



DOING BUSINESS IN THE UK AFTER BREXIT

*Key insights from Swedish companies
on the future of trading in the UK*



HOW DO SWEDISH COMPANIES IN THE UK VIEW THE FUTURE?

A new reality will begin to take effect on January 1st, 2021 for Swedish companies in the UK. This study captures selected first-hand accounts of how Brexit impacts their future outlook of the UK market.

The UK is the world's fifth largest economy and is one of Sweden's most important trading partners. In 2019, the total value of Swedish exports to the UK was approximately SEK 160bn, making it Sweden's fourth largest export market – directly or indirectly supporting 77,400 jobs in Sweden. The UK is also home to some 1,200 Swedish or Sweden-related companies employing 100,000 Britons. It goes without saying that Sweden and the UK have close business ties.

THE UK STILL ATTRACTIVE

The Brexit referendum in June 2016 plunged Swedish companies operating in the UK into uncertainty. Almost four and a half years later as we rapidly approach the end of the transition period, this uncertainty remains.

To gain a better understanding of how the UK's exit from the EU will impact Swedish companies, and how they view the future of trading with the UK, Business Sweden interviewed a selected group of Swedish subsidiaries in the market including Alfa Laval, Ericsson, Munters, Recipharm, Saab Technologies UK Ltd, Scania, Vattenfall and Volvo Group.

VOICES FROM THE FIELD

While the majority of Swedish companies have not yet felt any significant impacts from the Brexit vote, many are cautious when it comes to investments and production decisions in the UK. They nonetheless take a positive long-term view of the UK's future. Brexit, they say, will not negatively impact sales and some companies even point to opportunities ahead as the UK leaves the EU.



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THE UK REMAINS AN ATTRACTIVE MARKET

While many Swedish companies are cautious about investment and production decisions, the majority have a positive view of the UK's future, believing Brexit will not negatively impact sales in the long term.

The qualitative analysis carried out by Business Sweden's UK team has focused on collecting viewpoints (through interviews) from a sample of 18 companies in key industries. The selected group covers Swedish multinationals with UK operations including Alfa Laval, Ericsson, Munters, Recipharm, Saab Technologies UK Ltd, Scania, Vattenfall and Volvo Group.

The in-depth interviews were based on standard questions regarding impacts of the Brexit vote, and the future outlook following the end of the transition period. The posed questions have three main focal points:

- Impact on sales, investments, and production since the 2016 Brexit referendum
- Future outlook for sales, investments and production
- Anticipated opportunities and challenges over a two to three-year horizon

LOW IMPACT ON SALES

When asked about the impact of Brexit on UK sales, close to two thirds of companies believe sales will continue at today's level over the next two to three years.

This confidence in the market is largely driven by perceived demand which is not expected to change as the UK and the EU move into a new trading relationship.

In addition, many companies confirmed that most of their competitors are non-UK based, so any changes affecting them would also affect the competition. Companies fearing a decline in sales from Brexit do so primarily due to the risk of falling UK public expenditure as a result of macro-economic factors, leaving less room for investments.



Opportunities for Swedish companies in the UK: three growth sectors.

Digital infrastructure: GBP 5bn package pledged to ensure "gigabit-capable broadband" and GBP 65m to expand 5G.

Healthcare technology: The NHS Long Term Plan aims to make all secondary care providers fully digitalised by 2024.

Sustainable energy, heating and transport: The net zero emissions target by 2050 includes pledges of GBP 160m for offshore wind power and GBP 270m in the Green Heat Network Fund.

INVESTMENT OUTLOOK

The majority of respondents in the study believe that their UK investments over a two to three-year horizon will remain on track, staying at current levels or even increasing due to market demand unrelated to Brexit, such as government investments.

At the same time, uncertainty is clearly higher among respondents on the issue of future investments compared to sales, resulting in two very different approaches. While some companies are cautious when it comes to investments, others have decided to reinforce their UK presence to ensure that supply chains, market access, IT support and other key functions remain intact.

In fact, taking steps to review supply chains is the most common action so far. For example, one company decided to set up after-market capabilities in the UK to secure the continuity of timely service delivery to customers.

Another typical example of preventive investments relates to possible restrictions on cross-border data transfer and storage, with one company opting to move its cloud-based data services from the EU to UK locations.

PRODUCTION STILL A NECESSITY

Among companies with production and/or assembly in the UK, almost all believe that these operations will be as important as today, over a two to three-year horizon. However, respondents are clearly cautious (as with investments) when it comes to new production-related decisions.

A key question is the degree to which locally made products are likely to be preferred in the future and, as such, whether local production will benefit UK sales. There are two drivers of this change. Firstly, some companies fear increased costs due to tariffs on foreign imports, new rules of origin regulations, new administrative procedures and longer lead-times, making it difficult to compete without a market presence. Secondly, companies who compete for large scale projects believe local production could be beneficial after the transition period. As many companies currently supply the UK market from EU hubs, they will have to assess how to best ensure market access going forward and decide if establishing a presence in the UK is justified.

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The UK has always been a strong market, and it isn't going to disappear. We haven't seen any flight of capital so far.

– Danielle Lane, Head of Market Development Offshore & UK Country Manager, Vattenfall

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Short-term, Brexit might pose some challenges but we expect these to clear. We see the UK as a continued growth market for Alfa Laval.

– Mikael Hellborg, Managing Director, Alfa Laval Ltd

CONCERNS OVER TARIFFS AND REGULATIONS

New tariffs, administrative burden, longer lead times and potential regulatory drift caused by the UK's legislative independence (causing both direct, and indirect challenges) are the two largest concerns in terms of both sales and production. For instance, deviations from the EU Medical Devices Directive would have a direct impact on Swedish companies in the medical field.

When it comes to investments, potential restrictions on the free movement of labour and access to the right competencies are clear concerns among the interviewees. Many companies fear being able to pool resources from their organisations or to find the right talent externally. But others gave a different response – remaining confident that recruiting EU nationals will not be an issue given the high skills-levels they require.

On the question of macro-economic impact of the UK's decision to leave the EU, only about a third of companies believe this will affect future sales or investment decisions, while almost no companies expect any impact on production decisions.

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The uncertainty unleashed by the Brexit vote is more concerning than the outcome of the negotiations.

– Simon Giles, Managing Director, Tyrens

ABOUT THE STUDY

This study was conducted between Sep 22 and Oct 9 and is based on in-depth interviews and email questionnaires with C-level from Swedish subsidiaries in the UK. A total of 18 companies participated in the study including Alfa Laval, Ericsson, Munters, Recipharm, Saab Technologies UK Ltd, Scania, Vattenfall, and Volvo Group.

IMPACTS OF THE BREXIT REFERENDUM

Despite concerns over the future EU-UK trading relationship, most Swedish companies in the UK have been unaffected by the Brexit referendum of June 23rd, 2016.

How Swedish companies assess Brexit impacts so far:

- **No significant impact on sales:** Almost three quarters of respondents confirm that their UK sales have remained unaffected. Where impact has been felt, it has even been positive with increased levels of top line growth in all cases but one.
- **Investments are on track or have even increased:** Half of the respondents confirm that UK investments have been unaffected, while many have decided to double down on UK commitments by increasing investments in order to safeguard future market access.
- **No impact on production:** Despite concerns over future lead times and tariffs, hardly any respondents have noted negative impacts on production.



CONCLUSION: SWEDISH COMPANIES ARE KEEPING CALM AND CARRYING ON

Under any future scenario, trading in the UK will no longer take place under the rules of the Customs Union and the Single Market. Brexit may bring new obstacles including barriers to trade in goods and services and cross-border mobility that currently do not exist. This will happen in both directions.

Nevertheless, our study confirms that the threat of these barriers and added complexities are not deemed concrete and severe enough for decision-makers to revise down their sales forecasts. While Swedish companies are currently cautious about new investment and production decisions, they remain confident and committed to the UK market – the world's fifth largest economy.

The interviews have also revealed some unexpected insights as many respondents identified three opportunities that can be leveraged in the post-Brexit landscape:

- Tap into the growing attractiveness of Swedish brands in the UK
- Competitive advantage of already having a market presence (vis-a-vis firms who lack a UK presence)
- Using the UK as a global trade hub when new trade agreements are secured (such as the recently signed free trade agreement with Japan)

PANDEMIC RECOVERY

Although the British economy has been hit hard by the Covid-19 pandemic and GDP is expected to fall by almost 10 per cent this year, based on signs of recovery the GDP loss is expected to be followed by robust growth of 8.5 per cent in 2021. However, this depends on whether national shutdowns can be avoided and, crucially, if an EU free trade agreement can be reached.

NEW HORIZONS POST-BREXIT

As long as the UK economy continues to develop reasonably well, demand for Swedish goods and services is likely to remain robust irrespective of the outcome of the Brexit negotiations. In addition to the findings presented in this study, Business Sweden has identified a number of opportunities where Swedish companies are particularly well-positioned to tap into large-scale initiatives being launched in the UK. These include:

- **Digital infrastructure:** The UK government has pledged GBP 5 bn to ensure that “gigabit-capable broadband” reaches every UK home by the end of 2025. The country also launched a new GBP 65m package for 5G trials earlier this year.
- **Healthcare technology:** The NHS Long Term plan has a strong focus on digitalisation. The objective is to make all secondary care providers fully digitalised by 2024 and ensure all patients have access to online GP consultations.
- **Sustainable energy, heating and transport:** Driven by the 2050 net zero emissions target, the UK has set out to be a world leader in green energy and to pioneer the green industrial revolution. The government has pledged GBP 160m pledged for offshore wind power and GBP 270m to the Green Heat Network Fund (accessible 2022-2025). The UK is also focusing on smart city infrastructure and on decarbonising the heat and transport sectors and the local energy grid.

Many Swedish companies have long-standing international experience and are skilled at navigating overseas markets both within and beyond the EU’s borders¹. The UK will therefore continue to be a vital trading partner for Sweden despite new layers of complexity in the post-Brexit era.

¹ Read more in a “A world of uncertainty”, a recently published report by Business Sweden and Kommerskollegium: www.kommerskollegium.se/importera--exportera/efter-brexit/

MOVING FORWARD: KEY RECOMMENDATIONS

Swedish companies need to thoroughly assess Brexit implications for their business and identify both challenges and opportunities.

Three essential steps:

- Analyse the impacts of potential barriers to trade, free movement of labour and new regulations and develop a mitigation plan.
- Revise and adapt your UK strategy to the post-Brexit reality.
- Monitor developments of post-Brexit legislation and how this impacts your supply chain. Adapt your operating model continuously.



We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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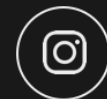
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