KPMG

British Chamber of Commerce in Germany

German-British Business Outlook 2024

Foreword

Dear Readers,

In 2023, seven years after the Brexit referendum in 2016, foreign trade between the EU and the UK was still severely impacted.

A year ago, we commented that a turning point had been reached, with imports and exports rising in 2022 for the first time since Brexit. In 2023, imports from the UK to Germany fell again by around 8 % and exports from Germany to the UK, although continuing to rise, barely reached 2019 levels.

A more detailed analysis of the underlying trends, presented in the following pages, reveals two important facts:

Firstly, the peak in imports from the UK to Germany in 2022 was almost entirely due to rising crude oil imports at peak prices, as oil and gas imports from Russia to Germany had to be replaced due to Russia's invasion of Ukraine. This effect was partly reversed in 2023.

Secondly, there has been a continuous, uninterrupted trend of declining trade volumes (in millions of tons) since the Brexit referendum. Rising prices and inflation have partly masked the strong decline in trade volumes.

In 2022, it even looked as if the burdens stemming from Brexit were lessening over time. But it now appears that the burden is not lessening any further but is becoming permanent. Specifically, the increased administrative burdens, logistics costs and customs duties are still perceived as painful.

Instead, companies now recognize and are concerned that manifold new regulations will be imposed in the UK-EU corridor in 2024 and the years following which will again have a decoupling effect. The biggest concerns relate to the UK's introduction of the "Border Target Operating Model" in 2024 cited by 34 % of respondents, the replacement of retained EU laws with UK law in 2024 (once the retained EU laws expire) cited by 28 % and the introduction of the EU Supply Chain Act cited by 24 %. But new regulations are also on the horizon, which are entirely divergent between the EU and the UK. The Carbon Border Adjustment Mechanism (CBAM) is one such example. Nearly a third of the companies surveyed (30 %) expect that the introduction of CBAM will create considerable additional bureaucracy as well as a significant increase in costs for their business operations in the UK-Germany corridor[a].

Over the next five years, companies expect some growth in net sales and profits, but no strong trend is evident. In fact, the trend of declining net sales is expected to continue. In addition, growth in other corridors is likely to be faster. Based on the survey results, respondents expect the share of their trade volume in the UK-Germany corridor to decrease over the next five years.

Opportunities for cooperation between German and UK companies were seen mainly in areas where Germany is lacking, most notably digitalization (47 %; up 8 percentage points over last year), energy generation and energy security (33 %, +11 percentage points) and defense (26 %, +7 percentage points).

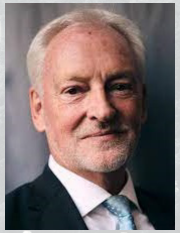
New partnerships with UK companies in third markets also showed an upward trend, rising 5 percentage points to 17 %. However, interest in new partnerships with UK companies in transforming industries or emerging businesses fell 5 percentage points to 24 % and with UK start-ups 3 percentage points to just 9 %.

It is therefore not surprising that nearly half of the respondents (48 %, previous year: 53 %) have no plans to invest in the UK over the next 3 years.

Clearly, there is a need for politics and business to make a greater effort to come together and build bridges rather than walls between them.

We would like to thank the German and British companies that took part in this year's survey for the German-British Business Outlook 2024.

Andreas Glunz
Managing Partner
International Business,
KPMG in Germany



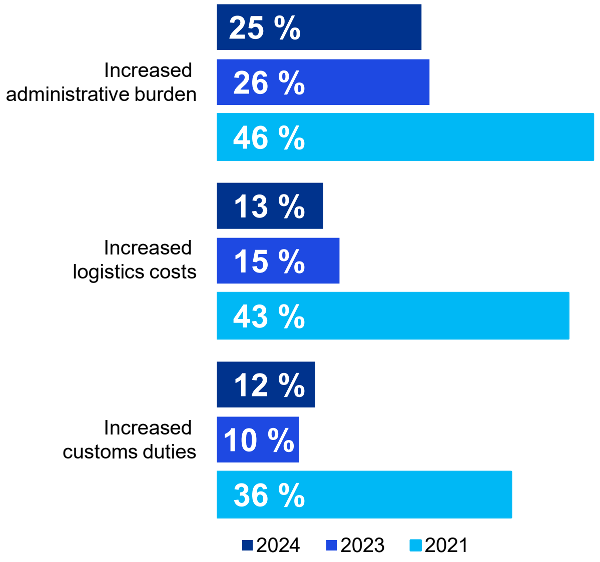
Michael Schmidt
President,
British Chamber of
Commerce in Germany

Notes: (a) See the **whitepaper by KPMG in Germany "Brexit 2.0 – the next round of decoupling is approaching"**. The whitepaper comprises a description and assessment of the new regulations in the EU-UK corridor in 2024. The document can be downloaded here:

Executive Summary (1/2)

Burdens of Brexit become permanent

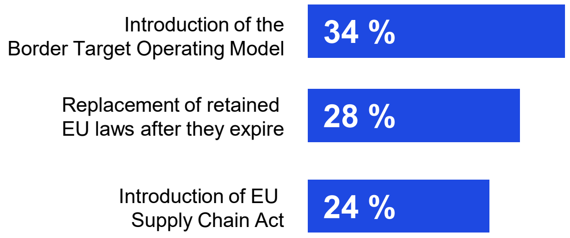
All Brexit-related burdens are less severe than in 2021 but remain at a fairly stable level compared to last year. **Increased administrative burdens**, **logistics costs** and **customs duties** are still perceived as painful.



Source: KPMG and BCCG, 2024

New regulations in 2024 will impact businesses in UK-Germany corridor

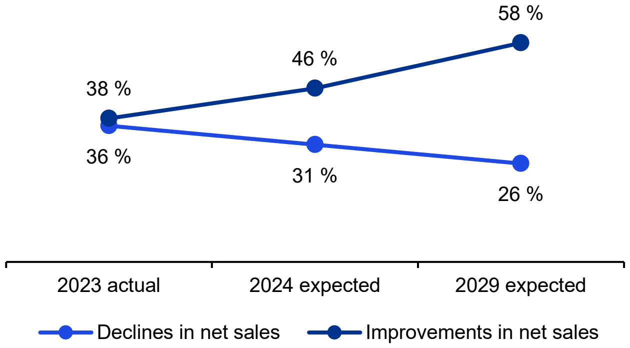
34 % stated that the introduction of the **Border Target Operating Model** will significantly impact their business operations in the UK-Germany corridor. 28 % stated the same regarding the **replacement of retained EU laws with UK law** and 24 % regarding the introduction of the **EU Supply Chain Act**.



Source: KPMG and BCCG, 2024

Declining trend continues but levels out over time

Brexit continues to impact businesses in the UK-Germany corridor: The **trend in declining net sales continues** but levels out over time.

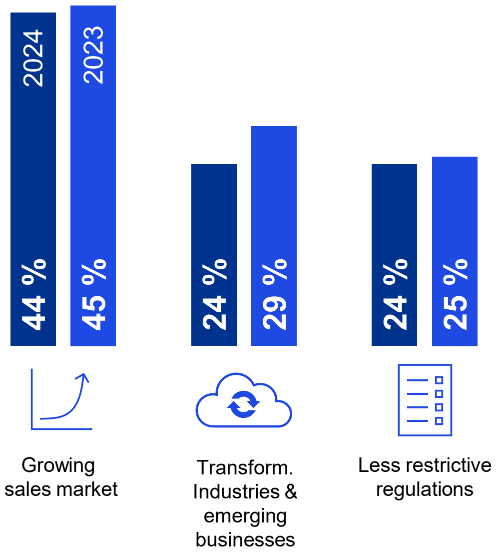


Source: KPMG and BCCG, 2024

Executive Summary (2/2)

Opportunities in the UK

The UK as a **growing sales market** is the biggest business opportunity for 44 % (2023: 45 %). The opportunity to engage in **transforming industries and emerging businesses** and **less restrictive regulations** represent the next biggest opportunities for 24 % each (2023: 29 % and 25 %, respectively).

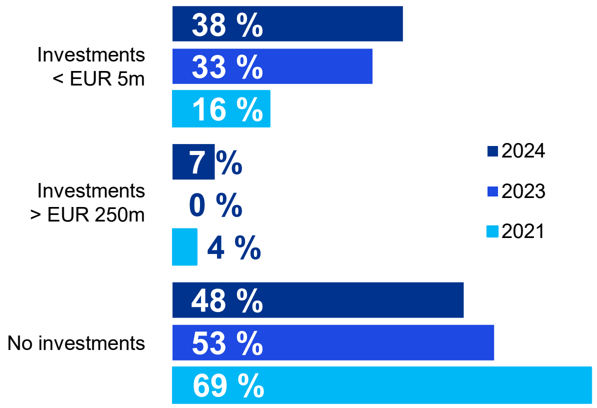


Source: KPMG and BCCG, 2024

Investment projects on the rise

Over the next three years, the companies surveyed plan to **increase** their **investments in the UK** both in the form of small projects (volume < EUR 5m) but also large projects with a volume of > EUR 250m.

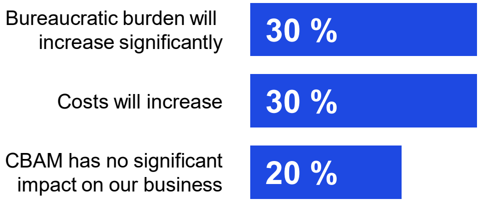
Reluctance to invest in the UK has gradually lessened since 2021; however, **nearly half of respondents** (48 %) still have **no plans to invest in the UK**.



Source: KPMG and BCCG, 2024

Introduction of EU CBAM challenges companies in UK-Germany corridor

Nearly a third of the companies surveyed (30 %) expect that the introduction of CBAM will create **considerable additional bureaucracy** as well as a **significant increase in costs**. However, one in five companies (20 %) have not noticed any impact on their business operations.



Source: KPMG and BCCG, 2024

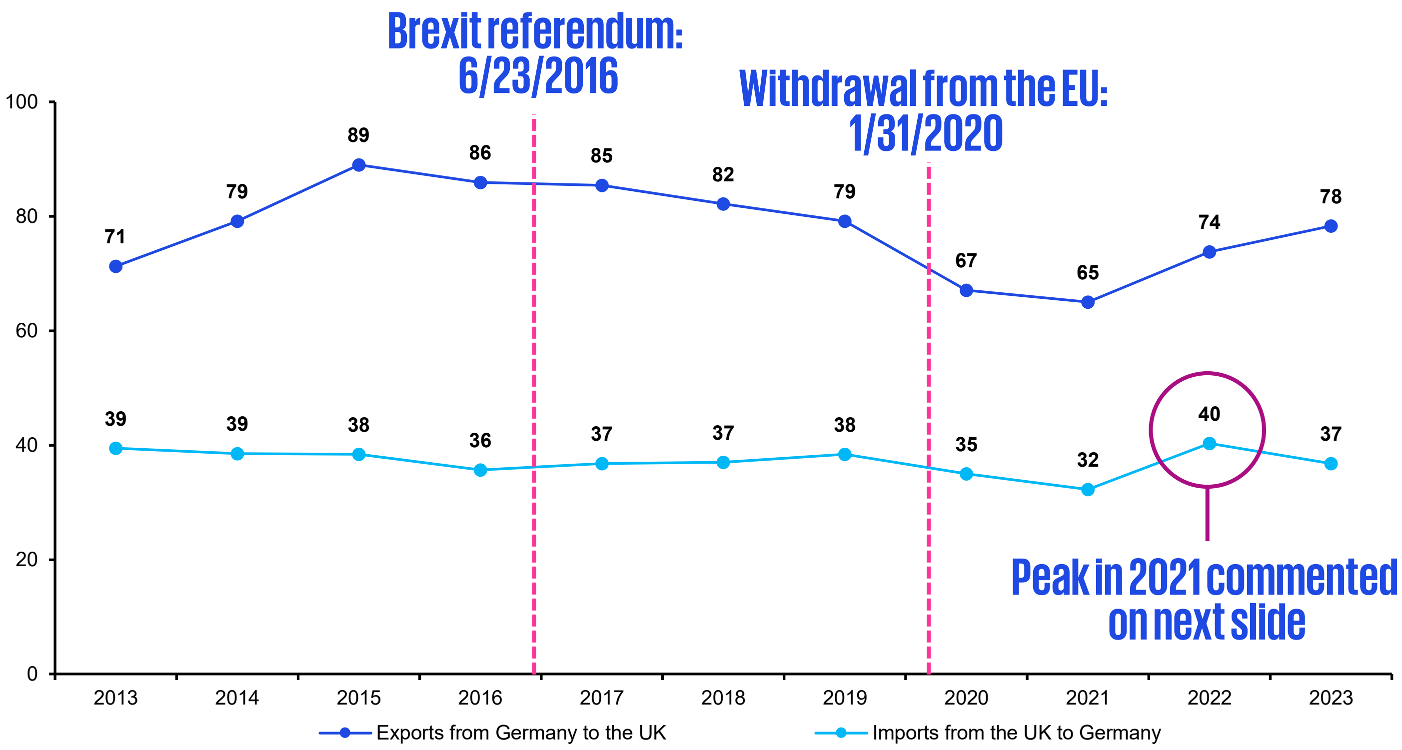
Agenda

WHITEHALL
TATE BRITAIN
ST. JOHN'S SMITH SQUARE
WESTMINSTER
THAMES PATH
THAMES PATH
Lambeth Bridge

Macroeconomic overview

Exports to the UK rise, but imports drop

Figure 1: **Foreign trade Germany-UK (in EUR billion)**

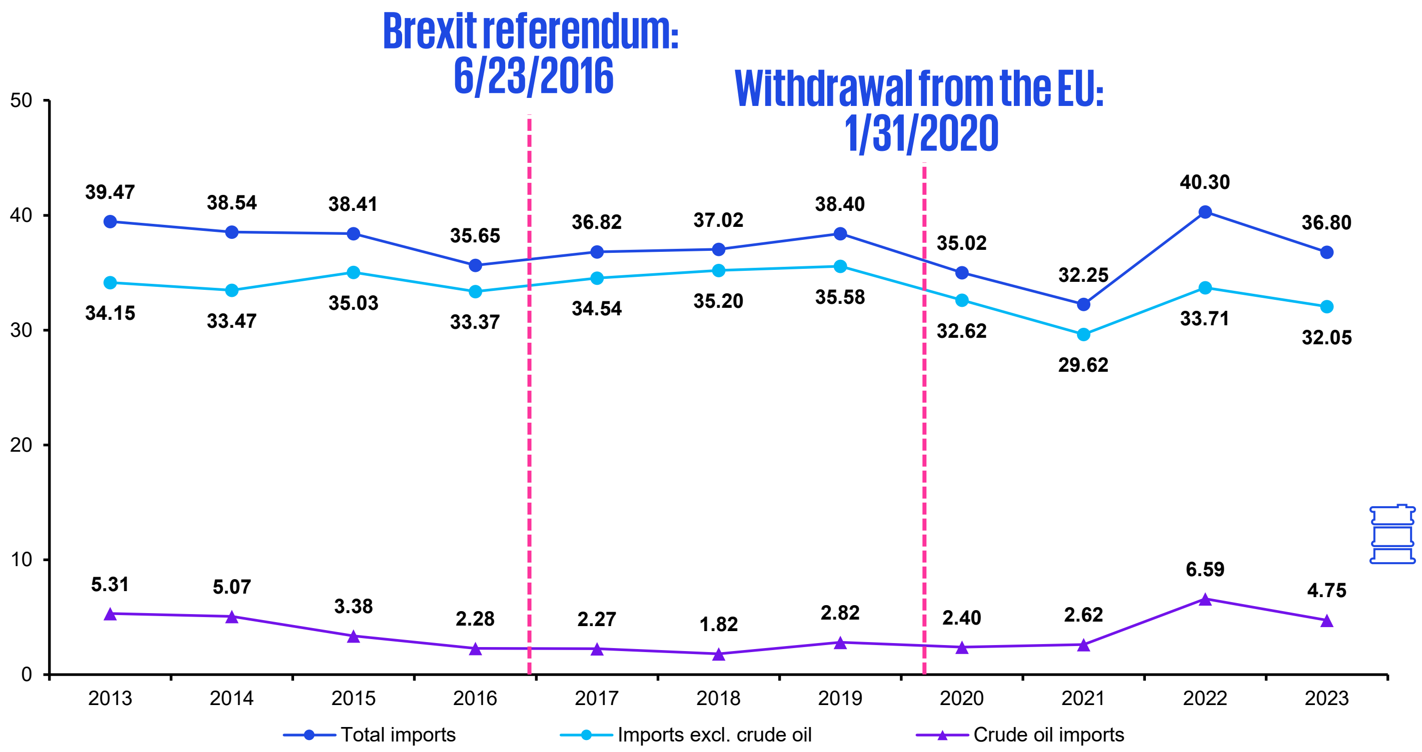


Source: Federal Statistical Office of Germany

- Due to Brexit, costs of importing/exporting between Germany and the UK rose significantly and non-tariff trade restrictions were introduced. This caused a clear **drop in bilateral trade between 2016 and 2021**
- **2022** appeared to be a **turning point as** foreign trade volume rose again for the first time since the Brexit referendum in 2016 – imports as well as exports improved
- **2023**, however, showed that although **exports to the UK continued to rise, imports from the UK to Germany fell** again
- Since 2016, the **UK** has slipped from 5th to **9th place** among Germany's most important trading partners, accounting for just 3.9 % of total German trade in 2023
- However, **Germany** was still the UK's **2nd largest trading partner** in 2023, accounting for 8.3 % of total UK trade

Rising imports in 2022 were caused by oil imports at peak prices

Figure 2: **Imports from the UK to Germany (in EUR billion)**

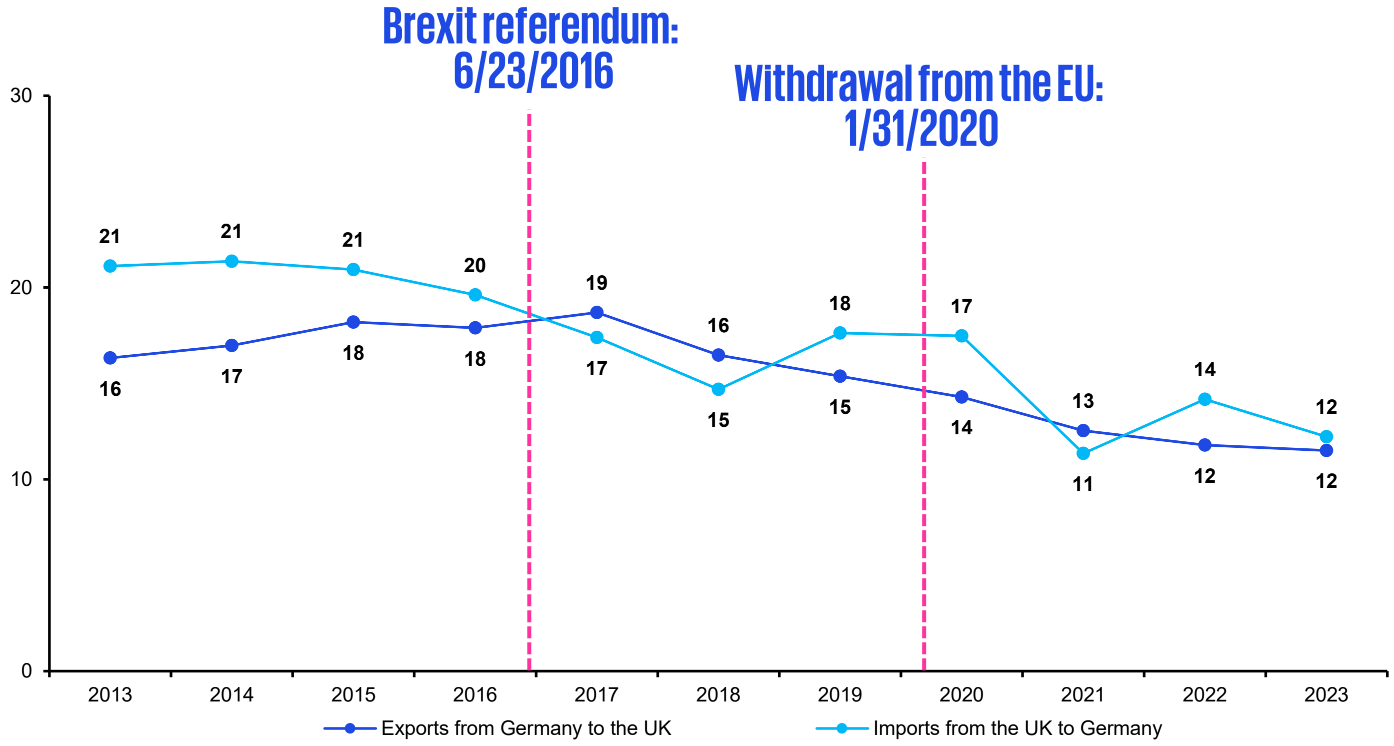


Source: Federal Statistical Office of Germany

- The **sharp rise in imports from the UK to Germany in 2022** by EUR 8 billion (+25.0 %) was mainly **caused by rising imports of crude oil** – at peak prices – in connection with the war in Ukraine and gas delivery shortages from Russia to Germany
- **Crude oil imports in 2022** were 2.5 times more than in 2021
- Although **crude oil imports** fell again **in 2023** they are still 2 times the level before the outbreak of the war in Ukraine. The drop in 2023 was caused by somewhat decreasing prices and the use of further sources
- Adjusted for crude oil imports, **imports of goods from the UK to Germany in 2023** were therefore **10 % below the level before the UK withdrew from the EU**

Continuous decline in volume of traded goods

Figure 3: **Foreign trade Germany-UK (in million of tons)**

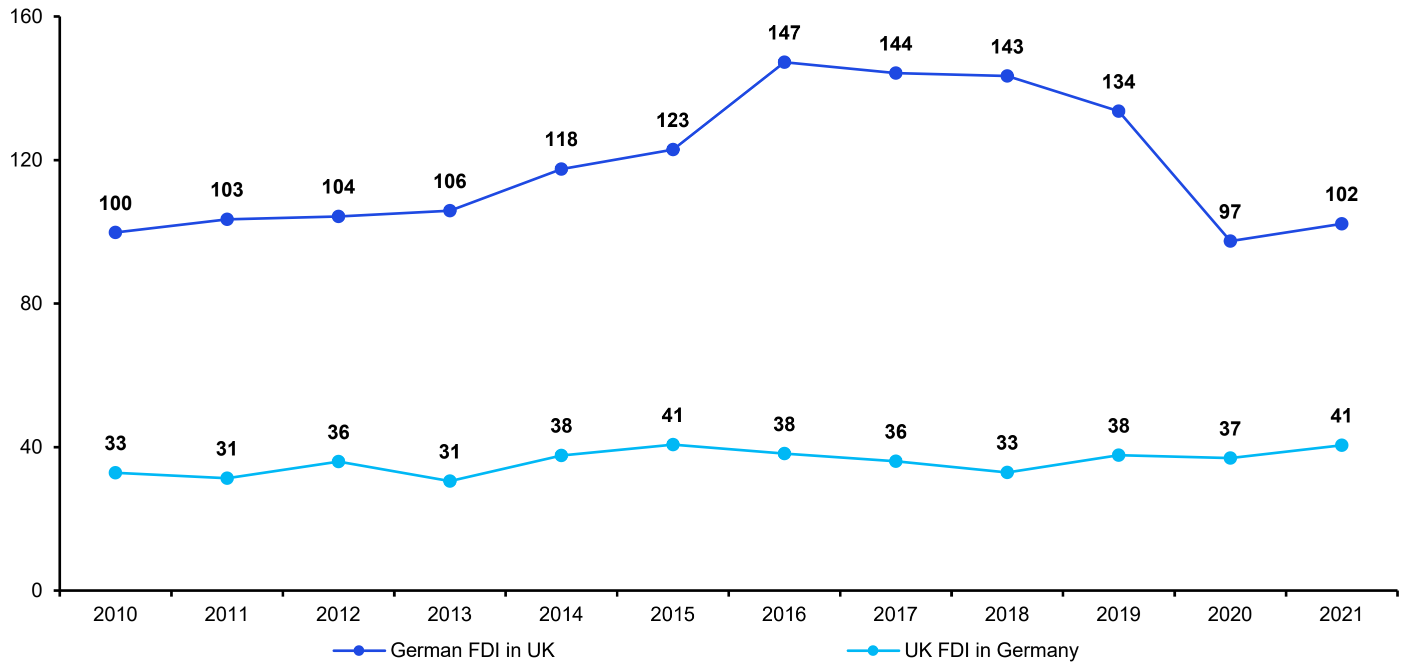


Source: Federal Statistical Office of Germany

- While exports and imports in 2022 and exports in 2023 grew by value (see two slides before), the **volume of traded goods has continued to decline** since the Brexit referendum. **Rising prices and inflation partly masked the strong decline in trade volumes**
- In particular, the **volume of imports from the UK to Germany almost halved over the past ten years** from 21 million tons in 2013 to just 12 million tons in 2023
- **Exports from Germany to the UK** have been **falling** steadily since the Brexit referendum **without exception**

2021 was a turning point for direct investments – but still a far cry from pre-Brexit days

Figure 4: **Direct and indirect investment volume (in EUR billion)**



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**
- However, the **volume of UK direct investment in Germany** has **remained largely stable**
- **Direct investments bottomed out in 2021**. This was the first year since the referendum in which direct investments in both directions rose again

Comparative ranking of Germany and the UK (1/3)

Figure 5: **KPIs in respect of renewable energies**

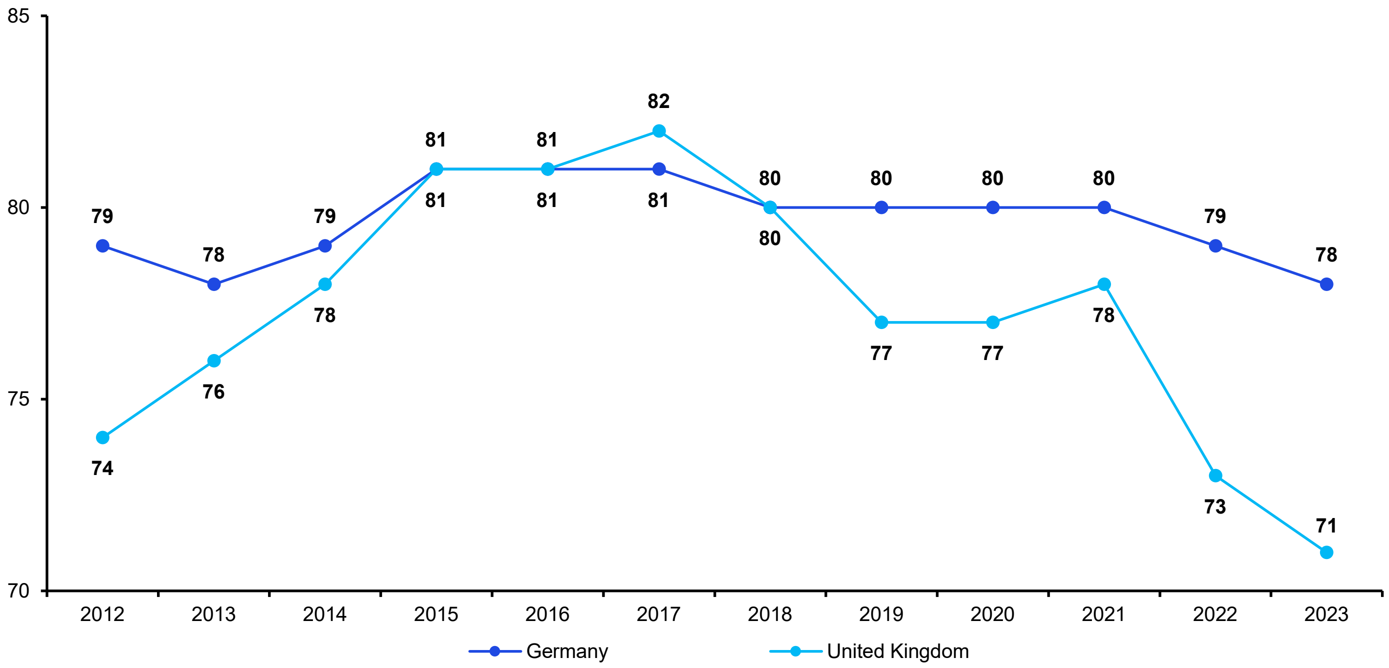
ESG Index	14	28
Logistics Performance Index	3	19

Source: Global Risk Profile (2022), World Bank (2023)

- 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 2023, Germany ranked 3rd and the UK 19th out of 139 economies in the **World Bank's Logistics Performance Index** (LPI). The LPI 2023 ranks countries on six dimensions of trade, including customs performance, infrastructure quality, and timeliness of shipments

Comparative ranking of Germany and the UK (2/3)

Figure 6: **Corruption Perception Index (CPI) score (0=lowest/100=best performance)**



Source: Transparency International

- In 2023, **Germany ranked 9th**, the **UK 20th out of 180 economies** in Transparency International's Corruption Perception Index
- The sharp drop in the UK's CPI score since 2021 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
- However, according to Transparency Germany, loopholes need to be closed in Germany, for example improving prosecuting cases of bribery of members of parliament
- The average CPI score remained unchanged at 43. Both countries are therefore **well above average**

Comparative ranking of Germany and the UK (3/3)

Figure 7: **KPIs in respect of renewable energies**

	Germany	UK
Share of renewable energies in electricity generation (2023)	56 %	43 %
Electric vehicle charging points (January 1, 2024)	113,112	55,301
Number of wind turbines (end of 2023)	28,677	~11,500

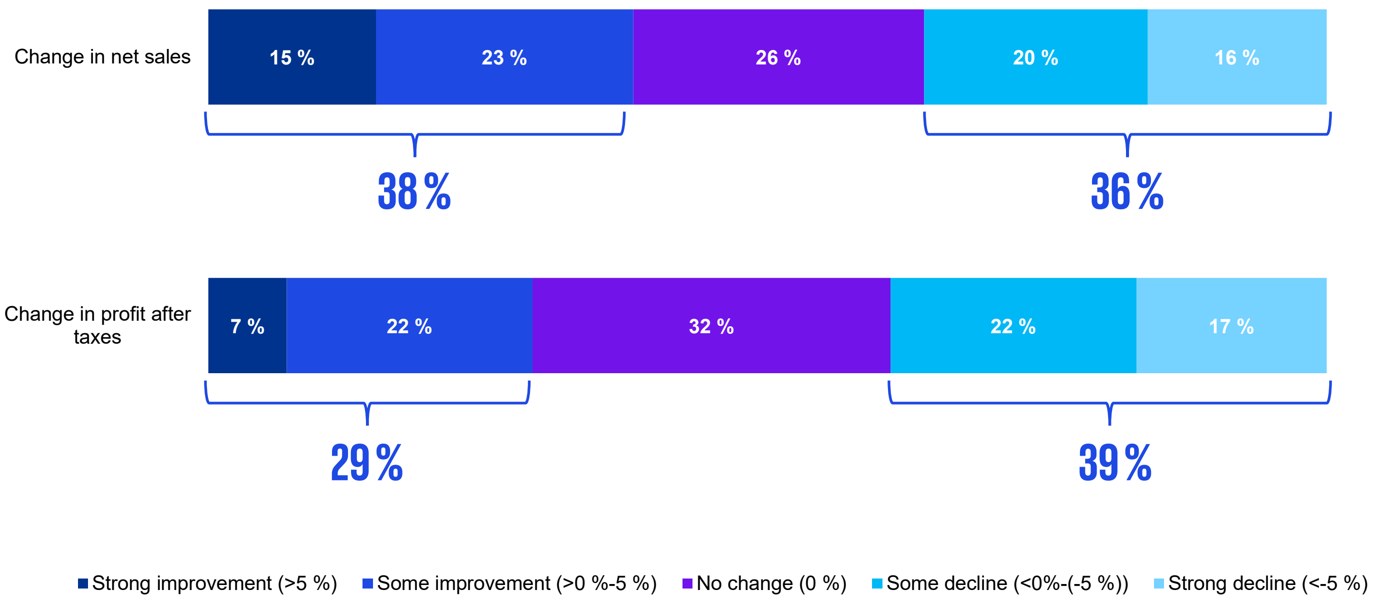
Source: Fraunhofer Institute for Solar Energy Systems ISE, Statistisches Bundesamt, Reuters, Bundesnetzagentur, Zap-Map, BWE, BBC

- The **share of renewable energies** in the volume of electricity generated and fed into the grid in **Germany** rose 10 percentage points to **56 %** in 2023 compared with the previous year
- In the **UK**, renewable power sources generated **43 %** of electricity in 2023, up from 40 % in 2022, but 13 percentage points below Germany
- The **number of charging points** increased by 49 % Y-o-Y in the UK and 40 % in Germany in 2023. Germany has more than twice as many charging points as the UK
- In 2023, **wind energy** had the largest share in German electricity production at 31 %, ahead of coal and other energy sources. The UK's wind farms contributed a record 32 % of the country's electricity in 2023, surpassing natural gas for the first time. Germany also has more than twice as many **wind turbines** as the UK

01
Business development and outlook

Declines also continued in 2023 and at least match the improvements

Figure 8: **Change in net sales and profit after taxes in the UK-Germany corridor in 2023 vs. 2022**

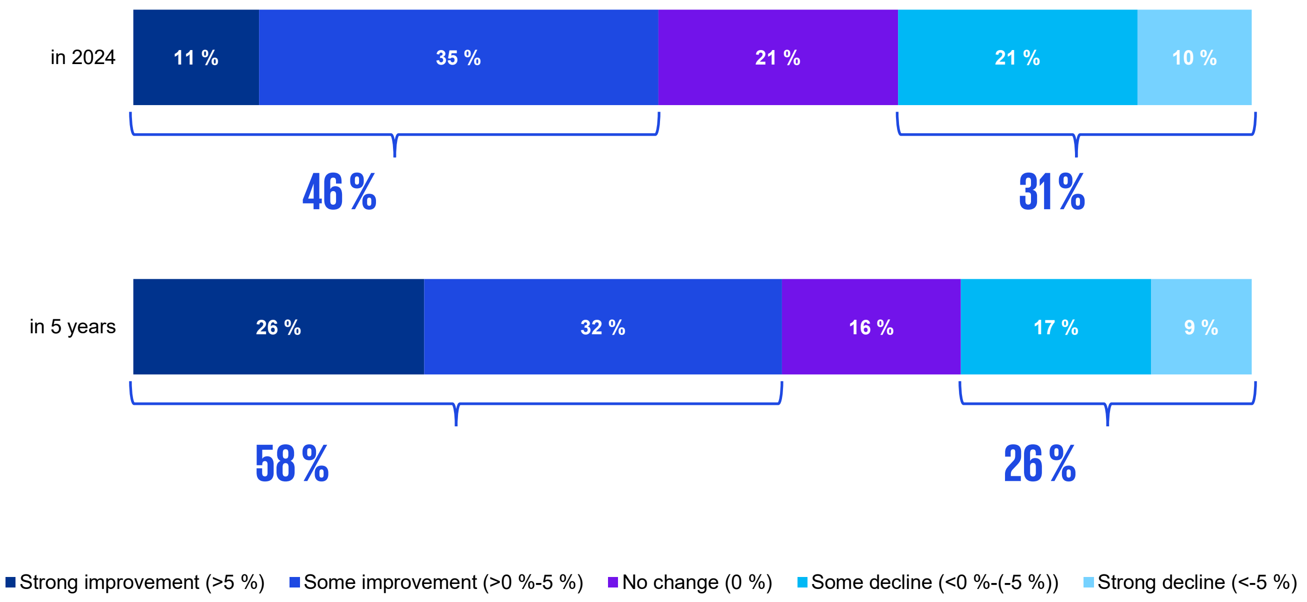


Source: KPMG and BCCG, 2024; (n=74); rounding differences possible

- While 38 % of the companies reported an improvement in turnover in 2023, nearly the same percentage of companies surveyed (**36 %**) reported a **decline in net sales**
- With regard to profits after taxes, the picture is even more clear: only 29 % were able to realize an increase in profits in 2023 whereas **39 %** reported a **decrease in profits**
- **Brexit continues to impact businesses in the UK-Germany corridor** four years after entering into effect

Declining trend continues but levels out over time

Figure 9: **Expectations for net sales**

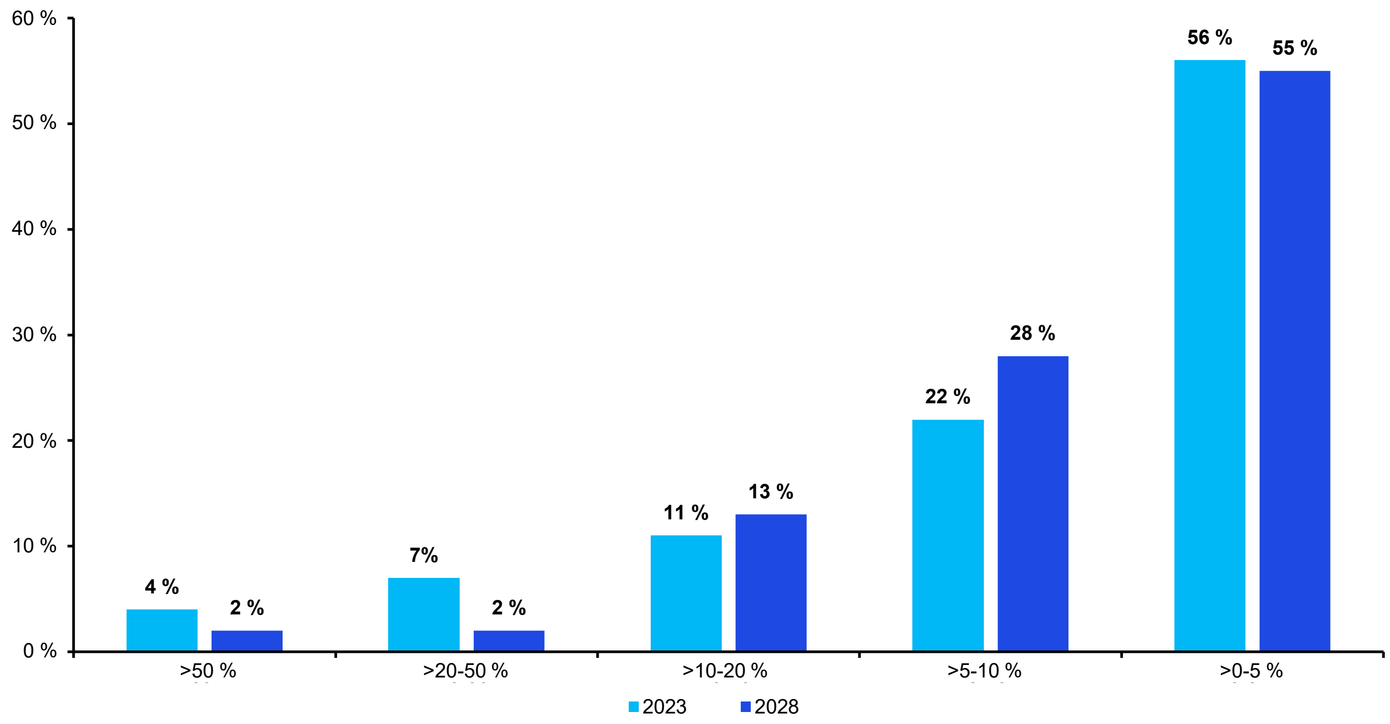


Source: KPMG and BCCG, 2024; (n=77); rounding differences possible

- Considering that 36 % of the companies experienced a drop in their net sales in 2023 (see previous slide) it is noteworthy that this trend remains nearly unbroken: **31 % expect declining net sales** also in the current business year **2024**
- It is striking that even **within a timeframe of five years**, **26 %** of the companies **anticipate a further decline** in net sales
- Yet **46 %** expect **improving net sales in 2024** and **58 % in five years**

Relevance of UK market expected to diminish

Figure 10: **Headquarters in Germany: Share of trade with the UK**



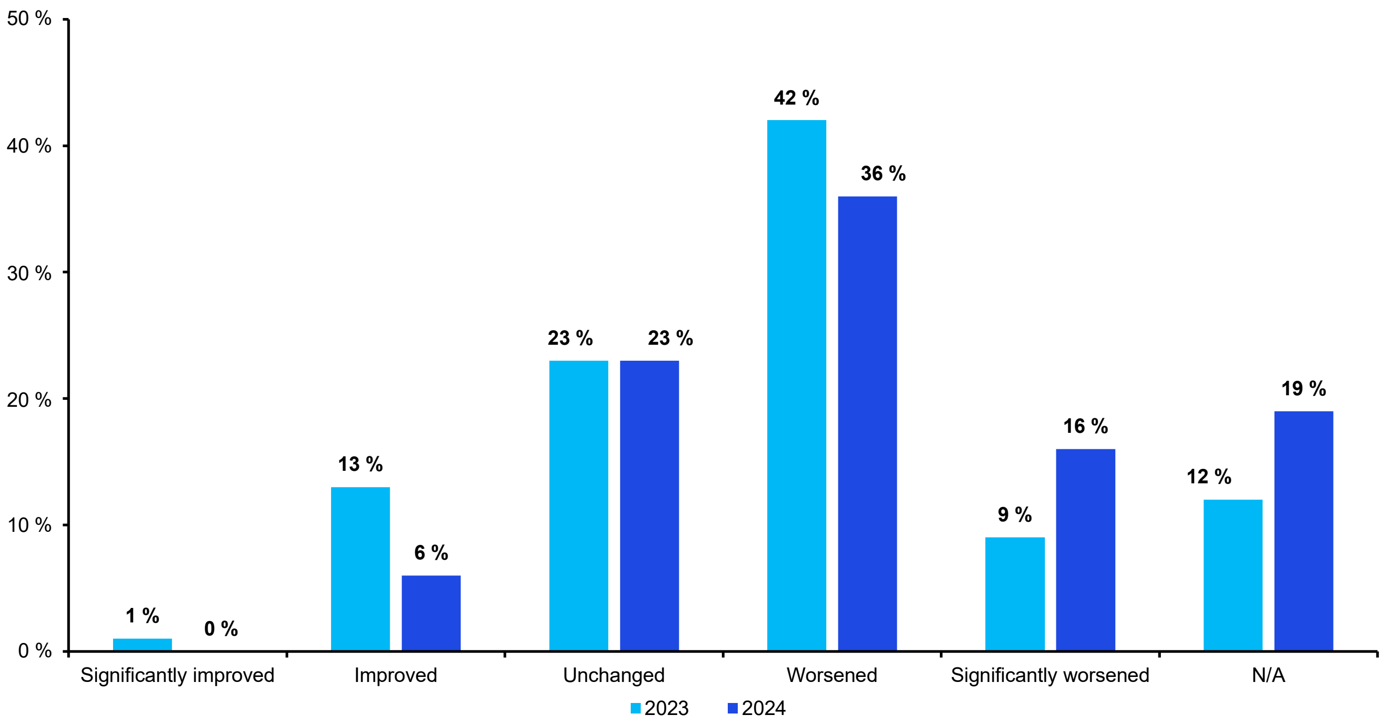
Source: KPMG and BCCG, 2024; (n=46); rounding differences possible

- 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 **decrease 5 percentage points** between 2023 and 2028 to 17 %
- The results show that companies are expecting a **decreasing share of their trade volume in the UK-Germany corridor** as compared with the global trade of their group

02
Brexit impacts

Negative impacts of Brexit more clearly felt

Figure 11: **Brexit impact since February 2020**



Source: KPMG and BCCG, 2024; 2024: n=88; 2023: n=69, rounding differences possible

- As in the previous year, most of the companies surveyed (52 % each) state that the **impact of Brexit on their businesses has worsened or even significantly worsened** since it came into effect in February 2020
- However, this year the number of companies stating a **significant worsening nearly doubled from 9 % to 16 %**
- At the same time, the share of companies stating that **Brexit improved their businesses** more than **halved from 13 % to just 6 %**
- The results clearly show that companies operating in the UK-Germany corridor have still **not recovered from the impact of Brexit** and that the **consequences are even being felt more severely than in the previous year**

Brexit remains as a lasting burden

Figure 12: **Top 3 most significant consequences triggered by Brexit**

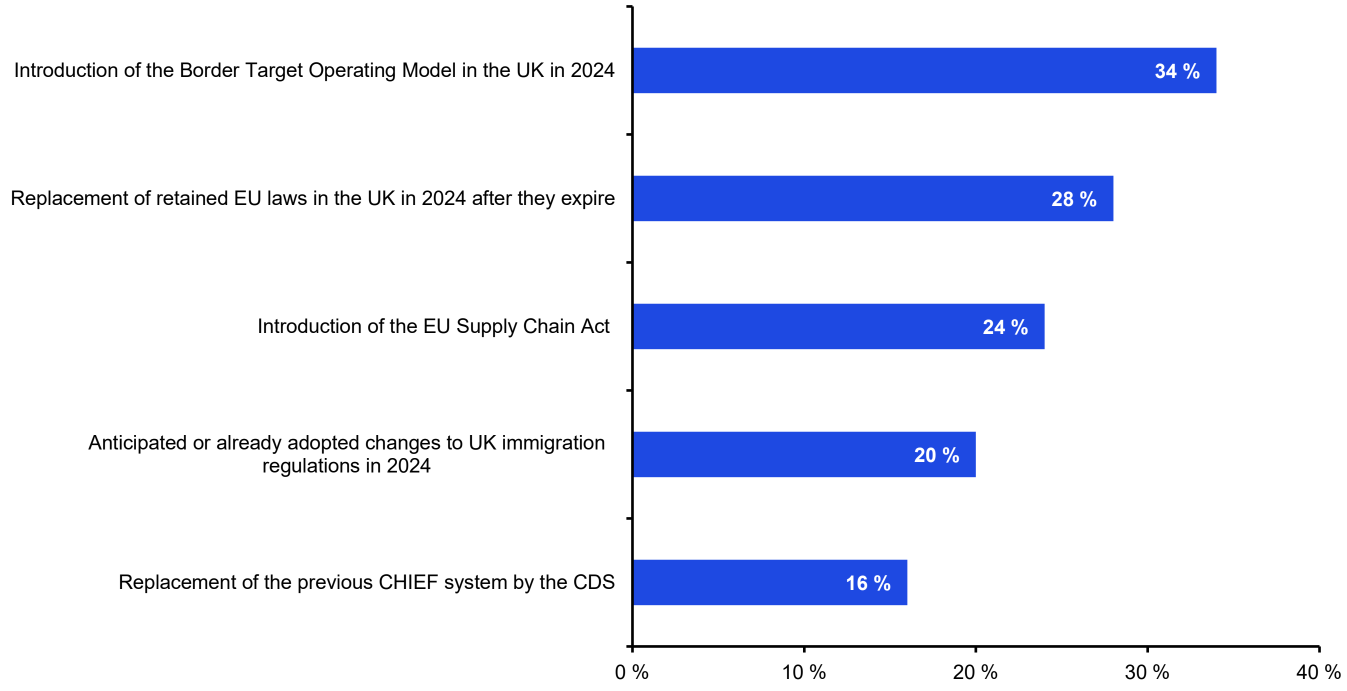
	2024	2023	2021
Increased administrative burden	25 %	26 %	46 %
Increased logistics costs	13 %	15 %	43 %
Increased customs duties	12 %	10 %	36 %

Source: KPMG and BCCG, 2024; 2024: n= 66; 2023: n=58; 2021: n=50; multiple responses possible

- Although the impact of Brexit has lessened significantly compared to 2021, the survey results show that **no further improvement** has been achieved **since last year.** The **burdens have remained** the same
- The **assessment of the consequences of Brexit remains negative**: 25 % still complain about increased administrative burdens, 13 % about increased logistics costs and 12 % about increased customs duties

New regulations in 2024 will create new burdens

Figure 13: **Impact of new regulations in 2024 on business operations**



Source: KPMG and BCCG, 2024; (n=89); multiple responses possible

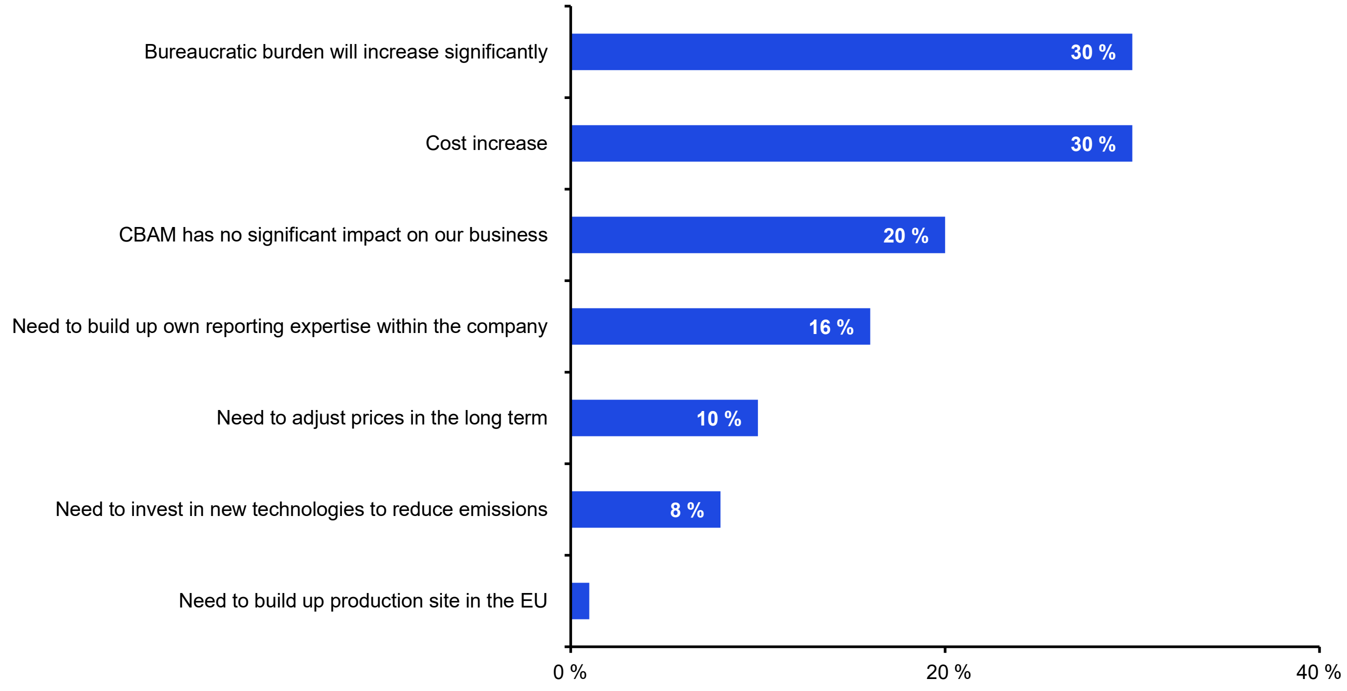
From 2024 onwards, **various new regulations will be introduced in the UK-EU corridor** that had initially been postponed when the Brexit came into effect in 2020:

- 34 % state that they will be affected by the introduction of the **Border Target Operating Model**, which introduces customs controls for further products (specifically animals, plants and food)
- 28 % expect significant impacts on their business operations due to the **gradual replacement of retained EU law in the UK** with new UK law after the retained EU laws expire
- The introduction of the **EU Supply Chain Act** also poses a challenge for nearly one in four companies (24 %)

Learn more in our whitepaper "Brexit 2.0 – the next round of decoupling is approaching ":

Divergent regulations between the EU and the UK are approaching: Deep-dive CBAM

Figure 14: **Effect of the EU Carbon Border Adjustment Mechanism (CBAM)**



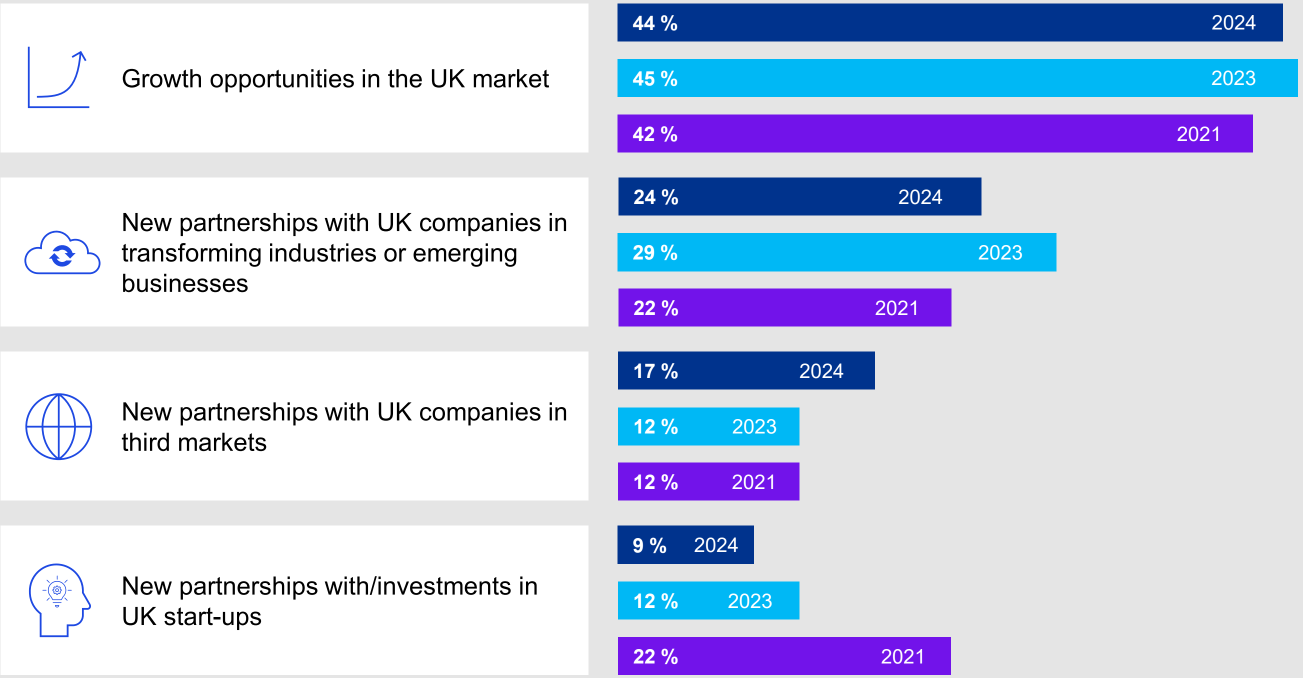
Source: KPMG and BCCG, 2024; (n=86); multiple answers possible

- The **EU Carbon Border Adjustment Mechanism** (CBAM) is the EU's tool to put a fair price on the carbon emitted during the production of carbon-intensive goods entering the EU, and to encourage cleaner industrial production in non-EU countries, such as in the UK. The UK will adopt a CBAM which differs from the EU CBAM
- **30 %** of the companies surveyed expect more **bureaucratic hurdles** and **cost increases** for their business operations in the Germany-UK corridor
- However, for one in five companies (20 %), the CBAM has no significant impact on their business

03
Future plans

Opportunities in the UK

Figure 15: **Main business opportunities in the UK in the next 5 years**

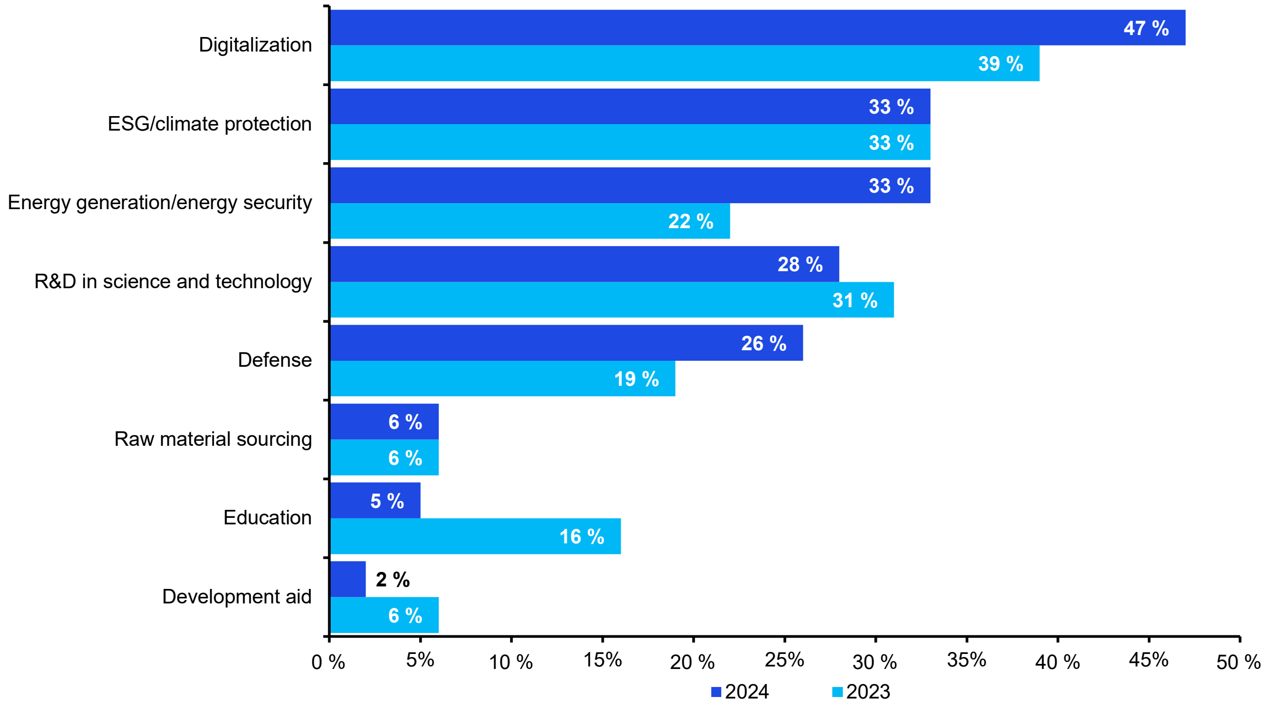


Source: KPMG and BCCG, 2024; 2024: n= 66; 2023: n=58; 2021: n=50; multiple responses possible

- As an existing and growing **sales market**, the UK represents the biggest business opportunity for 44 % in the next 5 years, which is nearly unchanged from the assessments of the respondents who participated in our last two surveys
- The possibility of engaging in **transforming industries** or **emerging business fields in the UK** represents the second-most important business opportunity for 24 %, but decreased 5 percentage points over the previous year
- Interest in new partnerships with UK companies to enter into **third markets rose** 5 percentage points to 17 %
- For the second time in a row, the level of interest in **UK start-ups** as partners declined; it more than halved from 22 % in 2021 to just 9 % in 2023

Chances for cooperation in areas of greatest current demand in Germany

Figure 16: **Major future business fields for cooperation**

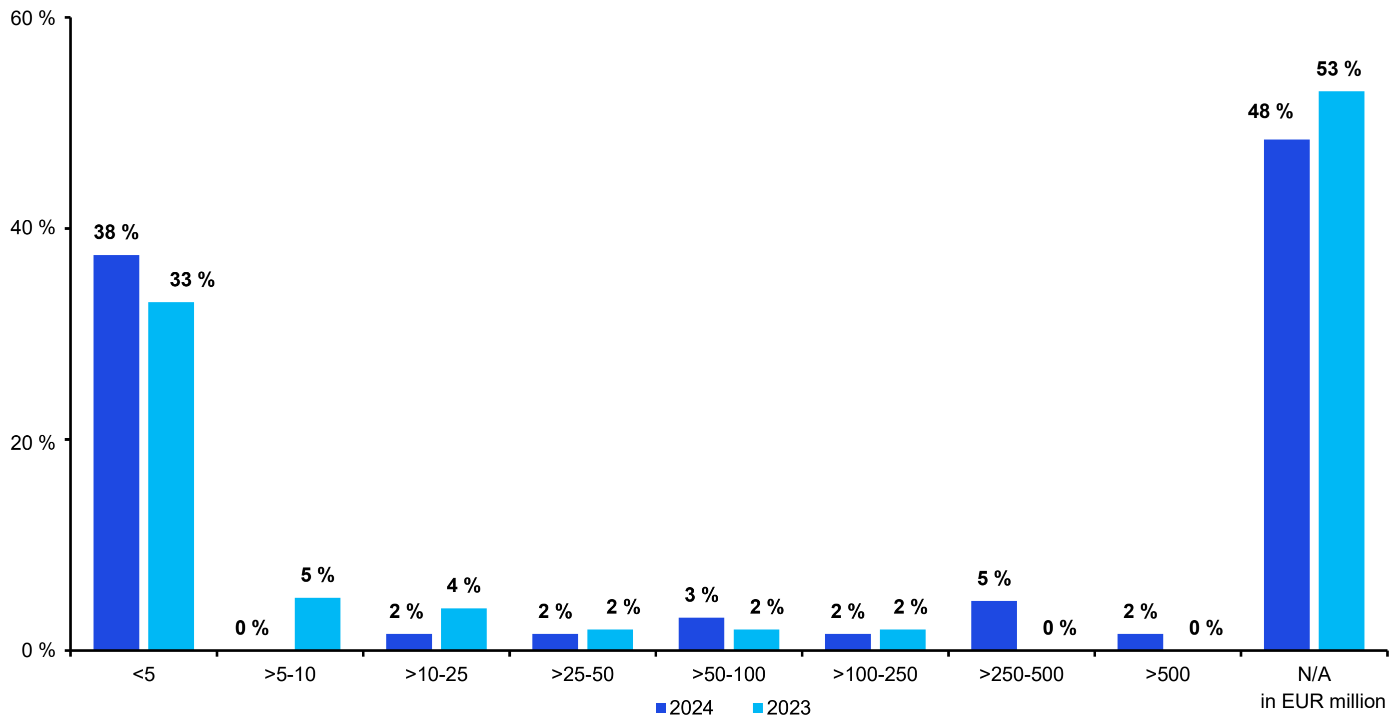


Source: KPMG and BCCG, 2024; 2024: n=87; 2023: n=67; multiple responses possible

- The megatrends of **digitalization** and **ESG** remain the most important business areas for cooperation (47 % and 33 %, respectively). **Digitalization** significantly increased 8 percentage points compared to 2023. Nearly half of respondents saw this as the main future business field for cooperation. This assessment could be influenced by the poor status of digitalization in the German public administration and health sector
- The topic of **energy generation/energy security** is also increasingly seen as a field of cooperation, probably due to the availability of wind energy and gas in the UK. Every third company (33 %) sees opportunities for cooperation here (+11 percentage points compared to 2023)
- Increased opportunities for cooperation in the UK-Germany corridor are also seen in the area of **defense**, which increased 7 percentage points to 26 %. This is probably influenced by the recent security concerns in Europe

Investment plans on the rise

Figure 17: **Investment plans in the UK in the next 3 years**



Source: KPMG and BCCG, 2024; 2024: n=64, 2023: n=57; rounding differences possible

- While none of the companies surveyed were planning **major investment projects** with a volume of more than EUR 250 million in 2023, now in 2024 7 % are already planning such projects in the UK in the next 3 years
- Projects involving **smaller investments** with a volume of up to EUR 5 million also slightly increased compared to the previous year (+5 percentage points) up to 38 %
- Nearly half of respondents (48 %, previous year: 53 %) have **no plans to invest** in the UK in the next 3 years. In 2021, shortly after the Brexit became official, 69 % stated that they had no plans to invest. Reluctance to invest in the UK has gradually lessened since then, but remains at a high level nonetheless

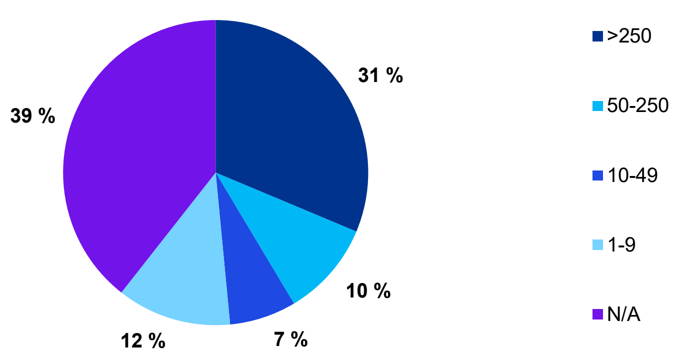
04
Profile of the companies surveyed

Methodology and profile of surveyed companies

For this survey, KPMG in Germany and the British Chamber of Commerce in Germany (BCCG) interviewed both German subsidiaries headquartered in the United Kingdom and British subsidiaries headquartered in Germany. A total of 173 (previous year: 136) companies participated. The survey was conducted between January 22, 2024 and February 28, 2024 (previous year: between April 11, 2023 and April 28, 2023). The questions focused on the economic outlook of the companies and the challenges they face in terms of growth opportunities for their businesses.

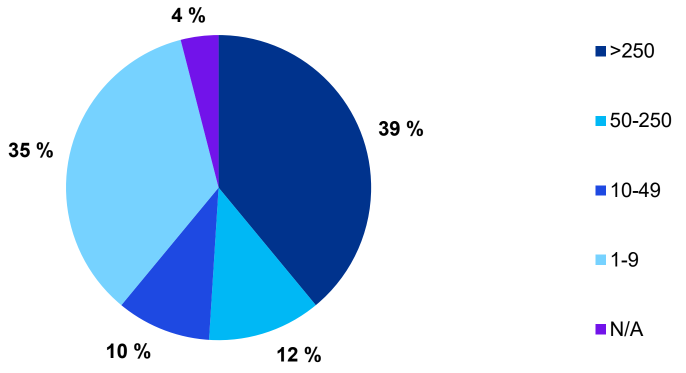
82 % (previous year: 86 %) of the companies surveyed were headquartered in Germany, 18 % (previous year: 14 %) in the UK. Of the companies headquartered in Germany, 42 % (previous year: 44 %) have been operating in the UK for more than 20 years, 19 % (previous year: 18 %) for more than 50 years.

Figure 18: **Number of employees in the United Kingdom**



Source: KPMG and BCCG, 2024; n=140; rounding differences possible

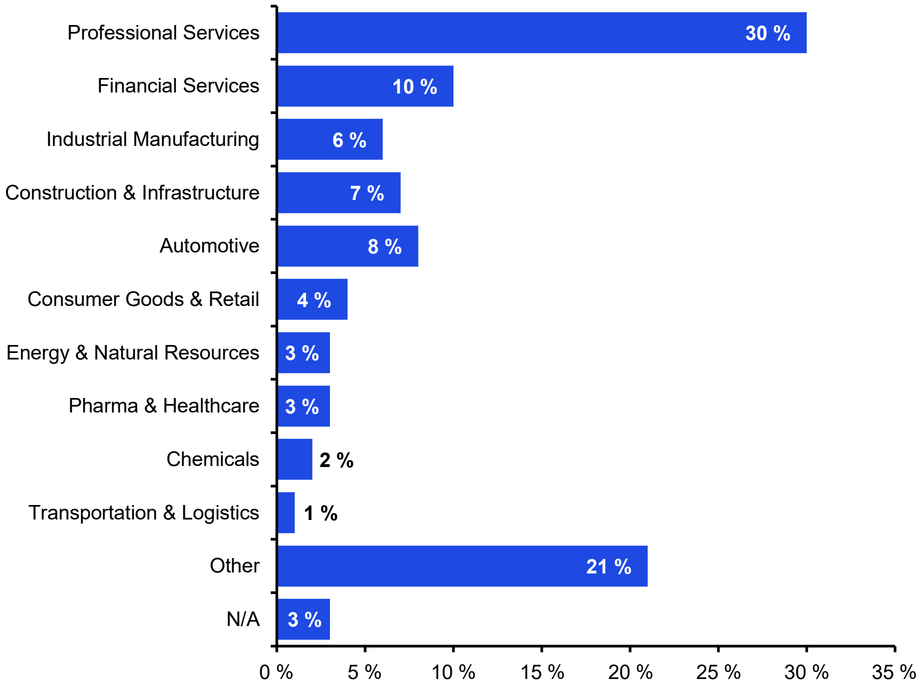
Figure 19: **Number of employees in Germany**



Source: KPMG and BCCG, 2024; n=145; rounding differences possible

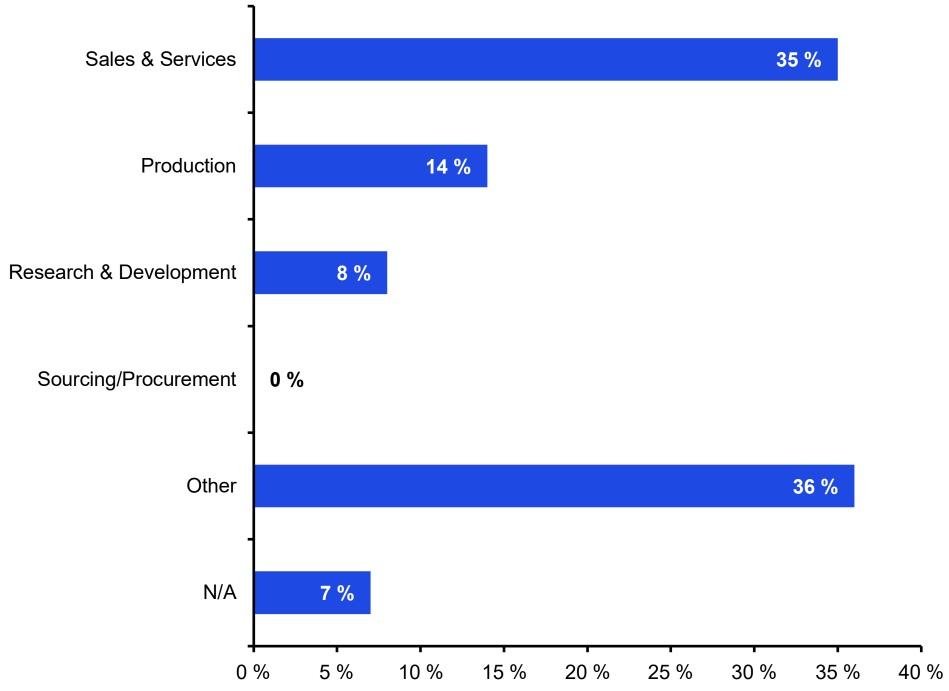
Methodology and profile of surveyed companies

Figure 20: **Breakdown by sector of the companies surveyed**



Source: KPMG and BCCG, 2024; (n=143); rounding differences possible

Figure 21: **Business activities of the companies surveyed**



Source: KPMG and BCCG, 2024; (n=139); rounding differences possible

About us

KPMG

KPMG is a network of independent members firms with around 273,000 employees in 143 countries. In Germany, KPMG is one of the leading auditing and consulting companies and has around 14,000 employees at 27 locations. Our services include Audit, Tax, Consulting and Deal Advisory. Legal advisory services are provided by a legally independent firm.

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 advise German and global multinational companies 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.

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BCCG

The British Chamber of Commerce in Germany e.V. (BCCG) is a privately financed company network with around 600 members and thousands of 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 organizes – unilaterally or with partner organizations – webinars, discussion rounds, conferences and other formats and platforms that serve objective commercial exchange.

www.bccg.de

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