UK Market Report

A Special Report on triggering Article 50

HE Mr Dominic Schroeder, Her Majesty's
Ambassador to the Kingdom of Denmark

As I write two forthcoming dates are on my mind.

The first is of course 29 March. The United Kingdom has let the European Council President know that that is the day we will invoke Article 50. Prime Minister Theresa May will make a statement in the House of Commons.

A complex and challenging negotiation of the United Kingdom's departure from the European Union and our future relationship with the European Union will begin. But so will a journey of opportunity.

An opportunity for the United Kingdom to embrace not just Europe, but also the wider world, to grow, to prosper, to promote the values we hold dear. That means having the most open relationship on common interests and benefit with countries as diverse as Australia, the USA, China, India etc. And yes also Denmark.

We already have a strong, deep and broad relationship with Denmark. My aim is that this continues to strengthen, deepen and broaden. My team and I plan to work as closely as possible with the British Chamber of Commerce in Denmark to achieve that.

Which brings me to the second date on my mind. On 22 March the British Chamber of Commerce in Denmark, together with Microsoft and other partners, hosts a large conference on Cloud technology. I am honoured and delighted to have been asked to speak at the opening. This matters to the United Kingdom. It matters now, and it will matter in the future. The Cloud offers so much by way of possibilities for growth and prosperity, as well as knowledge management and transfer. Its full exploitation is a priority for us. I am sure the conference will be a great success.

TABLE 1

UK Key Economic Indicators	2015	2016	2017
Real GDP growth, pct.	2.3	1.8	1.1
Inflation, CPI, pct.	0.0	0.7	2.3
Gross government debt, share of GDP	89	89	88.8
Annual change to the private consumption	2.4	2.8	1.5
An. change in import rates of goods and services, pct.	5.5	2.7	1.4
An. change in export rates of goods and services, pct.	6.1	2.1	2.6
Population, millions	65.1	65.6	66

Source: Statista.com

British Chamber Q1 2017 Overview

Article 50 will be triggered any day now by the UK Government as this report goes to press, as Prime Minister Theresa May has promised to do so before the end of March 2017. Almost nine months have elapsed since the result of the referendum was confirmed on 24 June 2016, and at the time of writing the Government's Brexit Bill, the document outlining the Government's strategy to execute the UK's departure from the EU, has just been approved by Parliament.

Economy

2016 was a historic year for the UK, and despite the uncertainty following the referendum, the economy grew robustly at 1.8% over the year. Furthermore, growth of 0.7% in the final quarter of 2016 was higher than had been forecast and employment also reached a new record high with 2.7 million more people in work than in 2010. One of the main drivers behind the growth is consumer spending, up by 3.1% since the previous year. Consumer spending therefore remains one of the key drivers of the economy, and the largest component of total GDP. Overall the year was marked by steady growth and strong progress in consumer spending, as well as a relatively low and stable rate of inflation averaging 0.7%.

In the Spring Budget of March 2017, the Office for Budget Responsibility optimistically forecast growth of 2% in 2017, with household and business spending stronger than had been expected back in November. Due to the fall in sterling in 2016, inflation is expected to rise to 2.3% in 2017 (see Table 1), which could impact the pace of consumer spending and private investment. In August 2016, the Bank of England expanded its quantitative easing program following the referendum, sending benchmark interest rate down to 0.25%, where it remains now. The BoE provided a welcome stimulus to the business environment at a crucial time and this should help boost investment throughout 2017.

Politics

In January 2017, the Supreme Court rejected the Government's appeal against a High Court verdict of November 2016, ruling that the Government had to obtain approval from Parliament before triggering Article 50.

"Overall the year was marked by steady growth..."

If this seemed like a setback for the Government at the time, Theresa May's Brexit bill was endorsed in Parliament in early February in its original, un-amended form, giving her the go-ahead to trigger Article 50. However, peers in the House of Lords voted in March by an overwhelming majority to pass an amendment to the bill guaranteeing the rights of EU citizens living in the UK after Brexit, in the biggest turnout by peers to vote since 1999.

The Government's eagerly anticipated Brexit white paper had already stated that "implementing any new

immigration arrangements for EU nationals and the support they receive will be complex." Although the white paper does commit the Government to reducing immigration, the revelation that there "may be a phased process of implementation to prepare for the new arrangements" was one of the key points of the paper. This kind of transitional arrangement giving businesses time to plan for the new regulation, the result of lobbying pressure from British businesses, makes considerable sense when considering the impact on the economy. On the other hand, if this transitional arrangement means there is no visible impact on immigration in the period where it applies, pressure from the electorate will increase on the Government to demonstrate a real commitment to reduce immigration figures.

"The extent of the final bill will be at the top of the agenda for the negotiations..."

When negotiations do start with the EU, the EU's chief Brexit negotiator Michel Barnier is set to demand £50 billion from the British Government as part of its divorce settlement from the bloc, with unpaid budget appropriations, pension liabilities and future contractual and spending commitments making up this total. Chancellor of the Exchequer Philip Hammond, speaking in March, stated that "if we do have any bills that fall to be paid we will obviously deal with them". The extent of the final bill will be at the top of the agenda for the negotiations, as senior EU figures have long insisted that Theresa May's Government cannot expect to start negotiations on a new trade deal with the EU until the terms of the divorce bill have been agreed.

Market Opportunities

Figures for Danish exports to the UK reveal modest growth in 2016 compared to the previous year (see Table 2). Despite concerns of an immediate negative impact on the UK economy following the result of the referendum, economic figures for Danish exports do not appear to have been affected in 2016 (see Table 2 and Figure 1). As the Government is now poised to trigger Article 50 and commence the UK's official withdrawal from the EU, it remains to be seen if Danish exports to the UK will be affected throughout 2017 by developments

TABLE 2

Danish Exports of Goods to the UK	2014	2015	2016 (Jan-Sept)
Total Exports of Goods, million (DKK)	48083.8	39668.8	40544,9
Growth year to year (2014 Index = 100)	100.00	82.5	84.32
Main Sectors, million (DKK)			
Food, Drinks, Tobacco	11199.7	11496.1	10997.7
Raw Materials	777.1	789.6	787.8
Minerals	9537.9	3378.8	1209.1
Chemical Products	4594.8	4849.6	4656.4
Processed Goods	4526.2	3485	4333.1
Machinery and Transport	11833.8	9230	12383.9
Finished Products	5157.7	5867.6	5649

Source: Danmarks Statistik

in the negotiations between the UK and EU, which must be concluded no longer than two years after Article 50 is triggered.

Chancellor of the Exchequer (UK Finance Minister) Philip Hammond announced the Autumn Statement in late November 2016, just as our UK Market Report went to press. His announcement of a new National Productivity Investment Fund of over £23 billion provided a boost to the UK economy, with the focus shifting away from larger infrastructure projects towards several more modest, but rapidly deliverable investments which would provide both short and long term benefits. The technology sector was another beneficiary, with £1 billion earmarked for spending on digital infrastructure and 100% business rates relief on new fibre infrastructure.

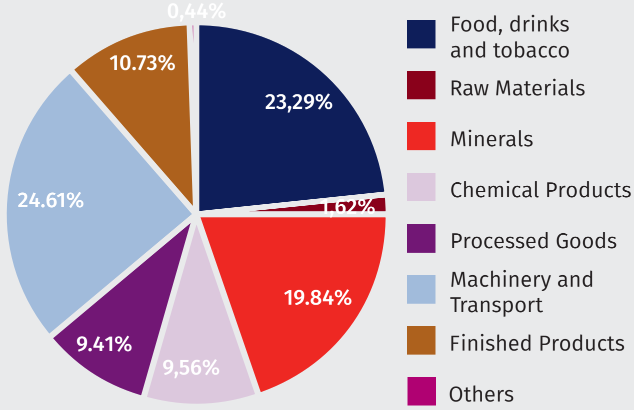
"Danish technology firms will certainly be eyeing the UK market..."

Danish technology firms will certainly be eyeing the UK market with this pipeline of investment in place. Furthermore, the UK's creative industries have for nearly a decade been the fastest-growing part of the economy, contributing almost £90 billion to GDP. With the link between culture and technology constantly evolving, Danish technology firms have another reason to focus on the UK.

The Government published a Green Paper in January 2017 titled "Building our Industrial Strategy", which is a critical part of the Government's plan for post-Brexit Britain, aiming to support growth and increase productivity. The document sets out 10 pillars, with a commitment to develop innovation at the top of the agenda and a specific pledge to invest £4.7 billion in R&D funding by 2020-21, which is the biggest increase since 1979. As Denmark already invests over 3% of GDP in private and public funds on R&D, Danish companies are amongst the most innovative in the world and there will be opportunities to ramp up their investment in the UK. The Industrial Strategy also highlights several sectors where the Government will develop strategic partnerships. The aerospace and automotive sectors are targeted for extra funding, which is sure to be of interest to Danish companies manufacturing individual components for infotainment systems for use in both the aerospace and automotive sectors.

FIGURE 1:

Danish Exports of Goods to the UK
(September 2015 - September 2016)



Source: Danmarks Statistik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Business Brexit Priorities

Dr. Adam Marshall
Director General, British Chambers of Commerce

Since the historic referendum result last June, Chambers of Commerce have been in deep consultation with local business communities across the UK – to ensure that, together, we are addressing the key business priorities for the UK government's Brexit negotiations.

As part of this process, we have taken in-person feedback from over 400 businesses, in 16 Chamber business communities, on the potential challenges and opportunities posed by Brexit. Since the referendum vote, we have also received nearly 20,000 responses to Chamber surveys, giving us granular information on the needs and expectations of businesses of every size, sector, nation and region. The priorities are resolutely practical, focused on ensuring that UK business communities can continue to trade, invest, flourish and grow. Seven key themes – trade, customs, taxation, regulation, labour market, EU funding, and the border between Northern Ireland and the Republic of Ireland – are at the top of Chamber members' agenda.

Our most recent international Trade Survey, published in January 2017, showed that over a third of businesses plan on putting even more resources into the European market over the next five years. Another third said they have no plans to change their approach to selling into Europe, and only four percent said they plan to put fewer resources into selling to the region. So, it is imperative that the government negotiates the best deal it can with the EU for UK businesses, mindful of the fact that Europe will remain a key market for UK firms for years to come.

These results are also an important reminder that it is businesses that trade, not governments. And it will be businesses ability to respond to forthcoming changes, identifying and seizing new opportunities, that will shape our future relationship with both the EU and the rest of the world.

Chamber members are concerned about the potential emergence of new trade barriers which could complicate trade with the EU. A minority of companies have even taken mitigation strategies, such as setting up new receiving companies or their own logistics infrastructure on the continent, in order to ensure the same level of service to their customers and suppliers. Businesses want the government to prioritise the sequencing for future trade deals as follows:

1. Securing an EU Trade deal on the best terms possible, including the grandfathering of existing FTAs with third countries (with a proviso to revisit at a later stage)
2. Signing FTAs with large key trade markets (e.g. the USA)
3. Focusing on additional high growth markets

However, for most SMEs, FTAs have a limited impact – whereas market liberalization has a significant effect. Chamber members want to see the UK government focused not just on deal-signing, but on removing non-tariff barriers to trade in key markets through diplomacy, engagement and support.

Building the UK's Industrial Strategy

Gareth Garvey
CEO, British Chamber of Commerce in Denmark

On Wednesday 29 March, the UK starts the official process of leaving the EU and it will be underway by the time this publication is released. The immediate focus is on the negotiations between the two parties, which will be ongoing for the next two years, and in the meantime another important date is approaching.

The Government's Green Paper of January 2017, titled "Building our Industrial Strategy", established a plan to improve living standards and economic growth in the UK. The release of the Green Paper also marked the start of a public consultation, as part of a broad discussion on the best way to deliver economic growth in the UK.

The deadline for responses to the Green Paper is 17 April, and the British Chamber of Commerce in Denmark (BCCD) will be active in the debate in 2017 and beyond.

There are certainly many reasons for optimism at this early stage in the consultation process, as the UK starts from a position of strength. The UK has globally renowned businesses, universities and cultural achievements, which helps to attract investment and talent from across the world. With competition for new investment sure to intensify, the challenge will be to build on the strengths of the UK economy in the future.

Key to the entire Industrial Strategy is the identification of 10 pillars that frame the Government's approach. Across each pillar a new programme of policy has been set out.

The 10 pillars are listed below:

- Investing in science, research and innovation
- Developing skills
- Upgrading infrastructure
- Supporting businesses to start and grow
- Improving procurement
- Encouraging trade and inward investment
- Delivering affordable energy and clean growth
- Cultivating world-leading sectors
- Driving growth across the whole country
- Creating the right institutions to bring together sectors and places

As part of the pillar encouraging trade and inward investment, the Government has focused on supporting firms across the UK to export, with teams dedicated to the Northern Powerhouse and other regions in place. There are 40 Northern Powerhouse trade missions planned up to 2020, and BCCD has already worked with the Department of International Trade (DIT) on a trade mission to Denmark.

There are challenges ahead for the UK, certainly with regard to productivity compared to other leading countries. Furthermore, there are regional disparities in the UK. Most of the increases in productivity in the UK since 1997 have centred around London, which is now 72% above the national average for "gross value added" per person, while a majority of other regions have actually fallen behind the national average. This illustrates one of the key objectives of the Industrial Strategy, to drive growth across the UK.

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