

# Potential impact of **Brexit**

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The perspective of Danish businesses





## The possible impact of Brexit on Danish businesses

The Danish business community views the prospect of the United Kingdom leaving the European Union with a mixture of regret and apprehension about how it will affect the close and long-standing economic relationship between the two countries. In 2015, Danish companies exported goods and services worth almost €10 billion to the UK, making it Denmark's fifth-largest export market. Additionally, 53,000 Danish jobs are connected to UK-bound exports. Meanwhile, the more than 700 Danish subsidiaries in the UK employ close to 90,000 people in the country.

These figures paint the broad picture of why the United Kingdom's departure from the world's largest and most integrated free trade area worries Danish businesses. Therefore, the first and most important priority for the upcoming negotiations should be the achievement of a deal that secures an orderly British exit with as little market disruption as possible.

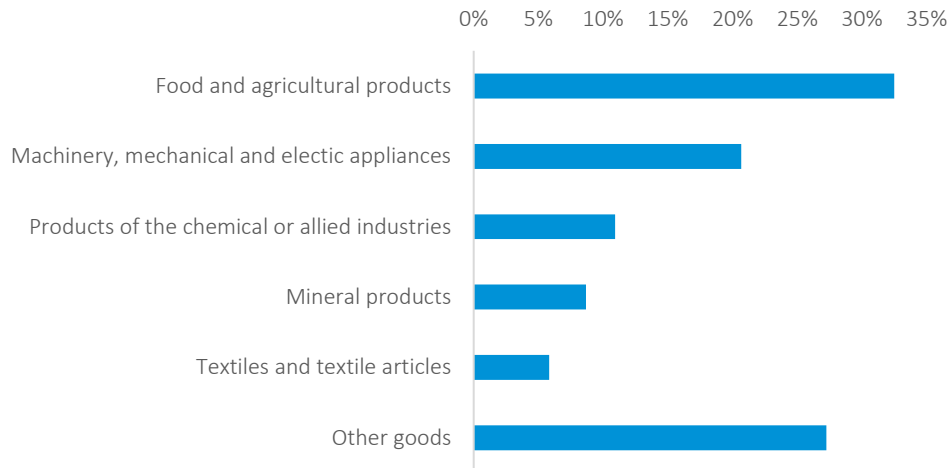
However, a solid separation agreement and some sort of transitional arrangement – difficult as they may be to achieve – will do relatively little to alleviate the business community's long-term concerns and to eradicate the prevalent feeling of uncertainty. Accomplishing these elusive objectives will require a detailed deal between the UK and the EU27 that takes into consideration the intricate issues of importance for the future bilateral trade and investment partnership.

The complexity of this process cannot be underestimated. The negotiators' task is firmly in the realm of uncharted territory. First, contrary to traditional free trade negotiations, the two parties begin talks at a *higher* level of market integration and will work towards a *lower* level than the status quo. Second, a traditional, symmetrical trade deal that satisfies both parties will be difficult to achieve. For instance, single market access for British financial services cannot simply be reciprocated with a similar access to the British market for EU banks. The final deal will need to be either asymmetrical with a significant degree of issue linkage, or it will be a very narrow, symmetrical arrangement dictated by the lowest common denominator. From the perspective of Danish businesses, the latter alternative would be completely undesirable.

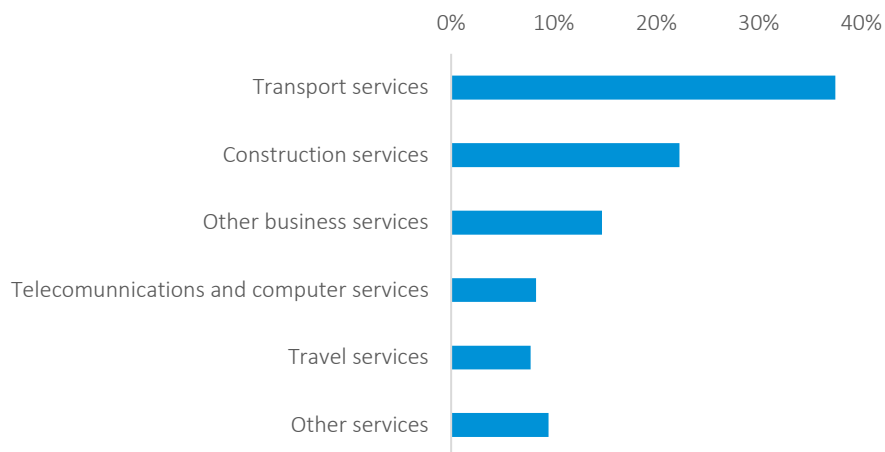
This problematic asymmetry touches upon one of the most significant challenges regarding the Brexit negotiations: the many different European sectors with significant exports to and investments in the UK. The Danish case provides a clear example of this diversity, with the Danish exports to the UK spanning a very wide range of sectors and enterprises: From agricultural and food products, over mechanical and electronic devices in the energy, environmental and medical industries, to services in

construction, transportation and IT sectors. Furthermore, the common rules and standards of the Single Market have enabled not just large Danish corporations, but also countless of small and medium-sized enterprises to sell their products on the British market.

### Danish goods exports to the UK, 2015



### Danish services exports to the UK, 2015



Sources: Statistics Denmark, Eurostat

The vast bulk of these exporting companies with stakes in the UK market are members of the Confederation of Danish Industry (DI). With over 10,000 member companies, 80 pct. of which have fewer than 250 employees, spanning numerous sectors, DI represents the broad and diverse interests of the Danish business community. Due to this wide-spanning base, DI is well poised to provide balanced and concrete input regarding the concerns of the exporting Danish enterprises that make up the backbone of the small, open and trade-oriented economy of Denmark.

Indeed, the purpose of this paper is to emphasize a number of issues and worries related to Brexit, as expressed by both large and especially small and medium-sized Danish enterprises.

### **Market Access**

Danish businesses across sectors and sizes are concerned about the prospect of reduced access to the British market.

The most obvious barriers in the forms of tariffs could materialize once the UK leaves the EU's Customs Union. Barring an acceptable conclusion to the article 50 negotiations, the imposition of WTO most favoured nation tariffs would result in a significant and tangible increase in the cost of trading with the UK.

Additionally, Danish companies in all sectors are particularly concerned about the very real possibility of increased non-tariff barriers to trade. The deep integration of the Single Market has enabled a large degree of regulative harmonisation and the adherence to common standards regarding a large variety of products. If the UK embarks on a path of regulative divergence on areas such as energy consumption, food safety or environmental standards, such new laws would constitute considerable barriers to trade. Even if the current British government pledges to maintain common standards, Danish companies are worried about enforcement and access to recourse if – at a later point in time – this course is abandoned.

It is important to underline that the issue of market access is of particular concern for smaller Danish enterprises that at present benefit greatly from common standards and easy access to the British market. Their limited capacity to deal with new and different requirements would present considerable obstacles regarding trade with and operations in the UK.

### **Level playing field**

Another category of concerns that DI's member companies have voiced regards the maintenance of a level playing field. In this regard, the EU has adopted and enforces common rules on competition policy, state aid, public procurement, and work environment – to name a few. These common rules benefit agile and innovative companies and allows them to compete relatively seamlessly across borders to the benefits of consumers and associated businesses.

There is a significant risk that these benefits could be jeopardized once the UK leaves the Single Market. If the UK government decides to employ state aid, restrictive public procurement tenders, UK-specific professional certifications or local content requirements in order to benefit domestic companies, the condition of free and fair competition would be compromised. Danish companies with interests and investments in the British market are worried about such prospects.

Ideally, the final agreement between the UK and the EU27 will therefore include mutual commitment to a level playing field.

### **Administrative burdens**

Aside from restricted market access and a skewed playing field, Danish enterprises are concerned that British exit from the Single Market will result in increased administrative burdens across sectors. When the UK leaves the Customs Union, the result is not just potential tariffs and non-tariff trade barriers. It also implies new bureaucratic procedures regarding rules of origin, forms and certifications. These administrative burdens require additional time and resources, which again results in a disproportionate detrimental impact on small and medium sized enterprises.

The prospect for additional compliance requirements and restrictions also holds true for services. Whether the service in question is the proper installation and maintenance of a machine, or of an architect's real estate project, the possible new hindrances are many. Examples include work permits, additional certifications, and outright restrictions on the deployment of employees. This is a concern for many Danish companies with frequent activity in the UK – or with existing investment projects in the country.

Market access, a level playing field, and potential administrative burdens constitute some of the main, overarching, horizontal issues that DI's member companies have voiced in discussions on the potential impact of Brexit on their business. In the sections below, a select number of major Danish industries with significant exports to and investments in the UK provide a more concrete and contextualized description of some of these major concerns in addition to underlining some more sector-specific, vertical issues.

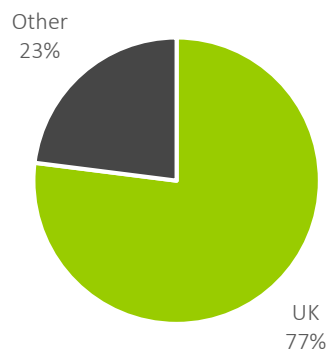
All in all, Danish businesses are interested in a future relationship between the EU and the UK that rests upon the following, crucial pillars:

- Maintenance of as close and frictionless economic ties as possible between the EU and the UK;
- Mitigation of the adverse impact of Brexit for companies and consumers;
- Establishment of legal certainty as soon as possible regarding the future partnership between the two parties as well as predictability about the negotiation and transition processes.

# The implications of Brexit for Danish energy companies

The United Kingdom is the third-largest export market for Danish energy technology and related services. In 2015, Denmark exported energy technology goods amounting to €552 million to the UK. Similarly, the UK is a very significant market for foreign direct investment in energy supply and infrastructure. The stock of Danish investments in the UK's supply sector amounted to €5.5 billion in 2014, representing 77 pct. of total energy utility-related investments abroad.

**Danish energy utility-related investments abroad, 2014**



Source: Central Bank of Denmark

Danish energy companies are very competitive in a number of high-demand areas in the UK. Wind technology is the most important of these, accounting for €269 million of the goods exports and €121 million of the services exports in 2015. Other important export categories include control and integration of renewable energy sources, biomass and waste-to-energy power plants, district heating solutions, as well as sustainable and energy efficient machinery and components for the building industry.

## Areas of concern for the Danish energy sector

### 3.1 Market Access

Danish energy companies have benefited greatly from the relatively free access to the British market. The absence of tariffs and non-tariff barriers in particular significantly improve the conditions for the export of energy, energy technology as well as knowledge and services within the field.

However, the Danish energy sector is concerned about the potential prospect of increasingly restricted market access. Certain non-tariff barriers to trade are already a reality in the UK. Examples include local content or local production requirements in public procurement tenders for off-shore wind and other energy-related projects. Should the number and scope of such non-tariff barriers to trade increase, it would naturally

make it harder for the Danish energy industry to compete on the British market.

In a similar vein, maintaining aligned environmental and safety standards as well as close regulatory cooperation between the UK and the EU will contribute to the continued attractiveness of Britain as an important market for energy-related exports and investments.

### **3.2 Protection of investments**

As illustrated above, the UK energy market has attracted significant amounts of FDI from Danish companies.

One important driver for this increase in investments has been the strategic and stable energy and climate policy course set in London. Another significant factor has been the UK's participation in the European energy framework and the availability of financing from institutions such as the Connecting Europe Facility and the European Investment Bank. Furthermore, Danish investors in the UK's energy sector have benefited from a clear and predictable framework for investment protection and dispute settlement, as well as effective and efficient enforcement of such rules.

It is in the Danish energy industry's interest that these pillars for investment confidence remain in place, ensuring the viability of existing projects and attracting future ventures.

It should be noted that energy investments in the UK not only benefit the investors and the British economy. The development of the North Sea energy infrastructure is of great strategic importance to Denmark and other neighbouring countries. Continued cooperation with the UK will be especially crucial for obtaining the maximum benefits from offshore wind energy in the region.

### **3.3 Access for skilled employees**

Free, flexible and frictionless deployment of employees on all levels is of utmost importance for the highly specialized companies in the energy sector. The efficient composition of cost-effective project teams regarding e.g. offshore wind, biomass, waste-to-energy and district heating ventures is contingent on freedom of movement.

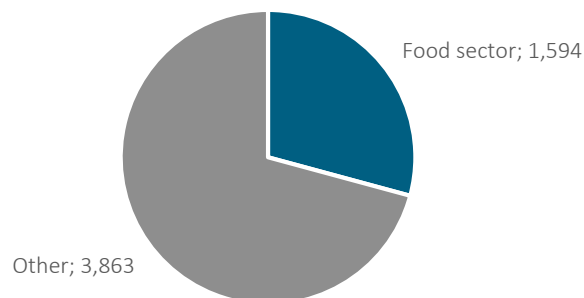
Maintaining as free movement of labour as possible is important in both directions. It will enable more cost-effective Danish energy projects in the UK, just as it will allow for UK experts and workers to contribute to energy projects in Denmark – and elsewhere in Europe. Unnecessary bureaucratic barriers to movement would increase cost, lower productivity and slow down development of energy projects of common interest.



# The implications of Brexit for Danish food companies

The United Kingdom is the third-largest export market for Danish food companies. In 2016, Denmark exported food, agricultural products and ingredients amounting to €1.6 billion to the UK. The main export goods from the Danish food sector to the UK are meat, mostly pork meat products, fish and fish products, and compound foods.

**Danish goods exports to the UK, 2016**  
(million euros)



Source: Statistics Denmark and DI-calculations

Similarly, the UK is a significant market for foreign direct investment for the Danish food companies. The stock of Danish food companies' investments in the UK amounted to €1 billion in 2015, representing approximately 5 pct. of the total foreign direct investments originating from the Danish food sector.

## Areas of concern for the Danish food sector

### 3.1 Tariffs

The risk of reduced market access is the greatest concern for Danish food industry. Danish food companies have hitherto benefited greatly from the free access to the British market. The UK market has historically been one of the most important export markets for Danish food products. The absence of tariffs and non-tariff barriers in particular has significantly improved the conditions for Danish exports to the UK.

Unless the EU and the UK agree on a trade deal that allows continued tariff-free trade, trade tariffs on agricultural and food products will be imposed, as the UK will have to apply the same tariffs to all WTO members. Hence, giving tariff-free access to e.g. Danish pork will also mean that the UK will have to give tariff free access to pork from the U.S., Brazil etc.

This risk is connected with of the prospect of British farmers losing access to funding from the Common Agricultural Policy (CAP). Should the UK choose to raise tariffs in order to compensate for the lost funding and to protect British farmers and British food products against foreign competition, Danish food companies would see their business opportunities significantly diminished.

### **3.2 Non-tariff barriers**

There is also a risk that new non-tariff barriers to trade will be applied in the sector. The resulting non-tariff trade costs between the UK and the EU may be just as great as or even greater than increased food product tariffs.

Transaction costs will increase once the UK leaves the EU. For instance, under the CAP, import licenses are required in order to import certain agricultural products originating from outside the EU. This is the case for example with products such as beef and veal, pork, poultry, cereals, seeds, milk and other dairy products and sugar. Depending on the final trade deal between the EU and the UK, such rules may also apply in the UK following Brexit.

Other trading costs may be associated with the re-introduction of customs controls, such as rules of origin checks, documentation and physical border checks, as well as the potential costs of complying with two different regulatory regimes.

It is important for the Danish food industry that the UK continues to mirror EU regulation on food safety and food quality, food ingredient labelling, animal health and welfare protection as well as other relevant regulations.

### **3.3 Market access and sourcing for Danish seafood industry**

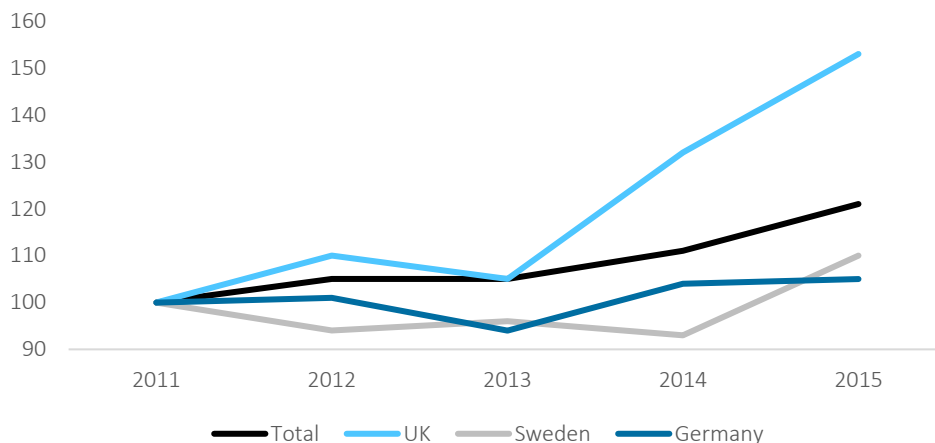
The Danish seafood industry is very much hoping for a pragmatic political solution regarding the shared fishing policy.

Landing of fish caught in British waters in Danish harbours is an important source of supply for the Danish seafood industry, including the Danish herring industry. It is expected that trade conditions in regards to fishing policy are joined with the question of access to national waters in the upcoming negotiations. From a Danish perspective, the optimal framework for mutual trade will include a custom-free supply of commodities no matter how the fishing rights themselves are divided.

## The implications of Brexit for design products

Intellectual property plays an important role for a number of Danish industries. As a response to comparatively high production costs, many Danish companies in e.g. the furniture sector have specialized in high-quality products with distinct and unique design features. Examples include Arne Jacobsen's iconic "Egg" chair and Poul Henningsen's lamps.

**Growth of Danish furniture exports**  
Index: 2011 = 100



Source: The Association of Danish Wood and Furniture Industries

This design-centred business model has contributed to the steady growth of Danish furniture exports in recent years. In 2015, exports of such goods amounted to almost €2 billion. In the period 2011-2015, the UK has been the fastest growing European market for Danish furniture, reaching €164 million in 2015.

The value of such design goods – and thus the profitability of the business – is invariably tied to the given company's intellectual property rights (IPR).

The furniture sector is merely one concrete example of the diverse, IPR-intensive, export-driven Danish economy. A recent study demonstrated that the contribution from IPR-intensive sectors to Danish GDP and employment is well above the EU-average<sup>1</sup>.

The same study also revealed that Danish companies make more use of unitary intellectual protection rights than the EU average. These include the EU Trade Mark Regulation, The EU Design Regulation and the Plant Variety Regulation.

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<sup>1</sup> *Intellectual property rights intensive industries: Contribution to economic performance and employment in the European Union*, European Patent Office and Office for harmonization in the Internal Market, 2013

## **Areas of concern for Danish IPR-intensive industries**

### **3.1 IPR protection**

Danish companies make extensive use of EU unitary rights, thus forgoing IPR registration on a country-by-country basis. The benefits are clear: reduced costs, fewer administrative procedures and burdens as well as a lower degree of uncertainty.

Since the British market is so important, many Danish companies are concerned about the potential prospect of unitary coverage no longer applying to the UK. For most Danish companies this will have severe implications:

First, it will affect future registrations of IP rights, as Danish companies will need go through separate parallel registration processes in the UK in addition to registering their unitary rights.

Second, and more importantly, it will have immediate implications regarding all existing registered unitary rights, including commercial contracts and agreements concerning such rights, or where IP rights are integrated elements. Potentially, it could also mean that a unitary right, which has been used solely, or primarily, in the UK, is vulnerable to revocation.

### **3.2 Enforcement**

Another related area of concern is enforcement. One advantage of unitary rights is that an injunction in one country applies on pan-European basis. The prospect of British exit from the EU means that such pre-existing injunctions will no longer extend to the UK. This would necessitate new applications for injunctions in instances where IP rights are infringed in both the EU and the UK.

### **3.3 Harmonised rules**

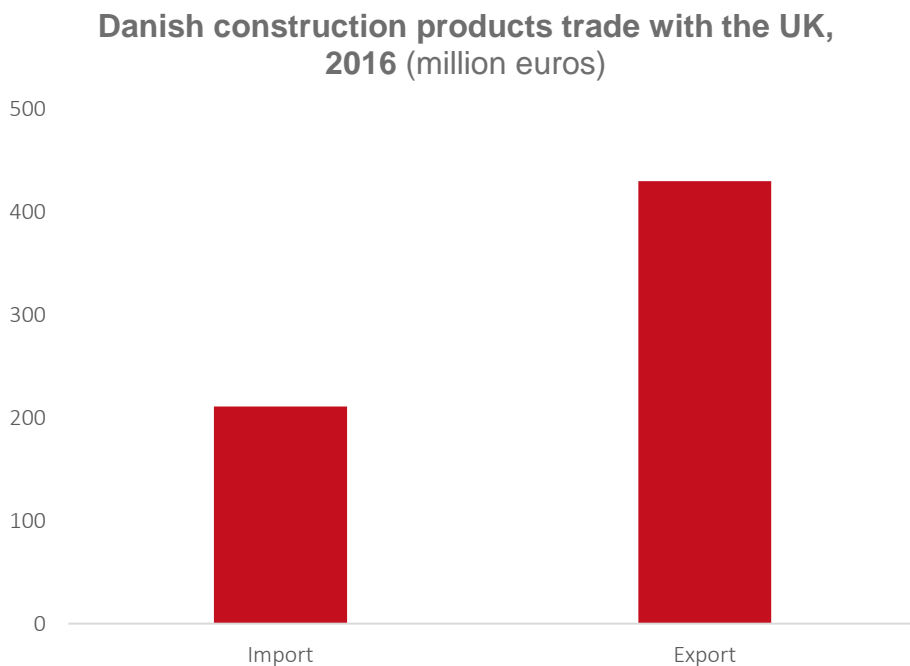
For IPR-intensive industries, such as Danish design furniture producers, availability of cheap replicas is a serious challenge. Such copies decrease demand for the high-end original products, and if sold overseas, such “replica hubs” can potentially affect more than one market. The UK, for instance, used to offer far more limited copyright protection for design products than most EU countries, which led to proliferation of replicas within and from the UK.

Recently, however, UK lawmakers brought the country’s copyright laws into line with its European partners, to the benefit of IPR-dependent companies in Denmark and elsewhere.

The value of such harmonized laws is vast, and it is a concern for Danish IPR-intensive sectors if regulation should diverge in the future.

# The Implications of Brexit for Danish Manufacturers of Construction Products

The UK is the fourth-largest export market for Danish manufacturers of construction products. In 2016, Denmark exported products mainly used in construction amounting to €430 million to the British market. Further, a significant number of Danish companies in the sector have set up production in the UK. An area of particular Danish expertise include the production of high-quality materials for better energy efficiency in buildings and housing. This includes but is not limited to insulation solutions, energy efficient windows and climate controls.



## Areas of concern for Danish manufacturers of construction products

### 3.1 Market Access

Danish manufacturers of construction products have benefited greatly from the relatively free access to the UK market. Manufacturers have also benefited significantly from the common approach to evaluation and declaration of product characteristics enabling them to market their products in a fair and transparent way on the British market.

However, Danish manufacturers of construction products are concerned about the possibility of restricted market access once the UK leaves the EU's single market.

A major concern is non-tariff barriers such as UK-only requirements to declaration and performance testing. Such requirements would increase the costs of operating in and entering the British market significantly. It is therefore in the interest of Danish companies that the UK continues

to accepting CE-marking and common standards and methodologies rather than developing new standards for e.g. fire and acoustic performance.

The prospect of tariffs is another concern for businesses. Many Danish companies in the construction sector have established production facilities in the UK. Were import duties to be imposed on products from the EU, production costs at Danish subsidiaries in the UK could rise significantly – especially for raw materials for which there is none or limited indigenous supply.

It is worth noticing that the internal market for construction products in Europe is also in the interest of the UK. British companies exported construction products worth €170 million to Denmark in 2016. A continued cooperation with the UK will thus be beneficial to both the UK and Denmark.

### **3.2 Protection of Investments**

As mentioned, the British market has attracted a number of Danish companies to set up production in the UK. An important driver for this increase has been an ambitious UK effort to speed up the transition to a more energy efficient building sector and the prioritization of energy efficient housing.

Danish companies in the construction sector are interested in continuing this positive development and in increasing their investments in the UK. As such, the industry hopes that the UK will carry on its ambitious course regarding energy efficiency. Examples of concrete policies includes projects such as the Welsh Government's Warm Homes scheme, which presently relies on EU funding. A stable policy framework would increase predictability of the market and increase the confidence of Danish investors.

In addition to a continuation of these energy efficiency and housing policy commitments, Danish companies in the sector are also interested in a well-functioning framework for investment protection and dispute settlement. Naturally, this would make it much easier for Danish businesses to continue carrying out large-scale investments in the construction sector.



The Confederation of Danish Industry (DI) is a private organisation funded, owned and managed entirely by 10,000 companies within manufacturing, trade and services.

DI is also a dedicated member of BusinessEurope, which represents all-sized enterprises across 34 European countries.

DI's identification number in the EU Transparency Register: 5749958415-41

