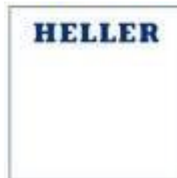
# GERMAN INDUSTRY UK

THE VOICE OF GERMAN BUSINESS IN THE UNITED KINGDOM

November 2022

# Major GIUK Survey on the Current challenges facing German business in the UK

**Businesses who took part:**



ANONAMOUS COMPANY

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**GERMAN INDUSTRY UK** (GIUK) has been at the forefront of German business in the UK, one of Germany's most important markets and locations worldwide for over 45 years. We are a private organisation of 100 members of the board of German businesses in the UK. They represent 200 businesses, employing 200,000 people.

**GIUK`s mission is to support German business in the UK. This includes lobbying Government on matters of concern to us. In order to proceed with our lobbying Government, we asked a cross-section of our membership for their views during August, September and October. We had 27 replies, amongst them major companies such as Bayer, BMW Manufacturing (MINI), Boehringer Ingelheim, DHL, Lufthansa, ThyssenKrupp, Volkswagen and others.**

## Summary of results of the Survey:

### All Sectors

- **German businesses experience increased costs, paperwork and delays for their businesses with the UK post Brexit.**
- **They are also facing major issues with deviations from EU standards post Brexit.**
- **German businesses describe the massive increase in energy costs as their biggest current challenge.**
- **They have seen significant disruption to their supply chains mainly caused by Brexit, Covid and the situation in the Ukraine.**
- **The impact on salaries and wages due to the high inflation rate is another great concern, and how best to address this.**
- **German businesses believe that the manufacturing sector needs a clear national strategy to support manufacturing growth.**

### Main Sectors

- **The lack of charging stations in the UK for EVs and PHEVs is of great concern to the German automotive sector.**
- **The engineering sector is struggling with the difficulties of moving specialists between the UK & EU locations.**
- **The healthcare sector has concerns that there is a mismatch between the Governments` high ambition for life sciences and an incredibly challenging commercial operating environment.**
- **Staff and skills shortages and rising transport costs driven by inflation and tax increases such as business rates is a big challenge for the transport sector.**
- **The lack of substantive rules addressing financial services in the EU-UK Trade and Cooperation Agreement creates some confusion and challenges for the financial services sector.**

# Full Results:

**All Sectors**:

1. **Increased costs, paperwork and delays for our business with the UK post Brexit**

   ***Comments:***

   - Yes, across the board for administrative costs but for us it's not the main concern which is employment costs
   - Returned Goods relief for shipments from EU-UK-Ireland has been a pain.
   - We have had to absorb external costs of approx. £0.4m per annum due to additional costs of import process since Brexit, as the majority of the material that we supply is imported from the EU. In addition we have had to employ additional personnel to allow us to cover the increased burden of customs process at a cost of approx. £0.1m per annum. We have also seen significant disruption for our own businesses and our customers in Northern Ireland.
   - Ports remain far slower than pre-Brexit, holiday periods being far worse. Paperwork/processing is settled now but attracts additional costs and where applicable duties now.
   - We now have additional cost relating to paperwork that is required post Brexit. Deliveries also take longer than before, min 1 day due to paperwork checks. If shipments from multiple suppliers are consolidated then it only takes one supplier to have paperwork issues and the whole consignment is held up. We have therefore had to carry the cost of dedicated consignments to avoid this.
   - Delays at UK Ports and Tunnel are causing issues with delivery times for our customers; increasingly we are seeing customers demand a guaranteed delivery timescale, which these problems are not allowing us to provide, meaning lost orders
   - We experienced no disruption and were well prepared. However, there is an increased administrative burden and the need for customs adjustments (which ultimately results in more costs). There is ongoing work on ROO which will change in 2024 and 2027.
   - We import thousands of different article numbers into UK temporarily. Assembly plant uses parts for building machines, which then most of the time go back to EU. Paperwork for each truck and complexity of preplanning the loads (space and time) is enormous. Regular door to door lead-time has increased > 2 days on average.
   - Is an issue for us.
   - Depending on the size of the local company and HR teams, the current visa regulations lead to the stop of certain initiatives, e.g. for training purposes / intra-Company interns etc. as the visa efforts are not proportional to the need.
   - Yes. Additional costs are being experienced for transport, customs, plant / seed certificates and inspections. We are also experiencing regulatory delays:-
   Crops incorporating GM traits have been assessed and authorised in the EU and are traded to the UK in quantities amounting to millions of tons of commodities each year valued at hundreds of millions of pounds. British livestock producers, particularly in the poultry and pig sectors rely on the predictable functioning of these markets. Under the transition arrangements, GM products authorised in the EU up to December 31 2020 had their authorisation carried over to Great Britain. Products receiving EU authorisation from January 1 2021 onwards are now required to undergo a new authorisation process managed by the Food Standards Agency (FSA). This process has run very slowly and has put essential imports at risk.
   - Impact of Northern Ireland Protocol & future strategy for batch testing of medicinal products in Great Britain.

- For us, has had a minor impact after the initial setup. Groupage causes delays where others have paperwork issues. Carriers now used to the process and better equipped to adjust. In total has added 1 day delay to our transit time. Printing importers address on the product by 2025 is unnecessary and impractical.
- We have seen a margin erosion of ~3% due to automotive tariffs being imposed on various imports. Huge paperwork trail to calculate and demonstrate to HMRC that there is appropriate EU content, not always possible. Also ~1% cost regarding custom agents fees and as a local legal entity we have had to become the 'importer of record' to retain the customer by taking away the complexities…
- Costs of Road freight transport have increased by circa 35% due to cost of import and export documentations in addition to the increase in costs from logistical companies due to infrastructure changes such as lack of drivers pushing up costs. We have also had to change Freight forwarder to find a company with fewer delays than previous but we are still finding at least2 days added to all transport routes.
- This has been keenly felt at our UK plants. The increase in paperwork has been huge (roughly 250k extra documents in the first half of 2021 alone). Delays at the border have been less than expected.
- Brexit has brought a lot of complications to the business. The procedures that have been put in place to allow the product to come into the country not only has brought with it significant additional cost and labour resource requirements, it is also the time sensitive nature of it that proves difficult. For example when an order is coming from Germany to our UK distribution partner my Operations team have a limited time window to upload the vehicle and product details into the CHIEF system otherwise the lorry won't have the documentation to cross the border. This has resulted in people voluntarily working in their own time to complete this.
- All goods now made external to GB are customs cleared and period entry is also on the way out; we are finding that goods flow is delayed as a result and any onward shipments (even to EU) still attract tariffs
- yes, but predominantly in the transfer / secondment of staff, visa's etc
- We incur significant additional cost for import and export, this is completely non-value-adding. In the short-term this additional cost is absorbed by us but longer-term this may impact decisions around investment and around location of manufacturing facilities, making UK less attractive relative to EU locations.
- we experience all these in differing degrees. Costs definitely, paperwork we can overcome, delays mean higher inventory with the parent
- Significant logistics impact and incremental costings for product import, paperwork and impact of preferential treatment changes
- The supply situation after Brexit (except from the current global, not Brexit-related supply chain situation) has relatively normalised. On the one hand, the processes now seem to be largely established, and on the other hand, we as a company, both our head office in Germany and our branch in the UK, have adapted our processes in such a way that the transports are now running relatively smoothly.

Nevertheless, it is still difficult to define exact delivery dates (day-specific), as it is never possible to say 100% how long customs clearance will take.

In addition, the forwarders repeatedly have difficulties with missing or inaccurate information on the customs clearance documents. It seems that not all forwarders' staff are sufficiently qualified, often not sufficiently trained; this often delays the process or the post-processing. The next hurdle in terms of time is UKCA. Here too, we have set up appropriate processes in our production facilities in Germany, France and Italy. This involves a not inconsiderable amount of additional administrative work, which, however, cannot be precisely quantified at the moment.

**2. Deviations from EU standards post Brexit**

***Comments:***

- No issues
- Changes between CE/CA marking took too long to settle on what has manifested as very little change, the time/attention and costs associated with this have been wasteful.
- The change over from the CE to CA mark at the end of 2022 is nothing short of a calamity. Asking suppliers to provide dual standard accreditation on the same product can only add extra cost onto UK bound products
- We are closely monitoring the UK-EU regulatory alignment. The industry needs early understanding of the regulatory environment. A post Brexit regulatory regime needs to avoid additional administrative burden and complexity. For example there is ongoing work on implementing a new GB type approval scheme.
There could also be a risk of passive deviation, UK Reach being an example.
- So far UK has copied the EU standards (machine directive) and are committed to keep it like that, but the challenge for the future will be, if EU standard changes, how fast will UK update.
- We very much hope that the Government will pass legislation to permit research and uptake of gene edited crops, this would take us ahead of EU regulation and would enable the UK to establish itself as a European centre for innovation and sales
- MHRA opportunities/challenges eg. capacity
- BEIS took the advice of one major player without checking with the industry. This practice is somewhat unprofessional and resulted in a decision taken for 130lm/w moving to 140 lm/w from a light source. Industry calculates this removes 85% of the lamps sold in the market and to reach the target will result in consumers paying £15 for a lightbulb. EU did not move in the same direction.
- Not too much of an issue, most of our imports are to EU standards.
- Additional costs in ensuring product comply to UKCA legislation rather than just CE
- We still have yet to see huge changes enacted, but are expecting this in the coming months/years. We have seen some impact already.
- Working with food the standards are always of a high nature on both sides of the channel. Consistent food profiling would be helpful though from a health point of view.
- Yes we see it now with PRF (cooling) and very little notification from OPSS of the UK standard changes
- Slightly in terms of financial regulations
- In the short-term the UK regulations are (generally) identical to the predecessor EU regulations and therefore minimal impact apart from additional cost for documentation. However new products may be introduced to UK more slowly than into the EU due to the need for separate testing and certification.
- Generally we don't experience issues in this area, most of our products are not controlled by standards, more local specification, either customer or industry.
- Ongoing alignment via Amdea to ensure we are on top of latest information on areas of divergence – an example is 2 separate labelling requirements for our appliances and very late confirmation of alignment UK to EU on common standards, risking significant additional complexity.
- Apart from UKCA, the next challenge is dealing with UK REACH. It is foreseeable that additional (at least temporary) effort will be required or has already been required for the initial registration of raw materials.
However, there are sufficient deadlines that give us a certain amount of leeway in the processing of this procedure. What remains is the additional effort, i.e. higher costs, with benefits for us as a company or our customers that are not yet apparent.

3. **Increase in energy costs**

***Comments:***

- Huge extra costs.
- The increase in energy costs for us is significant with our expectation of a 300% increase as a minimum for our UK business as a whole which will not be sustainable and will be almost impossible to pass on tour customers (who will themselves be faced with the same issue). At some sites we will actually see an increase of up to 600% and this will undoubtedly lead us to review the future viability of these sites and could lead to a significant reduction in headcount. It is imperative that the Government acts quickly to clarify the support available to business.
- With a mainly field based workforce fuel cost having increased by around 60% this year, we're facing several multiples of current energy costs when our fixed deal expires Q1 '23. While we've been able to pass some of the costs on this is noticeably becoming more difficult as everyone is feeling the pressure.
- Seeing the impact now and need to be aware of how this impacts the UK competitiveness against other nations.
- The single biggest challenge in the UK Market currently. A further price increase this year will take our electricity bill to 400% of its previous (2 year fixed deal) level. Not only does this threaten profitability and viability of many companies, it removes any trust or faith UK public and business communities have in any regulator. Where is the evidence from OFGEN that there is any substantive reason behind the hike in the energy cap?
- Energy costs are going up. For manufacturers the SMMT is asking for the sector to be included in the same way as large emitters. Important for automotive is also to focus on green energy, affordable and plentiful. Green energy is essential to deliver carbon neutrality.
- Significant impact on the production cost of our products.
- Is an issue.
- Energy costs will impact us but we look forward to seeing details of the support that was promised to business for 6 months. We occupy a very energy efficient building and have implemented recommendations from a 2019 assessment to ensure we manage our use efficiently.
- Impact of increased energy costs for manufacturing.
- This is significant increasing our variable costs and will result in price increases.  Some of our customers produce their own electricity and are unaffected.
- We have a UK group wide deal which avoids the current increases, however a big concern that makes industry very nervous.
- Gas costs have increased by 315% in the last 12 months.  Currently on a fixed contract for electricity which has shielded the organisation to date but from 2023 we are anticipating an increase of circa 400%
- Obviously an issue as with other businesses. The support from Government is welcome for the short term, but we will see about the longer term issues
- This is the biggest area of concern currently. Before the financial cost implications of the energy crisis are addressed the biggest question is will we even produce the full quota of products and demand in Germany due to the gas shortage.
- Yes and similar in most EU countries.
- Inevitably there is an impact, as for any other company. Energy is not a very significant element of our cost-base.
- Our energy costs were predicted to go up 500% before the Government package was announced.  We have not reworked it by I am sure it will still affects us.  We are considering adding an energy surcharge to all invoices to make it clear to customers that it will be removed when (if) prices return to more expected levels.  That might be dependent on Putin.
- Bad.  We need to decouple local production such as nuclear, North Sea gas and wind from being linked to wholesale gas prices as soon as possible
- We are in line with other European manufacturing business in its energy reliance and as such significantly impacted, whilst minimising this topic via ongoing and existing initiatives in

production methodology. Future focus for our sector on whole like planet impact and total sustainability footprint would help.
- The increase in energy costs is immense. We try to pass on the costs to individual customers, but meet with considerable resistance here (in contrast to the largely "unproblematic" passing on of price increases for machines, spare parts and process materials). Reason being is that we are dealing here with “services”, instead of “products”. Increases are less transparent and more difficult to explain as these increases do not only include rising energy costs but also rising labour costs, higher raw material costs, etc. On a positive note, this situation has led to the fact that we will implement already planned measures in terms of energy savings much faster than planned, although this will result in additional (unbudgeted) costs at the moment.

**4. Disruption of supply chains (labour shortage, equipment availability, global bottlenecks)**

***Comments:***
- It`s cumbersome
- Labour shortages esp at bottom of income scale.
- We have seen significant disruption to global supply chains over the course of the last 12 months with extended lead times on a variety of products (which has undoubtedly been exacerbated by the financial issues at Liberty group who remain an integral supplier for the Aerospace and Defence sector. There is clear issues caused by labour shortage across Europe which at the highest level will have a direct impact to the proposed ramp up of Airbus supply chain.
- Delays on metals, electronics and processed parts (EU & UK side), it’s almost impossible to recruit skilled engineering staff and equally difficult to retain the ones we have. Due to others experiencing the same issues customer projects have been delayed due to the same problems, and together with payment delays cashflow is being stretched unmercifully.
- Longer lead times on capital equipment. We have coped so far with labour need but have had to improve remuneration package to attract/retain staff.
- Not a huge challenge for us currently
- Our industry experienced impact on supply over the past months (semi-conductor shortage pandemic related and wiring harness shortage in relation to the Russia-Ukraine war).
- We are suffering from global supply issues in the semiconductor market. Material is allocated rather than delivered according to our PO’s. The world logistics chain (ships) is out of synchronisation after lockdowns in China; ships are still in the “wrong” place and there are still significant waiting times in front of the harbours. A lot of companies have reduced headcount during pandemic and now the demand is returning quicker than planned, while from time to time impact of absence are not completely gone yet.
- Is a critical issue for us.
- We have suffered regarding the semi-conductor shortages. In general we have a full order book but availability causes many headwinds. Main cause material shortages rather than labour.
- Costs and lead times are increasing in all sectors. The lack of semi conductors has especially hit our business hard leading to paying extremely high prices through brokers and working to an allocation system which has pushed lead times to our customers from 4 weeks to 20 weeks plus. Similar shortages in plastics and rubber also driving up costs plus the cost of pulp effecting packaging prices.
- We have seen a heavy impact from the semi-conductor issues. We hope that the end is in sight on this. Other issues such as wiring harnesses (caused by the Ukraine war) were shorter term, and labour shortages are an ongoing issue.
- Brexit, Covid and then the Ukraine situation has caused havoc in the supply chain world. The customer demand profile has changed and the ability to supply key commodities and

packaging have become far more expensive and scarce. Layer on top of this the shortfall in drivers and at times the reluctance of EU drivers to take jobs in the UK, we have at times struggled to keep product continuity to our customers. The logistical nature of the challenge has plateaued and probably improved slightly, but the commodity and packaging element is still a major challenge.
- Yes, also with driving staff and to an extent warehouse labour being under the threshold of £25k for visa consideration.
- Labour shortage.
- Inevitably there is an impact, as for any other company. The impact does not seem to be worse for UK than elsewhere.
- We struggle to recruit blue collar employees (warehouse and fitter engineers) and product engineers.  We see increasing market pressure on wage levels, not just driven by inflation. Commodity availability does affect us but primarily due to longer lead times for deliveries from Germany.
- Getting better.
- Bottlenecks in logistics are reducing as we exit the Covid impact, labour shortage is significant and affects all areas of our business
- As a non-manufacturing branch, we entirely depending on our manufacturing sites in Europe (Germany, France, and Italy). Especially repeatedly postponed deliveries and occasionally the very last minute information we receive from our suppliers are problematic and not easy to communicate with customers in the UK.  Quite often suppliers update, despite previous confirmations, on the day before the promised delivery date, sometimes even on the day itself.  In addition, personnel situation in our head office Germany is still very tense in general (staff shortages, just recently increasing COVID- and flu-cases etc.)

5. **Impact on salaries and wages due to the high inflation rate**
***Comments:***
- This is one of our biggest concerns since inflation is on a level where it will be difficult to respond with increases on a similar level. That might lead to higher fluctuation
- Not big so far maybe 2% over plan in 2022 big pressure on the 2023 settlement.
- This is also a significant issue with staff members struggling to cope with the increased burden caused by the cost of living crisis. In total we will have implemented a significant salary increase of approx. 6% to all staff members during 2023 and will also make a "one off" cost of living payment of £400 per staff member. The total impact will be an additional overhead burden of close to £2million per year.
- Overall the impact is currently around 9%, with staff demands increasing constantly fuelled by the press and union demands. We've seen skilled field engineering staff offered approx. 50% more than what we're above market rates pre-pandemic. We're currently budgeting for '23 and only expect the impact to increase further.
- We have been fortunate, that the Board has provided an additional 5% salary increase to all staff in order to help with Cost of living increases across Europe. As a privately owned company, we are able to do this as the impact is solely on the Year End Dividend to the small number of shareholders.
- Growing pressure on salaries and wages including third parties.
- Pay rise was given at the beginning of the year, meantime we try to offer longer working hours in order to compensate for some of the higher living costs.
-  Is a critical issue.
- Our salary decisions are made at a global level and were concluded in April for 2022 before inflation had hit current levels, we are aware that inflation is having an impact on some of our employees and how we will respond remains under review.
- We are controlling the impact as best possible so as not to add to the problem.

- The cost of living cannot be ignored and with the fight to retain / attract talent, compensation is a major topic to balance between affordability and market rates.
- In 2022 we increased Minimum wage by 6.6% to match legislation and increased other salaries by an average of 4% when inflation was just over 5%. With inflation now circa 10% we are not able to provide or budget for an inflation matching increase as the strain on our EBIT would likely lead to streamlining the workforce. The cost of living crisis leads the private sector exposed as the result of Brexit, Covid and material shortages has led to little or no growth and we can only increase salaries in relation to EBIT growth. If inflation continues to rise then we will need to lower overheads costs elsewhere such as reducing investments and expenditure.
- This will become more of an issue in time.
- For a lot of the working population these are unprecedented times in their working career. The news coverage of public sectors going on strike having refused salary increases in the region of 8% fuels the expectations our employees have on us offering something towards the level of inflation. There are mixed views across our industry on how to address this, whether to give a lump sum 'living allowance' along with a 'normal' salary increase which reduces the compound effect in years ahead or whether we should do our best to increase the salaries with a view that whilst inflation will gradually soften, it actually won't return to previous cost levels. Either way, when all costs are going up it's a very difficult position to be in as a business. On the flip side, if we don't respond then we will lose our top talent.
- More the impact of competition due to high e commerce labour requirements and a dwindling availability.
- Yes, this is a challenge, but is the same for all of our locations.
- Inevitably there is an impact, as for any other company. This will definitely impact our competitiveness (although we do not see a significant additional impact compared with other European locations).
- Significant, we need to stay competitive in the labour market. Labour shortage and inflation are like a spiral in terms of wage rises. We are expecting wage rise of 6-7%.
- likely to see 8-10% growth this year.
- Affordability remains a key challenge as passing onto consumers the full impact of cost price inflation and salary, energy costs etc can lead to significant price elasticity impact if handled badly.
- Effects on wages and salaries due to the high inflation rate are not yet discernible at present.

6. **Any other challenges:**
   ***Comments:***
   - Upcoming recession and Ukraine war will put a lot of stress on the financial sector and our clients.
   - Visa for business travel and EU applying tariffs on ecommerce don’t help. Ongoing concern about a resolution for the Northern Ireland Protocol. Particularly it is concerning that changes to requirements may happen rapidly with little to no notice that it would make it unviable for us to supply all of our product range to NI.
   - Degree of uncertainty due to change of government on key pieces of environmental regulation such as Extended Producer Responsibility and the standardisation of local authority recycling.
   - Major concerns on how the Russia / Ukraine conflict might play out
   - The recruitment market is a real problem. It is a seekers market and candidates are looking to push salaries higher than those which we currently have for existing staff. Shortage of quality labour existing.
   - Visas – they are costing more and taking longer post-Brexit. This means the planning for new roles coming from Germany need a much longer lead time.

- Exchange rates although these have improved. Recession, increasing interest rates
- One development that we can increasingly observe at the moment is the strained cash flow situation of companies or their (at least temporary) illiquidity.

**Manufacturing sector:**

1. **The need for a clear national strategy to support UK manufacturing growth**
   ***Comments:***
   - Brexit was sold to simplify things, it's the opposite.
   - Yes.
   - We fully support the need for a clear national strategy to support UK manufacturing growth. The UK currently falls way behind its rivals in area's such as automation and digitalisation and it is essential that any strategy includes a clear plan for improvement in both of these areas.
   - We desperately need clarity on the plan and meaningful mid-term incentives to justify future UK investment, otherwise we're simply uncompetitive.
   - What support package/capping of energy bills will be offered to UK business.
   - Yes a clear need for support by an attractive offer to invest into new technology. (financial/tax support)
   - Agree that there is a the need for this.
   - Brexit has clearly harmed the attractiveness of UK as a manufacturing base. This might be mitigated by a falling GBP vs EUR.
   - Agreed. We need to increase the pool of skilled fitters to make things. Too many go to theoretical further education when not suited and seems to drive them away from manual skilled work.
   - I agree however I cannot see this being realistic in the current economic crisis and an election looming.
   - Our observation is that manufacturers are still willing to invest in order to replace and upgrade equipment. This is to localise production, make it more efficient and more independent of energy consumption and labour (this is a general tendency that is only accelerated by current global events) However, because of the current uncertainties (recent government decisions on the "mini-budget" haven't helped to ease these concerns obviously), many of our customers are planning to hold or cut investments. For that reason, Government's super deduction scheme on plant and machinery investment, which is due to end in March 2023 shall be continued, with focus on supporting SME's and start-ups, e.g. companies from new markets such as the additive manufacturing (3D-priniting) industry.

2. **Any other challenges:**
   ***Comments:***
   - My general concern is the overall reputation of the manufacturing sector in the UK. Over the last 2 decades clear improvements have been done, especially to close skills gaps with apprentices (however I feel the lack of a national standard/curriculum when it comes to certain job descriptions – comparable apprentice ship programs with the same content). The most recent thrive for "home office" jobs will not be in favour for manufacturing businesses. Very seldom manufacturing processes can take place in a home office environment. If working in home offices is getting more and more promoted into the young generation, it will be hard to offer attractive jobs. The additional risk is, that it will create a "us

and them" perception about the people still required to come into the plant and the ones who are offered a home office position.
- Skills gap and labour shortages for engineering/manufacturing.
- Energy security and increased energy costs for manufacturing.

**Particular Sectors:**

**Automotive sector:**

1. **Lack of charging stations for EVs**
   ***Comments:***
   - As a manufacturer of EV wallboxes the end of the grant for homeowners in 2022 and the new legislation for smart charging has presented roadblocks at the time when we really need expansion in the market. This is reducing competition as the larger organisations backed by utility companies are able to drive costs down and meet legislation quicker through investment from profits, especially within the current energy crisis.
   - This is a big issue. We need a fit-for-purpose network which actually covers the whole country if we are to encourage the 75% to 80% of buyers who currently opt for ICE vehicles to switch, in line with current Government thinking. There are currently 32k public chargers for almost 1m cars with a plug (EV and PHEV). The plan is for 300k by 2030, but with many more EVs – there needs to be a properly funded and well thought through plan for this, rather than piecemeal.
   - Agree, however longer range will assist.

2. **Any other challenges:**
   ***Comments:***
   - Too often local authorities will procure charging infrastructure from overseas companies instead of buying British. China gets the lions share of this business.
   - It is a challenging complex environment for the whole industry, post pandemic, post-Brexit and in the middle of a technology transition and of course uncertainty in relation to the Russia-Ukraine situation. Key automotive industry topics are the UK Government EV Infrastructure Strategy and the from 2024 expected new CO2 regulatory approach including a ZEV mandate. We support the Government ambition to decarbonise the transport sector. Prerequisite is a robust infrastructure. We need binding targets / a link between infrastructure roll-out and the ZEV mandate requirements. We need a comprehensive interoperable EV infrastructure network covering homes, workplaces, on-street and motorways. There could be a potential risk that Government funding will be diverted away from relevant infrastructure investments due to other priorities. Further improvements on the consumer experience at charge points are also welcome including mandating roaming.
   - We would like to move our car fleet to EV as rapidly as possible but this is currently constrained by supply into the UK market and then if supply returns by gaps in charging infrastructure, for instance for employees who do not have dedicated parking spaces for installing at home charging facilities and constraint on the local grid capacity for us to install more charge points at our offices.
   - Due to the speed of electrification, the investments in both existing and future technologies is a major drain on R&D costs. The UK targets are too aggressive to be viable.
   - Removing the purchase incentives for PHEV/EV at a time when you are trying to get buyers into them is perverse. Government needs to look at this and not just assume that their work is done, merely by legislating the end of the ICE – more incentive is needed, and OEMs are providing the models so the infrastructure and incentives to back that up will be key.
   - Recession and cost of vehicles under PCPs will deflate demand for new vehicles.

**Engineering sector:**

1. **Ease of movement of specialists between UK & EU Locations**
   ***Comments:***
   - Only recently done this for the first time since Brexit, and while more difficult and slower the process worked fine.
   - We have become aware of the A1 form following Brexit although believe that this was required before. Still not completed one and travel to the EU has continued.
   - This is currently getting very difficult. To support work placements within the same Organisation between EU and UK is a major effort
   - As an organisation with its HQ in Germany and sites in over 54 countries the end to free movement from Brexit is of no help. We now need to ensure we comply with the 90 in 180 days limit for International trips.
   - Again this reduces the attractiveness of UK as a manufacturing base in the medium-term. It also harms the prospects for UK personnel.
   - Needs improving, however recession should free up the labour market.
   - Visa applications and permits were taking a long time initially – no subsequent issues.

2. **Any other challenges:**
   ***Comments:***
   - Availability of skilled engineering people, some people with limited knowledge are available, while far fewer who are appropriately qualified. Salary packages and demands almost increasing by the day. The whole area of training & skills needs to be addressed properly, with equal credibility and investment placed on trades and professions.
   - Takes a bit longer to get through immigration in the EU.

**Healthcare sector:**

1. **The mismatch between the Governments` high ambition for life sciences and an incredibly challenging commercial operating environment**

***Comments:***

- **Delivering on the priorities of the next Prime Minister – the role of Life Sciences**
  - The 2019 Conservative Party Manifesto set out the ambition to make the UK "**the leading global hub for life sciences**". The pandemic highlighted the strategic importance of the sector – exemplified by the development, manufacture and rollout of COVID-19 vaccines.
  - Recognising the unique role the sector can play in supporting both the health and wealth of the nation, the Government, in partnership with industry and the NHS developed the Life Sciences Vision – a 10-year blueprint to harness the potential of UK Life Sciences. The life sciences sector is one of the most valuable sectors in the UK, contributing £36.9 billion in Gross Value Add to GDP, 584,000 jobs and 18 per cent of all R&D investment across the economy.
  - A recent open letter by the ABPI during the Conservative Party leadership context spells out how in fact the UK is slipping behind

our global competitors in the race to become a life sciences superpower.

- There are a number of urgent demands facing the new Prime Minister ahead of the next general election, including the need to deliver high-productivity growth, reduce inequalities and addressing the NHS backlog. A strong life sciences sector will be critical to delivering against all of these priorities.

**The size of the prize – driving economic growth and improving patient outcomes**

- Recent research commissioned by the ABPI and undertaken by PWC demonstrates the enormous value which could be derived from implementing the government's Life Sciences Vision in full:

- £68 billion in additional GDP over 30 years, owing to increased R&D investment.
- £16.3 billion additional annual GDP from increased pharmaceutical exports.
- Up to a 40% decrease in disease burden across the whole UK – for areas like cardiovascular disease, mental health conditions and cancer.

**What are the barriers to success?**

- **The current 2% annual growth cap on the UK pharmaceutical market under the terms of the Voluntary Scheme for Pricing and Access (VPAS) constitutes a real terms decline in NHS investment in medicines, at a time when the industry is at its most innovative**. At present, pharmaceutical companies pay VPAS rebates on their sales back to the NHS on all expenditure above the capped limit each year. The contribution required from industry to cap the market is now becoming untenable. The rebate faced by companies is projected to be over 23.7% in 2023, up from 15.0% in 2022 and compared to 5.1% in 2021. This unpredictable and escalating rate creates significant short-term uncertainty, makes the UK a global outlier versus comparable markets and is damaging confidence in the UK as a destination for future investment.
- **The UK invests less on medicines than other advanced economies**, with 9% of its healthcare budget going to medicines compared to an average of 14% -18% across most developed countries. This contributes to poorer comparable health outcomes in the UK for many conditions including cancer, heart disease and stroke.
- **Clinical research activity in the UK is declining**, with significant challenges in setting up and recruiting patients to

cutting-edge industry trials. The UK has fallen from 5th to 7th in the world for Phase 3 clinical trials since 2017.

- Despite the sector maintaining its status as the number one private sector R&D investor, the **UK's share of global pharmaceutical R&D expenditure has fallen** from 7.7% in 2012 to 4.1% in 2019.
- **Just 68% of medicines approved by the European Medicines Agency were made available in England between 2017-20.** Even when approved, use of these new medicines is well below the average of our competitors. In Germany, 92% of these medicines are available.
- **Manufacturing volumes have fallen** by 29% and over 7,000 jobs lost since 2009.
- Since 2010, **the UK has fallen from 4th to 98th place globally in overall trade balance in pharmaceuticals**.

**How can the new Prime Minister support the Life Sciences Sector?**

- **There is an urgent need for direct dialogue between industry and government to address the immediate challenges with the voluntary scheme** and look at potential solutions to address the longer-term sustainability of the medicines market in the UK as part of the negotiations for the next scheme that will cover 2024-29.
- **Progress through action against commitments laid out in the Government's Life Sciences Vision** through close partnership between the Government, NHS, and Industry to realise the full potential of the sector in the UK.
- **Ensure UK patients have the best access in the world to the most effective medicines** by making the additional funding confirmed at the last spending review to tackle the NHS backlog is invested in proven and effective innovative medicines to relieve pressure on the health service, support prevention and help to address the NHS backlog.
- **Reconfirm the Government's plan to invest £22 billion per year in R&D by 2024/25.**
- **Prioritise the recovery of industry clinical trials in the UK**, and ensure research is embedded as a part of routine care within the NHS, reflecting the direct benefits it brings to patient outcomes and staff satisfaction within the NHS. This can be achieved by supporting and streamlining trial set-up and patient recruitment - enabling more patients to access cutting edge research opportunities.
- **Commit to policies that reverse the decline in UK medicines manufacturing** through a competitive package of fiscal, capital, and regulatory measures, learning from countries which have been

highly effective at attracting inward investment (including Ireland and Singapore).

- I think this is an area where the UK can provide a good contribution.

***2.*** **Any other challenges:**

***Comments:***

- Key themes: Growing disease burden and aging population, challenging access and uptake environment, NHS cost containment, harnessing data and digital science, Government response to climate change, life sciences ambition across the UK (Govt Life Sciences Vision), intellectual property protection, health inequalities.
- The NHS needs significant reform. Nye Bevan's vision of everything free at the point of delivery can no longer be achieved where people are living much longer than in 1947.

**Transport sector:**

**1. Staff and skills shortage and rising transport costs driven by inflation and tax increases such as business rates**

***Comments:***

- Have adopted a hybrid home office approach to reduce commuter costs.
- The aviation market has seen significant staff shortages which has led to disruptions during the steep return of demand this year. While this is not unique to the UK, many argue that Brexit induced visa regulations of course made mitigations more difficult. This resulted in significant increase of pay deals (regardless of the additional inflation effects). Economically this poses a risk to an industry that has amassed billions of debt coming out of the Corona crisis. Apart from this, a consultation is running on the planned increase of fees at Heathrow airport, making operations at the airport significantly more expensive (despite an overall high level already). Whether this might drive some future growth of flight offers to other airports or simply increases the cost for our operations remains to be seen.
- The Transport sector has a number of significant challenges, so there isn't really one issue that trumps all the others. These issues range from access to skilled labour, changes to border movements GB-EU and GB-NI, resilience in the freight system such as Air/Port capacity and finally the increased cost to serve driven by inflation and tax increases such as Business Rates.
- Better than earlier in the year, recession will change the market.

**2. Resilience in the freight system such as Air/Port capacity**

***Comments:***

- On passenger side, capacity restrictions remain in place at Heathrow airport right now (100k departing passengers per day) which caps the further recovery of passenger numbers. Situation of all stakeholders expected to improve over the next months though.

**3. Any other challenges:**

***Comments:***

- Government need to remain committed to upgrading the Railways to attract more people back to the trains and offices.

- What remains to be seen but should still be on the agenda for collaboration is how the different strategies toward net-zero aviation will play out (UK Jet zero strategy, EU fit for 55). Key point is to make sure the implementation of rules does not create regional disadvantages and carbon leakage (e.g. in case flights transferring via Istanbul or the gulf don't fall under sales logics). The investments into SAF infrastructure that are part of the Jet Zero strategy are a positive sign of support in the transition to a net zero aviation.
- Lead times on new vehicles.

**Financial Services sector:**

1. **The lack of substantive rules addressing financial services in the EU-UK Trade and Cooperation Agreement creates some confusion and challenges for business. Has this uncertainty impacted the way you operate?**

***Comments:***
- The current situation leads to situation where Financial services (where regulated) will become (or is) more UK centric. UK is losing out to be the Financial centre for Europe. There might be opportunities somewhere else but they will not compensate for it. Consequence is less jobs, less taxes.
- Yes, the Compliance Department in Germany is constantly worried that the London Branch may be in breach of either BaFin rules or FCA, rules not understanding fully whether on this or that matter deviations in the regulatory framework have already occurred. Furthermore, internally the London Branch has been taken out of a number of IT systems and programmes of which we were until recently always part of, leaving the Branch with increased IT costs and the permanent concern from our HQ on whether we are compliant or not. This is only one example of many.

2. **Any other challenges:**

***Comments:***
- The application to the FCA for a UK Banking Licence is extraordinarily cumbersome, time-consuming and costly. Most of all, it is unnecessary. That (European) banks that have been operating in the UK for decades on end, to have to explain its business-plan, its operations, its strategy, its ownership, etcetera, etcetera, is beyond the pale. This red tape, bureaucratic approach goes in high contrast to the promises heard during the Brexit campaign about de-regulation. In my view, the TPR (Temporary Permit Regime) should have been converted into Permanent Permit Regime for at least European banks that are regulated by a European Regulator with whom the FCA (and former UK Regulators) was always satisfied to rely on. And then, progressively, the FCA could have inserted its own stamp with its own regulatory requirements.
- I think regarding financial services the industry has largely adapted. In the traditional banking space (lending, deposit taking) most UK based banks have regulated (licenced) entities in Germany and the EU any way and hence the lack of passporting (using a UK licence for banking in other countries) is less an issue. It has become more expensive of course as banks need to provide for additional regulatory capital in various countries. Some functions have moved to Dublin, Amsterdam, Paris and Frankfurt but our observation is that the number of staff moved/ hired are smaller than expected. Some UK based banks with EU subsidiaries/ activities in Germany have outsourced certain functions back to the UK (they have them anyway), however, this is seen critically in the areas of risk management and compliance. Euro denominated clearing in London is still accepted by the EU for an interim period which has just been extended to 2025. The Private Equity industry has adapted as well and found structures to operate within the regulatory environment. The UK government has issued draft legislation (Financial Services and Markets Bill) to authorise the revocation of EU mandated financial services regulation and wants to introduce a competitive concept

when adopting new regulation. The bill is currently in committee stage at the House of Commons and it will authorise regulators to effect changes and make amendments to existing financial regulation over time. There is a plan for example to abolish the cap on bankers' bonuses. We will need to see how this develops, the BoE appears critical of some of these developments. The UK government – and that is certainly true for the new one – see this as a way to a BREXIT dividend (Singapore on the Thames).
- As we are now a third country branch in the eyes of the Regulator, we are applying the UK financial regulation rules in addition to the EU's, this takes time.
- Recent turmoil with LDI investments needs review by the FCA.