Brexit impact on EPTDA members

The United Kingdom left the European Union on 31 January 2020, after 47 years of EU membership. In accordance with the Withdrawal Agreement, the UK loses its privileges and no longer participates in the EU decision-making process.

However, the EU and the United Kingdom have agreed on a transitional period that will last until December 31, 2020. Until then, nothing will change for citizens, consumers, businesses, investors, students and researchers in the EU and the United Kingdom. Also, EU law still applies to the United Kingdom until the end of the transition period.

The EU and the UK agreed to use these months to negotiate an ambitious and equitable partnership for the future.

"We will work closely together to find solutions to common challenges. But one thing has to be absolutely clear: whatever the future holds, the bond and the friendship between our people are unbreakable", said Ursula von der Leyen, the President of the European Commission.

The EU said that it is ”working hard, and in good faith”, to reach an agreement.

The EU is also preparing for the possible consequences of the lack of a formal and ratified agreement for its partnership with the UK at the end of the transitional period.

The Task Force on relations with the United Kingdom within the European Commission coordinates activities on all strategic, operational, legal and financial issues related to the UK's withdrawal and its future relations with the European Union. This task force’s leader is Michel Barnier.

But the autumn came and the two parties are still negotiating. As the UK becomes a third country on 1st January 2021, you and your business will have to calculate with increased costs, barriers to trade and travel. So you have to be prepared for the changes and the challenges of doing business in and with the UK post-withdrawal. These changes pose significant risks and costs for the Logistics businesses.

Brexit: Top challenges in the logistics industry

EPTDA members need to know that the worst-case scenario is if following Brexit, the UK is no longer part of the EU's customs union. Then customs checks may be required for goods entering and leaving the EU, resulting in increased costs or delays. Tariffs could be applied to goods and services provided to and from the EU, affecting the profitability of the contracts in the future. Currency fluctuations are another potential consequence of Brexit. They will make financial forecasting in the short to medium term difficult for those paid in foreign currencies under any of their contracts.

Here are the top challenges in the Logistics industry due to Brexit:

1. Stricter border control

Experts at Infiniti believe that Brexit would bring about tighter border controls and create barriers at borders for the administration of trade in both directions. This can cause lower efficiency and add on to the challenges in the Logistics industry due to which goods will move slower.

Recently, Michael Gove, the minister in charge of Brexit preparations, warned about possible border backlogs after the U.K. makes its exit *de facto,* on 1st of January 2021. That is because truckers might not be ready for new paperwork and regulations that will come into effect then. Therefore, „there could be lines of 7,000 trucks at the English Channel and two-day waits to get into France immediately after the U.K. makes its economic break from the European Union", said Michael Gove. He urged businesses to prepare in order to avoid such a scenario.

But haulage and logistics companies accused the government of trying to put the blame on them for lack of preparation whilst the government's Smart Freight system is nowhere close to being operable. In fact, it will still be in a testing phase in January. This system should reduce the risk of cargo delays, but international operators need time to learn and adjust. Chairman of the Association of Freight Software Suppliers (AFSS) Stephen Bartlett said: "Our concern is less linked to the government's ability to have the software ready in time for December, but is more focused on how little time this provides haulage operators to train their staff in using these systems."
Also, work to recruit and train 50,000 new customs workers is nowhere near being finished.

"We've been consistently warning the government that there will be delays at ports, but they're just not engaging with industry on coming up with solutions," Road Haulage Association chief executive Richard Burnett said.

2. Price increases and the need for a more skilled workforce

ICT Logistics, a player in the transport and logistics market from Romania, estimated that in the post-Brexit era there will be a price increase of between 5 and 15%. This estimation is related to waiting times for customs formalities, as well as, most likely, the cost of crossing the continent. Due to the fact that the UK is connected to the European space only through the ferry and Eurotunnel lines, there are no alternative routes and, therefore, the customs are made in Dover, the crossing point to the European Union.

Brexit will also have an impact on the workforce, meaning that drivers should know the commissioning and customs procedures, which will make access to the UK market more difficult, because not all companies have qualified personnel in customs operations.

3. Migration control

Britain is to close its borders to unskilled workers and those who can't speak English as part of a fundamental overhaul of immigration laws. This translates to lesser EU citizens working for companies in the UK. As a result, there could be a major impact on road haulage as it relies heavily on drivers from other EU countries. This reduced ability to recruit drivers could affect the industry's capacity to serve the economy.

4. Contracts

A report from Deloitte states that 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. 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", according to this report.

5. Currency fluctuations

A report published by the British Port Association and Currency UK states that for some traders, the currency fluctuations are more concerning than the prospect of new tariffs on physical trade: "How Britain will exit the EU remains clouded by uncertainty. This means that fluctuations in the value of pound on the international currency market continue to be a recurring theme. This can represent real opportunities for international investors and currency traders but can also create unpredictability for those in the shipping, freight and ports business, which facilitate 95% of the UK's physical trade", said Alex Coates, Director of Operations, Currency UK.

What can businesses do to prepare?

EPTDA members that are affected one way or the other by Brexit should be prepared to face these challenges.

Deloitte experts have made several recommendations for protecting your business:

- 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 licenses 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 the 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.

Spotting the opportunities for the Logistics sector

All of this may sound a bit of doom and gloom, but there are some bright spots emerging from this situation. For example, many transport firms are investing in new technologies like Big Data Analytics and Artificial Intelligence to help them plan more efficient routes, maintain a more efficient fleet of vehicles, and ensure that their vehicles are operating at maximum capacity.

The hope is that this approach will help to reduce transportation costs for logistics companies and the businesses they serve. Unfortunately, those companies that are unwilling or unable to invest in new technologies may experience trading difficulties, become uncompetitive, and risk being left behind.

In addition, Brexit may result in reduced competition from EU-based transport and logistics companies, opening up new market opportunities for British firms.

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