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Over There, Over Here: What Now on Brexit?



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We now know what shockwaves feel like ... **David Cameron** has resigned as prime minister of the United Kingdom; sterling has fallen 10% and is slowly picking itself up off the canvas; the U.K. is still in Europe but, barring a dramatic volte-face, will be leaving the European Union. Calls for another Scottish independence referendum and demands to unite the Republic of Ireland with Northern Ireland could leave the United Kingdom no longer united.

The U.K.'s departure from the EU is expected by many to be a protracted and complicated process. Most are predicting it will last at least two years. The question of when to serve an Article 50 notice, the official declaration of intent to leave the EU, will be an important decision for **Theresa May**, the U.K.'s new prime minister. The U.K. also could delay notice even longer if it so chooses, particularly as the country finds itself in uncharted waters from both political and legislative standpoints.

There also is the risk of a disorderly exit if the U.K. and the EU fail to negotiate an overarching framework for a Brexit. The Article 50 negotiation period (with any extension) could expire without agreement and then the U.K. could be summarily ejected from the EU.

What should Orange County companies with operations in the U.K. do?

- *Create space and structure to consider the ramifications of Brexit.* Design a working group or committee of leaders, including outside advisers when appropriate, to monitor the exit process as it evolves. This group can take the lead on related strategy development, help reduce the potential for surprises, and identify downstream opportunities in the market.

- *Plan and assess.* Contracts that contain EU-related provisions will need to be checked to see whether they remain appropriate. Service entities that have licenses to operate and that are currently recognized throughout the EU will need to consider whether this will continue. The potential for a separate agreement on new tariffs and

other barriers to trade will be important for many businesses—there could be adverse effects on some businesses but benefits for others. It might be possible to mitigate some of these risks with advance planning. It might make sense in some cases to consider moving certain business operations into other EU member states. It also may be possible to amend contracts that will no longer be appropriate post-Brexit with so called “flexit” clauses.

- *Communicate, communicate, communicate.* Companies should be communicating regularly with employees, customers and shareholders about Brexit and what it means for their business. It is always best to lead the conversation rather than respond. Many organizations will need to consider whether they have a legal obligation to say anything, for example in their annual reports or because of their obligations as issuers of listed securities.

- *Look for strategic opportunities.* The withdrawal process will most certainly be disruptive. Some businesses will strengthen while others will be weakened as the competitive landscape changes. Institutional investors and others confident of their analytical skills might see mismatches between market perceptions of value and their own assessments. Windows of opportunity to make strategic acquisitions or disposals can open quickly, favoring those who have considered the possibilities and are ready to invest.

- *Ensure your voice is heard.* The U.K.'s withdrawal from the EU will be a process of lengthy negotiations over many months. Companies can and should have a voice in the process, whether directly with policymakers or indirectly through industry organizations.

It is clear that the vote on June 23 was only the beginning. There is still much to be decided in the execution of Brexit and its impacts on companies doing business in the U.K. and continental Europe. The EU must decide whether to take a tough negotiating position to discourage others from following the U.K. out of the EU, or whether it should seek a pragmatic solution that is financially advantageous to the EU.