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Impact of Brexit on the manufacturing industry
Aerospace & Defence

The United Kingdom's aerospace & defence industry is the world's second largest. In 2016, it employed 363,000 people directly and had £72bn ($94bn) in turnover, of which £37bn ($48bn) was exported, according to data from ADS, the A&D trade association. It is the UK's top manufacturing subsector, investing in technology advancements and global growth strategies; any curtailment in trading with overseas markets or accessing EU customers, suppliers, skills and R&D funding could impact its competitiveness significantly.

Regulatory bodies and standards

One topic that must be negotiated is the UK's membership of the European Aviation Safety Agency (EASA), and the European Open Skies regime (ECAA). In principle, UK membership of both will cease when it exits the EU; it can reapply under a different agreement. In practice, discussions between the two sides are scheduled for the end of 2017 and various options - including the UK retaining its current membership - are likely to be explored.

At present, the UK is one of the main rule-making countries to the EASA; with France, it contributes two-thirds of all input on safety regulations. If the UK does leave EASA, it will also fall out of the US-EU Bilateral Safety Agreement.

If the UK membership to EASA and the ECAA does change, commercial aerospace companies that sell products or have maintenance-repair-overhaul (MRO) operations in EU and US markets will need to re-certify their product safety, airworthiness and ability to operate if they are to continue to do business there. The UK Civil Aviation Authority, which will then become the UK's regulatory authority, will need to build up its capacity in these areas.

Access to funding

Britain has been a principal partner in EU defence projects, such as the Eurofighter Typhoon fast jet, and a multinational military transport jet. It is currently cooperating with France on a £1.5bn ($1.95bn) unmanned combat air vehicle (UCAV).

Future EU Defence Research & Development programme grants could be denied to British companies, thus impacting investment in strategic projects. In June 2017 the Commission announced the creation of a European Defence Fund, which provides funding across two strands: in research, it will disburse €90m ($104m) per annum from 2017 to 2019, and this will jump to €500m ($582m) per annum from 2020 onwards. In development and acquisition, it commits to €500m per annum in 2019 and 2020, and €1bn ($1.16bn) from 2021.

Depending on how open the procurement is, this newly increased defence spending could mean a future sales opportunity to UK aerospace and defence firms.

Space

In the case of space, UK companies could find themselves locked out of bidding for EU-funded space programs. Both the Galileo sat-nav program, worth €10bn ($11.64bn), and the Copernicus surveillance program, worth €4.3bn ($5bn) between 2014 and 2020, are open only to companies from EU member states. The UK would need to negotiate a new security relationship with the EU to stay in these programs.

The EU is the UK's largest space market. The USA and India are closed to the UK, and Russia and China are presently prohibited to UK companies.

The UK has ambitions to scale up its civilian space industry. With current annual revenues of £13bn ($17bn), the goal is to have a 10 per cent share of the global industry, worth £40bn ($52.2bn), by 2030.

Single Market Access/Customs

The UK aerospace & defence sector is part of integrated pan-European supply chains. Adoption of tariff or non-tariff barriers to the EU will impact the transfer of component parts, delaying production times and increasing cost, as described in the previous section.

UK carriers taking delivery of planes made by European aircraft manufacturers could face a 2.6 per cent duty if the planes are delivered after Brexit. These additional costs will likely be passed through the supply chain to the customer and create additional margin pressure on the industry. One carrier estimated an additional $130m in customs duty based on their current orders.

Movement of People

It is not just goods that move from country to country; employees are essential for the cross-border collaboration across services, R&D, and engineering. Around four per cent of A&D employees in the UK are from the EU, and five per cent of EU staff are from the UK, according to ADS data. This does not account for cross-collaboration projects incurring significant travel and requiring free movement of people to deliver.

The UK has had persistent skills shortages in engineering sectors and allied professions such as physical sciences, making up over half of the occupations listed in the Home Office Shortage Occupation List. The number of hard-to-fill vacancies in this sector reached 35 per cent in 2015.

Companies that have manufacturing sites elsewhere in the EU may decide to relocate their production out of the UK if talent shortages become acute and employees are not able to move freely between EU and UK sites. Without continued investment in the UK on innovative technologies and cutting-edge manufacturing processes, the supply chain and industry at large could suffer, particularly impacting sub-sectors such as composites/structures, where procurement decisions are typically made locally. Attractive labour laws and preferential duty relief programs and effective import processes are therefore critical to the competitiveness of the UK market when compared to other European locations.

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