

# WHY DOES BREXIT MATTER TO U.S. COMPANIES?

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Great Britain voted last year to leave the European Union (EU), triggering a separation process (Brexit) that will conclude on March 29, 2019.<sup>1</sup> 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.<sup>2</sup>

## 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.<sup>3</sup> 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.<sup>4</sup>

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.<sup>5</sup>



## A HOST OF CHANGES TO ANTICIPATE

To maintain access to EU markets, U.S. companies with British operations, personnel and investments will need to make many changes in how they operate. Accounting firm PwC sees Brexit affecting U.S. companies with British operations in several ways:<sup>6</sup>

- Goods and services will not move as smoothly from Britain after Brexit and will likely be subject to tariffs, taxes and regulations.
- British tax, regulatory and legislative measures will change, potentially affecting the economic viability of U.K.-based operations and investments.

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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.

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- The U.K. economy may suffer greater volatility in financial markets and currency fluctuation. This volatility could reduce the value of the pound against the dollar and make U.S. exports to Britain less desirable.
- U.S. employees based in Britain will not be able to move as freely between the U.K. and the EU. Some employees may need to transfer to EU locations and others will need work permits and visas to ensure continued mobility.
- Corporate economic forecasts and strategic business plans will likely require careful monitoring and revision during the Brexit transition and its aftermath.

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.**

<sup>1</sup> "The 'Brexit' Talks, in 200 Words," by Steven Ertanger, *The New York Times*, July 17, 2017. Available at: <https://www.nytimes.com/2017/07/17/world/europe/uk-brexit-negotiations.html>

<sup>2</sup> "US companies say Brexit puts 1.4 million UK jobs and \$593 billion of investment at risk," by Ben Moshinsky, Business Insider, March 9, 2017. Available at:

<http://nordic.businessinsider.com/study-brexit-us-economic-impact-single-market-american-chamber-of-commerce-to-eu-report-2017-3/>

Position paper and study on Brexit published by the American Chamber of Commerce to the European Union is available at:

<http://www.amchameu.eu/position-papers/position-paper-brexit-and-future-eu-uk-relationship-cross-sectoral-analysis-and>

<sup>3</sup> "How 'Brexit' Could Change Business in Britain," *The New York Times*, May 22, 2017. Available at:

<https://www.nytimes.com/interactive/2016/business/international/brexit-uk-what-happens-business.html>

<sup>4</sup> "Brexit Implications for US Businesses," by David Gent, Bird & Bird law firm's Two Birds blog, April 5, 2017. Available at:

<https://www.twobirds.com/en/news/articles/2016/global/brexit-implications-for-us-businesses>

<sup>5</sup> Position paper and study on Brexit published by the American Chamber of Commerce to the European Union is available at:

<http://www.amchameu.eu/position-papers/position-paper-brexit-and-future-eu-uk-relationship-cross-sectoral-analysis-and>

<sup>6</sup> "US business: Where to look for your Brexit exposure," PwC special report, 2016. Available at: <https://www.pwc.com/us/en/brexit-us/us-business-brexit-exposure.html>

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