Funding the Future

Brexit, business and uncertainty

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Many months ago I was invited to speak to the Chartered Institute of Management Accountant's east of England conference on the opportunities arising from Brexit. Little could they have known the significance of the date. I duly turned up having read as much of the draft as I could, literally overnight. As I was talking ministerial heads were rolling. These slides, which to some degree summarise what I said, supported my presentation, which was heavily business focused and concentrated on the risks and uncertainties and not the opportunities, of which I see few:

Taking back control - the real opportunities uncertainties in Brexit

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What is Brexit?

* I wish I could tell you
* Despite yesterday’s announcement we do not know we have a Brexit deal
* The Cabinet is divided
* The Tories are divided
* Labour’s demands look to have been met
* France, Spain and the Netherlands are unhappy
* The DUP are outraged
* Jacob Rees-Mogg is apoplectic
* We have by no means got a deal as yet

What might Brexit mean?

* How can I tell you?

* As yet we do not know

* If we get this deal:

* We stay in the Customs Union

* We seem to stay in the Single Market

* We follow EU rules

* We cannot negotiate new trade deals as yet

* We still make EU payments

* There is no time limit for this to change

* Call it BrexitINO

* Brexit In Name Only

The reality of Brexit

* This means we can conclude there is one sure outcome of Brexit

* That is uncertainty

* This is what I really want to explore

* It is fun to look at the big issue stuff — and it is my day job to do so

* But that’s not my focus today: my aim is to look at the microeconomic, tax and business issues arising

The first uncertainty - will the country keep going?

* We may get a deal

* We may get a transition

* And we may not

* Yesterday does not change that

* As May said we now have three choices:

* Her deal

* Stay

* No deal

* I watch this stuff intently. It’s my belief that a ‘no deal’ is now 30% likely

* That’s a big enough risk to plan for

Crisis planning in the face of the country ceasing to keep going

* Will supply chains break?
* Will critical suppliers fail?
* Will key staff be available?
* Will any be struck abroad?
* The EU is planning for that risk — so should we
* Will there be social disruption preventing normal patterns of working?
* Crisis planning is required - and it would be negligent not to do it now

My suggested crisis plan

* Preserve cash
* Hedge currency risk - the pound could tumble, very heavily
* Stockpile if that is likely to be needed
* Keep all staff in the UK at the end of March
* Be open to flexible working arrangements
* Research alternative suppliers now. Make sure they are in the UK
* Make sure you are insured. DO NOT DO IT IF YOU ARE NOT

The second uncertainty - admin burdens

* For a party dedicated to cutting red tape Brexit is a change in tone
* Everything is going to require a lot more admin after Brexit
* No one can be sure what the changes are as yet but it is likely that these systems will change unless we stay:
* VAT
* Customs
* Employment arrangements
* Insurance
* Travel

* Industry-specific issues

* Do you have the capacity to deal with this?

The third uncertainty - rapidly changing markets

* There will be tariff changes on UK exports when we leave

* If we leave without a deal they will be significant and immediate

* The value of the pound will fall when we leave - by at least enough in aggregate to keep UK export prices constant in other countries

* We will pick up the price - in reduced real revenue here

* And we will also have the price of increased costs of imports to deal with too, with retaliatory tariffs also a possibility

* The profitability of many businesses is going to be changed by this

* Are you ready for that? Life is going to be harder. That's what Brexit means.

How to manage rapidly changing markets

* Open a subsidiary in the EU

* Make your product in the EU

* Earn revenue in euros or other currencies

* Within the UK, seek alternatives to imports

* Find new domestic markets. Create import substituting products

* Face the reality that Brexit was about ending globalisation - the home market is what it is all about now

The fourth uncertainty - political risk

* I said I would not do macroeconomics. But I work in a department if international relations. I will do that instead

* Brexit is inherently politically unstable.

* It tries to recreate the 1945 - 1975 era when the UK was run by a national, apolitical, civil service in the interests of national business and the majority of the population - and not a powerful elite.

* This worked. But only because Britain was isolated from the world by international agreements on the gold standard, Breton Woods institutions and the remnants of

empire. None of those now exist.

* The reality is that a Trump style outcome is more likely - a national administration works for the benefit of British business and an international financial elite. But the population who voted for Brexit will be alienated by that. So it is unstable.

* Worse, as government fails to manage Brexit a new and unstable Trump like elite will take over the instruments of government and run them for the benefit of a financial elite and claim they are doing so for the mass of the population. That is fascism. That has never proved to be stable.

* None of these scenarios are stable.

* Can you manage that?

The fifth uncertainty

* Getting a good night’s sleep

* Good luck with that

* It’s not on the cards