



Brexit Industry Insights

September 2019

Logistics

With the UK's default to leave the EU without a deal, there are a number of steps businesses in the logistics sector can take to prepare. The sector is likely to see a significant Brexit impact given its role in moving goods cross-border, and over the past few months businesses have experienced increased demand for their services.

Some of the Brexit impacts particularly relevant to the sector, and which it is supporting its customers to manage, include delays at ports, mandatory border checks, availability of drivers and their ability to operate, and ability to process the required paperwork. The immediate Brexit impacts are being managed against a backdrop of increased costs from technological innovation and increased demands from customers, e.g. requiring complete transparency over their parcels. The winners will be those in the sector prepared for change and alive to the opportunities.

Brexit and the Logistics sector

The purpose of the logistics sector is to move products from A to B as quickly and as efficiently as possible. Depending on the supply chain of a particular product, this can include multiple iterations at different stages of the production and distribution process. Brexit has the potential to severely impact on the haulage of freight into and out of the UK across all modes of transportation: road, rail, air and maritime.

What does this mean for business?

Some of the key implications for businesses operating in the sector:

Road haulage

Road haulage is the dominant mode of freight transport within the UK¹. The majority of goods imported to and exported from the UK by road are handled by overseas hauliers (with vehicles mostly registered in Poland, Ireland and Romania). Conversely, UK hauliers account for 8% of total haulage activity in the EU. Those UK hauliers could face several hurdles post-Brexit, particularly in a no-deal scenario:



1. <https://publications.parliament.uk/pa/ld201719/ldselect/lducom/355/355.pdf>

Driving licences: EU licences will be recognised in the UK for temporary period, but UK drivers in the EU will need to get international driving permits.

ECMT International Road Haulage Permits: European Conference of Ministers of Transport (ECMT) permits are needed for driving through the EU and EEA countries. This applies to both laden and unladen journeys. If the UK leaves the EU without a deal, then many journeys will require an ECMT from 1 January 2020 (once short-term contingency measures end). The number of available permits, however, is limited.

Working Time Directive: drivers are subject to the provisions of the Working Time Directive. Being caught up in queues at the border would add to working time, and drivers may find that even when permitted to proceed at the border, they will not be able to do so before a mandatory break.

Unaccompanied freight can reduce the risk of delay as a result of restrictions relevant to drivers described above, but often it entails a longer journey time – and making the relevant network changes would take time to implement.



Air Freight

Cargo services by UK carriers between EU member states and third countries will be capped at 2018 flight frequency levels², which limits the extent to which businesses can swap to air freight to avoid delays at sea ports and the Channel Tunnel. In addition, UK carriers will not be able to fly between two third countries and stop in the EU, nor will they be able to fly between two member states or within one member state which could impact certain freight routes.



Maritime Transport

Shipping can be broadly thought of in terms of short-sea routes, such as those connecting EU ports, and the deep-sea routes that cross oceans. UK operators, or those dependent on UK-EU shipping routes, could face several hurdles post-Brexit, particularly in a no-deal scenario:

Cabotage: transport between ports within one EU member state by a transport operator from another country is currently liberalised for EU members but not necessarily operators from third countries. Currently, third country operators can only perform cabotage where the national legislation of EU member states extends that right to third country interests. At present, this is possible in Denmark, Ireland, Belgium and The Netherlands.

In focus: AEO Status

An Authorised Economic Operator (AEO) is an accreditation which demonstrates that a business operates securely within the supply chain (AEO-S) or operates at a high level of compliant Customs Processes (AEO-C).

AEO traders are subject to fewer physical checks on imports and exports, fewer post import clearance audits by the Customs Authorities, easier access to the use of customs procedures and benefit from reductions to the level of security required as part of Customs Comprehensive Guarantee requirements.

AEO is applied across the EU, and the EU has mutual recognition arrangements with similar initiatives globally, although as yet no such agreement has been made between the UK and the EU post-Brexit.

In order to fully benefit from these provisions, businesses need to be AEO certified themselves (they will not be able to rely on a third party's authorisation e.g. the logistics provider).

The AEO accreditation process is not straightforward and obtaining approval can take up to six months once an application has been submitted.

Whilst those in the logistics sector were early adopters of AEO, there continues to be the need to consider AEO to meet contractual demands for accreditation.

2. <https://publications.parliament.uk/pa/cm201719/cmselect/cmeuleg/301-lxxiv/30105.htm#footnote-022>

3. Recognition of seafarer certificates of competency if there's no Brexit deal

Seafarer certificates: the UK government has announced in a no-deal technical notice³ that it will seek third country recognition of UK certificates of competency (CoC) as mandated by the International Convention on Standard of Training, Certification and Watchkeeping for Seafarers (STCW). EU and EEA issued CoCs will continue to be recognised in the UK.

Maritime security notifications: shipping companies, including ferries carrying passengers and lorries are required to submit security information prior to entering an EU port. This requirement can be waived by EU countries for intra-EU operations but not between EU and non-EU services. The submission of this pre-arrival information could mean additional information will be needed to be submitted by those using the services in order to allow the shipping companies to undertake these procedures.



Border Delays

The UK government is estimating there will be a six month period of disruption at the UK border, being at its worst for first three months⁴. Delays could arise due to a number of factors:

- Additional safety and security checks required at the border and limited space to undertake these
- Drivers not having the necessary licences and permits
- Inexperienced traders not having the necessary paperwork when arriving at the border.

The UK government has announced certain mitigation measures which will be taken at the border in the event of a no-deal scenario, e.g. Transitional Simplified Procedures (TSP), although logistics providers do not themselves need to register for TSP. However, it is important to note whilst TSP will relieve some of the pressure for freight entering the UK, at the time of writing there are no equivalent mitigating measures in place for UK freight seeking to enter the EU.



Contracts

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. Managing these obligations in a no-deal scenario will be important to the ongoing operations of those logistics providers. Contracts may need updating to manage some of the potential risks arising from Brexit or in response to Brexit-related restructuring.

What can businesses to do prepare?

- Ensure systems and procedures are in place to manage the increased volume of customs declarations for imports and exports.
- Logistics providers and their customers should work together on their Brexit preparation plans to understand what, if any, impact this will have on operations.
- Apply for the necessary licences and permits; conduct a trade continuity and market access review to understand your exposure to third country trade deals.
- Ramp up your operational response capability to manage disruption as and when it occurs, and review contractual commitments and penalty clauses relating to delivery times.
- Regularly communicate with EU workforce to encourage status certification as early as possible. Establish a process that monitors member state changes to immigration and social security that could impact UK workers in the EU.
- Keep up to date on UK and EU government, European Commission and regulator announcements in the run up to 31 October and beyond to stay up to date on policy changes.
- Develop a strategy for government engagement on the issues that matter most to the business in order to influence future policy.
- Manage all key stakeholders to identify commitments and expectations. Engage with audit committees and liaise with trade bodies and regulators on preparations.

4. Letter to suppliers of medicines and medical products: <https://www.gov.uk/government/publications/medicines-and-medical-products-continuity-of-supply-update>

Areas of focus include: reviewing risk allocation between parties such as which counterparty bears the risk of border delays and tariff costs; definitions of key terms; changes to pricing structure or frequency of pricing reviews and changes to payment terms and contract enforcement

 **Customs & Compliance**

Whilst many logistics providers in the EU and EEA have experience of borderless trading in the EU, some do not have exposure to international trade and the associated compliance requirements. Ensuring compliance with the requisite customs procedures and having the right documentation for consignments will be crucial to minimising delays at the border; possession of the wrong documentation could risk consignments being turned away. Being able to identify shipments where certain products must be checked at the border (e.g. products of animal origin) will also be important in this respect.

This also extends to the wood packaging material (WPM) the freight is transported on and in, including pallets, crates, boxes, cable drums, spools and dunnage. Currently, WPM moving between the UK and the rest of the EU does not need to meet International Standard for Phytosanitary Measure No. 15 (ISPM15). However, in a no-deal scenario, all WPM moving between the UK and the EU will need to be ISPM15 compliant (treated and marked) and may be subject to checks.

 **Customs Representation**

Recipients of goods shipped across a customs border may need to make payment of duty. In a no-deal scenario, the value and volume of such payments will increase significantly. This could present challenges for logistics providers – such as communicating to parcel recipients why/what duty is payable, ensuring robust systems and processes are in place to handle increased payments, and the joint and several liability risk when representing customers in the customs declaration process.

Case study

Our client, a UK port operator, wished to pursue AEO authorisation to maintain its competitiveness against its AEO-accredited competitors and to allow for ‘business as usual’ in the operation of its port storage areas. Additionally, our client would also have the opportunity to reduce its exposure to financial guarantees required by HMRC in order to operate Customs Special Procedures, should AEO status be obtained. However, it was acknowledged there would be some difficulties in obtaining AEO status, due to a lack of documented process and, in some cases, insight as to the true extent of the operations undertaken.

We visited several of our client’s locations, working with our client to enhance existing processes and introduce new procedures, closing the identified gaps and bringing our client’s processes and procedures in line with the AEO standards. Our client has now achieved its AEO status, allowing it to better pursue its commercial strategy.



How can Deloitte help?

Deloitte has been supporting multiple businesses across a range of industries to understand the implications of, and prepare for, the UK's withdrawal from the EU. We have supported many clients with their Brexit planning. Our teams combine Brexit insights, industry knowledge and technical expertise to support our clients with their Brexit readiness planning – from risk assessment to applying the lessons learned to optimise for the future trading environment.

For further information please contact brexitsupport@deloitte.co.uk

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Further reading

Official no-deal guidance for logistic

UK No-deal Technical Note:

Driving in the EU if there's no Brexit deal

Vehicle insurance if there's no Brexit deal

Commercial road haulage in the EU if there's no Brexit deal

Reporting CO2 emissions for new cars and vans if there's no Brexit deal

Aviation security if there's no Brexit deal

Aviation safety if there's no Brexit deal

Flights to and from the UK if there's no Brexit deal

Getting an exemption from maritime security notifications if there's no Brexit deal

Recognition of seafarer certificates of competency if there's no Brexit deal

Operating bus or coach services abroad if there's no Brexit deal

Rail transport if there's no Brexit deal

Meeting rail safety and standards if there's no Brexit deal

UK Business Preparation Tool:

Prepare your business or organisation for Brexit

European Commission Brexit Preparedness:

Mobility and Transport

This no-deal guidance is not exhaustive. Companies should routinely review the latest official updates and technical guidance as and when they are published by the UK, EU, and individual EU member states.

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