

APL Logistics on **BREXIT**:

Come Deal or No Deal, Business as Usual

Background

At 11pm GMT on 29 March 2019, the United Kingdom (UK) is scheduled to leave the European Union (EU) following the results of the 23 June 2016 referendum.

The UK and the EU have been working on a Withdrawal Agreement that is supposed to make the exit as seamless as possible. This Agreement includes a transition period from 29 March 2019 until at least 30 December 2020, which is expected to soften the impact of the UK's separation by allowing it to continue trading as part of the Customs Union. This "soft Brexit" scenario means retaining the status quo for at least another 21 months with minimal border checks on the flow of goods between the UK and the EU. This would be the ideal scenario for businesses.

However, when put to a vote on 15 January 2019, the UK House of Commons rejected the latest version of the Agreement due to numerous reasons (e.g. the Northern Ireland "backstop"). The UK government is currently trying to propose amendments to the Agreement albeit the EU indicating that it will not renegotiate. Meanwhile, some members of the Parliament have proposed postponing the current Brexit deadline or calling for a second referendum. If the deal is rejected by the UK Parliament again, or if the EU refuses to renegotiate, and the option of an extension or second referendum is not pursued, then the less ideal scenario of a "hard Brexit" or "no-deal Brexit" may happen.

Without a deal, there will be no transition period and the UK and the EU will have to trade under World Trade Organization (WTO) "Most Favored Nation" terms. This means that all goods moving between the EU and the UK will be subjected to time consuming border checks, costly declarations, and customs duties. The Free Trade Agreement (FTA) benefits that businesses in UK currently enjoy alongside 60 countries as part of the EU will also cease, forcing it to negotiate for separate FTAs on its own.

The impact to existing supply chains will be tremendous. HM Revenue and Customs expects the number of customs declarations to surge from the current GBP 55 million per year, to as high as GBP 250 million per year. This will result in increased administrative costs, estimated to be in the range of GBP 4 to 6 billion.

To cite the case of one important sector, the UK automobile industry alone depends on around 1,100 trucks coming in from the EU to bring parts and components (many of which are on just-in-time terms) to keep the UK automobile factories running. Over 50 percent of the automobiles produced in the UK are then exported to the EU. Imagine the effect that tariffs and border checks would have on the automobile industry alone.

What APL Logistics is doing

APL Logistics is aware of the serious impact a hard Brexit may have on us and our customers.

We have prepared accordingly by:

- convening an experienced senior team comprised of in-country management, regional finance and human resource partners, and global trade compliance who has been constantly monitoring this space and assessing the impact of Brexit on our customers and our business;
- maintaining close coordination with the UK Government, particularly HM Revenue and Customs, and actively participating in the ongoing sectoral dialogues on Brexit as preeminent members of the British International Freight Association (BIFA), the UK Warehousing Association (UKWA), the Road Haulage Association (RHA), and the Freight Transport Association;
- investing in customs management teams and bolstering our Authorized Economic Operator (AEO) accreditations in both the UK and the EU as a precautionary measure to keep customs processes simple and manageable in the event of a surge in customs declarations;
- securing additional space in bonded warehousing, in which our customers can utilize as a duty mitigation strategy should tariffs between the UK and the EU be enforced; and
- deploying our dedicated trade compliance resources to engage our customers in focused discussions on how they can mitigate the impact of a hard Brexit, such as relocating production, repositioning hubs, and tapping alternative markets where FTA advantages can be retained (e.g. EU-Korea FTA, and the soon to be implemented EU-Japan FTA).

What customers should do

You need not be caught off guard. With over two months to go before the reckoned date on 29 March 2019, companies will need to quickly assess their supply chain risks.

A good start would be to do a detailed mapping of:

- who and where you source from – if you depend on a UK based supplier, you may need to verify if (and how much) your supplier ultimately sources from the EU so as to be aware of possible cost increases;
- what markets you sell to – if you depend on any the EU's existing FTAs then you (and more specifically your customers) should be prepared for a potential tariff impact on your products; at least until the UK negotiates for a separate bilateral or regional deal;
- how much is linked to the EU (excluding Ireland) – you may soon be required to file customs declarations for these transactions;
- what Harmonized System (HS) Codes you use – for the filing of customs declarations, your products will have to be classified according to their corresponding HS codes for proper duty assessment; and

- your current incoterms – when the requirement to clear customs arises, you may need to renegotiate your contracts with your suppliers and customers, since this will impact how risks are currently distributed between buyers and sellers.

Also, if you are an UK entity and a substantial amount of your trade takes place with the EU, you may want to consider obtaining a UK Economic Operator Registration and Identification (EORI) number to be able to file UK customs declarations. Having visibility to these information will better prepare you for the impact, in case a hard Brexit does happen.

Contact APL Logistics

If you have any questions regarding Brexit and are interested to learn how APL Logistics can be your partner in getting through foreseeably demanding challenges, please contact us at global_marketing@aplogistics.com.