



# BREXIT: BOOM OR BUST?

Fears of an immediate post-Brexit depression in manufacturing have been allayed, but engineering firms are uncertain what the future holds in terms of trade with the EU. By James Hurley

In the wake of Britain's vote to leave the European Union, businesses could hardly be blamed if they put investment decisions on hold.

## THIS ARTICLE EXPLAINS:

Opinion divided over whether Brexit will benefit manufacturing

Many manufacturers are already increasing export sales

Concerns remain over import costs and access to EU market

Manufacturers should 'make hay while the sun shines'

Will genuine industrial strategy materialise?

But despite the referendum vote, Tony Hague gave the green light for his mid-sized company, PP Control & Automation, to spend £1 million on a factory expansion so it can capitalise on an anticipated increase in demand.

The business, an outsourcer for automotive, aerospace and electronics manufacturers, among others, is in the process of hiring 30 staff.

And although there has been anxiety since the Brexit vote, Hague's sense of 'business as usual' has been reflected across manufacturing industry.

Figures from October 2016 showed that the volume of new orders and employment in the industry had been on the rise for three consecutive months, with export sales boosted by the

Top left: PP Control & Automation spent £1 million on a factory expansion after the Brexit vote

Top: The addition of the words 'industrial strategy' to the May Government's business department is welcome, but scepticism persists over the details among the manufacturing community

Above: Figures from October 2016 showed that the volume of new orders and employment in manufacturing industry had been on the rise for three consecutive months, with export sales boosted by the weakness of the pound

weakness of the pound. Hague, managing director of PP Control & Automation, says: "I think we're in a better position than many of us manufacturers dreamed possible. That's not to say everything is rosy, but I thought we would be in deeper trouble, far quicker."

### OVERSEAS INVESTMENT

In a post-referendum period where uncertainty and often downright confusion have reigned, the first major overseas investment decision has also gone the right way for Britain's manufacturers.

To the great relief of thousands of workers and a large chunk of the nation's automotive supply chain, Nissan confirmed it would build the next model in its popular Qashqai series in Sunderland, after receiving "support and assurances" from the Government.

However, once that relief had subsided, the questions began. Had Nissan been given a special deal by a Theresa May government desperate to avoid the disastrous symbolism, let alone the direct economic consequences, of the Japanese car manufacturer leaving? Would other manufacturers, including those in sectors such as steel, aerospace and pharmaceuticals, be given similar assurances? With the government still fending off demands for the exact terms of its arrangement with Nissan to be made public, it is clear that the majority of the anxieties which the episode highlighted have yet to subside.

Indeed, Kenichi Ohmae, the Japanese business adviser who recommended Nissan set up a plant in Britain in the 1980s, did not see the Sunderland decision as a ringing endorsement of the UK's post-Brexit foreign investment prospects. He told the BBC that he did not think "other companies will follow suit". He said other international businesses should hold fire on investing in Britain until "the course is clear and until the conditions of Brexit are worked out – not only by what the UK government says, but what the European Union says".

Even John Longworth, the former boss of the British Chambers of Commerce who left the employers' group to campaign for Brexit, admits there are difficult challenges ahead. These include the risk that the "EU will act in an economically irrational way, leading to EU tariffs for a period before a free trade agreement is secured", he says.

### SCEPTICISM OVER INDUSTRIAL STRATEGY

The addition of the words 'industrial strategy' to the May Government's post-Brexit business department is welcomed by many manufacturers, but there is scepticism as to whether it will be matched by real action.

"Industrial policy is about skills, capital, ideas, technology and export [promotion]. We are nowhere near conceiving such a national level plan, never mind executing it," says Malcolm Evans of The UK Manufacturing Accelerator.

Like those in science and education, the EEF has also expressed concerns that hard Brexit could cut off European investment money in areas like support for advanced manufacturing, undermining state backing for industry. The scrapping of the Manufacturing Advisory Service last year was bemoaned by industry and manufacturers will now be looking for what targeted support they receive during the Autumn Statement.

Rowan Crozier, chief executive of Brandauer, a Birmingham pressworks and stamping business, says: "The UK has got the capability to be the best in the world, but we need a government that is going to be with us for the long-run and not just when they feel the sector is flavour of the month."

A more pressing concern is the quality, or for some, the lack thereof, on show in the ministers charged with delivering Britain's departure. "I look at the Brexit team and think, 'there's not much credibility there,'" adds Crozier. Others are more satisfied with the political response. Jonathan Lane, of Arrow Solutions, says, "The talk is tough and information is limited. That feels to me like an organisation serious about negotiation.

"I was in Saudi Arabia recently and had a couple of people describe Mrs May as the new 'Iron Lady'. They said it with respect."

Nissan's concerns about continuing to use the UK as its European production base were said to centre on the prospect of trade tariffs restricting its access to key markets on the continent.

Hague says it is a concern shared by exporting manufacturers of all sizes. "Access to the single market is absolutely key and any future deals should be based around this. We do not want and must resist a tit-for-tat taxation game starting."

Longworth urges industry to look on the bright side. "If [EU tariffs are introduced] UK goods will still be cheaper on the continent than before, as the value of sterling has reduced by more than the tariffs. "Reciprocal tariffs would lead to a shift to UK domestic production, for example, the purchase of more UK manufactured cars and fewer German ones, as the combination of sterling and tariffs make UK manufacturers more competitive at home. Exports to the rest of the world, in the meantime, will be boosted.



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“In short, the risk is a period of creative disruption and uncertainty during which there will be winners and losers. But overall, the UK manufacturing sector will emerge better off.”

Jonathan Lane, sales director of Arrow Solutions, a Leicestershire manufacturer of cleaning products, agrees: “There will be economic pain for a while, but, over time, exiting the EU will deliver genuine economic benefit,” he says. He also supports Longworth’s assertion that there is an opportunity for a renaissance in UK manufacturing.

“Many of the requirements to do so are already in place. I recently visited the Manufacturing Technology Centre in Coventry and was hugely impressed by the technology demonstrated. The know-how is here in the UK and it can [deliver] the competitive advantage we need.”

**WILL BREXIT EXACERBATE SKILLS CRISIS?**

The other major Brexit anxiety that abounds is that it will exacerbate an existing skills crisis for British industry. With many manufacturers already deeply concerned about their ability to find the right staff even before June’s

vote, Richard Bunce of Mec Com, a Stafford sheet metal fabricator, says he worries Brexit will make a “difficult situation a lot worse”. “From talking to employees at our sister company, European Fabrications, in Romania, Romanians are already very reluctant to come to the UK because of Brexit.”

Malcolm Evans, is a co-founder and chief executive of The UK Manufacturing Accelerator, a specialist investor in early stage manufacturing companies. He has seen little immediate disruption following the referendum. “We are all getting on with it while the media still peers here, there and everywhere for the arrival of industrial Armageddon.” However, he calls for some balance in the debate. “Those who proclaimed Brexit as an unqualified passport to new global success are living in cloud cuckoo land. We are in febrile times – global capitalism is always weaker than those who work within in it care to [admit]. Brexit is a destabilising tremor.”

Despite the boost to export sales it has delivered, Evans adds that the belief that the weak pound is a zero sum game in favour of British exporters is a “dangerous delusion”. “There is some benefit to UK manufac-



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**Brexit: Are companies like this pressings firm just “getting on with it” while the media talks us into Armageddon?**

## THE COST OF BREXIT

**5 PER CENT:** Proportion of UK adults who think that loss or damage to the manufacturing sector is a price worth paying for leaving the EU (*Source: EEF*)

**52 PER CENT:** Share of total manufactured exports, by value, going to the EU in the 12 months to April 2016 (*Source: EEF*)

**71 PER CENT:** Proportion of companies who believe the EU lowers the cost of doing business through this single regulatory and legal environment (*Source: EEF*)

**£12.9 BILLION:** Predicted bill for EU firms exporting goods into the UK under WTO terms if there is no new trade bill in place post-Brexit (*Source: Civitas*)

**£5.2BN:** Equivalent bill for British exporters to the EU under WTO terms (*Source: Civitas*)

turing in a low pound scenario but in this country we are largely higher value-added rather than commodities; in the latter case there is a simpler drive to swap supply on a price basis.

“I am more connected to high value-add activities, where quality and reliability play a significant role alongside price alone, and where relationships are long-term and volumes more stable. Those trumpeting major and lasting advantage to UK manufacturing from a low pound are overstating their case.”

He also predicts there will be manufacturing “casualties”, even among exporters, from the low pound as raw material prices increase. PP Control & Automation works with machine builders who export the majority of their produce priced in euros and dollars, so the weakening pound has aided its interna-

tional sales prospects. However, the decline in sterling is also pushing up the price of the production process for many, since a large proportion of raw materials are imported. Industry data shows the average selling price of manufactured goods rose in October at the fastest pace for more than five years.

Hague says: “There does seem to be a trend towards rising material costs and you don’t attend many business meetings where ‘uncertainty’ is not mentioned.

“Rising material costs... will be passed on without fail. There might even be some profiteering going on. However, the effect for manufacturers will still be positive.”

That said, he does fear that the weak pound and short term gains could be masking bigger issues. These include

weak productivity, skills shortages and lack of investment in robotics and automation across the supply chain, he adds. “We need to address this through a UK manufacturing strategy that is indiscriminate of political party,” he says.

Lane of Arrow Solutions agrees: “The challenges I foresee are those of attitude and commitment. Manufacturing requires longer-term investment and I guess that is markedly different from internet businesses that can flourish or fail almost overnight.” Evans voices a cautious optimism that, despite their numerous concerns, many manufacturers have faith in the longer term trading impact of Brexit. “Britain will not cut its own throat over trade [nor] will the EU strangle such an important trading partner.”

While Hague fears a period of uncertainty and possible stagnation is on the cards in the medium-term, he adds: “That does not mean there aren’t opportunities out there to be pursued...as long as you have something different to offer, or best in class capabilities, you will always win new work.” <sup>MR</sup>

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127

142