



How can the maritime industry navigate the economic uncertainty of international trade & export?



Are You Ready For Brexit?

Kevin Shakespeare, Director of Stakeholder Engagement at The Institute of Export and International Trade, has reported concerns over the readiness of some UK businesses to cope with Brexit. There are fears that because a large number of UK maritime businesses have only ever traded with Europe, they will have no experience of working with the new customs procedures and border controls that will be introduced once the UK leaves the European Union.

Processes, particularly around customs, product conformity and compliance will change as a result of Brexit, and although Shakespeare was quick to point out that *'some UK businesses are absolutely fantastic'*¹ in the way they've prepared for the challenges presented by Brexit, there is still concern that some companies are leaving it to the last minute to organise their suppliers and customer support, meaning that they may find it difficult to operate in the light of the UK's departure from the EU.

What Does Brexit Mean For You?

It's clear that many UK businesses have already spent considerable time planning for Brexit, but as Shakespeare notes, *'it's very difficult to know what businesses have planned for, and how many are doing the work required to ensure that they can continue to operate once new trading regulations come in to play'*².

According to a 2019 report from the Centre for Economics and Business Research (CEBR), the maritime sector is *'among the most exposed'*³ to the disruption caused by the UK's withdrawal from the customs union and the single market. The ways in which the sector is likely to be impacted are numerous, and include:

- Changes to border security
- Changes to tariffs
- Increased delivery lead times
- Increased costs
- Impact on passenger carriers

- Impact on container lines
- Changes to trade volume

Shipping companies are understandably anxious about changes that will occur after Brexit, but many in the industry feel that concerns over trade agreements can be reduced by having solid global relationships in place. Many global suppliers will already be familiar with some of the issues presented by customs and border controls and so will be well placed to lead their customers through the new processes.

¹ Interview with Kevin Shakespeare (2/10/20)

² Interview with Kevin Shakespeare (2/10/20)

³ 'Maritime Sector, Which Facilitates 95% of UK Trade, is Among the Most Exposed to Brexit' by The Centre for Economics and Business research (CEBR)

Border Security

Currently, all UK–EU traffic is free from customs processes, but once the UK leaves the EU all trade will need customs approval. For many cargo types and ports this will be a relatively straightforward process, with agents completing formalities, but for some sectors such as autos, aerospace, food processing and chemicals, for example, there may be additional delays and costs as a result of increased border security⁴.

Because the majority of the UK's trade with the EU prior to Brexit was via Roll-On Roll-Off (ro-ro) freight, any new customs checks will almost certainly lead to significant time delays, which will in turn lead to increased costs. If customs officials have to physically inspect cargo (which is possible), then the process will be further delayed and if discrepancies are found as a result of these cargo inspections, then considerable time delays can be expected. Currently it's not clear what exactly will be involved in the new border controls but longer load times and departure times are anticipated.

Carsten Schmidt, the Business Manager at Shipperserv,

predicts that stricter border controls between the UK and the EU will inevitably result in more difficulties with importing and exporting goods, because the UK border will require administering and controlling⁵. In fact, there has been a great deal of media speculation in the run-up to Brexit over whether long convoys of lorries would be queued outside Dover waiting to clear customs. Regardless of the impact that Brexit will have on the UK's maritime sector, Schmidt suggests that it's an unfortunately brutal fact that the cost of any obstacles to trade will inevitably fall back on UK companies.

Kevin Shakespeare highlighted that one of the key concerns with changes to border security from the point of view of shipping companies is that many won't have an understanding of the new procedures and will therefore find it difficult to adapt to the changes. Fortunately, as Shakespeare noted, larger suppliers which are experienced in global shipping will have long-established procedures in place to ensure that disruption to supplies is limited, whatever the outcome of Brexit may be.

There will also be an increased number of staff at the main ports and these new employees will need training, which will take time and may lead to delays in processing cargo. Adrienne Snowdon, Technical Officer at Bernhard Schulte Shipmanagement, reports that a 'huge recruitment drive'⁶ for customs officials is already underway to ensure shipments do not get held up at borders.

However, Shakespeare also pointed out that positive steps are being taken to reduce the impact of Brexit for shipping companies and HMRC grants are available from the UK government to cover the costs of employee training. **<https://www.customsintermediarygrant.co.uk>** In fact, the UK government has pledged a £705m funding package to help manage Britain's borders, of which £470m has been allocated to building port and inland infrastructure and £235m for IT systems and staffing⁷.

⁴ 'Brexit: Prospects for Trade and Britain's Maritime Ports' by Michael Taylor (Policy Expert) Page 20

⁵ Interview with Carsten Schmidt (30/09/20)

⁶ Interview with Adrienne Snowdon (8/10/20)

⁷ '£705 million investment for GB-EU border' by UK Government

Larger suppliers tend to be more experienced and also more likely to have robust systems and operations in place, which means that their shipping processes should continue to run smoothly despite the challenges presented by Brexit

The World Transport Authority (WTA) has stated that the ability to safeguard goods against undue stops or checks is crucial in mitigating any delays resulting from Brexit, and it reports that some companies are already lobbying the UK government to request the simplification of post-Brexit shipping processes⁸.

It's clear that Brexit will have a significant impact on border security, but it's hoped that if shipping processes can be simplified, and funding is in place to improve port infrastructure, then some of the anticipated delays can be reduced, or even eliminated entirely.

Increased Delivery Lead times

It's inevitable that the ending of the UK's 'borderless' international shipping experience will result in increased delivery lead times and challenges with compliance and cargo checks. Working with multiple suppliers will also pose problems due to trade tensions between countries⁹.

However, bearing in mind that the management of the flow of trade with non-EU countries is '*highly efficient and almost entirely free of customs delay*¹⁰', it's suggested that the delays might not be as lengthy as feared. Currently only 2% of UK imports from non-EU countries are stopped for customs checks¹¹.

It's an unfortunate consequence of increased delivery lead times that often, when cargo takes longer to clear through customs, it can sometimes be the case that suppliers use it as an excuse to reject contracts which may prove longer, or more difficult, to fulfil. If this is the case then it's anticipated that there will be unavoidable reductions in efficiency post-Brexit.

According to Snowdon, providing '*the correct parts in a timely manner*' is critical to getting vessels ready to ship within the preferred time frame and if parts are not supplied on time then any delays due to custom and border checks will be exacerbated. This could result in missed shipments at an '*astronomical cost*¹²' to the shipping company.

One way to avoid some of these delays is to work with suppliers who have more experience of working with international custom and border controls. Larger suppliers tend to be more experienced and also more likely to have robust systems and operations in place which means that their shipping processes should continue to run smoothly despite the challenges presented by Brexit.

Time spent on procurement has already been reduced through the use of systemised e-commerce platforms. The Moscord online marketplace for example, was launched in 2016 with the aim of bringing '*purchasers and suppliers closer together and eliminating unneeded steps in the procurement chain*¹³'. The platform has since grown rapidly and is well placed to support maritime businesses with their post-Brexit procurement needs.

⁸ 'How Will Brexit Impact Your Shipping?' By World Transport Agency (WTA)

⁹ 'Brexit and Its Implications on the Shipping Industry' by Shipping and Freight Resource

¹⁰ 'Brexit: Prospects for Trade and Britain's Maritime Ports' by Michael Taylor (Policy Expert) Page 5

¹¹ 'Brexit: Prospects for Trade and Britain's Maritime Ports' by Michael Taylor (Policy Expert) Page 5

¹² Interview with Adrienne Snowdon (8/10/20)

¹³ www.Moscord.com

It's clear that procedures will change for the way UK businesses trade with the EU and adapting to these changes will be key to ensuring the continuance of smooth operations at ports

E-commerce sites and the Moscord online marketplace have already reduced much of the time spent on procurement and it's expected that these platforms will be further improved upon in order to support the maritime industry after Brexit. Marketplaces are already becoming the predominant method of purchasing goods in the sector and because they simplify the procurement processes and make them easier to access it's likely that they will be even more widely used in the future.

With its considerable industry knowledge and expertise, Moscord's business model and value proposition is a definite market disrupter within the global maritime industry and their service offering is a seamless 'last mile' solution that has opened up a new global sales channel to the benefit of all maritime customers.

By partnering with Moscord, RS Components is able to supply a wide range of products to the maritime sector and because our global supply chain network includes distribution centres in the UK, France, Italy

and Germany we're confident that services for our European clients will be maintained, regardless of the outcome of Brexit.

Increased Costs

Exports of goods and services outside the EU are typically excluded from VAT, imports however are not. This suggests that post Brexit, the UK will begin paying VAT on those goods which in the past have been tax exempt due to the UK's membership of the EU. This will almost certainly increase the cost of shipping cargo between the UK and the EU.

The new import duties and clearance charges will have the biggest impact in terms of increased costs, and these new costs will sit with the end customer. Of course, suppliers are doing what they can to try and limit the overall impact on their customers, but it's realistic to assume that the price of shipping goods into the UK will increase as a result of Brexit.

However, Policy Exchange, the UK's leading think tank,

predict that the cost of customs declarations for future UK-EU trade would be just 1% of the total value of goods traded¹⁴, and so although costs will rise, it may be that the increase is not as extortionate as previously feared.

The implementation of new customs systems will inevitably require a whole new infrastructure, and this will affect the maritime sector because staff will need to be trained and new IT systems will have to be installed. Ports will also need to be upgraded and this will of course involve additional costs.

It's clear that procedures will change for the way UK businesses trade with the EU and adapting to these changes will be key to ensuring the continuance of smooth operations at ports. Kevin Shakespeare reported that a high number of training courses and educational programmes have already been provided to UK businesses which trade with the EU to support them to navigate the changes in procedures.

¹⁴ 'Brexit: Prospects for Trade and Britain's Maritime Ports' by Michael Taylor (Policy Expert)
Page 5

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Shakespeare also points to the positives that arise from Brexit. In many cases the customer and supplier have been brought closer together as they plan for changes and share information and experiences. He suggests that global suppliers, in particular, are placed in an excellent position to be able to share resources and information with UK companies and it's hoped that ultimately Brexit will lead to more conversations and closer working relationships with companies on both sides of the new border. Shakespeare also explained that The Institute of Export and International Trade is proactively supporting UK businesses to plan for the changes and to exploit all possible opportunities which arise as a result of Brexit.

Impact of Brexit for Passenger Carriers

There is concern in the maritime sector that cruise liners will remove UK ports from their cruise itineraries because new immigration laws will mean longer queues and longer delays at cruise ports¹⁵. The cruise industry contributes billions of pounds to the UK economy each

year¹⁶ and so if UK ports are removed from cruise itineraries this will have direct and wide-reaching implications for the British economy.

Fortunately, in terms of the delivery of supplies, passenger carriers shouldn't be too badly impacted by any reduction to port call as global suppliers are able to deliver supplies to any location and will continue to do so post-Brexit.

It's also possible that the end to the free movement of people will result in a fall in demand for ferry services across the Channel¹⁷. If there are additional border checks, longer processing times, a change to non-EU lanes for UK nationals and the possibility of needing a visa for longer stays then it's very likely that this will put UK and EU nationals off travelling, which will further impact on the sector.

Impact on Container Lines

The WTA expects that due to the UK's high demand for shipment services, mainline vessels will continue to call

at UK ports¹⁸ and BIFA reports that British importers and exporters '*prefer direct mainline container services calling at their national ports and tend to dislike feeder services*¹⁹'. There is some risk that as there are no longer any large British container carriers based in the UK, and no container fleets, then direct vessel calls will be reduced²⁰ and shippers will need to rely on feeder services. If this materialises then it will of course have a significant impact for UK-EU container shipping.

However, Drewry Maritime Research believes that container lines will continue to stop at Britain's ports because even if the UK enters a recession, UK volumes are '*more than large enough*²¹' to justify direct calls with mainline vessels and it's anticipated that mainline vessels will continue to call at the larger UK ports, particularly those in the South of England.

¹⁵ 'Brexit and the Maritime Industry' by Catherine Lumsden (Voices for Europe)

¹⁶ 'Contribution of Cruise Tourism to the Economies of Europe 2017' by Cruise Line International Association (CLIA) Page 4

¹⁷ 'Maritime Sector, Which Facilitates 95% of UK Trade, is Among the Most Exposed to Brexit' by The Centre for Economics and Business research (CEBR)

¹⁸ 'How Will Brexit Impact Your Shipping?' By World Transport Agency (WTA)

¹⁹ 'What Brexit Means for UK Shipping' by the British International Freight Association (BIFA)

²⁰ 'What Brexit Means for UK Shipping' by the British International Freight Association (BIFA)

²¹ 'How Will Brexit Impact Your Shipping?' By World Transport Agency (WTA)

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Trade Volume

Another point that arises from Brexit is the question over how supplies will reach vessels on time. There is concern from many in the maritime sector that required supplies will not be available, and that even if stock is available it might not be available at the time required.

It's understood that the maritime sector includes vessels of all types, and it's likely that Brexit will impact on all of these vessels in some way. Having a supply chain that is well stocked and available to all of these vessels is imperative to maintain smooth operations across the sector at all times.

For the larger suppliers, Brexit does not pose a significant threat to the availability of supplies because global suppliers tend to be well stocked and used to navigating border controls. This means that customers should continue to receive the goods they require at the time they need it.

In the post-Brexit world, end customers may have to import products themselves, however if maritime businesses use a marketplace or distributor to procure supplies then the importing of goods will be taken care of by the supplier.

Working Together

Relationships between shipping companies and their suppliers are going to become increasingly important after Brexit and the businesses which have been building relationships over many years will have a stronger network than ones which have not. In fact, having close relationships and dedicated contacts may well make the difference between business as usual, and no business at all.

Businesses that have nurtured relationships with their customers over many years are now well placed to help their customers work on solutions for the issues presented by Brexit and are also the first to hear of any challenges faced. This means they are well informed and can be proactive when supporting their customers to navigate changes.

Looking to the Future

It's clear that Brexit raises many questions about the future of the UK's maritime industry. Regardless of whether a free trade agreement is signed, it's anticipated that the volume of cargo passing through the UK's main sea ports will continue to trend upwards²², but it's not known how additional border controls, changes to tariffs and new trade agreements will impact the sector over the long term.

The UK is also at the brink of a recession, with the strong likelihood of this being followed by a global recession. Although the UK Chamber of Shipping has reported a '*feeling of optimism*²³' for the post Brexit world, it's impossible to make any long-term predictions over how the maritime and shipping sector will be impacted and speculation remains rife.

²² 'Brexit: Prospects for Trade and Britain's Maritime Ports' by Michael Taylor (Policy Expert) Page 4

²³ 'What Brexit Means for UK Shipping' by the British International Freight Association (BIFA)

Conclusion

Evidently Brexit's may have a significant, and as yet unknown, impact on the maritime and shipping sector, but RS Components is confident that our vast knowledge of, and experience in, global shipping places us in the best possible position to help our customers navigate Brexit.

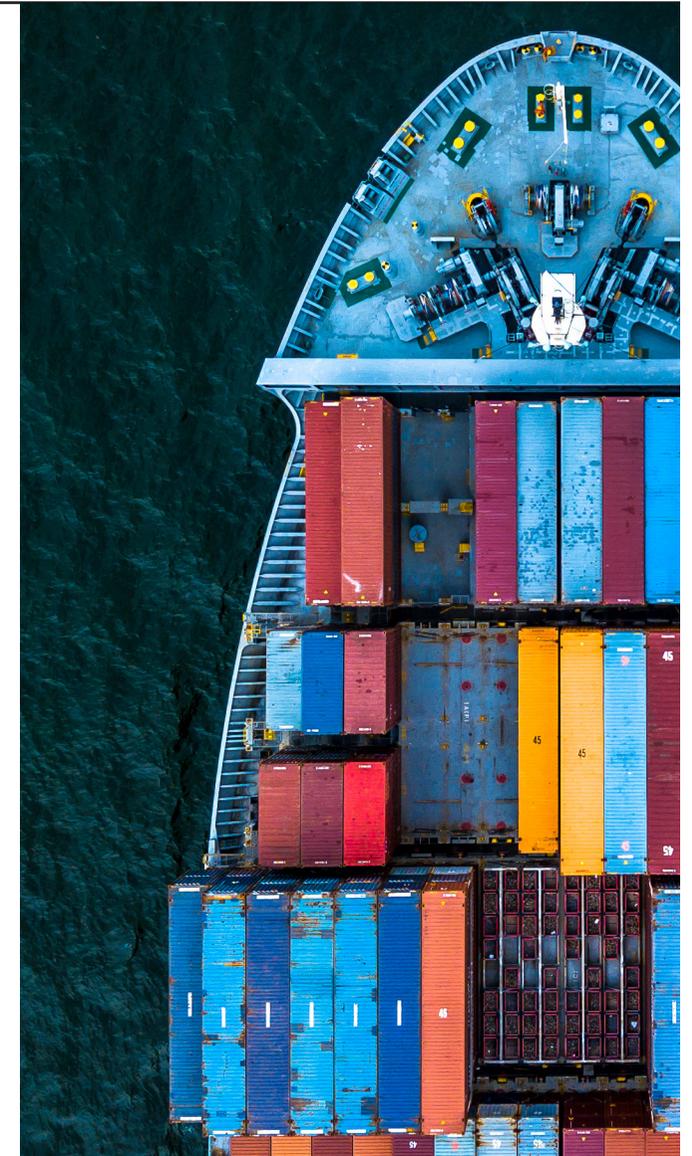
As a large, well-established global supplier, we can provide both the stock and the export services that smaller suppliers might struggle with. Our global supply chain network includes distribution centres across Europe, including expanding our distribution centre in Bad Hersfeld in Germany, and we're investing £15m in additional stock in order to maintain our service. This puts us in a strong position to assist shipping companies who are struggling to navigate the post-Brexit seas.

In addition to having a global supply chain and multiple stock locations across Europe, we also use multiple carriers including DHL, UPS and Ziegler, so can offer a diverse range of shipping providers in the case of disruption to carriers. We're also able to

reduce the time that our customers spend on procurement because all our purchasing processes are streamlined.

Ultimately, at the present time, no one can know with any degree of certainty what Brexit will mean for the maritime sector as a whole, but RS Components are confident that we've done everything within our control to ensure that we're best placed to continue with the high level of service that our customers are used to receiving.

The fact that RS Components also has a long-established internal Brexit Programme Board which meets regularly is further proof that we're doing everything we can to forward plan for every possible eventuality.



Our priority throughout Brexit is to do what we can to minimise disruption, so you receive a high level of service and support when you need it most

CTAs

1) We offer thousands of products for which product technical data sheets and support resources are available. They can be easily downloaded from the technical reference areas on the product pages of the RS websites, or from the Product Data Library available on DesignSpark. **export.rsdelivers.com**

2) International shipments and billing are handled by our award-winning Export Department **www.rs-exportsolutions.com** who can manage all of your export and custom documentation such as CoO, Chamber Certificates and export licenses. We also specialise in hazardous packaging to IATA standards and our processes and paperwork are designed around your needs, helping you save up to 20% on costs and 15% in time efficiencies²⁴.

3) Our Export Department also provides various purchasing and payment options, including the choice of currency in addition to technical support offered by qualified engineers. Our knowledge extends to cross

referencing support using the **IMPA Marine Stores Guide**.

4) RS Pro **export.rsdelivers.com/ourbrands/rspro** is RS's own brand product range offering over 65,000 industry-leading products.

Working Together to Navigate the Future

RS Components is working closely with our partners and suppliers to provide maritime customers with the relevant brands and products for all their repair and maintenance procedures, whatever the future holds.



Shipserv are an e-commerce trading platform which connects buyers to suppliers. We're proud to have Shipserv as a strategic partner and we're in the process of integrating our catalogue into Shipserv.com so that we can link seamlessly with all purchasers and so reduce the time and cost of purchase ordering.



RS Components is working closely with Moscord, the recognised marketplace for the maritime industry, and is recognised by Moscord as a key supplier. Because RS has both the range of stock and the export experience to provide an expert service, it's anticipated that money spent on operating costs will be reduced due to the streamlining of purchase processes and having one single point of purchase.

Our priority throughout Brexit is to do what we can to minimise disruption, so you receive a high level of service and support when you need it most.

²⁴ Calculated by the Institute of Export and International trade, comparing the RS Components Export service to an average exporter.

Sources

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Interviews

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