Britain since Brexit – still the place to do business

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In our last Brexit GBV in January 2021 we opened our article by saying - "Since 11pm (GMT) on 31 January 2020 (formal date and time when GB left the EU), it would seem that everything has changed and nothing has changed." In this GBV, we ask to what extent is the UK enjoying the freedom bonus promised by the Brexiters or suffering the calamitous claims of the Remainers?

During the bitter referendum campaign of 2016, the then UK Chancellor of the Exchequer George Osborne, said victory for the 'leave' campaign would result in recession and the loss of 800,000 jobs, a weaker housing market and a stock market crash. Two years on from leaving these things haven't come to pass. 'Remain' campaigners said Nissan would quit the UK, and tens of thousands of City jobs would be lost to Paris, Frankfurt and Amsterdam.

None of this has, at least not for now. UK unemployment is lower than it was in 2016 and, house prices are higher, share prices have risen and (until Covid-19 arrived) there was no recession. The wait for the economic meltdown goes on.

Although the United Kingdom left the European Union on January 31, 2020, things are still changing, and this will go on for a while yet. Under the terms of a negotiated divorce deal (the Withdrawal Agreement and Political Declaration — see below), a "transition period", keeping most pre-departure arrangements in place, ended on December 31, 2020. During and beyond transition, the British Government have prolonged indefinitely grace periods on agrifood controls, allowing UK businesses to adapt to the new rules.

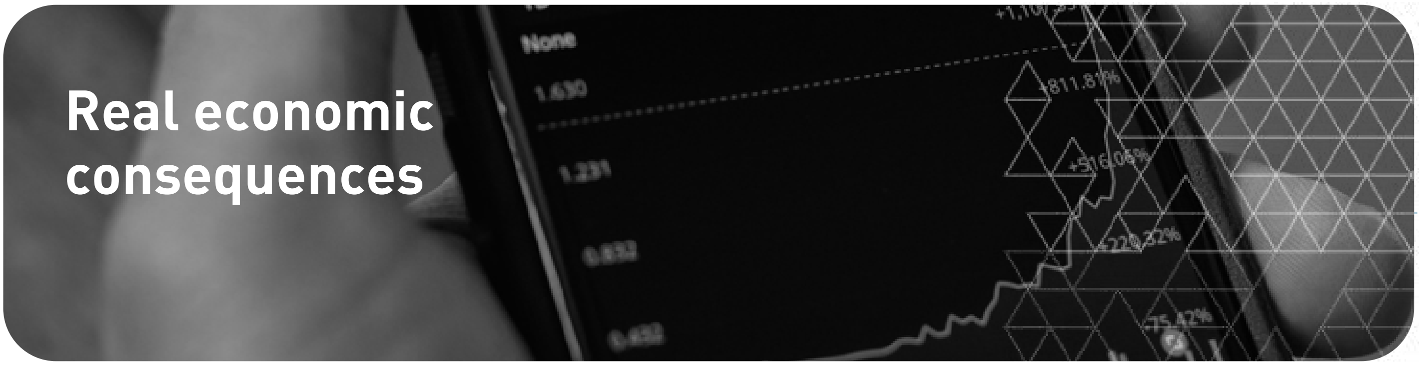
As of 1 January 2022 a series of new customs regulations came into force at the border; customs declarations, border controls, changes to rules of origin, new commodity codes, the requirement to pre-notify customs of sanitary and phytosanitary goods, and changes to simplify the movement of goods vehicles. Other changes and inspection arrangements will be introduced on 1 July, 1 September and 1 November this year.

Further changes to border and customs arrangements might come about as a result of any alteration to the Northern Ireland Protocol – currently being negotiated between the UK and the EU.

The Northern Ireland Protocol, Article 16 and all that

The NI Protocol is a part of the Brexit deal that is intended to reconcile the UK's freedom to diverge from EU rules and standards, with the political imperative to keep the land border with the Irish Republic open.

The Good Friday Agreement (GFA/Peace agreement) requires that no physical signs of a border will exist between NI and the Republic. However, the protocol has effectively inserted the UK/EU border between NI and the Republic. The tensions that this has created has resulted in both sides threatening to enact something called 'Article 16', a set of three paragraphs in the protocol that allows either side to suspend any part of the agreement. The UK and the EU continue to negotiate to try to avoid a collapse in the Brexit deal.



Real economic consequences

Since 2016 the UK 'Office of Budget Responsibility' (OBR, a UK Government Dept) attributed a 4% reduction in UK GDP growth forecasts directly as a result of Brexit. Indeed, late 2021 UK-EU trade figures are down since leaving the EU. Many suggest that it's difficult to separate the Brexit effect from the coincident pandemic effect. However, the OBR report that while UK international trade remains below its pre-Brexit (and pre-pandemic) levels of 2019, goods trade with the 'rest of the world' has recovered to 7 per cent below average 2019 levels, while goods trade with the EU remained down 15 per cent below 2019 levels.

Despite this the UK economy grew by 7.5 per cent in 2021 after coronavirus lockdown restrictions were eased. The growth exceeded projections by the Bank of England was the fastest in the UK since records began in 1948 and for the 1st and 2nd quarter's, faster than the rest of the G7. The Bank of England also report reduced levels of inward investment since 2016, but right now AGN members are reporting a very lively M&A market with much of that coming from overseas.

"From a corporate finance perspective I have seen no let-up in activity for Inward Investment to the UK, particularly from the US from set up of UK operations or acquisitions. In the last 2 weeks alone - a US online fashion retailer wants to set up in the UK and use as a foothold into Europe. A New York based PR Agency wants to open a UK location (this is from the new AGN firm FYI). There is an awareness of Brexit but it isn't putting off investment decisions".
Ben Bidnell, Corporate Finance Partners, Shipleys, London.

There is an undeniably an increased friction for trade between UK and the EU which has caused some additional costs, but nothing of the scale of problems once predicted. There are also plenty of gloomy statistics and forecasts about, but lived experience is telling us something different – the economy is growing, there are record numbers of job vacancies and the number of people employed is already above pre-pandemic levels. By many measures the UK economy is in a good place.

What about the Brexit Bonus?

At the beginning of February the UK government announce a "UK Freedoms Bill" with the aim of cutting "£1bn of red tape for businesses, to ease regulatory burdens". Since Brexit the UK government has negotiated 75+ free trade deals – 90% of these being the rollover of existing EU terms to the now independent UK. The UK signed a trade deal with Australia in December 2021, which the UK government said would "unlock £10.4 billion of additional trade". The UK has also signed new trade deals with Japan as well as an agreement with Norway, Iceland and Liechtenstein.

Clawing back lost sovereignty – the UK is no longer subject to rules around agricultural and fishing policy, and no longer has to worry about EU public sector procurement rules. The country has greater flexibility around VAT and customs duty rules and so the UK Government/HMRC has given businesses the option to use postponed VAT accounting for all imports from outside the UK. The UK has the possibility to go much further using VAT rates and reliefs to stimulate activity in targeted industries. A new freedom yet to be fully exercised.

The UK has developed its own immigration and border policy which is allowing a focused recruitment of foreign talent into the specific sectors and roles that business demands. Like many nations the UK has recently seen interruptions in fuel and food supplies due to a shortage of HGV drivers, and so relaxed immigration rules to help fill the shortfall. A similar approach is currently being taken with nurses and care workers in the medical sector.

All these individual freedoms may not result in immediate benefit, but it can be seen how they might add up to a package of measures that equip the UK with agility, and more levers to pull to support its business and industrial policy.

"The EU remains the UK's biggest and most important trading partner and so has to remain in compliance with a range of important EU trading regulations, but now with additional bureaucratic customs burden on business. One of our clients is dealing with this as his company is selling poultry to the UK. Where others see this as a risk of working with fresh products and high costs for compliance, he sees this as an opportunity to increase his position in the UK and come out of this situation as a winner. To most European businesses this still looks like a bad deal, and most doubt that any benefits of being outside the free trade zone will compensate economically. Only time will tell if the advantages the UK derives outweigh the disadvantages of being 'outside', but if that does become the case how might other existing EU members respond?".
Thijs Luchtenburg. Partner, DK Accountants & Advisers, The Netherlands.

Perhaps there's more benefit in the long term?

There is an argument that for years the British and EU economies have been growing too slowly. A series of booms and busts revolving around low economic growth rates of some 0.5%. The argument continues whether the UK is more likely to be able to sort out these economic structural issues outside the constraints of the EU, and leaving means throwing off bureaucratic shackles, allowing the UK to forge a new and different future.

Right now British business and the foreign businesses that choose to settle in the UK are just 'getting on with it', fuelling growth and driving the economy out of the pandemic.
Perhaps the free trade, low tax, English speaking, legal and geopolitical conditions of the UK, coupled with the indomitable 'can do' culture of UK business is too hard to resist.

Anecdotally anyway, business activity in the UK is relatively normal – in fact according to UK members booming. Whether in long term there will be a substantial penalty to pay, or substantial benefit won remains to be seen, but in the meantime British business is busy growing.

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