Brexit: What about the other 80%?

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Here we are, just a couple of weeks since leaving the EU and the stories of empty shelves, shortages of goods in Northern Ireland supermarkets[i], confused rule of origin regulations hampering trade across the Channel and UK drivers having to surrender their UK made sandwiches (possibly containing French cheese and Dutch ham) on entering the EU[ii] have abounded. But manufacturing, including processing of food account for some 10% of the economy.

Earlier studies have suggested that each manufacturing job creates 4 service jobs. And in any case the distinction between services and manufacturing is getting increasingly blurred. And the services sector accounts for 80% of GDP. And yet it feels like the negotiators only worried about the other 20%- and if at that.

We are not talking just about the much maligned and not much loved financial sector [iii]. And yet it is worth at least recalling that financial services account for some 7% of the economy, employ around 1.2million people, and not just in London, lead to huge extra indirect employment and contributes handsomely to the Exchequer-latest data provided by the City of London Corporation put the amount of taxes paid by the sector in 2019 at some £75b[iv]. Half its exports go to the EU and the sector provides the UK with a healthy surplus in the balance of payments.

At last, the City of London is finding a voice and is now saying to all who will listen that in their view the sector was overlooked and negotiators focused too much on fish. [v] And this is despite the fact that the state still owns a big share of our largest retail bank, and is effectively now additionally supporting the banking sector through some £350b of loan guarantees as businesses and individuals are being supported through the pandemic. The UK as a third country has now lost ‘passporting’ arrangements that allowed it to sell more or less unhindered across the EU.

But there is still no overall agreement on what comes next except for some small concessions on both sides. The hoped for ‘equivalence regim’, itself a far cry from the mutual recognition of regulations enjoyed before, seems at present still rather elusive. Some £1tr worth of assets are estimated to have left the UK since the Brexit vote in 2016 according to estimates by EY[vi]. The UK now seems to be relying on individual short term country deals so that financial sector firms can continue to offer basic services in some parts of the EU.

But no, services is not just banking and insurance. It is a lot else. Indeed once you take out the biggest chunk of government spending which is on welfare and pensions we are talking about an economy made up of engineers working on infrastructure and other projects, those working in utilities, consultants of all types, architects, surveyors, estate agents, car mechanics, planners, logistics experts, IT specialists, teachers, GPs, vets, nurses, physicians, anaesthetists, psychologists, behavioural economists, data analysts and processors and health and other professionals, some working for the public sector, others in private practice.

Also university lecturers, scientific researchers, those working in hospitality and leisure, including pubs and restaurants and venues, in arts and the creative sector, including media, all those making up the ‘Flat White Economy’ of digital, media and creative entrepreneurs captured in my colleague’s Doug McWilliams’s book of that name[vii].

There are transport and communication employees, those in the airline industry, airports, retail and distribution- the list is unending! Yet many of those in these professions, with some limited exceptions for lawyers and accountants, will now, post- Brexit have trouble working abroad due to non- acceptance, for the moment at any rate, of UK qualifications across the border- and vice versa for the people coming into the UK to work for say, the NHS.

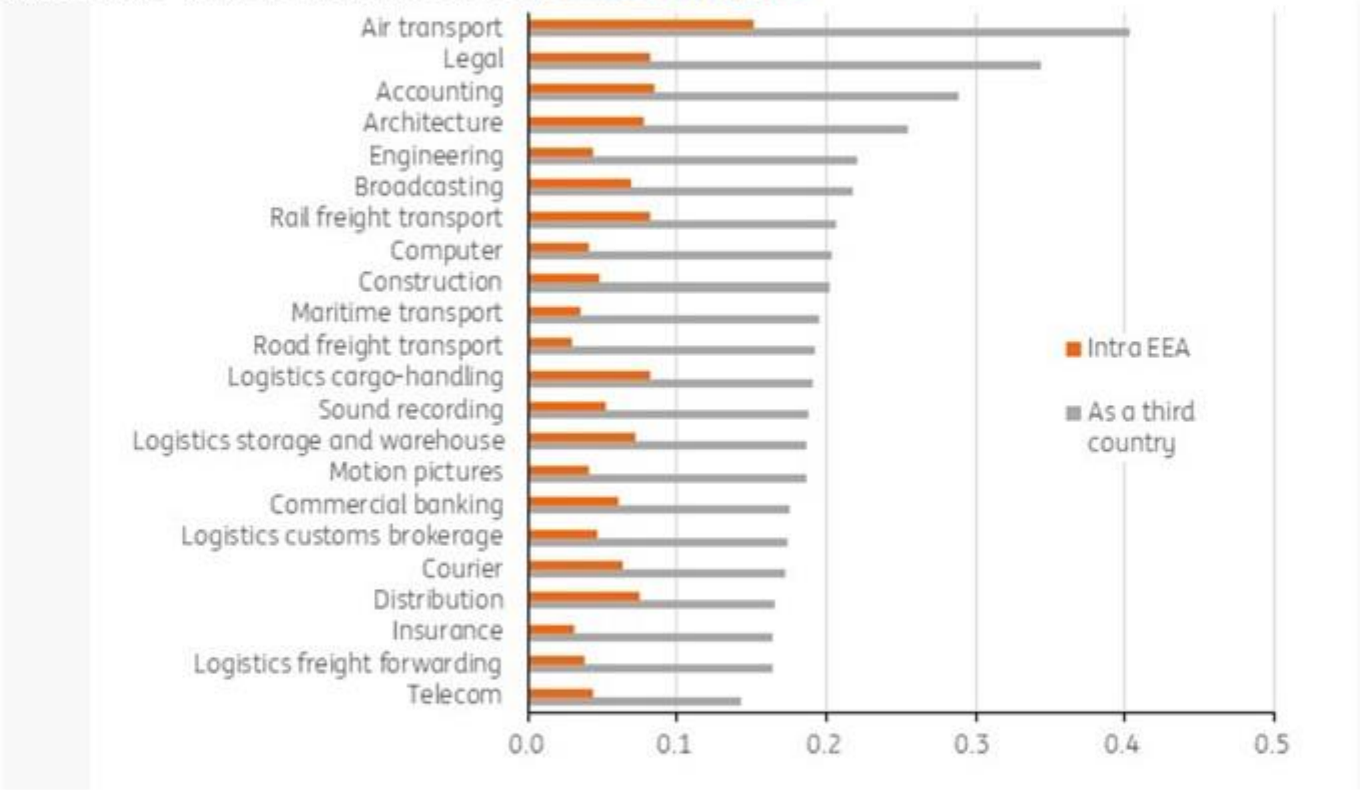
And then you have pilots who are losing the ability to fly in Europe, whose qualifications will be questioned, musicians and actors who will need visas to perform and business executives who may have difficulty conducting business in the EU except under some strictly defined terms.

Road hauliers from the UK lose the full benefits of the cabotage system that operated before- in other words the ability to drive a load to the Continent and then make three pickups and trips internally within the EU before heading, hopefully fully laden, back home having earned quite a lot of revenue in the process. Now they can only do it once- similarly for EU hauliers coming into the UK. Airlines too now face similar restrictions – no wonder they are all either re-registering as European or shedding their UK shareholders as fast as they can[viii].

The banking group ING, looking at OECD data has ranked the non-tariff barriers faced by various sectors and produced the slide below. It shows the size of the non-tariff impediments to trade in each sector on a scale from 0- no barrier- to 1, complete barrier faced by a third country. And it compares it to the barriers, still there but much smaller, that would have been faced if the UK had opted to negotiate the ‘Norway option’ of staying outside the EU following the Brexit referendum but remaining within the European Economic Area, alongside Norway, Iceland and Liechtenstein.

It is clear that the barriers are significant and therefore costly to the economy across most service categories. And yet it looks like they have been underestimated or maybe just ignored for some reason by the UK negotiators.

Whatever trade arrangement non-tariff barriers for services will increase: Intra EEA and extra EEA barriers to services trade- Trade restrictions: Scale 0-1. *Source: OECD, ING*



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[i] https://www.theguardian.com/politics/2021/jan/10/baffling-brexit-rules-threaten-export-chaos-gove-is-warned

[ii] https://amp.theguardian.com/politics/2021/jan/11/dutch-officials-seize-ham-sandwiches-from-british-drivers?utm_term=Autofeed&CMP=twt_gu&utm_medium=&utm_source=Twitter&__twitter_impression=true&s=03

[iii] https://blogs.lse.ac.uk/brexit/2020/12/16/a-bad-brexit-deal-will-hit-the-services-sector-hard/

[iv] https://www.cityam.com/financial-sector-contributed-record-level-of-uk-tax-in-2019/

[v] https://www.cityam.com/exclusive-city-of-london-boss-says-financial-services-overlooked-in-brexit-

talks/?utm_source=newsletter&utm_medium=email&utm_campaign=2020+Five+at+5

[vi] https://www.cityam.com/brexit-uk-to-start-talks-on-quick-eu-equivalence-deal-for-financial-services/

[vii] https://cebr.com/reports/the-times-douglas-mcwilliams-commenting-the-growth-of-the-flat-white-economy/

[viii] https://www.irishtimes.com/topics/topics-7.1213540?article=true&tag_company=Ryanai