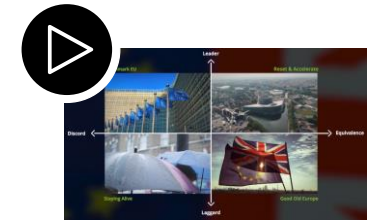


Deloitte Brexit Briefings

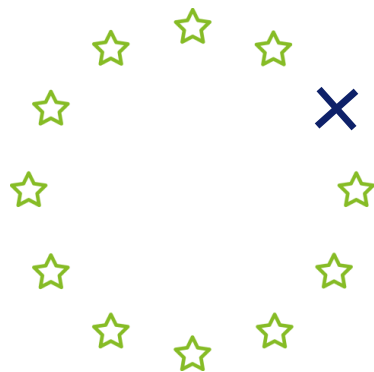
Perspectives on Brexit



The Deloitte Brexit Briefing Series

The United Kingdom's decision to leave the European Union in June 2016 will have sweeping economic and political consequences. For enterprises, Brexit means their business environment will change fundamentally.

The *Deloitte Brexit Briefings* take an in-depth look at core issues and risks in the context of Brexit from an economic, strategic, tax-related and legal perspective, helping readers navigate the complex impacts of Brexit and the Brexit process.



This edition

More than three years after the referendum, the United Kingdom is no longer part of the European Union. Now it is time to refocus: what will the EU look like beyond Brexit? Which forces will be shaping the EU in 2030?

In this edition of our Brexit Briefings series entitled "Beyond Brexit – Scenarios for the Future of Europe 2030", we will present four very distinct, yet plausible scenarios of what the EU may face in a future beyond Brexit. Our focus is on the EU's digital competitiveness as well as the future economic relationship between the EU and the UK.

The scenario analysis is based on trend sensing, enabled by an artificial intelligence-based tool, expert interviews and a workshop of Deloitte Brexit experts.

Deloitte Brexit Briefing 12

Introduction

Where do we stand? With Brexit on 31st January 2020, the United Kingdom has taken its step out of the European Union. However, does that mean the uncertainty for European companies is finally over?

Unfortunately not – it is still unclear what the overall relationship between the EU and UK will look like after the transition period. At the same time, it is important to refocus on other structural shifts and picture a European Union beyond Brexit. Two key questions emerge:

- **What will the EU look like beyond Brexit?**
- **Which are the driving forces shaping the EU in 2030?**

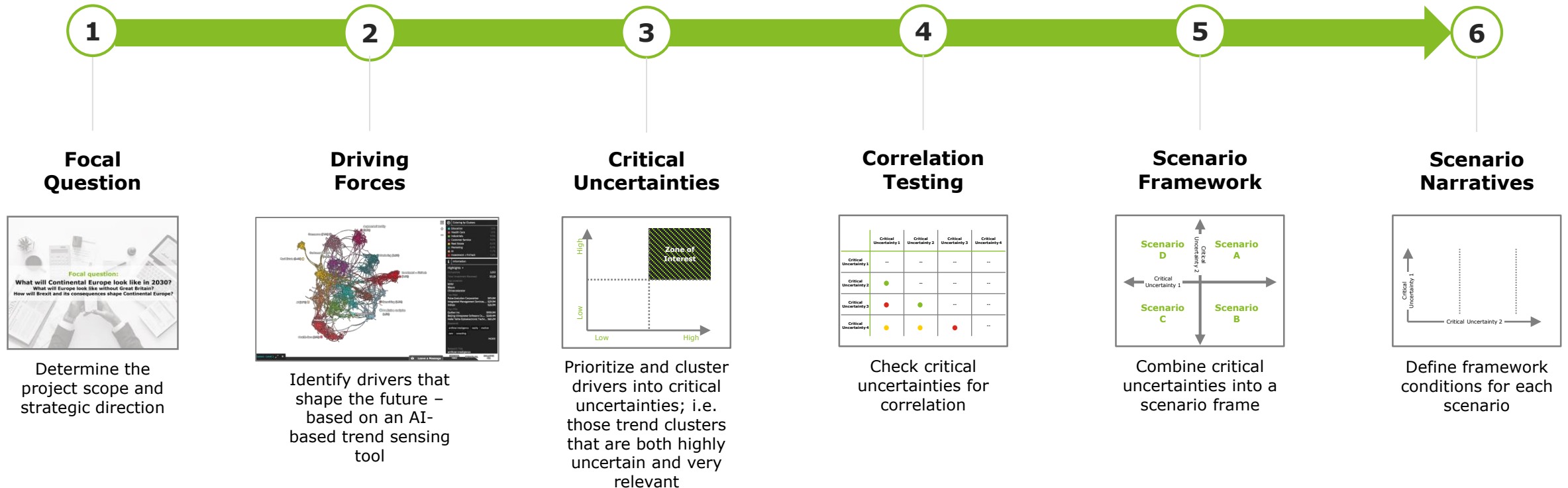
Conventional approaches are not capable of providing answers in an environment as uncertain as today's world – often they yield conventional and unsurprising answers.

Scenario planning instead challenges assumptions, defines the driving forces of what will shape the EU in the future and makes it easier to picture its possible futures. We will present four distinct, extreme, yet plausible scenarios of what the EU may face in a future beyond Brexit, based on scenario design methodology.

Our Scenario Methodology

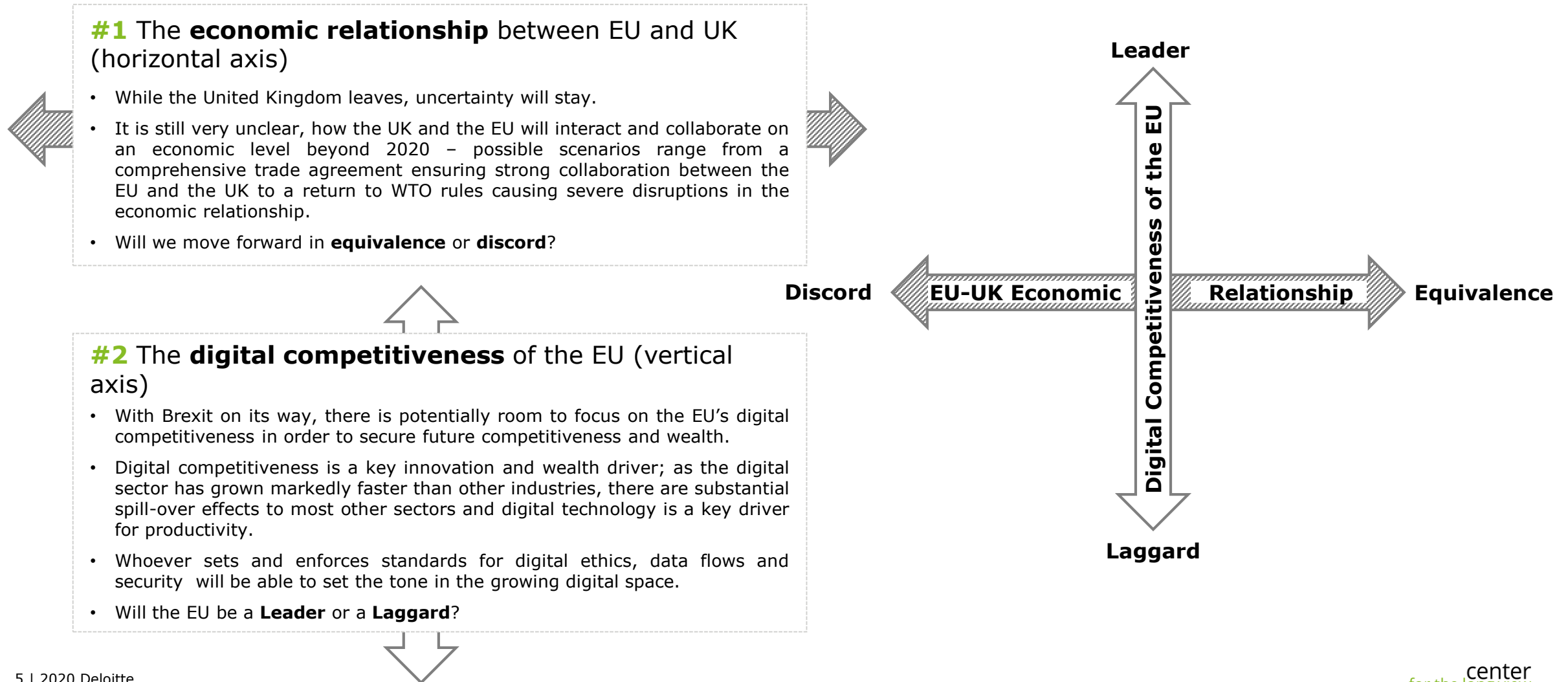
Scenario analysis challenges assumptions, provides organizations and decision-makers with more options to make better decisions and embraces uncertainty

Scenario Analysis Process



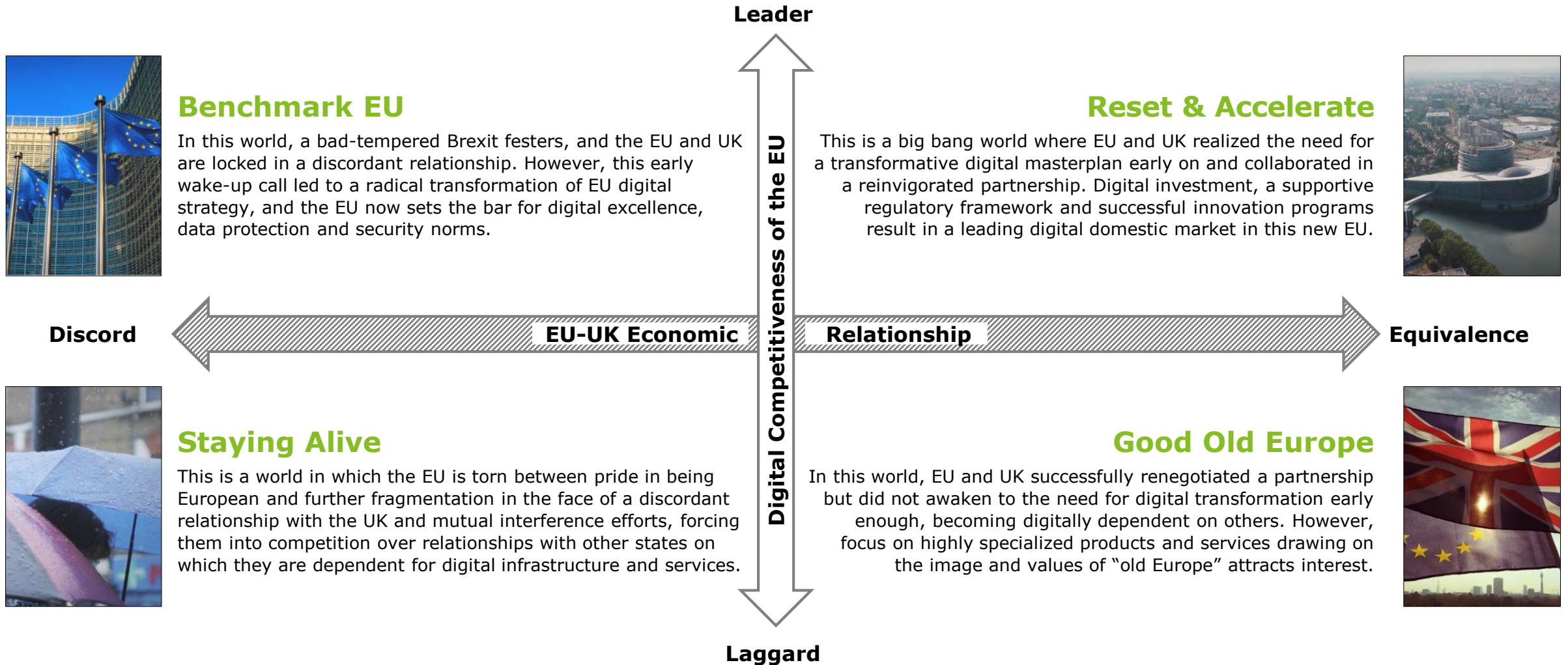
Two key driving forces for the EU

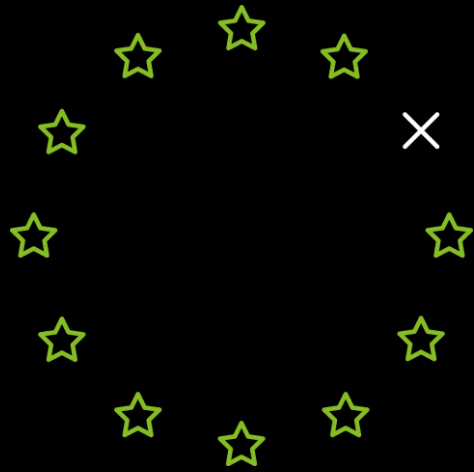
What will the European Union look like in 2030? Possible directions of the two key driving forces



The scenarios, illustrated

Combining the most critical uncertainties yields four possible visions of the future



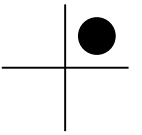


Beyond Brexit – the Future of Europe

The scenarios in detail

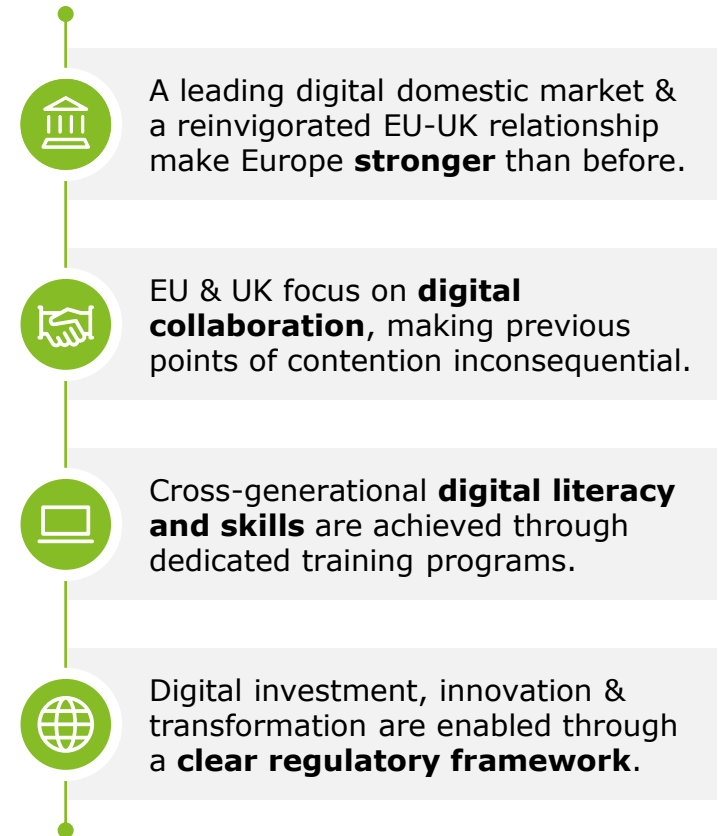
Reset & Accelerate

Scenario 1



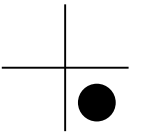
This is a big bang world where EU and UK realized the need for a transformative digital masterplan early on and collaborated in a reinvigorated partnership. Digital investment, a supportive regulatory framework and successful innovation programs result in a leading digital domestic market in this new EU.

- An inviting regulatory framework, large investments in digital infrastructure & innovation and efficient exchange between political, economic & social spheres put the EU in a global leadership position with a **leading digital domestic market**; this presents a starting point for a **reinvigorated EU-UK relationship** in the form of at least a (duty free) free trade agreement.
- Brexit having served as a wake-up call, political tensions and economical contention between the **EU and UK** are no longer of concern and the two parties are instead **focused on collaboration around digital topics** and know-how transfer to establish and expand their leading position.
- As leaders in digital technology and services, EU innovation hubs become **(decentralized) centers of excellence**, and present a large draw for talent.
- Successful innovation programs and the 5G rollout fuel the EU's digital leadership and support the **transformation of its industries**.
- While the EU's digital leadership offers many opportunities such as the furthering of smart cities, it also presents **challenge for existing business and operating models**.
- The extensive **digital domestic market** and the digitization of many processes present opportunities for decentralization of organizations and careers, which in turn **closes the digital gap** between EU countries and also moves toward **closing the urban-rural gap**.
- **New skills required** to work and live in this digitized world are conferred through specialized training to achieve **cross-generational digital literacy**; age tech plays an increasingly important role.
- A **relaxation and adaption of the existing regulatory framework** enables this level of digital transformation and continues to support an innovative environment.



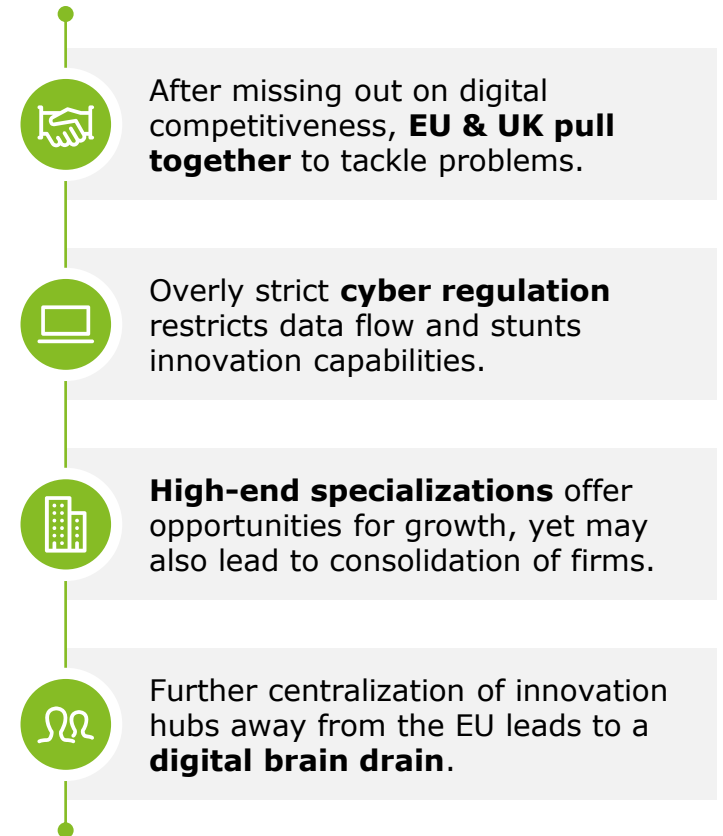
Good Old Europe

Scenario 2



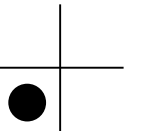
In this world, EU and UK successfully renegotiated a partnership but did not awaken to the need for digital transformation early enough, becoming digitally dependent on others. However, focus on highly specialized products and services drawing on the image and values of “old Europe” attracts interest.

- Neglect of digital investment and change, overregulation and too much time spent re-negotiating the EU-UK relationship leads to the EU **missing** out on **digital leadership** and taking a backseat to countries like the USA and China.
- The innovative downturn and digital dependency on third party countries encourage the EU and UK to **pull together** in order to tackle problems; previous points of contention are of little concern.
- Single-minded focus on strict cyber security and data protection **stunts innovation capabilities** and restricts data flow which further reduces development possibilities.
- Refocusing on the **nostalgia and decadence** of Europe’s old world image and values through e.g. a label like “Made in EU” offers opportunities to attract **interest from third party countries**.
- **Specialisation in high-end items** and focus on traditional competences and strengths of the European market may lead to **consolidation of large companies**.
- Protectionist tendencies of individual member states to gather and hold on to power over digital capabilities in the face of **declining digital competitiveness**, further **hinder data flows** and innovation.
- Fostering the status quo and subsequently missing digital trends leads to a **passive and reactionary environment** which also leads to **minimal economic growth**.
- Centres of excellence further centralize in digital nations, leading to a **digital brain drain** in the EU.
- In hopes of catching up to other tech providers or reduce the dependency on foreign technology providers, tendencies of **industrial espionage** from Europe towards third party countries technology grow.



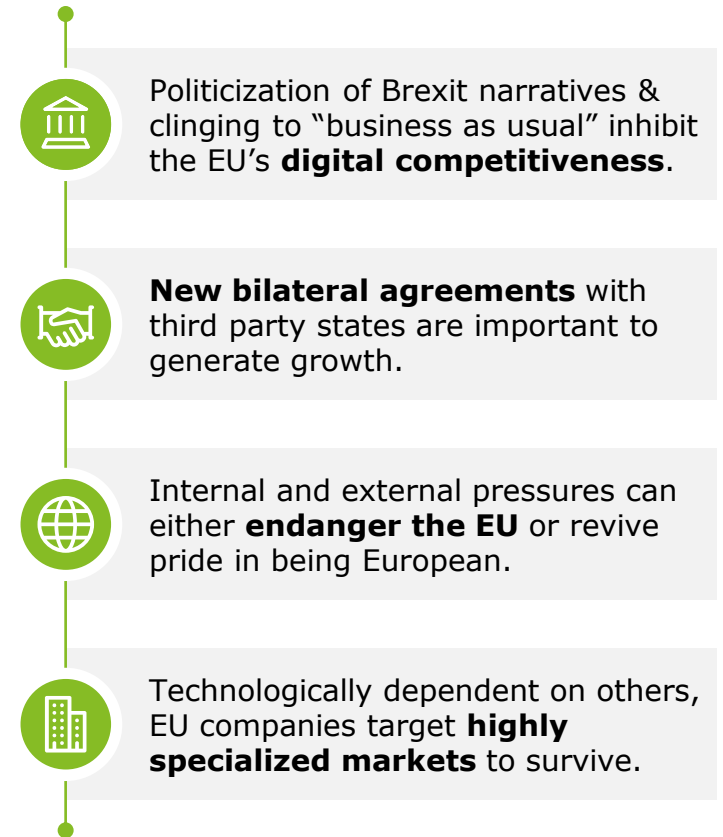
Staying Alive

Scenario 3



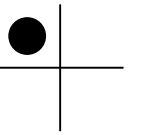
This is a world in which the EU is torn between pride in being European and further fragmentation in the face of a discordant relationship with the UK and mutual interference efforts, forcing them into competition over relationships with other states on which they are dependent for digital infrastructure and services.

- A bad-tempered Brexit, politicization of negative Brexit narratives and clinging to “business as usual” **inhibit the EU’s digital competitiveness** while its relationship with the UK further degenerates, resulting in possible embargoes, protectionism and mutual distrust.
- Strategic employment of punitive tariffs, exchange rates and other economic sanctions between the EU and UK starts a **joint race to the bottom** and can result in a market collapse.
- Interference strategies between the EU and UK are supported and furthered by **the societal sense of a common adversary** which has the potential to bring forth an **increase in social cohesiveness**.
- Post-Brexit Europe aims for a stronger union but may fall short due to contention with the UK and being pulled back and forth between the USA and China.
- Following the unlikeliness of reinvigorating a productive relationship with the UK, **new bilateral agreements** with third party states become important **for European growth**.
- There is increasing **uncertainty** whether external and internal pressures, such as an EU-UK diplomatic crisis and resulting competition over third state relationships, will **endanger the constellation “EU” or strengthen the union with revived European pride**.
- With the discordant EU-UK relationship and competition over political and economic relationships with other countries, the **UK may aim to become the “door to Europe”**, increasing pressure on the EU.
- Overregulation as well as neglect of investment in innovation and new technologies make the EU highly dependent on outside countries for technological services and EU companies have to work hard to establish themselves in **highly specialized markets** in order to survive.
- Both the dependency on foreign digital technology as well as discord with the UK leave little to no capacity for innovation in European companies; they instead focus purely on the **fight for survival**.



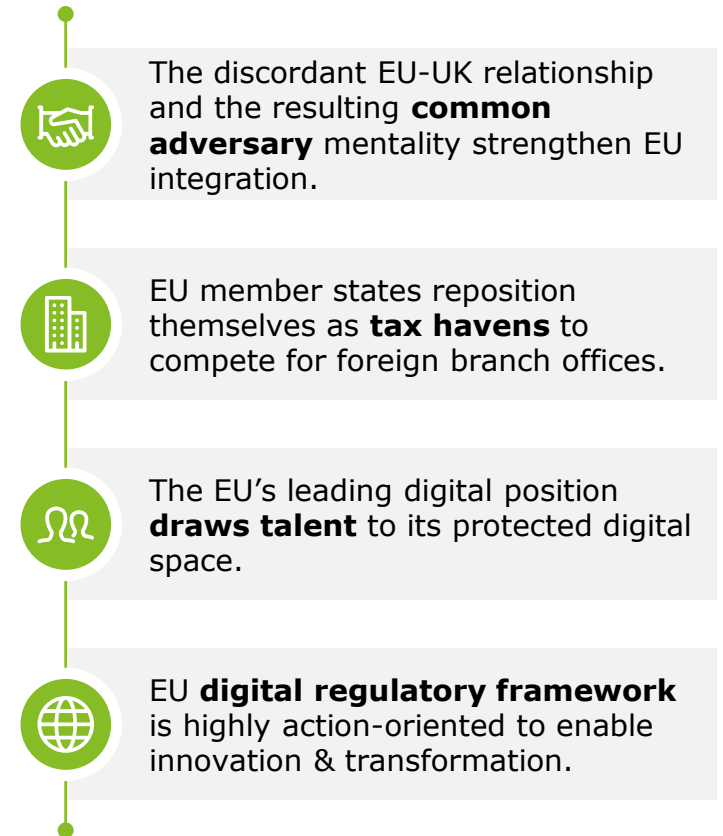
Benchmark EU

Scenario 4



In this world, a bad-tempered Brexit festers, and the EU and UK are locked in a discordant relationship. However, this early wake-up call led to a radical transformation of EU digital strategy, and the EU now sets the bar for digital excellence, data protection and security norms.

- An inviting governmental regulation framework, investment in digital infrastructure & innovation and efficient exchange between political, economic & social spheres enable the **EU to take a leading position in the digital sector** while a bad-tempered Brexit and encompassing populism result in a **discordant relationship between the EU and UK**.
- A sense of a **common external adversary** and social cohesiveness, paired with extensive available digital infrastructure, encourage the member states to work toward common goals, making **EU integration stronger** than ever.
- The EU's leading position on the digital market coupled with their discordant relationship with the UK leads to the creation of a **digital defence sector**.
- Responding to economic competition with the UK over foreign branch offices, EU member states approach Ireland's corporate tax levels, **repositioning themselves as tax havens**.
- New ways of streamlining **cooperation between economy and politics** are created to further support the EU's digital competitiveness; this facilitates an **internal free-flow of information** and know-how but also protectionist external tendencies except where chosen partners are involved.
- A high degree of innovation – supported by regulation, strong integration and extensive digital infrastructure – fuels Europe and results in a branded **"Created in Europe"**.
- The EU's **vanguard position** for data protection and security norms, its protected digital space and digital domestic market which covers all sectors, **draws tech talents** to the decentralized European innovation hubs; the EU is winning the war for talent with the UK.
- In order to keep up with demand for digital investment, innovation and infrastructure, the EU **regulatory framework is highly articulated** and action-oriented.



Future Outlook: Digital competitiveness post-Brexit

Implications for digital collaboration between EU & UK

Preconditions for realizing the potential of digital cooperation post-Brexit



1. Facilitate regulatory cooperation & free data flows

- Enable data and information sharing between subsidiaries and business partners in the EU and the UK to the highest possible degree – otherwise costs to business could be substantial affecting cross border value chains.
- Create common regulatory standards in the fields of data protection, copyright and cybersecurity to facilitate these free data flows.
- Establish a joint framework for emerging technologies such as AI, particularly regarding ethical issues.



2. Joint R&D

- Enable unhindered exchange of digital know-how (cooperative research projects).
- Reinforce cross-border research efforts between universities and enterprises in the EU and the UK.



3. Facilitate talent and knowledge worker flows

- Skills are the bottleneck factor of digital industries: a framework that facilitates the easy exchange of knowledge workers between the EU and the UK would strengthen digital competitiveness.
- Prevent skill shortages by focusing on the development of digital skills through joint programs and exchanges.

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Brexit | Publications

Brexit Briefings: in-depth look at core issues and risks in the context of Brexit from an economic, strategic, tax-related and legal perspective

Brexit Briefings

Part 1: Brexit Survey 1.0

EU Referendum: Brexit and the consequences for German companies

Part 2: Brexit Scenarios

CLV-Scenario analysis about possible trade relationships between the United Kingdom and the EU

Part 3: Sectoral Analysis

German industrial sectors' ties with the United Kingdom

Part 4: Brexit Survey 2.0

Opportunities, risks and scenarios – Brexit from a German business perspective

Part 5: No-deal Brexit and the UK automotive industry

Brake Block Brexit – How a hard Brexit would impact the German automotive industry

Part 6: Hard Brexit and the Supply Chain

Hard Brexit and the Supply Chain – Effects on German automotive suppliers

Part 7: Brexit und die Steuerfolgen (no english version available)

Analyse der steuerlichen Folgen des Brexits für deutsch-britische Umstrukturierungen juristischer und natürlicher Personen

Part 8: Brexit Survey 3.0

Brexit and the impact on Germany – Company perspectives

Part 9: Brexit Road Ahead

Possible options over the short and medium term

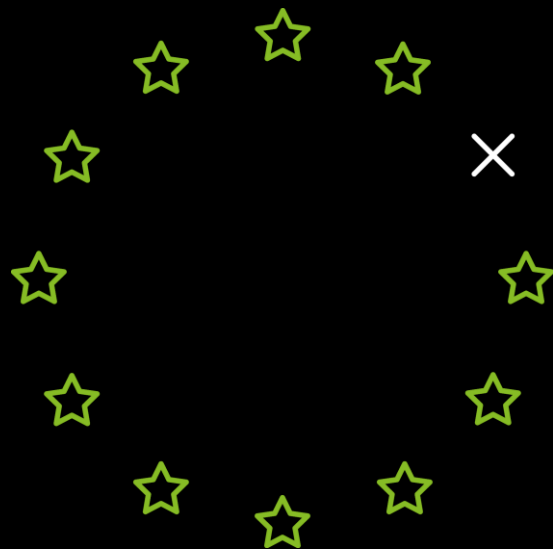
Part 10: Brexit Survey 4.0

Brexit and the German economy: Risks, expectations and strategies as stated by German companies

Part 11: Brexit So Far

The impact to date on Germany as a location for business





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