

ENGAGEMENT

Brexit...beyond just trade deals

Guests at our annual Manchester Leaders' lunch were forewarned, as usual, about the topic for discussion. Given that the "snap" general election result was just 2 weeks before, the impact of the result on business confidence generally and our guests' businesses specifically, had to be the current affairs topic of the day.

"As business leaders is this period of uncertainty affecting your business and

**business confidence more widely across your sector?" and
"What would you be advising the government's position to be on Brexit as it moves in to a lengthy period of negotiation with the EU?"**

The debate was kicked off by a senior figure in the onshore oil and gas sector who was somewhat relieved that Labour had not been voted into power, purely because Labour had said that they would not support non-conventional

sources of oil and gas (referring specifically to fracking) and therefore would, in effect, close down an entire industry. Fracking has become an emotive topic; the North Sea provides less than 50% of UK gas requirements, and alternatives need to be found, but opinion is polarised. Renewables are good and nuclear is bad; Nimbyism, younger voters and the need to be enterprising are all thrown into the melting pot, and leaders capable of influencing in favour of fracking have not been terribly successful.

What is very real, is the need to gain and retain public trust. More recently fracking has succeeded by engaging local residents in the projects, allocating 6% of gross revenues for local investment for example, has been a successful sweetener. Interestingly, Sirius Potash (a deep potash mine

In the current environment, positive engagement across the political and social spectra appears to be an emerging success factor.

beneath the Yorkshire Moors) is another controversial initiative, which has had no issues in gaining planning approval because local residents have been given a piece of the action in the form of shares in the company.

Another guest, from the building materials sector, was based in Germany when the Brexit referendum result was announced. His German colleagues were “very disappointed” with the UK’s decision to leave the EU. However, this is what we have so we need to make it work and demonstrate that we have a desire to negotiate. We should invest to make money, we should re-think our

attitude to risk, consider creative ways to progress and most importantly, engage with communities – something Theresa May doesn’t seem to have demonstrated well.

Revisiting the original question of how businesses are being affected by the uncertainty of the political and economic climate - one of our retailer guests pointed out that putting the weakness of sterling to one side, retail per se is largely unaffected.... it was struggling before the Brexit result! He went on to postulate that on-line is a great opportunity for large retailers but is highly expensive. Nevertheless they cannot afford not to get involved. Is it not surprising therefore, that the private equity (PE) firms have largely avoided this sector. Inevitably there will be winners and losers so perhaps the PE world is just waiting to see who they are.

Consumers on the other hand, know that they can get great product deals on-line. There is now an increasing trend towards spending money on experiences rather than goods. A

87% of students and university lecturers voted Labour so somebody needs to appreciate that the young have suddenly learnt how to vote and therefore today's business leaders as well as political parties need to consider what messages to convey to this important group of decision makers.

positive challenge to address but generally retail will continue to be a tough sector for a few more years. With sterling weak, which is unlikely to change under Brexit, retailers should

start looking for export opportunities...and an online presence should help this initiative.

Adding further to the need to engage with young people, one of our guests from the nuclear energy sector pointed out that the disaster in Fukushima, Japan, has the potential to cost the sector a whole generation of support, just as Chernobyl did in the mid-1980's. This will certainly be the case if the need for nuclear energy isn't communicated effectively and we may lose 10-15 years of traction. He then went on to say that that Ministers had recently revealed that Brexit would involve the UK leaving Euratom, (which promotes research into nuclear power and uniform safety standards). The news poses problems for Hinkley Point in Somerset, while raising questions over safety inspection regimes and the UK's future participation in nuclear fusion research.

Leaving Euratom on the back of Brexit is a lose-lose for everyone in the UK. For nuclear supporters, the industry becomes less competitive – and for nuclear critics, safety regulation diminishes.

Linking this to the potential impact of Brexit negotiations, he went on to say that the UK nuclear industry is critically dependent on European goods and services in the nuclear supply chain and their specialist nuclear skills. Leaving Euratom will inevitably increase nuclear costs and will mean further delays.

It was also pointed out that EU colleagues across other sectors had also demonstrated "genuine

disappointment" with their UK colleagues on voting to leave the EU. However, ironically, it now seems that the EU appears to have greater focus and to be working much closer as a community. This perhaps renders the UK even weaker in imminent negotiations.

"The issue of Brexit is particularly acute for the airline industry."

A guest from Manchester Airport, advised us that aviation continues to be a growth driver for the UK economy. However, the UK's ability to fly anywhere in the EU (under the EU "Open Skies agreement") is currently linked to EU membership agreements. If these are not unravelled and put back together to satisfy UK needs, then in 2019, in theory, we may not be able to fly anywhere!

On the Manchester airport campus there are 20,000 people employed across many different services. A hard Brexit in terms of border control and customs controls will mean an increase of 200% in border agency headcount and a potential loss of many available migrant workers.

Picking up the theme of migrant workers; if a hard Brexit results in non-UK workers having to return to their respective home countries, this would have a devastating effect on some businesses. One of our guests from the infrastructure sector was recently involved in an assessment project to reinforce Westminster Bridge following the recent terrorist attack. He pointed out that "every single member" of the

workforce on this project was of EU (but non-UK) origin.

The recent announcement by Government means after 5 years workers will have a stay/not stay decision to make. A large proportion of his team said they would not stay.

Another one of our guests, from the waste-recycling sector pointed out that at one of their large facilities, all employees were from Lithuania.

The impact of this loss of talent could be severe and therefore we should anticipate this now by encouraging school children to consider more widely the kinds of jobs that will be on offer in the future left by the inevitable gap as migrant workers choose to head back to their country of origin.

The loss of a migrant workforce on the industrial services and the food industry, both in agriculture and in leisure & hospitality, would be significant. However, the mother of necessity is invention and we were told that a major “out of home” food retailer expects the development of artificial intelligence to accelerate, to automate ordering and indeed to be served fast food by a robot in the future!

Artificial Intelligence may well have a far greater impact than Brexit on the economy and in all walks of life.

Shifting the emphasis away from the potential problems of Brexit, one of our guests from the utility sector suggested our attention should focus on how we can make the UK an even more

attractive place to work and invest. Focussing on technology and connectivity, she suggested if we want to be great, change the agenda – put in tax breaks and attract overseas investment.

Summary

In summary, our debate addressed the issues concerning businesses in the event of a hard Brexit and that of uncertainty. Conversely, accepting that there will not be another referendum and we need to be the creators of our own destiny means looking at what we are good at and making sure we continue to invest.

Most significantly was the general view that Theresa May has not engaged with the UK population and this is seen as her significant Achilles heel. This is especially evident when compared to Jeremy Corbyn who has shown us the power of communication, in particular with the young. Engagement generally is a powerful tool, as demonstrated with the acceptance of the previously unwelcome fracking development.

All businesses represented at our lunch seemed to agree that the need for greater collaboration between Government, companies, educators and others, is seen as essential. Yet given the level of youth unemployment, there is a growing recognition of the urgent need to intensify efforts to help young people become productive members of the workforce. We need to engage and invest in our own young people to help secure a bright future for UK plc.

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