



# Brexit – the Voices of European Business

In the common interest: business perspectives on  
priorities for a Brexit that secures prosperity for Europe

Hogan  
Lovells

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# Foreword

**By David Thomas MBE,  
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COBCOE has undertaken this unique pan-European research to give businesses of all sizes a voice that will be listened to. Our aim is that this research will provide national governments, EU officials and negotiators with a new understanding of the realities of the complex business relationships that underpin the European economy.

Many businesses across Europe now face unprecedented challenges which are outlined in this report. The conclusions drawn from this work offer an opportunity for the EU and UK to create a future relationship that not only protects the common interests of the region's businesses, but also ensures continued prosperity for the whole of Europe.



## Executive summary

### The research

The format of the research was prescribed through a combination of an initial benchmarking survey and a series of 27 roundtables in 18 economies of the EU27. Attendees prepared for the roundtables in line with a standard briefing pack about the process, and the roundtables themselves were facilitated and reported on using a standard structure. Thus, although qualitative in nature, the structure of the roundtable process enabled analysis across sector and across geography to draw out the key issues per country, per sector and per business through the use of a five-dimensional data mapping exercise enabling analysis of themes and concerns as they emerged.

The data collected was extensive and therefore for the purpose of this report we have presented key themes which emerged, which have also been highlighted by a complex case study and a series of example points highlighted in the report. This work was also supported by an online poll in which some of the emerging themes were tested.

### The analysis

What emerges from the research is a picture of a highly integrated, transnational economy in which businesses (even those that serve a largely domestic customer base) work across borders to obtain the talent, parts and finance they need. The UK is not only a link in that business chain but often a springboard to success, providing access to innovation, markets and capital far beyond its own shores.

The highly interdependent and interconnected nature of European markets is a success story of the modern economy, bringing prosperity and jobs to millions of people. This success should not be taken for granted; it depends on the frictionless trade made possible by European economic integration. Partitioning off the UK from the European market – by introducing

tariff, border and regulatory barriers – threatens the competitiveness of businesses across Europe.

European businesses value the UK as an important part of the European economy. It is admired for the liquidity and depth of its financial markets, the strength and openness of its regulatory infrastructure and the quality of its research and development capabilities. Many see the UK as being of enduring importance to the continued success of Europe as a whole, both as a gateway for international investment and a springboard for access to global markets. Business leaders are clear; continued collaboration must not be sacrificed.

Many European business leaders expect that the UK will remain important for European trade and finance, with little prospect of its central role in the success of the EU-wide economy being wholly replaced by other European capitals in the foreseeable future. As such, businesses across Europe see minimising the disruption of Brexit as the key business priority for governments. Non-tariff barriers, including the practical impact of border controls and regulatory divergence, were highlighted as primary concerns. Continued UK participation in EU markets,



projects and organisations is critical to the continued competitiveness of the EU as a whole.

In the immediate term, uncertainty is the word of the moment. Evidence indicates that uncertainty about process and outcomes, coupled with potentially very short timeframes for change, is already having an impact on investment and commercial decisions that will play into the medium term.

Uncertainty about the future is already impacting European businesses and their decision-making now. Our evidence suggests widespread delay in investment decisions, as management remains cautious to make commitments that might later turn out to have been premature, unnecessary or inappropriate. Managing the risk that uncertainty presents is also of itself a drag on productivity, with management time and resources diverted. Business needs predictability to plan, even if that is predictability about the interim period between the present and the future destination. Without predictability sooner rather than later, businesses may have no choice but to implement contingencies for the worst case scenario that should not be needed and give rise to cost and inefficiency that could be avoided.

A consistent and resounding message from our roundtable events was that business leaders are anxious for clear and unambiguous signals from the UK and EU as soon as possible that will allow them to plan effectively. Participants recognised that reaching substantive agreement on the issues in play in the negotiations will take time; they do not expect full sight of the future relationship for many years. This has led businesses to focus on the need for the negotiating parties to give some robust indications that they will provide businesses with sufficient continuity while the details of a future relationship can be thrashed out.

**Business leaders are anxious for clear and unambiguous signals from the UK and EU as soon as possible that will allow them to plan effectively.**



A final theme that arose in our discussions across Europe was the desire that wider policy progress, particularly in relation to issues such as the development of the digital economy, not be held up by an undue focus on Brexit. Europe's global competitiveness depends on regulatory development keeping pace with technological advances. In this regard, participants particularly lamented the loss of the UK Government as a business-friendly force for driving reform within the EU.

This report's findings demonstrate that European businesses believe the EU and European governments are not listening to their concerns. The process of the negotiations to date, the apparent "zero sum" approach adopted by the parties to the negotiations, and the risks and uncertainties that firms across Europe now face as a result each undermine continued European economic productivity and competitiveness. A bad deal is a bad deal for everyone and therefore should be avoided at all costs.

## What is at stake?

Through close international trading links, businesses not only interact with others in their own vertical supply chains, but also in other sectors that facilitate this trade. For instance, an average business may have cross-border relations with service providers (e.g. banks, consultants, legal services), investors and finance providers (credit institutions, venture capital firms, seed investors, etc.) suppliers, customers and end users.

— “ —

**Company COO and Co-founder concludes:**

The instability of what will come is the greatest issue for forward planning. It is difficult for a business to decide how to prepare. We need to be efficient and cost effective and ready to change fast and adapt.”

— ” —

### Case study

## Clothes manufacturer based in Eastern Europe



### About the business

This clothing manufacturer designs and sells clothes to UK-based retailers which also have stores in Europe and the US. The clothes are manufactured mainly in Eastern Europe.

Operating in the highly competitive world of 'fast fashion', this manufacturer has to ensure short lead-times from design to the finished product, which is mainly delivered to the clients' distribution centres. Sales are sensitive to many factors, including price, the weather and trends. Clients are major UK retailers such as Tesco and Primark, some of which have branches around Europe and in the USA.

### The supply chain model

- Design takes place in the UK.
- Materials, fabric and components are sourced from Turkey, European countries and Asia.
- Production takes place mainly in Romania and surrounding countries Bulgaria and Moldova. Some also takes place in Vietnam.
- Transportation and distribution – finished garments are sent from Eastern Europe to the UK. Clients then distribute the clothes through their retail networks.

## Client-based operations

Working with most of the top 10 UK retailers, each client has its own particular supply chain. The manufacturer therefore assigns an entire team to each client to deal with their particular design, production and logistics processes.

## Short lead-times

Fast fashion means reacting to trends and time is critical. This manufacturer gets garments from design to the client in no more than 10 to 12 weeks. (It may take another week for the client to distribute the garments to the stores.) Fabric flow is key and this must be organised in advance.

## Brexit challenges

**Planning uncertainty** – Being dependant on post-Brexit trade agreements, this manufacturer is looking at different scenarios. At the time of the interview, however, the situation was so unclear that the manufacturer was not able to plan for Brexit.

**Changing processes** – Since this business uses materials from different continents and delivers to clients around the world, there are a number of possibilities of how processes could change. It may, for example, be beneficial to bring materials to the UK in future. If there are additional customs duties between the UK and EU, it could add one or two weeks to the lead-time.

**Cutting the UK out of deliveries** – While most deliveries are currently to the UK, some clients are now asking the manufacturer to deliver orders directly to European countries on behalf of the UK retailer. The flow of goods for European consumers going through the UK could diminish after Brexit.

**Fluctuating exchange rates** – This is the biggest risk factor for the company at present and how this will develop post Brexit remains to be seen. This company's financial services are split between the UK and Romania.

Costs are in sterling, which is also the sales currency. The purchase of raw materials and manufacturing is in US dollars.

**Rising costs** – This manufacturer's costs had risen by 15% since the Referendum due to currency fluctuations.

**Economic consequences** – The future level of sterling is seen as being dependent on the final Brexit agreement. If sterling weakens further and Eastern Europe becomes an uncompetitive location for manufacturing for the UK market, many jobs in Eastern Europe could be lost, including those of Eastern Europeans working in logistics in the UK.

**Staffing issues** – This company has 90 people in its London office in highly skilled roles such as designers and account managers, a third are from European countries and 40% of the Executive Committee come from outside the UK. Being forced to hire locally is a concern i.e. finding the right designers in Eastern Europe or Eastern European language speakers in London. Another is the potential difficulty of travelling between countries to collaborate on developing collections, etc.

**Data and IP questions** – The company has data in the form of designs, which are created in the UK using design software. (One designer is based in Poland.) The designs are sent to Romania and developed into sample garments to show to clients. Will they be subjected to customs duties creating additional costs? There is a great deal of ambiguity around how a prototype is developed in the fashion industry, which raises questions over which part of the business owns the data.

## Taking the long view

This company sees many challenges ahead if it is to remain competitive in the UK and adapt to new ways of operating. It does not envisage leaving the UK market, however, and acknowledges that every change creates opportunities.

## EU and UK trade

Historically, the EU and UK have had very close trading links dating back from long before Britain joined the European Economic Community in 1973. Having become the second largest economy within the EU, the UK has become a key player in internal and external EU trade.

Intra-EU and external trade in goods and services has continued to grow in recent years. Trade in goods between member states (measured by exports) reached €3.11 trillion in 2016 – considerably higher than the level recorded for exports leaving EU28 which was €1.75 billion. The UK accounted for 11.1% of the EU's exports to the rest of the world in 2016.<sup>1</sup>

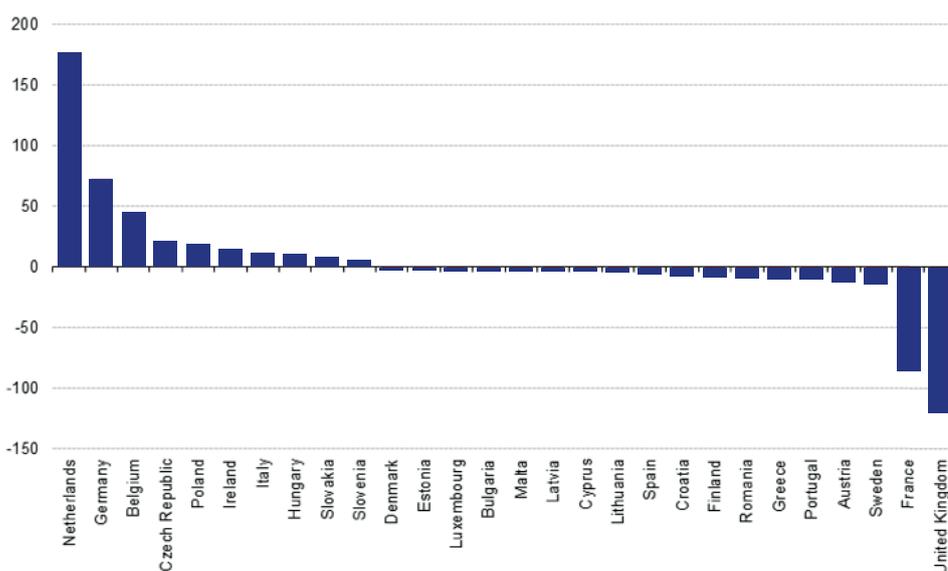
### Intra-EU trade

The growth in intra-EU trade reflects the development of the single market, growing integration and the development of complex supply chains in many sectors such as agriculture, automotive, pharmaceuticals and energy.

The UK tends to import industrial goods and export services. It has a large deficit with the EU for trade in goods. Estimates vary on the percentage of EU27 exports that goes to the UK. While 7% of EU27 goods are estimated to go the UK in a recent report by the UK Office for National Statistics<sup>2</sup>, an earlier report by the UK National Institute of Economic and Social Research put the figure closer to 16%.<sup>3</sup> (By contrast, the EU receives 47% of UK goods exports.<sup>4</sup>) Intra-EU trade with the UK is, however, a complex picture.

Overall, the UK imports more goods from EU member states than it exports and has the greatest negative intra-EU trade balance of any member state, as demonstrated by Figure 1.

**Figure 1: Intra EU trade in goods balance by member state (€ billion)**



Source: Eurostat DS-018995 / Eurostat Statistics Explained Intra-EU trade in goods – recent trends

1 Eurostat Statistics Explained International Trade in Goods

2 Trading places: UK goods trade with EU partners by ONS Digital based on merchandise statistics from UK Comtrade

3 After Brexit: how important would UK trade be to the EU? National Institute of Economic and Social Research, based on European Commission Trade Helpdesk data

4 Trading places: UK goods trade with EU partners by ONS Digital based on merchandise statistics from UK Comtrade

The countries for which the UK is an important export market are Ireland (goods worth 14.1% of GDP are destined for the UK), Luxembourg (10.1% of GDP), Malta (9.1% of GDP), the Netherlands (7.6%), Belgium (7.3%) and Slovakia (5.2%). Germany exports goods worth 3.5% of its GDP to the UK.<sup>5</sup>

A recent paper from the Economic and Social Research Institute, Dublin, and the Department of Economics, Trinity College, Dublin, estimated that Ireland and Denmark would face the highest average tariff rates (of over 10%) on their exports to the UK under WTO rules, due to the high tariffs on their exports in the agricultural sector.<sup>6</sup>

This highlights the fact that different sectors in each country will be affected differently by any barriers to trade in goods. One of the most common examples is that of German car production, with one in seven cars made in Germany (14%) exported to the UK. Similarly, 14% of France's wine exports, 10% of Belgian chocolate exports, 26% of Danish sausage and 15% of Greek cheese are destined for the UK.<sup>5</sup>

Most member states have two or three partners within the EU accounting for over 50% of their intra-EU exports. These partners tend to be large countries or those within close geographical proximity. The UK is a 'top-three' export partner for 10 EU countries: Cyprus, Denmark, Germany, Ireland, Italy, Malta, Netherlands, Poland, Spain and Sweden.<sup>7</sup>

<sup>5</sup> Brexit: The View from Europe – KPMG

<sup>6</sup> The Product and Sector Level Impact of a Hard Brexit across the EU by Martina Lawless and Edgar L W Morgenroth

<sup>7</sup> Eurostat Statistics Explained Intra-EU Trade in Goods – Recent Trends



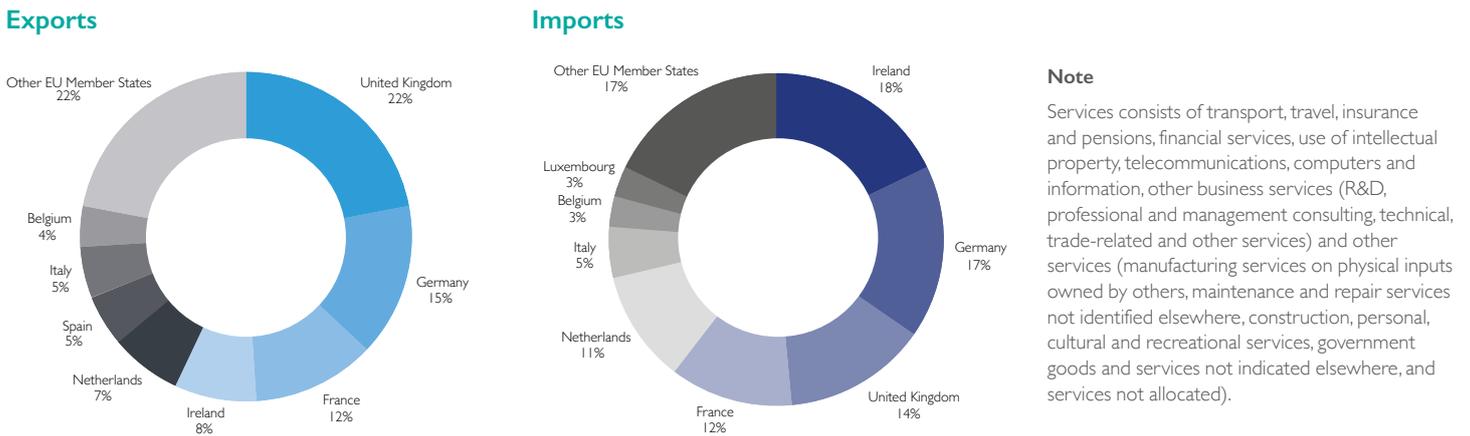
## UK contribution to EU trade in services

The UK is a major contributor to the EU's trade surplus in services. This trade surplus has increased approximately 10-fold since 2000.

International trade in services accounted for nearly 30% of all EU transactions with non-member countries in 2016. During the previous five years, growth in the EU's international trade in services was greater than that for international trade in goods, showing how important international transactions in services have become to the performance of the EU economy overall<sup>8</sup>.

The UK plays an important role in this trade in EU services. In 2016, as in previous years, the UK accounted for the highest value of exports of services to non-member countries, valued at €183 billion or 22% of the EU total, as shown in Figure 2 below.

**Figure 2: EU external trade in services by member state**



Source: Eurostat Statistics Explained International Trade in Services

## Financial services

Financial services accounted for 11% of EU services exports in 2016.<sup>9</sup> The EU is the largest market for UK financial services. About 75% of the EU foreign exchange and interest rates derivatives trading takes place in the UK.<sup>10</sup>

Research highlighted in this report shows that many EU-based SMEs are concerned about future access to large, liquid and efficient capital markets.

The points below highlight the ways in which the UK is the centre of European capital markets and investment banking:

- 46% of EU equity is raised in London.<sup>11</sup>
- 112 companies from other EU countries were listed on the London Stock Exchange markets as of May 2017.<sup>12</sup>
- The City of London dominates in Euro-denominated transactions with the UK accounting for around €1 trillion per day of notional contracts for euro interest rate derivatives alone (nearly three times the trading volume in the whole of the rest of Europe).<sup>13</sup>
- The UK accounts for £45 billion out of the total £58 billion in European capital markets and investment banking revenue.<sup>14</sup> The amount of lending outstanding from banks in the UK to recipients in other EU countries totalled US\$1.9 trillion in Q1 2016.<sup>15</sup> Half of the world's financial firms have based their European headquarters in London and more than 1 million people work in the financial sector in the UK.<sup>16</sup> Other estimates put the number of staff in the sector closer to 2 million, whereas the population of Frankfurt is around 725,000.<sup>17</sup>
- 90% of European turnover and employees of the five largest US investment banks (Goldman Sachs, JP Morgan, Citigroup, Morgan Stanley, Bank of America Merrill Lynch) are located in London with all five using their UK passports to conduct business throughout the European Economic Area.<sup>18</sup>
- Major European banks with substantial branches in London include Deutsche Bank, BNP Paribas, Société Générale, ING and UniCredit. Deutsche Bank receives 19% of net revenues from its UK branch.<sup>19</sup>

**A decline in activity and investment in London is likely to benefit hubs outside the EU – notably New York, Hong Kong and Singapore. If the London ecosystem is not protected, the European economy could suffer.<sup>20</sup>**

9 Eurostat Statistics Explained International trade in Services

10 Briefing on Brexit: the United Kingdom and EU financial services by European Parliament Directorate-General for Internal Policies and Economic Governance Support Unit

11 Briefing on Brexit: the United Kingdom and EU financial services by European Parliament Directorate-General for Internal Policies and Economic Governance Support Unit

12 TheCityUK report The UK: Europe's Financial Centre

13 Law 360 the Post-Brexit Future of Euro Clearing in London

14 European Parliament Directorate-General for Internal Policies Economic Governance

15 TheCityUK report The UK: Europe's Financial Centre

16 Briefing on Brexit: the United Kingdom and EU financial services by European Parliament Directorate-General for Internal Policies and Economic Governance Support Unit

17 Open Europe report How the UK's financial services sector can continue thriving after Brexit

18 Breugel.org (Brussels economic think-tank) report Lost passports: a guide to the Brexit fallout for the City of London

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20 Open Europe report How the UK's financial services sector can continue thriving after Brexit

## UK-EU trade overview

In its trade with other EU countries, the UK is a net importer overall, although it has a trade surplus in services as shown by the 2016 data in Table 1.

**Table 1: UK-EU trade figures 2016**

	Exports to EU £ million	Imports from EU £ million	Balance £ million
All goods and services	240,560	311,994	-71,434
Goods	144,145	239,804	-72,190
Services	96,385	72,190	24,195

Source: UK Office for National Statistics

By comparison, UK trade with the rest of the world over the same period for all goods and services for 2016 was:

- Total UK exports: £547,590 million – percentage to the EU 43.93%<sup>21</sup>
- Total UK imports: £584,616 million – percentage from the EU 53.37%<sup>22</sup>

Many of the UK's export to the rest of the world have components or inputs from the EU as the UK acts as a launch pad to the rest of the world.

<sup>21</sup> UK Office for National Statistics Total Trade exports, UK trade – revisions

<sup>22</sup> UK Office for National Statistics Total Trade imports, UK trade – revisions



## Foreign Direct Investment (FDI)

Almost half of EU FDI inward flows go to the UK. In 2016, US\$253,700 million of the total US\$522,031 million for the EU28 recorded by the Organization for Economic Cooperation and Development (OECD) went to the UK.

Financial services attract more FDI than any other sector: EU FDI stock in the UK has been growing and now accounts for around half of all FDI stock in the UK. A substantial amount of FDI into the UK is from non-EU countries, many of which use the UK as an entry point into the EU.<sup>23</sup>

Six EU member states account for around 85% of UK assets and liabilities within the EU. In 2015, the Netherlands and Luxembourg held the largest proportions, where 27.4% and 18.6% of UK assets in the EU were located in these two countries respectively, as shown in Table 2. A factor in this will be the presence of special purpose entities (SPEs) that form part of corporate structures. The other main investment partners are France, Ireland, Spain and Germany.

**Table 2: Top 10 EU member states for UK FDI**

	Member state	FDI assets (£ billion)	Proportion total EU FDI assets (%)
1	Netherlands	150.7	27.4
2	Luxembourg	102.3	18.6
3	France	81.6	14.8
4	Ireland	56.2	10.2
5	Spain	47.5	8.6
6	Germany	27.9	5.1
7	Belgium	22.1	4.0
8	Sweden	18.2	3.3
9	Italy	14.4	2.6
10	Denmark	7.1	1.3
	Other EU	22.8	4.1

Source: UK Office for National Statistics – A review of UK foreign direct investment statistics: winter 2017

Total UK FDI credits in the EU were valued at £21.7 billion in 2015, having peaked in 2011 at £38.9 billion.<sup>24</sup>

For some of the largest countries (France, Germany and Spain), FDI from Britain largely exceeds FDI to Britain, suggesting that British firms subcontract production to these countries and that keeping these flows open may well be an important objective for EU27.<sup>25</sup>

<sup>23</sup> TheCityUK report The UK: Europe's Financial Centre

<sup>24</sup> UK Office for National Statistics: A review of UK foreign direct investment statistics winter 2017

<sup>25</sup> The Center for Economic and Policy Research – new ebook: What to do with the UK? EU Perspectives on Brexit



## Analysis of key findings

The feedback from roundtable discussions provides a clear message that delivering a successful Brexit in the common interest is of central importance to businesses across Europe. There is little evidence that businesses in Europe see Brexit as an opportunity to attract investment or business away from the UK. What emerges is a picture of a highly integrated, transnational economy in which businesses (even those that serve a largely domestic customer base) work across borders to obtain the talent, parts and finance they need. The UK is not only a link in that business chain, but often a springboard to success, providing access to innovation, markets and capital far beyond its own shores.

Many European business leaders expect that the UK will continue to be a crucial gateway for trade and finance, with little prospect of its central role in the success of the EU-wide economy being wholly replaced by other European capitals in the foreseeable future. As such, businesses across Europe see minimising the disruption of Brexit as the key business priority for governments. Non-tariff barriers, including the practical impact of border controls and regulatory divergence, were highlighted as primary concerns. Continued UK participation in EU markets, projects and organisations is key to the continued competitiveness of the EU as a whole.

In the immediate term, uncertainty is the word of the moment. Evidence indicates that uncertainty about process and outcomes, coupled with potentially very short time-frames for change, is already having an impact on investment and commercial decisions that will play into the medium term.

The remainder of this section looks in more detail at these three key themes:

1. **The UK's role as Europe's global springboard**
2. **Barriers to trade: maintaining a frictionless European economy**
3. **Minimising uncertainty and disruption in the Brexit process**

## 1

## The UK's role as Europe's global springboard

European businesses value the UK as an important part of the European economy. It is admired for the liquidity and depth of its financial markets, the strength and openness of its regulatory infrastructure and the quality of its research and development (R&D) capabilities. Many see the UK as being of enduring importance to the continued success of Europe as a whole, both as a gateway for international investment and a springboard for access to global markets. Business leaders are clear: continued collaboration must not be sacrificed.

While there may be some jockeying for position among politicians for the relocation of EU agencies from the UK and some well-publicised efforts to attract businesses to relocate, there is little evidence that European business leaders see significant upside in a transfer of business activity from the UK to the Continent. Two main themes emerge: first, the important role that the UK plays as a European springboard, providing access to capital, talent and innovation; and, secondly, a degree of scepticism that that this could easily be replicated.

Business leaders highlighted a number of features that make the UK, including but not limited to the City of London, a crucial European asset for businesses. These included:

- the developed financial ecosystem in the City of London, and the accumulation of talent that comes with it
- the powerful advantages of English and English law as a global lingua franca of business, which facilitates access to capital and trade from around the world
- the well-established R&D capacity of the UK in key sectors, such as life sciences, technology and financial services

These features make the UK a gateway for international investment in and business with Europe, and a springboard for European businesses to access global markets. One respondent declared: "The UK is one of the most innovative and open economies in the world, and it is key to EU businesses that work with the UK that the ease of doing business stays, that it remains the capital and financial hub in Europe, and that it is easy to access and live or work in."

### *A world-leading financial ecosystem for Europe*

Many European businesses currently rely on both the capacity of the UK's financial services centre to provide the capital and services that allow them to grow and invest. One Slovenian manufacturer, for example, highlighted the flow of capital from the UK into Slovenia, which funded their plant development.

Many EU-based companies' shares are traded in London. The UK accounts for around half of global activity in interest rate derivatives and over a third of global activity in foreign exchange derivatives contracts. Much of this business is conducted in euro and the City's dominance in euro-denominated transactions is even more stark – accounting for around €1 trillion per day of notional contracts for euro interest rate derivatives alone (nearly three times the trading volume in the whole of the rest of Europe).

Although a loss of passporting could lead to some relocation of this capacity within Europe, there are concerns that there will be a dissipation that reduces overall access to capital and liquidity. None of the participants in roundtables saw the City of London being replaced by another European city as a global financial services leader, and several expressed concern that the only winners would be New York and Tokyo. Financial services are seen to be likely to stay in London because of its mature and secure infrastructure and regulatory environment, and because it works in a language that a majority of global market participants use.

The concentration of financial services activity in the UK is also reflected in its innovation, providing products and services, including those in the insurance market, that are not available elsewhere.

### *European innovation*

Innovation was a central theme of many European business leaders, who cited the UK's R&D capacity in sectors ranging from life sciences to software, and its contribution to driving regulatory reform to support innovation.

As one business leader noted, "Research and development is global and relies on EU citizens." The UK plays a prominent role, particularly in Cambridge and Oxford. Irish participants noted that between 2004 and 2015, 16,555 research papers were co-authored by academics from the UK and Ireland and collaborations with the UK are critical to many ongoing research projects. The UK is Ireland's most significant research partner in Horizon 2020 (an EU research funding programme) with 13.4% of all projects won including at least one UK-based partner. These collaborations have provided over €125 million in funding to Irish participants and over €230 million to UK participants. As EU funding generally requires at least 50% EU participation in the project, UK involvement may be at risk in future, leaving substantial capacity and expertise underutilised. While research funding in future may be diverted to other EU countries, there is a concern that existing knowledge and the benefits of collaboration could be lost: "It will be seen as a great loss to Europe's research

standing if the UK is kept out of funding programmes" said one participant.

This is not an academic issue. One German business, which has based its entire R&D in the UK, described disruption to its ability to carry on this work in collaboration as of more fundamental concern to its business model than trade barriers.

Some participants in the life sciences sector questioned whether clinical trial activity (much of which is undertaken in the UK) would move to EU27 countries or instead to well-established locations outside Europe, such as Singapore, Japan and the US. These countries already have modern, well-resourced facilities and pools of talent, and pharmaceutical companies typically focus their activity in one or two facilities worldwide.

Participants from the tech sector were particularly concerned about the risk of dissipation of the strong tech community in the UK, which has established itself as an international hub for technology innovation and a supportive environment for startups.

Many businesses also underlined the importance of continuing the digital and technological transformation in the EU. "Regulation is slow, whereas technology development is much faster." European competitiveness in the next five years depends on the capacity of the EU's markets and regulators to adapt quickly. The UK is seen as leading in many areas of regulation and the potential loss of this expertise and enthusiasm is viewed as a significant risk by European technology businesses serving many sectors – as is the risk that future regulation on these issues and the digital agenda could be delayed by the Brexit negotiations. Similarly, in the life sciences sector, participants highlighted the contribution made to the European regulatory environment by the Medicines and Healthcare Products Regulatory Agency (MHRA) and other UK bodies.

The message from European business is clear: collaboration and a continued drive to support innovation are key to European competitiveness and must not be sacrificed.

## 2

## Barriers to trade: maintaining a frictionless European economy

The highly interdependent and interconnected nature of European markets is a success story of the modern economy, bringing prosperity and jobs to millions of people. This success should not be taken for granted; it depends on the frictionless trade made possible by European economic integration. Partitioning off the UK from the European market – by introducing tariff, border and regulatory barriers – threatens the competitiveness of businesses across Europe.

The vast majority of European businesses which took part in our study identified the introduction of additional barriers to trade between the UK and the rest of the EU as the most concerning potential impact of Brexit on European business productivity and competitiveness in the long term.

The European economy is one of the most highly integrated and interdependent economic regions in the world. Businesses are able to distribute their operations, source components and purchase support services according to their needs, with the savings in costs and efficiency passed on to consumers. The sustained absence of inefficiencies along national borders has cultivated a market where sophisticated, international supply chain networks can flourish. Our data is replete with examples of truly pan-European businesses operating seamlessly while spanning multiple jurisdictions. As a result, it is rarely conceivable to consider European businesses in national terms, even where such businesses cater to largely domestic customers.

The withdrawal of the UK from the EU is not an existential threat to continued economic development in the rest of Europe. But it could deal

a considerable blow to the progress made over past decades by introducing tariff and non-tariff barriers to trade. While tariffs impose an additional cost to cross-border trade, these can often be factored into the cost of sales, albeit with knock-on effects on competitiveness and possible future supply chain restructuring. It is frequently non-tariff barriers, in the form of anything from delays at border-crossings to the non-recognition of product standards or licences to operate in export destinations, which can have a more fundamental impact on the way in which businesses operate. Participants made clear it is the potential introduction of non-tariff barriers post Brexit that could have the most negative effect on their supply chains and operations.

Comments focused on three particular areas where the introduction of further barriers to trade would be detrimental:

1. Tariffs and customs
2. Regulatory divergence
3. People

### *Tariffs and customs*

The potential introduction of tariffs and customs procedures between the UK and its nearest neighbours will not only increase the cost of cross-border trade (estimated at €100 per journey by an Irish logistics firm) but will also have a substantial practical impact in terms of paperwork, checks and therefore delays.

While some businesses stated that they would expect simply to pass on any additional costs to consumers if tariffs were introduced, even a light-

handed administrative burden is likely to cause major tail backs at border crossings. This could devastate the 'just-in-time' model and procedures of modern supply chains, which rely on little or no delays to ensure their products can be transported with minimal storage and wastage costs. This is particularly an issue for certain sectors where, for example, goods are perishable or timely delivery is of the essence (e.g. the transportation of 'emergency parts' across borders).

One business in the life sciences sector expressed concerns about the possible introduction of batch testing of pharmaceutical products at the border when such products must be kept in low temperatures during transit, at considerable cost. Products from outside of the EU currently require three days of testing on each batch. The introduction of a similar regime at the EU-UK border could cause substantial price increases and may result in trade in small volume drugs becoming unfeasible economically. Such processes could also lead to a major restructuring of manufacturing operations in the sector or even the possible withdrawal of such drugs from availability.

Many businesses also suggested that the introduction of new customs procedures would require significant investment in facilities and large numbers of staff on the part of governments, particularly in the UK and Ireland. It will also take time to introduce and establish these structures, including training staff in the new processes.

Another area of concern was in relation to the EU's rules of origin. At present, products that have a significant portion of their manufacturing process outside the EU are subject to tariffs on import. Post-Brexit, the EU's rules of origin could apply to products manufactured in Europe but that are part-manufactured in the UK, to which they do not currently apply. This would result in such products no longer being considered EU products and therefore subject to additional tariffs. The aerospace, engineering, life sciences and motor vehicle industries, which each have a particular reliance on/exposure to UK manufacturing, could be particularly affected.

Given its historic ties, geographical location and economic integration with the UK, the Republic of Ireland will be

particularly affected by any imposition of tariffs and/or customs procedures between the EU and the UK. The integration of supply chains across the border between Northern Ireland and the Republic of Ireland is substantial. For instance, all wheat grown in the Republic of Ireland is processed in Northern Ireland, 30% of the milk produced in the North is processed in the South and 40% of the chicken farmed in the South is processed in the North. The ability of businesses in the Republic of Ireland to trade with the rest of the EU could also be affected, as many businesses currently depend on the UK as a 'land bridge' to the Continent. Transporting cargo to the Continent other than via the UK is generally considered unjustifiable economically for such businesses.

### *Regulatory divergence*

Another important aspect of European integration is the common rules and standards according to which all European businesses operate and which allow them to operate across the whole of the EU, unencumbered by the need to account for different requirements every time a border is crossed. As such, European businesses fear that Brexit could result in a divergence in these rules and standards between the UK and EU and/or that the EU and/or UK may cease to recognise compliance with the regulatory requirements of the other as sufficient to trade freely within its own territory. This would create a needless duplication of regulatory standards, compliance with which would lead to added costs, inefficiency and a loss of competitiveness for European businesses.

The significance of the risk of regulatory divergence for business manifests itself in many forms across a variety of sectors. It reflects the pan-European operations and supply chains of many businesses in the broadest sense, touching upon: how they distribute their internal functions, where they can purchase their component parts, how they obtain licences to provide their services, whether their people are qualified to work in a given jurisdiction, the availability of finance for their projects and, ultimately, the markets in which their products can lawfully be sold to customers.

The harmonisation of standards in goods and services across Europe has allowed many businesses to scale up their operations, draw on bigger pools of talent and resources, and access new markets. For example:

- The 'CE' marking is recognised across Europe, allowing for markets in goods (including components that form part of larger products) to expand, and resultant competition and efficiency to increase.
- European businesses in regulated sectors, such as financial services, insurance, aviation and life sciences, are able to operate anywhere in the EU in reliance on mutual recognition of their licence to operate in one jurisdiction.

Brexit could result in the divergence of UK regulation from the rest of Europe, which could in turn impact the integrated nature of European supply chains. Some European businesses see this as an opportunity to capitalise on activities moving to the Continent. However, many recognise the UK's importance to Europe as a whole, both as a large consumer market in itself, but also as a hub for highly-sophisticated manufacturing (such as aerospace and life sciences) and service industries (financial services and insurance), on which they rely.

The continued 'passporting' of UK financial services in Europe (and vice versa) is seen as critical by European business. While the loss of passporting will undoubtedly have a significant impact on the UK financial services industry, few European-based firms see London being displaced as the dominant capital market in Europe, due to its depth of liquidity and secure market infrastructure. As such, European banks believe they would need to establish licensed and regulated subsidiaries in the UK if they wished to continue to access the London market.

Many of the ultimate consumers of financial services – European businesses – expressed a common concern about the cost and continued availability of capital if barriers are raised that reduce the UK's level of engagement across the EU economy. For example, the Greek shipping sector consumes significant amounts of

financial and other specialised services provided by the City of London and is very concerned about the availability and costs of such services. The insurance sector in several major EU27 economies also questioned the capacity of the insurance sector in Europe if London was excluded.

In the modern economy, data – and particularly how it is stored, processed and managed – is a major factor in the future prospects of European economic growth. The integrated nature of Europe's economy means that businesses regularly capture, verify, process and store data across geographically dispersed networks, based on business efficiency rather than regulatory concerns.

This has developed in part as a result of the EU's highly developed regulatory environment, which applies uniformly in all member states of the EU. However, central to that regulatory regime is the requirement that data is stored within an EU/EEA member state. At present, certain intra-group agreements approved by EU agencies, which for example ensure the adequate protection of data security, can allow certain data to be held outside the EU.

Once the UK withdraws from the EU, data held on servers in the UK may technically fall outside the regime, potentially putting a large number of European businesses in breach of their regulatory obligations. Participants in nearly every roundtable event expressed their concern that any data in the UK may therefore need to be moved. This issue is especially a concern for large businesses that chose the UK as the jurisdiction in which to locate their headquarters, where many such businesses store their data.

Many other businesses have data processors and data and information security centres in the UK in respect of operations conducted elsewhere (and vice versa). For example, one business described how its invoicing and order management systems took place in Ireland while the actual physical payment and receipt took place in the UK through a shared service centre, which also served as a point of contact for customers of the business internationally. Another business in the life sciences sector explained that its back office functions were located in the UK, while its management and R&D functions took place

in Ireland. This division of operations, which is characteristic of modern pan-European business structures, relies heavily on the ability to share information (including patient information) across borders in a way that may no longer be possible after Brexit as a result of data protection issues. Certain sectors, such as life sciences, have additional data security requirements, for example in relation to the location of clinical trials and the storage of clinic trial data.

Businesses agreed that the UK falling outside the EU data regime would have a potentially large cost impact for their operations, particularly if it required them to relocate data service entities.

Where future regulatory divergence results in the need for the establishment of parallel regulatory frameworks in the UK, businesses were clear that any additional costs of complying with multiple regimes could end up being passed on to customers. In addition, they pointed out that significant time and investment could be needed on the part of both UK and EU governments to ensure any new or altered regulatory frameworks are robust, particularly in sectors where the UK previously played a major role, for example moving the European Medicines Agency out of the UK.

## *People*

Businesses that took part in the research consistently identified the impact of Brexit on their people as a top priority. This impact is two-fold: first, access to talent in the UK and EU in the absolute sense and, secondly, the ease with which businesses can move their people around and operate projects cross-border, and the costs associated with doing so.

Top of the list was skills availability. This is primarily a concern for UK industry, which could potentially lose access to the skills necessary to sustain current levels of productivity with little prospect of an adequate replacement of skills being provided by UK workers. In addition, certain European businesses identified a potential benefit of Brexit whereby they may be able to attract European talent out of the UK. However, the impact varies

depending on the personnel profile of the businesses concerned. Some stressed that they will still need to be able to assemble project teams made up of staff with the best and most appropriate skills for the job, irrespective of nationality, and position them in the right place geographically for the business.

The second way in which Brexit was identified as presenting a potential risk to productivity and competitiveness of European businesses was by hampering the ability to move staff quickly and cheaply according to business need. This is a particular concern where businesses use highly skilled, mobile workforces to conduct multiple projects across borders in quick succession, but also affects businesses whose operations span multiple jurisdictions and thus wish to move staff as a function of career development of the individual.

One company stated that 40% of project staff consists of UK nationals with 30% from the EU27; their biggest concern was their continued ability to move people from one site to another across multiple jurisdictions to work on various interlaced projects. The continued mutual recognition of qualifications was also cause for concern in relation to such projects as the need for re-qualification could effectively disqualify otherwise highly capable individuals from certain jurisdictions.

## 3

## Minimising uncertainty and disruption in the Brexit process

**Uncertainty about the future is already impacting European businesses and their decision-making now. Our evidence suggests widespread delay in investment decisions, as management remains cautious about making commitments that might later turn out to have been premature, unnecessary or inappropriate. Managing the risk that uncertainty presents is also of itself a drag on productivity, with management time and resources diverted. Business needs predictability to plan, even if that is predictability about the interim period between the present and the future destination. Without predictability sooner rather than later, businesses may have no choice but to implement contingencies for the worst-case scenario. This gives rise to cost and inefficiency that could be avoided, and may not be necessary.**

There is widespread recognition that Brexit has created significant economic and regulatory uncertainty; the process is unprecedented and the outcome is highly unpredictable given the range of political and legal considerations at play.

Sophisticated multinational businesses are used to navigating significant uncertainties and managing the impact of potential political and geo-political risks. “We have contingency plans and Brexit is just one more” say some business leaders. Uncertainty can also present opportunities for some. However, the vast majority of European business leaders expressed concerns about the impact of the current uncertainty on business planning and growth.

The development of the negotiations to date has left businesses with little information with which to plan for the future. All that can be known with any degree of certainty presently is that the UK is slated to leave the EU in March 2019. In light of the significance of the implications of the UK’s withdrawal without a deal being in place, businesses have been forced to plan for the worst-case scenario. Although many businesses are reluctant to follow through on those worst-case plans, the evidence is growing that many are now having to do so or planning to do so in the coming months unless real, visible progress is made in the negotiations on a pathway to certainty.

The impact of uncertainty on businesses is two-fold: first, business decisions are delayed, where possible, until the position is clearer; second, when decisions can no longer be delayed, uncertainty means businesses are forced to take decisions based on insufficient information.

European businesses have said that uncertainty has a negative impact on their capacity to plan for the future. Our respondents suggest that uncertainty has giving rise to a ‘chilling effect’ in long-term decision making, as businesses adopt a ‘wait-and-see’ approach, where possible, hoping to put off major decisions about investment, personnel and operations until the outcome of the negotiations becomes clearer. For some, the logical alternative has been to direct investment out of Europe.

Although European businesses say they are generally still committed to their existing relationships and investment decisions in the UK, there is some evidence that such businesses are avoiding committing to additional investment in the UK.

In the life sciences sector, where a valid marketing authorisation recognised in the jurisdiction is a prerequisite for selling pharmaceutical products in that jurisdiction, uncertainty over the mutual recognition of UK marketing authorisations in the EU (and vice versa) can be a business-critical issue, as companies need to ensure sufficient returns on the significant investment needed to develop their products.

Businesses highlighted that uncertainty of citizenship rights is already affecting personnel decisions, with recruitment agencies having registered a significant drop in cross-border moves as both candidates and businesses resist commitments they might later regret. This is consistent with reports of European businesses scaling back or cancelling hiring in the UK on grounds of uncertainty.

Another area of concern is the mutual recognition of product standards post Brexit, particularly in sectors with long investment and pay-back cycles, such as energy and aerospace. Businesses are increasingly wary of investing in expensive machinery or large quantities of component parts that might cease to comply with prevailing regulations by virtue of the UK's change in status from EU member state to non-member state.

Participants in R&D noted that uncertainty around EU research funding for collaboration with UK projects has already affected the number of applications and therefore the number of collaborations going ahead, with resulting impacts on people, projects and investments.

Nervousness on the part of European businesses, and the resultant decrease in investment, harms productivity and competitiveness across the Continent compared to non-European markets not suffering from the same degree of exposure to the uncertainty surrounding Brexit. There is also an ongoing cost of managing the risks that come with uncertainty, with European businesses already having diverted considerable management time and resources to deal with exchange rate risk, contingency planning and consultancy costs.

Uncertainty can also force businesses to make decisions without sufficient information. There is only so long decisions can be postponed; businesses cannot stall their operations indefinitely. They need time to plan and adapt to change and cannot do so effectively without sufficient information.

For many businesses, as the date of withdrawal draws closer, even the remote prospect of the need for considerable structural change means that decisions must be taken soon in order that they may be successfully implemented in time. The latest date on which such decisions must be taken varies depending on the business concerned, with financial services firms suggesting it could be as early as during the second half of 2017, while others hope to postpone until early-to-mid 2018. If more information is not available by then, businesses may be forced to implement contingency plans based on the limited available knowledge at the time, which could ultimately prove to have been unnecessary or inappropriate in hindsight. The roundtables revealed that law firms across Europe have already been instructed to advise on, and, in some cases, execute, business restructuring to cope with a cliff-edge Brexit.

What businesses need is predictability. Many participants stressed that they would work to adapt to whatever settlement comes out of the Brexit negotiations. But they cannot do so successfully without sufficient information on which to base their decisions about what changes need to be made and sufficient time in which to implement those changes. This is why a period of predictable transition is so important.

A consistent and resounding message from our roundtable events is that business leaders are anxious for clear and unambiguous signals from the UK and EU as soon as possible that will allow them to plan effectively. Some suggested that this was no different from the time that will inevitably be needed for governments themselves to adapt to the new settlement, for example by establishing new institutions, developing operational protocols and systems, and hiring and training staff.



Participants recognised that reaching substantive agreement on the issues in play in the negotiations will take time; they do not expect full sight of the future relationship for many years. This has led businesses to focus on the need for the negotiating parties to give some robust indications that they will provide businesses with sufficient continuity while the details of a future relationship can be thrashed out.

The continued paucity of information about how the transition from the current to future relationship between the UK and the EU will be conducted means that no possible outcome, even the cliff-edge, can currently be removed from the boardroom table. Some participants called on the parties to look to achieve early agreement on some areas to deliver 'easy wins' that increase business confidence and certainty about the future. The present phased approach of negotiation, where aspects of the

negotiations are excluded until sufficient progress is made on priority items, has exacerbated uncertainty (including in financial markets) and has made it more difficult for businesses to plan effectively, resulting in a loss of productivity and competitiveness.

A final theme that arose in our discussions across Europe was the desire that wider policy progress, particularly in relation to issues such as the development of the digital economy, not be held up by an undue focus on Brexit. Europe's global competitiveness depends on regulatory development keeping pace with technological advances. In this regard, participants particularly lamented the loss of the UK Government as a business-friendly force for driving reform within the EU.

## Conclusions

The message from European businesses is that Brussels and European governments are not listening to their concerns. The voices in this report are therefore a unique contribution to the discussion of what kind of post-Brexit Europe is needed and how we should get there. It is vital that those engaged in the negotiation process must now refocus their efforts to recognise and act on the legitimate concerns of European businesses.

European businesses recognise that they have to work with the process that Brexit has begun and that some change will be needed to give effect to it; but they need, as a matter of urgency, a predictable framework within which to continue to operate, plan, grow and compete during that period of change, and beyond.

There is a fear among business leaders that the importance of the economy is being overlooked by those leading the negotiations, demonstrated by the perceived lack of engagement on the part of the Commission and European governments with European businesses to date. They are concerned that the mandate afforded to the negotiators by the Council, effectively prohibiting meaningful discussions about trade until “sufficient progress” is made on other political priorities, has increased uncertainty. They encourage the parties to begin talks on economic matters as soon as possible, whether by achieving quick agreement on preliminary issues or by recognising the need to move in parallel.

Any future Council mandate must recognise the central importance of securing economic growth, jobs and living standards to continued European prosperity post-Brexit and must prioritise the agreement of the future framework for economic relations between the EU and the UK. Agreement on a plan for the transitional period should not be delayed any longer, so that businesses have as much time and information as possible to plan and implement contingencies effectively and can avoid making costly adjustments that prove unnecessary in hindsight.

Above all, European businesses call for pragmatism to prevail. The prosperity of all European nations depends on their businesses and consumers being able to form successful economic relationships with their neighbours. If the interests of these engines of commerce and creators of wealth are disregarded, the political process started by Brexit threatens to be the cliff face on which such relationships will founder.

In light of the short time-frames involved, European businesses have been frustrated by the lack of progress so far and are very concerned that political positioning could result in the UK withdrawing from the EU without a deal.

Neither side acting alone, nor a deal where both sides act solely in mutual self-interest, will secure an outcome that will promote the continued productivity and competitiveness of the European economy. Only a collaborative approach to Brexit can secure a deal that gives certainty and avoids needless costs and bureaucracy. A bad deal is a bad deal for everyone.

## Further work

This report will be discussed in a series of events across key capitals in EU27 by business leaders and those involved in the process of Article 50 withdrawal. Recommendations will be sought from those meetings which will be taken back to the round table process for verification and amplification. COBCOE expects that it will also refine the present work further over the next nine months in support of both sides of the negotiations in coming to a good deal for the European economy.

# Annexes

## I. Project outline, research and methodology

### *Background*

COBCOE, the Council of British Chambers of Commerce in Europe, is the not-for-profit membership organisation for British chambers of commerce and business associations throughout Europe. It is non-governmental, independent and business focused.

Founded in 1973, COBCOE has member chambers in almost every European country, together representing over 12,000 companies (a large percentage of which are of non-British origin). COBCOE's main focus is facilitating international trade and business by providing the contacts, expertise and knowledge that enable businesses to succeed, and by developing initiatives, products and services to help overcome barriers to trade.

Whilst remaining apolitical, COBCOE and its members work in close cooperation with governments, policymakers and business communities across the region.

COBCOE is supported by commercial partners and also works with around 40 affiliate organisations from the UK and around the world.

COBCOE began its Brexit Ambition project in 2016 with the aim of ensuring that the future development of UK-EU trade relations takes account of the needs and priorities of European businesses of all sizes in order to ensure a safe and stable economic outcome for the global economy.

The three primary purposes of COBCOE's Brexit Ambition project are:

1. To identify the areas of common interest between the EU27 and the UK, in the hope that these can be protected and promoted as part of the UK's withdrawal agreement and negotiations towards a future relationship

2. To identify the steps national governments and the EU need to take or negotiate to implement the withdrawal agreement with minimum disruption to business
3. To identify what national governments and the EU need to consider to ensure that businesses continue to be able to grow and invest during and beyond the negotiation period

As the only Europe-wide British business network, COBCOE is uniquely positioned to help inform the negotiation process and establish what common interests exist between the EU27 and the UK. Every business in Europe exists in a complex environment that affects every aspect of its operations. Brexit may impact many parts of these ecosystems, some of which are critical to the life of individual companies.

The purpose of this unique report is to give voice to European business as national governments and the EU teams consider the future relationship between the UK and the EU, offering constructive suggestions and recommendations. European businesses we spoke to voiced their concerns with particular emphasis on the complex web of supply chains across the EU.

Volunteers from across the EU 27 have contributed to this report by attending meetings, coordinating events, collating information and debating recommendations and conclusions with the aim of presenting pragmatic conclusions to governments, parliamentarians and officials across Europe. Without this huge team of people this report would not have been possible and we acknowledge their efforts and contributions.

## Acknowledgements

### The Brexit Ambition Taskforce

- Paul Slevin, Managing Director, Exedra Associates (lead)
- David Thomas MBE, Executive Chairman, COBCOE
- Charles Brasted, Partner, Hogan Lovells
- David Bendor, Global Business Strategy, Commercial, Lloyd's
- Sophie Boyer-Chammard, Head of Business Development for Continental Europe, Hogan Lovells
- Daniel Shillito, President, The British Chamber of Commerce for Italy
- Jurga Žilinskienė, Founder and CEO, Today Translations
- Lyne Biewinga, Director Premier Membership, Netherlands British Chamber of Commerce
- Tom Parker, Vice President, British Chamber of Commerce in Belgium
- Andrew Eaton, Associate, Hogan Lovells

### The COBCOE Executive team

- Anne-Marie Martin, Chief Executive
- Deborah Lamb, Head of Communications
- Adam Szpala, Operations Executive
- Natalie Thomas, Global Projects Executive

### Participants

The business executives who gave considerable time and consideration to the topic at roundtables across the network

### Strategic Partners

- Principal sponsor - Hogan Lovells
- Kompass for disseminating the survey throughout their database network
- Today Translations for translating the initial survey and elements of this report
- Yellow Jersey PR for PR support
- Hogan Lovells in capitals across Europe for hosting and moderating events and providing expertise and know-how throughout the process



## COBCOE network of British chambers and partners across Europe

Special thanks to the chambers, associations and supporting organisations for their hard work in driving and organising roundtable discussions, producing invaluable data output and providing relevant additional data in their respective markets.

Austro-British Chamber of Commerce	British Chamber of Commerce in Belgium	British Bulgarian Business Association
British Business Centre Croatia	British Chamber of Commerce in Czech Republic	Deutsches Aktieninstitut (DAI, Germany)
British and Commonwealth Chamber of Commerce in Finland	Franco-British Chamber of Commerce and Industry	British Hellenic Chamber of Commerce
British Irish Chamber of Commerce	British Chamber of Commerce for Italy	British Chamber of Commerce in Lithuania
Business Centre Club Poland	British Romanian Chamber of Commerce	British-Slovenian Chamber of Commerce
British Chamber of Commerce in Slovak Republic	British Chamber of Commerce in Spain	British-Swedish Chamber of Commerce

## Local network partners

- AIG Sweden
- Barclays Group Operations Lithuania
- Deloitte Ireland
- Dillon Eustace
- Fleishman Hillard Belgium
- Illyrian Land Funds
- KPMG Croatia
- KPMG Ireland
- PWC Slovenia
- RSM France

## The Timeline



## The Research

### Methodology

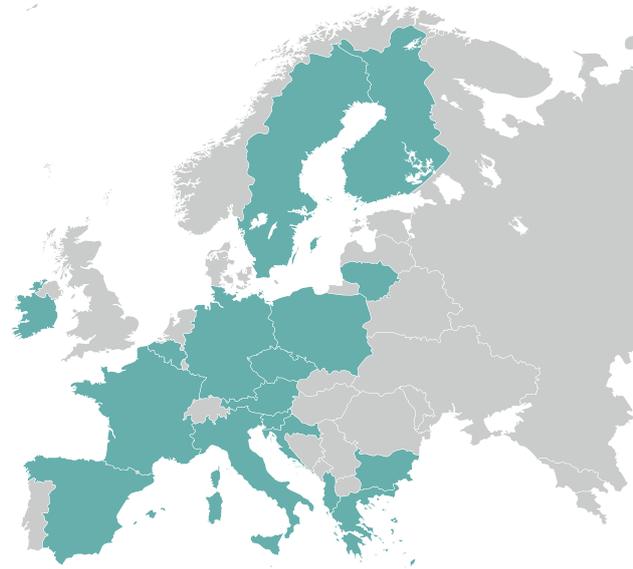
COBCOE's Brexit Ambition project began with the creation of a taskforce to bring together local experts from across the EU, supported by partners to drive the initiative forward.

This was followed by a survey that identified and shaped the emerging themes of focus for the qualitative research. This survey was produced in eight languages by COBCOE's partner Today Translations and disseminated via the COBCOE network of British chambers of commerce across Europe, as well as to a database of European businesses via COBCOE's partner; Kompass International.

The aim of this initial survey was to gauge sentiment and immediate impact following the vote of the UK to leave the EU. Furthermore, it served as a means of establishing existing inter-relationships between businesses outside the UK and their reliance on UK suppliers of goods and services.

The output of this survey set the themes for the qualitative research work which was designed to explore the possible impact of Brexit on supply chains from source to customer and other aspects of business. The qualitative research was conducted by a series of roundtable discussions held by COBCOE member chambers across Europe in the first half of 2017.

Participation in the roundtables was drawn from representative businesses from key sectors in each market, determined to be key sectors in the individual economies of the EU27 that would potentially be most affected by the UK's exit from the EU. The information generated at each roundtable was then compiled locally, analysed and fed into this report.



## The discussion points

Respondents were asked to consider their current networks of business customer and supplier relationships.

1. What are the key drivers in your business that are likely to be most impacted by Brexit?
2. What web of relationships do you (and your customers) currently rely on? Why do you have the relationships you do? Why is the UK important in that web of relationships?
3. What, if any, impact has Brexit already had on your business?
4. What, if any, impact do you expect Brexit to have on your business in the next year or so?
5. Assuming that no agreement is reached between the UK and EU what impact do you expect Brexit to have on your business once the UK has completed its withdrawal from the European Union
  - II. How about on your sector?
  - III. And the national economy?
6. What steps do you need policymakers to take now (i.e. before the conclusion, or possibly start, of withdrawal negotiations) to ensure that your business can continue to grow and invest during and after the negotiation period?
7. Where would you ideally like your business to be in five years' time, and how should trade opportunities look at that point to ensure your continued success?

## The Sectors

Aerospace	Higher education
Agriculture	Heavy/light engineering
Automotive	Food & Beverage/retail/hospitality
Business services, incl. relocation, HR, translation	ICT
Communications, media/PR	Insurance
Creative industries	Manufacturing/components
Defence	Offshore services/offshore outsourcing
Energy	Pharmaceuticals/life sciences
Financial services incl. banking/accounting/investment funds	Professional services incl. legal, advisory, consultancy
Freight/logistics	Textiles

The local reports from the roundtable discussions have been analysed in a structured format to draw out the key issues per country, per sector, per business through a data mapping exercise to enable analysis of themes and concerns. This has been used as the foundation for the Analysis section of this report. Full findings and key sector examples can be found in the next section.

# Full research findings from roundtable discussions

## I. The UK's role as Europe's global springboard

### *General points*

The UK is one of the most innovative and open economies in the world. It was considered key for EU businesses that work with the UK and that the ease of doing business there should be maintained. It was considered vital that it remains Europe's financial hub and that it remains easy to access and live or work in.

Some foresaw a decline in US businesses using the UK to reach the EU.

International capital flows into the UK and flows from the UK to EU countries were seen as a major factor in the development of plant and facilities in Eastern Europe.

### *Sector-specific issues*



#### Agri-food

For Ireland, the UK serves an important connection for both imports and exports with other markets. In the beverage sector, all tea and coffee imported into Ireland comes via the UK either directly or indirectly, as Dublin does not have the facilities to receive these directly.



#### Banking and financial services

The ability to access the UK market was considered crucial, whether for insurance or capital. Participants noted that the liquidity found in the UK could not be found elsewhere in the EU and they did not see London being replaced.

One of the reasons London was considered an attractive European capital market was because it works in a language which the majority of market participants can use fluently and this makes it more inclusive. Participants felt that this aspect is often underestimated in discussions about the competitiveness and efficiency of other capital markets.

Many companies in Europe and around the world benefit from innovation in the London insurance market. There were fears that this will decrease alongside competition if companies moved resources outside the UK.

Some felt that financial services were likely to stay in London due to the infrastructure. Participants recognised that it was unlikely for any other EU city to replace London as the world's top financial centre. Such a change was perceived as difficult to make since London is the principal centre for euro-denominated derivatives.

One participant commented that even if only 2,000 companies decided to move to Dublin or Luxembourg, these cities were not ready to accommodate them.

### Creative industries

In film production, it was noted that there may be better funding opportunities in Continental Europe. Companies based in certain EU countries were therefore benefiting from British filmmakers finding it advantageous to work with them.

### Energy, space and infrastructure

Thanks to cross-border links, the UK is strongly integrated in the European single market for energy and gas. Non-discriminatory grid access is needed, as well as cooperation between the electricity exchanges as they are regulated through binding European legislation which does not apply beyond the EU's external frontiers.

Being a net importer of energy from Europe, any negative impact on economic growth in the UK as a result of Brexit will impact business development for energy companies within Europe (and multinationals).

The UK has been a significant contributor to projects such as the Galileo project (Europe's global navigation satellite system). There is now considerable uncertainty for companies which rely on this funding.

### Higher Education Institutions (HEIs)/R&D

Between 2004 and 2015, over 16,500 research papers were co-authored between academics from the UK and Ireland. The UK is Ireland's most significant research partner in Horizon 2020 with 13.4% of all projects won including at least one UK-based partner. These collaborations have provided over €125 million in funding to Irish participants and over €230 million to UK participants.

Major funding for the development of a cross-border education institution in Ireland is now in doubt. The aim was to develop clusters of expertise in education. Similar

## UK AND IRELAND SEEN AS ONE MARKET

A participant owns a fleet of vehicles that operate to and from the UK. Most customers see the UK and Ireland as one market and have established their distribution and supply chains to reflect this. This means they might have one main central distribution centre that caters for both countries and sends goods to regional centres. A main centre in Manchester, for example, receives goods then sends these by road to other centres such as Dublin.

projects have been undertaken in health to great success, but now depend on cross-border cooperation.

Should the UK exit the EU without a deal, it was felt that there would be a negative impact on research and, more broadly, on education. The UK higher education sector is among the best in the world and consistently performs well in global rankings. It would be seen as a great loss to Europe's research standing if the UK is kept out of the funding programme.

Irish HEIs and pharma companies wanted to see the UK remain a member of the European Research Area (ERA) as British academics and firms were seen as research partners of choice. It was accepted that this could come at a premium.

### Logistics

The UK serves as the main route to the European markets for most Irish businesses, with over 80% of trade with mainland Europe transiting via the UK as road freight.

Concerns about delays due to customs were echoed across the board, especially for goods coming from the Far East and other parts of the world. Due to ease of movement in and out of Dublin Port and improvements in collection times, and the reliability of logistics and ferry companies, this had allowed companies that previously held stock in Ireland to operate centrally in the UK and still maintain the ability to provide next-day delivery to Ireland.

Currently goods are trucked from Dublin Airport to Manchester or Heathrow for onward delivery to more distant markets.

## Manufacturing

The UK is seen as a simple market in terms of regulation. Building relationships with clients and accessing other markets was deemed easier through the UK.

A European glassware manufacturer found the UK to be an attractive market, even with tariffs or duties, due not only to the premium domestic market but also because it opened doors to global markets. (The UK's large spirits industry was also an attraction.) The only concern was changing standards after Brexit.

Many non-UK companies have significant production capacities in the UK. This raises issues not only linked to the rights of employees to work and reside there, but also to the import of intermediate products and the export of finished goods into the EU. Multiple border crossings often occur in case of a division of production across locations. British locations are often not limited to merely serving local demand, but also cover other markets served by the wider corporate group.

In the defence sector, there were concerns that the possibility of a reduction in UK defence spending or disengagement in EU military collaboration could impact activity in the sector:

Participants felt the future of R&D in Europe could be at risk as so much of it was based in the UK. Access to talent from the UK was also paramount.

If the UK cuts immigration post Brexit, participants believed there could be a skills gap in the UK, although this might possibly help fill gaps in the EU.

## Pharma and Life Sciences

A high number of clinical trials take place in the UK as it is recognised as a leading location globally. Any loss of market access or divergence will mean companies need to reassess product development.

Participants in this sector thought it was wrong to assume that Brexit factors that are detrimental to the UK would automatically be beneficial to the EU27. R&D facilities would be more likely to move to other regions, such as Japan,

Singapore and the US, all of which have modern and well developed research facilities.

It was pointed out that pharma companies usually own only one or two plants for specific purposes due to the highly specialised and technical nature of the sector:

An EU company with many R&D plants in the UK pointed out that while products are manufactured across the EU27, all R&D took place in the UK and it also supplied the UK. The cost of possible WTO rules was an issue.

Participants believed that the sector had benefited in the UK from the large amount of R&D funds that had motivated businesses to invest there. The UK was deemed a good location for R&D and there were questions about the continuation of funding for such links.

EU-based pharma companies were concerned about losing the expertise available in the UK due to funding uncertainties. Horizon 2020 and future programmes could be at risk as EU collaborations need to have at least 50% of activity in the EU. One pharma company had 33 nationalities based in the UK. The field is global and reliant on EU citizens.

### A GLOBAL SPECIALIST

A Belgian-based pharma company acquired a company in Oxford, UK that manufactures magnets for healthcare products. It is not easy to switch this capacity to other research facilities as this is the only facility in the world that manufactures these products.

## Shipping

The leading Greek shipping sector is one of the top recipients of financial and other specialised services provided by the City of London.

## Tech/software development

An Eastern European company that had chosen to set up in the UK in order to become a global firm was a typical case. It was now selling to clients in the US and elsewhere, having been attracted by the large startup ecosystem in the UK which had enabled the firm to grow by 10 times the previous year.

## 2. Barriers to trade: maintaining a frictionless European economy

### *General points*

Businesses wanted the costs of the UK exit from the EU to be kept as low as possible. Unnecessary costs would reduce competitiveness for both sides.

EU-based companies, whose main market is the UK, were afraid of higher costs due to import barriers being imposed by the UK once it left the EU, which would result in smaller orders for them.

Non-tariff barriers were seen as potentially being a big cost for industries in the future. If goods are stopped at customs borders for inspection there would be a cost and an impact on logistics.

Some feared that opening a company in the UK could become harder for EU nationals or companies due to Brexit. It was noted that some companies already had contingency plans in place and were moving operations outside the UK.

The possibility of a 'no deal' scenario seemed to elicit the greatest fears. Many considered this a potential disaster as it would change 'the rules of the game' too much for some businesses to adapt.

Most concerns were about regulation, data protection, customs delays and capital flows.

On a more positive note, one company pointed out that Brexit was a catalyst for change, prompting them to look for new markets, improve their presence in existing ones and increase ecommerce initiatives and investments to compensate for the possible effect of Brexit.

### Regulation

Regulatory divergence between the EU and the UK was a major cause for concern. In some highly regulated sectors, it was assumed that there will not be major changes due to the timescale. However, there were many concerns regarding tariff and non-tariff barriers to trade affecting goods, supply chains, and the flow of products from UK warehouses to other EU countries' facilities.

Future regulation was seen as the key to opportunities. Participants felt that work should be done to minimise the regulatory uncertainty to help improve business sentiment about future success.

A fundamental problem for many is that companies which operate in both the EU and UK markets will in future have to comply with both British and EU law in some cases. The worst-case scenario would be two permits, two sets of reports, two different sets of rules, etc.

Participants thought it likely that mutual recognition of national product and service permits would broadly cease to apply. A wide range of UK products, for example, cannot be placed on the EU market without the 'CE' marking which is applicable across Europe. The reverse is the case for European products which have no marking.

"All of this is relevant not only for sales of goods, but in particular also in the framework of companies' international value-added chains" pointed out one participant, explaining: "For instance, intermediate products are often produced in various countries, fitted together in larger components in another country, with the end product being sold in yet other countries. In particular, if the UK plays an intermediate function as a production

location in a value-added chain, which starts and ends in the EU, this would lead to (at least) two border crossings and the associated extra costs, delays, permits and other additional bureaucratic effort.”

Rules of origin and clearance systems do exist, but need to be adapted. There may also need to be an overhaul of clearance and management systems. The possibility of the EU recognising the UK as a trusted partner was raised, and there was conjecture on whether random checks would be introduced on the assumption of UK compliance.

Some participants questioned whether EU businesses would purchase UK-produced plant and machinery, given that spare parts required after Brexit might not be automatically compliant with EU standards. In these circumstances, it was felt to be safer to acquire plant and machinery from other EU countries.

There were also concerns about the future application of EU patents and trademarks in the UK and vice versa.

## Customs delays

Customs and potential delays in goods passing through borders was a persistent theme. Many feared that disruption of day-to-day procedures could hit businesses hard.

Concerns were expressed that the EU may not have adequate resources to allow goods to be given necessary customs or other clearances. An example was given of a country which required imported electrical goods to be tested, but allocated one person to carry out the checks.

### COST OF CUSTOMS DELAYS

One participating company estimated that it makes 13,000 border crossings each year. A customs check could potentially delay each truck by between 30 minutes to one hour, resulting in additional costs of approximately €100 per journey or €1.3 million per year.

## Taxation

Taxation issues were also among the main concerns raised by participants. Once the UK had exited the EU, participants wondered whether a number of UK tax laws may no longer need to comply with certain EU laws, or that EU directives will no longer apply to UK firms.

A number of directives were mentioned in this context, including the EU Parent Subsidiary Directive, the EU Interest and Royalties Directive, the EU Merger Directive and the VAT Directive. These provide numerous reliefs among which is double taxation relief to parent companies on the profits of subsidiaries, or the lack of UK VAT on cross-border supplies provided by the UK to another EU country. For this reason, participants thought that for the UK to benefit from preferential withholding tax rates, it would need to rely on double taxation treaties with individual countries. It was noted that some member states do already have double taxation treaties in place.

A company with clients all over the world commented that it would be able to deal with changes to VAT, but questioned whether there would be additional procedures applied to the UK, resulting in possible small costs. This company also questioned whether VAT returns are operational data that may be affected by data privacy regulation.

According to representatives from the agri-food sector in Ireland, companies need to prepare for changes to rules on VAT payments, should VAT be required to be paid at point of entry as is normal for non-EU trade. “Companies must put guarantees in place now to cope with the cash flow implications” said one participant.

## Sourcing skills

The potential difficulty of sourcing skills came up as a trade barrier, since EU labour is needed to maintain operations in the UK and vice versa. Concerns about restrictions on the movement of people and having to deal with considerable bureaucratic hurdles, such as applications for work permits or lengthy priority tests were voiced. A flexible, timesaving solution was therefore important for the deployment of employees within corporate groups.

Businesses with significant operations in the UK employ many EU nationals and concerns were raised regarding work permits and rising costs of business due to restrictions on mobility.

## Data

Data relating to EU citizens must be stored within an EU country or within a country deemed 'adequate' in relation to EU data privacy rules. Data protection and the storage of data pertaining to EU citizens was widely considered a pertinent issue. Participants expressed concern that any data in the UK may need to be moved. This issue was of particular concern for large banks and corporations, where data is often stored at the company's headquarters or a central location. Given that many of these are in the UK, the implications for data storage regulation could impact many businesses.

The security of stored data is a major concern with the general acceptance that cyber security has become a business issue and not just a governmental one. This issue is often ignored and the UK could be at the heart of future measures to prevent it. Participants wanted the UK to be deemed adequate in order to be able to store EU citizen's data to avoid an adverse impact on the fintech and IT centres, and large companies with headquarters in the UK.

With the General Data Protection Regulation (GDPR) becoming enforceable in 2018, following a two-year transition period, participants were uncertain as to whether it would apply in the UK. This raised questions about the data privacy frameworks for some participants with data centres based in the UK.

Currently, intra-group agreements allow certain data to go outside the EU. Some data, such as payroll or human resources data is required to stay within the EU. One participant noted the current movement from physical to cloud-based storage in the Netherlands and physical storage in the UK.

## COMPLEX CROSS-BORDER RETAIL BANKING OPERATIONS

Banking back-office operations have become a maze of technology and data exchange. One participant said that 95% of the jobs in their operations centre was related to transactions, dealing with data and making sure that their mainframe computers are processing £400 billion a day in the correct way, and making sure that the ATM machines in the UK are working and being kept sufficiently replenished. All data flows between the UK and EU. Part of the operations includes running payrolls in most EU countries where they have a presence. Data and information security is based in London.

## Sector-specific issues

### Aerospace

One participant said that France is the largest importer of separate aeroplane parts in Europe, with imports totalling 58% of all separate parts, and that manufacturers fear that Brexit may disproportionately damage the sector.

### Agri-food

This sector is likely to be heavily impacted by any tariffs imposed post Brexit. WTO rules would mean coming under 'most favoured nation' rules with tariffs on all imported goods. The average of tariffs for this sector was believed to be 14.5%, although some products, such as beef, could have tariffs as high as 60%.

Participants from Ireland believed an exit from the Customs Union would add non-tariff barriers. The Centre for Economic Performance estimate was quoted which estimated the possible introduction of non-tariff barriers to lead to an overall fall of income per capita of between 1.28% and 2.61%.

The integration between Northern Ireland and Ireland for the supply and processing chains is complex as businesses operate across both territories.

Manufacturing currently takes place in multiple sites for insurance. Should this openness and flow of trade be disrupted by Brexit, it was feared that a large amount of capacity would be lost.

Representatives from this sector also voiced concern over the future cost of purchasing and servicing equipment which largely comes from the UK as the home to most of the agents for large, multinational companies that make agri-food equipment.

There is recognition of the quality and standards of Irish produce among UK consumers which could be difficult to replicate elsewhere. The Irish balance of trade may therefore alter due to an increase in the possible competition and market access difficulties.

Businesses from this sector spoke of the need to examine their production chain and assembly of their products to ensure they remain competitive. This may result in some relocation.

#### INTEGRATION BETWEEN IRELAND AND THE UK IN FOOD PROCESSING CHAINS AND CROSS-BORDER DATA PROCESSING

- All wheat grown in Ireland is processed in Northern Ireland,
- 30% of milk produced in the North is processed in the South
- 40% of the chicken produced in the South is processed in the North
- Invoicing and order management take place in an EU jurisdiction, whilst the actual physical payment and receipt happens in the UK through a shared service centre, which also serves as the point of contact for customers to the business.

The impact of Brexit on this sector will depend on any tariffs and quotas by the UK should WTO rules be instated. Non-tariff barriers would be felt by the whole sector; one participant predicted that potential border controls and checks could increase the cost of doing business by as much as 8% to 10% due to the impact on logistics, time and additional administrative burdens.

Should visas not be available for EU employees for operations in the UK, it was feared that the risk of a labour shortage could cause further disruption to business and the possible relocation of some operations to other jurisdictions.

Some firms have back-office operations in the UK which are managed from within the EU, where research and innovation is carried out. This division of operations relies heavily on the ability to share information between different arms of the business which might now be at risk due to data protection issues arising out of Brexit.

Participants from the agri-food sector wanted as comprehensive a free trade deal as possible. Should quotas be introduced instead of tariffs, these should be set at a realistic level that reflects current trade so as to avoid dumping in the UK market, but also to encourage active trade between the EU and UK.



#### Automotive

Specialists in the Eastern European automotive sector stressed that the introduction of customs duties would have a negative impact on the automotive industry in both the UK and EU.

New tariffs were widely expected in the automotive suppliers' industry. It was anticipated that different business models would spring up as a result, with suppliers delivering to additional distributors in the middle, rather than the client, to deal with any extra administration procedures.

There was a strong desire for standards in the industry to stay at the current level (emissions, noise, etc.) to ensure the EU industry remains competitive in the UK, otherwise R&D costs would increase.

Participants pointed out that the majority of the British automotive sector is already owned by non-EU capital. It was thought that there could be a shift in purchasing decisions from the UK to the EU, especially for carmakers that are owned by EU companies such as Rolls Royce and Mini.

Some foresaw production moving to the EU from the UK to access the single market.



### Banking and financial services

A key issue was regulatory convergence, with passporting considered to be the deepest level of this. Passporting is not included in any free trade agreement (FTA) and does not exist outside the EU. A crucial issue for a future FTA will be whether to include this, and it will mean a deeper agreement, which could be more difficult to negotiate.

More than 5,700 companies and institutions were believed to be using the passporting system. They now need to figure out measures to avoid any interruption to business.

Some participants said that they needed the UK Government to maintain the passporting system and felt this must be prioritised and made as simple as possible. The loss of passporting was thought to have an adverse impact on business as an alternative scheme for equivalence was deemed too complicated by some. In addition, it was believed that equivalence might not be enough for businesses to maintain all their activities in the UK.

There was speculation that banks from outside the EU may have to invest in a holding company in the EU to comply with changes in regulation, which could result in business moving outside the UK. Some suggested that the structure of financial services providers would be likely to alter as they look to retain access to the single market.

There was also concern over the future legality of UK banks' loans to EU companies. Participants wanted the UK Government to make sure these loans do not breach regulations following the UK's departure.

The regulation of capital was a key issue in for smaller markets where financial services providers would find it onerous to have to comply with both UK and EU regulations post Brexit.

Some questioned the future of the insurance market, wondering whether capacity would be maintained.

One participating bank was considering banking licences in other parts of the EU (Frankfurt/Dublin) and moving corporate data and security systems. Data flow was being considered with a possible move from EU centres to the UK.



### Energy, space and infrastructure

The EU energy market is very interconnected, with supply chains, production and distribution processes being integrated and interdependent between different countries across the continent.

The UK is a net importer of energy, and the weakening of sterling has therefore made energy imports more expensive for UK-based enterprises. On the other hand, UK-sourced components have become less expensive, helping some EU enterprises in the sector to become relatively more competitive.

Regulation is a major concern in this sector. The effect on the natural gas market could increase as it is heavily regulated by laws originating in the EU. The future depends on how companies adapt to future changes and possible divergence.

It was expected that the new framework for energy would be based on existing EU rules. But if the UK did not have access to market coupling it would lead to increasing pricing inefficiencies. Trade would be possible without a deal on energy, but the end result would raise costs for users.

Participants commented that whilst flows of energy are not likely to be subject to tariffs, the cost of building the pipelines and interconnections that carry energy would be affected by trade barriers.

The effect of the UK leaving the single market would be significant in this sector; especially in specialised industries such as nuclear. One contractor building nuclear plants in the UK anticipated importing half of the materials and parts necessary. Tariffs would add significant costs, even when importing from outside the EU as the UK would not benefit from EU trade agreements.

This sector also saw free movement or minimum labour restrictions as necessary. One contractor found there was a shortage of experienced personnel to complete projects in the UK.

#### A BILINGUAL CALL CENTRE

A large company in the energy sector expressed concerns directly related to the fact that it is a bilingual company, consistently employing British residents and EU staff with a bilingual call centre, customer care and operations. "We also have about 1,000 people, including a reasonable proportion of expats, highly skilled engineers recruited in an international market, so there are resourcing concerns and we hope that in order to find some solutions the government will produce guidelines as soon as possible" said a representative, pointing out that it is difficult and costly to rehire or move people.

#### Higher Education Institutions

Participants expressed worries about future research collaborations should data sharing no longer be possible between the UK and EU.

Cross-border flows were considered vital. In Northern Ireland, one institution reported that between 8% and 10% of staff live across the border in Northern Ireland.

#### Logistics

Regardless of what measures are introduced, an increase in spot customs checks are widely expected and an increase in resources to conduct them will be necessary. Ireland's dependence on the UK as a main route to Europe has largely developed due to the fact that it is a cheaper and more efficient way to transport cargo to the EU. Alternative sea routes are not generally seen as feasible or economically justifiable.

Following extensive research, it was claimed that if nothing is done to protect against tariff and non-tariff barriers post Brexit, there could be a 16% reduction in cross-border trade between the UK and Ireland. This would have a greater impact on movement from Ireland to the UK than in the other direction.

#### POTENTIAL DISRUPTION TO LOGISTICS BETWEEN REPUBLIC OF IRELAND AND UK

Dublin Port is the busiest port in Ireland catering for 80% of all freight trade into and out of the country. Over 400,000 trucks use the Dublin-Holyhead route every year to transport exports to the UK and on to Europe. If customs checks had to be carried out on all of the trucks that roll off its port between 05:30 and 07:30, the queue would stretch for 9 km (5.6 miles). In reality, this would mean that 3 hectares (7.4 acres) would need to be found to allow these checks to take place.

### SPEEDY DELIVERY MAY BE AT RISK

A company based in Ireland deals in emergency spare parts. Currently, within half an hour of receiving a call, a vehicle can be despatched to the relevant UK airport, where parts are kept, to collect a part and then parts can be on a boat to deliver to Ireland usually on the same day. This company may have to re-evaluate where it keeps parts as this may not run as smoothly in future.

Participants expected that post Brexit a large volume of Irish trade will have to exit and re-enter the EU with potential customs and border implications which are not faced at present. This would add to the time and cost of reaching the largest trading market, and heavily impact its route to the EU.

If the UK establishes its own rules for customs/regulation, there are extra burdens for exporters to the market, and specifically for Irish exporters who will need to meet these regulations to then re-enter the EU.

In terms of LoLo freight (lift-on/lift-off), the WTO estimates that, on average, customs clearance accounts for around 8% of the cost of importing goods by sea and adds about a day to the import process of a single freight container. The OECD says that crossing the border, documentation and other delays can increase the transaction costs of trade by up to 24% of the traded goods.

For trucks that are ultimately destined for mainland Europe, further delays could be expected when leaving the UK. Dover, as an example, is the busiest truck port in the UK and could see tailbacks of up to 48 km (30 miles) if customs checks are introduced along this border. Currently non-EU customs clearance at Dover takes around 20 minutes per truck.

UK Members of Parliament have warned that there could be a fivefold increase in customs checks at Dover and other ports from 60 million to 300 million a year. The UK Treasury has warned that every one hour of customs delay leads to 5% less trade.

### Manufacturing

Some participants asked for reassurances about access to spare parts post Brexit as there may be issues navigating future regulation when importing from the UK.

Participants expected additional regulation in the UK and this was expected to drive up the cost of business.

This sector was also concerned about the free movement of people – especially skilled people.

### Pharma and Life Sciences

Non-tariff barriers, mutual recognition of regulatory standards and marketing authorisations were all very important to participants from this sector.

Cross-border batch testing was a key area of concern as the impact of delays at borders could affect patients. If mutual recognition agreements no longer apply to the UK, there will be delays and additional costs in checking and complying.

This batch testing requires products from outside the EU to be tested four times over three days. It was not regarded as feasible to keep products in temperature-controlled conditions at the border for three days or for four tests to be carried out every time a product crosses the border.

In the case of WTO rules being applied, pharmaceuticals are tariff-free, but the raw materials attract a cost and active pharmaceutical ingredients (API) may be impacted by tariffs.

Under the rules of origin, there is a possibility that products may not qualify as EU products if a significant part of the development has taken place in the UK.

Participants were concerned that should the UK not secure a trade deal and diverge regulation, then EU exports would require separate approval to sell to the UK market, which will mean companies being exposed to increased compliance costs.

Due to the global nature of the sector, most participants reported a wide variety of international relationships in the UK and the EU with their headquarters in one country and subsidiaries in others. There are complex production and supply chains, and tariff and non-tariff barriers were seen as a threat.

Firms that have products passing through a UK warehouse for example, may need to move operations to within the EU to reduce costs. Chemicals sourced from the UK were considered to be high quality in comparison to other markets, but may not be cost efficient post Brexit.

Some participants had significant laboratory operations in the UK serving both UK and EU clients. These laboratories are responsible for testing and analysing samples and data to gain insight on drug performance, relying heavily on a network of suppliers and partners across other countries.

Consistency in standards amongst suppliers is important for practitioners to achieve growth. Should the UK diverge, it was feared that networks would be harder to create, and costs and disruption would affect processes.

The Medicines and Healthcare products Regulatory Agency (MHRA) plays an important role within the European Medicines agency (EMA). Should the UK diverge and develop its own licensing agency, there would be a significant impact on the on the sector with extra burdens and costs for companies selling into the UK. Currently there is dual packaging for the UK and Ireland and this was expected to go if the UK left the EMA.

It was expected that UK providers wishing to supply the EU market would be subject to EU inspections, introducing another cost burden on the business and causing the cost of medicines to increase.

Participants hoped that the UK would remain part of the CE marking system. Compliance means components are the same in different EU countries and are internationally recognised in markets such as the Middle East. Should the UK develop its own standards, they would need to cross-validate to ensure they met FDA and EMA requirements.

Accessibility of EU databases and IT systems was a concern. If pharma companies lose access to patient data, they lose economies of scale. This has major implications for clinical trials.

## CONCERNS ABOUT FUTURE GROWTH IN PHARMA

“After Brexit, we may have to be more careful and less flexible about how we route samples to labs, because the shipping of samples across borders may be affected by new regulatory barriers. Reagent (used for chemical analysis and reactions) and equipment costs may vary more significantly due to tariffs and we may find it difficult to recruit enough qualified scientists in the UK.

“The likely outcome is that the growth of our UK lab will be constrained, and our German and Irish operations will absorb the growth that would otherwise have happened in London. This is particularly true because of a real shortage of UK-resident scientists in the categories we need (cell biologists, geneticists, immunologists) – 90% of UK staff is comprised of non-UK EU nationals, all of whom are concerned about their status. It is a huge issue as we cannot guarantee our staff security of tenure at our firm short of moving to one of our EU bases.”

## Tech and IT

Companies expressed a desire for the digital and technological transformation to continue and be unaffected by Brexit. They did not want to see future regulation on these issues and the digital agenda being delayed by negotiations, as this would lead to a delay in critical developments for Europe and its companies. Regulation is slow, whereas tech moves fast. Progress over the next five years depends on the capacity of markets and regulators to adapt.

Many companies in this sector require staff to visit the UK for a wide range of business and training purposes. Any restrictions, delays or extra bureaucracy in obtaining permits for staff to visit the UK is likely to adversely affect their businesses. There was also concern over whether the UK's immigration and border control would be able to cope with checking EU citizens without imposing unacceptable delays.

Part of the IT business involves the distribution of software licences to end-users in the UK. The imposition of any taxes and duties on licensing fees could cause disruption as these are not currently budgeted for, nor can they be, as it is not known whether they will apply or how much they will be post Brexit.

## Recruitment

Participants were concerned about issues arising from possible inequalities of qualifications between EU countries and the UK.



### 3. Minimising uncertainty and disruption in the Brexit process

#### *General points*

Uncertainty about the future relationship between the UK and EU member states is a major concern for business particularly in terms of business planning.

Two years or less was widely considered too short a time-frame for those having to consider the separation or restructuring of their businesses. Uncertainty over what future trade relations will look like, and what effect this will have on clients, and their ability to continue supplying clients and customers with competitive goods or services, was a common theme.

While some needed more certainty to produce transformation models to analyse possible disruption, others wanted a three-to-eight year view in order to make plans.

Given the short negotiation period for a future trade agreement, there were fears that WTO rules would bring more uncertainty, although not all sectors are governed by these rules. Some felt that businesses must nevertheless continue to move forward despite the uncertainty and remain fully committed to the EU and UK markets.

Some participants expressed concerns about the politicisation of Brexit and the negotiations to follow in light of the Comprehensive Economic Trade Agreement (CETA) with Canada.

This uncertainty was believed to be causing businesses in various countries to be cautious about trading with, or investing in, the UK, as they preferred to wait and see what happens. There was also anecdotal evidence of companies that were looking to set up in the UK now changing their plans to do so. Even for those businesses focused mainly on their home countries or EU countries, the political and economic repercussions of Brexit were considered to be concerns. Those predicting the effect to be of minor significance to them, were finding that the lack of dependable information made strategic planning more complex.

The only certainty for some was the far-reaching consequences if the UK came out of the single market. Participants believed it would impact virtually every area of law, requiring a re-examination across the board.

It was noted that Brexit negotiations are unlike any other in that they could result in the introduction, rather than the dismantling, of trade barriers. Participants saw a key challenge being that of political choice in negotiating which barriers can be reintroduced to disaggregate the economy without causing excessive disruption.

Generally, there was pessimism about the impact of Brexit, although some professional services firms could see new opportunities arising from it. Some felt that volatility caused by uncertainty could also create opportunities. However, more resources were needed by firms to plan for, and manage, the uncertainties.

An ICT company reported that shareholders at the EU headquarters had pressured the company to reduce spending on marketing and hiring in the UK subsidiary due to the uncertainty.

There were concerns about future UK participation in EU climate policies and it was felt this would be hurt by UK withdrawal.

Some thought that while everyone was focused on the EU-UK relationship, the biggest concern in the EU – lack of growth – was being ignored. It was felt that EU regulatory reform had been put on hold by Brexit, but that the need for it has not gone away. One participant hoped that the UK could create best practice reform to drive EU reform.



#### Food security

The UK has a food trade deficit with the EU, which is expected to grow. It was suggested that new barriers to trade may cause key suppliers to look for new markets for their products, while others expressed fears of predatory moves by third countries such as China, which was reported to be aggressively pursuing purchasing policies. In either case, food security and continuity of supply, which is currently assured, may be put at risk.

## Currency

The impact of fluctuations in the Sterling/Euro exchange rate was seen as an extra risk for businesses, causing losses, and some gains, on contracts.

## Transitional agreement

Many participants called for a transitional agreement to allow trading while discussions continue, although there was no clarity on what businesses were transitioning to. Whether a transitional or permanent deal is agreed upon, participants wanted certainty as soon as possible.

Participants from several countries believed a transitional arrangement was imperative to avoid legal uncertainty as this was seen as a way of buying time to prepare for a new legal environment and new business processes and structures. Furthermore, once an agreement was made, it was anticipated that it would need time to be implemented.

## People and skills

Millions of EU citizens work in countries throughout the EU including the UK. They need to be certain that social contributions made in the UK and other EU countries will be recognised post Brexit.

Movement of people was a major concern, with many of the participating companies employing a range of nationalities in different locations. All sectors seemed affected, although this issue was of particular concern in R&D, financial services, training and education, and the tech sector.

Recruitment companies have been heavily impacted by the uncertainty. One agency had reportedly seen a 15% reduction in EU activity since the UK EU Referendum.

Software developers in Eastern Europe were also finding that exchange rate was/is causing difficulties for those with teams of developers located inside and outside the UK, and which mostly charge in sterling.

## RELATIONSHIP BETWEEN THE EXCHANGE RATE AND TRADE IN IRELAND

One participant quoted an analysis of the relationship between the exchange rate and agri-food trade by the Irish Business and Employee Confederation (IBEC) which warned that a 1% weakness in sterling resulted in a 0.7% drop in Irish exports to the UK, and that if sterling was to weaken to £0.90/€1.00, it could result in the loss of more than €700 million in food exports and 7,500 Irish jobs.

## Sector-specific issues

### Agri-food and food and drink

One Eastern European company stated that due to the uncertainty around the UK's participation in the EU and the complicated political situation, it would not engage with UK suppliers and had no plans to do so.

For those in Ireland, however, the relationship is much closer and impossible to avoid. The fall in the value of Sterling has had a negative effect on the competitiveness of Irish exports. It was reported that products such as mushrooms and beef, which had bought stock 18 months previously, were significantly hit.

While some participants in Ireland felt able to deal with exchange rate difficulties, having handled currency fluctuations before and having developed the ability to absorb or counter them, they remain a challenge for the industry as a whole.

In Ireland, any potential restrictions on the freedom of movement and access to labour across both islands were seen as disruptive. The uncertainty that will exist over the next 18 to 24 months due to Brexit is likely to impact business and will need to be monitored. It will influence investment decisions, with firms unlikely to make big strategic decisions.

Businesses in the sector are also unlikely to make any capital investment decisions before the end of negotiations. This has given rise to fears that this will ultimately make businesses less competitive.

Voices in this sector also called for a transitional period to minimise the cliff-edge risk and allow time for the adoption of new trade arrangements.

### Automotive

Parts manufacturers in Eastern Europe were maintaining lower stocks and decreasing orders in terms of volume as protection against possible trade tariffs and fluctuations in sterling. Representatives from this sector in Slovenia were unanimous in their opinion that stability and predictability are key for their industry, and that this should be taken into account in EU-UK negotiations.

### Banking and financial services

Some participants said that businesses were now planning for two years' time, no matter what occurs in the negotiations. It was felt that significant planning against possible costs or disruption should be undertaken first, to ensure that customers were protected.

In order to avoid disrupting the stability of the financial markets, some institutions were asking for clarity on the implications of Brexit for trade and contracts, and the situation regarding 'grandfathering'. The flexibility of legal solutions, approvals, licenses and transition periods was also a concern.

In one country, there were concerns that an extensive services model of a leading British bank based in a relatively small EU country could go back to the UK after Brexit. This would mean significant job losses and impact the local economy. This bank would be prepared to sacrifice mid-to-low cost centres in the EU due to satisfy cost considerations or data privacy regulations. Such a move may result in more jobs for India and not just the UK.

### Energy, space and infrastructure

There were calls for a long transitional agreement to allow for a stable withdrawal, minimising disruption in the energy sector. One participant warned that the lack of a transitional arrangement could lead to market distortions, loss of prosperity and even impair security of supply on both sides. This could happen if electricity and gas flows are no longer driven by price but are influenced in the short term by the risk of purely regulatory changes.

However, it was generally considered that the impact seemed minimal thus far, without significant disruption. Being a globalised industry with large, sophisticated players, these sectors are more used to navigating major uncertainties and managing the impact of political and geopolitical risks. "We have contingency plans and Brexit is just one more" commented one participant.

The highly interconnected nature of the sector between many countries meant that willingness to cooperate and minimise disruption would prevail. There was confidence that with markets and common interests being well established, and significant levels of capital having been invested, that this would encourage continued investment in and from the UK.

Some participants thought the UK's continued role in the Internal Energy Market (IEM) desirable if the UK commits to working towards energy efficiency and renewable energy targets. It was considered better for an integrated market to be as big as possible.

For others, ensuring the UK remains in the IEM was a priority, but if exiting, then adequate time was called for to prepare for a new framework in which energy can be traded with the EU. If the UK is to leave Euratom (as suggested) participants require significant advanced warning to cooperate fully.

Reassurance about the future of current Projects of Common Interest, such as those interconnecting the two parts of Ireland was required. There were also concerns about energy supply in Ireland as the UK plays a key role in the provision of energy in Ireland through the Single Electricity Market (SEM).

## Higher Education Institutions

Participants expressed considerable uncertainty about various relationships and the status of staff and students. This is expected to continue to impact the sector until more detail about future relationships becomes available.

Relationships in question include collaborations between HEIs and multinational companies with research arms in the UK. There is also uncertainty about the recognition of qualifications and the status of students and academics from EU countries currently resident in the UK.

Applicants for Horizon 2020 are reluctant to bring on UK partners for fear that this will negatively affect applications (although this could negatively affect the programme given the UK's status as a global leader in research). The UK was reportedly already starting to underperform in securing European Research Council (ERC) grants.

A cap on international student numbers in the UK would have a negative impact on the Irish system which may not be able to cope with a sudden, large increase in numbers should students have to study in their home country.

## Logistics

At the time discussions took place, logistics firms were waiting for the effect of currency fluctuations to have an impact. However, there were concerns that when it came to renewing contracts for forthcoming periods, there would be less trade.

Like many other sectors, the freight and logistics sector was seeing a delay in investments as a result of uncertainty. Again, there were calls for a transitional period in this sector to avoid post-Brexit 'chaos'.

If customs checks at borders are to be introduced, it will take time to allow proper systems to be implemented and for training to be provided. Significant investment in infrastructure will also be required.

## Manufacturing

Participants believed that Brexit may prompt businesses to simplify their supply chains and their business model.

### SMALL COMPANY WITH A GLOBAL FOOTPRINT MOVING GOODS ACROSS BORDERS

A textile company based in an EU country imports wool from Australia. It is then exported to the UK for processing, after which it comes back to the EU where it is finished before finally being exported to the UK as a finished fabric.

The fact that the product comes from Australia shows that the system can work with suppliers outside the EU. However, there are concerns over whether the company may need to invest time, money and effort to change the current supply chain, how much this will cost and whether this key relationship will remain viable.

## Pharma and Life Sciences

Uncertainty can lead to supply chain issues for medicines and therefore disruption to patients. Companies in this sector rely on the Medicines and Healthcare Regulatory Agency (MHRA) licences and marketing authorisation for their products, and they are now unsure about where this stands.

It was felt that a transitional agreement would protect consumers and many were hoping for this, along with a conversation around a clearer regulatory framework concerning, for instance, the mutual recognition procedure and the development of harmonised standards.

Uncertainty for many was arising from mutual recognition issues and what the future agreement might be. The example of Turkey was brought up, where laws are identical between the EU and a third country, yet products cannot enter the EU market. Even Switzerland has no mutual recognition procedure for pharma products.

One pharma representative pointed out that exchange rate fluctuation had caused a 20% increase in manufacturing costs, but prices had not been raised for consumers.

The European Medicines Agency, which is currently based in the UK, will need to move to an EU country. One pharmaceutical company believed that it would take at least five years to set up the facilities, IT services and levels of expertise needed.

## Tech, ICT and software development

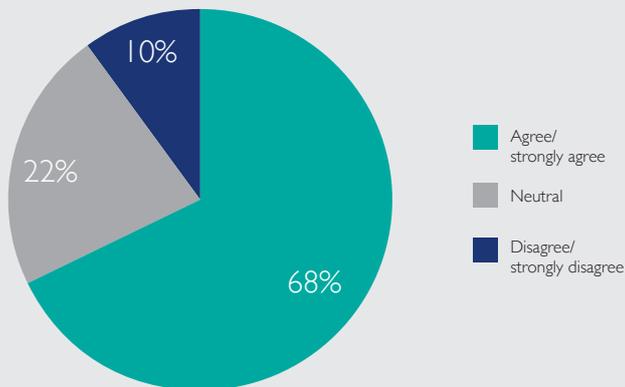
A key message from Scandinavia was that growth is being affected by labour uncertainty. With London and Stockholm both being major tech hubs, large numbers of talented young people move between the two. However, some companies have now become averse to cross-border hiring due to the uncertainty of these professionals, which means companies do not have the skills to grow.

Some believe they will continue to grow their businesses in the UK, however, as it is one of the most innovative and creative environments in Europe for IT/software, and because there is a high demand for software development.

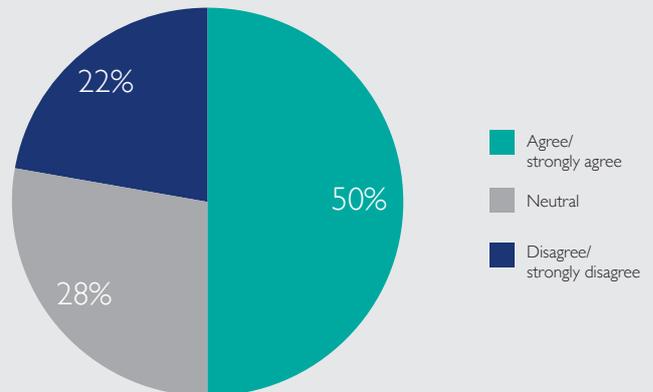
## Straw Poll 100

Results of a straw poll of 100 companies based outside the UK in EU27, to underpin initial interim findings and demonstrate key emerging points and themes:

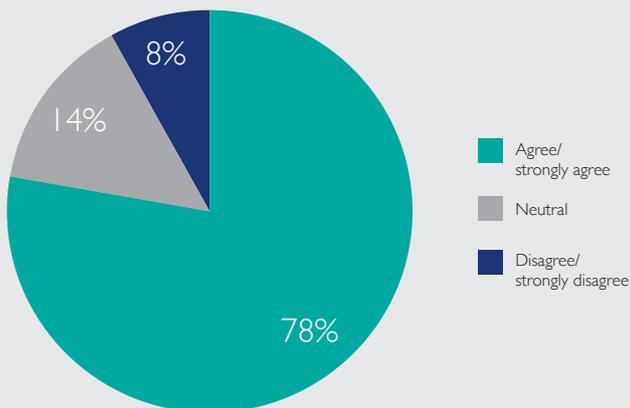
1 My business, which relies on the demand/supply of goods and/or services from UK businesses, will be impacted by the UK's exit from the EU



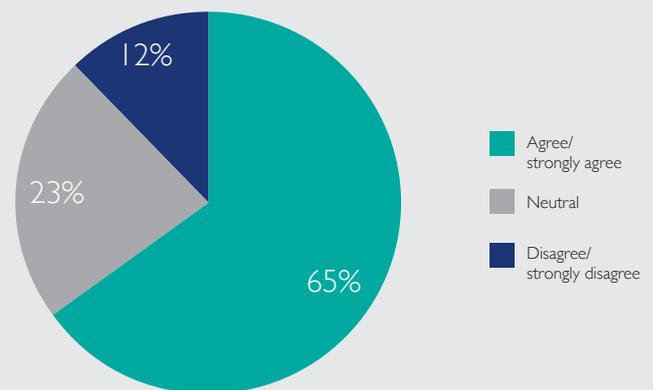
2 We will not be able to source talent from the UK unless there is a simple process for movement of workers agreed



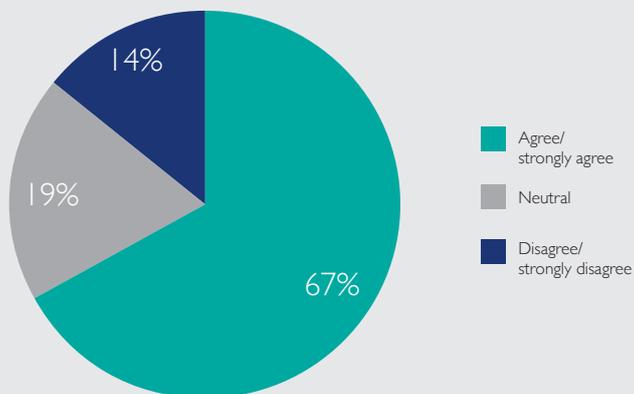
2 To remain globally competitive we will need to relocate some of our operations to EU27



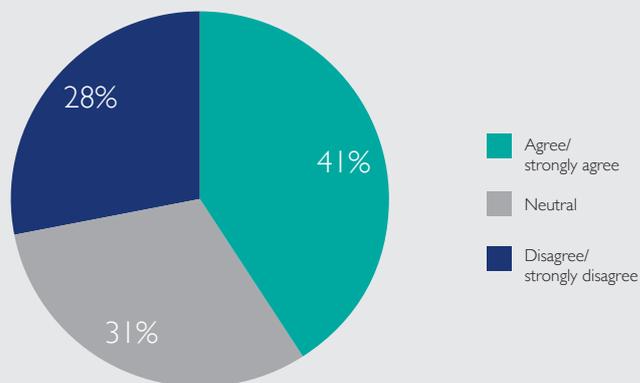
4 Trading with the UK under WTO arrangements will impact our profit and we will seek alternative EU27 based partners



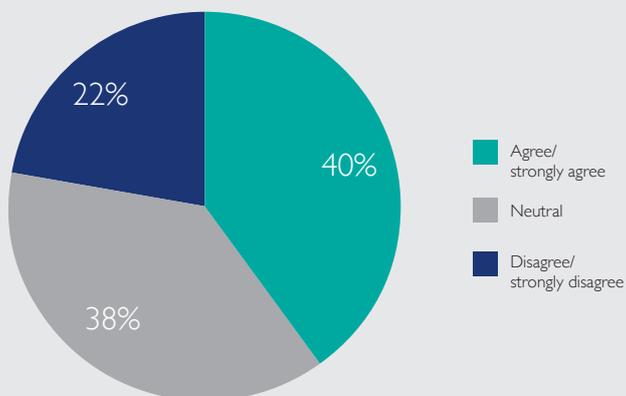
5 If access to UK developed innovation is reduced due to Brexit, this will result in significant impact for my sector



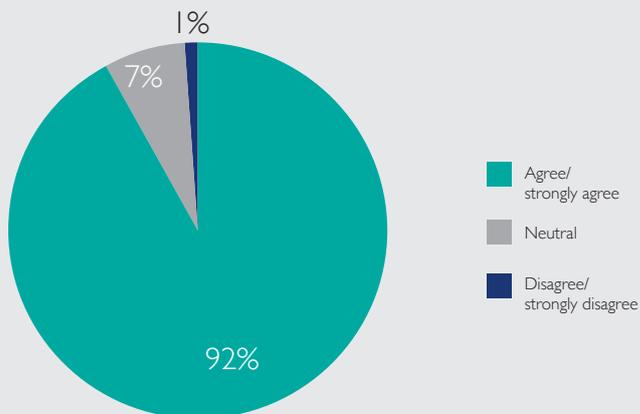
8 We will continue to support and grow our investments in the UK



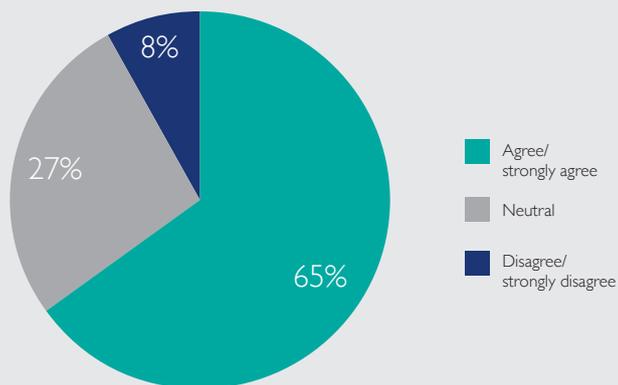
6 We will not stop raising capital finance in the UK to finance our business after Brexit



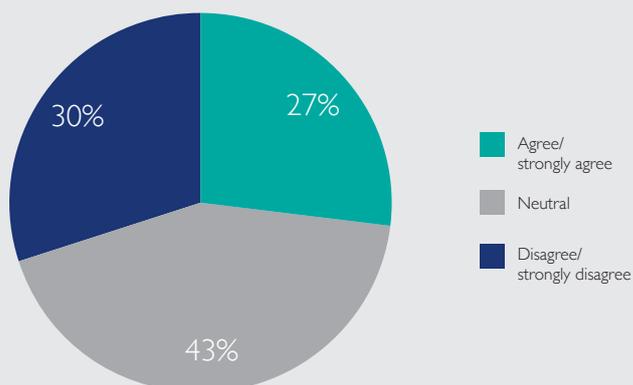
9 It will be important for my government to negotiate a deal with the UK which does not create any additional barriers to trade



7 My business relies on regular cross-border transportation of goods to and from the UK and the associated costs caused by the introduction of additional non-tariff barriers will affect our profitability



10 I have a good route to influencing my government and they will take note of my views as they negotiate with the UK









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