Is the UK Ready for Brexit?

Descartes Research Report

Introduction

2020 was meant to be the year of 'Brexit Preparation'. When the UK left the EU on January 1st 2020, firms involved in trade with the EU were set to spend 12 months on robust planning, maximising the 12 month Brexit transition period to understand the new trade and customs requirements. The transition period provided time to put in place the systems and expertise required to manage trade and the customs declarations that will be required with the EU. Since March, however, COVID-19 has wrought unprecedented change throughout every supply chain – and many firms felt they had no option but to shelve Brexit planning, and in many cases also use cash and stock initially reserved for Brexit-related disruption, simply to survive. With the deadline fast approaching, however, and the option of a 'no-deal' Brexit on the table, the lack of preparedness is beginning to raise concerns. Just how well placed are UK businesses for Brexit on January 1st 2021?

During July 2020 Descartes commissioned research to understand the readiness of UK businesses that trade with the EU for the end of the Brexit transition period on 31st December 2020. Undertaken by SAPIO Research, the interviews with supply chain managers assessed companies' general expectations around the impact of Brexit; the levels of concern surrounding specific changes to the UK-EU trading arrangement; firms' preparedness; and the steps that have already been taken to prepare for the impact of Brexit on their supply chain.

Top Level Findings

Two thirds of businesses have had their Brexit preparations disrupted by COVID-19.

Fewer than one in five **(18%)** of UK businesses are prepared for a 'no deal' Brexit.

Less than a quarter **(23%)** have high confidence in their ability to cope with the extra administrative burden of Brexit.

Almost three quarters **(72%)** are concerned about the customs brokerage market's capacity post-Brexit.

Two thirds **(67%)** of large firms are very or extremely concerned about longer delays in their supply chain impacting the business post-Brexit.

Two fifths **(40%)** are concerned about customs declarations impacting their business post-Brexit.

In this paper we discuss the research findings in detail and consider how firms can ramp up their Brexit preparations and ensure they are ready for the end of the transition on January 1st 2021.

Lack of Certainty

With just a few months until the Brexit deadline, the lack of certainty surrounding the deal still under discussion between the EU and UK is undermining business certainty. Indeed, the overall lack of understanding regarding the UK's current status highlights a concerning level of Brexit misperception amongst supply chain managers: just **53%** correctly recognise the UK as having left the EU and in a transition period, and this rises to only **61%** of supply chain decision makers in executive leadership. A quarter believe the UK is still a member of the EU, and **16%** believe that the UK has already left and is operating entirely outside EU-UK membership.

What is the current relationship status of the UK with regards to the EU?

53%*
Left the EU but in a transition period
*61% of supply chain decision makers in executive leadership

25%
Member of the EU

16%
Left the EU

5%
Unsure

Few businesses expect to be unaffected by Brexit, with just **7%** of supply chain decision makers insisting nothing will change. Indeed, the effects of Brexit are already being felt by a fifth **(20%)** of companies, while **23%** expect to experience the full effects during the next three to six months; around a third **(36%)** are not expecting the impact until 2021.

When are you expecting the full effects of Brexit to be felt in your business?

20%
They already are

23%
In the next 3-6 months

36%
From 2021 onwards

5%
Not for another few years

16%*
I don't expect anything to really change
*7% supply chain decision makers

The lack of certainty regarding the shape and form of the Brexit deal continues to raise concerns and confidence in the negotiators' ability to reach consensus is waning: just over half **(52%)** think a UK-EU trade deal is unlikely to be achieved in 2020. Given this lack of concrete direction, it is little surprise that only one in ten **(10%)** of supply chain managers claim to have total certainty regarding the impact of Brexit on their business. Furthermore, despite the consensus regarding the likelihood of a 'no deal' Brexit, fewer than one in five **(18%)** are prepared for a 'no deal' exit from the EU. Worryingly, given the implication on UK consumers, that preparedness drops to just **3%** of companies within both food & drink and healthcare/ medical sectors. Nor are our European partners perceived to be ready – just **19%** of trading partners expected to be ready for a 'no deal' Brexit.

Supply Chain Delays

Delays to the supply chain **(45%)** are the biggest concern regarding the impact of Brexit on cross border trade. However, the larger the organisation, the greater the concern regarding supply chain delays, **56%** of supply chain managers in firms with over 1,000 employees are worried about delays to the supply chain. The impact of such delays also raises serious concerns: two thirds **(67%)** of larger firms are very or extremely concerned about longer delays in their supply chain. Over two thirds **(68%)** of supply chain managers within healthcare are also concerned about supply chain delays.

Tariff payments **(40%)** and customs declarations **(40%)** are the next highest concerns. However, it is worth noting that almost two thirds **(61%)** of those within an executive leadership position are worried about tariff payments. Wholesalers are also very concerned about customs declarations **(59%)**, as well as having greater concerns about import quotas **(49%)** and security filings **(41%)** than other organisations.

These findings underline a key fact: those organisations and supply chain managers with existing experience of customs declarations are far more worried about the implications of Brexit on the business than those who have yet to discover the complexity of customs processes. From the different rates applied to imports, based on the company and the products, to the need for registration with the UK customs authority and HMRC, setting up payment accounts, and notwithstanding the possible option of a six month deferment for import declarations, getting ready for the new post Brexit import or export demands is not something that can be achieved overnight.

“Membership of the EU has masked the complexities of customs for many, many businesses. Since the Single Market came into force there have been no customs formalities between the UK and EU for nearly 28 years over which time international trade has grown and evolved significantly. The fact is that Brexit will have vast implications for any company importing or exporting out of the UK.”

- *Pol Sweeney*
VP Sales and Business Manager UK, Descartes

Customs Complexity

What is the tariff? What is the duty? Where is it paid and how? What additional landing costs does the business need to incorporate and can they be passed onto the end customer? To ensure shipments clear UK customs without delays, firms require the correct EORI number, the right commodity codes and all the necessary documents and licenses. To avoid expensive overpayment, delays or fines due to missing paperwork it is essential to rigorously adhere to customs processes.

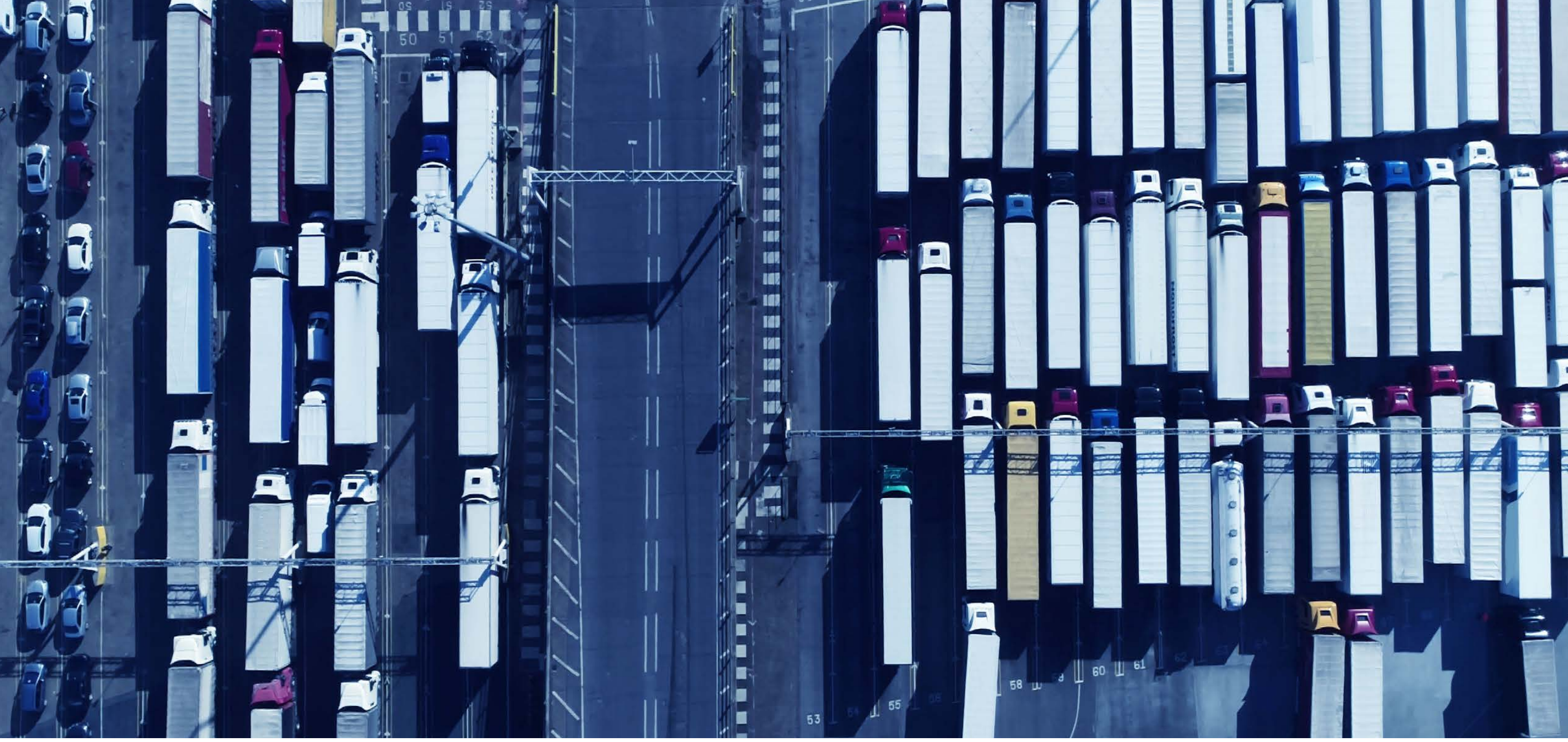
Understanding Customs Complexity

For any organisation hoping for a last-minute reprieve, customs declarations will be required regardless of whether the UK strikes a free trade deal with the EU. Even companies that opt – and are allowed – to defer import customs declarations for six months must still maintain detailed records of goods brought in. Furthermore, many smaller organisations appear unaware that Brexit affects every import or export with the EU: it will no longer be possible to simply load up and drive to another country to deliver and sell goods without paperwork, or for e-commerce traders to simply post goods to a consumer in Paris or Cologne as if it were Birmingham or Manchester. Customs declarations will be mandatory.

There are essentially two approaches that companies can consider: complete declarations in-house or use an intermediary – a customs broker or freight forwarder – to handle the process. Relying on the latter option, however, could be difficult given the expected huge increase in demand due to Brexit. Government figures suggest that British companies trading with Europe will have to fill in an extra 215 million customs declarations a year post Brexit – with a potential cost to businesses of around £7bn a year. There are simply not enough third-party providers to support this huge increase in demand – a fact clearly recognised, with our research confirming almost three quarters **(72%)** are concerned about the customs brokerage market capacity after Brexit.

Yet when less than a quarter **(23%)** of companies have confidence in their ability to cope with the extra administration associated with Brexit, and **40%** are concerned about customs declarations impacting their business post-Brexit, what are the options if customs brokers are not available?

It is possible to file directly with HMRC – but how confident is the business in its ability to check the classification and valuation of goods to ensure the right commodity codes are used? Determine the need for licences for restricted or hazardous goods? Prepare and submit the correct documents to ensure there are no delays at the border? And what about taking advantage of customs authorisations, including Inward Processing, Customs Warehousing, Transit and Customs Freight Special Procedures that could simplify the paperwork requirements for importers trading heavily with the EU or moving goods through multiple territories? Any firm wanting to use these procedures will need to be authorised by HMRC. What about the option of a six-month deferment for import declarations, which will require the business to open a deferment account with UK customs?



Taking Control

Any company deciding to self-file should consider a software system that can streamline the process, from data consistency to the use of templates to speed up the creation of documents for routine product import. The Government's Custom Grant Scheme provides support for businesses needing to invest in both technology and training. Combining a Software as a Service (SaaS) customs solution that ensures all regulatory changes are automatically updated and available, with staff training to achieve in-house expertise, provides a strong foundation not only for handling the complexities of post business activity but also future business development.

With self-filing via customs software estimated to cost just **10%** of the premium charged by customs brokers, the third-party route could be a more expensive option, even if the service and capacity are available. For companies with a small volume of EU imports and exports, a customs broker could still make sense – although it will be important to engage with a firm sooner rather than later. However, for the majority of businesses facing significant increase in customs declarations there are additional benefits to be gained from taking control of the customs declaration filing process.

One of the key aspects of self-filing is the ability to immediately understand and manage landed costs. Import and export duties and tariffs create a new cost model that businesses need to understand rapidly. With different tariffs applied based on a range of factors, from place of origin to method to transport, the ability to monitor landed costs will provide companies with the chance both to manage the new cost models and take strategic sourcing decisions. With over a third of firms confirming they have or will by the end of 2020 looked for new sources of goods **(35%)** and imported goods early to protect supply chains **(34%)**, factoring in the landed costs will be key to creating the correct customer pricing model and retaining margin where possible.

For ecommerce businesses, immediate insight into landed costs will be essential to provide customers with accurate pricing. No business wants to risk shipping individual items cross border, all the way to the customer's door, only for the item to be refused when the courier demands the additional £20 customs duty payment, for example. Being able to integrate customs solutions into the ecommerce platform will support accurate real time pricing information.

Software can also support firms that decide to use customs authorisations, including Inward Processing, Customs Warehousing, Transit and Customs Freight Special Procedures; as well as providing the detailed record keeping required for companies that have deferred import customs declarations for up to six months. Essentially, the software will create the declarations without submitting them, providing a detailed declaration report to the business to deliver essential insight into the new import/export cost model post Brexit.

"Ensuring that our day-to-to logistics business remains accurate and efficient for our customers is top priority, so it was absolutely crucial to find a solution that could enable us to cope with the huge extra volume of customs declarations that will be required post Brexit. The customs declaration process is complex, and so the added value of Descartes' training and knowledge on this has been paramount since deploying the e-Customs solution. Additionally, it has the capability to integrate with our other current systems, eliminating duplication of work. While many Brexit deadlines have come and gone, we're now confident we will be ready to deal with the 100% increase in customs declarations that will be required from us from 1st January 2021."

- Jamie Wood
General Manager, KLG Europe Bradford Ltd.

Conclusion – Preparing for Change

Growing numbers of organisations are beginning to recognise the implications of the COVID-19 pandemic extend far beyond the extraordinary supply chain challenges faced over the past few months: consumer behaviour has changed fundamentally. Retailers estimate the shift from bricks & mortar to ecommerce has massively accelerated, achieving a change within three months that was previously expected to take at least three years. While companies may have recognised the increase in customs declarations that will be required as a result of Brexit, the shift towards ecommerce and direct to consumer delivery will not only radically increase those numbers, it is also likely to catch many of the smaller sole traders by surprise.

Given the pressure on customs brokers, it is important for firms to take action now to ensure the right systems, processes and skills are in place in time:

- What is the strategy – self-file or third party? If the latter, what is the cost and are providers available to support the business?
- If self-filing, what is the right supply chain logistics solution to meet the needs? Typically finding and implementing a system will take several weeks, if it is prioritised by the business.
- While technology will manage many of the complexities of customs, minimising the need for high level in-house expertise, staff will need to be trained to use the system and to understand the new customs regime.
- Every firm importing and exporting to the EU must register with the UK customs authority, register with HMRC and also set up appropriate payment accounts for paying any duties and taxes due on imports. In common with all government departments, HMRC is handling a COVID-19 backlog and also experiencing increasing demands. There is a lead time in having registration and payment accounts confirmed – getting to the front of the queue sooner rather than later is advisable.

Our survey confirms that 30% of businesses are experiencing major uncertainty with regards to the impact of Brexit on the business. At present, the full details of the operating model for Northern Ireland are still unknown which could cause even greater disruption and uncertainty. So, with the deadline fast approaching, the onus is on business to take action today, and make the changes that can enable firms to become 100% confident with regards to customs declarations from January 1st 2021. For help and advice on Brexit planning, see www.descartes.com/brexit.

About Descartes Systems Group

Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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Uniting the People & Technology That Move the World.