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Press release

Euler Hermes study: Brexit would hit British chemicals firms hardest, then machinery and automotive

- Worst-case scenario could see a £7bn exports fall-off for chemicals sector
- Machinery and automotive sectors could see £3.5bn and £3bn export losses, respectively
- Divestment and falling margins would heap further pressure onto British industry overall

LONDON– 10 FEBRUARY 2016 – The British chemicals sector could face a £7bn loss of exports in the worst case event of a Brexit without a replacement Free Trade Agreement (FTA) with the European Union, according to Euler Hermes, the worldwide leader in trade credit insurance.

UK-based companies in sectors highly dependent on the European market - such as chemicals, automotive, machinery and equipment - would be hardest hit by an EU exit if new FTAs were not created. The potential £7bn loss in sales in chemical companies would be followed by the machinery and equipment sectors (£3.5bn loss) and the automotive industry (£3bn loss).

“The chemicals industry is one of the most important exporting sectors in the UK, with £55bn of goods sent abroad each year,” said Ana Boata, European economist at Euler Hermes. “But British companies are already under immense pressure to become more competitive against high growth markets in the US and Asia, while also battling higher R&D costs and a strong pound in recent years. With over half of the chemical industry’s exports heading to the EU, any decision to break away from continental trading partners would have knock-on effects on the supply chain and put jobs at risk. The figures emphasise the importance of negotiations to secure an FTA in the event of Britain leaving the EU.”

The Euler Hermes Economic Insight publication ‘Brexit Me If You Can’ assesses the impact of leaving the EU on British companies. The core scenario suggests the UK is most likely to remain within the EU, minimizing disruption to trade.

But the report also highlights the impact on British companies under two scenarios: first with a new FTA in place and then without an FTA. It identifies direct export losses, falling margins due to higher import and financing costs, and international divestment as the three main factors that could lead to a contraction in exports. Even with a new FTA in place, chemical companies could still see a drop of up to £2.5bn in exports, while machinery and equipment and automotive industries would each witness a £1.1bn contraction.

Euler Hermes estimates that in the ‘worst-case scenario’ of a Brexit without an FTA, the turnover of British companies would contract by -1% per year on average, compared to a current predicted growth rate of +4% on average after 2017 if the UK remained in the EU.

The report suggests that this could result in losses of up to £30bn or 8% of UK total goods exports, a gap which, even when offset by trade with Commonwealth countries, would take at least 10 years to fill. Under this scenario, the trade balance deficit, already at a record high level, would widen by £35bn to £180bn within 12 months of the formalisation of a UK exit from the EU.

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