



Leaving the European Union

A review of evidence about opportunities, challenges and risks to the North East economy and its key sectors with recommendations for action

North East Brexit Group 2018



North East England
Chamber of Commerce



The
manufacturers'
organisation

TUC
Changing the world
of work for good



ENTREPRENEURS'
FORUM

North East
Local Enterprise Partnership



neca
north east combined authority



**University of
Sunderland**



VONNE
voluntary organisations' network north east



Preface

The decision for the UK to leave the European Union is widely recognised to represent a significant change to the economic and public policy environment affecting the whole of the UK.

The North East of England has a distinctive economic legacy. In this context, there is a concern across the region that specific challenges and opportunities are identified and addressed.

The North East Brexit group was formed to provide a collective voice of North East economic organisations as the UK moves through the Brexit process. It brings together key networks representing businesses, education, trade unions, local authorities and voluntary organisations. Its starting point is that the outcome of the negotiations must deliver an economic and policy framework that can ensure the delivery of the aims and programmes set out in the North East Strategic Economic Plan.

As part of a wider work programme to help inform the Brexit debate, this report aims to understand the impact, challenges and opportunities that Brexit presents to the North East economy as a whole, and the sectors and industries which are key to the delivery of More and Better jobs for the region. The group has reviewed and collated existing information and intelligence from a range of sources in order to offer a perspective on issues for each of the key North East sectors. The report summarises national level evidence and regional intelligence in the context of the industrial structure of the North East.

This report is intended to contribute to the national dialogue on the main opportunities, concerns or challenges that businesses anticipate leading up to Brexit, from a North East perspective. It is the agreed regional perspective from North East organisations or the North East based teams from national bodies. Many of the individual organisations who are part of the group will be publishing their own reports on Brexit.

The North East Brexit group is grateful to the range of organisations and businesses who have contributed evidence to this report. Particular thanks are due to Emma Ward, Policy and Evidence Co-ordinator at the North East Local Enterprise Partnership (LEP) who has drawn the report together.

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01

Introduction

The North East Brexit group¹ brings together key networks representing businesses, education, trade unions, local authorities and voluntary organisations. Its purpose is to monitor economic evidence and the views, experiences and response of business, education and other organisations in the North East Local Enterprise Partnership area as the UK moves through the Brexit process.

1.1 In this work our shared aims are to:

- Understand potential opportunities and impact areas in the context of the delivery of the North East Strategic Economic Plan (SEP)²
- Identify and address relevant support needs of businesses, employees and interventions to support the regional economy
- Ensure that national policy reflects an understanding of the economic structure, ambitions and conditions of the North East.

The consensus is that:

- The North East is, and should remain, an open economy able to continue to strengthen trade, attract investment and secure skills
- The outcome of the negotiations must deliver a strong ongoing relationship with the European Union
- The UK needs to develop new policies in a number of areas that will replace and improve those resources and regulations currently derived from the European Union.

Although many of the messages detailed in the [statement issued](#) by the group in 2018 are relevant to other places in the UK, the North East Brexit group believes the impact on the region will be distinctive and potentially greater as a result of:

- **The sectoral composition of the North East:** with particular reference to its key areas of opportunity digital; advanced manufacturing; health and life sciences; subsea, offshore and energy technologies; as well as its key enabling sectors; education, professional and business services and transport

- **The North East being a leading exporting region within England:** with exports to Europe making an unusually large proportion of its economic activity. It is estimated that over 140,000 North East jobs are dependent on EU trade alone³
- **The importance of inward investment to our economy:** the North East is one of the leading locations for inward investment outside London, with a larger than average proportion of North East jobs being in internationally owned businesses
- **The structure of our labour force:** ensuring that the region's future growth objectives can be delivered requires workforce needs to be met. In particular the North East needs to retain access to skilled migrants and international students
- **Our geographical location:** there are potential competitive disadvantages if Scotland develops more favourable tax, regulatory, trade or immigration policies.

1.2 Our focus in this report: the North East Economy, key sectors and areas of opportunity

As a collective the group aims to research and circulate key messages within the region and to national and regional bodies. This report is part of wider work plan to help inform the Brexit debate and is the agreed regional perspective from the North East organisations or the North East teams from national bodies.

It is the intention of the group to refresh this report on an ongoing basis to ensure it reflects current evidence and that the key messages are up to date.

This report has been informed by an extensive literature review of national

and regional focussed reports and ongoing discussions with economic partners from across the North East LEP area. It aims to summarise national and regional level evidence about:

- The potential impact of different Brexit scenarios on the North East economy as a whole
- Issues and opportunities for those key sectors that represent areas of opportunity for the North East
- Those actions that can be implemented nationally or regionally to ensure that the changes implied by Brexit can support or strengthen delivery of the aims set out in the SEP across the North East's areas of opportunity.

The North East SEP is the primary economic document for the North East LEP area, prepared by the Local Enterprise Partnership in consultation with partners from all sectors.

It draws from a comprehensive evidence base about:

- The industrial strengths and opportunities, innovation and wider business growth opportunities within the region
- Infrastructure needs and priorities
- The position with reference to human capital, in particular the size, scope and trends within our population and labour force and the current and future skills position required to fulfil our economic aims.

¹ The North East Brexit group is an informal group including participants from the following organisations: CBI North East, North East Chamber of Commerce, North East Federation of Small Businesses, Entrepreneurs Forum, North East EEF, Northern TUC, North East Local Enterprise Partnership, North East Combined Authority, representatives from the four universities, Voluntary Organisations Network North East (VONNE)

² North East Local Enterprise Partnership (2017) More and better jobs, The North East Strategic Economic Plan. <https://www.nelep.co.uk/the-plan/>

³ Ardy, B., Begg, I., and Hodson, D. (2015) UK Jobs Dependent on the EU. South Bank University. <http://www.europarl.europa.eu/unitedkingdom/resource/static/files/ukjobs.pdf>



02

Executive summary

This reports brings together official and academic papers and reports published by professional bodies across the region's key sectors to understand the impact, challenges and opportunities that leaving the European Union will have on the North East in the context of the North East Strategic Economic Plan.

2.1. Modelled regional impact of Brexit on the North East economy

A series of studies from government, academics and other researchers have investigated the potential impact of Brexit on different regions or have provided a specific focus on the North East economy.

There are some common findings across these studies about the likely outcomes of Brexit, although the range of effects depends on the outcome of negotiations on North East economy. These include:

- Lower future levels of economic activity in the North East over different timescales as a result of the decision to leave the EU
- The North East is expected to experience a particular impact as a result of its disproportionately large trading relationship with the European Union in manufacturing (particularly in the automotive and pharmaceutical sectors)
- Reports suggest that alongside manufacturing, key sectoral impacts nationally will be on places hosting knowledge intensive services. In the North East these are concentrated in Newcastle, Gateshead and North Tyneside
- All reports suggest that a key outcome required for negotiations is to retain an open trading regime and access to the single market.

Different studies identify findings specific to their particular focus:

- The Whitehall briefing prepared for ministers identifies key sectors which will be at highest risk of impact nationally. Two of the sectors anticipated to experience the most impact, automotive and pharmaceuticals, have high concentrations in the North East, with a significant knock on impact on overall regional growth
- A study led by the University of Birmingham concludes that UK regions are

more likely to experience negative effects compared to other regions in Europe. Causality is linked to a higher proportion of trading activity exposed to new barriers created by Brexit. Risks will be around impact on gross domestic product and labour income, and are highest within the Midlands and the North of England

- Analysis by the London School of Economics and Centre for Cities suggests that all UK local authority areas will see a decline in economic output in both 'hard' and 'soft' Brexit deals. The largest effects are in cities rather than non urban areas as a result of higher trade costs between the UK and EU. In a 'hard' Brexit scenario the Gross Value Added (GVA) in cities is estimated to be, on average 2.3% lower. Under a 'soft Brexit' the impact is, on average, 1.3% lower than if the UK remained in the EU
- A study from Durham University Business School modelled the effect of various trade agreements on UK, under a 'no deal' scenario being announced, with changes implemented a year later. It finds an immediate reduction in UK productivity of around 6.8% as the terms of departure are announced with a much larger fall once trade barriers come into effect. In the long term, UK productivity, wages and profits of UK firms would recover slowly, but to a significantly lower level. Causality is due to falling labour demand from exporters, and decreased competition on the domestic market. The model also quantifies the positive impact of various 'transition' periods, with the first three years being most significant in at least reducing some effects.

2.2 The impact of Brexit on key North East sectors

Information gathered from across the key North East sectors aims to understand areas of concern, challenge and opportunity resulting from Brexit. This

information identifies areas of common interest and concern across more than one sector resulting from Brexit.

It also identifies specific areas of unique importance or emphasis. These are linked to the structure of the sector or embeddedness of EU linkages.

The research suggests that Brexit will have impact over time with some immediate impacts already evident and others to follow as the process of leaving rolls out:

- Some North East exporters, for example medicines manufacturers, report uplift in trade volumes with businesses benefitting in the short term from the devaluation of sterling. However, the overall balance of trade values have changed to put the North East in a net importing position for the first time in many years
- There is evidence that business confidence in digital and transport sectors has already been affected with some decisions having been made to locate investment in Europe rather than in the North East and evidence that some new business contracts have not been won as buyers have chosen to work with EU based partners
- Some future decisions will be taken by North East businesses on a risk management basis and in the absence of clarity, some businesses are planning for a worst case scenario i.e. reverting to World Trade Organisation trade arrangements. Furthermore, many businesses say scenario planning is difficult because of the information available, with many stating the complexity of the information is challenging to make contingency plans.
- Longer term investment decisions are dependent on the outcome of the negotiations and implementation phase with key factors identified as being the openness of export relationships, skills

availability and access to supply chains as key factors affecting the confidence to invest.

Outcomes from the negotiations

The research identifies a series of common outcomes sought from the Brexit negotiations, many of which were agreed across key North East sectors including:

Regulatory issues: There is an aspiration for stability and ongoing coherence of the regulatory frameworks between the UK and EU. There are a number of linked observations:

- That the regulatory environment provides a competitive advantage for the UK either by ensuring a level playing field of standards, facilitating flows of trade, export and supply chain engagement, or the joint response to global challenges, for example by enabling a common approach to climate change and low carbon development which enables collaboration and fair competition
- That the legal framework is complex built on multiple rules, laws, directives or investment frameworks which would be complex to unpick or vary, and uncertainty may impact on investment decisions or market activity.

Trade and investment links: maintaining an open trade and investment environment is regarded as a key outcome required from the negotiations. Given the importance of trade, a frictionless and tariff free flow of goods and services across the EU/UK border is required to ensure:

- That supply chains and innovation engagements are not disrupted and can continue to develop
- A level playing field for competition
- There is agreement to a transition period to facilitate adaptation by businesses.

Human resources: there is a need for continual access to skilled individuals in and out of the EU and UK to address:

- Significant existing skills shortages, especially in high level or specialist skills

- Wider future demographic changes, where the supply of North East labour is limited by age or skills profiles
- Internal movements of workers across borders in multi site international businesses, for example to move specialists around key projects around multiple locations around Europe
- The ongoing protection of employment rights, in areas like working rules, health and safety and terms and conditions, to retain competitiveness for labour supply, and for key skills.

EU funding, programmes and wider

financial issues: a number of sectors have been able to access EU resources or networks which add significant value or create opportunities for growth, skills development or innovation including:

- Sectorally targeted resources such as rural development funds
- Access to research and innovation collaboration, for example through FP7 and Horizon 2020
- Specific instruments which address market failures or gaps in provision for example North East Finance (Jeremie) resources, funding for key skills, and business support activity
- Looking forward, in a number of sectors changing financial regulations, for example state aid rules, are suggested as areas which could assist with learning and investment.

Areas of opportunity

Alongside the concerns and challenges that were raised, a series of opportunities were identified across North East sectors. These include:

- Building on the devaluation of the pound to boost exports; to secure more home shoring of supply chain activity given relatively cheaper capital costs
- Refining funding rules in areas like state aid, and VAT to ensure that programme priorities, such as the new UK Shared Prosperity Fund can respond more flexibly to local and regional needs

- Examining opportunities to adapt to the regulatory framework to support investment and development in areas of growth and innovation
- Supporting investment in infrastructure related costs in areas like energy efficiency, science and research facilities and to facilitate more innovation in public procurement models
- Investing in skills, support infrastructure and connectivity to ensure that the workforce meets current and future demand
- Maximising the benefits of new flexibilities such as reducing administration around funding programmes and use of devolved mechanisms to improve targeting
- Depending on the trade agreement reached with the EU, if impact of current arrangements remains relatively slight, and opportunities to trade with new and emerging markets increases, the North East has opportunities to capitalise on as a trading region.

Preparing business and workers for change

In the short to medium term, there is a clear need for strong business communications to provide clear and consistent advice and messages on Brexit, encouraging businesses and workers to prepare for changing regulations well in advance, including:

- A national level communications campaign providing timely and accurate advice and information
- Using Growth Hubs and wider business support networks to develop communications and business support and advice on a range of issues including trading regimes, contractual and regulatory changes, human resources activity
- The resolution of the migration position for European workers, students and other nationals whose residential or employment position may change.

03

Regional impact of Brexit on the
North East economy

A number of reports produced by the civil service, universities and other researchers have aimed to model the impact of Brexit on key parts of the North East economy. Each has taken a different approach, either building its model around different assumptions, testing impacts on different components of the economic structure of the region, or exploring different scenarios for the outcome of the negotiations looking over different timescales. This section of the report summarises each report in the context of the North East economy.

3.1 Government analysis

In January 2018, figures estimating the 15 year impact of the UK staying in the single market, doing a trade deal with the EU or leaving without a deal, were issued by government⁴. The model uses a variety of top down analysis and sectoral case studies to calculate the potential impact that non tariff barriers with the EU would have on the UK.

The report identifies those sectors dependent on trade with the EU that are likely to see the biggest effect on economic activity. The emerging findings suggest that the largest effects would be on chemicals, food and drink, clothes, manufacturing, cars and retail. This reflects trade barriers introduced on sectors, their relative share of trade with the EU and the trade intensity of their inputs.

Sectoral GVA is projected to decrease by between 2% and 8% depending on the negotiated trade agreement at a UK level, compared with rates currently forecast over a 15 year period.

The report recognises that across all scenarios, there is potential for non EU trade deals and regulatory opportunities to offset some of the effects of lost markets on these sectors, however there is little detail at this stage at what that would look like. Furthermore, the initial geographical effects may be greater in regions and nations that are more exposed to a change in trade barriers due to their exporting composition or because they have a higher dependence on exports as a proportion of the regional economy. In England, the model suggests that the North East and West Midlands would see the biggest impact to growth.

If a 'no deal' or World Trade Organisation (WTO) trade agreement was negotiated the study suggests that the North East would face a potential decrease of 16% of GVA.

% change in regional GVA impact estimates from status quo relative to underlying output

Region	Single market (%)	Free trade (%)	No deal (%)
East Midlands	-1.8	- 5	- 8.5
Eastern	-1.8	- 5	- 8
London	-1	-2	-3.5
North East	-3	-11	-16
North West	-2.5	-8	-12
South East	-1.5	-4.5	-7.5
West Midlands	-2.5	-8	-13
Yorkshire and Humber	-1.5	-5	-7
Northern Ireland	-2.5	-8	-12
Scotland	-2.5	-6	-9
Wales	-1.5	-5.5	-9.5
UK	-2	-5	-8

House of Commons Exiting the European Union Committee, (2018) EU Exit Analysis Cross Whitehall Briefing <http://www.parliament.uk/documents/commons-committees/Exiting-the-European-Union/17-19/Cross-Whitehall-briefing/EU-Exit-Analysis-Cross-Whitehall-Briefing.pdf>

3.2 Other reports

Governments analysis aims to provide an evidence based framework to consider upsides and downsides of scenarios overall and by sectors, to support the development of policies in response. This report has looked at other academic studies to test whether these support or challenge this impact assessment, and with a specific North East focus, whether common themes or conclusions can be drawn out.

Economic exposure to Brexit within the UK and across Europe, Chen et al (2017)⁵

An international research team, led by City-REDI Institute at the University of Birmingham has focussed on assessing the exposure of NUTS (Nomenclature of Territorial Units for Statistics) 2 level regions in the UK and the EU to Brexit, through an analysis of the nature and scale of their trade linkages. The team has developed an index which calculates the trade related consequences of Brexit, incorporating all effects likely to flow from geographically distributed production processes within the UK, the EU and beyond. The data used is the EU interregional extensions (for 245 regions) to the World Input-Output Database (WIOD). This links international and interregional trade flows to domestic national economic structures, and incorporates global value chains of intermediate goods. The index assesses the size of trade related economic risks, and therefore the potential economic shock, to all UK and EU regions and countries in the event of a 'no deal' scenario between the UK and EU.

⁴ House of Commons Exiting the European Union Committee, (2018) EU Exit Analysis Cross Whitehall Briefing <http://www.parliament.uk/documents/commons-committees/Exiting-the-European-Union/17-19/Cross-Whitehall-briefing/EU-Exit-Analysis-Cross-Whitehall-Briefing.pdf>

⁵ Chen, W., Los, B., McCann, P., Ortega-Argiles, R., Thissen, M., van Oort, F. (2018) 'The Continental Divide? Economic Exposure to Brexit in Regions and Countries on both Sides of the Channel', Papers in Regional Science, 97(1), 25-54. DOI: 10.1111/pirs.12334.

The research findings demonstrate that UK regions are more exposed to Brexit than those in Europe, with regions in Ireland facing similar exposure levels to UK regions.

The exposure to Brexit related risks, regarding Gross Domestic Product (GDP) and labour income, is highest within the Midlands and the North of England. In terms of the regional shares of local GDP exposed to Brexit, in Northumberland and Tyne and Wear it is 12.2% and in Tees Valley and Durham it is 11.9%. With regards to local labour income exposed, for Northumberland and Tyne and Wear, and Tees Valley and Durham, is 11.1% and 10.7% respectively.

Moreover, the research suggested that London and Scottish regions' rates of exposure are higher than the regions outside of the UK, but lower than most regions of the UK. Therefore, it is many of the UK's least powerful regions which are especially exposed to Brexit.

When comparing regions across the UK and the EU, the UK is 4.6 times more exposed than the rest of the EU, with the majority of the EU countries facing almost no exposure at all. An estimated 2.6% of EU GDP was predicted at risk because of Brexit trade related consequences, whereas 12.2% of UK GDP was at risk.

There is a strong sectoral and geographical logic across EU regions to risks, with regions in countries close to the UK, such as Ireland, Germany, the Netherlands, and Belgium being more exposed than regions in southern or central Europe. Risk exposure within regions in northern and western Europe are between one quarter and one half of those faced by UK regions.

The rest of the EU is largely unaffected, with Brexit-related risks of 2% of GDP or less for more than two thirds of the EU member states. This could mean that other EU countries have little incentive to support a comprehensive UK-EU free trade deal if it implies wider risks, for example adversely affecting the position of the single market.

Modelling of trade and investment impacts by local authority area by the London School of Economics (LSE) centre for Economic Performance and Centre for Cities (2017)⁶

Analysis by the LSE and Centre for Cities examines the potential impact of both a 'hard' and 'soft' Brexit on British cities and local authority areas in the ten years following the implementation of new trade arrangements with the EU. The model estimates the effect of Brexit on the UK's trade and living standards using a quantitative trade model of the global economy using national level trade flows and tariff data and inter-industry linkages from the WIOD.

The research suggests that every North East local authority area is set to be negatively affected by Brexit with cities likely to see a larger decline in GVA than non-urban areas as a result of higher trade costs between the UK and EU. This impact will be greater in a 'hard Brexit' scenario, where the economic output (GVA) in areas will be on average 2.3% lower compared to under a 'soft Brexit' (1.2% lower) than if the UK remained in the EU.

Cities with large shares of employment in private sector services such as law, finance, consultancy services, predominantly in the South are predicted to be most negatively

affected due to the increased trade costs linked to Brexit. However, these cities tend to be more productive and have a highly skilled workforce, which means they may find it easier to adapt in the longer term.

Furthermore, differences in cities' ability to adapt to Brexit-related changes may mean that the economic gaps between cities widen. Even though the immediate impacts are predicted to be smaller in poorer regions, households in those areas start off poorer and may face more difficulty adapting to changes.

Areas that are predicted to be most negatively affected by Brexit were more likely to vote remain in the 2016 referendum, which is a contradiction to other studies that have suggested that areas which voted strongly to leave are likely to be worst affected. This model differs as it accounts for increases in non-tariff barriers and the changes from foreign to domestic supply as trade costs rise and therefore produces a different geographical pattern for places that will be most affected.

The estimated impact that Brexit will have in terms of the economic output across local authorities in the North East is presented below. North Tyneside, Newcastle upon Tyne and Gateshead are most likely to be affected by both a 'hard' and 'soft' Brexit compared to other North East local authorities.

Impact of Brexit (% change Gross Value Added) ranked by hard Brexit

Local authority	Soft Brexit (%)	Hard Brexit (%)
North Tyneside	-1.3	-2.5
Newcastle upon Tyne	-1.2	-2.2
Gateshead	-1.2	-2.2
Sunderland	-1.2	-2.1
South Tyneside	-1.2	-2.1
County Durham	-1.2	-2.0
Northumberland	-1.1	-2.0

Clayton, N. and Overman, H. (2017) Brexit, trade and the economic impacts of UK cities. London School of Economics Centre for Economic Performance and Centre for Cities. <http://www.centreforcities.org/wp-content/uploads/2017/07/17-07-26-Brexit-trade-and-the-economic-impacts-on-UK-cities.pdf>

The short and long term dynamics of Brexit the consequences of a 'no deal' scenario (2017) Centre for Banking, Institutions and Development (CBID) Durham University Business School⁷

Durham University Business School have developed an international trade multi-country model that quantifies the effect of various trade agreements on UK firms and households and a range of important economic variables.

The analysis is based on a scenario of the UK government agreeing a 'no deal' scenario, and the UK facing changes to both tariff and on-tariff barriers to trade one year later. The key findings from the economic modelling are:

- After post Brexit trade terms are announced there is likely to be a small, immediate reduction in UK productivity
- Once new post Brexit barriers to trade come into effect UK productivity, wages and profits of UK firms could fall significantly
- In the long term, UK productivity, wages and profits of UK firms are likely to recover slowly, but to a significantly lower level. For example, the model predicts that, immediately post Brexit, the fall in total profits is expected to be 6.8% below its pre-Brexit level, while in the long term, total profits are expected to be 4.2% below this level. This prediction is linked to two main factors: (a) falling labour demand from exporters, and (b) decreased competition on the domestic market.

As well as examining the impact of 'no deal' on the economic variables, the model also quantifies the potential impact of various 'transition' periods, from no transition period to a transition period of each of one to six years. The transition period length is the period between the terms of Brexit being announced and the terms coming into force. The model suggests that the impact of a transition period is significant for the first three years but after this point, the benefits of an additional year of transition decrease rapidly. For example, the model predicts that under a one year transition, GDP falls by

10.8%, two year transition GDP falls by 10.2% and three year transitional period, a fall of 9.9%. Thereafter there is little change in impact and therefore, the impact of a transition period of less than three years is likely to have greater impact on the UK economy, firms and households.

In 2018, CBID also published a policy note⁸ which considers the implications of five possible trade scenarios including:

- A 'no deal' (WTO rules)
- 'Barnier' Free Trade Agreement (FTA for goods only),
- Full Free Trade Agreement
- Unilateral reductions in barriers to UK imports with WTO/'No Deal' Rules for UK exporters
- Unilateral reductions in barriers to UK imports with 'Barnier' FTA for UK exports.

The model suggests that under the 'no deal', 'barnier' FTA and full FTA, once the new trade arrangements comes into effect, labour productivity, the average real wage, GDP and the profits of UK firms could fall sharply below the level the model predicts at which they are likely to be when the new terms are announced. Moreover, long term, labour productivity, the average real wage, GDP and the profits of UK firms from the domestic market will recover slowly to a new level, however this will be below when the terms of trade are announced.

Brexit and regional services: heat map approach. UK Trade Policy Observatory briefing paper, 2018

A briefing paper published by the UK Trade Policy Observatory (2018)⁹ provides a heat map of how Brexit may affect the services export prospects of UK regions. Regions with the largest export values are not necessarily those that are most focussed on the EU. In fact, the North East and West Midlands respectively, followed by the South East, are the regions that export the most to EU countries overall, relative to non-EU destinations. The orientation of services exports from manufacturing sector firms is geographically more diverse, with regions in the North exporting more to the EU than regions in the South. The

paper suggests that regions such as the North East or the Midlands may therefore be more vulnerable to Brexit shocks because of the sectoral composition of their services exporters and their orientation towards EU markets. At the same time, such regions may derive some resilience from the fact that services exports from the manufacturing, ICT and professional business services sectors have grown buoyantly over the past few years. Much of this growth has occurred in Scotland, the North West, Yorkshire or the North East.

Business surveys by North East Brexit group members

The North East England Chamber of Commerce Quarterly Economic Survey sets out the current position from its members. Businesses are questioned on a wide range of issues, including: home sales and orders, export sales and orders and employment prospects¹⁰. It also illustrates members' preferences in relation to Brexit outcomes Businesses report or uncertainty on outcomes such as immigration control, divergence from EU regulations and ability to strike independent trade deals on the future success of their business.

Businesses were confident that an outcome involving remaining part of the single market and customs union would have a positive effect on their business, through experiencing minimal customs bureaucracy, economic tariffs and access to EU markets. In 2018, the CBI undertook a survey¹¹ of over 300 businesses, and a broad consultation with many more, to understand how firms are preparing for Brexit. Businesses are taking action to assess risks and seek opportunities. Over half of businesses consulted have examined different Brexit scenarios and the potential impact on their business.

However, 94% say that scenario planning is difficult because of lack of information available, whilst 77% say the number of potential scenarios make it challenging. Furthermore, half of the businesses consulted stated that the cost required to make contingency plans is prohibitive, while 47% find the complexity of the information challenging. Many businesses are developing a contingency plan for a 'no deal' scenario as it's the clearest scenario to prepare for and the uncertainty presents serious risk to investment.

7 Nicolae, A. and Nowe, M. (2018) Briefing Note to the North East Brexit Group on the Consequences of 'No Deal' Outcome on the UK. Briefing Note not available in the public domain.

8 Nicolae, A. and Nowe, M. (2018) Future UK Trade Arrangements Potential Impact on the UK Economy, CBID Policy Note 2712 https://www.dur.ac.uk/resources/business/research/DUBS_CBID_PolicyNote_2712.pdf

9 Borchert, I. and Tember, N. (2018) Brexit and Regional Services: A Heat Map Approach. UK Trade Policy Observatory, University of Sussex and Chatham House, The Royal Institute of International Affairs. <http://blogs.sussex.ac.uk/uktpo/files/2018/01/Briefing-paper-14-Heatmap-final.pdf>

10 North East England Chamber of Commerce (2018) Quarterly Economic Survey (Q1 2018) <https://www.neechamber.co.uk/updates/chamber-news/chamber-economic-survey-q1-shows-strong-export-growth>

11 CBI (2018) CBI survey: How businesses are preparing for Brexit. <http://www.cbi.org.uk/cbi-prod/assets/File/FINAL-Brexit-preparedness-survey-write-up.pdf>



04

Evidence from key North East sectors

Digital

Automotive

Pharmaceutical

Wider manufacturing

Health and social care

Energy, utilities and water

Financial, professional and business services

Transport and logistics

Education

Rural

Culture and tourism


This section of the report reviews evidence on Brexit from a number of existing reports and submissions which aim to identify research or testimony from businesses and other economic partners in a group of key North East sectors and specialisms. They are featured because of the prominence of the sector in the region or because the report is specific to the region.

This section concentrates on evidence in the following areas:


- The four areas of opportunity and enabling services identified in the North East Strategic Economic Plan
- Other sectors where the North East has distinctive assets

The following table summarises the evidence gathered by impact area reported in this section. It highlights areas where North East sectors have indicated support is required and where there are areas of opportunity post Brexit.

	Impact area	Trade	Investment	Human resources	Regulatory framework	EU funding	Supply chain growth
North East sectors	Digital						
	Automotive						
	Pharmaceutical						
	Wider manufacturing						
	Health and social care						
	Energy, utilities and water						
	Financial, professional and business services						
	Transport and logistics						
	Education						
	Rural						
	Culture and tourism						

 the sector needs support to deal with challenges in a particular area

 this information was provided but not a priority for support

 business opportunities that with support could come into fruition

 No comment made

4.1 Digital

Tech Nation¹² provides intelligence on the digital clusters across the UK. In Newcastle, the digital cluster supports 20,290 digital jobs; generates £1 billion digital GVA; 22% of digital firms are considered high growth and in 2016, the region witnessed 211 start-up births.

North East digital organisations and start ups highlighted a number of current challenges including lack of supply of highly skilled workers (66%), limited opportunities to access finance (37%) and retention of skilled workers is a challenge specific to the North East (50%).

Businesses were also asked the likely impact of Brexit on their business operations, of which the main findings include:

- 47% expect to grow their operation in the UK
- 50% believe it will be harder to attract talent, and 30% believe it will be hard to retain talent
- 57% do not think it will improve access to new markets.

The Carnegie UK Trust (2017) produced a research paper examining the implication of Brexit for the UK's digital sector.¹³

This was informed by workshops with policy makers, civil society and industry representatives in London, Newcastle and Cardiff and resulted in a number of common themes being observed:

- The UK government must promote and deliver stability in the digital sector, post Brexit, and in the short term provide certainty and reassurance for businesses, citizens and consumers. In order to achieve this, consumer
- voice is needed to help shape the UK's approach to the digital sector
- There is an opportunity to improve domestic retail communication markets for citizens, through returning regulation for services such as broadband. The EU currently prevents retail price regulation, which the UK could return to, similar to the energy market. This would drive down prices for consumers and improve service quality. Similarly, rural broadband delivery in the UK may be improved through looser state aid rules post-Brexit. Therefore, regulation must meet the UK needs of the sector, building on the voice of consumers and sector representatives. Currently, tariffs on digital goods are considered low and bounded by WTO rules, creating a strong trade in services. 81% of sector exports are spread across service activities. As a result, the primary trade-related risks will be through possible non-tariff barriers, in particular for the regulation of services activities¹⁴
- Cross border data flows underpin a modern, services-oriented economy, and the UK is considered a global leader: accounting for 11.5% of global cross border flows (three quarters are between the UK and EU countries). Brexit places cross border data flows at risk by introducing uncertainty on EU data protection regulations, and compliance with these laws¹⁵
- Given the importance of trademarks, patents and copyright to digital businesses, concern was raised over continuation of standards post Brexit. The Intellectual Property Office has been clear that the aim will be to deliver no major change in intellectual property rules, and post Brexit, UK businesses will still be able to register an EU trade mark¹⁶
- Public policy management is essential to ensure digital innovation post Brexit, bringing new products and services to citizens. Outside the EU, Britain will have increased flexibility and shorter decision making chains which could

give the UK competitive advantage over global competitors. This may open up technological and innovation opportunities, but will need to be carefully balanced by public policy

- The digital sector relies on global talent and a decline in an international digital workforce, combined with the UK being a smaller market for products and services, brings risks of higher prices and reduced choice of services for citizens after Brexit. There needs to be assurance that any changes to visa systems will ensure that businesses can easily recruit and fast track applicants, where appropriate, to reduce the impact of possible skills shortage in the UK.



¹² Tech Nation (2017) Newcastle digital cluster. <https://technation.techcityuk.com/cluster/newcastle/>

¹³ Perrin, W. for Carnegie UK Trust (2017). Brexit: implications for digital citizens and consumers. https://dlssu070pg2v9icloudfrontnet/pex/carnegie_uk_trust/2017/09/Final_Brexit_Report.pdf

¹⁴ Frontier Economics (2017) The UK Digital Sectors after Brexit, An independent report commissioned by techUK. <https://www.frontier-economics.com/documents/2017/01/the-uk-digital-sectors-after-brexit.pdf>

¹⁵ Ibid

¹⁶ Intellectual Property Office (2016, last updated 26 April 2018) IP and BREXIT: The facts <https://www.gov.uk/government/news/ip-and-brexit-the-facts>

4.2 Automotive

The automotive sector is a highly integrated global industry and has built its success on favourable trading conditions resulting from the UK's membership of the single market. The UK's withdrawal from the EU is likely to have a significant impact, if the introduction of new barriers to trade occurs, risking undermining the competitiveness of the sector¹⁷. The North East has a strong and growing automotive and low carbon vehicle cluster, including significant supply chain activities which is of national significance, focused in the Sunderland and South Tyneside area. The North East boasts the largest automotive cluster in the UK, with over 250 companies and the North East Automotive Alliance¹⁸ supports growth of this sector base.

The automotive sector is a prominent player in the regional economy, generating sales of over £11 billion annually and employing over 30,000 individuals within manufacturing companies and a further 141,000 jobs across UK supply chains. By 2021, the sector is predicted to grow by more than £3 billion by 2021. However, the sector has experienced some challenges generated by Brexit.

The North East Independent Economic Review¹⁹ (Summary of Evidence) considered that the Nissan supply chain was worth close to £1 billion. It also notes that the North East's main opportunities relate to the development of electric vehicles and other low carbon vehicles' technology such as hydrogen and the offshore wind turbine market.

For the automotive sector, key areas of concern and opportunity identified include: ²⁰

- The long-term investment decisions and commitment of Original Equipment Manufacturers (OEM) like Nissan to the North East given that there is a potential risk of additional costs derived from tariffs, rules of origin and the complexity of automotive supply chains. This will be compounded by local content rules and the administration of passing unfinished goods over hard borders several times. This may affect the competitiveness of the Sunderland plant relative to other jurisdictions²¹
- The sector has identified that weak sterling is supporting exports making finished products more competitive. However, the complexity of the supply chain has meant that the cost of importing parts has soared.

In response to these challenges, the sector seeks the following response from negotiations:

- Retain the benefits of the single market and secure tariff and customs free automotive trade with the EU. Brexit negotiations should ensure that there are no additional serious barriers to import and export, and that just-in-time manufacturing can be maintained. Regulatory certainty is needed through harmonisation of product regulation and type and approval
- Manage the transition from EU membership to a new trading relationship by continuing existing trading arrangements with the EU and third country markets in the event of no deal being agreed ²²
- Take the opportunity for an increase in localised supply chains²³, through sourcing alternative suppliers or home shoring supply chain activity due to a greater demand in final vehicle customisation and depreciation of exchange rate which increases local competitiveness. Nissan Manufacturing

UK will need to move production sources from overseas to within a short distance to facilitate just in time delivery. Regionally, this could result in an increase in the local supply base in terms of tier one suppliers and increase in locally assembled content. Although prolonged uncertainty could lead to the movement of investment to mainland Europe

- More attractive incentives should be made available to support inward investors into the North East
- Ensure that UK automotive has unrestricted and reciprocal access to EU talent.



17 The Society of Motor Manufacturers and Traders. (2017) UK Automotive Sustainability Report. <https://www.smmmt.co.uk/wp-content/uploads/sites/2/SMMT-Sustainability-Report-2017-online.pdf>

18 The North East Automotive Alliance is an industry-led cluster group, established to support the economic sustainable growth and competitiveness of the sector in the North East of England

19 North East Local Enterprise Partnership (2013) The North East Independent Economic Review Report. <https://www.nelep.co.uk/wp-content/uploads/2014/11/North-East-Independent-Economic-Review-April-2013.pdf>

20 Southby, A. (2017). How the North East Automotive Alliance is driving sector to a whole new level', Newcastle Chronicle. <http://www.chroniclive.co.uk/business/business-news/how-north-east-automotive-alliance-13692248>

21 Public and Corporate Economic Consultants (PACCE) (2016) Sunderland Economic Leadership Board: Implications for Sunderland of the UK's EU in/out referendum.

Available at: <https://www.ne-bic.co.uk/wp-content/uploads/2016/06/Sunderland-Brexit-Final-Report.pdf>

22 The Society of Motor Manufacturers and Traders. (2017) UK Automotive Sustainability Report. <https://www.smmmt.co.uk/wp-content/uploads/sites/2/SMMT-Sustainability-Report-2017-online.pdf>

23 RPI Consulting on behalf of Sunderland City Council and South Tyneside Council (2016) UK automotive sector in the North East. Report not available in the public domain.

4.3 Pharmaceutical manufacturing

The North East has over 5,600 employees working in 145 companies in the medicines manufacturing industry. The wider sector includes 7,750 employees in 200 companies.

Medicines manufacturing in the region has built a strong reputation for regulatory expertise, high quality and a safe manufacturing record.

There is a successful SME base working closely with industrial partners and an increasingly strong group of research and innovation assets in or close to the North East, in areas including formulation and biologics.

The local life sciences and health care system is excellent with a number of leading assets. Together they offer a significant opportunity for the UK and regional growth.

The Centre for Process Innovation and First for Pharma (FFP)²⁴, supported by the North East LEP published a report on the profile and importance of the North East pharmaceutical manufacturing sector.

A number of opportunities, issues and concerns were raised by the 15 consulted businesses relating to Brexit that are detailed below:

- The devaluation of the sterling had eased exchange rate pressure on export heavy industries and led to strengthened competitiveness. This is considered positive to the sector in the longer term
- North East pharmaceutical manufacturing sites currently export an average of 86% of their products,

with 64% of exports going to the US. The importance of international markets to source materials and export products was highlighted. Currently there is potential to attract more businesses from international clients seeking to access EU markets

- Importance of the UK's regulatory environment – non tariff barriers had acted to the sector's advantage due to its high quality manufacturing standards alongside a reputation for delivery on time and on budget
- Any regulatory disruption created through exiting the EU is considered a possible threat to the sector, particularly with the strengths that the regulatory framework provides through the Medicines and Healthcare products Regulatory Agency (MHRA) and European Medicines (EMA) guidelines
- There needs to be an emphasis on the quality standards of raw material manufactures from which manufacturing sites procure materials and equipment used to manufacture pharmaceutical products. These provide clients with a stronger regulatory framework to adhere to, effective at guaranteeing supply for clients, and limit potential to switch sites once a site has been chosen for manufacture
- Supply chain disruption created due to changes in customs procedures may reduce the ability of global manufacturing supply chains to include UK sites. Any increase in customs barriers will be working directly against company ambitions to manufacture and release a drug within 90 days
- Mitigating any known impact on investment decision making from owners arrangements equivalent to the Swiss-EU arrangements were seen as a minimum viable outcome required from the negotiations.



4.4 Wider manufacturing

Manufacturing is a core part of the North East economy, accounting for 14.8% of the region's total output and employing 9.6% of the region's workforce, with many more working in other associated industries and supply chains. The North East is also the only UK region to experience a continuing positive balance of trade in relation to manufacturing and is heavily reliant on the EU for its export market with 62% of all exports destined for Europe.

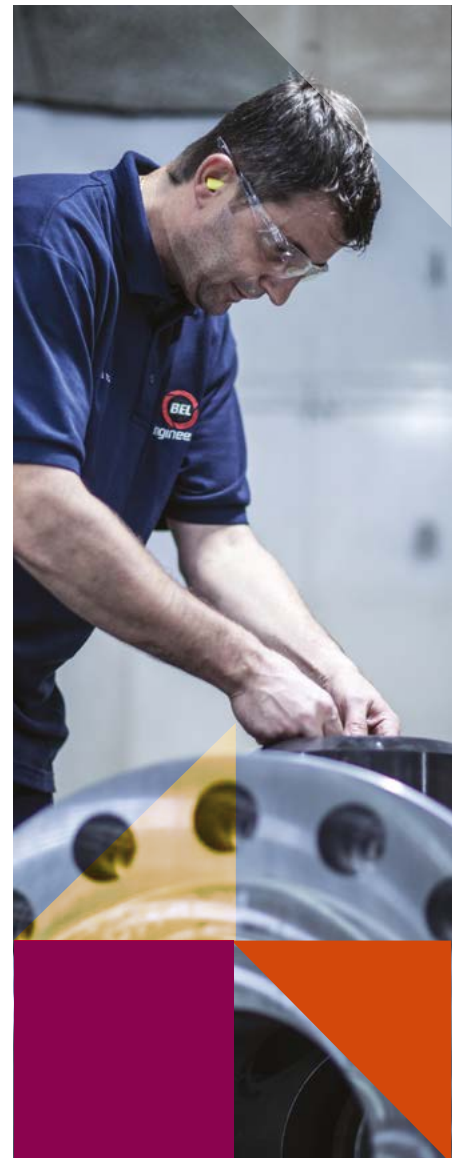
The manufacturing sector's trading relationship with the EU is tightly interwoven, making complex pan European supply chains commonplace. At the same time, manufacturers rely on skilled workers – frequently from the EU – to plug the UK's longstanding and serious skills gap and enable productivity, innovation and growth.

North East manufacturers therefore have a keen interest in ensuring the Government negotiates a deal that supports their trade and growth ambitions.

EEF, the manufacturers' organisation has produced a number of Brexit briefings focussed on migrant labour, rules of origin and trade issues at the border.

A number of key concerns and immediate actions are presented below:

- UK businesses will need to encourage and support their workforce in terms of training, upskilling their UK workforce
- To trade with the EU post Brexit, businesses will need to be able to send UK workers to the EU and receive EU workers in the UK
- There is concern that applying new immigration rules at UK ports of entry will be complex and difficult. An alternative approach would be to apply restrictions to the activities of EU nationals post entry, with employers required to declare their employment and confirm compliance
- Manufacturing businesses require regulatory stability through the implementation period and post Brexit. The UK must reach an agreement that minimises the risk of regulatory divergence and interpretation of EU law, allowing businesses to continue to trade flexibly with EU markets. A high level of alignment with the EU is suggested to protect current trading relationships, including mechanisms to manage regulatory cooperation and assess the continued alignment with the EU in specific areas of national interest²⁶.
- Currently, there are zero rates of custom duty being applied between EU member states including the UK, as part of the EU single market and customs union and the manufacturing industry is calling to maintain these levels after Brexit²⁷
- Rules of origin could add a layer of complexity for manufacturing businesses depending on the trade arrangement reached. Rules of origin are important because import duties and restrictions will be applied at differing levels depending on the nationality of the project. Those companies with supply chains that sit across numerous borders between the UK and EU could face new origin documentation and processes, increased costs and delays to the export and delivery process
- A hard border will potentially lead to an increase in levels of customs administration when exporting and importing goods to and from the EU. This trade friction could take the form of paperwork and electronic form filling before and at the border and customs inspections at or in the proximity of the border between the UK and EU. Manufacturers will need to give due consideration to these processes and the potential benefits, costs and administration of adopting a single administrative document or authorised economic operators status.²⁸



25 EEF (2018) Brexit Briefing: A New Model for Migration. Manufacturers' Priorities for a Post-Brexit World

26 EEF (2018) Brexit and environmental legislation: update on the manufacturers' perspective; EEF (2018) Brexit Briefing: UK regulation beyond Brexit, Creating the stability, certainty and clarity manufacturers need

27 EEF (2017) Brexit Briefing: UK trade with the EU: A new trading order for manufacturing industry

28 EEF (2017) Brexit Briefing: Life after the EU Single Market and Customs Union. Post-Brexit trade issues at the border

4.5 Health and social care

A Trades Union Congress (TUC) briefing paper²⁹ reports on Brexit issues to be resolved linked to, and that could affect, health services. It identifies risks relating to healthcare workers, future funding and regulations and details the following:

- Concern was raised about whether the current EU common set of professional standards will be in place post Brexit and if not, how long a similar framework would take to establish. The current professional standard sets out healthcare workers requirements in terms of the qualifications, training and competencies which allows EU and UK workers with these standards to move and work abroad
- The workforce is heavily reliant on EU staff, and the recruitment and retention of EU nationals within the NHS and social care is vulnerable. As of 2017, over 60,000 people from non UK EU countries work in the NHS and 90,000 work in adult social care. A large number of EU workers in the health service provide a vital source of skills and expertise, plugging skills gaps. Post Brexit, there is likely to be a short term staffing challenge in the NHS whilst these gaps are filled
- The UK could appear less attractive to future workers as Brexit could undermine legal entitlements including residency rights, access to employment, housing and other benefits, social security and welfare. Furthermore, the UK would be no longer required to comply with EU legislation relating to workers' rights and regulations and could therefore detract new skilled workers from choosing to come to the North East, creating a skills shortage within the sector. Any future immigration system must ensure that skilled individuals are able to work and remain in the UK³⁰
- EU membership brings access to a range of EU funding that supports research, development and innovation. Horizon 2020 and other funding streams such as the Innovative Medicines Initiative provide innovation opportunities for higher education, NHS organisations and industry along with access to networks across Europe and opportunity for cross border cooperation. There is uncertainty around what the funding environment will look like in terms of supporting research and innovation and whether this access will continue
- Access to pharmaceuticals, technology, blood and organs for transplants will also need to be addressed. For example, the UK will need to develop its own regulatory system unless it accepts the decisions of other agencies, such as the US Food and Drugs Administration or European Medicines Agency (EMA). Once the UK leaves the EU, it may be possible to continue to participate in agencies such as EMA, but it is likely it will become an observer, rather than a contributor, to setting global standards
- Financing health care for UK citizens in the EU and vice versa is also important. Currently, anyone requiring health care across the EU is treated as if they lived within that specific country, with their home country reimbursing the country where care was provided. Leaving this system would require access for people covered by the NHS who are travelling to the EU for work, study or leisure to be agreed.
- The importance of system level issues, where EU directives designed to improve air quality, tackle threats to health posed by products that cross borders, as well as competition and trade rules, and supporting functions such as research need to be integral to any post Brexit deal³¹.



29 Trades Union Congress (TUC) (2016) The NHS: How Brexit could affect our health service, Briefing Paper <https://www.tuc.org.uk/research-analysis/reports/nhs-how-brexit-could-affect-our-health-service>

30 Fahy, N., Hervey, T., Greer, S., Jarman, H., Stuckler, D., Galsworthy, M. and McKee, M. (2017) How will Brexit affect health and health services in the UK? Evaluating three possible scenarios', The Lancet, Volume 390, Issue 10107, pgs2110 - 2118.. [https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736\(17\)31926-8.pdf](https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736(17)31926-8.pdf)

31 Fahy, N., Hervey, T., Greer, S., Jarman, H., Stuckler, D., Galsworthy, M. and McKee, M. (2017) How will Brexit affect health and health services in the UK? Evaluating three possible scenarios', The Lancet, Volume 390, Issue 10107, pgs2110 - 2118.. [https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736\(17\)31926-8.pdf](https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736(17)31926-8.pdf)

4.6 Energy, utilities and water

The UK energy market is increasingly integrated with the single energy market in Europe and the impact of Brexit will depend on the new relationship between the UK and the EU, and the potential changes to energy and climate policy, whether they are immediate or delayed due to negotiations³². Up to March 2016, there had been 258 pieces of EU legislation within the 'energy acquis'.

The North of England boasts 48% of the UK's renewable power including 71% of England's biomass generation, 41% of UK wind power and 40% of UK installed nuclear capacity³³.

Energy

The overarching concerns and opportunities identified for the sector include:

- The risk that the UK will be more peripheral to EU energy markets post Brexit, which could mean higher prices, more unreliable supply and an increase in the supply risks around issues such as importing through subsea pipelines. Furthermore, there is a risk that the UK can no longer meet its own demands, and therefore is increasingly vulnerable to fluctuations in international supply of oil and gas³⁴. An appropriate partnership will need to be negotiated with the EU including membership of institutions that co-ordinate EU energy regulation. If not, the UK will lose its position on determining energy legislation³⁵.
- Each EU directive will need to be considered in terms of impact. In some

cases the UK has its own domestic legislation such as the 2008 Climate Change Act which is likely to remain, compared to directives such as the habitats directive, which could be removed to allow easier development of infrastructure on and offshore³⁶. Government could have freedom to amend national legislation i.e. further soften renewables targets or favour renewables providing a better outlook for the UK's renewable energy industry. The UK could focus on new investment and development opportunities such as the low carbon indigenous energy sources and storage and smart energy systems³⁷.

- There is an opportunity to develop a consistent, long term energy policy, with increased focus on energy efficiency in building, industrial machines and electrical products. This would build upon the success of certain EU directives and ensure that the UK does not fall behind European neighbours³⁸. Lack of clarity on the direction of energy policy could have a significant impact on future private sector investments and needs to be addressed to ensure that the UK energy system is resilient and fit for the future.
- The impact of pound depreciation has meant UK energy assets are cheaper, increasingly attractive to foreign investors. A lower pound also increases the price of imports and inputs priced in foreign currencies. Continuation of opportunities will depend on the confidence of international investors in the UK energy market³⁹. With the Brexit negotiations creating uncertainty over trade arrangements, the UK needs to focus on inward investment and the opportunities for innovation within the energy sector to develop the UK's competitive advantage.



32 KPMG (2016) Brexit Briefing – Timing, process, outcomes and implications for Power and Utilities sector. <https://assets.kpmg.com/content/dam/kpmg/pdf/2016/08/ie-brex-it-power-utilities-july-2016.pdf>

33 Emden (2017) The Impact of Brexit on energy in the North: A Northern Energy Taskforce Working Paper. PPR North. https://www.pprnorth.org/files/2017-08/1502811953_nref-impact-of-brex-it-in-the-north-august-2017.pdf

34 Durham Energy Institute (DEI), Durham University. 2017 'Impact of Brexit on the UK energy system' - A statement from Durham Energy Institute. <https://www.dur.ac.uk/dei/resources/briefings/brexit/>

35 Norton Rose Fulbright (2016) Impact of Brexit on the energy sector. <http://www.nortonrosefulbright.com/files/impact-of-a-brex-it-on-the-energy-industry-137260.pdf>

36 KPMG (2016) Brexit Briefing – Timing, process, outcomes and implications for Power and Utilities sector. <https://assets.kpmg.com/content/dam/kpmg/pdf/2016/08/ie-brex-it-power-utilities-july-2016.pdf>

37 Norton Rose Fulbright (2016) Impact of Brexit on the energy sector. <http://www.nortonrosefulbright.com/files/impact-of-a-brex-it-on-the-energy-industry-137260.pdf>

38 Emden (2017) The Impact of Brexit on energy in the North: A Northern Energy Taskforce Working Paper. PPR North. https://www.pprnorth.org/files/2017-08/1502811953_nref-impact-of-brex-it-in-the-north-august-2017.pdf

39 KPMG (2016) Brexit Briefing – Timing, process, outcomes and implications for Power and Utilities sector. <https://assets.kpmg.com/content/dam/kpmg/pdf/2016/08/ie-brex-it-power-utilities-july-2016.pdf>

- There is uncertainty around future projects and collaboration funded through European funds. For example, £168 million received by England of ERDF funding was related to low carbon, renewable energy and energy efficiency. Those energy and infrastructure projects that have been supported through 'Connecting Europe Facility' or have received loans from the European Investment Bank would no longer benefit from this, unless agreed
- There is concern about any reduction in the pool of skilled workers and the possible increase in the skills shortage which is already being felt, especially in the specialised parts of the sector such as engineering and nuclear. Any new immigration system must ensure that businesses can recruit skilled workers
- It is the UK government intention to withdraw from Euratom, resulting from its affiliation to the European Court of Justice and European Commission, therefore continuity in the nuclear industry, replacement of nuclear fusion research and international cooperative agreements should be put in place⁴⁰
- The UK is increasingly reliant on external energy imports and non UK players in the market. There is a need for an open debate about whether the UK should become more self sufficient on energy post Brexit. A consistent, long term energy policy should be developed based on the findings from this national debate to secure private sector investment.

Gas

The risks associated with Brexit are nominal for gas in the shorter term⁴¹. Unlike electricity, the UK and EU gas markets are well integrated and the difference in price, at present is small.

The UK also maintains significant non EU sources of gas including pipeline gas from Norway and LNG from Qatar⁴².

In the longer term, leaving the European internal energy market may impact on the supply security of the UK's gas as it may be cut off from the EU member states in the event of a gas supply crisis and unable to acquire supply from its European neighbours.

Water

The water sector is likely to remain relatively stable as it operates with a Europe wide architecture and in a transparent regulatory regime.⁴³

The vast majority of environmental regulations are enshrined in EU law and the impact of this change will depend on the exact settlement that is reached between the UK and EU.

Possible longer term effects of Brexit on the water sector in England may include the following⁴⁴:

- Reduction in future investment, much of which is driven by EU environmental policy which could result in the slow growth of the regulated asset base, with lower rates of house building and lower growth in connections
- Negotiating a trade agreement is likely to coincide with the business planning process for next regulatory period (2020-25) with companies submitting plans in Autumn 2018. Water companies will need to prepare plans within the context of greater uncertainty on cost and growth projections, and investment requirements⁴⁵.



40 Emden, (2017) The Impact of Brexit on energy in the North: A Northern Energy Taskforce Working Paper. IPPR North. https://www.ippr.org/files/2017-08/1502811953_netf-impact-of-brexit-in-the-north-august-2017.pdf

41 Addleshaw Goddard (2016) The impact of Brexit on the UK energy market <https://www.addleshawgoddard.com/globalassets/insights/energy/the-impact-of-brexit-on-the-uk-energy-market.pdf>

42 Vivid Economics (2016) The impact of Brexit on the UK energy sector – an assessment of the risks and opportunities for electricity and

gas in the UK Available at: <http://www.vivideconomics.com/wp-content/uploads/2016/03/The-impact-of-Brexit-on-UK-energy-sector.pdf>

43 All Party Parliamentary Water Group 2016 The Implications of Brexit on the Water Sector. <https://connectpa.co.uk/wp-content/uploads/2016/03/September-2016-The-Implications-of-Brexit-on-the-Water-Sector.pdf>

44 Oxera (2016) Brexit: potential implications for the water sector in England and Wales. <https://www.oxera.com/getmedia/4bf05249-d879-49d0-ba98-434a9a8aa3bf/Brexit-Implications-for-the-England-and-Wales-water-sector.pdf.aspx?ext=.pdf>

45 The Oxford Institute for Energy Studies, University of Oxford (2017) Brexit's impact on gas markets. <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/01/Brexit's-impact-on-gas-markets-OIES-Energy-Insight.pdf>

4.7 Financial, professional and business services

The financial services sector provides over 2 million jobs to the UK economy, of which two thirds are employed outside London. It is the UK's biggest exporting industry with a £67billion contribution to the balance of trade.

In 2014, exports of financial services to the EU generated a £18.5billion trade surplus. There are 17,645 financial, professional and business service. Businesses in the North East are concentrated in Newcastle city centre and other key locations in the City of Durham and on key employment sites in the Team Valley, at Cobalt in North Tyneside and in Sunderland.⁴⁶

The impact of Brexit on the banking and financial services sector has been explored by a number of reports, which summarise that:

- Businesses operate in a complex environment as many of the financial and banking rules are set by global regulators, however much of the regulation followed in the UK is not formally enshrined in UK law. Ensuring that businesses are able to export financial services into the EU is important and could impact on any future decisions by global institutions on where best to locate. Brexit negotiations will need to ensure compliance with new EU regulation to continue business across the EU⁴⁷
- The potential loss of passporting rights for firms based in the UK, that allow UK firms to trade in other European Economic Area (EEA) states without needing further authorisation, is considered a serious

risk to the sector. For UK based financial services companies this could expose the sector's exports to the EU disproportionately⁴⁸ compared with the impact on EU based companies. For the banking sector, without passporting rights, the desired fall back option is that the EU regulator grants the UK regulatory equivalence. Without equivalence, firms may have to split their capital and business models to try and maintain coverage, clients and footprint, with a consequent impact on cost and capital. Others may cut back their European operations and retrench to the US and Asia⁴⁹

- Business models will have to change even if the various equivalence statuses are granted, because equivalence provisions cover only a narrow subset of financial services that currently enjoy passporting rights. A further risk is that not all the equivalence statuses will be granted on the day of Brexit
- Firms could adopt the Swiss Banking model by operating through subsidiaries without passporting rights. Some businesses may wish to look at their footprint to re-determine if all their cross board operations are required given that greater complexity usually comes with greater cost
- Despite the alternative options, Brexit could still see a significant reduction in exports of financial services into the EU. Over the longer term, there could be an opportunity to compensate any potential loss by concluding bilateral trade agreements with emerging financial centres, such as Hong Kong and Singapore.



46 North East Local Enterprise Partnership (LEP) (2018) Our Economy 2018. <https://www.nelep.co.uk/wp-content/uploads/2018/03/nel237a-our-economy-v10-web-full.pdf>

47 Grant Thornton (2016) The impact of 'Brexit' on the financial services sector. <https://www.granthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/brexit-impact-financial-services.pdf>

48 KPMG Economics Insights (2017) Brexit: The impact on sectors. <https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2017/03/brexit-the-sector-impact.pdf>

49 ibid

4.8 Transport and logistics

Airports

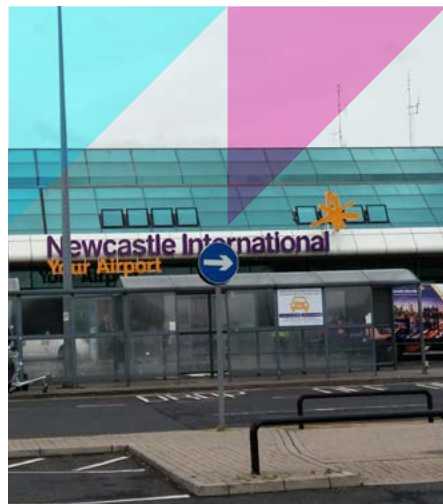
The North East LEP area is home to Newcastle International Airport and in 2016, 1.8% (4.8 million) of all passengers travelling through UK airports passed through Newcastle Airport.

66% (3.1 million) of these passengers were travelling between Newcastle and EU destinations.

A further 501,000 were travelling to other international destinations via European hubs.

There are 95 international routes across scheduled and charter flights, with the most popular routes being Amsterdam and Alicante.

Newcastle Airport handled 4,574 tonnes of freight in 2016. The vast majority of freight handled by Newcastle is international – with 574 tonnes (12.5%) travelling between Newcastle and the EU and 3,743 tonnes (81.8%) travelling between Newcastle and other destinations⁵⁰.



In March 2018, the department for business, energy and industrial strategy's, House of Commons Select Committee published a report on the impact of Brexit on the aerospace sector⁵¹.

The aerospace sector is a highly trade orientated and globalised industry, characterised by integrated cross border supply chains.

The EU regulatory regime in aerospace is highly integrated. The UK is currently a full member of European Aviation Safety Agency (EASA) and has access to global markets through the Bilateral Aviation Safety Agreements (BASA). Key recommendations for the sector outlined in this report include:

- Secure as near to a frictionless trade agreement as possible between the UK and EU for the aerospace sector, with the minimum amount of customs procedures. The aerospace trade association has estimated that increased checks at the future UK-EU border could add £1.5 billion a year to costs for the UK aerospace sector and calls for the relationship between the UK and EU to focus on the "flow of goods, not the control"
- Ensure that the UK remains a member state of EASA and its network of BASA's. The report suggests that a no deal exit from EASA would be costly and disruptive, and have serious adverse impacts both in the EU and globally. A managed transition from EASA could be protracted and costly, for no practical benefit in terms of regulatory sovereignty
- An immigration deal should also be negotiated to ensure access to the range of skills and expertise required by the sector. Arrangements for intercompany transfers and allowing workers temporarily in countries in a flexible, rapid and unbureaucratic way should also be considered
- The UK should maintain its membership of Horizon 2020, the Clean Sky Joint Understanding and other collaborative programmes and ensure engagement in future R&D programmes



⁵⁰ House of Commons Business, Energy and Industrial Strategy Committee (2018) The impact of Brexit on the aerospace sector. Sixth Report of Session 2017-19. <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/380/380.pdf>
⁵¹ North East Local Enterprise Partnership (LEP) (2013) The North East Independent Economic Review Report. <https://www.nelep.co.uk/wp-content/uploads/2014/11/North-East-Independent-Economic-Review-April-2013.pdf>

Ports

The North East LEP area is home to five ports: Port of Berwick, Port of Blyth, Port of Sunderland, Port of Tyne and Seaham Harbour. In 2016, the North East's ports handled 5.73 million tonnes of freight – 1.2% of all freight handled in the UK. 1.83 million tonnes was outwards; 3.89 million tonnes was inwards. The largest ports by tonnage handled were Port of Tyne (3.65 million tonnes), Port of Blyth (0.74) and Port of Sunderland (0.72). Outwards freight has increased since 2014, whilst inwards freights have decreased. 584,000 passengers travelled through Port of Tyne in 2016. This is equivalent to 2.7% of all international sea passengers boarding at UK ports.

In 2018, the British Ports Association published a report 'A Brexit Dividend'⁵² which calls for 'frictionless trade' after Brexit in order to monitor and grow business. It suggests that borders must continue to be a tax point, rather than a check point.

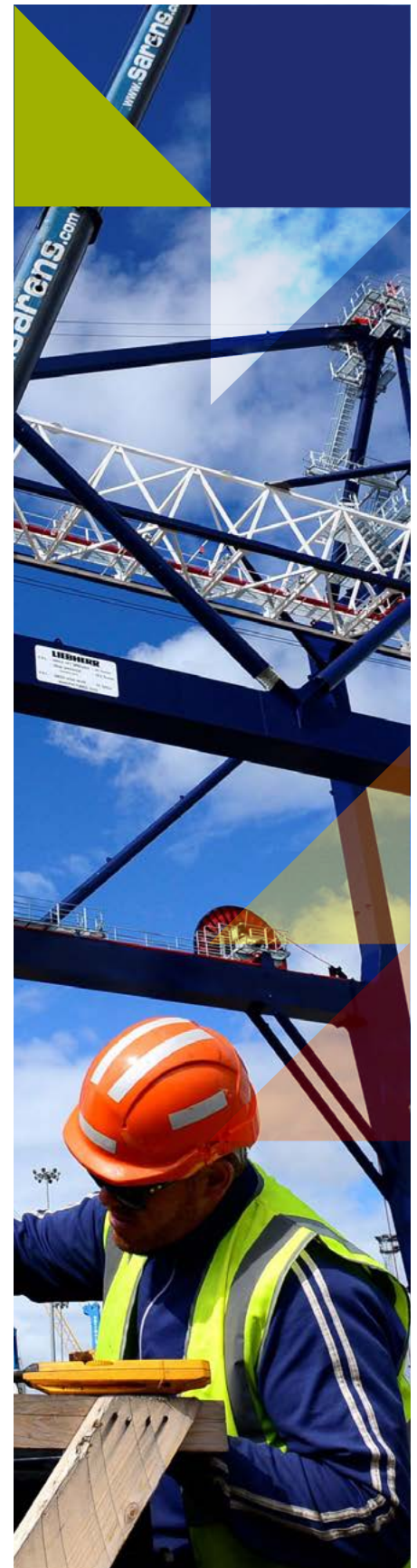
Leaving the customs union and single market could require health checks at borders which potentially creates congestion and delays, particularly for HGVs at roll on roll off ports alongside additional costs for traders, manufacturers and consumers. Mutual of standards, scaling up authorised economic operator schemes and membership of the Common Transit Convention are all important in supporting frictionless trade.

The report also suggests opportunities that regulatory adjustments to help ports to grow and develop could be considered, including the development of reformed planning rules, the removal of the EU's port services regulation and a revised fisheries policy.

A further range of other policy changes could be considered including port development and enterprise zones. In this model, designating UK port zones with favourable business, tax and planning conditions, or the development of a free ports concept where certain port areas could be exempt from customs duties and tariffs, could enable added value processes to take place.

Key considerations identified are:

- The importance of ports remaining as the UK's gateway to world trade and crucial to the supply chain for manufacturers
- The involvement of ports in discussions about legislation that impacts on its customers, particularly manufacturers to help frame responses. Legislative changes directed at manufacturers, retailers, construction or farming will have an impact on ports given their role in facilitating the flow of goods to market and importing raw materials
- Introducing changes to customs or tariffs, or new regulatory standards inconsistent with the current standards, is a risk to just in time manufacturers importing parts and for the imports of perishable goods
- Recognising the opportunity to relieve potential congestion at South East ports using more East coast feeder services with the added advantage of taking traffic off congested roads – incentives to enable this to be cost effective may be required
- Improvements to the last mile connectivity of ports
- The importance of ports continuing to monitor areas such as environment or trading standards, so that issues can be raised and any likely impact down the line on manufacturers who are importing and exporting can be informed at an early stage.



4.9 Education: Universities

UK universities are world renowned, internationally competitive and a major economic asset, generating an annual output of £73 billion for the British economy and contributing 2.8% of UK GDP.

Universities generate over 750,000 jobs and around £11 billion of export earnings for the UK annually.

In the North East LEP area, four universities operate in both national and international markets, with 17,275 international students studying across the four universities in 2016/17.

14% of North East undergraduates students and 40% of postgraduate students were international.

Specifically, undergraduates and postgraduates from non British EU countries at Northumbria University are equal to 3.4% of the student population and at Newcastle University 6.3%.

Academic staff who are from non British EU countries at Northumbria University is 7.7% and at Newcastle University 18.9% (including academic and non academic).

British universities need to ensure they retain international talent, students and are leaders in international research collaboration⁵³.

Key concerns and areas of opportunities for universities have been identified⁵⁴ and include:

- Increased barriers to recruiting talented European staff and students – 16% of the academic workforce in the UK is accounted for by EU nationals. Concerns over contract type and length, visa and associated costs, and European collaboration opportunities may mean that academics look abroad for job opportunities⁵⁵. Recent figures show a 19% increase in departures of European staff from universities in 2016/17 compared to before the EU referendum and a 10% rise to 2,300 resignations in 2015/16⁵⁶. A phased transition to a new immigration system is needed, with minimal barriers, while significant reforms should be made to ensure the new system is simple, less expensive and user friendly for all international staff and students in order to maintain and attract future staff
- Damage to international research collaboration and loss of funding for research and innovation – It is estimated that UK universities get between 2.5 and 3% of their total annual income from EU research and development funding, accounting for about 16% of their total income. Concern over the loss of this source of funding and collaborative opportunities is felt across the sector. From a European institutional perspective, some were concerned over the removal of UK research for European bids and the affect this would have on the quality of bid submissions. In the short term, providing the successor to Horizon 2020, 9th framework programme maintains its focus on excellence, government should seek to access and influence its future shape. In the longer term, government will need to develop new collaborative funding arrangements, which are joined up and strategic to promote research collaborations across the developed and developing world⁵⁷.

Government has recognised the importance of this area and has increase the UK research budget by £2billion per year.

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• Reduced outward mobility opportunities for staff and students – Currently the UK receives a higher number of students through Erasmus+ than the UK sends to European countries. Some have suggested that post Brexit there should be investment in a changed international mobility programme so that the UK workforce remains competitive, outward facing and open to collaboration⁵⁸

• Opportunity to improve regulation and infrastructure for science and research – government could increase the scale of its scientific ambitions, review its regulatory landscape and identify opportunities to develop and host international research facilities and other hubs. This would ensure that the UK maintains its place on the world stage in terms of science and research

• Opportunity to create new mechanisms to drive economic growth – The replacement of EU funding could be through devolved funds to facilitate and enhance universities' role in driving innovation and growth at a local level. This could include funding for innovation focused capital investment projects, investment into existing flexible funds for knowledge exchange i.e. Higher Education Innovation Fund

• Future of access to (and recovery of) student loans post Brexit - EU students can currently take out UK student loan funding. Government should re-think student funding eligibility rights to facilitate international students who are important to UK universities.

53 Universities UK (2017) What should be the Government's priorities for exit negotiations and policy development to maximise the contribution of British universities to a successful and global UK? <https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2017/government-brex-priorities-universities.pdf>

54 Centre for Global Higher Education (Courtols, A. (eds)) (2018) Higher education and Brexit: current European perspectives <http://www.researchcghed.org/perch/resources/publications/he-and-brex.pdf>

55 Mayhew, K., (2017), 'UK higher education and Brexit', Oxford Review of Economic Policy, Volume 33, Issue Supplement 1, pgs 5155-5161. https://academic.oup.com/oxrep/article/33/suppl_1/5155/3066079

56 Buchan, L., (2018), 'Brexit: More than 2,300 EU academics resign amid warning over UK university 'Brexodus'', The Independent. <https://www.independent.co.uk/news/uk/politics/brexit-latest-news-uk-university-eu-academics-resign-immigration-brexodus-citizens-europe-a8143796.html>

57 Mayhew, K., (2017), 'UK higher education and Brexit', Oxford Review of Economic Policy, Volume 33, Issue Supplement 1, pgs 5155-5161. https://academic.oup.com/oxrep/article/33/suppl_1/5155/3066079

58 *ibid*.

Education: Colleges

Colleges are major economic assets, equipping 2.2 million students annually in England with valuable employability skills.

Colleges account for over 120,000 full time equivalent jobs and have a collective turnover of more than £7 billion per year. It has been estimated that further education college students aged 19+ generate an additional £70 billion for the economy over their lifetime.

The number of young people aged 16 - 18 being educated in college or undertaking an apprenticeship has almost double the number enrolled in school and a third of young people who enter higher education each year previously studied at a college. Colleges also deliver higher education to over 150,000 people per year in England⁵⁹

There are nine colleges based in the North East LEP area delivering the skills and expertise needed for a stronger, more competitive economy. By providing industry focused technical and professional education up to and including post graduate degree levels they are ensuring that the North East has the highly skilled workforce needed for its economy to prosper.

Each North East college works with an average of 600 businesses per year, including 35% of all of the areas large employers, to meet their staff development and recruitment needs. In the North East each college trains, on average, 1,200 apprentices per year with almost half of all apprenticeships enrolled on a STEM-related subject and 46% studying at advanced of higher level.

The Association of Colleges (AoC) released a statement⁶⁰ on the impacts that Brexit may create for the education sector including changes to the demand for further education and training, rights of EU citizens both staff and students in colleges and possible low migration of skilled workers into the current education and skills system. In greater detail, the main issues for colleges include:

- Retaining and recruiting teachers – there are currently significant teacher shortages in colleges, in areas such as construction, engineering, maths and other areas. Staff turnover levels are increasing due to relative pay levels and workload pressures. A new migration regime for EU workers which controls the number of staff, may exacerbate this by further reducing EU nationals coming to work in the UK.
- Apprenticeships – companies employing staff in the UK pay an apprenticeship levy for anyone who is paid within the UK, with a percentage of this payroll in some companies and public services relating to EU27 national and non EU staff. The apprenticeship funding rules restrict spending to anyone with three year's residence which means that companies may face the prospect of paying for a levy for members of staff who they cannot claim training funds to support.
- European Social Funds – colleges have used the European Social Fund (ESF) over the last two decades to deliver skills provision for unemployed and employed people. At its height, in 2014/15, colleges received £100 million in ESF income and £18 million in direct European grants. Currently North East colleges hold ESF contracts totalling approximately £60 million, half of which comes from ESF and match funding by the Education and Skills Funding Agency. These contracts are to deliver a range

of different services including the delivery of training for unemployed adults and also upskilling or re-training people who are already in employment. There is uncertainty around what the replacement for ESF will look like, and how colleges will support their staff without the same quantum and opportunities. The funding to date has enabled unemployed people back into the workforce, supported employed people at risk of redundancy and upskilled the workforce - particularly those working for SMEs.

- Student mobility and Erasmus - Erasmus+ aims to modernise education, training and youth work across Europe. Since 2014, UK colleges have received around €43.5 million for vocational projects benefiting over 100 colleges and €39 million awarded to colleges for mobility programmes. AoC's 2017 survey of college international activity showed that EU countries formed the second most important international markets for colleges after China. There was a strong wish by colleges for continued UK participation in Erasmus+ post Brexit.



⁵⁹ Association of Colleges (2018) College Key Facts 2017/2018. Available at: https://www.aoc.co.uk/sites/default/files/Key%20Facts%202017-18_1.pdf

⁶⁰ Association of Colleges (Webpage, no date) Brexit. <https://www.aoc.co.uk/funding-and-corporate-services/brexit>. Accessed 19/03/2018.

4.10 Rural

The North East rural economy is considered a mixed economy, and broadly mirrors the industry spread of urban and national economics. As in the urban North East, the key sectors for the generation of GVA, in descending order:

- public sector
- business services
- distribution, hotels and restaurants
- retail (including tourism) and manufacturing.

These four sectors account for about 75% of the rural GVA in the North East.

The rural North East also contributes to the economy by providing untraded cultural and environment goods. It manages many of the natural and landscape assets of the region that are consumed directly or indirectly by urban North East businesses and their employees⁶¹.

Rural communities in the North East generate employment and economic growth, and the North East SEP recognises that rural areas are important to the creation of vibrant industrial clusters and the service economy through the provision of sites and property around urban centres and locations.

With the right conditions, rural based businesses can grow, boosting turnover, productivity, profit, employment and wages.

The North East England Nature Partnership Executive group have collated their views on the opportunities and concerns resulting from Brexit and are summarised below:⁶²

- Uncertainties around future funding will dramatically impact the physical landscape of the North East, as 44% of land is under an agri-environment scheme⁶³ and 34% under a high level stewardship scheme. There is concern as to how the current funding levels received in rural areas will be maintained without European funding, even with different expectations of the outcomes, such as the shift from current farming practices from sheep farming to ecosystem services and biodiversity gains
- The management of the transitional period from one funding framework to another is vital. Government has suggested that existing funding will be maintained. Clarity on how the process will be managed and delivered is required and also what support will be available to farmers, land owners and rural businesses. A National Farmers' Union (NFU) report⁶⁴ recommends that uncertainty could be minimised through supporting UK farmers to develop new business models, trade in new markets and through product promotion to UK consumers
- There is a need for greater clarity on the trade deal government is aiming for, to assist the sector with future planning. Many businesses are experiencing increasing uncertainty regarding trade tariffs. If the UK reverts to WTO terms, the North East could be exposed to higher tariffs that would have significant consequences for many businesses
- There are concerns over the future of appropriate skilled rural labour force as it is increasingly difficult for young people to gain a foothold in the industry and the sector is experiencing an ageing workforce. There has been a lack of a targeted bespoke approach from the EU rural development policy or the UK government to tackle this⁶⁵
- UK and EU environmental legislation has become increasingly integrated, driven by the single market which has been beneficial for the environment and business. Further details on how government intend to maintain the high environment, animal and product standards that have allowed the region to diversify, for example renewables and develop niche or high end markets, are needed
- Greater clarity is required on how businesses and communities will be supported to reduce emissions through new technologies, innovation and investment. Many North East businesses are ahead of central and local government in sustainable business practices, and there is an opportunity to increase innovative activities amongst these businesses. Being at the forefront of sustainable business practices is likely to attract highly skilled employees and increase employment opportunities for less skilled employees through more sustainable and local supply chains
- The need to continue to draw on the good practice and experience of European programmes to develop future programmes, such as the EU's LEADER and CLLD programmes. The networked rural development model has demonstrated how to bring together the local and external, external economic partners to deliver, with local people having opportunities to steer development in the heart of their community⁶⁶.

61 Newcastle Institute for Social Renewal, Newcastle University and Centre for Rural Economy, Newcastle University (2013) Independent Economic Review of the North East: Rural Report, The potential contribution of the NE rural economy. <https://www.ncl.ac.uk/media/wwwnclacuk/centreforruraleconomy/files/NE-economic-review.pdf>

62 North East England Nature Partnership (2017) Briefing Note to North East Brexit Group on impact of Brexit on rural economy. Briefing note not in the public domain

63 Agri-environment schemes provide funding to farmers and land managers to farm in a way that supports biodiversity, enhances the landscape, and improves the quality of water, air and soil.

64 NFU (2017) Vision for the Future of Farming. A new outlook on international trade, Delivering for farmers and the public <https://www.nfuonline.com/assets/96747>

65 ibid

66 Garrod, G., Liddon, A., Phillipson, J., Rowe, F., Shortall, S. and Shucksmith, M. (2017) After Brexit: 10 Key questions for rural policy. Centre for Rural Economy, Newcastle University <http://www.ncl.ac.uk/media/wwwnclacuk/centreforruraleconomy/files/imported/After%20Brexit%2010%20key%20questions%20for%20rural%20policy%20Feb%202017.pdf>

4.11 Creative industries, culture and tourism

Creative industries are the UK's fastest growing sector, worth £91.8 billion to the UK economy and the sector is responsible for approximately 10% of all UK service exports. UK creative exports have benefited significantly from the EU's four freedoms: the free movement of goods, services, people and capital.

A report by the department for culture (DCMS)⁶⁷ stated that the creative industries accounted for one in 30 jobs (3.2%) in the North East. According to the DCMS statistics, 38,000 people work in creative industries in the North East, with a total of 66,000 working in the creative economy.

The Creative Industries Federation Global Trade Report (2018)⁶⁸ surveyed 131 of the UK's leading creative businesses to understand the impact of Brexit. Even though the UK's creative industries are considered an exporting powerhouse and there are continually new opportunities to capitalise on, the sector is aware of potential consequences of Brexit. The overarching concerns and recommendations reported included:

- Access to international talent - the creative industries sector is reliant on international workers, 7% are from the EU and 6% are from outside the EU. Work by the industry suggests that this percentage is higher in some of the most productive parts of the sector e.g. 30% of visual effects workers are from outside the EU. Any future immigration system should allow access to creative workers, and mutual recognition of qualifications should be maintained
- Uncertainty around the impact of freedom of movement of both UK and EU citizens. There is concern it would

limit the ability for workers to travel around Europe, restricting creative opportunities to generate trade. Any future immigration system will need to consider the needs of the sector, and include measures such as visa free travel between the EU and UK, reciprocal rights for UK workers to move and work freely for short term projects and same day access to talented individuals

- Continual alignment with EU regulation, such as Intellectual Property, and the relief of financial and administrative burdens of moving people, goods, and exporting services, needs to be in place. For example, specific concerns relate to the frictionless access for audio-visual services; minimal documentation requirements of professional equipment at EU border crossings for temporary movement and UK data protection and measures that allows free flow of data between the UK and EU
- There is a need for a trade agreement that includes sector specific requirements on goods for example tariff free circulation for creative goods and materials imported to the UK from the EU, and vice versa. The goods framework should maintain the full VAT waiver for works imported under temporary admission rules
- There is a need for new export support for creative industries targeting key growth markets. 40% of businesses surveyed said that a no deal would harm their businesses' ability to export and that support moving forward should help business prepare. This could include for example, export training initiatives and tax breaks for shipping, translation and additional costs.

The North East Culture Partnership⁶⁹ provided written evidence to the DCMS inquiry on Brexit⁷⁰ outlining the impact of Brexit. The main issues observed:

- The creative sector must be able to attract and retain leading creative practitioners' post Brexit. This includes retaining the current sponsorship

system for incoming artists as this process is attractive to incoming foreign artists. Alongside care and attention over the visa system for incoming EU staff and students must be given

- Restrictions on the freedom movement of people would have a negative effect on the region's diverse cultural workforce. It would impact the ability of the creative industries to attract and retain highly trained talent and international touring work could be jeopardised by complex visa restrictions.
- Currently, the UK lags behind other European countries in terms of support for exporting in music. Export support could include travel subsidy, setting up of special two country relationships and support for showcase events. Agencies like the department for international trade, the British Council and Arts Council England need to be supported and funded to support the cultural sector in terms of exporting and touring cultural activity
- In the North East, the importance of EU funding across the creative and heritage sector has been paramount in supporting sector development through collaboration and has levered investment from local authorities and government. Post Brexit, the concern is whether this funding will be replaced and what the alternative funding environment will look like. North East organisations are concerned that it may become increasingly difficult for the UK organisations to partner in Creative Europe projects, as other countries may see UK involvement as a possible barrier to success in a highly competitive process. There is concern that the longer that our status is uncertain, the more this will apply
- Some North East creative businesses have already experienced a negative impact on their financial viability, due to the falling value of the pound and low interest rates.

67 Department for Culture, Media and Sport (2016) Creative Industries: Focus on Employment. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/534305/Focus_on_Employment_revised_040716.pdf

68 Creative Industries Federation (2018) Global Trade Report, How to maximise the UK's global ambition and potential through its creative industries. https://www.creativeindustriesfederation.com/sites/default/files/2018-01/Federation%20Global%20Trade%20Report_0.pdf

69 The North East Culture Partnership consists of the 12 Local Authorities, 5 universities, colleges, NECC, cultural and heritage sector organisations, Historic England and Arts Council England

70 North East Culture Partnership (2016) NECP response to DCMS inquiry on Brexit. <http://www.case4culture.org.uk/updates/necp-response-dcms-inquiry-brexit/>



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