Brexit

Keeping your goods moving

October 2017

EY

Building a better working world

How can I plan for the Brexit borders challenges?

All Brexit scenarios involve UK-EU customs border implications in some form, creating supply chain frictions that may generate additional costs and uncertainty. Whatever the outcomes of negotiations, there will be changes to navigate including some opportunities for optimizing your supply chain.

Six considerations for enterprises impacted by border changes:

1. Moving goods in and out of the UK
2. Impact on working capital
3. Sourcing locations
4. Validity of existing contracts
5. Operating model suitability
6. Immediate customs and border issues

Companies should start to evaluate their supply chains and take preemptive actions (e.g., applying for Authorized Economic Operator (AEO) status) to accommodate likely changes.

How are your goods getting here?

UK import and export capacity

- UK ports are expected to suffer delays due to an estimated 360%+ increase (to circa 255m) in the number of import and export declarations post Brexit.[1] A new declaration system is being implemented and has been assessed as amber-red.
- Having been EU focused since the creation of the single market in 1993, specific UK ports (such as Dover and Felixstowe) may be challenged in building the necessary customs clearance infrastructure. Newer ports (e.g., London Gateway) processing lower tonnage have the potential to be more agile.
- With limited dialogue on the European continent, EU ports must be evaluated, too, as they face significant increases in clearance demands.

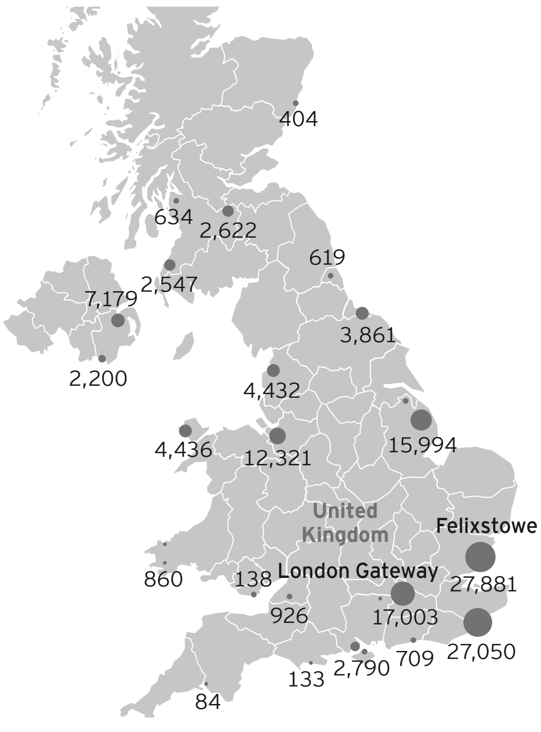

Figure 1: 2015 tonnage (thousands) passing through major UK ports

Are you planning working capital increases?

- **Additional inventory holding**
  Increased lead times and the potential for disruption and increased volatility will result in more inventory. But how much?
- **Import VAT permanent cash flow differential**
  Contrasting with current cash flow neutral acquisition VAT, EU imports will require import VAT to be paid and then recovered. But how much?

Do you need to change your sourcing?

Know where your goods are coming from. After Brexit, there may not only be duty on EU goods, but the UK will lose access to EU trade agreements until new ones are secured.

Added to the impact of a weaker pound across non-UK Tier 1 and 2 suppliers, this could mean increased costs on goods from countries such as South Korea, Mexico, Switzerland, Turkey and others.

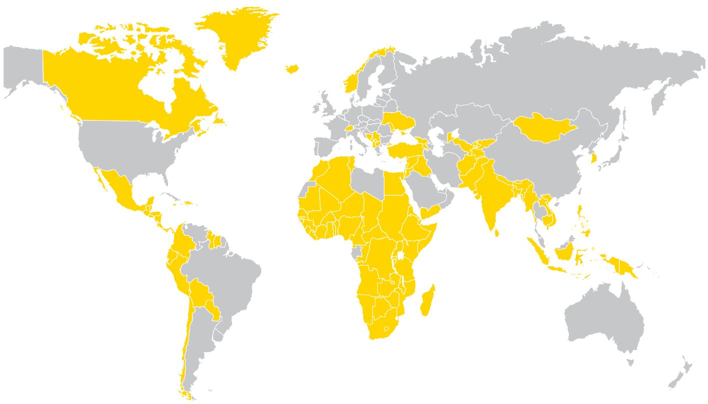

Figure 2: Map of existing EU trade agreements

Are your contracts still fit for purpose?

Many EU-UK contracts did not envisage Brexit and are silent on such things as Incoterms. What terms do you want post-Brexit? How many contracts need to change and how long will it take?

Is your operating model still fit for purpose?

Regional supply chain operating models

- Many companies run regional supply chain structures within the EU that have specific tax attributes. The impact of Brexit on centralized supply chain and procurement hubs hosted in the UK will depend on how they are configured.
- Basic physical supply chain questions need to be asked. Do I now need to consolidate? If so, where and which flows?

[1] The Customs Declaration Service, *Key Facts*, HM Revenue & Customs National Audit Office, 2017 (accessed via www.nao.org.uk, 13 July 2017).

How do I keep my goods moving?

When should I start to plan?

- Now. Article 50 has been triggered – the UK could leave the EU by end March 2019.
- On analysis, businesses realize many mitigating actions required have long lead times.
- EY recommends businesses understand their current state exposure now from a multi-lens perspective. Effectively managing Brexit will provide a competitive advantage.

Immediate customs and border issues

Businesses need to understand their exposure to various Brexit scenarios and associated economic impacts on trade flows. Changes to VAT, customs processes and trade tariffs are likely to be significant.

Considerations include:

- Impact on different industries and services.
- Tariff exposure by commodity.
- Compliance impact. Whether Free Trade Agreement (FTA) or World Trade Organization (WTO) fall-back, goods will need to be declared and customs special procedures managed and applied for.
- Impact on demand – changes to volumes of imports and exports.
- Impact on contract terms, cost price and rebate volumes.
- Potential loss of EU research and development (R&D) grants may impact time to market for new products, costs to procurement process and manufacturing.

Key facts

- The number of annual customs declarations are expected to rise from 55m to circa 255m post Brexit.[1]
- The new customs declaration service was rated amber-red by early 2017 government announcements.
- AEO approvals have risen from 40 (2015 total) to 154 (2016 total). Applications can take over four months to be approved.[2]
- Management of VAT will change after Brexit for EU-sourced goods with potential cash flow issues.

EY perspective in summary

Companies should evaluate their supply chain and take some preemptive actions including:

- Consider the benefits of becoming an AEO.
- Ensure Tier 1 and 2 suppliers are ready for Brexit.
- "Brexit-proof" contracts with suppliers.
- Start Brexit planning now.

Suggested next steps

- **Evaluate your supply chain**
  Businesses need to understand time sensitivity of their supply chain. Are there areas where delays will significantly impact your business? Choosing to pay tariffs and using Inward Processing Relief (IPR), WTO may be in some cases a smarter option than completing FTA paperwork.
- **Perform data analytics and network optimization**
  Businesses should look at where they can consolidate goods, how warehouses are sized, where they are located within Europe and whether relocation or revaluation of assets should be considered.
- **Becoming an AEO**
  AEO accreditation can enable businesses to benefit from faster customs clearances and gives assurance to HM Revenue and Customs (HMRC) that the business operates a secure and trustworthy import and/or export practice, allowing swifter approval of special procedures.

  Businesses are already recognizing the benefit of AEO, as can be seen by the spike in applications in Figure 3. Further promotion of the AEO regime, its benefits and assurances that will continue after Brexit, will ease transitional tension in the trade.

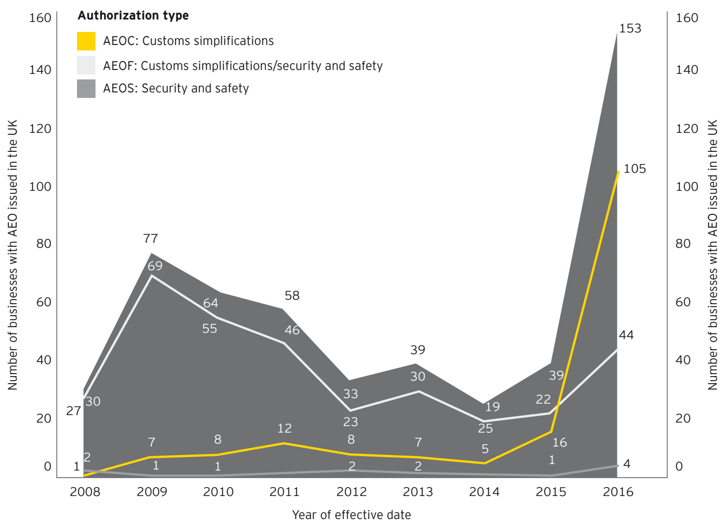

Figure 3: Number of AEO businesses in the UK

Contacts

Paul Bakstad
Partner, Supply Chain & Operations Lead
Ernst & Young LLP

T: +44 7825 052 817
E: paul.bakstad@uk.ey.com

Jolyon Austin
Partner, Advisory
Ernst & Young LLP

T: +44 7799 621 418
E: jaustin@uk.ey.com

Marc Bunch
Partner, Global Trade
Ernst & Young LLP

T: +44 7393 758 741
E: mbunch@uk.ey.com

Mats Persson
Associate Partner, Advisory
Ernst & Young LLP

T: +44 7799 460 691
E: mpersson@uk.ey.com

[2] "Taxation and Customs Union – Authorised Economic Operators Query", *European Commission website*, www.ec.europa.eu/taxation_customs, accessed 10 October 2017.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EYG No. 06091-174Gbl

EY-000045145.indd (UK) 11/17.
Artwork by Creative Services Group London.

ED None

ey.com