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What will Brexit mean for business in Aberdeen?

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Slim Gueddana

Slim is a director working in KPMG's Aberdeen office. He specialises in oil & gas, mining and diversified industrials and services audit.

slim.gueddana@kpmg.co.uk

At a glance:

- UK North Sea producers may be seeing some upsides from Brexit but net impact on wider oil & gas industry is unlikely to be positive
- The introduction of EU tariffs could make the city's fishing and food and drinks exports less competitive
- The agricultural sector, which heavily relies on seasonal EU workers, could suffer significant labour shortages post-Brexit

What will Britain's exit from the European Union (EU) mean for businesses in Aberdeen and its surrounding region? Some might say "not much" given the city's overwhelming focus on oil and gas, a global industry transacting in US dollars, and drawing on international capital and talent markets.

Our view is that most businesses in Aberdeen will see some level of challenge and opportunity in Brexit, and that certain businesses will experience a significant impact.

Good news for producers

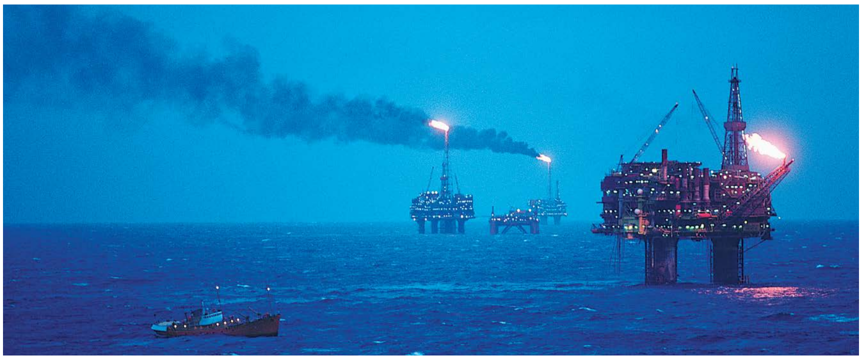
So far, Brexit and the pound's associated fall has been good news for oil and gas producers. They earn dollars (a currency which has appreciated in value by circa 15% against the pound since the Brexit vote), yet incur costs in pounds. So they are net beneficiaries.

In fact, the biggest upside of a 'hard Brexit' for the Aberdeen based oil and gas producers would be if the devaluation of the pound became a permanent feature. Even considering that part of their costs are paid in pounds but indexed to dollar rates, UK producers are likely to enjoy a net improvement in long-term cash flow. This in turn would mean that investing in the region would become relatively more attractive.

This is, however, mitigated to some extent by the heightened risk of regulatory and political changes as a result of Brexit. Also large UK Continental Shelf (UKCS) capital expenditure projects would suffer increased tariff costs over the supplies imported from the EU.

Challenges for oilfield services

It's unlikely that Brexit will have a positive impact on Aberdeen's well-developed oilfield services sector. Though the currency devaluation may benefit some companies who are exporting goods and services, a departure from the Customs Union would particularly affect companies who have significant imports from the EU, including those involved in manufacturing equipment. Customs clearance could take longer, meaning firms would need to build in additional lead-time and increase minimum inventory levels. This would result in higher working capital and compliance costs. Exporters to the EU will also suffer loss of competitive position if tariffs are imposed on their exports. Without a trade deal between the EU and UK, average World Trade Organisation (WTO) tariffs would increase the costs of Aberdeen-based manufacturers and make exports less competitive.



Companies also need to consider how their workforce might be affected by Brexit. The Aberdeen oil and gas workforce includes a mix of skills drawn from the UK, the EU and non-EU countries. Larger players already have processes and systems to manage recruitment and deployment of resources internationally. However, smaller companies may have to face extra administrative and compliance costs. Additionally the retention of current EU employees needs to be managed carefully.

New controls over movements of UK and EU employees and contractors would also impact companies' ability to quickly deploy personnel from the UK to, say, the Dutch sector of the North Sea. The same would apply for personnel coming into the UK from the EU, even if they were here temporarily before mobilising to a far flung location. In cases where this will add material cost or delay, there is a risk that it becomes "too difficult" to include the UK in the mix, thereby risking the emigration of economic activity.

Companies which currently benefit from EU public procurement rules which provide a level playing field between bidders for EU contracts may also have valid concerns about losing competitive advantage after Brexit, where such rules may no longer apply. This is relevant in cases where, for example, public utilities have interests in projects such as renewable power generation activities.

Good catch and bad harvest?

The effect of Brexit on the food and drinks industry in the wider Aberdeen region looks significant. This industry, largely exporting, would see some benefits from a devalued pound. However, it could also be hit by the introduction of EU tariffs, the loss of EU subsidies, and new UK controls over the use of seasonal EU workers.

The view is also a mixed picture for fishing. On the one hand, a 'hard' Brexit could lead to the reinstatement of a 200-mile line around UK waters. That would probably lead to a significant boost to Scottish catches from UK waters. However, high EU tariffs on British exports might offset that gain by making Scottish fish prices uncompetitive.

By contrast, a 'softer Brexit', similar to Norway's position within the European Economic Area, might offer less control over UK waters, but it would also reduce the threat of tariffs.

Farmers have even more to consider. While critics of the EU's Common Agricultural Policy argue it fails to take account of local issues, the loss of EU subsidies under the CAP – currently guaranteed until 2020 – will force inefficient farms to review their business models if they want to remain viable in the long term.

Labour is another factor in play. Food producers in Aberdeen rely heavily on a seasonal migrant workforce from the EU who accept to work at, or just above, minimum wage. Limiting access to that workforce may cause significant medium-term labour shortages.

Is Aberdeen Brexit ready?

So much of the impact Brexit has on Aberdeen will be decided in the coming months and years as Britain's position in the global market is redefined. Exacerbating the uncertainty, is the possibility of a second Scottish independence referendum.

So it is little surprise that – against this background of uncertainty – most businesses in Aberdeen are adopting a 'wait and see' attitude, whilst building some level of Brexit impact assessment into projections, risk assessments and business and investments planning. As negotiations start to reveal the direction of travel, businesses will quickly need to take a close look at the impact it is likely to have on their cash-flow, finance, operations, HR policies and supply chain management.

No business in Aberdeen can hope to insulate itself fully from every possible impact emanating from Britain's EU exit. They can, though, get themselves 'Brexit ready' and, in doing so, perhaps steal a competitive march on those who do nothing.

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