

# Brexit Update: Five Issues for Multinational Businesses to Watch



Following the June 2016 referendum in which its citizens voted to leave the European Union, the United Kingdom gave the EU formal notice in March 2017 of its intention to withdraw under Article 50 of the Treaty on European Union. Negotiations for its departure have since begun. With less than two years before the Brexit process is scheduled for completion and with much uncertainty remaining about how myriad details will be resolved, the EU and UK must agree on five critical issues.

## 1. THE DIVORCE BILL

The EU expects the UK to honor existing joint spending commitments as it exits the Union. Joint spending by EU members funds infrastructure projects, social programs, scientific research, and wages and pensions for EU civil servants. The European Commission has indicated that it will ask the UK to pay up to £50 billion (\$67 billion) as it leaves.

The UK has said it will honor its commitments to the EU, which is a good sign for the many businesses that supply goods and services to long-term infrastructure projects and that can benefit from them once completed. But there will likely be fierce disagreement over the size of the bill. This battle is expected to be one of the thorniest for negotiators and may hold up discussion on other items.

## THE BREXIT TIMELINE

- **June 23, 2016:** In a referendum, 52% of UK citizens vote for the country to leave the European Union.
- **March 29, 2017:** The UK gives official notice to leave the EU under Article 50 of the Treaty of Lisbon.
- **June 19, 2017:** Brexit negotiations officially begin.
- **September 22, 2017:** UK Prime Minister Theresa May suggests adding a two-year “implementation period” following the UK’s official departure from the EU by 2019.
- **March 29, 2019:** The two-year clock on negotiations is scheduled to end.

## 2. MIGRATION

A key freedom within the European Union is the free movement of citizens within member states. An important issue for Brexit supporters was regaining sovereign control of UK borders and making decisions about immigration policy in the UK. Approximately 4 million people will be directly affected by decisions on this matter. [A recent policy paper published by the UK government's Department for Exiting the European Union](#) estimated that approximately 2.8 million EU nationals reside in the UK and approximately 1 million UK nationals are long-term residents of other EU countries. Whether these individuals will be permitted to stay is a critical issue. Meanwhile, businesses that rely on workers from across the EU face uncertainty as to whether they will be able to bring in necessary talent.

## 3. EUROPEAN COURT OF JUSTICE

Brexit is ultimately a question of sovereign authority, which makes the future role of the European Court of Justice (ECJ) a divisive issue: Who (the EU or the UK) will decide the outcome if the parties disagree, for example, on the terms of Brexit, pension rights, or on a future trade agreement? [UK Prime Minister Theresa May has proposed adding a two-year "implementation period"](#) following the UK's official departure from the EU by 2019; under her proposal, the UK would remain under the jurisdiction of the ECJ during the transition period.

## 4. THE BORDER BETWEEN NORTHERN IRELAND AND THE REPUBLIC OF IRELAND

Post-Brexit, Northern Ireland, which is part of the UK, will no longer be part of the EU. The Republic of Ireland, meanwhile, will remain an independent member of the EU. Currently, there is free movement of people along with goods and services across the soft border between the two. Britain's departure from the EU's single market, and its customs union, will present significant new challenges for the area. [The European Parliament](#) and others have warned that a new "hard border" could have adverse effects on the region, something both sides have made clear they wish to avoid.

## 5. TRADE AND TARIFFS

Another major cornerstone of the European Union is the free movement of goods and services across members' borders. The EU, the largest trading block in the world, is the UK's largest trading partner, accounting for 44% of all British exports and 51% of its imports in 2016, [according to the UK Office for National Statistics](#). The EU also has trade agreements with countries outside of the Union, which could be lost to the UK post-Brexit.

A key concern is that the clock may run out prior to a deal being reached on trade and tariffs. Complex trade agreements typically take many years to negotiate.

While her position may have softened — as indicated by her recent proposal of a transition period — Prime Minister May has warned that the UK would





leave the EU with "no deal" rather than accept a "bad deal." Leaving the EU with no agreement on trade would force Britain to operate under World Trade Organization rules. In short, this would mean new trade barriers and lots of red tape.

## PREPARING FOR BREXIT

These and other issues to be resolved as the Brexit process is finalized will have a significant impact on businesses' deployment of capital, people, taxable income, and other critical areas. Multinational organizations should continue to monitor the ongoing negotiations between the UK and EU and talk to their insurance, human resources, and legal advisors about

the implications for their businesses. Among other areas, risk professionals should consider:

- How to build insurance programs that address changes to passporting post-Brexit.
- The implications of remaining under the jurisdiction of the European Court of Justice.
- How changes to the free movement of people across EU member states' borders could affect hiring and employment strategies.
- The financial implications of Brexit, including any required disclosures in financial statements.

For more on Brexit, visit [Marsh's Brexit hub](#).

## THREE FACTORS THAT INFLUENCED THE VOTE TO LEAVE THE EU

1. **Dysfunction:** Opponents of the UK's membership in the EU argue that it is costly and has created excessive red tape. They also argue the EU has failed to address the problems of the 2008-09 financial crisis.
2. **Nationalism:** Some Brexit supporters believe that Britain could be more successful outside of the EU and should not be dictated to by other member countries.
3. **Immigration:** Many Brexit supporters oppose free movement between the UK and other EU member states, and have raised concerns about the economic and social effects of what they perceived to have been high levels of immigration into the UK in recent years.



For more on this topic, read Oliver Wyman's report, [\*The Impact of the UK's Exit from the EU on the UK-Based Financial Services Sector\*](#), contact your Marsh representative, or contact:

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