WHY DOES BREXIT MATTER TO U.S. COMPANIES?

Great Britain voted last year to leave the European Union (EU), triggering a separation process (Brexit) that will conclude on March 29, 2019! In the wake of that vote, Britain has recently begun formal discussions with the EU to negotiate the terms of its exit and the basis of a new relationship with the European economic and political bloc.

Most press coverage has focused on the impact of Brexit on British businesses, trade and the economy. But many U.S. companies with operations based in Britain wonder how Brexit will affect them.

A GATEWAY TO TRADE IN EUROPE
Since the EU was formed in 1993, U.S. businesses have been able to move capital, goods, services and personnel easily across European borders and adhere to a common set of regulations. Many U.S. businesses have used Great Britain — with which the U.S. shares a common language and culture — as a gateway to trade with other EU countries. This has provided entry for U.S. products and services to a robust marketplace of 500 million people in Europe.

With Brexit, seamless free trade access through Britain will end, and U.S. companies will need to establish new operations and offices in other EU countries. What’s more, as U.S. companies follow the Brexit process, many find they have new exposure to risks brought on by the upcoming separation.

LOOK FOR A SHIFT IN U.S. INVESTMENT
Many U.S. businesses have invested in U.K.-based facilities and operations, acquired British companies as subsidiaries, and placed U.S. personnel in Britain to enable commerce with the EU. British banks, investment houses and the financial system have been instrumental to U.S. companies in financing expansions, acquisitions and other transactions.

The potential impact of U.S. investment shifting away from Britain to other EU countries is significant. A survey by the American Chamber of Commerce to the EU estimates that Brexit could potentially threaten 1.4 million jobs and $593 billion in direct investment from U.S. companies.

FOREIGN EXCHANGE AND OTHER IMPLICATIONS
Brexit has already caused a sharp decline in the value of the British pound, and additional fluctuations may occur as Brexit is finalized. Many British citizens fear higher inflation as a weaker British pound increases the cost of imports. A weaker British currency against a stronger U.S. dollar could have a negative impact on trade, tourism, and mergers and acquisitions between the two countries.

Brexit also will have an eventual impact on the ease of data flows; the open sharing of scientific research, innovation and investment; ease in dispute resolution processes and shared institutions; open access to skilled labor resources; and cooperation in regulatory matters.
As Brexit negotiations continue to unfold, U.S. companies are advised to monitor developments in British trade agreements, EU regulatory changes affecting businesses with British operations, and new laws and restrictions impacting workers' cross-border mobility.

To discuss these topics in more detail, please contact your PNC Relationship Manager.