KPMG

British Chamber of Commerce in Germany

German British Business Outlook 2021

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Foreword

Dear Readers

Reports about new developments and measures with regard to the Coronavirus have been leading the daily news for months. The pandemic hit the UK at the worst possible time - in the middle of the Brexit implementation process. Fortunately the European Union and the UK were able to conclude a withdrawal agreement, which provides clarity regarding the terms of trade that will apply from January 1, 2021. The expected disruptions that the exit from the EU single market and from the EU customs union are likely to entail are certainly exacerbated by the pandemic and its side effects.

It is, therefore, also not surprising that more and more British and German companies (54 percent compared to 30 percent last year) are expecting a decline in sales in the current year. At the same time, the number of those who expect a strong decline in sales has increased six-fold. Only 28 percent expect an improvement over the next twelve months.

Given the predicted consequences after Brexit, any expected advantages will surely be outweighed by the negatives: falling sales and rising costs as a result of increased administrative expenses, rising logistics costs and higher customs duties. In addition, there is pessimism about post-Brexit opportunities: only 3 percent expect growth options in the British market, and not even one in ten expects German and British companies to cooperate in third-party markets. Also, when it comes to a new UK-US trade deal, less than 10 percent think it will benefit them.

Then there are the effects of the pandemic itself. It is having its greatest impact on day-to-day business processes (indicated by 55 percent), but reduced demand is also a clear consequence (47 percent). Investment that is planned in response to Covid-19 mainly relates to digitalization and enabling employees to work from home (52 and 47 percent respectively).

In spite of all the obstacles and challenges, the UK and Germany will remain important trade and investment partners. After the USA, the country on the other side of the English Channel is the second most important target market for German direct investment - at around 138 billion euros - and direct investment from the United Kingdom in Germany stands at around 48 billion euros (both in 2018).

We would like to thank the German and British companies who participated in the creation of the German British Business Outlook 2021.

Yours sincerely,

Andreas Glunz
Managing Partner
International Business
KPMG in Germany

Michael Schmidt
President
British Chamber of Commerce
in Germany

Executive Summary

General observations

54%

Double blow of Brexit and Covid-19 a dampener on sales prospects
In more than half of the companies surveyed (54 percent), sales were expected to drop in 2020, and in 31 percent they were expected to drop sharply. The simultaneity of Brexit and the pandemic has darkened the picture significantly in terms of expectations for the future. In our survey 2019, 30 percent of those surveyed expected sales to decline due to Brexit and just 5 percent expected heavy losses. Today, six times as many companies expect sharp declines.

58%

Covid-related decline in investment
58 percent (more than every second company) are planning fewer investments in view of the pandemic.

52%

Adjustment to the "new normal"
Around half of all respondents want to invest in digitalization projects in the future and to enable employees to work from home (52 and 47 percent respectively).

8 of 10

Acute awareness of environmental protection remains
Regardless of the pandemic and Brexit, almost eight out of ten respondents have already implemented various types of environmental and sustainability programmes or are planning to do so over the next two years. This is essentially self-propelled and not due to regulatory pressure.

Brexit-specific observations

64%

Double burden due to simultaneous falling sales and rising costs
More than half of the companies expect net sales to fall (64 percent) due to Brexit. They expect this in tandem with higher administrative expenses (78 percent), higher logistics costs (70 percent) and rising customs duties (68 percent). At the same time, there is a sustained downward trend in expected future sales, as around a quarter of the companies surveyed expect a strong decline in sales also over the next three to five years.

8%

Gloomy outlook regarding business opportunities post-Brexit
There is scepticism about a turnaround in business opportunities following Brexit: only 8 percent assume that new partnerships with British companies might emerge in third-party markets. Only 5 percent have any hope of a new trade agreement between the US and the UK. Just as few assume that the British regulatory environment will simplify now that it has left the EU.

68%

Not a huge relocation trend
The vast majority of companies did not plan to relocate from the UK to Germany by the end of 2020 (68 percent) or up until 2025 (61 percent). If relocations to the EU are planned, then they will be primarily to Germany (14 percent), while 17 percent will locate to other EU countries.

25%

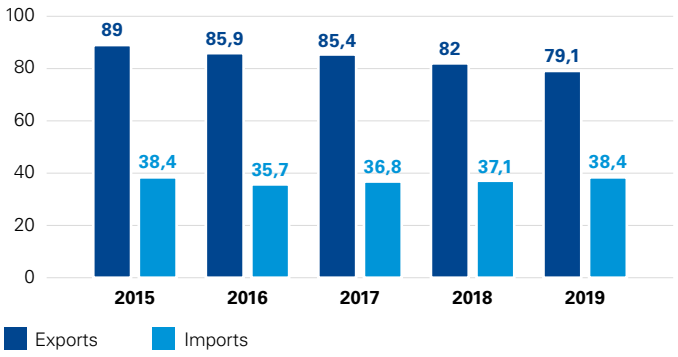
Brexit preparations not completed by the end of 2020
A quarter of the companies were not prepared for Brexit, even very close to the exit date. In 2019 the figure was 47 percent.

01 German-British Trade

The UK is one of Germany's most important trading partners - the trading volume regularly exceeds the 100 billion euro mark. The trade balance shows a steady German surplus of around 40 billion euros. German revenues from exports have steadily declined since the Brexit referendum, while imports have seen a slightly upward trend.

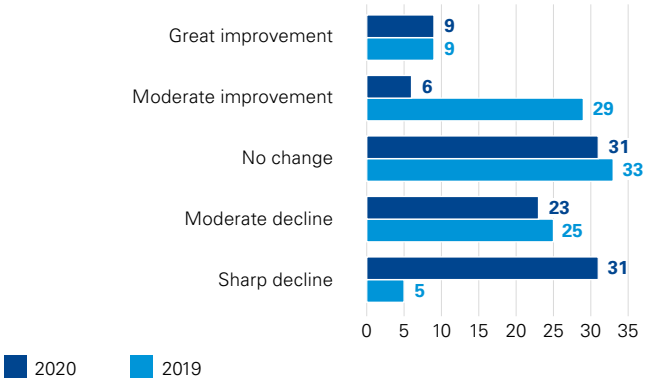
Sales were expected to drop in 2020 at 54 percent of the companies whose data was included in this study, and drop sharply for 31 percent, which is six times more than the 5 percent in the previous year's study. The background to this gloomy prospect is the imponderable double burden of the Corona pandemic and Brexit.

Table 1:
German foreign trade with the United Kingdom (in billion euros)



Source: Destatis, 2020, KPMG in Germany

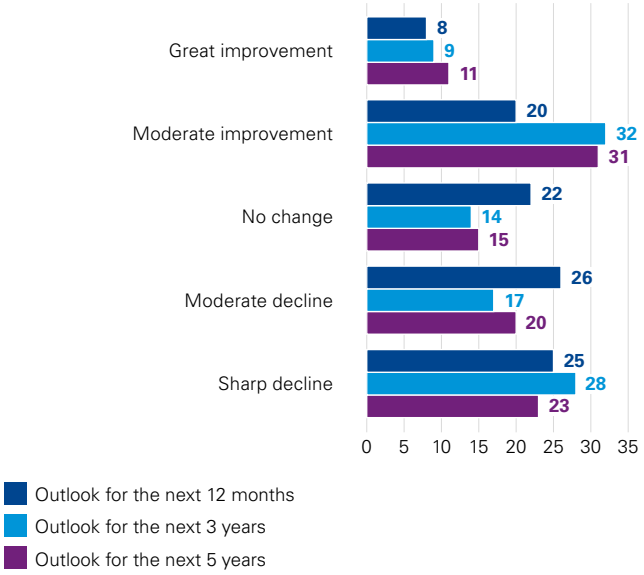
Table 2:
Sales growth



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 65)

The expectations for the future of the participants differ only slightly from the current ones: a quarter predict a sharp decline in sales for their own company in the next twelve months, a further 26 percent forecast a moderate decline. A trend is also becoming apparent with regard to these expectations: around a quarter of all respondents expect a sharp decline in sales over the next three to five years. On the other hand, nearly a third of those surveyed expect an increase in sales over the next three to five years, albeit a moderate one.

Table 3:
Future sales growth



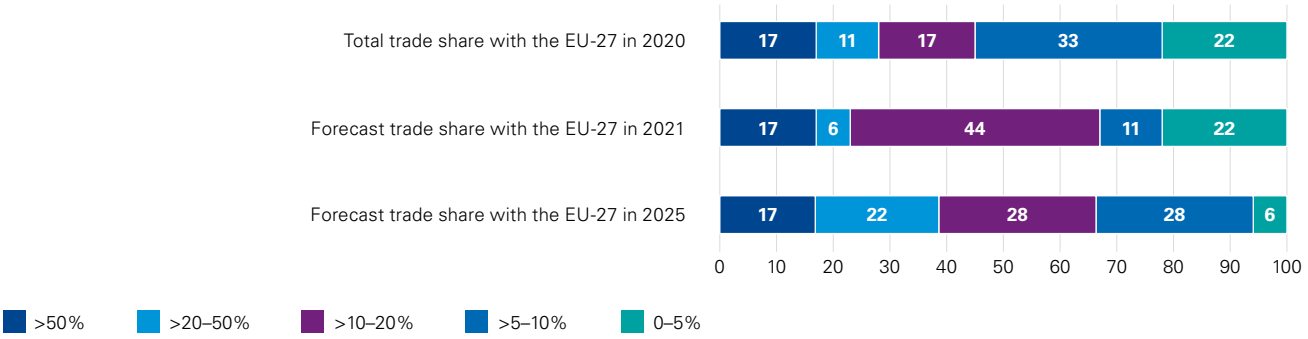
Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 65), rounding differences possible

Trade forecasts of British companies

Trade relations with the EU-27 countries

Nearly a quarter (22 percent) of the companies surveyed that have their headquarters in the UK state that business with the countries of the EU accounts for a maximum of 5 percent of trade volume. Looking ahead to the year 2025, just 6 percent predict such a low trade volume. As can be seen from Table 4, UK companies forecast a medium- to long-term increase in trade with companies in the EU-27. When comparing the figures for 2020 with the forecasts for 2025 (sales volumes of 10 to 20 percent and 20 to 50 percent respectively) there is an increase by 11 percentage points, with an increase from 17 to 28 percent of those surveyed for the lesser volume, and from 11 to 22 percent for the larger one.

Table 4:
Trade relations with the EU-27 countries

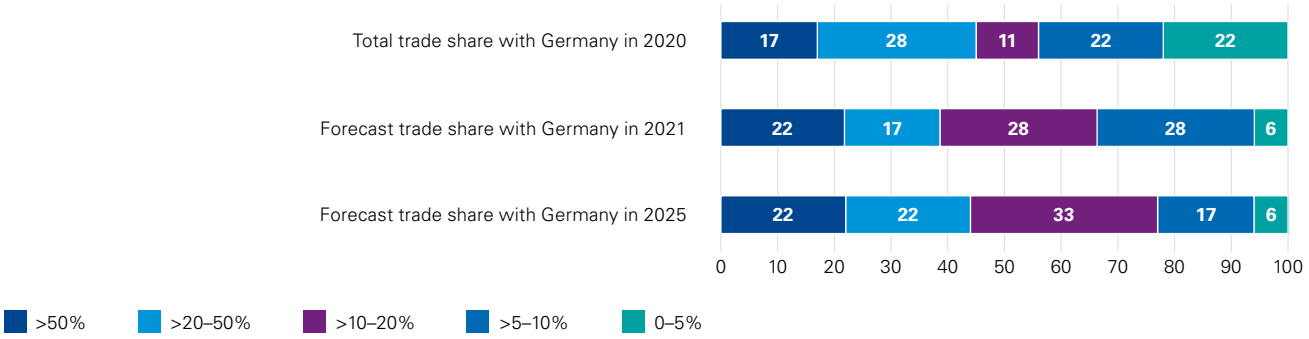


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 18), rounding differences possible

UK trade relations with Germany

A similar picture emerges with regard to Germany as a trading partner. While in 2020 a total of 22 percent of companies fell into the lowest category (maximum 5 percent share of total trade), looking ahead to 2021 to 2025 that figure is predicted to fall drastically to just 6 percent. Most of the respondents – a third - assume that by 2025, 10 to 20 percent of their total trade will come from business relationships with Germany. However, in a few years' time, if their own forecasts prove true, there will also be more companies (rising from 17 to 22 percent) in the over 50 percent of trade category than there currently are.

Table 5:
UK trade relations with Germany

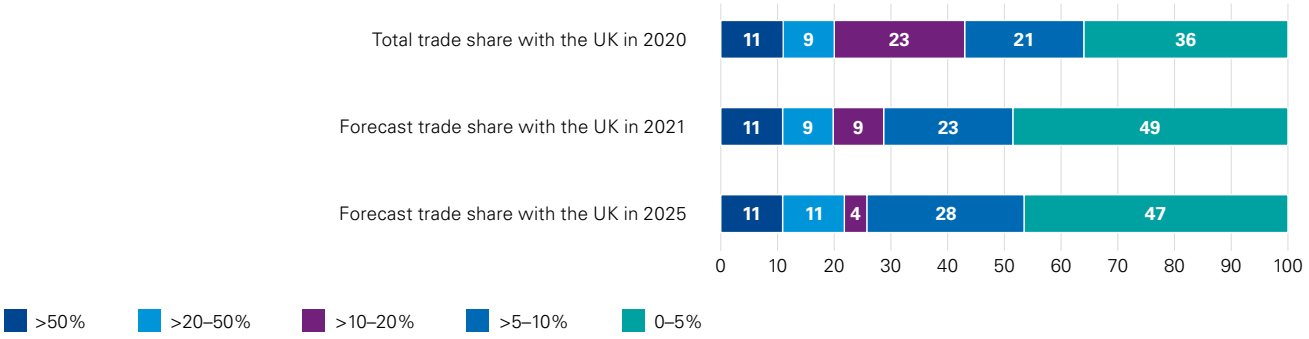


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 18), rounding differences possible

Trade forecasts of German companies

The view of German companies regarding their trade with a post-Brexit UK is less optimistic than the view of their British and Northern Irish counterparts regarding their business relations with Germany or the EU. Looking ahead to 2025, nearly every second German company surveyed expects that no more than 5 percent of all trade will come from relationships with UK partners (47 percent compared to 36 percent currently). At the same time, there is no increase at all in the over 50 percent trade share grouping, and only a slight increase in the 20 to 50 percent trade share grouping.

Table 6:
German trade relations with the UK



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 47), rounding differences possible

02 Brexit

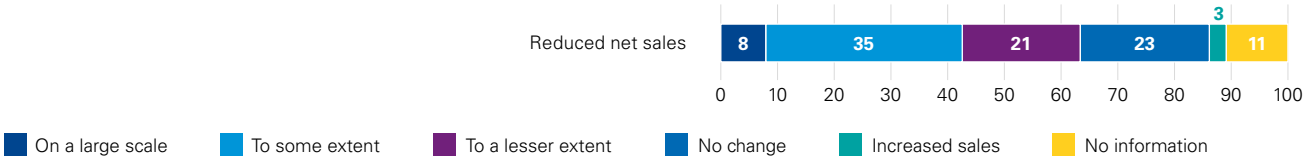
As a result of the withdrawal of the United Kingdom from the European Union, business relations between these two economic blocs must be realigned. The transitional phase up to December 31, 2020 set out in the exit agreement should have given companies, among other things, time to prepare for the period that follows.

On December 24, 2020, a general consensus was reached on a Trade and Cooperation Agreement (TCA) between the United Kingdom and the EU. Both parties agreed on rules and procedures, with a view to their provisional application from January 1, 2021 to February 28, 2021. As a result, the United Kingdom has lost all rights and benefits it had as an EU member state. Consequently, the UK is treated like any other third country. The agreement contains, in particular, regulations with regard to the right of origin and preferential treatment, so that, among other things, customs duties can be partially avoided.

Brexit influence on earnings

When asked about the effects of Brexit on corporate business, 64 percent of the participants said they expect net sales to fall. However, 21 percent think that these losses will be on the low side.

Table 7:
Effect of Brexit on sales



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), rounding differences possible

When it comes to costs, most respondents expect a wide range of negative consequences: 78 percent anticipate an increase in administrative expenses, 70 percent see rising logistics costs and 68 percent believe that rising tariffs are likely.

The additional administrative expenses will result from a whole series of new regulations and formalities that will have to be observed in trade between the UK and the EU, for example, in the areas of immigration, data protection, customs clearance and taxes.

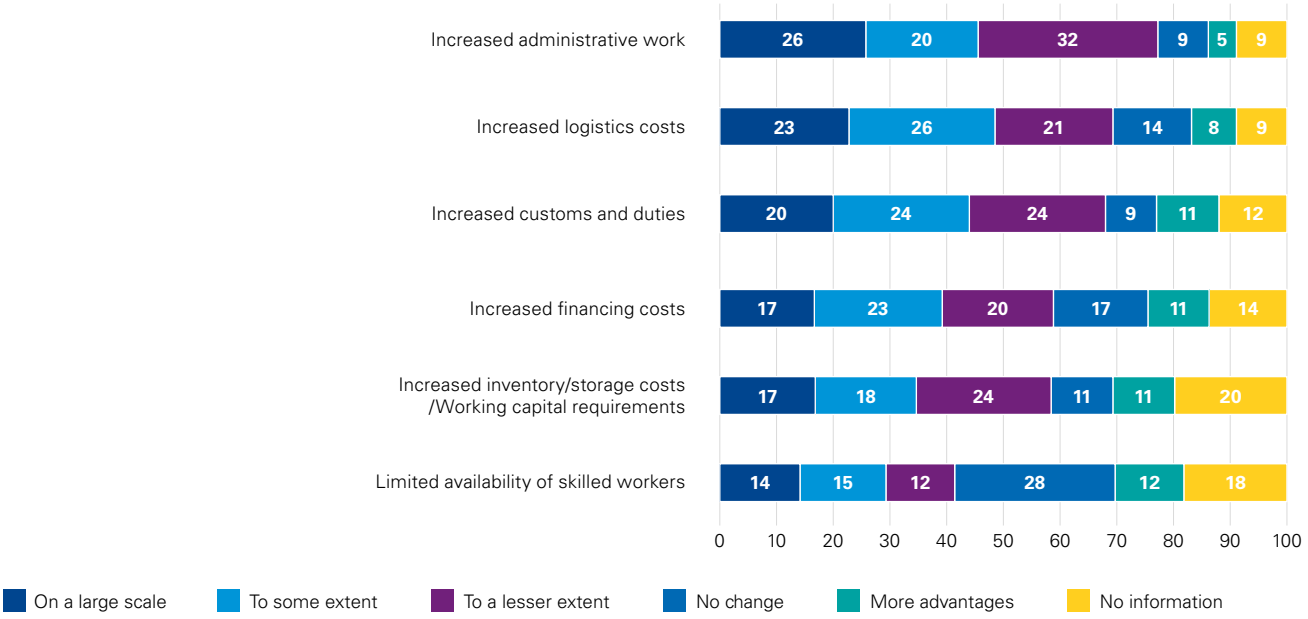
Since January 1, 2021, there has been a new customs border between the EU and the UK. Apart from the necessary customs formalities, companies will also have to accept longer delivery times for goods, as the border crossing will be considerably delayed due to the newly emerging formalities. As the United Kingdom also loses access to the SES (Single European Sky), additional permits for air traffic will be required, which will lead to disruptions in flight plans. In road freight traffic too, disruptions are very likely due to extensive border controls and additional waiting times at port terminals. All of this will have the knock-on effect of higher logistics costs.

In order to avoid customs duties, certain formal and material requirements must be met in accordance with the "EU-UK Trade and Cooperation Agreement" (TCA), which will result in considerable administrative effort and, if necessary, a change in the supply chain. Despite the TCA, depending on the actual origin of the goods, there will be multiple charges with customs duties. Only specific cases are considered by the TCA and dealt with as duty-free.

Six out of ten of the companies surveyed also expect an increase in financing costs and an increase in storage costs. Among other things, this is connected to the logistical problems outlined above.

In addition, 41 percent of those surveyed expect limited availability of skilled workers. This is due to changes in immigration regulations and a fundamentally more pessimistic outlook with regard to the labour market in the United Kingdom.

Table 8:
Disadvantages of Brexit



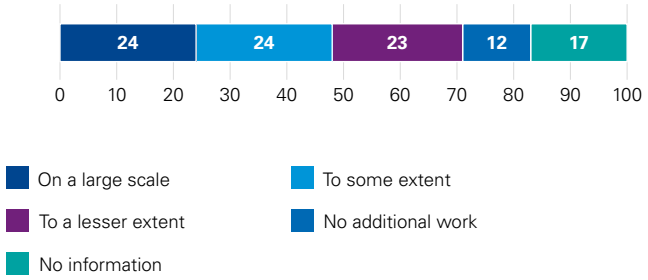
Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), rounding differences possible

Customs clearance

As of January 2021, Great Britain no longer belongs to the EU customs union. Despite the agreed free trade agreement, extensive customs formalities must be observed. In addition, the Northern Ireland Protocol laid down in the Withdrawal Agreement stipulates that Northern Ireland will remain part of the British customs territory, but that all relevant EU internal market rules will apply in Northern Ireland and that the EU Customs Code will be applied.

Almost half of respondents (48 percent) expect significant additional work when it comes to customs declarations.

Table 9:
Additional work with customs declarations

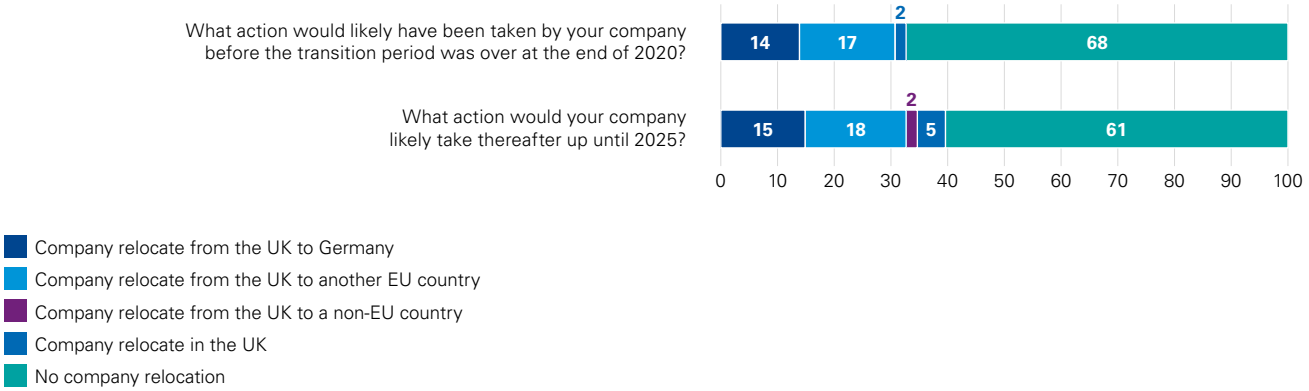


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66)

Preparations and planned measures

For the time being, nearly seven out of ten respondents (68 percent) do not wish to take any steps to relocate their company. At least 61 percent of those surveyed state that no such move is planned before 2025. Only a minority (14 percent and 15 percent respectively) stated in the survey that company relocation to Germany is likely to be in 2020 or by 2025. In each case, 3 percent more said this with a view to relocating to another EU country. As these figures show, Germany is the preferred destination for any change of location, but not the only desirable destination.

Table 10:
Planned short- and long-term action

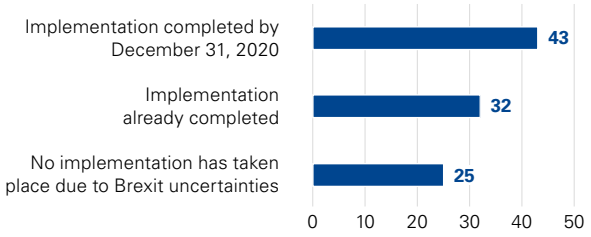


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), rounding differences possible

Almost a third (32 percent) of those surveyed stated that they had taken the necessary steps to prepare for the post-transition phase. Another 43 percent wanted to complete their preparation by the end of 2020.

Exactly 25 percent of companies had not yet made any preparations - at least at the time of our survey. In the 2019 survey, 47 percent of those questioned gave the same answer. Although the proportion of unprepared companies has been roughly halved, that is still a considerable number of companies that are seemingly continuing as normal, without taking any precautions against the significant changes in business operations that will occur post-Brexit.

Table 11:
State of Brexit preparedness



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 65)

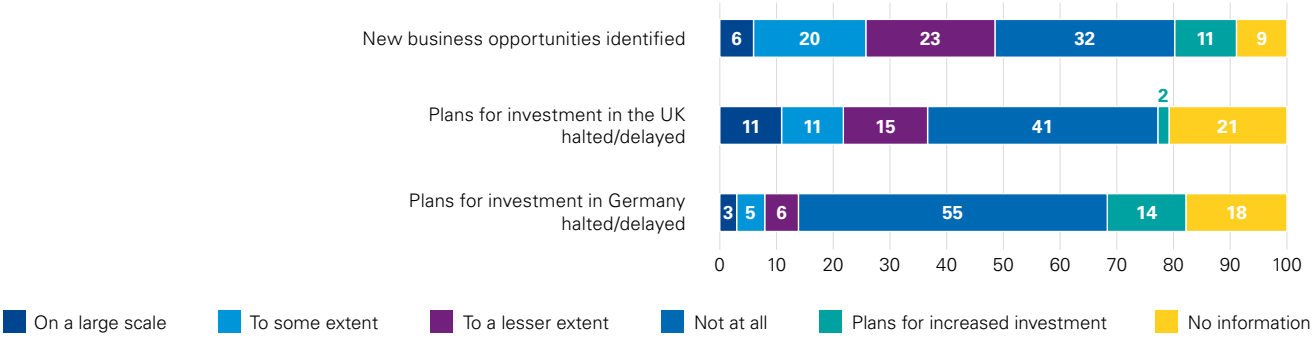
Post-Brexit investment plans and opportunities for companies

More than half of survey participants (55 percent) stated that they have neither halted nor delayed their plans to invest in Germany. 14 percent even want to make additional investments. At the same time, 41 percent of those surveyed are sticking to their plans for investment in the UK and 2 percent are even announcing expansion plans.

In addition, 49 percent of those surveyed generally see new business opportunities that will come with Brexit, but 23 percent of them only expect these to a lesser extent.

With the departure of the United Kingdom from the EU, London will in future be able to independently set its own tax rates, regardless of EU rules. The British legislature, for example, will no longer be bound by the EU VAT system. With this in mind, 14 percent of respondents believe it is likely or certain, and a further 23 percent quite likely, that the United Kingdom will adopt lower tax rates and a simplified tax system, in order to strengthen the competitiveness of the UK as a business location against the EU.

Table 12:
Effects of Brexit on investment plans

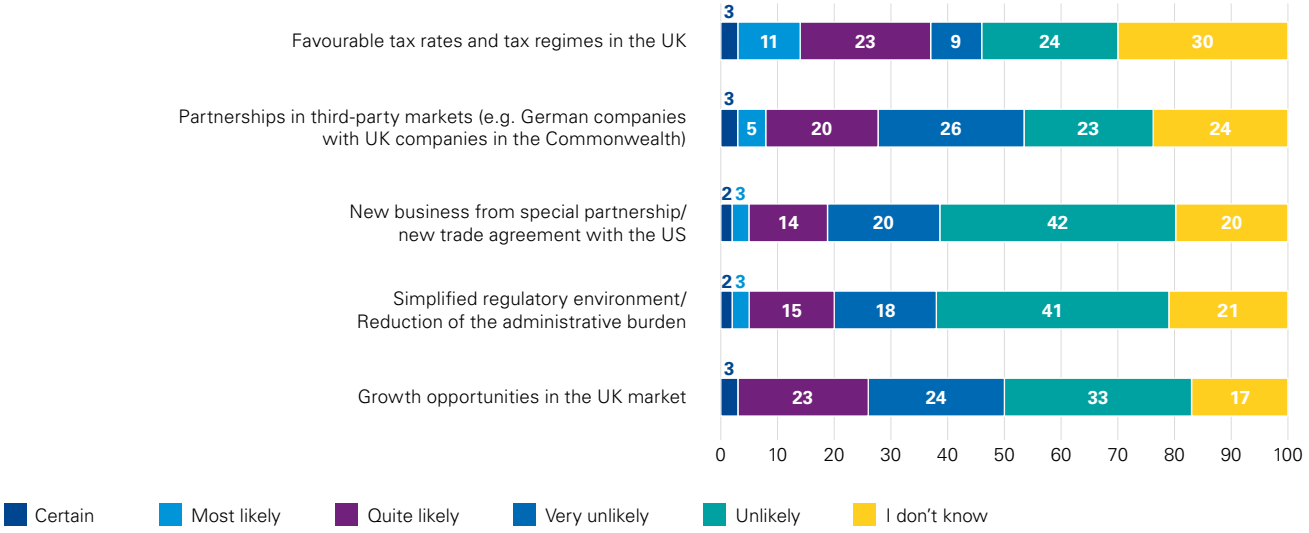


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), rounding differences possible

Only 8 percent of the survey participants consider possible new partnerships between companies on both sides of the English Channel in third-party markets to be a certain or very likely post-Brexit option. The pessimism is even more obvious with regard to possible participation in a new US-British trade agreement, as well as that the regulatory environment and administrative processes will be simpler than before (only 5 percent consider both to be certain or likely). Instead, additional administrative burdens are expected, for example, in the area of data protection. Since the UK will no longer be a member country as a result of Brexit, new regulations must be agreed regarding the transmission of data.

The surveyed companies are least optimistic with regard to growth opportunities in the UK market: only 3 percent consider these to be certain or very likely.

Table 13:
Post-Brexit opportunities



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), rounding differences possible

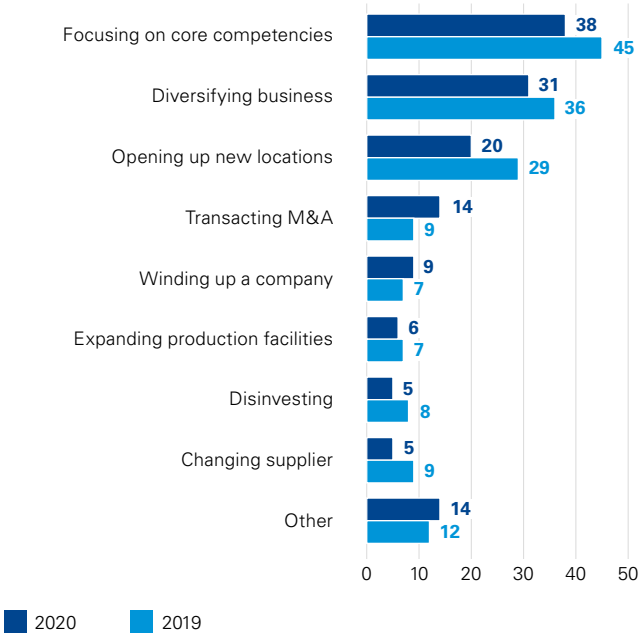
03 Future Expectations and Investment Projects

Strategic plans for 2021

According to the information gathered during the survey, more than a third of the companies surveyed (38 percent) want to focus specifically on their own core competencies in 2021, and 31 percent will focus on diversifying their business activities. Other notable plans include the development of new locations (20 percent), as well as expansion through company acquisitions, i.e. so-called M&A transactions (14 percent).

Apart from M&A transactions and winding up of companies, which in this year's survey were higher in percentage terms than in the previous year, the figures for all the preferred options are lower for this survey than in 2019. This development is probably due to the uncertainties caused by Brexit.

Table 14:
Planned activities for 2021

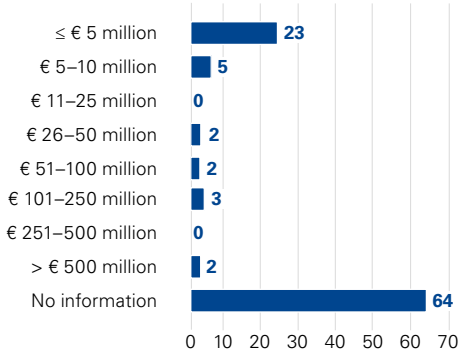


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), more than one choice possible

Volume of planned annual investment over the next three years

Almost every fourth company (23 percent) says it wants to invest a maximum of 5 million euros per year in Great Britain or Northern Ireland. Only 2 percent estimate more than 500 million euros of investment in the UK. The fact that almost two thirds of the respondents (64 percent) do not provide any information on investment projects could be due to the fact that the uncertainties regarding future political and economic circumstances are currently causing companies to shy away from making any concrete investment decisions.

Table 15:
Annual investment over the next three years



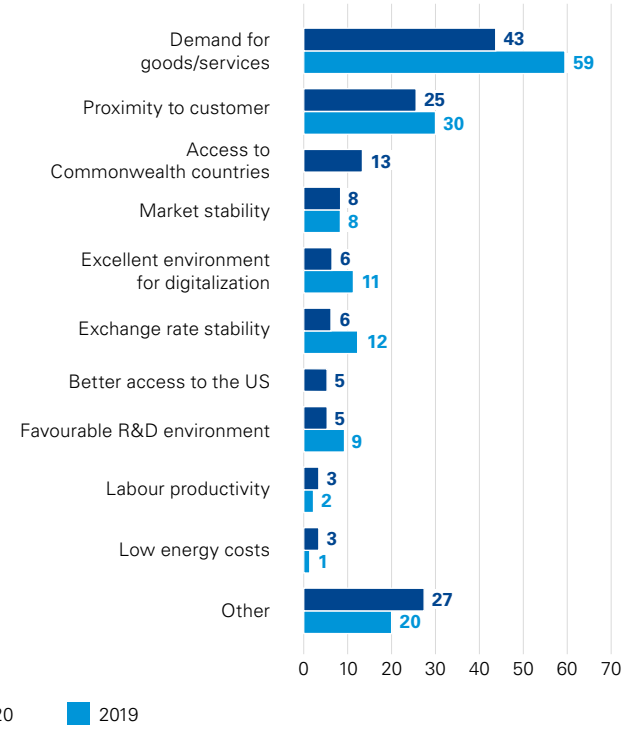
Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), rounding differences possibe

Reasons for investing in the UK

The strongest incentives for companies to invest in the UK are its demand for their goods and services (43 percent) and its geographical proximity to customers (25 percent). For 13 percent of respondents, access to Commonwealth countries is the top reason to invest in the UK.

Compared with the results of the previous year, however, the demand for goods and services and the proximity to customers have lost some importance. This also applies to the topics of exchange rate stability and excellence of the digital environment.

Table 16:
Reasons to invest in the UK



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 63), more than one choice possible

04 Consequences of the Covid-19 pandemic

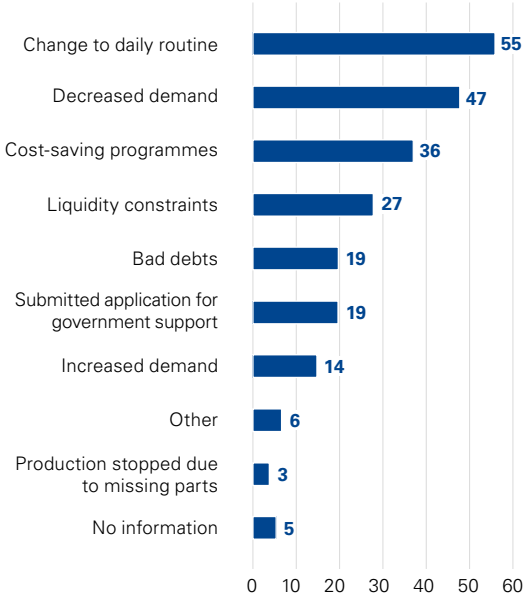
The Corona pandemic has plunged the global economy into recession. As a result of national "lockdown", German economic output fell noticeably in the first and second quarters of 2020 (1.9 percent and 9.8 percent respectively).

Household spending, business investment and exports fell significantly. Economic stimulus measures introduced in June 2020 increased gross domestic product in the third quarter (8.5 percent compared to the previous quarter but a decrease of 4.0 percent compared to the same quarter of the previous year). In view of on-going interruptions to global supply chains, various lockdowns in Europe in November and December 2020, and the gloomy economic status for most of Germany's trading partners, it could take longer for exports and domestic demand to completely recover.

Business impact

Over half of the companies surveyed (55 percent) point to Corona-related changes in day-to-day business; with almost a half (47 percent) stating that they are struggling with reduced demand. More than a third of companies that participated in the survey (36 percent) said that they have put in place cost-cutting programmes. Nearly every third company (27 percent) currently complains about a shortage of liquidity and almost a fifth (19 percent) have bad debts. Meanwhile, only around a fifth (19 percent) have applied for public funding. Amazingly, the production of goods was still running relatively smoothly up to the publication of this survey, in spite of the numerous imponderables and obstacles. Just 3 percent of companies surveyed reported that a lack of components or intermediate goods has led to disruption in the production process.

Table 17:
Influence of Covid-19 on business activities

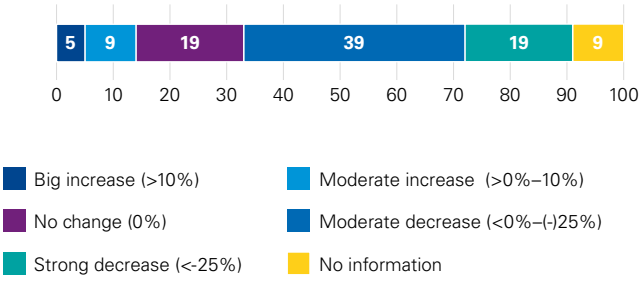


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), more than one choice possible

In terms of their own planned investment, almost four out of ten companies (39 percent) speak of a decline, while almost two of ten predict a steep decline (a decrease of more than 25 percent), or no change. In contrast, 14 percent of companies state that they are now actually expanding their investment, with 5 percent of businesses actually planning a big increase (over 10 percent) in investment.

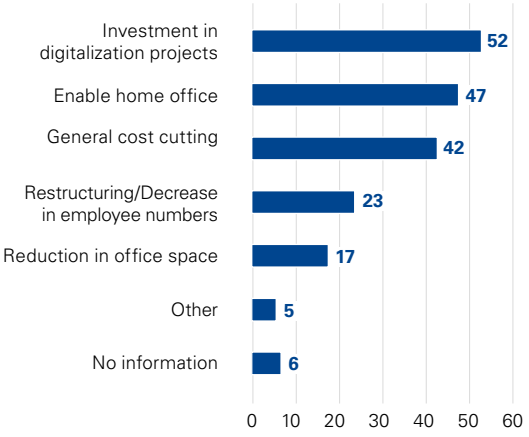
The pandemic and the various countermeasures to it have brought to light just how much catching up companies have to do in terms of digitalization. Over half (52 percent) see a need for action and are planning investment in related projects. Just under a half (47 percent) want to continue with remote working in the future. 42 percent want to reduce costs in general, which also accounts for the 17 percent of companies aiming at less office space. Almost every fourth company (23 percent) also wants to cut back on its staff numbers.

Table 18:
Covid-19 influence on planned investment



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64)

Table 19:
Adjustment to the "new normal"

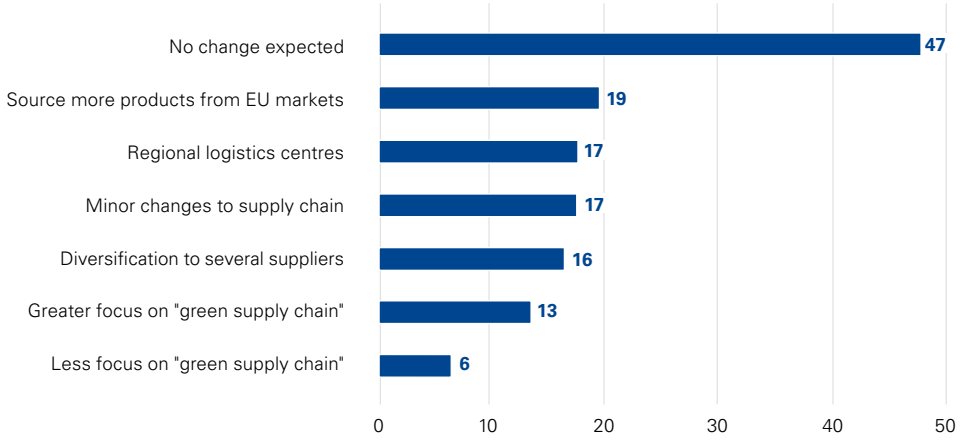


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), more than one choice possible

Impact on supply chains

There are completely differing views on how supply chains will alter with 47 percent anticipating no changes whatsoever, whereas 53 percent expect a raft of changes. The companies that assume changes see them to roughly the same level (just under 20 percent) in each of the possible areas of change put forward in the survey.

Table 20:
Expected changes to supply chain



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), more than one choice possible

05 Environment and Sustainability

Sustainability projects in the UK

The most frequently implemented sustainability projects by German companies in the UK relate to energy saving. 53 percent of those surveyed report that they have already introduced relevant programmes. Another 9 percent point to plans over the next one to two years in this regard.

Almost every second company (48 percent) said they already work with suppliers who adhere to certain social standards in their field. In contrast, 16 percent indicate that at the moment they do not select their suppliers according to this criterion.

Projects to reduce plastic consumption are just as important: 45 percent of companies are already active here, and another 5 percent are planning to be so over the next one to two years. Only 9 percent have not yet planned any measures in this area. When it comes to reducing water consumption, more than four in ten companies (42 percent) let it be known that they have already taken steps to tackle the issue, while another 11 percent predict this will happen in the next year or two.

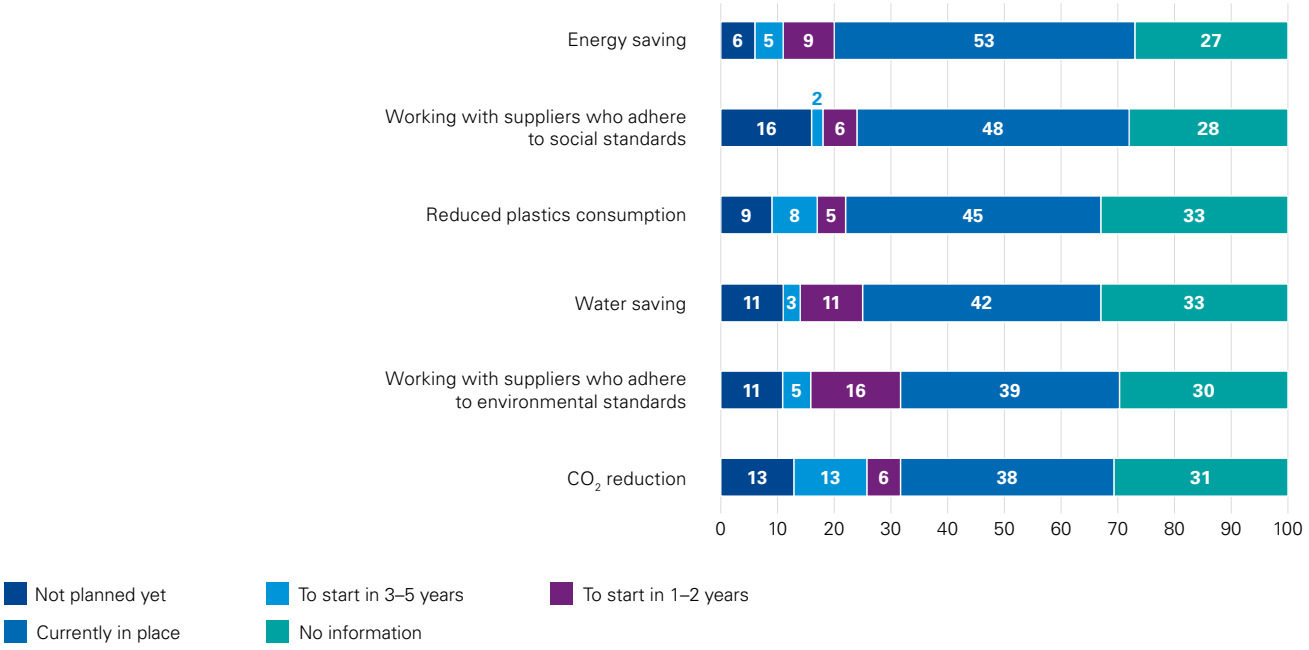
The answers to the question of what criteria exist for establishing relationships with suppliers who comply with environmental standards differ.

The proportion of companies that already take this into consideration is below 40 percent. But it can be assumed that this aspect will gain in importance in the future. This can be assumed as 16 percent are planning this for the near future - significantly more than for the other presented options. The following is likely to play a role: due to the media focus on sustainability issues, investors are paying more attention to the transparency of companies and expect that sustainability principles be considered throughout the entire supply chain.

According to the answers, the least amount of activity is taken in reducing CO_2 emissions. Only 38 percent are currently active in this area and only 6 percent are expected to do something about it over the next year or two.

When looking at the table, the most astonishing result is the high "no answer" response rate (always around 30 percent). This high proportion could be interpreted to mean that the companies surveyed have not yet dealt with the relevant topic in detail, or it could be due to the fact that sustainability issues are considered to be the responsibility of the parent company.

Table 21:
Introduction of environmental or sustainability programmes



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), rounding differences possible

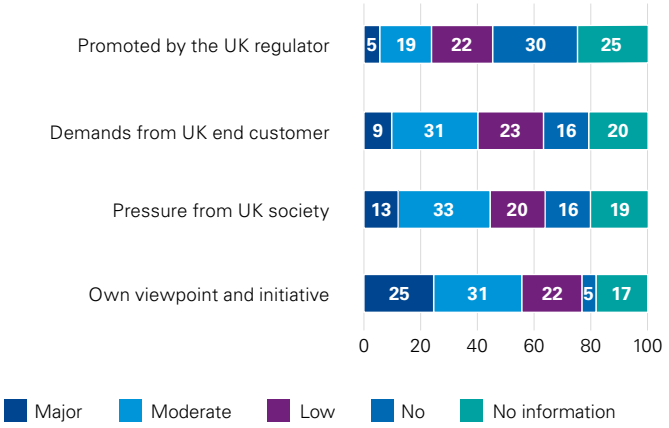
The motivation behind the implementation of sustainability projects in the company

According to the companies' answers, the strongest driver for tackling sustainability projects is their own initiative. A total of 56 percent of the respondents stated that this factor was noteworthy or very noteworthy (31 and 25 percent respectively). But the UK public also plays an important role according to 46 percent of companies, who say public expectations were either the main trigger (13 percent) or at least a partial one (33 percent).

Although it can be assumed that the awareness of sustainability issues among end consumers has increased over the past few years due to a number of reasons, including media coverage, the respondents did not feel any particular pressure on this point. Only 40 percent say they have been confronted with sustainability-related demands by end users. Indeed, the topic is very important to only 9 of those surveyed, and just 31 percent say that customer demand had a part to play in the introduction of sustainability projects.

The role of the UK regulatory authorities in this series of issues is strikingly irrelevant to respondents to the survey. For less than a quarter, the authorities are important, while only 5 percent see them as a really important factor. A further 19 percent believe that regulations were the main reason for entering into sustainability projects.

Table 22:
Reasons for entering into sustainability projects



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64), rounding differences possible

06 Profiles of Surveyed Companies

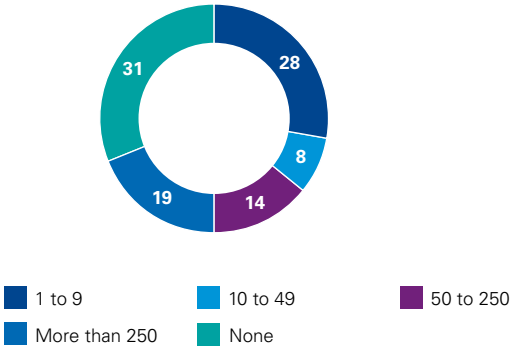
For this survey, the British Chamber of Commerce in Germany (BCCG) and KPMG surveyed both German subsidiaries with headquarters in the UK and UK subsidiaries with headquarters in Germany. A total of 66 companies participated in the survey, which was carried out between September 10, and October 23, 2020. The questions focus on companies' economic outlooks and the challenges they face in terms of growth opportunities for their companies.

Around three quarters (73 percent) of the companies have their headquarters in Germany.

Number of employees in the UK

In the UK, 28 percent of the companies surveyed employ up to nine people, 8 percent up to 49 people and 19 percent more than 250 people. Around a third have no employees at all in the UK.

Table 23:
UK employees

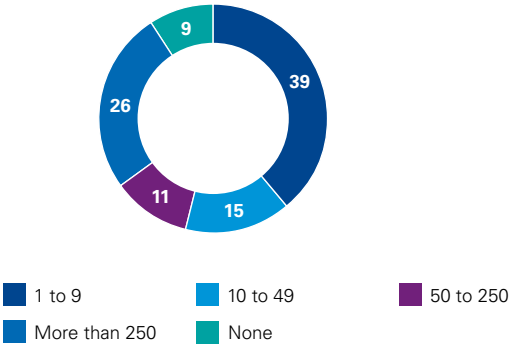


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 64)

Number of employees in Germany

In Germany, more than half of the companies surveyed employ fewer than 50 people, of which the majority (39 percent) do not employ at least ten people. One in ten companies has 50 to 250 employees and a quarter more than 250. In this year's survey, 9 percent of the companies have no employees in Germany.

Table 24:
Employees in Germany

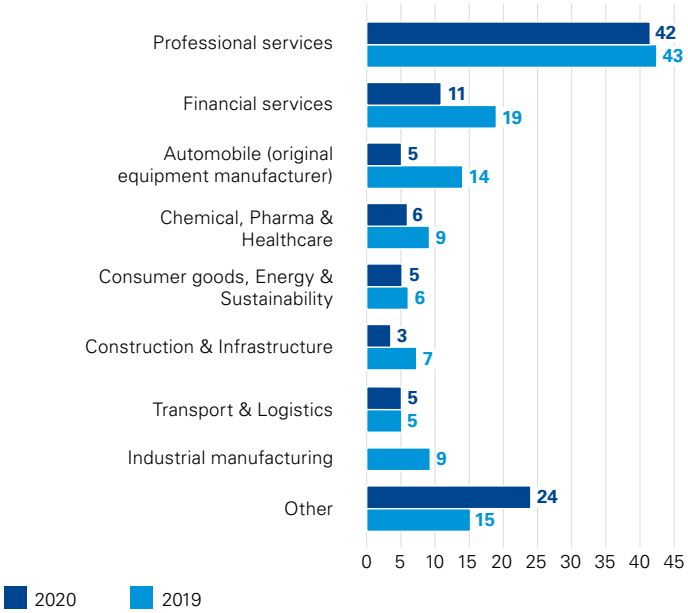


Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66)

Field of business

Almost half of the companies (42 percent) operate in the field of professional services.

Table 25:
Field of business



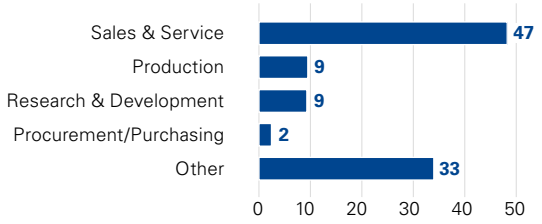
Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), more than one choice possible

Business and trading activities of companies

Most of those companies participating in the survey (47 percent) are in sales and service.

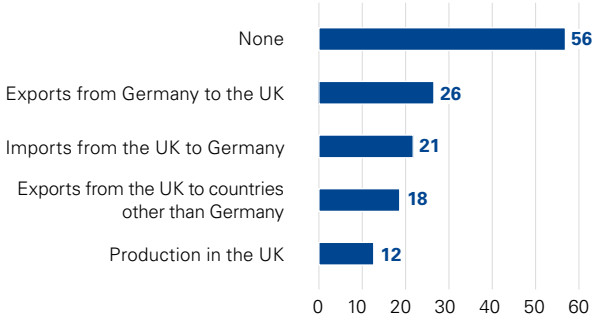
Almost half (44 percent) of companies are involved in bilateral trade between Germany and the UK. 12 percent have their own production in the UK.

Table 26:
Business activities of companies



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66)

Table 27:
Trading activities of companies



Source: KPMG in Germany and BCCG, 2020. Figures in percent (n = 66), more than one choice possible

Contacts

BCCG

The British Chamber of Commerce in Germany e.V. (BCCG) is a privately financed corporate network with around 600 members and 5,000 personal contacts that are active in business and bilateral trade. The British Ambassador to Germany is the patron of the BCCG, which was originally founded in 1919. In 2019, the BCCG celebrated its 100th anniversary as one of the most powerful international business networks in Germany, and as the largest British-German business association in Europe. The BCCG supports bilateral trade and mutual relations, which is now even more important given the consequences of Brexit. The BCCG builds bridges for a prosperous partnership between Germany and the UK.

www.bccg.de

British Chamber of Commerce in Germany

KPMG

KPMG is an organization of independent member companies with around 220,000 employees in 147 countries. In Germany too, KPMG is one of the leading auditing and consulting firms and has around 12,600 employees at 26 locations. Our services include Audit, Tax, Consulting and Deal Advisory. An independent legal firm provides all legal services.

KPMG in Germany has set up Country Practices for all relevant corridors between Germany and other countries. These are staffed by country experts who know the specifics and the regulatory environment of the relevant markets, who work regularly on site and who on a daily basis advise German, as well as international and multinational companies, on country or corridor-related issues. The Country Practice UK is one of the largest of its type at KPMG in Germany.

www.kpmg.de

KPMG

Notes

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