

KENT AND MEDWAY: MAKING A SUCCESS OF BREXIT

A SECTORAL APPRAISAL OF SMALL AND MEDIUM SIZED ENTERPRISES
AND THE RURAL ECONOMY

July 2017



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KENT AND MEDWAY: MAKING A SUCCESS OF BREXIT LAUNCH HOST: HELEN WHATELY

M.P. for Faversham and Mid-Kent

Over the last 12 months the argument has moved on, from whether we should Brexit, to what Brexit looks like. Both the Conservative and Labour manifestos at the recent General Election committed to leaving the Single Market and the Customs Union, and the two parties took 82% of the vote – suggesting a clear mandate for doing both. But this is where it gets complicated: what sort of free trade agreement can we reach with the EU? How will we manage to do our own trade deals without losing the benefits of the current customs arrangements? What agreement can be reached on immigration? And what financial settlement will be involved? And that's just a few examples of the questions to be answered.

At a national level the debate is still focused on these broad-brush questions, but in due course the Government will have to enter much more detailed negotiations. And to be successful, it's important that the Government is furnished with a detailed understanding of what different regions and sectors need. For that reason, I welcome this second report by the Centre for European Studies at Canterbury Christ Church University into Brexit for Kent and Medway, and particularly its focus on some of our local priorities: small- and medium-sized businesses and farming.

The report gathers valuable data about expectations for Brexit among SMEs, and their preparedness. It's good to see businesses such as Wire Belt making preparations, but many businesses are understandably unsure about what Brexit will mean for them. A helpful recommendation is for Government to do more to engage with and support SMEs, particularly to help them make the most of the opportunities Brexit will present.

Farming is a hugely important part of the economy and heritage of Kent, and Brexit is likely to have particularly significant effects on farming because of the scale of the EU's Common Agricultural Policy. Nationally, there are many sub-sectors within agriculture that will need detailed consideration, but here in Kent we are uniquely positioned to drive policy for fruit farming. The implications of Brexit for fruit growers are completely different from the implications for arable farmers – access to seasonal labour and potential delays to exports for highly perishable fruit, for instance, are priorities.

I'm grateful to Canterbury Christ Church and the Centre for European Studies for continuing this valuable work, identifying and articulating the Brexit needs of Kent's businesses. I look forward to drawing on the report's content as I press for a good Brexit for my constituency, and to their next report addressing questions of policing and the border.

Helen Whately

Helen grew up in Surrey, and studied Philosophy, Politics and Economics at Oxford University. She is married and has three children. Prior to becoming the M.P. for Faversham and Mid Kent in 2015 with more than 50% of all votes cast, she established her career in business and healthcare. She has worked with NHS hospitals, advised healthcare regulators and commissioners, worked on healthcare policy, run a business unit at AOL Time Warner, and trained as a management accountant at PricewaterhouseCoopers.

Currently, Helen chairs both the All Party Parliamentary Group for Mental Health, and the All Party Parliamentary Group for Fruit and Vegetable Farming. She also works as the Co-Chair of the All Party Parliamentary Group for Health, and as the Vice Chair of the All Party Parliamentary Group for Women, Peace and Security. Since July 2016, Helen has served as the Parliamentary Private Secretary to the Minister of State at the Department for International Trade (DIT), Greg Hands. She also recently called for a pilot of the Seasonal Agricultural Workers Scheme, and a guide on the legal right to stay in the UK.



CEFEUS SUB-SECTOR GROUPS: SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

Paul Winter, Wire Belt Company Ltd.

"The effectiveness of the SME sub-committee has been enhanced not only by the very strong motivation of the members but also the willingness of so many companies to contribute. However, at this stage there has been only a limited variation of circumstances reported for the CEFEUS team to address. To place this in context, it might be appropriate to give a brief overview of the position of the Wire Belt Company: The Company's products are used in a multitude of applications with food processing being the predominant sector. Over many years the export demand for Wire Belt Company products has been expanded and now includes sales to the vast majority of world markets and is approaching 70% of turnover. The European Union is a very important market but with the USA and Asia both also being significant, as is the Middle East and the Associate Members of the EU. Maintaining the growth in export demand post Brexit is of the highest importance to the Company. In common with other SMEs, Wire Belt has found that the only planning that can be undertaken at the present time is related to worst case scenarios. It is therefore in the context of being able to respond rapidly to the outcomes of the Brexit negotiations, that Wire Belt has identified the greatest benefit of being involved with the CEFEUS research.

July's report, is both wide in scope but also detailed in content. However, despite the very significant amount of work undertaken since May of last year, the initial report in December 2016 and the current launch, a view could be taken that the hard work is only just starting. A knowledge base is being created that will be both in a position to advise legislators on the local impact of specific Brexit factors as they are negotiated as well as Kent & Medway SMEs on the optimum adoption of post Brexit regulations. Indeed, SMEs and members of the rural economy would be well advised to stay in regular contact with the University as, in addition to the business insight that will be available, the Team will also act as a powerful advocate for both sectors in a local context and on an ongoing basis."

Paul Winter

Paul Winter is Chairman of the Wire Belt Company Ltd. which has been manufacturing its range of conveyor belting in Sittingbourne since 1970. He joined Lucas, the automotive electrical equipment specialist as a Higher Apprentice on leaving school. He is a Chartered Certified Accountant, a Chartered Manager and a member of the Kent & Medway Economic Partnership.



CEFEUS SUB-SECTOR GROUPS: RURAL ECONOMY

Michael Bax, Rural Plc

"Despite the fast moving political and economic climate, this is a timely report. British agriculture has survived many great upheavals in history, and it will survive Brexit too. However it is critical that we receive certain necessary tools if farming is to remain a viable, competitive and world-leading industry. Until we know where we are uncertainty creates volatility and rural economic stakeholders need confidence to invest in their futures. Consequently, we need as clear a read as possible on current issues and their possible impacts and opportunities. We need expert analysis on the future trends likely to affect our industry, and we need to learn - fast - how to operate in this brave new world.

This reports aims to provide all of these things. It identifies specific measures that both the Government and the industry can undertake to ensure Brexit is a success for our rural economy. The collaborative approach that Canterbury Christ Church University has taken in compiling its research and analysis has resulted in a realistic document assessing real issues and opportunities. It is a good and helpful document, and will hopefully make a real difference. It has been a real pleasure to contribute, and Rural PLC (Kent) is deeply grateful to both CEFEUS and Helen Whatley MP for their hard work."

Michael Bax

Michael Bax has practised as a Land Agent and Agricultural Valuer in Kent and East Sussex for over 40 years. He farms 250 acres with his wife in the Weald of Kent and is a Director of G H Dean & Company Limited, growing cherries, top fruit, combinables and sheep on approx. 4,000 acres between Sittingbourne and Faversham.

Mike is a Deputy Lieutenant and served as High Sheriff of Kent in 2012/13. He chairs the Kent Wildlife Trust and Rural Plc (Kent) as well as the Kent Police Advisory Group on rural crime.

His working and private interests have always focused on the Kentish countryside and rural economy.

INTRODUCTION

1 In December 2016 we published our first report, entitled 'Kent and Medway: Making a Success of Brexit'. It was launched at a reception in Westminster, hosted by Helen Whately, MP for Faversham and Mid Kent. The launch was attended by many of the individuals, organisations stakeholders who had contributed since May 2016 to the work of preparing the report. As we said at that time:

"If we are to make a genuine success of Brexit for all our communities across Kent and Medway we must ensure we take fully into account the various concerns that lie behind the vote for Brexit".

2 Based on the report's positive reception from colleagues, policy makers and commentators, and with the ongoing support of the Centre for European Studies (CEFEUS) at Canterbury Christ Church University, the partners met again in January 2017 to reflect on the sector-specific work of the project to date, to take stock of events nationally and internationally related to Brexit, and to consider how best to take the work forward.

3 There was strong and unanimous support for continuing the project to assess how the different businesses, communities and organisations of Kent and Medway could best make a success of Brexit. The first report indicated that we could continue the work by looking in greater detail at the most strategic sectors in the region, relative to the anticipated impact of Brexit upon them. Given the resources available, and the capacity of the partners involved, we agreed to deal with the different possible sectors in tranches. For the next phase the group agreed to look in more detail at the Rural Economy, at Small and Medium Sized Enterprises (SMEs), and at Policing, Security and Law Enforcement.

4 To carry the research forward, a Strategic Steering Group was established to provide an overall lead for the project and quality assurance for the sectoral work. In parallel, we established 3 sub-groups to manage the work thematically, with each sub-group led by a chair. As indicated in the preface, we are indebted to the leadership shown by Paul Winter of Wire Belt Company Ltd. and Sophie Moate of Rural Plc., in facilitating an invaluable range of contacts and feedback for SMEs and Rural Economy respectively. The Centre for European Studies at Canterbury Christ Church University has hosted numerous meetings, provided secretariat support and inhouse analysis as well as undertaking sectoral data gathering to support the sub-groups in preparing this report.

5 As with the 2016 report, although the project has been open and inclusive in all its operations, and has based its conclusions on the contributions and expertise of all its partners, the project remains the responsibility of the University, and the Centre for European Studies. While we believe the information here has been sourced accurately and objectively, the use and understanding of that material and all the conclusions drawn are the responsibility of the authors.

6 We embarked on this phase of work in January 2017 planning to publish the outcomes in June 2017. The triggering of Article 50 and in particular, the timing of the General Election on June 8 has affected our ability, and that of some of our partners to contribute to the work as they might have hoped. In terms of SMEs and rural economy however, we decided to press ahead with an updated report as swiftly as possible. This report – and indeed the others to follow – is intended to be snapshots in the ongoing and frequently unpredictable Brexit process, rather than definitive conclusions. In this vein, we are glad to announce that the Policing, Security and Law Enforcement sub-group will reconvene in autumn 2017 with a wide array of regional and national stakeholders, working towards a final report expected before the end of the year.

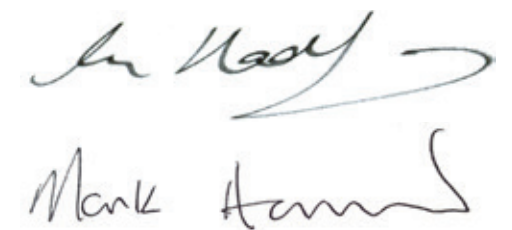
7 We hope this report will build on the success of our December 2016 report. Indeed, it has been clear since our work began in May 2016 that many colleagues and stakeholders across Kent and Medway share our wish to understand how best to make a success of Brexit, in practical rather than rhetorical terms. We are therefore tremendously grateful for the contributions of members of the steering group and the many other organisations and individuals who have participated in preparing the reports.

8 We are especially indebted to those contacts who have transformed into fully-fledged partners, supporting our data gathering, and offering resources and support in previewing the initial findings in two separate 'soft launches' in late April: law firm Cripps in Tunbridge Wells along with HSBC, and Rural Plc. We have also received invaluable insights from a range of supportive individuals at Kent County Council. Lastly, we are thankful to Helen Whately, MP for Faversham and Mid-Kent, whose far-sighted appreciation of the overall need for these reports, has been a constant inspiration. Mark and I would like to pay tribute to the ongoing work played by our CEFEUS team of graduate and undergraduate students.

9 CEFEUS was established with its own 'triple-lock': teaching, training and outreach, which we feel commits us to affording students the opportunity to play a significant part in commenting on fast-moving political events. Without this wide range of support, we would certainly not be able to deliver the range of current and anticipated sector-specific appraisals allowing Kent and Medway as a whole to best respond to the challenges of Brexit. We believe this remains a worthwhile and important project, which if successful, will be of assistance to many organisations in Kent and Medway, to the wider business community, and to local and national government, as they work to progress this most complicated of political and economic challenges.

Professor Amelia Hadfield, Director of the Centre for European Studies (CEFEUS), Canterbury Christ Church University

Dr Mark Hammond, Visiting Professor, Public Policy, Canterbury Christ Church University



With the assistance of Jack Brooks, CEFEUS Graduate Coordinator, Noora Virtanen, CEFEUS Undergraduate Coordinator, Christian Turner, CEFEUS Undergraduate Intern and Elizabeth Bailey, CEFEUS Communications Manager

July, 2017

WHERE ARE WE NOW?

10 In our first report, we set out the state of play on our exit from the European Union, at what was then around six months after the referendum. At that stage it is fair to say we did not know a great deal about the government's plans and intentions, and inevitably we had to base our review on different possible scenarios. At that stage too, we were still waiting for the legal system to resolve the question of whether the Executive or Parliament had the right to trigger Article 50. Since then, some key developments have occurred: the Lancaster House Speech (January), the Industrial Strategy and the UK-EU White Paper (February), the triggering of Article 50 (March) and its accompanying letter to Brussels, the release of key negotiating issues by the EU, the UK General Election (June), and the 2017 Queen's Speech outlining the 8 Brexit bills. Analysing what each of these means for business and the rural economy has required us to look at the emerging overall Brexit scenarios in terms of market access, as well as specific policies regarding EU and non-EU markets, rules and regulations, labour, funding and subsidies. The fast-paced political events of the past half year have made this a challenging task.

11 To keep abreast of current events, we made use of the input from our two sectoral groups, the data and the insights that they have provided on an ongoing basis since January 2017, specific sectoral data gathered in tandem with key partners (Cripps, Insider Media, Kent Invicta, Rural Plc., and Touchstone Surveys), and regular in-house appraisals of national, regional and sectoral reports on commercial trends, sectoral dynamics and regional shifts relevant for this report.

12 The most recent events are of course the General Election, and the formal commencement of UK-EU Brexit negotiations. The manner by which the former affects the latter will likely have a very real impact on the nature of the agreed outcome. The General Election produced a Parliament in which no party has an overall majority, resulting in an arrangement between the Conservative Party who won the most seats and the most votes, and the Democratic Unionist Party of Northern Ireland whose 10 MPs make up the necessary majority to pass subsequent bills.

13 The 2017 Queen's Speech was notable in that it deviated significantly from the Conservative's election manifesto vis-à-vis domestic commitments, outlined the likely policy areas for new Brexit legislation, and scrapped the 2018 Queen's Speech. As argued by Andrea Leadsom, the new Leader of the House of Commons (18th June), the goal is to "build the broadest possible consensus for our Brexit plans, and that means giving Parliament the maximum amount of time to scrutinise these bills by holding a two-year session of Parliament" (BBC, June 2017).

2017 Queen's Speech Brexit Legislation (28th June 2017)

EU (Withdrawal) Bill

Repeal the European Communities Act 1972 and convert EU legislation into UK law, with the government gaining temporary powers to make secondary legislation.

Customs Bill

Ensure the UK has a stand-alone customs regime on exiting the EU, allowing for future trade deals with the EU and other states around the world.

Trade Bill

Establish a legal framework to allow Britain to operate an independent trade policy upon exit from the EU.

Immigration Bill

Allow the Government to control the number of citizens from, and beyond the European Union in accordance with UK law, post-Brexit.

Fisheries Bill

Allow the UK to withdraw from the London Fisheries Convention of 1964, enabling the Government to control access to British waters and fishing quotas, post-Brexit.

Agriculture Bill

Provide stability to farmers through continued funding as well as protecting the natural environment.

Nuclear Safeguards Bill

Give the Office for Nuclear Regulations powers to ensure that the UK meets international nuclear rules should the UK leave Euratom, the European nuclear regulator.

International Sanctions Bill

Establish a new sovereign framework by which the UK can implement international sanctions on a multilateral or unilateral basis.

(Financial Times, June 2017)

Negotiations

14 Two other developments should be noted. First, the nature of the negotiations with the EU. It was agreed by both parties to follow the EU's two-phased guidelines; with Phase 1 focusing on the so-called 'Divorce Bill', EU and British Citizens' rights and the issues surrounding the border in Ireland. The last set of talks on Phase 1 will begin the week beginning 10th October 2017, ahead of a European Council meeting with a view to be completed by December of that year. Phase 2 will focus on all remaining issues, but in particular, the future relationship between the two partners and any transition that may be necessary. This will take up the remainder of the negotiating window, and will include issues such as pet passports, the hundreds of EU treaties and defence.

The Voice of Business

15 Second, a more consolidated role for UK business as a key voice within the Brexit negotiations. UK businesses large and small had complained of marginalization before and during the General Election campaign. As a group, they have now seized the opportunity to speak more forcefully on behalf of British business interests, from a jobs-first perspective to Brexit to reconsidering the full range of hard/soft Brexit options. In practical terms, five representatives of the British business community (the British Chambers of Commerce, the CBI, the EEF, the FSB and the IoD) together released a joint statement (18 June) calling on the British Government to follow a number of key principles in order to 'put the economy first' during the Brexit negotiations (CBI, June 2017). The five groups urged the government to 'move forward in real partnership with business, drawing on its expertise' in order to both 'protect and strengthen the UK's economy' during and after the negotiations.

Economic Principles for a Final Agreement between the UK and the EU-27

- Tariff-free goods trade between the United Kingdom and the European Union
- Minimal customs formalities at the land, sea and air borders between the United Kingdom and the European Union
- Regulatory equivalence and mutual recognition of standards on an ongoing basis to ensure continued mutual access for both goods and services
- A flexible system for the movement of labour and skills between the United Kingdom and the European Union, that enjoys public support
- On-going UK participation in those pan-European programmes, initiatives and agencies which add real economic value to communities, businesses, young people and universities
- Protection of the benefits of free trade agreements currently delivered through the European Union
- We recognise these are high-level principles, in an environment of great complexity and detail. We will work closely with each other and with government to explore ways to give effect to these principles.

New Business Advisory Group

16 In response, the UK government announced on the 27th July the formation of a new *Business Advisory Group* which will meet regularly with ministers to advise on Brexit negotiations. Comprised of the same five business groups, the *Business Advisory Group* will aim to provide UK business both small and large with a greater voice regarding its needs, and direct influence upon the decisions going into, and the consequences flowing from Brexit. The overarching needs of the group chime directly with the requirements from those in the SME and rural economy sector across Kent and Medway: clear assurances that they can continue to do business seamlessly with the UK's biggest market, and a clear, unrushed, and fully supported exit process.

17 Given these various developments, as well as the expectation of many more, we did consider delaying the publication of this report until a general position on Brexit was clearer. Such clarity however may still be years away. In the meantime, however, *the specific needs of business have become clearer*, and the regional requirements pertaining to Kent and Medway have come into focus. Most importantly, our stakeholders have indicated a genuine need to participate in sub-sector groups that meet regularly and produce both micro and macro analysis of the situation as it unfolds. For all these reasons, we feel the majority of conclusions reached in this report regarding Brexit-related impact for Kent's SMEs and rural economy will remain relevant for months, if not years to come. We will therefore continue to produce updates as the key elements of the EU-UK negotiations emerge, particularly those touching on the key issues of trade, legislation, labour, and finance.

18 We have considered for example **the impact** this would have in Kent and Medway in terms of reducing available public spending, as well as its impact nationally in terms of absolute budget shrinkage or relative redistribution in relation to local government. Given that the UK total public spending in 2017-18 will be nearly 800 billion pounds, we do not at this stage consider the impact on Kent can be sensibly modelled or analysed. When more is known on the amount, repayment, etc. we can return with further detail. In considering the broad range of issues around Brexit, the next section of the report covers **five** main topics:

1. Terms of Trade with the EU
2. Terms of Trade with Non-EU States
3. Rules, Standards and Regulations Replacing the Current EU Legal Framework
4. Labour
5. Funding

Terms of Trade with the EU

19 The terms of that will be a critical element of the negotiations in our future relationship. Remaining within the Single Market puts Britain within the remit of the four freedoms, and the jurisdiction of the European Court of Justice, neither of which appear compatible with the approach set out by Prime Minister May in the February 2017 Lancaster House Speech. Equally, remaining in the Customs Union, appears to have been ruled out by the EU and the Government. Doing so would of course prevent the UK from freely negotiating bilateral and multilateral trade agreements with other countries. Again, this means that the manner and mode by which British exports move across the new UK-EU border will need to be negotiated and for some goods, fruit for example, the potential for extra time delays from the process that may be involved could be a crucial issue.

20 Some commentators have suggested that the EU-UK negotiations will begin from a position of zero tariffs and the reduction of all non-tariff barriers. The UK will also become the EU's largest export market on the day we leave the EU. However, the Government has also said in the White Paper that it does not expect to adopt the trade model of any other country that has negotiated terms of trade with the EU in the past (e.g. Canada/CETA or US/TTIP). So at this stage the Government is anticipating a wholly new and unique British model of trade relations. Different terms of trade which currently exist are described in the table below.

Feature	(3.1) Single Market			(3.2) Customs Union (Turkey)	(3.3) FTA (Canada)	(3.4) WTO MFN status
	Full EU membership	EFTA (EEA)	EFTA (Switzerland)			
Duty Free Access to Single Market for Goods	Yes	Yes	Yes	Yes	Yes	No
Duty Free Access to Single Market for Services	Yes	Yes	Some	No	Some	No
Free movement of capital	Some	Some	Some	No	No	No
Free movement of people	Yes	Yes	Some	No	No	No
Acceptance of Single Market Rules	Yes	Yes	Some	No	No	No
Input to Single Market Rulemaking	Yes	No	No	No	No	No
Bound by EJC Decisions	Yes	Yes	Some	No	No	No
Bound by EU Common Commercial (Trade) Policy	Yes	No	No	Yes	No	No
Bound by EU Common Agricultural Policy	Yes	No	No	No	No	No
Contribution to the EU Budget	Yes	Yes	Yes	No	No	No
Participation in EU regulatory agencies	Yes	Yes	Yes	Some	Some	No
Member of the EU VAT area	Yes	Yes	Yes	No	No	No

(Harvard University, 2017, p. 15)

21 With the aftermath of the General Election providing no single party with an overall majority, there has been a shift in the negotiating strategy. The 'have our cake and eat it' ambition appears to have receded, replaced by two options. First: a 'softer', economy-first Brexit, focusing on minimising the overall economic and financial instability caused. Second, a 'harder', sovereignty-first Brexit, aiming for increased powers returned to Westminster balanced against potential economic turmoil, at least in the short term. A third variant may yet emerge. Regardless, businesses across the UK need to become more familiar with the various trade models being discussed as potential Brexit scenarios. One model which could emerge is the European Free Trade Association (EFTA), which currently contains Switzerland, Norway, Lichtenstein and Iceland as members. It holds 27 free trade agreements with 37 nations, has a consumer base of 900 million, and would allow Britain to have some limitations on immigration without resorting to WTO rules (The Guardian, July 2017).

Terms of Trade with Non-EU States

22 The ability to increase trade with **countries outside the EU** has been identified as one of the major opportunities of Brexit for business both large and small. The Department for International Trade has been newly designed to help businesses capitalise on emerging and potential avenues for exports which are expected to open up, both European and international.

23 There are however two important constraints to progress at this stage:

- First, the UK *cannot enter into* formal negotiations with third party countries as long as it remains a member of the EU, since trade matters are in the competence of the European Commission. This could be as early as March 30th 2019, or longer (in the case of a transitional agreement). This could alter or delay both our understanding of the **terms and timetable** on new trade agreements in goods and services. Accordingly, having a full understanding the terms and timetable of such trade will be crucial. Businesses in Kent and Medway, large and small, will need to plan ahead in order to guard against shortfall along supply chains, drop-offs in import/exports, all while developing plans for impending trade re-arrangements. We look to clear advice emerging from key business and government actors in this respect, both nationally and regionally.
- Second, the EU currently has trade agreements with many **third countries** which UK business can currently export under. This will cease on the day the UK formally leaves the EU, and it is not known yet whether the terms of trade with any country will be the same, better or worse than the current EU agreement. Again, legal certainty is crucial in identifying the options for businesses in this respect.

Rules, Standards and Regulations

24 The EU (Withdrawal) Bill was published by the Government on March 31, 2017 designed to provide a legal bridge by which – whether temporarily or permanently - the entire body of secondary EU law (Regulations and Directives) including a host of rules and standards would be rolled into UK domestic law. Parliament must then decide which areas of law, and which provisions within those areas, it wishes to permanently **repeal, replace or amend**. The task is herculean. There is such a vast number and range of laws and regulations that this exercise will occupy Parliamentary time for a considerable time to come.

25 For business this will have two impacts. First, ongoing ambiguity regarding which EU laws and their accompanying regulations will remain and which will change. Second, the inevitable focus of the UK government upon this task, rather than other policy areas. An obvious response is for each sub-sector to respond quickly by identifying their own references regarding regulations, standards, certification, etc. This can then be translated, in terms of the sector, and the county as a whole, back to a variety of decision-makers during the critical time of Brexit negotiations.

Labour

26 The evidence of the survey work we have undertaken, alongside discussions with businesses and their representatives has brought out clearly how important labour issues will be. For many businesses in Kent, not only in the rural economy, access to labour from other EU countries will be critical for continued success. This arises widely from low-paid, unskilled work in fruit picking, to high-paid roles in specialised areas.

27 A principle issue of concern is the possible loss of access to labour and an increase in labour shortages, with the knock-on effects for the cost of business. Although there is support for control of the border and migration being repatriated to the UK, there is little evidence of a desire for this to lead to much tighter limits on labour migration. In the rural economy there is a specific focus on reintroducing a framework akin to the old Season Agricultural Workers Scheme. More broadly there is concern that existing pressures from skill shortages will be exacerbated if the new system for controlling migration is too restrictive.

28 Theresa May announced on 22nd June that she was prepared to guarantee the rights of the approximately 3 million EU citizens currently living in the UK. Under the proposals, all EU nationals would be given a 'grace' period, whereby time will be allowed for the application of settled status. Issues arising are centred on two factors; the so-called cut-off period and the rights of EU citizens. The Prime Minister has confirmed this would not be before March 2017 and not after March 2019 (within the two-year window of the Brexit negotiations).

29 On the rights of EU citizens, the issue concerns the guarantee of key rights, and ensures that the UK upholds the deal if agreed. The European Union wish this to be carried out by the European Court of Justice, whilst the British Government has insisted that it should be guaranteed by the UK courts. The role of the ECJ will be a prominent feature across the Brexit negotiations on a number of issues.

Funding

30 As we noted in the first report, the transition to new arrangements for the funding currently received from the EU is of critical importance to a number of sectors, including higher education and local government, and of course business and agriculture. The Government has made a number of announcements about the possible replacement of EU funding streams with UK based funds. For example, the Chancellor announced in August 2016, that the government would match the current level of agricultural funding until 2020, and that structural and investment funds projects signed before Autumn 2016, as well as Horizon research funding granted before the UK leaves the EU will be guaranteed by the Treasury after Brexit. This was no doubt of reassurance to many companies, universities and others. In reality however, the working period between summer 2017 and 2020 may simply not afford enough time to amend the various financial and legal structures entailed in these frameworks. The Federation of Small Businesses has stated that there are currently no plans to replace the current commitment of £3.6 billion from the EU to develop the competitiveness of small firms in the UK.

31 For agriculture, the issues are particularly urgent given the scale of funding and the extent to which current business models in the sector have been developed over the years. In several cases the funding schemes in the EU have also evolved over recent decades to also support specific environmental objectives within farming and other agricultural sectors. Again, continued resourcing of such schemes from the Treasury post-Brexit will have significant impacts on the state of the UK environment as well as farming and food production. As the post General Election picture becomes clearer, and we move through the next phase of the negotiations, issues around the continuation of funding streams post Brexit will certainly need to be addressed quickly and in detail so that businesses and others can plan ahead and make changes and adaptations that may be necessary.

NATIONAL OUTLOOKS

32 Space forbids our ability to examine the deluge of national reports from government, business and other stakeholders on Brexit that have emerged in the past year. Work emerging from the BCC and the FSB as well as an SME-specific report from Harvard are however helpful given the specific focus of this report.

British Chambers of Commerce

33 Setting the scene at a national level, the **British Chambers of Commerce** (BCC) estimates for Quarter 1 (June 2017) were revised down from 0.3% to 0.2% growth (similar to dip encountered in Q1, 2016). These figures are indicative of an economic slowdown since, and quite possibly as a result of, the June 2016 UK-EU Referendum. The UK trade deficit has since this time doubled from £4.9 billion to £11.9 billion, driven largely by a sharp 4.2% increase in imports. In comparison, the Eurozone grew by the predicted 0.5%.

The Federation of Small Businesses

34 The FSB's overview for Q1 2017 examined key drivers and obstacles to growth and momentum for SMEs, and presents a mixed picture. Overall business confidence has improved from a dip of -2.9% in Q3 2016 up to 20%, with hiring intentions and revenue growth generally positive producing an increase in exports for some SMEs. However, the FSB acknowledged that "small businesses continue to struggle with a number of old and new challenges, both on the domestic agenda and in terms of our future relationship with the European Union" (FSB Small Business Index Q1, March 2017, p.6), with 64.5% seeing an increase in operating costs driven by fuel costs, the weaker pound and inflationary pressures.

35 Uncertainty over future UK-EU trade relations has had a clear impact regionally, with the South East of England registering mid-range levels of business confidence for Q1 2016, falling in Q1 2017 to the lowest levels in the country as a whole (p. 13). Further work in 2018-20 could therefore examine how Kent's specific sectoral spread is being affected by Brexit-related issues: e.g. professional services, financial services, construction, food and beverages, education, transportation and storage.¹

Harvard and King's Policy Institute

36 Another key report focusing on SMEs is the report recently produced by the Harvard Kennedy School in cooperation with the Policy Institute at King's. The impacts versus opportunities presented by Brexit are divided between those who still at this point see an unshackling of rules and regulations and the opening of new markets as a golden opportunity for the UK, and those concerned about losing "frictionless access to the world's biggest economic zone and the UK's largest trading partner" (2017, p. 3). The report's analysis suggests that Referendum rhetoric continues to set the political tone going for both government and business alike, whereby leavers "typically exaggerate the opportunities and downplay the risks" while remainers "overstate the threat to British companies and the UK's economic prospects" (p.3). In practical terms it is clear that trade barriers, new markets, regulation, access and skills now constitute the key categories of the Brexit debate.

¹Methodology: Report based on online research survey carried out by Verve between 30th January and 17th February 2017 with 1,245 respondents, a 19% response rate with data weighted by regional gross value to match profile of small businesses in UK.

REGIONAL OUTLOOKS AND CEFEUS DATA GATHERING

37 Beyond the general issues, and national outlooks available from – and beyond – the above-mentioned reports, one of the compelling trends we have noted is the extent to which **accurate, sectoral and regional data** is still insufficient to make informed policy judgments regarding Brexit. For example, as we looked in more detail at the rural economy in Kent and Medway, we tried to source data on the breakdown of exports of different agricultural products to the EU or other countries. For SMEs we looked at detailed figures on employment in different sectors among UK, other EU and other nationalities. In many cases however, **data remains not only largely unavailable** regarding SME business in Kent and Medway, but fundamentally lacking the granularity that illustrates the active **UK-EU dimensions of Kent business** that will undergo that greatest degree of change, both during and after Brexit.

38 Going forward, it will therefore be essential to invest in work to improve the data available for policy makers to understand the Brexit impacts and opportunities across different parts of the UK. Without data, insights, feedback and an identifiable series of **sector-specific ranked preferences for actions** there is a very real risk that options will not be well understood, and that policy responses will be improperly directed to achieve their objectives. As part of our research, CEFEUS has worked with a number of partners that have been surveying businesses in Kent about Brexit. This has produced useful insight into both the prevailing mood among businesses and specific concerns, and how to tackle them.

39 CEFEUS has worked with partners, and produced its own in-house analysis to complete the following four snapshots of data gathering on SMEs and the Rural Economy:

1. Cripps' surveys in association with Insider Media, 2016 and 2017
2. CEFEUS/Kent Invicta Quarterly Updates
3. CEFEUS/Touchstone Surveys Brexit Survey
4. Rural Raps from Rural Plc.

Cripps' surveys in association with Insider Media, 2016 and 2017

40 Undertaken in the past year, the two Cripps' surveys conducted in association with Insider Media have provided us with snapshots of how SMEs in Kent & Medway are reacting to the changes already taking place, their view of changes yet to come and how they believe the Government should approach the Brexit process.

Cripps' survey in association with Insider Media, September 2016

- 62% of businesses think maintaining access to the single market should be the biggest priority for the UK government in the negotiations.
- 51% of businesses think they will be worse off with the restriction of freedom of movement.
- 23% of businesses think leaving the EU will be good for their business.

Cripps' survey in association with Insider Media, March 2017

2.1% of respondents said they wanted continued funding to their sector.

- **Brexit as a business opportunity:** 31.0% saw no opportunities, 29% removing ourselves from EU regulation, while 1.4% greater control over workers' rights.
- 39.5% of businesses: Leaving the EU has visibly impacted upon their business strategy
- 30.3% of businesses: Leaving the EU has decreased their revenue, 11.2% increased their revenue; 49.3% no effect.
- 57.2%: employ EU nationals



What next after Brexit? (Cripps' survey in association with Insider Media)
www.cripps.co.uk/wp-content/uploads/2017/04/Cripps-Survey-BREXIT-2017.pdf

CEFEUS/Kent Invicta Quarterly Updates: Q2 (April – June) 2016 – Q1 (January – March) 2017

Analysis of the Data

41 Present impacts are, of course, limited. The numbers do however indicate that of the businesses surveyed across Kent, 30.3% noted a decrease in revenues due to Brexit compared to 11.2%, who noted an increase. 22.4% stated that they were experiencing difficulties recruiting. 28.9% registered that Brexit is at present having a broadly negative impact on their investment decisions. Some shifts are evident: 39.5% stated they were changing their business strategy in response to Brexit.

42 In terms of preferences for Brexit scenarios, Cripps and Insider Media data indicates that business is equally polarised:

- In terms of leaving the Single Market 37.9% are positive, 56.0% are negative and 6.0% are indifferent
- In terms of leaving the Customs Union 41.9% are positive, 52.0% are negative and 5.9% are indifferent
- In terms of leaving freedom of movement and imposing controls on immigration 44.7% are positive, 49.6% are negative and 5.5% are indifferent

43 The business outlook for SMEs in Kent and Medway remains uncertain. 54.2% expect Brexit to have a negative impact on their business in the short-term (next 2 years), while 17.4% are expecting Brexit to be positive. A 5-year outlook however produces different figures, with 46.9% of businesses seeing Brexit's impact as negative, and 30.7% positive. At 10 years the outlook evens out somewhat, with 34.9% of businesses seeing the long-term effects of Brexit as negative and 37.9% positive. Most local businesses therefore are now reasonably certain that the next few years are going to present problems.

CEFEUS is grateful for the insights and analysis provided in this section by both Ray Johnston of Kent Invicta Chamber of Commerce, and Stephen Fidler, UK and Brexit Editor, The Wall Street Journal (London), and Visiting Professor in Politics and International Relations at Canterbury Christ Church University.

44 The Kent Invicta Chamber of Commerce carry out quarterly regional economic surveys on behalf of the British Chambers of Commerce with their businesses, with 80% of responses usually coming from SMEs. We have found their data relevant and representative, and have produced a brief analysis of the Kent-specific quarterly trends, from Q2 2016 to Q1 2017 (the time frame prior to the EU-UK Referendum until the most recent reports, covering the reactions of differing scenarios regarding access/ loss of access to the Customs Union).

Section	Description
UK Sales	The numbers of firms reporting increases in UK sales have fallen since the middle of 2015, when about half were doing so, but there has been little change since the referendum. In Q1, 35% of firms reported increases in sales, 50% no change and 15% a decrease, overall not much changed compared with the picture in Q4 2016.
UK Orders	Q1 was the most positive quarter for forward orders from the UK since 2Q 2016. Some 35% of firms reported increased orders, up from 25% in Q4 2016, with 49 % seeing no change and 15% a decrease. The last time more companies were reporting an increase in orders was in 2Q 2015.
Export Sales	Exports sales posted their weakest quarter in Q1 since at least 2Q 2015, despite the weaker pound making UK goods and services more affordable abroad. Only 17% of firms reported an increase in export sales, compared with 24% in Q4 2016, while 71% reported no change and 12% a decrease.
Export Orders	Some 17% of companies reported an increase in export orders in Q1, below the levels of the previous two quarters but roughly in line with the five quarters ending with Q2 2016. Some 71% of firms said they had seen no change and 12% a decrease. Manufacturing fared better, with 36% reporting an increase in Q1 compared to 10% of services.
Recent Cashflow	One in four business have reported an increase in cashflow over the last 3 quarters, the lowest proportion for 3 ½ years, while 29% reported a fall. This is probably because businesses have failed to recover increased costs of their inputs, arising from the pound's post-referendum devaluation. The Bank of England now expects input inflation to ease.
Pricing Plans	In Q1, 42% of business said they plan to increase prices, compared to 27% in Q2, 27% in Q3 and 38% in Q4. The figure of 42% planning price increases is the highest in 7 years, suggesting a return to levels last faced during the financial crisis.
Expectations of Turnover over next 12 months	More companies expected their turnover to increase in Q1 than in any quarter since Q2 2015. In Q1, 66% of companies said they expected turnover to rise, compared with 59% in Q4 2016, reverting to pre-referendum levels. However, with inflation rising, it is unclear how much of the expected increase amounts to real-terms growth.
Expectations of profit over next 12 months	In Q1, 60% of businesses reported an improvement in profit. This compares with 42% in Q3, 48% in Q2 and Q4. Those expecting it to worsen has dropped in Q1 to 13%, the lowest since Q3 2015 and compared to 18% in Q4 2016. These figures, which traditionally show confidence levels rather than outcomes, may also include inflation.
Quarterly Employment	Just 20% of businesses increased their workforces in Q1, compared to an average of 24.9% over the previous seven quarters, and more manufacturers shrank their workforces than grew them. Over the next 3 months, 39% of businesses said they planned to increase their workforce, the highest since 2007. No manufactures intended to shrink their workforce, although many intended to rely on temporary workers.

CEFEUS is grateful for the insights and analysis provided in this section by both Ray Johnston of Kent Invicta Chamber of Commerce, and Stephen Fidler, UK and Brexit Editor, The Wall Street Journal (London), and Visiting Professor in Politics and International Relations at Canterbury Christ Church University.

Analysis of the Data

45 Ray Johnson, Board Director of Kent Invicta observed that for businesses, “the future needs to be clear and seamless post-Brexit. It is encouraging that talks are underway and for businesses, certainty is a priority. The government must continue to listen to businesses, and ensure there is good, clear communication on the preparations for our departure, as well as on regulation aspects. In this regard, it would no doubt be beneficial to have **specialist government representatives** to liaise with varied sectors, to manage expectations in a timely manner.” Brexit will bring its share of challenges, but also opportunities for businesses. As outlined in the final section of the report, the key is for SMEs, and rural stakeholders alike to identify those challenges during rather than after the EU-UK Transition Period, in order to move within the changes produces to EU-UK commerce, rather than behind the curve.

In his discussions with CEFEUS, Johnson also added that **apprenticeships** could go some way to addressing a potential drop in the labour market from EU citizens, whilst helping to educate the next generation in their chosen field: “Kent Invicta encourages businesses to utilise the apprenticeship scheme. It is a good tool, and helps young people who aspire to work in a sector to gain important experience.”

46 Overall, Quarter 3 was a particularly volatile period for Kent, due largely to the unpredictability created from the EU referendum. The last two quarters have generally seen sales and orders return to similar levels before the referendum, although there is a sharp difference between the services and manufacturing industries. Services appear to be gaining far more UK-based trade, suggesting it is readjusting for a ‘hard’ Brexit. Conversely, manufacturing appears vulnerable if access is lost to the single market. SME pricing plans indicate an increase in the cost of living, affecting the average UK citizen before Brexit has even concluded. Overall, as the Q1 report states at one point: “that’s volatility for you”.

CEFEUS/Touchstone Brexit Survey June 2017

47 In light of the lack of Kent and Medway-specific data, CEFEUS commissioned Touchstone Surveys to carry out a personalised telephone interview with 15 SMEs and 5 Rural Economy stakeholders. Although limited in size, the chosen sample reflected the SME profile of the overall county, including both small-sized businesses with a turnover of £350K up to multi-national companies. All businesses selected have a relationship with the European Union, although the size and scope of this varied. **Annex 1** illustrates clearly, and in some detail, the ‘traffic light’ visual of the data collected.

SMEs

48 For the most part, SMEs were worried about the necessity to develop trade deals with EU and non-EU countries, and the length of time to finalise trade deals. The need for easy transportation links across customs borders was also an issue. Most SMEs stated that sourcing products, components, or labour from within the UK would seriously damage their margins. There was very little confidence in central government, local government, or business organisations in terms of practical help that they would bring, and whilst the suggestion of a shared and centrally located Brexit Compliance Officer was applauded, most interviewees were sceptical as to whether it would happen, in practice. Comments from the feedback received on future opportunities include the potential to ‘simplify red tape and taxation’, ‘trade deals with counties outside EU (such as) China and Russia’ and ‘impacts mentioned by those surveyed include ‘(single) market must remain open’, ‘VAT and transport situation needs to be sorted out’, a need to ‘nail down exchange rates’ and finally access to EU grants ‘which is key.’

Rural Economy

49 For the most part, the agricultural sector’s major worry is the availability of EU labour. The uncertainty about any agreement on **migrant labour** appears to create two major problems. The first is that EU workers will be unable to travel to the UK to carry out seasonal labour, primarily soft fruit picking. The second is that, in the absence of a regular corpus of seasonal labour, EU-sourced or otherwise, the rural economy in Kent faces a very real downturn in terms of harvesting core produce in a sustainable and prosperous way. Labour shortages will inevitably create increased demand for pickers. This will, in turn, increase the hourly rates for those that do come, as well as for those UK or non-EU workers who do want to work, resulting in reduced the margins for the employer.

50 An additional concern for the agricultural sector is the potential loss of subsidies and grants. In a number of cases, these subsidies provide the profit for the core business, whilst day to day trading only covered the overheads. In addition, there were many comments on the need for long-term planning and thinking as, with crops, there is a need to think in 20 year timeframes. Thus, such issues as capital investment, seeding, crop-rotation, and succession planning must be taken into account. There was little confidence that the negotiators would consider anything other than the short-medium term. Overall, the Rural Economy is deeply concerned with Brexit with far more concerns than opportunities mentioned. These include ‘reliable source of migrant labour needed’ for jobs which one business described as a job that ‘cannot that be done by UK labour’, ‘reduction in quality’, ‘need for all funding to be replaced by HMG’ and finally ‘food availability becoming a problem’. However, an opportunity expressed is a desire for people to ‘still want British products’

Analysis of the Data

51 Overall, the observations regarding Brexit’s impact on rural economy in Kent and Medway can be summarised as “worried, confused, and uncertain”, although many did say that they would endeavour to use Brexit as an opportunity for growth. However, a further concern from those surveyed was the lack of clarity on the part of the key decision-makers regarding their ability to identify both broad and specific needs of the rural economy.

Kent Rural Raps from Rural Plc

52 Since January, Rural Plc has been sending out weekly 'Rural Raps'. These 'raps' are helpful digests contained in email form containing a wide variety of topical issues that touch on the Rural Economy, with a specific focus on Kent and South East. In tandem with the work of the Rural Economy sub-sector group, these weekly roundups have proved invaluable for our report, and the table below is collated from topics that are specifically Brexit related.

Brexit Rural Economy Issue	Pros	Cons
Machines and New Technologies	Future? Can improve crop production, increase efficiency & help with the lack of workers. ¹	Can reduce the quality of the picked fruit & are expensive. ²
Post-Brexit Trade Deals	New markets to export to when taking the growing and diversifying food market into account, the UK farming remains an important part of the economy and attracts overseas investment. ³	Rural businesses might have to compete with powerhouses such as the US and New Zealand which could see the British agriculture lose out.
Subsidies	Many rural businesses are dependent on the EU subsidies. Scrapping farming subsidies could put 250,000 jobs at risk. ⁴	Farming industry move away from subsidy support post-Brexit? The egg industry, for example, operates successfully without subsidies. ⁵
Importing Goods from Overseas	Supermarkets such as Tesco import a lot of produce from abroad.	Supermarkets should be encouraged to buy local – if they import, then local farmers must destroy crops. In March 2017 issue was with cauliflowers. ⁶
SAWS	The calls for a seasonal workers scheme for this year were not supported by statistics that would have demonstrated labour shortages following the referendum. ⁷	It has been estimated that horticulture industry employed 80,000 seasonal workers in 2016 and the number will increase to 95,000 by 2019. ⁸
Brexit Vision for Agriculture	The former DEFRA Secretary has argued that the UK will flourish outside the EU and become a self-governing, free-trading nation able to strike better global trade deals. ⁹	The Centre for Rural Economy argued that the government needs a more holistic approach to rural policy and ensure that they look beyond agriculture and consider the interconnections and opportunities for economic growth. ¹⁰
Export of Live Sheep and Cows	Ministers are considering changed animal welfare rules to ban export of live sheep and cows after Brexit because foreign abattoirs have lower standards.	Farmers oppose this as it would mean lower prices for their livestock and would not be necessary if other countries observed EU welfare rules.
Tourism	Tourism generates more revenue and provides more employment for the rural sector than farming – even more important in post-Brexit world, as argued by Bidwells. ¹²	The rural sector of Kent suffered a decline in turnover in 2016 as supermarkets squeezed prices on suppliers. Revenues in agri- & horticulture fell 6% despite a 23% boost to EU subsidies. ¹³

¹Farmers Weekly, 22 February
²CEFEUS Survey, June 2017 & Mike Weir, House of Commons Debate, Seasonal Workers Scheme, November 2016.
³Financial Times, July 2017
⁴FarmingUK, May 2017
⁵Doug Wanstall (BFREPA), FarmingUK, March 2017
⁶Richard Ash, KentOnline, March 2017
⁷Robert Goodwill, House of Commons Debate, Seasonal Workers Scheme, November 2016.
⁸British Growers Association
⁹Owen Paterson, Farmers Weekly, April 2017
¹⁰Centre for Rural Economy, Rural Services Network, March 2017
¹¹The Times, April 2017
¹²Bidwells, Rural Services Network, June 2017
¹³Rural Plc, Kent Online, May 2017

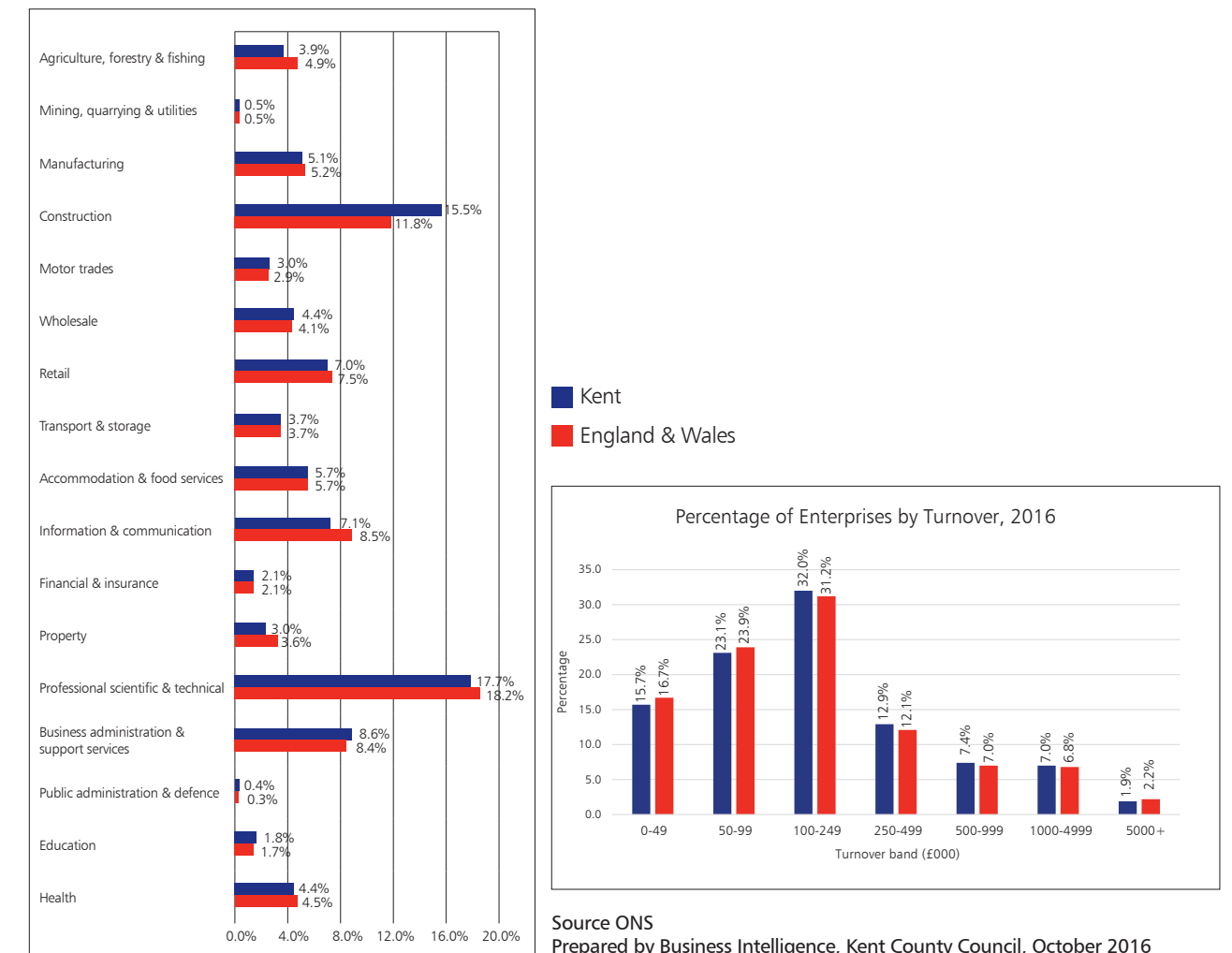
Analysis of the Data

53 As seen from the table, rural issues remain divided; and illustrate the persistent difficulty of producing actions that benefit everyone. To these issues can be added the specific categories found below regarding funding, labour and innovation, as well as the probable 'mixed scenario' that will incorporate various aspects of all three. Going forward, CEFEUS will continue to monitor the Rural Raps, gather sectoral data for the rural economy across Kent and Medway and work with our partners to suggest options.

CEFEUS SECTORAL ANALYSIS

Keep Calm and Keep Trading: Kent and Medway SMEs

54 SMEs in Kent broadly reflect the business structure of the UK as a whole. There are approximately 59,000 enterprises in Kent, as of March 2016 (UK Business Survey, Kent County Council, October 2016). 17.7% of enterprises are within the professional, scientific and technical sector, whilst 89.5% of SMEs employ less than 10 employees (classified as 'micro-enterprises') and only 0.3% employ over 250 staff. Over 70% of enterprises have a turnover of less than 250k, with 32% of those enterprises having a turnover of between 100k and 249k.



55 For small and medium size businesses in Kent and Medway, Brexit presents a wide range of issues and futures.

56 One key area identified in various surveys are the **rules, regulations and regulatory barriers**, and their role in improving or worsening business opportunities and overall performance. Like many other issues, Brexit has raised the possibility of significant change on this point, largely revolving around the prospect of getting rid of 'burdensome' EU regulations and freeing up business in both regulatory and choice-based modes.

57 For example, where current EU regulations relate to product standards it is very likely that in order to continue to sell the product in question into the EU single market, UK companies will need to continue to **conform to the same standards**. Repealing an EU regulation in UK law will not necessarily be a benefit if it subsequently prevents UK producers from trading with the Single Market. Companies in the EU bearing the costs of labour regulations, for example, will likely want those costs reflected in UK products even if the regulation itself has been repealed in UK law.

58 While some regulatory regimes have been criticized as being over-prescriptive or setting too high a standard, there will be serious debates before such standards are lowered in new UK laws. Providing lower environmental standards, or removing employment of other protections from UK Citizens will need careful consideration and justification. Consequently, companies which believe that their business prospects will be improved by major reductions of current regulatory costs may be disappointed.

59 It will be important to ensure that policy decisions clarify the timetabling of Brexit's various phases, beginning with the **period of transition**. This will in effect commence now, extend throughout the negotiating period, and possibly beyond 2019, with the aim of preventing a sudden stoppage, or 'cliff-edge' imperilling the availability of imports, exports, their transport, transit, and pricing, and instead allowing the current trading relationship to continue up to, and possibly past the point of Brexit itself. During the **Transition Period**, companies may well be able to conduct business broadly as they do now. The Transition Period is likely to be followed by a second phase, during which British commerce will need to adapt to the set of relationships and rules governing both EU and non-EU trade on the basis of EU-UK negotiations. Government and other agencies will have an important role to play in supporting businesses through both these periods, and ultimately into the first few years of the UK's 'New Relationship' with the EU. This is likely to be a period of very great change in the short and medium term, accompanied by potential disruption in monetary value, fiscal stability, economic forecasts and investment structures.

Frontline Farming: Kent and Medway Rural Economy

60 Farming is crucial, both locally, and nationally. A brief overview of national statistics makes this clear:

- Agriculture and food production are key to the UK economy; accounting for 3.6% of GDP, 436,000 jobs, 7% of exports, and 10% of imports. (HSBC March 2017)
- Farming underpins the UK's food and drink sector which is worth £108 billion. (NFU 2016)
- 15% of Kent's workforce is in the food industry and there are 15,000 farm jobs in Kent. (NFU 2016)

National Perspective: NFU Manifesto, May 2017

- 85% people think that it is important that Britain has a productive and resilient farming industry
- 61% of the nation's food needs are met by British farming
- For every pound invested in British farming the industry puts £7.40 back into the UK economy
- The largest manufacturing sector of the UK is the food sector which is worth £108 billion and UK food sector employs 3.9 million people
- UK export of food and non-alcoholic drinks is worth £12.3 billion
- 475,000 jobs in British agriculture
- Recreational visits to rural Britain are worth £21 billion

61 Within Kent however, farming should be understood as a 'frontline activity', for the following three reasons. First: the sector has, since 1973, functioned within the framework of EU support, and much of the shape of the current industry is based on this dynamic. Second, farming is dependent upon exporting TO the EU in terms of the majority of its produce. Finally, farming is critically dependent for the production of its goods upon labour FROM the EU.

62 Farming is therefore not an industry upon which Brexit will fall lightly. Indeed, given the possible coincidence of any, or all three of these factors, farming in Kent – and across the UK as a whole – will be profoundly **financially impacted in the short-term, materially affected in the medium-term, and structurally challenged in the long term**.

63 This suggests a number of scenarios:

- **Soft Brexit/SUBSIDY scenario:** Full government repatriation of CAP funds from 2019/2020 on largely the same basis, at the rates as at present; SAWS-based structure to ensure non-UK labour provision, decent support, tools, provisions to business from government and/or industry.
- **Medium Brexit/ MIXED scenario:** conditional and partial repatriation of CAP funds; conditional upon climate change/environmental requirements; temporary, possibly quota-based, time-limited SAWS structure to permit non-UK labour provision, sporadic support from government and/or industry.
- **Hard Brexit /COMPETITIVE scenario:** non-subsidy structure, new environmental requirements, asymmetric tariff regime; no labour provision for either UK or EU labour, and no support or provisions government and/or industry.
- **Mixed Scenario:** Full government repatriation of CAP funds till 2022 on largely the same basis; but no SAWS-based structure and real problems with EU labour provisions; sporadic support from DEFRA and industry.

The choice, or MIX, of any one of these scenarios depends upon the role that farming as a sector plays within the British state as a whole, in terms of food security, economy, and business.

64 In terms of the nature of possible UK Government intervention, as has recently been suggested, "successive governments have decided not to let UK agriculture sink or swim. That is in itself no argument for continuing to aid the industry, but it is proof of the strength of the argument that sustaining it is in the national interest" (Martin Vye, 2017). Clearly, key economic markers need to be considered across these four scenarios including: UK-EU competitive advantage, profitability, margins, and the wider impact of the imposition of an external EU tariff, as well as domestic competition itself, and the reciprocal imposition by the UK of a tariff on EU-produced goods.

65 Given both the pressure on finances, and the ongoing fiscal and economic ambiguity that will inevitably accompany the 2017-19 negotiations, any Transition Period, and the post-Brexit era beyond, the government will likely be tempted to drastically reduce the majority of farming subsidies, at all levels, across all farming sectors.

- The risk is the short-term insolvency of small-holdings, and those farms already operating on a thin profit margin.
- The opportunity (not least to prevent the risk itself) lies in identifying ways in which farming as a business, and the government, can together act as leaders to reconstruct and improve the industry as a whole.

Again, depending on the scenario which emerges and the division of labour between government, industry, and public and private sector, the UK farming's current *European-based business model* will by 2019 need to be replaced by a new UK-based model.

66 A new UK farming business model will require a wholesale reconstruction of the industry from the ground up in terms of the desired modes of production etc., and top down changes vis-à-vis the Government's chosen method of business (subsidised, mixed, complete competition). This will be accompanied not only by a major structural change in subsidies, but against the backdrop of shifting legislation that will be retained, amended or dropped in the Great Repeal Bill. This in turn will inevitably have an impact on goods, standards, licensing, and throw up further questions regarding (for example) making and breaking goods contracts due to loss of subsidies. Identifying the intricacies of farming's legal structures. Below are a number of key themes that have arisen in our discussions with Kent and Medway rural economy representatives as key.

Funding

67 The farming industry as a whole currently benefits from funding based on EU-derived subsidies via the Common Agricultural Policy (CAP) in the form of **Basic Payment Scheme** (BPS) payments. In addition, further subsidies are available via **Countryside Stewardships** (CS). Both BPS and CS have been guaranteed by the Treasury to continue until 2020. At present, both BPS and CS are key. These payments are extremely important to both small and medium sized farms, many of which consist of fewer than 500 acres (Agri-Expo, 2017, p.48). Will subsidies continue, be somewhat cut, made conditional, or be removed completely? The mid-range, conditional options seems most likely.

"If subsidies are to continue they may be geared more to the CS type scheme with the ability to highlight environmental benefits. The argument goes that with fewer subsidies come the opportunity for British farming to come into its own and drive changes towards "buy British" which some say was lost with the availability of cheaper imported goods." (Mike Startup, Wilkins Kennedy LLP, Agri-Expo, 2017, pp. 48-49)

68 However, even if subsidies are only partially altered rather than completely removed, for both small and large farms alike, the impact could be very great, ranging from total insolvency to increased borrowing, and reworked additional finance, to farm expansion. For most, the issue of raising, and then servicing farm debt is critical. This in turn connects to the costs of borrowing (with inflation, interest prices may rise, making borrowing more expensive). In terms of size, small holdings may be disproportionately more reliant on subsidies than larger ones, and may be more vulnerable to changes in the market and feel the impact more profoundly.

69 Going forward, we should analyse the implications of different options, and in doing so, gather the ideas and suggestions from across Kent and Medway by which to Brexit-proof the rural economy sector. Issues include:

- Farmer-specific finance packages with lending tailored to yield ratios
- Role of tax incentives and tax breaks for the sector; both for traditional yield and more innovatively in helping diversification into renewable energy (the latter generally 100% relief in the first year through advanced allowances)
- The ratio of income / relief / investment / returns
- The 'look' of a broader package of repatriated funding
- Understanding the business cash flow and cost base, including machinery (buy vs. lease)

Labour

70 Labour, particularly migrant labour, is key to agriculture and horticulture. From pig and poultry units to soft-fruit growers, from dairy to flowers, migrant labour provides UK farms and growers with a 'flexible, temporary and mobile' labour force (FWI, 2016). While EU-born workers account for 5% of the country's workforce as a whole, that number jumps to 65% within agriculture, which does not include seasonal workers (Office for National Statistics, 2016).

71 One of the biggest sectors of the Rural Economy that is currently dependent on EU labour is the harvesting of produce. Approximately 80,000 seasonal workers a year pick vegetable and fruit harvests (NFU 2017), with 75% coming from Bulgaria and Romania. The vast majority of remaining workers come from other Eastern European states, whilst a recent NFU survey found that of the 13,400 workers recruited between January and May 2017, **only 14 were British**. The same survey found that in the month of May, there was a 17% staff shortfall in recruitment, whilst the British Summer Fruits organisation has said that labour shortages are at the highest level since 2004. They also go on to predict that the need for seasonal workers in the soft-fruit sector will increase by 2,135 to 31,095 in 2020, compared to 28,960 in 2015 (British Summer Fruits, 2017).

72 Under the now defunct Seasonal Agricultural Workers Scheme (SAWS), more than 22,000 EU citizens from Romania and Bulgaria worked temporarily on UK farms. Restrictions on the entry of Romanian and Bulgarian citizens were lifted in 2012 however saw the bulk of that labour force move to other sectors, causing a shortage in agriculture (following the trend of migrants generally becoming more skilled and English-proficient, moving on, or upwards into management). UK-based workers continue to disregard agri-based labour as an option, generally requiring permanent jobs, a clear career path, or simply oppose the hard physical labour entailed in farming.

Kent-Specific Picture: Helen Whately, MP for Faversham and Mid-Kent, House of Commons Debate, 30th November 2016

“Organisations that recruit seasonal workers, such as AG Recruitment in my constituency, have told me that there are four times fewer people looking for jobs than last year. The NFU surveyed seasonal worker recruitment companies, and nearly half said that between July and September 2016 they were unable to meet the demands of the sectors they were supplying. That compares with nearly 100% being able to recruit enough workers in January, February and March this year.

On the scale of the problem, in the picking season, farmers in my constituency need thousands of extra workers. A single large farm needs about 1,000 extra workers in the peak picking season. Across my constituency, between 5,000 and 10,000 seasonal workers are needed, and it is a pretty long season because strawberries can now be grown from March to October. However, in my constituency, only a few hundred people are on jobseeker’s allowance, so there is a big gap between the scale of the demand and the number of people looking for work.

One farmer in my constituency, Tim Chambers, has told me that normally he would expect around 80% of his workers to ask for a place next season as they leave. So far this year, it has been only 50%. David Figgis, another local farmer, says that compared with last year the number of seasonal workers he has been able to recruit to start in the new year has halved. There is already a problem recruiting workers, before we have even left the European Union. Another farmer in my constituency, Simon Elworthy, has told me that there is a genuine risk of British fruit going unpicked next year because of a shortage of labour.”

73 It is essential there will be a continued ability across the Kent and Medway farming sector to source a seasonal workforce. As Colin Hall suggested, “we have already seen a reduction in potential EU workers coming forward post June 2016, and surely need to trial a Seasonal Agricultural Permit Scheme now, proving that it is a functional migrant scheme where workers return home. This has to be the right model for the future, as it has been (under the Seasonal Agricultural Workers Scheme) in the past.” (BTF Partnership, Agri-Expo, 2017, pp. 42-43). Helen Whately, MP for Faversham and Mid-Kent concurs, suggesting that “SAWS had robust entry and exit checks, which meant that more than 98% of those who came to work in the UK returned home when their work was complete. For that reason, those coming to Britain under SAWS did not count towards immigration figures.” (House of Commons Debate, November 2016). Cited in the Farmer’s Weekly Interactive report of 2016, Robert Pascall, a soft fruit grower in Kent argued that ‘SAWS was better than the current set-up because people knew exactly what they were coming for, and you knew exactly how many people you were getting as an employer’.

74 The options range between a scheme for temporary workers vs permanent migrant labour to support the needs of the sector. Access itself rests upon the trade-based choice made by the UK Government, in disengaging from the EU Single Market (and likely, the Customs Union). Options for a European Economic Area/European Free Trade Area seem unlikely now, primarily because both are premised on the free movement of people.

75 Bilateral deals with the EU as a whole, or with a number of EU (and non-EU) states means that all workers entering the UK would of course be subject to domestic law, which would require them to apply for visas. This in turn allows the government to control (e.g. increase or restrict) the **number of visas** (quota), **their criteria** (skills) and **timing** (temporary, seasonal, contract-based, permanent). Identifying a workable solution will need to be both politically palatable, and sectorally practical. Far more suggestions from the industry are therefore needed as to what sort of scenario best meets the widest number of needs.

Innovation

76 Reconstructing the sector is going to be key. Economic imperatives however will underwrite - and possibly undermine - initial efforts at wholesale change, including a weak pound, and the potential of increased inflation. For Kent, two key issues include the land market, and productivity; both presenting a mixed picture.

- **Land market:** “With the current 32-year low in the value of sterling, foreign purchase interest in the land market may be renewed. Good quality North Kent fruit belt land continues to trade at up to £10,000 per acre and more with competitive bidding, while clay soils in the Kent and Sussex Weald are under more pressure now at £7,000-8,000 per acre for bare arable land despite competitive bidding from neighbours or those with rollover funds.” (Colin Hall, Agri-Expo, 2017, p. 43.)
- **Productivity:** “While recent yields have been good and the volume of strawberries sold in the UK has increased dramatically, around half of fruit farms are making less than a 2% margin and fruit farmers’ incomes have fallen by 43% over the past five years. The British Growers Association estimates that the horticulture industry employed 80,000 seasonal workers this year and forecasts that that need will increase to 95,000 by 2019. It is getting harder for farmers to recruit seasonal workers. The National Farmers Union’s end of season labour survey found that in 2015, nearly a third of growers had experienced problems recruiting workers. Some 69% of growers expect the situation to get worse by 2018.” (Helen Whately, MP for Faversham and Mid-Kent, House of Commons Debate, November 2016)
- **Waste Reduction:** Particularly helpful for smaller farms, using waste reduction may permit simple cost-effective measures that could go a long way.

HOW CAN GOVERNMENT HELP?

77 All businesses, and SMEs in particular need greater support to fully understand the potential consequences of Brexit for their business, both to prepare for changes to the way they work now, and to identify the further opportunities ahead. The government needs to be more responsive in listening to SMEs, and agile in responding to them. Whitehall habits of exclusive, closed-door policy making cannot continue. A far more open approach based on partnerships with regional, sectoral and SME groups will be the only way to cope with the sheer range of issues faced by business during and after the Brexit negotiations. Building on the recommendations from the December 2016 Report, and the further work we have done through the SME and Rural Economy Sub groups we recommend the following actions as priorities.

Trade

78 Based on the work we have undertaken with SMEs and rural economy stakeholders, a number of key 'asks' which they feel the national government should bear in mind have emerged. Given that Europe remains the top priority market for SMEs for future trade and investment, the overriding goal is securing market-access, and preferably via a free-trade deal with the EU on the best terms possible, driven by a non-tariff commitment that ensures labour mobility and skills availability.

79 Businesses are concerned that the short time to agree a trade deal could lead to a "cliff edge" scenario and so if the negotiations prove complex there is support both for seeking to extend the negotiating period and taking an early decision to put in place a period of transition.

- An extensive transition period of 5+ years to ensure no cliff-edge scenarios for UK-EU trade alongside a possible extended negotiating period should trade talks prove complicated and lengthy.
- Ensure that goods and services, labour and mobility, as well as tariff and non-tariff barriers are understood as intrinsically connected, and negotiated together, rather than separately from each other.
- More clarity and technical and expert support for businesses, both large and small regarding the role of emerging **tariff and non-tariff barriers** (e.g. compliance, product standards, intellectual property, regulations), as they apply to goods and services, on the basis on the UK's trade deal with the EU.
- Key Whitehall Ministries and the UK's Brexit negotiating team together must be informed directly and regularly of the regional, sectoral and SME-specific requirements across the country, to appropriately balance the current MNC and London-based dominance.
- More input from Local Government and Chambers of Commerce as well as SME-specific groupings on the trade requirements of Kent and Medway itself throughout the various phases of Brexit.

Customs

80 As a key distribution hub to the rest of the UK, Kent will bear the brunt of any changes in the customs regime, both as a county, and on the firms within it. The key concern is the 'customs carrying capacity' that will be required of HMRC, Border Force and Kent Police (among others) in Dover, Folkestone, Ashford and Ebbsfleet as Brexit begins to take effect. Kent SMEs who trade exclusively with the EU are likely to be disproportionately hit by specific adjustment costs or more structural impacts (delays, shortages, etc.). It will be essential to have early agreement with the EU on the ways in which the customs border can be managed effectively and efficiently, including for example pre-clearance procedures. These arrangements should include steps of the kind outlined by the British Chambers Of Commerce covering -

- UK adaptation of the EU Union Customs Code (UCC);
- 'Earlier sale' permitting importers to value goods based on the previous sale within an established supply chain prior to import;
- Removal of compulsory guarantees to duty that might become liable;
- Reintroduce Inward Processing (IP) Drawback which originally allowed traders more flexibility in paying and reclaiming duty on the import/export of goods, and VAT deferment accounts (offset against a VAT return), enhancing cashflow for business.
- Preference documents allowing SMEs in particular to make use of future trade agreements (rather than simply trader authentication schemes)
- Chambers of Commerce operating as Trusted Third Parties in their capacity as AEO guarantors 'under a new process that would support SMEs with faster custom declarations'.

Tax

81 Concerns for SMEs regarding tax continue to flow from uncertainty over changes in the tax regime (e.g. becoming mistakenly non-compliant in a fluid structure). The main requirement is simply for greater clarity as to what will be retained / changed regarding tax issues.

- A clear timetable on envisaged shifts between EU and UK rules (preferably with a period of stability prior to any major changes); assistance in tackling the 'significant increase in the financial and administrative burden on businesses' (BCC, February 2017, p.8).
- Pushing ahead with the 'Making Tax Digital' project, using it as a platform to effect the majority of Brexit changes to the tax system.
- Ensuring that the VAT Mini One Stop Shop (aimed at simplifying VAT and reducing costs for SMEs) continues.

Regulation

82 For SMEs, avoiding immediate and comprehensive regulatory change following Brexit is key. A degree of stability has been afforded through the government's announcement that it will continue to apply the EU General Data Protection Regulation (coming into force 25th May 2018), as well as temporary transposition of much existing EU law into UK law via the proposed Great Repeal Bill until separate legislative changes can be enacted. For those SMEs whose export, import, supply chain, client base or funding is in any way attached to the EU, the role of a transition period is particularly crucial. SMEs have identified this period of time as one in which some EU regulations and standards can and should be redrafted, both to facilitate a greater proportion of SME activity in the national economy and reduce compliance costs. Equally, SMEs have also voiced concern about maintaining those EU regulations and standards (particularly product standards) which will enable them to continue trading effectively with EU partners.

83 The key message at this point is clear enough: SMEs in Kent and Medway value a stable regulatory framework, seeking first to minimize disruption and the costs of shifts in compliance, and then subsequently to streamline some areas to improve their UK-EU business. On that basis we would recommend to Government:

- An extended transition period in which existing EU regulations are maintained, to allow SMEs to fully accommodate the variety of legislative shifts in terms of regulation and standards as they apply to goods, services, mobility and capital.
- Ensuring that the EU and UK maintain both **regulatory correspondence** and **standards equivalence** as extensively as possible to continue two-way trade.
- Minimizing any new compliance requirements for SMEs to do business with the EU, both in terms of new rules, and new costs.
- Dispute settlement mechanisms (and their appropriate jurisdiction) need to be identified alongside regulations and standards.
- Greater use of regional Chambers of Commerce in supporting both government and independent committees regarding the genuine needs and requirements of SMEs, before, during and after the Brexit transition period.
- Support for SMEs who have already adapted to EU regulation and who may now face further changes during or after the transition period.

Labour Market

84 The Prime Minister's proposal for (23 June) a 5-year long settlement period to guarantee the rights of EU citizens living and working in the UK goes some way to addressing labour issues, but it is by no means as extensive as the final deal is likely to be. The reciprocal nature of the agreement is key, permitting EU workers to remain in the UK while entitling UK citizens to continue working and residing in EU Member States. SMEs, Chamber of Commerce and rural economy-based evidence all indicate real concern about growing labour shortages in both high and low-skilled areas across Kent and Medway, all of which pose a very real threat to current productivity, and future growth.

- Immediate and guaranteed certainty on the residence rights of the existing EU workforce, including clarity on their status vis-à-vis the cutoff date, the intervening grace period, and the post-cutoff date.
- Clarity from the Home Office on obtaining UK citizenship for EU citizens in the UK, and advice from the Department for Business, Energy and Industrial Strategy to UK firms regarding the hiring of EU citizens (in the UK and the EU).
- Resist any proposal to include EU nationals in the Home Office Tier2 visa system, which has proved costly and burdensome for SMEs hiring staff from other countries.
- An immigration policy promoting, rather than foreclosing on labour mobility, skills, jobs creation and productivity, and responsive enough to deal with sectoral skills-based shortages.
- Greater proactivity by the Department for Business, Energy and Industrial Strategy to establish vocations, apprenticeships and internships, in partnership with businesses to expand the quantity and improve the quality of available positions. A clearer link between universities (via Associate degrees and in-work scholarships) and businesses (via Apprenticeship Levies) to further induce young people and boost mid-career requalification.

EU Funding

85 Guarantees by the Treasury for European Structural and Investment Funds signed prior to the 2016 Autumn Statement have provided business with a measure of certainty (including key agri-environmental schemes). The Chancellor has indicated that a future relationship with the European Investment Bank may also prove beneficial for UK commerce. Business in receipt of European funding in Kent and Medway however remain concerned about major public funding gaps post-2020 that would damage a range of local economic development, from infrastructure and business support schemes to regeneration skills programmes and higher education and research. While opportunities to ultimately reform regional funding remain a potential Brexit opportunity, the short and medium term goal is to retain as much of the current funding system intact. To ensure that we recommend

- Further clarity on the current area, coverage and timing of funding programmes guaranteed by the UK government.
- Clarity regarding the repatriation from EU to UK funding of key programmes, in terms of area, coverage, and altered criteria.
- No overall reduction in the amount of funding directed at regional, and local growth programmes.
- Post-Brexit, greater devolution to local areas, and partners (including local government and local Chambers of Commerce), to direct funding towards local priorities, as well as sharper alignment with the government's Industrial Strategy.
- Prioritisation within regional funding for projects clearly connected to regeneration, employment and skills.

HOW CAN THE BUSINESS COMMUNITY HELP?

86 The government alone cannot prepare for Brexit. Companies must help themselves. Building on the Recommendations from the December 2016 Report, and the further work we have done through the SME and Rural Economy Sub groups we recommend the following actions as priorities.

Certification

87 For companies that export to the EU, one of the key changes is that posed by the UK leaving the Single Market and/or the Customs Union, bringing new and potentially burdensome requirements in crossing from the UK to the EU. The Authorised Economic Operator (AEO) scheme was established by the EU to assist companies in moving goods across borders with reduced bureaucracy and costs. It provides a number of advantages compared to working through the procedures which would normally apply to companies moving goods across an EU border. Anyone involved in the international supply chain that carries out customs related activities in the EU can apply for AEO status irrespective of the size of their business. This includes exporters, freight companies, manufacturers etc. AEO status is issued to any business that fulfils the specified criteria of having a good tax and customs compliance history, good commercial and transport record-keeping standards and financial solvency.

88 AEO status is issued to any business that fulfils all of the customs simplification (AEOC) criteria with the exception of professional qualifications and practical standards of competence, which is only applicable to AEOC. The business must also have appropriate security and safety standards to protect the international supply chain. These include areas such as physical and access controls, security measures for instance around cargo, and proper screening and training for employees. Regulatory equivalence and mutual recognition of standards on an ongoing basis to ensure continued mutual access for both goods and services.

Trusted Trader

89 A similar arrangement to AEO status exists across the US/Canada border, known as Trusted Trader. This combines elements around security protection, particularly against terrorism and product safety and standards. These examples do show that there are constructive steps which could be taken to provide companies with the framework for continued and enhanced trading with the EU after Brexit, but there is clearly a pressing urgency to establish the regime which will be in place and how companies can operate under it as soon as possible. When there is more clarity on a system such as AEO there should be resources provided to assist business to enter into compliance as quickly as possible.

Regional Business Support

90 Survey work among SMEs in Kent suggests that the current UK business support network is neither well understood, nor in many instances seen as particularly effective. Three points are key here. First, the consequences of exporting to the EU *outside the Single Market and/or the Customs Union* will be extraordinarily complex in the short-term, and companies will undoubtedly require additional expertise, and quite possibly financial support to forestall a downturn and/or maintain and increase exports to the EU and beyond after Brexit.

91 Second, the sheer impact of trade stoppages, customs impositions, tax changes, etc. will fall disproportionately heavily upon SMEs as whole, those with already-thin profit margins, and those located in Kent may be more likely to be affected by the immediate and material knock-on effects of Brexit as a result of their location in Britain, and their proximity to Europe (particularly as regards transport, port security, customs capacity and EU labour shortfalls).

92 Third, in the medium and long term, Brexit may present an important opportunity for the national and regional and local business communities together to achieve a genuine step-change in the scale, reach and effectiveness of mechanisms to support SMEs, but only if enhanced collaborative opportunities are seized between these communities, and local and national government. The last set of recommendations (immediately below) constitute the 'Kent imperatives' arising from our conversations with Kent and Medway SMEs in a variety of sectors.

BUSINESS TO BUSINESS SUPPORT

93 What we have heard from businesses includes some key messages that we think could usefully be shared:

- Do not stand still, and do not expect too much certainty too soon. There are plans and preparations that you can start on now that will be of benefit whatever the detailed outcomes of Brexit.
- Talk to peers and business networks. Develop shared expertise and understanding of the issues, options and solutions. Experience and surveys have suggested strongly that companies that planned carefully how to deal with the financial crisis from 2008 onwards were the most successful in coping with what followed. The same approach to Brexit would surely also pay dividends for businesses.
- Take advantage of the **support systems the Government funds and provides**. If they are not working for you then raise that with the agencies involved and demand better.
- Some sectors and businesses will need to make greater levels of change and will need more and deeper support to plan and deliver that change. The networks and agencies supporting business need flexibility and freedom to provide what is needed when it is needed.
- Utilise business networks: large ones (IoD, CBI) or SME-specific (FSB) or sector-specific (Rural Plc.). Construct a repository of regularly-released reports on Brexit, and identify your own Brexit priorities.
- Explore the notion of a Brexit Compliance Officer who can help your business be ready for change and ready to grasp opportunities. Experience of the 2008 financial crash showed the value of planning ahead.

RURAL ECONOMY SUPPORT

94 Speaking to stakeholders across the rural economy sector, a number of clear asks have emerged. The **government's chief tasks** include: investing in business advice and training, committing to 'growing' a new crop of 'farmer-entrepreneurs', as well as working more directly with the rural economy sector during and after the Brexit negotiations in solidifying current markets and identifying new ones, within and beyond Europe.

95 Within the **rural economy sector**, greater support for key innovations has emerged as key, from enhanced research and development to more fully explore the links between climate change, environmental stewardship, food and water security, and rural stewardship to 'smart farming' developments designed to improve yield (e.g. hybridization; drone-scoping fields; digitization; cost-saving machinery). Finally, improved public and private sector links could facilitate new forms of agri-finance (loans, investment, etc.) to benefit those across the entire rural economy spectrum.

96 Shifts in post-Brexit trade patterns may impact the UK, or provide opportunities. In terms of **EU negotiations**, the UK government should bear in mind those EU Member States whose current EU-terms of access to the UK market constitute a disproportionately large amount of agri/food produce supply to the UK. The current setup could change dramatically with Brexit (Poland, Denmark, Latvia, and above all Ireland). Subsequently, new markets will need to be identified in order to avoid **worsening the UK's current high dependency upon** agricultural and food product imports.

97 Renegotiating the currently **high** (China, Thailand, India and New Zealand) and **moderate** (Canada, US, Brazil, Argentina and Vietnam) agri-tariff agreements from countries who currently undersupply the UK could constitute a post-Brexit option, depending on the trade deal agreed.

98 In identifying opportunities for Kent and Medway in particular, it is clear that food, farming and environmental policy will all need to be reframed. The Country Land and Business Association has suggested (2016) that the post-Brexit focus should be on 'agricultural productivity, competitiveness and resilience', which in a diverse sector of large, medium, small and microbusinesses could mean:

- **A productive, competitive** farming sector: permitting Kent farmers to be competitive in EU and international markets by driving sectoral professionalism and increasing skills;
- **Food Security**: using innovative and sustainable ways to increase production;
- **Enhancing the Environment**: providing farmers and land managers with tools and support to meet environmental challenges;
- **A dedicated UK agri-budget**: UK Government to provide sufficient funds for the totality of sector requirements across the UK;
- **Value for money**: UK Government policy must itself deliver value for money in its implementation and outcomes;
- **Clear, proportionate regulation**: simple, transparent regulations alongside regulatory responsibility to support business via a proportionate risk-based approach.

ANNEX 1: TOUCHSTONE SURVEY JUNE 2017

99 Martin Stanton, of Touchstone Surveys, the company commissioned to carry out market research for CEFCEUS, explained the particular methodology of the survey: "Our objective was to get a snapshot of how Kent CEOs were feeling about Brexit, with regard to their businesses. We selected a number of companies in various industry sectors, including key firms from within the rural economy sector, and designed a series of in-depth questions to ask them. These questions were designed to explore strategic issues of UK-EU trade, labour, supply chains, client bases and funding as they pertained to key SMEs and rural economy firms. We then telephoned those companies, and went through the questionnaire, whilst also seeking more informal views on their opinions and worries regarding the timing and implemetation of Brexit. The answers were then plotted on the accompanying T-FAT™ chart. The first six questions relate to a company's level of dependency on the EU, whilst the following nine represent risk factors with regard to Brexit. The traffic light system provides a red fill for an increased level of concern, whilst amber is moderate, and green shows little risk or dependency. The remaining questions cover other issues which required answers in order to better assess the needs of Kent business."

Key	0=0%	1=1-25%	2=26-50%	3=51-75%	4=75+%	Dependency	Actual Score	Total Possible	Measureable Fields	NA Fields
1	0	1	1	0	0	Lighting Supplier	14	80	0	0
3	0	1	1	2	3	Cleaning Products	23	80	0	0
5	1	0	1	0	4	Medical Diagnosis	28	80	0	0
7	0	3	3	1	3	Motor Accessories	22	80	0	0
9	3	4	0	4	0	Textile Importer	25	80	0	0
11	0	3	0	1	0	Translation Agency	7	80	0	0
	17	46%	25%	33%	46%	Level of dependency on EU (not turnover-based)				
Key	0=Irrelevant	1=Unimportant	2=Important	3=Very important	4=Essential					
14.1	3	4	3	4	4	How important is availability of investment funding to your business?	43	80	0	0
14.2	4	4	4	4	4	How important is availability of labour to your business?	61	80	0	0
14.3	1	3	1	4	2	How important is central government support to your business?	31	80	0	0
14.4	1	1	1	3	2	How important is support from business organisations to your business?	35	80	0	0
15.1	1	0	3	0	3	How important is finance (eg export guarantees) as a barrier to business?	25	80	0	0
15.2	1	0	1	0	2	How important is understanding of product standards and regulations as a barrier to business?	33	80	0	0
15.3	1	0	1	0	3	How important is understanding other country's cultures and attitudes as a barrier to business?	34	80	0	0
15.4	1	0	2	0	4	How important is understanding tariffs as a barrier to business?	26	80	0	0
15.5	1	0	3	0	3	How important is understanding non-tariff barriers (eg quotas, standards/licensing) as a barrier to business?	27	80	0	0
	31%	27%	42%	22%	31%	Requirement for Knowledge and Support				
23	1	1	1	2	1	Would you consider use of a Brexit Compliance Officer? 2=yes 1=no	29	40	20	0
24	1	2	3	2	2	How well do you understand WTO terms of trade? 3=Nothing 2=A little 1=Well	45	60	20	0
20	1	3	1	3	1	Do you keep a register of business risks and is Brexit on it? 3=no 2=yes and Brexit is not on it. 1=yes and Brexit is on it.	45	60	20	0
						Rural Economy Specific Questions				
12	1	1	2	1	1	Do you receive any RDP funding? 2=yes 1=no	6	10	5	0
13	1	2	1	1	1	How important are subsidies or RDP funding to your business? 1=Unimportant 2=Important	6	10	5	0
18	1	1	1	1	2	Have you struggled to recruit seasonal workers since the referendum? 2=yes 1=no	6	10	5	0
19	2	2	2	2	2	Do you think a similar scheme to SAWS could reduce labour shortages? 2=yes 1=no	10	10	5	0
21	2	1	2	2	2	Would you consider new technologies/agricultural diversification to respond to Brexit? 2=yes 1=no	9	10	5	0
22	1	2	1	1	2	Do you think it is a good idea to make CAP funds conditional on fulfilling specific climate/environmental change requirements? 2=yes 1=no	7	10	5	0
	67%	75%	75%	67%	83%	Requirement for Support or Change				

ANNEX 2: BREXIT: FURTHER READING

100 There has been a veritable plethora of Brexit reports, released from a huge range of institutions, stakeholders, companies, government departments, and more. In terms of SME and rural economy-specific information, we recommend the following, in addition to those cited above.

Institution	Title	Date
British Summer Fruits	The Impact of Brexit on the UK Soft Fruit Industry	June 2017
CBI	The future for trade for the UK	February 2017
Confederate of British industry report	'The future of trade for the UK, a Guide for businesses'	February 2017
Cripps Brexit blog	www.cripps.co.uk/blog/brexit/	2017
EEF	'Investing through Brexit'	November 2016
European Commission report	'White paper on the Future of Europe'	March 2017
Freight Transport association report	'FTA Brexit Manifesto'	February 2017
FTA Brexit Manifesto	What does logistics need to make a success out of Brexit?	2017
Horizon AHDB	What might Brexit mean for UK trade in agricultural products?	October 2016
HSBC Global research report	'Trading up, moving ahead via regional and bilateral trade accords'	March 2017
Institute for public policy research	'Future proof, Britain in the 2020s'	December 2016
Institute of directors' report	'Navigating Brexit: Priorities for business, options for government'	February 2017
IOD	The Business of Brexit Smoothing the UK's departure	2017
IOD	Navigating Brexit: Priorities for business, options for government	February 2017
IPPR Future Proof	Britain in the 2020s	December 2016
Kent County Council	Kent SME Internationalisation Study	March 2017
Moore Stephens report	'Strength amidst uncertainty'	February 2017
South East Farmer	Six reports including "Farm Support"	April – March 2017
University of Kent	The Internationalisation of Kent Businesses	2017
World Bank Group	Deep Integration and UK-EU Trade Relations	January 2017



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 Kent Wildlife Trust | Locate in Kent | MJ Allen Group | NFU | Old St Andrews | Port of Dover
 Red Eagle Recruitment | Rural Plc | Touchstone Surveys | Thanet Earth | The Centre for Micro Business
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