UK Market Report

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

Any British Ambassador should have trade and investment at the top of his or her agenda. This is no different for me as Ambassador to Denmark. Indeed, with annual trade valued at in the region of £10billion, and Denmark as the fifteenth largest source of Foreign Direct Investment in the United Kingdom, it is particularly true. I am spending ever more of my time engaging with both British and Danish companies, better to understand their interests, their strategies, their concerns. I want to hear how together with my colleagues in the Embassy, especially those working for our Department for International Trade team, I can help make a positive difference.

We have so much success to be proud of, so much to build on. The opportunities are there, and each week I see new companies keen to trade and invest. But there is also no getting away from the fact that there is uncertainty around at the moment. We will seek to address this uncertainty as effectively as we can. The British Government has published a number of position papers on areas such as customs, goods on the market, science and innovation, which seek to foster debate and identify how to trade and invest in a post-Brexit world. We had a successful visit to Denmark a month or so ago by Michael Gove, the Secretary of State at the Department for Environment, Fisheries and Rural Affairs. He was able to engage seriously with representatives of the food and agriculture sector, whose interests in as frictionless trade as possible between the United Kingdom and Denmark are significant.

So wherever and whenever you read this please be assured of my commitment, and that of my team, to helping ensure that commercial relations between the United Kingdom and Denmark not only remain strong, but prosper.

TABLE 1

UK Key Economic Indicators	Actual	Q3/17	Q4/17	Q1/18	Q2/18
GDP growth, pct.	0.30	0.3	0.3	0.2	0.3
Inflation, CPI, pct.	2.60	2.8	2.9	2.8	2.7
Interest rate, pct.	0.25	0.25	0.5	0.5	0.5
Unemployment, pct.	4.50	4.7	4.8	4.8	4.9
Consumer spending, £M	310,357	313,000	314,000	315,000	316,000
Import, £M	52,730	44,100	44,800	47,100	47,700
Export, £M	49,657	43,000	42,700	43,300	43,200

Source: Tradingeconomics & Office for National Statistics (ONS)

British Chamber Q2 2017 Overview

As this report goes to press, it is just over a year since the historic referendum in which Britons voted to leave the European Union. Although many analysts predicted an immediate negative economic impact on the UK following the vote to leave, the economy grew at a faster rate in the second half of 2016 than in the first half preceding the referendum.

Economy

There has, however been a slowdown in growth in the first half of 2017, as the UK economy grew at 0.3% in the second quarter of the year (see Table 1). The first quarter saw growth of 0.2%, compared to the eurozone, which expanded at 0.6% in the same period. British Chancellor of the Exchequer Philip Hammond commented in an interview with ITV news that “consumers are being affected by the inflation that was caused by the depreciation of the currency in the autumn of last year.” Increased inflation has certainly squeezed the cost of living, with the rate of inflation climbing to 2.9% in May (but dropping to 2.6% in June). Despite the effect this has had on personal disposable income, consumer spending grew at 0.4% in the second quarter of 2017, and remains an important driver of the economy.

Governor of the Bank of England Mark Carney announced at a press conference in July that the interest rate will remain at 0.25%. The Bank of England also downgraded its forecasts for economic growth in 2017, from 1.9% to 1.7%. Mr Carney said that businesses are not investing as much as expected, as there is uncertainty whether there will be “a smooth Brexit” or a so-called hard Brexit. At his press conference in August, he said “It is evident that uncertainties about the eventual relationship are weighing on the decisions of some businesses”.

”... the unemployment rate (...) is the lowest it has been since 1975”

Trade figures in May reveal an important factor affecting British businesses and consumers, as a 2.5% increase in exports has been offset by a much larger 4.8% increase in imports. The weaker Pound Sterling has made these imports more expensive, and the UK trade deficit in goods has consequently widened by over £1bn to £11.9bn. On a positive note, the unemployment rate has been dropping steadily and is down to 4.5% in the second quarter of 2017, which is the lowest it has been since 1975. The bulk of the second quarter growth came from the UK’s service sector, which expanded at 0.5%, following on from 0.1% in the first quarter of 2017. The service sector still accounts for almost 80% of the British economy, and its performance gives cause for optimism that the economy overall is gaining momentum.

Politics

Following the invocation of Article 50 at the end of the first quarter of 2017, British PM Theresa May announced a snap general election held on 8 June. Polls at the time placed the ruling Conservative party 21 points ahead of their traditional rivals, the Labour party under new leader

Jeremy Corbyn. Over 600,000 names were added to the electoral roll on the deadline day before registrations closed, contributing to the highest voter turnout (68.7%) in a general election since 1997, when 71.5% of the electorate turned out.

"The election resulted in a hung parliament, which was a surprise to many..."

The election resulted in a hung parliament, which was a surprise to many, not least Theresa May, as the Conservatives lost 13 seats and Labour gained 30. Having lost their narrow majority in the House of Commons, the Conservatives were forced to make a confidence and supply agreement (at a cost of £1bn) with the Northern Irish Democratic Unionist Party (DUP) to form a new government. In the fall out following this dramatic reversal at the polling booths, Mrs May's advisers Nick Timothy and Fiona Hill both resigned.

The decision to announce the snap election in the first place was also unexpected, as Mrs May had previously strenuously denied that she would do so. Her stated justification for calling the election was that she "concluded that it is the only way to guarantee certainty for the years ahead", arguing that a decisive victory would provide the government with a strong mandate in the Brexit negotiations. Instead of commencing the Brexit negotiations from the "hoped-for" position of strength, the government faces the additional challenge of dealing with emboldened domestic rivals.

Brexit negotiations officially got under way on Monday 19 June and the key goal for the EU in these complex negotiations is to extract a settlement from the UK, for commitments made in previous agreements. Having published detailed position papers in May, outlining its stance on the Brexit bill and on the rights of EU citizens, there is considerable detail on all EU bodies with a claim to the funds. In what could be perceived to be an early concession, British negotiators led by Brexit Secretary David Davis caved in to demands from the EU to delay discussions on any future trade deal until the cost of the divorce settlement has been agreed.

Market Opportunities

Despite concerns over the potential effect on Danish exports to the UK following the vote for Brexit in June last

TABLE 2

Danish Exports of Goods to the UK	2015	2016	2017 (jan-June)
Total Exports of Goods, million (DKK)	39,668.8	40,644.5	24,108.4
Growth year to year (2014 index=100)	82.5	84.5	-
Main Sectors, million (DKK)			
Food, Drinks, Tobacco	11,496.1	10,975	4,894.2
Raw Materials	789.6	804.8	418
Minerals	3,378.8	1,213.1	460.1
Chemical Products	4,849.6	4,658.2	2,804
Processed Goods	3,485	4,339	2,888.2
Machinery and Transport	9,230	12,475.9	9,701
Finished Products	5,867.6	5,656.9	2,644.3

Source: Danmarks Statistik

year, exports continued to grow up to the end of 2016. With exports making up around half of the total Danish GDP, it is encouraging that exports to the UK grew in 2016 in comparison to the previous year; figures for the first half of 2017 are also promising (see Table 2). The UK remains Denmark's fourth largest export market in 2016 with 6.4% of total exports, after Germany, Sweden and the US. Despite the political uncertainty following Britain's vote to leave the EU, it is certainly business as usual in the long-standing trading partnership between Denmark and the UK.

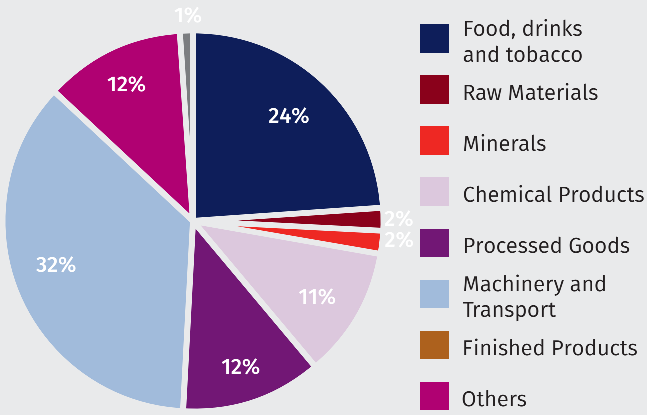
"... the UK remains an attractive destination for Danish companies..."

The UK's creative industries have grown impressively over the last ten years, adding almost £90bn net to GDP in 2016. The ONS revealed that the film industry played a significant role in the first quarter of 2017, adding almost 0.1% to overall growth. Impressive as this is, the fashion industry is the largest employer of all the UK's creative industries. The Danish fashion industry is also seeing tremendous growth, producing revenues of 42bn DKK in 2015, and the industry is primarily driven by exports. Danish fashion exports to the UK are already impressive and grew at 25% in 2015, with the potential for further success, according to the Head of International Affairs at Dansk Fashion and Textile Michael Hillmose, who said "we are now seeing a few major Danish players and a number of niche brands making inroads into the UK (...) the potential for further growth is definitely there." Popular Danish brands already making their presence felt in the UK include Masai and Vero Moda.

Recent years have seen a steady increase in Danish exports of services to the UK, even in years when total exports have declined. Danish exports of goods to the UK still dwarf exports of services, but it is notable that exports of services are growing. With the British service sector proving so important in driving growth, the UK remains a very attractive destination for Danish companies looking to export world class services, with a possible view to further expansion. Success in the intensely competitive UK market provides a springboard for growth for Danish firms with an eye on further expansion, whether into Europe or even the US.

FIGURE 1:

Danish Exports of Goods to the UK
(June 2016 - June 2017)



Source: Danmarks Statistik

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BRITISH AIRWAYS

To a Sustainable Future

Thomas Thune
Chairman of DONG Energy

It is my belief that a business which creates value for society, and not only for shareholders, has the best chance of long term success. DONG Energy is doing so at present by accelerating the transition from fossil fuels towards renewable energy. It is one thing for a business to be run in a manner that is socially aware; however, to create value for society in the process of running a business is something entirely different. With the global focus on climate change and increasingly limited resources, the transition towards renewable energy is necessary for society.

When I took up the role as Chairman of DONG in 2014, a very ambitious plan was already in place for the business, to transition away from being a coal-intensive energy producer. My task as Chairman of the board was to ensure that the strategy was executed accordingly. A crucial part of this has been to ensure the successful implementation of the huge investment programme associated with the strategy, including the risk management process.

With the strategy plan, we have successfully developed DONG Energy to the world leader in offshore wind. In the years to come, DONG Energy expects to grow the business outside its traditional European footprint. The company has development activities in the USA and Asia. In addition to the offshore wind business, DONG Energy has converted most of its power plants from coal and gas to biomass. Since 2006, DONG Energy has reduced its coal consumption by 73 per cent, and the company has now decided to entirely phase out the use of coal by 2023.

The UK is DONG Energy's main market outside Denmark. In the past ten years, the company has invested £6bn and expects to invest a similar amount by 2020.

Another important aspect of our work is expressed in our Sustainability Commitment, adopted in support of the UN's 17 Sustainable Development Goals. We contribute to the Sustainable Development Goals through 20 sustainability programmes, and we not only manage our efforts but continuously measure our progress through these programmes. They fit into the following four categories:

- Energy Supply: *Contributing to a green, stable energy supply*
- Climate and the environment: *Protecting natural resources*
- People: *Developing human resources*
- Communities: *Supporting stakeholder relations*

All of our sustainability programmes contribute to creating a more sustainable society. We have over 25,000 business partners worldwide, mainly energy suppliers. In 2015, we conducted 25 evaluations of business partners across the world, and we identified 33 specific areas where there could be improvements. Our partners have already addressed 18 of these points in a satisfactory manner, underlining our commitment to raising global standards and contributing to a sustainable future.

The City is a European asset that Brexit must not throw away

Jeremy Browne
Special Representative for the City to the EU

London is a global financial centre. It is Europe's gateway to the world. Its peers are few: New York, the financial hub of the planet's biggest economy, and two or three cities – Singapore, Hong Kong, increasingly Shanghai – in Asia, the continent where the pace and scale of change is greatest. French politicians come to our capital city to try to lure financial services jobs to Paris. Irish politicians do the same for Dublin, Germans for Frankfurt; Spaniards for Madrid; the Dutch for Amsterdam. The pursuit is exclusively of their own narrow national interest. Only London sets its sights higher, as our continent's only plausible actor at the global level.

It is far too myopic to see the City of London as a national asset for Britain. It is Europe's asset, a real prize for a continent not overburdened with global-scale assets. It is hosted by Britain, but it serves a much wider continental interest. Businesses from every significant economy maintain a big presence in the City. European commercial interests benefit hugely from having a world-class financial services hub on their own continent. Look at Europe from the outside. Our continent has 7 per cent of the world's population, and it is struggling to be globally relevant and competitive. More than nine out of 10 people on our planet do not live in Europe, and they are, albeit from a lower base, growing richer at a faster pace than Europeans. When Britain and Denmark joined in the 1970s the current EU constituted a third of the global economy; now it is one sixth, and it will carry on falling. Critics of Brexit caricature the outcome of our referendum as a triumph for a "Little England" viewpoint. But now Britain has decided to leave, how can the situation be made any better by the adoption of "Little Europe" attitudes? The world does not owe our continent a living. It does not take its lead from us. We will be relevant if we deserve to be, not by right. Nobody looking at our continent from outside would believe our interests would be best served by an acrimonious and mutually destructive Brexit.

That means the British government needs to engage intelligently with the EU. But it also means the EU has to lift its eyes and not see Brexit as a zero-sum, parochial European game. It makes no economic sense for the EU to strive for better trading relations with every country in the world except Britain and North Korea. The best response is to think on a global scale. How can the EU work in partnership with Britain to best ensure our continent is prosperous, relevant and secure? How can Europe be indispensable to the world rather than peripheral and diminishing in importance? Not by being more protectionist and defensive. Not by the EU artificially magnifying economic divisions with Britain in pursuit of notional political benefits.

It is not an either-or; we need both a thriving single market and mutually advantageous linkages between that market and Britain, Europe's biggest non-EU economy (by far) and host to its only global financial centre. What is needed, on both sides, is the self-awareness and ambition necessary to harness London's attributes to best ensure that the continent of Europe avoids marginalisation and instead develops a plausible path to future success.

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