# Assessment of German economic stakeholders on the Brexit

## Summary

Most of the statements provided by German stakeholders from industry and trade (associations and companies) assess the outcome of the British referendum on June 21st to leave the EU ("Brexit") as having a fundamental impact on the economic relations between the EU and Great Britain in general, and in particular between Germany and Great Britain as two of the biggest European economic markets. In general, German stakeholders regret the British decision to leave the European Union and raise concerns over the development of the economic relationship between the two countries. The predominant topic is the question as to which extent Britain may retain its access to the Single European Market. Implications are foreseen regarding the investment of German companies within the UK as well as for the devaluation of the British pound and an unclear situation regarding regulations and the future legal framework.

The assessment below encloses statements from the main economic associations as well as industries covering industry branches and sectors such as automobiles, banking, plant- and mechanical engineering, chemical, electronics, insurance, pharmaceutical, digital economy and food.

## Statements from German economic and trade associations

**Federation of German Industries**
**(Bundesverband der Deutschen Industrie, BDI)**

**Markus Kerber,** Director General of the BDI stated that the BDI deeply regrets the outcome of this referendum and identified the result as an urgent warning to make the EU more competitive. He urges that relations with the UK will have to start from scratch and that it is of utmost importance to reduce the damage for the German economy. Regarding future negotiations with the UK he is not very positive calling them tough with a whole range of issues. The access to the Single European Market, regulatory standards and professional mobility will be main areas of re-negotiation. An estimated reduction of bilateral trade is likely whereas German investments in the UK would be extremely unlikely. According to the BDI, the branches most affected by the Brexit vote are the automobile and energy sectors, telecommunications, electronics manufacturers, metal production, retail and financial service providers.

**Federation of German Wholsesale, Foreign Trade and Service**
**(Bundesverband des Großhandels, Außenhandel, Dienstleistungen, BGA)**

**Anton F. Boerner,** President of BGA, was surprised that the unimaginable happened and sees an enormous political and economical damage considering that the UK is Germany's third largest sales market with a volume of 89 billion euros. Due to the weakening of the British pound, German export goods will become more expensive. However, the British economy is likely to be hit even harder because of a weak industrial basis and an economy that is dependent on imports. This will be more expensive and generally lower the level of prosperity within the UK, Boerner said. He adds, the Brexit results in further uncertainty and future investments are becoming more unlikely. He calls for limitation of damage and elimination of uncertainty. It must become very clear that the EU membership is worthwhile whereas a withdrawal does not.

In another statement, Boerner warns of a decay process of the EU and quick reactions. First, the UK must clear their mind what exactly they want and also the EU must gain consensus about which community they want – a debate over this is very likely. The decline of the GBP has hit the export economy hard already. Companies should take into account stronger fluctuations of the GBP in the future.

**Association of German Chambers of Commerce and Industry**
**(Deutscher Industrie- und Handelskammertag, DIHK)**

According to **Eric Schweitzer**, president of the DIHK, bilateral economic relations with the UK will be severely affected both structurally and quantitatively. In particular, German companies producing in the UK for the European and world markets will need to prepare themselves for substantial changes. He expects weakened sales due to a weakening of the British pound. In light of the necessity to negotiate new trade agreements worldwide and with the EU, he expects trade to become generally more difficult between the two countries. In a phase of insecurity ahead, investment restraints form both sides are to be expected. Schweitzer stresses that the EU must secure cohesion of the remaining member states which includes an approach that finds a balance between good future trade relations with the UK and the dangerous message that it is possible to benefit from the advantages without carrying the costs.

**Confederation of German Employers' Associations**
**(Bundesverband Deutscher Arbeitgeber, BDA)**

In a common statement by the French and German Industry and Employer organisations (MEDEF, BDI and BDA), the representatives recognise the democratic decision taken by the British people being fully aware that Europe will encounter turbulence. They take it as their duty to mobilise their "special European forces" and stress that the German-French "engine" of European integration is in demand as never before. The authors see the

biggest task in setting priorities for further European integration in key areas and at the same time keeping low profile in small things that are better solved on national level. The statement comprises a list of six demands the authors are calling to heads of state or governments for, amongst them to strengthen the two carrying columns, the Single European Market and the Euro. The latter being closely related to establish measures that aim at real economic convergence between the member states. Finally the authors are calling for the development of new forms of cooperation that build bridges without concealing that the decision to leave the EU also excludes the UK in areas with great success in the integration progress such as the European passport for financial services.
President of the BDA, **Ingo Kramer**, stated the British decision would have fatal political and economic consequences, especially for Great Britain but also for the EU as whole. Now it is the main task of European governments to implement reforms for more competitiveness and fairness in the EU internal market. Important trade agreements such as TTIP need to be finalised quickly so that EU citizens can benefit from the expected economic growth and higher employment rates.

**The German Association for Small and Medium-sized Businesses**
**(Bundesverband mittelständische Wirtschaft, BVMW)**

**Mario Ohoven,** president of the BVMV, demands the European Commission to get the maximum out of the negotiations with the UK after the Brexit for European citizens and companies. Britain can therefore not expect advantages and benefits e.g. with regards to access to the biggest internal market worldwide – a membership "light" is not possible according to Ohoven. He identifies the UK being the biggest sufferer from the Brexit itself since a 5.3 per cent decline in GDP until 2018 is foreseen by experts and investments of 270 billion Euro may be lost during the first 4 years because of the flight of capital. In addition, the British pound has significantly lost value and without access to the EU internal market, British exports will dramatically increase in price, which as a result may lead to the loss of up to 950.000 jobs. But also the German SMEs will suffer from the Brexit: exporting SMEs must expect customs limitations as well as other trade barriers. He raises particular concerns over disadvantages for automotive suppliers since the UK is the second biggest export market for the German automotive industry after the USA.

**German Association of the Automotive Industry**
**(Verband der Automobilindustrie, VDA)**

**Matthias Wissmann**, president of the influential VDA, called for calmness in light of the close result of the referendum. The EU must stand together to avoid a domino effect. He stated that now every possible measure must be undertaken to enable the continued free movement of goods and services between the UK and the other EU countries. And even after leaving, free exchange of goods with the Continent will still be to Britain's net advantage. Wissmann makes very clear that if free access to the Single European Market is desired one will have to accept free movement of workers as well.

"Some emotions from the campaign must be put aside in order to gain a clear view on reality", he said.

**Association of German Banks**
**(Bundesverband Deutscher Banken, BDB)**

President **Hans-Walter Peters** stated the outcome is a black day for the UK and Europe seeing the vote by the British people with great concern. He points out that years of negotiations over the Brexit would be poisonous both for the UK and the EU. Such a period of uncertainty for the industry is to be avoided and at the same time it must be made very clear that leaving the EU comes at a high price. Even though he reckons that the financial centres on the continent gain importance he would much prefer a politically united EU including the UK, he added.

In a more recent statement Peters makes clear that he thinks that the City of London financial centre and Britain would remain major partners for the business sector and the banking industry in Germany. Nonetheless he foresees a chance to foster Frankfurt's role as an attractive and stable financial centre with an increased opportunity to become Europe's leading financial centre.

**Association of German Public Banks**
**(Bundesverband Öffentlicher Banken Deutschlands, VÖB)**

**Dr. Gunter Dunkel**, president of the VOEB, stated that Europe is weakened after the decision and that an important member has gone whose warnings against too much bureaucracy and commitment to a proportionate level of regulation would be missed in future recognising the liberal voice the UK brought to the EU. Dunkel urges rapid solutions for the withdrawal in order to keep legal and economic insecurities to a minimum.

**German Engineering Federation**
**(Verband Deutscher Maschinen- und Anlagenbauer, VDMA)**

President **Dr. Reinhold Festge** thinks the British decision is very unfortunate and will most likely not go without political and economic consequences. He urges the EU and member states to do everything possible that the Brexit remains an individual case and to start negotiations with the UK immediately while it is the Brits who have to make clear how they imagine their future relationship to the EU. Festge makes clear that it cannot be a solution to take the advantages of a European internal market while not having to fulfil the obligations that come with a membership.

**German Insurance Association**
**(Die Deutschen Versicherer, GDV)**

**Alexander Erdland**, GDV President calls the vote a wake-up call for Europe and sees an urgent need for action for the EU and its institutions, which should put an end to excessive regulation. He calls to strengthen the cohesion within the EU after the Brexit, not to weaken it: The migrant crisis, the debt burden of the member states, and the reforms that need to be made throughout the EU are challenges we can overcome better with than without the UK. If the UK really left the EU, we would lose a country that has always been a proponent of a flexible economy with a clear focus on competition. These are virtues we will desperately need to move the European project forward, he said. Erdland describes the EU without the UK as a weakened EU that now must create a clear framework for cooperation.

**Federal association of the pharmaceutical industry**
**(Bundesverband der Pharmazeutischen Industrie, BPI)**

**Dr. Martin Zentgraf,** chairman of the Federal association of the pharmaceutical industry and CEO of a pharmaceutical manufacturer expressed deep concerns over the British decision and the unity in Europe. He called the Brexit a blow to the achievements in the availability of medical products in Europe as the EU enables a harmonised internal market, the free movement of medicines that as a result stabilises the supplies across national boarders. Even more, the EU facilitates and supports cross-national research and development that would not be possible for individual countries. An outcome of the Brexit brings high bureaucratic obstacles for companies and hits hard. Particular attention is given to the location of the European Medicines Agency in London (EMA), the European centre for the evaluation and authorisation of medical products. The agency will need to relocate. In the future, these procedures will be organised somewhere else.

**Association of the Chemical Industry**
**(Verband der chemischen Industrie e.V., VCI)**

The Association of the Chemical Industry (Verband der chemischen Industrie e.V., VCI) expects fewer exports after the Brexit. The UK is an important trade partner for the chemical industry with a volume of 12.9 billion Euro in 2015, which correspond to 7.3 per cent of the German chemical exports. The biggest part of exports accounted for pharmaceuticals and specialty chemicals. The industry employs 6,000 employees and obtains 4.1 billion Euro in the UK which means that UK plays an important role for German chemical companies.

The association assesses the withdrawal as having extensive consequences for both the British and the German chemical industry raising concerns over a recession and declining economic growth in the UK which will affect the rest of Europe and Germany alike. The

VCI expects a significant weakening of exports to Great Britain, also due to the devaluation of the pound that makes export sales increasingly expensive. In addition, cross-boarder investments are likely to be affected: the uncertainty connected to the withdrawal negotiations especially with regards to tariff and non-tariff trade barriers will make German investors rethink their commitment, possibly pulling out capital. The VCI sums up that the importance of the UK for the German chemical industry as an export market will decrease in the long term.

The president of the VCI, **Marijn Dekkers**, stressed that just now that the economic situation in European starts to recover slowly, the British vote is a bad signal for further economic development in Europe and that the political damage is of equal importance.

**German Electrical and Electronic Manufacturers' Association**
**(Zentralverband Elektrotechnik- und Elektronikindustrie e.V., ZVEI)**

**Dr. Andreas Gontermann,** chief economic officer at the ZVEI stresses that Great Britain is one of the key markets for the electronic industry. German exports accounted for 9.9 billion Euro in 2015 which makes it the fourth biggest market worldwide and the second biggest in Europe. It is also a substantial investment target of German electronic companies – UK was the third biggest foreign investment location of the branch. The Brexit is thought-provoking and a task to rethink the EU, said **Dr. Klaus Mittelbach**, CEO of the ZVEI: We need a new European idea that is attractive for all generations.

**Digital association of Germany**
**(Representing the digital economy in Germany, Bitkom)**

“A common digital internal market that includes Great Britain must remain our objective”, said managing director, **Dr. Bernhard Rohleder** after the British vote. He expects Great Britain to move away from the standards of a common digital market which would mean different regulation for companies from Germany which would hit hard especially SMEs who often cannot provide enough resources to do so. He foresees that IT service providers and start-ups would face more problems due to the restricted movement for workers. Therefore Mr. Rohleder urges to maintain a consistent legal framework after Great Britain has left the EU – a common digital internal market, including the UK, must remain the ultimate objective since internationally standardised rules are an essential precondition for a functioning and efficient digital economy. Because of the decision of the important member state UK to leave the EU, the aim of the European Commission to reach a digital internal market in order to allow companies competition on eye level with countries such as USA and China, is massively complicated. Bitkom also foresees disadvantages for private consumers in particular with regards to consumer protection and data protection rights that were primarily promoted by the EU.

“For some years now, Great Britain is one of the most important export markets for Germany for IT and telecommunication products and an important trade partner. There is no doubt that after the Brexit there is more bureaucracy coming up for companies”, said Rohleder.

## Further statements

**Deutsche Bank**

**David Folkerts-Landau**, chief economist of Deutsche Bank, stated that “Europe without its brightest star will certainly be a darker place”. In his view, the referendum signals a deep distrust in the European project that is the manifestation of weak economic growth. It could have been avoided if reforms had begun earlier and an ever-looser monetary policy hadn’t made it easy to avoid difficult decisions. He concludes that Europe and Britain still need each other and that Brussels shall resist any pressure to inflict punitive measures on Britain as a warning to other member states. He calls for an amicable divorce and to cooperate maturely without rancour. This is in the interest of Britain, which needs a vibrant Europe where 45 per cent of its exports end up, and the EU needs Britain’s creativity and worldliness as well as for long-term security.

In another statement given by the Deutsche Bank it is clear that they expect the EU to adopt a tough negotiating stance, partly to batten down anti-European sentiment in other member states, but also because the UK arguably needs a deal more urgently than the EU does. It foresees the next UK prime minister to face difficult decisions on austerity vs. the need for fiscal stimulus in an environment in which the GBP is expected to fall and inflation to rise. Uncertainty will therefore persist around which sort of leave agreement will be made, for example an EEA (European Economic Area) style agreement, such as the one Norway uses. However, having to negotiate 120 or more individual trade agreements with other states will most likely create a bureaucratic overload and will take time according to the Deutsche Bank. A loose monetary policy is expected to be key in the UK and the EU for a longer time, particularly if the Brexit starts to impact the German economy. For other European countries, Deutsche Bank expects that discussions about exiting the EU are likely to rise and that EU leaders shall see the referendum as a wake-up call to step up reform efforts.

Following a message from **John Cryan**, Deutsche Bank CEO, to the Bank’s employees he said that the decision of British voters will be respected but feels disappointed by the outcome. According to him, the Deutsche Bank has always been supportive of the European integration and the home market, which is a stronger one with the UK than without. Cryan further adds that there is a wide range of possible scenarios for the UK’s future relationship with the EU and that along with the rest of the industry, negotiations will be closely monitored: “If any changes are required, they will be carried out in a way that minimises any impact on clients and employees." He said that Deutsche Bank is well prepared to mitigate the consequences of the UK leaving the EU. However, the uncertainty created by the referendum's result will be a challenge. He concludes that Deutsche Bank will continue to ensure that it is present where its clients are active, whatever the outcome of the negotiations is.

Further, Deutsche Bank assesses the German automotive and pharmaceutical industries to be hit the hardest in light of the Brexit. Against the background that UK is the third biggest market for German exports (with a rate of 7.5 per cent of the total of German exports). Both of the named industries account for 12.8 per cent (automotive) and 10.5 per cent (pharmaceutical) of total exports. It further sees the UK referendum as likely to have an impact on individual companies' investment decisions and German companies' UK pricing structures in the short term.

**Food Industry**

According to the industry newspaper "Lebensmittelzeitung" ("Food newspaper") the exporters in the meat and milk industry do profit from the low level of self-sufficiency of the British and thus still hope for ongoing good business. Trade relations with Britain are excellent in the sector and the trade surplus is significantly positive for German producers. Therefore, the outcome of the referendum does currently not provide a reason for fundamental concern in the branch. The UK remains an important market and relations with trade partners are stable and the level of self-sufficiency for meat and meat products in the UK of roughly 60 per cent cannot be changed significantly in the short term which in turn would mean that trade is expected to remain on existing levels.