

Effects of the End of Free Movement on the Supply Chains in the United Kingdom

PhD candidate Gergana Kaloyanova
University of Economics - Varna, Varna, Bulgaria
gergana.kaloyanova@ue-varna.bg

Abstract

The term "Supply Chain" can be explained as the whole network of businesses and individuals which are collaborating in order to produce and distribute a final good or service.

Supply Chains are nowadays interconnected and can be easily influenced by foreseen and unforeseen events. Brexit affected the supply chains in the United Kingdom in a negative way and caused disruptions. One of the main factors caused by Brexit which is influencing the supply chains is the end of free movement. This study aims to analyze the effects of the end of free movement on the supply chains in the United Kingdom based on a literature review and personal reflection on the topic.

The Business had to rearrange the supply chains and implement changes in order to make the supply chains resilient in the turbulent times. The post- Brexit immigration system introduced visa requirements for EU citizen which caused lack of workers in different areas and led to delays and struggles in the supply chains. Companies had to find different solutions for the labor crisis like increasing automation and hiring non-EU workers. The effects of the end of free movement will be ongoing and will be a topic for research and observation in the next years.

Keywords: Supply Chain, Brexit, labor, crisis, disruption, end of free movement

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Introduction

Free Movement of people is one of the four basic freedoms of the European Union. United Kingdom left the European Union and after the end of the transition period on 1.01.2021, the freedom of movement within the EU is no longer applicable to UK nationals and EU nationals who want to live and work in the United Kingdom. The transition period gave some time to the companies to prepare for the changes. Brexit is an foreseen disruptor of the supply chains in the UK. Although it was clear that a new immigration system will be implemented and work visas will be requested from the EU workers, companies suffer from the negative effects and their supply chains are changed due to the lack of workers in the different parts of the chain. Many industries like construction, healthcare, hospitality were affected. Due to the fact that many supply chains were disrupted, the clients received the goods with a delay or they have to pay a higher price for them. One of the biggest issue was the lack of truck drivers to deliver the goods, the raw materials and semi-finished goods. The business started buying more raw materials and semi-finished goods for production which led to higher warehouse cost. The JIT supply chains were affected the most due to the fact that by this kind of a supply chain, businesses are supposed to have a inventory enough for the current production, not to pile up raw materials. In order to deal with the personnel gap the business tried different approaches. Some started to hire and sponsor for work visas non - EU applicants, other increased the salaries in order to attract British nationals and improved the working conditions. In some industries, the needed job positions were reduced through partial automatization of processes.

1. Free movement of people and the change after Brexit in the United Kingdom

The European Union is providing four basic freedoms of the single market. The others are free movement of capital, goods and services. Freedom of movement for workers is one of the founding principle of the EU described for the first time in the Treaty of Rome in 1957. It can be found in Article 45 TFEU. Any discrimination based on nationality regarding employment,

remuneration and other conditions of work are forbidden. Member States are not allowed to apply any discriminatory practices, such as limiting job offers to nationals or requiring language skills going beyond what is reasonable and necessary for the job in question. An EU worker has the right to accept a job offer made in any of the countries in the EU, to move freely within this country and to stay for the purpose of employment. Due to the special agreements of the EU, nationals of Iceland, Lichtenstein and Norway have the right to work in a Member State.

According to Eurostat among EU citizens of working age (20-64) in 2020, 3.8 % worked in an EU country which is different than that of their citizenship - up from 2.4 % in 2009. (European Parliament, n.d.)

The degree to which European citizens take advantage of the right to free movement of people in the EU is influenced by many factors: different national wages and GDP, physical distance, unemployment rates and education levels, and the existence or absence of a common language. Data from Eurostat from 2017 shows that around half of all EU-28 (at that time United Kingdom is still part of the Union) citizens are Romanian, Polish, Italian, Portuguese or Bulgarian citizens. Germany (3 million) and the United Kingdom (2.6 million) are the most popular countries of destination and they are hosting 44% of all “long-term” mobile EU citizens. (European Parliament, n.d.)

The European Commission claims that extending free-movement rights to Eastern Europe in 2004 and 2007 increased the overall GDP of the old member countries by almost 1 percentage.

Another effect of the free movement is the lowering of the average unemployment rates across Europe. OECD estimated in 2016 that free movement has lowered the average unemployment rate across Europe by up to 6%. And that’s before the effects of Britain’s decision to leave the European Union. (Hutt, 2016)

European Union is a great example of the globalization processes in the world and many countries became members in the last decades. But there is one country decided to do the opposite and leave the Union. Brexit as a term is the withdrawal of the United Kingdom from the European Union. UK is the only sovereign country which had left the Union. At 23:00 GMT on 31 January United Kingdom officially left the EU - nearly four years after the public referendum took place. The UK went into a period of transition that meant continuing to follow EU rules and regulations until 31 December 2020. The transition period gave some time for the United Kingdom and the EU to reach new agreements regulating the future UK-EU relationships as of 1 January 2021. During the transition period the freedom of movement was still in place. After the end of the transition period, freedom of movement within the EU is no longer applicable to UK nationals, and the United Kingdom is introducing a new immigration system that is applying to all EU/EEA/Swiss and non-EU/EEA/Swiss nationals. Deloitte, n.d.)

The new immigration system was introduced in January 2021 and it is much more restrictive for EU citizens who till end of post-Brexit transition period enjoyed full access to the labour market of the United Kingdom. The system made the access to the labor market easier for non-EU citizens by lowering salary thresholds and skills requirements for work visas.

After the introduction of the new immigration system, many employers in businesses that previously relied significantly on EU citizens can no longer recruit citizens of the European Union because the jobs are not eligible for work visas (many EU citizens were working on low-skilled positions). Most EU citizens newly recruited to work in the UK must qualify for Skilled Worker visas, which require a salary of at least £25,600 per year and are only open for jobs that require at least A-level education. Most low-wage jobs are not eligible, although there is a dedicated work visa route for seasonal workers and care workers can qualify for skilled worker visas if they earn at least £10.10 per hour. Low-wage job positions such as bar staff, cleaners, drivers, food processing workers or baggage handlers are not eligible for work visas, although positions requiring more skills such as plumbers, electricians and chefs can apply for a visa if they are well paid. (Sumption, Forde, Alberti and Walsh, 2022)

The end of free movement not only reduced the access to the labour market of the United Kingdom, it changed the rights of the migrant workers in low-wage jobs. Free movement gave EU workers many of the same rights that UK citizens have, such as the ability to switch employers with ease, experience unemployment without losing their residence rights, access welfare benefits and bring family members to the UK. The rights of the workers are restricted due to the work visas and this leads to greater risks of exploitation, particularly in low-wage jobs.

2. What is a Supply Chain and Supply Chain disruption and how Brexit affected the Supply Chains in the United Kingdom

A supply chain is the whole process from the raw materials ordering till the delivery of the finished product to the end customer. The steps include buying raw materials, moving them to production, then transporting the finished products to a warehouse and as last step – delivery to the consumer. The stakeholders in the supply chain include producers, vendors, warehouses, transportation companies, distribution centers, and retailers. (Hayas, 2023)

Supply chains contain many parts which are interconnected, so when one part is disrupted, the whole system malfunctions. According to the classification of McKinsey there are four different types of supply chain shocks: unanticipated, foreseeable, unanticipated and foreseeable. Disruptions which can be spotted in advance of their arrival are the foreseeable disruptions and Brexit is part of the group of the foreseeable disruptions. (McKinsey, 2023)

This means that disruptions caused by Brexit can be spotted in advance of their arrival. This gave some time to the companies to prepare as much as possible and to make adjustments where necessary to reduce the negative impact on their supply chains and the business as whole.

Management of the supply chain is a highly important process because an optimized supply chain leads to lower cost and more efficient production cycle. The business is always aiming to improve the supply chain, so they can reduce the cost and stay competitive and resilient in turbulent times. Management of the supply chains is even more important in difficult times and when disruptions are present. If the management is sufficient and stable, the supply chain shouldn't be that affected from the negative influence of expected or unexpected events.

If one link of the supply chain is experiencing disruption, the whole system will be negatively influenced. This can lead to increased cost, less production, production with delay, more shifts for the workers, transportation delay and unhappy customer in the end. To save and stabilize the business during shocks, companies need to increase the prices and often the customers pay in the end for the disruptions in the systems.

With the exit from the European Union, the cost of importing and exporting goods across the UK-EU border has increased significantly. This has affected businesses' supply chain costs, increased the expenses related to inventory storage, customs clearance, and other cross-border operations.

Another negative impact of Brexit on supply chain and a disruption has been the implementation of customs and border checks. As a result, the amount of paperwork required for customs clearance got significantly increased, and companies were facing longer waiting times for goods crossing the UK-EU border. Companies needed extra help, knowledge and personnel to deal with the paper requirements. Some companies had to hire specific person or firm to deal with the new documentation because they didn't have the knowledge at the beginning how to free their goods at customs.

This has resulted in higher inventory costs for businesses since raw materials and goods cannot move as fast across the border as before and the business decided to be safe and to pile up inventory. This was a safety net for the businesses especially those which have the JIT supply chain. But more inventory means higher cost for warehouses space and a possibility of expired materials and semi-goods especially in the food and beverages sector and more personnel at the warehouses. Furthermore, businesses had to invest in additional technologies and systems to manage customs

procedures, resulting in increased costs. They started collecting data to make better informed decisions about their supply chain. Analytics and Insight can help in turbulent time with forecasting and summarizing of trends and expectations.

3. End of Free Movement as one of the main factors causing disruptions and negative effects on the Supply Chains in the United Kingdom

The end of free movement has a significant impact on the supply chains in the United Kingdom. The immigration system was introduced in January 2021 and led to changes in the labor market in the country and the business environment.

Many companies couldn't recruit the needed number of workers to produce and deliver the goods to the end customer on time. The price of the goods got increased and the customer had to pay higher prices for the same goods. Supply chains need to be efficient and resilient in order for the companies to be able to sell the products and services at an optimal price and to be able to keep their profit in good and in turbulent times, to be reliable and to save the business even from bankruptcy.

A recent research claims that the rise in vacancies in the United Kingdom was highest in jobs that were most dependent on EU workers before such as hospitality, warehouse and transport. This was a result of "persistently unfilled vacancies", as outmigration reduces the number of workers available. (Cholteeva, 2022)

By September 2022 a recent survey showed, there was a significant shortfall of around 460,000 EU workers in the United Kingdom (partly compensated by an increase of about 130,000 non-EU workers). Sectors with the most significant downfall are transportation and storage, retail, accommodation, food, manufacturing, construction and administration. For some sectors, the more skilled ones, more non-EU workers compensated partially for the losses- mostly in the healthcare sector. (Springford, 2023)

In wholesale and retail, the downfall was 3%, or 103.000 EU workers, while in the hospitality and food sector it was 4%, or 67.000 people. Manufacturing and construction were down 2% each. The decline in the administrative areas were of 32,000 EU workers. The biggest negative impact was on the transport and warehousing sector with a reduction of 128.000 of EU workers, or 8% of total employment in that sector. (O'Carroll, 2023). The truck driver shortage put a high pressure on the supply chains in the United Kingdom. The Road Haulage Association estimated the deficit at more than 100 000 qualified drivers in the country.

A lack of staff is a serious issue which can lead to slowing down or stopping companies production and delivery of goods and services to the end customers. This can have disruptive knock-on effects down the whole supply chain.

In September 2021, the chief executive of the Food and Drink Federation informed the Institute for Government that there were about half a million staff shortages across the whole UK food supply chain, which is 12.5% of the total workforce required. In October 2021, the National Pig Association confirmed that shortages of butchers and abattoir workers led to hundreds of pigs being culled.

In the haulage sector, which is crucial for the transport of raw materials, semi-finished and finished goods, industry bodies estimate there is a shortage of 90,000 to 100,000 drivers. Multinational companies such as Amazon reported problems by retaining and hiring enough staff in warehouses and to deliver goods. The Road Haulage Association deducted a survey among its members and received 616 responses to analyze. The 40 largest hauliers had 3654 vacancies or on average 91 vacancies per haulier. 58 % claimed that the main reason for the driver shortage is Brexit, other reasons include retiring drivers, drivers leaving for another industry and Covid-19. More than half of the hauliers, 62.56 % had to increase the rates to their customers to cover the drivers cost. Only 16.2 % claimed that they didn't have to prioritize work because of the driver shortage. (Road Haulage Association, 2021)

Data from the Office for National Statistics (ONS) shows the effect of the labour shortages in the United Kingdom. Between 20 and 31 October 2021, an average of one in six (or 17%) of adults in Great Britain experienced shortages of essential food items. Between 6 and 16 January 2022 – 16% of adults still experienced shortages of essential food. (Institute for Government, 2021).

Companies experienced delays by transportation of the raw materials or their finished goods. This is valid for small businesses as well as for big corporations like Coca-Cola Europacific Partners. The company used trains as transportation for the first time in many years as they couldn't find enough drivers to deliver their beloved beverages to the supermarkets in the United Kingdom. This was related with a lot of stress for the supply chain planners and higher cost.

The panic buying of the consumer also didn't help in this situation. People started to pile up some products which they use in the everyday life and this put more pressure on the supply chains especially on those of JIT type. Those supply chains are very popular among food and beverage industry, because they don't require a high amount of raw materials, semi-finished goods to stay in the warehouse because they have short lifecycle. Companies can increase those inventory but it's also connected with extra cost and more careful and strict observation of the life-cycle of the materials and the goods because they can expire and then they need to be demolished.

There are 3 possible solutions to the business which is experiencing shortage of personnel due to Brexit. First one is to hire more people from non-EU countries to fill in the gap, the second one is to through higher salaries and trainings to attract more British workers and the third one is to automate the processes where possible and to reduce the number of the needed workers to execute the processes.

United Kingdom is trying to encourage with its policy the arrival of non -EU worker to close the existing big gap. The arrival of 130,000 non-EU workers couldn't unfortunately close the gap, leaving "large shortfalls" in key sectors.

During the year to the end of March 2022, Britain issued 182,153 skilled work visas and almost half of them were to Indian nationals. The top five countries for skilled work visas were all outside the European Union.

Zimbabweans' 5,549 skilled work visas - five times more than those issued in 2020-exceeded the 5,239 work permits granted to French nationals (Milliken, 2022).

Most positions which were taken by EU migrants before the new immigration policy in sectors such as hospitality, transportation and storage, manufacturing and admin services are not eligible for Skilled Worker visas in 2021. Even when eligible, businesses sometimes don't want to use the immigration system which is associated with higher costs and bureaucracy.

Due to the start-up costs involved in becoming a sponsor and learning how to sponsor workers for work visas, it is possible that larger numbers of employers will turn to the work visa system over time (Sumption, Forde, Alberti, Walsh, 2022).

When businesses don't want to deal with the cost and bureaucracy connected with sponsoring working visas, they need to search for another solution in order to be able to fill in the vacant working positions and to stabilize their supply chains. They are trying to offer higher wages and be more attractive to British nationals. They are investing more in trainings of the new personnel.

British wages are rising fastest in low-paid sectors where businesses relied more on workers from the European Union. The net immigration in Britain between 2010 and 2020 was more than 2 million EU citizens which lost the right to work in the country after Brexit.

The analysis conducted by Indeed recruitment agency based on its data shows that in the sectors like construction, driving, hospitality and leisure (where workers from EU were more than 10 % of the staff) the salaries grow 11 % between 2019 and 2021. For comparison according to Indeed agency, sectors where fewer than one in 20 workers were from the EU had just 5 % increase during the same period.

Indeed economist Jack Kennedy said: "Importing workers from the EU is no longer the safety valve for businesses that it was before Brexit. Employers now have little option but to hike pay to try to entice workers".

Before Brexit, economists have found relatively little evidence that high levels of immigration from the EU contributed to the slow pay growth suffered by British workers since the 2008 financial crisis (Milliken, 2022).

If the companies are not willing to increase salaries or to hire workers from non-EU countries or EU countries, they reduce the needed number workers for production.

Qualitative research in 2022 found that employers in some sectors that relied on EU migrants under free movement, such as warehousing and food and drinks manufacturing, were automating more processes (University of Leeds, n.d.).

However, the potential for automation is limited by the cost of the investments and by the available technologies. ONS has estimated the extent to which different jobs can disappear because of automation and it is showing wide differences between roles. Low-wage jobs that could be automated included waiter and waitress roles, shelf fillers, and kitchen assistants. Qualitative evidence has found that in many production processes and job positions employers only consider opportunities for partial automation.

Finally, there is also one response to difficulty recruiting workers which is not a desired outcome by the business and by the customers. The companies which couldn't find a solution produced less and their business growth was constrained. About 50 % of the employers who said they couldn't find enough workers in the February/ March 2022 ONS Business Insights said the result was not enough production to cover the existing demand (Sumption, Forde, Alberti, Walsh, 2022).

The end of free movement was a challenge for the businesses in the United Kingdom and measurements should be taken. As possible solution is a change in the new immigration policy and easier access for the EU workers to join the labour market of the United Kingdom. The initiative can be taken by different associations and the business. For example from the Road Haulage Association have written to the Prime Minister (it was co-signed by 21 companies and associations) asking for support about the driver shortage crisis. They asked for introduction of a temporary visa for HGV drivers and this position to be added to the Home Office Shortage Occupation List. This can encourage the drivers who left the country to return. Government needs to work with the industry to find a sustainable way of recruiting and training workforce in the United Kingdom, so in the future they are not so reliant on foreign labour. According to RHA this is the most challenging time for the industry and the government needs to take an active role in order to support them, so they can continue maintaining the integrated and balanced supply chains in the United Kingdom.

Conclusion

Supply chains in the United Kingdom were affected by the new immigration system which was implemented after the end of the Brexit transition period. This system made the recruitment of people from the European Union significantly more difficult. In many sectors like agriculture, transport, construction there was a strong reliance in the previous years on European workforce. It's a struggle for the business to find the needed number of workers to fill in the free positions at the companies and to fill in the gap. To deal with the issue, some companies started to support for work visas and hire people from non-EU countries, others concentrated on the attracting and training more UK nationals and if necessary reskilling. There are companies which started implementing automation where possible in order to reduce the need for people to do the processes. This is related with higher cost for the business, which will be covered by the end customers through the higher selling prices.

Associations like the Road Haulage Association are contacting the government with the ask to take measurements like changing the visas arrangements and to support the business, so the

supply chains in the United Kingdom can be resilient and strong and delays by production and delivery and not meeting the supply needs of the population can be avoided in the future.

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