

Hampshire and the EU

What's at stake for us and our local economy

Damian Hinds

On 23rd June, we face our biggest national choice in a generation. But it is also a local choice, a vote cast by every one of us individually. It is right that we consider not just the national picture but also the more localised effects for us here in Hampshire.

For the economy a key issue around a Brexit is the direct effect on trade and exports, even if we could negotiate a relationship with the EU like say Switzerland's or Norway's. We should consider the part played by EU membership in attracting foreign investment to create jobs here.

This analysis looks at inward investment prospects for our region and how trade factors could affect Hampshire's key sectors for employment and growth. Altogether, Hampshire's economy is worth some £38bn¹. Key sectors for the county include Marine & Shipping, Aerospace & Defence, Financial & Business Services, Advanced Engineering, and Tourism. Agriculture accounts for a relatively small amount of employment nowadays but also plays a wider environmental and food security role.

FOREIGN DIRECT INVESTMENT

The UK has the world's third highest stock of foreign direct investment (FDI) behind only the USA and China². We are both the biggest destination for FDI *in* the EU and the biggest destination for FDI *from* the EU. We have scored big successes in attracting multi-nationals in sectors from car making to banking. Of course, Britain has many things going for it, but the attraction generally centres on the combination of: the English language, a stable pro-enterprise legal and business environment, and full unfettered access to the EU single market. Indeed 72% of investors cite access to EU single market as important for the UK's attractiveness as an investment destination

London and the South East alone have benefitted from £11.1 billion of inward foreign direct investment from EU members over the last five years, with over 280 foreign investment projects in the region in that time from EU member states, which have created or safeguarded over 17,000 jobs. Our part of the country should be well placed for further foreign investment: The Financial Times's 'FDI Intelligence' report ranks Enterprise M3 LEP fourth, and Solent LEP ninth, in its rankings of 'Local Enterprise Partnerships of the Future' for England.

FDI contributes a lot in terms of local jobs and investment in technology and productivity. The big risk with a Brexit is not so much that international companies would leave (though there may be some who do) but more about whether being outside the EU would make it more likely or less likely that their *next* investment choice would be in the UK.

¹ HCC Compendium of Hampshire Statistics

² UKTI Inward Investment Report 2015

KEY SECTORS

AEROSPACE

Aerospace and defence are worth some £1.2bn to the Hampshire & IOW economy³, employing over 17,000 people. The sector has a presence right across Hampshire, with particular concentrations around Farnborough and Gosport.

Along with Automotive, Aerospace is often cited as a sector with especially complex supply chains, with companies often needing first to import components to then export their final products. As the Chancellor noted recently “Half of everything our aerospace sector exports is sold to the European Union, and our aerospace industry relies on imports from Europe to make their finished products.”⁴ So exchange rate volatility would be unwelcome, as would any new restrictions on trade in component parts or finished products.

AGRICULTURE

Agriculture employs nearly 46,000 people in the South East. The EU accounts for 60% of our farming industry’s food exports; 7 out of the top 10 countries we export food, drink and feed to are in the EU⁵. Even countries like Canada or Norway that have a separate deal struck with the EU still face tariffs and trade barriers on agricultural products.

We can’t know exactly what it might be possible to negotiate, but the default position is that the EU would apply its Common Customs Tariff to produce from the UK and we would do the same the other way. The Republic of Ireland is both our largest agri-foods export market and our third largest agri-foods import supplier; but of course we could not strike a separate deal with Ireland.

FINANCIAL & BUSINESS SERVICES

Financial Services is a vital part of the UK economy and the City is a world leader. There are 250 foreign banks in London and some 200 foreign law firms in Britain⁶. A whole economic eco system relies on the sector, and of course many Hampshire residents work indirectly or directly in the capital’s financial and professional services sector. London has very much going for it and leaving the EU certainly wouldn’t be the end for the City. But it would erode London’s edge (especially through the loss of ‘passporting rights’ which even close EU partners like Switzerland do not have): it would likely grow more slowly and you could see some parts of it leave altogether.

This is also a key sector even closer to home. Financial & Business Services is worth £4.5bn to Hampshire’s own economy⁷ employing some 56,000 people. The sector locally splits roughly 50/50 between financial services and broader business services. The direct effect of a Brexit in this sector may be less here than in the City but there would still be knock-on effects from that, as well as the general effect on professional services activity from immediate-term uncertainty and a slowing growth rate.

³ HCC sector brief

⁴ George Osborne speech, 18 April 2016, at the National Composite Centre

⁵ Country stats from NFU

⁶ The Economist – Brexit Brief

⁷ HCC brief

MARINE & SHIPPING

Maritime capability has always been fundamental in Hampshire – commercially as well as militarily. The Port of Southampton will carry on being a very important hub in any event, but with almost half of all international freight through our ports being exported to a country in the EU, obviously the sector is exposed to the negative effect on trade volumes from leaving the EU. Also, with the significant increase in goods requiring customs checks under a full control model, waiting times at the border would be likely to increase significantly. Some estimates suggest that a 1 hour delay to clear customs can itself lead to a 5% reduction in trade. Even close EU partners like Norway and Switzerland are not part of the EU Customs Union and must comply with ‘rules of origin’.

TRAVEL & TOURISM

The Single Market has resulted in lower fares as the EU’s aviation markets have been gradually liberalised through measures across air carrier licensing, market access and fares; fares at the lower end of the market have fallen by 41%. The growth in the budget market has obviously been important for regional airports such as Southampton.

With the pound widely expected to fall significantly after a vote to leave, travel costs would be higher for families travelling abroad. It remains to be seen what would happen to the EHIC health insurance card (what used to be the E111) or indeed if there would be any other impediments to travel. We can predict more confidently the return of duty free restrictions on return. All of this would be bad for travel revenues.

While there has been focus on the effects of a Brexit on Britons going abroad, for our economy the potential effect on foreign visitors coming here is even more significant. Uncertainty over the EHIC card would also work in reverse, and a smaller and then slower-growing economy would mean fewer business travellers.

Tourism is a big export earner and should have much further potential in Hampshire and the Island with our world-class attractions such as the Portsmouth Historic Dockyard, Jane Austen’s House Museum, Winchester Cathedral and the South Downs National Park. There are over 600,000 international inbound visits to Hampshire a year; 65% of all international visits to the South East come from EU-resident tourists. Any negative impact on that is bad not only for travel companies and B&Bs but for our local shops and pubs too. (Visiting a pub is the third most popular activity among foreign visitors to the UK⁸).

OTHER FACTORS

There are other local considerations too in the Brexit debate.

The EU can help foster co-operation on multiple challenges where we can achieve more together than alone – from climate change to intelligence gathering. The EU isn’t unique in this – it is one of a series of networks (along with NATO, the Five Eyes group, the IPCC, the OECD and plenty more), but it is generally complementary to them. One tangible effect in our region is the 98 people brought back to face justice since 2009 and the 940 extradited from here to other EU countries, thanks to the European Arrest Warrant.

⁸ Visit Britain questions in the 2011 International Passenger Survey

UK students benefit from their ability to study across the EU, while EU students support the local economy and enrich campus life. The University of Southampton is one of the Top 20 recruiters of international students, according to UKCISA. Faculty is more international now than it used to be, too: more than 15% of teaching and research staff at British universities are non-British EU nationals⁹. Universities like Portsmouth and Southampton can benefit from EU research funding, as well as collaborative cross-border projects. Overall, the UK is one of the biggest recipients of European research, development and innovation funding.

CONCLUSION

Though there are many local considerations to the debate over Britain's future in or out of the EU, it is the economic issues that loom largest. Because from the strength of an economy comes everything else: jobs, family financial security, opportunities for the next generation, funds for our public services.

Looking at key business sectors for Hampshire, it is clear that there is significant downside to leaving the EU, from the immediate economic shock, to reduced inward investment, a hit to trade and higher costs.

There won't be some radically different alternative arrangement with the EU that Britain could negotiate that would retain the benefits of the Single Market without accepting any of the costs or obligations. No one else has such an arrangement. And you have to ask why European countries would agree to give Britain a better deal than they have themselves.

Within the EU, but with the special status that David Cameron negotiated, Britain can continue with its record of success that has seen more jobs created in the UK since 2010 than the entire rest of the EU combined. We are an extremely competitive economy. International studies show us as having the second most liberal regulatory regime among advanced nations¹⁰ (actually, behind another EU member, Holland). We are in the EU but not (and never will be) in the Euro; in the single market but not in Schengen or the banking union. The new deal confirms us out of 'ever closer union', protects our interests as a Sterling country; and enables us to restrict the in-work benefit payments to people coming here from Europe, through the emergency brake.

The EU is far from perfect – but on balance Hampshire is far stronger, safer and better off staying in.

Damian Hinds is MP for East Hampshire. He is writing in a personal capacity.

⁹ Universities UK, cited in Guardian 11/11/15

¹⁰ OECD product market regulation index