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Brexit's Impact on Global Trade and How Technology Can Help Multinationals Succeed

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Even before COVID-19 struck, the global trade space was experiencing a high level of disruption and uncertainty due to the volatility of regulatory changes. Trade conflicts, geopolitical uncertainty, and protracted treaty negotiations all contribute to rapidly changing dynamics in global trade. The UK's exit from, and future relationship with, the EU further marks a fundamental shift in trade relationships, which will change the way companies do business in the region. Having the right tools to understand the regulatory implications that emerge from these disruptions will be essential as companies mitigate risks, optimise opportunities, and navigate a world of change.

Sound supply chain management underpins essential corporate operations, including procurement, manufacturing, business development, and strategy — as well as financial performance. Studies from the Bank of England suggest that the slowdown in world GDP growth, while reflective of a range of factors, has coincided with an escalation in trade tensions. Tariffs imposed on China by the U.S. are projected to reduce global GDP by around 25%. The indirect effect of trade uncertainty and volatility could also mean that firms are less likely to increase investment. Professionals who manage supply chains, imports and exports, and customs and trade compliance for multinational companies must negotiate a frenetic environment — and the ramifications are significant.

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However, despite the significance and complexity of this critical function, many corporations handle these tasks — including product classification, import and export documentation, and origin determination — with spreadsheets, manual processes, or additional third-party service providers. This can lead to compliance risks, shipping delays, and opaque operations that result in a greater risk of business disruption, failed audits, sanctions, penalties, and fines.

Automating global trade management can streamline processes, provide visibility into operations, enable data analytics, mitigate risks, increase efficiency, and support growth and market expansion.

Redefining regulatory relationships

2021 saw the beginning of a new future for the UK and the EU. The 11-month transition period expired, and companies began to receive more clarity on the new rules governing issues such as cross-border trade, competition, and state aid. As policy and subsequent legislative and regulatory changes emerge, multinationals with a footprint in either jurisdiction will need as much clarity as possible as they navigate the new landscape.

If the UK and EU failed to reach an agreement on cross-border trade, companies may have faced increased tariffs, taxes, and other trade barriers — perhaps blocked ports and grounded aircraft restricting the movement of goods and creating shortages of commodities.

Fortunately, a last-minute deal was struck between the UK and EU. On 24 December 2020, the UK and EU announced that an agreement had been reached allowing originating goods to continue to flow under duty and quota-free conditions after the Brexit transition period ended on 31 December 2020. While the news of the agreement was certainly welcome to traders, goods moving between the UK and any EU country are now treated as cross-border transactions, requiring the filing of import and export declarations, effective 1 January 2021.

Under the UK-EU agreement, originating goods will benefit from the liberalised market access so long as they satisfy the new rules of origin requirements. If they are not originating in the UK or EU, tariffs would still be payable.

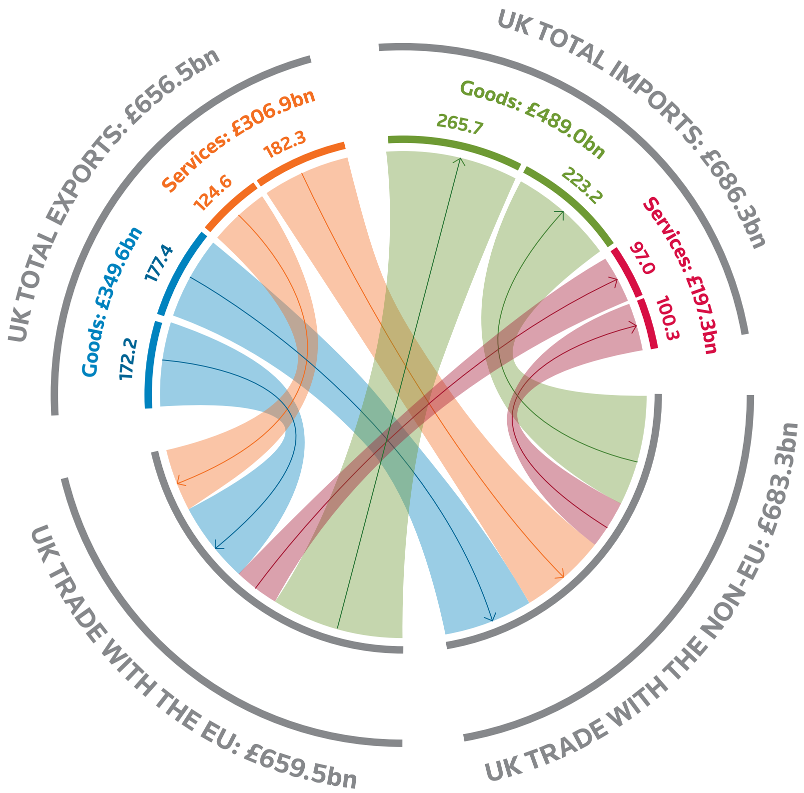
Companies must now calculate the origin of their goods if they trade between the EU and UK, which is a new compliance burden for traders in the region. Similar to other free trade agreements, Regional Value Content (RVC) will need to be calculated, and product-specific percentages must be followed. This is a major departure from the free circulation of goods between the UK and EU before Brexit.

Companies will need to invest in the personnel and technology necessary for these time-consuming and complex rules of origin calculations. They may even need to change existing suppliers in order for their goods to originate and receive the duty-free benefit.

> Now that the UK has left the European single market and customs union, businesses must prepare for new customs realities at the UK-EU border for the first time in decades. The number of annual customs declarations is estimated to increase by 215 million — from 55 million per year to 270 million. The estimated cost of this to businesses is £7.5 billion.

Source: HMRC 2020

Visualising the UK's imports and exports



Source: UK Department for International Trade 2020

Moving forward, trade compliance managers in impacted companies will need to monitor and respond to changes, ensure compliance with new regulations, cope with ongoing uncertainty, and map contingency plans based on the information they have at hand.

The UK leaving the EU has implications that are truly global in reach. As a member of the EU, the UK was a beneficiary of trade deals the EU negotiated with other trade blocs and countries. These benefits lapsed at the end of the transition period. However, the UK government has been working to roll over these existing agreements, and, in the case of Japan, has agreed to a new free trade agreement (FTA). Companies with footprints in the countries where existing agreements have not been rolled over will need to understand the cost implications.

"For businesses that manually manage their global trade using spreadsheets, this complex process will become increasingly difficult."

To navigate the changes, businesses will need to stay up to date on regulations that emerge from the rolled-over agreements and any new FTAs and run rules of origin calculations for each FTA with its own calculation method. These rules of origin calculations are also essential for companies trading between the EU and UK who wish to receive duty-free status for their originating goods under the new agreement. But, for businesses that manually manage their global trade using spreadsheets, this complex process will become increasingly difficult.

Of course, Brexit is not the only development creating uncertainty and complexity for global trade professionals. Many will watch with great interest how the U.S.-China trade relationship evolves in the coming years. The ongoing COVID-19 pandemic will continue to shape the ways companies manage their supply chains and the movement of goods and also play a role in determining overall global economic health.

There are more than 375 trade agreements worldwide, each with its own rules and regulations — an overwhelming volume to monitor and all subject to change. Against that backdrop, companies are striving to stay competitive, avoid supply chain disruptions, mitigate risk, and minimise costs.

Managing Brexit challenges with global trade technology

In a November 2020 Thomson Reuters and KPMG webinar, *Practical Steps to Embrace Technology for Last-Minute Brexit Readiness*, attendees were polled regarding their organisations' challenges, processes, and technology. Two-thirds of respondents in Europe said they expect customs procedures applied to shipments between the UK and EU will be a major challenge in 2021, along with increased costs (33%), lack of personnel and internal expertise (28%), and lack of automated systems (25%).

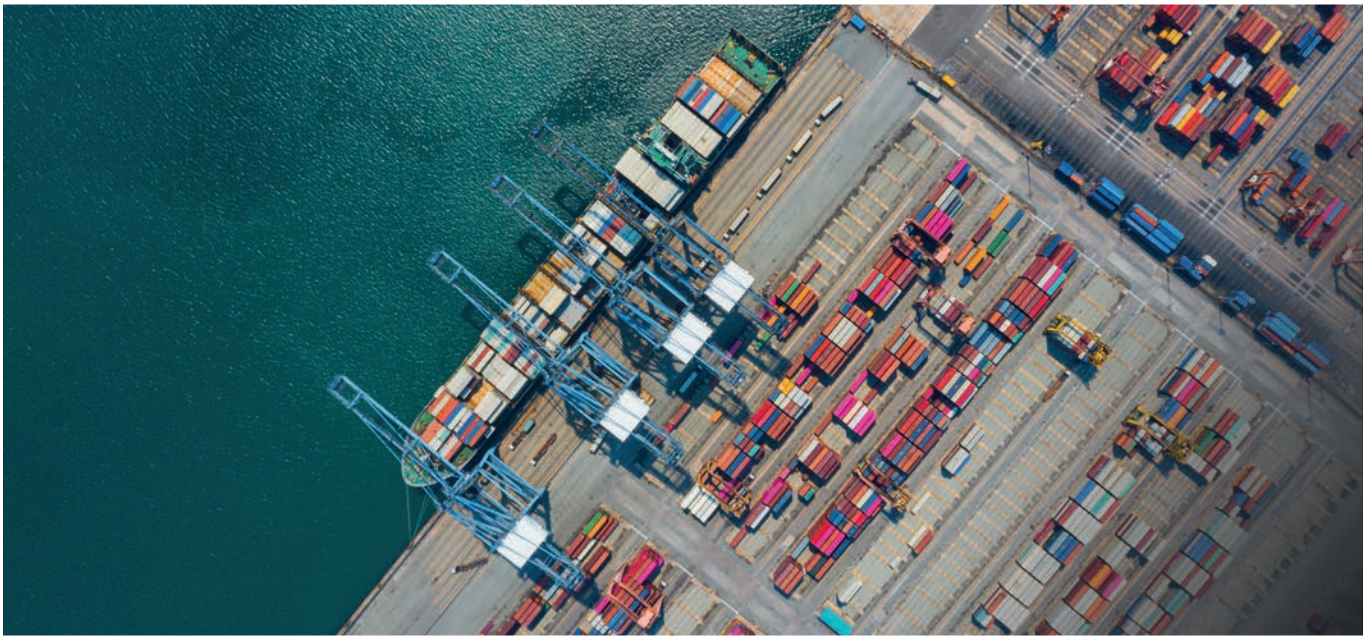
What challenges do global trade professionals expect in 2021?

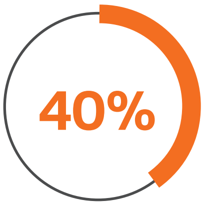
66%
customs procedures between the UK and EU

33%
increased costs

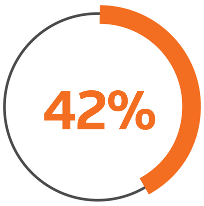
28%
lack of personnel and internal expertise

25%
lack of automated systems





of respondents said they have a formal process for addressing the new UK Global Tariff and new UK FTAs



of respondents currently use an automated global trade management (GTM) system for any aspect of import or export activities, including Brexit

In another key finding, only 40% of respondents said they have a formal process for addressing the new UK Global Tariff and new UK FTAs — despite the challenges of full FTA utilisation, the complexity of rules of origin, challenges in gathering required information, and a lack of internal expertise.

A lack of technology continues to challenge trade professionals worldwide. Only 42% of respondents currently use an automated global trade management (GTM) system for any aspect of import or export activities, including Brexit. Most trade compliance teams have not fully leveraged the power of GTM technology, even though they understand the potential for automation to reduce risk and make their jobs more rewarding and dynamic.

When selecting a system, it is important to develop a flexible roadmap that prioritises the modules, countries, and configurations that fit the organisation and corporate objectives. Solutions to consider include:

- Classification tools to classify goods and automatically confirm and apply relevant rates and rules.
- Software that enables enterprise resource planning (ERP) systems to capture and track invoices, sales orders, shipments, receipts, and other data — and translate commercial documents into information required for customs declarations. Automated solutions also enable ERPs to transmit information to a customs broker's system or the company's self-filing module.
- Tools and processes for recordkeeping, inventory management, recording the arrival of goods, paying and recovering import VAT, leveraging Customs Freight Simplification Procedures (CFSP), and integrating with the UK's Customs Handling of Import and Export Freight (CHIEF) system.
- Software that can conduct "what-if" scenarios related to supply chains and FTA implications.

An estimated 180,000 traders would need to make a customs declaration for the first time at an estimated cost to businesses of £4 million annually.

Source: National Audit Office 2019

More specifically, here are the hallmarks of successful global trade management to ensure compliance and mitigate costs:

Reliable Content: For successful global trade management, multinational companies need accurate, up to date information on the latest product-specific controls, rules, and rates for every country they do business in. Maintaining trade data is too complex to be done manually — particularly following Brexit, which may usher in new product classifications, tariffs, controls, and licensing. And the cost of mistakes — delays, fines and penalties, and the potential loss of export privileges — is too high to ignore.

Correct Classification: Accurate product classification is critical to import and export compliance. Best-in-class automated solutions can access global trade information for planning, research, compliance, monitoring, and post-entry review, and also integrate with indirect tax determination software to streamline transaction management and reporting.

Information Management: Managing the flow of import and export information throughout the global supply chain in real time is particularly important when rules and regulations are vulnerable to rapid change. Import and export management solutions that automate customs declarations without the need for support from customs brokers save time, reduce costs, and enable companies to deal with new rules confidently.

Denied Party Screening: Automated third-party screening that integrates with a company's ERP can vet new customers and suppliers against global sanctions lists to keep companies out of trouble.

FTA Management: FTA management software can help companies identify opportunities to qualify goods under FTA-specific rules of origin, automate and streamline compliance operations, and ensure adherence to new and changing regulations.

Optimised Management of Customs Regimes: Many companies in Europe have delayed or reduced import duties and value-added tax (VAT) payments through the use of platforms that manage inventory while entering, removing, and transferring goods between customs regimes.

Government Connectivity: There is great value in a system capable of gathering transaction data from supply chain partners and digitally distributing it to customs and other government agencies, financial institutions, and logistics providers as electronic submissions.

Visibility Into Trade Activity: When regulatory, geopolitical, and business changes occur, companies need to analyse their data and assess their options — which requires real-time tracking and monitoring of import and export activities, a harmonised view of trade transactions, and the ability to drill into the details to inform decisions, manage risks, ensure compliance, run "what-if" scenarios, and identify cost reductions.

Supply Chain Compliance: Workflow technology can electronically route assessments, requests, and reminders across companies, departments, and individuals — thereby reducing the paper trail burden — and manage risk areas including the Customs Trade Partnership Against Terrorism (CTPAT) and Authorized Economic Operator (AEO) programs.

Trade Analysis: In this complex, constantly changing environment, companies benefit from tools that enable them to identify risks in their sourcing or sales models and identify savings from participation in duty deferral programs. Trade analysis solutions can calculate trade compliance costs, compare landed costs country by country, and inform strategic decisions.

Getting results and preparing for the uncertain trade climate ahead

The business impact of global trade automation is significant — increased efficiency and accuracy, data analyses and visualisations that inform strategic decisions, and reduced penalties, delays, and potential reputational damage. More specifically, automated solutions deliver accurate landed cost calculations, provide visibility into global trade processes and alternative trade routes, and improve companies' ability to respond quickly to regulatory and business changes.

Considering the challenges around Brexit, rising trade tensions, and the COVID-19 pandemic, uncertainty in the global trade space will surely continue. The emerging, evolving regulatory landscape requires companies to work harder and smarter to understand the changes, mitigate the risks, and optimise the opportunities. Successfully and confidently navigating this world of change will require companies to utilise the best tools to seize every available advantage.

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