

Brexit and business: The EU outlook

Insight from 800 EU business
leaders





In the two years since the UK voted to leave the European Union, negotiators on both sides of the channel have struggled to reach a consensus on a new basis for trade between the regions.

Amidst a cacophony of confusion, business leaders across Europe have attempted to prepare for the future, though progress towards a Brexit agreement has been halting at best. In the UK, the Brexit debate has had a myopic lens, focusing almost exclusively on the interests of British businesses and consumers.

At Baker McKenzie, we sought out the EU perspective. We spoke with 800 business leaders from six key markets of the 27 remaining EU Member States. We asked about the impact of Brexit to date, business preparedness for the future and sentiment towards the UK.

We also looked at the European business community's position in the Brexit negotiations, asking how well its views are represented and what would be the preferred outcome for EU27 companies.

Here, we present our findings from across the European Union, as well as considering their implications for the UK.

Baker McKenzie surveyed 800 respondents across six major EU27 markets: France; Germany; Spain; the Netherlands; Sweden and Ireland.

We spoke to senior in-house counsel, heads of strategy and finance directors in four sectors: Consumer Goods & Retail; Financial Services; Industrial, Manufacturing and Transportation; and Technology, Media and Telecommunications.

All respondents surveyed work at businesses with at least £250 million or equivalent annual turnover. 32% of respondents are from businesses with more than £1bn annual turnover.

The premature Brexit effect

The UK remains - for the moment - a fully-fledged member of the European Union.

Yet ongoing uncertainty about the future of UK-EU relations is already having a significant impact on EU27 businesses, while the UK is seeing reduced trade and investment and fewer skills crossing the channel.



Britain will remain in the European Union until 11pm on 29 March 2019, at which point transitional arrangements will kick in to steer both parties on a smoother course until at least the end of 2020.

In the interim, the UK government will continue to wrestle with EU negotiators in a bid to secure the best possible outcome for the British business community and beyond. But while the discussions look to the future, companies on both sides of the channel are already reeling from the effects of the Brexit referendum.

- **46% of respondents from EU27 businesses say that their company has reduced investment in the UK**
- **47% report reduced trade or operations in the UK**
- **46% have already seen disruption to their supply chains resulting from the Brexit vote**

In terms of human resources, almost half the respondents to our survey report that Brexit has reduced the movement of people within their company. Although free movement of people will continue throughout the transition period, it seems that businesses are increasingly unwilling to place

employees in the UK when their right to remain beyond 2020 is uncertain.

Jennifer Revis, Baker McKenzie partner in London, notes the psychological impact of the referendum, which has prompted many EU nationals to reconsider their future in the UK.



EU27 nationals infographic



“Many people see themselves as European and they won’t necessarily want to live here or raise a family, if the UK is outside the EU. There are also more practical considerations. There could be an impact on pensions for EU nationals living in the UK, and Brexit has also had an impact on the pound, so it’s less attractive to work here earning less money. From a business perspective, uncertainty is always problematic and at this point, no one knows what the eventual UK-EU relationship will look like.”

Jennifer Revis, Partner, Baker McKenzie London

Of course, Brexit is a major consideration for EU27 companies, but it is not the only geopolitical event shaping the business landscape. Cecilia Pastor, partner at Baker McKenzie in Madrid, notes that since the recession in Spain, for example, companies had already begun to diversify their markets rather than focusing on a single jurisdiction. That need for diversification has only become more pressing since the referendum.



“Since the Brexit vote, companies have had to rethink their presence in the UK, especially in sectors more dependent on free movement of goods, services and people. Brexit has acted as a trigger for companies to consider: relocating their expats; directing investment towards countries where regulations and political uncertainty have a lesser impact on their business; reassessing their supply chain and in some cases, reconsidering their business model.”

Cecilia Pastor, Partner, Baker McKenzie Madrid

And yet, despite the impact of the Brexit referendum, EU27 businesses are eager to find a way through the uncertainty because of the significance of the UK market...

Business first

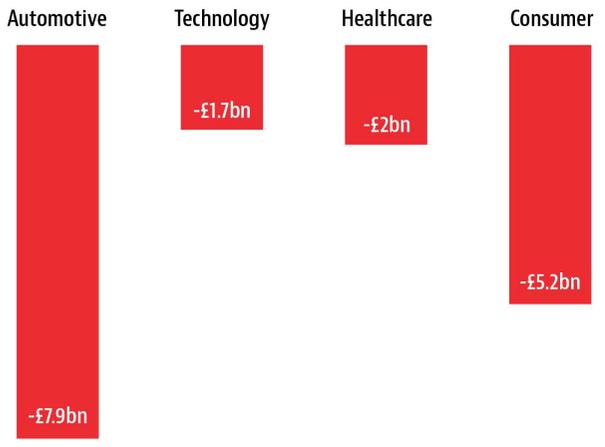
A third of EU companies believe that the terms of any Brexit deal should punish the UK for leaving the EU.

But despite the sentiment, respondents overwhelmingly agreed that business considerations trump retaliation. In fact, they would go so far as to give concessions to the UK in the Brexit negotiations - if that meant securing a strong basis for future trade.



The UK is highly dependent on Europe as an export market. Last year, research by Baker McKenzie highlighted its particular reliance in four key manufacturing sectors.

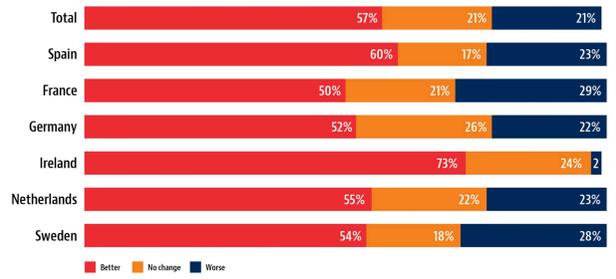
The realities of trade after Brexit
A new perspective from Baker McKenzie



Hard Brexit impact on trade flows - global % decline

However, new findings show the extent to which the EU is invested in the UK, with 95% of respondents saying that the market is of at least some importance their businesses. Furthermore, 67% of EU27 businesses described the UK market as 'important' or 'extremely important'.

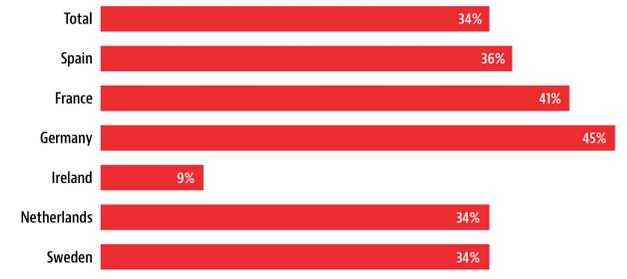
In fact, 78% of EU27 respondents said that their business would be the same or better off if the UK were to remain as part of the European Union. In Ireland, that percentage jumps as high as 97%.



Business better or worse off if UK remain as part of EU

But beneath the business considerations, there is a current of vengeance towards the UK for its decision to leave the EU: over a third of respondents would like to see the UK punished under the terms of any future trade deal.

In the EU centres of power, there is even more hostility: 41% of French and 45% of German respondents support punitive action.



Terms of any deal should punish the UK

Eric Lasry, Paris-based partner at Baker McKenzie, believes the findings reflect the strength of emotion in the EU27 business community:



“Some people have characterised this as the worst decision since the end of the Second World War.

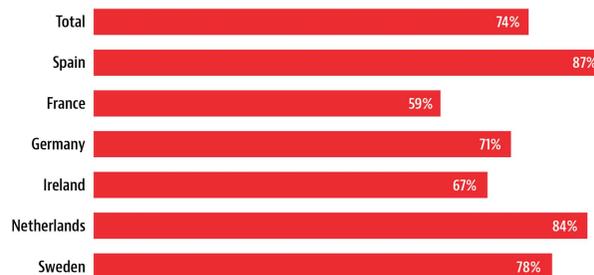
The desire to retaliate is significant, but this is a reflection of the fact that people are furious, outraged and upset that this could happen with such a close ally. Of course, when they take a step back and set aside personal sentiment, they can see the reality of the situation – that no one will win when you try to punish a state. Ultimately, business people don't want the relationship with the UK to break down completely. In the end, they hope to see a smart and creative alternative mechanism to continue doing business.”

Eric Lasry, Partner, Baker McKenzie Paris

Indeed, our survey found business considerations overwhelmingly outweigh the desire for retaliation against the UK...

Despite the negative sentiment around Brexit, 96% of EU27 respondents to our survey said that continuing to trade with the UK on preferable terms for their business was more important than teaching the British a lesson.

In fact, almost three quarters of respondents believe that the EU should make concessions to the UK to secure a better trading relationship for EU27 businesses, with support for concessions in Spain and the Netherlands significantly higher still.



Should EU make concessions to the UK

Despite the pragmatism of the business community, there is an inherent conflict facing EU negotiators, as Mattias Hedwall, Head of Baker McKenzie's Global International Commercial & Trade Group in Stockholm, explains.



But while EU27 business people may be hankering for a Brexit solution, findings suggest that their views may not be well represented in the negotiations...

Finding a voice

The EU27 business community is largely unified in its view that a smooth post-Brexit trading relationship will be pivotal for companies on both sides of the channel. But when it comes to the negotiation process, EU27 businesses clearly fear that they are being disenfranchised.

More than half the respondents surveyed feel that the views of EU business are not well represented in the negotiations.



The European Union has failed to convince businesses in its Member States that their views are being duly considered in the Brexit negotiations. Only 46% of respondents feel that their business or industry has been substantively consulted by the EU or by their national government with regards to Brexit. Individuals in Ireland were particularly negative; fewer than one third of those surveyed said their industry had been consulted.

The onus then falls to companies to actively seek to influence the negotiations. Partners at Baker McKenzie say it is not too late for companies to promote their agenda and ensure a business-friendly outcome from the negotiations.



While the EU27 may be negotiating as a block, each Member State has its own interests and businesses to defend. As such, it is imperative that companies have regular contact with relevant trade associations, as well as engaging with key British and European stakeholders and with national government administrators, to assess the pulse of the negotiations and ensure that their interests are being properly conveyed.

So what would a Brexit deal look like, if it were placed in the hands of EU27 businesses to shape? Perhaps unsurprisingly, given the close ties to the UK market, respondents are broadly supportive of a Free Trade Deal, with 67% rating it as important.

However, despite ongoing speculation about a Customs Union - possibly one that is tailor-made for the UK - support for such a solution is much lower among EU businesses. Only 45% of respondents said a Customs Union was important.

Trade specialist Jenny Revis warns that there has been some misunderstanding, even amongst the business community, as to the differences between the different trade models.



Whatever the outcome of the negotiations, EU27 businesses are now readying themselves for the challenges - and opportunities - that may lie ahead...

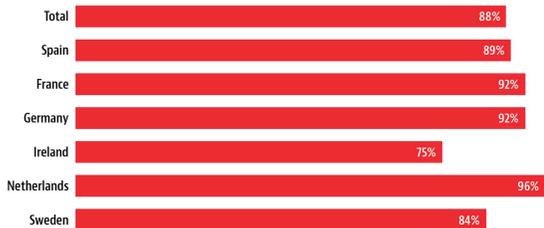
Seizing the high ground

Regardless of sentiment towards the Brexit referendum - or its impact to date - the business community must now prepare for the future.

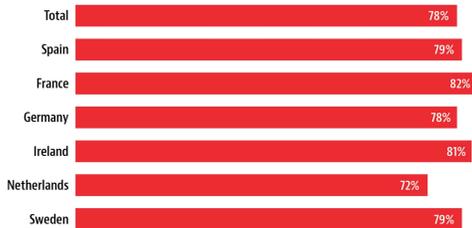
Levels of preparedness vary considerably across markets and industries, but the vote has already prompted significant changes at more than three quarters of the companies we surveyed. Furthermore, despite ongoing uncertainty about the post-Brexit world, many business leaders see opportunity amidst the challenges.



The vast majority of companies are actively assessing Brexit-related risks: 88% of respondents across all markets are reviewing their position in the light of the referendum. Even more significantly, 78% of them have made changes to their operations or strategy as a result of their findings - putting paid to the notion that companies in EU27 markets are trading water whilst they await the outcome of the Brexit negotiations.

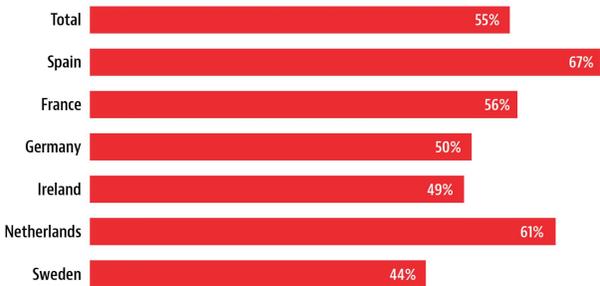


Actively assessing Brexit-related risks



Operation or strategy changes made

EU27 businesses are bracing for a loss of preferential trade terms with the UK: 55% of respondents overall are preparing for such a loss, though the level of preparedness varies considerably across markets. In Spain, more than two thirds of companies are considering this eventuality, but in Sweden, just 44% of businesses have taken this step.



Preparing for potential loss of preferential trade terms

Ross Denton believes there is a good deal of confidence that a deal will be reached, which may be a factor in the apparent lack of preparedness by certain businesses. However, he also points to a lack of appetite to engage in Brexit discussions among some EU27 companies.



“European businesses do need to engage because Brexit may be something that was prompted by the UK, but it will affect both UK and EU businesses dramatically, so they do need to engage in the process and understand what is going on.”

Ross Denton, Partner, Baker McKenzie London

Baker McKenzie trade group leader, Mattias Hedwall, says that more prepared organisations are planning for a different flow of products and services post-Brexit, and specifically, they are considering how best to optimise their supply chains.

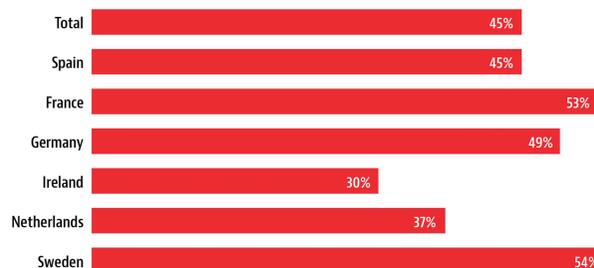


“There will be new complexity in doing business with the UK, irrespective of which trade solution is reached post-Brexit. Not only will there be higher costs for trading with the UK, but also additional administrative burdens that need to be handled. In particular, companies dealing with large stocks have started to look into the logistics and some have started to move their warehouses to central Europe.”

Mattias Hedwall, Partner, Baker McKenzie Stockholm

Amongst the challenges, there is also some confidence in EU27 markets about a potential Brexit upside, suggesting that changes to strategy are not solely defensive manoeuvres.

Overall, 45% of respondents say that Brexit represents an opportunity for their company to attract future business away from the UK. Optimism is highest in Sweden and France, where more than half the respondents see some opportunities arising from Brexit. It was lowest in Ireland, where only 30% believe there could be an upside for their business.



Brexit represents an opportunity for my company to attract future business away from the UK

International Trade Specialist Anahita Thoms, a partner in Baker McKenzie's Dusseldorf office, says that whether or not Brexit proves an opportunity for German business depends in part on production structures.



“If a German company maintains a production site in the UK, producing goods for the British market, they may increase their competitiveness due to lower costs, because of the falling exchange rate. Within the Single Market, EU businesses may have competitive advantages over British companies, with some British competitors withdrawing from the EU market or reducing their EU focus. The EU also stands to gain from the migration of skilled workers from the UK.”

Anahita Thoms, Partner, Baker McKenzie Dusseldorf

Of course, there are potential down sides, particularly for EU businesses with production sites in the UK, as they could see customs costs increase or be forced to close UK sites, as well as coping with high inflation and interest rates and the reduced purchasing power of UK consumers.

Over the border in France, partner Eric Lasry says that the majority of businesses see Brexit as a downside, but faced with the reality of the referendum result, they are now seeking to make the best of the opportunities that might be available.

"The Brexit decision may increase the attractiveness of France at a macroeconomic level, attracting more foreign direct investment. The political climate is also favourable to France, which can reassert itself as a global leader and demonstrate to businesses that France provides the right conditions for expansion and opportunity. And of course, the relative weakness of the pound also creates investment opportunities for those who wish to expand in the UK."

Eric Lasry, Partner, Baker McKenzie Paris

Brexit: Collated by Country

Here we present a snapshot of the findings specific to each market we surveyed: France; Spain; Germany; Sweden; the Netherlands and Ireland.





France

45%

have seen reduced movement of people within their organisation

82%

have made changes to their operation or strategy in response

but... **97%**

say continuing smooth trade is more important than punishing the UK

44%

are not yet preparing for the potential loss of preferential trade terms

68%

say the UK is important to their business

48%

have reduced investment in the UK

57%

have had their supply chains disrupted

53%

say Brexit represents a chance to lure business away from the UK

59%

would offer concessions to the UK to secure a good post-Brexit trading relationship

74%

believe an FTA is important

20%

generate more than 10% of their annual turnover from UK customers

51%

have reduced trade or operations in the UK

92%

are actively assessing Brexit-related risk

41%

want to see the UK punished for leaving in the terms of any future deal

47%

believe that the views of the EU business community are not well represented in the Brexit negotiations

51%

believe a Customs Union is important



Spain

46%
have seen reduced movement of people within their organisation

79%
have made changes to their operation or strategy in response

but... **91%**
say continuing smooth trade is more important than punishing the UK

67%
are not yet preparing for the potential loss of preferential trade terms

71%
say the UK is important to their business

43%
have reduced investment in the UK

42%
have had their supply chains disrupted

45%
say Brexit represents a chance to lure business away from the UK

87%
would offer concessions to the UK to secure a good post-Brexit trading relationship

63%
believe an FTA is important

16%
generate more than 10% of their annual turnover from UK customers

46%
have reduced trade or operations in the UK

89%
are actively assessing Brexit-related risk

36%
want to see the UK punished for leaving in the terms of any future deal

62%
believe that the views of the EU business community are not well represented in the Brexit negotiations

50%
believe a Customs Union is important



Germany

52%
have seen reduced movement of people within their organisation

78%
have made changes to their operation or strategy in response

but... **97%**
say continuing smooth trade is more important than punishing the UK

50%
are not yet preparing for the potential loss of preferential trade terms

64%
say the UK is important to their business

50%
have reduced investment in the UK

49%
have had their supply chains disrupted

49%
say Brexit represents a chance to lure business away from the UK

71%
would offer concessions to the UK to secure a good post-Brexit trading relationship

69%
believe an FTA is important

19%
generate more than 10% of their annual turnover from UK customers

53%
have reduced trade or operations in the UK

92%
are actively assessing Brexit-related risk

45%
want to see the UK punished for leaving in the terms of any future deal

47%
believe that the views of the EU business community are not well represented in the Brexit negotiations

49%
believe a Customs Union is important



Sweden

61%

have seen reduced movement of people within their organisation

79%

have made changes to their operation or strategy in response

but... **98%**

say continuing smooth trade is more important than punishing the UK

56%

are not yet preparing for the potential loss of preferential trade terms

66%

say the UK is important to their business

55%

have reduced investment in the UK

47%

have had their supply chains disrupted

54%

say Brexit represents a chance to lure business away from the UK

78%

would offer concessions to the UK to secure a good post-Brexit trading relationship

67%

believe an FTA is important

14%

generate more than 10% of their annual turnover from UK customers

56%

have reduced trade or operations in the UK

84%

are actively assessing Brexit-related risk

34%

want to see the UK punished for leaving in the terms of any future deal

42%

believe that the views of the EU business community are not well represented in the Brexit negotiations

48%

believe a Customs Union is important



Netherlands

39%
have seen reduced movement of people within their organisation

72%
have made changes to their operation or strategy in response

but... **98%**
say continuing smooth trade is more important than punishing the UK

31%
are not yet preparing for the potential loss of preferential trade terms

72%
say the UK is important to their business

41%
have reduced investment in the UK

43%
have had their supply chains disrupted

37%
say Brexit represents a chance to lure business away from the UK

84%
would offer concessions to the UK to secure a good post-Brexit trading relationship

67%
believe an FTA is important

13%
generate more than 10% of their annual turnover from UK customers

46%
have reduced trade or operations in the UK

96%
are actively assessing Brexit-related risk

34%
want to see the UK punished for leaving in the terms of any future deal

55%
believe that the views of the EU business community are not well represented in the Brexit negotiations

37%
believe a Customs Union is important



Ireland

45%

have seen reduced movement of people within their organisation

81%

have made changes to their operation or strategy in response

but... **100%**

say continuing smooth trade is more important than punishing the UK

51%

are not yet preparing for the potential loss of preferential trade terms

61%

say the UK is important to their business

35%

have reduced investment in the UK

38%

have had their supply chains disrupted

30%

say Brexit represents a chance to lure business away from the UK

67%

would offer concessions to the UK to secure a good post-Brexit trading relationship

58%

believe an FTA is important

14%

generate more than 10% of their annual turnover from UK customers

29%

have reduced trade or operations in the UK

75%

are actively assessing Brexit-related risk

9%

want to see the UK punished for leaving in the terms of any future deal

70%

believe that the views of the EU business community are not well represented in the Brexit negotiations

35%

believe a Customs Union is important

Conclusion

Final thoughts...



Whatever the shape of UK-EU trade after 2020, it is clear that companies across the EU27 are now taking their fate into their own hands. Whilst they bemoan continued Brexit uncertainty, the business community has recognised that it cannot afford to wait for the outcome of the negotiations and it has begun assessing risks and implementing change accordingly.

From investment decisions, to staffing, to supply chains, the 'Brexit effect' is permeating all layers of business. It is incumbent on companies on both sides of the channel to help shape the outcome of the EU-UK negotiations and to prepare and position themselves accordingly so that their interests are well served in a post-Brexit world. Ultimately, the ability to think strategically and to respond to change in an agile fashion will determine the businesses that suffer from Brexit - and those that prosper.



"With us being a matter of months away from Brexit, multinational businesses should urgently consider the spectrum of potential impacts on how they move goods, services and their people across borders. With a real risk that politicians may not get an effective arrangement between the UK and EU-27 to kick in upon Brexit, appropriate risk mitigation techniques need to be thought through now. This is important to protect both the UK side of any multinational business, and also the EU-27 side, which can often be neglected."

Sunny Mann, Partner, Baker McKenzie London

EU27 Business Poll

If you are based at an organisation in one of the remaining 27 European Union Member States, where has the Brexit referendum had the greatest impact on your business?

- It has reduced movement of people within my company
- It has reduced our trade or operations in the UK
- It has disrupted my supply chain
- It has reduced our investment in the UK

SEE RESULTS

Find out more

Our Brexit contacts and
additional materials



Our Brexit contacts



Sunny Mann, Partner, Baker McKenzie London



Cecilia Pastor, Partner, Baker McKenzie Madrid



Anahita Thoms, Partner, Baker McKenzie Dusseldorf



Jennifer Revis, Partner, Baker McKenzie London



Mattias Hedwall, Partner, Baker McKenzie Stockholm



Erik Scheer, Partner, Baker McKenzie Amsterdam



Ross Denton, Partner, Baker McKenzie London



Eric Lasry, Partner, Baker McKenzie Paris

Further Brexit reading

[Baker McKenzie Brexit hub](#)

[The realities of trade after Brexit report](#)

[EU27 Brexit employment survey](#)

Thank you for reading

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