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Dear Members

If you want to skip my thoughts and go straight to the call to action, please scroll to the bottom. It is truly important!

So here we are. David Cameron's attempt to silence the Euro-sceptics in his party backfired, and we must all live with the new reality - turning the country upside-down for the sake of a 2% majority, which appears to be dominated by the retired community!

The question is, what is the new reality?

The first reality is that it will take two years at least before anything changes. Under the terms of the Lisbon treaty, that's the shortest time that can be taken for a country to leave, so even if the government presses the button tomorrow, nothing will change in terms of our relationship with Europe, for two years.

What's it doing for confidence? We saw about a big "correction" in stocks as the economists like to say, in a couple of days, now followed by a "dead cat bounce" (who comes up with this stuff?!) - but FTSE 100 is still a good bit higher than it was in February; compared with the longer term, it's been sliding steadily since it's all time high a year ago and is on a par with 2013. Some people say the FTSE 250 is a better guide because it is made up of smaller companies more UK focused (most of the FTSE 100 companies have substantial overseas operations traded in dollars, which would be unaffected by the pound), and this has slid rather more but again the movement is small compared to the long term trends - it went over a big hump peaking a year ago and is currently where it was 2 years ago. So the second reality is that on markets, the drama that has been talked up by the press is no more than noise compared to long term trends, undoubtedly driven by uncertainty which tends to cause assets to be priced lower than their real value. Only after 3 months or so will we know the real sentiments of the markets, but in any given three months we can often see quite big drifts, without the pundits calling it a crisis - so even if they are 10% up or down by October, we still won't really know if that's caused by Brexit or other factors.



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What about the exchange rate? The Bank of England stood ready with £250Bn to pump into the pound if it started to come under pressure - it "plummeted" on the day (actually down 8 Euro-cents from 1.32 to 1.24) but bear in mind that for most of the last 2 years a pound bought about 1.40 Euros, now we're back to a rate above where we were for the period of 5 years before that. I'm sure many of you, as exporters, will be thankful for that but the Brexit news is small beer compared with the trends over the last few months and years. It looks like the correction was no more than the result of the fact that most of the markets had placed their bets on the alternative outcome. I expect many of you will be rather disappointed that the pound didn't drop a lot more! Against the dollar the pound has been sliding for 2 years since it's five-year peak, and again the "Brexit crash" is noise by comparison.

So after all the fuss, is it actually "business as usual"? Certainly for the next two years, there won't be any change in formal relationships for trade and immigration. And experience tells us that most people in business don't look further down the road than a couple of months (look what happened with ATEX - most companies didn't even think about what they had to do until the day the regulation became mandatory). So whilst this may indeed be the most important change in a generation, I wouldn't expect any significant changes in anything of importance until the final leave date comes near.

To me the main thing is not that we're going out of the EU - it's whether or not we manage to stay inside the EEA. The common market. That's what we all voted to join in 1974, and I think most people see the advantage of free trade between European countries. That is up for negotiation and expect to see it being a tough matter for two reasons:

First, the remaining members of the EU are not going to make this easy for us because they don't want France and The Netherlands looking down the same road. There's growing political pressure in both those countries to leave.

Second, and more important, if we want to be part of the EEA so we have free movement of goods, that comes with the flip side of free movement of workers. Now, the main plank of argument of the "Brexiters" was "taking control of our borders" - controlling immigration from within the EU. So if we still want to limit immigration of EU workers, which now includes Poland, Romania etc. then we can't stay inside the EEA, and if we're outside that then we're entering a whole new game around trade deals.

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Any difficulty in negotiating free trade with Germany seems unlikely - you only have to look in any car park to see how important the UK market is to Germany. Italy, Spain, Ireland and Portugal won't want to miss out on free access to our market either. But then again, will those countries want free trade deals if we don't sign up to universal agreement on workers' rights? This thorny area has been seen as one that limits the global competitiveness of Europe; we might think that we're better off outside on that matter, but if it makes those inside Europe think Britain is taking an unfair advantage then they won't like that.

They are my thoughts, what are yours? Most urgently, we are going to need your input because we have a route to government to tell them what we need. SHAPA is a member association of the Engineering and Machinery Association which has an established lobbying and advisory position with government and thereby the opportunity to influence government action over "where we go from here". What we want to see as a trade deal, how we want Brexit handled, anything else you want to press for. Let's not miss this opportunity to influence the future, and you must make your voice count.

Ian will be shortly circulating a questionnaire from EAMA, which we want to you respond to. We will consolidate the sentiments of SHAPA members and feed this into the EAMA to decide on its strategy to advise government. Please respond quickly but do consider the questions carefully, so we can make the feedback in a timely manner but ensuring we are really pressing for what we truly want to see. You have a real opportunity to get the government to hear your voice.

Secondly, I propose we have a short debate on Brexit at the next Quarterly meeting; should we think about convening a "Brexit-watch committee"?

Your thoughts in general would be appreciated, but your timely response to the questionnaire is essential if you want to be part of the process of planning how we go forwards.

Mike

Professor Mike Bradley

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