel for Brexit negotiations and the UK’s future relationship with the EU. Ministers confirmed the UK would leave the single market and, most likely, would not remain in the customs union. However, the result of the recent general election may impact upon that stance.

Last autumn, LCCI’s first post-referendum report noted there was no sense of panic among the capital’s firms.1 Overall, that remains the case. Last autumn, we also said that, to provide an element of reassurance to business, clarity on whether, post Brexit, it should be a ministerial priority to amend or repeal EU-related legislation or let it remain on the statute book, would help future business planning.

While the Government has announced intentions for a Great Repeal Bill to transfer EU-regulated legislation into UK law, ministers should be aware that this act alone will not ease uncertainty. Business leaders with long-term planning considerations continue to ponder what an eventual deal with the EU might look like, when it may be implemented and how a myriad of rules around migration, regulation, funding and trade will be approached in the months (let alone years) ahead.

For many businesses the top priority is avoiding adding additional barriers to trade after Brexit. Whilst minimising actual tariffs will be imperative, preventing new non-tariff barriers will be no less important – including in relation to procedures, quotas and product standards. If customs procedures between the UK and EU are reintroduced, innovative technological solutions must be considered to prevent queues and costly delays at the points of entry. The UK Government, as well as EU counterparts, will need to invest adequately in the infrastructure required to enable that.

The soundings and surveys undertaken for this report have found that although businesses are in general agreement with the broad aims expressed by our politicians – for example where it comes to pursuing the ‘freest and most frictionless trade possible’, there are also areas of concern requiring immediate clarification.

Take migration. In recent years, the Government has made it increasingly difficult to hire workers from overseas, and further restrictions are anticipated with the end of the free movement of people between the UK and EU post-Brexit. Although of course businesses have an important role to play in up skilling the domestic workforce, this will take time, not least in London which has a historic and unique reliance on workers from overseas and where there are already chronic skills shortages. We must ensure employers can continue to hire workers from the EU – not just ‘the brightest and best’ – but those required to plug the capital’s ongoing skills gaps.

LCCI will continue to work towards realising the best possible outcome for London business from the Brexit process. The priorities set out in this document, based on input from London business leaders from a wide range of industry sectors and company sizes, aim to contribute towards that goal.

Colin Stanbridge, LCCI Chief Executive

OVERVIEW

This report marks the one year anniversary of the UK’s referendum on EU membership, held on 23 June 2016, with a focus on what London businesses expect and need from the Brexit process for the future. Following our soundings of London business leaders in summer 2016 and our subsequent report, LCCI has held roundtable discussions with capital businesses in spring 2017.

LCCI also commissioned polling agency ComRes to survey London businesses about Brexit and the UK’s relationship with the EU. ComRes interviewed 504 London business decision makers between 14 February and 2 March 2017, 502 London business decision makers between 2 November and 22 November 2016 and 504 London business decision makers between 3 August and 31 August 2016. Data was weighted to be representative of all London businesses by company size and broad industry sector. Any polling data reproduced should be fully referenced.

ComRes is a member of the British Polling Council and abides by its rules. Data tables are available at www.comresglobal.com.

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GENERAL SENSE OF DIRECTION

Our first Brexit report found that, in the wake of the referendum result, London businesses were taking a pragmatic and level-headed approach to Brexit. One year on from the referendum that remains the case. The latest LCCI Capital 500 Quarterly Economic Survey published in April 2017 found that more businesses are increasing, rather than decreasing, their investment in training, and in plant and equipment. London businesses are also, on balance, confident about their turnover and profitability prospects. Several roundtable participants confirmed this, citing improved business performance and continued recruitment over the past year.

Changes in the value of the pound since the referendum have had an impact on London business, although experiences vary. While several exporters reported a bumper year, importers, in contrast, had often seen their costs rise. Overall, many roundtable participants mentioned an increase in costs (related to Brexit or otherwise) – something they have not always been able to (or want to) pass on to their customers.

Yet, the consistent theme from businesses was uncertainty, with the status of existing EU national employees chief among their concerns. In this respect, little has changed since our soundings of London business leaders taken in the summer of 2016. Business leaders in our roundtables noted that they continued to face uncertainty, but are finding ways to deal with it. At the same time, they do want to see matters progressed, so they can go on with their everyday business.

“What worries me about the current situation is that we’ve had nearly a year of uncertainty and we haven’t even started negotiations yet. So, we’ve got another two years of uncertainty as a minimum, possibly even longer if we get interim arrangements, and that is affecting my business. If you know what the future holds you can plan for it. I would like to see it settled.”

Timelines are a concern. Although it would be preferable if a new trade relationship with the EU is agreed simultaneously with the UK’s exit arrangements by March 2019, it is by no means certain this can be achieved. Businesses need to be informed about any changes that can be expected as soon as possible, and serious thought needs to be given to what arrangement or set of arrangements may be required until any final agreement is achieved – be it an extension of the current arrangements or an interim deal. Any such agreement should be implemented gradually, to ensure businesses have time to adapt.

Although negotiations with the EU27 will inevitably have an impact on the future prosperity of both London and the UK, there was broad agreement among roundtable participants that Brexit should not distract from addressing the capital’s pressing domestic economic priorities, including the need to upgrade the capital’s transport and housing infrastructure, improve training provision and create a competitive business environment in the face of rising costs. Tackling these domestic ‘fundamentals’ is even more important as we head towards Brexit, after which the UK must stand as an attractive partner for new trade deals and inward investment.

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.

The Government should commit to progressing London Strategic Infrastructure Projects (LSIPs) including Crossrail 2, fixed river crossings in East London and a new runway at Gatwick, after Heathrow.
IN THEIR OWN WORDS

“As a civil contractor, we import the materials we use from Europe, so the effect of Brexit on the pound was immediate for us. Unfortunately, we haven't really found a way to pass that 10-15 per cent price hike on to our principle contractors. We've had to stay commercially nimble to counter the impact of Brexit thus far.”

Pieter Mayer, Director, Oxford Hydrotechnics

“We have benefitted greatly from the decline in the value of the pound, because we export all over the world, mainly billing in US dollars.”

Anthony Gould, Executive Chairman, RussiaTeleRadio Worldwide

“We work in property, and property is a very risk-based decision making process – so the uncertainty around Brexit has been unhelpful. The risk decision for the contractor has created price pressure with uncertainty on exchange rates and future labour supply. The purchaser’s risk evaluation has impacted sales volumes especially at the higher end and the risk decision for our lenders has led to an increase in interest rates. All this uncertainty is manageable but creating a much tougher environment for property development.”

David Clark, CFO, Anthology

“EU nationals play a key role in the logistics sector, comprising 13% of truck drivers, 26% of warehouse workers and 9% of van drivers. These people are hugely important to our workforce but there are fears that some are already beginning to move back, due to uncertainty created by the Referendum result.”

Natalie Chapman, Head of Policy – London, Freight Transport Association

“We have been faring pretty steady since the referendum, but we have been seeing an effect on the commercial side where a couple of transactions have been pulled by the European investors behind it. They have decided they do not want to invest in UK companies at the moment, and a large part of that is the uncertainty about what the position is going to be around EU workers.”

James Simpson, Partner and Head of Employment, Blaser Mills LLP

“We have been hugely affected already. Normally we have three to five construction contracts on at any one time. In 2016, our last construction contract completed in March, and despite many tenders we had neither an award or indeed a decline until the end of July. So, we had nothing at all for nearly four months. The absolute reason for this was the inability of anyone to see past what was going to happen and therefore we waited for things to play through.”

Will Tyler, CEO, Octink

“Traditionally we’ve been recruiting people who come from other EU states, to plug a skills gap here in London, and what we’ve seen since Brexit is a complete change in the geographic profile of the people we’re bringing in. A lot of people from Poland, the Baltic states have dropped out from our application base and they’re not being replaced.”

Colin Campbell-Dunlop, Business Development Manager, Project Recruit

“There is a big point about timing. Many of the businesses I work with are strategising for a three and five-year period, therefore all decisions affecting the next two years’ period of Brexit negotiations have already been taken some time ago. The uncertainty is, whether these decisions prove to be correct or to what extent businesses can influence a change to align a deal to the course they set for their business. Also, the impact of the present uncertainty will only be seen in three to five years.”

Manuela Schramm, Account Manager, Electrosonic

“There is a difficult side to this, when I go back to my colleague who is trying to develop all these residential properties and I tell him that bricks, glazing, cladding, and all the other materials we have to import to build the majority of the project we deliver these days, is going to cost around 15 per cent more. Then, I have to explain that you have also got to make your development margin and make a profit, the figures do not stack up.”

Rennie Dalrymple, Joint Managing Partner, Bruceshaw

“Part of what we do is to sell software licences. After the referendum, the pound slumped and many of our US-based suppliers made a decision to increase subscription prices, for cloud-based software and services, and this has had an impact. But overall, the effect on my business has been minor – so far.”

John Odam-Adjei, CEO, Medasi

“We saw a slight dip before the Brexit vote, and I think that was just uncertainty – people holding off. I think that after the Brexit vote, there was a rush of work, and it has stayed fairly steady for us since.”

Steven Hale, Director, Crofton Design
TERMS OF TRADE AND INTERNATIONAL OPPORTUNITIES

Following the referendum, the Prime Minister declared that post-Brexit she wants the UK to leave the single market and customs union and instead pursue a new strategic partnership with the EU that would include an ambitious and comprehensive free trade agreement (FTA) and a new customs agreement.

There was consensus among roundtable participants that if the UK leaves the single market and customs union, agreeing a new deal with the EU should be a priority. As one participant argued, “there simply needs to be a deal, otherwise there will be an impact on the economy as a whole. Prices will go up, and there will be a ripple effect through the economy”. Another added: “the EU is our biggest market, and cannot just be replaced by other ones. There must be a deal with the EU.”

The EU is the UK’s biggest market, and UK businesses are part of value chains stretching across the continent. Any increases in trade and investment barriers will harm UK business, as well as current and future EU-UK trade and investment flows. Polling among London business leaders in August 2016 highlighted this, with many businesses citing minimising tariffs and non-tariff barriers as their two highest priorities.

Non-tariff barriers

Roundtable participants agreed that minimising tariffs was an important priority for the negotiations. However, more concern was voiced over potential non-tariff barriers, primarily customs procedures and documentation, product standards and regulations, but also quotas, import/export licensing, and future rules of origin requirements.

“The difference in price between the UK and let’s say Belgium or Germany is marginal. But if you start shifting, for example, the tariff situation it becomes quite significant, and then you may move the plant somewhere else.”

70% of London businesses believe that it is important to minimise customs procedures on trade with the EU, compared to only 17% who classify it as not very important or not important at all. 68% said minimising import/export licensing requirements was important (16% disagreed), and 66% thought the same of minimising restrictions on the quantity of goods that can be traded with the EU (while 21% thought it was unimportant).

Roundtable participants cited the growing reliance on just-in-time deliveries which require customs procedures to be kept as smooth as possible. If customs procedures between the UK and EU are reintroduced, innovative or technological solutions will need to be considered to enable this to be done online (or otherwise equally quickly), rather than at ports of entry. In addition, the UK Government – as well as its EU counterparts – will need to invest in the necessary infrastructure to enable that.

“It’s the way that the supply chain is now set up – very much ‘just in time’. There is not a lot of stockholding. When we had disruptions at the Channel in summer 2015 we had many people switch to airfreight, although it was a huge additional cost, but timing was so critical there. Tariff free, quota free trade is really important, but we also need frictionless trade, and making sure we’ve got just as smooth a process as possible.”

Customs procedures are not just a timing issue; for businesses, they are also a cost factor. Several exporters worried their workload will increase if their employees have to start filling out customs forms: “You don’t want to have to employ people to fill out customs forms. Firstly, there is lack of skills to do that. Secondly, it will cost us. The deal that we need to have is frictionless trade.”

Chambers of commerce and their member businesses have considerable expertise with customs and other non-tariff barriers that can be drawn from when a new system is designed. Any new system must be practical and business friendly, and work towards retaining the UK as a distribution hub for the EU.

The Government should prioritise keeping tariffs on trade with the EU as low as possible, and focus on minimising non-tariff barriers including customs procedures and documentation, quotas and divergence of product standards and regulations.

An enhanced system for clearing customs that allows pre-clearance away from the ports or points of entry must be designed and adequately resourced.

Future customs procedures should be developed in partnership with chambers of commerce and business, and sufficient support must be provided to businesses to enable them to manage any increases in customs requirements.

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4 Department for Exiting the European Union (2017) The United Kingdom’s exit from and new partnership with the European Union, p. 35.
5 ComRes survey for LCCI of 504 businesses, August 2016.
Non-EU trade

In addition to ‘frictionless’ EU trade, there was broad recognition of the opportunities that might come about to increase trade with the rest of the world post-Brexit through new trade agreements. However, to capitalise on opportunities, businesses must be supported practically to take advantage of new opportunities offered to them.

LCCI has facilitated international trade since 1881, through trade missions and other export support. Several roundtable participants raised the importance of private sector trade missions that include practical advice and local knowledge on how to enter a new market, and there was agreement that targeted support via supported trade missions into markets with potential would make a difference to UK exporters, particularly small businesses.

It was also acknowledged that, post-Brexit, it might become more difficult and costly for UK businesses to trade with markets outside the EU, as the UK could lose access to the benefits of trade agreements the EU has signed with about 50 countries around the world. This will be a challenge not only because British companies trade directly with those countries, but also because businesses are involved in value chains across the EU where end-products are sold into these markets.

As duties and restrictions in many countries depend upon the source of imports, it is important to British companies that post-Brexit their share of EU value chains is still considered favourably under the EU’s trade agreements (and vice versa when the UK signs its own deals) – and that there will be no negative implications in terms of ‘rules of origin’ that may make it less attractive to include UK companies in European value chains.

The Government should develop a cross-Whitehall national strategy for exports growth to coordinate relevant departmental policies and outline the role that public-private partnerships can play supporting to greater numbers of UK firms, particularly SMEs, looking at overseas markets.

A ‘grandfathering’ approach towards existing EU free trade agreements should be encouraged and supported to ensure that, post-Brexit, UK businesses can continue to trade on preferential terms.
REGULATION AND FUNDING

‘Taking control’ over UK laws is a priority for the Prime Minister, who has said that it will be the UK’s legislatures and courts that are the final decision makers in our country. This position is backed by London’s business community – almost two thirds (63%) of whom believe that UK control over the extent to which UK businesses will have to comply with EU product standards is important, compared to only a quarter (25%) who believe it is not important. In addition, 60% believe it is important that the UK has control over the extent to which UK businesses will have to comply with EU employment law, while 27% consider this unimportant.

However, care must be taken when changing laws and regulations post-Brexit. To sell into the European market, compliance with EU product standards will likely remain a requirement and, over the years, many non-EU countries have also adopted the EU’s standards. As one roundtable participant highlighted: “We can’t sell anywhere without EU certification for our clothing. That’s across the Middle East. Everyone defaults back to the EU regulations”.

Moreover, Brexit is already causing uncertainty to business, and changing the regulatory environment would only intensify that. Businesses highlighted that whilst there may be regulations that they could do without, the immediate priority for many is regulatory stability and avoiding new impediments to trade resulting from Brexit:

“The government seems very interested what EU legislation we want to get rid of, the ‘EU red tape’. And actually, that is very far down on our list of priorities – and it is actually not a lot. That is not the big issue. The big issue is about the frictionless trade, and skills. Bureaucracy at a minimum, no delays at ports, tariff free access, quota free access.”

Transport and aviation

The UK airline industry is inextricably linked with its EU counterparts and has the freedom to fly within Europe through the EU’s single aviation market. The EU’s deregulation of the air industry in 1992 has enabled significant growth of UK aviation industry over the past two decades, and has strengthened London as a global hub for air traffic, underpinning the capital’s growth and success.

“In order to trade, people need to be able to get to their trade partners. The cost of that drives up very quickly if there is no agreement. Teleconferences and videoconferences are brilliant, but they are complementary to actual travel.”

To ensure minimal disruptions to air travel post-Brexit, the UK will need to negotiate access to the single aviation market as a priority in the Brexit negotiations (as well as access for EU airlines to the UK). For flights to non-EU countries the UK will need to negotiate to retain or replace agreements with countries that currently have air transport agreements with the EU.

Beyond aviation, there is a substantial body of EU law covering the transport sector, including road, rail and maritime transport. When the UK leaves the EU, finding agreement on transport sector regulation should be a matter of urgency.

EU funding

The EU funds London businesses in many ways, including the European Regional Development Fund (ERDF), European Social Fund (ESF) and the European Commission’s Horizon 2020 Programme – for Research and Innovation. This is providing an important source of income for many companies.

“If we leave the EU, at some point we will presumably not be paying anymore into the EU, but then what will happen to funding sources? I think there is a myth that I think will be perpetuated UK Government, that suddenly we’ll be awash with cash – that is not going to be the case.”

The Government has already underwritten EU funding for projects signed before the Autumn Statement 2016, and confirmed that for projects signed after the Autumn Statement 2016 it will “honour funding for projects if they provide strong value for money”. However, that pledge should go further to include all allocated EU funding, to avoid further uncertainty. In addition, in setting up a new system replacing current EU funding, the UK Government should focus on businesses’ needs and priorities, and ensuring programmes and projects are as effective as possible.

Stability of the regulatory environment should be a priority post-Brexit, to create certainty for UK businesses.

Access to the EU single aviation market should be negotiated as a matter of priority, as well as deals with countries that currently have air transport agreements with the EU.

A funding ‘cliff-edge’ for businesses in receipt of EU funding should be avoided. A new system for funding economic development in the UK should focus on businesses’ needs and priorities.

MIGRATION AND SKILLS

Business and academic arguments citing the economic contribution of immigration can fail to resonate with members of the public anxious about perceived impacts on jobs, housing, healthcare and culture of local communities. This is reflected by Government targets to reduce net-migration to the tens of thousands and policies designed to make it more difficult to hire from overseas, e.g. via the introduction of an Immigration Skills Charge levied on employers bringing in a foreign worker under the Tier 2 visa system.

Roundtable participants agreed that London businesses have an important role to play in upskilling the local workforce. One attendee remarked: “What we’re looking for here is the longer term, and that is about the supply of talent … and people who are educated for the appropriate level of skills.” However, it was also emphasised that ‘skilling up’ the local workforce will take time and that there will always be a need to bring in workers from overseas, not least in London which has a unique and historic reliance on foreign workers and which is experiencing chronic skills shortages. Consequently, continued access to labour and skills from the EU and beyond, particularly in the short term, is an urgent priority: “upskilling should be a massive priority, but regardless we will have a gap for a good few years.”

LCCI’s November 2016 report Permits, Points and Visas: Securing practical immigration for post-Brexit London highlights this issue and suggests practical proposals to review, renew and refresh the UK immigration system to keep London and the wider UK, globally competitive in the wake of Brexit. It covers both existing EU nationals within the London workforce, and a flexible system of migration going forward.

Current EU workers

EU workers make a vital contribution to the London and UK economies. A study commissioned by LCCI from the Centre of Economics and Business Research (Cebr) found that:

- Non-UK nationals form a quarter of London’s workforce compared to 8% in rest of the country.
- 15% of the London workforce consists of EU nationals.
- EU nationals contribute more than £26 billion to London’s gross value added.
- 14% of financial sector posts and 30% in construction are filled by EU nationals.
- The departure of EU nationals from the London workforce would be economically harmful, impacting upon key industries and putting pressure on public funds.

To date, the UK Government has expressed a desire to secure the status of EU citizens who are already living in the UK as early as possible. However, for businesses, the lack of a guarantee on their status remains a major concern. Several roundtable participants worried that EU staff they rely upon, and who they had trained over many years, would leave the country. Others said due to the uncertainty, parts of their European workforce had already left.

“We employ EU labour force. When we talk unskilled, some of our guys came to us 10 years ago and they were unskilled. But we invested a lot of our time and money, and now they are some of our best and most skilled employees. It would be a huge loss for us to lose those individuals.”

The Government should recognise the vital contribution EU workers make to the London and UK economy and, working with City Hall, grant indefinite leave to remain to existing EU national employees within the capital via a single-issue ‘London Work Visa’.

A post-Brexit immigration system

Reassuring current EU workers is not sufficient. Strategic decisions need to be made about how Britain will access talent post-Brexit.

Considerable skill and labour gaps exist in a variety of sectors – making access to foreign workers a necessity, particularly in the short term, but also as part of life in a global economy. As one roundtable participant explained: “There is no question that firms are deliberately employing overseas workers because they can’t get British workers.” A representative from the construction industry added: “There is a general skills gap in surveying project management. That’s probably getting more acute. We will look wherever we can find skills.”

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Looking towards the future, it has been suggested that once Britain leaves the EU, EU immigrants might have to enter the UK under the same system that currently applies to non-EU nationals. Cebr has estimated this would be highly detrimental to London: by 2020 London could have lost access to 160,000 migrant workers and there would be a negative impact on economic output (estimated at £6.9 billion) and direct tax contributions (estimated at £2 billion). Instead, a system must be put in place that suits London’s significant skills and labour requirements.

Indeed, twice as many London businesses believe that London should prioritize economic growth – even if that means increasing EU immigration (57%) – than believe London should prioritize reducing EU immigration (57%) – even if that means reducing economic growth (29%). In addition, half of London businesses (52%) believe a decrease in the level of immigration to London would have a negative impact on economic growth.

Migration - the case of international students

It has been estimated London’s 100,000+ international students bring in a net benefit of £2.3 billion per year to the economy, supporting almost 70,000 jobs. Not only is international education a large and (globally) growing industry, international students are also perceived positively by both the general public, as well as London businesses. LCCI’s latest poll found that only 12% of London businesses think that international students in London have a negative impact on the London economy - 72% disagree.

“Students are also customers, they create markets – especially for London. They don’t just work in the service industry and so on, they also spend money.”

Attempts to limit net migration are having a detrimental impact on the UK’s higher education and business sectors. Although international students are characteristically different to migrants, they remain included in the net migration figures. The closure of the Tier 1 Post Study Work (PSW) visa in 2012 has also been damaging. Previously, it allowed international students to stay on and work in the UK for two years after completing their studies, whereas now they can only remain for four months.

“The fact that we are very, very rigid about our visa constraints, and that we don’t allow post study work, are all indicating to international students that they are not welcome here, that they are not welcome to work. Other countries like Canada and Australia are far more attractive destinations in that respect.”

In contrast, three quarters (74%) of London businesses think that when international students graduate from UK universities, they should be allowed to stay in the UK for a period of time, if they are employed; 15% disagree.

There are also real concerns about the ability of EU nationals to come to London to study post-Brexit. For example, in the longer term, it seems likely that EU students must pay the higher fee rates that currently apply to those from outside of the EU. Future EU students may also need to apply for a (short-term) student visa in order to study in the UK – raising further barriers to the growth of international education.

For the medium term, current arrangements for EU students should be maintained.

The Government should remove international students from the net migration calculation and restore a one year post-study work route for non-EEA students after graduation. A simplified and improved visa regime for international students should be introduced.

“We have a chap who works for us who is from Lithuania, and he is the best electronics engineer we have in our workforce. He has enabled us to win work and deliver better solutions for our customers – which of course benefits all other people that work here; that benefits the UK economy. Others can work for him and learn from him. The benefit to the economy as a whole, and to our business is to pick up talent from where it is, because that talent might not exist in the same number in the UK.”

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10 Ibid.
16 ComRes survey for LCCI of 504 businesses, November 2016.
Following the referendum, the Government stated that Britain should be open to the 'brightest and the best'. This is welcome, because positive messages need to be sent that London and the UK remain open to talent if we want to impact positively on future growth and investment decisions. One roundtable participant reported that two very major global clients were already "in the process of offshoring jobs post-Brexit" as they do not know how they are going to fill vacancies post-Brexit. Beyond that, there are real concerns that workers who will be much needed in the UK, may decide not to come to the country despite existing skills gaps.

“Our concern is, both for us, and as a bigger picture for the UK – how our vacancies are going to get filled. What’s going to happen to businesses who need those skills that are not readily available from within – as we’ve seen since the referendum a real drop of people from the EU we are able to bring in.”

LCCI continues to call for a flexible migration system for London, which is based on an assessment of need, rather than arbitrary numbers or caps.

To that end, the Migration Advisory Committee should be tasked with maintaining a separate ‘Shortage Occupation List for London’ (as Scotland has), based on an assessment of London’s skills gaps. This information could be shared, separately, with domestic skills providers to help ensure a domestic pipeline going forward.

This information would also underpin the allocation of ‘Capital Work Permits’ to workers from overseas who would only be able to live and work within Greater London, with permits allocated and administered by a Work Permit Sponsorship body for the London Region.

Precedent exists for ‘regional’ migration systems across the globe, and employers are already tasked with checking a prospective employee’s immigration status. Such a system would also meet concerns about the impact of migrants in other parts of the UK, without choking off the capital’s access to much needed skills and talent.
TRANSITION AND IMPLEMENTATION

Avoiding a post-Brexit ‘cliff edge’ was a top priority to come out of all discussions and roundtables with London business leaders. Post-Brexit, there must be a suitable arrangement in place to regulate Britain’s relationship with the EU, rather than a fall back on WTO rules (the ‘no-deal’ outcome). Should a final, comprehensive deal be in place by March 2019 featuring new trade and customs agreements, this should realistically be subject to a subsequent phase during which any changes are gradually introduced. However, as trade agreements often take many years to be negotiated, it is uncertain this ‘final’ deal can be achieved within Article 50’s two-year timeframe.

As an alternative, roundtable participants raised two options which would — under the right circumstances — offer a workable solution: extending the existing arrangements beyond March 2019 until new EU-UK agreements are settled (ideally as soon as possible); or setting up a temporary arrangement until the new relationship is agreed. In the case of the latter, care would need to be taken so that businesses do not have to make costly adjustments twice: one time in accordance with the interim arrangement and a second time in accordance with the new trade agreement. Consequently, any interim arrangement should in general either be in line with the current arrangement, or already include parts of the final agreement the EU and UK aim to sign — for example in relation to specific sectors.

“What is really important to me, is that when a decision is made — whether that be on travel, immigration, or other issues, then it should be done and dusted, and not mulled over and revisited. We need to know clearly what the new situation is, and then we can make the changes that are required.”

AEMC summit and declaration

One week after Theresa May triggered Article 50, formally starting the UK’s exiting from the EU, representatives from the Alliance of European Metropolitan Chambers (AEMC) gathered in London to sign a declaration committing to work together in the post-Brexit era.

The declaration signed by the attending AEMC members called for a realistic transitional period for Brexit. In addition, the declaration asked for the following key aspects to be addressed in a transitional period, to maintain a successful future European economy:

- Ensuring access to a skilled workforce – securing flexible migration of labour across Europe
- Sustaining commerce – minimising barriers to trade and exports activity between the regions of Europe
- Keeping Europe moving – preserving open aviation and maritime arrangements, safeguarding land transportation links
- Safeguarding innovation – maintaining competitiveness in R&D, science and technology and promoting the circulation of intellectual capital.

LCCI does not want to prescribe what exactly a potential interim arrangement should look like — whether that be a single new agreement, EFTA/EEA membership, or a series of sector or issue agreements – all options should be explored. Similarly, timelines for any interim arrangement (or extension of the existing arrangements) have to be open for discussion. In the end, what matters is that enough time is provided to agree a suitable new deal, and that uncertainty is limited as much as possible, whilst all the while making sure that the Brexit process does not drag on forever.

Whatever changes to the current arrangement will eventually be agreed on, either as part of an interim arrangement or the final deal, changes should be implemented gradually. That is why LCCI, together with the other members of the Alliance of European Metropolitan Chambers (see inserted text box) have called for a ‘realistic transitional period for Brexit’. Businesses can’t make important changes overnight. As one of the roundtable participants explained: “the main thing for us is to ensure there is enough transition time for industry, for businesses, to prepare for the changes.”

“From a company perspective, the time to adjust to changes, for example to similar large scale changes, you need at least two years, three years, to adjust and adapt your profile. It also depends on whether or not you have a zero-tariff position.”

The required transition times will not be the same for every sector or every change to the policy environment. Some changes may require more time to adapt to than others, and how much time is needed will also depend on the deal that is eventually agreed, and specifically how far removed that is from the current arrangements.

Following the exit negotiations, a sudden disruption to the EU-UK trading relationship should be avoided. If a future UK-EU FTA cannot be negotiated within Article 50’s two-year timeframe, a possible solution would be to extend the negotiation period and maintain existing agreements, or if that is not possible introduce a suitable interim arrangement that allows time for a final deal to be negotiated whilst avoiding a ‘cliff edge’.

Business should be provided with clear timelines, so they can prepare adequately for the effects of any changes. Once the new arrangements with the EU are agreed, they should be implemented gradually.

* The AEMC brings together chambers of commerce from 16 major European cities including Paris, Berlin, Milan, Madrid, Brussels, Barcelona, Frankfurt, Dublin, and London. Together, the members of the AEMC represent the interests of hundreds of thousands of businesses from across Europe.