

# GERMAN INDUSTRY UK

THE VOICE OF GERMAN BUSINESS IN THE UNITED KINGDOM



## Survey amongst German business in the UK After Brexit: much uncertainty

April 2018



plus a large aerospace and defence company, two further companies and a bank

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Founded on 19 May 1975 **GERMAN INDUSTRY UK (GIUK)** has been at the forefront of German business in the United Kingdom, one of Germany's most important markets and locations worldwide, for over 40 years.

GIUK is a private organisation of 100 members of the board of German companies and banks in the UK with a German majority shareholding, employing some 250,000 people here.

## Objective of our Brexit Survey

GIUK's mission is to support German business in the UK. This includes lobbying the British national and local governments on matters of concern to us like the Exchange Rate, Infrastructure, Productivity, Skills and recently Brexit.

**Since 2016 Brexit is our main concern** and we are working towards the best possible outcome for German business in the UK, a smooth exit with a minimum disruption to business.

**In February 2016 we urged Prime Minister David Cameron** to convince the British people in the forthcoming Referendum of the financial, economic and social benefits of the EU for the UK and give a firm commitment to remain in the EU.

**In March 2016** we said we do not see it as our place to tell people how to vote but will play our role in making the economic case for remaining in the EU.

**In June 2016** we said German business is disappointed that the British people voted to leave the EU, however we will not leave the UK which has long been one of Germany's most important investment locations and markets worldwide.

**In January 2017** we published our Brexit Statement 'Key German Business Priorities for the Forthcoming UK-EU Negotiations for Brexit' with the input from 12 of our major companies.

**In September 2017** we discussed the Brexit Statement with **Mr Robin Walker MP**, Parliamentary Under Secretary of State at the Department for Exiting the European Union.

**In October 2017** we followed this up with a meeting with senior officials of the Department for Exiting the European Union chaired by James Roscoe MVO, Director for Communications and Stakeholders. More meetings are planned in 2018.

**In March 2018** we discussed our Brexit Statement with the Shadow Secretary of State for Exiting the European Union, **Sir Keir Starmer KCB QC MP**.



## **After Brexit: much uncertainty**

Nearly two years have passed since the Referendum in June 2016 and one year since the British Government formally triggered Article 50 of the Lisbon Treaty in March 2017 and trade talks are only just starting. There is only one year left before the UK officially leaves the EU in March 2019 with some relief for business, a post-Brexit transition period until the end of 2020.

**We need certainty and clarity rather sooner than later and urge the British Government to settle with the EU. We still don't know what a post Brexit Britain will look like.**

German business said in January 2017 'To build a successful future for the UK as a country where German companies want to invest we recommend the British Government considers in particular the following:

We would like continued free access without tariff and non-tariff barriers to the UK market which is one of our biggest markets worldwide and continued free access without tariff and non-tariff barriers to the European Single Market for our exports from the UK.

We would like the re-tape around the future movement of labour kept to a minimum as we need skilled people to and from the EU.

**The British Government have articulated their wish to leave both the Single Market and the Customs Union and would like a comprehensive Free Trade Agreement with the EU after that, which may include a completely new customs agreement.**

The Labour Party favours a long-term customs union with the EU after Brexit.

The Confederation of British Industry (CBI) has been calling for the UK to remain in a form of customs union with the EU until there is sufficient evidence that new deals with third countries will outweigh a potential loss of business with the EU.

**Dr Bernd Atenstaedt, Chairman and Chief Executive of GIUK, welcomes these statements: 'A customs agreement between the UK and the EU after Brexit would be in the interest of German business operating in the UK, with minimum customs declarations and quota restrictions and free movement of skilled labour to continue. We do hope and expect that the best deal for all sides, a smooth exit with a minimum disruption to business, will prevail.'**

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**From January until March 2018 we conducted a `Survey amongst German business in the UK – After Brexit: much uncertainty`.**

**We had 55 replies, 50 from companies and 5 from banks, employing some 100,000 people in the UK and 3 million worldwide.**

## **Summary:**

- 1. The majority said their business has already been affected following the Referendum in June 2016. The biggest impact has been on the exchange rate and there is now some reluctance to invest in the UK, with projects on hold because of the uncertainty about the future. Only a few said that they will definitely remain in the UK whatever the outcome.**
- 2. The majority said that they are actively preparing for Brexit and for all possible scenarios.**
- 3. Only a minority see opportunities post Brexit.**
- 4. Key areas of concern include customs and border issues, in addition to the exchange rate.**

Individual answers to Questions 1 to 4 of our questionnaire:

- 1. Has your business been affected so far following the Referendum in June 2016?**  
a) **Yes** - 43  
b) **No** - 12

## **A selection of comments:**

Raw material increases due to Exchange rate.

Uncertainty of our customers means some projects are delayed. Exchange rate was the biggest direct impact on us.

Customers beginning to request details of our plans in event of hard Brexit WTO rules and how we intend to continue to support them.

Significant increases in prices from Head Office due to the currency fluctuation. Has meant reduced margins as all costs cannot be passed into the market.

There is some uncertainty and I am being asked to spend time working on various scenarios for our parent company which is time consuming.

We have to apply for the 3<sup>rd</sup> Branch Banking Licence since we can't operate under the EU passport anymore.

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We buy everything in Euro, so our cost of goods has been affected. Consumer & Retailer confidence has also been affected. Retailers are less willing to commit to stock than historically. We have also noticed businesses taking more time to make decisions on capital purchase.

Consumer confidence – unpredictable sales levels.

Companies depending on exports delay decisions for bigger investments. Only after the final conditions for exports will be more visible they will take an investment decision. As a consequence we just prolong existing supply contracts for a limited period, allowing also for us no decision on long term investments.

A reduction in investor confidence has reduced new building development in the commercial sector.

We have seen a 19% increase in our purchasing cost due to the GBP/EUR x-rate.

The significant weakening of the pound has increased the cost of our imports. We therefore had to hold back on investment in 2017 in areas such as marketing and staffing.

We have seen reduced confidence in some customers with delayed, cancelled or diverted investment decisions.

Deferment of customer investment programmes mid. 2016 throughout 2017.

Exchange rate has seriously impacted the margin.

The uncertainty and missing long term confidence is affecting sales of high value investment goods.

We appear to be noticing a reduction in the attractiveness of the UK as a working destination for some European residents.

Through the uncertainty the indirect response on business has been significant. Less investment and postponed decisions have resulted in challenging times on the corporate side.

Resource / time spent planning for the effects of BREXIT – Supply chain and EU legislation.

Yes, the business has been affected, the most severe impact came from the currency and did reduce the company's profit margins severely.

Uncertainty around the future, which makes it more difficult to plan in the medium to longer term.

The impacts of the uncertainty that Brexit has caused is an ongoing concern. Before the referendum, our company warned of the impact on both long-term competitiveness and productivity if the certification, customs regulation and fast-movement of our people changed from the status quo. These issues all remain a concern during the on-going negotiation.

Unsettled staff in many areas, concerned for their ongoing right to remain.  
Put investment etc on hold until the future is clearer.

Many of our industrial customers have suffered in their own sectors due to uncertainty affected future purchase intentions.

There has been a fear of what will happen so there is more of a reluctance to invest in the UK.

There are impacts on the car market.  
- Market down -5.7% in 2017.



## 2. How does your company see its future in the UK?

- a) Our plans are on hold - 6
- b) Our future in the UK is uncertain - 4
- c) We will definitely remain in the UK whatever the outcome - 8
- d) We are actively preparing for Brexit and for all possible scenarios - 37

### A selection of comments:

The future plans for UK operations are unlikely to become apparent before we have clarity on the regulatory and customs implications of Brexit. At this point in time, the potential for review of continued UK manufacture against relocation to existing EU27 facilities cannot be discounted, should the introduction of tariffs materialise.

We are awaiting details of what BREXIT may look like.

Growth projections have been downgraded for the next 5 years and as a result investment in recruitment and marketing expenditure has been reduced.

Currently unclear, but don't expect to leave the UK.

Working on a number of negative scenarios and impact on sales, profits and headcount, Parent company does not like uncertainty!

We have reduced our growth expectations and are focusing more on protecting and insulating our business against the unknown.

We will stay committed to our UK business.

We will remain in the UK but uncertain what impacts are coming.

Until trade talks commence there is not enough certainty to plan.  
We will continue to invest into the UK post Brexit with infrastructure development plans scheduled for completion in 2019 and 2021. Life will and must go on after March 2019.

We have had to divert a new pharmaceutical venture set-up from the UK into the Irish Republic. We were forced to take this action to ensure European regulatory compliance and avoid the possibility of tariffs.

We strongly focus on developing the market in the Republic of Ireland.

As a responsible business we are taking all reasonable steps both at UK and European levels to prepare for Brexit but in reality there is a limit to what can be done, especially as we do not know what a post-Brexit Britain will look like.

The current period of uncertainty is unhelpful and means we are having to prepare for different scenarios.

Plans in place and investment available, currently scaled back reflecting demand and clarity on the way forwards.

Preparing for various scenarios.

Its business as usual. It is very difficult to prepare for Brexit as there are still too many unknowns and political uncertainty. Risk and opportunities depend on the type of Brexit.

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London will retain its status as one of the most important financial centres in the world.

We are preparing the business for all different kind of scenarios after Brexit.

First we need to see what BREXIT actually means.

Therefore the preference of most industry players is for continuation of something that looks very much like the status quo in EU/UK relationship terms, to the extent that that is achievable. However, we do have real concerns around achievability, therefore we need to strive for as close regulatory alignment as possible. The current situation is one of great uncertainty, which is damaging to investor confidence. We clearly continue to be committed to offering a great service to our UK customers.

Ultimately, we will not fall over a cliff edge post-Brexit as our customers will still need our products & services!

We still see the UK as a growth market and plan to invest.

We have been clear that our preference is for the UK to remain a "home nation". This preference is based on an assumption that the conditions which have allowed our UK operations to thrive, and be among the most competitive in the Company, will continue after Brexit.

We want the absolute minimum amount of divergence on transnational regulation that covers topics including safety and environmental performance.

Currently in a "wait and see mode".

We have a Brexit Working Group that meets every month and we have a strategy that works through three pillars People, Technology and Customers in a post Brexit world.

We expect to retain our current operation in the UK and will scale it if necessary if we see a change in business potential.

We are interested and concerned to carry on trading with the UK. It is our largest market at present. Because of the current uncertainties we have stopped our current plans for larger warehousing facilities.

We certainly have some concerns as to what the future holds, until we have some concrete decisions on how Brexit negotiations will end, there are still too many unknowns to fully plan for the future, but still see the UK as an important market.

We are looking at all possible scenarios, possible financial impacts and potential increase of administrative burden, the worst of which would be if there was no customs union and no deal (Hard Brexit) something as company we would wish to avoid.

Above and beyond the current negative impact on the overall passenger car market in the UK further evaluation is dependent from the future after BREXIT, regulations for import duties other regulations and so on.



### 3. Does your company see opportunities past Brexit?

- a) Yes - 6
- b) No - 4
- c) No comment - 45

#### A selection of comments:

We believe there could be opportunities, however we don't believe there would be in the short to medium term, we believe it would take a number of years to see any potential new business outside of the Union to come into being.

We believe there will be opportunities, but it is uncertain where and what exactly.

There may be some opportunities but these are yet to be clarified.

### 4. What are your key areas of concern?

- People and immigration - 10
- Customs - 14
- Border issues – potential delays - 14
- Regulations - 12
- Market access - 12
- Currency fluctuations - 16

#### A selection of comments:

Main concerns are import duties and custom delays for just in time product.

We have to have free trade agreements with Europe and a customs process that eliminates delays and complexities... Our workforce has recently had many (eastern) Europeans and South Americans. We see the eastern Europeans beginning to leave and new ones not coming. The border issues will be different and we expect and prepare for worse, but we expect that we build processes to adapt and allow for that.

We have clear priorities:

Access to the EU Single Market without burdensome customs administration or rules of origin

Access to the pool of skilled labour required to maintain the UK's global competitiveness

Transitional arrangements that provide sufficient time for our sectors to adjust to the new trading relationship

Access to and influence in the regulatory regime operated by the European Aviation Safety Agency

Access to and influence in the collaborative European R&D and space programmes.

All are of equal concern.

We are obviously concerned by the unknown when it comes to border issues, market access etc.

People and immigration, impact on current employees (30% are non-British). Working Visas required in future for EU nationals?