



German-British Business Outlook 2023



Foreword

Dear Reader,

In 2022, six years after the Brexit vote in 2016, foreign trade between the EU and the UK, as well as direct and indirect cross-country investments, rose again for the first time.

While Brexit continues to be burdensome for businesses, companies have either adjusted, ceased or scaled back their business activities with and in the UK. Over time, the impacts of Brexit on business have diminished and will continue to do so. Now is the time to focus on the chances that lie ahead.

Rapprochement is on the horizon, not only where economic relations are concerned, but also in the political realm: The adoption of the Windsor Framework and the King's first state visit to Germany were two recent strong indications of the growing desire to revive German-British ties. The new King could and may also want to act as a bridge builder between the UK and the EU/Germany. At least that is what the companies surveyed would wish for.

Overall, the respondents are positive about the future since there are compelling opportunities for cooperation in digitalisation and ESG. The companies surveyed highlight the potential areas for collaboration, especially in renewable energy production, research and development and defence. However, there is currently still a lack of concrete large investment projects.

The overall business sentiment remains tense: the ongoing Ukraine war, geopolitical tensions and decoupling, high inflation rates and interest rate increases as well as the high debt level in England continue to pose major challenges for companies. Specifically in this environment the UK remains an important like-minded and strong partner right on Germany's own doorstep. In times of "friendshoring", the German economy should use the chance to re-focus on the United Kingdom.

We would like to thank the German and British companies that took part in this year's survey for the German-British Business Outlook.

With optimistic expectations we send our best regards,



Andreas Glunz
Managing Partner
International Business,
KPMG in Germany



Michael Schmidt
President, BCCG

Executive Summary (1/2)

Burdens of Brexit diminish over time

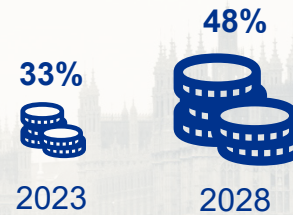


All burdens feel significantly less severe than in previous years. However, increased administrative effort, logistics costs and customs duties are still perceived as painful.



Sales growth expected

For the current year, 33% expect an improvement in their net sales, in five years this is even anticipated by 48% of the companies surveyed.



High expectations that the King will support collaboration with the EU/Germany



More than half of the companies surveyed (54%) expect the King to promote collaboration with the EU and more than a third (37%) expect him to promote collaboration with Germany in particular.

In addition, more than one in four companies (28%) hope that the King will further advance ESG issues.



“Brexit is still a burden, but its relevance is fading more and more as time passes. The UK remains a like-minded and attractive economic partner for the German economy, especially in times of increasing geopolitical tensions. The German business community believes that the economic situation in the UK will improve in the medium term and hopes for closer ties between the UK and the EU in the future.”

Andreas Glunz

Executive Summary (2/2)



Opportunities in UK

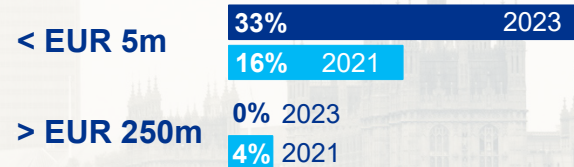
The UK as a growing sales market is the biggest business opportunity for nearly one company in two (45%). The opportunity to partner with companies in the UK in transforming industries and emerging business fields represents the second-biggest opportunity for 29% of the companies.



Limited investment plans despite positive outlook and opportunities

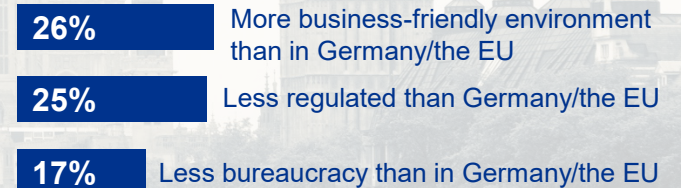


While the number of small projects planned (volume < EUR 5m) has increased, no major projects (volume > EUR 250m) are currently planned.



UK perceived as business-friendly and less regulated

Not only did the UK score 8th in the World Bank's Ease Of Doing Business Index, the companies surveyed confirmed the business friendliness along with less regulation and bureaucracy to be the top advantages of the UK as an investment location.



"Irrespective of Brexit, friendship and common values are what matter at the end of the day. Putin's brutal invasion of Ukraine served as a catalyst for Europe and surely also for the relationship to the UK: Accordingly, the energy and defence sectors moved forward much faster than expected."

Michael Schmidt

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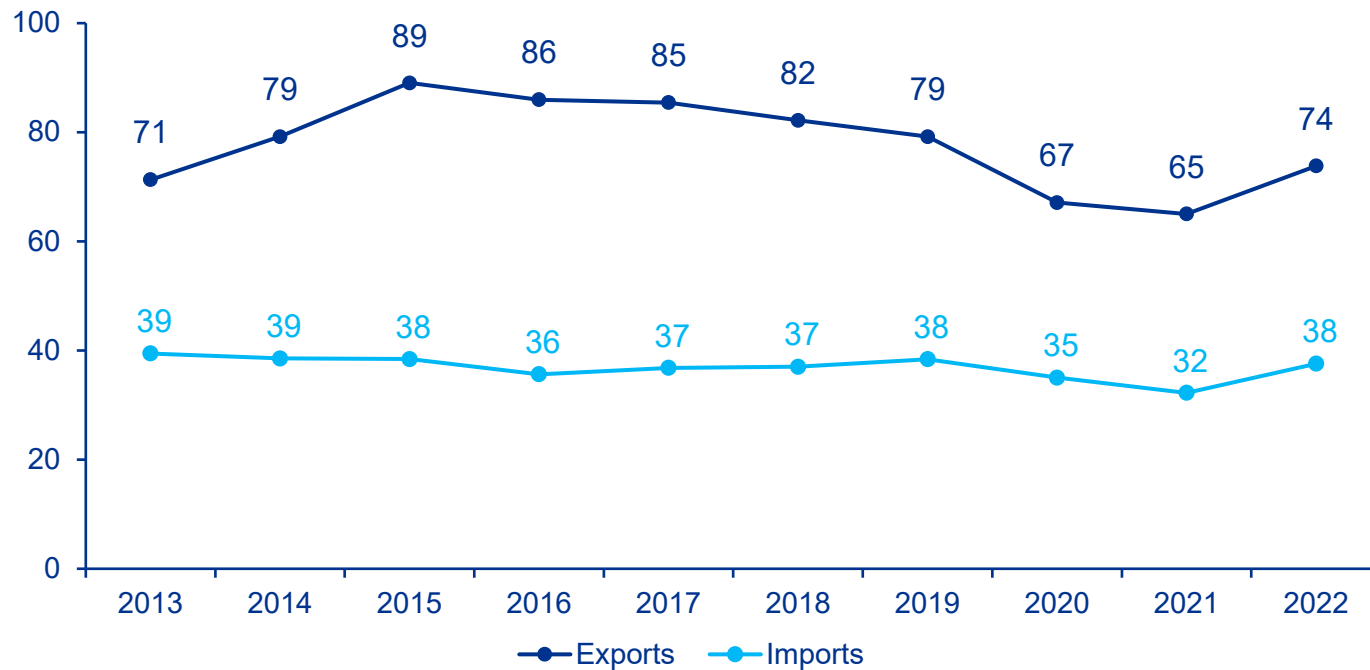


Macroeconomic overview



Foreign trade recovering after Brexit

Foreign trade Germany-UK (in billion EUR)

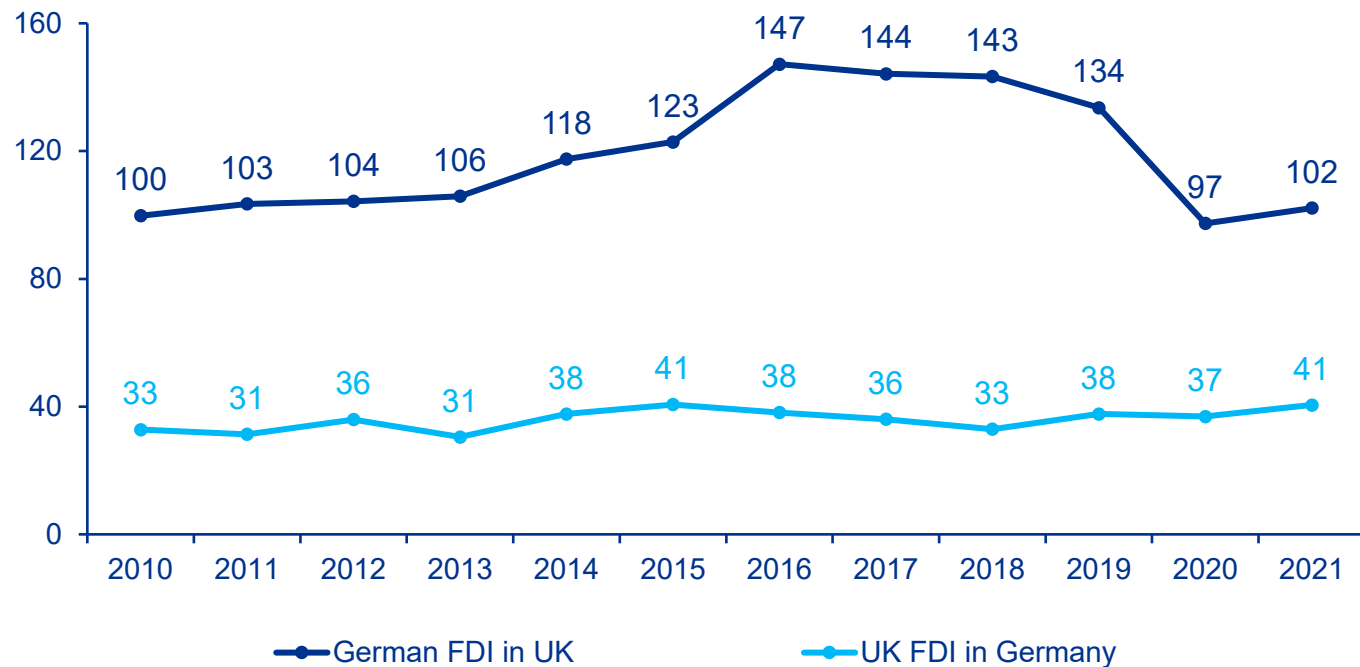


Source: Statistisches Bundesamt (Destatis)

- Due to Brexit, costs of importing/exporting between Germany and UK rose significantly and non-tariff trade restrictions were introduced. This caused a clear drop in bilateral trade between 2016 and 2021
- In 2022, the foreign trade volume rose again for the first time since the Brexit referendum in 2016 – imports as well as exports improved
- Since 2016, the UK has slipped from 5th to 11th place among the most important trading partners, accounting for just 3.6% of total German trade in 2022
- Germany, on the other hand, is still UK's second largest trading partner in 2022, accounting for 8.2% of total UK trade

2021 turning point for direct investments – but far away from pre-Brexit times

Direct and indirect investment volume (in billion EUR)



Source: Deutsche Bundesbank

- Since the 1970s and until the Brexit vote in 2016, the UK consistently attracted more FDI than other comparable economies
- After the Brexit referendum, between 2016 and 2020, the FDI volume from Germany in the UK plummeted
- The volume of British direct investment in Germany, on the other hand, remained largely stable
- Direct investments passed their nadir in 2021. This was the first year since the referendum in which direct investments in both directions rose again

Ranking of Germany and UK in comparison (1/3)



ESG-Index



14



28



Ease of Doing Business

22

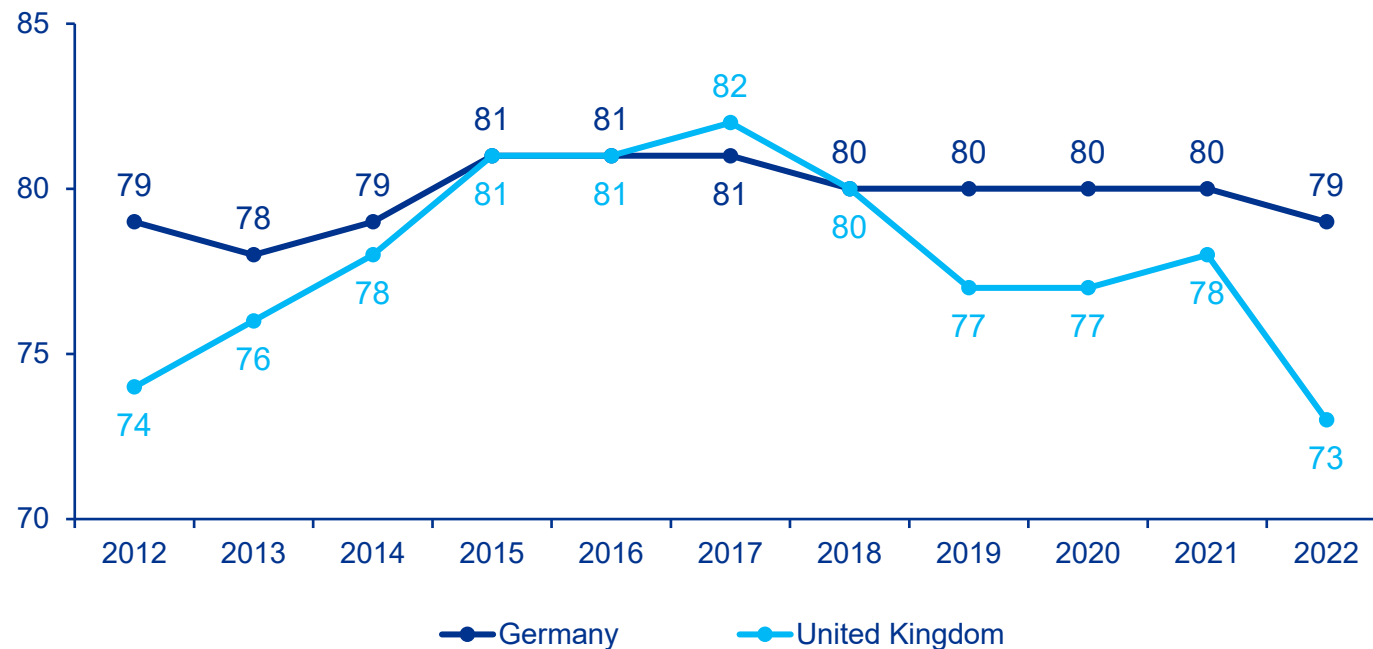
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- In 2022, Germany ranked 14th and the UK 28th out of 183 economies in the Global Risk Profile's ESG index. The index encompasses three sub-indexes (environment, human rights and health & safety) to measure ESG risk exposure
- In 2020, Germany ranked 22nd and the UK 8th out of 190 economies in the World Bank's Ease Of Doing Business score. In particular, few restrictions on starting a new business and a comparatively low corporate tax make the UK an attractive investment location

Source: Global Risk Profile (2022), World Bank (2020)

Ranking of Germany and UK in comparison (2/3)

Corruption Perception Index (CPI) score (0=lowest/100=best performance)

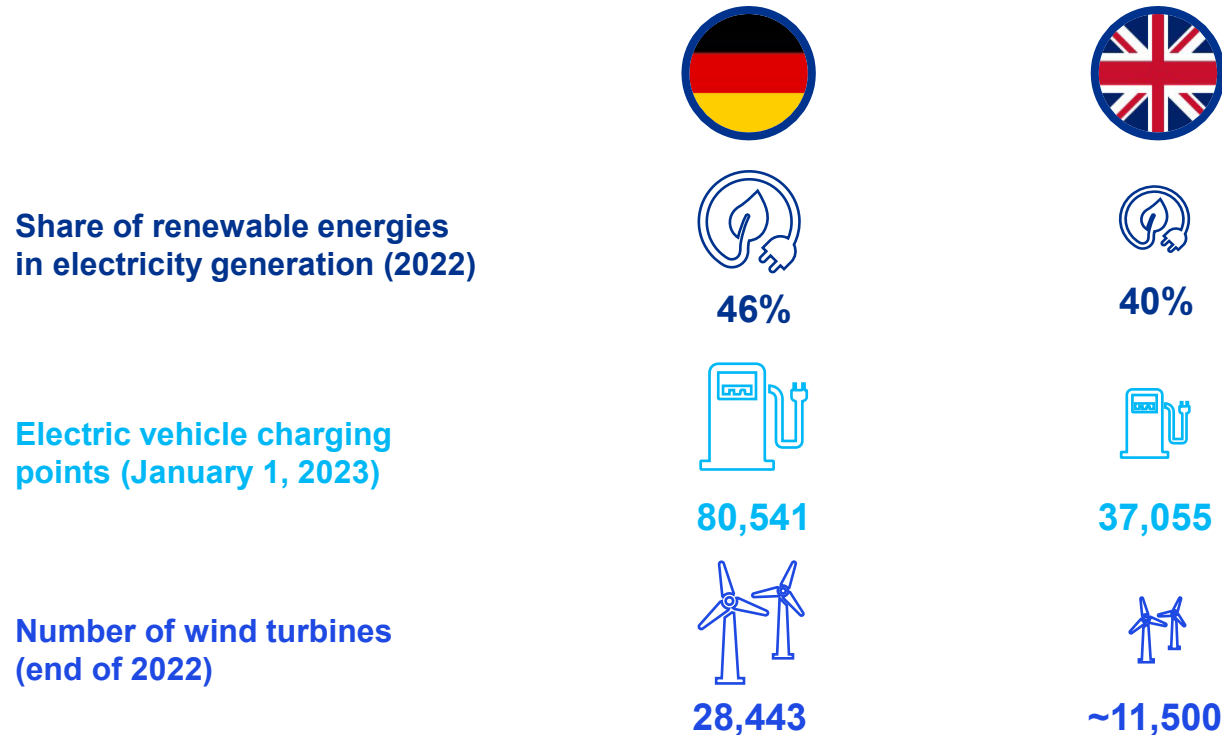


Source: Transparency International

- In 2022, Germany ranked 9th, the UK 18th out of 180 economies in Transparency International's Corruption Perception Index
- The sharp fall in the UK's CPI score is a powerful indictment of the recent decline in standards in government and controls over the use of taxpayer money
- Germany has consistently been rated as being in a relatively good position in an international comparison, as corruption hardly plays a role. But recent scandals such as the mask affair and Cum-Ex have slightly weakened confidence in the integrity of politics and business
- The average CPI score remains unchanged at 43

Ranking of Germany and UK in comparison (3/3)

KPIs in respect of renewable energies



Source: Statistisches Bundesamt, Reuters, Bundesnetzagentur, Zap-Map, BWE, BBC

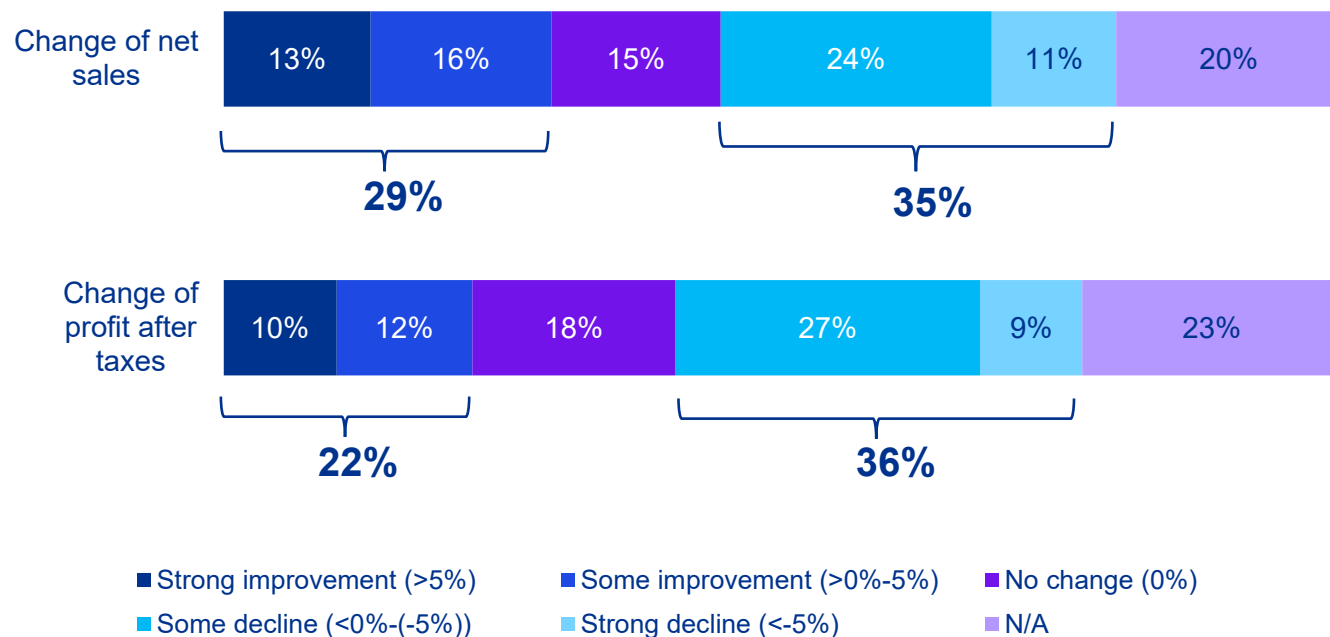
- The share of renewable energies in the volume of electricity generated and fed into the grid in Germany rose by 4% in 2022 compared with the previous year
- In the UK, renewable power sources generated 40% of electricity in 2022, up from 35% in 2021, but still 6 percentage points below Germany
- The number of charging points increased by more than 30% Y-o-Y in both countries in 2022. Germany has more than twice as many charging points as the UK
- In 2022, wind energy again had the largest share (24%) in German electricity production, ahead of brown coal and other energy sources. Britain's wind farms contributed a record 26.8% of the country's electricity in 2022 although gas-fired power plants remained the biggest source of power. Germany has also more than twice as many wind turbines as the UK

01 Business development and outlook



In 2022 decreases still exceed increases

Change of net sales and profit after taxes in the UK-Germany corridor in 2022 vs. 2021

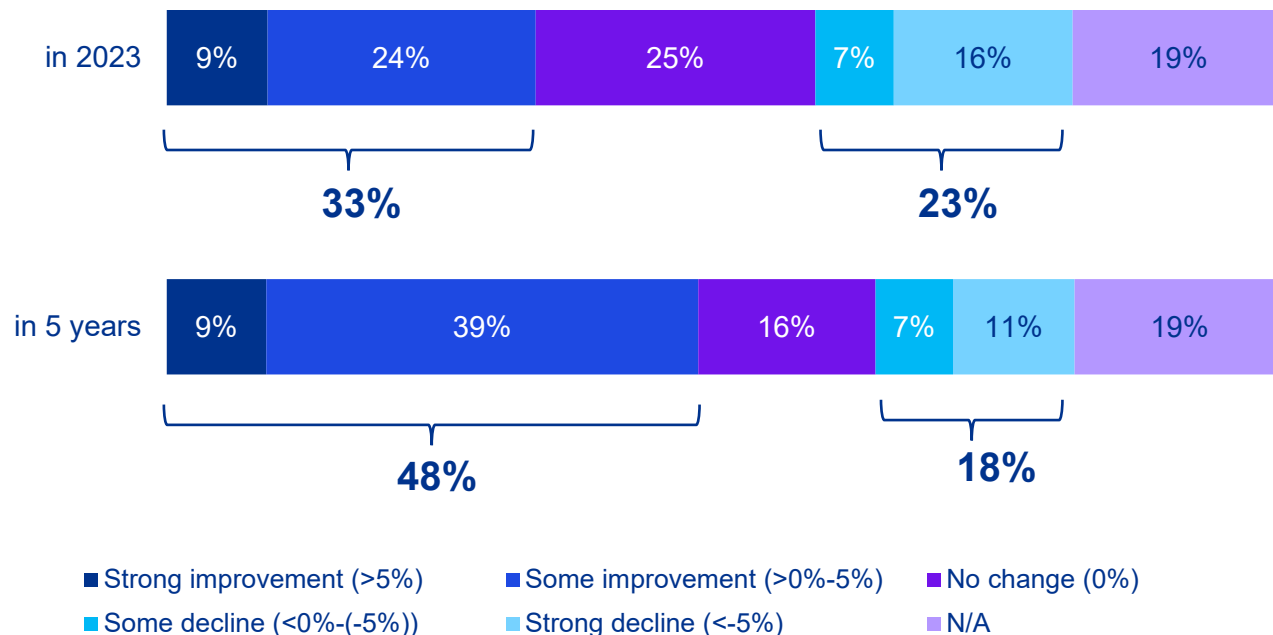


Source: KPMG and BCCG, 2023; (n=79); rounding differences possible

- While 29% of the companies report an improvement in turnover, more than one third of the companies surveyed (35%) report a decline in net sales
- With regard to profits after taxes, the picture is even more obvious: only 22% were able to realise an increase in their profit whereas 36% report a decrease
- This indicates that Brexit still impacted the economy in the United Kingdom three years after entering into effect. It is also revealing that the UK is the only developed economy without a strong post-pandemic recovery

Rising expectations

Expectations for net sales

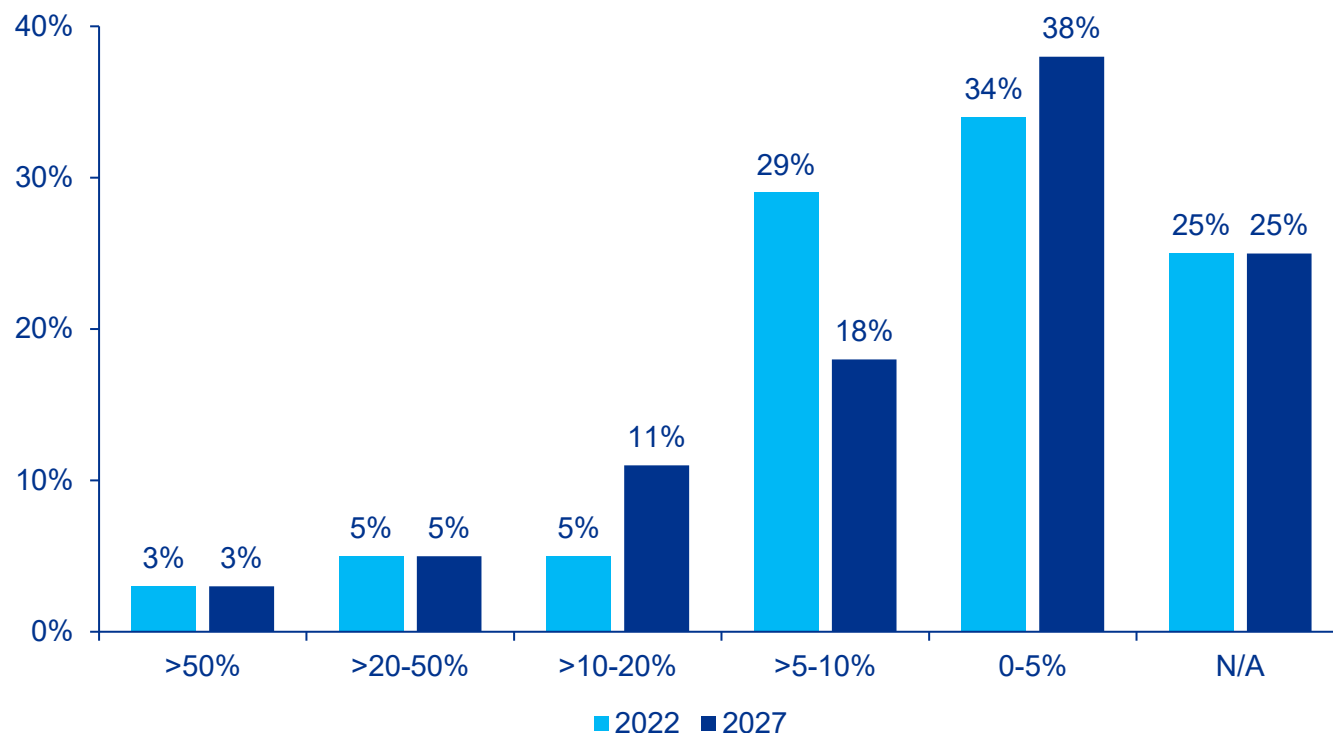


Source: KPMG and BCCG, 2023; (n=75); rounding differences possible

- As compared with previous year, expectations are rising for the current year: For the first time more companies anticipate an improvement in their sales (33%) than a decline (23%)
- The expectations for the next five years are even more optimistic: While 48% of the companies expect an improvement in their sales, only 18% anticipate a decline
- Current trade and investment data as well as the feedback of the survey participants suggest that the nadir has been passed. The impacts of Brexit have largely been processed and there is hope that the EU and the UK will become closer again over time

Relevance of UK market rises slightly

Headquarters in Germany: Share of trade with the UK



Source: KPMG and BCCG, 2023; (n=65); rounding differences possible

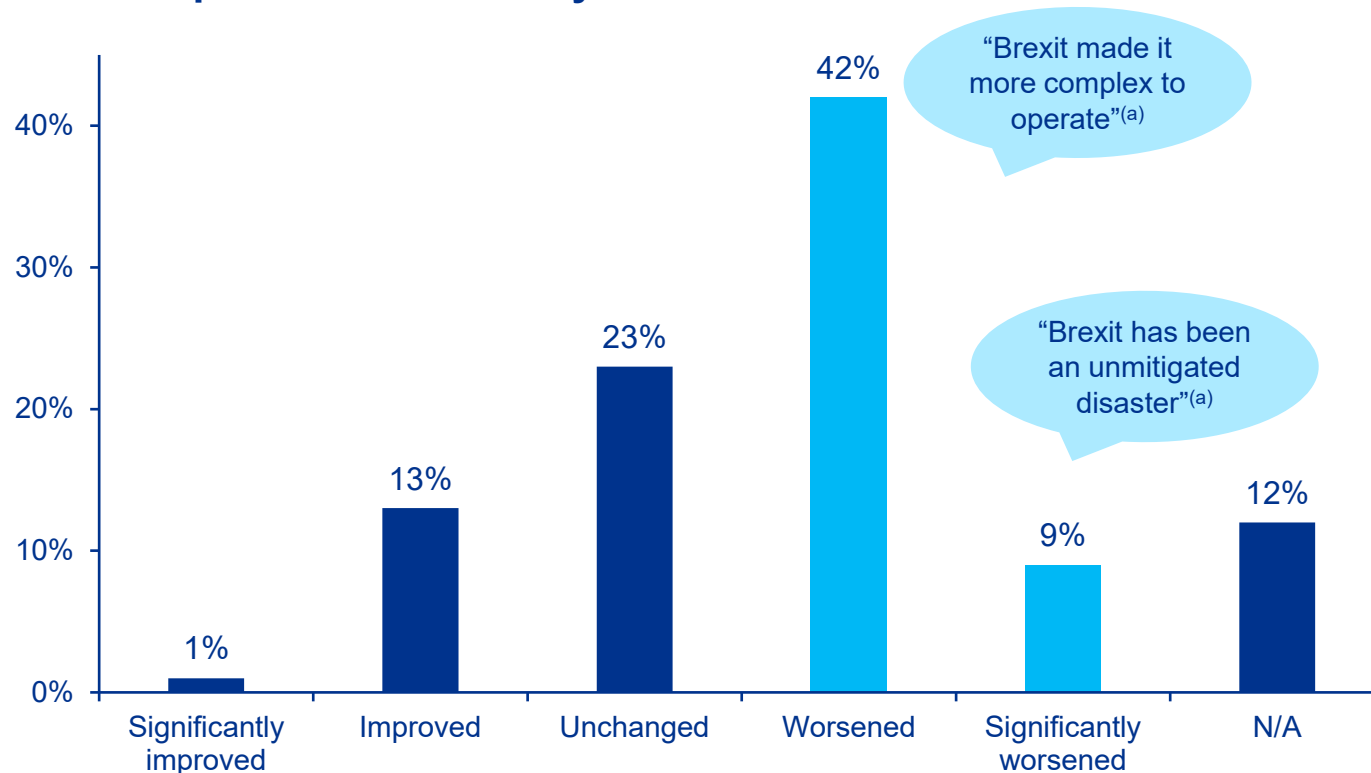
- The share of companies for which the UK market is important (conducting more than 10% of their trade volume with the UK) is expected to increase by 6 percentage points between 2022 and 2027 to 19%; of that share, the group of >10-20% will even increase by more than double, from 5% to 11%
- At the same time, however, the share of companies for which the UK market has only limited relevance (trade share of 0-5%) is expected to increase slightly by 4 percentage points and remains the biggest group of companies, at 38%

02 Brexit impacts



Brexit consequences still being felt

Brexit impact since February 2020



Source: KPMG and BCCG, 2023; (n=69); rounding differences possible

Note: (a) Comments from respondents

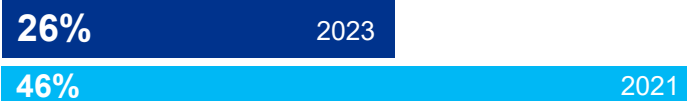
- 51% of the companies surveyed report that the impact of Brexit on their businesses has worsened or even dramatically worsened since it came into effect in February 2020
- Only 14% see an improvement of their situation
- The results show that companies operating in the German-British corridor still have not recovered from the impact of Brexit
- Several comments from respondents confirm the severity of the impact of Brexit

Although Brexit remains a burden, its relevance diminishes

Top 3 most significant consequences triggered by Brexit



Increased administrative burden



Increased logistics costs



Increased customs duties



Source: KPMG and BCCG, 2023; (n=72); rounding differences possible

- All burdens feel significantly less severe than in the previous year as all percentages are decreasing significantly. Companies have largely adapted to the new environment in which they operate
- Nevertheless, the assessment of the Brexit impacts is still negative: 26% complain of increased administrative efforts, 15% of increased logistics costs and 10% of increased customs duties
- Other impacts that businesses have felt are complicated work visa application processes, lengthy border clearance procedures and a shortage of skilled workers (6% each)
- As CE approval in the UK was extended in November 2022 until December 2024, product certifications currently affect only 2% of businesses

Post-Brexit advantages of UK

Top 3 advantages of the UK as an investment location compared to Germany/the EU after Brexit



Source: KPMG and BCCG, 2023; (n=69); rounding differences possible

- A business-friendly climate, less regulation and less bureaucracy are the most important advantages of the UK as an investment location for the companies surveyed
- With the increase in the corporate tax rate from 19% to 25% in April 2023, the UK's tax system is perceived as advantageous by only 14% of the companies surveyed
- Investment incentives such as subsidies and grants, as well as simple and faster investment approval procedures, are seen as advantages of the UK by only one in ten companies (9% each)

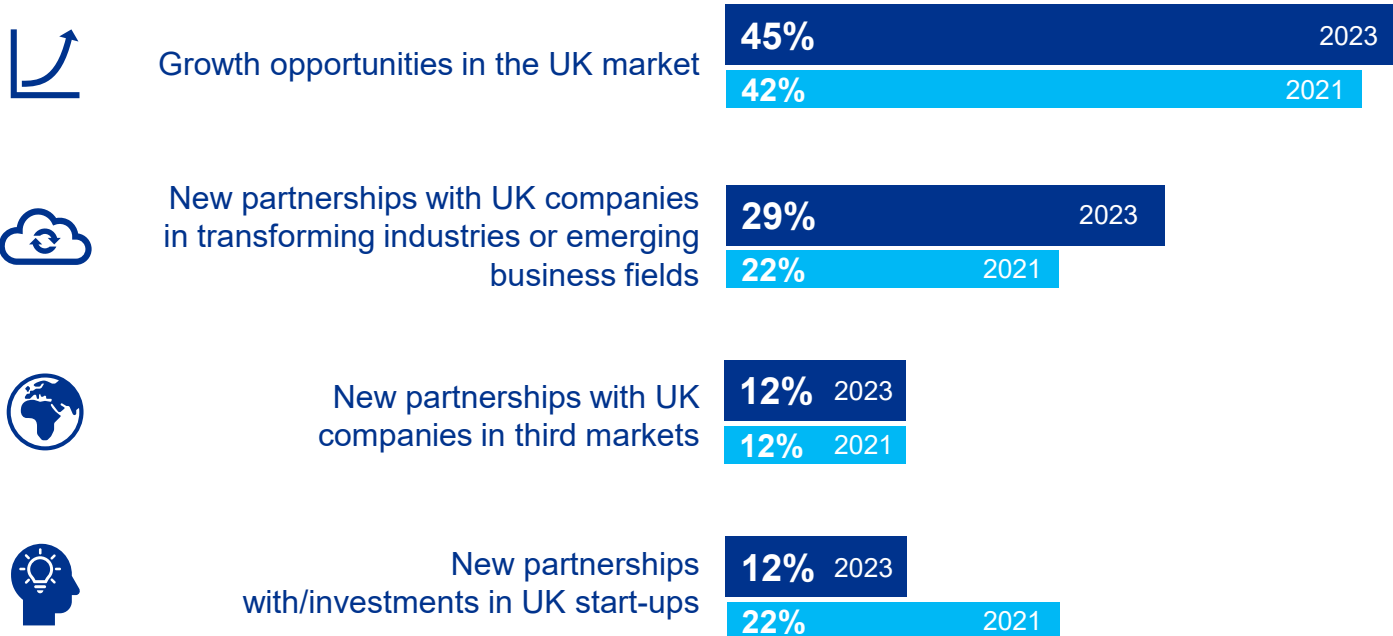
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Future plans



Opportunities in the UK

Main business opportunities in the UK in the next 5 years

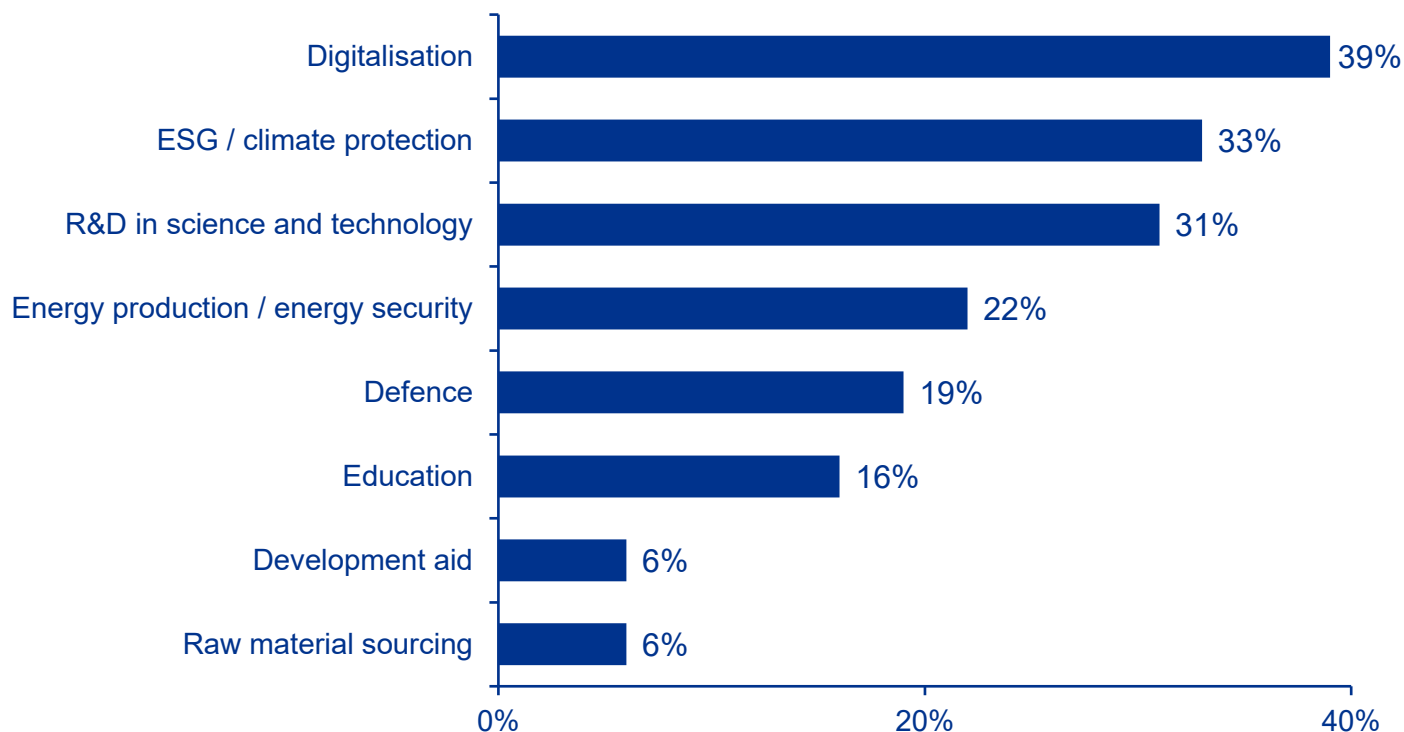


- As an existing and growing sales market, the UK represents the biggest business opportunity for nearly one in every two companies (45%) in the next 5 years
- The possibility of entering new markets through partnerships with companies in emerging industries (e.g. renewables, batteries, digitalisation, cloud...) represents the second most important and a rising business opportunity for 29% (prior year 22%) of the companies.
- The development of third markets through partnerships, especially in the Commonwealth countries, as well as through investments in start-ups are perceived as limited chances by only roughly one in ten of the companies surveyed (12%)

Source: KPMG and BCCG, 2023; (n=58); GBBO 2022; (n=50); rounding differences possible

Megatrends drive future fields for cooperation

Major future business fields for cooperation

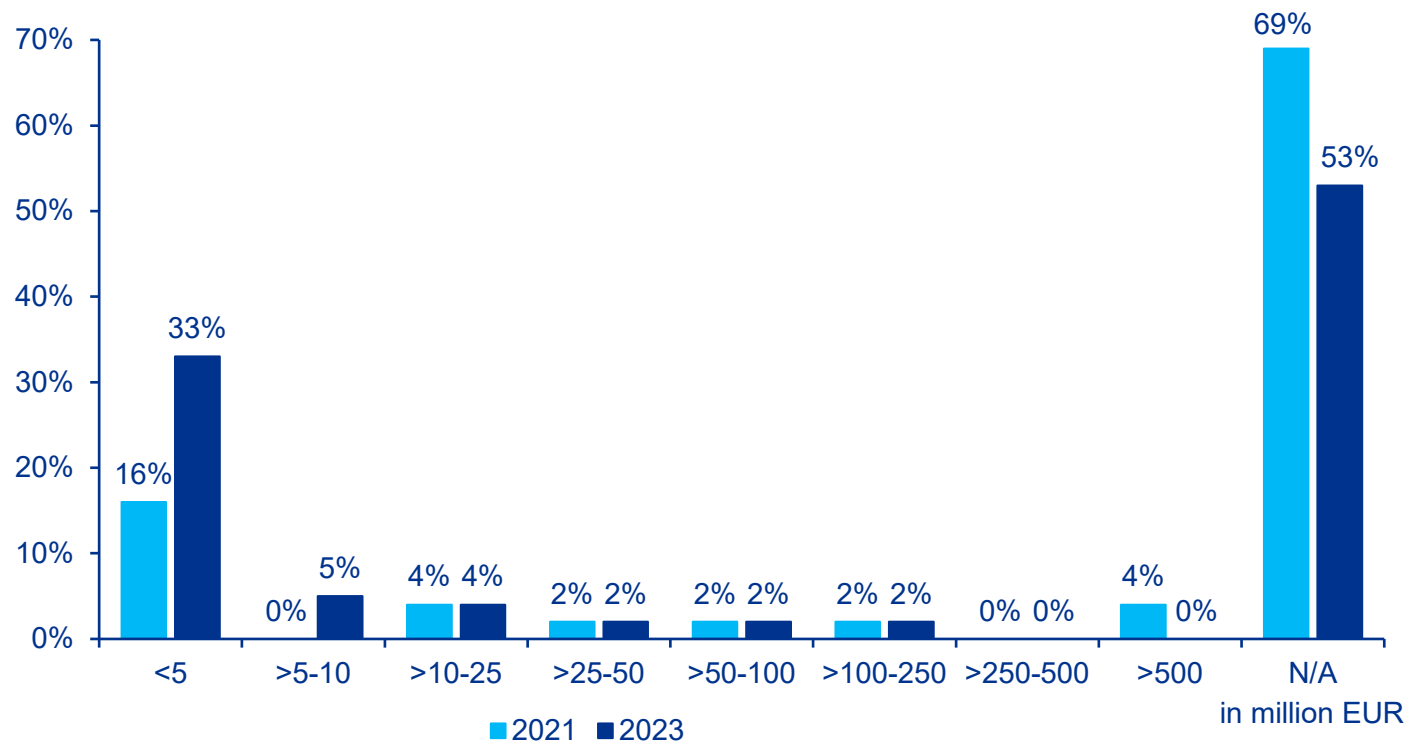


Source: KPMG and BCCG, 2023; (n=67); rounding differences possible

- The megatrends of digitalisation and ESG are the most important business areas for cooperation between Germany and the UK for the companies surveyed (39% and 33% respectively)
- R&D in science and technology is seen by almost a third (31%) of the companies as another possible field for cooperation
- Other strategic topics, such as energy production & supply and defence are assessed as relevant fields of cooperation for only roughly one in five companies surveyed (22% respectively 19%). Although both countries invest heavily in renewable energy generation and are focusing on the defence sector, this is done separately in the individual countries

No major investments planned

Investment plans in the UK in the coming 3 years



Source: KPMG and BCCG, 2023; (n=57); rounding differences possible

- Projects involving smaller investments with a volume of up to EUR 5 million in the coming three years have more than doubled compared to the previous year (33% vs. 16%)
- Planned investments with a volume of EUR >5 to 10 million have also increased (5% vs. 0% in the previous year)
- None of the companies surveyed are currently planning major projects with a volume of more than EUR 250 million

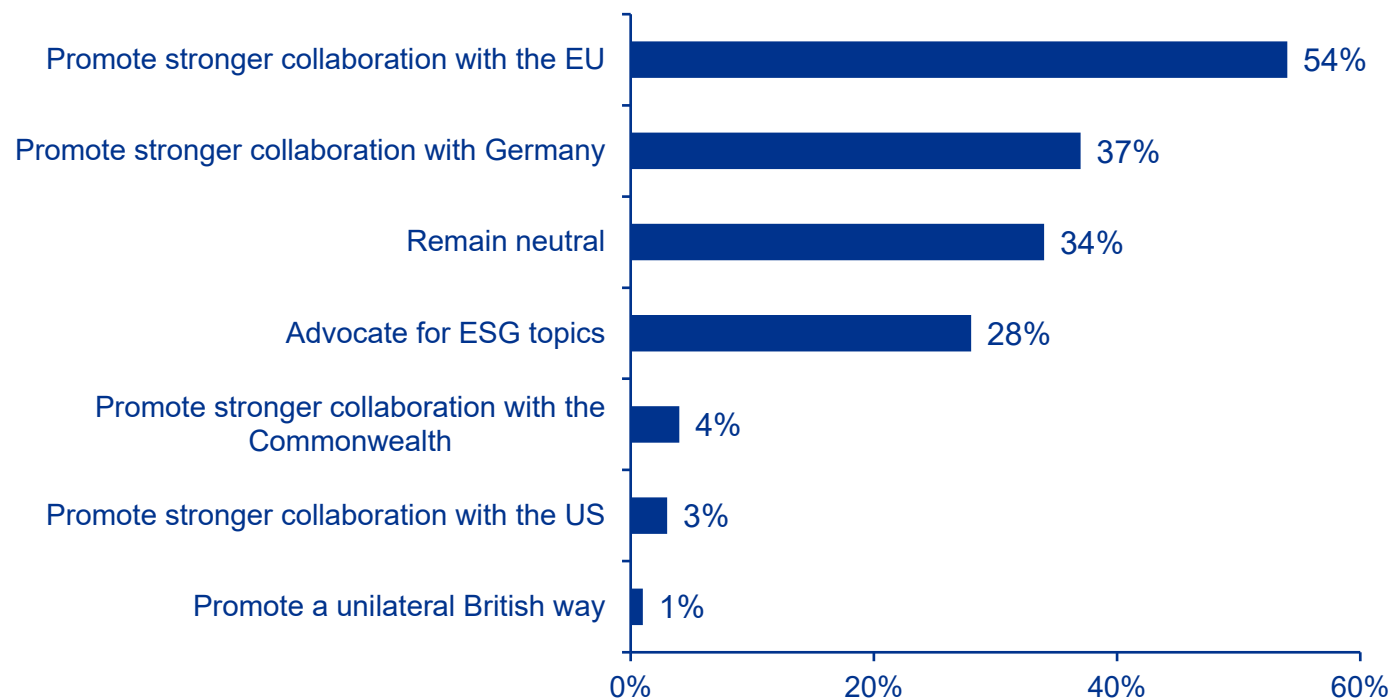
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Spotlight on selected topics



King Charles III as bridge builder between UK and EU?

Desired political engagement and activity from King Charles III

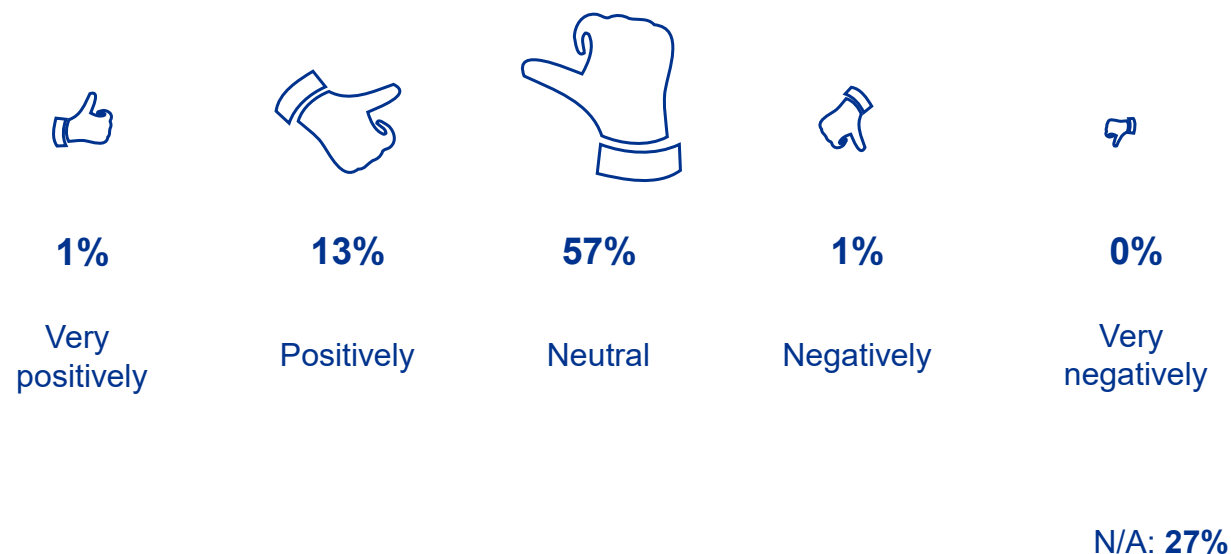


Source: KPMG and BCCG, 2023; (n=67); rounding differences possible

- More than half of the companies surveyed (54%) expect the King to promote collaboration with the EU after his coronation and more than a third (37%) expect him to promote collaboration with Germany in particular
- However, a good third (34%) expect neutrality in his political activities
- More than one in every four companies (28%) hopes for advocacy for ESG topics, a topic particularly close to King Charles' heart

Little impact of the “Windsor Framework” on businesses

Impact of “Windsor Framework” and “Green Lane” on businesses



- The new agreement on the Northern Ireland protocol, called the “Windsor Framework”, seeks to improve the trading rules for Northern Ireland, bring stability and clarity for businesses and people in the region, and open a new chapter in EU-UK relations
- Goods destined to stay in Northern Ireland will in the future go through a “Green Lane” and be subject to far fewer checks and controls
- The majority of the companies surveyed (57%) do not experience any changes in their business as a result of the implementation of the Windsor Framework
- Only one in every seven companies (14%) expect the agreement to have a positive or very positive impact on their business

Source: KPMG and BCCG, 2023; (n=67); rounding differences possible

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Profile of the companies surveyed

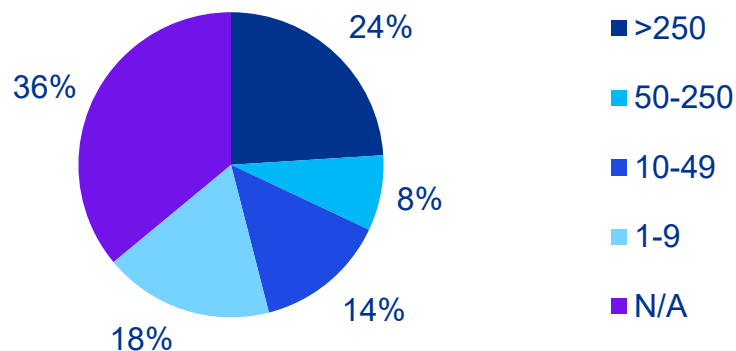


Methodology of survey and profile of surveyed companies

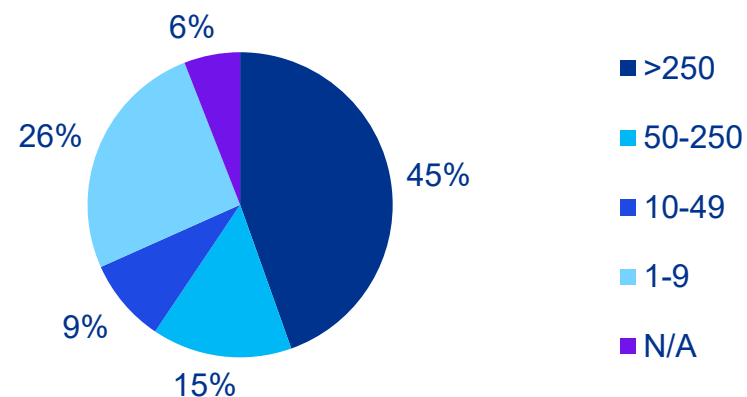
For this survey, the British Chamber of Commerce in Germany (BCCG) and KPMG in Germany interviewed both German subsidiaries headquartered in the United Kingdom and British subsidiaries headquartered in Germany. A total of 136 (previous survey: 69) companies participated. The survey was conducted between April 11, 2023 and April 28, 2023 (previous survey: December 9, 2021 and February 17, 2022). Questions focused on the economic outlook of the companies and the challenges they face in terms of growth opportunities for their businesses.

86 percent of the companies surveyed are headquartered in Germany, 14 percent in the UK. Of the companies headquartered in Germany, 44 percent have been active in the UK for more than 20 years, 18 percent even for more than 50 years.

Number of employees in the United Kingdom

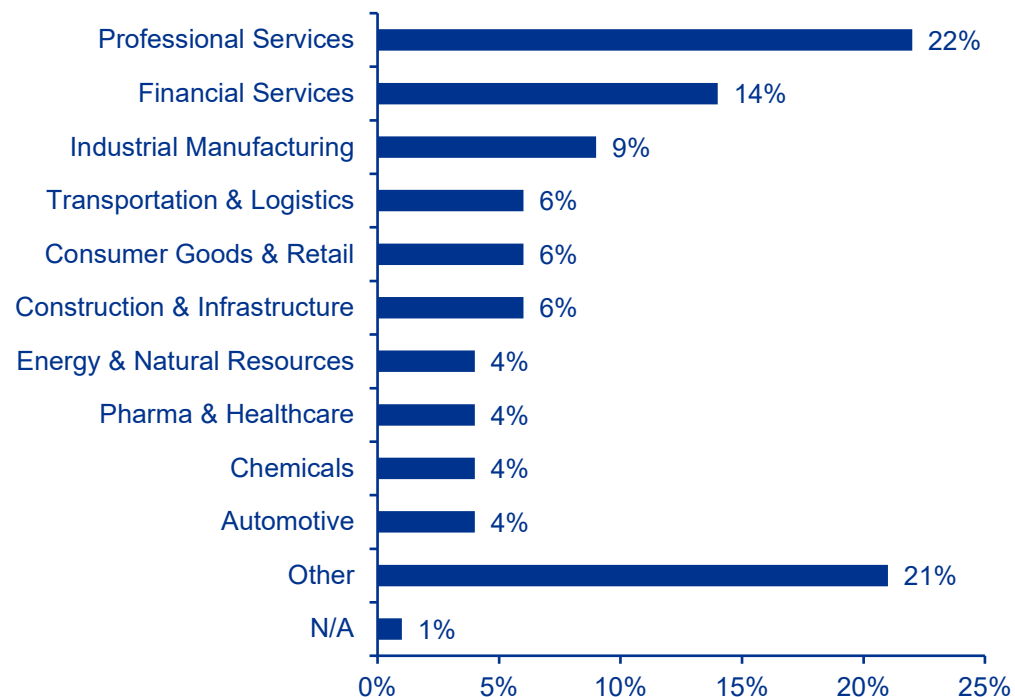


Number of employees in Germany



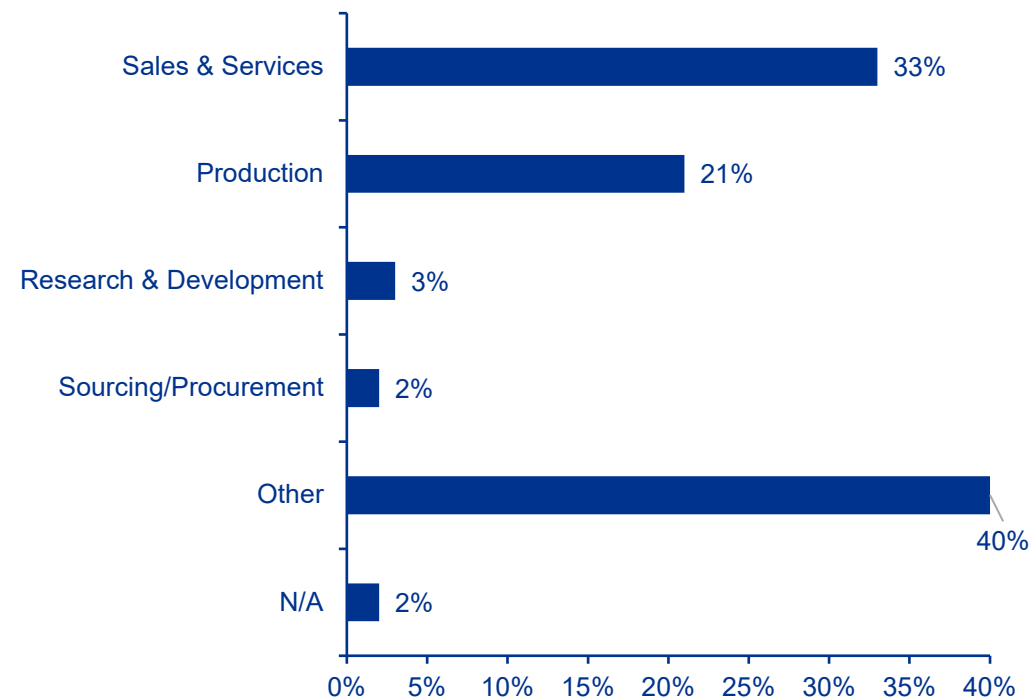
Methodology of survey and profile of surveyed companies

Breakdown by sector of the companies surveyed



Source: KPMG and BCCG, 2023; (n=114); rounding differences possible

Business activities of the companies surveyed



Source: KPMG and BCCG, 2023; (n=107); rounding differences possible

About us

BCCG

The British Chamber of Commerce in Germany e.V. (BCCG) is a privately financed company network with around 600 members and 5,000 personal contacts engaged in bilateral trade and commerce. 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 top-performing international business networking forums in Germany, and as the largest British-German business network in Europe. The aim of the BCCG is to promote mutual understanding and economic relations between Germany and the United Kingdom. The BCCG, therefore, sees itself as a network platform and a lobbyist to proactively shape Anglo-German relations following the United Kingdom's departure from the EU and to also define and perceive common future related topics. At the same time, support for the settlement and development of companies in other countries is also on our agenda. The BCCG is in regular contact with representatives of companies, associations, science, politics and society from both countries and organises – unilaterally or with partner organisations – webinars, discussion rounds, conferences and other formats and platforms that serve objective commercial exchange.

www.bccg.de

KPMG

KPMG is a company network with around 236,000 employees in 145 countries. In Germany, KPMG is one of the leading auditing and consulting companies and has around 13,100 employees at 26 locations. Our services include Audit, Tax, Consulting and Deal Advisory. Legal advice services are provided by a legally independent company.

KPMG in Germany has set up Country Practices for all relevant business corridors between Germany and other countries/regions. All Country Practices are staffed by country experts who know the special characteristics and the regulatory environment of these markets, regularly work in these countries and provide German and global multinational companies with advice on their country/corridor-related questions on a daily basis. The Country Practice UK is one of the largest Country Practices at KPMG in Germany.

www.kpmg.de

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