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The Supply Chain Leader's Guide to Brexit

How digital freight forwarders can help beat customs chaos

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Introduction

Thought we were through the worst of Brexit? Think again.

With the unwinding of easements from 1st January, to the full introduction of the new Customs Declaration Service later in the year, 2022 is going to be challenging for supply chain leaders.

The pressure facing importers and exporters is set to rise.

Since the first round of customs changes were introduced in January 2021, many businesses have already experienced delays in shipments, and are still figuring out how to rework their processes around easements. And although the Brexit transition period officially ended a year ago, new customs controls for moving goods from Europe to the UK are only now coming into effect. Given the jump in demand on UK customs officials, even the best-prepared may find themselves losing valuable time at the border – and feeling the knock-on effects across their businesses.

But at our Navigate conference in November 2021, less than 8% of supply chain professionals said they felt ready to tackle the next wave of changes. That's why we created The Supply Chain Leader's Guide to Brexit: to help businesses get a better grip on customs changes and crucially, how to handle them. So, with the transition already underway, what do businesses need to be aware of? And how can customs processes be streamlined to keep goods flowing, and supply chains insulated against any Brexit delays?

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Navigate Beyond

Where are we now?

When the Brexit transition period ended in January 2021, importers and exporters had to adapt to a number of new processes.

Naturally, some suffered teething problems. The new legislation introduced by the UK government can be opaque and nuanced, and many businesses have struggled to interpret the language.

A number of serious challenges have yet to be resolved, and as the next wave of changes comes into effect in January 2022, they're likely to exacerbate the existing pain points for supply chain leaders.

Where are we now?

Customs Declarations

With new borders come new customs rules – both between the UK and the EU, and between Great Britain and Northern Ireland. Declarations exist where they didn't before, causing confusion, delays and in some cases, shipments being turned away at the border.

On the UK side, some permanent and temporary easements have been brought in to smooth out the transition, and keep goods moving as UK businesses adjust. In particular, the delayed declaration process enables businesses to move goods over the border and follow up with a declaration within 175 days.

Nevertheless, there's been a substantial increase in the number of import and export declarations happening at the UK border. The additional administrative burden on customs agents has caused the declaration process to slow down significantly, and has also made it more expensive; many customs brokers have increased their charges as demand outstrips supply.

Customs valuation rules have also changed. Where businesses used to be able to get by with rough estimates of value, they now need watertight valuation processes in place. That's challenging and time-consuming, involving complex calculations and putting pressure on customer relationships.

With more volume and new processes comes more risk of human error. If data is incorrectly entered, it has to be reprocessed – causing additional delays and pushing the cost of doing business even higher.

That's putting pressure on businesses to be more efficient elsewhere in the chain. The need for end-to-end visibility over reliable SKU-level data that enables businesses to track delays, change direction in real-time and reduce supply chain spend has never been greater.

Where are we now?

EU-UK Trade Cooperation Agreement

One upside of the EU-UK Trade Cooperation Agreement is that it theoretically delivers 0% duty. But the reality is somewhat more complicated, and has introduced a raft of new rules and requirements for businesses to navigate. Not all goods can be imported free of duty – only those that meet particular rules of origin.

Understanding those rules requires a lot of attention: they're very detailed, requiring a lot of new compliance measures, strict processes and commodity codes. They're particularly challenging for businesses that essentially use the UK as a distribution centre – bringing goods into the UK from the EU, and then shipping them on to another EU destination.

The Trade Cooperation Agreement does not allow those goods to retain their union status. And it's not just the UK's direct relationship with the EU that's affected. Wider supply chains and global preference agreements like the Generalized System of Preferences (GSP) have also been impacted by the new origins rules.

This means that businesses are being forced to use other, more cumbersome processes, like customs warehousing, common transit and returned goods relief, to cut duty payments from their supply chain.

To facilitate that, many are turning to shared platforms that enable real-time communication with stakeholders across the supply chain, so they can understand and react to local nuances.

VAT

Changes to the way VAT operates have added further difficulty, especially in conjunction with the new e-commerce rules that were introduced in summer 2020. Postponed Import VAT Accounting (PIVA) is now applicable to all imports. It enables businesses to pay and recover import VAT through their VAT return, rather than having to pay it either at the border, or under a deferment account arrangement.

While this helps with cashflow, there are a number of problems with PIVA, especially around amendments and the ways statements are generated. But while these are relatively minor, a bigger issue is the decision made by HM Revenue and Customs (HMRC) in summer 2020 that only the owner of the goods can recover import VAT. This has caused problems for businesses who import to the UK without full ownership of goods. In instances where ownership is only transferred once suppliers are paid, where goods are rented rather than owned, or where they're shipped abroad for repair, it's unclear who is responsible for paying import VAT, and who can recover it.

In many cases, UK businesses are also having to get VAT registered in the EU countries they export to. This didn't used to be the case. In the past, businesses could hold stock on behalf of customers in one EU state without having to register for VAT in the EU and likewise, international suppliers wouldn't have to register for UK VAT.

Now, any business with consignment stocks has to register for VAT in the EU. One of the biggest hurdles facing UK businesses is the loss of access to EU VAT simplifications, like call-off stock, supply and install contracts and triangulation. Now, logistics providers are playing an increasingly important role in helping businesses keep track of and manage the changes.

Where are we now?

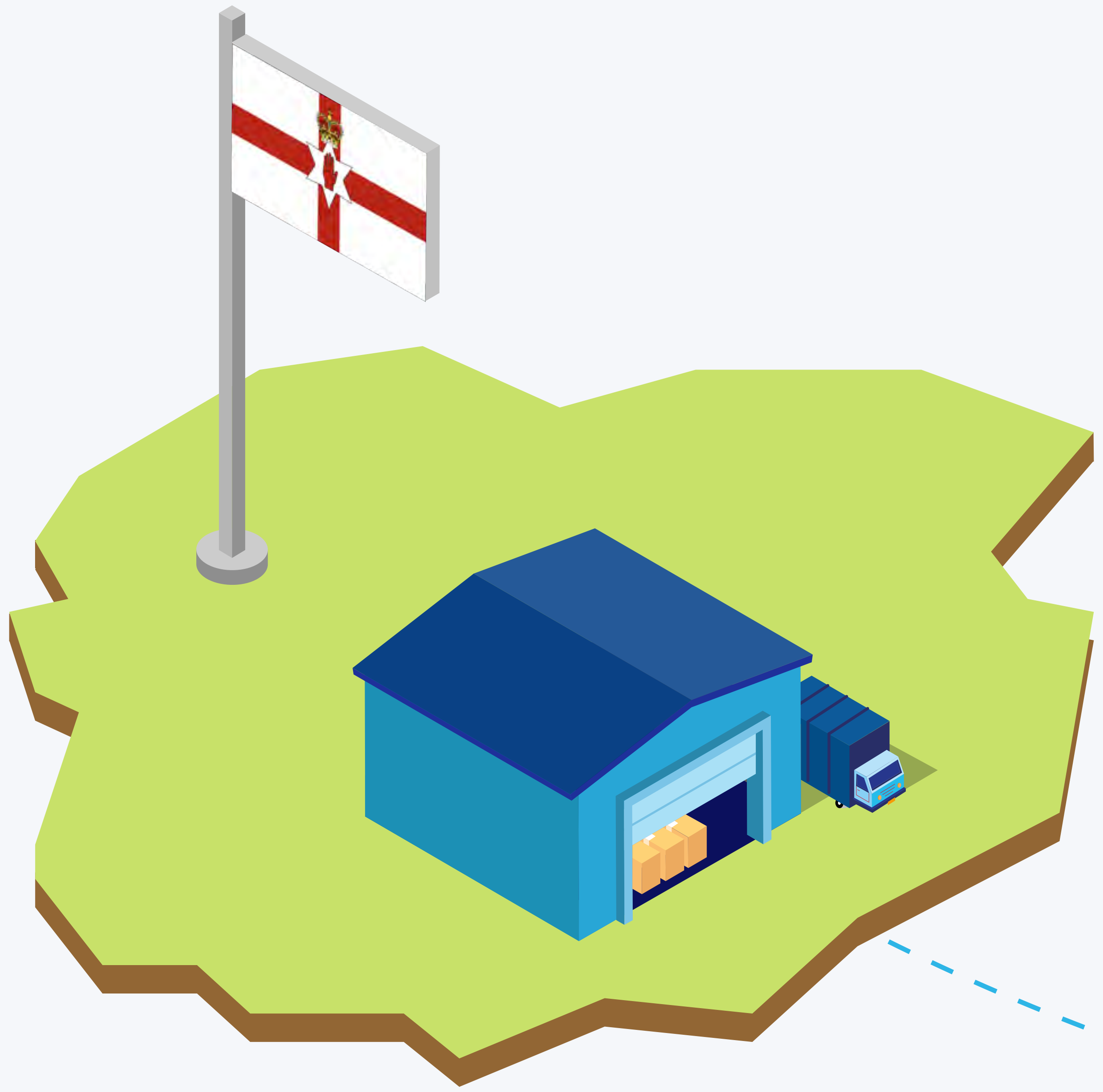
Northern Ireland

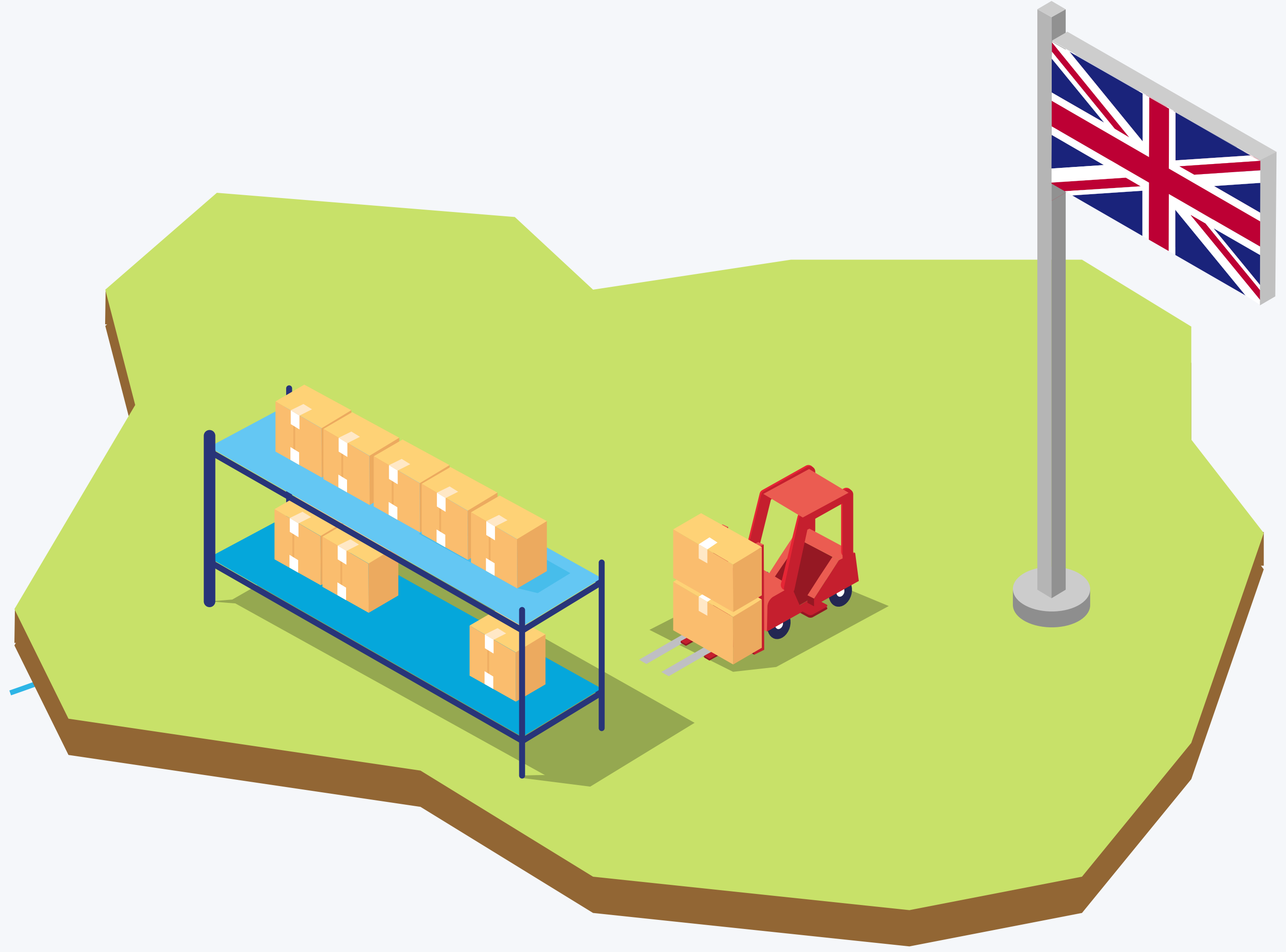
Though a relatively small portion of business for many, Northern Ireland remains a point of major contention and worry for most.

Much uncertainty persists. Currently, it's unclear how UK businesses should determine whether their goods are at risk, and if they should pay duty when entering Northern Ireland. The UK Trader Scheme, which allows for some of this risk, may not be applicable for businesses without premises in Northern Ireland.

Though new simplifications are being introduced, and Application Programming Interfaces (APIs) are integrated to automate the sharing of data, customs declarations for Northern Ireland are taking a disproportionately long time to process. That's in part because it's the first to implement the new Customs Declaration System (CDS) that will be replacing Chief across the UK in 2022.

As such, many see the chaos in Northern Ireland as a microcosm of what might happen at the GB border later in the year, and are watching the renegotiation of the protocol with interest and concern.





What to expect next

The changes coming in from 1st January 2022 will have an even bigger impact than those that were introduced in January 2021.

They'll be layered on top of what is already a very volatile market. Aside from the current Brexit-specific challenges, there are other difficulties. Labour shortages are a continuing issue, affecting not only transport, but warehousing, manufacturing and other parts of the supply chain. Likewise, sea freight turbulence has stripped optionality for businesses, with neither cost nor capacity expected to return to pre-pandemic levels. And of course, the threat of further covid outbreaks looms large.

With so much already on their plate, supply chain leaders need to ensure they have a plan of action in place for the new Brexit changes – or risk being overwhelmed by even more complexity.

What to expect next

Customs Delays

January 2022

Issues at the UK border are set to get worse when the delayed declaration process is phased out in January 2022. The volume of declarations currently happening at the border, though higher than pre-Brexit, still only represent a fraction of what we'll see in the year to come. Supply chain leaders should expect to lose more time and more money, as new processes snarl up what's already an overburdened system.

Product Controls

July 2022

Under the EU-UK Trade Cooperation Agreement, some goods will be subject to more rigorous controls – in particular, products of animal origin and plant products. From July 2022, those products will have to go through specific ports with border control posts that can deal with them – meaning supply chain leaders may have to change shipping routes.

Customs Declaration System (CDS)

September 2022 - March 2023

The transition to CDS, the new import/export system replacing Chief, will begin in 2022. The decision to migrate to the new system in fact pre-dates the Brexit referendum, and represents a significant technical change. With CDS, XML messages will be delivered via APIs, and Management Support Service (MMS) data about imports and exports will be free.

Operationally, CDS will take some getting to grips with. It uses the union customs code data set, requiring around a hundred additional data elements and more codification than current customs declarations. CDS staff report that generating the new declarations takes around 4x longer, adding significant processing time and complexity. Supply chain leaders need to be prepared: for imports, the migration to CDS ends in September 2022, and for exports in March 2023. From then on, CDS will be used exclusively at the UK border: no importers or exporters will be exempt.

How businesses can prepare

There are a lot of changes and challenges that businesses need to tackle to keep ahead in the year to come. It's no surprise that some are worried: CEOs list supply chain among the top 3 risk areas in 2022. Supply chain leaders need to ask themselves a number of critical questions.

Compliance:

Do you have enough visibility over the supply chain? Are you sure you haven't built up any risk through delayed declarations? Would you be ready for a customs audit?

Savings:

Are you sure you aren't overpaying duty anywhere in your supply chain? Have you carefully read origins rules and claimed the right origin? Have you considered customs warehousing or inward processing help you reduce global duty payments?

Process:

Are your processes resilient and agile? Are you equipped to deal with the new data requirements for CDS? Can your supply chain survive the knock-on impacts of delays at the border?

If the answer to any (or many) of these questions is no, it's time to get a strategic plan of action in place. Prioritising visibility, communication and resilience will help businesses adapt to the changes while protecting their bottom lines and competitive position.

How businesses can prepare

1 Improve visibility

Supply chain leaders need as much visibility as possible in order to inform decision-making and optimise outcomes. That means looking beyond the business to get a clear view of not only their own supply chain, but their suppliers' chains, too.

With new, much more rigorous and nuanced rules coming into effect, it's critical that supply chain leaders know exactly what product is coming in, when it's coming in, how it's being moved within their business and across borders. It's also important to keep all that information in one place, such as a collaborative digital platform, to make details accessible and to help streamline follow-up actions like invoicing and documentation.

That means paying attention to small details, too. Supplementary elements like packaging need to be taken into account to ensure product ships seamlessly and timelines stay tight. While good supply chain leaders will be familiar with their tier 1 suppliers' operations, great ones will have visibility over tier 2 and 3 suppliers as well.

2 Communicate across the business

Visibility is the first step towards better decision-making. But those decisions are of little benefit to the business if they happen in a vacuum.

In such turbulent times, clear communication is key. Supply chain is often cut off from the rest of the business. There's a tendency for other teams to pass jobs over and expect them to 'just get it done', with no clear understanding of how the function works.

In particular, ensure logistics, customs, and VAT teams are talking and working together. Though not always obvious collaborators, in 2022 they need to present a united front and share the load of upcoming pains and challenges. Getting department leads and advisory partners together to discuss what Brexit changes are worth in cash terms can help.

Once everyone understands how much money is tied up in new processes (and the penalties for getting them wrong) it's easier to align them around action points.

Likewise, sales teams need to be brought into the loop. Understandably, their first concern is selling the product; they're unlikely to give much thought to shipping it. But whether they know it or not, they've been making use of VAT simplifications that are no longer in place – and lack awareness about how the impact of those changes can have major commercial implications. Supply chain leaders need to link into market-facing sections of the business to ensure that commercial strategies and supply chain operations aren't in tension. Digital platforms that create a shared environment for all stakeholders to track and troubleshoot shipments can help.

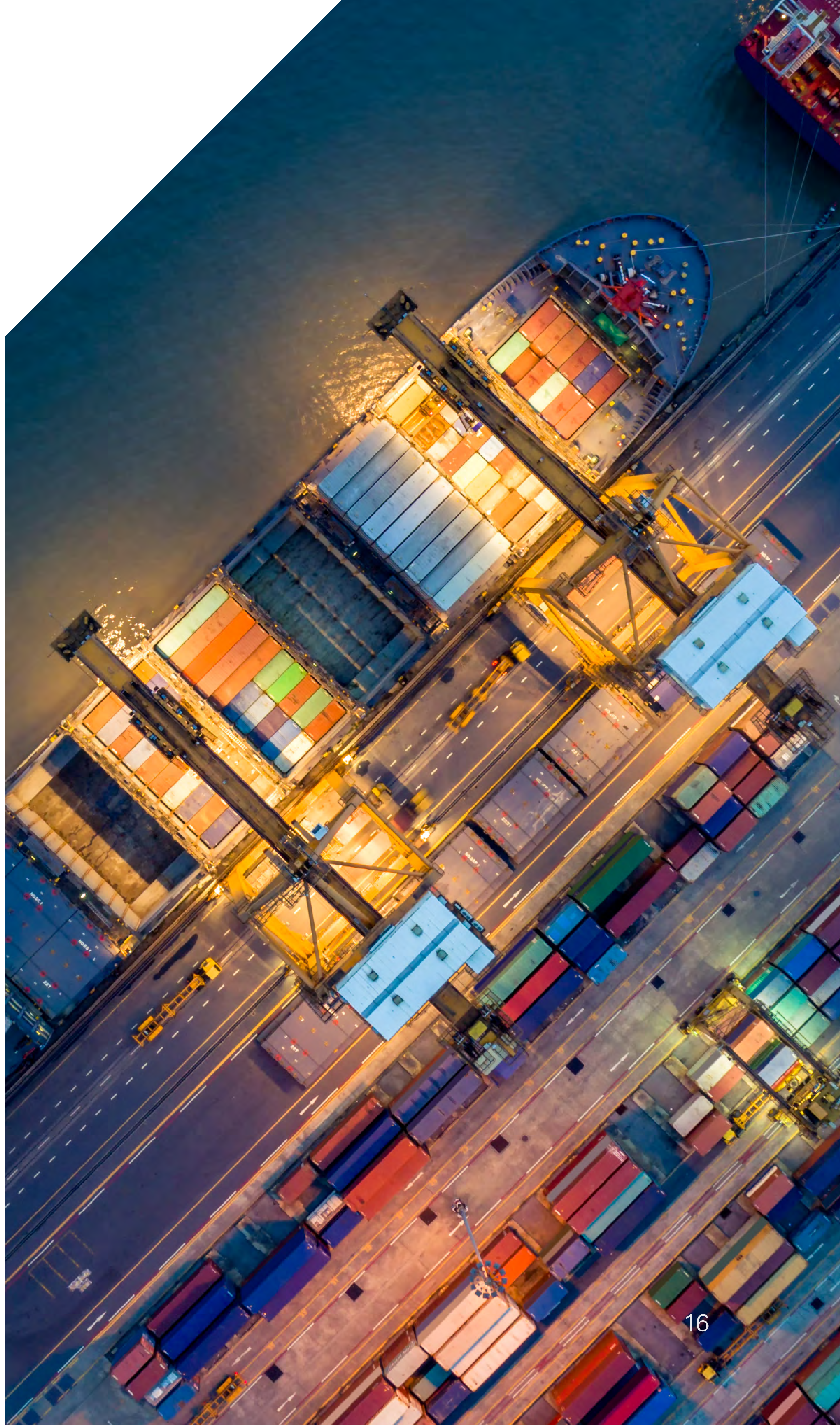
3 Build resilience

Communication is vital to help build business resilience. If changes are being made, ensure everyone knows about them. And if everything's under control, share that with suppliers, customers and stakeholders, too.

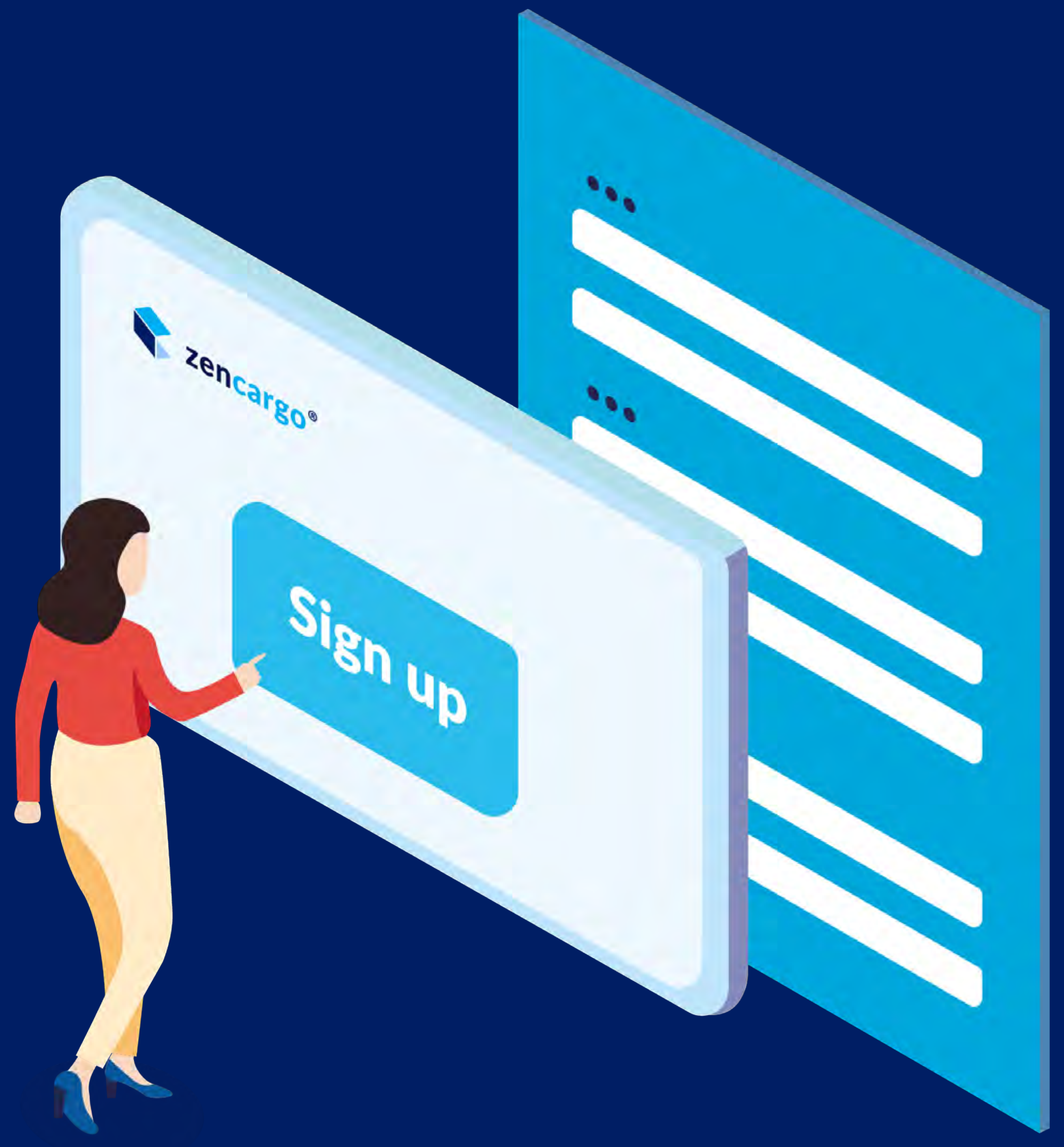
But be prepared for more change. Border processes are likely to change again in the next few years, with the UK Government already looking at a self assessment-style 'ecosystem of trust' for customs declarations. In the interim, even the best-prepared businesses need to be ready to deal with the ripple effect from those within their networks who aren't.

Inevitably, the rollback of easements and the transition to CDS will add time at the UK border, impacting the flow of goods. It's worth planning ahead for that, ring-fencing labour in advance to manage the increased level of work facing customs clearance agents.

Look across (and outside) the business to ensure that processes and service providers can cope with the knock-on effect of the increase in volumes, and build contingency plans where they can't. That might mean adding more inventory, or a few days to lead times. Working with freight forwarding partners that understand the business, and uses data to know what to prioritise when plans change, ensures things stay running smoothly.



How Zencargo can help



- Making customs digital can help beat Brexit delays.
- Data has always been key in the customs world – and facing less certainty and more process, it's now more important than ever.
- Zencargo's platform gives businesses real-time data, so they have visibility over the status of their shipments at each border.
- Our tracking technology enables users to spot disruptions in their supply chain which may be tied to customs declarations, like missing paperwork, and communicate them across the business. This enables teams to make agile, informed decisions to quickly resolve issues and optimise changes on the ground.
- Meanwhile, Zencargo's team of logistics experts advise on how to move goods most efficiently, helping businesses stay competitive amid uncertainty.

To find out how Zencargo can help you tackle the Brexit challenges in your supply chain, get in touch.

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