

# The Great Brexit Debate

## Views from other parts of the World

### What does the business community in Germany think about the UK's EU referendum?

There are close economic ties between the UK and Germany – around 2500 German companies have a UK branch, employing 370,000 people. From a German perspective, only the United States is a more important origin of investment <sup>1</sup>.

Thus, naturally, German businesses are more than sceptical about a possible Brexit. According to a survey commissioned by the Bertelsmann Stiftung and conducted by the Economist Intelligence Unit in November and December 2015, amongst 782 companies, four out of five German and British company CEOs (and 83% of the German CEOs) are opposed to a Brexit <sup>2</sup>. They fear that there will be more regulation. In addition, non-UK companies are

concerned that access to the UK market will become more difficult - commercial ties between the UK and continental Europe would loosen. The general feeling is that a Brexit would lead to an economic downturn in the UK and possibly even in the rest of the EU.

In addition, many German business and political leaders fear that they will lose an important ally within the EU institutions, since Germany and the UK share many common positions on crucial EU policies, including on financial, energy, intellectual property, competition, trade and employment matters.

The possible impact of a Brexit might be twofold: first, on the day of or

after the referendum, international financial markets would react to its outcome, whatever the result. Therefore, financial institutions might need to think about exposure and hedging positions for that particular period. Save for the political impact, a vote in favour of a separation of the UK from the EU will not change anything with immediate effect, but would result in negotiations between the UK and the EU on how the Brexit would be implemented in detail. Only once these negotiations have been completed, would market participants have a better understanding of the actual impact of the Brexit on their business and – in a second step – be able to react to it.

1. <http://www.sueddeutsche.de/wirtschaft/kommentar-leichtsinniges-spiel-1.2876181>

2. <https://www.bertelsmann-stiftung.de/de/presse/pressemitteilungen/pressemitteilung/pid/britische-und-deutsche-unternehmen-sehen-brexit-als-gefahr/>



## How might a possible Brexit affect foreign direct investment from your jurisdiction into the UK? And into the rest of the EU?

Foreign investment into the UK would almost certainly become more difficult than it is now, although the actual situation would depend on the terms negotiated. If the UK were to cut a deal similar to those of Switzerland and Norway, the effects might not be so striking. However, if there were to be a long period of arguing and negotiating, business between the UK and the remaining EU countries would be likely to suffer.

In general, any negative effects are expected to be felt more by the UK than the other remaining EU countries.

With regard to the financial industry, the crucial question will be: will the UK become a member of the European Economic Area (EEA) instead? EEA membership would allow the UK to benefit (at least partially) from European legislation, e.g. the EU-passport for the provision of financial

services into other EU/EEA countries. Any potential Brexit is likely to impact on the UK's financial industry as non-European financial institutions may then prefer accessing the EU directly, potentially resulting in those institutions (partially) transferring their European hubs from London to continental Europe.

## Is the Brexit debate seen purely in economic terms, or does it expose a wider disagreement about the role of supra-national rules-based collaboration models?

At the moment, the discussion seems to be revolving mostly around the economic aspects of a possible Brexit. The main argument is the fate of the City of London as the financial centre of Europe. The German Manager Magazin even called Goldman Sachs the biggest loser in the event of a Brexit. Comment and opinion in German newspapers

currently suggests (only partially in jest), that a "Loxit" should have been another option on offer: just separate the City of London from the country and leave it - possibly with Scotland - within the EU.

There are of course efforts to bring other aspects of the European Union back into focus, too. The refugee

crisis, the financial problems in the Eurozone, tensions with Russia and the difficult political situation in many parts of the world all seem to be problems best addressed together and most Germans still hope for the UK to be part of that joint effort.

## In the event that the UK votes to remain in the EU, what is the view about whether the referendum process has strengthened or weakened the EU as a concept? What might be the long term effects of this?

Even if the UK votes to remain in the EU, this will not silence a more general antipathy to the EU that has been spreading across nearly all the member states in the recent past. There is a great fear of the strengthening of populist, nationalist, mostly right-wing parties who oppose the EU. The concern is that parties

with an anti-EU-agenda may seek to follow the UK example and initiate a referendum on EU membership within their own countries. Should any of these parties come to power, the mere threat of holding such referenda could be (ab)used to negotiate certain country-specific exemptions from EU rules, undermining the whole

concept of the EU as a - as the name says - Union, with equal rules for all members. In so far as a precedent has been set, the recent negotiations between the EU and the UK on the latter's exemptions and opt outs could serve as a (negative) example.

# What is the view on whether a Brexit would be the first step towards the drastic reorganisation or even collapse of the European Union?

Populist, nationalist, often right-wing parties with an anti-EU agenda are seen as a big threat to the European idea. The UK referendum, especially if it were to result in a vote to leave, could give these groups another big wave of support among their populations. This is already showing in the electoral success of these parties in countries everywhere across the EU.

Many say the EU is lacking a vision; ideas that go beyond mere economic

cooperation, and that therefore, the population is losing touch and interest. A dangerous ideological return to nationalist sentiment may be the result.

Overall, however, the atmosphere appears not desperate, but cautious. A possible Brexit is just one of many factors threatening the European Union right now. The refugee and the Euro crisis are two issues much more strongly covered in the German news.

They lead to a general questioning of the European Union, its power and the reason it exists. Nevertheless, the general opinion seems to be that these obstacles will be overcome. No one really expects the EU to collapse altogether. Even without the UK, it will certainly survive and remain a cornerstone of European freedom, peace and prosperity.

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