UK Market Report

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

I write this just before heading off for a Christmas and New Year break in the UK. So I would like to take the opportunity to wish all BCCD members and friends, as well as other readers of this Report, a very Merry Christmas and a happy and successful 2018.

2017 will go down in history as an eventful year for the United Kingdom, and I am sure that 2018 too will bring challenges and opportunities for us all. My colleagues and I in the British Embassy, especially but not only those working for the Department for International Trade, look forward to addressing these in support of UK-Danish business success. Please do contact us with any ideas, comments, etc which you think might help us deliver this support even more effectively.

I cannot write at this moment without mentioning Brexit. As we head into 2018 the leaders of the 27 other EU Member States have agreed at the December European Council to move to the next phase of EU Exit talks, including the implementation period and the framework for the future relationship the EU and the UK will have. We have a shared desire to make rapid progress on an implementation period, which we believe will give certainty to business that we are going to deliver a smooth Brexit.

TABLE 1

UK Key Economic Indicators	Actual	Q4/17	Q1/18	Q2/18	Q3/18
GDP growth, pct.	0.40	0.3	0.2	0.3	0.4
Inflation, CPI, pct.	3.00	2.9	2.8	2.7	2.6
Interest rate, pct.	0.50	0.5	0.5	0.5	0.5
Unemployment, pct.	4.30	4.5	4.6	4.6	4.7
Consumer spending, £m	322,580	314,000	315,000	316,000	317,000
Import, £m	54,335	52,800	53,100	53,200	53,400
Export, £m	51,581	50,200	50,600	51,200	51,500

Source: Tradingeconomics & Office for National Statistics (ONS)

UK Market Report Q3/Q4 2017

The British economy saw respectable growth in the third quarter of 2017, even slightly outstripping the Bank of England's forecast. Progress was also made in the ongoing Brexit negotiations, following Theresa May's speech in Florence.

Economy

The economy is growing slightly faster than the Bank of England had previously anticipated, as GDP rose by 0.4% in the third quarter of 2017 (see Table 1). The manufacturing sector grew at 1%, rebounding strongly following a poor second quarter, while the service sector remains the main driver of growth. Overall, the year-on-year growth rate has climbed slightly above forecasts. Chancellor of the Exchequer Phillip Hammond commented that the economy has "outperformed market expectations, as the UK economy has done overall since the referendum last year."

On 2 November 2017, Governor of the Bank of England Mark Carney announced the first rise in UK interest rates in a decade, with base rate rising from 0.25% to 0.5%. The move had been anticipated in some quarters, following comments at the September meeting of the Bank's monetary policy committee (MPC) that a majority of its members expected to tighten policy "in the coming months".

When the Consumer Price Index (CPI) climbed to 3% in September, Carney was forced to write a letter of explanation to Chancellor Phillip Hammond, as the Bank is tasked with keeping the rate at 2%. The move to increase the cost of borrowing has been made to bridge the gap between rising inflation and stalling wage growth. It remains to be seen whether the rate increase will have the desired effect and bring inflation closer to the Bank's target.

"Progress was also made in the ongoing Brexit negotiations, following Theresa May's speech in Florence."

The MPC did note that business investment had been affected by the uncertainty surrounding the Brexit negotiations. Businesses want to know whether there will be a transitional period, how long the duration of such a period would be, and whether both parties can agree on the terms of a trade agreement. As negotiations continue, businesses in both the UK and EU will be hoping for clarity on these issues as soon as possible. It will be interesting to see whether the increased cost of borrowing will negatively impact on business investment as well.

Politics

Mrs May delivered her third major speech on Brexit in September 2017, in a highly anticipated appearance at the Santa Maria Novella church in Florence. As Brexit negotiations had reached an impasse, with neither side willing to budge in discussions over various issues, the Prime Minister sought to use the speech as an opportunity

to move negotiations along. She made a promise not leave a hole in the EU budget "over the remainder of the current budget plan, as a result of our decision to leave".

Furthermore, she also stated that the UK would "honour commitments we have made during the period of our membership". The exact total of these commitments could well be up for discussion, but the remarks were welcomed by many as an important step in the negotiation process. EU negotiators have so far refused to discuss terms on post-Brexit trade until there is "sufficient progress" on the status of EU citizens in the UK, the border between EU member state Ireland and Northern Ireland, and the extent of the UK's divorce bill.

"... Mark Carney announced the first rise in UK interest rates in a decade..."

The latest round of talks in the third quarter of 2017 have brought progress. EU chief negotiator Michel Barnier noted that Mrs May's speech in Florence created "a new dynamic", while the UK chief negotiator David Davis stated that "decisive steps forward" had been made. Although the UK has agreed that EU law will take direct effect with regard to the protection of citizen's rights, there is continued disagreement on the role the European Court of Justice (ECJ) will play. Talks about the future trade relationship between the UK and the EU will remain on the shelf until further progress is made in the ongoing debate.

As this report goes to press in late November, there are signs that the British government is preparing to improve the terms of the offer for the Brexit divorce bill. With both parties keen to move onto the second phase of the negotiations, a breakthrough could be imminent ahead of a European Council meeting on 14 December.

Market Opportunities

Danish exports of goods to the UK have not been impacted by the Brexit negotiations, as the figures from the third quarter of 2017 show (see Table 2). With Danish exports of services growing as well in recent years, the broad and deep trading relationship between Denmark and the UK is in good shape in the fourth quarter of 2017.

TABLE 2

Danish Exports of Goods to the UK	2015	2016	2017 (jan-sept)
Total Exports of Goods, million (DKK)	39695.3	40749.3	41897.5
Growth year to year (2014 index=100)	81.54	83.70	-
Main Sectors, million (DKK)			
Food, Drinks and Tobacco	11390.3	10980.3	7576.8
Raw Materials	814.1	805	569.4
Minerals	3378.7	1212.6	636.2
Chemical Products	4863	4666.4	4159.3
Processed Goods	3520	4372.1	5219.5
Machinery and Transport	9258.9	12516.5	19330.9
Finished Products	5915.5	5675.4	4000.4
Others	554.8	521.1	405

Source: Danmarks Statistik

In the continued discussions surrounding Brexit and future trade arrangements, the future of various European agencies based in the UK has not always been on the front pages of news outlets. The European Medicines Agency (EMA), currently based in London, will have to relocate and take up its operations in a new host city by the time the UK leaves the EU in March 2019.

In late November, Amsterdam got the nod to host the agency, although Copenhagen had been in the running throughout the process. With trade in pharmaceuticals between the UK and Denmark growing at an average of 5% per annum between 2007 and 2016, it is certainly an area of impressive cooperation.

"This highly competitive price for renewable energy is great news for the UK and for Danish energy giant Ørsted..."

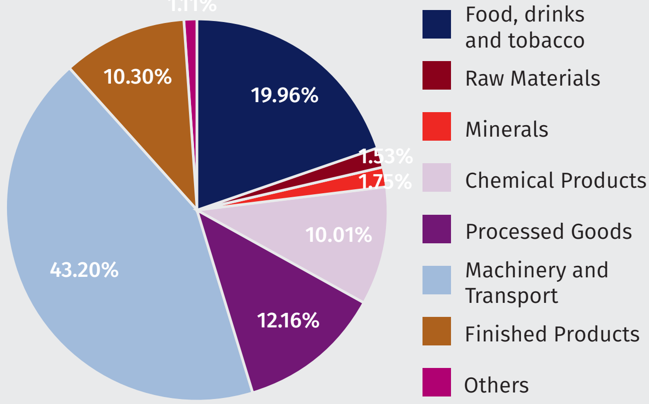
The third quarter of 2017 also saw renewable energy pass a milestone in the UK, as the Hornsea 2 and Moray windfarms secured a guaranteed price for the power that they generate of £57.50 per megawatt hour (MWh) from the British Government. In comparison, the government agreed a price of £92.50 per MWh with the French operator of the nuclear power station Hinkley Point, which is scheduled to be completed by the end of 2025, but risks running several months late.

This highly competitive price for renewable energy is great news for the UK and for Danish energy giant Ørsted (formerly DONG Energy), who own the Hornsea 2 wind farm. Not only will British consumers benefit from the supply of clean energy, the supply chain to the offshore wind industry will receive a timely boost. Danish firms of all sizes are world leaders in renewable energy, especially in offshore wind.

It is not just the household name companies such as Ørsted but smaller, specialized firms involved in manufacturing components in a wind turbine who stand to benefit. They are well placed to take advantage of the opportunities offered in the UK in the future.

FIGURE 1:

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



Source: Danmarks Statistik

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EMA is moving to Amsterdam

Mary Travers
Senior Policy Manager
Novo Nordisk

On 20 November, one of the myriad uncertainties following the UK's vote to leave the EU was resolved: the European Medicines Agency's post-Brexit home will be Amsterdam.

Competition to host the agency when it leaves Canary Wharf had been fierce, with no less than 19 cities submitting detailed bids. For those following proceedings closely, it was an intense evening. Copenhagen's bid was very strong and, in a complex voting process, made it to the second round as one of three remaining contenders. The final decision was a photo-finish between Milan and Amsterdam. But short-term drama aside, the future functioning of EMA – and its role in continued deep regulatory co-operation between the UK and EU-27 – will be crucial for patients and business across Denmark, Britain and the rest of Europe.

EMA is a European success story. It co-ordinates an extensive network of experts and systems to ensure that the medicines available to European patients (human and animal) are safe, effective and of high quality. Medicines are very tightly regulated, but EMA's common European framework ensures efficient delivery of the best outcomes. Of course EMA would have been extremely welcome in Copenhagen, adding to Denmark's burgeoning life sciences sector, world-class regulatory environment and international outlook. And it will undoubtedly be a loss to the UK – not least of 900 highly skilled jobs. But Amsterdam's bid was also very strong and the decision has been widely welcomed. The focus for all must now be to ensure the move is as smooth as possible, maintaining EMA's critical functions both over the next 16 months and into the future.

Here, it is essential to look beyond the practicalities of relocation to the central issue of medicines regulation post-Brexit. Pharmaceutical companies in Denmark, Britain and across Europe are grappling with the range of possible outcomes for medicines regulation, and their consequences for patients and business.

Those consequences could be significant. Through EMA, essential regulatory processes such as approval, inspection and safety monitoring are shared and mutually recognized across Europe. Hundreds of medicines are available to patients in Denmark and the EU-27 through recognition of a license held in the UK – and vice versa. Brexit cannot be allowed to limit the availability of medicines to patients in the UK and EU-27 and, in the longer term, it is nobody's interests for regulatory requirements to diverge or be duplicated. Such a situation would add needless cost and burden for businesses and achieve nothing for patients.

Brexit negotiations are, of course, a complex and political beast. But the regulation of life-changing medicines – as well as their development and supply – should transcend political complexities. Moving a large agency across the North Sea in 16 months is no small undertaking and EMA is planning carefully for its physical move, with a continuity plan already published and a relocation monitoring chart expected soon. As it does so, patients and businesses alike will depend on a flexible and pragmatic approach to the wider issue medicines regulation post-Brexit. An agreement which preserves the benefits of a common regulatory framework can and should be a quick-win, giving regulators and businesses the time they need to prepare.

A Danish Entrepreneur in London

Sofie Anniki Dralle
CEO, Stop My Craving
Master's in International Business

Before my husband and I decided to move from Copenhagen to London in 2013, we saw the UK as a land of opportunities. With the strong pound sterling, consequent work opportunities, high salaries and access to funding for the banking and StartUp industries in which we were employed, the UK appeared to be a country where we could build our future together for the next ten years.

When we moved to London, we saw the pound rise even further, new building developments pop up everywhere and skyrocketing house prices. This was due to foreign investment and the free movement of people, products and services, and it made London a very dynamic place to live and run a business.

It was a vibrant, carefree time and a wonderful feeling of hope filled the capital city. Further evidence of this could be seen in the booming StartUp environment, the high bonuses being paid to professionals and the number of refugees keen to make their way to this new land of opportunities.

Almost a year after we had been living in the UK, rumours of a possible vote to leave the EU started. The refugee crisis, fear of terrorism and resentment over economic inequality were all contributing factors. However, many refused to believe that the referendum would result in a vote for Brexit. The resulting vote to leave certainly came as a shock to my husband and I. However, life moves on.

People began to talk about and understand what had happened, and started processing the new reality and uncertainty facing our lives. The immediate result of the referendum was rapid depreciation of the pound, and some foreign workers started to leave the UK. It also became easier to attract foreign investment for StartUps.

Five months after the referendum, the potential impact of a Brexit became clear to me on both a personal and professional level. I was in Italy where we had successfully found investment for my company StopMyCraving, from H-FARM and Cisco Technologies. We were to stay for 4 months. One day as I was planning a trip back to the UK, I read in the newspapers that the British Parliament had decided to revoke the rights of certain European citizens to travel back into the UK. EU citizens could only return to the UK if they personally held a specific (and expensive) private insurance, otherwise they would be denied access. It seemed unfathomable and no one could believe it, including myself.

I was facing the prospect of not entering the country where my husband, pets, not to mention friends and contacts live and where my business is based. For no valid reason whatsoever. However, on the day I was due to travel, the British House of Lords revoked the decision as unlawful.

Despite this, many questions remain unanswered. What would have happened to me if the decision had not been overturned? What will happen when Brexit is implemented, where will it leave us? To summarise in one word: insecurity.

For now, we are still here, we still believe in Great Britain and we still have hope.

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