KPMG

The Brexit Column

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Deals on priority sectors are in both sides' interests

Mark Essex

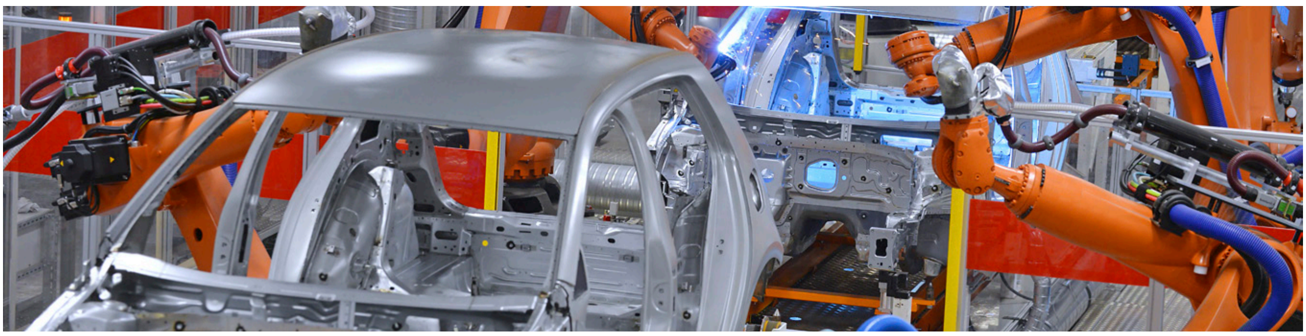
Mark accurately predicted the outcome of the EU referendum four months ahead of the vote. As a director of KPMG's public policy unit, he now analyses the impact of Brexit on business.

mark.essex@kpmg.co.uk

A British push to sign a series of bilateral agreements to give priority sectors access to the Single Market looks increasingly likely. Theresa May has already hinted at special treatment for some. "Financial services, yes, but life sciences, tech, aerospace, car manufacturing, the creative industries and many others that are of strategic importance to our economy," she told the Conservative Party Conference. Despite reports this week that the EU would charge billions for access, it is in the EU's interest, not just Britain's, to strike such agreements.

Trying to disentangle the British and European economies would hurt both parties. Take one of Theresa May's strategic sectors: car manufacturing. The supply chains that culminate in a car rolling out of a British, French or German factory weave back and forth across the Channel. One FT reader described their own experience as a UK supplier to a Japanese carmaker in the UK. Their company uses raw materials from Taiwan to manufacture the parts in the UK before exporting them to Germany to be bonded together with other products from other countries. They are then sent to France and integrated into car components, before being shipped back to the UK to become a part of a "British" car. Good luck to both the UK and EU in sorting out the customs and paperwork on that one.

Greater harmony with the UK over the next couple of months may suit the EU. Before the end of the year, it faces an Italian constitutional referendum and a re-run of the Austrian election. Portugal faces a potential downgrade of its debt that could complicate its access to ECB financing, while worries over the EU's banking system, migration and the threat of terrorism continue to bubble underneath. Perhaps with these uncertainties, a less turbulent Brexit looks more attractive to the EU?



The sliding pound and what it means for your workforce

The fall in the value of sterling is having all sorts of unexpected consequences. We understand that in a few isolated incidents, suppliers have raised prices because EU-born workers in British factories had organised themselves and were demanding higher wages. The reason: they wanted to maintain the level of remittances they sent to families back home.

There are a few lessons we can draw from such instances – as well as possible ways to counteract the depreciation of sterling.

The first thing it demonstrates is how firms may face rising labour costs and possibly issues accessing labour well ahead of – and quite apart from – any potential restrictions on EU citizens' right to work in Britain. Relative salary levels mean a position in the UK remains attractive, but since the pound's slide, jobs in Britain are not the prize they once were.

The second point to take from this is that, in our interconnected economy, it is not just domestic inflation and labour supply that can drive up costs. It can be something as distant as the needs of families in Berlin, Bucharest or Bratislava.

How can companies respond? One solution for multinationals that earn income in multiple currencies is to pay part of their pay package in a second currency – according to their particular circumstances. Such a scheme could go some way to remedying the remittance situation, simply via the saved charges on two foreign exchange transactions – first by the company repatriating income and buying pounds; the second by staff members taking their salary and selling pounds again.

The broader point is that organisations need to look at the composition of their workforce, and get to know those people's motivations and pressures upon them, a lot sooner than the Brexit timetable suggests.

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Parlez vous business?

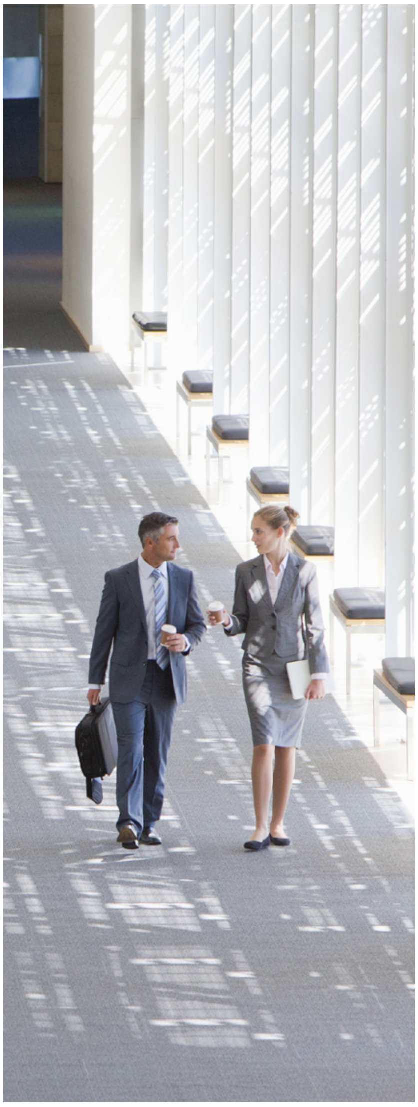
What's your company's policy on hiring foreign language speakers? If you don't have one, you are in good company – increasingly it seems we expect everyone else to speak English. So it is ironic that, in the wake of Britain's departure from the European Union, demand for linguists in the UK could actually rise. Given the lack of foreign language graduates coming out of British universities, organisations will need to move quickly for scarce talent or find themselves ruing missed opportunities and facing a hefty translation bill.

Why the sudden demand for language speakers? First, the UK Government is short of linguists and will need to recruit more. Imagine the number of bilateral talks happening in Brussels and around the world right now that involve EU negotiators. Whether these concern trade, the environment or foreign affairs, if Britain wants to be a global player, it will need negotiators and translators to be having those conversations.

Second, businesses will need linguists to establish new markets, further afield, if the UK leaves the Single Market – the destination for 44% of goods exports. The British have the incredible fortune of speaking the lingua franca of global commerce. However, we are very far from a point where all business – governmental and commercial – is conducted in English, particularly in East Asia.

Britons' poor grasp of foreign languages is already costing us according to a report commissioned by UK Trade & Investment. It suggests poor language skills, and the assumption "everyone speaks English" resulted in "lost trade opportunities, on average, equivalent to at least a 7% tax (on business)"*.

KPMG's Corporate Intelligence team estimate that it takes around two years of semi-immersive language training to become fluent in a foreign language. As a team with over fifty languages at their disposal they should know. Time to dig out those old French textbooks perhaps?



* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/309899/Costs_to_UK_of_language_deficiencies_as_barrier_to_UK_engagement_in_exporting.pdf

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