Brexit: Is it a boon or Curse for UK?

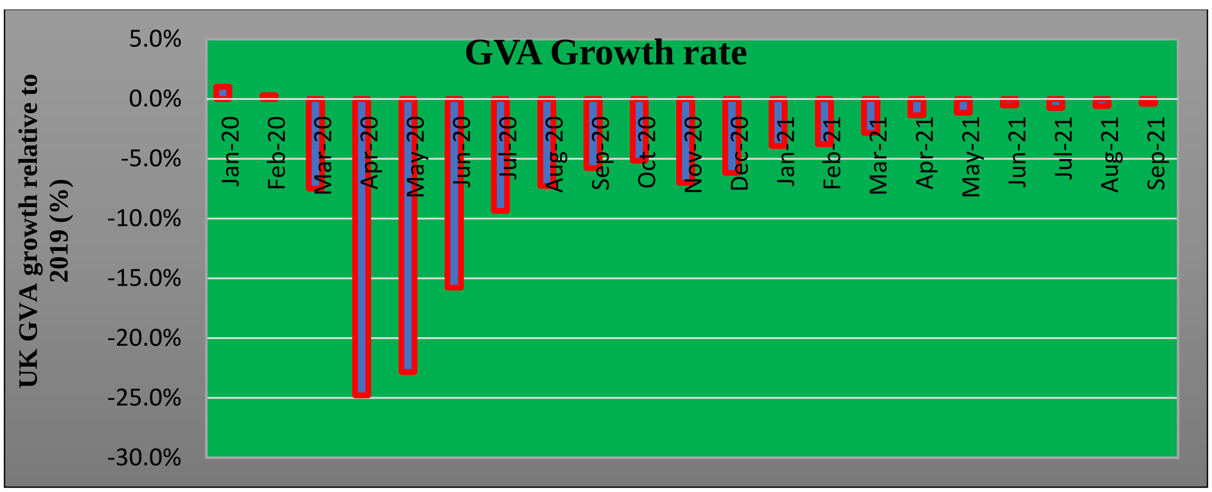
What is Brexit?

Brexit, a portmanteau of "British exit" was the withdrawal of the United Kingdom (UK) from the European Union (EU) at 23:00 GMT on 31st January, 2020. Following Brexit, EU law and the Court of Justice of the European Union no longer have primacy over British laws, except in select areas in relation to Northern Ireland.

The Withdrawal Agreement (November 12, 2019)

It covers multiple issues including the rights of the EU citizens in the UK and British nationals in the EU, the amount UK will contribute to the EU budget (and for how long) and the border between Ireland and Northern Ireland.

Now, the UK and the EU will also have negotiations on citizens' rights and cooperation on security. Any new agreement will come into force only after the transition period. These new agreements will have to be approved by the UK and the European parliaments. If both fail to reach a new agreement, then there will be a 'no deal' Brexit after the transition period.



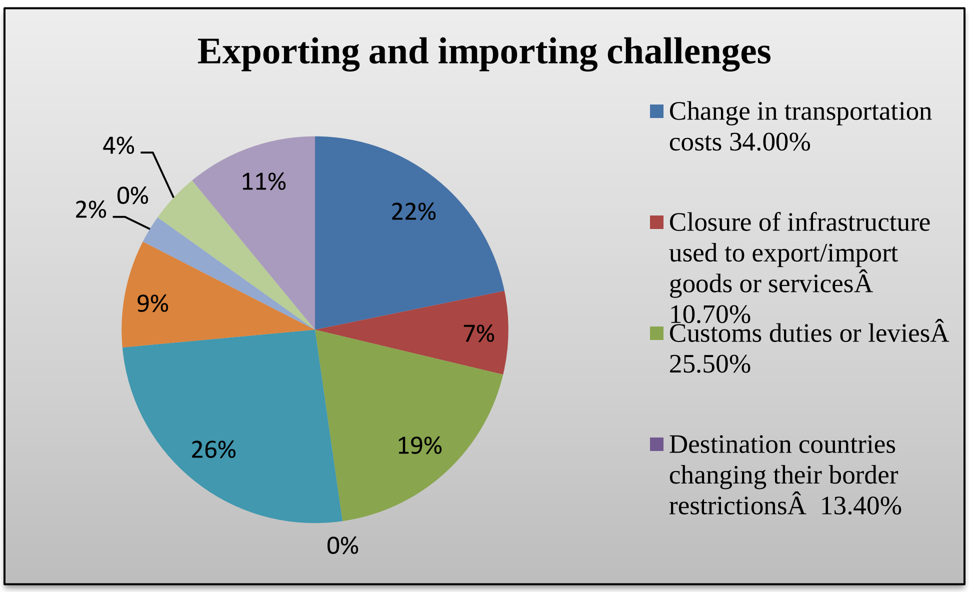
Source: Office of National Statistics, UK

Post Brexit, the main question arises is How UK will move ahead in their economy and will they sustain positive with their Gross Value Added (GVA) measures? **Gross value added (GVA)** is the measure of the value of goods and services produced in an area, industry or sector of an economy. According to Office of National Statistics, UK Source, during the two years notice period relative to 2019, GVA for January and February 2019 month stands at 1% and 0.3 % respectively, followed by this, we saw the negative growth rate starting from March 2019 with -7.5% which further goes down to -24.8% in April 2019 which was the highest among all.

From May 2019 onwards, we saw the little improvement in GPV which stood at -22.8% which was further improve in June, July & August and their GPV are -15.8%, -9.4% and -7.3% respectively. This shows there is a good amount of improvement in GPV as compared with April month & it's further increased in Q4 2020 & the entire FY2021.

Brexit: Winner & Loser Industry

When the United Kingdom (U.K.) and European Union (EU) announced their trade agreement on Dec. 24, 2020, officials, business leaders, and private citizens in both areas were relieved. The worst outcome the U.K departing the EU without a trade deal, a "no-deal Brexit" had been avoided. While Brexit likely presents more challenges for the U.K. economy than for the EU's, both jurisdictions face new administrative burdens and uncertainty due to unresolved issues.



Source: Office of National Statistics, UK

Few Winners

1] U.K. and EU Manufacturers of Specialized Machine Parts

New product origin, or content source, requirements for qualifying as U.K. or EU products will require adjustment by some manufacturers, such as automakers, that currently rely heavily on other regions of the world for parts in their finished products. With some companies, such as Nissan and Toyota, likely to seek qualified sources for parts currently obtained from Asian countries, local U.K. and EU manufacturers might enjoy new sales opportunities.

2] U.S. Bankers

Because London-based banks are losing free access to the EU market, they'll have to establish new branches or offices in the EU to operate there. Because U.S. banks never had that free access, they already have "passporting rights" and/or operate registered companies that have such offices set up in both the EU and the U.K. This situation leaves U.K. financial services firms at a disadvantage until they are able to fully re-establish themselves in EU markets. Therefore, U.S. financial firms may be able to draw away business and clients from U.K. firms in the meantime.

Many Losers

Brexit will complicate U.K.-EU cross-border relationships in every sector with new administrative and regulatory burdens. New requirements, local licenses, visas, border checkpoints, personnel relocation, etc. affect all types of businesses, from agriculture to finance. Many sectors of the economy found themselves unprepared for the new regulations and are concerned about the costs of compliance.

1] Fishing Industry

Despite only making up 0.1% of the U.K. economy, negotiations around the U.K. fishing industry were one of the largest obstacles to reaching a trade deal. On the surface, the trade deal would seem to be a win for the U.K. fishing industry. According to the U.K. government, the agreement will increase the quotas for British fishermen over five years by an amount equal to 25% of the value of the EU catch in U.K. waters, which is estimated to be worth £146 million ($205 million). However, to call this an unalloyed victory ignores two major factors. The first factor is that the U.K. fishing industry had expected far greater concessions from the EU. The second factor is that the majority of seafood caught in the U.K. is exported to the EU, and the new nontariff barriers that have sprung up in the wake of Brexit.

2] Food and Agriculture Sector

Regulations and border controls affecting agricultural exports and imports create issues for everyone in the EU and the U.K.: farmers, distributors, grocery store chains, restaurants, and consumers. In advance of Brexit, U.K. retailers and consumers stockpiled food, resulting in shortages and supply chain problems and prompting warnings about panic buying.

Because the U.K. relies on deliveries of fresh food from or via the EU in the winter, delivery delays immediately created problems. Scottish exporters complained about delays in transport of fresh seafood at border controls in Scotland and France. Sainsbury's supermarkets blamed the new and complex arrangements affecting Ireland for their need to obtain alternative sources of goods. Tesco supermarkets ran into shortages, leaving shelves empty. However, supply chain and logistics challenges extend beyond agriculture to all industries.

3] Manufacturing Sector

As noted, logistical challenges similar to those facing agriculture are affecting manufacturing. Because modern manufacturing uses complex supply chains that stretch across different nations, even nontariff barriers to goods can significantly complicate manufacturing. Even before the deal was concluded and tariffs were officially avoided, significant companies in automobiles, aerospace, and industrial supplies including Honda, Nissan, BMW, Toyota, and Jaguar Land Rover had to cut jobs and close plants in the U.K. Panasonic and Sony planned to move their European headquarters from London to Amsterdam. Almost two years earlier, Dutch conglomerate Phillips closed its only U.K. factory.

4] Financial Services Industry

Financial services companies recognized that Brexit likely would require the relocation of significant operations and personnel from London to EU locations and would mandate local registration and licensing to conduct business in the EU.20 Major banks, including JPMorgan, Morgan Stanley, NatWest, Goldman Sachs, Bank of America, UBS, and Credit Suisse, moved hundreds of employees and large quantities of assets from London to other European cities in advance of the Dec. 31, 2020, deadline for a trade deal.

Moreover, most core banking business, such as deposit-taking, investment services to retail clients, and other lending services, are not included in the equivalence system. Thus, U.K. banks must establish EU offices to continue these activities with EU clients.24 While London will continue to be a major financial center, its status will be diminished, especially if equivalence rulings are not soon forthcoming and clients turn to institutions in other countries, including the U.S., that already have the rights and ability to operate in the EU.

5] Pharmaceutical Industry

Pharmaceutical companies are concerned about potential differences in EU and U.K. standards for medicines. In anticipation of diverging rules, U.K. pharmaceutical firms AstraZeneca and GlaxoSmithKline established parallel labs in the EU. For medicine, the imposition of border checks and dispersion of manufacturing are expected to cause delays in distribution. Both the EU and the U.K. reported drug stockpiling in advance of Brexit because of concerns about prompt access to medications.

6] Transit, Transport, and Freight Industries

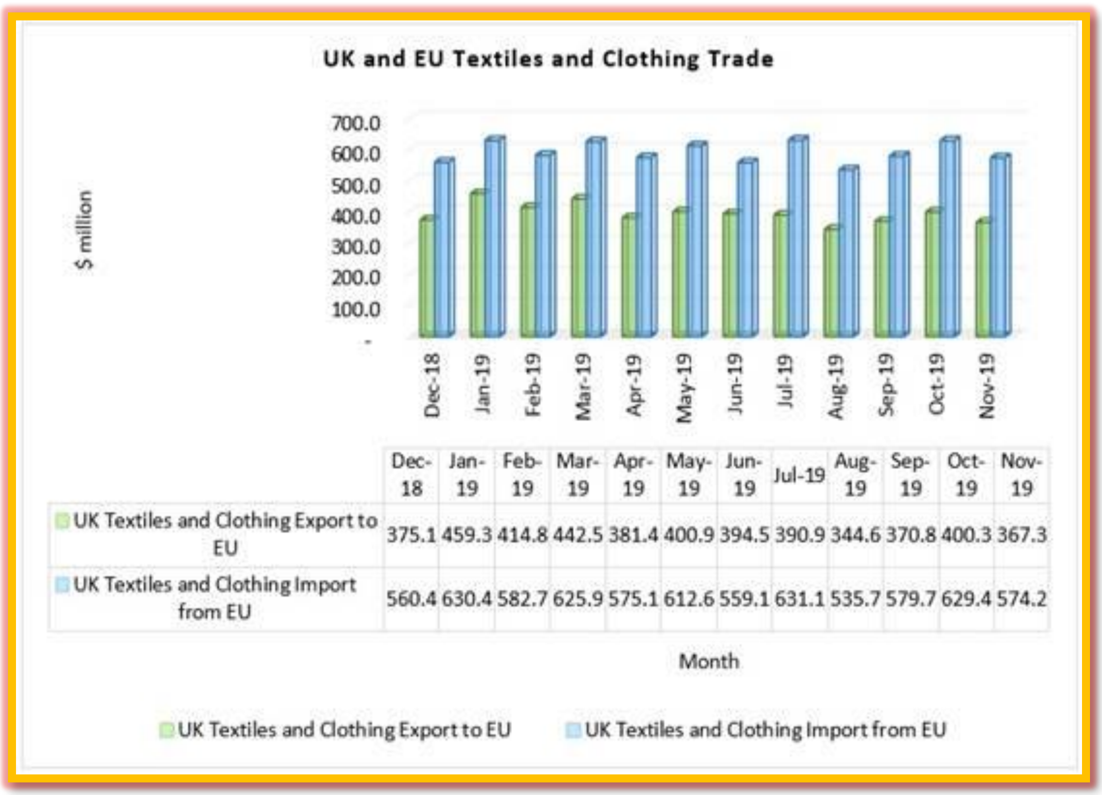
Brexit creates legal and logistical challenges for travel and shipping. Both the EU and the U.K. have allowed a six-month grace period for flights between and within the two areas under present licensing and safety qualifications. But future flights within the EU, across and within member states' borders, will be restricted. Generally, only airlines that are majority controlled by the EU, the European Economic Area (EEA), and/or Swiss nationals will be allowed to fly between EU airports.

However, a special provision allows U.K. airlines that are controlled by a combination of EU and U.K. shareholders for example, the Madrid-based International Airlines Group that owns British Airways to continue to operate in the EU. The application of this special rule to majority U.K owned airlines Easy Jet and Ryan air may require further study of their ownership.

Movement of people and goods, whether by air, water, or Channel Tunnel, will entail time-consuming procedures. Passport requirements will apply to travelers between the EU and the U.K., and business personnel, students, and others who stay abroad for a period of time will need visas.

Impact of Brexit on UKs textile and Apparel industry

Trade between UK and EU 2019



	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
UK Textiles and Clothing Export to EU	375.1	459.3	414.8	442.5	381.4	400.9	394.5	390.9	344.6	370.8	400.3	367.3
UK Textiles and Clothing Import from EU	560.4	630.4	582.7	625.9	575.1	612.6	559.1	631.1	535.7	579.7	629.4	574.2

Source: Fibre2Fashion.com

Britain's £35billion fashion and textile industry is confronting devastation as a consequence of red tape and travel restrictions erected by the new post-Brexit trade agreement with the European Union.

Designer Katharine Hamnett *said, "Many firms could be weeks away from going under. We need a radical overhaul of customs arrangements including VAT on all goods shipped into the EU by the end of February, or British brands will die."*

Several of the 52,000 smaller companies that make up the spine of the UK's fashion industry, could not have enough money the professional aid needed to steer the new controls, the letter added, with consumers on both sides of the English Channel refusing purchases because of unexpected VAT and tariff charges.

While the UK govt. spokesperson said, "We are working closely with businesses in the fashion industry to ensure they get the support they need to trade effectively with Europe, and seize new opportunities as we strike trade deals with the world's fastest growing markets."

Conclusion

Looking at the overall scenario, the current economic impact of the COVID-19 pandemic and its accompanying restrictions on trade in the U.K. and the EU probably outweigh Brexit's immediate impact. Therefore, it may be difficult to determine the full extent of Brexit's effects on different sectors of the U.K. economy. With that said, there are definitely things that we can say about which sectors are likely to be more or less affected by Brexit. The overall upshot is that there are few winners from Brexit, and not all them are in the U.K. Meanwhile, the losers economically harmed by Brexit are plentiful.

Sources:

Office of National Statistics, UK

WWW.Fibre2Fashion.com

WWW.textiletoday.com

Investopedia

Wikipedia