

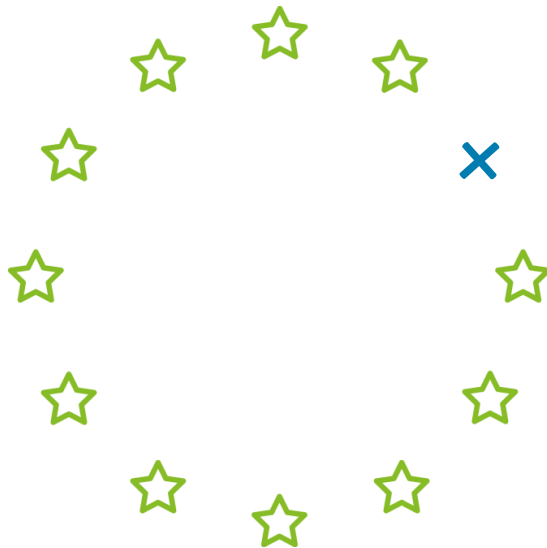
# Deloitte Brexit Briefings

## Perspectives on Brexit

### Deloitte Brexit Briefings Series

The United Kingdom's decision to leave the European Union in June 2016 will have sweeping economic and political consequences. For German enterprises, Brexit means their business environment will change fundamentally.

The *Deloitte Brexit Briefings* take an in-depth look at core issues and risks in the context of Brexit from an economic, strategic, tax-related and legal perspective, helping readers navigate the complex impacts of Brexit and the Brexit process.



### This edition

We have arrived at the half-way point in the Brexit transition period – yet there is still a great deal of uncertainty among businesses about the exact kind of relationship the UK and the European Union will have once this period ends in December 2020.

In the latest edition of our series entitled “Brexit Survey: Expectations and Preparations of German enterprises“, we joined forces with the Federation of German Industries (BDI) to analyze how Brexit and the Brexit process will impact the future of German enterprises.

We focus on how companies assess the implications, risks and opportunities of Brexit, both for Germany as a business location and for the enterprises themselves. We also look at their take on the outcome of the Brexit negotiations and the potential political consequences.

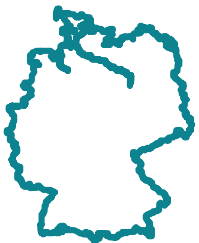
A survey of 248 large-scale German enterprises with business ties to the United Kingdom, which we conducted between 19 and 29 May 2020 forms the basis of our analysis.

# Executive Summary



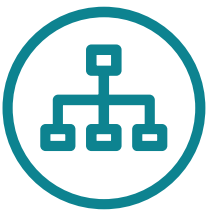
## Brexit negotiations

- **Possible outcomes:** 30 percent of respondents believe the negotiations will result in a no-FTA Brexit, while a quarter of the companies surveyed felt an extension to the transition period or a free trade agreement was the likeliest outcome. A majority cited the EU demands for a level playing field as the biggest source of controversy in the negotiations.
- **Post-Brexit Europe:** Our survey respondents indicated that they favor deepening European integration, with the caveat that further integration should be focused on specific policy areas rather than across-the-board centralization.



## Brexit and Germany as a location for business

- **Opportunities:** As a location for business, respondents say Germany stands to benefit from strengthening its position as a financial center (54%) and through attracting business relocations (49%).
- **Risks:** According to respondents, the greatest risks Brexit poses for Germany as a location for business are the collapse of the European Union (45%) and a decline in trade with the United Kingdom (40%). 30 percent say a hard Brexit would mean layoffs for their business in Germany.



## Brexit strategies for German enterprises

- **The Corona crisis and the run-up to Brexit:** Around one third of enterprises say they have either postponed or scaled back their Brexit initiatives due to the pandemic.
- **Projected impact:** Although approximately three quarters of respondents feel they are well-prepared for Brexit, 40 percent say they nevertheless expect a significant negative impact from Brexit. The banking industry is expecting the biggest hit, while the automotive enterprises in our survey feel they are best prepared.



# **Brexit Negotiations**

Expectations and outlook

# Brexit negotiations | Opinions

There is still overwhelming uncertainty among businesses with regard to the Brexit negotiations: only one in four companies in our survey is optimistic about the outcome

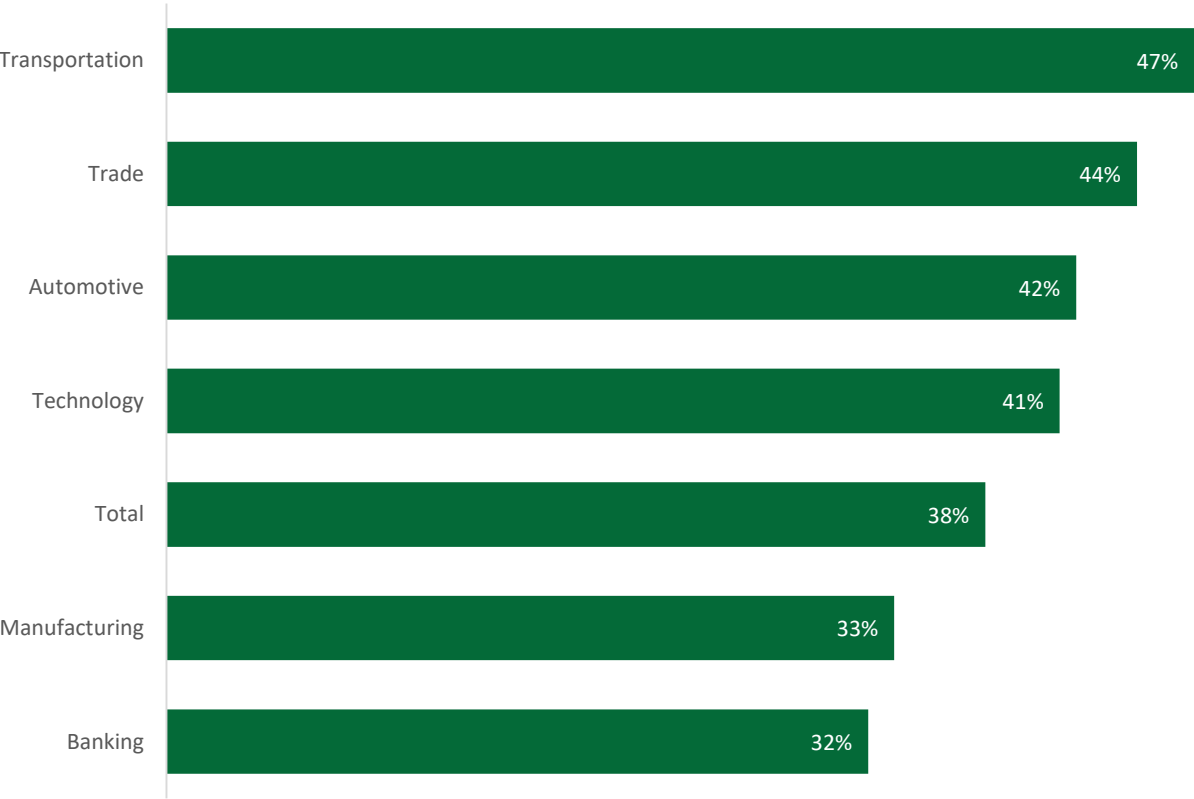
**Question:** What word best describes the mood in your enterprise concerning the Brexit negotiations?

Total:



Not included: “Don’t know” (1%)  
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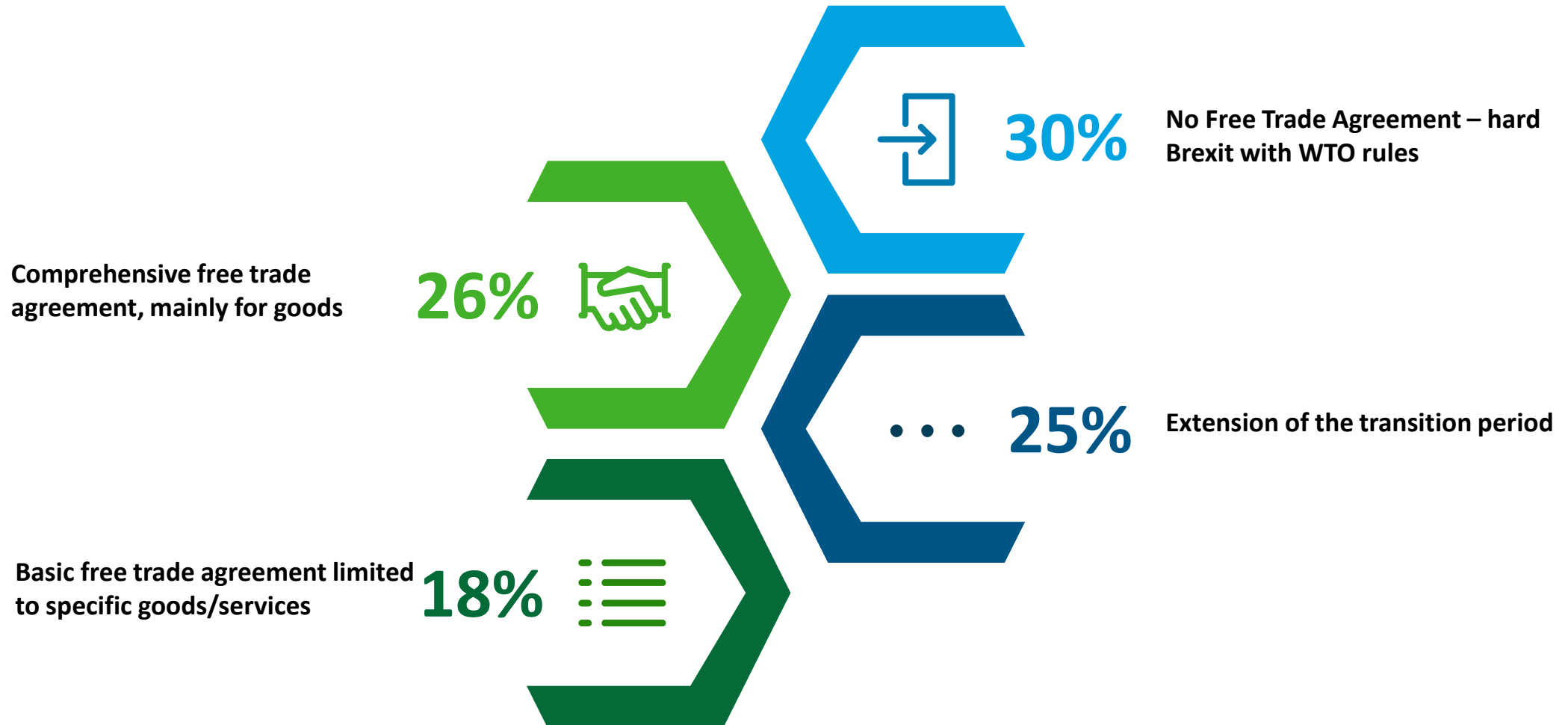
**Uncertainty by sector:**



## Brexit negotiations | Potential outcomes

There is no consensus on the expected outcome of the negotiations, although the largest group of respondents expects negotiations to result in a no-FTA Brexit, 26% predict a free trade agreement and 25% an extension

**Question:** What outcome do you see as most realistic after the Brexit transition period ends in December 2020?\*

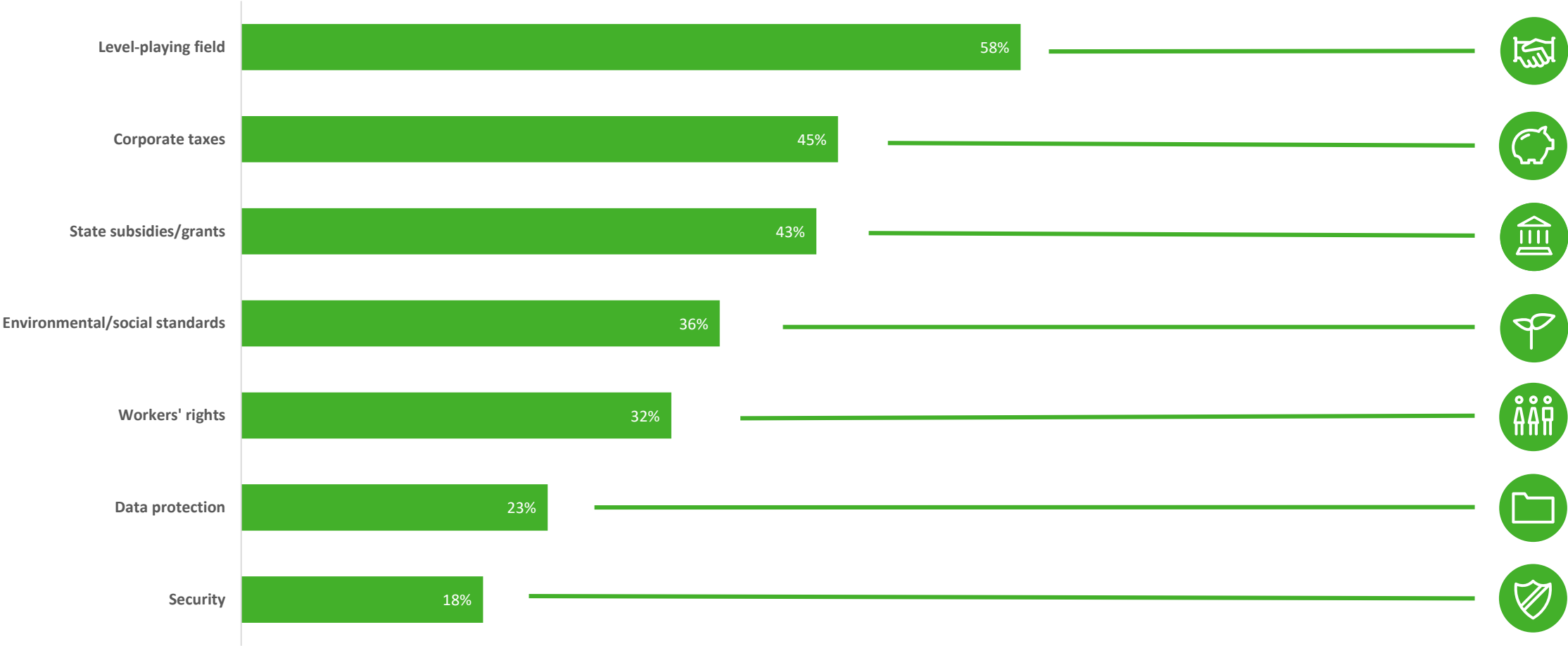


\*Not included: "Don't know" (1%)  
Deloitte 2020

# Brexit negotiations | Potential for conflict

The companies responding to our survey see fair competition and corporate taxes as the most challenging issues in the negotiations

**Question:** Which issues do you feel have the greatest potential for conflict in the Brexit negotiations?



# Brexit negotiations | Future of the EU (1)

Two thirds of the enterprises surveyed would like to see greater integration in Europe, although they believe integration should be focused on clearly defined policy areas and less on overall centralization

**Question:** What is your vision for the post-Brexit European Union?\*

**25%** (2019: 39%)

Stronger overall integration and centralization  
(Eurozone Finance Minister, Eurozone budget,  
transfer of powers to the EU)

**43%** (2019: 35%)

Stronger integration in defined policy areas  
(foreign policy, immigration policy)

**11%** (2019: 13%)

Transfer of powers back to the member states and  
stronger decentralization

**19%** (2019: 11%)

Maintain the status quo

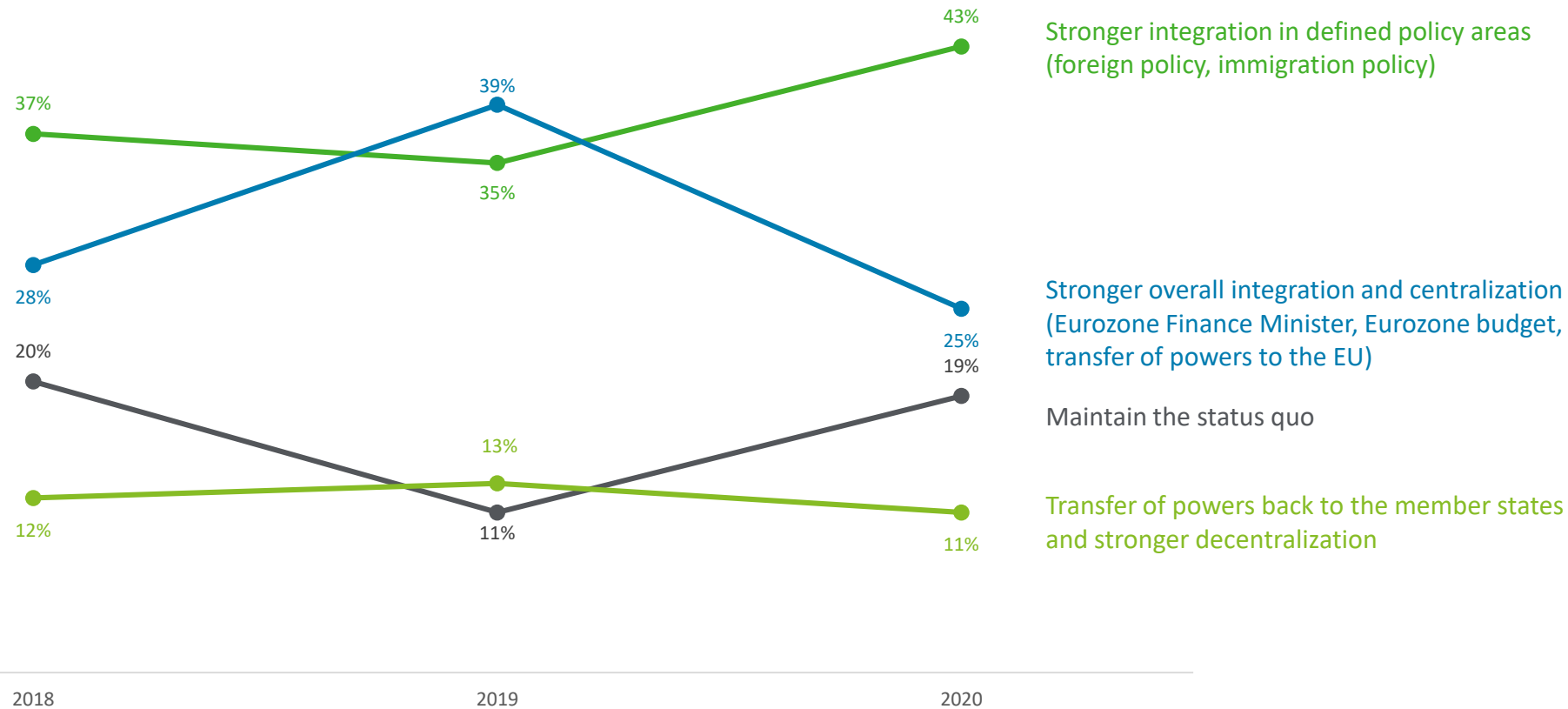
\*Not included: "Others" (1%) and "Don't know" (1%)  
Deloitte 2020



## Brexit negotiations | Future of the EU (2)

Compared to last year, enthusiasm for overall centralization has decreased markedly, while integration in defined policy areas and maintaining the status quo became more popular

**Question:** What is your vision for the post-Brexit European Union?\*

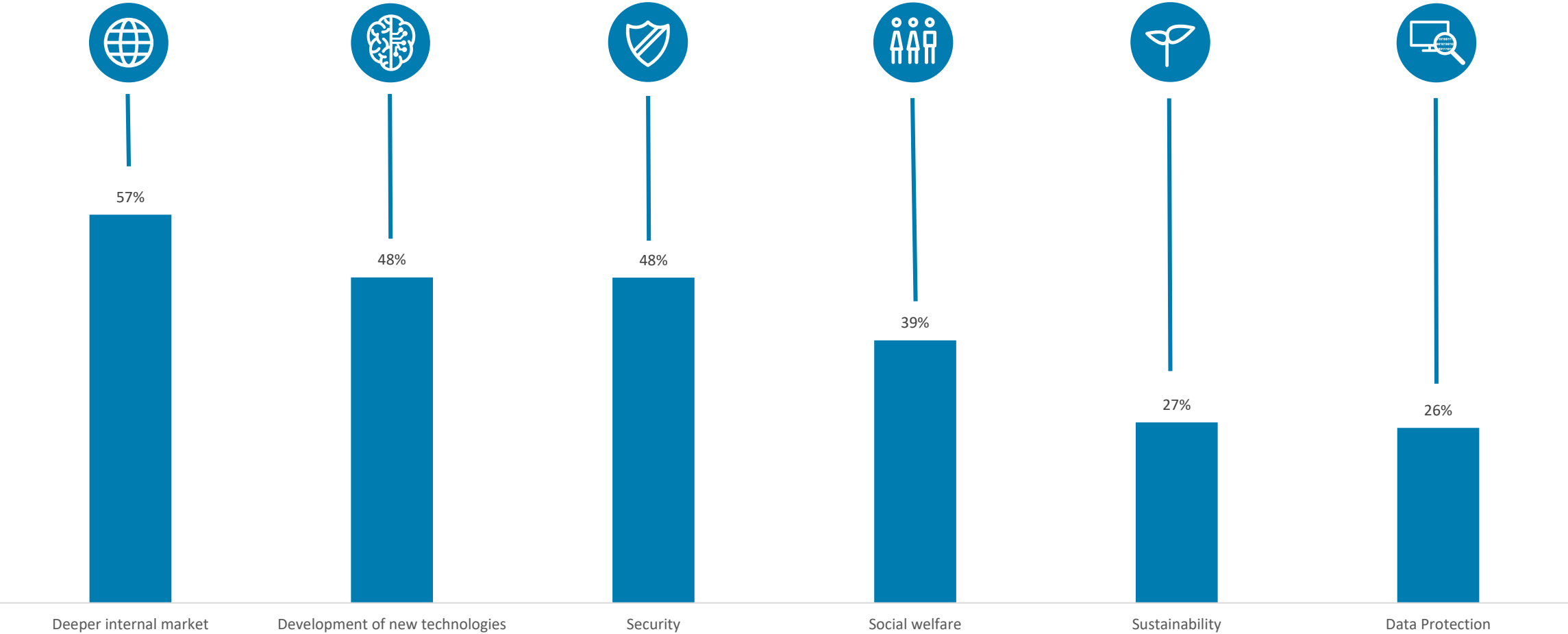


\*Not included: "Others" (1%) and "Don't know" (1%)  
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# Brexit negotiations | Priorities

In terms of the EU’s future priorities, our survey respondents advocate for a deeper internal market, although new technologies and national security are key issues for them as well

**Question:** What political priorities should the EU pursue post-Brexit?





# **Germany as a business location and Brexit**

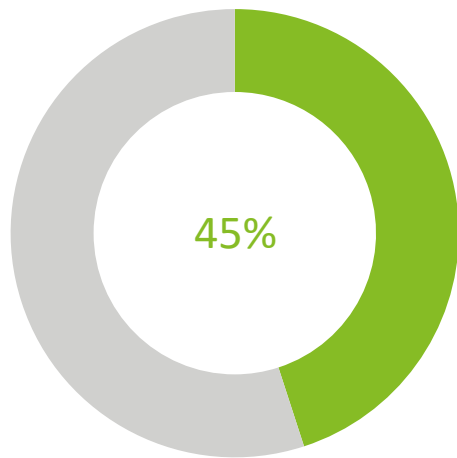
## Risks and opportunities

# Germany as business location | Risks (1)

Most enterprises fear a potential demise of the EU, a decline in trade and tougher competition to attract business

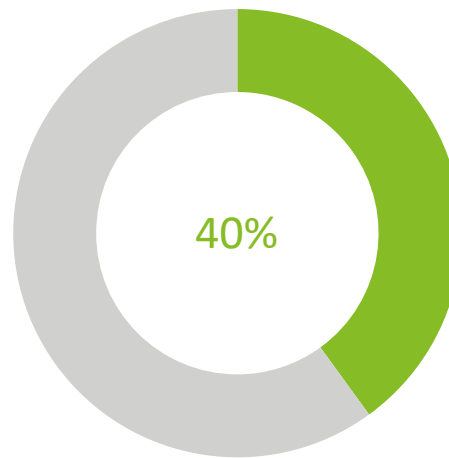
**Question:** What are the main risks Brexit poses for Germany as a location for business? (choose all that apply) **Top 3 risks**

The potential disintegration of the European Union



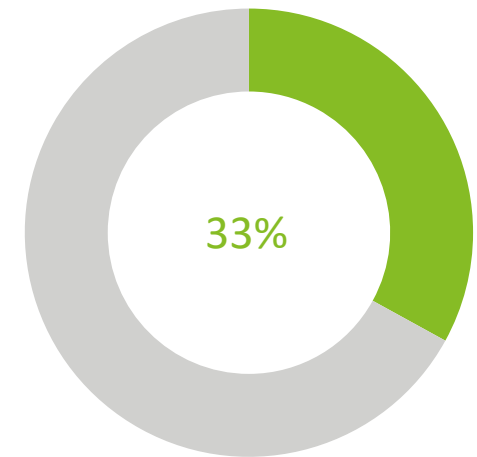
Particularly the **Banking** (54%) and **Technology** (50%) sectors say they are concerned about the demise of the EU.

A reduction in trade with the United Kingdom



Respondents from the **Manufacturing** (55%) and **Trade** (50%) sectors see a decline in trade as the largest risk.

Stronger competition to attract business because of UK tax incentives

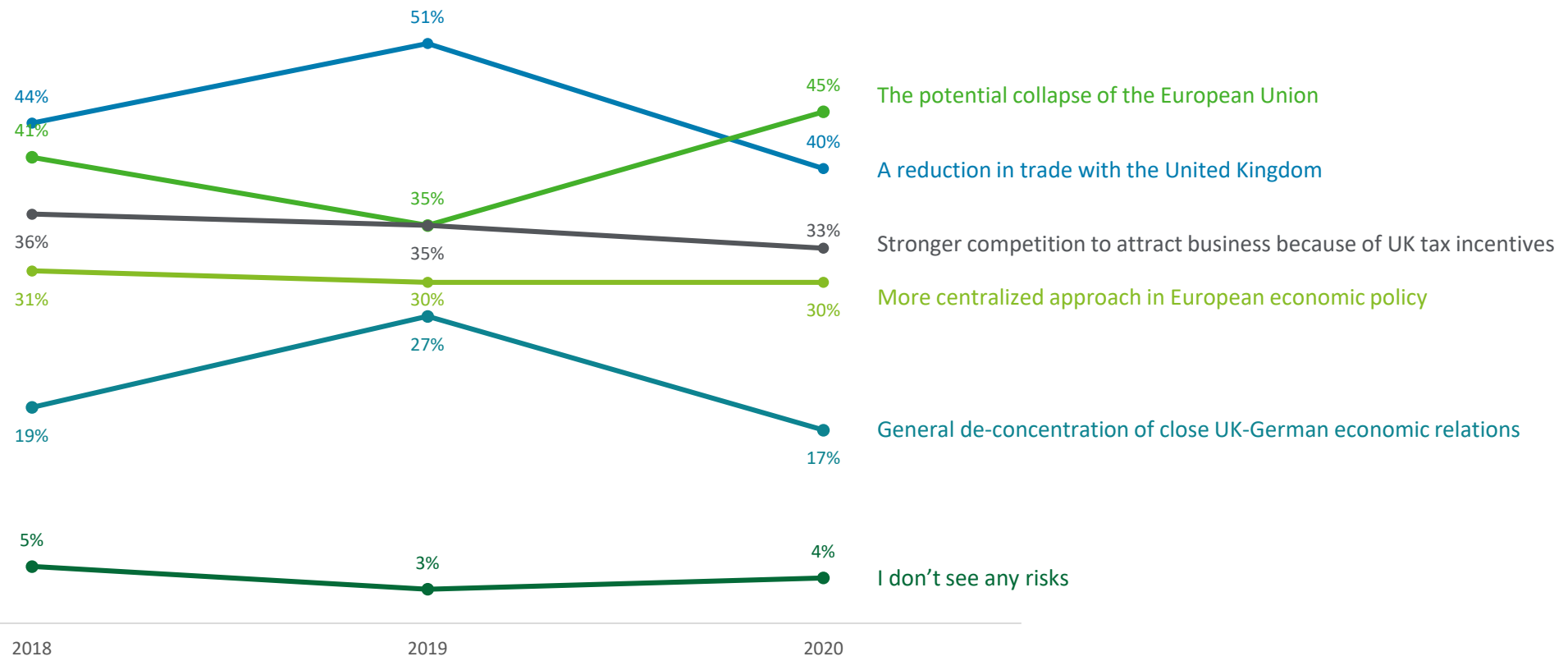


Companies in **Trade** (39%) and **Automotive** (38%) expect competition to increase in the battle to attract business.

## Germany as business location | Risks (2)

The fear of a potential collapse of the European Union has increased compared to previous years, while concerns about a potential reduction in trade with the UK have decreased








**Question:** What are the main risks Brexit poses for Germany as a location for business? (choose all that apply)



## Germany as business location | Opportunities

Many of the respondents see an opportunity for Germany to further strengthen its position as a financial center and attract multinationals to relocate to the country

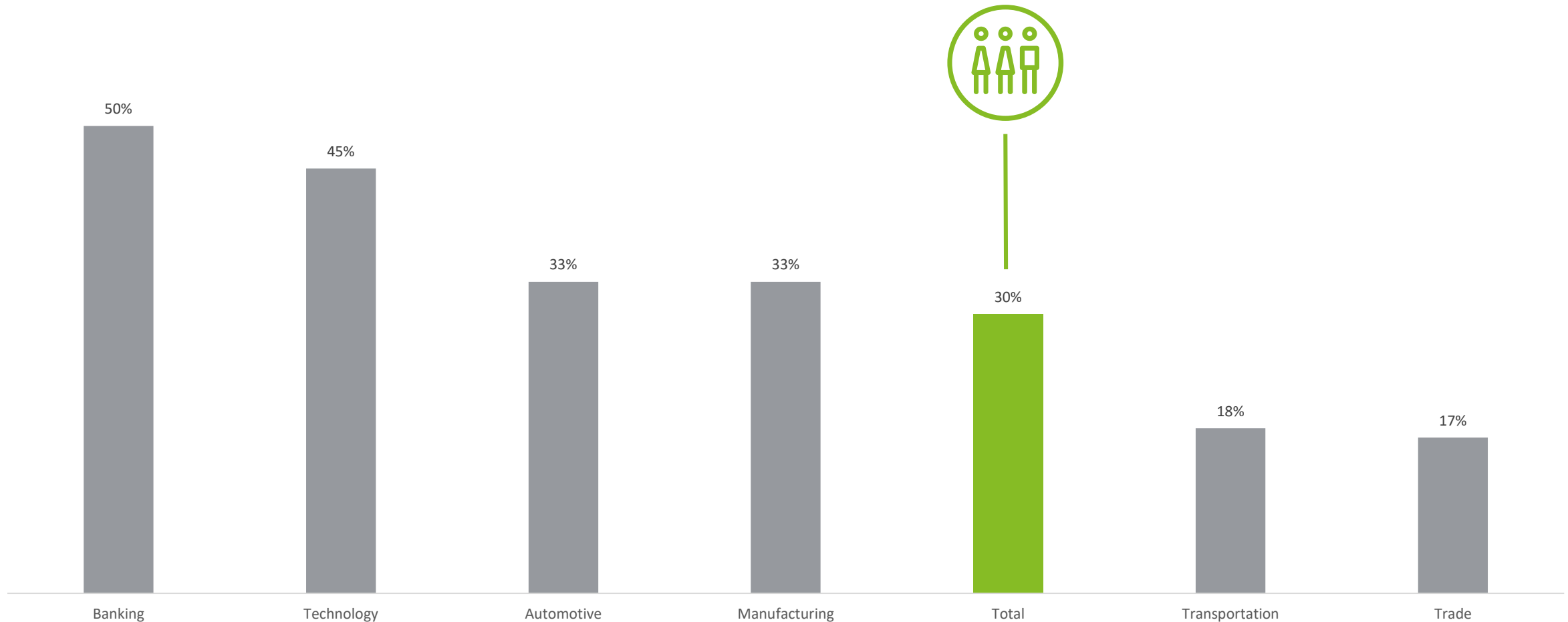
**Question:** What are the biggest opportunities Brexit offers for Germany as business location? (Choose all that apply)

Opportunities	Ø
 Germany will grow stronger as a financial center.	54%
 Existing companies / divisions will relocate to Germany.	49%
 Germany will be more attractive to foreign direct investment.	44%
 Germany will grow stronger as a location for R&D through business relocations.	33%
 Germany will become more attractive for highly qualified foreign talent.	26%
 Germany will become more attractive as a European hub for foreign start-ups and high-tech firms.	13%
 I see no opportunities.	4%

## Germany as business location | Job cuts

Almost one in three of the companies in our survey believe a hard Brexit would lead to layoffs in Germany, while that figure rose to one in two among respondents from the banking sector

**Question:** Would a hard Brexit lead to job cuts in your German business?  
Share of yes responses





## **Brexit strategies**

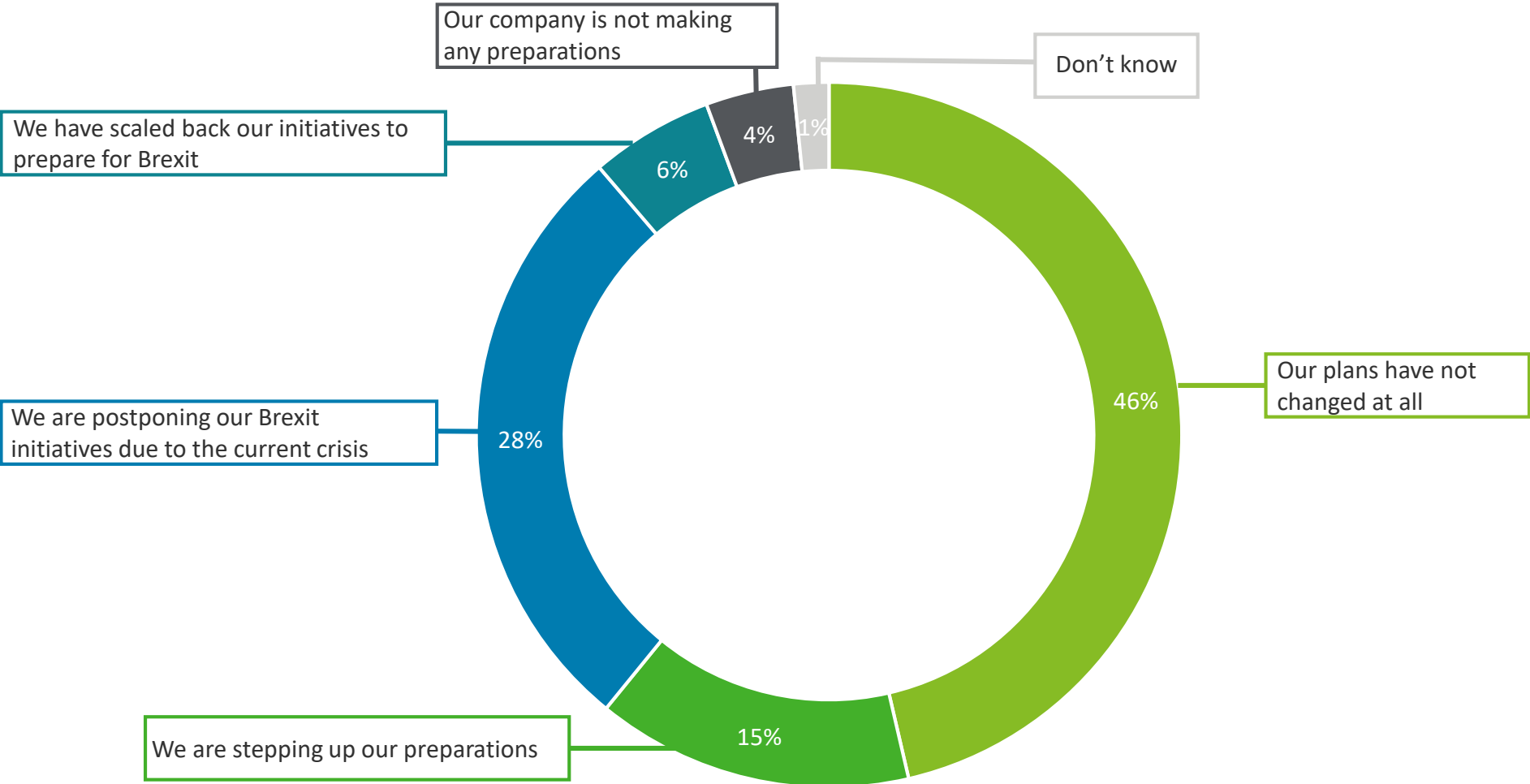
Impact and preparedness



# Brexit Strategies | Covid-19

Despite the current crisis, almost half of the enterprises surveyed are sticking to their existing plans – by contrast, a third say they will either postpone or scale back their Brexit initiatives due to the pandemic

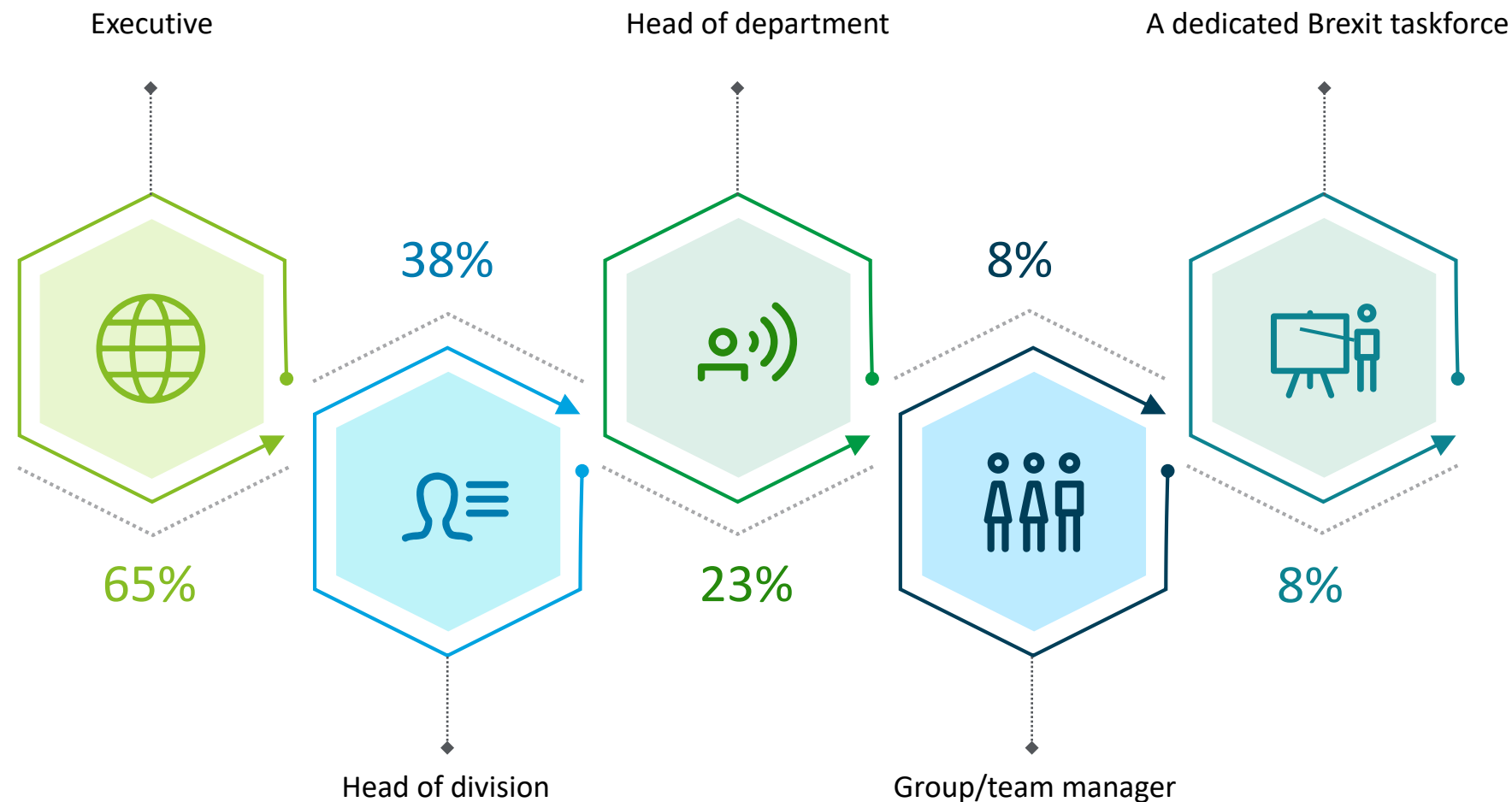
**Question:** How has the Corona crisis impacted your Brexit preparations?



# Brexit Strategies | Responsibility

Brexit is a board-level issue – two thirds of our respondents say the executive is responsible for Brexit preparations in their enterprise

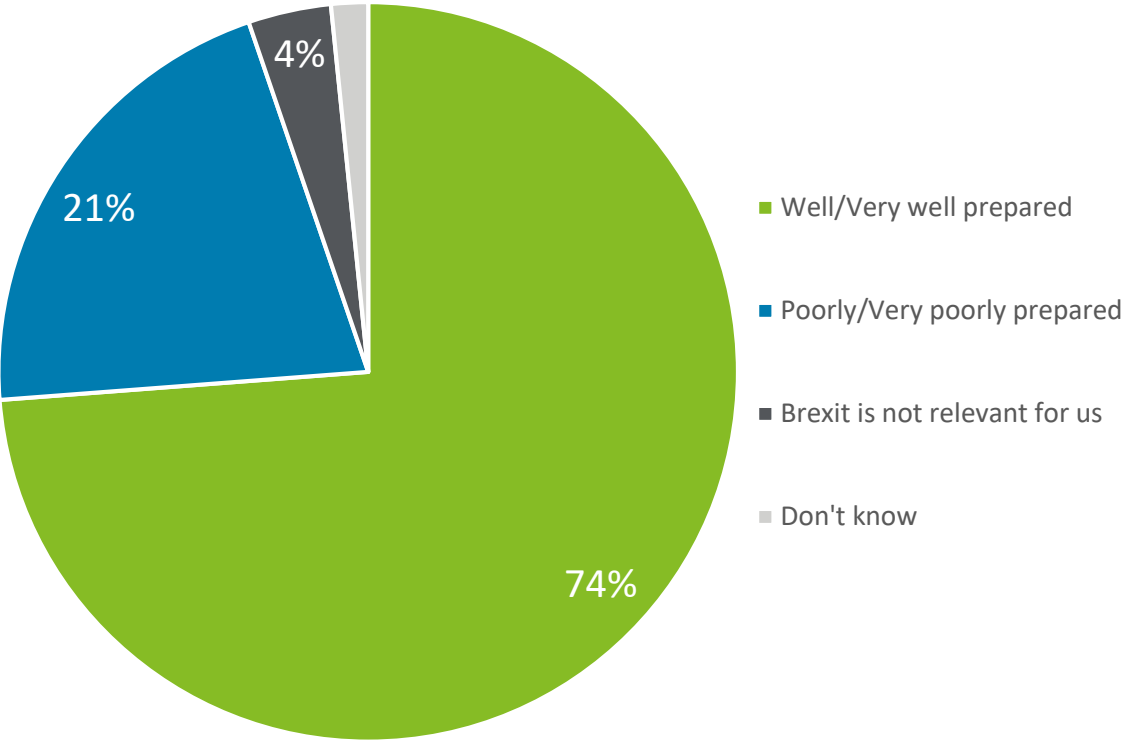
**Question:** In your company, who is responsible for the initiatives in preparation for Brexit?



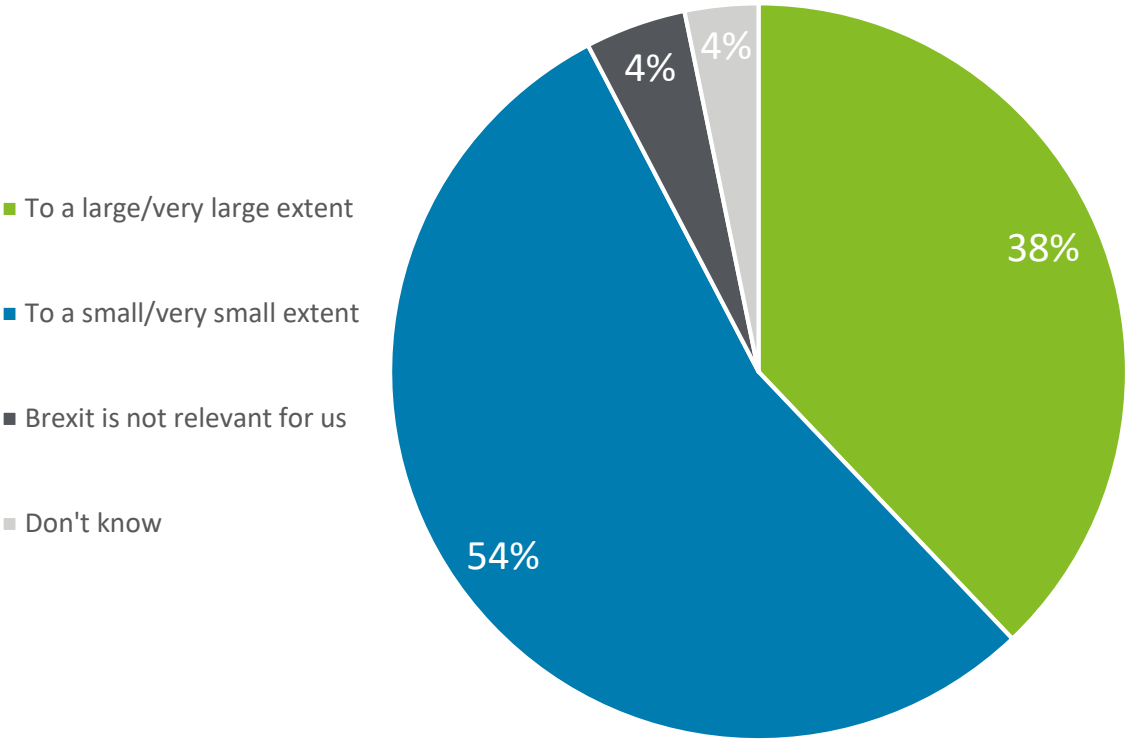
# Brexit Strategies | Impact and preparedness (1)

Roughly three quarters of respondents feel they are well prepared or very well prepared for Brexit, although 40% say the negative impact of a no-FTA Brexit will be significant

**Question:** How well prepared is your company for Brexit?

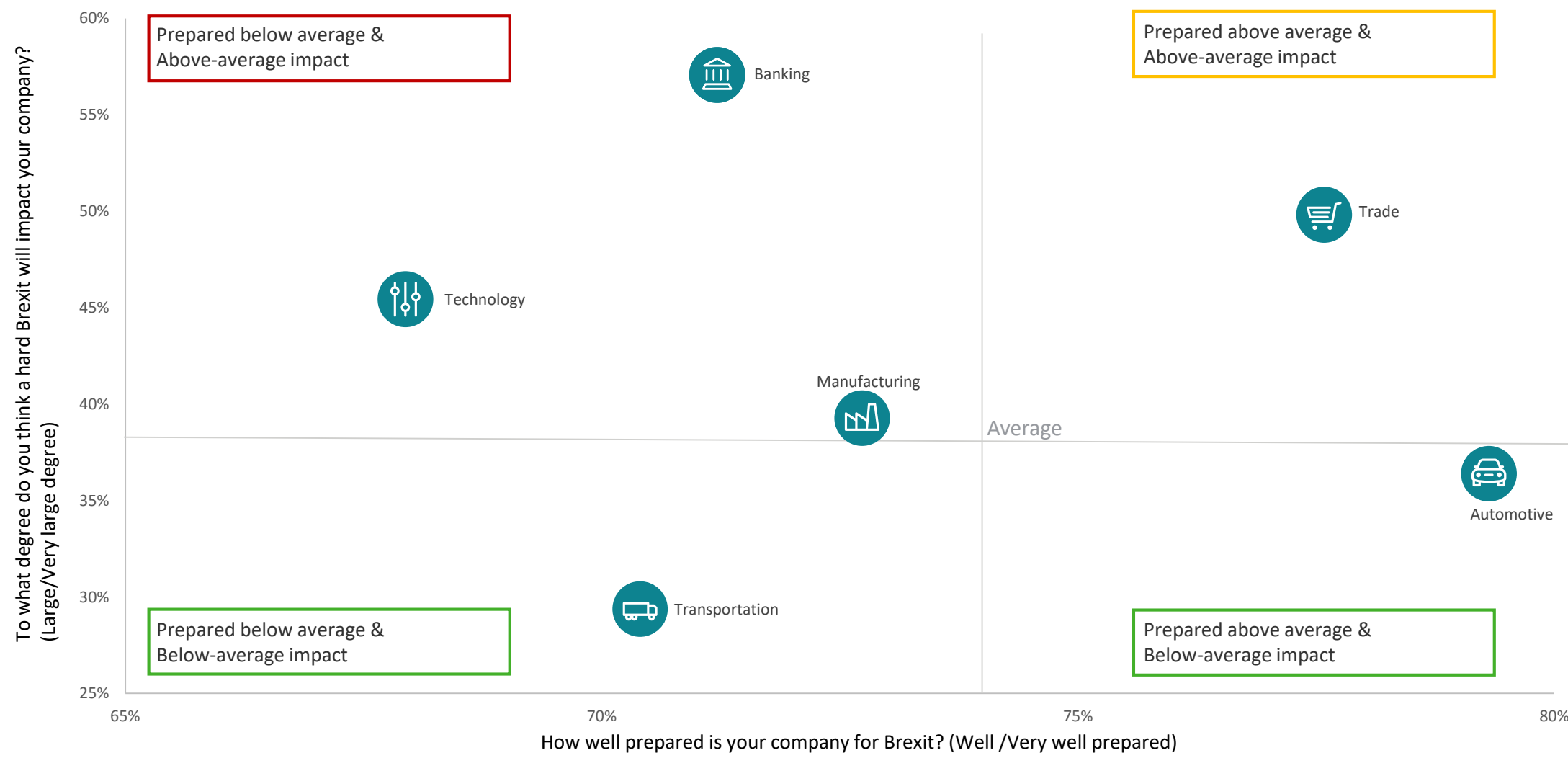


**Question:** To what degree do you think a hard Brexit will impact your company?



# Brexit Strategies | Impact and preparedness (2)

Automotive and trade companies feel particularly well prepared for Brexit – over half of the banks we surveyed expect the negative impact of a hard Brexit to be significant

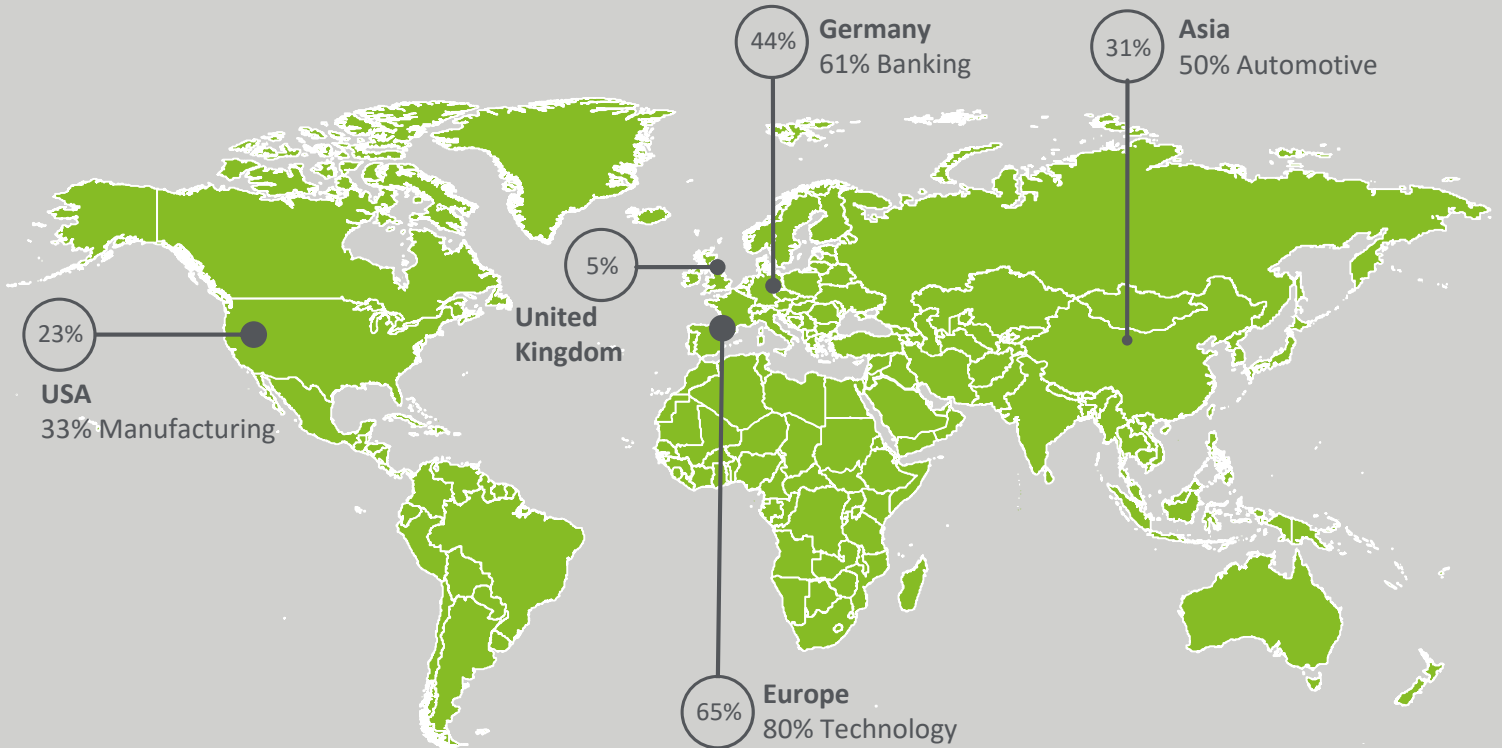
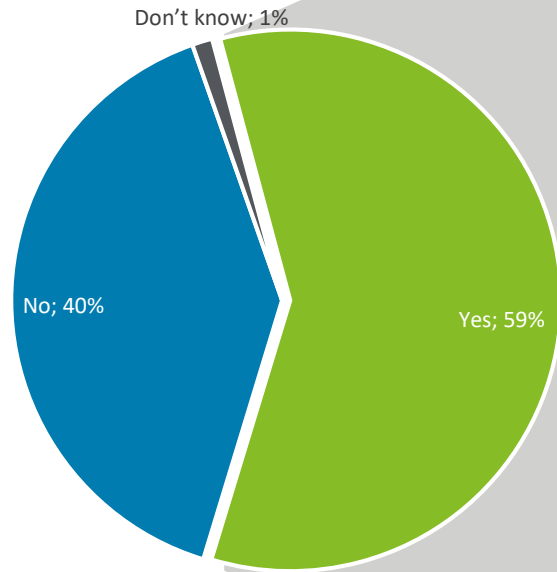


# Brexit Strategies | Relocations

A majority of the companies in our survey have relocated – most opted for Europe, Germany was the second most common target destination

**Question:** Have you already relocated to other markets because of Brexit? (Choose all that apply)

**Share in enterprises that have already relocated** (Choose all that apply)











Note: "Relocations" are generalized on purpose and can include relocation of production sites, employees, or target markets.  
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## Brexit Strategies | Initiatives

With regard to Brexit initiatives already implemented or planned for the future, the enterprises in our survey primarily focused on issues relating to trade and supply chains, followed closely by contract amendments

**Question:** Which of the following initiatives has your company already implemented or planned?

We have...	Implemented	Planned	Most commonly implemented by:
 ...assessed whether Brexit has a potential impact on our suppliers and service providers outside the UK	36%	36%	53% Transportation
 ...made extensive preparations for customs duties/controls	35%	39%	67% Automotive
 ...amended existing and new contracts for Brexit	31%	39%	47% Transportation
 ...relocated management of our EU operations from the UK to the EU	31%	28%	55% Technology
 ...moved our data processing operations to Europe	30%	30%	39% Banking
 ...found new suppliers to replace UK-based suppliers	29%	38%	46% Automotive
 ...adjusted our corporate financing	27%	31%	45% Technology
 ...adapted our governance structure	27%	34%	50% Banking

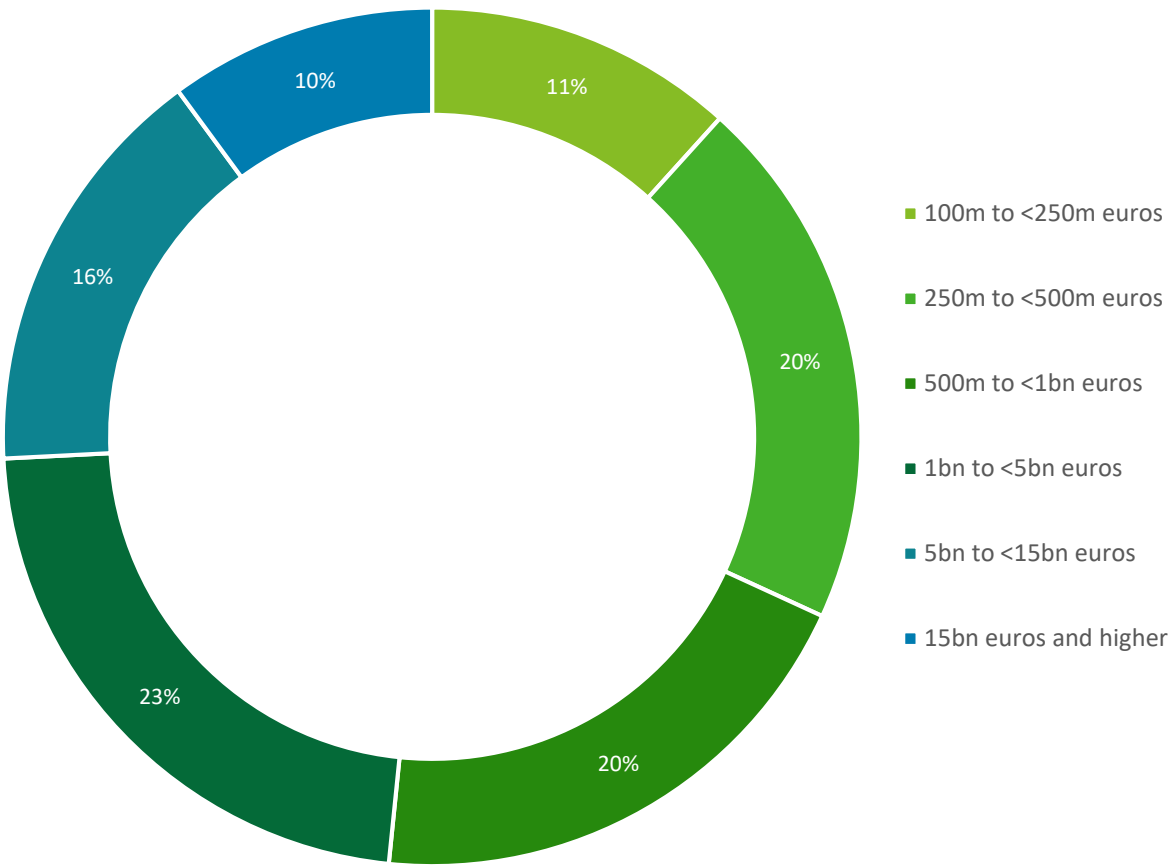


**Demographic data**

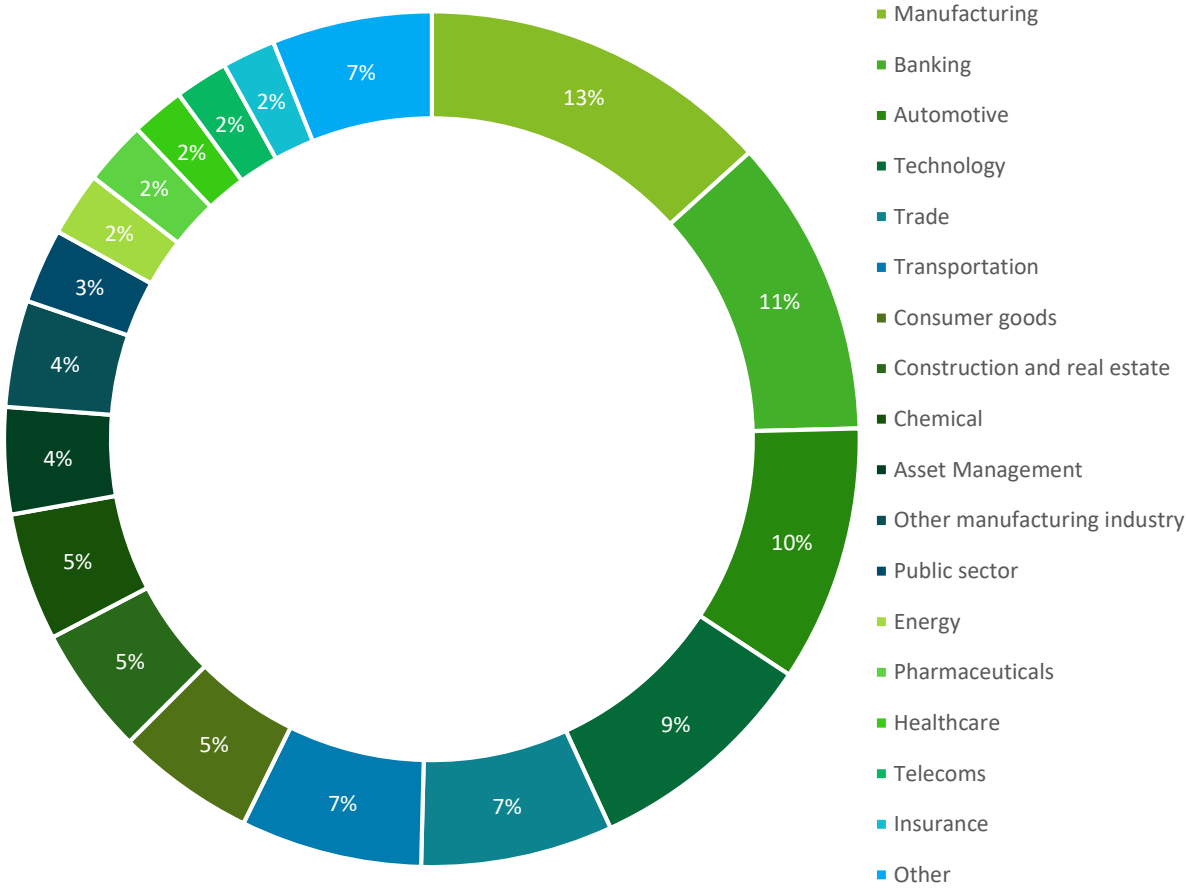
# Demographic data

N = 248

Company size by revenue



Industry

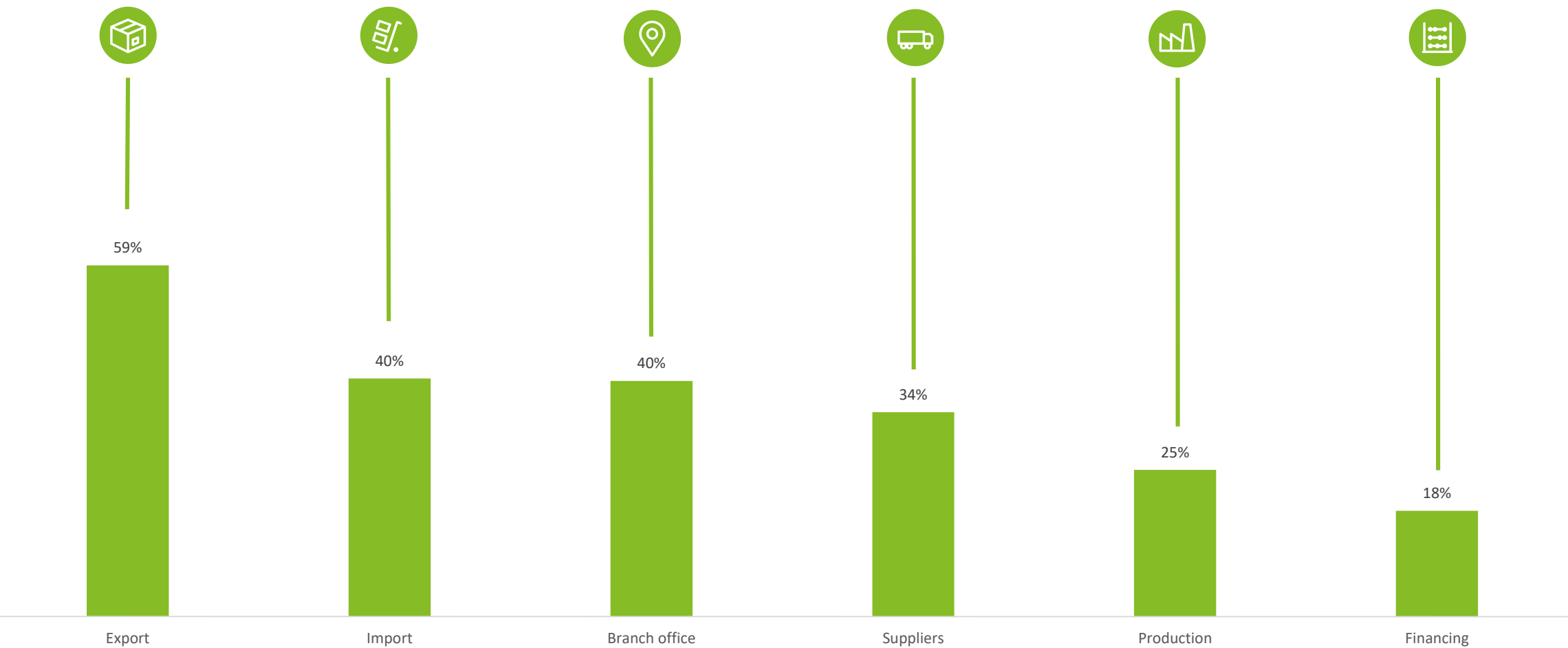




# Demographic data

## Business ties to the UK

**Question:** What is your business affiliation with the United Kingdom? (Choose all that apply)



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# Brexit | Publications

Brexit Briefings: Series of publications on Brexit-related topics from a strategic, economic, legal and tax-related perspective

## Brexit Briefings

### 1<sup>st</sup> Edition: Brexit Survey 1.0

BDI and Deloitte evaluate how German companies assess Brexit and the Brexit vote

### 2<sup>nd</sup> Edition: Brexit Scenarios

CLV scenario analysis of potential trade agreements between the United Kingdom and the EU

### 3<sup>rd</sup> Edition: German industrial sectors' ties with the United Kingdom

Analysis of the business ties between German industries/companies and the UK

### 4<sup>th</sup> Edition: Brexit Survey 2.0

Survey focusing on how German companies view the business impact of Brexit and possible responses

### 5<sup>th</sup> Edition: Hard Brexit and the UK car market

How a hard Brexit would impact the German automotive industry using a quantitative demand model (Brexit model)

### 6<sup>th</sup> Edition: Hard Brexit and German automotive suppliers

Analysis of the impact on German suppliers with Europe-wide supply chains (Brexit model + input-output analysis)

### 7<sup>th</sup> Edition: Brexit und die Steuerfolgen (no English version available)

Analysis of the tax implications of Brexit for German-British legal entities and individuals

### 8<sup>th</sup> Edition: Brexit Survey 3.0

How German companies view the Brexit negotiations and the effects, risks and opportunities of Brexit for Germany as a business location and for the enterprises themselves

### 9<sup>th</sup> Edition: Brexit Road Ahead

Possible options over the short and medium term

### 10<sup>th</sup> Edition: Brexit Survey 4.0

Brexit and the German economy: Risks, expectations and strategies as stated by German companies

### 11<sup>th</sup> edition: Brexit so far

The impact to date on Germany as a location for business

### 12<sup>th</sup> Edition: Beyond Brexit

Scenarios on the future of Europe





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