

# Brexit – hope for the best & prepare for the worst



According to an article in The Guardian earlier this year, UK car production went into reverse in 2017. It was the first time this happened since the financial crisis in 2009. 'A total of 1.67m cars rolled off UK production lines in 2017, down 3 percent compared with 2016 as demand for British-made cars dropped both at home and abroad, according to the Society of Motor Manufacturers and Traders (SMMT).' One of the reasons: Brexit fears.

The automotive industry – and in general all industries in the UK that rely on an international supply chain – should keep a close eye on the negotiations that must lead to a Britain that is independent of the EU as of March 2019. According to the SMMT, as reported by The Conversation, '1,100 lorry loads of automotive components arrive daily from the EU, without customs checks or tariffs. More than half of the £34.3 billion worth of cars exported from the UK go to Europe. So, falling back on WTO rules could cost the industry £4.5 billion in tariffs annually.'

## Hard or soft Brexit?

An important challenge for any business with a complex, internationally oriented supply chain is uncertainty about the kind of Brexit the UK government and the EU will agree upon. Will it be a hard or a soft Brexit and will we get a transition period that will allow businesses to prepare themselves? Looking at the numbers, Brexit – hard or soft – will have great impact on logistics. Returning to the example of car manufacturing, car parts are moved many times across European borders before they reach their final stage and are put in a finished product. If it becomes necessary to declare them every time they enter the UK, complexity will increase, even if the government and the EU succeed in some kind of simplified process. Meanwhile, it's currently estimated that the number of UK customs declarations could increase to 200 million per annum compared to the 55 million per annum today.

## Sweden-Norway customs model

A way out – especially for roll-on roll-off transport that will be impacted the most – may be the Sweden-Norway customs model. It is still in development and not frictionless, but it does offer a model that uses all the basic modern components of the international standards from the World Customs Organisation. It is also fully compatible with the World Trade Organisation Trade Facilitation

Agreement. The model regulates the creation of a 15-kilometer control zone on either side of the border where customs controls can take place. These controls can be carried out by the customs authorities of either country in accordance with their own customs regulations and can also be undertaken on the other side's behalf. Goods to be declared must pass through a customs location and both countries' customs organisations share information amongst each other.

The challenge for the UK and the countries it would need to share customs controls with is that other than Ireland, there is not necessarily the common history of language or co-operation as enjoyed between Norway and Sweden. And the legal framework to allow one country to undertake customs formalities on behalf of the other would need to be established, which could prove difficult especially if we consider the challenges within the current EU28 and implementation of such systems such as SASP or the future Centralised Clearance.

## Hope and prepare

In the meantime, it is wise to hope for the best and prepare for the worst. Preparations include answers to questions such as:

What new data might you need to capture, especially if companies are trading just intra EU currently?

- What access do you need to have to help determine tariff codes and duty rates?
- Do your supply chain systems have the capability to send data to or receive data from the EU?
- Do you have entities or partners already established in the EU and on the confinement where you can hold sufficient stock for manufacturing?
- Are they or you already AEO?
- Do you have options to clear goods inland away from roll-on roll-off locations?
- Do you have the budget for system changes or additional resources?

In the end, there is no wrong or right. But simplified procedures and a close examination of your supply chain right now will definitely help. This applies to all manufacturers. Do not sit and wait, but prepare now and make necessary changes. It will save time and money in the future.

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