



Brexit

Or how a sad story turned
sour and... dangerous

Brexit – state of play

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Where did it all start?

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How did it go so far?

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Where do we stand today?

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What could happen next?

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What does all this mean for business?

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Need for a Plan B ?

Brexit: where did it all start?

- ▶ June 2016: referendum
- ▶ March 2017: ‘triggering’ of the negotiations (article 50 Lisbon Treaty)
- ▶ Negotiations started in April 2017
- ▶ On 29 March 2019, the UK will be leaving the EU and become a ‘third country’

Brexit: how did it go so far?

- ▶ Negotiations were difficult, slow and tense
- ▶ EU27: one chief negotiator, clear mandate, transparency
- ▶ UK: different chief negotiators, changing positions, tensions in London
- ▶ November 2018: the first phase of the negotiations was concluded

Brexit: how did it go so far ?

Only if 'sufficient progress' in phase 1

Phase 1 The Withdrawal Treaty

Make sure the UK's exit from the EU is orderly:

- ▶ Divorce bill ('the money')
- ▶ Citizens' rights
- ▶ Irish border ('backstop')

- ▶ **draft Withdrawal Agreement Treaty**

- ▶ adopted by the European Council and still to be adopted by the European and UK Parliament

- ▶ **Political declaration on the future EU-UK relationship**

- ▶ adopted by the EU27 and the UK at the European Council in November

Phase 2 Future UK-EU relationship

The hardest part of the negotiations:

- ▶ Future trade relationship (economic interests!)
- ▶ Security and defense
- ▶ Foreign policy

- ▶ **Future relationship Treaty**

- ▶ still to be negotiated and to be adopted by the UK, European and national - including regional ! - parliaments

Brexit: how did it go so far

Two different approaches

On the EU side

- ▶ EU position very clear from the start (April 2017)
- ▶ ‘Create a new and ambitious partnership’
- ▶ while fully respecting the foundations the EU was built on, such as:
 - ▶ autonomy of EU decision-making
 - ▶ the indivisibility of ‘four freedoms’
 - ▶ integrity of the Single Market (‘no cherry picking’)
- ▶ Offer of a free trade agreement with zero tariffs and no quantitative restrictions
- ▶ Offer of a close customs and regulatory cooperation
- ▶ Very close cooperation on security to protect our citizens and societies

On the UK side

- ▶ UK position only outlined in Chequers agreement, followed by White paper published on 12 July 2018
- ▶ ‘Take back control’
- ▶ Three ‘red lines’: - leave the Single Market
 - leave the Customs Union
 - no jurisdiction by the ECJ
- ▶ Want to keep free movement of goods,
- ▶ but not of people and services (including financial services)
- ▶ Apply EU customs rules (Facilitated Customs Arrangement) without being part of the EU’s legal order
- ▶ On security openness to conclude specific arrangements

Brexit: where do we stand today?

- ▶ A draft Withdrawal Treaty and a Political Declaration on the Future EU-UK Relations have been agreed by the EU27 and the UK at the November European Council
- ▶ A transition period has been agreed, to last until the end of 2020 (during the transition the UK will not be part of the EU decision-making).
- ▶ But London wants to re-open the Withdrawal Treaty, particularly on the Irish border question, but this 're-opening' was refused by the European Council
- ▶ The 'meaningful vote' in the British Parliament was scheduled for 11 December, but was delayed by Mrs. May at the eleventh hour. Vote now scheduled for week of 14 January
- ▶ As the likelihood of a no deal has increased, both sides have escalated preparations for a no-deal Brexit
 - ▶ https://ec.europa.eu/info/brexit/brexit-preparedness_en

Brexit : where do we go from now ?

1

No deal : highly likely

- ▶ 'No deal is better than a bad deal' (Theresa May) but also 'Risk of no-deal is uncomfortably high' (Governor of Bank of England)
- ▶ The prospects of a no deal have increased considerably in recent days
- ▶ But is the UK Parliament likely accept a no-deal?

2

Hard Brexit : still a possibility

- ▶ Is still a possible outcome (the agreed treaty)
- ▶ Means that the UK leaves the Customs Union and Single Market completely (= UK's 'red lines')
- ▶ Would lead to a 'hard border' with the EU with gigantic practical consequences for trade

3

Soft Brexit : unlikely

- ▶ Would go in the direction of an agreement similar to the EU Agreement with Norway
- ▶ Would involve a softening of the UK Government's position on its 'red lines', in which case the EU has promised to 'improve' its own proposal
- ▶ Hard to swallow by the hardline Brexiteers

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No Brexit : likelihood growing but not probable

- ▶ This could be achieved by a second referendum, an idea which has become an actively debated option before Christmas

Brexit: what does all this mean for business?

- ▶ Uncertainty and unrest during the weeks and months to come
- ▶ Unless Brexit is reversed, doing business with the UK will become more complicated and more expensive
- ▶ If there is an agreement, there will be a transition (to give business and governments the time to adjust)
- ▶ Need for planning for a no deal : ‘be prepared for when Brexit Day comes!’
 - ▶ Diagnose and identify your exposures, impacts and opportunities
 - ▶ Plan to respond to any Brexit outcomes, the worst in the first place, detailing no-regret moves, hedges and scenario-specific responses
 - ▶ Execute and deliver the change to ensure your business is ready for Brexit
- ▶ Keep a close eye on political and diplomatic developments

- ▶ The situation in London can be described as follows:
 - ▶ It is unlikely that May's agreed deal with the EU will get through the British Parliament
 - ▶ At the same time it is unlikely that a majority of MPs in the British Parliament will vote for a no deal

- ▶ Hence the idea of a Plan B
 - ▶ either a second referendum
 - ▶ or an 'indicative vote' in Parliament on the different options on the table

**What risks does
Brexit bring to
business continuity?**



Brexit

Mitigation working document

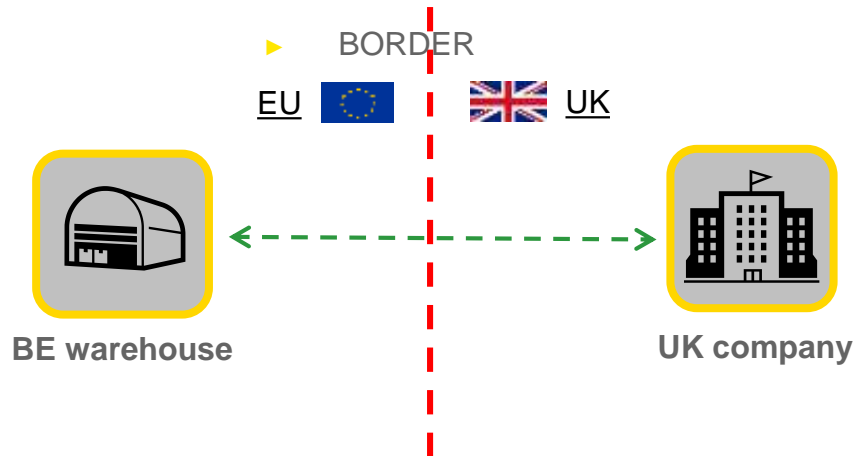
Brexit working document defining:

- ▶ Key risk areas
- ▶ Identified risks
- ▶ Prioritization
- ▶ Risk mitigations
- ▶ responsible owner, etc.

Risk area	Identified risk	Prioritisation of risks	Impact level (H-M-L)	Likelihood of occurrence (H-M-L)	Risk Mitigations
1. Supply chain friction	<p>R.1.1.a Non Brexit-proof operating model:</p> <p>a) Route-to-market:</p> <ul style="list-style-type: none"> -> Drop-shipments (express), stock replenishments (increased buffer stock for fast-movers), 90% of active SKUs for UK. -> Alternatives to congested routes to market -> Retour shipments -> Just-in time deliveries (time delivery slots) -> Direct imports into UK? See risk area 2. Global trade 		H	H	<p>M1.1.a.1. Detailed mapping of physical flows and carriers (air, road) and route-to-market (air, tunnel, ferry, RO-BC).</p> <p>M1.1.a.2. Identify logistical parties per flow.</p> <p>M1.1.a.3. Engage with logistical parties to understand Brexit mitigation plans and stage of preparation. Understand estimated delays, multi-stops and associated costs.</p> <p>M1.1.a.4. Understand documentary requirements for future export and import shipments to and into the UK.</p> <p>M1.1.a.5. For preclearance at export (XYZ developed 'customs' data interfacing), agree on process and timely provision of underpinning documentation (this is regarded as lower risk as XYZ is making the exports).</p> <p>M1.1.a.6. For preclearance at import (XYZ developed 'customs' data interfacing), agree on process and timely provision of underpinning documentation.</p> <p>M1.1.a.7. For express outbound shipments e.g. XXXXX parts shipped from the UK to the Netherlands, agree on process and timely provision of underpinning documentation.</p> <p>M1.1.a.8. For time definite deliveries e.g. overnight, pre-9, pre-12 deliveries, agree on process and timely provision of underpinning documentation.</p> <p>M1.1.a.9. Ensure data accuracy for export/import activity (customs data/transactional data). For XXXXX, assess current master data accuracy (related to current used ERP/WMS) and assess possibility to implement ERP system for XXXXX operations.</p> <p>M1.1.a.10. Build process for free of charge supplies and retour shipments using 'customs invoice' documentation. We understand that retour shipments are currently always routed via XYZ UK warehouse where they are consolidated.</p>
	<p>R1.1.b Non Brexit-proof operating model:</p> <p>b) Direct sales XYZ BE versus sales via XYZ UK Ltd.</p>		H	H	<p>M1.1.b.1. Distinguish drop shipments from XYZ Belgium versus supplies from UK warehouse. Also distinguish between direct sales by XYZ Belgium versus sales through XYZ UK Ltd., who will import product in the UK.</p> <p>M1.1.b.2. Define standard operating model, i.e. standard process versus exceptional flows.</p> <p>M1.1.c.1. XYZ BE will act as exporter of record in Belgium, identify who will be importer of record in the UK.</p> <ul style="list-style-type: none"> - XXXXX UK customers: currently all receive a UK local invoice for their shipments - XYZ - UK customers: are currently involved directly from BE in case of drop shipments (direct deliveries to UK

Brexit impact

Import/export movements



Risk area

- ▶ Goods moving between the EU and the UK will become import & export movements

Potential Brexit risks

- ▶ Roles and responsibilities, who will act as exporter and importer?
- ▶ Will you use a customs broker for handling import/export declarations? Based on which criteria will you select your broker? How will you instruct your broker? Carrier readiness?
- ▶ Are your systems ready to switch to export/imports? Are there any adjustments that need to be made to your companies' ERP systems?
- ▶ Data readiness: customs data and transactional data
- ▶ Regulatory requirements
- ▶ Internal capability and capacity
- ▶ Manage special cases, FOC supplies, reverse logistics, e-commerce, etc.

Brexit impact

Route to market

Risk area	Potential Brexit risks
<ul style="list-style-type: none">▶ Route to market	<ul style="list-style-type: none">▶ Will your mode of transport be reviewed in light of Brexit? How will you handle expected port/airport congestion?▶ Ensure to partner with 3PLs that are BREXIT ready.▶ Does your company rely on single EU authorizations/certifications (e.g. REACH) and licenses to import and sell products in the EU or UK that might be invalid post Brexit?▶ Brand registrations?▶ Is your company sensitive to other regulatory divergence (e.g. labelling requirements)?▶ Do you have any flows that may become inefficient post-Brexit?▶ How will you supply the republic of Ireland?▶ Special attention to Incoterms!

Brexit impact

Business partners

Risk area	Potential Brexit risks
<ul style="list-style-type: none">▶ Supplier and customer readiness	<ul style="list-style-type: none">▶ Will increased lead times for cross border movements trigger a revision of your operating model (ship from/to, bill from/to)?▶ Who will act as importer of record?▶ Will your delivery terms and commercial contracts be impacted by Brexit?▶ Are your suppliers ready for Brexit? What about your clients' contingency plans against Brexit?▶ Have you modelled the possible Brexit tariff scenarios and established how long it would take to adapt each?▶ Have you examined possible ways to mitigate increased customs duties (e.g. supply chain unbundling, setting up an EU/UK distribution center, direct shipments, customs warehousing, customs procedures)?▶ How will your company handle import VAT and additional VAT compliance requirements and costs?▶ How will bear additional costs?

Brexit impact

What is the additional cost of doing business?

Risk area	Potential Brexit risks
<ul style="list-style-type: none"><li data-bbox="106 364 386 399">▶ Additional costs <li data-bbox="106 792 328 828">▶ Competitors	<ul style="list-style-type: none"><li data-bbox="685 364 1787 399">▶ How will your company manage following additional costs in light of Brexit:<ul style="list-style-type: none"><li data-bbox="763 406 1188 442">▶ Customs compliance costs<li data-bbox="763 449 1023 485">▶ Transport costs<li data-bbox="763 492 1362 528">▶ VAT compliance costs and prefinancing<li data-bbox="763 535 1072 571">▶ Cost of work force<li data-bbox="763 578 1226 614">▶ Increased warehousing costs<li data-bbox="685 649 1796 721">▶ Given these costs and the expected drop in GBP/EUR exchange rate, how will you handle loss of profitability? <li data-bbox="685 778 1777 813">▶ How fast are you able to react if the market conditions move against you?<li data-bbox="685 821 1642 856">▶ What actions might your competitors take in response to Brexit?

Brexit impact

Other triggers

Risk area	Potential Brexit risks
<ul style="list-style-type: none">▶ Other triggers	<ul style="list-style-type: none">▶ Do you have any workforce moving between the UK and the EU? Do you have expatriates in the EU with a UK contract/in the UK with an EU contract? Is your Pension Fund located in the UK?▶ Are you moving goods that are subject to export/import controls?▶ How will your company handle goods returned from the UK?▶ Have you thought about the impact of Brexit on e-commerce?▶ Have you anticipated how fast your IT teams can apply the necessary developments on your systems?▶ Have you identified within your organization the people responsible for steering a Brexit committee, for watching any new information or events that can affect your business?

Example “impact Diagnostics”



Brexit Data Analysis Modelling – Sample screenshots: Imports and arrivals into the UK view

Navigation: Summary | **Imports and Arrivals into the UK (by Country)** | Imports and Arrivals into the UK (by Commodity) | Specific Duty Breakdown | Import Duty Impact Summary | Exports to the EU (by country and commodity code) | Exports to 3rd Countries | Classification | Transactional Compliance | Import VAT Impact

Overall Tariff Impact on Imports and Arrivals (by country)

FX Rate (GBP to USD): 1.35 | FX Rate (GBP to EUR): 1.15 | Shipping Year: 2017, 2018, 2019

UK Arrivals from the EU (Intrastat data)

est. WTO Duty Paid (in GBP) vs Import Value (in GBP)

UK Arrivals from the EU (Intrastat data)

Loading .. F	Loading Coun..	Import Value (in G..	est. WTO Duty Paid..	est. WTO AV Duties..	est. WTO AV Duties..
Grand Total		£138,255,830	£3,752,954	€4,315,897	\$5,066,487
BE	Belgium	£68,621,698	£1,956,975	€2,250,521	\$2,641,916
CZ	Czech Republic	£36,274,281	£1,040,172	€1,196,198	\$1,404,232
Null	Null	£7,370,351	£198,999	€228,849	\$268,649
FR	France	£6,345,031	£130,224	€149,757	\$175,802
NL	Netherlands	£5,924,535	£155,888	€179,272	\$210,449
DK	Denmark	£5,335,360	£90,816	€104,438	\$122,601
IT	Italy	£5,417,861	£39,513	€45,440	\$53,342
PL	Poland	£2,817,386	£58,210	€66,942	\$78,584

UK Arrivals from Third Countries (MSS data)

est. WTO Duty Paid (in GBP) vs Customs Value (in GBP)

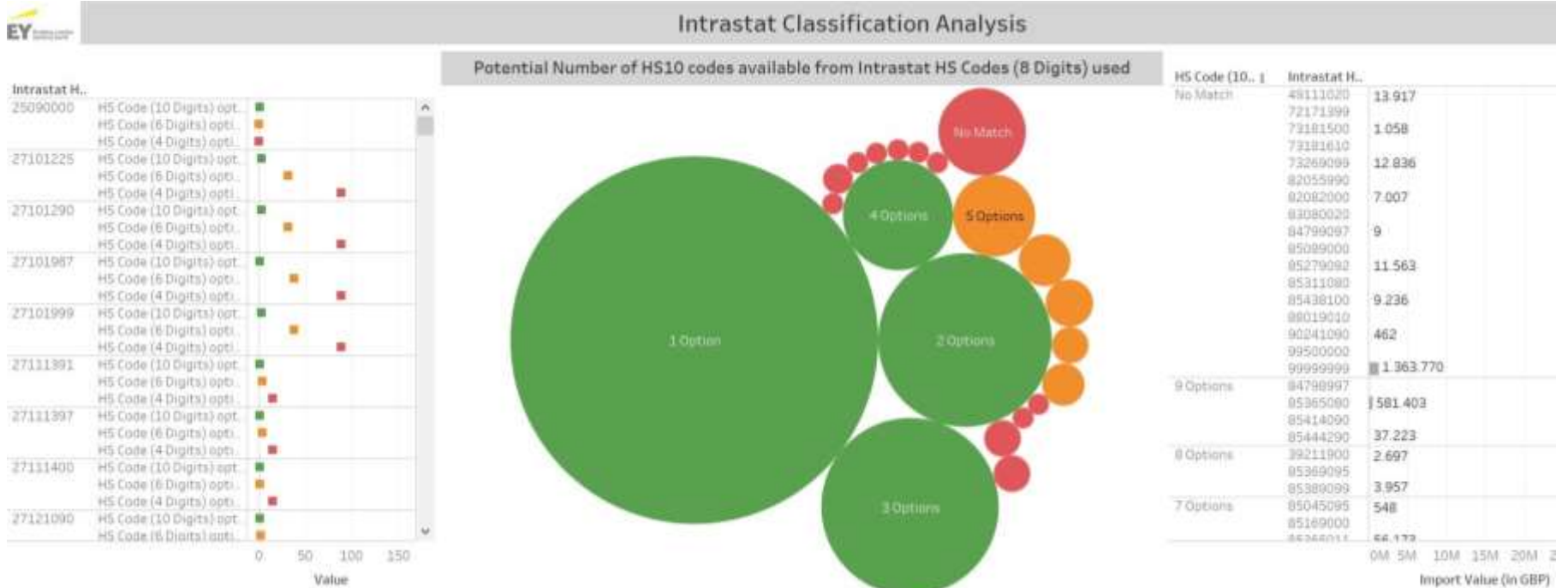
UK Arrivals from Third Countries (MSS data)

Loading .. F	Loading Cou..	Customs Value (in ..	est. WTO Duty Paid ..	est. WTO AV Duties..	est. WTO AV Duties..
Grand Total		£10,197,534	£675,784	€777,151	\$912,308
IL	Israel	£8,771,245	£563,230	€647,714	\$760,360
TR	Turkey	£1,131,183	£93,921	€108,009	\$126,794
CN	China	£228,411	£14,814	€17,037	\$20,000
TH	Thailand	£48,231	£3,135	€3,605	\$4,232
SV	El Salvador	£18,464	£683	€786	\$922

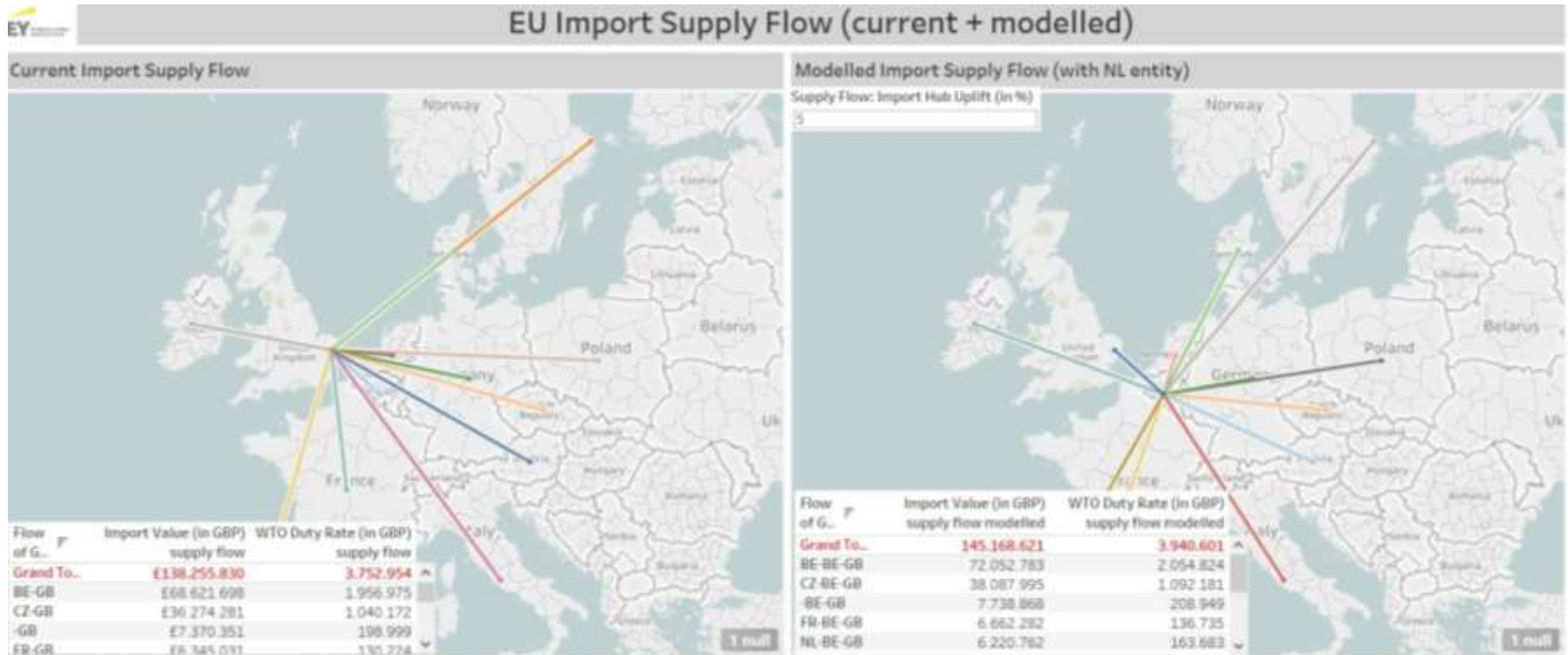
Business Unit: (All), GTS, SEF, SSS | Preference Cc: (All), Null, 100, 300, 400

Generic dashboards | **Tariff and Compliance** | Ports and Supply Routing | Mitigation | Intrastat Import Profile | MSS Import Profile | Top Exports | Export Brokers

Brexit Data Analysis Modelling – Sample screenshots: Classification Analysis - Intrastat



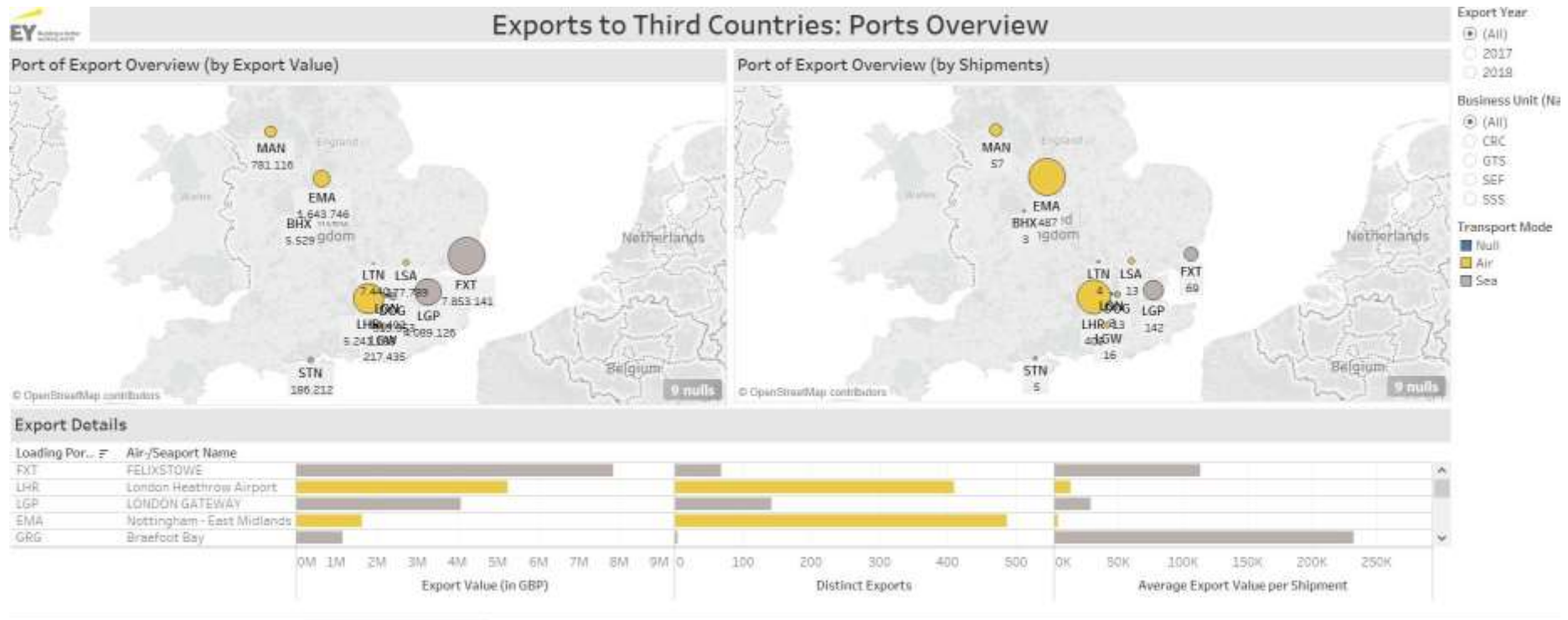
Brexit Data Analysis Modelling – Sample screenshots: Classification Analysis - Intrastat



Brexit Data Analysis Modelling – Sample screenshots: FTA optimization



Brexit Data Analysis Modelling – Sample screenshots: Ports of entry analysis – from third countries



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Thank you

