

Hessen and Brexit: one year into the negotiations



7%

UK share of Hessen's exports

4%

UK share of Hessen's imports

Intensive economic relations between Hessen and the UK

UK – important EU business location under pressure after Brexit

The United Kingdom (UK) has a population of almost 66 million people and a gross domestic product (GDP) of 2.3 trillion euros in 2017. This made up for 15% of the EU's GDP; only Germany had a greater share with 21%. The UK's share has decreased by over two percentage points since 2015. This is largely due to the way exchange rates have developed since the UK's mid-2016 Brexit referendum: By 2017, the British Pound had lost around 17% of the average value it had against the Euro in 2015. The UK's real GDP growth is also showing signs of weakness; this is a reflection of the uncertainty among economic stakeholders about the outcome of the Brexit negotiations and future economic conditions on the island.

UK ranked fifth amongst Hessen's trading partners

In terms of trade volume – import and export of goods – the UK is Hessen's fifth most important trading partner. British exports amounted to 4.1 billion euros in 2017, making the UK the fourth largest export market after the USA, France and the Netherlands. This means the UK has dropped down a place since 2015, and export volumes have fallen by around 420 million euros.

Imports from the UK amounted to 3.7 billion euros in 2017, meaning figures have increased by around 350 million euros since 2015 after experiencing an initial decrease in 2016. Nevertheless, the UK has dropped down a place to rank ten amongst Hessen's importing countries.

The most important goods traded between Hessen and the UK

In 2017, around 60% of exports from Hessen to the UK fell into the three major product groups: Just under 27% of Hessen's exports were vehicles and vehicle parts; just under 20% were chemicals and pharmaceuticals; and around 12% of exports were electrical goods. However, there has been a considerable decline in the amount of exported vehicles and vehicle parts since 2015.

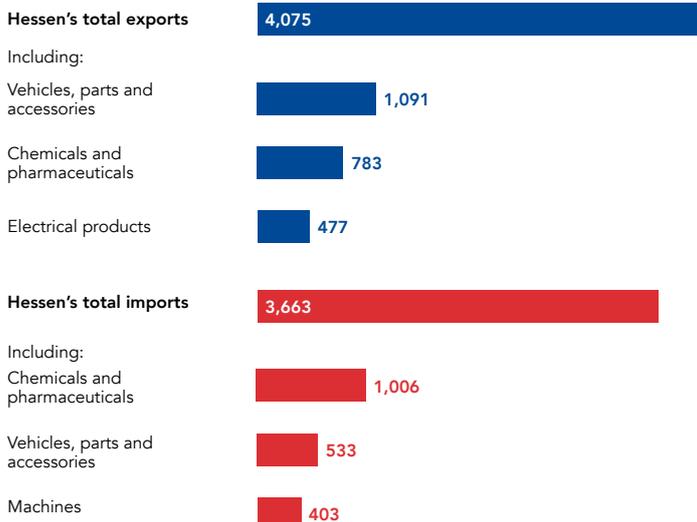
The most important goods imported from the UK were chemicals and pharmaceuticals (28%), vehicles and vehicle parts (15%) and engineering products (11%).

Strong investment relations between Hessen and the UK

The direct investments held by Hessian companies in the UK amounted to 20.9 billion euros in 2015 (figures are currently only available from before the Brexit referendum). This makes the UK the second most important country after the USA for foreign investments made by Hessian companies. The UK has investments worth 6.4 billion euros in Hessen, making it the third most important country for foreign investments. London and Frankfurt are important financial centres, meaning the investment relations between Hessen and the UK are mainly in the financial sector, but there are also shares held with service providers and the industrial sector.

Hessen's trade with the UK in 2017

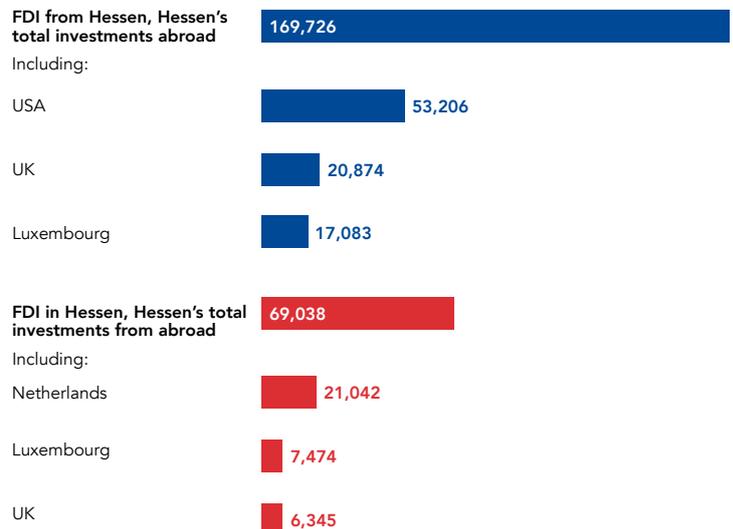
The most important imported and exported goods (in million euros; provisional data)



Source: Hessian State Office of Statistics

Hessen's direct investment relations in 2015

The most important target and source countries (in million euros; provisional data)



Source: German Federal Bank

Hard Brexit causing the biggest concerns for Hessen's companies

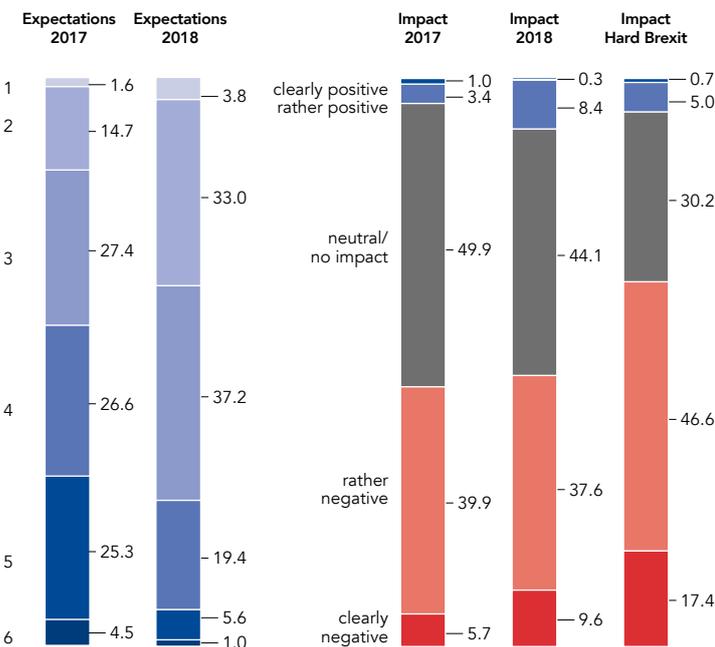
Hessen's companies share their views on Brexit in surveys

The State of Hessen has conducted wide-ranging surveys to determine first-hand the potential impact of Brexit on Hessen's companies. The current survey was carried out in March 2018 at around the halfway point in the Brexit negotiations. The first survey was taken at the turn of the year 2016/17, which was after the referendum and before the UK triggered Article 50. Over 500 companies from Hessen have taken part in the current survey, and more than 60% of them have business relations with the UK.

Impact of Brexit on Hessen's companies

One year on since the UK triggered Article 50, companies with business relations with the UK are now considerably more pessimistic about the outcome of the negotiations compared to when they were surveyed in 2017: The amount of companies expecting the UK to distance itself strongly or even very strongly from the EU after Brexit has risen from 16% to 37%. However, this has not caused a more severe assessment of the potential impacts of Brexit on Hessen's companies: The amount of companies predicting "rather negative" to "very negative" effects has only slightly increased from 46% to 47%. The amount of companies with neutral expectations has dropped from 50% to 44%, while the amount of positive assessments has even increased from 4% to 9%.

Expected outcome of the negotiations and the impact of Brexit on companies (in %)



1 = UK will distance itself very strongly from the EU
6 = UK will distance itself only slightly from the EU

Risk: hard Brexit

Negotiations between the EU and the UK have now been running for one year and, despite the slight progress achieved, certain key issues remain contentious. As the negotiations follow the principle of "nothing is agreed until everything is agreed", there is still the threat of an unregulated withdrawal without an agreement or transitional period. The UK would then acquire the status of a third country in business dealings with the EU, and the regulations of the World Trade Organisation would start to apply. When faced with the prospect of this worst-case scenario, Hessen's companies with business relations with the UK are significantly more pessimistic with regard to the potential impact on their companies: The amount of companies predicting "rather negative" or "very negative" effects has increased from 47% to 64%.

Requirements for a trade agreement

When asked about the most important regulations for the agreement negotiated between the EU and the UK, the most common responses given by Hessen's companies concerned the avoidance of tariff and non-tariff export barriers, the avoidance of differing regulations and standards and guarantees for the free provision of services. Another commonly expressed concern is the competition for business locations brought about by tax cuts in the UK.

The most important regulations for an agreement between the EU and the UK

50%

Avoidance of tariff trade barriers (e.g. customs) when exporting goods to the UK

44%

Avoidance of differing standards/regulations

37%

Avoidance of non-tariff export barriers (e.g. application procedures, movement certificates etc.)

26%

Guarantees for free provision of services

25%

Avoidance of business location setbacks in the EU following tax law changes in the UK

Brexit affecting imports and exports more than employment

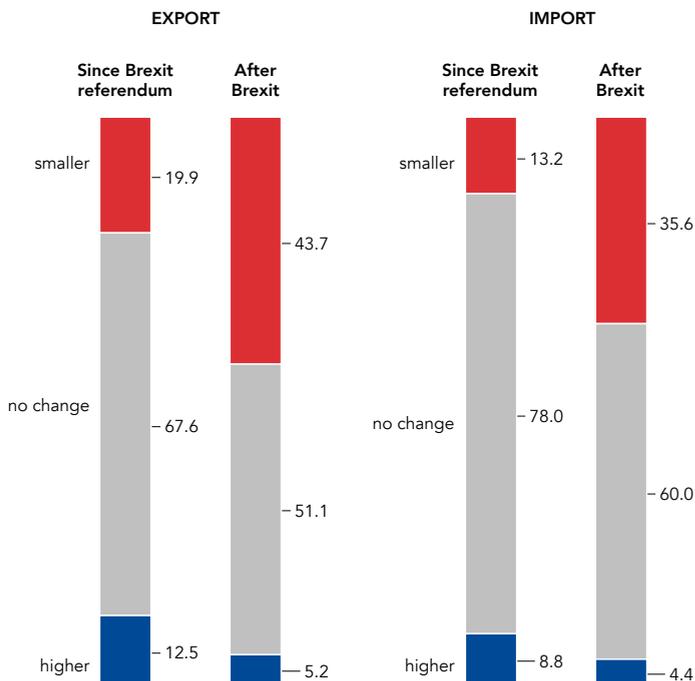
Imports and exports only slightly affected so far

Since the Brexit referendum, there has been uncertainty surrounding the future economic relations between the EU and the UK. However, all the conditions of the European Single Market continue to apply during the negotiation stage, and so trade relations have so far largely remained stable. While 20% of the surveyed exporters have recorded a drop in exported goods, 13% have been able to increase their exports. However, according to these companies this development originates from other favourable economic conditions.

Drops in imports and exports expected after Brexit

Companies are much less optimistic when they look towards the future. The majority of importers (60%) and exporters (51%) might be expecting a stable trading volume after Brexit, but 36% and 44% predict a fall in volume respectively. The amount of exporting companies with sinking export expectations is now nine percentage points higher than in the previous year's survey. Importing companies are somewhat more confident, as the amount of sinking import expectations has dropped by ten percentage points.

Short- and long-term effects of Brexit (in %)



Estimated development of employment after Brexit in Hessen and the UK

47% of Hessian companies with business relations with the UK have business locations there (e.g. parent companies or distribution facilities). Most of these companies believe employment levels will remain largely stable at their business locations in the UK (57%) and Hessen (79%) after Brexit. However, 37% of companies – around eight percentage points more than in the previous year's survey – believe there will be drops in employment at their business locations in the UK. The amount of companies expecting an increase in employment levels at their business locations in Hessen is twice as high (14%) as the amount of companies expecting decreased employment levels.

Impact of Brexit on employment in Hessen and the UK (in %)

Survey	Hessen		UK	
	2017	2018	2017	2018
Fall	3.7	7.6	29.2	36.9
No change	86.8	78.5	68.2	56.7
Rise	9.5	13.9	2.6	6.4

Impact of Brexit on companies with business locations in Hessen and the UK

The companies believe the following consequences are likely to occur:

- 47 %** Inter-company and group-internal supply chains between Hessen and the UK will be restructured.
- 36 %** Employees will have less freedom to move between business locations.
- 19 %** Tasks performed at business locations in the UK will be transferred to Hessen.
- 14 %** The independence of business locations in Hessen / the UK will increase.
- 13 %** The independence of business locations in Hessen will increase.
- 11 %** The independence of business locations in the UK will increase.

Companies' preparation and the effects on Hessen as a business location

Preparation for Brexit

How much preparation have companies done? 56% of companies currently do not believe Brexit will affect them considerably, and so they have not done any preparation. The companies have reacted differently towards the uncertainty surrounding the outcome of the negotiations:

40%

of companies are currently not taking any steps to prepare for Brexit due to the uncertainty.

38%

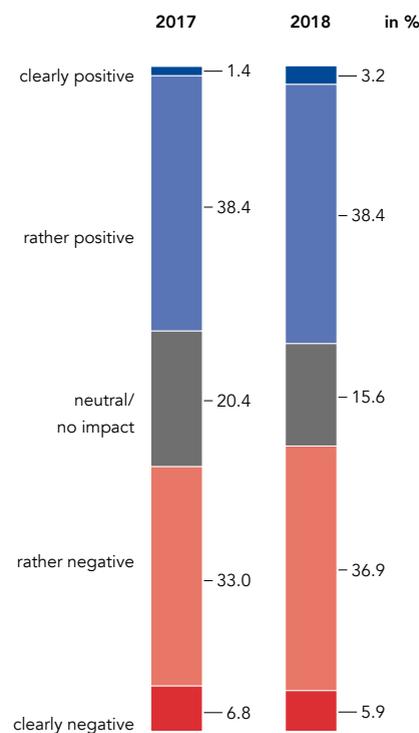
of companies are putting their decisions on hold until there is more clarity surrounding the outcome of the negotiations.

30%

of companies are working on strategies and action plans for different Brexit scenarios.

Predicted effects of Brexit on Hessen as a business location

Companies generally believe Brexit will have a more favourable impact on Hessen as a business location than on the companies themselves. Just like in 2017, there is still a fine balance between the positive and negative expectations of all surveyed companies. The reason for this might lie in the potential transfer of corporate tasks from the UK to Hessen. It is particularly worth mentioning the financial sector, where a company has to establish itself within the EU to be able to carry out certain activities. Furthermore, Hessen might position itself even more strongly as the gateway to the EU as a way to attract investors from third countries.



Brexit initiatives run by the State of Hessen

From the very beginning, measures taken by Hessen's regional government and other stakeholders have run in parallel to the Brexit process. The aim is to help Hessen's economy overcome the challenges posed by Brexit, and to seize upon any opportunities that arise for Hessen as a business location. The Hessian State Chancellery coordinates these activities, which cover a wide range of policy areas, such as the topics "Union and Europe", "Legal Framework" and "Marketing and Real Economy".

The topic "Union and Europe" includes measures taken by the State of Hessen's EU delegation, which is exchanging ideas on Brexit with associations in Brussels and organising Brexit-related events there. This means, Hessen's views are conveyed to EU institutions and are thus fed into the negotiation process.

The "Legal Framework" group assesses legislation changes introduced as part of the future relationship between the EU and the UK, in order to develop necessary adjustment strategies. This includes conditions for the regulation of the financial market and the authorisation of financial service companies.

The "Marketing and Real Economy" group devises and implements measures to support Hessen's companies and improve the State's marketing as a business location. Hessen's Ministry of Economics manages this process. It has commissioned HTAI

to coordinate the State's marketing activities as a promoter of trade and investment in Hessen. Investors can find out more about Hessen as a business location and the post-Brexit situation on websites like www.invest-in-hessen.de and other English-language media. Many activities initially focused on the financial sector, where there is a particular need to act due to the extensive regulations and the forward planning required for potentially vital restructuring. Delegations have travelled to the UK and other countries to promote Hessen as a business location and hold discussions with decision makers in the financial sector. Since the Brexit vote, around 20 banks have declared their intentions to open offices in Hessen and/or extend their current activities.

Many of the measures taken by the State of Hessen also focus on its manufacturing industry and service sector. The regional government has entered into dialogue with its local economy by conducting company surveys, and it will continue to connect at central and regional information events and in working groups. Leaflets and HTAI's "Brexit Update" provide more information. Delegations and trade fair participation in the UK and other foreign markets are helping Hessen's companies to exploit new markets and consolidate their existing economic relations.

Your contact persons for Brexit-related questions

Hessen Trade & Invest GmbH
Konradinallee 9
D-65189 Wiesbaden, Germany
Tel.: +49 611 95017-8203
Email: info@htai.de
www.hessen-trade-and-invest.com
www.invest-in-hessen.com



Oliver Beil
Head of Brexit Task Force
Senior Manager Investor Services
Tel.: +49 611 95017-8303
Fax: +49 611 95017-8385
Oliver.Beil@htai.de



Patrick Schütz
Project Manager Location Marketing
Tel.: +49 611 95017-8661
Fax: +49 611 950175-8661
Patrick.Schuetz@htai.de

Hessen and Brexit

You can download this text and a more detailed German version with comprehensive survey results and more information on Brexit at www.hessen-agentur.de/mediathek

Publisher

Ministry of Economics, Energy, Transport and Regional Development, State of Hessen

Contact

HA Hessen Agentur GmbH
Konradinallee 9
D-65189 Wiesbaden
Tel.: +49 611 95017-80 /-85
Fax: +49 611 95017-80 /-8466
info@hessen-agentur.de

Editing

HA Hessen Agentur GmbH

Layout and design

Q Kreativgesellschaft mbH

Image credits

All images HA Hessen Agentur GmbH

Printing

KOMMINFORM GmbH & Co. KG, Kriftel

Copies

1,000

Authors

Anja Gauler
Dr. Claus Bauer
Dr. Alexander Werner

Last edited

June 2018

ClimatePartner^o
klimaneutral

Druck | ID 53510-1702-1001

NOTES FOR USE

This publication is published as part of the marketing and PR measures of the Hessian state government. Political parties, election candidates, and election campaign workers are not permitted to use it for election campaigning. This applies to elections at national, regional, and local level. In particular, the publication must not be distributed at parties' information stands or campaign events, nor may party-political information and campaigning materials be inserted into, printed on, or attached to the publication. Furthermore, the publication must not be passed on to third parties for election campaigning purposes. Even when elections are not due, the publication must not be used in any way that could give the impression that it is a party-political instrument

of the state government supporting a particular political group. The aforementioned restrictions apply irrespective of when and how the recipient obtains this publication, and how many copies the recipient received. However, political parties are permitted to use this publication as a way of providing information to their own members.

Reproduction, also including only extracts, is only permitted if stating the source. Please send specimen copy.