

The Impact of Brexit on German Businesses

Results of the IHK Business Survey
Going International 2019

Going
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2019



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The nationwide DIHK survey "Going International 2019" was conducted with the support of 79 chambers of industry and commerce (IHKs) in Germany. More than 2,100 foreign companies based in Germany took part in the survey in February 2019. The results of this special evaluation on Brexit are based on the responses of around 1,500 companies with business connections to the UK.

The trade volume between Germany and the United Kingdom (UK) amounted to 119 billion euros in 2018. Around 750,000 jobs in Germany depend on trade with the UK. To date, German companies have built up investments worth over 140 billion euros. About 2,500 branches of German companies are located in the UK and employ more than 400,000 people. British companies have 1,500 branches in Germany and employ around 270,000 people.

| Form of business activity in the United Kingdom (share of enterprises) | |
|--|-----|
| Exports of goods or services to the United Kingdom | 63% |
| Imports of goods or services from the United Kingdom | 30% |
| With a branch / office in the United Kingdom | 17% |
| We employ British citizens | 13% |
| We employ German nationals in our UK office | 3% |

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Key Results:

1. The imminent Brexit is already a burden for companies

- ➡ The business situation of the companies has deteriorated considerably. Only one in five German companies still reports good business in the United Kingdom.
- ➡ Concerns about future developments are high: 70 percent of companies expect their business with the UK to deteriorate in 2019.
- ➡ Some companies are already taking action. Every 8th company with UK business is currently planning to relocate its investments to other markets. The majority of investment relocations from the UK are to Germany and other EU countries.

2. Concerns about tariffs and legal uncertainty are high

- ➡ For companies a concrete preparation is still only possible to a limited extent. For more than half of the companies, concrete effects of Brexit are still unclear.
- ➡ Three-quarters of the companies are concerned about additional customs bureaucracy. In addition, higher costs for customs duties and import taxes as well as legal uncertainty are the biggest risk factors.
- ➡ SMEs in particular face cost-intensive challenges. A hard Brexit would lead to additional burdens due to the additional customs bureaucracy and payments of customs duties in billions.

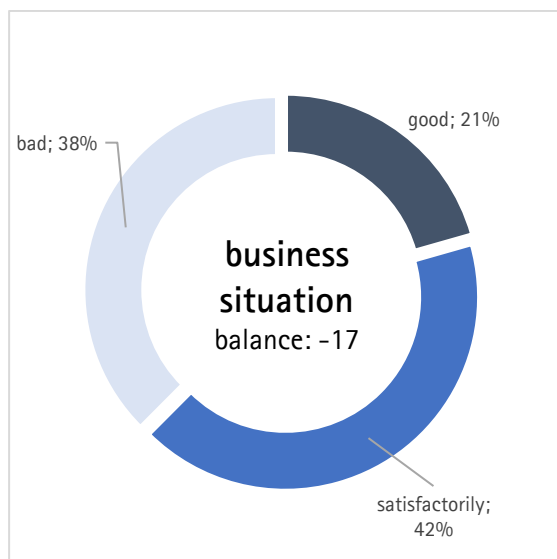
Company Assessments

The approaching Brexit represents a major challenge for trade relations between Great Britain and the European Union (EU). The negative effects of the Brexit vote are already weighing on business. German-British trade has been declining since the Brexit decision. Almost 30 months after the referendum and just less than a month before the withdrawal, there is still uncertainty about future trade relations. The German economy is correspondingly insecure. The intentions for local investment are declining. Some companies are already planning to relocate investment from Great Britain to other countries – primarily to the rest of the EU.

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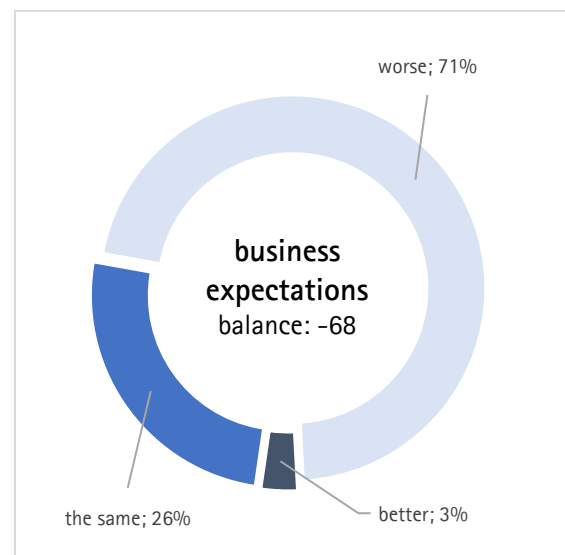
Pessimism about business situation and business perspective

German companies with business relations with the United Kingdom assess their current situation significantly worse than in the previous year.

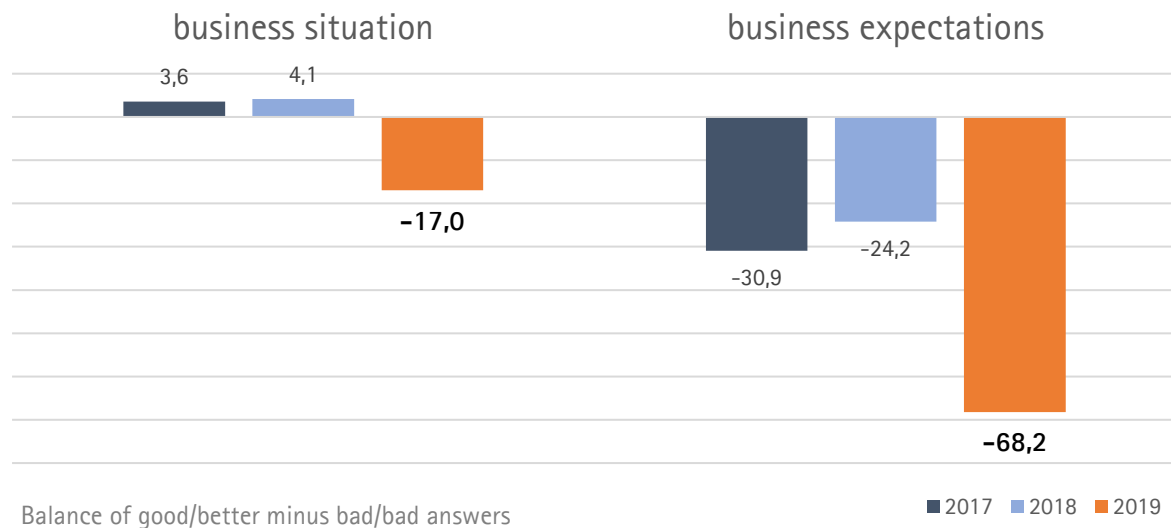


Every fifth company rates its business with Great Britain as good. In contrast, after 25 percent in the previous year, 38 percent of companies now rate the situation as poor. The balance of "good" and "bad" valuations has thus plummeted from plus four points to minus 17 points in the last twelve months. In comparison: the balance of the current business situation of German companies in other EU countries without the euro as well as in Switzerland and Norway is plus 44 points, with the eurozone countries even plus 56 points.

Companies' expectations for the next twelve months have fallen dramatically. A deterioration of their business with Great Britain is now expected by 71 percent. In 2018 the figure was 36 percent. The proportion of those with confidence is just three percent (twelve percent in 2018). The balance is now at minus 68 points and thus significantly lower than a year ago (minus 24 points). Looking at the individual sectors, the metal industry, the automotive industry and suppliers, as well as the retail trade, rate their business prospects as the worst.

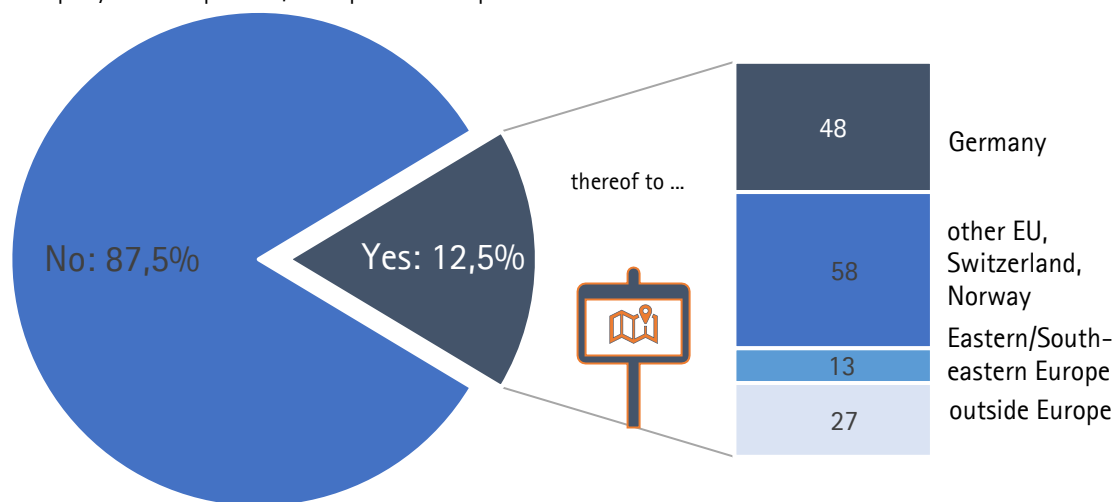


Current business situation and expectations of German companies operating in the United Kingdom



Relocation of UK investments to other markets

Company share in percent, multiple answers possible



The impacts of Brexit are already being felt. The British pound has lost noticeable purchasing power against the euro. This also reduces sales opportunities of German producers. Last year German exports to the island fell by almost four percent. Before the Brexit vote, Great Britain was Germany's third largest market with 89 billion euros. According to preliminary data, the United Kingdom only ranks fifth behind the Netherlands in 2018 with 82 billion euros.

An unregulated Brexit hits Great Britain incomparably harder. First consequences can already be observed on the island. British economic output is growing significantly weaker than before the referendum. Based on the present business survey, DIHK expects economic growth in 2019 to be well below the EU average.

Relocation of investments planned

Thirteen per cent of companies with investment in the UK are now planning to relocate their investment to other markets to avoid the disadvantages of losing membership of the European single market as a result of the UK's imminent departure from the EU.

The withdrawal of investments would take place primarily in the remaining 27 EU countries or in Switzerland and Norway. Almost half of these companies are considering relocating to Germany. This shows that companies are looking for stable conditions and, in case of doubt, are relying on the internal market or on predictable and preferential trade relations with Switzerland and Norway.

Preparation for a "hard" Brexit only possible to a limited extent

Shortly before the official withdrawal of the British from the EU, 88 percent of German companies – even those without direct trade relations with Great Britain – were concerned about possible impacts on

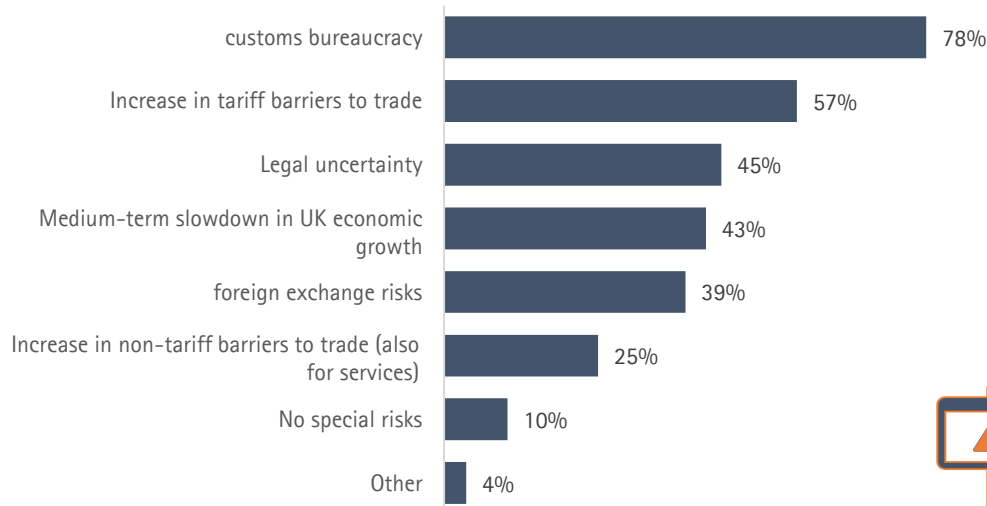
their business. Even if there are no direct supply relationships with British companies or investments with the United Kingdom, other companies may be indirectly affected by Brexit via supplier structures, intermediate products or customer relationships. For example, a plant manufacturer can currently purchase components exclusively from suppliers in Germany and France and does not see itself affected by Brexit. If, however, British primary materials are incorporated into the components manufactured by one of the suppliers, the affected component, and thus possibly the end product after Brexit, no longer reaches the preferential EU origin in case of doubt and would then not be able to profit from the EU trade agreements, for example with Japan or Canada.

Only one in four of the companies surveyed stated that they were well prepared for the possible consequences of the British withdrawal. More than half of the companies are still unable to assess the consequences even after a more in-depth examination of the issue (previous year: 43 per cent). The significant increase is hardly surprising, especially in regard to the major delays in the Brexit negotiations. Only nine percent of the companies state that they are

The companies have already taken the following measures in preparation for Brexit (in percent, multiple answers possible)



The companies see the following risks for business in the United Kingdom after the Brexit (in percent, multiple answers possible)



not affected by the consequences of Brexit. A year ago, this figure was only 25 percent. Twelve percent have not yet analyzed the possible consequences of the exit from the EU for their business.

Looking at the size classes of companies, mainly small companies claim that they are not affected by Brexit. Larger companies however, are affected to a greater extent and also report more frequently that concrete effects are still unclear.

Businesses in exchange with customers and business partners

German companies are in a dilemma: Most of the precautions for a "hard" Brexit, such as the acquisition of additional IT capacities, the hiring of personnel or the stocking up of stocks, are related to considerable expenditure. In case of a deal, these measures might be obsolete and the companies would have invested in vain. For this reason the majority of companies (68 percent) initially focus their preparations on discussions with their customers and suppliers.

Value and supply chains are extremely complex. In particular, issues such as customs procedures or technical approvals often pose a major obstacle to successful trade, as does logistics. Therefore, almost half of the companies try to prepare themselves for

the exit of the United Kingdom from the EU internal market through further training measures – e.g. in customs law. In this context, more than 40 per cent of companies state that they have audited their value and supply chains. Similarly, many companies have examined their contracts for Brexit risks.

In addition, around one-third has looked at the tax consequences or has already stocked up. Twelve percent of the companies have examined a withdrawal from the British market or at least made preparations for it.

Customs bureaucracy the biggest business risk

In the event of a disorderly Brexit, up to ten million new customs declarations and additional costs amounting to 200 million euros are threatened by customs bureaucracy alone. Against this background, four out of five companies see the threat of additional customs bureaucracy as a particular risk for future business with the United Kingdom. These include, among others, the filing of customs declarations and the duration of customs clearances. German producers are particularly concerned about possible delays in delivery and bottlenecks in logistics. This means that higher bureaucratic hurdles are mentioned more often than threatening tariff barriers to trade such as customs duties. In case of a

withdrawal without an agreement, the EU would estimate the WTO tariffs currently applicable to third countries for all imports from Great Britain. Conversely, there is the possibility that the UK may levy tariffs in line with EU tariff rates. This would lead to additional burdens in the billions and possibly also affect the re-import of EU goods.