

Brexit – Construction Skills & Products Trade



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What type of Brexit?



What does the Prime Minister Want?

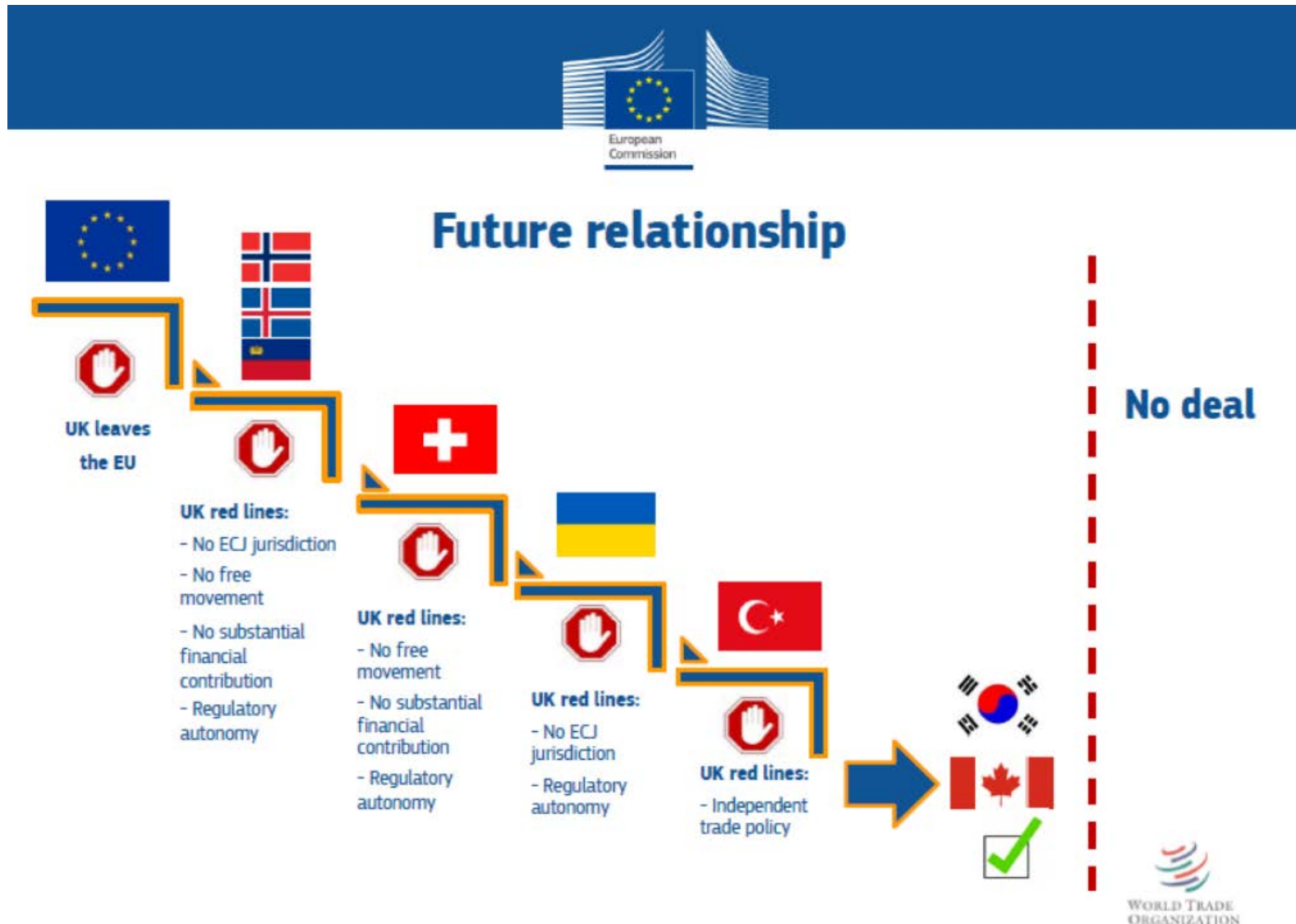
- “Free movement of people will end” but “businesses across the EU & UK must be able to attract & employ the people they need”
- Free trade? “As frictionless a border as possible”.
- “The UK will need to make a strong commitment that its regulatory standards will remain as high as the EU’s”
- “The UK may stay in agencies that are overseen by the ECJ”
- For Theresa May ‘Brexit’ means ‘Brexit but as close to conditions as before as you can get away with’



Brexit White Paper – July 2018

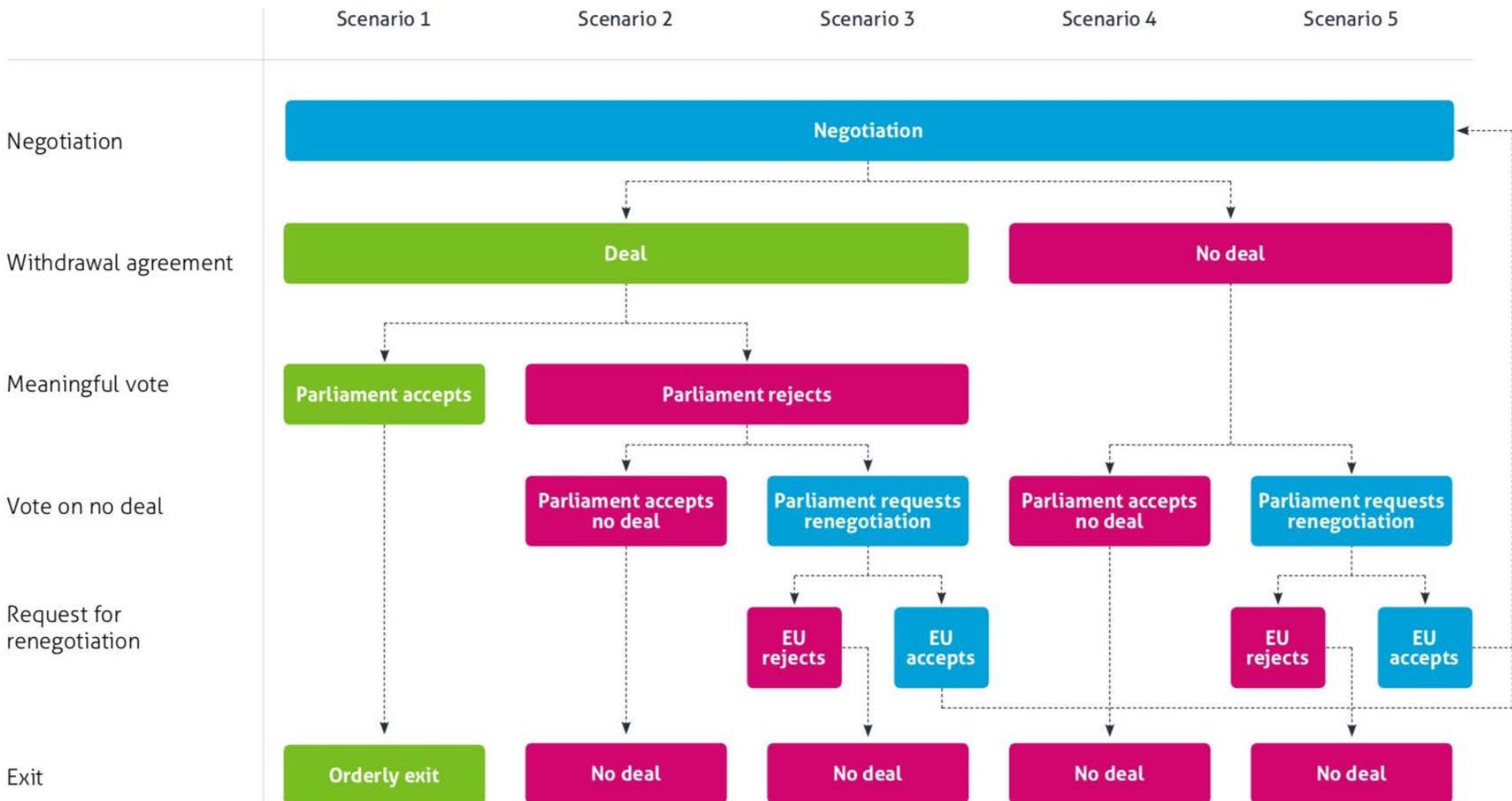
- A Facilitated Customs Arrangement that removes the need for customs checks and controls between the UK and the EU
- Maintaining the UK's status as a 'Standards Maker' not 'Standards Taker' ensuring UK manufacturing goods are recognised across Europe through a single standards model
- Maintaining a common rulebook on regulations with the EU in areas related to ensuring frictionless trade
- EU citizens in the UK by the end of the implementation period able to stay for 5 years to enable them gain residency
- Would the EU accept the proposals?

The European Commission View





Possible Brexit Scenarios

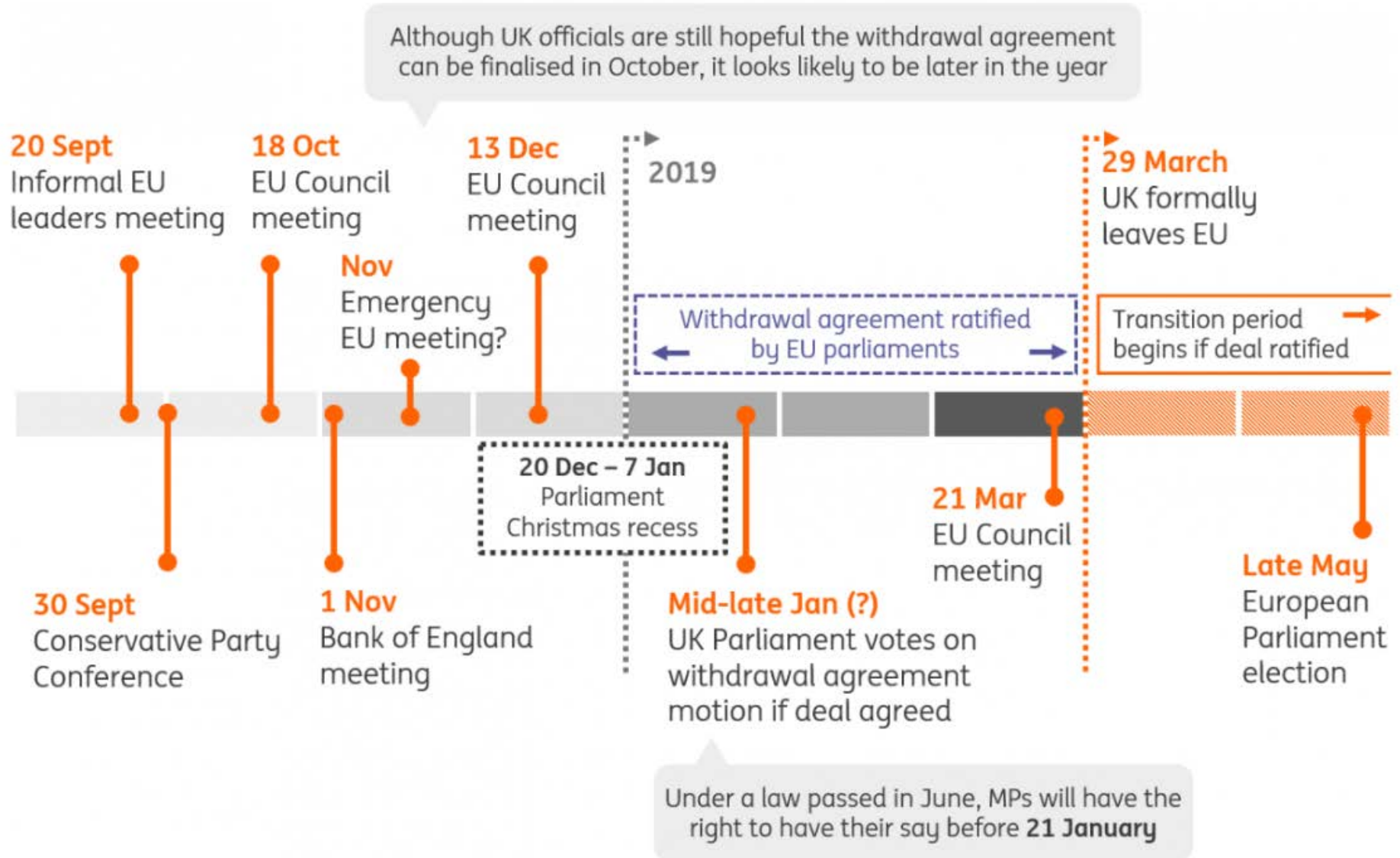




No Deal?

- Media have focused on the possibility of 'No Deal' but government, businesses and households in the UK and EU have not prepared for it
- Both sides may use 'No Deal' as a bargaining chip in negotiations
- The lack of preparation and negative economic consequences of 'No Deal' makes it unlikely
- The likely scenario is that a deal of some sort will be agreed in Autumn to, at the very least, buy time and ensure that UK and the EU enter the implementation period
- If there is to be 'No Deal' it is likely to be through incompetence rather than by design

Brexit Timetable

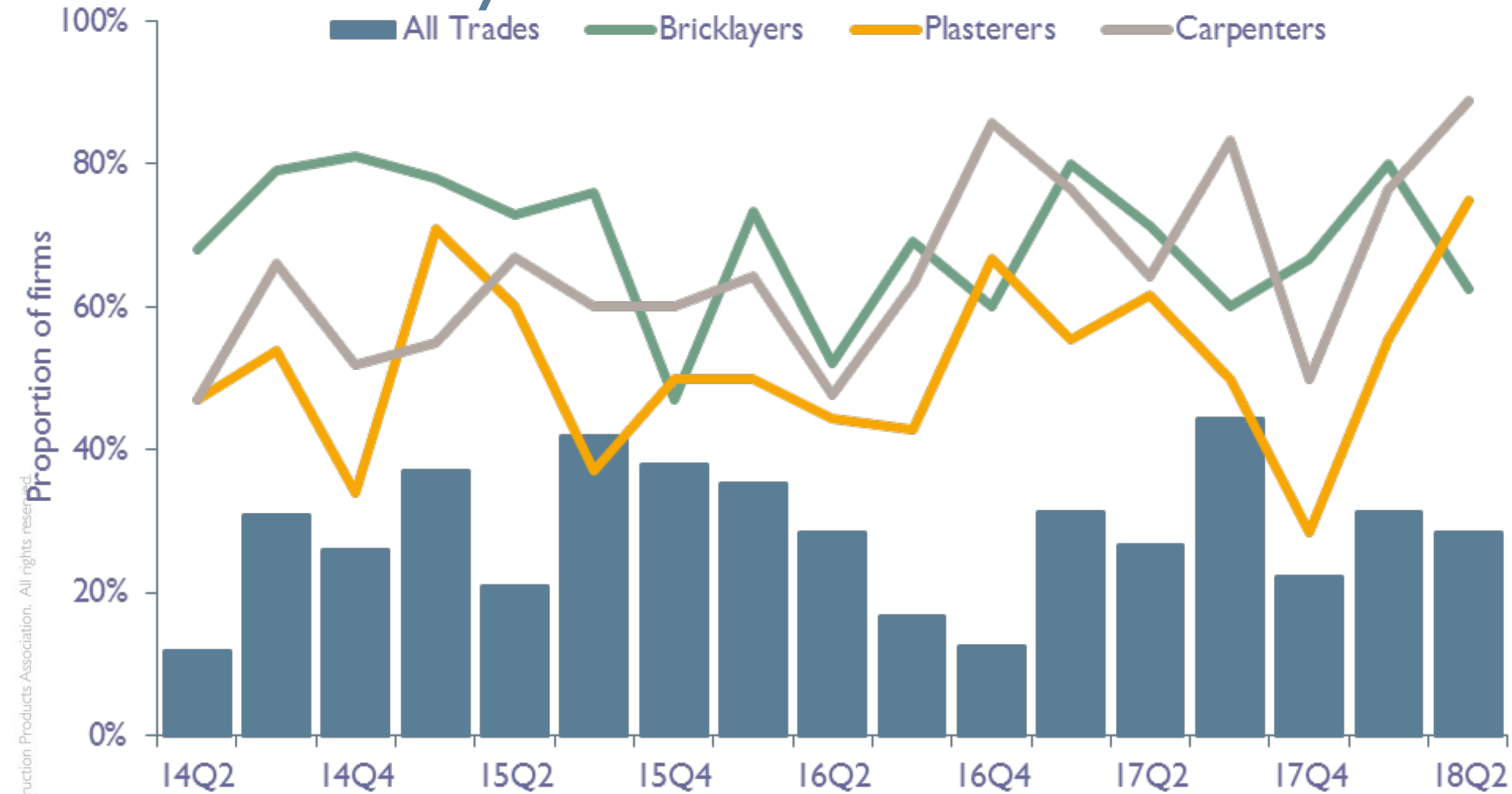




Construction Labour



There is already a skills issue in construction

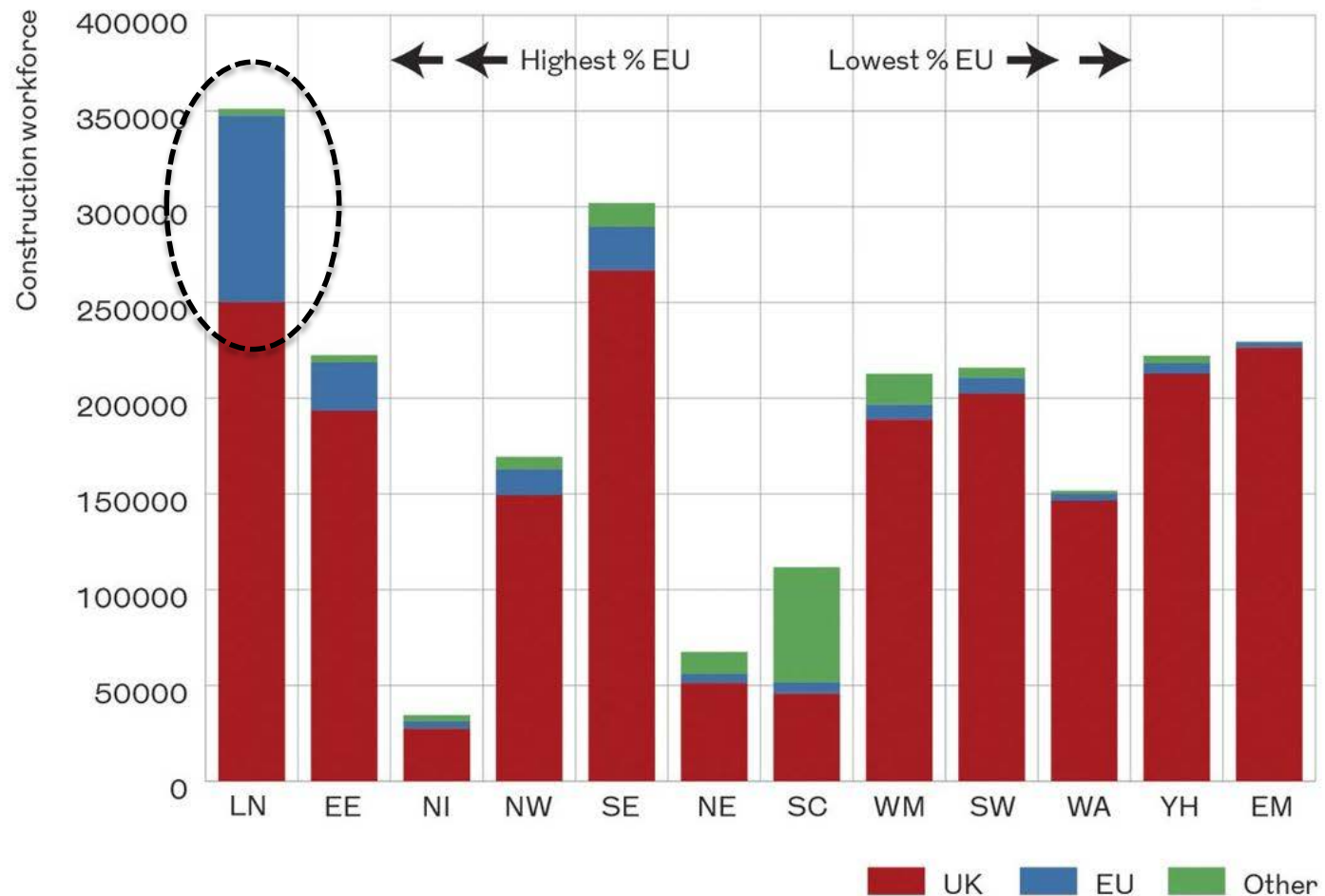


Source: Build UK and NFB



Issues Around EU Workers?

Construction workforce by region and country of birth

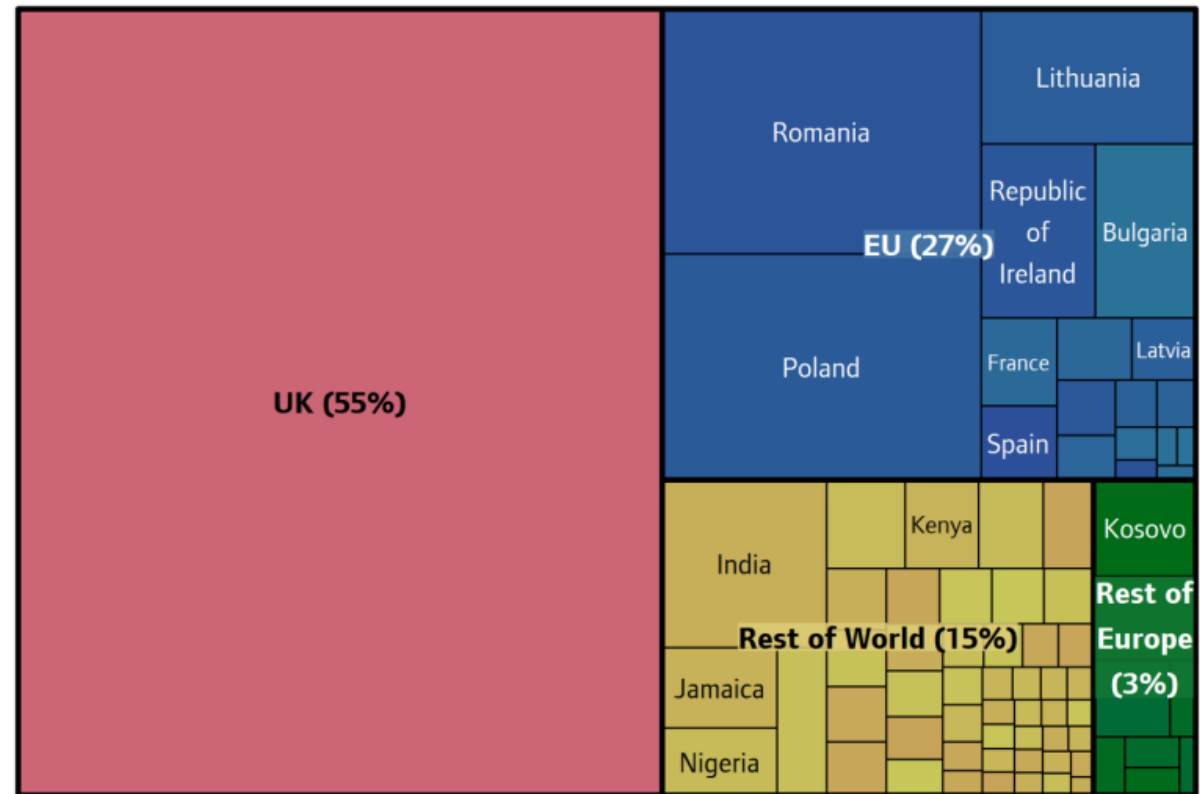


Source: Labour Force Survey 2016 Q3, ONS, NISRA, retrieved via UK Data Archive

Construction Skills Issues

- Reliance on foreign labour in London: 45% from abroad (27% from the EU)
- Anecdotally, construction firms suggest the % of labour from the EU is around 50%-60%

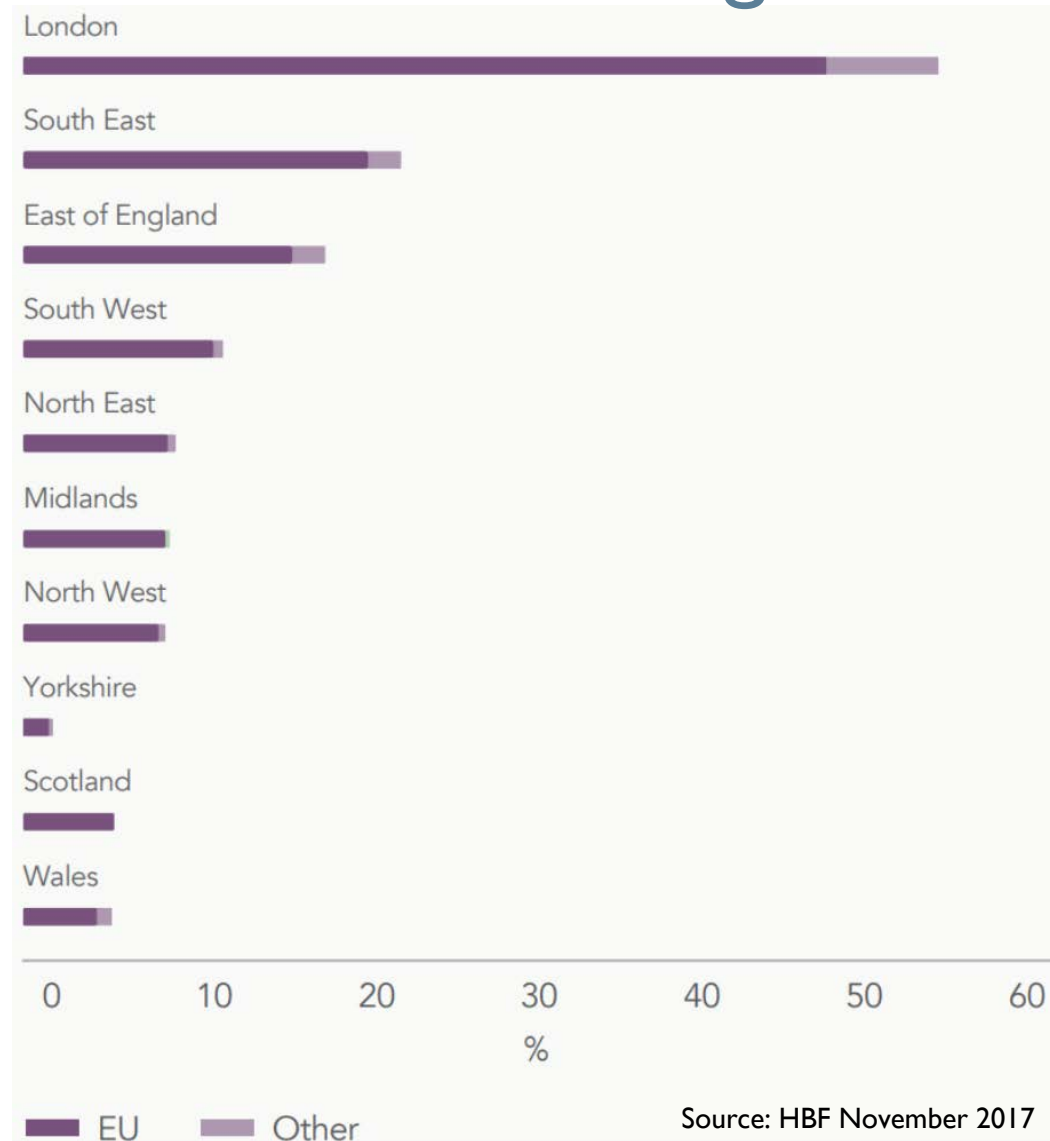
Country of birth of construction workers in London, 2014-16 (Labour Force Survey)



Source
Labour Force Survey data, 2014-16

Reliance on EU Labour in House Building

- Key issues are in London
- 56% of labour in housebuilding in London is from outside the UK
- 49% of labour in housebuilding in London is from the EU

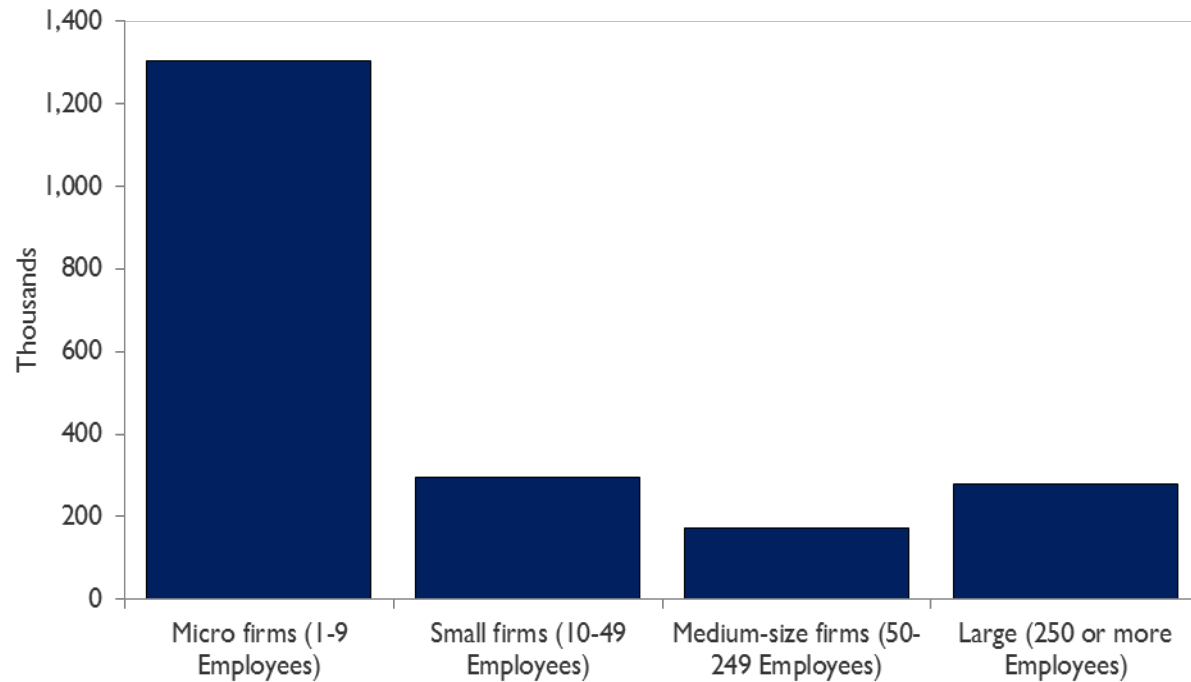


Source: HBF November 2017

How Can SMEs Deal With the Skills Issues?

- 86% of construction employment in SMEs
- Labour restrictions post-Brexit will have financial & admin costs
- SMEs least able to deal with additional resource required

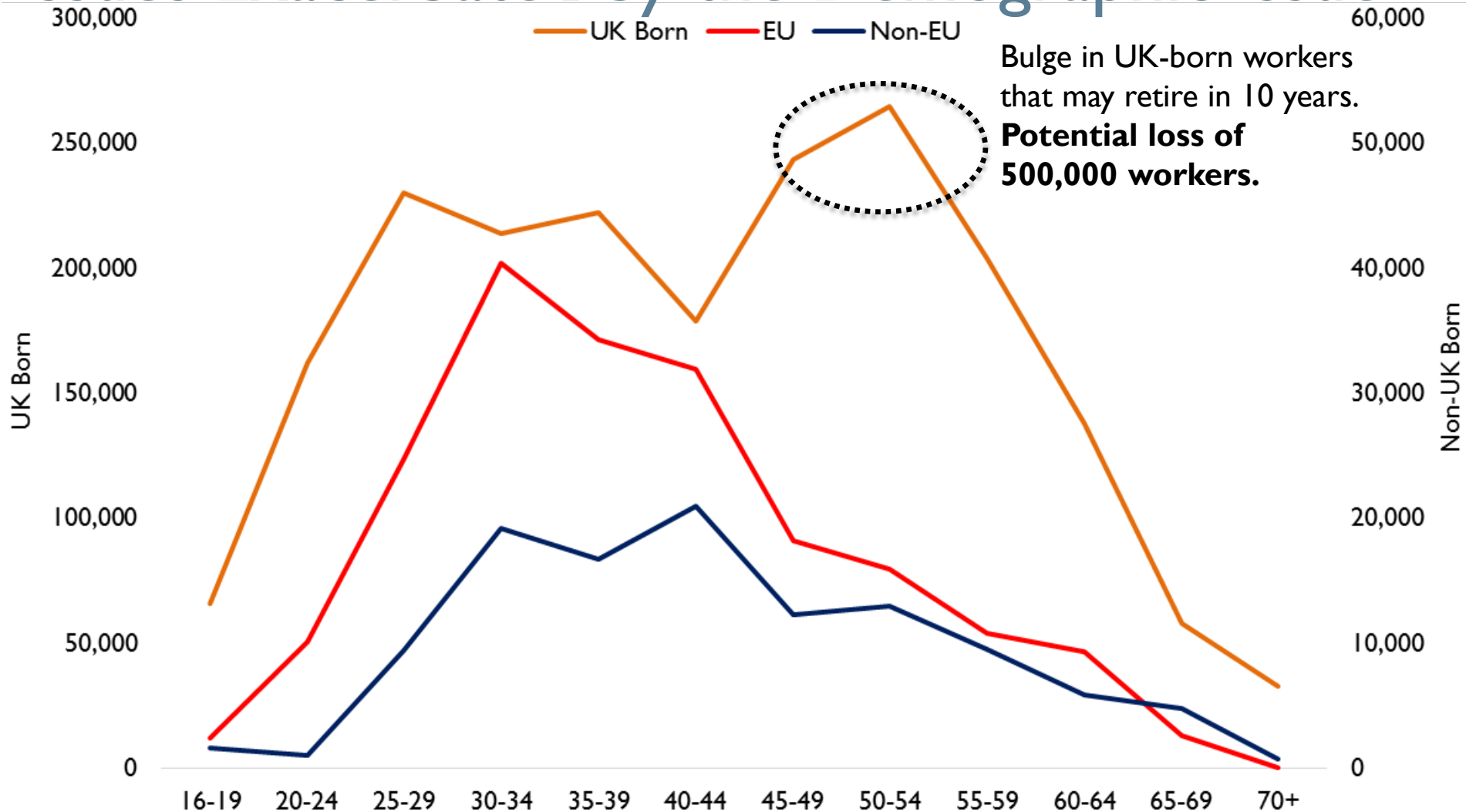
Employment in the Construction Sector by Size of Firm in 2016



Source: BIS



Issues Exacerbated by the Demographic Issue



Source: Labour Force Survey 2018 Q1, ONS



EU Migrant Workers in the UK

- Settled Status – EU citizens that have been in the UK continuously for 5 years (‘continuous residence’) will be eligible for ‘settled status’ in the UK
- Pre-settled Status – EU migrants that have started living in the UK by 31 December 2020 eligible to stay for 5 years to be eligible for settled status.

The documentation and I.T. systems appear fairly logical and easy to use, essential given an estimated 3 million EU migrants in the UK

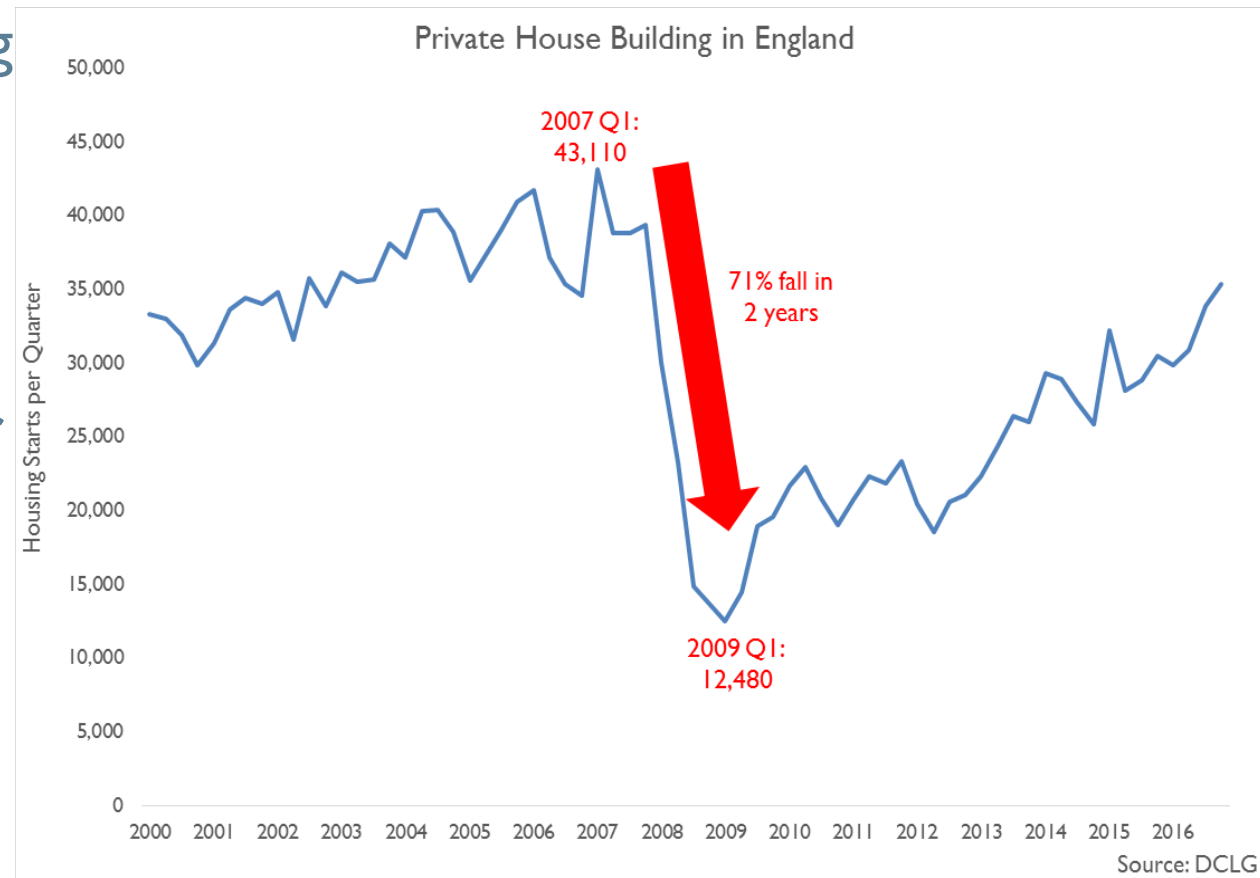


Post-Brexit (MAC Report September 2018)

- Recommendations to Government – the focus is on medium/highly skilled workers (except for the agriculture sector).
- Construction trades classified as ‘unskilled’ so not helpful. Options?
- Tier 2 Visas – conditional on job & generally £30,000 p.a. salary
- Tier 5 Visas – ‘youth mobility scheme’: currently an allocation of 1,000 visas per country for those aged 18 – 30 from eight non-EU countries valid for two years
- The Immigration Minister sees offsite manufacturing as a primary solution but...

Can Off-site Manufacturing Solve Skills Issues?

- Off-site manufacturing is manufacturing... it doesn't like volatile markets
- House building sector has developed to deal with the volatility
- It has potential in niche markets; PRS, Housing Associations





Off-site Manufacturing – Cultural Aspects

	Japan	England
Housing Starts (2013)	980,025	124,960
Demolitions (2013)	121,397	12,060
Pre-war Housing Stock	3.0%	36.8%
% Fall in Starts due to Financial Crisis	37%	71%
Level of Starts after Financial Crisis	788,410	86,130

Japan uses off-site manufacturing to a greater degree esp. for housing

It has a much larger, less volatile house building market

Japan renews its housing stock more often; it demolishes almost as many homes as we build and only 3% of housing stock is pre-war



Construction Materials & Products



Government view: exports Good, Imports Bad

- From the Government Construction Strategy in 2013
- Target – improvement net trade in products and materials

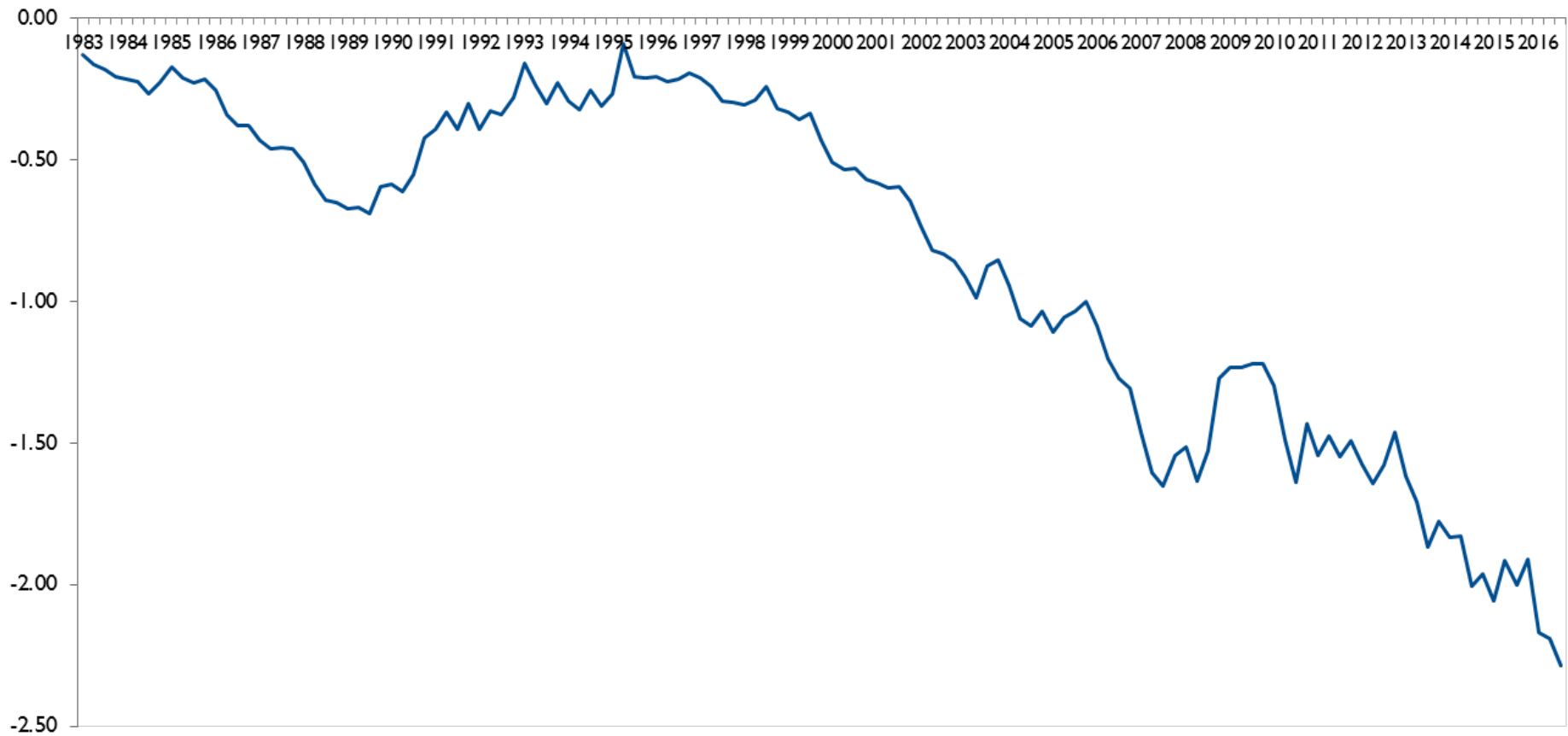
Improvement in exports

50%

reduction in the trade gap between total exports and total imports for construction products and materials



UK Construction Products Trade Deficit

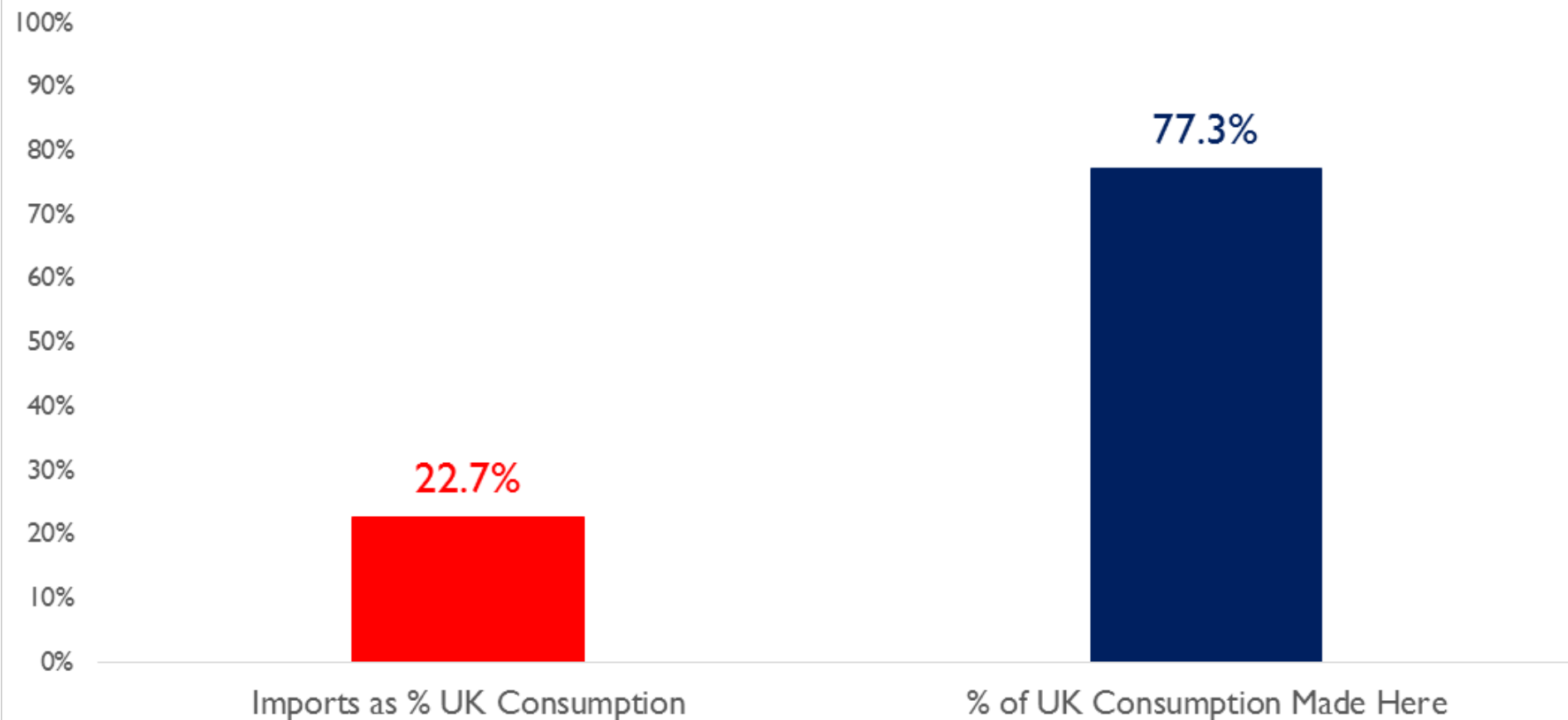


Source: DTI, BERR, BIS



UK Construction Products Imports

Construction Products Used in the UK in 2016

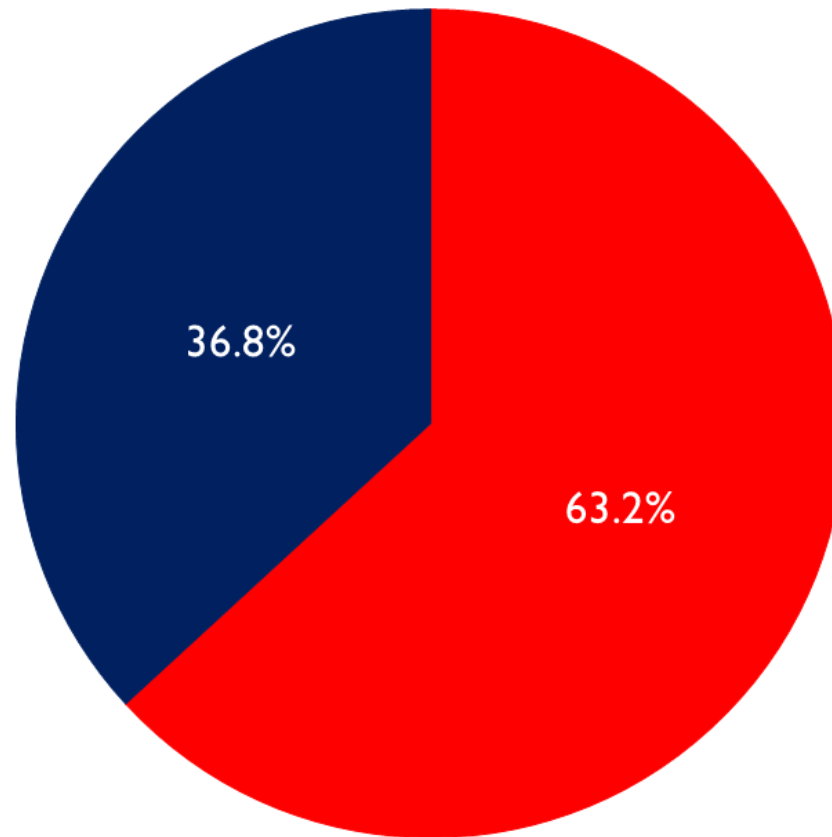


Source: BEIS



Construction Products Imports from the EU

Construction Products Used in the UK in 2016

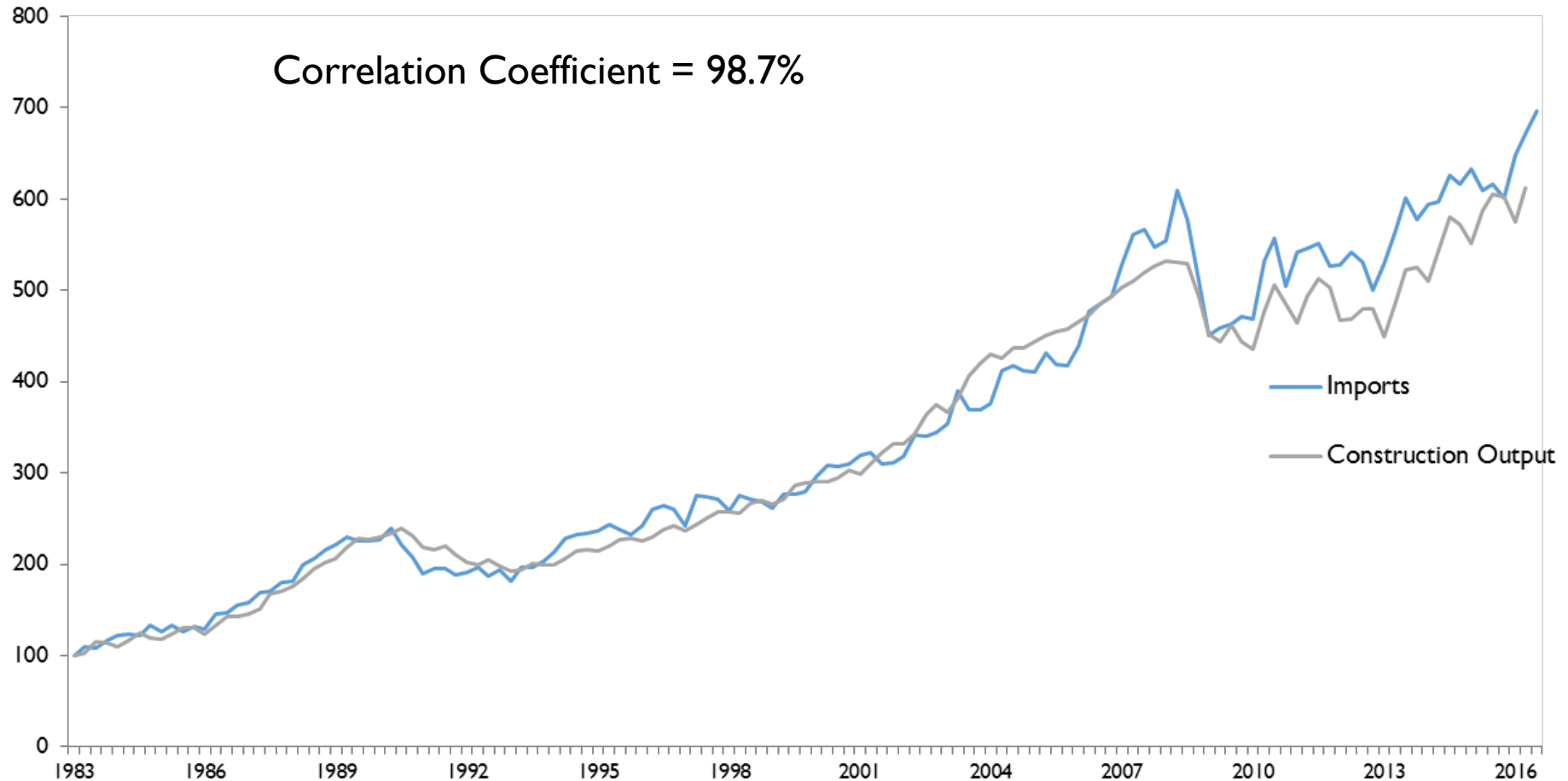


■ EU Imports ■ Non-EU Imports

Source: BEIS

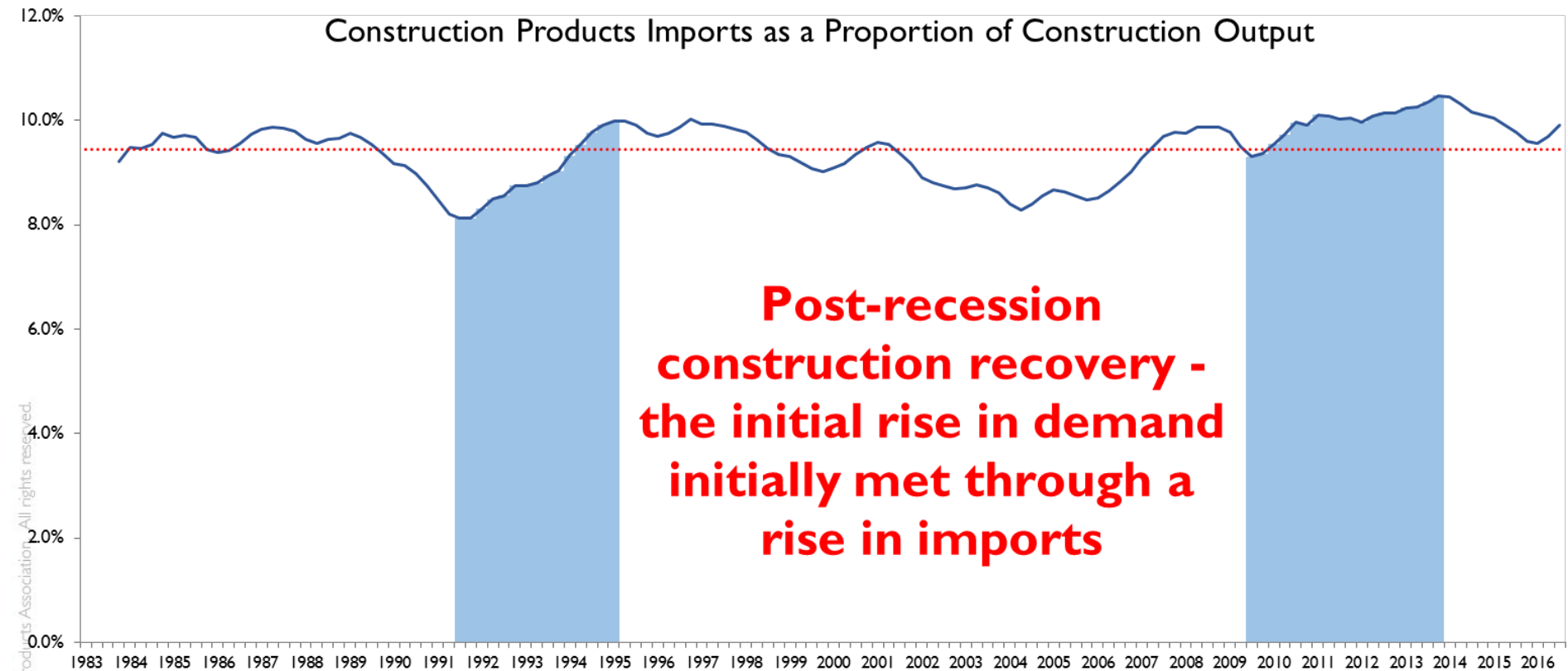


Imports Move with Construction Output



Source: ONS, DTI, BERR, BIS

Imports Move with Construction Output



Source: ONS, DTI, BERR, BIS, BEIS

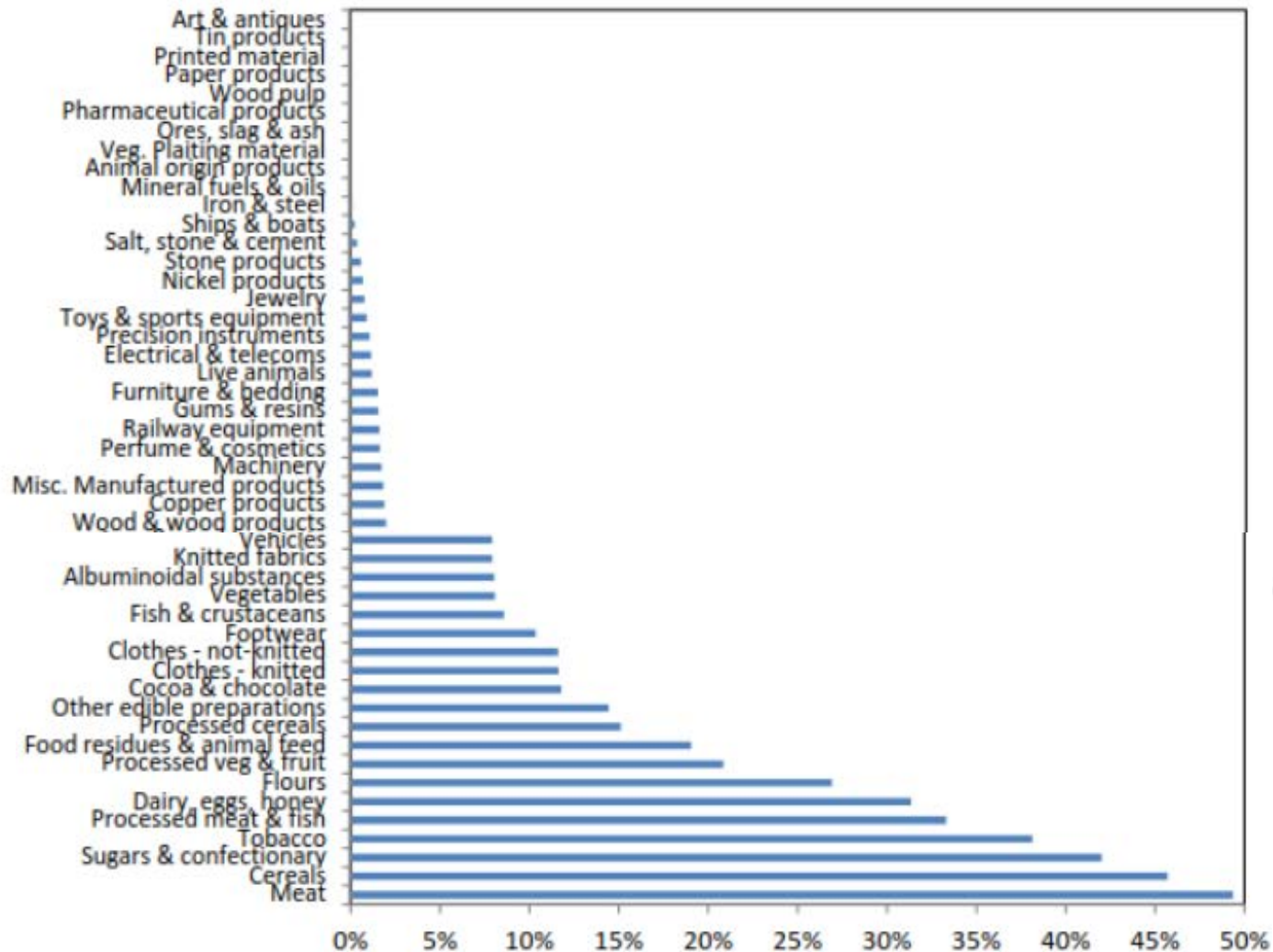


Materials Business Models – Example Timber

- 92% of softwood timber is from the EU
- Depreciations in Sterling post-referendum led to 15%-20% price rises
- Barrier-free access not just tariff-free access? What happens when goods are physically slowed down?
- VAT? Problems for SMEs as the importer may be liable for VAT upfront at the point of entry

United Kingdom	Current Prices (£'000)
2015	
Sawn Wood > 6mm thick	783,597
Aluminium for Fabrication	494,514
Paints & Varnishes	437,542
Structural Units (steel)	242,664
Copper Pipes	232,193
Structural Units (aluminium)	229,463

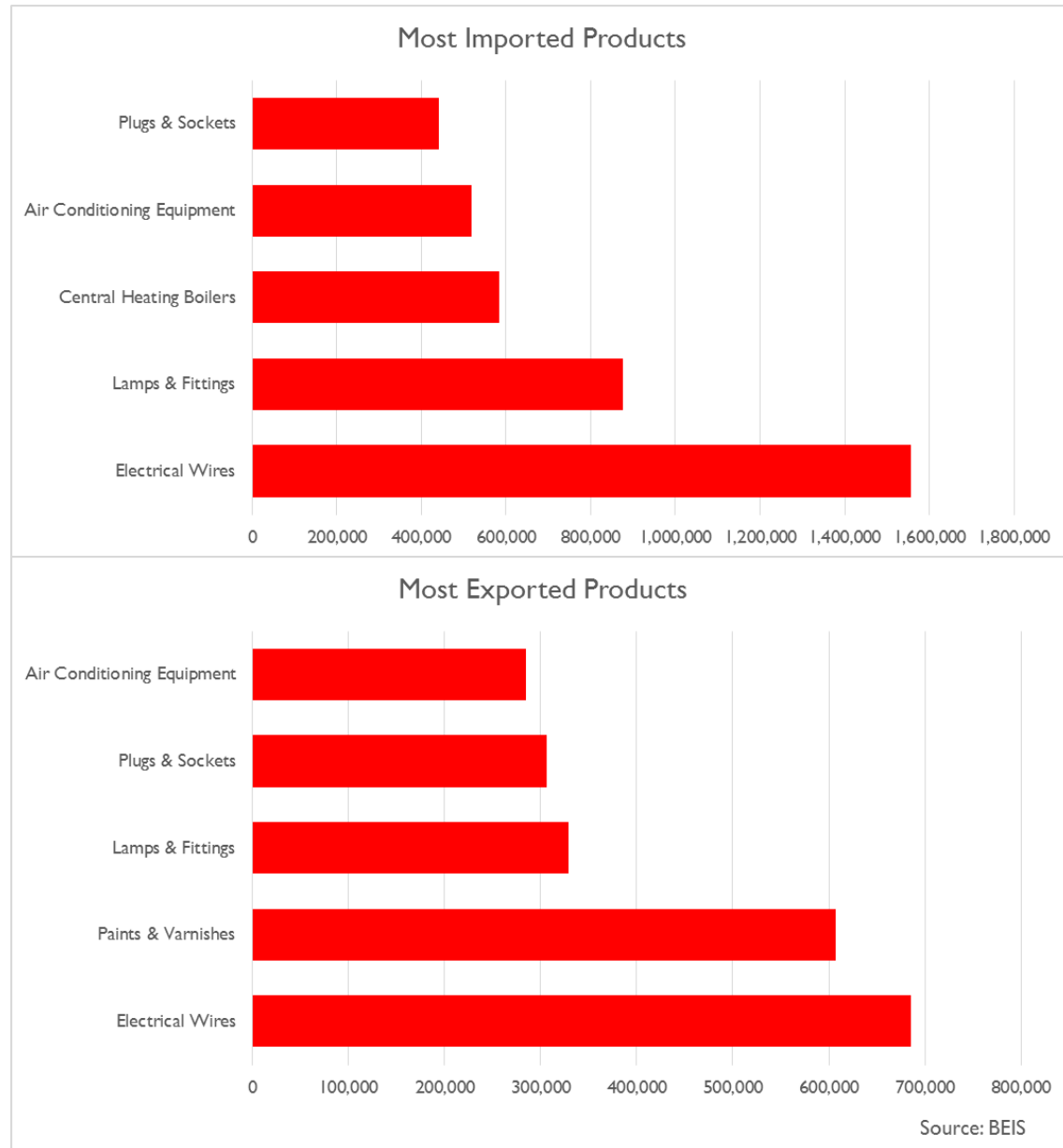
WTO Tariffs on UK exports to the EU27





Export Potential?

- 4 out of the top 5 exported products in 2015 also in the top 5 imported products
- Importing cheap, exporting quality? If so, there is export potential
- International supply chains? If so, limited benefit to net trade





Brexit Preparation



Key Questions – Supply Chain Location

- What proportion of your sales and purchases are with businesses in the EU and under which categories they are covered?
- Are you trading with suppliers or customers in countries which currently have a trade agreement with the EU?
- How reliant are you on ‘third country agreements’ for access to key markets? How well do you understand the impact of meeting ‘rules of origin’ requirements for these agreements for each of your products?

Key Questions – Trade Practicalities

- To what extent is your EU-UK trade time sensitive? What would be the cost of additional border delays in time, working capital and operational difficulties?
- Are you currently taking advantage of the full range of facilitated customs programmes available such as ‘Authorised Economic Operator’ and inward processing relief schemes?

What would be the cash flow impact of the loss of VAT relief?

Key Questions – Suppliers

- Do you require movement of data between the UK and EU to provide products?
- Have you engaged your key suppliers to understand how they, and their supply chains, are impacted?
- What are the supply chain contingency options, e.g. UK or non-EU suppliers?

What specialist logistics and warehousing arrangements may you need to have in place?

Key Questions – Labour

- Do you know how many EU and non-EU personnel you employ directly? Do you know who they are?
 - How reliant are you and your supply chain on labour from the EU (particularly for business critical skills)?
 - Do you know where in your organisation these personnel sit and which parts of your organisation could be most at risk from Brexit-related personnel uncertainties?
- Do you have a communications plan? Do you have the means to communicate to your non-UK workforce?

Key Questions – Strategic/Economic

- Do you know how many EU and non-EU personnel you employ directly? Do you know who they are?
- What is the total impact on your cost position and market competitiveness from weaker levels of Sterling?
- What plans have you put in place to manage volatility in the value of Sterling?

How rapidly would you be able to adjust to a slowdown and how are you monitoring the market to provide early warning?

Do you get funding from the EU or organisations based in the EU?



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