The Impact of Brexit on German Businesses

Results of the IHK Business Survey
Going International 2020

GemeinsamWeltweit
The main results:

1. British-german trade has declined since the Brexit decision. Almost four years after the referendum and despite official EU withdrawal at the end of January 2020, it is still unclear what future trade relations will look like. German businesses are correspondingly uncertain: 58 percent of companies expect their business with the United Kingdom to deteriorate in 2020 - despite the current effects of the coronavirus pandemic. In addition to the feared customs duties, higher costs and more bureaucracy resulting from EU withdrawal, a comparatively weak economic development in the UK is one reason for the negative business prospects.

2. 15 percent of companies are planning to relocate investments from the UK to other states - primarily to Germany and other EU countries. Four out of five companies worry about additional customs bureaucracy. Other major risk factors include higher costs for customs and import taxes and legal uncertainty. Customs duties and additional customs bureaucracy would lead to additional burdens in the billions in the event of a hard Brexit.

Consequences of the Brexit for German companies

Uncertainties remain

The United Kingdom officially withdrew from the European Union (EU) at the end of January 2020. There will be a transitional period until 31 December 2020, so that the country will continue to be treated as an EU member in terms of economic relations. Among other things, this prevents a customs border and thus possible restrictions on trade. However, it is still unclear what this relationship will look like after the transition period. From close economic relations, to a trade agreement, to a "no deal" and thus trade and customs duties only under the rules of the World Trade Organization (WTO), many things are possible. The uncertainty in the German and British economy is therefore immense. From the point of view of German companies, however, Brexit already poses a major challenge for business with the UK – regardless of the current corona crisis.

Assessments of the companies

German companies rate their business relations with the United Kingdom much more negatively than their relations with the other member states of the European Union. Irrespective of the impact of the Corona crisis, more than one in three companies (36%) rate their business with the UK as poor.
By comparison, 34% of German companies rate their business with the other EU countries without the euro currency as positive and only 9% as bad. As many as 47 percent of companies say that their business relations with the eurozone countries are good. The United Kingdom is now only Germany's seventh most important trading partner with a trade volume of 117 billion euros. In 2017 the country was still ranked 5th among the largest trading partners. Since the referendum in 2016, however, German exports to Great Britain have fallen noticeably - from 89 billion euros in 2015 to 79 billion euros in 2019. During this period, the UK has fallen from third to fifth place among Germany's most important export markets.

The business prospects for the future are still completely unclear. In addition to the Brexit, there are current and yet unforeseeable developments as a result of the coronavirus pandemic, which can only be presented here to a limited extent due to the survey period in January and February 2020.

Relocation of investments planned

About 750,000 jobs in Germany depend on exports to the United Kingdom. The direct investments of German companies in the United Kingdom amount to more than 160 billion euros. German companies have 2,500 branches there and employ over 400,000 people.

Meanwhile, 15 percent of companies with investments in the UK are planning to shift investments to other markets in order to remain in the EU single market in the future. By leaving the EU, many companies have become certain that their close economic ties will end after the transition period and that only a trade agreement will govern future economic relations. Even if such an agreement could prevent possible tariffs, other non-tariff barriers or different standard setting and regulation are likely to result in higher costs and additional work for German branches in the UK in the coming years. Since it is to be expected that companies from other countries will also make similar investment shifts away from the British Isles, the British economy could be further weakened in addition to the Corona crisis.
Shift of UK investment to other markets
Company share
in percent, multiple answers possible

The main destination for relocation of investments is Germany, followed by the remaining 26 EU countries or Switzerland and Norway. This shows that companies are looking for stable conditions and, in case of doubt, rely on the domestic market, or on predictable and customs-friendly trade relations with Switzerland and Norway. Only a small proportion of them focus on countries outside Europe.

Customs bureaucracy as the biggest business risk

According to DIHK calculations, the Brexit threatens to cause up to ten million customs declarations and additional costs of around 200 million euros due to customs bureaucracy alone. And in the case of a comprehensive free trade agreement without customs duties. Because the declaration of goods crossing the border must be made at customs in any case. Against this background, four out of five companies see the threat of additional costs for customs bureaucracy as a particular risk for future business with the United Kingdom. These include the submission of customs declarations and the duration of customs clearances.

However, more than half of the companies also cite tariff barriers to trade, i.e. customs duties that could be levied in addition, as a risk. If a withdrawal were to take place without a trade agreement, the EU would charge the WTO tariffs currently applicable to third countries for all imports from the UK. Conversely, there is a possibility that the United Kingdom might levy tariffs on its side in line with EU tariffs. This would result in additional burdens for the German export industry amounting to billions of euros and possibly also affect the re-import of previously exported goods.
The companies see the following risks for business in the UK after the Brexit

in percent, multiple answers possible

47 percent of the companies see an unclear legal situation after the Brexit as a major risk for business relations. The British government has already announced that in many economic sectors it wants to make different regulations than in the internal market. For companies, this may mean having to carry out double certification or using two different production lines for their products – one for the European and one for the British market. This would then affect small and medium-sized enterprises, which, compared with larger companies, are not able to react so flexibly to the changed framework conditions.

41 percent of those surveyed cited a medium-term slowdown in British economic growth as a potential brake on their business. A pound weakened by the Brexit alone is a cause of concern for 40 percent of companies. And the increase in non-tariff trade barriers, such as certification requirements, is seen as a risk by a quarter of companies.

The companies surveyed also had the opportunity to name other risks. The uncertainty about future regulations in trade between the EU and the United Kingdom was mentioned. This also applies to customers and suppliers in the UK. Delays in the supply chain and long delivery times were also named as risks.
The nationwide survey “Going International 2020” conducted by the DIHK was compiled with the support of 79 chambers of industry and commerce (IHKs) in Germany. Nearly 2,500 internationally active companies based in Germany took part in the survey in February 2020. The results of this special evaluation on Brexit are based on the responses of around 1,500 companies with business links to the UK.

The trade volume between Germany and the United Kingdom amounted to 117 billion euros in 2019. Around 750,000 jobs in Germany depend on trade with the UK. German companies have to date built up investments worth over 140 billion euros. There are about 2,500 branches of German companies employing over 400,000 people. British companies have 1,500 branches in Germany and employ about 270,000 people.

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