Brexit closes gateway to Europe for Canadian companies

Foreign companies with operations in the U.K. are bracing for the fallout of the referendum result.

Canadian-based Brookfield Asset Management, which has investments in London’s Canary Wharf, said it remains "confident that the U.K. will continue to attract international capital and be one of the leading business centres in the world." (MARK BLINCH / REUTERS FILE PHOTO)

By SUNNY FREEMAN Business Reporter
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Canadian companies and workers in the U.K. woke up Friday facing unexpected decisions about their future in a country that voted to close its gateway to the rest of Europe.

Canadian firms with offices and investments in the U.K. saw their stocks fall Friday amid a bloody global market mess in reaction to Britain’s decision to leave the European Union, an outcome that took many by surprise.

The campaign to remain — or Bremain — gained momentum in the days prior to Thursday’s referendum and investors forecast voters would opt for the status quo. But in the end, 52 per cent of Britons voted to leave — or Brexit — the 28-member politico-economic union.

The Canada-U.K. Chamber of Commerce said Friday that most of its 300 members — including every major Canadian corporation with British operations — had clearly backed the remain side.

That sentiment was consistent with the country’s six other bilateral chambers of commerce, said the Canadian chamber’s president William Swords.

“Our members are surprised, as is the country as a whole, and people are reflecting on what it means for their firms in particular,” he said. “This is uncharted territory for everyone.”
The U.K. — a popular hub for North American corporations that serves as a gateway to European trade — must now reassure multinationals that the country remains open to trade and that skilled workers will be able to stay, he said. Britain is Canada’s fifth-largest trading partner, accounting for about $21.2 billion in trade.

Although it’s too early to gauge the full global trade ramifications, Canadian businesses are debating the merits of relocation, Swords added.

Canadians who work and live in the U.K. are similarly concerned about their future prospects if global multinationals decide to pull out.

“A lot of expats are feeling very uncertain about what our future holds,” said 30-year-old Nancy Hitzig, a Canadian who moved across the pond in 2013.

Hitzig, who voted to Bremain, now works in fundraising for the City of London Sinfonia and is worried that the arts sector will suffer if corporate donors leave, putting her job at risk.

“I worry about the falling pound and the economic uncertainty and the job security uncertainty — those are the things that are going to keep me up at night.”

Those most exposed Canadian businesses include Brookfield Asset Management, aircraft simulator CAE Inc., train maker Bombardier Inc., Great-West Lifeco and the Canada Pension Plan Investment Board (CPPIB).

All were reluctant to say much in the immediate aftermath, but offered statements insisting they believed in the long-term stability of the country.

However, if they stay, their London office property values may fall by as much as 20 per cent within three years, as businesses relocate and the economy stagnates, according to Green Street Advisors LLC.

Brookfield, which has a large exposure with investments in London’s Canary Wharf, said it remains “confident that the U.K. will continue to attract international capital and be one of the leading business centres in the world.”

Bombardier, which has aerospace operations in Ireland, said it “will continue to work with the government and other industry stakeholders to create the necessary business environment to ensure our future success.”

The CPPIB, which has infrastructure investments across the U.K., said it expected the results of the vote to have an immediate impact on markets, as well as its portfolio, but that it has an “exceptionally long investment horizon.”

“As any investor, we have a bias to stability over uncertainty, yet periods of dislocation can present compelling opportunities that short-term investors are unable to pursue,” it said in a statement.

While Canadian companies avoided publicly showing their political biases, some of America’s largest banks contributed hundreds of thousands of dollars to stop Britain from withdrawing.

Some suggested a Brexit would force them to move thousands of workers out of London, the headquarters for their European operations, which they used as a financial springboard to sell their services to the rest of Europe without having to get regulatory approval in each individual country.

Canadian companies will weigh their options over the next two years as Britain negotiates its exit terms, said Michael Manjuris, a professor at the Ted Rogers School of Management who specializes in European business and economics.

“I don’t think there’s going to be an instant exodus or anything of that nature.”

However, he believes Canadian and global multinationals, particularly the big banks, will re-establish their European headquarters in Germany, France or the Netherlands.

He likened the situation to the fallout from the election of the first separatist Parti Quebecois Premiere Rene Levesque in 1976, when many banks and insurance companies relocated their headquarters outside the province — including the Bank of Montreal.

While several prominent companies are exposed to the chaos in the U.K., they have had plenty of time to prepare for the long-known risk of an exit, said Campbell Harvey, a professor of finance at Duke University’s Fuqua School of Business.

“They plans should kick in today. If they do not have plans, then it is a gross failure of basic risk management.”

*With files from Bloomberg*

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