KPMG

British Chamber of Commerce in Germany

100 Days of Brexit – An Interim Conclusion

Survey results

Introduction

Dear Readers,

Since the referendum in 2016, Brexit has been a preoccupation and huge worry for German and British companies for almost four and a half years.

As of January 1, 2021, the United Kingdom has no longer been in the European Union and although a trade and cooperation agreement that regulates a number of matters was concluded just prior to the end of 2020, a lot of issues have yet to be resolved.

Following a sustained period of uncertainty containing many imponderables, the time has now come – after the first 100 days of Brexit – to draw an interim conclusion about its effect on German-British commerce.

This whitepaper, thus, continues a series of studies over recent years on the subject of Brexit conducted by KPMG AG Wirtschaftsprüfungsgesellschaft and the British Chamber of Commerce in Germany (BCCG).

We would like to extend our special thanks to the companies that have once again participated and who have given us their very impressive views on business life after Brexit.

Details of how the survey was conducted and on its participants are provided at the end of the whitepaper.

We hope you will find it an enjoyable and interesting read that gives you new insight into the consequences of Brexit from the perspective of companies that have had their business activities directly affected by it.

Best regards,

Andreas Glunz
Managing Partner
International Business
KPMG in Germany

Michael Schmidt
President
British Chamber of Commerce
in Germany

Executive Summary

Majority negatively surprised by effects of Brexit

67 percent of companies consider Brexit to be worse than they expected at the beginning of 2021, and believe that it will lead to additional declines in turnover and growth of losses.

Companies turn their backs on the UK-German trade corridor

Additional burdens cause companies to switch to other trading partners.

Bleak prospects – little hope for return to old strength

Trading volumes in the long term will remain below the already low levels seen in 2020. There is also little hope for new drivers of growth in the medium term. Most companies surveyed (51 percent) expect the importance of UK-German business to decline in the long run.

Bureaucracy and rising costs become big challenges

Respondents identified additional administrative burdens (76 percent), new or additional duties and tariffs (45 percent) and rising freight rates (38 percent) as the three biggest operational challenges.

Brexit causes collapse of cross-border traffic of goods and services

A sustained downturn in trade due to Brexit: in 2020 alone, trade volume in the German-British corridor fell by 12.3 percent compared to the previous year – due also in part to the pandemic.

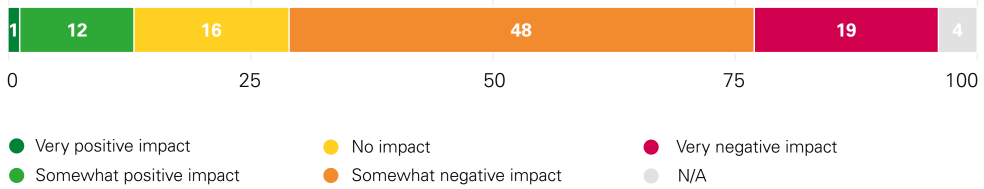
Many losers – few winners

Most participants do not expect any significant opportunities and benefits to result from Brexit. Companies that believe otherwise think the most likely opportunities will be around taxation and partnerships in third markets.

Brexit effects more negative than expected

Around 100 days after Brexit, two-thirds of the companies surveyed (67 percent) rate the actual effects of it as more negative than were expected at the beginning of 2021. Almost one in five companies (19 percent) even report far more negative developments with regards their own businesses compared to expectations that existed on January 1, 2021. Only 13 percent of respondents were surprised in a positive sense.

Figure 1:
Actual effects of Brexit compared to expectations on January 1, 2021



Source: KPMG Germany and BCCG, 2021; figures in percent (n=70)

This is one of the results of the recent survey conducted by KPMG AG Wirtschaftsprüfungsgesellschaft in collaboration with the British Chamber of Commerce in Germany (BCCG), for which 93 member firms of the BCCG were surveyed in the period from March 23, 2021 to April 12, 2021 about their experiences with Brexit following the ultimate withdrawal of the United Kingdom from the European Union.

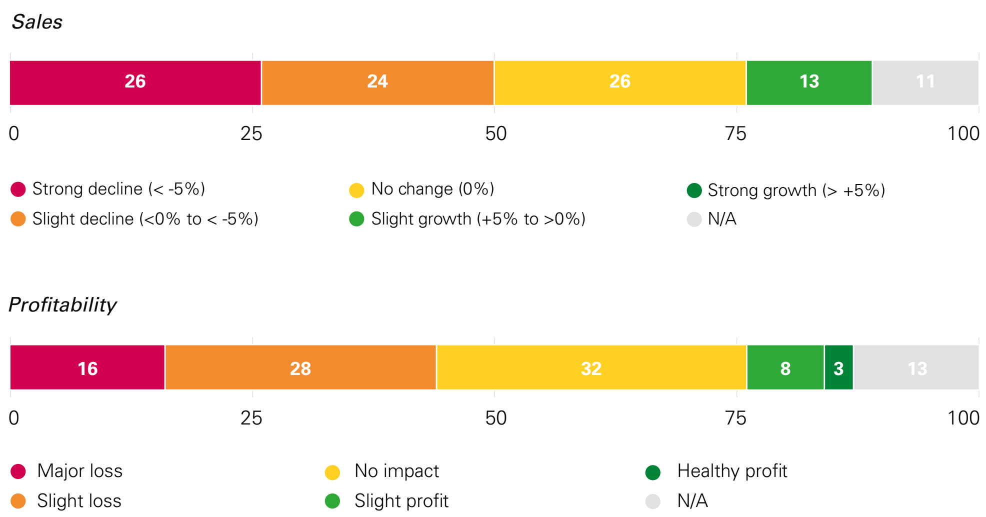
It was not until December 24, 2020 that the United Kingdom and the European Union agreed on a trade and cooperation agreement, which took effect shortly after January 1, 2021. In retrospect, almost four out of five companies (78 percent) saw themselves as well or even very well prepared for Brexit at the beginning of January 2021. But every tenth company (10 percent) admits, even four and a half years after the Brexit referendum, to have not been sufficiently prepared for Brexit or not prepared at all, particularly with regard to implementing the customs processes their company needed to adopt. One factor that contributed to this inertia was that the agreement – made immediately prior to Christmas – still had several surprises in store, such as rules of origin for imported goods.

Majority of companies suffering major revenue and profit losses

The figures explain why many companies are suffering great commercial disappointment following Brexit in term of sales and profits. Every second company (50 percent) has recorded a decline in sales over the first 100 days of Brexit, and every fourth company (26 percent) has even recorded a sharp drop in sales. However, Brexit has had no effect on the development of sales for a quarter of companies (26 percent) and a minority (13 percent) have even recorded slight increases in sales of up to 5 percent.

The effects of Brexit are no less stark when it comes to profitability: 44 percent of companies surveyed have generated losses since January 1, 2021 and almost one in six companies (16 percent) even experienced a sharp drop in earnings. On the other hand, an almost one in three companies experienced no change and 11 percent actually recorded a growth in profits.

Figure 2:
Trend in sales and profitability



Source: KPMG Germany and BCCG, 2021; figures in percent (n=62)

The significant losses in earnings result primarily from additional administrative costs, customs duties and charges as well as logistics costs, including transport. Moreover, given the complex regulations and cumbersome formalities, more than one in four companies surveyed (27 percent) voluntarily did not apply the preferential customs rates (zero tariff) provided for in the free trade agreement and instead accepted paying wholly avoidable customs duties in the first 100 days of Brexit. This is glaring testimony to the enormous consequences of Brexit for companies trading with the United Kingdom.

“Already since the referendum in 2016, the trade volume between the UK and Germany has been in rapid decline. The implementation of Brexit has led to further sharp declines in revenue and earnings in the first 100 days. At the same time, the trend towards exchange of suppliers in the German-British corridor is continuing, which is likely to lead to further declines in trade. As there seems little chance of new opportunities on the horizon, an improvement is not expected in the medium term.”

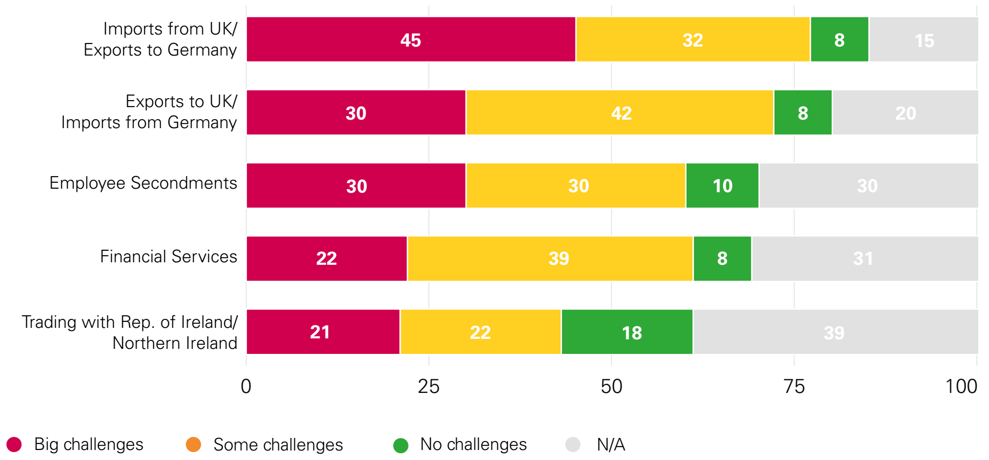
Andreas Glunz
Managing Partner International Business
KPMG AG Wirtschaftsprüfungsgesellschaft

German-British trade under continued pressure

In the overall assessment of post-Brexit German-British export trade, the transfer of goods is considered a particular challenge: more than three quarters (77 percent) of all companies surveyed report difficulties in moving goods from the UK to Germany. 45 percent even describe it as a major challenge at that. The reverse trade route, exporting German goods to the UK or importing German goods into the UK, is also seen as a challenge by 72 percent of the companies surveyed, and thereof 30 percent see it as a major challenge.

Not only the movement of goods, but services too present the surveyed companies with difficulties. Issues such as secondment and financial services are both considered a challenge by 60 percent of participants. Nearly a third (30 percent) consider secondments and staff deployment a major challenge in each other's country.

Figure 3:
Biggest challenges in British-German commercial trade

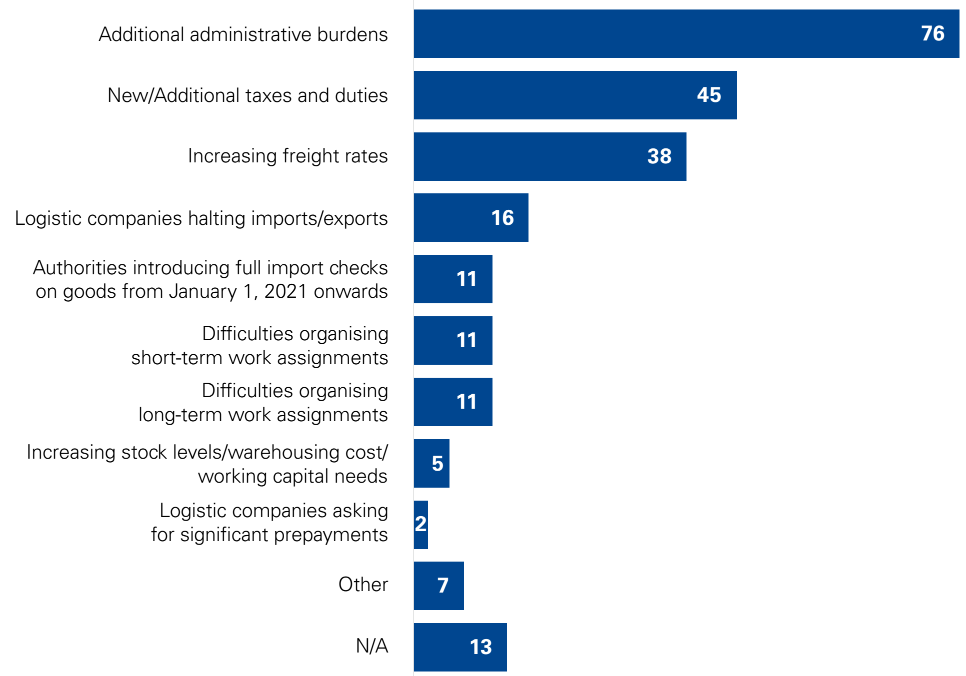


Source: KPMG Germany and BCCG, 2021; figures in percent (n=61)

Administrative expenses and cost increases lead to evasive reactions

According to the respondents, the three largest operational issues are additional administrative expenses (76 percent), new and additional customs duties and charges (45 percent) and increasing freight rates (38 percent).

Figure 4:
Major operational challenges



Source: KPMG Germany and BCCG, 2021; multiple choice possible; figures in percent (n=55)

About three quarters of the companies surveyed anticipated additional administrative expenses as a result of Brexit. This has been proved true. The movement of goods between Germany and the UK now requires extensive accompanying customs documentation, such as export and import declarations (with the exception of Northern Ireland), customs declarations, health certificates for food products, proof of origin and, where applicable, supplier declarations. In order to take advantage of zero tariffs (zero customs rates), companies must declare the country of origin and document it in detail, and prove that, as the exporting country, the goods originate in the EU or the UK; otherwise customs duties will be due.

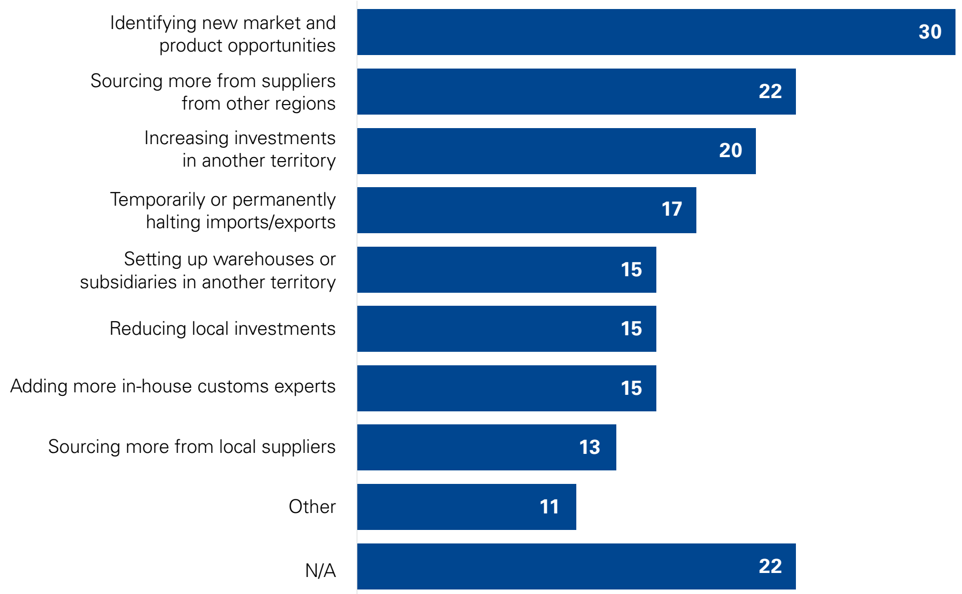
The new border controls have also led to additional logistical challenges, for example, through longer transport times, empty runs and additional intermediate storage, which have become necessary to ensure the security of supply within sensitive supply chains. Adjustments to the Incoterms for exports will also become necessary, as previous regulations on bearing risks and costs will have to be reassessed.

And finally, price increases may become necessary to cover the additional costs, endangering competitiveness with local operators or, depending on the market, EU suppliers.

In response to all this, more than one in six of the companies surveyed (17 percent) have decided to cease export trade altogether. To avoid additional burdens in import and export, companies have also decided to look for new suppliers outside the German-British corridor: 22 percent have changed to suppliers from other countries and another 13 percent have replaced imports with goods/services from local suppliers. Only around 30 percent of those surveyed continue to trade along the German-British corridor and these have indicated that they are looking for new sales markets and product opportunities in that space.

Investment levels in the various locations can be used as an indicator of the long-term effects of Brexit. And things look bleak here as well: one in five companies (20 percent) are increasing their investment in other regions and 15 percent of respondents are reducing their local investment.

Figure 5:
Response to adverse effects on export trade

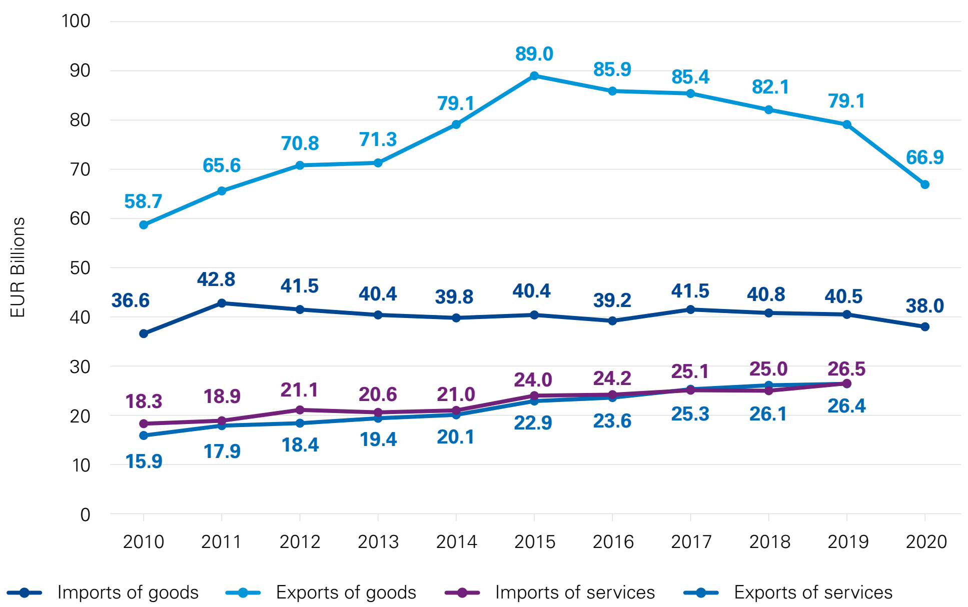


Source: KPMG Germany and BCCG, 2021; multiple choice possible; figures in percent (n=61)

Sustained slump in trade due to Brexit

Since the Brexit referendum in mid-2016, German-British trade in goods has already declined by almost a quarter from EUR 139.4 billion in 2015 to approximately EUR 104.9 billion in 2020. In 2020 alone – taking into account the COVID pandemic – the trade volume in the German-British corridor dropped by 12.3 percent compared to the previous year. German exports to the UK declined by more than imports from the UK.

Figure 6:
German trade in goods and services with the United Kingdom



Source: German Federal Office of Statistics 2021; trade volume in EUR billions

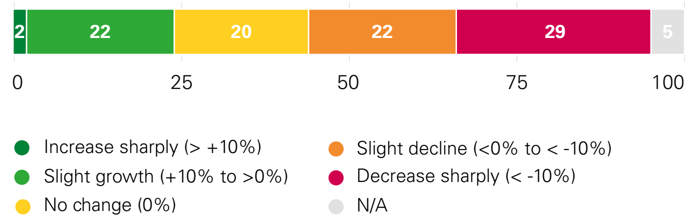
When it comes to the issue of when the current disruption to German-British export trade can be expected to be resolved, respondents offer a sober assessment: two out of three companies (65 percent) assume that acute disruption to the German-British export trade will continue for more than two years. 29 percent do believe that this disruption will be resolved by the end of 2021.

It appears that normalisation of German-British trade relations, i.e. a return to 2015 levels, is generally not expected by forecasters, even in the medium term. Trade in goods at a significantly lower level than in 2020 seems a more realistic scenario.

Incidentally, only two percent of the surveyed companies say that for them German-UK trade has been smooth over the first 100 days of Brexit.

It is, therefore, not surprising that for the majority of companies surveyed the importance of German-British trade will decline. More than half of the companies surveyed (51 percent) assume that their British-German trade will lose importance by 2025. 29 percent even expect a major decline of more than 10 percent by 2025. More encouraging is that almost one in four companies (24 percent), on the other hand, believe that their German-UK trade will increase by 2025.

Figure 7:
Trend in business

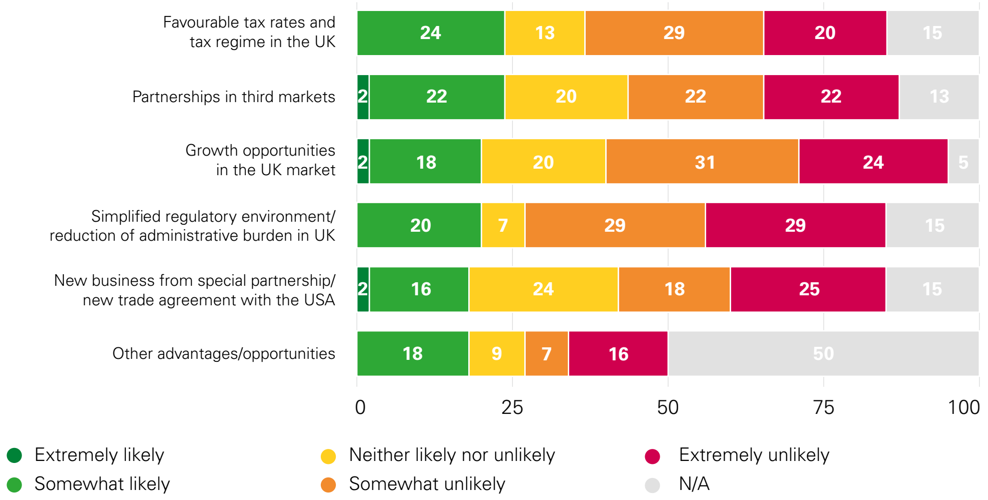


Source: KPMG Germany and BCCG, 2021; figures in percent (n=55)

Little prospect of improvement, also in the medium term

The majority of respondents do not expect significant opportunities or benefits to derive from Brexit. Companies see the most likely opportunities in the areas of taxation and partnerships in third markets.

Figure 8:
Potential Brexit opportunities or benefits



Source: KPMG Germany and BCCG, 2021; deviations from 100 percent due to rounding differences; figures in percent (n=55)

"The current results are a clear alarm signal. The fact that companies have considered or even actually decided to completely cease foreign trade relations shows a further level of negative escalation in the wake of persistent, unresolved problems between the two trading partners. As a chamber of commerce, we expected that Brexit would lead to severe trade disruptions, however, the current situation goes far beyond that. We are receiving more and more inquiries from British companies that would like to establish themselves in Germany, in order to be able to maintain business relations with our country. At present, this is clearly the only option for the continuation of mutual – although initially declining – business relations."

Michael Schmidt
President
British Chamber of Commerce in Germany

Almost a quarter of respondents (24 percent) hope for more favourable tax rates or a more advantageous tax system in the UK. However, almost half (49 percent) consider this somewhat, if not extremely unlikely.

The current economic figures back up the view that hopes of an upturn are unlikely: the British economy contracted by almost 10 percent in 2019, the unemployment rate averaged 5.0 percent between November 2020 and January 2021, and as recently as March 2021, the British government announced a budget deficit of GBP 271 billion for the current fiscal year (2021). The group of those who do not believe in any forthcoming tax relief will probably feel vindicated by recent announcements from the British Chancellor of the Exchequer, Rishi Sunak, proposing a raise in the corporate tax rate from the current 19 percent to 25 percent from April 2023.

Even if the challenges posed by the Coronavirus crisis become more manageable in the short term, i.e. as a result of herd immunity, this leaves little room for the British government to reduce taxes. The independent institute, Office for Budget Responsibility, expects the UK's public debt to rise from 85.4 percent in 2019 to as high as 97.1 percent of GDP in 2023 as a result of the twin pressures of the Coronavirus crisis and Brexit.

24 percent of the companies surveyed consider it likely that Brexit may lead to benefits with regard to partnerships in third markets. However, almost twice as many companies (44 percent) consider this somewhat or extremely unlikely.

In principle, there are certainly opportunities for German companies to participate in the new partnerships envisaged by the UK. Through their participation in these UK partnerships, companies can benefit from advantages that may arise, for example, from a US-UK trade agreement (special partnership) or from potential cooperation with Commonwealth countries like Australia, India or those in Africa.

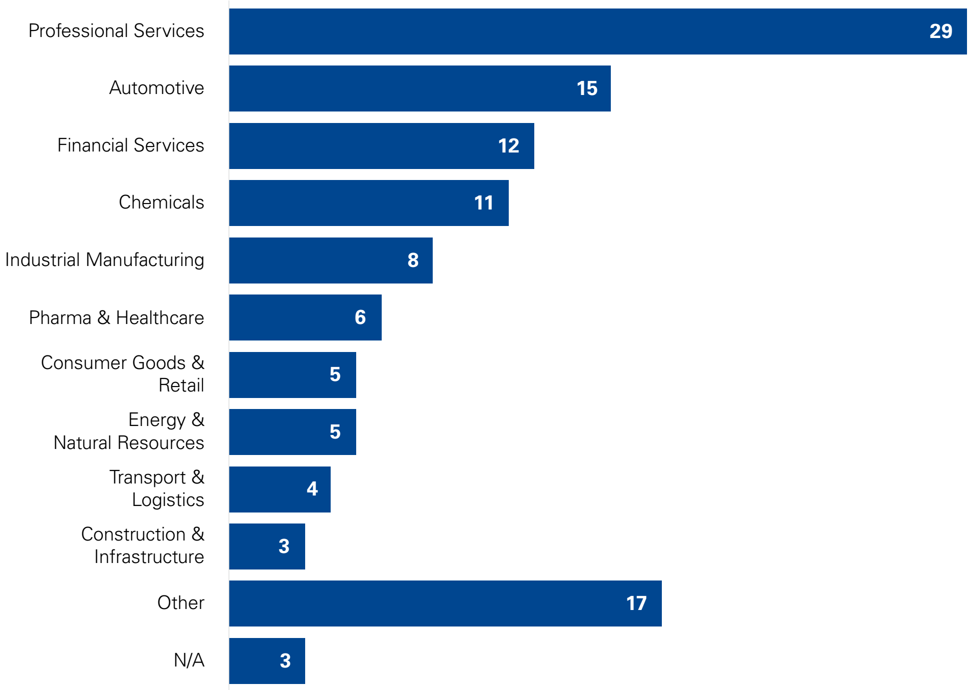
The discrepancy in the assessment of potential is most apparent, however, with regard to growth opportunities in the British market: only one in five companies (20 percent) consider it likely that they will be able to realise growth potential in the UK. However, almost three times as many (55 percent) consider this unlikely to happen, and 24 percent even think it extremely unlikely.

When it comes to reducing bureaucracy: 58 percent of companies in the UK do not believe that a simplified regulatory environment will result from Brexit or that it will bring about a reduction of business red tape – even though freedom from EU regulations, which are perceived as complex, was given by Brexit's champions as one of the main reasons why the UK should exit the EU. Still, 20 percent do consider a reduction in bureaucracy to be at least somewhat likely.

About the Survey

For the ‘100 Days of Brexit’ survey, KPMG, in collaboration with the British Chamber of Commerce in Germany (BCCG), surveyed 93 BCCG member firms and further companies with a German-British business relationship – in the period March 23, 2021 to April 12, 2021 – about their Brexit experiences. The surveyed companies are all either based in Germany or the UK.

Figure 9:
Breakdown of surveyed companies by sector



Source: KPMG Germany and BCCG, 2021; multiple choice possible; figures in percent (n=93)

Figure 10:
Nature of business (head office in UK)

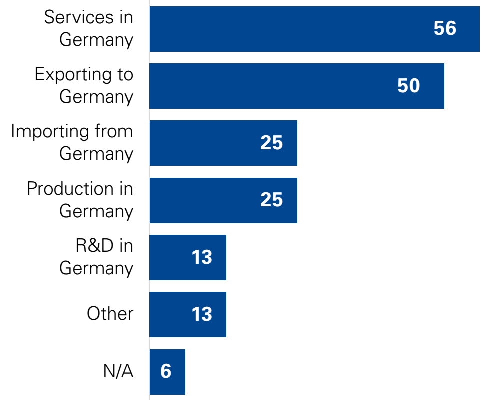
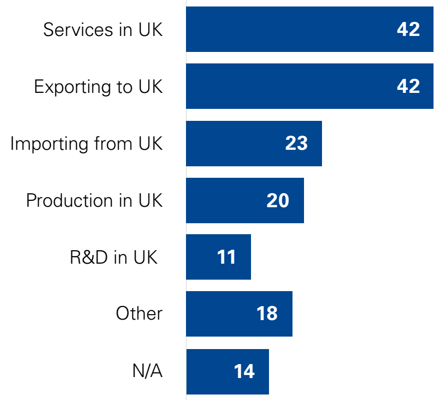
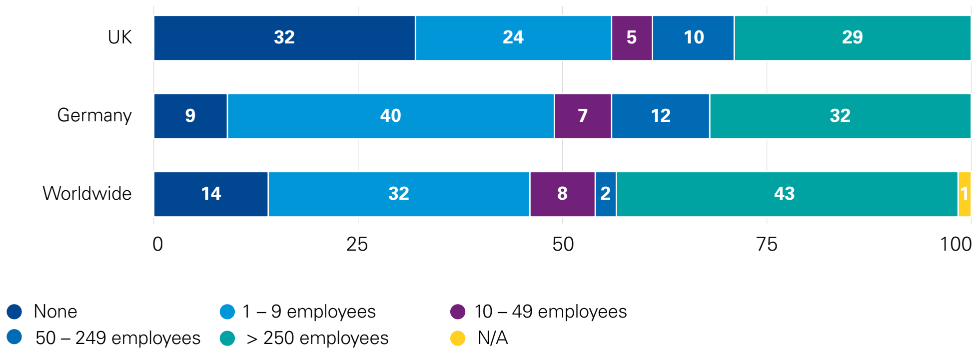


Figure 11:
Nature of business (head office in Germany)



Source: KPMG Germany and BCCG, 2021; multiple choice possible; figures in percent (n=81)

Figure 12:
Surveyed companies staffing numbers



Source: KPMG Germany and BCCG, 2021; figures in percent (n=93)

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