

Deloitte Brexit Briefing | 4  
Opportunities, risks and scenarios -  
Brexit from a German business perspective

# Deloitte Brexit Briefings

## Perspectives on Brexit

### Deloitte Brexit Briefings series

The United Kingdom's decision in June 2016 to leave the EU will have a far-reaching economic and political impact. For German companies, Brexit means a fundamental change in the business environment.

In this context, the Deloitte Brexit Briefings examine the core Brexit themes and risks from economic, strategic, taxation, and legal perspectives, and are intended to provide orientation about the complex effects of the Brexit and the Brexit process.

### The current edition

In our current edition, "*Opportunities, risks and scenarios - Brexit from a German business perspective*", we analyse the views of German business managers about the impact of the Brexit and the Brexit process.

The focus here is on how companies view the Brexit negotiations and the effects, risks and opportunities of the Brexit for Germany as a business location and for the companies themselves, as well as the political consequences.

This document is based on a survey carried out from 11 to 19 April 2017 in cooperation with ResearchNow. A total of 250 large German companies with trade relationships to the United Kingdom were surveyed.

# Executive Summary

## 5 Key Facts

### Brexit negotiations

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German companies stand behind the principles of the EU Single Market. Around half are in favour of **completely excluding Great Britain from the EU Single Market** if the **four freedoms** are not assured. Only a quarter would give up the **free movement of persons** to preserve the Single Market.

### Business in Germany

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As a consequence of the negotiations, over 50% of companies expect **declining trade** between Germany and the United Kingdom, and **less investment** by German companies in the UK. **Germany as a financial centre** in general, and **Frankfurt** in particular, are seen as the **clear winners of the Brexit**.

### Company perspective

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In the case of a hard Brexit, more than a third of the companies surveyed are considering a **relocation** to other European countries. Almost half would **invest less in the UK**.



A **higher degree of complexity** and costs through differences in legal and tax regulations are seen as the **greatest risks**. For many companies, the **greatest opportunity** from the Brexit is the **decrease in competition** within Europe.

### Brexit preparations

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Just under 60% of the companies are working intensively or very intensively on the Brexit. **Selective analysis** of the impact of the Brexit and establishing a **Brexit task force** are the focus here.



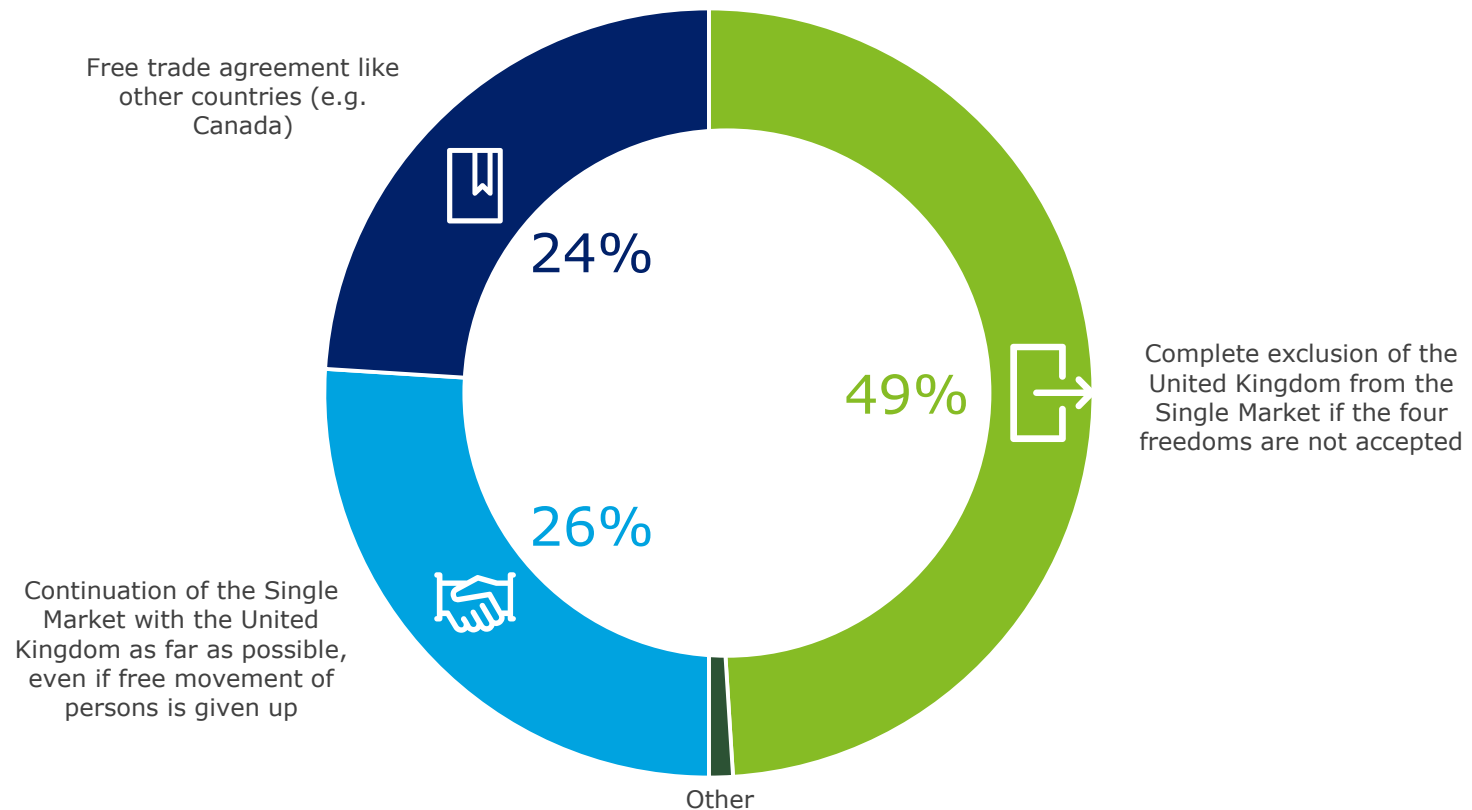
# **Brexit negotiations**

## Expectations and scenarios

# Brexit negotiations

Companies take the principles of the Single Market seriously – no participation without free movement of persons

Question: what should the EU's negotiation objective be, in your view?



# Brexit negotiations

Most companies do not believe that negotiations will end within two years, few think there will be close cooperation

Question: what do you think the result will be at the end of the two-year negotiation period?



39%

Multi-year transition agreement until a new agreement can be reached



32%

Free trade agreement between the United Kingdom and the EU



29%

Extension of the negotiations



23%

Close institutional cooperation with low/no trade barriers



20%

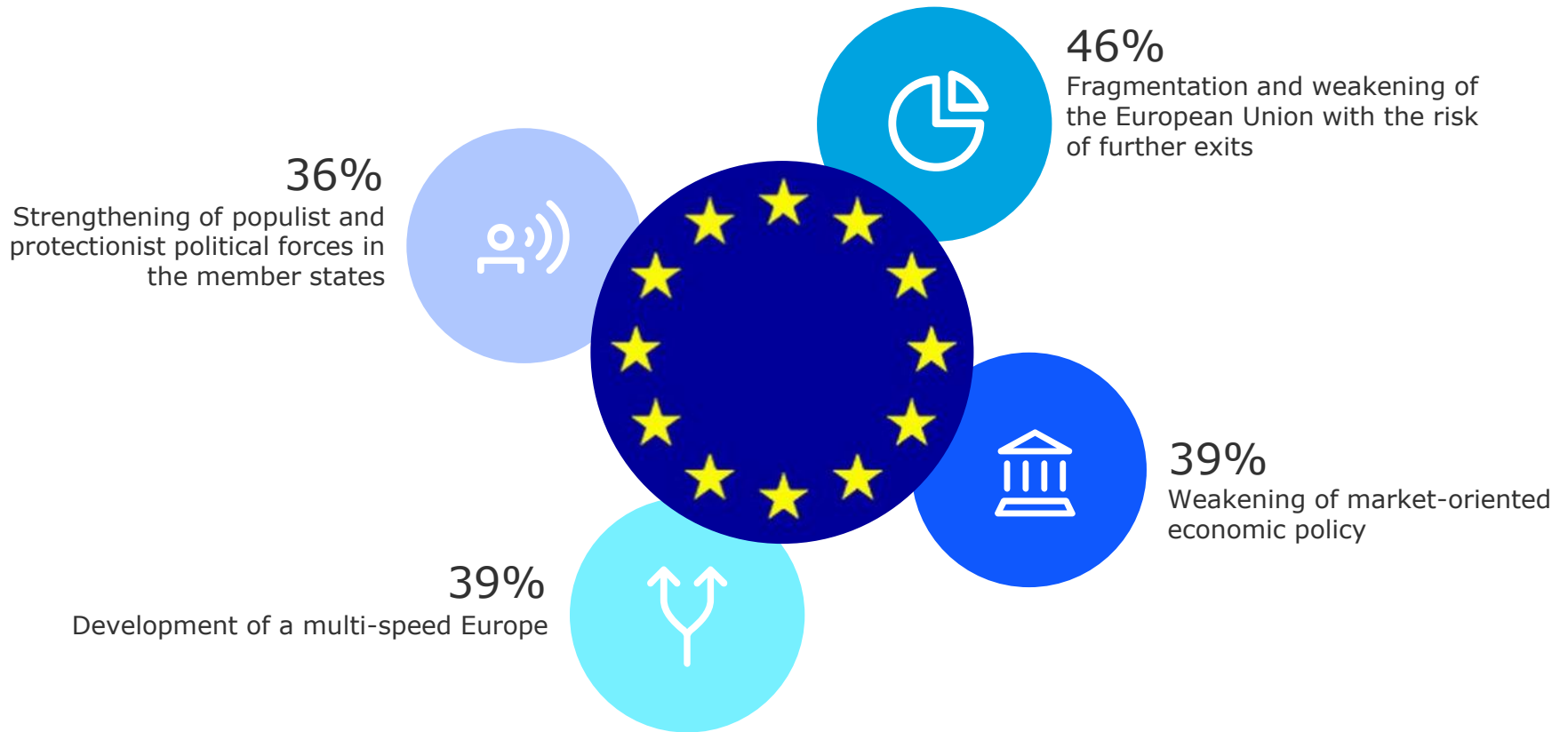
No agreement - uncontrolled Brexit without transition regulations

- Almost 70% of those surveyed expect that the negotiations will take longer than the allocated two years
- Relatively few managers believe in a best-case (ongoing close cooperation) or worst-case scenario (uncontrolled Brexit)
- Concluding a free trade agreement within two years would be ambitious, usually negotiations for free trade agreements take between 5 and 9 years

# Future of the EU

## The Brexit will lead to a fragmentation of the EU in the long term, the survey respondents believe

Question: what impact will the Brexit have on the future of the EU, in your view?  
(multiple answers allowed)





# **Germany as a location for business**

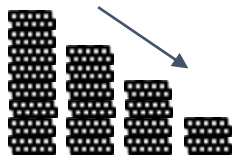
## Risks and opportunities



# Brexit risks

Decreasing investment in the UK and declining trade are seen as the greatest economic risks during the negotiation period

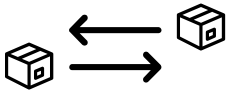
Question: what risks could arise during the two-year Brexit negotiations, in your view?  
(multiple answers allowed)



58%

German companies reluctant to invest in the United Kingdom

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53%

Declining trade between Germany and the United Kingdom

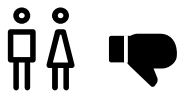
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39%

High volatility in the capital market/exchange rate

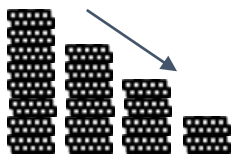
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21%

Decline in German consumer confidence

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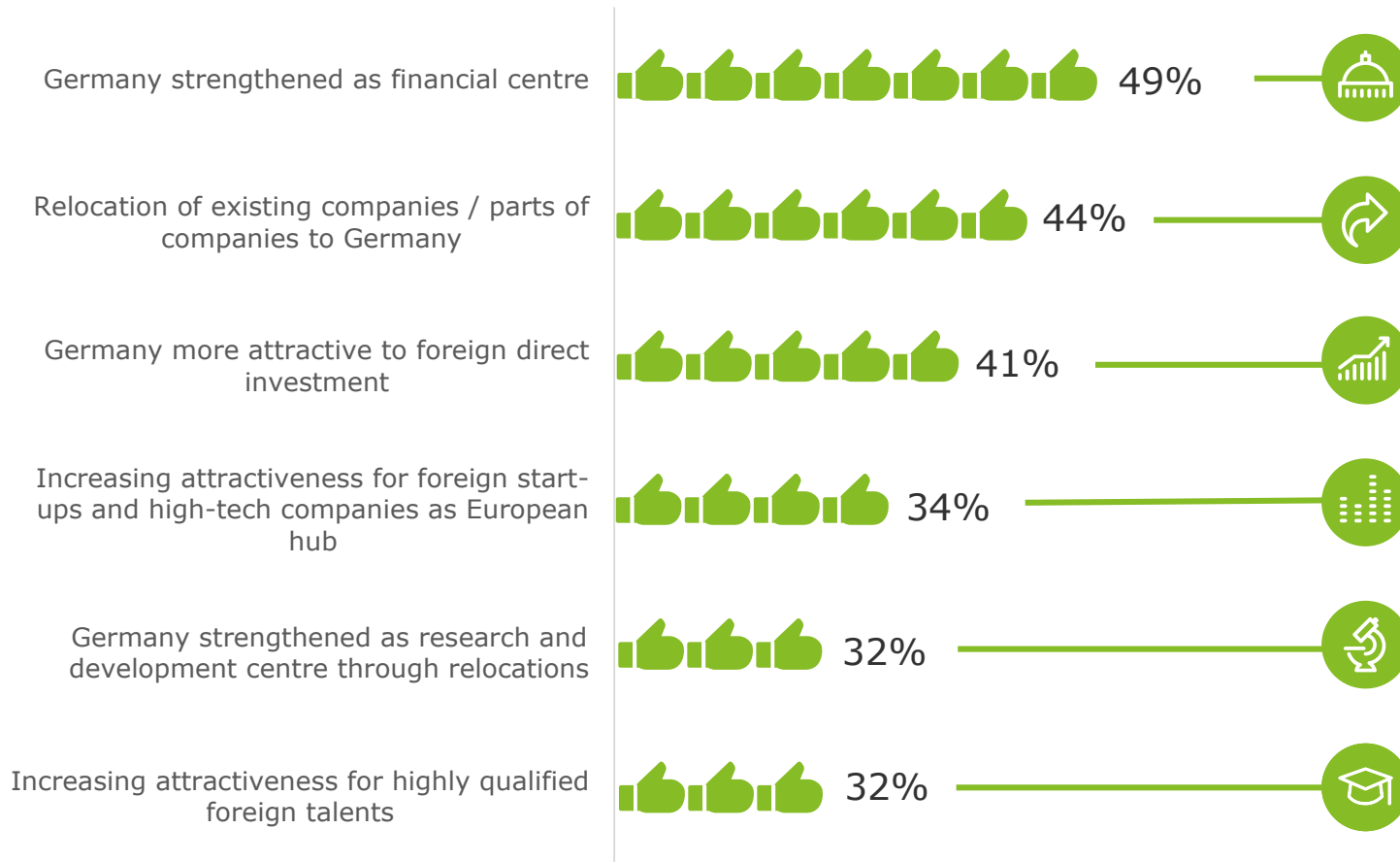
21%

German companies reluctant to invest in Germany

# Brexit opportunities

## Many companies expect a strengthening of the local financial market and company relocations to Germany

Question: what opportunities do you see for Germany as a location for business through the Brexit?  
(multiple answers allowed)





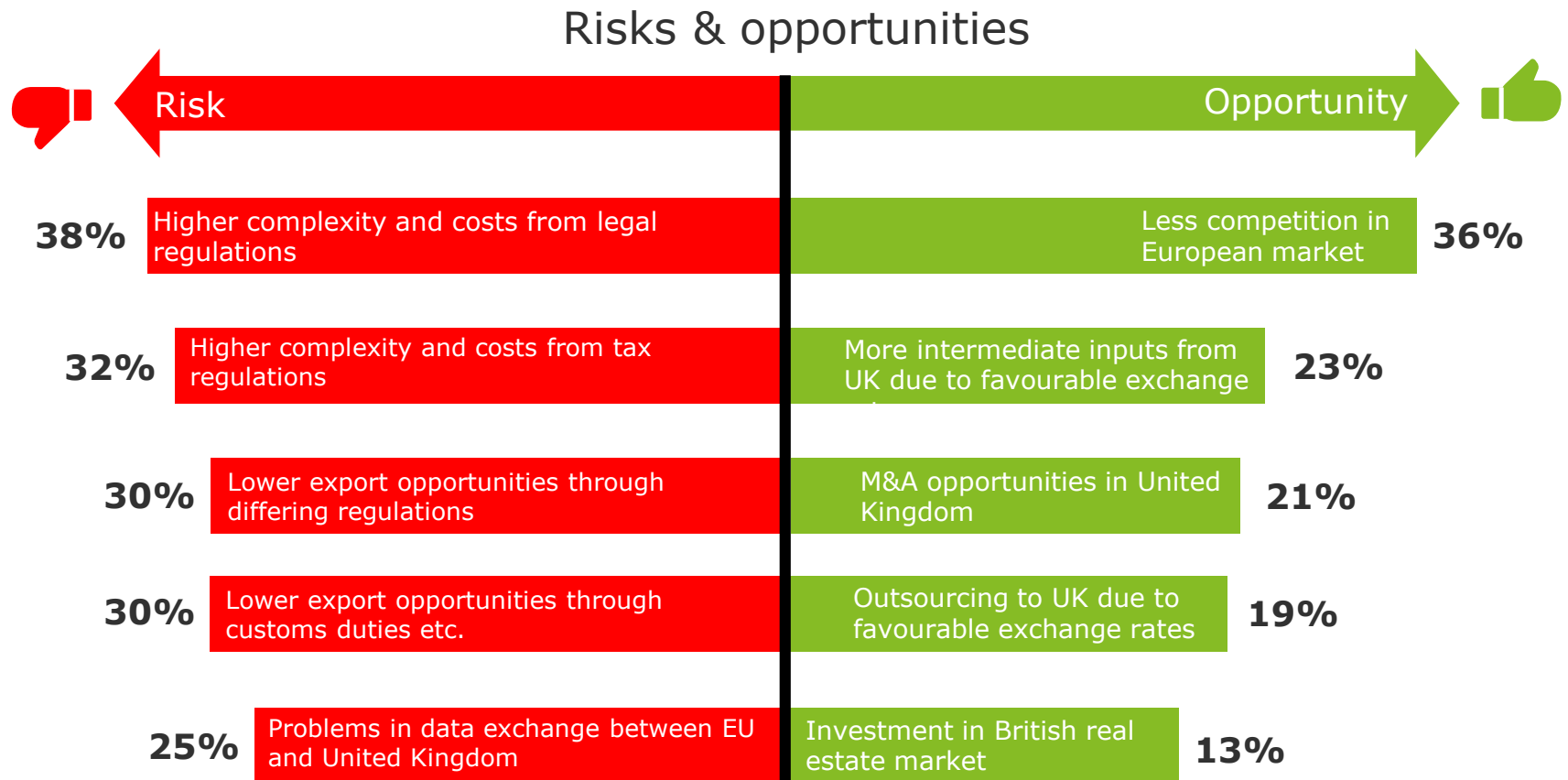
## **Company level**

Opportunities and risks for German companies

# Risks and opportunities

Companies are concerned about higher complexity and lower export opportunities, but also see less competition in future

Question: in which areas do you see the greatest risks and opportunities for your company after Brexit?  
(multiple answers allowed)









# Risks and opportunities

Banks and the tech industry, in particular, fear higher complexity, the chemicals industry lower export opportunities

Question: in which areas do you see the biggest risks and opportunities for your company after Brexit?  
(multiple answers allowed)



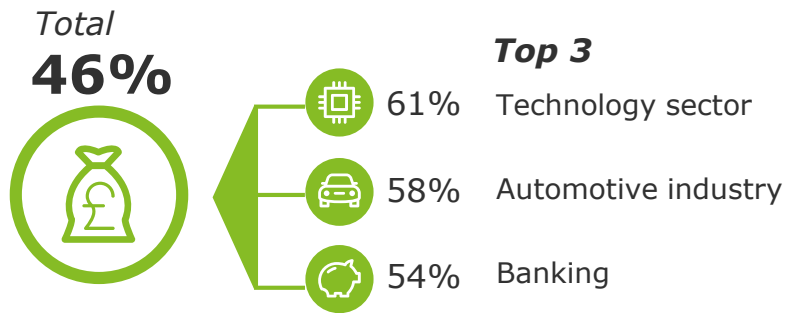
		Greatest risk	Greatest opportunity	
Total	38%	Higher complexity and costs from legal regulations	Less competition in European market	36%
 Automotive industry	42%	Higher complexity and costs from legal/tax regulations	More intermediate inputs from UK due to favourable exchange rates	38%
 Banking	54%	Higher complexity and costs from legal regulations	Less competition in European market	42%
 Chemicals industry	48%	Lower export opportunities through differing regulations	Less competition in European market	48%
 Trade	33%	Lower export opportunities through customs duties etc.	Less competition in European market	39%
 Mechanical engineering	37%	Lower export opportunities through customs duties and regulations	Less competition in European market	32%
 Technology sector	48%	Higher complexity and costs from differing regulations	Less competition in European market	32%

# Brexit reactions

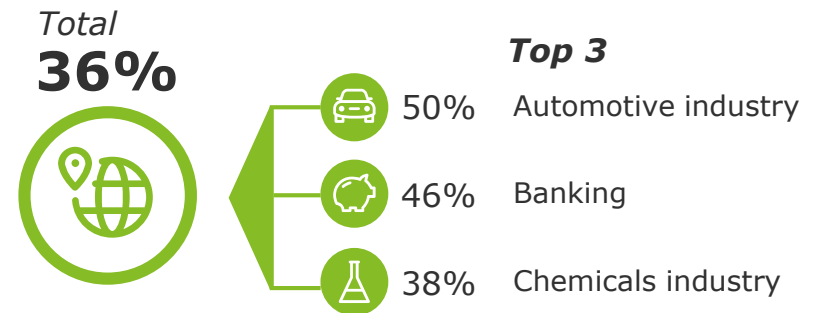
## Just under half of German companies would invest less in the UK in the case of a hard Brexit

Question: if it comes to a hard Brexit with the introduction of customs duties and restrictions on employee movement, how is your company likely to react? (multiple answers allowed)

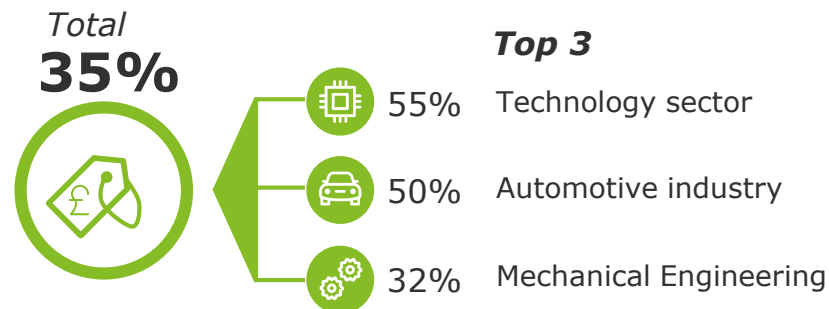
### Lower investments in the United Kingdom



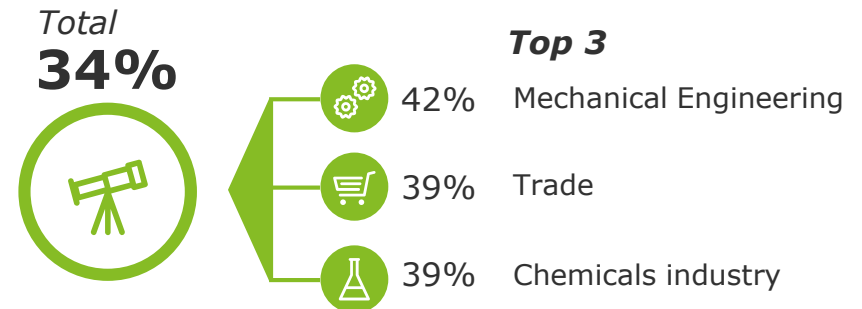
### Relocation of production / parts of the supply chain to other European countries



### Different pricing in the United Kingdom to absorb higher costs



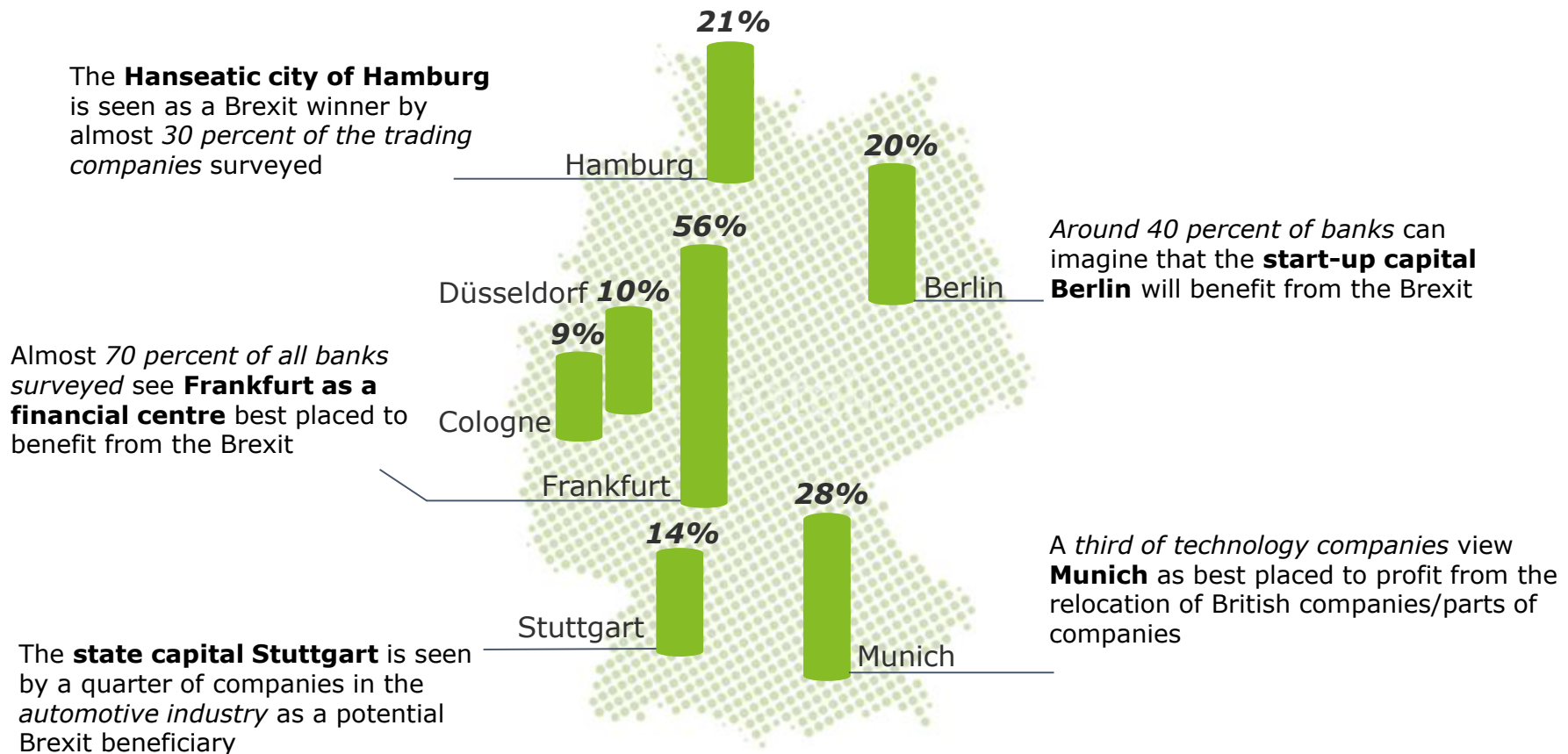
### Higher focus on other markets



# Germany as a location for business

## Frankfurt as a financial centre is seen as the biggest beneficiary across sectors

Question: within your sector, which German city do you think is best placed to benefit from possible relocations? (multiple answers allowed)





# Preparations

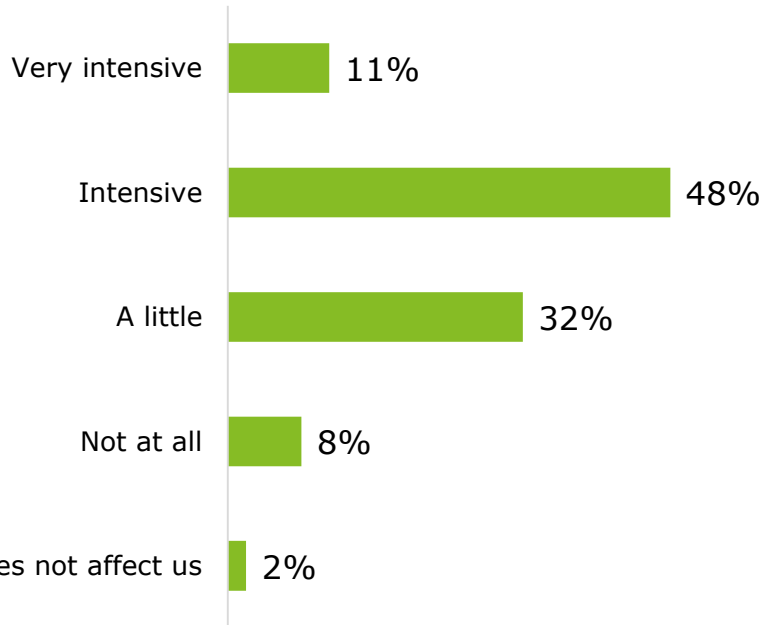
## Measures and intensity



# Brexit preparations

Around 60% of German companies are preparing intensively or very intensively for the Brexit

Question: how intensively has your company prepared for the Brexit?



- Over 90% of companies surveyed have prepared for the Brexit by now, around 60% intensively to very intensively. In the spring of 2016, only 30% of companies had stated that they were preparing for the impact of the Brexit
- 92% of banks have prepared intensively or very intensively for the Brexit
- Companies in mechanical engineering have considered the impact of the Brexit very little. Around 65% stated that they are preparing little or not at all for the Brexit. In the tech industry, this figure is 50%

# Brexit preparations

## The majority of companies rely on a selective analysis of possible Brexit implications

Question: how is your company preparing for the Brexit on an organisational level?  
(multiple answers allowed)

63%



**Selective analysis** of Brexit implications (e.g. taxes or supply chain)

- Automotive and chemicals industries rely on selective analysis of Brexit implications (83% and 81% respectively)

28%



Establishing a central **Brexit task force**

- Just under 40% of banks have a Brexit task force to estimate possible impact

28%



**External consultation**

- Banks and trading companies rely not only on internal resources to deal with Brexit risks, but also make use of external consultancy (46% and 33%)

12%

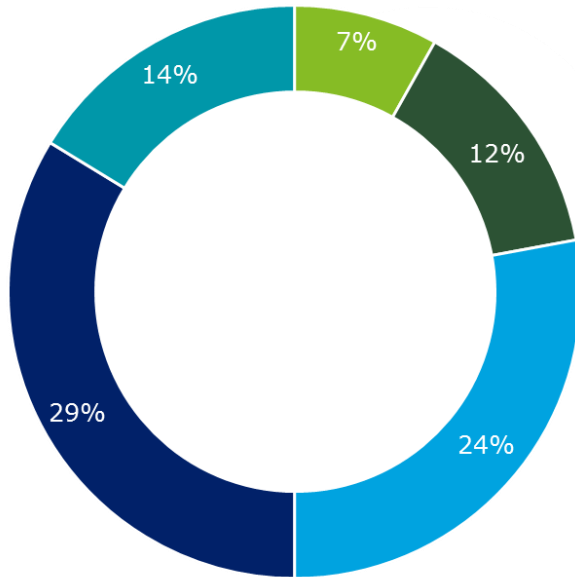


**Not at all**

- A fifth of the companies in the trade and technology sectors are making no organisational preparations for the Brexit

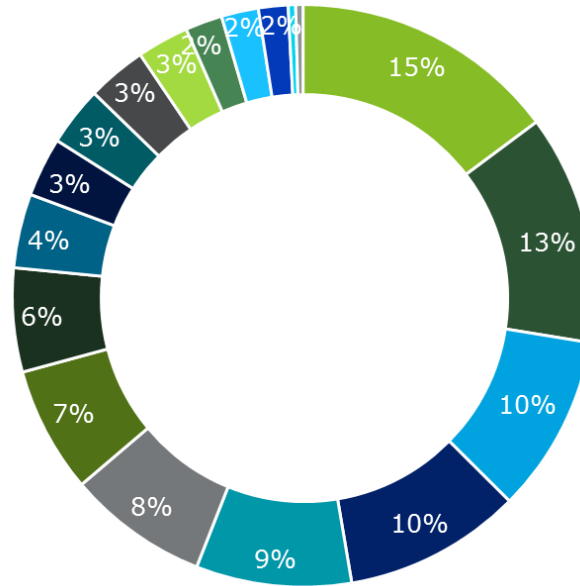
# Participant structure

## Company size by turnover



- EUR 100 million to < 250 million
- EUR 250 million to < 500 million
- EUR 500 million to < 1 billion
- EUR 1 billion to < 5 billion
- EUR 5 billion to < 15 billion

## Industry affiliation of the company

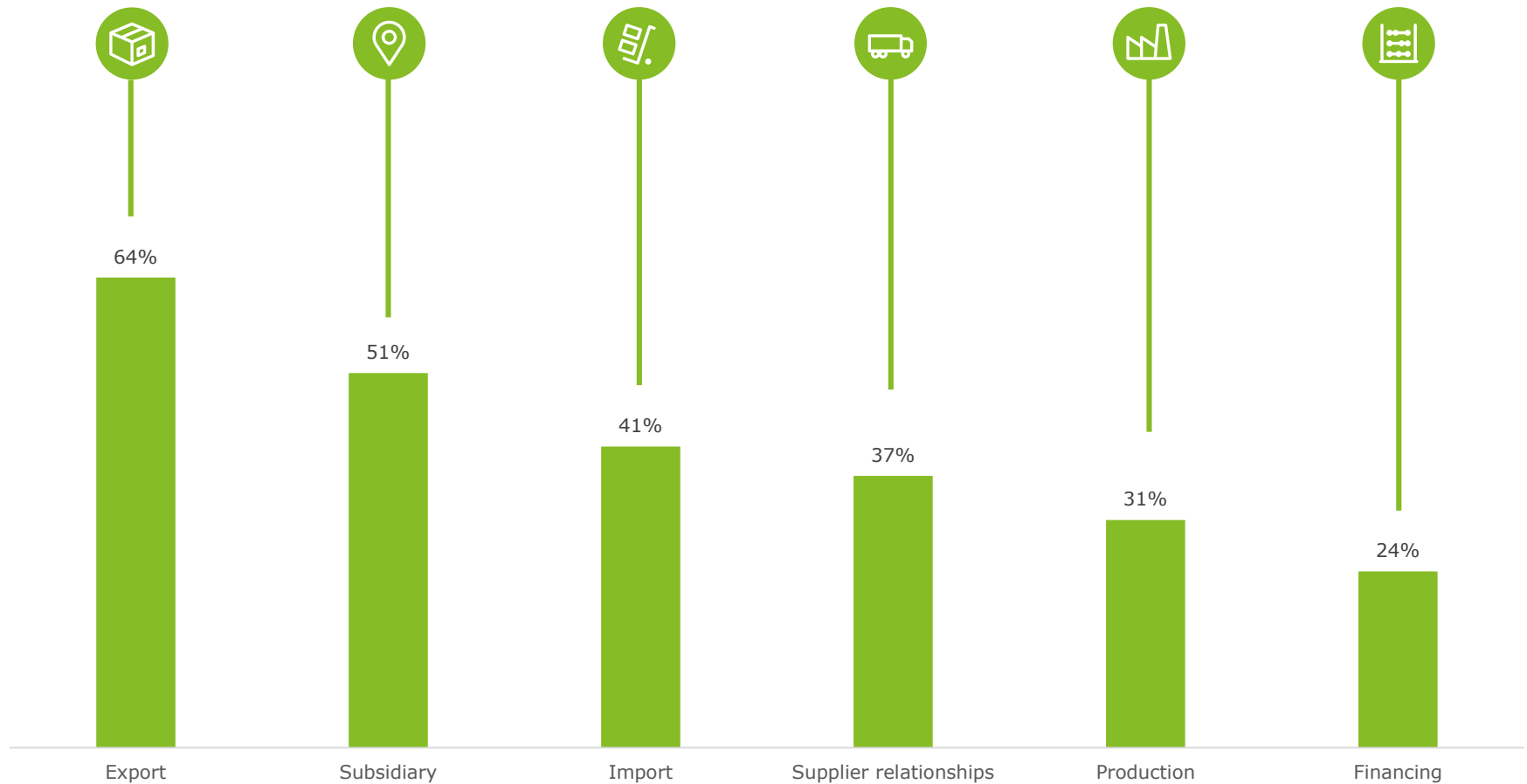


- Retail
- Technology
- Automotive industry
- Banks
- Chemicals
- Mechanical Engineering
- Processing industry
- Transport
- Asset Management
- Consumer goods
- Pharma
- Insurance
- Telecommunications
- Health sector
- Media
- Public sector
- Energy
- Real estate

# Participant structure

## Type of economic integration

Question: what kinds of business relationships does your company have with the United Kingdom?  
(multiple answers allowed)



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