Forewarned and Forearmed: Quantifying The Impact of Brexit

Wednesday, 7 December 2016
Welcome

Mark Essex
Director of Public Policy
Agenda

**Introduction** – Mark Essex, Director of Public Policy

**Supply chain** – Brian Connell, Senior Manager, Supply Chain Operations

**Customs and trade** – Matthew Fleming, Director, International Trade – Legal Services

**Case studies**

**Q&A**
A busy year ahead for Europe

- 20 and 27 Nov 2016: Centre-right primaries in France
- 4 Dec 2016: Italian referendum on constitutional reform
- 4 Dec 2016: Austrian presidential election
- End 2016: Target Greek debt restructuring
- 26 Mar 2017: German state election in Saarland
- 15 Mar 2017: General election in the Netherlands
- 22 and 29 Jan 2017: Socialist primaries in France
- Mid Jan 2017: Article 50 appeal by PM
- End Mar 2017: UK to trigger Article 50
- 23 Apr and 7 May 2017: Presidential and general election in France
- 7 May 2017: State election in Schleswig Holstein
- 14 May 2017: State election in Nordrhein-Westfalen
- Oct 2017 (Latest): General election in Germany
- Sep 2017: Catalonia plans independence referendum
- May 2018 (Latest): General election in Italy

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A new Brexit language

Early talk was of existing models…
- Single market access
- Pick and mix regulations
- Customs Union access
- Free trade deal

…to ‘special deals’
- ‘Soft’ Brexit
  - In Single Market/Customs Union
- ‘Sector by sector’ Brexit
  - Tailored by industry
- ‘Hard’ Brexit
  - Outside EU institutions

Until new PM shifts the conversation

“A country that works for everyone”
Theresa May

British and Bespoke
Supply Chain

Brian Connell
Senior Manager, Supply Chain Operations
Supply chain trends

- Forex impact
  - Cost mitigation and international growth
  - Cost to serve
  - ‘No regrets planning’
  - ‘Don’t waste a good crisis’

- Goods Balance
- Services Balance

£billion, seasonally adjusted

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Consumer goods supply chain

May need to establish a new UK D.C to minimise cross-border delays. Significant infrastructure cost and inventory duplication would result.

Movement of goods to Ireland could suffer delays.

Key
- Internal movements
- Outbound to customer
- Warehouse

EU network, most product imported from far east. High costs and limited capacity in EU
Labour: EU workers and supply chain risk

UK Food retail

Farming

Warehouse

High Street Stores

Van based e-fulfilment

EU

Non-EU
Customs and Trade

Matthew Fleming
Director, International Trade – Legal Services
Customs duty - the basics

Where was it made?

Origin

What is the good?

Classification

Procedures

What is its value?

Valuation
The common external tariff is an array of 135 different tariffs applied to over 15,000 different commodities.

Common External Tariff: import duty rates (per cent)

NB there are 11,158 tariffs on this chart, each represented by a (very thin) vertical line. The labels are only a very rough guide to the commodity categories, further information available from KPMG on request.
KPMG Tax Intelligence Solution for Brexit

**TIS for Brexit**

**Potential increase in cost of goods**
£9.78M

**Average customs duty**
6.62%

**Current customs duty paid**
£9.33M

**FTA imports potential duty**
£0.42M

**FTA exports potential duty**

**Admin costs - user entry**

**No of EU export entries**
3600

**No of EU import entries**
1800

**Ad-hoc costs**
50

**Potential increase in cost of goods - Breakdown**

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<th>Discharges</th>
<th>Arrivals</th>
<th>Imports</th>
<th>FTA imports</th>
<th>Export Admin</th>
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**Intra-EU: Cash Flow Impact**

**EU imports cash flow impact**

- PAY with Def: £1.277.26k
- PAY w/o Def: £1.178.00k

**EU exports cash flow impact**

- PAY with Def: £447.71k
- PAY w/o Def: £1.371.79k

**Select:**
- Payment
- Repayment

**Potential Increase In COG**

- £5.61M

**Customs value - Imports**
- £422.2k

**Customs value - Exports**
- £55.99M

**£143.15M**

**£55.99M**
Case study 1: EU goods into UK

Currently

Clothing imported from Portugal-no customs duty

= £95 cost

Hard Brexit

10% tariff

= £104.5 cost
Solution 1: new supplier

Brazil

Customs value

= £90

United Kingdom

Hard Brexit

10% tariff

= £99 cost
Case study 2: UK as EU distributor

Currently
Duty paid once when imported into the UK. No additional duty when moved from the UK to Ireland.

Hard Brexit
Double duty
Duty paid once when imported into the UK and then again on the movement from the UK to Ireland.
Solution 2(i): UK customs warehouse

Hard Brexit

No duty paid when goods enter the UK customs warehouse. Duty paid only once when imported into Ireland.
Solution 2(ii): Direct shipment

Hard Brexit

UK distribution entity removed from the supply chain. Duty paid only once when imported into Ireland. Ireland could be used as the distribution hub for other EU countries.
Case study 3: FTA

Currently
Car imported from South Korea into the UK no customs duty under FTA

= £90 cost

Hard Brexit
10% tariff

= £99 cost
Case study 3: FTA

Republic of Korea

United Kingdom

Customs value = £90

Hard Brexit

Pass on increased costs to customer?

Push supplier for better price?

Reformulate
Can you please quantify this for me?

Can you please quantify the effect of a non-tariff barrier versus a tariff barrier?

Which of these matter?

Everybody will say their issue matters most and I need to get some numbers on it.

David Davis MP,
Secretary of State for Exiting the European Union
Monday 12 September 2016
Thank you
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