CIPS KNOWLEDGE

Brexit Guidance for Procurement and Supply Chain Managers

Final preparation for when the UK leaves the EU

Leading global excellence in procurement and supply

Contents

Introduction 2
Overview 2
Risk Analysis 4
Exchange Rates (ER) 4
VAT 5
Contract re-negotiations 5
Audit your supplier base 6
Trade Deals 6
Import and Export 7
Exports 7
Customs Clearance 7
Tariff and Duty 9
Warehouse availability 9
Inventory Management 11
EU versus Local or Global Supply 11
Recruitment and Workforce 12
EU grants 13
Conclusion 13
More sources of information 14
Contributions 14

Introduction

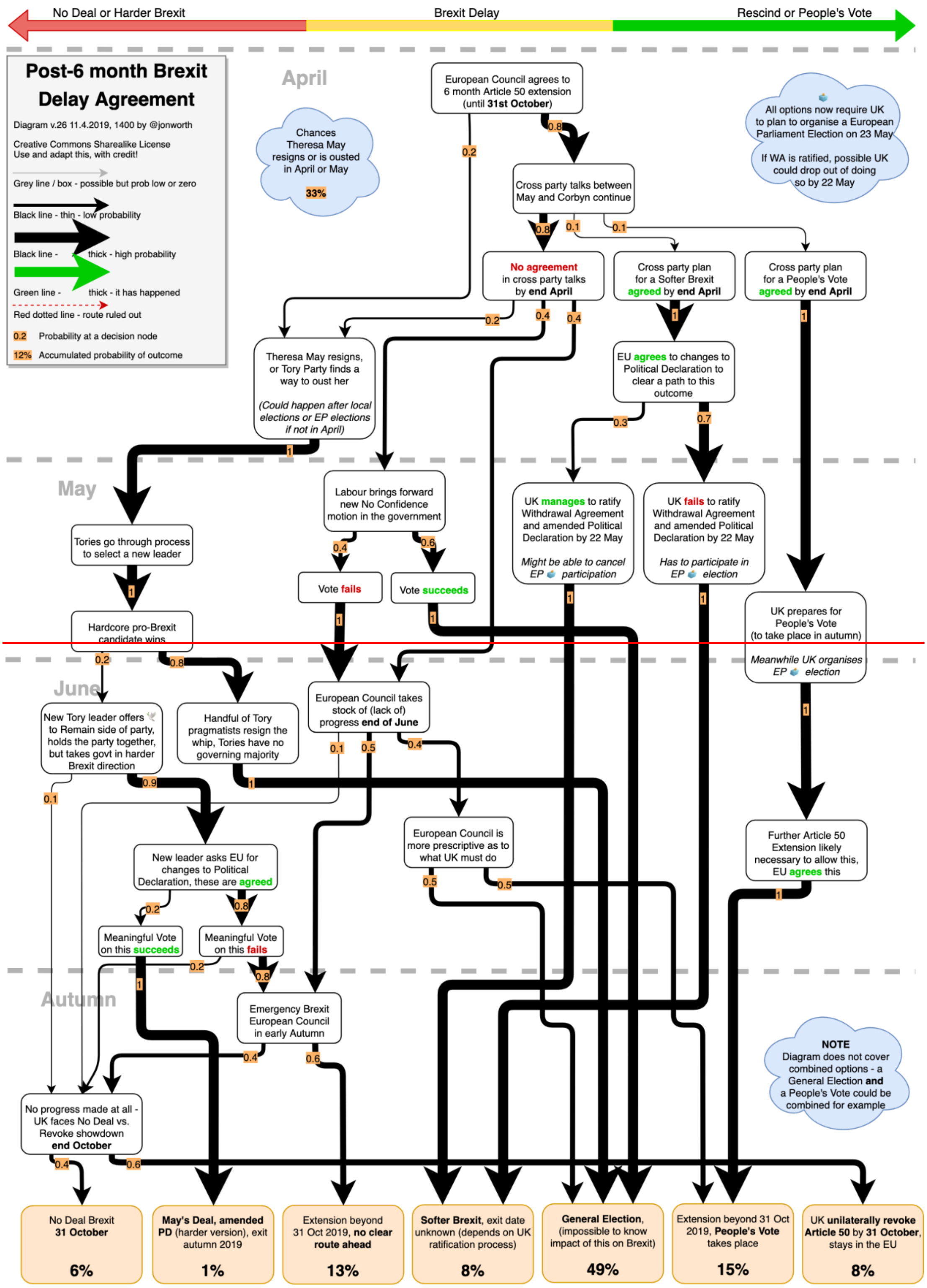
Whilst the political impasse continues and the UK gets closer to a no-deal Brexit on 31 October, businesses remain unsure of the steps they should take to mitigate risks associated with Brexit according to a number of CIPS surveys.

A number of issues are impacting our members on both strategic and operational levels from potential tariffs to customs delays. This guidance explores the initial steps and direction procurement professionals could take to make their path to Brexit a little easier.

The factors that we have chosen to focus upon reflect those issues which have been 'front of mind' as CIPS has sought to reach out to our members and the broader supply chain community as part of our ongoing dialogue about the consequences of Brexit over the last three years.

Overview

CIPS has gathered practical guidance and ideas from various sectors to understand challenges that are faced by procurement and supply chain specialists. How much time and resource they are investing in risk analysis and identification of solutions; and which sectors are making steps to formulate their strategy.



Taken from Jon Worth Euroblog

Risk Analysis

According to the fifth CIPS Brexit survey (March 2019) 44% of procurement teams are still preparing a risk analysis plan to identify significant areas of change or cost that could impact the financial turnover and production capacity of their organisation. Further details are referenced below:

Exchange Rates (ER)

Prior to the election of Boris Johnson in July of 2019 the devaluation of the pound post the Brexit vote in June 2016 had led to 60% of supply chain managers confirming that currency fluctuation has made overseas supply chains more expensive.

Since July 2019, what we have experienced is an increased perception by foreign exchange markets that the probability of a no-deal Brexit has significantly increased.

Should a no-deal Brexit occur on October 31st we would advise supply chain managers and CIPS members to expect the value of sterling to move to parity with the Euro (£1=€1).

The impact on the Sterling to US Dollar (£:$) exchange rate could be greater than had been previously expected, due to the combination of a no-deal Brexit and the weakness in the European economy.

Many economists had predicted that the value of Sterling post a no deal Brexit would be at or around £1=$1.20. Sentiment in the market would tend to suggest that this could be nearer $1.15.

At the time of writing (early August 2019) there are comments in the press that Sterling could fall to parity with the US Dollar. We would suggest that this is unlikely to happen unless a no-deal Brexit on October 31st coincided with a significant global economic shock.

http://www.xe.com/currencycharts/?from=USD&to=GBP&view=1Y

VAT

Potentially businesses will be facing extra costs and administration as the sale of goods will mean imports and exports will be subject to VAT regulations. Though VAT is not payable on imports into the UK, goods will need to be accounted for as some EU countries will be paying VAT on their imports from the UK. This will have an administrative impact on UK businesses at the very least.

Contract re-negotiations

With more procurement professionals reporting challenges they face with securing contracts with a term that extends past October 2019, procurement professionals are looking to identify alternative ways of securing contract agreements that gives flexibility to both parties, with over 32% of our Brexit survey respondents commenting that they are factoring in new clauses that allow for price renegotiation or change of goods to take into account changes that may come about from potential changes to tariff rates.

When generating new contracts with suppliers, consider trading in alternative currency that may give a stronger position of trading for both parties, or consider terms that will allow for re-negotiation if sterling continues to lose value.

For legacy contracts this can be more of a challenge for procurement teams to negotiate alternative terms, so consider the whole working relationship, payment terms and supplier positioning, critical suppliers will require a very close working relationship so both parties can look to mitigate risk associated with a very variable exchange rate.

Some economists are arguing that the pound and euro will soon be of equal value and standing. At the time of writing they were very close, so pay close attention to the time at which your orders are being placed and work closely with your finance teams so hedging of funds can mitigate some of the financial risk exposure that will add to the total cost of acquisition.

Audit your supplier base

A sudden change in supplier(s) can have a critical effect on your business, so an honest look at which suppliers are essential and specialist to your organisation is now an urgent requirement. CIPS research has found that some UK businesses are struggling to find suppliers closer to home as they attempt to navigate potential tariffs and customs delays as many procurement teams have looked to onshore their supply base where they can, pushing up capacity demands on local suppliers. Will the impact of changing your supplier(s) change where your production facilities will be based?

Trade Deals

As the UK government looks to secure new trade deals with countries outside of the EU to support alternative trade routes, new UK Prime Minister Boris Johnson has been holding talks to open up a free trade agreement (FTA) with the USA.

Obtaining Authorised Economic Operator status (AEO) could be critical to some businesses. AEO is an internationally-recognised quality mark that demonstrates a company's role in international business is secure and that customs controls and procedures are efficient and meet EU standards. AEO status can take 120 days to verify, but there are simplified procedures businesses can realise by obtaining an EORI (Economic Operator registration and Identification) number and the Government has already promised auto-enrolment activity as the deadline to leave is imminent. Sole traders, companies and partnerships registered in the UK or who have a permanent place in the UK carrying out business, can apply.

According to the Institute of Export & International Trade, in April 2019, 679 British businesses were granted this status to date, compared to 6330 German businesses each year, 1554 in the Netherlands and 1664 in France.

In addition to new trade agreements, emphasis needs to be placed on historical trade agreements that have come into UK law since first joining the EU. These historical trade agreements influence many of our areas of trade such as fisheries, transport and nuclear.

Wording in many agreements will make reference to trade between USA and the EU for example, once the UK leaves the EU, then the trade agreement will no longer be effective and the UK government may need to seek replacement trade agreements to satisfy trading relationships between (for example) USA and the UK, as opposed to USA and the EU.

This is a significant impact area that could immediately affect the importing and exporting of finished products and parts. Despite opportunities, there are real risks to our economy as the documentation that would allow for products to be shipped in and out of the UK may require adjustment, meaning shipments could be delayed or even halted during transit in extreme cases.

Import and Export

Exports

The key here is to understand the potential issues you may face post a no-deal Brexit on October 31st. The most obvious concern is goods moving through UK and EU ports after October 31st. If physical checks of documentation are required, there will be significant delays at UK ports with the most obvious problem being at Dover.

There is some capacity at east coast ports away from Dover but there are issues around the timing of the capacity availability and how the available time slots align with UK just in time supply chains. That is, capacity may be available at other UK ports but the time when that capacity is available may not be suitable for your supply chain requirements and there is the issue of increased transit times to alternative ports. Additional issues that need to be planned for if there is congestion at UK ports include:

- Haulage capacity, drivers and lorries being locked in queues at UK and EU ports and therefore being unavailable for deliveries scheduled in the very near future.
- Increased unaccompanied trade. UK and EU hauliers may be unwilling to be caught in queues on the return leg of their journeys. As a result there may be an increase in goods which are taken to the port of exit and left to be loaded onto trains and ships by tractors and then left at the port of entry for pickup. This will increase congestion at UK ports, exacerbate the shortage of haulage capacity problem and increase your demurrage costs.

Customs Clearance

Many businesses have built complex intra-EU supply chains, so the UK Government has provided significant guidance on customs procedures should there be a no-deal Brexit (https://www.gov.uk/guidance/customs-procedures-if-the-uk-leaves-the-eu-without-a-deal). With leaked Government papers suggesting vehicles could be waiting 2-3 hours with 50% of companies waiting 8 hours, this will have a significant impact on particular sectors such as food and retail, companies are encouraged to be as Brexit-ready as possible. Longer lead times could affect service levels and margins especially for goods with a short shelf life.

The key issues for many organisations is having the capacity and capability to complete customs clearance documentation in time for a no deal Brexit on October 31st 2019. This should include checking with your logistics provider that they have customs brokerage capacity to complete the required paperwork on your behalf if that is the route that you chose to follow. You should also be aware that many large third party logistics providers (3PL) are only guaranteeing customs brokerage services for customs where they move the freight. It is unlikely that 3PL providers will provide stand alone customs brokerage services due to increased demands on their resources, so working closely with current freight clearance to establish a good working relationship is critical. If you have not started training your own customs clearance capability inside your organisation you need to do this as a matter of urgency. Questions to ask your senior management team and your stakeholders include:

- What approvals do you need to obtain to get your goods through customs as quickly as possible?
- What are the additional costs to your business and can your company absorb them?
- Will pan-EU distribution models mean you could be paying tariffs more than once?
- Are you systems and data up to scratch? You may need to obtain additional information on product of origin

For an excellent summary of the customs requirements that could exist post October 2019 please read the article by Anna Jerewska from the London School of Economics https://blogs.lse.ac.uk/brexit/2019/02/06/long-read-there-is-no-such-thing-as-completely-frictionless-trade-across-a-border/

If the UK moves quickly towards technological solutions, then businesses could apply for registration even before their goods reach customs ports and are waived through.

The Government's BROCK traffic management system in Kent is only part of the solution. Effectively a 'lorry park' with a contra flow system to keep roads open should problems arise. A simpler situation would be a camera system in place that would allow a truck to be 'paired' with a customs declaration created before the lorry arrives at the port, so offering frictionless transportation.

Delays at the border are likely to hit hard. Our research found that businesses would be expected to pay penalties for late delivery or lose contracts and delayed payments for delayed goods which puts cash flow for business under pressure. The knock-on effects of this would have an impact on the UK economy.

Our latest Brexit survey found that thousands of UK generated goods are set to be turned away from UK/EU border due to the lack of paperwork in the event of a no-deal Brexit. Just 22% of UK companies had completed all four steps necessary to export to the EU in the event of a no-deal exit (September 2019). https://www.cips.org/en-gb/who-we-are/news/uk-businesses-fear-for-christmas-supplies-as-brexit-disruption-hits--/ Training staff as soon as possible on how to complete customs clearance documentation means the likely queues at port may be less severe for businesses.

Any reduction in activity at UK ports will affect the performance of the UK economy which has already experienced a slowdown and contraction in activity due to Brexit uncertainty and a reduction in global activity.

Read the UK Government's paper - Future customs arrangements - a future partnership paper https://www.gov.uk/government/publications/future-customs-arrangements-a-future-partnership-paper

Tariff and Duty

With the announcement from the supermarket Lidl that additional tariff duties will be paid by its suppliers and this has already been written into contracts, EU tariff and duty rates remain one of the most concerning areas for procurement and businesses. The UK has benefitted from free movement of goods from the EU into the UK for decades, so this is a significant change to how businesses have been used to trading.

The solution to avoid tariffs and duty is to buy goods earlier than planned in the supply chain cycle. Potentially this will tie up cash flow and increase demand on the already scarce premium warehousing space (see Savilles reference Regional warehouse vacancy rate Q2 2019). It is likely to make it more difficult in the months before the end of October as CIPS research in March 2019 found 43% of supply chain managers were already stockpiling.

Warehouse availability

The key message is that UK warehousing capacity is full. The vacancy rate for warehouse space of over 100,000 square feet is 6.8% nationally and 2.2% inside the M25. Interestingly before March 29th 2019 there was not a spike in warehousing demand as organisations used buffer space in their existing estate to house increased stocks. However an October 31st Brexit date creates a new set of problems. The 31st of October is in the middle of the run up to black Friday and Christmas and therefore space on companies existing estate is likely to be full, exacerbating the lack of availability of warehouse space. The reality is that if you have not secured additional warehouse space to date you should seek to do so immediately and expect it to be both difficult to procure and expensive. Savilles report suggests that at the end of Q2 2019 around 7.5 million square feet of warehouse space is currently under construction, but this will be equivalent to just 1.4% of the total capacity of around 514 million square feet available.

Regional warehouse vacancy rate

Q2 2019

West Midlands	10.6%
North West	9.6%
South West	9.4%
North East	9.1%
Midlands	7.6%
Yorkshire and the North East	7.4%
Yorkshire & The Humber	7.0%
Wales	5.7%
Scotland	5.6%
East Midlands	5.1%
South East	4.5%
South East & M25	3.8%
Inner M25	2.2%
East of England	2.1%

Source: Savills

BBC

If alternative sourcing is the solution for your business then you would be in good company, as identified in the CIPS Brexit surveys 14% of procurement professionals are now conducting sourcing exercises to identify UK supply sources as an alternative to importing goods, which could bolster the workflow for UK operating plants, demand for their products and services could see a marked increase from UK buyers.

This will enhance some challenges for procurement teams as organisations may find themselves with limited supply options if they delay their chance to re-source within the UK. Businesses could be left at the back of a long queue to build new supplier relationships as increased demand for capacity with UK suppliers could outstrips supply capabilities.

Inventory Management

A further area of consideration could be focused on inventory management and risk of exposure from over stocking versus the risk of potential stock out situations should shipments of goods and parts become delayed during the Brexit transition, however, consideration of cash flow tie up must also be factored.

There are pros and cons to building your inventory, consideration can be placed around building inventory within your own stores to avoid bottlenecks at the port when new legislation comes into effect, so giving access to parts when required in order to minimise disruption or potential down time to production lines.

Timing plays a critical part in being ready for Brexit, ensuring the shipping of core items are in advance of new legislation coming into effect should minimise risk of port delays. Encourage customers to build inventory level to avoid supply disruption whilst new legislations settle in.

There may be significant cost associated with increases of inventory. This could be driven by a need for additional storage facilities or tighter stock rotation and management, leading to the cost of additional resources required to support this activity.

Whilst there will likely be a cost implication to the customer and pressure on your production team to increase inventory, advance planning should ease workload on production schedules if the increase in demand is smoothed. Proactive thinking will support the working relationship through a turbulent phase.

EU versus Local or Global Supply

If the tariff charges make purchasing product or parts from the EU uncompetitive, there may be an increased push on global and UK sourcing activities, businesses should consider putting dual sourcing plans in place now in order to mitigate supply risks.

Remain mindful of the rush on demand that may be faced by your UK suppliers if there is an increase in demand as it may mean more customers look to secure their products and services.

With some of our members reflecting on the opportunity to move business outside of the EU, into a global supply market, be mindful of concerns around the quality and conformance to specification to ensure that the goods meet your organisational needs.

Be aware of the increase in work flow and resources required by the sourcing and procurement team to undertake such new sourcing and potentially new contracting activities.

There should be consideration that some EU suppliers may move business away from the UK, but that may be balanced by the demand for products and services from UK customers who are looking to onshore their supply chains.

Recruitment and Workforce

With the identification of potential new legislation requirements for the importing and exporting of goods, along with increased pressures within the procurement team to ensure goods remain available to the production line in a timely fashion, reviewing the skill and resource within the procurement function to ensure that new challenges are managed is critical at the early stages of setting a Brexit strategy for your organisation.

Despite ongoing political and economic uncertainty, and as we move through Brexit proceedings, confidence within the procurement and supply chain market remains stable, with demand high for talented procurement professionals. Equally, as we tackle an unpredictable climate, many organisations are in fact prioritising their procurement team's potential in making sure the changes have limited business impact.

However, procurement is facing an ongoing skills shortage that shows no sign of abating, so employers are urged to act fast to attract talent in order to secure additional support. According to the CIPS/Hays Procurement Salary Guide & Insights 2018, over half of procurement recruiting (56%) faced challenges in finding the right talent with 47% citing lack of sector skills and experience and budget constraints as the main reasons. Looking specifically to the skillsets required, communication/soft skills and negotiation are prioritised across all levels with influencing, communication/soft skills and internal stakeholder management prioritised for senior procurement professionals.

In a profession which can moderate and develop a competitive advantage from the fluctuations of the market, or political changes, these skills are likely to continue to be sought after. Procurement professionals need to adapt to the landscape and become more focussed on strategy and alignment to organisational goals, most importantly, developing the softer skills needed to understand the implications of Brexit,.

With this in mind, many procurement professionals will already be entrenched in predicting and advising on the changes that Brexit will incur, despite no official confirmation of what these will be. As nearly two-thirds (63%) of EU businesses who work with UK suppliers expect to move some of their supply chain out of the UK as a result of Brexit according to a survey from the Chartered Institute of Procurement & Supply (CIPS), negotiations with suppliers, navigating currency changes, and ensuring any EU supply connections are strong will be particularly vital for professionals during negotiations.

Taking reflection on the CIPS/Hays Procurement Salary Guide and Insights 2019 the findings identify that there is an increased importance in supplier relationship skills , communications and soft skills, which could be due to a Brexit-related need for supplier re-evaluation in the light of currency and import/export issues.

Furthermore the findings identify that one of the key issues faced in the Charity/Not for Profit sector is the challenge faced around the changing EU procurement regulations.

Sourcing skills, outsourcing/offshoring and insourcing remain significant skill requirements for procurement professionals, with the potential for an increase in demand due to business changes that may be brought about by Brexit.

EU grants

Businesses in a range of sectors currently benefit from various EU grants and research and development tax breaks. Will this affect your business and how your supply chains operate? If the funding changes and new administrative procedures are put in place, do you have the resources to manage this? This may impact where businesses choose to develop their supply chains of the future.

Conclusion

Many of our findings conclude that at this stage of Brexit, procurement professionals are remaining fluid with their strategies, however, there are areas of impact that cannot be waylaid.

Forward planning is critical to weathering the Brexit transition period, by anticipating the possible impact areas that Brexit may have on import restrictions, possible bottlenecks in process and the managing of goods being imported into the UK that support your production process. Keeping close to the political discussions will give competitive advantage regarding the direction of best fit to meet your procurement strategy and overall business needs.

Many of our members have commented that the outlook is not all doom and gloom with some reporting that Brexit is supporting their business growth and presenting "positive exciting times where many opportunities have opened up", with the additional comments of "increases in exports" and "new business being won on the back of Brexit".

Until such time as the political landscape becomes less murky, the UK is set to leave with, or without a deal on the 31st of October 2019. Though the time scales to prepare are painfully short, procurement professionals and business managers must make some efforts towards protecting their supply chains protecting their business, customers and reputation.

This paper has sought to give members a view on:

- The value of sterling against the euro and US dollar should there be a no deal Brexit
- The issues members may face moving goods into and out of the UK post October 29
- Customs clearance issues and the urgency to get customs clearance capability trained or contracted into your organisation as soon as possible.
- The likely position that members will face should they need to contract additional warehouse space and where (regionally) the shortages of supply are greatest.
- The labour market for procurement professionals and the impact of a no deal Brexit
- The challenges managing inventory and sourcing alternative suppliers outside the EU.

We have identified those issues which we feel are most pressing for members in the run up to a no-deal Brexit. We have sought to take a reasoned and evidence-based position on some of the issues where there is a degree of uncertainty. We have done this in good faith and with the sole objective of allowing members to be better prepared for what may face in the near future. As always, we invite feedback from members which we would be more than happy to share with the broader community to help us all navigate our way through these 'interesting times'.

More sources of information

See the CIPS website https://www.cips.org/en-gb/knowledge/procurement-topics-and-skills/brexit1/brexit-surveys/

Contributions

With thanks to the following contributors to the content of this positioning paper:
Contributors to the CIPS Brexit surveys
Malcolm Budd FCIPS - Senior Export Control Manager, Rolls Royce
Scott Dance - Procurement Director, Hays
Dr John Glen, CIPS Economist and visiting fellow at the Cranfield School of Management