60 YEARS SINCE 1957

JANUARY 2017

SHDLOGISTICS

Promoting supply chain excellence

www.shdlogistics.com

FORK LIFT TRUCKS | ORDER PICKING | CONVEYORS

Brexit strategy

WHAT DOES BREXIT MEAN FOR THE UK'S LOGISTICS SECTOR? **DAVE BERRIDGE**, SECRETARY OF THE AUTOMATED MATERIAL HANDLING SYSTEMS ASSOCIATION (AMHSA), URGES FIRMS TO PLAN AHEAD.

"There is definitely merit in modelling the future for your business under various Brexit scenarios in order to understand the operational strategies that would mitigate the risks for your supply chain"

The close result of the UK referendum on 23rd June led to a torrent of debate on the rights and wrongs of Brexit but we now know that Article 50 of the EU treaty will be triggered before the end of March 2017.

The detail of the precise form that Brexit will take is yet to become clear, however, and that means that uncertainty still looms large for UK businesses. Although Michel Barnier, the EU's chief negotiator for Brexit, has said that the UK must reach a deal by October 2018, many economists believe that global negotiations may take much longer.

The implications for the supply chain sector are far-reaching. The president of the CBI, Paul Drechsler, recently warned that the logistics industry could be affected first in the aftermath of Brexit. He argued that the economy needed transitional arrangements and clarity in order to ensure a smooth exit from the EU, adding that logistics firms could face complex paperwork that would take more time and money to process.

The Freight Transport Association (FTA) echoed his concerns, calling on the government to ensure that UK firms are not burdened with red tape. Around half of UK foreign trade is currently with EU member states and so does not require customs declarations. The FTA stated that there would be significant costs – and possibly delays – involved to in such paperwork, particularly for SMEs.

CAPITAL INVESTMENT

Many global companies have used the UK as a gateway to Europe but the increased complexity resulting from Brexit is making Britain less attractive for capital investment, despite its skilled workforce and competitive tax system. In a recent report entitled "Brexit: the impact on your supply chain", LCP Consulting, business advisers to companies in FMCG markets, urged UK firms to undertake modelling to understand their future position under a number of possible Brexit scenarios in which various stances are taken by the UK government regarding immigration, trade agreements, fiscal policy and regulation.

One immediate effect of the referendum result was a slide in the value of the pound, from which it has yet fully to recover. In the short term, this boosted sales for UK online and multichannel retailers that were selling into European markets, as well as providing a spike for tourist spending, particularly in London. However, firms that only have operations in the UK have fewer opportunities to exploit the weaker pound by pushing their international sales.

Companies that use imported raw materials or components have experienced hikes in their cost due to the shift in the exchange rate. Although larger firms tend to hedge against currency fluctuations, they too will eventually feel the effect of the cost rises and will be forced to pass these on to consumers.

Some firms can protect themselves against the weaker pound by sourcing from the UK instead of abroad but, with most supply chains now being global in nature, the opportunities for local sourcing are limited. Many pundits predict that the focus of efforts to mitigate these cost rises will be the supply chain, with companies trying to achieve extra efficiencies and savings in their distribution networks.

This may include investment in automation within warehouses as firms seek to make their operations less labour-intensive. This will be more likely if the government's stance on migration policy is to reject the EU's principle of freedom of movement. In that scenario, increased labour shortages in the logistics sector will drive up wages and make the case for automated handling even stronger.

Even highly skilled migrants with technical qualifications – who would benefit if the UK adopted a points-based immigration system – might be put off by uncertainty in the UK, creating a further skills gap.

TARIFFS

In terms of trade agreements, one post-Brexit scenario is that the World Trade Organisation (WTO) tariff structure is put in place universally across the UK's trading relations. This model would impact most heavily on firms in the financial, automotive and agricultural sectors. Should this scenario become reality, the UK government might decide to reduce corporation tax from 20% to, say, 15% in order to mitigate the impact of the tariffs.

Second-guessing all these possible scenarios will be futile if the EU itself collapses in disarray. Recent political events – the defeat of Hofer in Austria but the resignation of Renzi in Italy – only go to prove that the future of the EU hangs very much in the balance. The success of anti-establishment politics during 2016 probably poses the greatest threat to date for the future of the eurozone.

Despite the continued uncertainty, there is definitely merit in modelling the future for your business under various Brexit scenarios in order to understand the operational strategies that would mitigate the risks for your supply chain and enable your business to succeed. If you want to explore these issues in greater depth, you are welcome to attend AMHSA's Brexit Round Table on 17th February at Kilworth House Hotel in Leicestershire. For more details, visit the AMHSA website. ■

AMHSA

www.amhsa.co.uk