INVENTORY PLANNING AND BREXIT

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Brexit provides an opportunity for businesses to consider the information they hold on their supply chains/inventory as well as their approach to continuity planning. This updated guide aims to assist you in balancing the costs of these exercises with the potential benefits. The guidance shown below must be weighed up alongside existing COVID-19 concerns. As negotiations and developments continue apace, members should refer back to the Brexit Hub for updated guidance.

Why could Brexit impact inventory?

It is not yet clear whether port delays/restrictions could materially interrupt the flow of goods to and from the UK at the point the transition period ends. The outcome depends upon several factors.

We do know that controls will apply at the UK/EU border from 1 January 2021 (except between the Republic of Ireland and Northern Ireland). That means traders will need to comply with new formalities, although these will be simplified for imports to the UK for the first six months. Where customs formalities apply, it is possible that cumulatively they result in delays at the border. Individual traders could also face shipments being stopped if they are unprepared or challenged by customs.

In this guide we do not speculate on the probability of a particular outcome. Rather we suggest that businesses approach inventory planning as a business process with broader costs and benefits, and make risk-based decisions on this basis. As we explain below, there are good reasons why businesses may wish to improve information on their supply chains and to contingency plan for inventory disruption.

What could this mean for the UK/EU after transition?

There are a variety of ways in which Brexit might possibly impact the flow of goods between the UK and EU:

Border delays

Outside the EU customs union, import and export and ‘safety and security’ declarations will be needed for goods entering or leaving the UK mainland. The Withdrawal Agreement provides for free movement of goods between Northern Ireland and the Republic of Ireland, and this requires some customs procedures between Northern Ireland and the UK mainland. There has been ambiguity about the nature of this process and the outcome is now uncertain as the ‘Internal Market Bill’ seeks to minimise exit procedures from Northern Ireland to the UK mainland.

Implications for shipments between the UK and mainland Europe are also unclear in some areas. Both the UK Government and the European Commission are clear that customs controls will apply. The customs process for imports/exports between the EU and the rest of the world is well established and the default ‘most favoured nation’ tariff rates that apply to trade with the EU, in the absence of a free trade agreement, are readily available.

However, there is uncertainty in practice about the seamless operation of the border given the high number of vehicles, the extent of documentation required and the checks entailed. The UK Government has implemented simplified procedures for imports, for the initial six months from 1 January to 30 June 2021. Importers will not need to submit customs or safety and security declarations at the point of entry to the UK and will have time to settle VAT and duties due. However, importers will need to be authorised to use simplified declarations for imports.

To prepare for new border formalities, the UK Government has enacted ‘Operation Brock’ (different to the previous ‘Operation Stack’) which will aim to divert 2,000 lorries onto one lane of the M20. UK customs officials believe that the UK haulage industry has low levels of Brexit readiness. The UK Government has introduced the ‘Kent Access Permit’ to try and ease congestion. This 24-hour document gives a lorry the right to use the port access road and states that goods are ready to cross the border when they arrive. If the lorry does not have the permit, the driver could be fined £300. In effect, the permit moves some border procedures away from the Kent ports. Businesses will have to consider planning to obtain permits for vehicle movements and changes to processes this may entail.

Any delays at the border will need to be built into the planning process, in particular for perishable fresh goods or just-in-time supply chains. It has been suggested that an additional two minutes processing time at Dover could lead to a 17-mile queue. Equally, delays to individual shipments due to inspections or challenged/rejected documentation will be particularly problematic for perishable goods.

The UK Government has warned there could be up to 7,000 lorry-long queues and up to two days of delays in a worst-case scenario, as an estimated 70% of lorries travelling to the EU are not prepared for new border controls. Furthermore, a potential spike in COVID-19 cases may lead to absences of border and port staff, amplifying delays.

While these are projected scenarios and might represent a ‘worst case’ we include them to inform risk management and scenario planning exercises to help organisations make decisions about how to approach the planning process.

Customs documentation

Businesses may have to be ready to provide a lot more information at the border before moving goods into the EU, such as the specifics of the importer they are dealing with, contact names of representatives, and detailed information about the value of the goods and associated costs. Details of the exporting business and the goods may need to be provided, such as average exports per month, the nature of the goods, ‘commodity code’ and ‘origin’, as well as shipment details like the loading timeslot.

This could be a burdensome process, with administrative hurdles to clear to ensure timely and secure trading. Firms will need to assess the technical requirements for exporting, including software required, and plan for them to be met well in advance. Many businesses will use a customs agent to manage this process for them, although they should plan well ahead to ensure they have identified and engaged one in good time. Businesses planning to manage customs themselves will need appropriate software and authorisations. Grants are available for customs training and recruitment.

Tariffs/VAT

Outside the EU customs union, tariffs would be payable on imports to the UK/EU. Tariffs would be at WTO ‘most favoured nation’ rates, subject to any free trade agreement that might eliminate or reduce them. However, it is important to note that even with a free trade agreement in place, access to the preferential tariffs would depend on proof that the goods originate in the UK/EU.

There are thousands of different product categories for tariff purposes. Businesses that currently trade outside the EU will be familiar with ‘Binding Tariff Information’ and ‘Binding Origin

Information' rulings, which must be applied for from national customs authorities and once granted provide certainty over the tariffs that apply to a product, for a period of time. It is possible that some components/products become less economic if tariffs do apply and that businesses might seek to switch supply, possibly at short notice. Also note differences in VAT administration after transition: see UK VAT implications of Brexit.

This area is under constant development as negotiations continue.

Product specification and labelling

This is a complex area that merits careful investigation. Although in many cases there will be no immediate implications for the sale or use of products in the UK/EU, there are many specific considerations and the potential for divergence over time. If this could affect your business you should read the appropriate UK Government guidance for the categories of products that you sell or buy.

Why should I consider inventory planning?

There are many potential causes of supply chain disruption. Brexit is only one, and as the recent COVID-19 pandemic has shown, global supply chains are fragile, even with robust planning. In some sectors, such as harvested plants, disruption can be endemic. Elsewhere spikes in customer demand may be more of an issue than interruption to supply and some sectors may never have experienced material disruption. Clearly, the effort spent on contingency planning should reflect the risk disruption poses to the business; risk is a combination of likelihood and impact. But where there are material risks, the benefits of robust contingency planning are clear. Brexit, alongside the backdrop of COVID-19, provides an opportunity to reconsider continuity planning and may offer a rare window of organisational attention to get it done. If your firm is finding navigating supply chain management through the pandemic difficult, Brexit may add another layer of complexity to operations, which will need thorough contingency and scenario planning.

Robust planning, and clear communication of plans, might also provide an opportunity to demonstrate to customers, investors and other key stakeholders the strength of management and the resilience of a business. This is particularly pertinent for Brexit where many businesses are already publicly sharing their contingency plans. Pickering's Brexit planning statement is an example of a firm that has thought about its options and is providing clarity to customers to provide piece of mind.

The value of robust inventory planning is supported by academic research. Vinod Singhal and Kevin Hendricks' 2005 paper *The Effect of Supply Chain Disruptions on Long-term Shareholder Value, Profitability, and Share Price Volatility* concluded that firms suffering supply chain disruptions experienced 33-40% lower stock returns over a three-year period.

What can I do now to ensure my business can deal with potential supply chain disruption?

Assessing the potential supply chain implications of Brexit could involve asking questions like:

- Which countries/regions do I have material trade volumes with?
- Which commodity categories do my material sales/purchases fall into? What WTO and other key tariffs (EU-Canada as one example) apply to these categories?
- What impact would tariffs at this level have on profitability? How likely is it that these costs can be reflected in price increases? Are there alternative sources of supply or alternative markets?
- What impact would 12/24 hours of delay in transit have on inventory levels, product saleability/value, working capital?
- How do these factors impact on my most material/critical suppliers?
- Are substitute products available?

- What is the likely impact on competitors?

For some businesses, supply will be ancillary to operations and the questions above will not be pertinent. But supply chain planning can be a much more sophisticated exercise. In some cases it might be a central element of the business model. For example, Zara famously adopts a rapidly responsive just-in-time stock approach, relying on the geographical proximity of suppliers to adapt quickly to evolving customer demand. This model of rapidly-changing stock lines can also enhance resilience by enabling substitution of products.

It is also important to consider the financing implications of inventory planning. How will any incremental working capital be funded and can financing sources respond as quickly as inventory levels? If trade credit is relied on it is pertinent to consider how close the company is to credit limits and whether there are any implications for credit insurance that suppliers might rely on. Where finance is secured on inventory are there any conditions linked to the purpose of the increased funding? Some lenders might support inventory for increased sales but not for continuity planning purposes. Moreover, the COVID-19 pandemic has put a strain on banks' ability to lend towards trade finance initiatives, with many lenders either scaling back or pulling out of the market. Firms that rely on financing should ensure their lines of credit are secure and will not impact upon other debt products taken out in the wake of the pandemic.

Simplified import procedures

The UK Government has put in place simplified import procedures for firms bringing goods into the UK, between 1 January 2021 and 30 June 2021. Firms will be allowed to record imported goods in their own records before making a supplementary declaration up to six months later, which gives importers the advantage of not having to gain authorisation or making an entry declaration for their imported goods. As usual, importers will have to account for the VAT on goods in their VAT return, if they are VAT registered.

Access to simplified procedures is not automatic. Businesses will need to apply for HMRC authorisation and will need a 'duty deferment account' to be able to delay making duty and VAT payments. They will also need a 'CHIEF badge' and access to customs software – or have an agent in place to do this for them. Clearly, this will all need to be completed well in advance of the end of transition.

Moreover, not all imported goods will be eligible for this treatment – for example, controlled goods will still need to follow the usual declarations process. Businesses should ensure the goods they are importing are eligible for these procedures by clicking here.

Difficulties yet to be resolved

However, systems issues are still a worry, with concerns that vital Government IT systems will not be ready in time to cope with the import procedures needed. Despite the procedures described above, which are designed to make importing easier, of the 10 IT systems hauliers will have to navigate it has been reported that three are yet to be designed. This raises concerns of critical gaps in border control preparedness. Businesses need to consider awareness raising and planning around this issue to ensure that those responsible for key processes are prepared.

Further to this, there are still many open questions surrounding precisely what will need to be provided at the Northern Ireland-UK mainland border. The UK Government remains committed to ensuring no hard border will arise with minimal checks in place, however negotiations over the Internal Market Bill are still ongoing. As these talks progress and develop, industry hopes the situation will become clearer. Therefore, firms should ensure they are staying up to date with developments if they ship goods between Northern Ireland and the UK mainland.

ICAEW members can access resources through the library to help with supply chain planning. eBook *Supply chain risk management: tools for analysis* by David Olson provides worked examples of risk management tools such as Monte Carlo simulations, risk matrices and balanced scorecard, which can all be applied to supply-chain planning. Christopher Tang identifies nine techniques in *Robust Strategies for Mitigating Supply Chain Disruptions*, which companies might deploy to mitigate the effects of disruption.

Resources on supply chain management are also available through the Business and Management Faculty.

Further reading

Faculty (join)
> Business & Management Faculty: Protecting your profits from supply chain disruptions
> Business & Management Faculty: Accounting and supply chain leadership

ICAEW member
> Library: Supply chain management
> Library: Planning for supply chain disruption

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