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**Brexit: Manufacturing
the way forward**

Key challenges and opportunities for the UK manufacturing sector

Irwin Mitchell and Halo Financial have hosted a series of roundtables, bringing together UK businesses, leading professional services firms and international trade experts to share their thinking on the opportunities and challenges posed by Brexit.

This second meeting was chaired by Paul Slevin, the Council of British Chambers of Commerce in Europe's lead for the Brexit Taskforce; hosted by Laurence Gavin of Irwin Mitchell LLP and Nathan Cox of Halo Financial.

The first meeting, held in September 2016, followed the immediate aftermath of the "Out" vote, at a time of great market volatility and political and economic uncertainty. The first session focused on the international aspects of the UK's decision to leave the EU. This second meeting was held after the Prime Minister's speech in January 2017, which outlined the UK's strategy for negotiating the UK's divorce from the EU.

The purpose of this second roundtable, held in Sheffield – the UK's manufacturing and industry hub – was to drill down from a global and national focus to glean

insights from leading Yorkshire organisations on how the UK's decision to leave the EU has affected them. We considered what industry participants expect the medium term implications to be for regional businesses and the sectors in which they operate.

Formal discussion took place under the Chatham House Rule, followed by open discussion on key points, focusing on the following key themes.

Since the roundtable took place, Article 50 has now been triggered. We have included within this document some of the key points raised by UK Prime Minister, Theresa May, as she began the official Brexit process. These points will be an important focus for UK business as negotiations unfold, falling in to the following key themes:

Key themes

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What's the bigger economic picture?

Businesses, although operating individually, do not exist in isolation and are all part of a bigger economic picture.

As the country prepares to negotiate the terms on which it will eventually leave the EU, it is important to understand the complexity of factors that will have an impact on the success or otherwise of the business community. The issue of Brexit in this context should be considered holistically, taking into account factors such as currency; access to labour and capital; and how these might either enhance or damage businesses and their profitability.

Looking further than just Europe

Clearly, trade is not all about Europe; the UK should look further afield. As Theresa May said in her speech as Article 50 was triggered, "We all want to live in a truly Global Britain that gets out and builds relationships with old friends and new allies around the world." Mrs May also provided a welcome reminder that the UK already enjoys a number of existing agreements with other countries that are not in the EU – she envisages a similar trade relationship between the UK and EU.

China is one example of a welcoming market ready for trading with the UK. Brexit will, inevitably, result in a drop in productivity and some decrease in demand for services. The UK may be guilty of simply looking at Brexit as a problem, rather than trying to solve it. In any event, Brexit may not be the worst scenario and UK businesses should be savvy enough to have a plan of action for the eventuality that there is no EU at all, a potential risk resulting from the various internal factions, the upcoming elections in Germany, France and the Netherlands, as well as the risk of a major crisis in Greece.

Seize the opportunities

The trend, throughout the history of trade, shows that a shock to the markets is always followed by a rebound and a return to an equilibrium. This may take some time, but the laws of supply and demand will eventually bring back stability. This is the time to seize opportunities and reach out beyond the familiar. Undoubtedly, it may initially be difficult to replace the business lost as a result of Brexit. It is unlikely, however, that the existing trade relationships will cease in their entirety and the loss can be offset by taking advantage of other options available.





What might Brexit mean for manufacturers?

A balance of threats and opportunities

A large, well-established regional manufacturer with a long trading tradition noted that for their business, Brexit would have been a lot more threatening had it taken place four or five years ago. At that time, the company relied more heavily on contracts related to civil structures in countries across the EU. Those contracts have been affected by spending cutbacks. This prompted the manufacturer to look to successfully increase its market share outside the EU, allowing the business to insulate its operations against market volatility in the EU.

Increased opportunities for EU business?

For a smaller, Sheffield-based engineering company, the months following the vote to leave have seen an increase in business with EU countries, its main business partners. The reliance on those relationships means that the business is sensitive to variations within the EU market and the recent uptick in business is likely to have resulted from the increased stability in the EU. The business trades in Euros and has recorded a loss of approximately £1,000 each month due to the exchange rates and its inability to raise prices. The strategy adopted by the management after the vote has been that of reassurance and strengthening relationships with clients in the EU. The clients responded positively to that approach, although some in Italy and Slovenia sought to benefit from the situation by requesting a reduction in prices.

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International relations

Immediately following the vote, one business noted some negativity in dealings with certain German and Austrian companies, but otherwise, it has been business as usual. Agents and distributors in EU countries continue to work on generating business. The company has not been able to take advantage of the currency exchange rates due to conducting the majority of their business with markets outside the EU. This shows the importance of trading with a wide range of partners, both within and outside the EU.

Negotiating trade agreements

With the UK about to negotiate free trade agreements, it is important that individual businesses pursue their own agenda to ensure the best outcomes in the long-term. Lobbying may be a useful tool in securing the best deal for each specific industry and the UK business community should not waste this opportunity. It was a shared view that businesses should focus on regional promotion and target foreign business directly without waiting for the government to negotiate trade agreements. Nonetheless, the next few months will be crucial for shaping the tone of the negotiations to ensue.

There should also be a greater emphasis on building international relationships region to region, as opposed to on a national level. Such an approach is more likely to open new avenues across different sectors and industries. As an example, one of the manufacturers referred to the opportunity for Sheffield-based steel companies to trade with Canadian businesses sourcing steel from other countries. Although this would not have been an obvious opportunity on a national level between the UK and Canada, a regional industry analysis would have revealed it. The UK should also take advantage of major infrastructure projects in the USA and the emerging opportunities in the Middle East.

A need for clarity to move forward

The chair wondered whether UK businesses have been complacent in the face of Brexit. The view from a Sheffield-based engineering company was that if there has been any inaction, this was caused by the lack of information rather than complacency. Businesses need clarity to be able to plan ahead. If you don't have the information you need, you build your strategy based on what is available to you. The Prime Minister acknowledged this in her Article 50 speech: "I am ambitious for Britain... We will deliver certainty wherever possible so that business, the public sector and everybody else has as much clarity as we can provide as we move through the process."

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Adaptability and resilience

Being able to adapt quickly to changes is key in the current climate and SMEs should capitalise on their resilience and agility, whilst trying to work out the best way forward.

Imports and exports

EU countries have developed interdependencies over the years and as such, Brexit, although inconvenient, will not destroy the trade relationships built between the UK and EU countries. Given current economic circumstances, it may not be possible to increase exports significantly to the southern countries, such as France, Spain or Italy, but there have certainly been encouraging signs from the Scandinavian and Eastern European countries.

Importantly, the UK's dependence on trade with the EU is likely to decrease, as business activity with countries outside the European Union grows and the relationships with the Commonwealth countries, often ignored in favour of the EU, are reinvigorated. This was a key theme in our previous paper, cited as one of the opportunities to come from Brexit.

As Laurence Gavin of Irwin Mitchell pointed out in our previous discussion, "The UK has always been an open, outward looking economy and the positive side of Brexit may be that it will prove to be a greater encouragement for building trade relationships and the reinvigoration of the ties with the Commonwealth."

Perspectives: Industry viewpoints

Unconcerned about Brexit?

One manufacturer agreed that the modern world trading market was underpinned by international interdependence. This should be appreciated not only in the UK but also by EU countries. His observation from an international industry trade association was that, within the EU, there has been little concern about the impact of Brexit.

No border tariffs

The view from another manufacturer was that there should be no tariffs on the border with the EU. In this context, the UK could use the trade deficit argument to negotiate better terms. Another view was, however, that the surplus/deficit card should be played with care, as the UK may end up isolated if the EU countries shift the direction of their trade from the UK to other trade partners outside the Union. Ultimately, what matters is that UK businesses continue to have access to the EU market with a 'single sheet of paper'.

A cohesive regulatory framework

A manufacturer operating in a regulated sector felt that a uniform regulatory framework should also be a priority as any added complexity will impede trade. Ensuring that the starting point should be a level playing field is of paramount importance. Although some standards are simply a matter of good practice, any legal and regulatory changes should be made gradually. Law firms will of course be there to assist their clients with any transitions and changes, as undoubtedly, businesses will be hit by some hidden regulations in the years to come. The legal situation should settle down in three to five years post-Brexit.

Removing red tape

The view from a manufacturer of specialised materials was that businesses should take control of their own destiny and build relationships with international trade partners, without looking for guidance to politicians. The simplified access to the 28 countries within the EU has been an undisputable benefit of the UK's membership in the Union. Any increased bureaucracy is likely to be detrimental to business.

With regard to the immediate impact on the business itself, as an SME, the company has been mainly concerned with maintaining a healthy cash flow and risk hedging against the impact of the sterling exchange rate. The latter has been particularly important to the company, as 80% of its materials are sourced from the EU. For this and similar businesses, the ability to trade with EU countries without any unnecessary red tape is an absolute necessity.

What are the effects on the currency markets?

The exchange rate has influenced some decisions about property purchases or emigration to countries such as the USA, Australia or New Zealand. On the other hand, with the passage of time since the vote, there has been a greater demand for currency exchange services from corporates, which tends to indicate that they are looking to manage their currency risk more proactively to offset the movements in the markets.

The currency exchange sector has seen an increase in business in the months that followed the vote to leave, with June and July being the best trading period in years. The role of foreign exchange advisers has been to assist companies and individuals with managing and hedging risk to give protection from the initial currency fluctuations in response to Brexit announcement and developments. Clients have been more conservative and wary of the market uncertainty.

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Perspectives: SMEs

While historically, SMEs relied on banks for currency exchange advice, there has been a shift towards using professional advisers. This is a positive development and SMEs should become more educated and savvy about accessing services and the know-how to make the best of the opportunities open to them. SMEs must understand that they do not operate in a vacuum and should reach out to each other. Those not engaging and isolated risk falling behind the curve.

SMEs have the advantage of being more agile and adaptable than large corporates and as such, they should make the most of the opportunities presented by Brexit.

Perspectives: Legal viewpoints

The impact of Brexit from a legal perspective has been limited, as the formal divorce process has only just commenced. We will see a greater effect on UK businesses as the negotiations play out, but ultimately, trade depends on personal relationships and people should strive to make these as strong as possible now to give them the best chance of weathering the upcoming storm.

Perspectives: An economic viewpoint

The economic perspective on the effects of Brexit has been focused primarily on costs of labour, materials and capital and looking at how these will affect production and costs overall. In terms of labour, Brexit poses the obvious risk of losing highly skilled workers and professional experts sourced from the EU. The uncertainty of their future in the UK coupled with incentives from other countries may mean that they will leave the UK.

People and professional development

Addressing the challenges to the labour market

Brexit will continue to affect the labour market in the UK. Many sectors relying on low cost workers from the EU may struggle to fill the gap. Equally, the workers, both skilled and unskilled, who had moved to the UK before the vote have been left in a limbo of uncertainty about their future. If this continues without any positive action from the government, many of the workers may decide to return to their countries. The exodus may be further accelerated by the unfavourable Sterling exchange rate, which will make working and earning in the UK no longer attractive to the workforce from EU countries. This is an obvious risk to businesses in the UK, which should be addressed as a priority to give certainty to both workers and businesses alike.

Invest in your people skills

Good managerial skills will be important, as evidenced by the trends in China and Japan; and business agility will become crucial. The UK has been trading globally already, but Brexit has brought a renewed energy and focus to businesses who may have become complacent about reaching out beyond the EU.

Attracting and retaining talent

The recent announcement by the French finance minister about bringing experts from London to France is indicative of an appetite in the EU generally to poach talent from

the UK. Nonetheless, whilst other countries may have the capacity to attract our talent, the UK is still a major centre for capital in Europe and as such, efforts should be made to ensure that it remains an attractive place to work. Repeating comments from her previous speech about Brexit, Mrs. May reiterated the importance of the UK being a “magnet for international talent” and continuing to attract “the brightest and best” when she spoke on 29th March.

The relationship with the media

The chair noted that some media outlets in the UK have been particularly hostile on the issue of immigration and wondered whether the UK risked damage to its reputation as a good place to live and work. One of the participants noted that the UK should learn lessons from global history. It was important to remember that action always causes reaction and any damage to the UK's reputation in relation to immigration may come back to bite in the future.

The view from one of the partners at Irwin Mitchell LLP was that the position of EU citizens in the UK should be addressed quickly and in a constructive way. This would reset the tone for the negotiations and perhaps encourage Brussels to see that the process can be managed in a sensible and positive way. People should come first, on both sides of the Channel.

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Where will your business be in five years' time?

Looking further afield

One view was that UK businesses should think ahead and focus on new opportunities now and in particular on prospects further afield, such as Expo 2020 in Dubai.

The situation may take longer than two years to settle down and the negotiations may make it more complicated. The UK will miss out on the EU subsidies and it is likely that infrastructure projects may be affected as a result, especially in places like Wales and Cornwall. Undoubtedly, Brexit is going to be highly political for a long time. The key is to navigate through this and focus on the realities of conducting business in a challenging marketplace.

Ultimately, however, the business community is still in control of its own destiny. It may fight a bit harder to achieve the desired results, but the opportunities are there.

Considerable challenges, but there are opportunities

Ultimately, however, the business community is still in control of its own destiny. It may have to fight a bit harder to achieve the desired results, but the opportunities are there. The UK is still home to one of the major world capitals, with London being a key financial centre. The friendship with the USA also gives us some edge, and there are opportunities for partnerships with old friends and new allies alike.

Staying one step ahead...

The business community should seek to be one step ahead of the politics, be agile and be active. There will be a period of uncertainty, which will also present great opportunities. Businesses should seize the positives to offset the difficulties.

Building business with business

The UK faces a period of instability and difficult negotiations, with the situation further complicated by the internal troubles within the EU – the resolution of which is beyond our control. Ultimately, however, the people and the business community are the ones who can and will make a success out of Brexit.

The business community should remain positive and be ready to step up to the challenge. It is important for people to work together, share their experience and

ideas. As Theresa May pointed out in her speech as Article 50 was invoked, "We can choose to say the task ahead is too great, or look forward with optimism and hope."

As such, the chairman invited everyone to organise similar roundtables in their respective industries and take the success of the economy into their own hands.



Contributors

William Beckett – Chairman,
International Trade Forum (ITF)

Kathryn Borg – International Trade Adviser,
Department for International Trade (DIT)

Nathan Cox – Halo Financial

Ciaran Dearden – Irwin Mitchell LLP

Laurence Gavin – Irwin Mitchell

David Glass – Irwin Mitchell

Peter Hoy – Macalloy

David Johnson – Halo Financial

Peter Kersch – World Feeds

Dorrien Peters – Irwin Mitchell

Mohamed Shaban – University of Sheffield

Paul Slevin – Exedra Associates Ltd

Anne Wilson – Managing Director,
Numill Tooling Solutions, Freeman of
the Company of Cutlers in Hallamshire



About Halo Financial

Halo Financial is a leading UK foreign exchange brokerage, offering a comprehensive range of services to individuals and businesses since its inception in 2005. The business prides itself on offering a flexible and personalised approach for each of its clients, simplifying the seemingly complex foreign exchange market to maximise savings in currency transactions, protect against currency risk and make money go further.

Staffed by qualified technical analysts, the company is authorised by the Financial Conduct Authority and HM Revenue and Customs.

Halo Financial won Best Customer Focus category in the 2016 Best Business Awards; received OPP Gold for Best Supporting Service; the Gold Award for Financial Support and Innovation from Relocate Magazine, Commendations in the 2016 and 2017 Moneyfacts Awards and has 5 out of 5 Star Customer Gold Merchant Status via independent review website, Feefo.com, winning Gold Trusted Service for 2017.

"Excellent", "Reliable", "Professional", "Knowledgeable", and "Helpful" – Halo Financial is proud that customers rate their service so highly and are happy to recommend them to others. The firm is always striving to provide the best possible service and to innovate offerings in line with clients' ever-evolving needs.



Nathan Cox

Head of Partnerships
Halo Financial Limited
Battersea Studios 2
82 Silverthorne Road
London
SW8 3HE

Email: nathan.cox@halofinancial.com

Tel: +44 (0) 20 7350 5473

Web: www.halofinancial.com



<https://twitter.com/halofinancial>

About Irwin Mitchell

Irwin Mitchell is unlike any other law firm. Nationally acclaimed, with a strong international capability, the firm offers a broad range of legal services to national and international organisations and institutions, small and medium-sized businesses and private individuals.

The firm was founded in 1912 by Walter Irwin Mitchell. Initially focusing on criminal law, he aimed to provide the highest quality legal services to the general public from his small legal practice in Sheffield.

Today, as a full service law firm, Irwin Mitchell is the 14th largest law firm in the UK and amongst the top 50 in Europe, operating out of 14 UK offices and employing some 2,800 members of staff. Irwin Mitchell has helped over one million clients in the firm's 100 year history.

The Business Legal Services division of Irwin Mitchell is also the fastest growing area of the firm, with an increasing number of global, national and regional companies choosing to work with Irwin Mitchell.

In 2012, Irwin Mitchell became one of the first law firms to be approved as an Alternative Business Structure (ABS), allowing it to plan for growth and take advantage of the opportunities created by the changing legal landscape.



Laurence Gavin

Partner
Irwin Mitchell LLP
Riverside East
2 Millsands
Sheffield
S3 8DT

Email: laurence.gavin@irwinmitchell.com

Tel: +44 (0) 114 274 4605

Web: www.irwinmitchell.com



<https://twitter.com/irwinmitchell>