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Breaking new ground with Brexit: challenges and opportunities

Breaking new ground with Brexit: challenges and opportunities

Irwin Mitchell and Halo Financial hosted a roundtable bringing together leading professional services firms and international trade experts to share their thinking on the opportunities and challenges posed by Brexit for UK businesses. The meeting was chaired by Paul Slevin, the Council of British Chambers of Commerce in Europe's lead for the Brexit Taskforce. Formal discussion took place under the Chatham House Rule, followed by open discussion on key points, focusing on the following key themes.

Key themes

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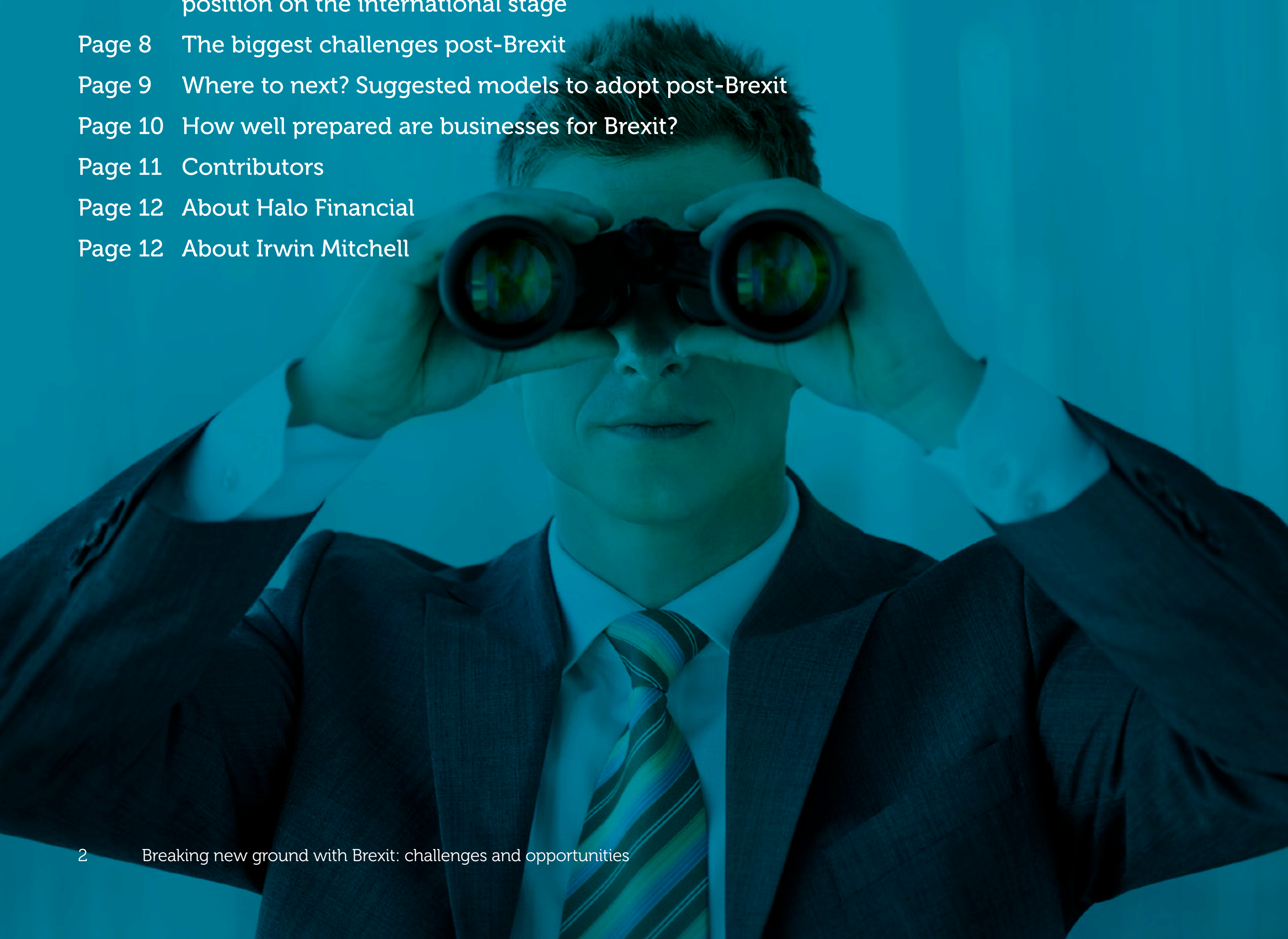


Opportunities arising from Brexit

Early Free Trade Agreements with Australia?

Dick Porter of Australian Business noted, "The possibility of an early Free Trade Agreement (FTA) with the UK is a definite opportunity for Australia."

Alexander Altman, of accountancy firm, Blick Rothenberg, agreed and added that generally, the ability to negotiate new FTAs with other countries should be seen a positive side of Brexit.

> " The possibility of an early Free Trade Agreement (FTA) with the UK is a definite opportunity for Australia. "

Could Brexit be the push the EU needs?

"Brexit may give a positive impetus to the EU to undergo some necessary changes," commented Ylva Baeckstorm, of Avenir Registrars, so this may be viewed as an opportunity.

Greater ties with the Commonwealth

Laurence Gavin of Irwin Mitchell commented, "The UK has always been an open, outward looking economy and the positive side of Brexit may be that it will prove to be a greater encouragement for building trade relationships and the reinvigoration of the ties with the Commonwealth."

Tax benefits

Louis Burke of Irish law firm, Mason Hayes and Curan, noted that there will be some tax benefits as a result of Brexit, as companies will not be so restricted with regard to the distribution of profits.

There will potentially be some savings for businesses in sectors currently affected by EU administrative requirements relating to matters such as State Aid.

> " Brexit may give a positive impetus to the EU to undergo some necessary changes. "

There could also be a benefit from a reduced regulatory burden in the financial sector.

Growing UK regions improving the UK's competitive position

Scott Davis, of auditors, Withum Smith and Brown, noted that the UK will have a chance to become a more competitive nation, with other regions beyond London potentially benefiting. We are certainly seeing opportunities for other cities in the UK playing a greater role on the international stage.

The demise of London as the UK's financial services hub has been predicted several times in the past but never materialised. There may be, however, a shift in favour of Manchester as well, which is emerging as an important contender for the trade and business centre in the UK. Manchester has more critical mass than the other larger cities in the UK and offers good returns on asset investments in comparison to London, where margins have started slipping back.

Proactive and strategic businesses will prevail

Nick Farmer of Menzies LLP urged businesses to be proactive and strategic in their approach in a recent article, "In the wake of Brexit, international businesses must not allow all the Brexit commentary, predictions and distractions to undermine business performance. Business leaders must stay focused on clear strategic goals and reassure workers at all levels that, regardless of the outcome of the EU referendum, there is a plan in place and things are still on track."

> " In the wake of Brexit, international businesses must not allow all the Brexit commentary, predictions and distractions to undermine business performance. "

"Those businesses that successfully navigated their way through the recent economic downturn know that being responsive to opportunities and shifts in market conditions, while keeping a close eye on cash, is vital. These are the businesses that will emerge from the situation stronger and more profitable in the future. For the brave and the bold, now is the time to act, not to succumb to Brexit inertia."

Backing up this thinking, a recent report from UK accountancy firm, Grant Thornton, outlined that unlocking the economic potential of every region in the UK to match the output from the G7 countries, this would provide a £479 billion boost the UK. The same report showed that more than half of the companies within the Track 250 trade overseas and almost the same figure have head offices in areas outside London and South East England.

Taking all this into consideration, UK business will be the driving force in any negotiations.

Currency opportunities

For the foreign exchange sector, the immediate outcome of the vote was very beneficial, as there has been high demand for services. As a result, June revenue was phenomenally high, twice as good as in the previous year. Even now, three months after the vote with the market somewhat stabilised, the volume of transactions has not diminished when considered from the year on year perspective. On the business side, they have seen a significant increase in instructions and revenue. As such, the overall impact of the Brexit decision on the foreign exchange sector has been very positive and firms are taking the opportunity to help their clients to plan ahead and protect themselves in the face of uncertainty.

> "These are the businesses that will emerge from the situation stronger and more profitable in the future. For the brave and the bold, now is the time to act, not to succumb to Brexit inertia."

A robust and resilient economy

David Johnson, of currency specialists, Halo Financial, was upbeat and noted that the UK survived the credit crunch and will also survive Brexit as the UK's economy is, overall, very resilient. Any negotiations will need to focus on ensuring that the financial, manufacturing and tax issues are well considered.

William Swords of the Canada-UK Chamber of Commerce said that the UK should play to its strengths and that overall, business will drive the change.

Tourism – opportunities for entrepreneurs?

Within the tourism sector, long term plans and investment spending have been paused by many participants. This may present an entrepreneurial opportunity for those prepared to take decisions and invest in the current

climate, hoping to take a market share from their competitors. Some have seen a higher demand for services post Brexit in comparison with the previous year, with increased spending on travel this autumn. Inevitably, however, the sector has been affected by the fluctuation of the exchange rate. Some firms managed to turn this into an opportunity by reflecting the fluctuation in their prices and preparing strategies to take a greater market share.

Educational tourism

There is also an opportunity in the context of secondary and higher education with the EU being the third largest source of incoming foreign students in the UK. The issue of visas and the value added by foreign degree holders are the big unknown and it was suggested that effort should be made to carve those areas out from any new arrangement with the EU restricting the freedom of movement.

For outbound tourism, as noted by Rajesh Mavani of holiday rentals firm, Villa Plus, the customs union is of key importance.

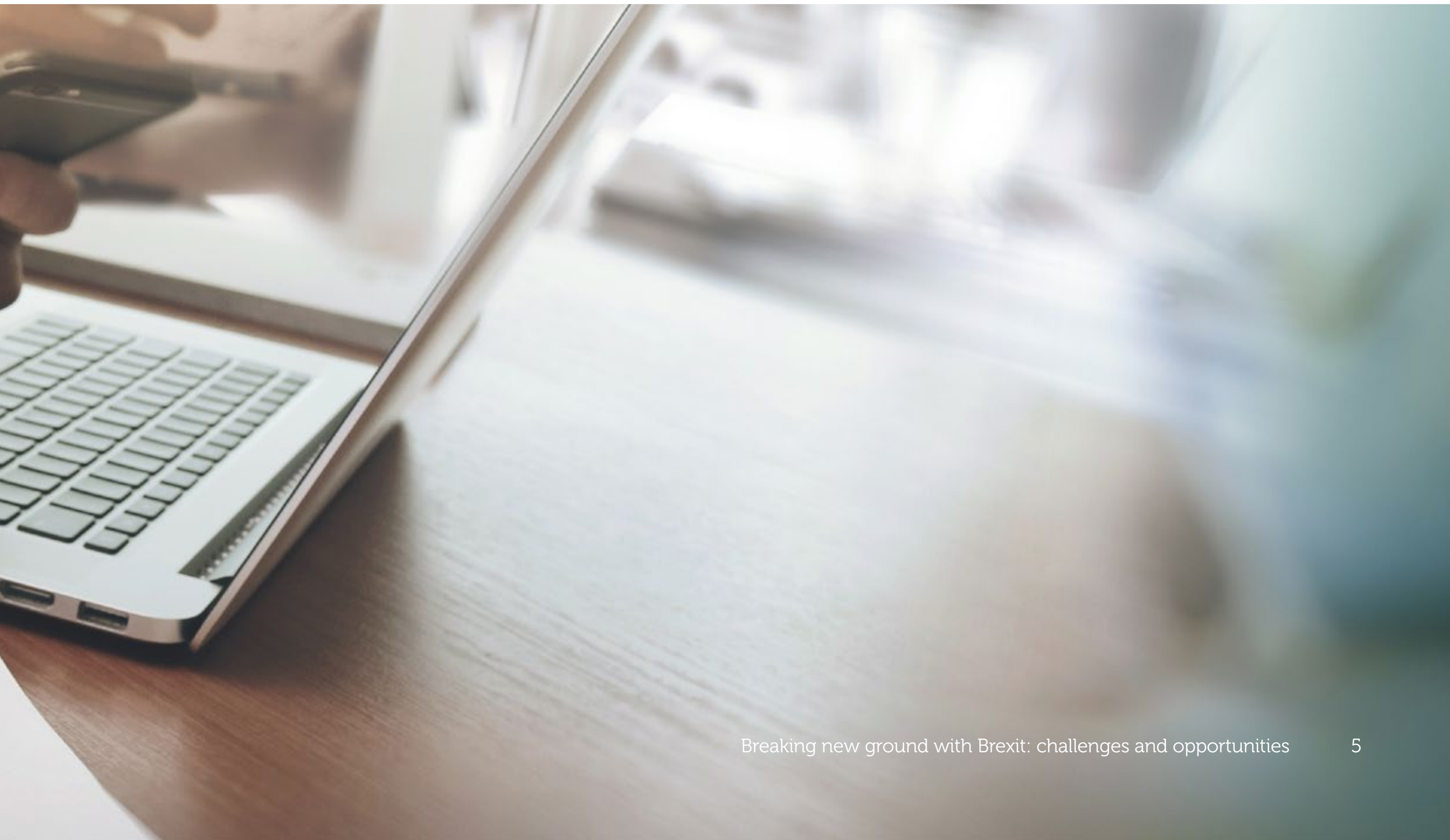
Inbound investment

It was felt that firms wanting to invest specifically in the UK have not been put off by the Brexit vote. Participants believe that inbound investment in the UK real estate sector will continue to remain strong with investors gaining good rental returns on their properties. Interestingly, this type of investment has spread to the regions from the previously predominant London-orientated market. To some extent this may help offset any decline in investment in the financial sector due to the uncertainty about passporting.

Inbound tourism to the UK presents some opportunities and companies could look to extend their market shares there.

Where impact has been felt, however, is in inbound investment by companies wishing to develop their presence in the UK and the EU. Such investments have been put on hold and in the long term, the UK may lose out as alternative jurisdictions such as the Netherlands or Ireland may be preferred by investors.

The UK has been perceived by FTA countries as a sensible bridge to the EU. Such direct foreign investment has been paused or moved to other jurisdictions in the aftermath of the vote. Interestingly, the London Stock Exchange is looking to set up a satellite office in the EU as a pragmatic solution to the potential issues which may arise from Brexit for the financial services sector.



International Perspectives: The effects of Brexit on the UK's position on the international stage

The overall opinion is that there had been a gradual build-up of pressure in the UK which resulted in the Brexit vote. The question is whether the UK is ahead of the curve or whether this will be an isolated instance amongst the member countries.

The EU is not stable at the moment, with various internal conflicts of interests – it is felt that the landscape of the EU will change. Overall, it is felt that the position of the UK will not change drastically on the international scene. There are a range of perspectives from countries who trade with and have close ties with the UK.

In the political arena, the consensus was that the UK Prime Minister, Theresa May, has had a calming influence, but the situation is unpredictable, with impending elections in France and Germany in the next couple of years, which will play their part in shaping the future of the EU. Serious negotiations about Brexit are not likely to start until after the elections in those two countries.

Should the current government push on with the exit, however, there is the real issue of whether the UK is prepared for the negotiations which will ensue. It was felt that the decision to run the referendum without being fully prepared to actually undertake the negotiations was a mistake. Such a lack of strategy would be unthinkable in a corporate or commercial setting and is even less understandable in the context of Brexit.

The UK has embarked on this journey without a plan and without a team. One view was that no negotiations should commence until there is a firm plan in place supported by appropriate people to carry it out. In the event that the UK stays in the EU, it was felt that the post-election EU will be very different and the UK could negotiate not only its new position within the EU but also influence the new shape of the EU itself.

International perspectives: Ireland

The Irish perspective cannot be separated from the historical and geographical backgrounds of the countries, as well as the trade and business relationships specific to Ireland and the UK (16% of Irish export is to the UK, with 400,000 jobs created as a result). The initial devaluation of Sterling had an automatic impact, as the revenues of Irish firms have decreased. With Ireland being the UK's fifth largest export market, businesses importing goods from the UK have felt a benefit and individuals selling euros or selling property to UK buyers have enjoyed greater spending power, but overall, the effect of the vote has been negative and is likely to continue to be so in the long term.

Louis Burke of Irish business law firm, Mason Hayes Curran, added that the long-term relationship between Ireland and the UK will be affected as a result of the UK exiting the EU and that for Ireland specifically, the outcome is likely to be negative overall. There cannot be any risk of a hard border between the Republic of Ireland and Northern Ireland and any negotiations must take this into account.

Some UK companies have decided to register subsidiaries in Ireland to maintain their presence in the EU. As such, the Irish Companies Registration Office has seen an influx of registrations from UK-based companies wanting to open satellites in Ireland.

It is unlikely, however, that Dublin could replace London as the international financial services hub. This is not realistic due to infrastructure, talent, real estate and housing limitations. Dublin was hit hard by the recession and the real estate and construction markets were stagnant between 2009 and 2014. These sectors have now picked up but it will not be until 2018/19 before good commercial and residential spaces become available. There is therefore a major supply issue in the commercial and residential property markets in Dublin.

International perspectives: France

The Brexit vote was not seen as a massive shock in France and the result was not unexpected. Some people, however, such as Parisian retailers, were concerned about the direct impact of any restrictions on the free flow of tourists between the two countries.

The French approach has been similar to other countries, with the business community waiting to see what direction the UK government will decide to take on Article 50. France went through a similar upheaval ten years ago with their referendum on the European constitution. At that time, all major French political parties were in favour of the constitution, but the people voted against it by a majority of 55%. Subsequent changes in the political arena resulted in the rejection of the proposed constitutional treaty, without the need for a second referendum. Considering its own past experiences, France is looking with interest at the current developments in the UK.

France has the infrastructure required to become an international financial hub that Ireland lacks, but high taxes will potentially disincentivise investors. It was felt that some companies will continue to maintain their presence in the UK whilst also setting up an extension to their businesses in the EU to cover both jurisdictions.

International perspectives: Canada

A pre-Brexit poll by the Canada-UK Chamber of Commerce showed that the majority of firms were in favour of the UK staying in the EU. The result of the referendum came as a shock, but once that subsided, firms have started to grapple with what the potential and yet uncertain outcomes might mean for their day-to-day business. With a lack of clear indication from the UK government as to the Brexit strategy, there is uncertainty in Canadian markets, which has resulted in a pause in inbound investments. The pause may be only temporary – or it could be prolonged – and its duration will depend on how quickly some direction is given by the government.

William Swords of the Canada-UK Chamber of Commerce said that uncertainty is the greatest issue for the Canadian businesses at the moment. Canada is currently focused on their CETA negotiations.

International perspectives: USA

They are feeling the effects of uncertainty in the USA, too – some business decisions have been deferred, with people awaiting guidance as to the Article 50 procedure. The UK and the USA have been long-standing business partners and there will not be a wall between them as a result of Brexit. The general outlook is that business will prevail over any difficulties. It will be interesting to see what the outcomes of the forthcoming US election will be and how these may affect the American relationship with both the UK and EU.

International perspectives: Switzerland

There has been no change of attitude in Switzerland, but businesses realise that the Brexit process is in its early stages and there is very little information available at the moment. As such, the response from the Swiss business community has been to watch and wait for further developments. The view from Switzerland was that above all, business is pragmatic and we are still in the very early days of Brexit, with little or no indication of what the end result might be.

International perspectives: Sweden

The general population's reaction in Sweden was that of disappointment. There have been some discussions about promoting German as the foreign language at schools as opposed to English. No changes have taken place yet, but this can be seen as a reflection of the general mood in Sweden.

International perspectives: Australia

Looking from outside both the UK and EU in, the Australian outlook has been positive overall. When the UK left the Commonwealth to join the EU, Australia and New Zealand felt that ties between them and the UK were severed. It is hoped that Brexit will bring the countries closer together with some good opportunities, especially for trade, with an early FTA. Dick Porter of Australian Business noted that internally, firms are adapting to capitalise on the arising opportunities.

International perspectives: Germany

The UK is the second most important market for Germany and the general view is that businesses will continue trading as usual, despite some possible barriers. The German industry will not lose out overall, but there may be some additional costs to be factored in. UK inbound investment has been under review in light of the possible freedom of movement restrictions. This is especially important for manufacturers and can be seen in the steps taken by BMW.

The biggest challenges post-Brexit

Business structure

Alexander Altman noted that the relationships between parent companies and subsidiaries will need careful consideration in the context of profit transfers.

Laurence Gavin of Irwin Mitchell pointed out that cross-border partner firms will need even closer cooperation. "Generally, where there is change, there is legal work, but within the cross-border legal sector there would be additional complexity, so partnering firms will need to work together closely to ensure the best outcomes for their clients."

Nick Farmer of accountancy firm, Menzies PLC, stated that the UK should be careful not to tie itself in red tape and that the level of administration post-Brexit should be kept to minimum.

In addition, various tax systems will need to be navigated carefully.

Sector focus

Constraints on the freedom of movement may have a negative effect in the long term in sectors relying on a flexible labour force, such as agriculture.

The professional services sector has not been affected yet and companies are generally used to obtaining visas for their executives. Future changes are expected to present less of a challenge for the professional sector in comparison with less skilled sectors.

The UK's economy is predominantly based on service sectors and 68% of the current GDP comes from business with the EU. Although the World Trade Organization (WTO) may provide an alternative to the current trade arrangements, it does not cover services.

After the financial crisis there was a government-driven impetus in the UK to develop the manufacturing sectors as an alternative to the service based economy. Interestingly, the manufacturers themselves resisted that and restricted investment. If this mind set continues, the UK economy may suffer if the EU passports fall away. The manufacturing industry has the potential to invest, but may choose to remain cautious.

> " Generally, where there is change, there is legal work, but within the cross-border legal sector there would be additional complexity, so partnering firms will need to work together closely to ensure the best outcomes for their clients. "

Where to next? Suggested models to adopt post-Brexit

If Brexit takes place, the UK will need to negotiate an agreement with the EU that is unique to the new circumstances and the relationship between the two entities. The general consensus was that none of the current models of external relationships with the EU, such as the Norwegian or Swiss models, will be appropriate.

It was felt that as there will not be a consensus between the UK and the EU on the freedom of movement issue, there will be a hard exit and it would be better for this to happen fast, as prolonged uncertainty will not benefit business.

The negotiations must be structured and as such they should not commence until the UK is fully prepared. The question remains, of course, as to how long the EU will be prepared to wait.

With regard to the free movement of people, there was a view that the UK should go back to the original concept of the free movement of labour. Framed as such, the discussion with the EU would be healthier and less antagonistic and the outcome would allow the UK to control the influx of unemployed migrants.

Crucially, the UK government must be seen as progressing matters, as there is a risk of social unrest should no steps be taken.

How well prepared are businesses for Brexit?

New and existing relationships and international presence

Ylva Baeckstrom of Avenir Registrars noted that her firm has been investing into building close relationships with exchanges around Europe and has opened a satellite office in Ireland.

Currency – planning and preparation

David Johnson of Halo Financial commented that for the foreign exchange sector, the Brexit decision has proven to be very beneficial, as the uncertainty has driven profits. His view was that in this sector, firms should focus on helping clients to hedge risks and plan forward. Preparation and planning are key to protect profits and performance.

Conclusions

Although the government in the UK did not instil confidence at this stage, the economy and commerce will drive the change to a positive result. Firms are already taking steps to ensure their future operations, to broker trade relationships and protect their profitability in the face of ongoing uncertainty.

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About Halo Financial

Halo Financial is a leading UK foreign exchange brokerage, offering a comprehensive range of services to individuals and businesses since its inception in 2005. The business prides itself on offering a flexible and personalised approach for each of its clients, simplifying the seemingly complex foreign exchange market to maximise savings in currency transactions and make money go further.

Halo Financial specialises in managing currency risk by offering hedging strategies and best execution for B2B and B2C clients with vertical expertise in numerous industry sectors such as international trade, financial, education, migration and overseas property. Staffed by qualified technical analysts, the company is authorised by the Financial Conduct Authority and HM Revenue and Customs.

Halo Financial received the Gold Award for Best Supporting Service at the OPP awards, the Gold Award for Financial Support and Innovation from Re:Locate Magazine and has 5 out 5 star customer gold merchant status rating via independent review website, Feefo.com.

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About Irwin Mitchell

Irwin Mitchell is unlike any other law firm. Nationally acclaimed, with a strong international capability, the firm offers a broad range of legal services to national and international organisations and institutions, small and medium-sized businesses and private individuals.

The firm was founded in 1912 by Walter Irwin Mitchell. With a concentration on criminal law, he aimed to provide the highest quality legal services to the general public from his small legal practice in Sheffield.

Today, as a full service law firm, Irwin Mitchell is the 14th largest law firm in the UK and amongst the top 50 in Europe, operating out of 14 UK offices including a consulting office in Middlesbrough and employing some 2,800 members of staff. Irwin Mitchell have helped over one million clients in the firm's 100 year history.

The Business Legal Services division is also the fastest-growing area of the firm, with an increasing number of global, national and regional companies choosing to work with Irwin Mitchell.

In 2012, Irwin Mitchell became one of the first companies to be approved as an Alternative Business Structure (ABS), allowing the firm to plan for growth and take advantage of the opportunities created by the changing legal landscape.

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