



# The Impact of Brexit on German Businesses

Results of the IHK Business Survey  
Going International 2021

**DIHK**

Deutscher  
Industrie- und Handelskammertag

**IHK**

Deutsche  
Industrie- und Handelskammern

## The main results:

1. The UK's withdrawal from the single market has a negative impact on German-British business. The conclusion of the Trade and Cooperation Agreement can only partially offset this. Additionally, the effects of the Corona pandemic represent a further burden for the British foreign business of German companies.
2. 60 percent of companies rate their current business situation in the UK as poor; 57 percent expect it to deteriorate further in 2021.
3. Three out of four companies have or expect additional customs bureaucracy. In addition, logistics problems, legal uncertainties, and an increase in tariff barriers to trade are the most common effects of the UK's exit from the European single market for businesses.
4. 15 percent of companies are planning to relocate investments from the UK to other states - primarily to Germany and other EU countries.

## Consequences of the Brexit for German companies

### Impact of the Trade and Cooperation Agreement

The United Kingdom left the EU single market on January 1<sup>st</sup>, 2021. Since then, the EU-UK Trade and Cooperation Agreement (TCA) has been provisionally in force between the United Kingdom (UK) and the European Union (EU). For German companies, this means numerous changes for their foreign business in the UK. These include, for example, new customs declarations and customs controls in cross-border goods traffic. The DIHK estimates that German companies will have to submit around ten million customs declarations per year since January 1<sup>st</sup>.

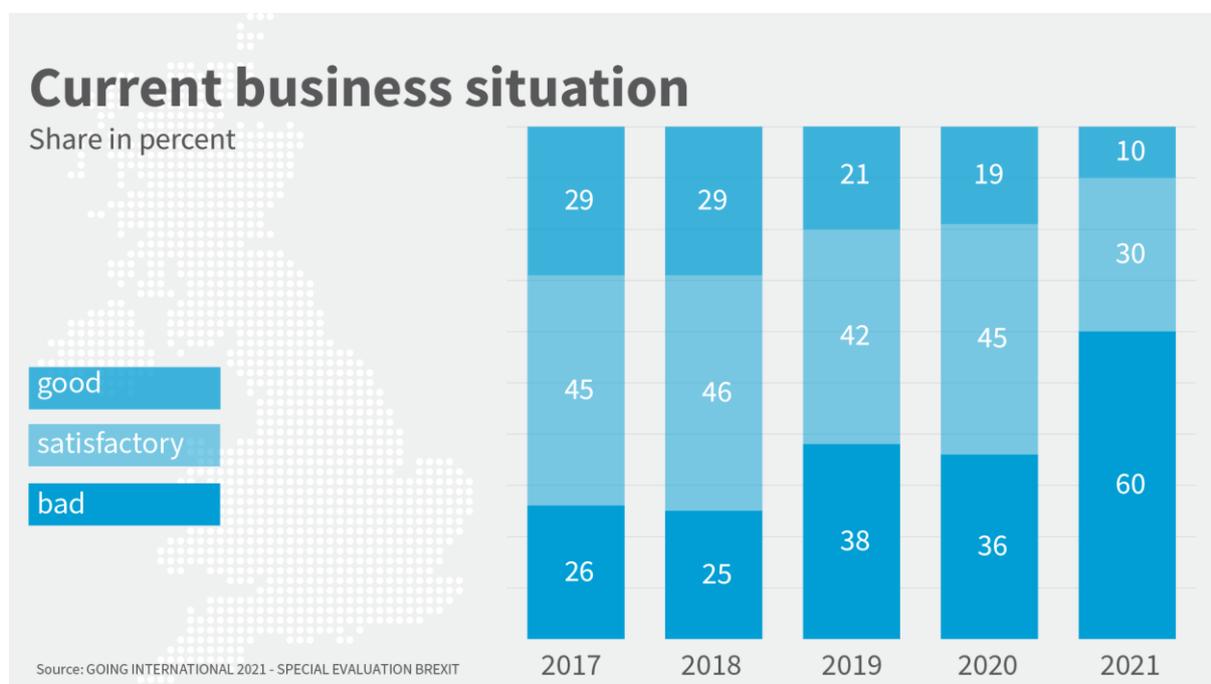
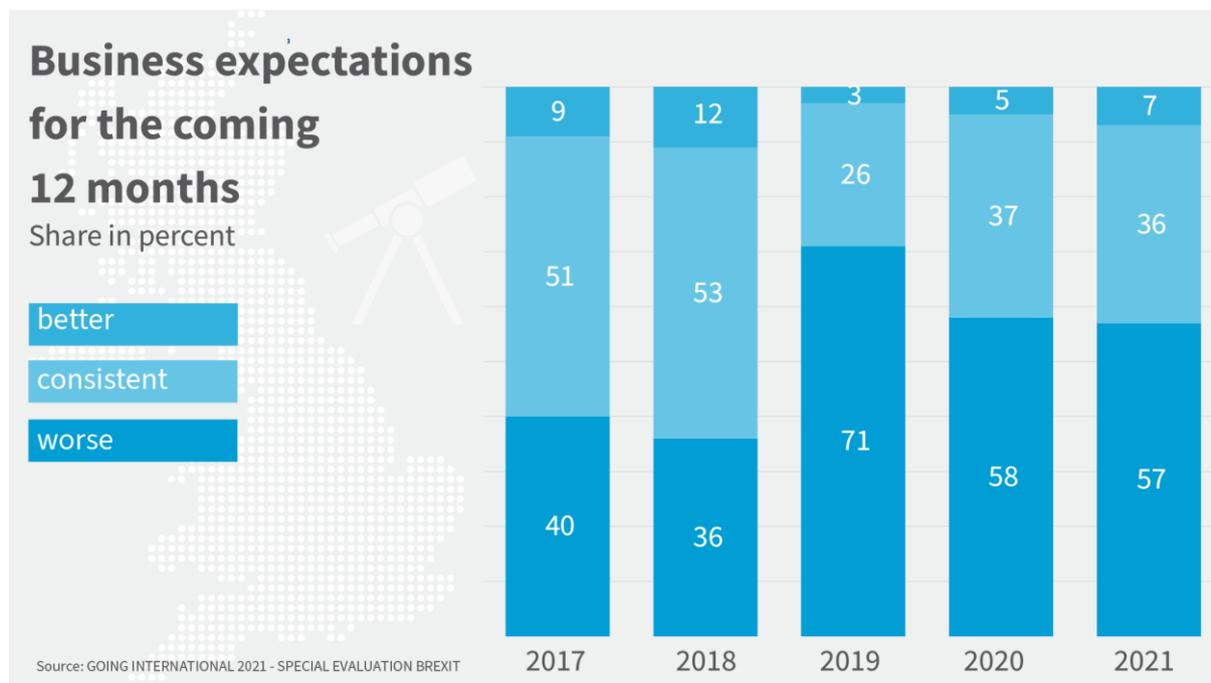
### German-British trade has already collapsed

The United Kingdom is currently only Germany's eighth most important trading partner with a trade volume of 102 billion euros and has lost a place in the ranking for the third year in a row. In 2017, the country was the fifth largest trading partner.

Since the referendum in 2016, German exports to the British Isles have fallen noticeably - from 89 billion euros in 2015 to 67 billion euros in 2020. In this period, the UK has fallen from third to fifth place among Germany's most important export markets. Around 750,000 jobs in Germany depend on exports to the UK.

## Assessment of the companies

With the UK's exit from the EU single market, German companies rate their British business relations as poor as never before since the special Brexit survey began in 2017. Three out of five companies rate their business with the UK as bad. Only 10 percent describe their situation as good.

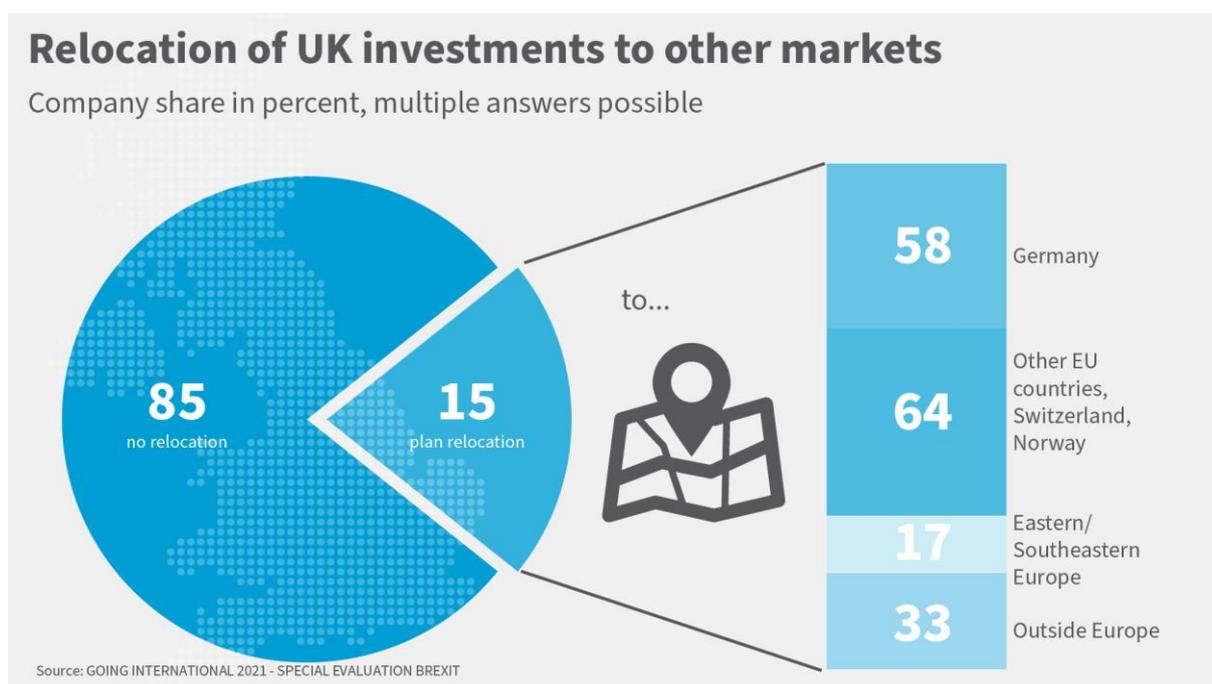


By comparison, 29 percent of German companies rate business relations with EU countries without the euro currency as good and 23 percent as bad. With countries in the eurozone, 33 percent of the companies assess business relations positively and 21 percent negatively. Compared to the previous year's survey, which did not yet reflect the effects of the coronavirus pandemic, the mood in foreign business with the British has become much gloomier.

German companies also have a predominantly negative assessment of their business prospects in the UK over the next twelve months. 57 percent see a further deterioration in their business relations during this period, only seven percent expect an improvement. Expectations for doing business with the UK are also far worse in comparison with other EU states without the euro (21 percent better, 17 percent worse) and euro-zone countries (25 percent better, 19 percent worse).

### Relocation of investments planned

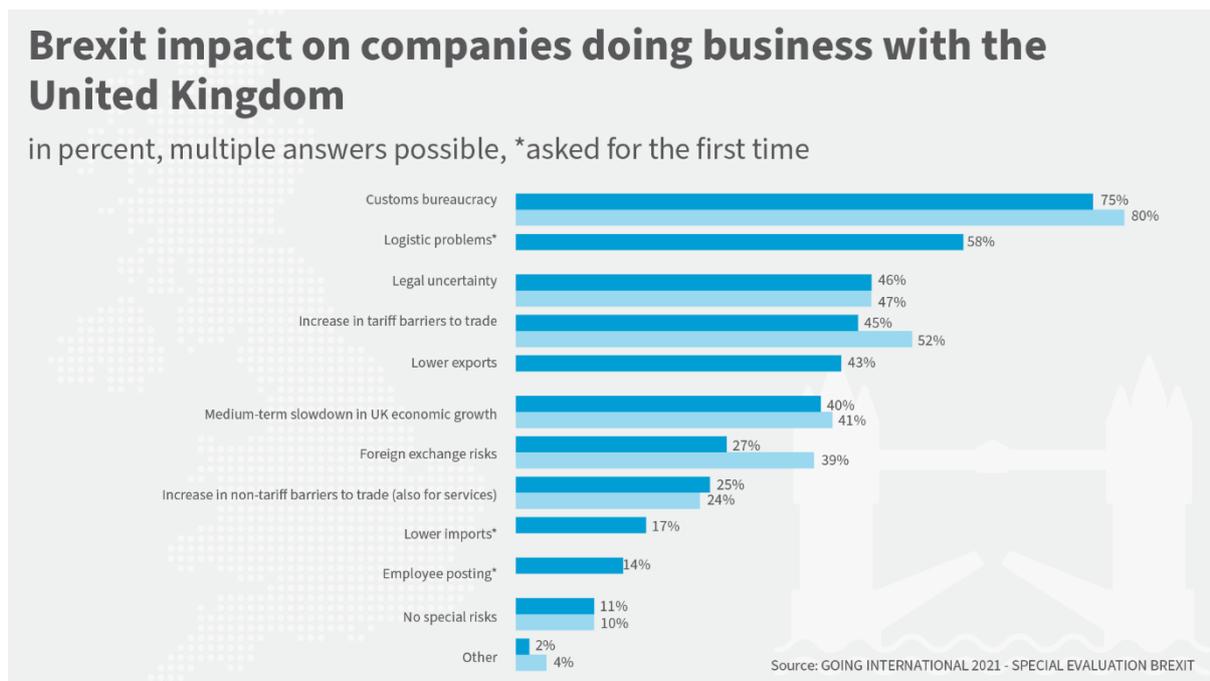
The German economy has invested over 160 billion euros in the UK. This makes the country the second largest investment location for German companies worldwide in terms of value after the USA. More than 400,000 people are employed in around 2,300 German branches on the British Isle.



Consistent with the previous survey and despite the trade and cooperation agreement, 15 percent of companies that have invested in the UK are planning to shift their engagement to other markets or have already done so. By contrast, at the start of the survey in 2017, only nine percent of companies planned to relocate. Companies are mainly relocating their investments back to Germany or to other EU countries or Switzerland and Norway. Most companies with investment relocations thus decide to remain in the EU internal market.

## Effects of the Brexit on businesses

As in the previous year, companies see customs bureaucracy as the greatest business risk (75 percent). The necessary customs declarations are often time-consuming and associated with additional costs. More than half of the companies have problems in logistics. For example, there are problems with the British customs software and, in view of the extensive documentation requirements, overload for British customs officers and customs service providers as well as business partners.



Still, almost half of the companies see legal uncertainties or a lack of predictability in business with the UK. For example, changes or concretizations are possible in individual details of the trade and cooperation agreement in the future. At the same time, parts of the agreement or the Northern Ireland Protocol could expire on various deadlines. The fear of an increase in tariff barriers to trade, on the other hand, has declined slightly - though 45 percent still share this concern. Since the UK is no longer part of numerous EU trade agreements, new or higher tariffs on goods from third countries may apply to companies in the UK and in the supply chains with UK intermediate products.

43 percent of respondents expect exports to the UK to decline and 17 percent expect imports to Germany to fall. While two out of five companies with UK trade relations see a risk in the slowdown of UK economic growth in the medium term, the exchange rate risk has become slightly less important compared to the previous year's survey (27 percent after 39 percent previously). A quarter of the companies notice or expect an increase in non-tariff barriers to trade. These include, for example, new certification requirements such as the new UK product marking UKCA, which will replace the European CE mark. This is mentioned as a challenge by some companies as a free text response. Since the UK has already announced the deviation from EU standards and rules in various areas, an increase in such barriers is to be expected. 14 percent see a risk in employee posting, as business trips and work assignments in the UK may now require visas. Only 11 percent of companies do not expect any particular risks.

## Questionnaire

**How do you assess the current business situation in the UK?**

- Good
- Satisfactory
- Bad
- Not affected

**How do you assess the business outlook this year in the UK?**

- Better
- Consistent
- Worse
- Not affected

**What impact do you have or expect the UK's withdrawal from the Single Market and the Customs Union to have? (Multiple answers possible)**

- Increase in tariff barriers to trade
- Increase in non-tariff barriers to trade (also for services)
- Legal uncertainty
- Exchange rate risks
- Medium-term slowdown in UK economic growth
- Customs bureaucracy
- Falling exports to the United Kingdom
- Falling imports from the United Kingdom
- Logistics problems
- Employee Posting
- Other (free text):

**Do you plan to shift your investment spending to other markets due to the UK leaving the EU? (If yes, multiple answers possible)**

- No
- Yes, to Germany
- Yes, to the rest of the EU, Switzerland, Norway
- Yes, to Eastern/South-Eastern Europe (without EU)
- Yes, outside Europe

The nationwide survey "Going International 2021" by the DIHK was created with the support of 79 Chambers of Industry and Commerce (IHKs) in Germany. Almost 2,500 foreign-active companies based in Germany took part in the survey in February 2021. The results of this special evaluation on Brexit are based on the responses of around 1,500 companies that have business connections with the United Kingdom.

The trade volume between Germany and the United Kingdom amounted to 102 billion euros in 2020. Around 750,000 jobs in Germany depend on trade with the British Isles. German companies have built up investments worth 160 billion euros to date. There are approximately 2,300 branches of German companies employing over 400,000 people. British companies have 1,500 branches in Germany and employ around 300,000 people<sup>1</sup>.

## Imprint

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### Stand

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<sup>1</sup> Sources: Federal Statistical Office, Deutsche Bundesbank