While the mainstream Brexit debate has been almost solely UK-focused, King & Wood Mallesons has captured the European business perspective.

We conducted independent market research, surveying 300 senior in-house counsel from listed companies in France, Germany, Spain and Italy to ask how they felt about the prospect of the UK leaving the EU.

“This is the biggest macro-economic and political decision in a generation and it’s important that we consider all aspects of the debate. We have studied the ramifications of Brexit for European businesses and consumers, and we have looked at how a decision to leave the EU would affect sentiment towards the UK more generally,” said Stephen Kon, Senior Partner, EUME.

Here, we present our findings, broken down by jurisdiction, and we offer an in-depth focus on the German market, with commentary from King & Wood Mallesons partners.

**EU-WIDE KEY FINDINGS**

- **68%** of business leaders feel a Brexit would adversely affect their business.
- **62%** would be less inclined to do business with UK entities as a result of a Brexit.
- **69%** say that if the UK leaves the EU, it will set a precedent for others to leave.
- **67%** think their government should negotiate a trade deal with the UK, if it votes to leave.
- **65%** believe a Brexit would weaken the EU economically.
- **62%** believe that any such trade agreements should penalise the UK.
64% of Spanish businesses were supportive of their government agreeing a trade deal with the UK in the event of Brexit, but 58% of them say the terms of an agreement should punish the UK for leaving.

69% of Spanish businesses believe a Brexit would adversely affect their business.

Spanish companies were most concerned that it would be more difficult to access UK markets, and that there would be less UK investment in European businesses.

78% of respondents said that moving the EU financial centre away from London could be beneficial.

67% believe a Brexit would have a negative economic impact on the remaining EU members.

57% of Spanish businesses feel that the EU is in need of reform. Of them, 74% would like to see regulation overhauled.

69% felt a Brexit would set a precedent for other countries to depart.

65% felt it would weaken the EU.

71% of Spanish respondents said that ‘too many countries leaving’ was most likely to contribute to the breakup of the EU.
France Snapshot

ON UK TRADE RELATIONS

64% of French businesses would be less inclined to do business with the UK following a vote to leave the EU. One third would be “a lot less inclined”.

64% of respondents in France believe a trade deal should be negotiated if the UK leaves the EU.

56% believe such a deal should penalise the UK for leaving Europe, through customs duties or other barriers.

86% of French businesses believe a Brexit would adversely affect their business.

68% of respondents said moving the financial centre away from London could be advantageous.

60% said the predicted drop in UK GDP would make the UK less expensive.

ON EUROPE’S FUTURE

57% of French businesses feel that the EU is in need of reform, with the most pressing needs to address:
• The European Central Bank / the Euro
• Financial Services, including FS regulation

64% in France believe a Brexit would weaken the EU and feel it would set a precedent for other countries to depart.

65% of French companies see the weakening of the euro as the greatest threat to the EU, followed by migration.

Respondents: 75 listed companies in France
ON UK TRADE RELATIONS
- 71% of Italian respondents believe their government should agree a trade deal with the UK in the event of a Brexit, however an enormous 76% believe such a deal should penalise the UK for leaving Europe, through customs duties or other barriers.

ON BUSINESS
- 69% of Italian businesses believe a Brexit would adversely affect their business.
- 71% of respondents pointed to the creation of new jobs if companies move to the EU from London.

ON EUROPE’S FUTURE
- 59% of Italian businesses feel that the EU does not require reform.
- 69% believe a UK exit would weaken the EU.
- 73% believe it would cause other Member States to follow suit. Restrictive regulation and migration were seen as the greatest threats to the EU’s future.

Respondents: 75 listed companies in Italy
The View from Germany mirrored many of the same concerns as were seen across Europe, though respondents acknowledged that a Brexit could create new jobs if companies move to the EU from London.

“A large number of EU-wide financial transactions are handled out of London and many of them would be likely to relocate to other financial centres within the EU,” says Lars Reubekeul, a partner in the Munich office at King & Wood Mallesons. “Perhaps Brexit would lead to less UK investment in European businesses, but international investors continue to carry out transactions, and Germany, with its unquestioned stability, is an obvious alternative to the UK when it comes to investment.”

Some respondents also said the predicted drop in UK GDP would make the UK less expensive, though Reubekeul believe this is “only half the story”, pointing to several factors:

• The value of German interests in UK companies is approximately €121 billion.
• There are more than 2,500 German companies in Britain, which employ around 370,000 people.
• In the event of Brexit, Germany loses an important strategic partner and will need to help compensate the missing EU contribution payments. The burden for Germany would be considerable - it is already the largest net contributor with estimated €2.5 billion per annum.

And in fact, despite the potential upside, two thirds of German companies surveyed believe a Brexit would adversely affect their business. That view is “strongly” held by 56% of respondents.

“There is a need to reform. The EU has become a large organisation and a regulatory authority, rather than living the original European ideals of unity, harmony and solidarity.”

Lars Reubekeul, Real Estate Partner, KWM

They fear that new customs duties could be introduced by the UK for goods and services, and that a Brexit could lead to less UK investment in European businesses.

“I share this view,” says Christian Schatz, German co-managing partner and a member of the KWM international funds team. “German exports to the UK may be affected, UK banking services need to be replaced and Brexit may lead to a further split of the Eurozone.”

Survey respondents also see a British departure as a threat to the future stability of the union, with 68% of respondents saying it could set a precedent for others to leave.

“This is definitely a risk that I see with regards to the Scandinavian states,” says Reubekeul.

Almost the same proportion agree that a Brexit would “weaken” the EU, which perhaps explains why a majority want to see Germany and the UK negotiate a trade deal, in the event of a Brexit, but 61% believe that any such agreement should penalise the UK for leaving, for example, through the imposition of new customs duties or other barriers.

Continued on next page
67% of German businesses do not feel that the EU is in need of reform. Those who do wish to see changes cite a desire to amend the EU's approach to regulation, while redressing the balance of competencies between EU and Member States governments.

“There is a need to reform,” says Reubekeul. “The EU has become a large organisation and a regulatory authority, rather than living the original European ideals of unity, harmony and solidarity.”

Schatz agrees that the EU is in need of reform, but he is sceptical of the measures proposed by UK Prime Minister David Cameron. “We need to get away from these ‘blocking’ situations,” he says.

Partner Christian Cornett, who is based in Frankfurt, expands further: “The blocking attitude is worrying; blackmailing is not part of the democratic culture.”

He fears that the combative attitude would only be heightened, post-Brexit, with an increase in regulation being imposed against the City of London from the EU.

Cornett is also concerned that a Brexit would mean the loss of a major financial exchange in the EU. He is sceptical as to whether the remaining capital market hubs within the EU, including Frankfurt, could fill the vacuum that might arise over time if London were no longer part of the EU.

“Frankfurt is not a global centre in the same way as London,” he says. “It may become a stronger hub, but a unique combination of history, language, skills and connectivity have made London the natural centre and no other EU city has these elements to replace London in a way that matches the likes of New York or Hong Kong.”

Asked about the factors that could break up the EU, German companies felt that migration and restrictive regulation posed an equally powerful threat, with the weakening of the euro and the departure of too many countries as lesser but still significant risks.

“If the UK departs, we’ll need different checks and balances than now and those may well make the EU far less efficient. A Brexit would be a step in the wrong direction at the wrong time, when the EU should – on the contrary - be strengthening in terms of global competition,” says Cornett. “In the aftermath of the financial crisis, the European financial markets need a strong union at times like these, not a weakened union.”

On the whole, German businesses were more positive about the EU’s future than their neighbours. In Italy and France, only 1% of respondents felt there were no circumstances under which the EU would break up; in Germany that figure stood at 13%.