

Deloitte Brexit Briefing | 8  
Brexit and the impact on Germany -  
Company perspectives

June 2018

# 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 Brexit and the Brexit process.

### The current edition

In our current edition, 'Brexit and the impact on Germany - Company perspectives', we analyse the views of German business managers about the effects of Brexit and the Brexit process.

The focus here is on how companies view the Brexit negotiations and the effects, risks and opportunities of 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 4 to 13 June 2018, to which a total of 239 large German companies who have trade relationships with the United Kingdom responded.

# Executive summary



## Brexit negotiations

- German companies see the scheduled completion of a withdrawal agreement by autumn as very uncertain - almost 50% do not expect it
- 41% of companies expect a conventional free trade agreement as the final outcome of the negotiations; however, a hard Brexit is also deemed possible (23%), while very few companies anticipate the development of relationships akin to the Single Market (13%)



## Brexit and business in Germany

- German companies see opportunities for Germany as a business location through relocations and a strengthening of the financial centre (50% each). The greatest risks are declining trade and the danger of breaking up the EU
- Two thirds of companies would like more cooperation within the EU, or even a deeper relationship as a reaction to Brexit



## German companies' Brexit strategies

- 53% of companies expect high/very high losses for their company in case of a hard Brexit
- Preparations are underway: 72% have prepared thoroughly. Almost two thirds have analysed the risks extensively, almost half have already restructured their supply chains. A third have stopped investments, almost half have reviewed them
- In case of a hard Brexit, many companies (44%) would reduce their investment in the UK and move their focus to other markets (58%)



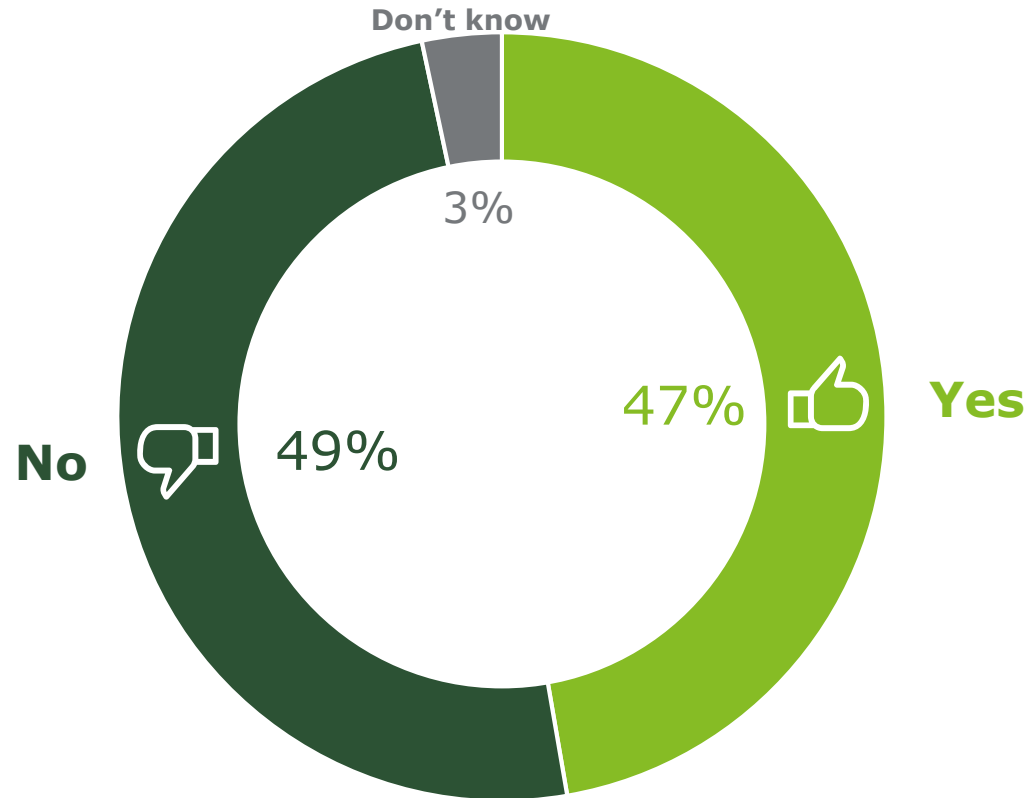
# **Brexit negotiations**

## Expectations and outlook

# Brexit negotiations

The scheduled completion of a withdrawal agreement by autumn is uncertain - half of the companies do not expect this to happen

Question: Do you believe that the UK and the EU will reach an exit agreement by the autumn as planned?



# Brexit negotiations

## Free trade agreement seen as most likely negotiation result - Hard Brexit remains a realistic option

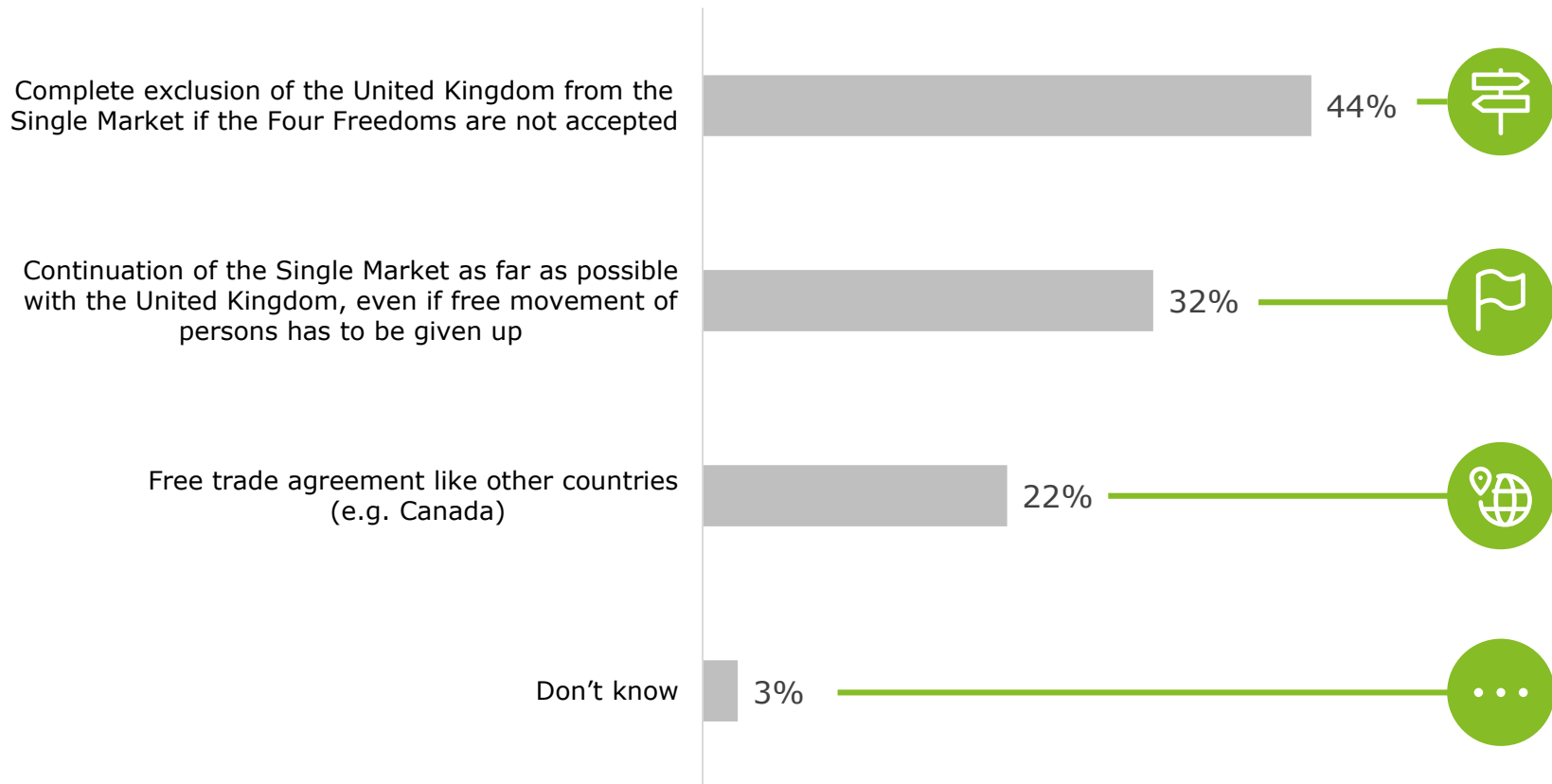
Question: What do you think the result will be at the end of the negotiations, following a possible transition period to the end of 2020?



# Brexit negotiations

For many companies, freedom of movement for people and retaining the Four Freedoms are central

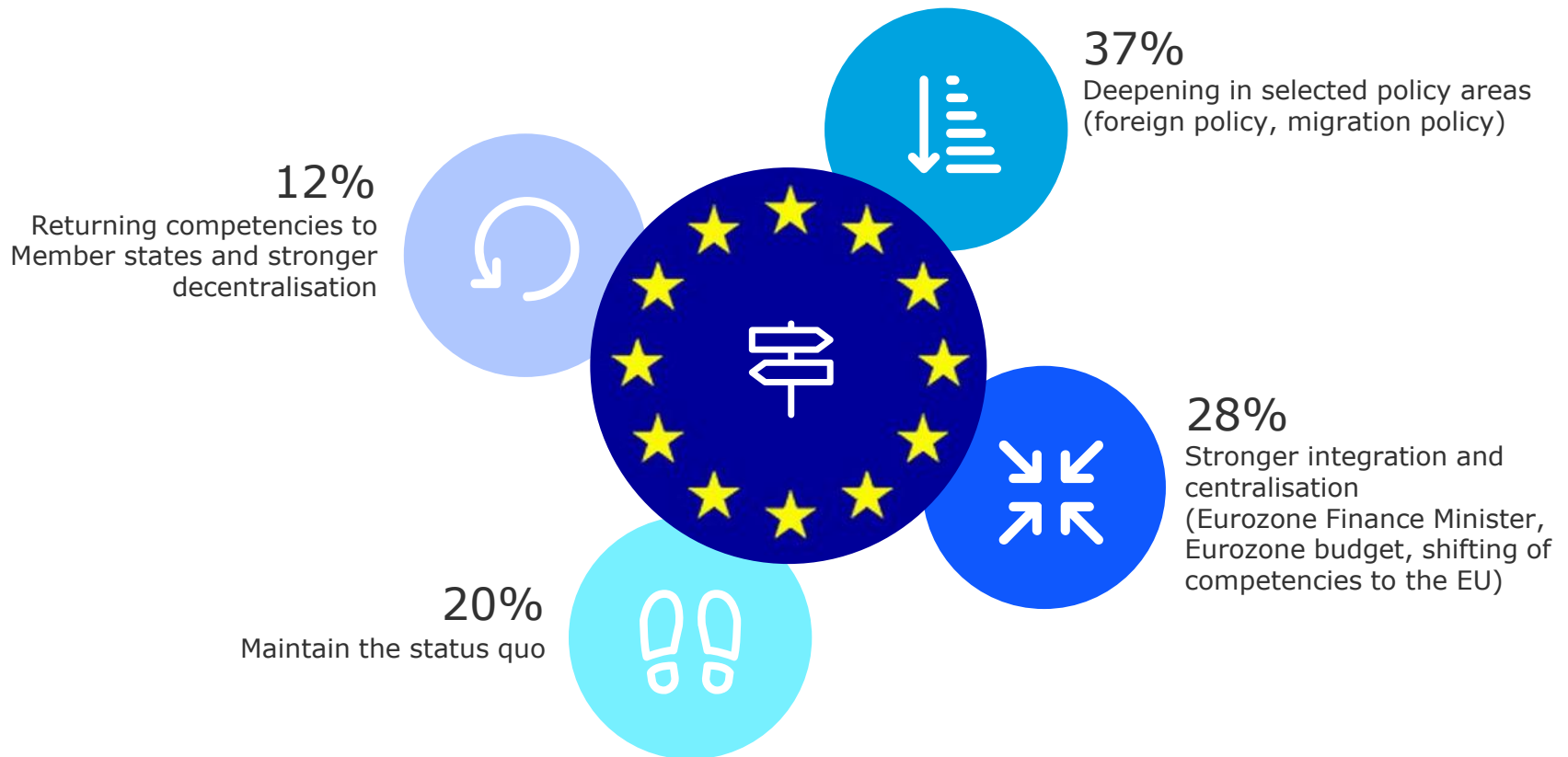
Question: What should the EU's negotiation objective be, in your view?



# Future of the EU

## Two thirds of companies want increased European cooperation or more integration after the Brexit

Question: Towards what goal do you think the EU should develop in the post-Brexit period?







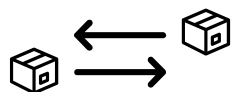
# **Business in Germany and Brexit**

## Risks and opportunities

# Business in Germany | Risks

The greatest economic risks are declining trade and the danger of breaking up the EU, in the German view

Question: What risks do you see for business in Germany due to Brexit?  
(multiple answers allowed)



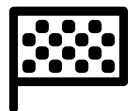
44%

Declining trade with the United Kingdom



41%

Danger of disintegration of the European Union



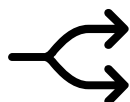
36%

Danger of increased location competition due to new tax incentives in the UK



31%

Stronger centralist direction in European economic policy



19%

General disentangling of close German - British economic relations



5%

I see no risks

# Business in Germany | Opportunities

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

Question: What opportunities do you see for business in Germany due to Brexit?  
(multiple answers allowed)





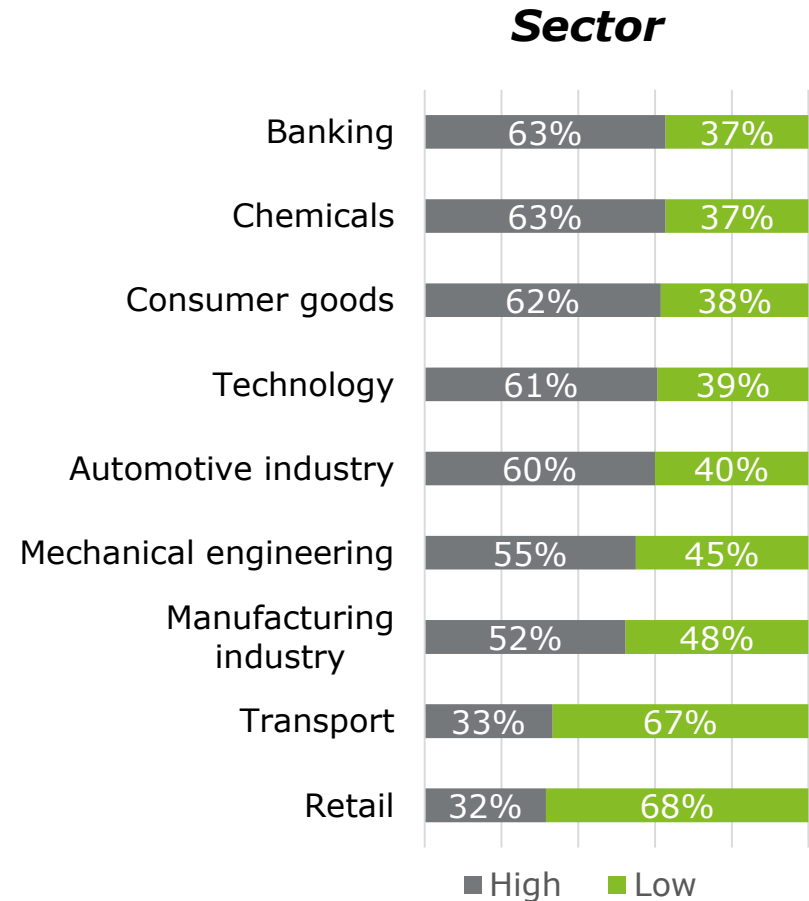
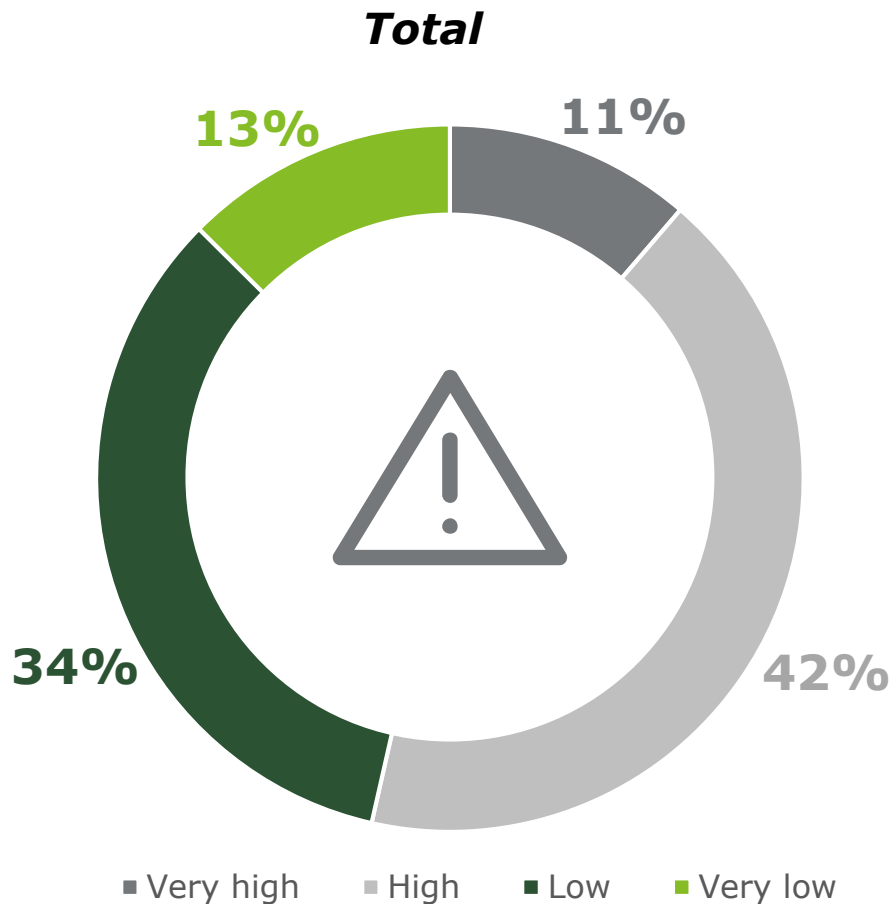
# **Brexit strategies**

## Implications und preparations

# Brexit strategy | Impact

Over 50% of respondents expect high or very high damage to their company in the course of a hard Brexit

Question: How high do you estimate future damage from a potential hard Brexit for your company?



# Brexit strategy | Impact

## German companies foresee difficulties with planning their UK business and are deferring investment decisions

Question: In what way has Brexit affected your company so far? (multiple answers allowed)



**39%**

Difficulties with long-term planning for UK business



**34%**

Deferring investment decisions due to high level of uncertainty



**28%**

Exchange rate fluctuations



**23%**

Diversion from actual business due to resource costs of Brexit planning



**18%**

Brexit has not yet affected my company



**13%**

Incentive for higher investments in the UK due to future potential trade restrictions



**7%**

Loss of contracts

# Brexit strategy | Impact

## German companies foresee difficulties with planning their UK business and are deferring investment decisions

Question: In what way has Brexit affected your company so far? (multiple answers allowed)

### Effects

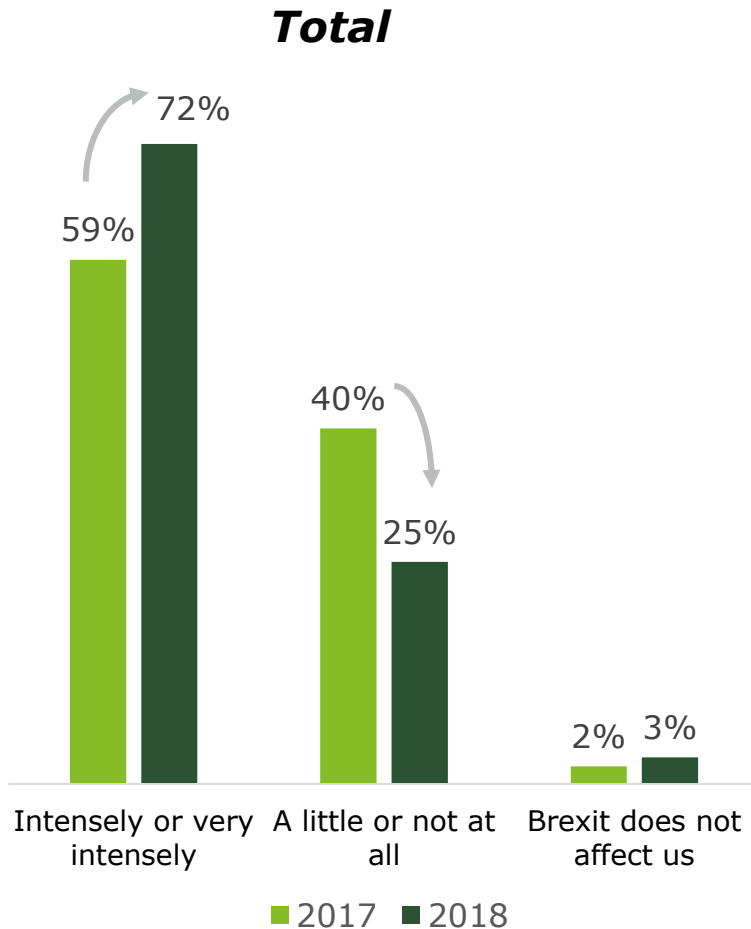
### Sector Insights

 <b>Difficulties with long-term planning for UK business</b>	Two thirds of companies in the <b>chemical industry</b> state that they have problems with their long-term planning of their UK business
 <b>Deferring investment decisions due to high level of uncertainty</b>	More than half of <b>consumer goods companies</b> have deferred their investment decisions in the UK so far
 <b>Exchange rate fluctuations</b>	4 in 10 companies in the <b>manufacturing industry</b> are already noticing exchange rate fluctuations between pounds and euros
 <b>Diversion from actual business due to resource costs for Brexit planning</b>	54% of <b>banks</b> are distracted from their actual business due to resources allocated to Brexit planning
 <b>Brexit has not yet affected my company</b>	So far, <b>retail companies</b> have been least affected. One in three companies connected with the UK is not currently noticing Brexit effects
 <b>Incentive for higher investments in the UK due to future potential trade restrictions</b>	One in five <b>technology companies</b> has used the time before Brexit and its potential trade barriers to invest more in the UK
 <b>Loss of contracts</b>	One in eight companies in the <b>automotive industry</b> is already feeling the loss of contracts and declining demand from the UK

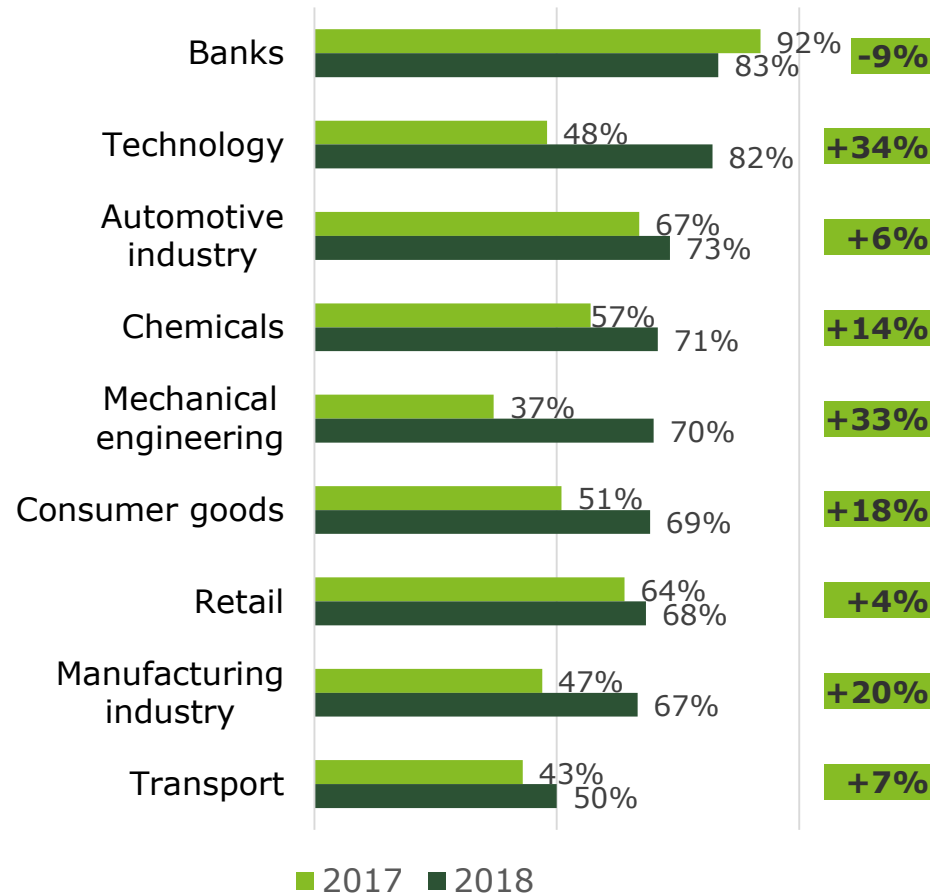
# Brexit strategy | Preparation

The companies surveyed are increasingly preparing for the Brexit are focusing on selective analyses

Question: How intensively has your company prepared for Brexit?



Development in companies who are preparing intensively for Brexit (by sector, 2017-2018)





# Brexit strategy | Preparation

The companies surveyed are increasingly preparing for Brexit and are focusing on selective analyses

Question: How is your company preparing for Brexit on an organisational level?



**54%**

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



The preferred way of preparing the organisation for Brexit across all sectors

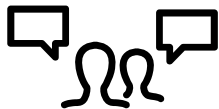


**21%**

Establishing a central **Brexit task force**



40% of automotive companies and 30% of banks have created a Brexit task force



**14%**

**External consultation**



Use of external advice is independent of company size and sector, and is apparently used depending on the individual involvement of the company



**11%**

**Not at all**



A third of transport and logistics companies are making no organisational preparations for Brexit

# Brexit strategy | Measures taken

Majority has analysed Brexit extensively - Almost one in two companies have already started restructuring supply chain








Question: What measures have you taken so far in your company with regard to Brexit and what do you plan to do in the near future? (multiple answers allowed)



# Brexit strategy | Measures taken

Majority has analysed Brexit extensively - Almost one in two companies have already started restructuring supply chain

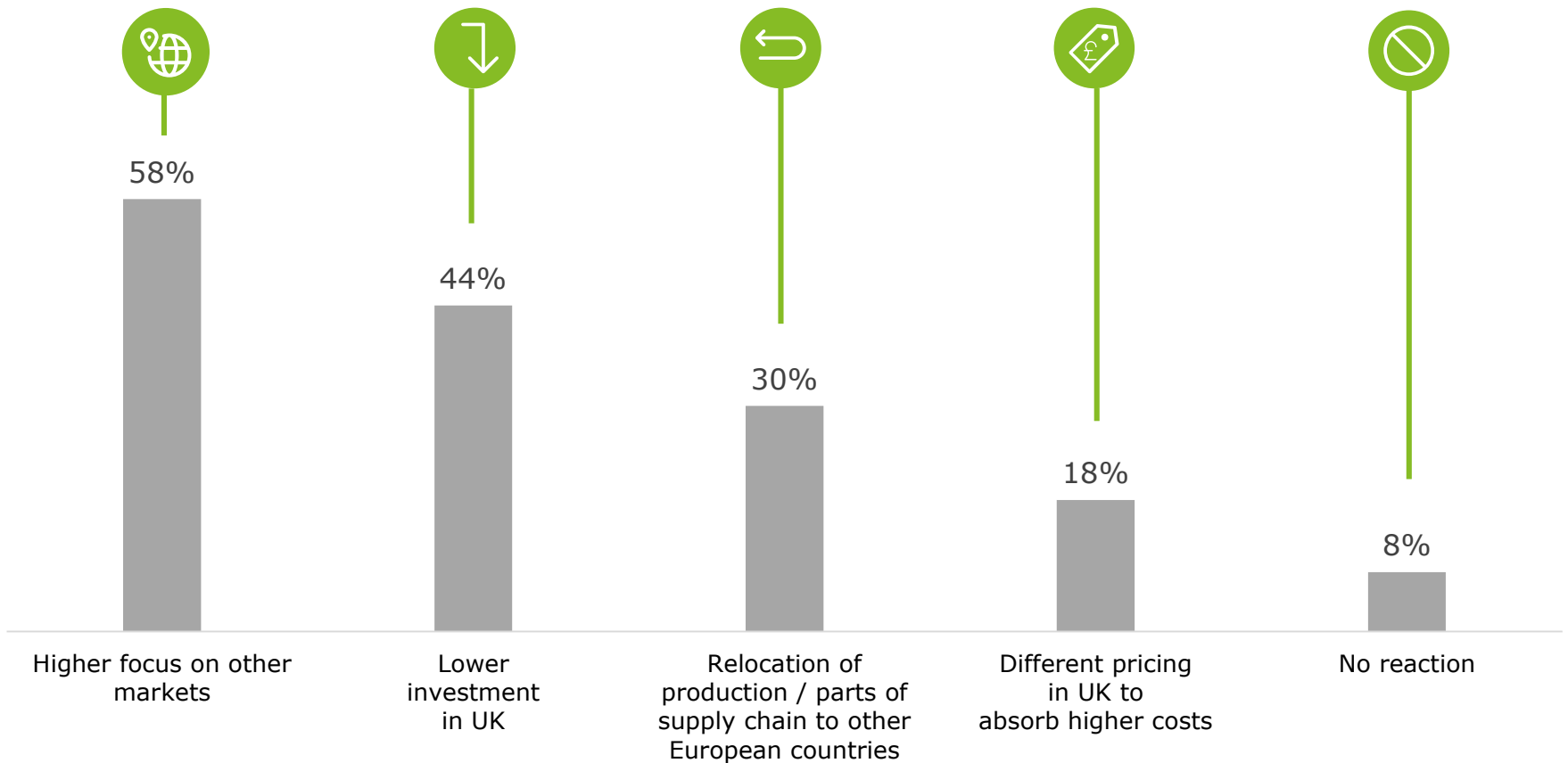
Question: What measures have you taken so far in your company with regard to Brexit and what do you plan to do in the near future? (multiple answers allowed)

	Primarily taken by:
 Extensive analysis of risks and implications	<b>85%</b> Consumer goods industry
 Review investment plans in UK	<b>67%</b> Automotive industry
 Realign supply chain	<b>57%</b> Manufacturing industry
 Organisational changes regarding subsidiaries	<b>50%</b> Transport industry
 Move employees	<b>46%</b> Chemicals industry
 Stop investment in UK	<b>47%</b> Automotive industry
 Contingency planning	<b>46%</b> Consumer goods industry

# Brexit strategy | Hard Brexit planning

## In case of a hard Brexit, most companies would focus on other markets

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



# Brexit strategy | Risks & opportunities

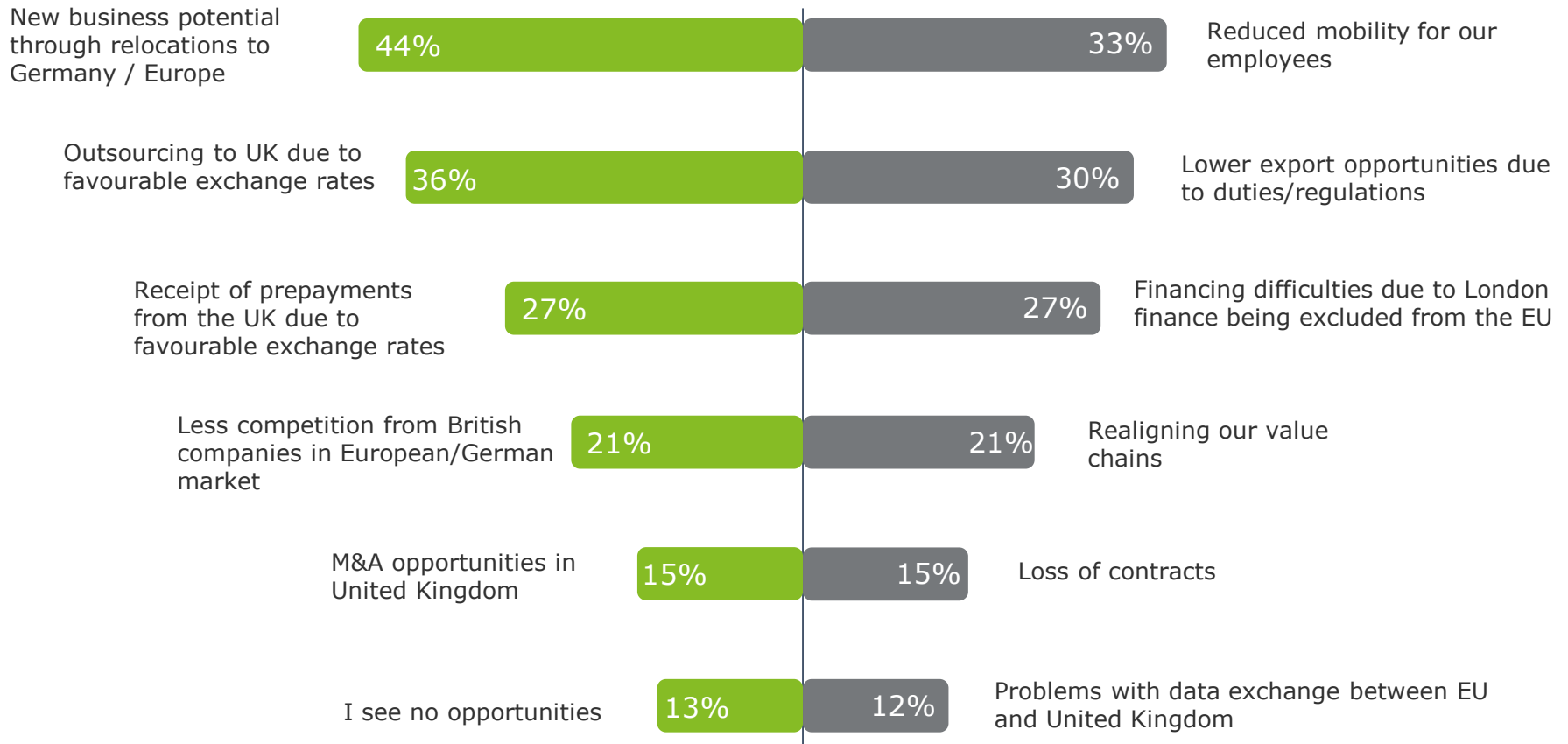
Relocations offer business potential for companies, lower employee mobility and exports are the biggest risks

Question: What **opportunities** arise for your company due to Brexit?

Question: In which areas do you see the **greatest risks** for your company after Brexit?

## Brexit opportunities

## Brexit risks



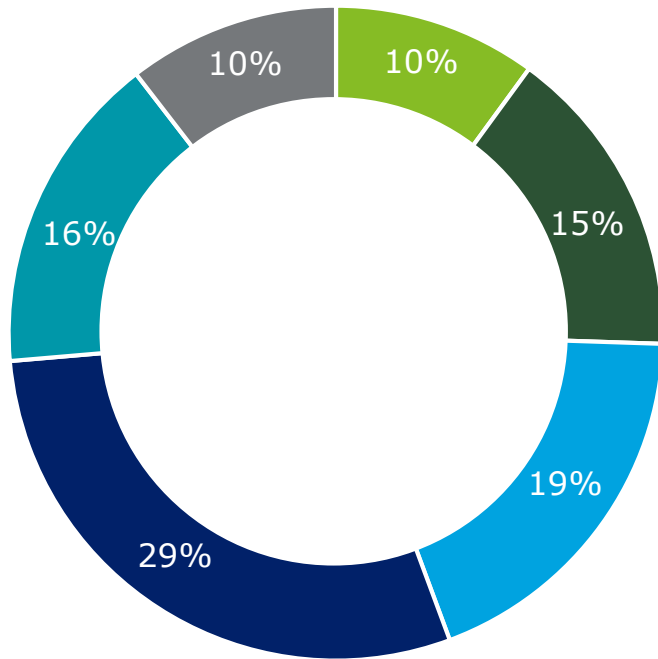


## **Participant structure**

Company size, sector, integration

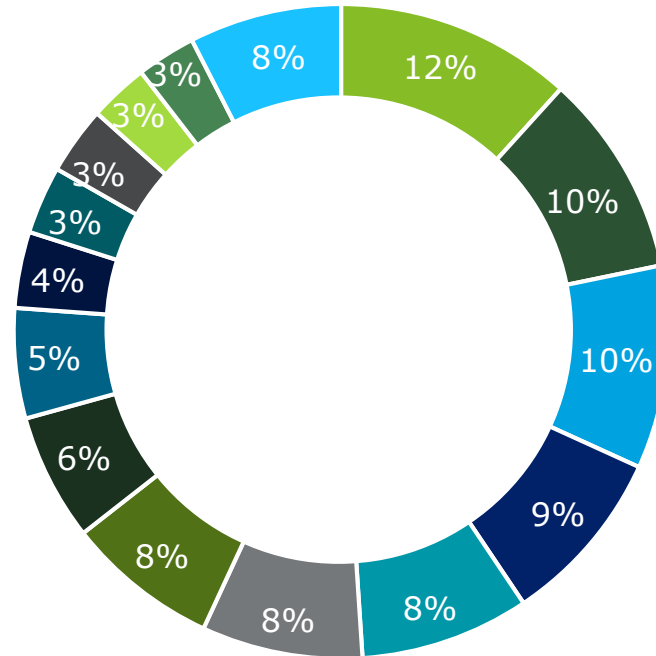
# Participant structure

## Company size by turnover



- 100 mio to < 250 mio Euro
- 250 mio. to < 500 mio. Euro
- 500 mio. to < 1 bn Euro
- 1 bn to < 5 bn Euro
- 5 bn to < 15 bn Euro
- above 15 bn Euro

## Industry affiliation of the company

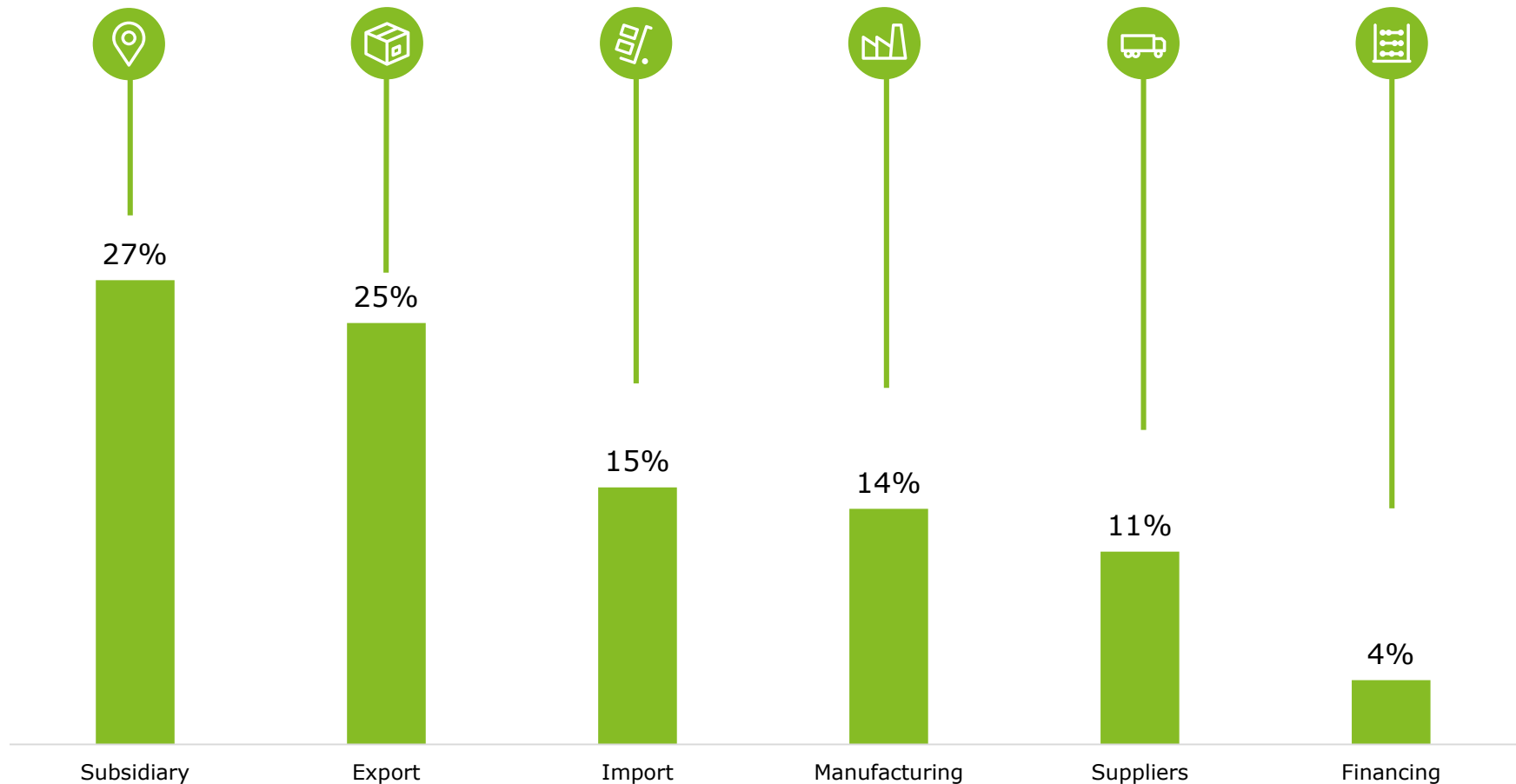


- Technology
- Banks
- Chemicals
- Processing industry
- Mechanical Engineering
- Retail
- Transport
- Automotive industry
- Consumer goods
- Telecommunications
- Insurance
- Public sector
- Real estate
- Health sector
- Others

# Participant structure

## Type of economic integration

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





# Brexit Strategic Response Team

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