BREXIT ALERT

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BREXIT: United Kingdom Withdraws from the European Union

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The United Kingdom (UK) voted to leave the European Union (EU) on Thursday, June 23, 2016. The referendum, colloquially known as BREXIT (British Exit), sparked international concerns and upheavals in international markets. The UK has been a member of the EU for 43 years and is the first country out of 28 to leave the union. With a 72% voter turnout and 33.5 million votes cast, the LEAVE campaign at 52% beat the REMAIN campaign at 48%.

The world is asking one simple question now: *What will happen next?*

Because the UK is the first country to leave the EU and because of its large influential ties to the economy of Europe, no one knows exactly how the BREXIT will affect the market in the UK, Europe, or the global economy. Detailed below are some updates, facts, stats, and issues that your company should know and keep in mind over the next several months and in the next several years.

EXECUTIVE SUMMARY: What are the key takeaways from this article?

1. Nothing will happen legally until the UK formally announces its intent to leave by invoking Article 50 of the Treaty of Lisbon. This will most likely not occur until a new Prime Minister is selected to replace Prime Minister Cameron. Therefore, changes in the law will not be effective until sometime in 2018.

2. BREXIT does not directly affect trade between the UK and other non-EU countries. It will only change how the UK trades with Europe. That being said, these changes affect the strength of the pound and other market factors, resulting in indirect economic changes to trade between the UK and other countries.

3. Many businesses are concerned about BREXIT because their presence in London will no longer allow them access to the unified single market or the passport regime of the EU; many will want to relocate to other cities within the EU.

What is the timeline for BREXIT and changes to the law?

The EU created a legal avenue for a country to leave the union in Article 50 of the Treaty of Lisbon. Once a country invokes Article 50, the country and the EU work through a two-year negotiation for the country's exit. This means that BREXIT will not occur for a minimum of two years (until 2018) and that the current rules, regulations, and laws in place in the UK from the EU are still effective; nothing will change immediately.

Additionally, under UK law, referendum results are not legally binding. Prime Minister David Cameron could ignore the results and chose to remain; however, Cameron announced Friday morning that he would resign from his position to allow for a pro-leave leader to take his place as he heartily advocated to remain a member of the EU.

Why is BREXIT such a big deal for businesses located in London?

London has been the hub of international, non-EU businesses to locate offices in order to gain access to EU trade and consumers. The EU is the largest free-trade area in the world. Part of the perks of being a member are the unified single market and the passport regime. In short, a company can locate in the UK under the Financial Services and Markets Act and do business in all other member countries of the EU without obtaining regulation permission from each individual country. As a member, the business receives a "passport" to do business in the other countries; it makes doing business easier and less expensive for international businesses.

Now that the UK will no longer be a member of the EU, businesses located in London most likely will no longer be able to access the single market through the EU's passport system. Many companies will and should consider relocating offices to other EU cities so they can continue to have this access. This will result in significant expenses to these international businesses and a large loss of jobs in the UK.

What will the negotiations between the UK and EU be about?
The UK and EU will discuss how the UK will continue to trade and interact with countries in the EU. The negotiations will be in regards to tariffs, exporting and importing goods, regulation and compliance laws, money exchanges, and many other issues. The benefits to members of the EU are access to the unified single market and the passport regime. The cons for members, which led to the BREXIT referendum, are the high membership fees paid by each country and the fluid borders that require states to receive migrants per EU regulations, not local country regulations. Many analysts have suggested these following options for the UK when negotiating with the EU:

1. The Norway Model
The UK becomes a member of the European Economic Area and the European Free Trade Association (EFTA). This will allow the UK to continue having access to the unified market and the passport regime. There are problems, however. The UK will still have to pay a substantial bill to the EU, allow migrants across its borders, and they will no longer have any votes on EU regulations with respect to these areas. Because the cost and migrant issues were two of the main reasons the British elected to the leave the EU, this model is unlikely.

2. The Switzerland Model
The UK becomes a member of EFTA and has limited access to the unified single market. The UK will not have access to the passport regime, most still allow migrants across its borders, and pay the EU a yearly fee, although this fee would be significantly smaller than that of a full-fledged member. This model is unlikely for the same reasons as the Norway Model.

3. New Arrangement
The UK may negotiate its own arrangement with the EU that allows it access to the unified single market and the passport regime without having to accept the EU regulations on immigration or pay a large fee. This is also an unlikely scenario because Prime Minister Cameron attempted to negotiate these issues with the EU earlier in the year and his negotiations failed. The EU has also indicated it is not willing to give the UK favorable treatment (access to the perks of membership without the cons) if it votes to leave.

4. World Trade Organization Regulation
If the UK does not reach a deal with the EU, the rules and regulations of the World Trade Organization will apply to trade between the UK and member countries of the union.

Why does BREXIT affect the financial industry and what will happen to it?
London has been a global financial center for many years. It is the financial hub for United States (US) and other international businesses to access the rest of Europe. The US and other international businesses have

invested $145 billion (£100 billion) into the industry, half of which came from the US. The industry includes 7% of the UK workforce and creates $105 billion (£72 billion) in trade surplus for the country.

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Additionally, vast changes in the economic structure affect the markets. The pound dropped significantly on Friday morning to the lowest levels it has seen since 1985. This also caused the euro and other EU currencies to drop. However, some leaders believe that because London has been a financial center for so long, it will survive this change. Additionally, many see this as an opportunity for the industry to establish itself in new, innovative ways.

Finally, the UK banks released a statement that said the banks are strong enough to handle a severe shock to the pound from BREXIT. They have allocated $345 billion (£250 billion) for market liquidity and economic stability through BREXIT.

How does this affect trade between the UK and other countries?
The most important thing to remember is that BREXIT does not directly affect trade between the UK and other non-EU countries. It will only change how the UK trades with Europe. Although affirmed, these changes affect the strength of the pound and other market factors, resulting in indirect economic changes to trade between the UK and other countries.

What other issues and concerns are on the horizon?
BREXIT will have a ripple effect on many other issues over the next few years. Here are some things to keep in mind:

1. Changes to EU regulations that will still apply within the UK for the next two years
2. Additional referendums from other EU member countries
3. Another Scottish independence referendum as the majority of the Scottish population elected to remain in the EU
4. Germany's economic dominance in the EU
5. A rise in borrowing costs in high indebted countries
6. Trade disruptions
7. Difficulty securing investments
8. The effects of populists ideas on democratic countries
9. Additional changes to the EU because of slow growth, terrorism, and migration issues

Roetzel will continue to provide updates as events unfold, but do not hesitate to contact us with further questions or concerns.

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