

## Brexit 'No-Deal' scenario preparations by Gateway

A possible consequence of the decision by the UK electorate to leave the EU is of a 'No-Deal' scenario. Statements from the UK government make commitments to take unilateral steps to minimise disruption and prioritise stability in a 'No-Deal' scenario.

In a 'No-Deal' scenario, the EU have indicated that they would intend to treat the UK as a third country for all purposes. The EU has suggested they would apply "regulation and tariffs at borders with the United Kingdom as a third country, including checks and controls for customs, ....and verification of compliance with EU norms".  
(1)

Gateway understands the importance of business continuity not only for its customers, but also for its staff and the people who depend on them. The company takes its responsibilities seriously and it will take all reasonable measures to ensure that disruption in its supply chain is minimised. It cannot mitigate all the potential impact of a 'No-Deal' scenario, but the company believes it has a duty to assess the direct implications of the scenario, take mitigating actions where these are under control of the company, or notify interested parties where they may need to act to protect their own interests.

The company has reviewed the UK Governments guidance on how to prepare for Brexit if there is 'No-Deal' and has identified the following key possible impact areas:

- Importing and exporting, including the
- Harmonised classification of imported and exported products in the event of changes to the UK and EU import and export trade tariffs.
- The potential disruption to the supply chain.
- The potential for restricted movement of workers, and the protection of workplace rights.
- Meeting potential changes in business regulations.
- The potential for exchange rate implications.

### Importing and Exporting.

For most product classes businesses can currently move goods freely between EU member states. For customs, this means that businesses trading with the rest of EU do not have to make any customs import or export declarations, and their trade with the EU is not subject to import duty.

In the event of a 'No-Deal' scenario on 29 March 2019 there would be immediate changes to the procedures that apply to businesses trading with the EU. It would mean that the free circulation of goods between the UK and EU would cease.

For businesses trading with the EU, companies may have to apply the same customs and excise rules to goods moving between the UK and the EU as currently apply in cases where goods move between the UK and a country outside of the EU.

Gateway has trading relationship with manufacturers both within and outside of the EU and already has the structure and facilities both internally and with third part freight handlers to meet the new requirements in the event of a 'No-deal' scenario.

## Harmonised classification of imported and exported products.

Currently, for goods moving between EU countries, there are no customs duties, and no routine intervention during the movement of goods. For goods entering the EU's Customs Territory from the rest of the world ("third country goods"), an import declaration is required, customs formalities and checks are carried out – for example for compliance with EU regulations – and any customs duties must be paid. Imports from a country with which the EU has a free trade agreement may qualify for preferential rates of duty and rules of origin. Imports from a country with which the EU does not have a free trade agreement will be subject to the EU's Most Favoured Nation (MFN) rates of duty and non-preferential rules of origin.

In the event of a 'No-Deal' scenario, goods traded between the UK and the EU 29 March 2019 will be subject to the same requirements as third country goods, including the payment of duty. Under World Trade Organisation (WTO) rules, the principle of most-favoured-nation (MFN) treatment means that, unless a preferential agreement is in place, the same rate of duty, on the same good, must be charged to all WTO members equally.

For UK exports to the EU, the EU will require payment of customs duty at the rate under the EU's Common Customs Tariff (CCT). For goods imported to the UK from the EU, the UK will require payment of customs duty at the rate set by the UK Government.

The EU will apply its MFN rates to goods imported into the EU from the UK. The EU MFN rates are set out in the CCT. The EU may decide to change these rates between now and March 2019.

The UK will apply its MFN rates to goods imported into the UK from the EU. The government will determine and publish these new UK duty rates before we leave the EU. They may be different from the rates in the EU's CCT.

The UK Trade Tariff, detailing the import duty rates and rules that will be applicable to each good, will be made available free on GOV.UK in the same way as now using the Harmonised Tariff System (HTS), sometimes referred to as the commodity code. Importers of goods into the UK will no longer use EU Tariff information published by the EU.

For information, the UK does not intend to immediately change the classification of goods in a "no deal" scenario. The UK does not plan any immediate deviation from the current commodity code list published in the UK Trade Tariff, which is currently applied by the EU, except where necessary to maintain alignment with international standards, or for trade remedies purposes.

Gateway has a number of different Incoterms agreements with its manufacturer partners in the EU; some are DDP (Delivered Duty Paid), other are DDU (Delivered Duty Unpaid). Today the difference is not relevant, but in a 'No-Deal' scenario and after 29 March 2019, dependent on the levels of MFN rates that are to be applied by the UK government on imports, the costs of bringing materials in from EU countries may change.

In the same way as Gateway currently has the structure and facilities in place to handle the processing of duties imposed on UK imports from outside of the EU, the company has the structure and facilities in place to handle the processing of duties that may be imposed on UK imports from the EU based on the MFN rates that are yet to be determined and published. As soon as these rates are published the likely impact will be calculated and communicated to our customers. Our customers will be given the option to review the commercial relationship in this event and instruct us accordingly.

Gateway holds a complete database of all applicable HTS codes (commodity codes) for all of the products that it imports and exports and can publish lists of relevant codes to customer upon request. For a more detailed explanation of UK commodity codes please use this link.

<https://www.uktradeinfo.com/Intrastat/AboutIntrastat/Pages/Classification.aspx>

## The supply chain.

Supply chain disruption may happen if the resources that have been put in place by the relevant customs authorities are not sufficient to handle the increased workload brought about by the new working practices under a 'No-Deal' scenario. It is impossible at this stage to make an accurate estimation on the likely impact to the supply of products into and from the UK, but there is no reason why companies that both import and export can not embed some short-term contingencies into their supply chain routines to mitigate some of the risks.

Gateway has relationships with a number of manufacturing partners in Europe, who supply products with Countries of Origin (CoO) both from within and outside of EU manufacturing locations. Supplies from many of the non-EU CoO parts are also consolidated in EU based transport hubs before being shipped to Gateway. Logistics handling for products from these EU based manufacturers is organised by those manufacturers, and these supplies will be channelled through UK ports en-route to Gateway. These will not be immune from any delays and disruption brought about should the relevant authorities not prepare adequately for the new customs demands.

In the event of known delays in major supply routes Gateway may be able to organise supply of products using a more expedient form of transport, although it can not necessarily expedite customs processes at the point of inspection.

However, to mitigate the risk of delay to supplies, Gateway has already adjusted some of its purchasing algorithms to build in higher levels of safety stock for products supplied to contracted and non-contracted customers. Additionally, Gateway has reviewed the contracted buffer stock levels for contract customers to help alleviate the impact of delays. These are reviewed on a regular basis as part of our contract review programme to ensure we protect against both supply-side and demand-side vagaries.

We also encourage customers to take the opportunity to review their own working practices with regards to ensuring they reflect the published manufacturer lead times for the products which they regularly purchase (contracted and non-contracted). Recent lead time slippages witnessed on some ranges of electronic components are likely to be significantly more impactful than any delays that might be forecast as a result of a Brexit 'No-Deal'.

Gateway regularly updates its manufacturer lead time lists and where significant slippage is observed these instances are published to its customers.

## Worker movement and rights.

In a 'No-Deal' scenario, there are no expected financial implications or impacts for citizens or businesses operating in the UK (whether UK or EU-based) in regard to workplace rights. (1).

Gateway does not currently employ any staff that have working restrictions in the UK either currently or in the future. We do not envisage at this stage that any post-Brexit restrictions on worker movement will have any impact on our ability to recruit appropriately qualified staff to continue to provide the levels of service that our customer have come to expect.

## Business regulations.

In the event of a 'No-Deal' scenario the government will ensure that the UK continues to have a functioning regulatory framework for companies and that, as far as possible, the same laws and rules that are currently in place continue to apply. This will be done by using the powers in the EU Withdrawal Act 2018 to correct deficiencies in the UK statute book arising from the exit from the EU by the UK.

Gateway is a UK registered company operating from a single base within the UK and there are no structural modifications or legal corporate framework changes that the company needs to fulfil to continue to operate after a 'No-Deal' scenario.

## Exchange rates.

Following the referendum that determined the decision to leave the EU, Sterling lost 15% of its value against the Euro, and is currently trading approximately 13% below the opening rate on the day of the vote. The impact of the devaluation of Sterling has been felt by importers into the UK from product across the globe, regardless of the 'native' currency of the product.

It is possible that Sterling exchange rates with other currencies will continue to be volatile in the weeks leading up to the 29 March 2019 and perhaps beyond. Where a product is sold in Sterling but is purchased in a currency other than Sterling, should the exchange rate fluctuate by more than +/-2.5% outside of the detailed nominal currency rate for the product when the pricing was agreed then we reserve the right to adjust our pricing accordingly. You would be notified prior to the adjustment should this be necessary.

Much of the product that Gateway brings in from overseas is purchased in Euro or Dollars. To enable customers to take control of exchange rate effects on their pricing agreements with Gateway we can offer the facility to open accounts for those customers in other currencies.

## In Summary.

Based on the latest advice from the UK government Gateway has carried out a process of due diligence to identify and communicate to its customer those issues that they may need to consider in the weeks leading up to Brexit in March 2019.

We are happy to assist customers in more detailed assessments of these implications on their specific bills of material against which Gateway may be a vendor. Please do not hesitate to contact us for further assistance.

## References:

1. <https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal>