

Paperwork is the enemy as Brexit becomes a reality

By Tom Leeson, Automotive industry specialist at OpenText™

So, we avoided ‘no deal’ Brexit. We are now a few months into the new [Trade and Co-operation Agreement \(TCA\)](#) and things are becoming a little bit clearer. Trade may not be on [WTO terms](#) but it’s certainly not frictionless. Manufacturers’ supply chains are experiencing new types of paperwork and bureaucracy. We now know that digital technologies will be key to businesses trading effectively and profitably in this post-Brexit world.

A few weeks back, [Ellie Huddleston](#), a young Londoner, ordered some clothes online from a favourite European retailer, as she regularly does. Both deliveries were delayed for at least a week by new customs checks. But, worse was in store for Ellie when she was informed she had another £140 of customs and VAT charge to pay. These extra charges, imposed under the TCA, have to be collected by the courier firms on the tax authorities’ behalf.

Leaving aside the shock to consumers unaware of the new requirements – which is leading many to question cross-border purchases – this tale demonstrates the major increase in administrative burden that businesses are now facing to accommodate the evolving Brexit regulations. For example, estimates of the additional costs for UK businesses of filling out import and export declarations range from [£7.5-£15 billion per year](#) – even without complying with [rules of origin](#) stipulations. More on that later.

Should we get accustomed to delays?

One of the clearest results of increased regulation and paperwork can be seen at the borders. New customs and export documentation have already led to [huge delays](#) in December before the Brexit deal was even finalized. In fact, [a recent survey](#) found that companies saw customs delays as their biggest risk. Interestingly the increased cost of regulations wasn’t far behind.

This is forcing many companies to re-engineer their supply chains. For many manufacturers, especially automakers and aerospace, complex and interconnected supply chains have snaked across Europe as materials, components and finished systems move between locations and suppliers throughout the continent. Highly tuned ‘just in time’ operations have relied on these well-oiled supply chains. The suspension of production at [Honda’s Swindon plant](#) shows what can happen when ‘just in time’ supply chains unravel.

For many manufacturers, ‘just in time’ is being replaced by ‘just in case’. Companies are looking to localize production and suppliers to re-design their supply chains for resilience – building on a need arising from the COVID-19 pandemic. There has been a rush to build [warehousing capacity](#) on both sides of the English Channel. [Ing](#) points to haulers that are reluctant to carry loads from multiple firms in one shipment due to the extra paperwork and challenges clearing customs. Most worryingly of all, after years of meticulously trying to drive the cost of inventory from the supply chain, we appear to be back to creating buffers at different points in the chain.

While all this seems like very sensible contingency planning, it’s not really a long-term solution. Instead, companies need to drive inefficiency and delay from their own supply chain operations. They need to build highly flexible and agile digital ecosystems that let them handle disruption. Importantly, documentation must flow digitally through each stage of the supply chain journey.

To meet this on-going change and uncertainty requires a very high degree of [supply chain visibility](#) and flexibility. For this, manufacturers require [enterprise integration platforms](#) to seamlessly and securely connect with their suppliers, logistics carriers, customers and customs authorities to remove as much friction from the flow of both information and physical assets.

To understand why, let’s take a step back.

Key points of the TCA

There was always going to be an element of compromise to an agreement reached at the eleventh hour and the TCA can be seen as compromise in spades. It really kicked a lot of important issues into the long grass. An agreement that was always going to take years to bed in will take longer as more parts of the trade environment are settled.

What we know of the key supply chain provisions in the TCA include:

- There are zero tariffs on goods traded between the EU and UK, **if** they comply with the rules of origin.
- There are different rules applying to Northern Ireland, which remains within the EU Single Market, and creates a virtual border in the Irish Sea.
- There are more complicated rules for the trade in services and movement of people, with implications for cross-border movement of goods.
- There is a large increase in customs administration and paperwork for goods traveling between the UK and EU.
- There are changes to market regulation and conformity assessment procedures that will impact product compliance.

There are still a great number of things to be agreed and worked out but the [empty supermarket shelves in Northern Ireland](#) and the log-jams of truck in the South point to the challenges entailed by this first tranche of regulations.

Dealing with declarations

It's possible to see these issues as early teething problems, kinks that will be worked out as new systems bed in. But the scale of change is daunting. The UK customs agency estimates up to [215 million customs declarations each year](#) with [180,000 traders](#) now having to produce declarations for the first time.

Custom declarations have always been complex beasts, but the TCA imposes a significant increase in the requirements to declare the details of the goods being exported. The speed and efficiency of the customs process, especially at the border, is driven by the accuracy,

completeness and timeliness of the submission of customs declarations.

And remember, that the customs declaration doesn't exist in isolation. It needs to be supported by additional documents such as commercial invoices, freight documentation or license documentation. If any of these documents are missing or inaccurate, it will lead to extra delay and cost as well as risking non-compliance.

The result, according to the Society of Motor Manufacturers and Traders (SMMT), is: "Supply chains that have been optimized for speed and fluidity will need to find the space and time for customs authorities to carry out checks and inspections."

It seems clear that manufacturers need to accept friction in the supply chain. The question becomes how to mitigate and minimize it at every stage. The flow of information across the supply chain and between the manufacturer, trading partners, tax authorities and regulators are pivotal to ensuring that goods continue on their path as quickly and efficiently as possible.

For example, Advanced Shipping Notices (ASNs) have been used within supply chains for many years to provide pre-arrival information to enable better preparation and planning at each stage in the journey of a shipment. By delivering detailed information on the shipment an ASN can help facilitate pre-clearance notifications enabling consignments to pass through border posts with a reduced need for physical inspection.

Getting to grips with rules of origin

Particular focus on the TCA has been around the 'rules of origin'. These rules set out the 'economic nationality' of products, rather than from where they have been shipped. Without going into the technical detail ([you can get that here](#)), the rules are used to determine if products are eligible for duty-free (zero tariff) or reduced duties under the TCA rules even though they may contain non-originating (non-TCA) components.

The rules are very complex and technical, and there's a great deal of administration and paperwork involved in executing the process and

complying with the regulations. How much of this could be automated?

For example, automotive products are eligible for zero tariffs but in many instances' tariffs will apply. In addition, if a component is created in one market and finished in another it may be tariff-free but the amount of work in finishing may not qualify and a tariff will apply. To further complicate the picture, the TCA allows for a 'cumulation' of EU and UK parts (known as [Regional Value Content](#)) to add up to origination and so avoid any duties or charges.

All manufacturers will need to carefully establish how the rules of origins apply to their products, parts and combinations of components used and be able to quickly demonstrate proper compliance to avoid further supply chain disruptions.

In truth, complex trading requirements like the rules of origin and specific tax declarations are here to stay and businesses must find the best digital solution for adapting their supply chains and operations to comply with them effectively and profitably. That requires "Track & Trace" to provide [end-to-end supply chain visibility](#).

The vital need for supply chain visibility

The [COVID-19 pandemic](#) identified many structural weaknesses in global supply chains that led to major disruptions. This has meant supply chains, perhaps more than any other sector, [accelerating adoption of digital transformation](#) to build agility and resilience. Brexit has many of the same characteristics of supply chain disruption and the digital investment priorities of supply chain managers have become much easier to justify.

Emerging from the pandemic, PWC states that the focus should be on supply chain visibility to 'support resilience strategies and compliance related to a range of import/export matters. Exactly the same reasoning can be applied to meeting the TCA requirements.

[Iain Wright, ICAEW's Director for Business and Industrial Strategy](#), says: "Absolute clarity and transparency as to how your supply chain works and where it derives from will now be essential. Greater awareness of the supply chain will be an even bigger driver of

business success, because failure to understand where you are getting components from will trigger tariffs and will undoubtedly make your product uncompetitive.”

Where both manufacturers and their logistics partners have seen the benefit of investing in better digital technology to improve operations and customer experience for many years, this has become even more imperative. Revenue, profitability and, in some cases, the viability of business will be determined by the success of driving delay and inefficiency from the supply chain journey.

Without visibility at each stage, and information passing to all relevant stakeholders in the most secure and efficient manner, the extra trade burdens and challenges imposed by Brexit will be difficult to overcome, but overcome we must.

Want to know more. March 25th I will be joining a panel of experts that will discuss manufacturing and digitalization in a post-Brexit world. You can register for this free online event [here](#). POST-BREXIT: Manufacturing Challenges and overcoming them.