How to prepare for future contracts as a result of Brexit

When you are entering into new contracts you should be mindful of the potential implications of Brexit. This may involve the following:

- Including hedging strategies such as agreeing a fixed currency rate when drawing up a contract to avoid currency fluctuations.
- Clearly setting out steps for resolution provisions associated with Brexit.

An important strategy to allow for Brexit uncertainty is to formulate future contracts that incorporate flexibility, and you can do this in the following ways:

1. *Price flexibility* - allows prices to be renegotiated as circumstances change. Including price flexibility means that all future contingencies do not have to be fully considered at the beginning, as the buyer and supplier are aware that prices can be changed to reflect changes in circumstances. For example, changes in trading arrangements due to Brexit during the contract may require you to consider a change in prices.

2. *Renegotiation* - you should incorporate mechanisms into the contract to allow for renegotiation based upon changes in the business environment. The contract may include specific clauses under which renegotiation should occur including fixed calendar dates or changes in economic indices. Renegotiation often involves renegotiating more than price and can also focus on the terms of contract.

3. *Contract length* - where appropriate, you should use shorter contracts to achieve flexibility. At the end of the contract period a new contract can be negotiated to reflect the current circumstances both internally and externally. This is particularly important for your firm as a result of the uncertainty associated with Brexit.

4. *Early termination* - you should incorporate a clause into the contract that sets out the conditions under which the contract may be terminated. The omission of such a clause can result in considerable penalties in the event of the contract being terminated prematurely.

5. *Incentive contracts* - this involves putting mechanisms into the contract that allow the supplier to share any cost savings generated throughout the relationship. A potential outcome of Brexit for firms is that it may be possible to achieve cost savings for some supplies. For example, a depreciation in currency may allow a supplier to achieve price savings in raw materials and in turn reduce the price of its end products. Incentive contracts could include mechanisms to ensure the supplier shares any savings that are realised from any positive impacts of Brexit.