Updated Brexit Analysis – Cumbria, August 2019

Summary

1.1 This notes updates the findings of the December 2018 Brexit analysis note for Cumbria in the light of developments since then. It focusses on the potential <u>economic</u> consequences of Brexit on the Cumbria economy (and so does not cover any potential social or well-being impacts). The focus of the note is, unlike the December 2018 work, on the shorter term economic implications of Brexit.

1.2 Its principal conclusions are:

1) The basic conclusions about the medium to longer term vulnerability and exposure of Cumbria's economy by sector to Brexit remain as set out in December 2018.

2) However, the short term macro-economic consequences and sectoral disruption of an increasingly likely no deal Brexit make the **more immediate impact of Brexit** in 2019 and 2020 a serious concern. The sheer level of uncertainty is, in itself, an issue for business as it militates against investment and decision-making.

Business preparedness

3) The extension of Article 50 to 31st October has allowed UK government and businesses more time to prepare and there are more contingency arrangements in place. However, it is clear that **many smaller business have no contingency plans**, nor have taken key practical steps to prepare (whilst there remain areas where the ability to prepare are limited). Given the importance of smaller firms to many areas of the Cumbrian economy this is a concern.

4) The UK Government has taken and is taking further steps to help business prepare and has put in place arrangements to mitigate some of the impact of a no deal Brexit (for instance in terms of minimising disruption to the supply of imported goods). However, based on the most recent data obtained from the government, most SMEs are unprepared for the new challenges of exporting to the EU.

Short term UK macro-economic effects

5) The scale of short term[1] macro-economic effects on the UK of a no deal Brexit is subject to some debate and is contested territory. However, based on independent assessments, the potential short term effects on the UK economy are:

- a **fall in economic output** in the short term during late 2019, 2020 and 2021 (with the scale of fall very uncertain ranging from 2-3% to as much as 6-7%)
- **further depreciation** in the value of sterling (increasing export price competitiveness but also increasing import costs)

[1] A period of 1 to 2 years for purposes of this note (from late 2019 to late 2021)

- a fall **in business investment**.

6) Most observers assume that these effects could, and likely would, be mitigated to some degree by more expansionary fiscal policy (tax and spending) and/or monetary policy.

Sectoral impacts in Cumbria

7) These wider UK economic impacts are likely to have knock-on effects across the board on a range of sectors in Cumbria which derive demand from the rest of the UK such as manufacturing (food manufacturing in particular), logistics and a range of business and consumer services. However, those sectors which do not directly rely on sales to UK businesses or consumers (eg nuclear and submarine shipbuilding) will be relatively insulated from any macro-economic shocks.

8) The greatest uncertainty and most serious economic consequences of a no deal Brexit are concentrated in Cumbria's **farming sector**, where sheep farming and beef farming face the greatest increase in tariffs to the EU and so likely fall in prices and therefore incomes (especially in the case of sheep where EU markets are particularly important). Although the farming sector accounts for a relatively small share of economic output it is a major employer in Cumbria (13,000 jobs including farm owners and managers, or 5% of employment); it is concentrated in and very important to many parts of the county and supports a range of upstream and downstream supply chains that are important locally.

9) Unlike the rest of much of England, farming in Cumbria is much more strongly focussed on sheep and beef. The total farmed area under grazing for meat production is over double the England average and in terms of farm holdings there are three times the proportion in less favoured upland areas where sheep framing predominates. So although some parts of Cumbria's farming sector (dairy and other) will be less impacted by a no deal Brexit, overall the sector in Cumbria is extremely vulnerable.

10) There has been increasingly media coverage of the potential scale of problems for sheep farmers in particular and the Government has indicated that there will be some form of transitional short term support in the event of a no deal Brexit (with reports that potentially £500 million would set aside for buying up surplus lamb). However, there are, as yet, no details on the scheme and so farmers face considerable uncertainty.

11) A further source of uncertainty for farmers is the future scale and shape of farm subsidies. The Government has pledged to continue to commit the same cash total in funds for farm support until the end of this parliament (which currently would run until 2022). However, there no specific guarantees about payment regimes and amounts at the level of a farming sector or farm beyond the end of 2020 (the current end of the current Common Agricultural Policy period). This creates a further element of uncertainty for Cumbria's farmers, especially those where farm payments are a high share of total farm income (which is the case for upland sheep farmers in particular).

12) The **food manufacturing** sector in the UK faces particularly significant uncertainty, not so much as a result of tariff changes, but by the impact on non-tariff regulations and barriers to entry to EU markets that would come into force from day one.

13) The previous work on Brexit suggested that larger manufacturing exporters in Cumbria have and are prepared as far as they are able. We know that according to HMRC data around 920 firms based in Cumbria **export to the EU**[2] which represents 4.5% of the total active business stock (above the overall UK rates of 3.6%). The majority of these exporters will be SMEs. There is a concern that many smaller businesses in Cumbria which export will simply not be prepared and could lose these markets. If national averages apply then at least half and possibly as many as 2/3rds of these business (or around 450 to 600) may not have taken the simple first steps to prepare for the new requirements to export to the EU.

14) There may however be some shorter term benefits to Cumbria's **tourism sector** as a result of the greater price competitiveness of UK destinations for UK residents ("staycationing") and overseas tourists. However, there remains the major concern previously identified over access to labour for those business employing EU nationals, especially in the hospitality sector and in the Lake District National Park area).

Introduction

1.3 In October 2018, the Cumbria Local Enterprise Partnership (CLEP) Board identified a need to understand the potential impact of Brexit on the Cumbrian economy. In December 2018 Nicol Economics with the Cumbria Intelligence Observatory and CRED at the University of Cumbria produced an analysis of the potential impact of Brexit in Cumbria. This analysis focussed on the **degree of exposure** of different sectors of the economy to potential changes as a result of Brexit in relation to:

- Trade (tariffs and non-tariff barriers to trade)
- Migration and so labour supply
- Other factors (funding etc).

Principal findings of the December 2018 Brexit analysis for Cumbria – the degree of medium to longer exposure to the effects of Brexit

1.4 The December 2018 Brexit Analysis focussed on assessing the degree of "exposure" of the Cumbria economy overall and its different sectors to Brexit in the medium to longer term[3]. It was not an assessment of the likely impact of Brexit on Cumbria as there were (and remain) very significant elements of uncertainty which include:

- **What sort of Brexit** the UK will experience?
- The **timing** of the impact of Brexit (in particular the extent, if any, of any transition arrangements)

[2] And a much higher number, some 1,600, import from the EU

[3] At the time there was an expectation that there would be at least a 2 year transition period from March 2019 to March 2021 during which little would change – so the short term effects would have been relatively limited

- The **UK government response** to Brexit in terms of trade, immigration and other policies in the short and longer term (including potential fiscal loosening and changes to tax regimes and public spending that are not, per se directly linked to Brexit)
- How these changes **potentially impact** on businesses, organisations and people based in Cumbria
- What **responses** have been and will be made by businesses and others based in Cumbria to these potential impact.

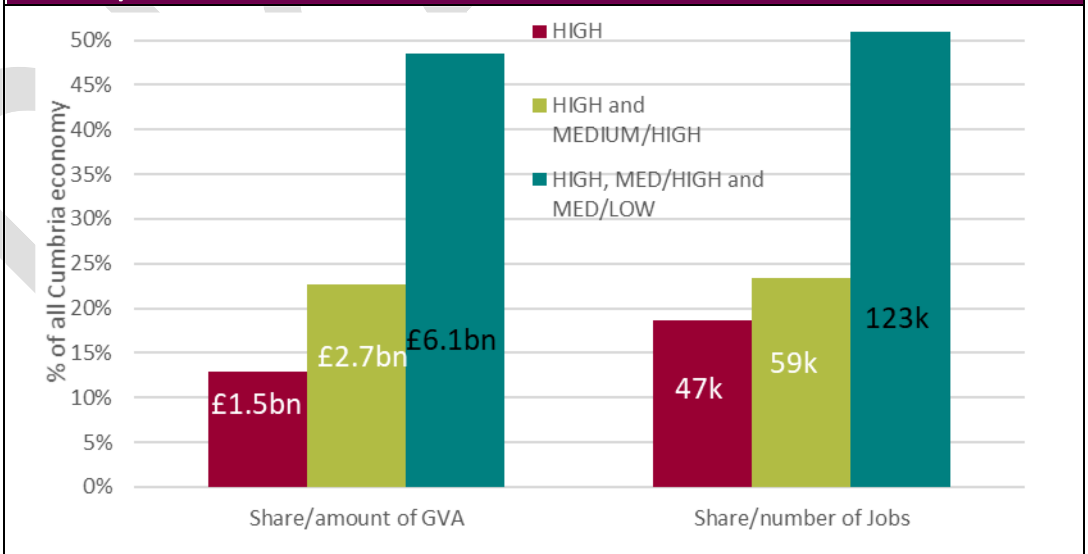
1.5 The summary findings in December 2018 were:

1) The **direct** impacts of Brexit would be caused by impacts on market access to the EU, by the availability of EU labour in Cumbria in what is already a very tight labour market in most areas and as a result of important other links to the EU (most notably in the agriculture sector).

2) The **indirect** impacts of Brexit on Cumbria (via effects on the rest of the UK economy) are likely to be as significant as the direct effects on sales and labour. As the previous analysis by the UK government shows, these longer term macro-economic effects could be very significant depending on the type of Brexit that emerges.

3) The degree of **direct exposure** of the Cumbrian economy to Brexit varies widely by sector and within sector by location and firm. National studies applied to Cumbria can, and have given, quite misleading results because of the particular structure of our economy.

Share of Cumbria's economy in terms of GVA and jobs by degree of medium to longer term exposure to Brexit



Source: Cumbria Local Enterprise Partnership, Brexit Analysis, December 2018

4) *High potential impacts*. The three sectors likely to be most affected are **farming**, **tourism** and **food manufacturing** (in the case of the last two because of the importance of EU labour). These account for about 13% of Cumbria's GVA (£1.5bn) but 19% of jobs (around 50,000).

5) *High and medium/high potential impacts*. The next most affected part of the economy is **a range of manufacturing sectors that have a substantial proportion of sales with the EU and are important users of EU-sourced supplies** (overall 10% of GVA, £1.1bn and 5% of jobs or 12,000 often well-paid jobs)[4]. Some key parts of our manufacturing base linked to nuclear and shipbuilding (and associated supply chains) are, however, relatively insulated against the direct effects of Brexit.

6) *Medium/low potential impacts.* A third set of sectors where the main direct longer term impact of Brexit is likely to be on the **ability to attract and retain staff** (health, wholesale/retail, construction and transport/logistics). Where businesses already face challenges in recruiting, Brexit is likely to exacerbate these issues and lead to more competition from across the UK for staff. Here the impact of Brexit is simply to add to a challenge that already exists and is growing anyway. These sectors are large employers (around 70,000 jobs) and account for a large slice of the economy.

Where are we now with Brexit?

1.6 In December 2018, the expectation was that the Government's negotiated exit agreement would be passed and there would be a two-year transition period before the future terms of Brexit (trade etc) were agreed with the EU. However, the report noted "*it is still not guaranteed that there will be an exit agreement (therefore leading to the much debated "no deal scenario") in which case there might be no transition period at all and the UK would exit the EU precipitously in March 2019 without agreements on new trading and other relationships*".

1.7 Clearly we have passed the previous 31st March deadline, but Article 50 has been extended by the EU until 31st October. However, the prospects of a negotiated withdrawal look much less promising than in December 2018 so the prospect of a no deal Brexit is therefore much more likely. The new Prime Minister, Boris Johnson, and other new government ministers have made several public statements emphasising that the UK must leave the EU on the 31st of October "deal or no deal", although there is some uncertainty as to the potential role of Parliament in avoiding a no deal scenario. The Government has publicly stated that preparing for a no deal Brexit is a priority and recently announced a further £2.1 billion in funding to ramp up preparations[5].

1.8 This updated note does two things:

- Reviews the evidence on preparedness in relation to a potential no deal Brexit that is potentially only around 80 days away at the time of writing.
- It also reviews the evidence on the shorter term impacts of a no deal Brexit by sector and in other ways and draws conclusions for the Cumbrian economy

1.9 The update is a desk-based exercise only and has not drawn on any direct input from businesses in Cumbria.

[4] Including sectors such as: textiles, wood & paper products & printing, chemicals & pharmaceuticals, rubber, plastic & non-metallic minerals, other manufacturing, computer, electronic & electrical, machinery & equipment

[5] https://www.gov.uk/government/news/chancellor-announces-billions-to-turbo-charge-no deal-preparations

Evidence on the preparedness of business and government for a no deal Brexit

1.10 In considering a no deal Brexit scenario, the more positive news is that, as the prospect of a no deal has been on the table for longer, there has been more contingency planning by UK government, more advice for businesses and more time for businesses to prepare than was the case in December 2018.

1.11 We have no specific evidence on the current preparedness of businesses in Cumbria for a no deal Brexit. Earlier work by Cumbria Chamber of Commerce in April 2019 based on a survey carried out in 2019[6] identified that around half of businesses said they had not started preparations. With many reporting that as they "*did not know what they were preparing for then*", it followed "*how could they prepare*". Those business that had been making preparations had been focussing on stockpiling supplies, assessing risks in their supply chain and looking at non-EU customers. This view is a common theme in the various surveys and reports we have assessed.

1.12 At a national level there are regular surveys/assessments of Brexit preparedness by the Bank of England and bodies such as the CBI. The most recent conclusions are provided in:

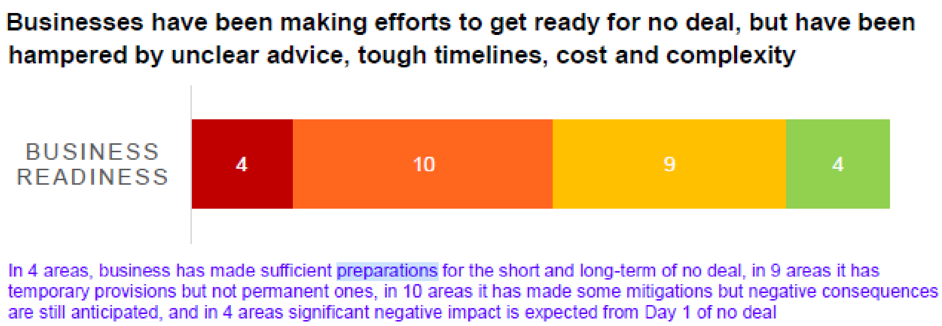
- The latest **Bank of England** Agents Survey which was carried out April/May 2019 [7] (so pre-dated the new Prime Minister and change of stance toward a no deal Brexit). This reported that based on the 300 businesses covered by conversations with Agents: "*nearly 90% of all respondents said they had implemented some form of contingency plan*". However, the report noted that "*around one in ten businesses said they had no contingency plan and did not expect to develop one. This was more likely to be the case for small and medium-sized companies than for large businesses*". The survey also reported that most businesses said that they would be "*as ready as they can be*", with uncertainty over the future trading relationship with the EU and potential developments in the sterling exchange rate hampering the ability to prepare. It is important to note that Bank of England Agents are more likely to be speaking to larger firms.
- The **CBI** recently carried out a detailed assessment of preparedness for a No-Deal Brexit[8]. This reported that "*40% of SMEs that trade internationally have no contingency plans for Brexit*" and emphasised that for small companies: "*diverting precious resource – both human and financial – to Brexit preparedness measures is out of reach. They cannot hope to have access to anything like the in-house advice available to large companies, and government funds that can help them to do so have been poorly advertised and are now closed*".

[6] Brexit survey completed by around 60 business between January 7th and March 25th by businesses covering a range of sectors (manufacturing, hospitality, retail, professional services, energy, IT, horticulture, food and drink, media, telecommunications, construction, and transport and distribution)

[7] Agents' survey on preparations for EU withdrawal in Agents' summary of business conditions - 2019 Q2 (June 2019)

[8] What comes next? The business analysis of no deal preparations. CBI, July 2019. Summary of the assessment at Appendix B

CBI Overall Assessment of UK Business Brexit preparedness, July 2019



Source: What comes next? The business analysis of no deal preparations. CBI, July 2019

1.13 The CBI assessment identified the following areas as ones that businesses were least well prepared for:

- **Where there would be negative impacts from Day 1** post a no deal (red in the figure above): haulage; chemicals (as regulated goods); tariffs; and the Irish Border
- **Some provisions made to reduce the negative impact**, but risks around scope, communication and/or implementation may mean some disruption from a no deal (orange in the figure above): Customs, UK border, regulated manufacturing (ie manufacturing sectors that face specific rules and regulations for accessing the single market, the agri-food sector, regulated services (financial services and professional and business services), businesses involved in research and innovation programmes.

1.14 The CBI report also made the point that although in some cases there were immediate short term solutions to challenges, for some sectors over time under a no deal Brexit scenario the costs of doing business with the EU would rise as regulatory regimes diverged and this increased the cost of adhering to separate regimes.

1.15 The UK government has developed a tool called "Prepare your business or organisation for Brexit". This is designed to alert businesses as to what they need to do in preparation for a no deal depending on the sector of the economy and the type of activities undertaken (importing, exporting etc). Many business organisations have also prepared Brexit preparedness checklists and tools including: the British Chambers of Commerce (which is available in Cumbria via the Cumbria Chamber of Commerce); the accountants professional body the ICAEW; whilst many professional services firms have developed their own tools for clients.

1.16 In its February 2019 update on preparedness for a no deal Brexit, the Government stated:

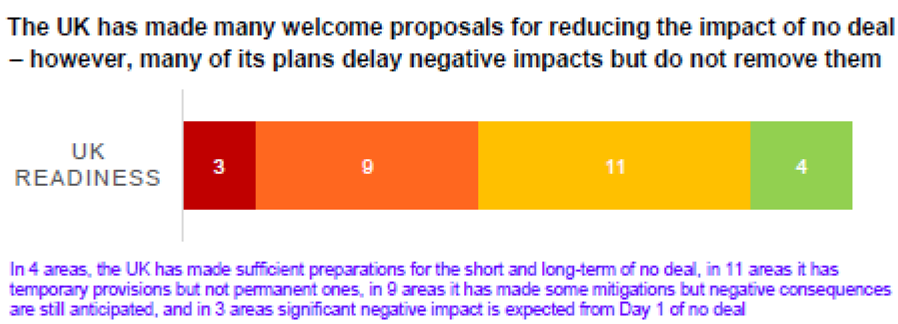
> *"Despite communications from the Government, there is little evidence that businesses are preparing in earnest for a no deal scenario, and evidence indicates that **readiness of small and medium-sized enterprises in particular is low**. For example, without an Economic Operator Registration and Identification (EORI) number, businesses would not be able to complete the necessary customs documentation for goods they are importing. As an EORI number registration is one of the most basic and straightforward parts of the process most businesses would need to undertake to prepare for no deal, this is assumed to be a generous indicator of overall readiness. As of February 2019 there had only been around 40,000*

registrations for an EORI number, against an estimate of around 240,000 EU-only trading businesses" [our emphasis added].

1.17 More recent data on how far SMEs have taken steps since February 2019 to prepare suggests there has been some further progress (as would be expected). As of the end of July 2019, 66,000 traders who do business with the EU have been given an EORI number since December 2018 (or around 27% of the estimated numbers potentially needing one)[9].

1.18 It is fair to say that a lot of work has been undertaken by the Government since December 2018 to help prepare the economy for Brexit, now particularly a no deal Brexit. The recent CBI report referred to above carried out a comprehensive assessment of preparedness of UK government, the EU and businesses.

CBI Overall Assessment of UK government Brexit preparedness, July 2019



Source: What comes next? The business analysis of no deal preparations. CBI, July 2019

1.19 In summary, the review of available evidence suggests that:

- No deal Brexit planning is progressing by UK government, but there remain areas where the ability to prepare is limited. The focus on preparing to mitigate the short term shock is, potentially, at the expense on focussing on longer.
- Although the majority of larger firms have prepared as far as they can, this is generally not true of smaller firms (which of course are particularly important for the Cumbrian economy in many sectors). There is a wide range of tools available for businesses to consider what Brexit preparations they should be making. However, some of the matters are complex and are challenging for smaller businesses with limited capacity.

[9] Source: https://www.politicshome.com/news/uk/political-parties/liberal-democrats/news/105739/just-three-ten-exporters-ready-no deal. However, although HMRC report that there may be as many as 245,000 businesses who need an EORI number, the trade data they collect suggest that around 135,000 businesses exported to the EU in 2017. If this is the case then around 50% of businesses who traded recently may have obtained an EORI number.

Evidence on the short term economic impact of a no deal Brexit applied to Cumbria

1.20 Since the December 2018 report was produced for CLEP, there have been a number of analyses of Brexit on which we have been able to draw. These include:

- House of Commons Brexit Select Committee report on consequences of a no deal Brexit[10]"
- The CBI report already previously referred to
- The IMF assessment of a no deal Brexit scenarios in its April 2019 World Economic Outlook
- An assessment by the Office for Budgetary Responsibility (OBR) on the fiscal consequences of a no deal Brexit as part of its wider biennial review of fiscal risks[11].
- Brexit prospects for UK agri-food trade by the AHDB and the recent Red Meat Brexit Impact Study by the Anderson Centre[12].
- UK government assessment of a no deal Brexit[13].

Key drivers of the short term impact of a no deal Brexit

1.21 At one level, as of August 2019, there is no more uncertainty for business and the Cumbrian economy than there was in late 2018. Indeed, arguably government preparations and some business Brexit preparations have come on a long way. However, the prospect of a no deal Brexit is immeasurably higher than it was 8 months ago and brings its own set of uncertainty and problems not least because:

- There is **no transition period** in a no deal scenario so there is less time for businesses and people to adjust (although in the case of certain elements there are temporary arrangements put in place by the UK government but these are not comprehensive and vary across the economy).
- Although the UK government can make preparations for a no deal scenario the implications depend to a significant degree on **the response by the EU** (eg what tariff regime they would apply to the UK or whether they will accept temporary measures to ease short term distribution). The EU inevitably moves at a slower pace than any one nation state and the overall economic downside of a no deal Brexit to the rest of the EU's economy is less significant overall than to the UK[14]. Although this is not true for parts of the EU and for Ireland in particular.

[10] *The consequences of "No Deal" for UK business*. House of Commons Exiting the European Union Committee, Fourteenth Report of Session 2017–19, July 2019

[11] Office for Budgetary Responsibility (2019) "*Fiscal risks report*", July 2019

[12] "*Red Meat Route To Market Project Report*", The Andersons Centre, May 2019, for AHDB, Quality Meat Scotland, Meat promotion Wales

[13] "*Implications for Business and Trade of a No Deal Exit on 29 March 2019*", February 2019

[14] The £274 billion exports of goods and services to other EU countries in 2017 were worth 13.4% of the value of the British economy in 2017. Exports from the rest of the EU to the UK were worth about 3-4% of the size of the remaining EU's economy in 2016. (Source: Full Fact https://fullfact.org)

- There remain considerable uncertainties, as would be expected, related to the UK government's no deal Brexit **contingency planning** and very little time to develop a response.

1.22 The impact on Cumbria's economy will be driven by several factors:

1) UK macro-economic impacts and their relationship to Cumbria's economy

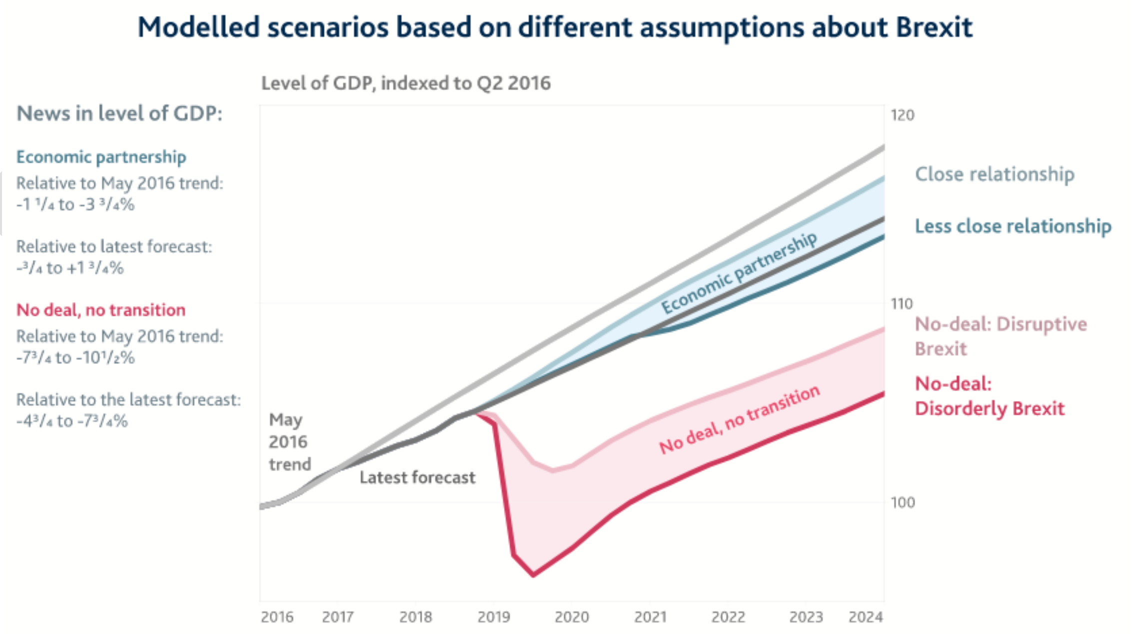
2) General impact on sectors related to tariffs and other factors

3) Specific sectoral impacts relevant to Cumbria.

Short term UK macro-economic impacts

1.23 The work on the wider long term economic impact on Brexit has tended to focus on the <u>longer term</u> effects of changes in trade policy, access to markets and to migration. There have been few analyses of the shorter term or "transitional costs" of a no deal Brexit. The Bank of England (BoE) produced a stress test scenarios paper as part of its financial stability report in November 2018. This modelled the scenarios of what it called a "disruptive" and a "disorderly" Brexit (in effect variations of a no deal Brexit). The work by the BoE was somewhat misrepresented at the time. It was not saying these scenarios would arise but rather it needed to model worst case scenarios to test the stability of the UK's financial system. The two scenarios produced respectively 3% and 8% falls in UK GDP compared to either no Brexit or an orderly Brexit. The IMF's Chief Economist reported in January 2019 that a disorderly Brexit could "*risk a 5% to 8% reduction in GDP over time*".

Bank of England macro-economic scenarios of Brexit Scenarios, November 2018



Source: What comes next? The business analysis of no deal preparations. CBI, July 2019

1.24 In October 2018 the OBR commented on the potential implications of a "disorderly" Brexit as follows:

> "*a disorderly exit is not impossible and it could have a severe short-term impact on demand and supply in the economy and on the public finances. UK asset prices could fall sharply which, together with heightened uncertainty, would cause households and businesses to rein in their spending. A fall in the pound would also raise domestic prices, squeezing households' real incomes and spending. ….. It is next to impossible to calibrate this sort of scenario with confidence because of the lack of precedent*".

1.25 The IMF in April 2019 carried out assessment of two scenarios for the UK economy from no deal Brexit and its modelling suggested that UK GDP in 2020 could fall by 3.6% to 4.7% compared to its level if the UK remained in the EU or there was an orderly Brexit[15]. This modelling work of the less disruptive of the two IMF scenarios has also been used recently by the OBR in its work on the long term fiscal risk to the UK[16]. The OBR concluded:

> "*Heightened uncertainty and declining confidence deter investment, while higher trade barriers with the EU weigh on exports. Together, these push the economy into recession, with asset prices and the pound falling sharply. Real GDP falls by 2 per cent by the end of 2020 and is 4 per cent below our March forecast by that point. Higher trade barriers also slow growth in potential productivity, while lower net inward migration reduces labour force growth, so potential output is lower than the baseline throughout the scenario (and beyond). The imposition of tariffs and the sterling depreciation raise inflation and squeeze real household incomes, but the Monetary Policy Committee is able to cut Bank Rate to support demand, helping to bring output back towards potential and inflation back towards target*."

1.26 The potential UK macro-economic impact of a no deal Brexit (of a disruptive or disorderly nature) is a highly political and contested area. Nevertheless the broad consensus of the analyses that have been carried out are as follows:

1) There is enormous uncertainty about the outcome and effects. It is an unprecedented event so economic models are not well developed to model the effects.

2) The uncertainty itself is likely to have a deterring effect on investment decisions and consumer confidence (certainly in respect of investment by business where there is some evidence this has and is happening).

3) There will be an adverse short term economic impact (separate from any long term consequences which also are broadly likely to reduce the UK's economic performance). Different scenarios suggest that UK's GDP might fall by 3% or more in the short term.

4) However, to some extent this short term shock could be countered by a deliberate monetary or fiscal stimulus.

[15] World Economic Outlook, April 2019 (Scenario Box 1. A No-Deal Brexit)

[16] Fiscal risks report – July 2019, OBR

5) The effect of a no deal Brexit is likely to further weaken sterling and so create inflationary pressure in the UK (this effect is already happening to some degree as markets "price in" the likelihood of a no deal). This will make exports more price competitive, but also increase the costs of imports, especially raw materials and parts used in manufacturing).

General impact on sectors related to tariffs and other factors

1.27 The UK government in March 2019 published proposed temporary import tariffs in the event of a no deal Brexit that meant:

- 87% of total imports to the UK by value would be eligible for tariff free access
- 13% would be subject to tariffs covering inter alia: "tariffs and quotas on beef, lamb, pork, poultry and some dairy to support farmers and producers who have historically been protected through high EU tariffs".

1.28 However, the new trade tariffs and regulation for export are not in the UK government's gift. If the UK exits the EU with no deal then it will immediately lose any preferential treatment and access to other trading areas that arise out of EU Free Trade Agreements (such as the deal with Canada and Japan). The EU has stated that it will immediately impose "third country status" on the UK, with few mitigations. The UK government has been trying to ensure roll-over deals with these countries but with mixed success so far.

Sectoral impacts: Food and Farming

1.29 There has been increased focus recently on Brexit impacts on this sector in part because of the just-in-time and perishable nature of the products meaning it is particularly vulnerable to short term disruption. The issues vary from sub-sector to sub-sector but relate to:

- The current relative importance of trade with the EU by sub-sector (exports and imports).
- Future tariff regimes for exports and import with the EU and the rest of the world – in the absence of a deal the UK's food exporters would default to the EU's Common External Tariff regime which is highly protectionary for farming and food products.
- The importance of the EU regulatory requirements and regimes (non-tariff barriers) for trade and, in particular, any exports to the rest of the EU.
- The impact of border and customs checks on the flow of fresh produce.

1.30 The Brexit Select Committee report noted that the NFU reported to them that:

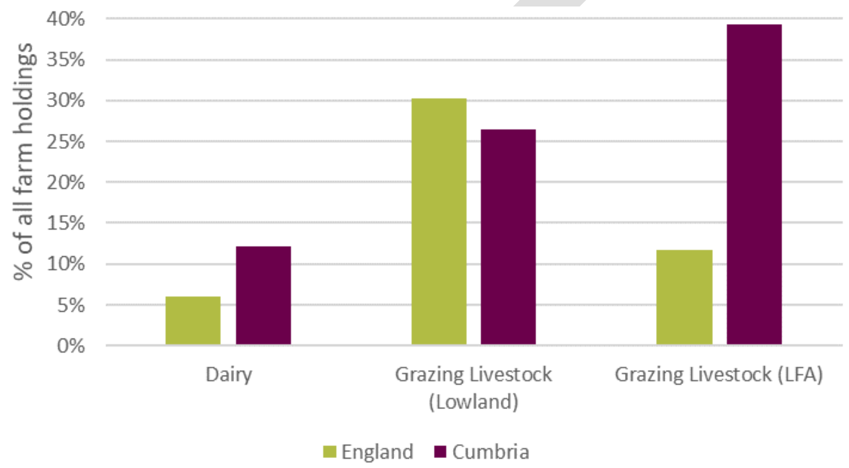
> "*a no deal exit "would be disastrous" for the farming sector due to the integrated and frictionless trading relationship the UK has with the EU on agri-food products through which around two-thirds of UK exports go to the EU. Tariffs on UK exports are a major concern in the farming sector in a no deal scenario as they are generally much higher for agricultural products than for other goods*".

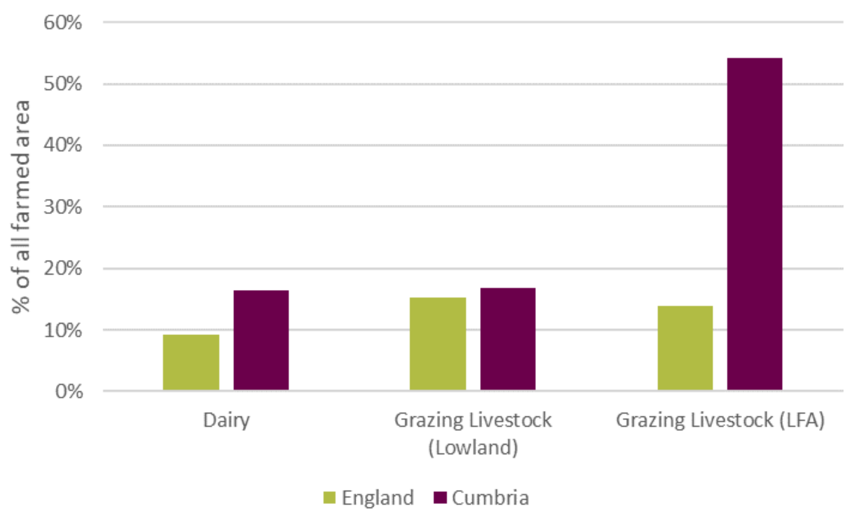
1.31 The NFU has estimated that "*export tariffs could be imposed on the 60% of UK food, feed and drink that go to the EU, increasing export tariffs to an average of 27% on chicken, 46% on lamb, 65% on beef*". The very recent review of the red meat sector and Brexit by the Anderson Centre concluded that:

"A No Deal Brexit would cause significant upheaval for beef and sheepmeat: trade with the EU27 would plummet due to the imposition of tariffs, Tariff Rate Quota and higher incidence of Non-Tariff Measures. Combined beef and sheepmeat exports to the EU would decline by 92.5%, with ***sheepmeat export trade almost completely wiped out****"*.

1.32 As we can see from the figure below, Cumbria's farming sector is particularly dependent on livestock production in upland areas (Less Favoured Areas). It has nearly 20% of England's total sheep flock and holdings in Less Favoured Areas. The total number of Cumbria's farm holdings that are focused on livestock/grazing is around 3,400. These are the farms most vulnerable to a no deal Brexit.

Selected Cumbria's farming sector shares, 2016





Source: analysis of Defra farm data for 2016

1.33 The impact of Brexit on the **dairy sector** is rather different. The NFU note that the "*EU is by far the main market for UK dairy products and an almost exclusive supplier when it comes to UK dairy imports*". "*There is a substantial trade deficit with the UK annually 'exporting' more than £1.3 billion worth of dairy products to the EU and importing more than twice that. Furthermore we are only about 81% self-sufficient in dairy so there is huge scope to expand and diversify production for domestic and export consumption*".

1.34 It possible that, as a consequence of Brexit, trade is reduced with the EU and that prices and demand for UK dairy products from UK business and consumers might rise. However, it is important to note that Cumbria has several business that are major exports of dairy products to the EU (and elsewhere) at Nestle near Carlisle and Kendal Nutricare.

Tourism and Brexit

1.35 Our December 2018 report highlighted tourism as vulnerable to the impact of Brexit as a result of the high proportion of hospitality sector staff from the EU and the potential impact of a new points based migration regime and salary cap that would worsen existing recruitment difficulties.

1.36 The implications of a no deal Brexit have potential downsides and some upsides for Cumbria's tourism sector:

- There clearly will not be a new immigration system the day after a no deal Brexit and free movement ends. The UK government has confirmed there will be no immigration controls at the border and EU nationals will be able to come to the UK for up to 3 months without requiring a new immigration status or visa. After 3 months, EU nationals will be required to apply for European Temporary Leave to Remain, granting them up to 36 months to stay in the UK to work, live or study. Once this expires, EU nationals will need to apply for an immigration status under the new system, which is scheduled to come into effect from 1 January 2021. The CBI report noted that there will be some uncertainty about the responsibly on employers for checks. The likely impact is that in the short term there may be some modest disruption in terms of accessing EU nationals to work in the sector, but that this will become much more acute after 2020.
- The effect of the depreciation of sterling has a positive effect on UK domestic tourism as it makes holidays in the UK cheaper for overseas tourists and relatively cheaper compared to overseas holidays for UK residents (the staycation effect). The April 2019 Chamber of Commerce survey on Brexit picked up some positive views about the potential of Brexit in the tourism sector for this very reason.
- However, the other macro-economic effects and the general uncertainty may of course lead to some reduction in total spend by UK residents on travel and holidays.

Manufacturing sectors with significant sales to EU markets

1.37 In December 2018 we highlighted these as falling in the medium/high exposure category. The potential impact in the longer term for these sectors has not changed markedly. The effect of a no deal Brexit is hard to assess given that it depends on the precise nature of the goods and markets in each businesses exports and imports. Larger firms are, based on research by the CBI and others, as prepared generally as they can be in terms of stockpiling supplies and building in more resilience to their supply chains.

1.38 Businesses that rely on significant imports of raw materials and semi-finished manufacturing goods will be affected by higher import prices.

1.39 The main concern here is amongst those smaller businesses that export where, as noted earlier, based on UK-level data around half to two thirds may not have even made basic preparations for the new export regimes.

Appendix A: Bibliography

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Appendix B: Summary Assessment of Preparedness, July 2019, CBI

	Area	UK readiness	EU readiness	Joint readiness	Business readiness
Movement of goods	Customs	Orange	Red	Red	Orange
	UK border	Orange	Red	Red	Orange
	Haulage	Orange	Red	Red	Red
Regulated goods	Regulated manufacturing	Yellow	Red	Red	Orange
	Chemicals	Orange	Orange	Red	Red
	Life sciences	Yellow	Red	Red	Yellow
	Agri-food	Yellow	Red	Red	Orange
	Tariffs	Red	Red	Red	Red
	EU Tax Directives	Yellow	Orange	Yellow	Yellow
Northern Ireland	Irish Border	Red	Red	Red	Red
	Common Travel Area	Green	Green	Orange	Green
	Integrated Single Electricity Market	Orange	Yellow	Yellow	Yellow
Regulated services	Financial services	Yellow	Red	Red	Orange
	Professional and Business Services	Orange	Red	Red	Orange
	Energy	Orange	Orange	Yellow	Yellow
	Broadcasting	Green	Red	Yellow	Yellow
	Aviation	Yellow	Orange	Yellow	Green
People	Current residents	Green	Orange	Orange	Yellow
	Mobility	Yellow	Red	Orange	Yellow
	Future immigration	Yellow	Red	Yellow	Yellow
	Data flows	Orange	Red	Red	Orange
	Competition	Green	Green	Yellow	Yellow
Global relations	Free Trade Agreements	Red	Red	Green	Orange
	World Trade Organisation	Yellow	Green	Green	Green
	International Agreements	Orange	Green	Yellow	Orange
Programmes	Research and Innovation	Yellow	Orange	Orange	Orange
	Regional funding	Yellow	Green	Green	Green

- Red: Negative impact anticipated from Day 1 of no deal
- Orange: Some provisions made to reduce the negative impact, but risks around scope, communication and/or implementation may mean some disruption from no deal
- Yellow: Good temporary provisions to avoid disruption on Day 1 of no deal, but no long-term solution
- Green: Sufficient preparations for the short- and long-term