

BREXIT – IMPACT ON LOGISTICS SERVICE PROVIDERS

UNDERSTANDING TECH MAHINDRA'S BREXIT TOOLKIT



Brexit: How is it going to change Cross Border Trade?

Since the time Brexit Issue has hit Headlines, there have been immense discussions on the impact it would have on various industries and Global Trade and Cross Border Supply chain in particular. Questions like the following have been doing the rounds: What are the implications it would have on Tariffs, Freight & Logistics Industry, Effect on Labour, Transit times and overall Cost Arbitrage

With Just a few days to go for the Brexit Transition Period that ends on 31-Dec-2020 and no-trade deal in-sight between UK & EU, the implications to Cross Border Supply Chains, Logistics and Freight Transportation are expected to be significant (with many unknowns). Businesses and associated service providers have to adopt to the impact that will come as an outcome at the end of the transition period.

Brexit and its impact on Logistics

In 2019 the UK exported 43% of its goods and services worth Pound 300 Billion to EU and UK imports close to 51% worth Pounds 372 Billion. Challenges in the logistics industry and its consequences are only expected to increase with Brexit. Most of the countries in the EU including the UK are interlinked and heavily dependent on imports of Petroleum & Fuel products. Roughly, over 25 – 30% of the UK's petroleum products pass through the EU on the way to the UK. This will increase Import Tariffs on these petroleum products coming into the UK and thereby making these products more expensive. This will only add to the challenges for the Logistics Industry. Some of the areas that we foresee could have an adverse impact across Local and Cross Border Supply chain post-Brexit.

Reduction in Trade Volumes: Most of the UK's exports move into EU countries. These volumes could take a dip post-Brexit and this could hurt the UK's GDP. This will also affect the Logistics Industry.

Border Control Measures: Brexit could lead to tighter border controls and create barriers for trade. Significant volumes happen by Ro-Ro mode between EU and UK and vice versa. Trucks that can drive straight from ships and move by road will now be subject to Customs checks for paperwork and physical inspections. This is bound to slow down the Delivery Lead Times which will eventually lower efficiency and add on to the challenges in the logistics industry due to which goods will move slower. EU border controls will now be introduced in three phases from January 2021.

- From January 2021, traders importing “standard goods”, from clothes to electronics, will need to prepare for only “basic customs requirements”, such as “keeping sufficient records of imported goods”, and will be able to complete customs declarations up to six months later.
- From April 2021, all products of animal origin and “all regulated plants and plant products” will also require “pre-notification and the relevant health documentation”.
- From July 2021, all goods will have to be declared and the relevant tariffs paid.
- Checks on controlled goods is likely to stay and Full safety and security declarations along with physical check will see an increasing trend.

Rising operating costs: Fuel Duties, Labour Costs, Transportation & Storage Costs are expected to create challenges in Logistics by rising operating costs. Drivers not having the necessary licenses and permits. Some logistics providers have written clauses into their contracts that ensure delivery within a certain timeframe, with penalty clauses being activated for delays to delivery. Contracts may need updating to manage some of the potential risks arising from Brexit or in response to Brexit-related restructuring

Warehouse Shortage: Industries will see significant changes in the decision to invest in warehouse infrastructure either in the EU or in the UK. Strategies like Network Planning, Customer Service, and Lead Times, etc. will have to be redesigned based on the availability of infrastructure and changes in Legislation because of Brexit. Growth in Industry segments like e-commerce and Healthcare is expected to create a big demand for warehousing space in the already limited capacity available in the UK. There will also be a big impact on decisions as to whether to in-source or out-source capacity.

Labour Arbitrage: Currently a large number of migrants have come in from EU Nations into the UK and have found employment easily in the Logistics & Transportation industry. With Brexit, there would be a trend reversal and they would have to leave the UK back to the EU. As the result, create huge shortages in skilled labor within the UK, both in Skilled Warehouse personnel and Truck Drivers. This would result in wage increases and subsequent hikes in Transportation Costs. Another trend we foresee is increasing capital spend on Warehouse automation to balance the skill shortage.

Customs - Import and Export: Introduction of new trade barriers, could result in (hard to create) a fit-for-purpose customs process for the land border between UK & Ireland, and RO-RO Freight at Port of Dover between UK & EU. Depending on the customs clearance process and national customs authority, the required customs documentation is expected to vary. It is estimated that an additional 200 million customs declarations per annum would be filed post-Brexit.

An initial Assessment of Brexit is leading to impact to 5 broad areas as summarized below:

1

Supply Chain


- Customs Declarations
- Safety and security agreement
- Proof of origin
- FTA negotiations for revised Customs Duties
- Mutual recognition of Authorized Economic Operator (AEO)
- How to deal with North Ireland Customs and other Protocols



2

Markets & Trade


- Standard Rules of Origin (RoO) framework
- Border Checks - Sanitary and Phyto-Sanitary (SPS) measures
- Financial services
- Personal data flows
- Third country FTAs
- FTA exclusions - limited service access
- Initiation of separate regulatory approvals for UK and EU
- Northern Ireland Protocols
- Product standards and conformity assessments



3

Legal Regulations

- Changes to Corporate structure
- Rules for Cross border mergers
- UK outside of EU regulatory bodies
- Northern Ireland – broad alignment to EU rules for goods
- State aid
- Labor and social protection
- Environment and climate change provisions
- Potential changes to UK regulation over time



4

Finance & Taxation

- Taxation - double taxation rules
- New VAT rules for UK and Northern Ireland
- Changes to tax registration and reporting requirements
- Macroeconomic environment may be influenced by FTA negotiations
- Tax incentives decisions for both EU and UK
- Northern Ireland Protocols



5

Labour & Skill

- UK's future immigration policy – details of considerations and structure
- Conditions related to travel to perform services
- UK's EU Settlement Scheme
- EU Member State registration schemes
- Mutual recognition of professional qualifications
- Social security cooperation



Customs Brokerage & 3PL's post Brexit

Deal or no deal, Brexit will change trade rules and regulations between the UK and EU.

- In case the UK leaves the EU without a deal then WTO rules will immediately apply on cross-border trade and 3PL's and Customs Brokerage firms must be ready for the same.
- Custom brokerage firms must be ready to deal/adhere to the new/revised customs declaration protocols.
- Assist in minimal disruption and frictionless trade is maintained, as lead times are bound to increase.
- Customs Brokerage & 3PL's are expected to act as Consultants in assisting their customers setting up EORI number, Export/Import License, Certificates of Origin, Deferment Account, and usual Compliance documentation.

Tech Mahindra: Tech Mahindra represents the connected world, offering innovative and customer-centric information technology experiences, enabling Enterprises, Associates and the Society to Rise™. We are a USD 5.2 billion company with 131,500+ professionals across 90 countries, helping 1000+ global customers including Fortune 500 companies. Our convergent, digital, design experiences, innovation platforms and reusable assets connect across a number of technologies to deliver tangible business value and experiences to our stakeholders.

A Leader in *Transportation & Logistics Space*, Tech Mahindra has deep expertise across the Logistics Value Chain in areas including Supply chain services, Cross Border Supply chain, Brokerage Services, Transportation & Warehousing. We have a dedicated Practice that focuses on providing Digital Technology Solutions that can be leveraged to build new Revenue Streams, Re-design Business Processes to drive growth and bring significant Operational Efficiencies.

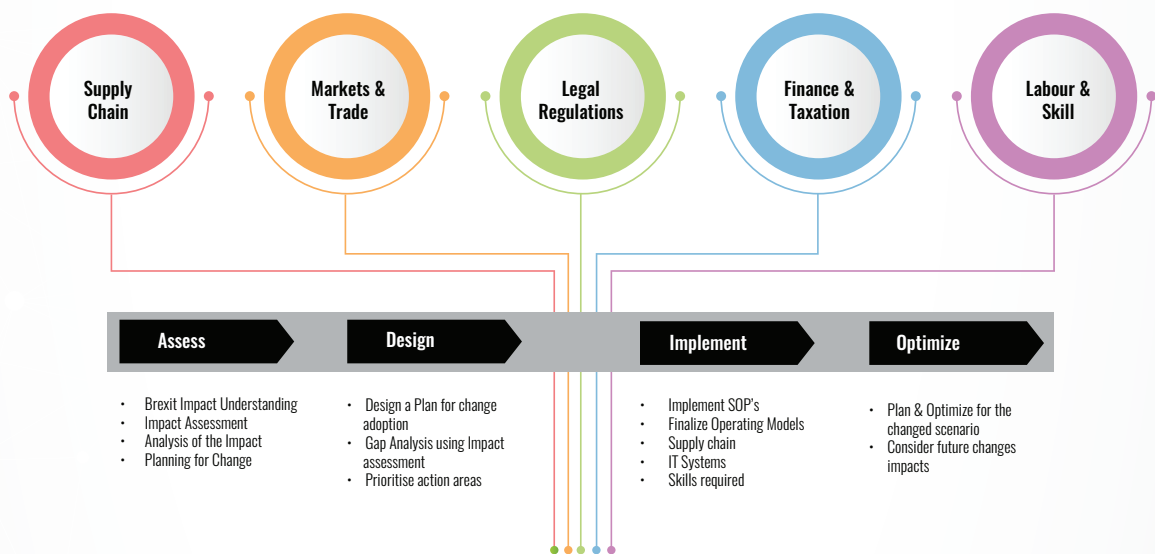
Tech Mahindra presents the Brexit ToolKit to address the needs of Logistics Service Providers (LSP). The Brexit Toolkit for LSPs has the following main components:

Intelligent Customs Brokerage: This NextGen Service offering helps LSPs involved in Cross Border Shipping, Custom Brokerage, Transportation & Other Supply chain services manage their Business Processes more efficiently and help them Reduce Operating Cost, Automate Service Catalogue and in Reducing Volume. Some of the processes include - Brokerage Data Conversion, Entry & Backend Services, Freight Entry, Invoicing & Freight

Automation: Tech Mahindra helps automate Business Processes using BOTS that help identifying and reducing redundant processes leading to increased efficiency and improved customer experience. Tech Mahindra’s AI based OCR solution also helps in data extraction & retrieval in document intense operations as it happens in Customs brokerage. The AI engine helps in both Labeled and Non-Labeled Data Collection.

Blockchain based Frictionless Trade Solution: This Blockchain solution helps LSPs transform to Digital records via distributed Ledgers that allows them to protect, monitor & control the distribution of Goods. A utility platform for LSP’s, Shippers and HMRC, through processes of assurance, use of permissioned data sets, shared between trading countries.

Process Consulting: Tech Mahindra can help in assessments of the impact that Brexit will bring on various business processes. Our Impact assessment framework will help your organization to implement and adapt to a New Business Model post Brexit.



References

- <https://www.bruegel.org/wp-content/uploads/2017/02/PC-04-2017-finance-090217-final.pdf>
- <https://www.pwc.co.uk/who-we-are/regional-sites/northern-ireland/press-releases/world-in-2050.html>
- <https://www.nortonrosefulbright.com/en/knowledge/publications/16d0fc9c/impact-of-brex-it-on-the-transport-sector>
- <https://www.livemint.com/news/world/when-this-2-trillion-market-turns-start-worrying-about-brex-it-11570429165343.html>
- <https://assets.kpmg/content/dam/kpmg/uk/pdf/2017/03/brex-it-the-sector-impact.pdf>
- <https://www.cnn.com/2019/01/07/brex-it-uk-financial-services-sector-moves-1-trillion-in-assets-to-eu.html>
- [https://www.europarl.europa.eu/RegData/etudes/STUD/2017/595374/IPOL_STU\(2017\)595374_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2017/595374/IPOL_STU(2017)595374_EN.pdf)
- <https://www.shipafreight.com/knowledge-series/brex-it-shipping-logistics/>

Authors



Srinivas Maddury
Practice Head
– Transport & Logistics (TTLH)
Tech Mahindra



Hemanth VC
Program Head – Travel,
Transport & Logistics (TTLH)
Tech Mahindra

**Tech
Mahindra**

connect@techmahindra.com

www.youtube.com/user/techmahindra09

www.facebook.com/techmahindra

www.twitter.com/tech_mahindra

www.linkedin.com/company/tech-mahindra

www.techmahindra.com