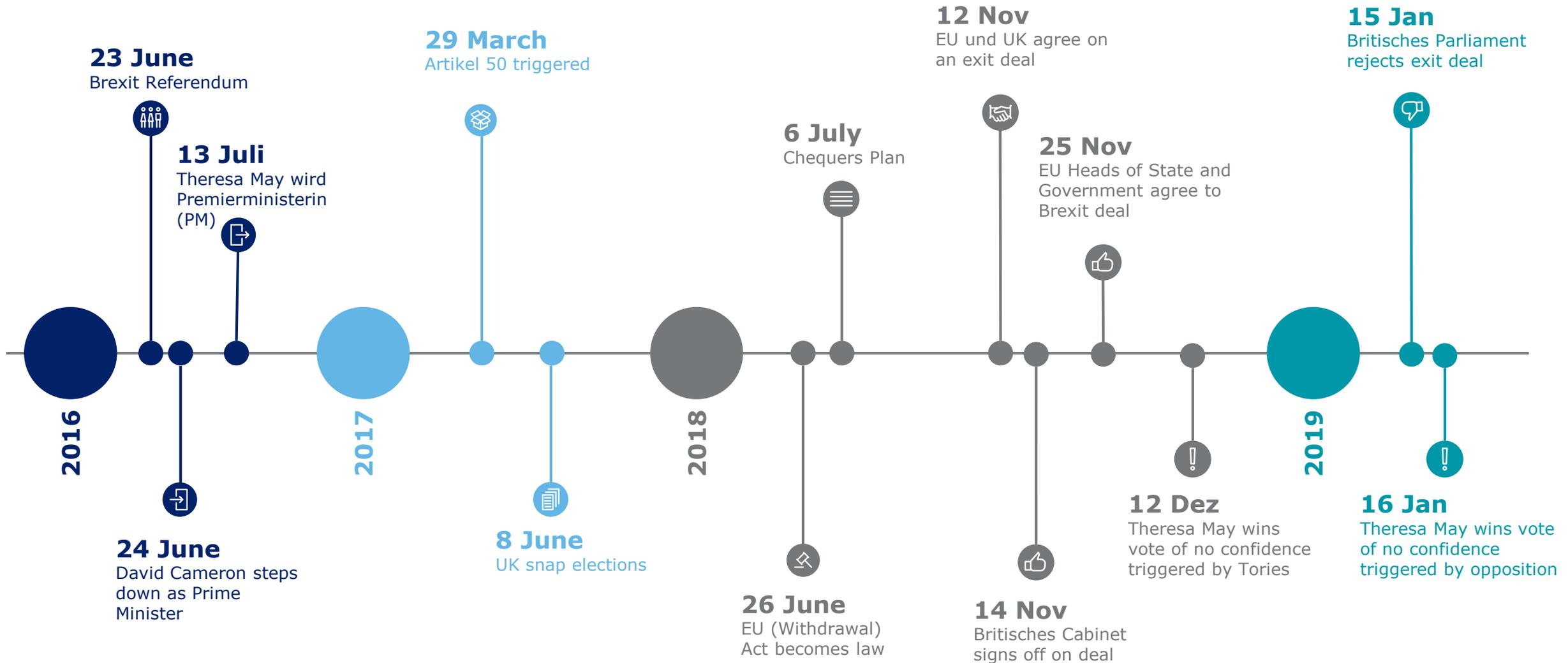


Brexit negotiations

The road ahead: What has happened and what will happen next?

Brexit | Meilensteine

What has happened so far: the most important milestones



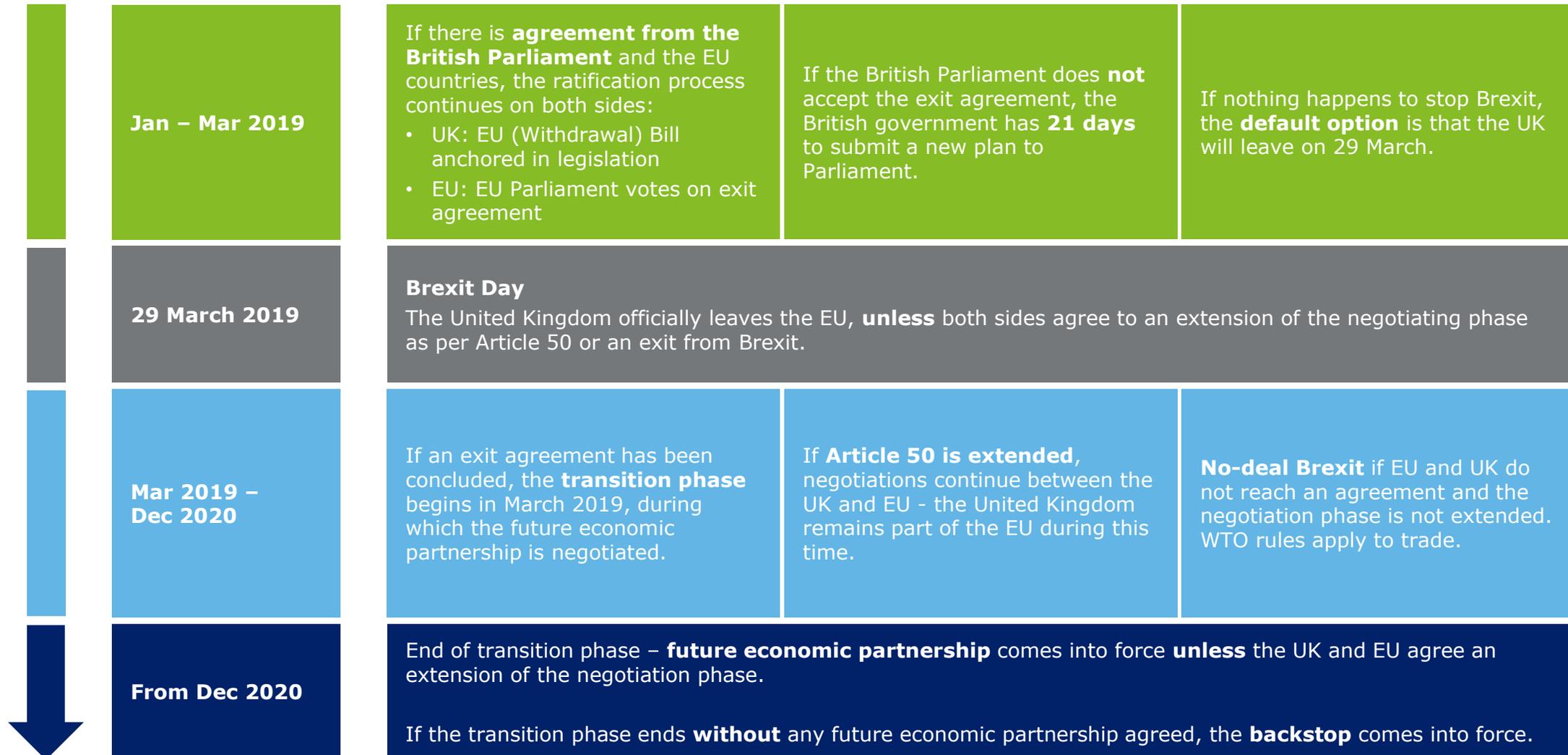
Brexit | The road ahead

The road ahead: There are many possible outcomes for the upcoming weeks

Possible delay on a final decision			Final outcome	
New elections	Second referendum	Extension of Article 50	Withdrawal agreement	No Deal
If...:	If...:	If...:	If...:	If...:
<ul style="list-style-type: none"> Successful vote of no confidence against the government by the opposition <u>or</u> two-third majority of MPs call for early general elections 	<ul style="list-style-type: none"> PM proposes a second referendum to Parliament <u>and</u> UK Parliament agrees 	<ul style="list-style-type: none"> PM asks for extension of negotiation phase after consulting with Parliament <u>and</u> EU Member States agree unanimously 	<ul style="list-style-type: none"> UK Parliament agrees to the current or a new deal <u>and</u> European Heads of State and Government and EU Parliament agree to the deal 	<ul style="list-style-type: none"> UK Parliament rejects all exit agreements <u>and</u> negotiation phase is not extended
...then:	...then:	...then:	...then:	...then:
<ul style="list-style-type: none"> Election: the current timetable of concluding an exit agreement by Mar 2019 cannot be met Options include extending Article 50 (with EU agreement), No-Deal Brexit or withdrawing from the exit 	<ul style="list-style-type: none"> Second referendum: the current timetable of concluding an exit agreement by Mar 2019 cannot be met Options include extending Article 50 (with EU agreement), No-Deal Brexit or withdrawing from the exit 	<ul style="list-style-type: none"> Negotiation phase is extended Timescale uncertain 	<ul style="list-style-type: none"> Exit agreement comes into force in Mar 2019 Transition phase with further negotiations until Dec 2020 	<ul style="list-style-type: none"> If nothing else happens, the default option would be a no-deal Brexit on March 29

Brexit | The road ahead

Down the road: No end to uncertainty expected in the coming years



Brexit negotiations

Exit agreement vs. No Deal

Brexit | Exit agreement

What are the six key points in the current withdrawal agreement?

01

Transition phase

- 29 Mar 2019 to 31 Dec 2020
- UK continues to comply with EU regulations, but loses membership of EU institutions
- Transition phase can be extended **once for a definite period**
- Decision about extension must be made before **1 Jul 2020**

04

Goods trade

- During the transition phase, UK and EU remain in a **customs union** under EU regulations, therefore no customs duties or goods controls are necessary
- During a **Backstop** the whole of UK would form a single customs territory with the EU. Northern Ireland would further align with the EU single market on goods standards, agriculture production and veterinary controls.

02

Backstop

- If the transition phase ends without agreement, the UK and EU remain in a **customs union - for an indefinite period**
- This backstop can only be lifted with agreement from **both parties**

05

Financial settlement

- EU and UK agree on a financial settlement of approx. EUR 44 billion
- This consists of contributions to the EU budget and British commitments made in the past
- In case of an extension of the transition phase, further payments become due

03

Citizen rights

- EU citizens living in the UK and UK citizens living in the EU retain all of their rights, including during the transition phase
- Free movement of people - one of the four basic freedoms of the EU - ends
- Travelling without visa should however remain possible in future

06

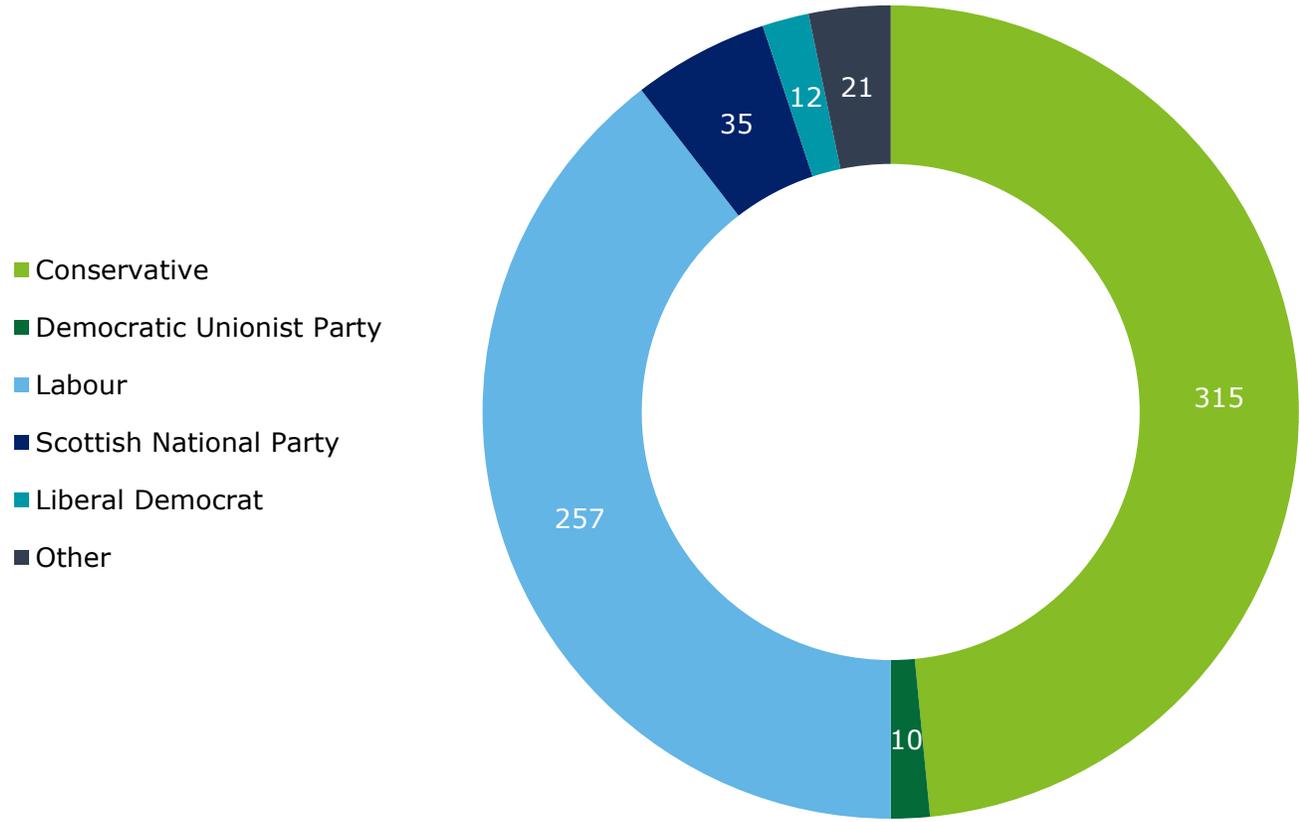
Governance

- A committee with representatives of both parties was founded to deal with all legal questions to do with the exit agreement
- The ECJ remains the jurisdiction for all questions relating to EU law

Brexit | British Parliament

320 votes are required in Parliament to approve a deal – however, the parties are fragmented and a majority Parliament assent remains unlikely

Distribution of seats by party in the British Parliament (N=650)*



Source: UK Parliament, Deloitte Research

*11 Members of Parliament will not vote: The Speaker and his three deputies are not allowed to participate, 7 members of the Northern Irish Sinn Fein party refuse to take their seats in parliament.

Brexit | No Deal

The situation after a disordered Brexit would be chaotic - an overview in numbers



10 percent customs duties

could arise for cars alone according to the World Trade Organisation (WTO). Lowering the level of duties bilaterally without a full free trade agreement is prohibited by WTO regulations. However, the UK could choose to levy applied rather than bound tariff rates provided this rate is granted to all WTO members.



154 million passengers

a year fly from Great Britain to the EU, plus 457 thousand tonnes in freight. Without a specific agreement, European airlines would no longer have access to British airports, and vice versa, British airlines could not longer fly to European airports.



11,000 HGVs

travel to Calais every day. Passport and customs controls would be necessary at the border with Great Britain. This could lead to long delays, especially for the economy; Imperial College London estimates that a delay of two minutes per HGV in Dover and at the Eurotunnel would lead to a traffic jam of 47 kilometres.



75 percent of derivatives trading

in euros is conducted in London, according to the Bank for International Settlement. Without a specific agreement, European customers would no longer have access to clearing services after a no-deal Brexit. However, the European Commission has already announced that it would temporarily classify British clearing houses as equivalent to those in the EU.



219,000 EU citizens

came to the UK in the year ending June 2018. Although the rights of EU citizens living in the UK long-term are supposedly secure even in case of a no-deal Brexit, this does not clarify the right of residence for many other European citizens.



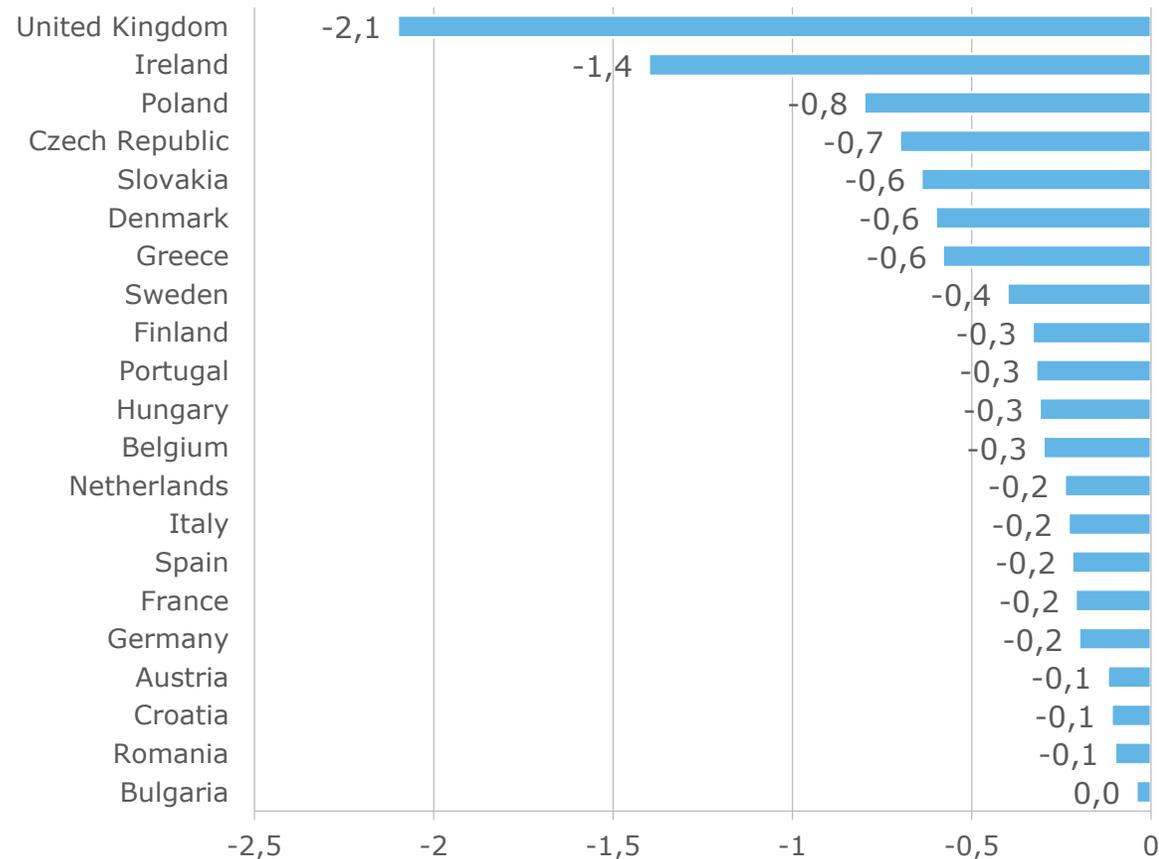
45 million medicines

are transported every month from the UK to the EU. Due to delays and traffic jams in Calais, these might not reach the EU in time.

Brexit | No Deal

The immediate effects of a no-deal Brexit on growth would be manageable for many European countries on a macro level, but...

Effect of No Deal on gross domestic product compared to UK remaining in the EU (% difference in GDP level in Q4 2020)



Whereas the effect on the other EU Member States appears comparatively low across various studies, the forecasts for the British economy fluctuate considerably due to the large number of uncertain factors.

The **NIESR** think tank, for example, estimates that in case of No Deal, British GDP would fall by **5.5%** compared to its level if the UK remained in the EU until 2030.

The **'UK in a Changing Europe'** group predicts that British GDP per capita would fall between **3.5% and 8.7%** over the next ten years as a result of No Deal.

The **Bank of England** also estimates that UK GDP could fall by **up to 8%** in the worst case if the United Kingdom and the European Union cannot agree on a deal. During the 2007/08 **global financial crisis**, the British economy shrank by **6.25%**.

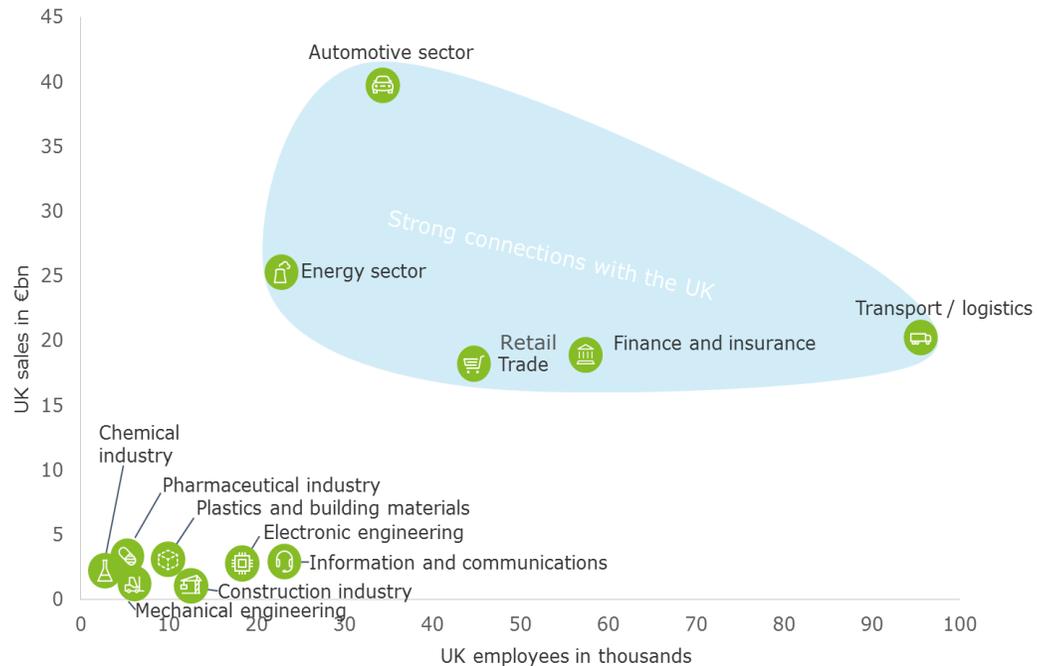
In absolute terms, a 0,2% lower GDP for **Germany** would result in a 7 billion EUR lower prosperity level.

Source: Oxford Economics, NIESR, UK in a Changing Europe, Bank of England

Brexit | No Deal

...individual industries would be strongly affected

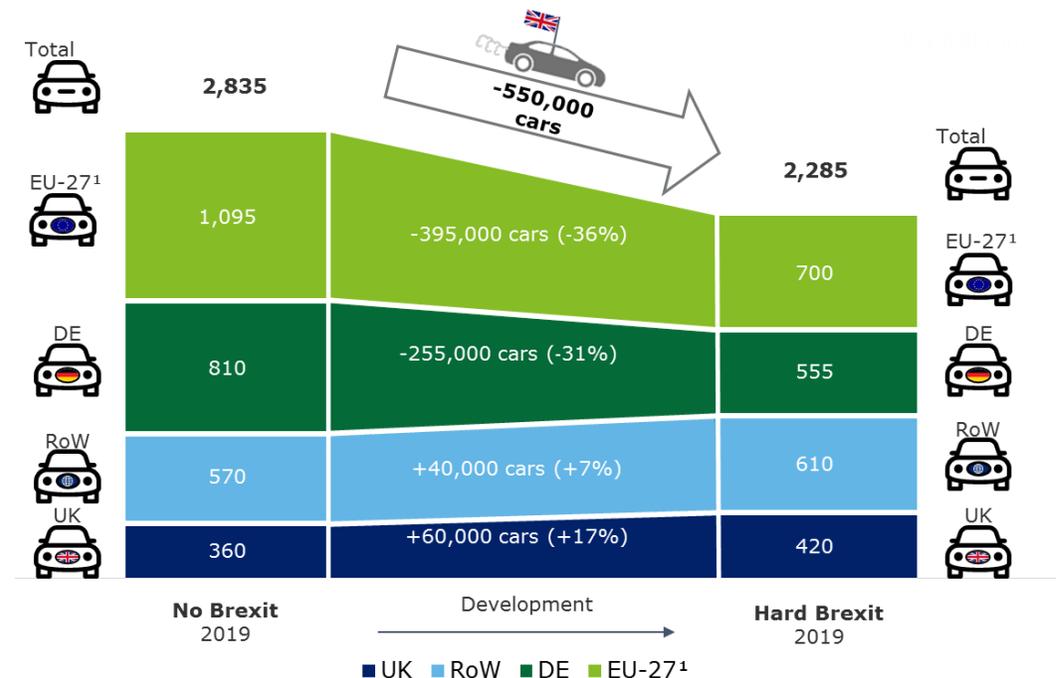
Brexit Briefing III: Connectedness of German industries with UK



- 1,000 German companies have subsidiaries in the UK, this includes 160 of the largest German corporations
- These 160 large German companies employ around 400,000 people in the UK and achieve revenues of approx. EUR 150 billion
- The automotive sector is the most valuable, achieving revenues of EUR 40.1 billion, followed by the energy sector and the transport and logistics sector with revenues amounting to EUR 24.3 billion and EUR 20.6 billion respectively.
- The sectors with the highest employment are transport and logistics (95,700 employees), finance and insurance (59,100 employees) and retail (44,600 employees).

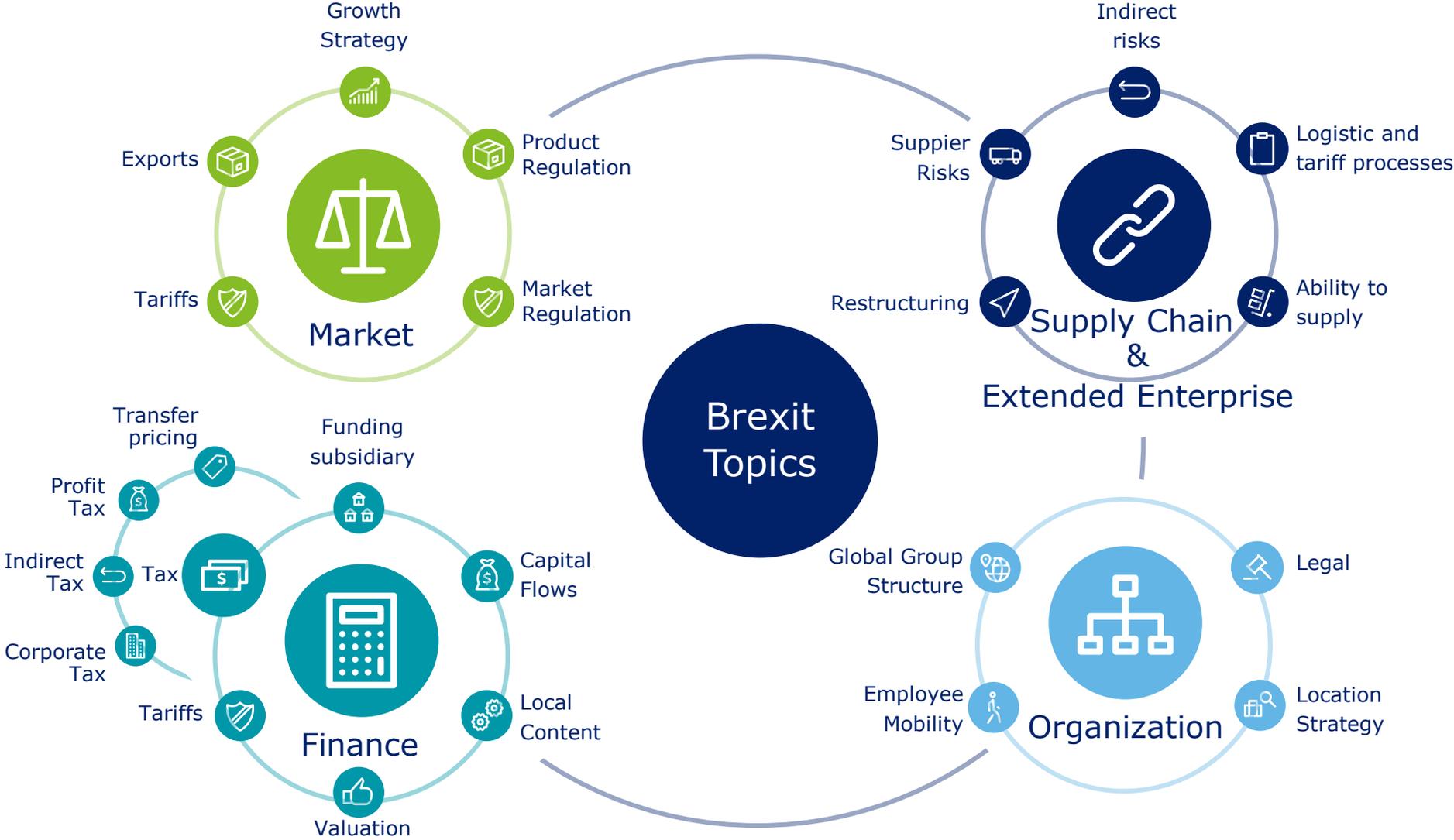
Source: Deloitte Research
2018 Deloitte

Brexit Briefing V: Effects of no-deal Brexit on automotive manufacturers



- If vehicle manufacturers pass on this cost increase 1:1 to their customers, the price of a car in the United Kingdom would increase by € 3,700 on average.
- Taking British consumer behaviour into account, sales in the United Kingdom are expected to fall by approx. 550,000 vehicles (-19%) in the year of EU exit.
- Total turnover from vehicles in the UK will decline by approx. € 12.4 billion (-18%)
- Based on the declines in sales and turnover, approx. 18,000 jobs in the German automotive industry would be endangered directly.

There are four key areas for European companies to consider



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