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The realities of trade after Brexit

A new perspective from Baker McKenzie

As companies consider their strategies for life in a post-Brexit world, there remains great uncertainty about the UK's future trading relationship with the European Union.

In this report, Baker McKenzie goes behind the headlines to uncover what the impact of 'hard Brexit' would be in four sectors that are key to UK manufacturing and to our clients: the automotive, technology, healthcare and consumer goods industries.

For the purposes of this study, a hard Brexit is one in which the UK leaves the EU customs union and bilateral tariffs revert to WTO 'Most Favoured Nation' levels for all UK-EU trade in goods. This would be a 'worst case' scenario, which the UK is seeking to avoid, however, this model allows us to draw the strongest possible contrast between continued membership of the Single Market and each of the various 'options' posited for post-Brexit Britain.

It is important to note that this research is limited to the above hard Brexit scenario and does not account for currency fluctuations, trade agreements with the EU or third countries, or any other measures such as state aid that could offset the potential losses associated with exiting the Single Market.

Our findings shed new light on the real costs of Brexit, in both monetary and human terms, and uncover details about the level of dependency that exists between the EU and the UK. We also explore some overlooked but crucial issues for the business community, including the impact that non-tariff barriers will have on post-Brexit Britain.

Meanwhile, as Brexit discussions begin to move beyond the EU, we consider where the best opportunities exist for trade with third countries – one possible answer to the losses associated with departing the Single Market.

To model the impact of a so-called hard Brexit, Baker McKenzie joined forces with economics consultancy Oxford Economics. The Oxford Economics team quantified the impact of Brexit on UK exports to the EU using the GTAP model (Global Trade Analysis Project), which is the benchmark database and model for analysis of international trade policy.

We hope that this report provides you with some new perspectives to inform the Brexit debate, and as always, our team is here to support you as you prepare your business for the UK's withdrawal from the EU.

Read more about our key findings below.

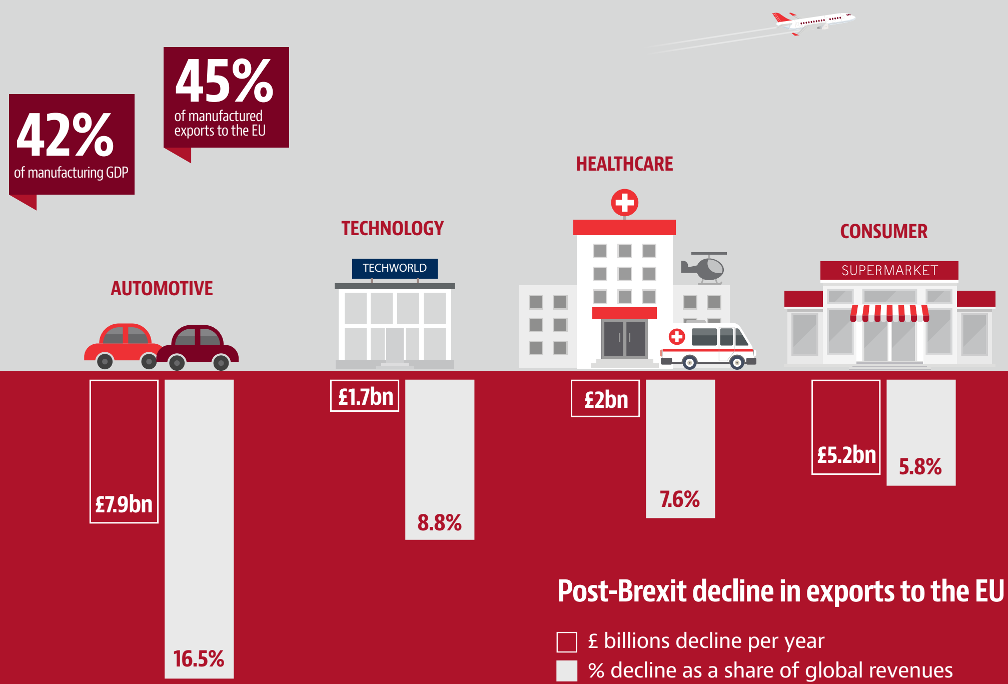
Alex Chadwick
London Managing Partner

1	2	3	4	5
The cost of hard Brexit to Britain's key manufacturing industries	The UK-EU trade imbalance	The risk of business relocation and the government's response	The potential impact of hard Brexit on labour supplies	Opportunities in third markets

The GTAP provides a rigorous and consistent framework for understanding the impact of change in international trade policy. The model simulates the extent to which increases in the costs of imports would lead to consumers switching to a domestically produced alternative or to a different exporting country. It also captures resulting changes in labour and capital allocation.

1

The cost of hard Brexit to Britain's key manufacturing industries



If a hard border were imposed between the UK and the EU, companies that once traded freely with European markets would see their goods exposed to new costs each time they cross the channel. These costs would take the form of both tariff and non-tariff barriers, which you can explore further on the following pages.

We would expect businesses to take steps to offset these added costs, for example, by increasing their domestic sales or exporting to new third markets.

However, if exports to the EU continued at the same level as in 2016, these added costs would amount to a total of £3.8 billion per year across the four key manufacturing sectors we modelled: automotive, technology, healthcare and consumer goods.

As a result of that potential cost, EU exports in those sectors would decline. Economists predict resulting changes to the resourcing of different sectors of the UK economy, a drive to seek alternative trade partners in third markets and a likely increased focus on the UK domestic market.

All of this would lead, across the four sectors we model here, to a reduction of almost £17 billion per annum in EU export revenues.

The sharpest decline would be experienced in the automotive industry, in both percentage and monetary terms. In the consumer goods sector, although the percentage decline in revenues is less significant than in the technology and healthcare sector, in monetary terms, the impact is greater, at more than £5 billion.

- **Automotive** – £7.9 billion fall in exports to the EU – equivalent to 16.5% of turnover in 2016
- **Technology** – £1.7 billion fall in exports to the EU – equivalent to 8.8% of turnover in 2016
- **Healthcare** – £2 billion fall in exports to the EU – equivalent to 7.6% of turnover in 2016
- **Consumer goods** – £5.2 billion fall in exports to the EU – equivalent to 5.8% of turnover in 2016

These four sectors account for 42% of UK manufacturing GDP and 45% of manufactured exports to the EU.

[1] *Source: Oxford Economics*
Totals may not sum due to rounding

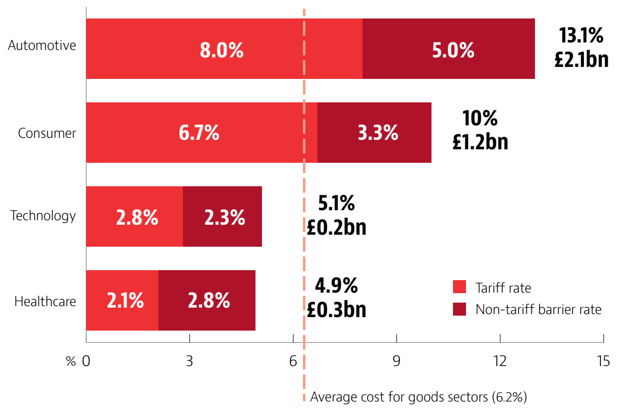
The hidden cost of non-tariff barriers

Under a 'hard Brexit' scenario, in which a hard border is established between the UK and EU, companies would be forced to pay new tariffs and customs duties. However, hidden expenditure, in the form of non-tariff barriers, could prove equally costly to business.

These non-tariff barriers include new compliance paperwork and other administrative requirements. Indeed, in a worst-case scenario, the UK would have to comply with the *import procedures* presently applied by the EU to all third countries.

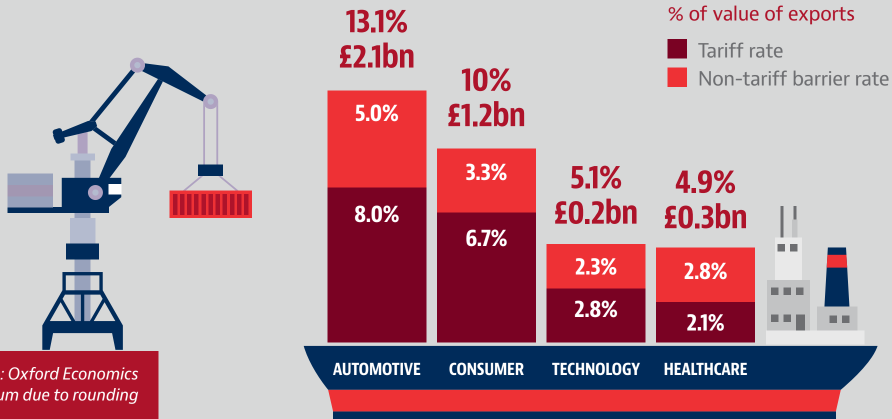
According to the modelling shown below, these non-tariff costs can match or even outstrip the tariffs themselves in some sectors, such as healthcare.

Impact on cost of exporting to the EU due to a 'hard border'[1]



Despite the obvious impact of the non-tariff barriers, the modelling here still does not represent the full picture. A much wider range of additional non-tariff costs could emerge as companies have to cope with divergences in technical standards and other regulations. Full analysis of the possible effects of diverging regulations is outside the scope of the research data, but they are a consideration with which companies must wrestle.

"The UK government has always been against barriers to trade, including non-tariff barriers," says Ross Denton, trade partner in the London office at Baker McKenzie. "Some would say that the whole raison d'etre for Brexit is to remove obsessive standard-setting, categorisation and licensing of products from the UK, but that thinking doesn't take into account requirements of other markets."



Source: Oxford Economics
Totals may not sum due to rounding

Impact on cost of exporting to the EU due to a 'hard border'

"The UK government has always been against barriers to trade, including non-tariff barriers."

ROSS DENTON, BAKER MCKENZIE PARTNER

The complication is that multinationals who sell to the UK will also export goods to the EU and the United States, and they will be forced to choose which set of standards to incorporate.

"For better or worse, the UK followed the EU's lead and many companies have optimised their supply chains to cope with EU regulations," Denton continues. "Their major market is the EU and they understand EU standards. But if those companies begin to mix their manufacturing base, optimising the costs, they could end up in a quagmire, questioning which standards to follow or to adopt."

Understanding the ramifications of those decisions will be crucial to agreeing a multinational's future strategy and beginning to quantify the non-tariff costs in each industry that would spring from a hard Brexit.

Rising costs

With the cost of exporting to the EU set to rise in the face of a hard Brexit, it is reasonable to expect a price squeeze for both suppliers and consumers.

"We'll see a combination of rising prices and softening margins, neither of which are good for the UK economy," says Denton. "Businesses will have to do more for less or pass on costs to consumers, which will rapidly drive up the cost of living."

As a result of loss of competitiveness in a hard Brexit, EU demand for UK exports is projected to fall. In proportionate terms, the decline is most notable in the consumer goods and automotive sectors, mainly reflecting the higher rates of tariff and non-tariff barriers that would apply.

Seeking solutions

Customs simplification precedents

There is mounting pressure to reach a swift solution to Brexit negotiations, in the form of comprehensive UK-EU Free Trade Agreement, as the likelihood of agreeing complicated sector-specific arrangements seems remote.

"This is likely to be an all or nothing arrangement, so industry groups and individual corporations should be working to shape future trading relations with the EU," says London trade partner Jenny Revis. "These are technical questions and companies need specific advice on the solutions they should be lobbying for with the government."

Revis suggests that the government should look to existing examples of customs simplifications.

Examples of customs simplifications include the measures put in place to smooth trade flows between Norway and Sweden, despite the EU border that separates them. The two countries agreed a one-stop shop for customs paperwork, allowing them to check goods on one another's behalf, while technological advancements such as scanners for automatic number plate recognition, have also helped to manage border delays.

In the United States, since the early 1970s, there has been a "preclearance" system in place at certain foreign airports and at one Canadian ferry port. Stuart P Seidel, of Baker McKenzie's Washington, DC office, was a member of the group that drafted the original air agreements with Canada, the Bahamas and Bermuda, and some of the foreign legislation. He explains:

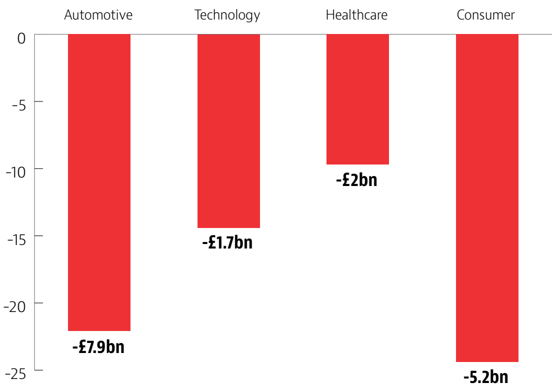
"Under the system, US Customs and Immigration officers are stationed at these foreign airports to enforce US laws for persons bound to the US. This removes the need to go through US Customs again on arrival in the United States. Originally, only Canada, The Bahamas and Bermuda participated, but the system has been expanded to include Aruba, Ireland and Abu Dhabi."

These customs simplifications offer a way to reduce burdens that would be imposed by the introduction of a hard border between the UK and Europe.

"Global precedents do exist, so the government should consider how they could work for the UK," says Revis. "Realistically, it will fall to larger companies to lobby for these measures, with smaller companies relying on their trade associations for support."

With regards to Ireland, the UK has already announced plans for a continuation of the common travel area that predated EU membership and allowed citizens of the UK and Ireland to live and work in both countries. The UK government also hopes to allow import notifications and tariffs to be processed remotely, to minimise business disruption along the Irish border, with smaller traders exempted from customs checks on the basis that their trade is local rather than international.

Impact of a hard Brexit on UK goods exports to the EU[1]



Change as a % of 2016 goods exports from the UK

> "Supply chains can be malleable, but it takes time to find alternative sources."
>
> **SUNNY MANN**, BAKER MCKENZIE PARTNER

Yet there are steps companies may take to counteract these challenges, including altering their supply chains to reduce reliance on the EU. In future, businesses could look to source products from countries with which the UK has a Free Trade Agreement (FTA). The process of altering a supply chain can be complex, however, and businesses are advised to take stock of the multitude of considerations.

"Supply chains can be malleable, but it takes time to find alternative sources of a comparable quality from a country where the duty implications are at least as good, if not better, than existing arrangements," says Sunny Mann, trade partner in the London office of Baker McKenzie, who also points to additional considerations when altering supply chains:

"New suppliers bring new compliance challenges from the perspective of the Bribery Act, human rights obligations and reviewing potential trade sanctions. Can you negotiate good commercial terms? Can the supplier gear up their manufacturing to supply you on time? And if goods are coming from further afield, have you ensured that transport costs won't be too high?"

In short: it may not be possible to replicate entirely the position of trading from within the Single Market, but supply chains can be altered with care.

[1] *Source: Oxford Economics*
Totals may not sum due to rounding

The UK will be the bigger loser if EU trade talks fail

2

As the UK began its negotiations with Europe, there was hope that both parties would have equal leverage in the negotiations. However, our modelling demonstrates that in these four manufacturing industries, the UK is highly dependent on the EU, while the UK accounts for just a small proportion of exports from the EU.

In the automotive sector, as a result of reduced exports to the UK, EU export revenues are projected to fall by 4.3% globally. In contrast, the UK automotive sector stands to lose more than 22% of its global export revenues owing to reduced EU export revenues – more than five times the loss.

There is a similar story in each sector. The EU stands to lose out post-Brexit, in terms of global export revenues, but the UK faces three, four or five times the losses – in percentage terms – in each industry we modelled.

The figures below show the estimated percentage decline in total global exports, post-Brexit, comparing the UK to the remaining EU Member States. When we take into account projected increases in intra-EU trade between the remaining Member States, the proportional trade imbalance is even greater. Accounting for a bump in trade amongst remaining Member States, the UK's losses remain unchanged, but the EU's losses shrink to almost nothing. For example, the EU would see a 2.5% dip in global consumer goods export revenues, with less than 1% losses in other sectors.

Hard Brexit impact on trade flows – global % decline

	UK to EU27 (%)	EU27 to UK (%)	EU27* to UK (%)
Automotive	-22.1	-4.3	-0.8
Consumer	-24.2	-7.3	-2.5
Healthcare	-9.7	-2.0	-0.1
Technology	-14.4	-3.7	-0.6

** adjusting for increases in cross-border trade within the remaining EU27, post-Brexit*

"We have heard a lot about how much Europe exports to the UK, for example, in the automotive sector," says Denton. "That may be true in numerical terms, but when you look at this as a percentage of their trade, you can clearly see that the EU exports a lot more broadly, to a whole host of other markets, and consequently, it is far less dependent on the UK as a market than the UK is on it."

Indeed, in the automotive sector, the EU's total exports amount to £445 billion, of which £49 billion is exported to the UK. By contrast, the UK's total exports in the sector amount to £36 billion, but it exports £16 billion to Europe – a far higher proportion than we see in the reverse trade flow.

The same dynamic exists in each of the sectors we modelled:

	EU total exports (£bn)	EU exports to UK (£bn)	UK total exports (£bn)	UK exports to EU (£bn)
Automotive	445	49	36	16
Consumer	392	34	21	12
Healthcare	226	18	20	10
Technology	409	29	12	5

Given this picture, in the event of hard Brexit, it is incumbent on the UK to secure strong opportunities with third markets. You can read more about this in section five of this report.

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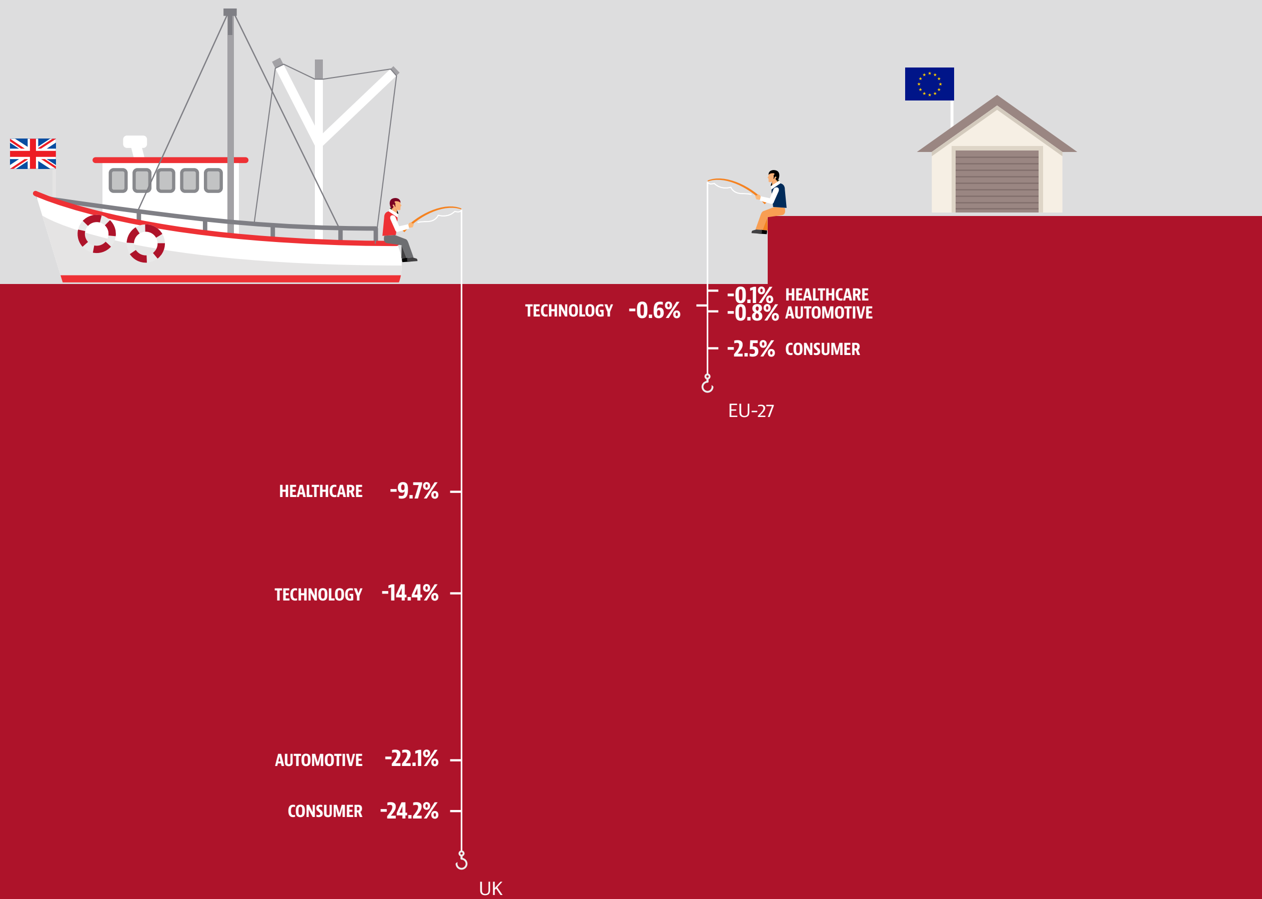
> **ROSS DENTON,** BAKER MCKENZIE PARTNER

% fall in total exports

adjusting for increases in cross-border trade within the remaining EU27, post-Brexit

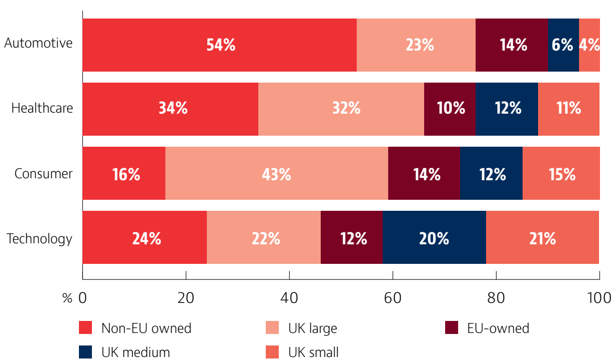


The risk of business relocation and the government's response

In the services sector, much has been made of the potential exodus of financial services firms from the City, if the UK loses its passporting rights after Brexit. Earlier this year, Irish authorities announced that they have clinched deals with more than a dozen London-based banks, including one American bank, which are planning to move at least some of their operations to Ireland to maintain their position in the Single Market.

In the manufacturing sector, the risk is greatest in areas dominated by multinationals. In many of the industries we modelled, there is a sizable share of non-EU overseas ownership. These companies were likely motivated to base their operations in the UK because of the Single Market access it offered and may seek to relocate if that market access is revoked. Over half the automotive sector in the UK is owned by non-EU parent companies, while 44% of the healthcare industry is comprised of non-UK owned businesses.

Ownership structures[1]



Attracting and retaining business

Keeping companies in the UK may therefore depend upon the willingness of the UK government to offer incentives to industry. Last year, it was widely reported that Japan's Nissan would only commit to new UK investment if it received government support to help offset any new tariffs imposed on exports post-Brexit. That raised concerns of costly sector-by-sector backroom deals.

The government may find itself facing legal challenges if it offers incentives to some companies and not others. Under European Union rules, it is illegal to give financial help – state aid – to selected organisations, in a way that would distort fair competition. Of course, enforcing those rules would fall to the European Commission and courts, so in the event of a hard Brexit, in which the UK no longer has an official obligation to the EU, the British government would be free to pursue whatever it deemed the best course of action.

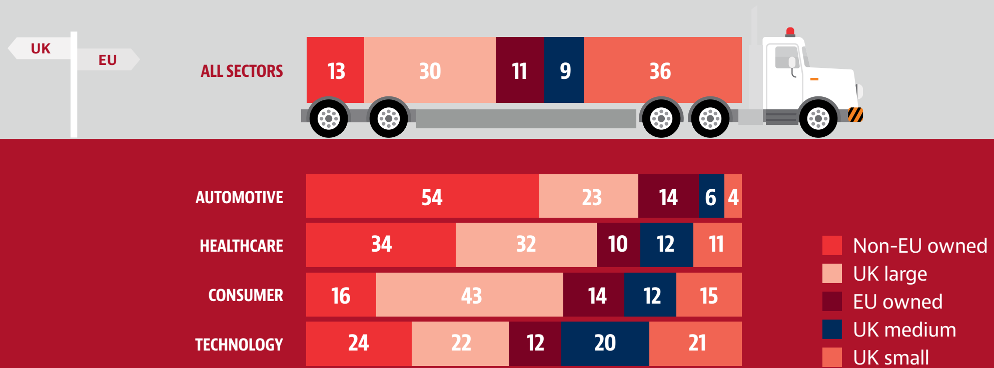
"If we were to leave with a so-called hard Brexit, we would not have, or be required to have, any state aid rules as such," says Ross Denton, partner in the London office at Baker McKenzie. "There would be no way the EU could – at least in the context of state aid – counterbalance what the UK might do."

Of course, there are other steps that the EU could take to reign in activity by the UK government, including bringing a complaint to the World Trade Organisation about unlawful subsidies, or playing hardball across a number of other areas of negotiation.

[1] *Totals may not sum due to rounding*

Ownership structures

% of capital stock by nationality of owner and firm size



> "... the government is currently working out how it will administer a future state aid regime."

SAMANTHA MOBLEY, BAKER MCKENZIE PARTNER

In the case of any sort of 'softer' Brexit, Denton predicts that the EU would seek to reassert a degree of discipline over any attempt by the UK to offer state support to certain companies.

"If a comprehensive Free Trade Agreement is negotiated with the EU, it is almost inconceivable that they wouldn't impose strict controls over state aid," Denton says.

Samantha Mobley, head of the EU, Competition and Trade group in London, agrees that post-Brexit, any EU-UK trade deal is likely to have state aid requirements.

"In fact, the government is currently working out how it will administer a future state aid regime," Mobley says. "The question is: which body will be charged with administering it? The Competition and Markets Authority is already facing a huge increase in its workload, as large mergers that were once subject to European Commission scrutiny only will also require review by the UK's national competition body post-Brexit."

The UK's future as an investment destination outside the Single Market remains to be seen, but there are some early encouraging signs. Despite fears of a business exodus, international companies including Google and Apple have chosen to locate themselves in the UK, suggesting Brexit was not a powerful enough disincentive to harm the UK – at least in the technology sector.

"... industry groups and individual corporations should be working to shape future trading relations with the EU."

JENNY REVIS, BAKER MCKENZIE PARTNER

The impact of hard Brexit on labour supplies

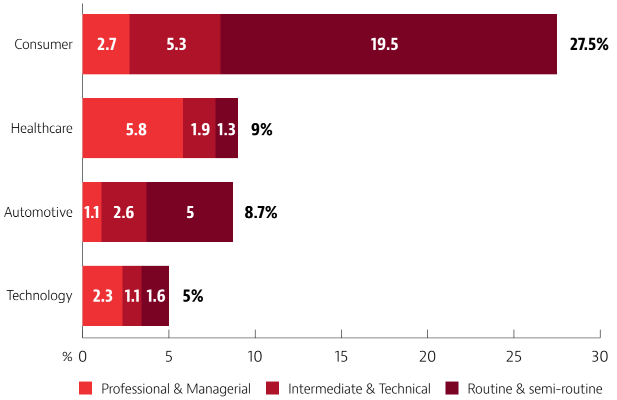
4

In the event of a hard Brexit, the consumer goods sector would be highly vulnerable to potential Brexit-related skills shortages, because the EU provides more than a quarter of the sector's total workforce. Those EU employees perform a wide range of roles across the industry, but the biggest proportion are in routine and semi-routine positions.

The automotive sector faces a similar challenge, albeit on a smaller scale, with almost 9% of its staff comprised of EU nationals, the largest quotient of which are also in routine roles.

In the healthcare industry, concern lies not solely with the volume of staff that could be affected by tighter EU immigration controls, but with the proportion of senior staff whose positions may be in doubt post-Brexit. Almost 10% of the sector's workforce comes from the EU and more than half of that group are in professional and managerial positions.

EU nationals as a share of the workforce



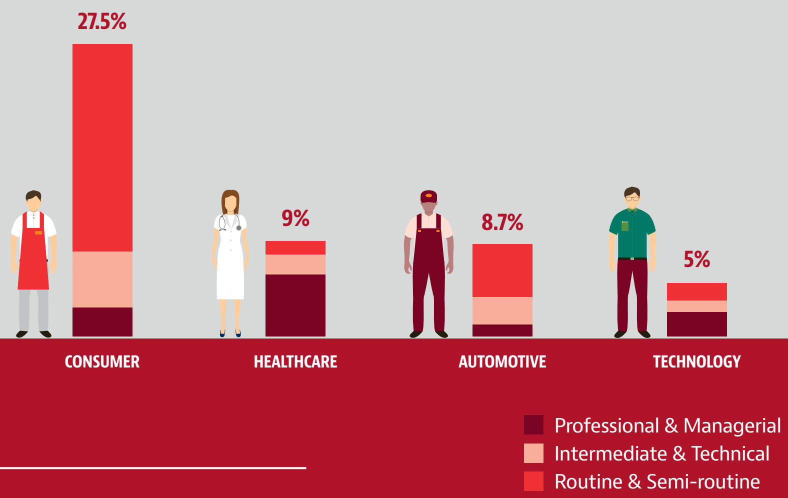
In a *study* commissioned by Baker McKenzie earlier this year, skilled workers from EU27 Member States said that they felt more vulnerable to discrimination since the Brexit referendum, with 56% of those polled indicating that they would depart the UK before the end of the two-year negotiation period. For the purposes of that survey, skilled workers were defined as those educated to degree level or higher. In the healthcare sector, that rate was even higher, with 84% indicating a desire to leave. Such rates of departure would leave the industry with a significant skills gap to plug post-Brexit. The challenges were similar in the technology sector, where 64% of skilled EU workers planned to leave the UK.

"The UK government says there will always be a need for skilled labour and that they want to attract the best people," says Baker McKenzie employment partner Stephen Ratcliffe. "We are advising clients, including those in the tech sector, on how they might support EU staff facing uncertainty over their right to remain in the UK in future, particularly in light of recent suggestions of significant future restrictions on the rights of EU citizens seeking to live and work in the UK."

One possibility would be for the UK government to loosen certain restrictions to allow for greater workforce agility. "Creating a labour market consisting of a greater pool of talent – and thereby reducing the cost burden on employers – could be one way to offset the costs created by hard Brexit," says Ratcliffe. "But that is obviously highly politically sensitive, as the current climate is clearly focused on promoting the interests of UK workers over foreign nationals, whether from the EU or elsewhere."

EU nationals as a share of the workforce

% of total sector workforce



"Future trade agreements could, in principle, encourage greater movement of people by introducing specific immigration tiers for citizens of that country."

STEPHEN RATCLIFFE, BAKER MCKENZIE PARTNER

The fear of losing professional and managerial team members is one that is shared across all industries, though in some sectors, significant gaps will also be left behind in routine roles – as shown by the projected impact of Brexit in the consumer goods sector. While the government is considering options for skilled visas, it has offered no real solution for the wider labour gap. The recently leaked Home Office paper suggested the government intends to materially reduce the number of migrants coming into the UK to perform routine roles, however, the government has yet to announce its official plans on immigration control.

"Again, this will be a question of politics," says Ratcliffe. "The government can't have a permanent situation in which it's easy to come to the UK to do routine work. There's no easy answer, but there is an urgent need for clarity over the types of highly skilled roles for which longer-term work permits may be obtainable."

When it comes to discussing the labour force during Brexit negotiations, Mobley notes that, once again, the UK government could find itself dealing with competing interests – or at least competing priorities – depending on both the sector under consideration and the country on the other side of the negotiating table. Desired entry criteria for different types of workers is expected to vary widely by industry and jurisdiction.

Michel Barnier, European Chief Negotiator for Brexit, faces the task of finding a solution for the remaining 27 Member States of the European Union. But while he negotiates on behalf of the bloc, the considerations can be wholly distinct for different industries and countries.

Future trade agreements could offer another possible solution. In negotiating FTAs – whether with the EU or with third countries – it may be that the UK could agree to greater free movement of people.

"Future trade agreements could, in principle, encourage greater movement of people by introducing specific immigration tiers for citizens of that country," says Ratcliffe. "Given the needs of employers, which have increasingly mobile workforces, it would also be wise to include social security arrangements, where none currently exist, under which employees can in some circumstances continue to make social security payments to their home country for a period after they move to a new country, as in the current EU regime. As yet, we've heard nothing from the government on that point; it's low on their list of priorities."

"The UK government says there will always be a need for skilled labour and that they want to attract the best people."

STEPHEN RATCLIFFE, BAKER MCKENZIE PARTNER

Opportunities in third markets

5

Given the challenges associated with a hard Brexit scenario, companies would be well-advised to seek more open growth strategies – particularly if they are heavily dependent on the EU at present. A free trade deal with the US would offer the greatest prize to UK manufacturing.

The table below breaks down the best third country opportunities in each of the sectors we have modelled, based on the size of global exports to those markets – now and projected over the decade ahead.

For every sector, the US offers the greatest opportunity, accounting for around half of the entire market in each of the industry sectors. China is the second-biggest prize, across each industry, with a fair amount of variation between the remaining sectors.

Third country opportunities

	Automotive	Consumer	Healthcare	Technology
US	✓	✓	✓	✓
China	✓	✓	✓	✓
Japan		✓	✓	✓
Canada	✓	✓	✓	
Korea		✓		✓
Mexico	✓			✓
Australia	✓			
Switzerland			✓	

The European Union is already in advanced negotiations with the United States on the formulation of a Free Trade Agreement, having just completed discussions with Canada and Singapore. The US/EU FTA aims to bring new trade and investment opportunities for companies of all sizes, while boosting jobs. It seeks to cut prices and widen choice for consumers, while maintaining the EU's standards for consumer protection, social rights and environmental rules.

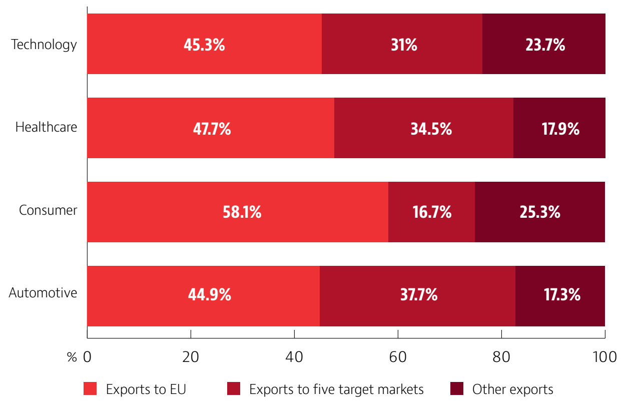
The UK could look to replicate some of the positions articulated in existing FTAs or in those currently subject to negotiation, though of course there will be significant variances depending on the national interests of each country. Companies should demand that the government paves the way for UK business to enter or expand into new markets, by reviewing intellectual property arrangements, negotiating local labour law concessions or ensuring regulatory alignment across a range of issues.

Commentators have noted that while the US may offer the biggest prize to the UK, negotiating an agreement that is beneficial to the UK could be difficult under a Trump administration. The President's transactional approach and desire to 'win' have prompted scepticism that the US would agree to any deal beyond one that is clearly more beneficial to the US than its counterparty.

Below, we look at how far companies would need to increase their export revenues from third markets to offset the potential EU export revenue losses associated with a hard Brexit.

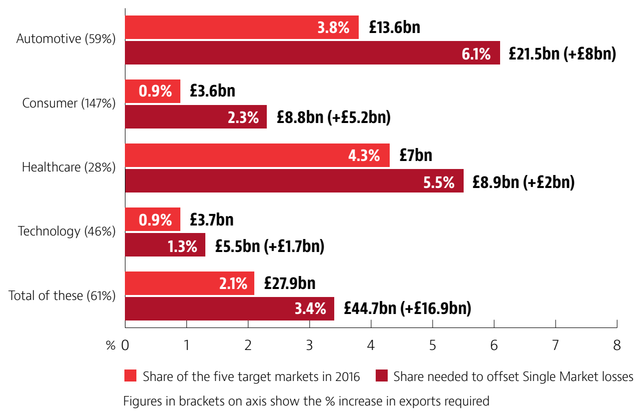
In each of the sectors that we modelled, the UK sent a greater proportion of its 2016 exports to the European Union than to the five key target markets that we identify as offering the greatest third country opportunities.

% of total sector exports in 2016[1]



Overall, a 60% increase in export revenues from third markets would counteract the impact of a hard Brexit. In the consumer goods sector, export revenues from the five key target markets comprising the best third country opportunities would need to rise by as much as 150%.

UK exports as a share of total imports into the selected markets[1]



[1] *Source: Oxford Economics*
Totals may not sum due to rounding

Conclusions

Ultimately, the UK's future trade dealing with third countries may be defined by its eventual relationship with the European Union. While the UK remains within the European Customs Union it must abide by the trade policy of Europe, unless it can negotiate some special dispensation.

"This isn't an EU rule per se, but it's a consequence of the UK and EU both being members of the WTO and needing to apply common external tariffs," says Denton. "Ultimately, it's a question of which is the more beneficial: getting rid of customs formalities and reducing costs for business by remaining within the Customs Union, or having the ability to negotiate third country agreements in some of these other markets."

This will be a cost-benefit analysis that companies will have to undertake on a case-by-case basis and some companies or sectors will be better off with one solution than another.

"That may direct how individual companies want to lobby the government moving forwards," Denton concludes.

At present, industry is focused primarily on the implications of Brexit for future relations with the EU – rather than looking ahead to potential opportunities with new trade partners. Mobley notes that companies are already devoting lots of resources to their European strategy and have yet to turn their attention to how they would deal with other markets.

"Organisations should start to focus on the different trade deals that may be on offer with third countries, to give the UK government a steer on what its priorities should be," says Mobley. "They also need to consider their lobbying position on Europe vis-à-vis other FTA considerations. There may be inconsistencies between the requirements of continuing to do business with the EU and benefitting from trade treaties with third parties."

Absent a formal trade deal, there are other steps companies can be taking now to build relationships in third markets, including considering the types of barriers that would need to be knocked down to facilitate those arrangements. Companies can also seek to identify the third country markets of greatest importance to their business models and work the lobbying position from both sides.

"If a country is vitally important to your supply chain, lobby that government to get them to open negotiations with the UK," says Revis.

Third country opportunities

	US	CHINA	JAPAN	CANADA	S.KOREA	MEXICO	AUSTRALIA	SWITZERLAND
AUTOMOTIVE	✓	✓		✓		✓	✓	
CONSUMER	✓	✓	✓	✓	✓			
HEALTHCARE	✓	✓	✓	✓				✓
TECHNOLOGY	✓	✓	✓		✓	✓		

> “Organisations should start to focus on the different trade deals that may be on offer with third countries, to give the UK government a steer on what its priorities should be.”

SAMANTHA MOBLEY, BAKER MCKENZIE PARTNER

With so many issues still open for debate and negotiation, it is vital for businesses in all sectors to consider how they would be affected by a hard Brexit, whether through the imposition of new barriers to trade, through disruption in the supply chain or as a result of skills shortfalls across the workforce. We hope that this report has helped to shine a light on some of these EU-related considerations. However, companies should also be pursuing open growth strategies and exploring the third markets that offer the greatest potential to offset losses associated with departing from the Single Market.

The UK government is actively seeking advice from the business community as it attempts to focus its negotiation strategy on the highest priority areas, but with competing instincts in different industries, the business community will not always speak with one voice. Ultimately, it may be that those who shout the loudest, play the greatest role in shaping the post-Brexit landscape. As such, understanding all of the ramifications of Brexit – and pushing for solutions that work for your business – will likely determine the companies that thrive in the new era, and those that stagnate.

Summary

	Extra costs as % imports from EU	Imports from EU as % total costs	Extra import costs as % total costs	Relocation: vulnerability due to non-EU ownership	Relocation: vulnerability due to size/ structure	Exposure to squeeze on routine labour	Exposure to any squeeze on higher-paying roles	% increase in exports required in target markets
Automotive	Medium	High	High	High	High	Medium	Low	Medium
Consumer	Medium-to-High	Low-to-Medium	Medium	Low	Medium-to-High	High	Medium-to-High	High
Healthcare	Medium	Low-to-Medium	Low-to-Medium	Medium	Medium-to-High	Low	High	Low-to-Medium
Technology	High	Medium	Medium	Low-to-Medium	Medium	Low	Medium-to-High	Medium

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