

## Deloitte Brexit Briefing | 14

# Interconnections between German industry and the United Kingdom – Trends since the Brexit Referendum

October 2020

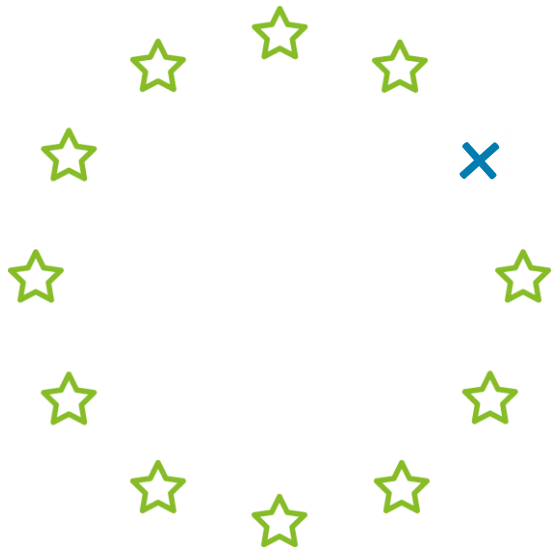
# Deloitte Brexit Briefings

## Perspectives on Brexit

### Deloitte's 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 Deloitte Brexit Briefing number 14, “Interconnections between German industry and the United Kingdom – Trends since the Brexit Referendum”, we investigate how sectors of German industry are impacted by the Brexit. Our core questions here are, which sectors are most closely linked with the United Kingdom?, and what developments have taken place for German companies in the United Kingdom since 2015 in terms of revenues, exports and employment?

This Brexit Briefing is based on data provided by German companies about their revenues and employee numbers in their British subsidiaries, as well as exports from German industry to Great Britain as reported by the German Federal Statistical Office. On the basis of this data, the company information was extrapolated to sectors to enable us to make statements about the sector-specific importance of the UK as a location for German companies. Our methodology is explained in more detail in the final chapter.

# Executive Summary

## Key Findings

# Key findings



**German companies' revenues and exports in the British market are in decline** – the UK revenues of large German companies\* have fallen by almost EUR 24 billion (-12 percent) since 2015; exports by just under EUR 7 billion (-6 percent). There was a strong decline in the export of goods (-EUR 10 bn. or -12%), whereas the export of services actually increased (+EUR 2.5 bn. or +10%), especially in the information and communications sector.



**However, links to the United Kingdom remain strong** – German companies earn one in 14 euros in the United Kingdom and employ 375,000 people there. Absolute employment has been very stable since 2015. In a relative sense, both the proportion of sales generated in the United Kingdom and the proportion of employees is declining in almost all sectors.



**DAX companies are the largest companies with the highest revenues.** They account for more than 70% of German revenues (EUR 120 billion) in the UK and employ 200,000 people, which is around 50% of all jobs in large German companies in Great Britain.



**The German automotive industry generates the highest revenue in the United Kingdom at EUR 48 billion** – however, sales and export share have markedly decreased in recent years. **With almost 100,000 UK employees, the German transport & logistics sector remains the most closely integrated with the United Kingdom** – one in four British employees of German companies works in this sector.



Since 2015, UK sales have fallen most in the **finance & insurance sector** (-EUR 6.5 bn.) and the **transport & logistics industry** (-EUR 5.2 bn.) – by contrast, the **wholesale & retail sector** was able to expand its sales in the United Kingdom (+EUR 2.8 bn.).



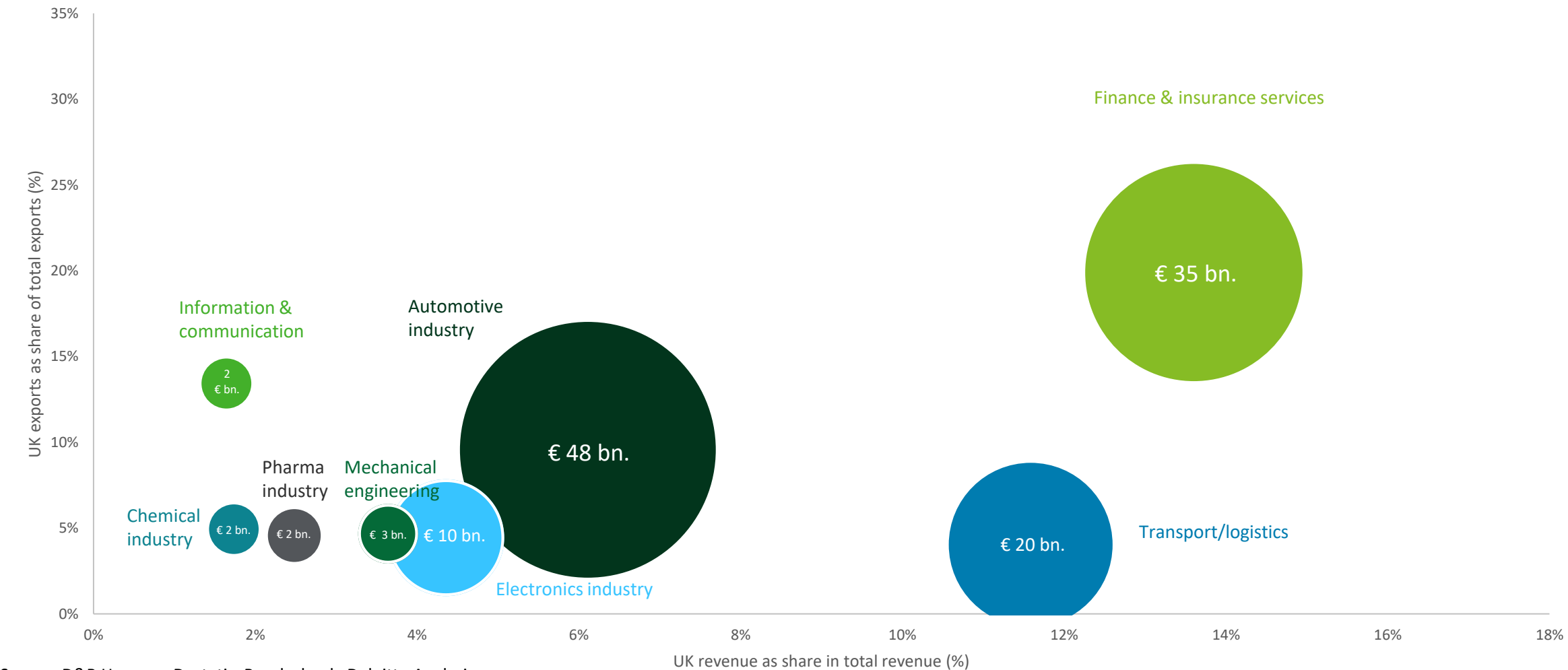
Declining revenues and exports in combination with stable employment in the UK suggest that the falling **pound sterling exchange rate** (-15%) is the main cause of the decline in UK business. Lower relative employment and revenue shares are an indication that German companies are focusing more on **other markets**, whereas the increase in the export of services corresponds to a general trend in the global economy towards digital services.

\*The data are based on information from the D&B Hoovers company database on British subsidiaries of German companies with international headquarters in Germany. A total of 190 companies were identified that employ at least 100 staff in the United Kingdom and therefore have close business relationships with the United Kingdom.

# Key findings

Ties with the UK differ widely between sectors – the British market matters most for cars, finance and transport

Share of revenues and exports in selected sectors in the United Kingdom (size of circle = UK-generated revenue in EUR bn.)

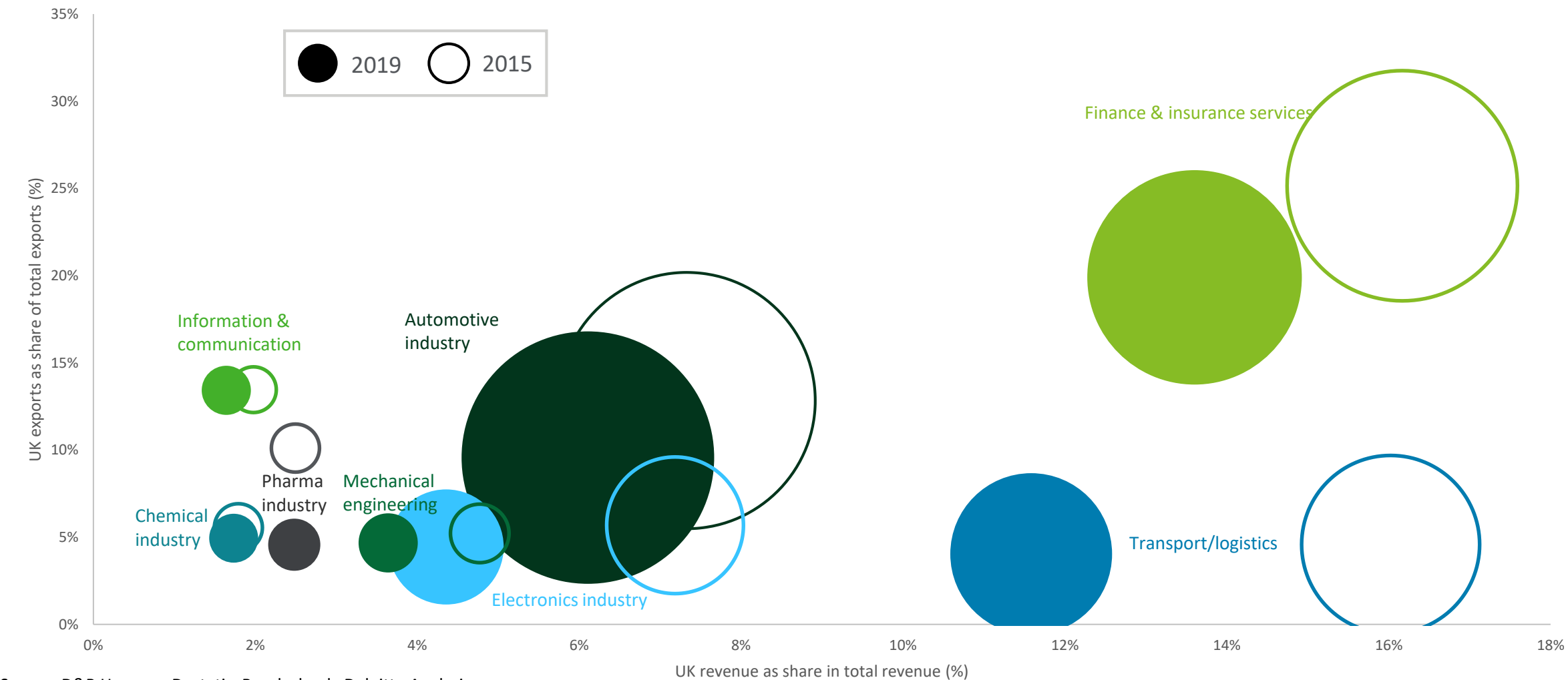


Source: D&B Hoovers, Destatis, Bundesbank, Deloitte Analysis  
Deloitte 2020

# Key findings

Since 2015, the British market has lost importance in almost every sector

Share of revenues and exports in selected sectors in the United Kingdom (size of circle = UK-generated revenue in EUR bn.)



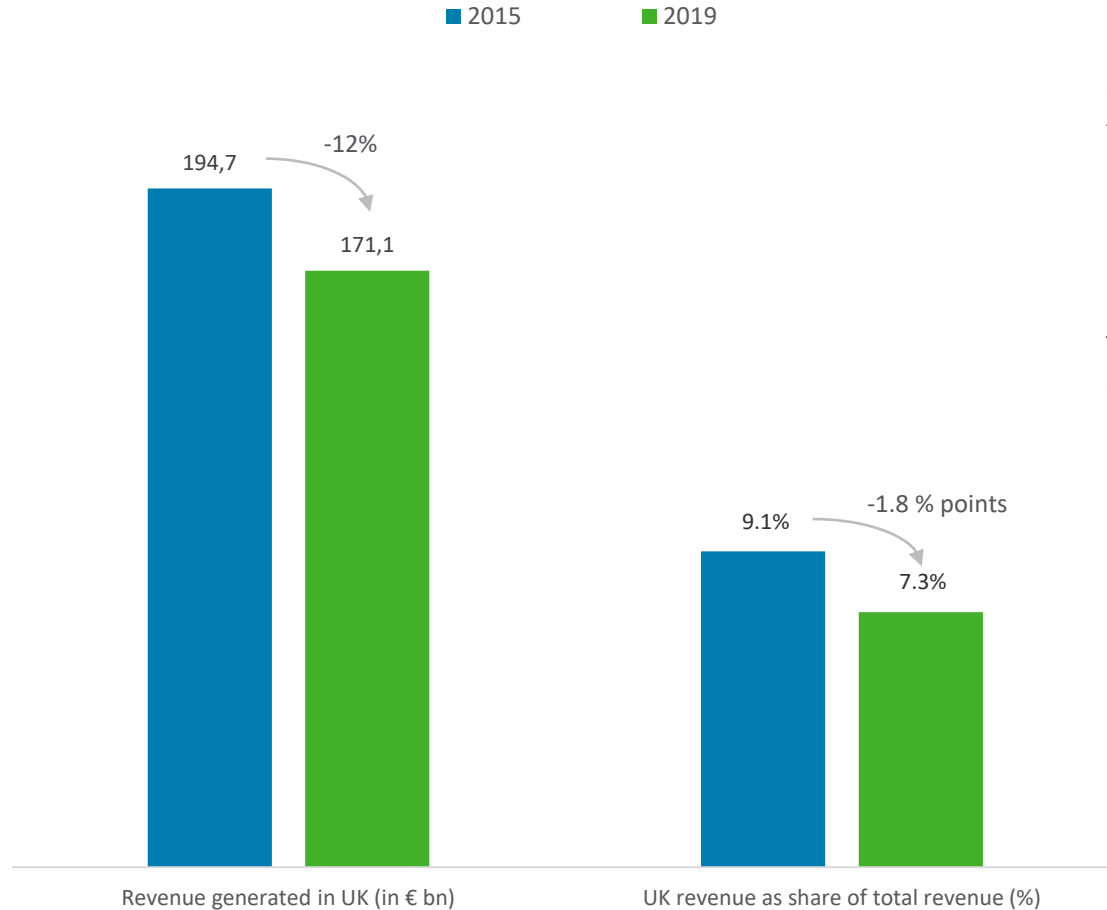
Source: D&B Hoovers, Destatis, Bundesbank, Deloitte Analysis  
Deloitte 2020

## Revenue

How much revenue German companies generate in the United Kingdom

## Brexit links | Revenue development

The revenues that German companies generate in the UK have fallen by almost EUR 24 billion (-12%) since 2015



German companies' sales in the United Kingdom have **fallen by 12 percent** since the start of the Brexit negotiations, with total revenues still around EUR 170 billion.

This means that German companies earn **almost one in 14 euros** in the United Kingdom – compared with one in 11 in 2015.

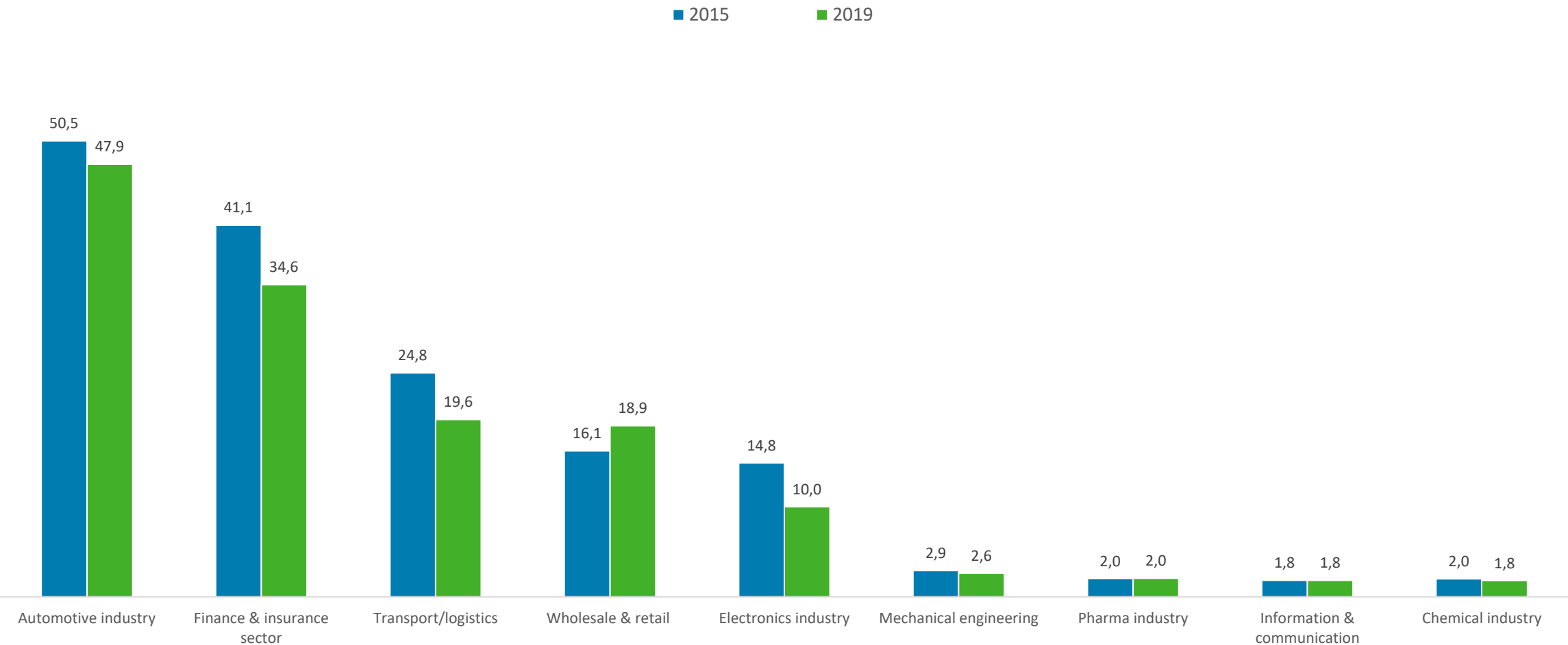
**DAX companies** generate around EUR 120 billion or just under 70% of German revenues in the United Kingdom – since 2015, however, this has fallen by an above-average -17 percent.



# Brexit links | Revenues

The automotive industry remains the largest sector in terms of sales in the United Kingdom – the sharpest fall in sales was in financial and insurance services, whereas wholesale and retail sales increased

Revenues of selected sectors in United Kingdom (in € bn.)



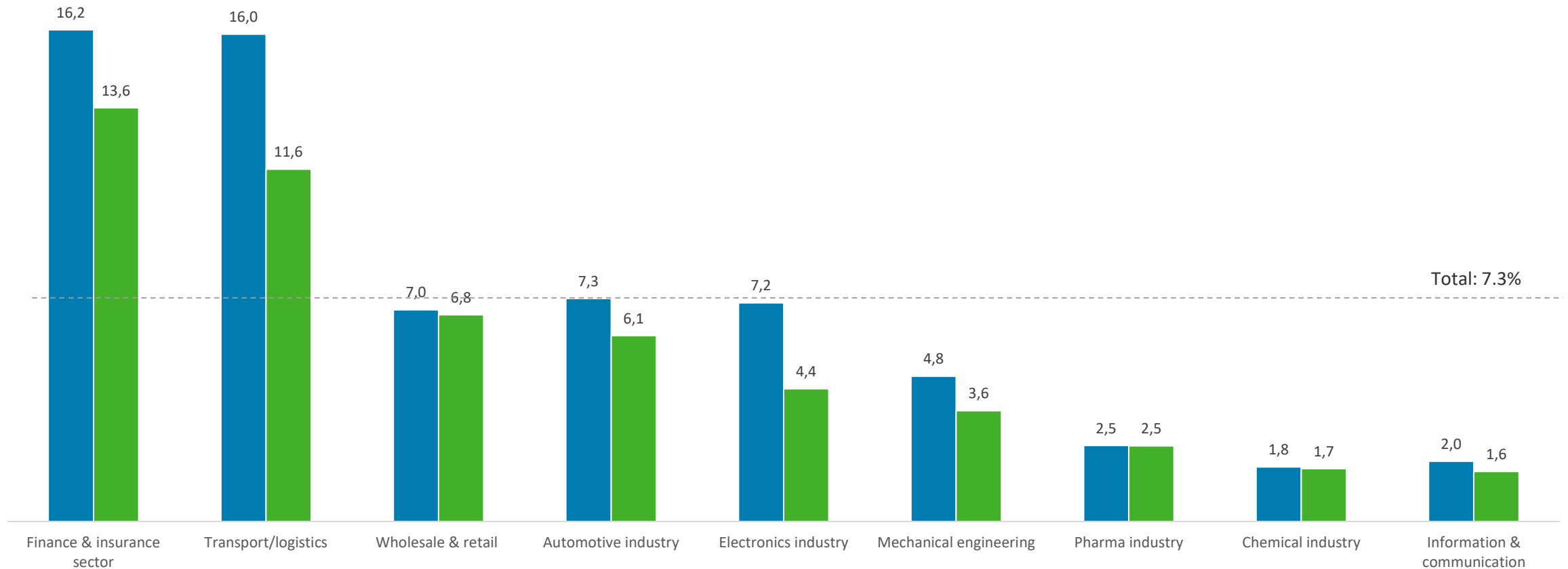
Source: D&B Hoovers, Deloitte Analysis  
Deloitte 2020

## Brexit links | Revenue share

The steepest decline in the United Kingdom's revenue share was reported by the transport and logistics industry, followed by the finance and insurance sector

UK share of total revenues in selected sectors (in %)

■ 2015 ■ 2019



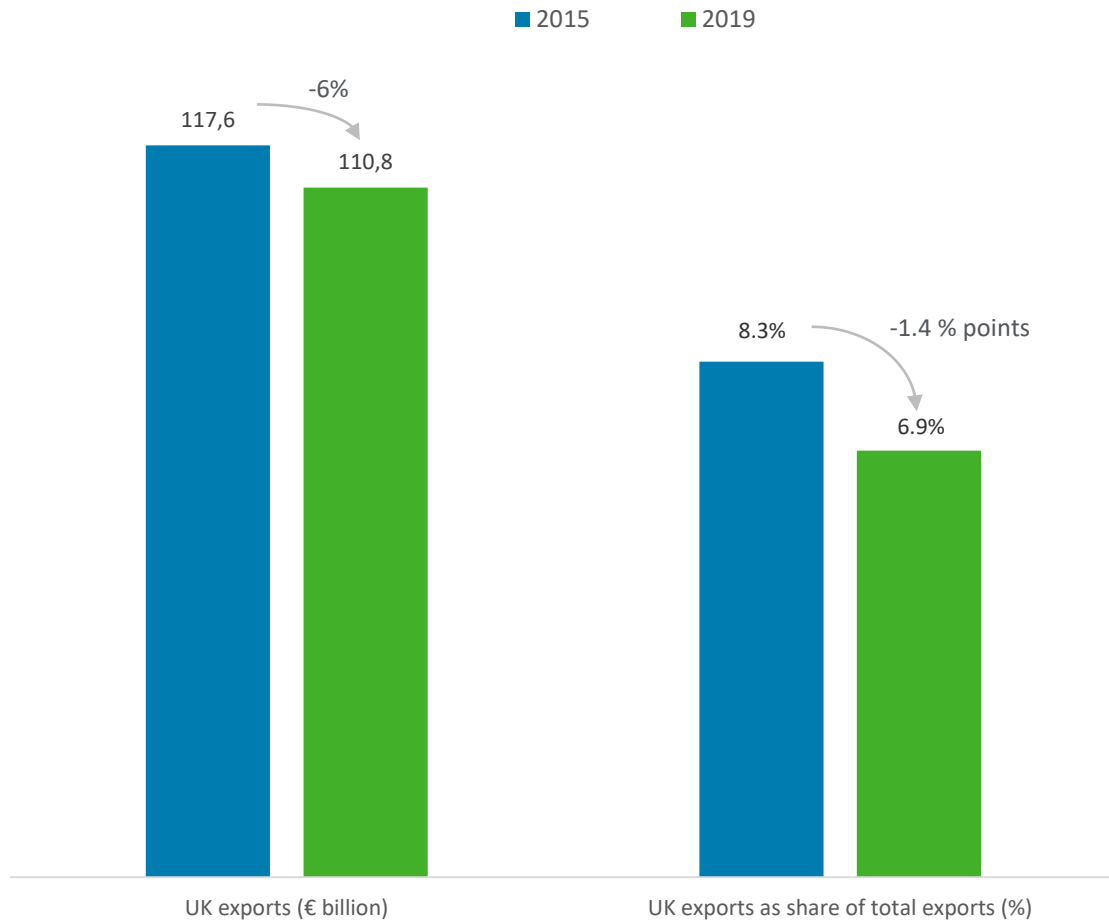
Source: D&B Hoovers, Deloitte Analysis  
Deloitte 2020

## Exports

How many goods and services are exported to the United Kingdom

## Brexit links | Export development

Since 2015, German exports to the UK have declined by 6 percent to around EUR 111 billion – the export of goods was especially affected (-12%), while the export of services actually increased (+10%)



The role of the United Kingdom in German trade is declining in importance – currently, German-British trade only has a share of just under **7 percent**.

Exports from German companies to the United Kingdom have **fallen by 6 percent** since the start of the Brexit negotiations. While the **exports of goods** fell significantly (-12%), **exports of services** to the United Kingdom increased (+10%).

For **goods exports**, the United Kingdom has slipped from 3rd to 5th place among Germany's most important export partners since 2015. For **service exports**, the United Kingdom remains Germany's second most important partner country.

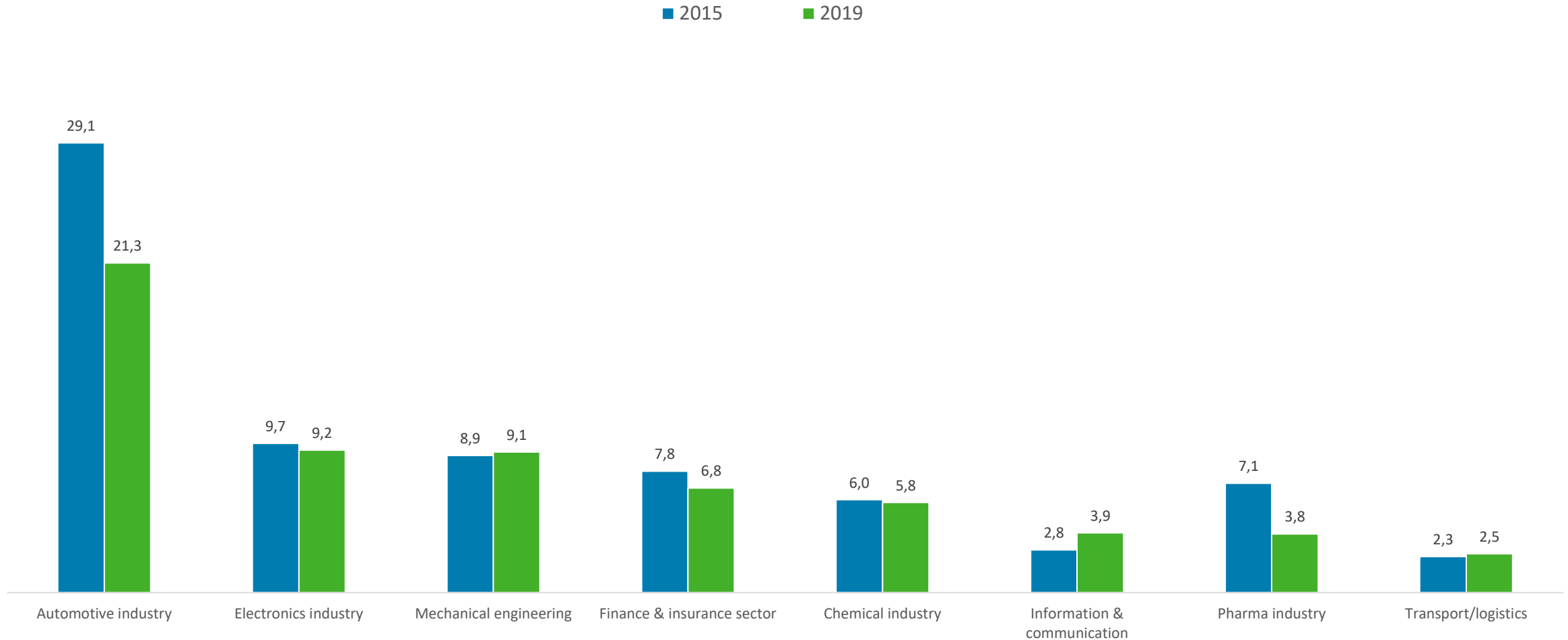
The strongest export declines were in the **automotive sector** (-EUR 7.8 bn.) and the **pharma industry** (-EUR 3.3 bn.). The **information & communications industry** was able to increase its exports to the United Kingdom (+EUR 1.1 bn.).

However, the UK share of total exports declined in all industries – especially in the **finance & insurance sector** and the **pharma industry**, the United Kingdom has lost importance in recent years.

## Brexit links | Exports

Especially in the automotive and pharma sectors, the export of goods has declined strongly in recent years – by contrast, the information and communications industry increased its UK exports by 40 percent

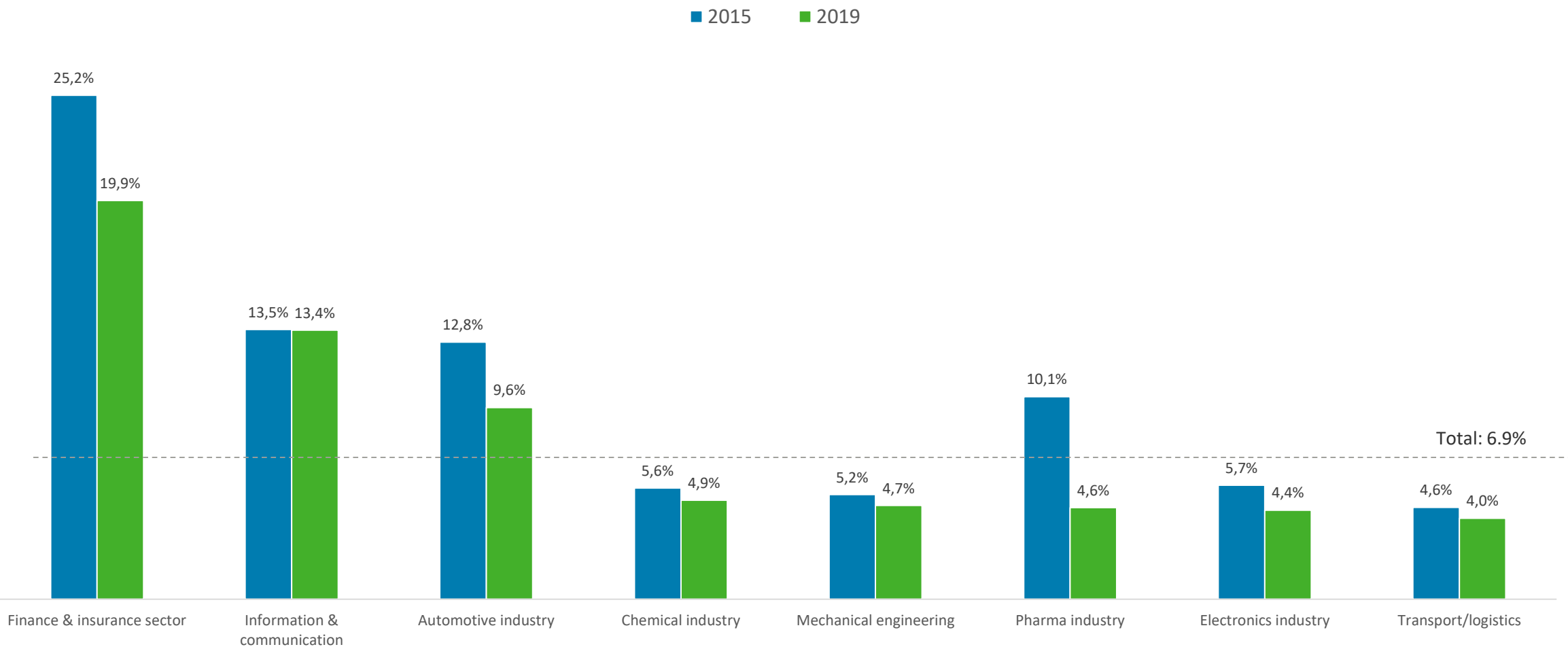
Exports from selected sectors to the United Kingdom (in € bn)



# Brexit links | Export share

As in the pharma industry, there was a marked decline in the share of goods & services exported to the United Kingdom in the finance & insurance sector

UK exports as share of total exports for selected sectors (in %)



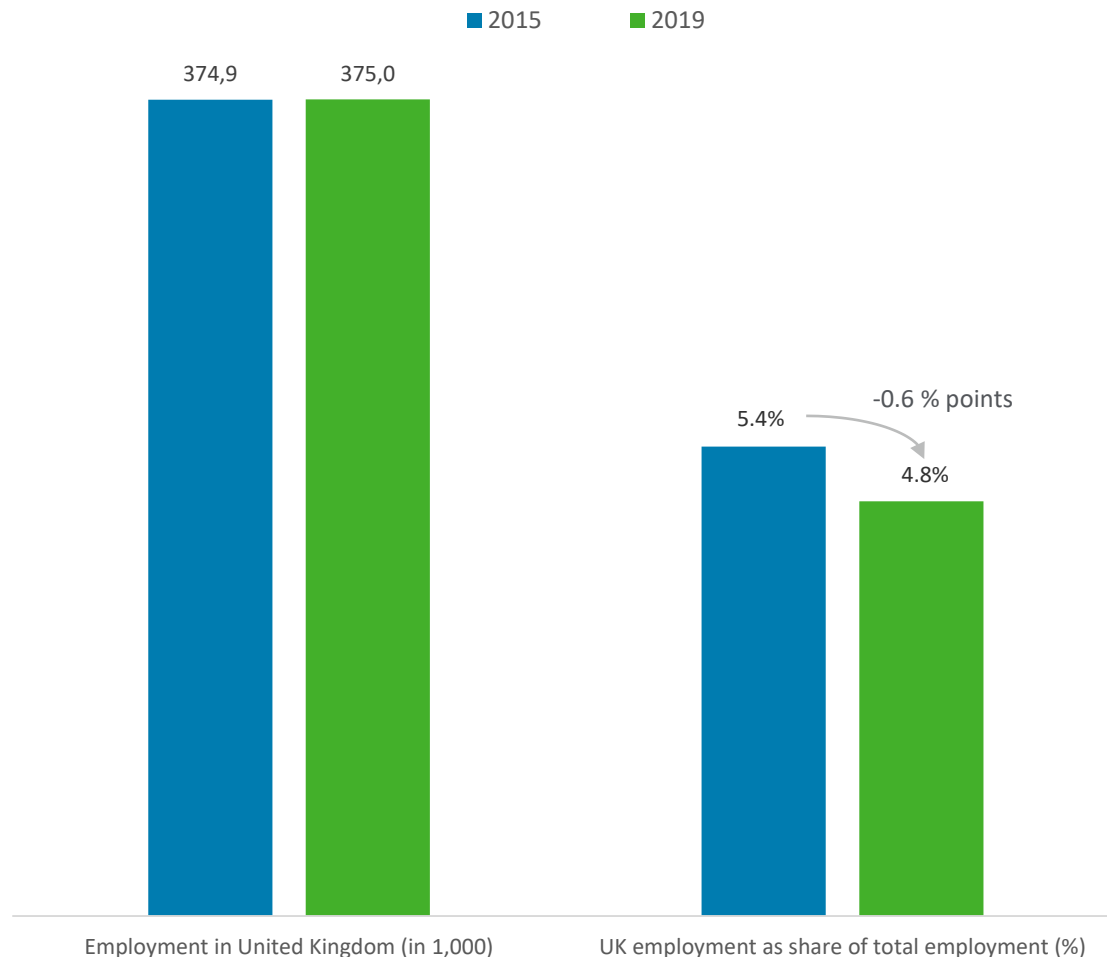
Source: Bundesbank, Destatis, Deloitte Analysis  
Deloitte 2020

## Employment

How many employees of German companies work in the UK

## Brexit links | Employment development

The number of employees in German companies in the United Kingdom has remained stable in recent years at 375,000 – but the share of UK employees in the total workforce has fallen below 5 percent



The number of employees has changed very little since the start of the negotiations – around **375,000 employees** of German companies have jobs in the United Kingdom.

The **transport & logistics** sector is by far the biggest German employer in the United Kingdom – one in four employees work in this industry.

Both the **wholesale & retail** sector and the **automotive industry** have slightly expanded the number of jobs in the United Kingdom in recent years – however, in the **finance and insurance sector**, employment has fallen.

In terms of employment, the United Kingdom has lost some relevance to the German economy – the **share of employment** has fallen below 5 percent – the highest decline in employment share was reported by the **wholesale & retail sector**.

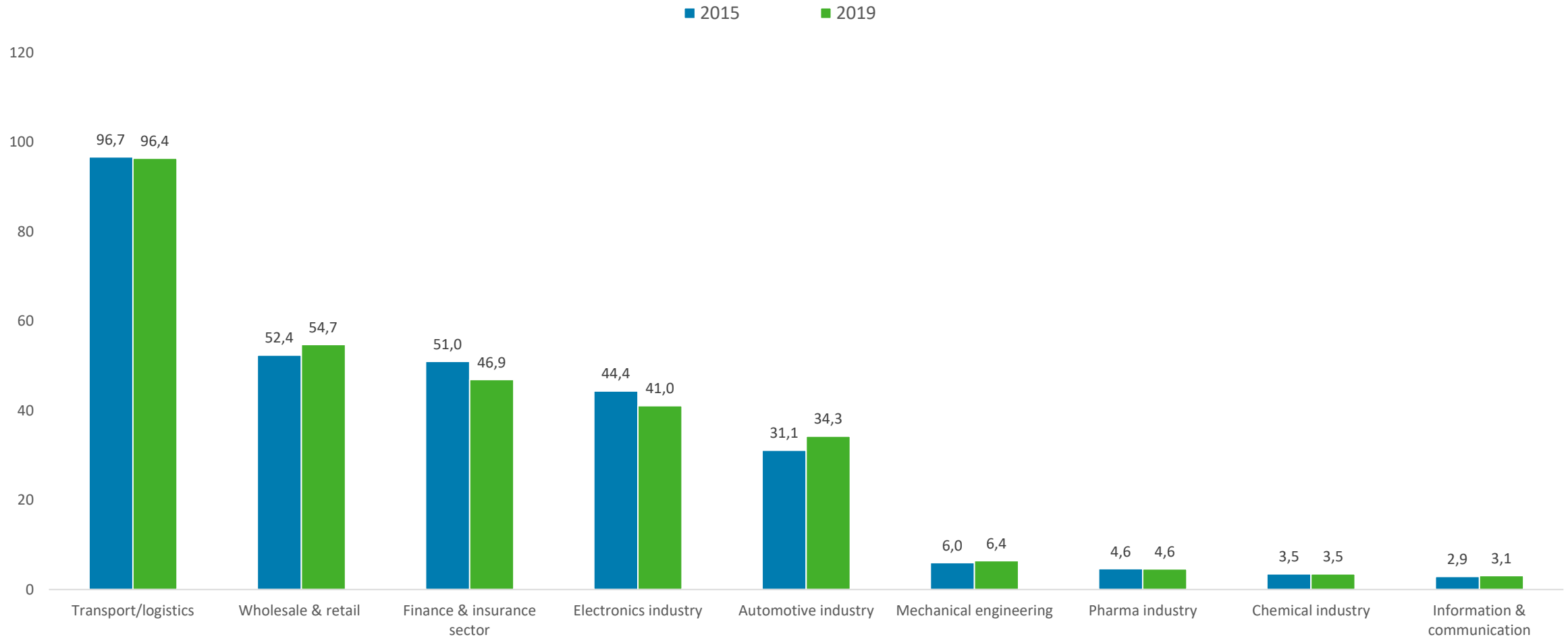
With almost 200,000 employees, **DAX companies** had around half of all employees of German companies in Great Britain.



## Brexit links | Employment

The transport & logistics sector is the largest German employer in the United Kingdom by far – the wholesale & retail sector and the automotive industry have slightly expanded their presence in the United Kingdom in recent years

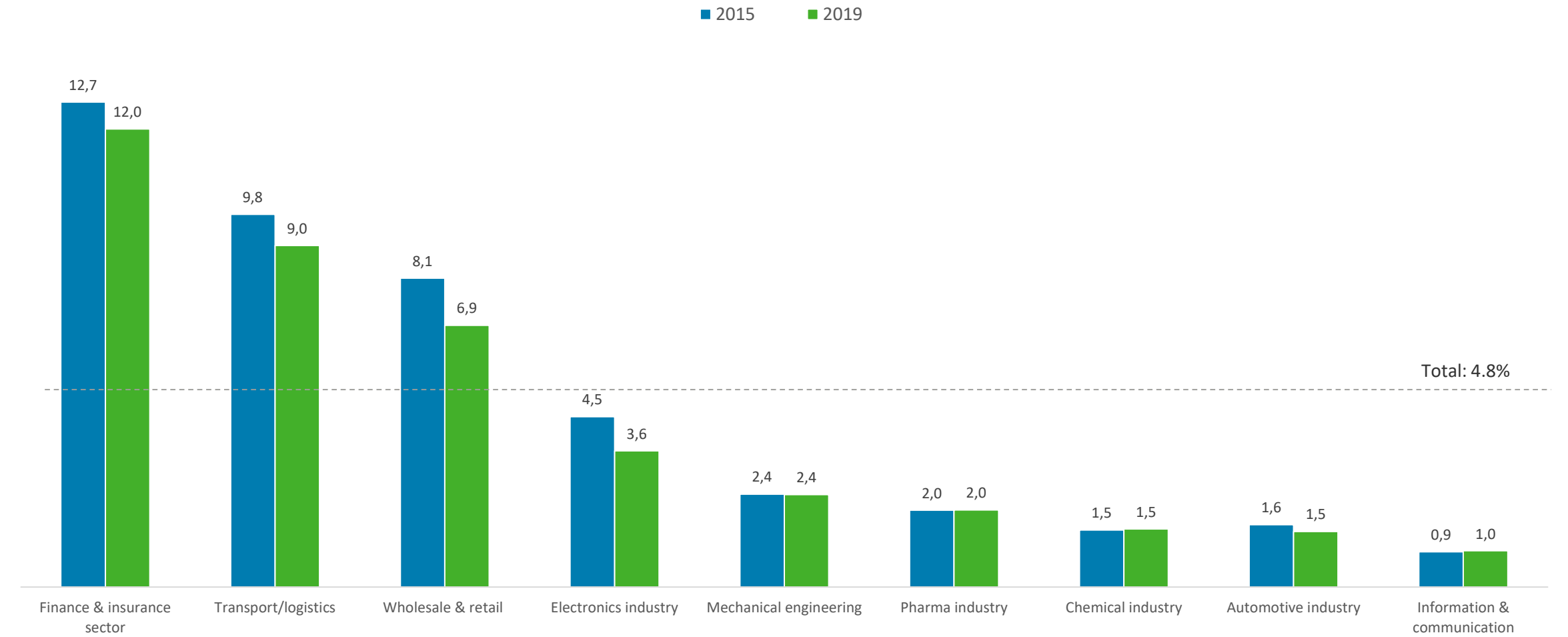
Employment in selected sectors in the United Kingdom (in 1,000)



# Brexit links | Employment share

Measured against total employees, the proportion of people working in the United Kingdom has declined in almost all sectors

UK employment as share of total employment for selected sectors (in %)



Source: D&B Hoovers, Deloitte Analysis  
Deloitte 2020

# Methodology

# Deloitte Brexit Briefing 14 | Methodology

## Extensive analysis of German subsidiaries in the UK

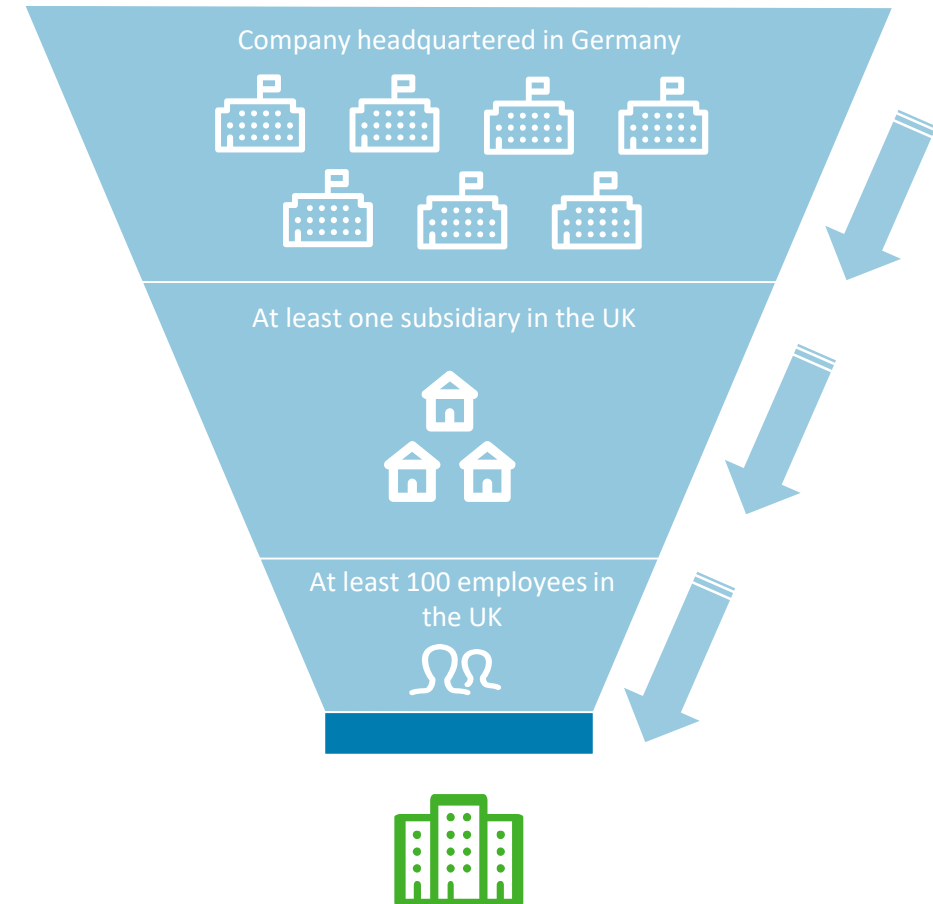
Data on the **export of German goods and services** was provided by the German Federal Statistical Office and the Federal Bank of Germany.

Data on **revenues** and **employment** was provided by information in the D&B Hoovers company database on British subsidiaries of German companies with international headquarters in Germany.

Another **criterion\*** for identifying close business relationships was the number of employees in subsidiaries. We selected companies that employ at least 100 people in the United Kingdom.

To present the **overall situation**, company data were extrapolated to their respective industries. Information on the average share of revenue and employees is therefore exclusively attributable to selected companies and their sectors. In industries with only a few companies affected, the influence of individual companies on the overall average share was accordingly greater.

\*A total of around 2,000 companies with international headquarters in Germany and at least one subsidiary in the United Kingdom were identified. However, selecting only companies with at least 100 employees in the UK decreased this number to 190 companies with especially strong business relationships in the United Kingdom.

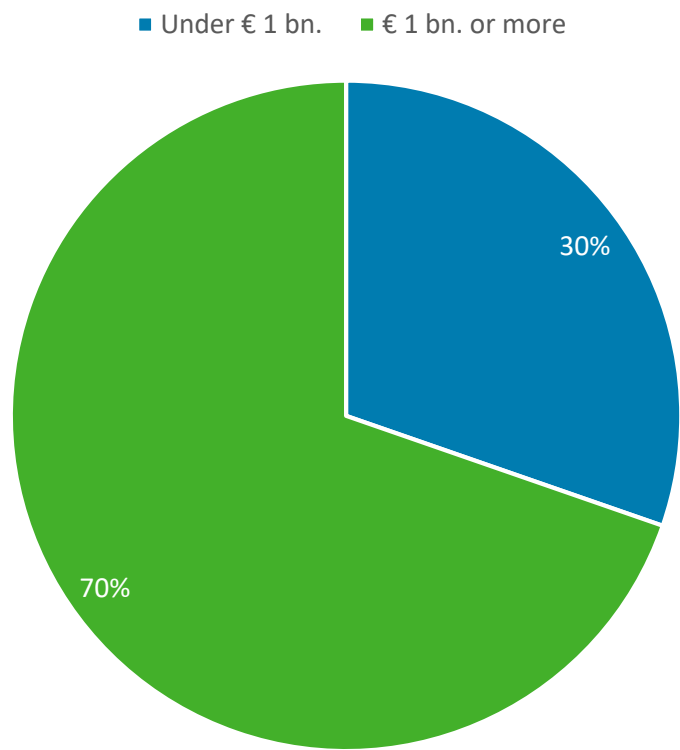


190 German companies with strong business ties to the UK

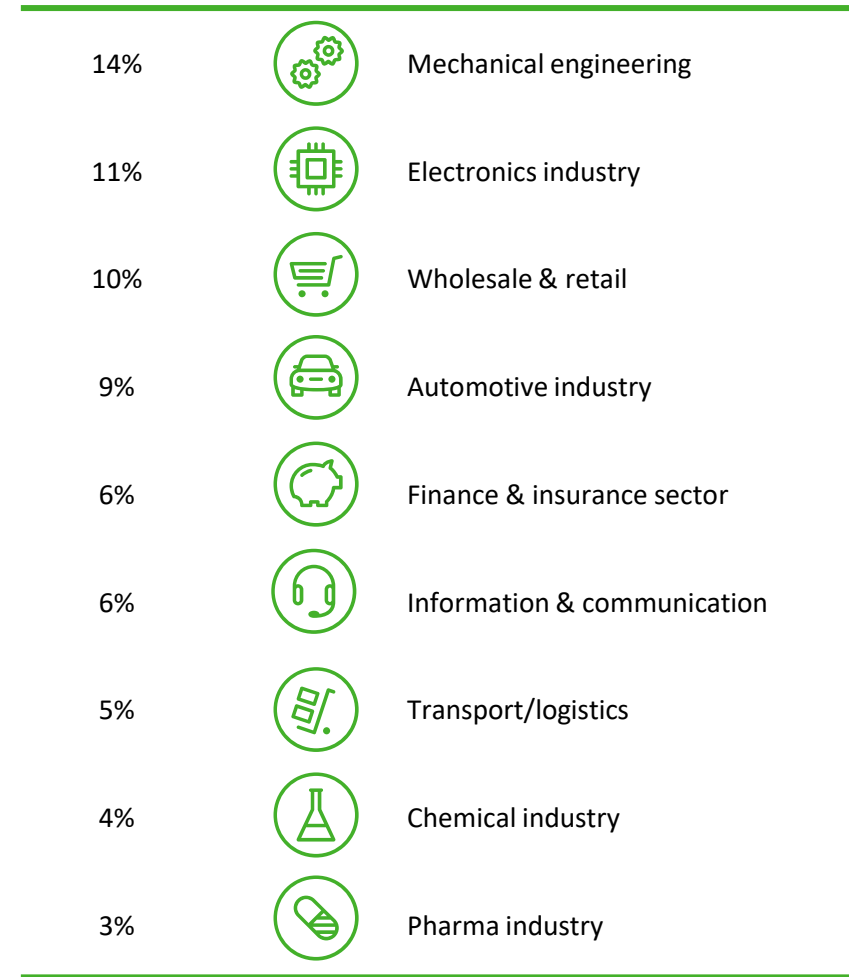
# Deloitte Brexit Briefing 14 | Methodology

German companies in the commercial, financial and manufacturing industries are particularly active in the United Kingdom

Size class of company by total revenue

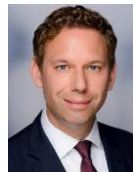


Share of companies by largest sectors (N=190)



# Deloitte Brexit Task Force

## Economic Research



Dr. Alexander Börsch  
Director Research  
Tel: +49 (0)89 290368689  
aboersch@deloitte.de



Mark Bommer  
Manager Research  
Tel: +49 (0)89 290364710  
mbommer@deloitte.de



Julius Elting  
Senior Analyst Research  
Tel: +49 (0)89 290366486  
jelting@deloitte.de

## Strategy & Scenario Planning



Dr. Florian Klein  
Head of Center for the Long View  
Tel: +49 (0)69 97137386  
fklein@deloitte.de

## Automotive



Thomas Pottebaum  
Director Strategy & Operations Practice  
Tel: +49 (0)89 290367952  
tpottebaum@deloitte.de

## EU Customs Law



Bettina Mertgen  
Partner Global Trade Advisory  
Tel: +49 (0)69 756956321  
bmertgen@deloitte.de



Michael Schäfer  
Partner Global Trade Advisory  
Tel: +49 (0)621 15901869  
micschaefer@deloitte.de

## Legal



Dr. Mathias Hanten  
Partner Banking & Finance Law  
Tel: +49 (0)69 719188424  
mhanten@deloitte.de



Dr. Julia Sierig  
Partner Employment Law  
Tel: +49 (0)711 6696267  
jsierig@deloitte.de



Christofer Rudolf Mellert  
Partner Deloitte Legal  
Tel: +49 (0)211 87722430  
cmellert@deloitte.de

## Financial Services & Banking Operations



Tilmann Bolze  
Director Financial Services Consulting  
Tel: +49 (0)30 25468325  
tbolze@deloitte.de



Thomas Peek  
Director FSI Risk Advisory  
Tel: +49 (0)69 756956562  
tpeek@deloitte.de



Clive Laurence King  
Director Financial Services Assurance  
Tel: +49 (0)89 290368912  
cking@deloitte.de

## Financial Advisory



Nils-Alexander Berent  
Partner Financial Advisory FSI  
Tel: +49 (0)69 756956929  
nberent@deloitte.de

## Real Estate/Location Strategy



Olaf Babinet  
Director Strategy & Operations  
Tel: +49 (0)211 87724592  
olababinet@deloitte.de

## Risk Advisory



Volker Linde  
Partner Risk Advisory  
Tel: +49 (0)211 87722399  
vlinde@deloitte.de



Anton David Schweizer  
Senior Manager Risk Advisory  
Tel: +49 (0)711 165547251  
aschweizer@deloitte.de

## Tax



Markus Kircher  
Partner Transfer Pricing (Tax)  
Tel: +49 (0)69 756957011  
mkircher@deloitte.de



Claudia Sendlbeck-Schickor  
Director Mergers & Acquisitions (Tax)  
Tel: +49 (0)89 290368301  
csendlbeck@deloitte.de



Dr. Alexander Linn  
Partner International Business Tax  
Tel: +49 (0)89 290368558  
allinn@deloitte.de

# Brexit | Publications

## Brexit Briefings: Series of Brexit publications on strategic, economic, legal and taxation topics

### Brexit Briefings

#### Part 1: Brexit Survey 1.0

BDI and Deloitte examined German companies' views on the Brexit and the Brexit referendum

#### Part 2: Brexit Scenarios

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

#### Part 3: German industrial sectors' ties with the United Kingdom

Analysis of economic ties between German sectors/companies and the UK

#### Part 4: Brexit Survey 2.0

Survey of German companies regarding their economic assessments of and reactions to the Brexit

#### Part 5: Hard Brexit and the UK Automotive Market

Effects of a Hard Brexit on the British automotive market using a quantitative demand model (Brexit model)

#### Part 6: Hard Brexit and German automotive suppliers

Impact analysis on German suppliers due to European supply chains (Brexit model + input/output analysis)

#### Part 7: Brexit and Tax Consequences

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

#### Part 8: Brexit Survey 3.0

Companies' views of Brexit negotiations and the effects, risks and opportunities of the Brexit for Germany as a business location and for the companies themselves

#### Part 9: Brexit Road Ahead

What are the next steps in the short and medium term?

#### Part 10: Brexit Survey 4.0

Brexit and the German economy: Risks, expectations and strategies of the companies

#### Part 11: Brexit So Far

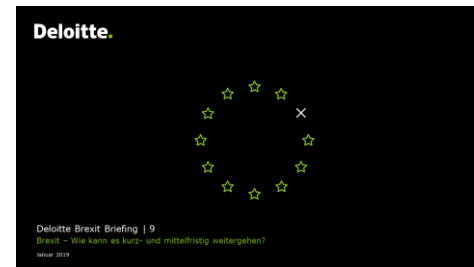
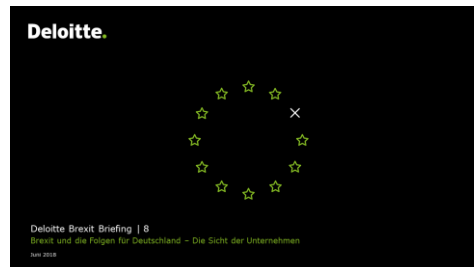
The effects to date on Germany as a location for business

#### Part 12: Beyond Brexit

Scenarios for the future of Europe

#### Part 13: Brexit Survey 5.0

German companies' expectations and planning





This presentation contains general information only, and none of Deloitte GmbH Wirtschaftsprüfungsgesellschaft or Deloitte Touche Tohmatsu Limited (“DTTL”), any of DTTL’s member firms, or any of the foregoing’s affiliates (collectively, the “Deloitte Network”) are, by means of this presentation, rendering professional advice or services. In particular this presentation cannot be used as a substitute for such professional advice. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this presentation. This presentation is to be treated confidential. Any disclosure to third parties – in whole or in part – is subject to our prior written consent.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see [www.deloitte.com/de/UeberUns](http://www.deloitte.com/de/UeberUns) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, risk advisory, tax, financial advisory and consulting services to public and private clients spanning multiple industries; legal advisory services in Germany are provided by Deloitte Legal. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s approximately 312,000 professionals are committed to making an impact that matters.