On 1 April 2019, MPs voted against all of the alternative Brexit arrangements in the second round of Indicative Votes. As a result of this there are continued expressions of frustration from industry leaders and from within the EU and UK governments about the ongoing political deadlock. Continued deadlock and ongoing Brexit rhetoric continues to create uncertainty to the construction sector.

**Current Position**

Following an application to the EU for an extension, the current date for Brexit is 12 April 2019. If nothing is agreed by this point then the UK will leave the EU without a deal. Donald Tusk has reportedly stated that a flexible 12 month extension to the leave date might be acceptable, subject to member state approval, whilst we sort ourselves out, but this continued delay prolongs the process and the uncertainty cloud overhanging us.

**Supply Chain Concerns**

As mentioned in our last article *Blogging the B-Word* (which can be found [here](#)), construction sector businesses with elements of their supply chain based in the EU continue to face challenges should a no-deal scenario occur.

The latest concern should be around the Government’s proposed no-deal tariff regime which was published on 13 March 2019 (a copy can be found [here](#)).

The new tariff regime is meant to be a temporary measure that will last up to 12 months from the exit date. The policy implements a 0% tariff on the vast majority of goods relevant to the construction sector in an effort to mitigate the economic impact of a no-deal Brexit. However, there has been no indication if the policy will last the full 12 months and what, if any, tariffs will be implemented that will apply to construction materials.

Furthermore, it has been reported that contractors and developers are already stockpiling building materials in anticipation of shortages or supply delays following Brexit. A temporary tariff exemption is likely to increase the amount of stockpiling for fear of increased costs once a long-term tariff arrangement is created. This would likely strain the capacity of current supply sources and delivery methods which may cause further delays to delivery or even drive up supply prices.

For those involved in long-term contracts this approach creates uncertainty around construction costs for when the tariff regime comes to end. This uncertainty in cost will need to be managed, including in your pricing and
contractual terms, and is an excellent practical and real example of one of the real risks the industry needs to deal with arising out of Brexit.

**Market Uncertainty**

Goldman Sachs produced a report last Monday which states that Brexit has cost the UK economy £600,000,000 per week since the 2016 referendum, and a total of 2.5% of our GDP by the end of 2018. The report further states that there is likely to be a significant drop in the value of the Pound in the event of a no-deal scenario.

The uncertainty created by the ongoing political deadlock, in addition to the unknown risks associated with future trading relationship negotiations following a no-deal exit, presents a range of practical concerns for the UK construction sector.

The current economic environment is unlikely to attract immediate institutional investment from abroad or by domestic financial institutions who are already hesitant of the UK construction sector’s risk profile. Some businesses involved in the construction sector have already made claims in the media that they are withholding immediate investment due to the current uncertainty. The worry is that if these sentiments continue, there is a risk of current projects being suspended and new project start dates being postponed.

Whilst a devalued currency may help an export market, this will drastically harm the UK construction sector which frequently relies on raw materials sourced internationally. In the event of no-deal, the market hesitation combined with an increase in material costs due to any further devaluation of the Pound, or any increases resulting from future tariffs and stockpiling demand, these circumstances could result in increased costs throughout the supply chain.

However, should the above risks in a no-deal scenario materialise, a devalued Pound may eventually incentivise international organisations to invest in UK projects once there is greater clarity on the UK’s future trading relationship with the EU and the rest of the world. This would be complimented by a general increase in acquisitions of, or general investment in, UK businesses by international entities. This may only be of little consolation to those who are bracing for an immediate cash shortage or are less interested in being absorbed by international entities.

What is clear is that construction companies need to be ready for the uncertainty arising. Our last article *Blogging the B-Word*, provided that contracts need to anticipate Brexit and protect the suppliers’ positions arising out of the uncertainty – your ‘Brexit clauses’. Other safeguarding, such as stockpiling materials, pricing contracts with the risks and costings in mind, and working effectively with your supply chain, are obvious mitigation measures.

This article is only intended to provide general information and should not be relied upon as legal advice

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