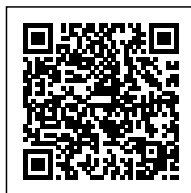


'BREXIT' WOULD HAVE NEGATIVE IMPACT ON SPANISH ECONOMY

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Spanish businesses are worried they may suffer if the UK withdraws from the European Union, a

move that could also reduce lawyers' workflow, says Álvaro Sainz

Nobody knows with certainty the impact of 'Brexit' on the Spanish economy. However, it would, initially at least, be negative. The UK is our main trading partner, with significant trade taking place between the two countries in the vehicle retail, financial services and energy sectors. Excluding tourism, Spain has a €600 million trade surplus with the UK from a balance of services perspective. So, Brexit would have significant financial and economic implications that would affect five primary areas:

- trade – in 2014, Spain's trade surplus with the UK was approximately 1.1 per cent of Spanish GDP
- investment – in 2013 Spanish companies direct investments in the UK totalled €48 billion
- the financial sector – Banco de Santander and Banco de Sabadell, for example, are depositories for many British current accounts
- export of goods and services – the UK is the fifth largest destination for exports by volume
- tourism – British tourists represent 25 per cent of all tourists visiting Spain

Consequently, there is concern among Spanish companies regarding the ramifications of Brexit. Large Spanish companies – such as Iberdrola, Banco Santander, Banco de Sabadell, Ferrovial, FCC or Inditex – have a large portion of their P&L accounts in the UK and it is likely they would be affected by Brexit and the resulting depreciation of the pound and associated market instability. Small and medium-sized companies would also be affected as one in three have investments connected to the UK.

Tourism will suffer

Brexit could mean the pound would face a high degree of volatility, which would affect revenues and the ability of Spanish companies to pay dividends to shareholders. This would be exacerbated by a potential economic downturn, and the review of trade relations and treaties, which could slow investment.

The tourist and hotel industries will be impacted due to the reduced purchasing power of tourists as well as Britain's resident population in Spain, which totals between 700,000 and 1 million people. The healthcare sector, where Spain bills the UK €300 million per year, will also be affected.

It is unlikely Spain would try to reach trade agreements separately from the EU. If Brexit ultimately takes place, the following three scenarios would be possible:

- The UK joining the European Economic Area, which includes the European Union member states, plus Norway, Iceland and Liechtenstein. However, this clashes with the UK's demands and no plans have been made in this regard in the referendum.
- The UK joining the European Free Trade Association, which includes Switzerland, Norway, Iceland and Liechtenstein. A variation of this would be to establish specific free trade agreements for certain markets.
- Status of most favoured nation for the UK. This would involve withdrawing completely from the rules governing the EU and being governed by the World Trade Organisation.

Spanish companies would prefer the UK to remain in the EU. The biggest challenge that Spanish companies will face if the UK does leave will be combating the instability and volatility of the pound, which would affect returns generated in the UK, as well as potential planned investments.

The EU would be weakened by Brexit, but it would probably weaken the UK more. We should not forget the UK contributes £13 billion to the European budget, although it also receives more than £6 billion in structural and agricultural funding. However, most estimates say Brexit would mean the UK would suffer around a 2% loss of GDP. A lower GDP could trigger a downgrade of the UK's credit rating.

It does seem that Brexit would generate work for lawyers in the short term. Regulatory issues, investment agreements, financial relations, tax relations, employment issues, residence implications and migratory flows would create legal problems. However, in the medium term, the opposite could occur. If reasonable agreements are not reached to govern future relations in an orderly and safe

manner, the flow of investments from Spain to the UK and vice versa could slow and result in a fall in the volume of work for lawyers.

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