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## Capital Investment Paralysis Is The Main Brexit Risk For European And U.K. Corporates

### Primary Credit Analysts:

Taron Wade, London (44) 20-7176-3661; taron.wade@spglobal.com  
Gareth Williams, London +44 (0)20 7176 7226; gareth.williams@spglobal.com  
Eric Tanguy, Paris (33) 1-4420-6715; eric.tanguy@spglobal.com  
Rachel J Gerrish, CA, London (44) 20-7176-6680; rachel.gerrish@spglobal.com  
Mark Habib, Paris (33) 1-4420-6736; mark.habib@spglobal.com  
Alex P Herbert, London (44) 20-7176-3616; alex.herbert@spglobal.com  
Simon Redmond, London (44) 20-7176-3683; simon.redmond@spglobal.com  
Elad Jelasko, CPA, London (44) 20-7176-7013; elad.jelasko@spglobal.com  
Hina Shoeb, London (44) 20-7176-3747; hina.shoeb@spglobal.com  
Andrey Nikolaev, CFA, Paris (33) 1-4420-7329; andrey.nikolaev@spglobal.com  
Lucy L Huynh, CFA, London (44) 20-7176-7631; lucy.huynh@spglobal.com  
Gustav Liedgren, Stockholm (46) 8-440-5916; gustav.liedgren@spglobal.com  
Marketa Horkova, London (44) 20-7176-3743; marketa.horkova@spglobal.com  
Karin Erlander, London (44) 20-7176-3584; karin.erlander@spglobal.com  
Pierre Georges, Paris (33) 1-4420-6735; pierre.georges@spglobal.com  
Vincent Gusdorf, CFA, Paris (33) 1-4420-6667; vincent.gusdorf@spglobal.com

### Secondary Contacts:

Paul Watters, CFA, London (44) 20-7176-3542; paul.watters@spglobal.com  
Alexandra Dimitrijevic, London (44) 20-7176-3128; alexandra.dimitrijevic@spglobal.com  
Marie-Aude Vialle, London +44 (0)20 7176 3655; marie-aude.vialle@spglobal.com  
Michael Wilkins, London (44) 20-7176-3528; mike.wilkins@spglobal.com

### Sovereign Analyst:

Ravi Bhatia, London (44) 20-7176-7113; ravi.bhatia@spglobal.com

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# Capital Investment Paralysis Is The Main Brexit Risk For European And U.K. Corporates

U.K. voters will decide in a referendum on June 23 whether or not the country should remain in the European Union. A decision in favor of exiting the EU would present many short- and long-term operational challenges both for U.K. and European rated corporates, in our view.

Shorter term challenges relate mostly to the dislocation that would be caused by increased financial market volatility, including a potential sharp depreciation of the British pound sterling. This could result from the lack of any blueprint as to how in practical terms the U.K. could transition smoothly out of the EU, and would not be helped by the almost inevitable sovereign downgrade that would result.

## Overview

- We believe the biggest credit impact following a Brexit vote would be a potential lack of foreign and local capital investment in the U.K. due to the ensuing uncertainty over the departure terms.
- Short-term financial risks that would immediately follow a U.K. decision to leave the EU include currency devaluation, a higher cost of debt capital, and reduced access of U.K. companies to international capital markets.
- Long term, our key concern is the possibility of a curtailment in corporate investment. But U.K. corporates and EU-based companies operating in the U.K. would also face risks in adapting to new trade agreements and tariff regimes, navigating changing immigration rules to maintain adequate supply and flexibility in the labor force, and complying with regulatory regime changes—including the environment for mergers and acquisitions.
- Industries that could potentially suffer most from a fall in investment include, in our view, U.K. real estate, U.K. construction, aerospace and defense, the capital goods and auto industries, chemicals, metals and mining, infrastructure, and oil exploration and production companies that target developments in the North Sea.
- Many industries, however, would likely be more insulated from much of the disruption, either due to their lower capital intensity—such as media and business services companies, technology, and forest products and packaging—or to their very local and regulated nature, such as U.K. bus and rail. We believe even affected industries could also have the capacity to adapt, or even benefit, over time.

Looking longer term, we believe the biggest risks for corporates would be the impact of a likely reduction in capital investment—both domestic and foreign direct investment. This would stem from an extended period, potentially running to many years, during which the terms of exit and replacement trade treaties with the U.K.'s partners are renegotiated. A lack of investment during this period of uncertainty would likely erode the competitive position of companies in certain industries and negatively affect their revenue and profitability, at least until the shape of the post-EU institutional framework became clear. We see this as a concern, particularly given the low-growth economic environment currently prevalent in parts of Europe. Industries that could potentially suffer more from such a capital investment paralysis broadly cover those that are capital-intensive and foreign direct investment-reliant, including U.K. real estate, U.K. construction, aerospace and defense, the capital goods and auto industries, chemicals, metals and mining, infrastructure, and U.K. oil exploration and production (E&P) companies that target development of the North

Sea oil fields (see table 1).

**Table 1**

<b>Relative Medium-Term Impact Of A Reduction In Capex Investment Due To A U.K. Exit From The EU By Sector</b>	
<b>More affected</b>	<b>Less affected</b>
U.K. real estate	Business services*
U.K. construction	Retail
U.K. oil and exploration companies	Shipping
Automotive	Forest products & packaging
Capital goods	U.K. bus and rail
Infrastructure	Media
Aerospace and defense	Technology
Travel (tour operators and airlines)	Telecom
Chemicals	Consumer products
Metals and mining	Pharmaceuticals
	Utilities

\*Excludes financial, technology, and travel services.

## Short-Term Disruption Would Be The First Hurdle

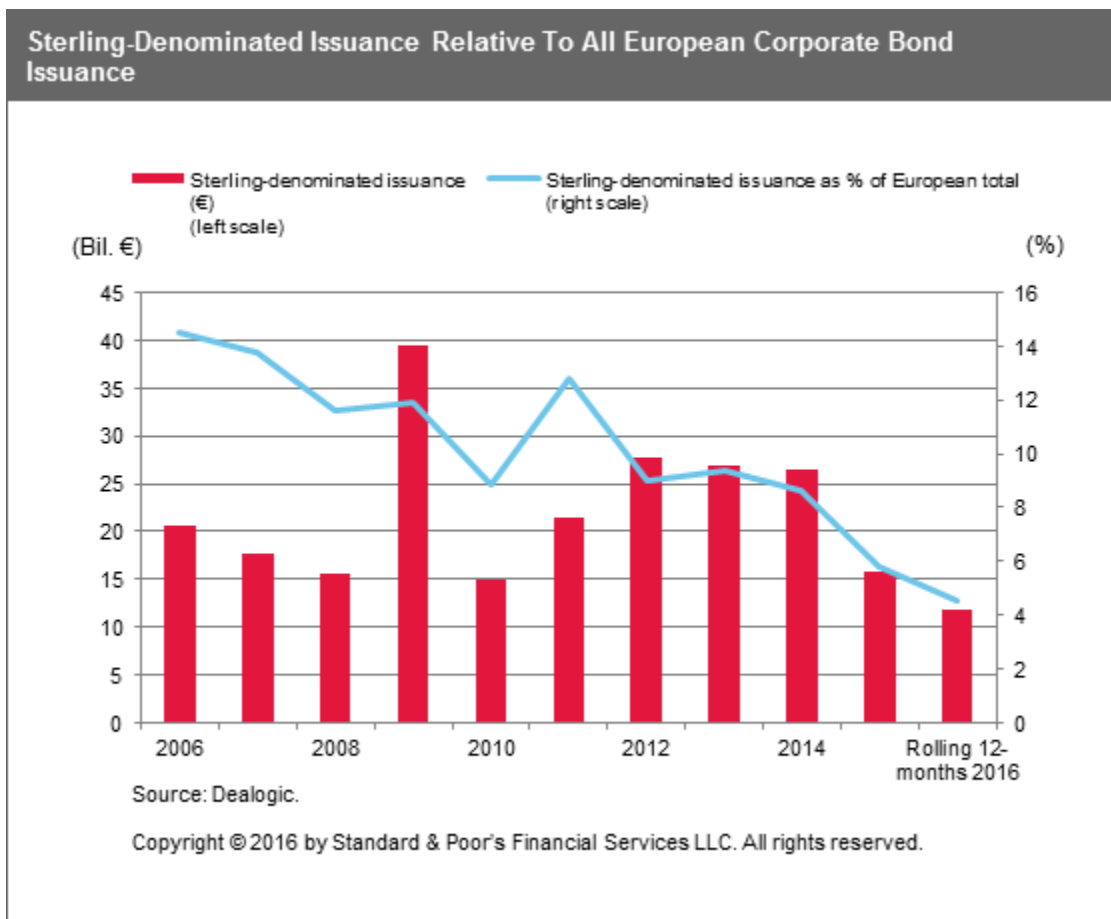
We believe a U.K. vote in favor of a Brexit would herald a period of sustained uncertainty. We recently affirmed our 'AAA/A-1+' long- and short-term unsolicited ratings on the U.K. but maintained our negative outlook. The negative outlook on the long-term rating reflects our view that the forthcoming referendum is likely to be a close call and could result in a vote to leave. This represents a significant risk to the U.K.'s economy, its financial services sector, and its exports. A vote to leave is likely to damage business confidence, investment, and GDP growth, and have a negative effect on public finances. As a consequence, Brexit would likely lead us to lower the long-term sovereign credit rating. (For more details, see "Brexit Would Spell The End Of The U.K.'s 'AAA' Rating," published May 20, 2016, on RatingsDirect.)

In a Brexit scenario, U.K. consumers would also be worse off in the short-term as disposable incomes fall and consumer confidence wanes. Lower U.K. consumer spending would hurt rated consumer-facing corporates. The airline industry, for example, is highly cyclical, with fortunes closely tied to the macroeconomic environment. A decline in U.K. GDP growth would likely adversely affect business and consumer travel. A depreciation of sterling would also be likely to make U.S.-denominated fuel costs relatively more expensive for U.K.-based transportation companies. However, a weak pound could attract more tourists to the U.K., which may partially mitigate the overall impact.

In addition, a vote to leave would likely cause some initial volatility in capital markets and lessen demand for U.K. assets until greater clarity about the exit settlement emerges. We have already seen a decline this year in terms of sterling-denominated issuance compared to similar periods in previous years (see chart 1). Some of this decline was attributable to the market volatility in the first quarter and the overall slump in new issuance from European companies. However, sterling-denominated issuance relative to overall issuance has declined sharply since 2015, when the U.K. elections were held and it became clear there would be a referendum on EU membership. Furthermore,

new-issue yields on recent sterling offerings have jumped. For instance, U.K. building materials distributor Travis Perkins (BB+/Stable/--) printed its deal in May above 4%, higher than euro-denominated deals by peers in the 'BB' category. Travelodge (Thame and London; B-/Positive/--) paid 8.5% for its £390 million deal, about 60 basis points (bps) higher than the six-month average new-issue yields paid for sterling deals at the end of 2015. One reason why longer-term yields could rise is that inflation would likely pick up in the wake of sterling weakness, possibly exacerbated by renewed concerns about the U.K.'s substantial trade deficit.

Chart 1

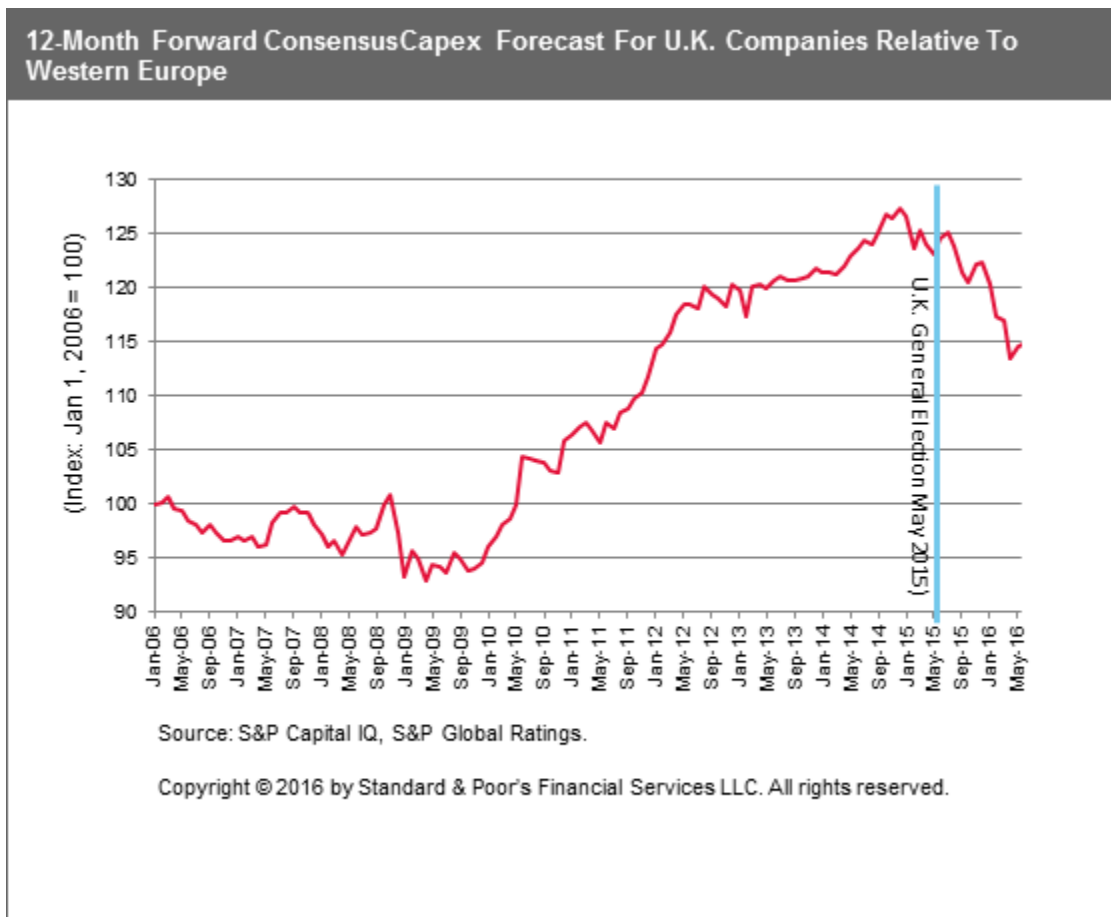


In a recent twice-yearly survey of FTSE 350 companies (the FT-ICSA boardroom bellwether survey), respondents seemed quite calm about the potential downside risks, with only 43% saying that a Brexit would be damaging to their business. However, the survey showed that larger companies felt that they had more to gain from continued EU membership, with 55% of FTSE 100 companies responding that it has a positive impact on their business compared with just 24% of the FTSE 250. Smaller U.K. companies typically have a more local focus and would be insulated from some of the effects of a Brexit.

## A Reduction In Capex Would Have The Biggest Credit Impact

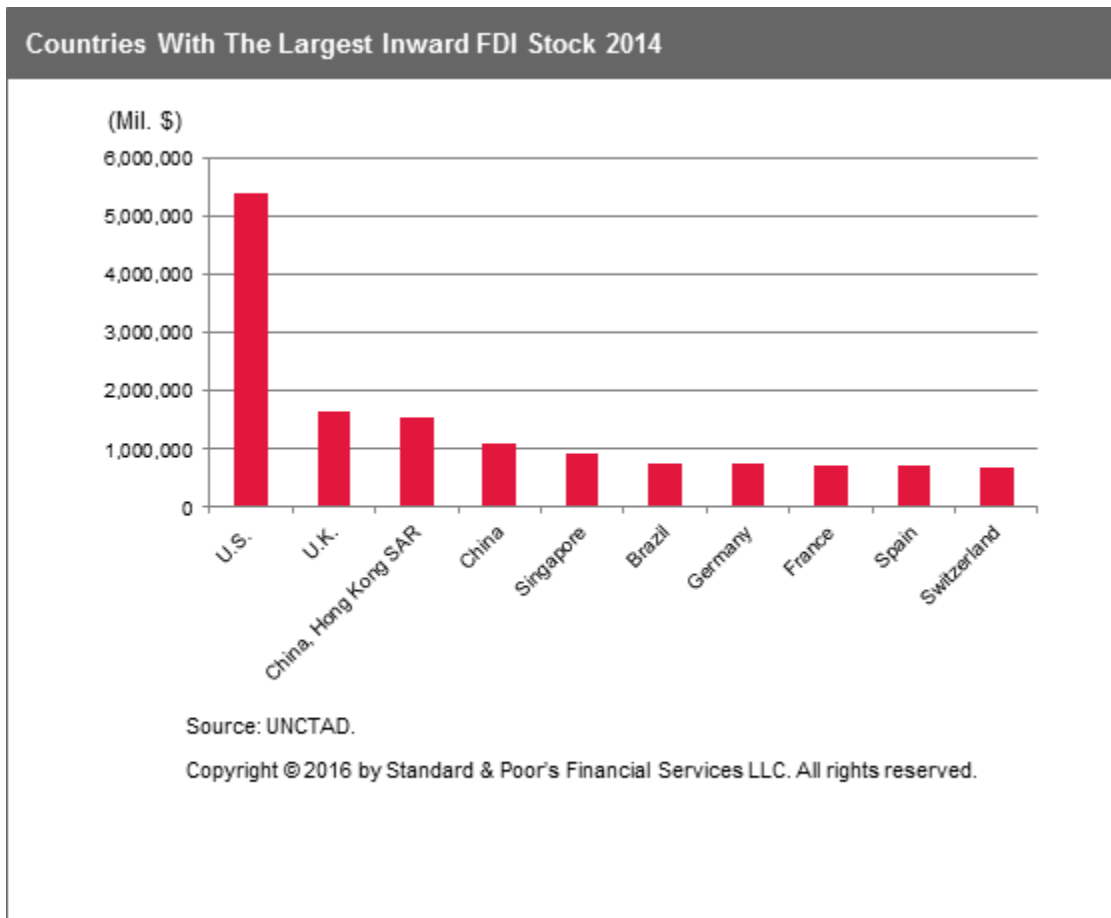
We believe the greatest potential credit impact in the event of a Brexit would be a reduction in capital investment for U.K. companies or for those European companies with plants or operations in the U.K. Furthermore, with the risk of reduced access to the European single market, the U.K. may become a less attractive headquarters for companies across the spectrum, notwithstanding the traditional benefits of English law, including a competitive tax environment. Since the U.K. general election in 2015 when it became clear a referendum would take place, we have seen a pronounced decline in consensus capital spending forecasts for U.K. companies relative to the eurozone (see chart 2).

Chart 2



Any reduction in foreign direct investment would be a significant break from the past, as the U.K. has historically been one of the world's largest beneficiaries of FDI. In 2014, the country was second only to the U.S. in terms of stock (see chart 3).

Chart 3



Industries that could potentially suffer most from a lack of investment include U.K. construction, aerospace and defense, the capital goods and auto industries, chemicals, metals and mining, and U.K. oil E&P companies that target development of the North Sea oil fields (see Sidebar 1). Likewise, we believe real estate--in particular commercial real estate--will be negatively affected if a Brexit were to occur. Our ratings on real estate investment companies, homebuilders, and structured financing in commercial and residential mortgage-backed assets will require ongoing monitoring (see "Brexit And The Risks For U.K. Real Estate," published April 7, 2016, on RatingsDirect.) Infrastructure would also be negatively affected if the U.K. government did not step in to replace foreign funding that may be redirected (including from European supranational lenders). Up to 40% of U.K. infrastructure assets were under foreign ownership in 2014. (for more details, see "Post-Brexit, Long-Term Funding Is U.K. Infrastructure Investors' Biggest Concern," published May 18, 2016.)

The issue with a reduction in investment is that companies can become less competitive as a result, with the impact on companies' top lines often felt in the subsequent years. For pharmaceuticals companies, uncertainty over obtaining authorizations to access the EU market could cause delays in investment in U.K. research and development facilities. Because developing the pipeline for new drugs can take several years, underinvestment in one year can have a large impact on top-line growth in years to come.

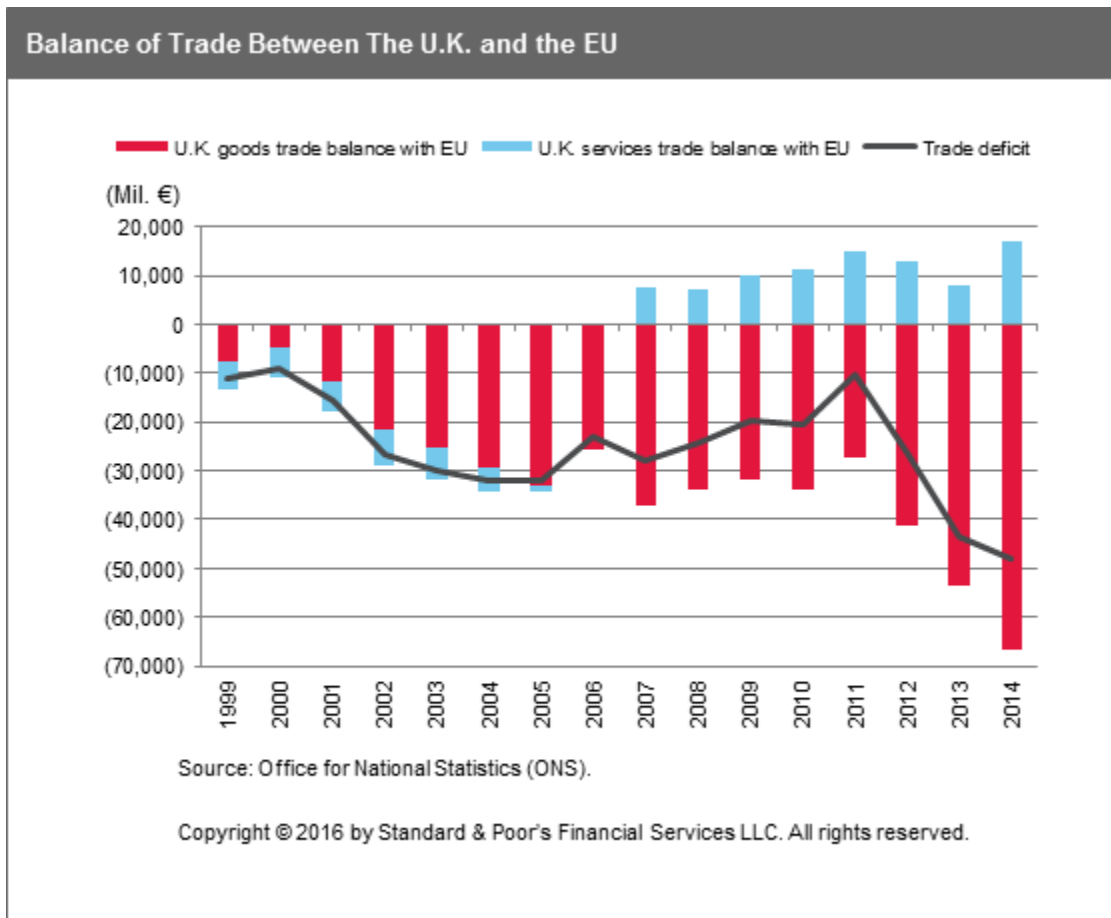
Siemens, the German industrial giant, has been very public about its concerns over a potential Brexit because it employs 14,000 people in the U.K. and has 13 manufacturing sites in the country. The chief executive of the industrial conglomerate Siemens' U.K. arm told the Financial Times recently that the "real issue" is future investment, including research and development in the U.K. Similarly, European aerospace and defense companies rely on close partnerships to share the burden of developing new capabilities and delivering on large-scale and highly technological programs. For example, the latest U.K. Strategic Defence and Security Review (SDSR) has paved the way for the continuation of a partnership between the U.K. and France to develop unmanned combat aircraft. Missile manufacturer MBDA is a joint venture between France-based Airbus, U.K.-based BAE Systems, and Italy-based Finmeccanica.

## **Breaking Up Is Hard To Do**

In the event of a vote to leave the EU, European law is fairly specific on the timeline for the withdrawal procedure and foresees that the process should take place within a period of no more than two years (although an extension is a possibility). During this time, Britain would need to negotiate its exit from the union and new trade agreements with the EU as well as the rest of the world. This will not be a simple or easy process. The U.K. and EU are very large trading partners. According to the Office for National Statistics (ONS), Britain is a net exporter of services and a net importer of goods (see chart 4), and overall runs a sizable trade deficit with the EU.



Chart 4



The U.K. and EU are closely linked in traded goods such as motor vehicles, machinery, commodities, and many food products (see table 2). For U.K.-based food retailers, a Brexit could push companies to source more local produce. Nevertheless, the large companies in this sector already have a renewed focus on supporting local farmers and suppliers, and therefore don't see this as an insurmountable problem. As for EU-based consumer product suppliers to U.K. retailers, the cost bases for these companies are all in Europe. One of these companies, Belgium-based hygienic disposables manufacturer Ontex, which also produces generic products for U.K. retailers, has fixed prices and fixed contracts. Should Britain leave the EU, these contracts may need to be renegotiated, so they have told us that the longer-term impact is difficult to quantify.

Table 2

U.K. Net Trade In Goods With The Eurozone In 2015	
	(Bil. £)
Machinery and transport equipment	(39.4)
Food and live animals	(12.8)
Chemicals and related products	(12.0)
Manufactured goods classified chiefly by material	(8.5)
Miscellaneous manufactured articles	(6.1)

**Table 2**

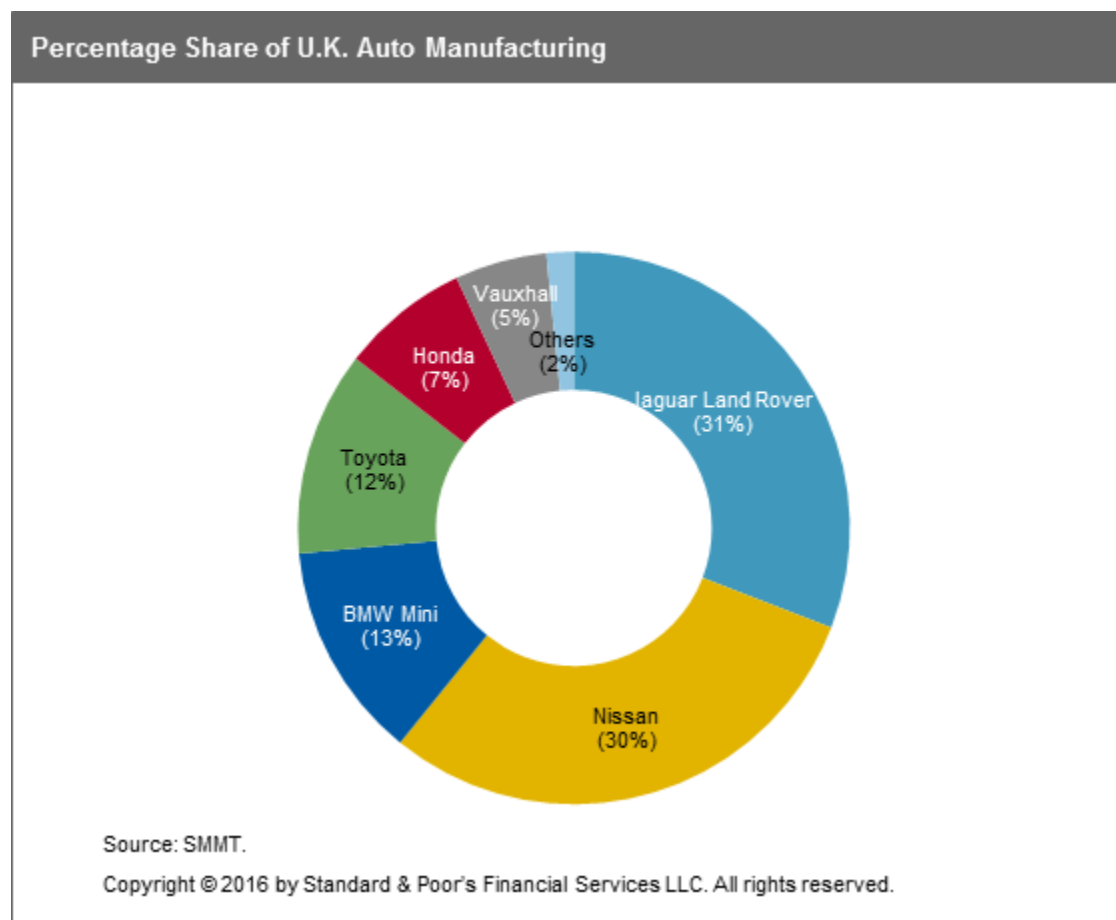
**U.K. Net Trade In Goods With The Eurozone In 2015 (cont.)**

	(Bil. £)
Crude materials, inedible, except fuels	(1.7)
Beverages and tobacco	(1.6)
Animal and vegetable oils, fats and waxes	(0.3)
Commodities/transactions not classed elsewhere in SITC	(0.3)
Mineral fuels, lubricants and related materials	9.6
Total	(73.0)

SITC--Standard International Trade Classification. Source: U.K. HMRC.

The U.K. is the second-largest EU market for new cars and a key location for car production, both for U.K. car producers and those based in the EU and elsewhere. In 2015, 1.6 million cars were made in the U.K., which was a 10-year-high. A substantial portion (77%) was exported, of which 58% went to the EU, by far the largest export market. The largest U.K. manufacturers are foreign owned (see chart 5). In addition, there are significant imports of cars into the U.K., which exceed the value of exports. By value, over 85% of motor vehicles imported into the U.K. come from the EU, according to the ONS.

**Chart 5**



Likewise, in the aerospace industry, supply chains are integrated. Airbus, for example, manufactures its wings in Britain, fuselages in France, and tails in Germany and Spain.

However, even if tariffs are imposed in a Brexit scenario, we consider that the automotive sector would be able to adapt to reduce the impact. Car making is a global industry, and most manufacturers control factories in more than one country, have ongoing cooperation agreements and joint ventures with other players, and benefit from a truly international supply chain to source parts and materials. Likewise, there would be some counterbalances for aerospace and defense. Given its strategic nature, we would expect the British government to take steps to limit the impact to the sector. It is unlikely that the U.K. would cease to be part of multinational programs to develop new military hardware given its continued membership of NATO and its position of having Europe's largest defense budget. Membership of agencies such as the European Space Agency is not linked to EU membership. While, in theory, a removal of the need to follow EU procurement rules might benefit U.K. industry, we suspect that the maintenance of these rules would be one of the conditions of a successful trade deal.

Generally, we believe that merchandise trade is not the main issue, and that the bigger risk is downward pressure on investment and FDI. Continued free merchandise trade is almost certain to continue and be governed by, at a minimum, World Trade Organization (WTO) standards. A big hurdle, however, is that in an exit scenario, the U.K. would have to renegotiate a gamut of bilateral free-trade agreements that the EU has struck with countries such as Canada.

## **Regulatory Hurdles Crop Up**

Telecommunications is one example in which regulatory policy in the event of a Brexit could affect M&A: there is a significant difference between the U.K. and European regulators' views regarding further consolidation, which the telecom industry has pursued to moderate competition and reduce costs. While the European Commission ultimately agreed with the U.K.'s Competition And Markets Authority (CMA) with respect to its opposition to CK Hutchison Holdings Ltd.'s potential acquisition of O2 to merge it with Three, it is possible that future decisions could be conducted in a different way given that a U.K.-only regulator would likely focus only on domestic implications. We also note potential long-term regulatory implications in the sector. For example, if European telecom markets move toward greater harmonization, particularly when it comes to spectrum policy, cross-border consolidation could accelerate. This could potentially leave players like British Telecom at a disadvantage if they are unable to realize the same synergy benefits as competitors based predominantly in the EU.

For European low-cost airlines, U.K.-headquartered easyJet PLC has joined Ireland-headquartered Ryanair Holdings PLC in its public support of the Remain campaign, warning that a Brexit would likely have a materially adverse effect on their operating and financial performance. They say that consumers have benefited from EU membership through deregulation, lower prices, and route expansions, and that the U.K.'s access to the single market has been a key factor in the rise of low-cost carriers.

In our view, the EU would be unlikely to block U.K. airlines' access to EU airspace and airports because it would be mutually beneficial for cooperation to continue and for new agreements to mirror existing ones. The U.K. would likely

continue to be part of the European Common Aviation Area, which allows any EU airline to operate freely within the EU, but has extended the market beyond EU member states (including Norway and many others). Similarly, the EU-U.S. Open Skies Agreement, which allows any EU or U.S. airline to fly between any point in the EU and U.S., would likely be renegotiated on similar terms. That said, this should not be taken for granted, and there may be a period of uncertainty while negotiations are ongoing. Although a Brexit represents a potential risk to U.K.-based airlines and airlines with substantial exposure to the U.K. market, there are other risks to the airline industry that are arguably more significant to our airline ratings, such as high volatility of fuel costs, labor strikes, and increased security risks.

Changes in regulation and policy may also affect utilities, as the sector is heavily regulated and investment is driven by EU-originated regulatory targets, especially in the energy sector under the plans for decarbonization and replacement of aging generators. The U.K. regulations have gone further than EU regulations in these fields, and therefore it is highly unlikely the government would reconsider its general policy objective. The removal of EU state aid legislation could also give the U.K. more flexibility in terms of public subsidies or make it more likely to develop schemes that provide investment incentives.

European directives for water quality are also a major impetus for investments in the regulated water sector. It is not certain that the U.K. government would have the capacity on its own to draft these norms. There is a risk that a U.K.-regulated company in the future would have to continue respecting European regulatory targets without having been part of the discussion that created them. (For more details, see “Post-Brexit, Long-Term Funding Is U.K. Infrastructure Investors' Biggest Concern,” published on May 18, 2016.)

An important caveat is that, given that so many U.K. companies already comply with EU regulations, there is unlikely to be any difficulty in continuing to do so. In the tobacco industry, the U.K. has already adopted part of the tobacco legislation ahead of many EU countries. The U.K. would be likely to maintain existing regulatory statutes initially, with any post-Brexit adjustment happening gradually and in tandem with the withdrawal process. Loss of influence over regulatory policy is a frequently cited concern. Yet, given that many areas are subject to qualified majority voting, the U.K.'s direct influence is usually diluted. Given the importance of the EU as a market for the U.K., however, the scope for gains from the removal of regulations may be less significant than hoped for by those advocating a U.K. exit.

## **The Importance Of A Flexible Labor Force**

Access to a wide labor pool and flexible labor markets is the preference of many of our rated companies, particularly those operating in the telecom, aerospace and defense, security, auto, and capital goods sectors. These sectors often also import workers and engineers with specialist skills to the U.K. Access to both skilled and unskilled labor is critical to the U.K. construction industry, which is dependent on overseas workers given the skills shortage in the U.K.

Much of the local Brexit public policy debate revolves around immigration and is highly contentious. Access to the EU single market is contingent upon the freedom of movement of labor and therefore likely to be an important part of any EU exit negotiations. Both sides of the referendum debate have argued that their preferred outcomes are economically beneficial. Those advocating that the U.K. leave the EU suggest that business would benefit from a switch to a

skills-based immigration system (allowing recruitment of highly skilled engineers from outside Europe, for example) in conjunction with existing U.K. labor market flexibility and a permanent removal of the EU Working Time Directive. Those advocating that the U.K. remains, point out the immense benefit to U.K. economic growth provided by EU immigration in recent years and the risk of losing such workers if U.K. immigration policies change. Should the U.K. not maintain access to the EU single market, it may still want to keep its borders open for EU immigration. However, it is possible that foreign workers may find it more difficult to emigrate to the U.K. following a Brexit scenario, or that workers may be more attracted to work in countries that remain within the EU. Should this be the case, then it may increase labor costs for U.K.-based companies, and investment in the U.K. may be further limited by an insufficient labor force.

## **Some Industries Are More Insulated**

Despite the risks that we see for companies in the U.K. and Europe from a Brexit, there are many sectors for which we see only a limited or minimal impact. These include media, business services companies, U.K. bus and rail, technology, forest products, and packaging. The Swiss corporate sector provides many examples of companies that are able to thrive on the European and the global scene while their head office is located outside the EU.

- We see a minimal impact on paper and packaging companies, which generally have a fairly limited exposure to the U.K. We believe that demand will continue to be determined by other factors, including digital substitution and consumer-driven trends (most packaging applications).
- The shipping industry is global in nature, with costs largely U.S. dollar-denominated. Companies would likely be able to redeploy vessels on other routes if there were disruptions following a Brexit. Indeed, with the industry continuing to face pressure from severe oversupply and weak demand, charter rates are extremely low (in the drybulk and container liner segments), and a Brexit is not a key concern at present.
- Media companies with domestic subsidiaries, such as Sky Deutschland or Sky Italy compete on a local basis with no expected spillover from a parent based outside the EU.
- Our rated business services companies (excluding sector-specific services such as transportation, financial or technology) like G4S, provide services produced and supported locally with nothing imported or exported. They often rely on low-wage staff, which they recruit partially from the immigrant pool, but they expect continued ability to replenish their low-cost labor-force even in a Brexit scenario given a substantial pool of unskilled labor. The U.K. demonstrated a willingness to encourage unskilled labor immigration prior to joining the EU. Should shortages occur here, it seems likely that the U.K. would continue to offer immigration on this basis, albeit with greater constraints.
- For technology companies, we see minimal U.K. exposure among EU-based companies, although about 75% of U.K. companies have material EU exposure. That said, we see limited Brexit impact, with the possible exception of smaller technology companies in niche U.K. markets, such as fintech, which may experience increased disruption opportunities if their customers face new tax or regulatory issues. With increased turbulence, we think nimble technology-based players may be better placed to capitalize than the larger traditional financial sector players, which may also be preoccupied with Brexit fallout in their core businesses. However, such incremental benefits could be offset by the broader negative economic consequences in the U.K. of a Brexit.
- U.K.-based transport operators Stagecoach Group PLC, FirstGroup PLC, and The Go-Ahead Group PLC are primarily focused on the U.K. bus and rail markets with extremely limited exposure to the EU. We would therefore expect the impact of a Brexit to be restricted to any general weakening in the U.K. economy or depreciation in

sterling, which could also increase fuel costs. We would assume that U.K. and EU rail operators would continue to be able to participate in tender processes for franchises in both territories, as it would be in the mutual interest of both territories.

- In a similar vein, we would expect the impact on U.K. rolling stock operating companies (ROSCOs) that lease the rolling stock used on the British rail network (Porterbrook Rail Finance Ltd., Willow BidCo Ltd., and Eversholt Investment Ltd.) to be very limited. If sterling depreciates then this could mean that it is relatively more expensive for the ROSCOs to purchase rolling stock from Europe, depending on their pricing power.
- Although chemicals could be impacted by a delay in capex investment in the event of a Brexit, it is such a global industry that companies usually have diversified operations and are not highly exposed to the U.K. market. Furthermore, we don't expect that Brexit would lead to the imposition of important trade barriers between U.K. and the EU in this sector.
- Likewise, the domestic mining industry in the U.K. is relatively small.

## **Sidebar 1: A Drain On North Sea Oil**

Even if investment were to pick up following the two years of negotiating the terms of a Brexit, the impact of a lack of spending in the immediate aftermath of a departure could potentially have disproportionate consequences. Oil and gas exploration and production (E&P) companies are a very good example of the danger of a lack of investment in 2016 and 2017 in particular. This represents two stories that fold into one, concerning the development of U.K. North Sea oil and gas fields. Investment in the area has been declining over the past two years as the price of oil has fallen--and this remains the clear and present danger for the sector. In addition, the North Sea offers a relatively high cost of development compared with many other basins globally, in part because of the offshore nature of the fields. We don't consider currency devaluation is likely to be transformational for costs.

As far as the oil majors (IOCs) are concerned, they have many other development options available and have been generally investing capital in larger scale new projects rather than more incremental plays in a mature basin like the North Sea. So the question remains whether or not a Brexit could be the straw that breaks the camel's back when it comes to accelerating the decline of North Sea oil field development and production.

We think Brexit would have a bigger negative credit impact for the smaller U.K. oil and gas E&P companies and also the oilfield service companies focused on the North Sea. On the one hand, the producers could benefit from IOCs selling North Sea assets subject to financing availability. But oil and gas producers and service companies have reported sharp drops in financial performance and access to funding has been severely affected by the fall in the oil price.

Uncertainty surrounding Brexit can only add to the existing gloomy prognosis about the investment outlook. The U.K. fiscal regime for oil has been adjusted more than most in recent decades and global and local players may see increased uncertainty in this respect in the context of Brexit. Scotland's decision in a Brexit scenario could complicate matters further. A critical issue for the companies focused on the North Sea is that if decisions aren't made to invest in the area, fields may close down sooner, and the cost of running and maintaining pipelines and other infrastructure is spread over fewer remaining barrels. This may then accelerate the decommissioning of other fields as costs rise and they become less economic. Taken together, it could become increasingly difficult to make the economic case for

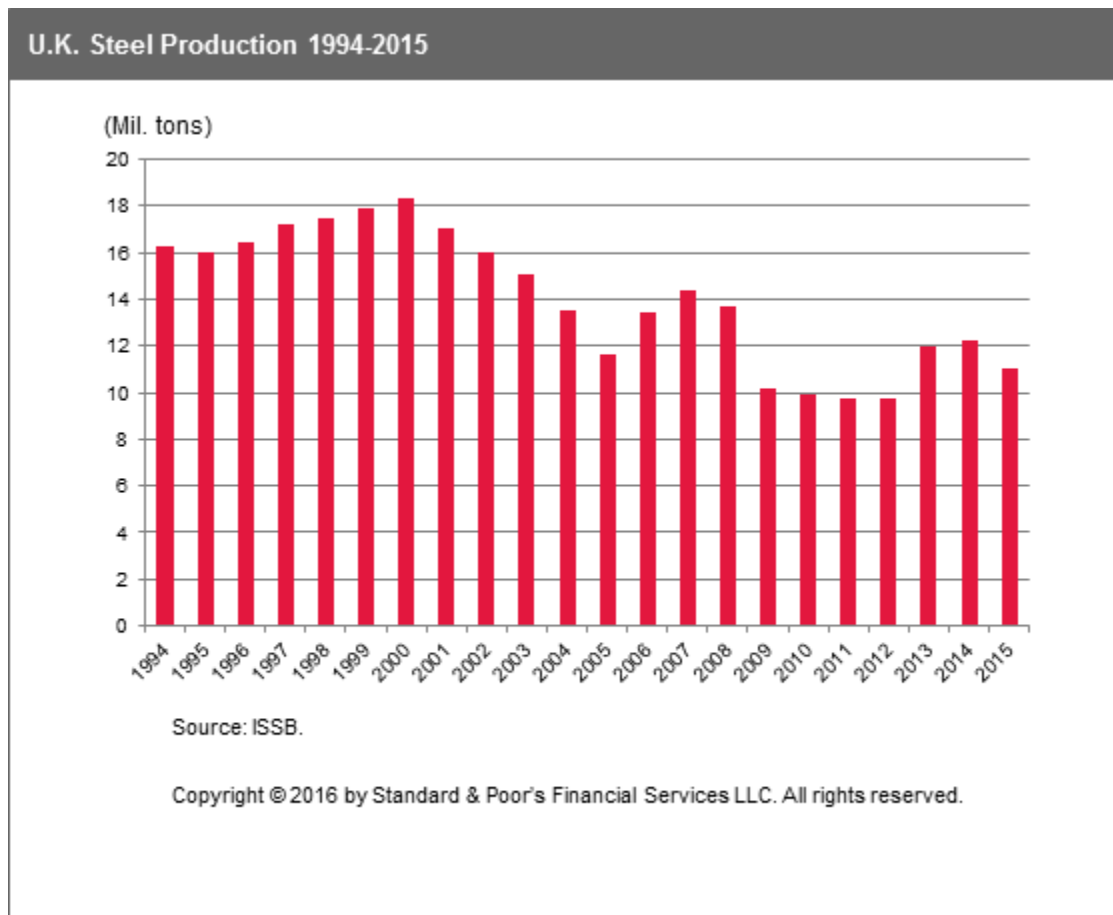
extending the life of oil fields or carrying out further exploration or development.

We focus primarily on the potential impact of transitional Brexit uncertainties for the oil and gas sector above. We note that the Norwegian hydrocarbon sector has developed successfully outside the EU, albeit with more fiscal stability than the U.K. and before the basin started to mature.

## Sidebar 2: Could A Brexit Be Positive For U.K. Steel?

Historically, the steel industry in Europe has served the domestic market and exported semi-finished products to other countries. But over the past five years, the cheap cost of production in Asia relative to the high energy costs of producing in the U.K. and the extra costs of climate change policies, excess capacity in China, and the ongoing economic stagnation in Europe have all led to a gradual decline in steel production in Europe. In 2014, the U.K. imported 687,000 tons of steel from China, up from 303,000 tons in 2013. U.K. steel production was down to approximately 11 million tons in 2015, from the 20-year peak of over 18 million tons in 2000 (see chart 6).

Chart 6



The ongoing pressure on local companies has led Tata Steel UK Holdings to announce its intention to sell its plant in recent months. Similarly, SSI, the Thai steel firm, announced a "pause" in production at its Redcar blast furnace in

Teesside in September 2015, but later in the year mothballed and liquidated the plant.

The impact of Chinese steel production for Europe has been discussed at length over the past few years. And although the EU has recently warned China that it faces new anti-dumping tariffs on steel, the EU has been very slow to address the issue. Only in 2015 did the EU impose anti-dumping duties for six months on some steel imports from China and Taiwan. The EU and China have already clashed over the alleged dumping of products such as wine, solar panels, and steel pipes. The U.K., as part of the EU, has had its hands tied from imposing its own anti-dumping duties, but at the same time is not allowed to support or rescue the steel industry, in part due to EU regulations that limit government direct support.

As of today, the steel industry workforce is rather small, with 18,000 workers. However, any further shrinkage of capacity in the U.K. will lead to closures and the potential loss of other downstream activities such as appliances, tools, and steel workshops. Brexit would potentially provide the government with the opportunity to preserve a minimum national presence in steel production, depending on what kind of trade agreement with the EU would be eventually negotiated. However, one of the likely scenarios would be a free-trade agreement with the EU tied to a customs union (like the agreement between Turkey and the EU), which would then mean the external tariffs with trading partners would need to be identical.

## Related Research

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### **Additional Contact:**

Industrial Ratings Europe; [Corporate\\_Admin\\_London@standardandpoors.com](mailto:Corporate_Admin_London@standardandpoors.com)



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