

IMPACT OF BREXIT ON THE SUPPLY CHAINS IN THE UNITED KINGDOM

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Abstract

The term “Supply Chain” can be described as the whole network of businesses and individuals which are collaborating in order to produce and distribute a final good or service. The whole system is affected if one part of it is malfunctioning.

The study aims to analyze the impact of Brexit on supply chains in the United Kingdom based on a literature review and personal reflection on the topic.

The research indicates that Brexit has been the most significant impact on the supply chains in the United Kingdom, foremost due to delays and red tape following the 2021 Trade and Cooperation Agreement (TCA). Many businesses had to find new suppliers to reestablish supply. Strategies used to decrease the adverse effects include supplier diversification and nearshoring (transferring business operations closer to home). Unfortunately, a lot of companies continue to search for ways to enhance the efficiency and resilience of their supply chains.

Key words: (up to 5 words) Brexit, Negative Impact, Supply Chain, United Kingdom

JEL classification: F1, F2, F68, P48

Introduction

The result of the UK referendum in 2016 about staying or leaving the European Union shocked Europe and the whole world. For many years the globalisation was a trend and many countries joined European Union in the past years, but there was only one which wanted to make the opposite. The UK stopped being a member of the European Union on 31 January 2020. There were a lot of open questions and discussions when UK announced it's going to leave the union. Neither the EU, nor the country were prepared in direction of new legislation and agreements. One of the key consequences of Brexit is the end of free movement of goods between the EU and United Kingdom, which came into effect on 1 January 2021. The turbulence caused by Brexit affected many areas, including the business in the UK and the everyday life of the people living in Great Britain. Scientist have yet to assess the long- term impact of Brexit on the supply chains strategies and the whole economy.

What is Supply Chain and Supply Chain interconnectedness

A supply chain is the combination of all the individuals, organizations, resources, activities and technology involved in the creation and sale of a product. A supply chain contains many different parts - everything from the delivery of source materials from the supplier to the manufacturer, to its eventual delivery to the end customer. (WhatIs.com,2023)

For the business to make an optimal profit, the supply chain should be very efficient. Unfortunately, if one part of the chain is not working properly, it's going to affect the whole system and the company's profit won't reach its highest potential. Different issues can occur and lead to a supply chain disruption. For example, the increase of the rent of the storage locations, increase of inbound material costs, less truck drivers to deliver goods.

There are five sensitive areas where supply chain disruptions can appear:

- planning and supplier networks
- transportation and logistics systems
- financial resiliency
- product complexity
- *organizational maturity*

Source: According to McKinsey (2023)

A review of data from McKinsey suggests that supply chain issues longer than 1 month now occur every 3.7 years, on average. And these disruptions can be very costly for the business- they cost the average organization 45 percent of a year's profits over the course of a decade. (McKinsey,2023)

Brexit is still proving to be the biggest headache for British businesses, ranking even higher than Russia's war in Ukraine, Covid or rising energy costs. Coleman Parkes conducted a survey – Ivalua Survey in 2022 among 303 UK procurement managers at companies with 1,000 or more employees and revenue of more than £50 million (\$60 million). More than 2/3 claim that Brexit is the biggest cause for supply chain issues in 2021. 83 % believe that the worst is yet to come. Almost a third of the business complained that they have lost revenues of around 18 % and 2/3 received fines or their reputation was damaged due to arriving late goods.

Smaller business didn't take part in this survey but the negative effect of Brexit on their supply chains could be even bigger due to their thinner margins to absorb shocks and less resources to deal with issues like more administration or need for upskilling workers. (Bloomberg, 2023)

There are many different problems that led to the disruptions of the Supply Chains in Great Britain.

A survey from the Confederation of British Industry showed in 2021 that stock levels were at their lowest levels since 1983. ONS survey found that 23% of British

companies couldn't receive the goods and services from the EU which they need for production and 15% could not get them also from within the UK. (Institute for Government,2023). Businesses which produce in the United Kingdom often need materials or semi-finished goods from the European Union in order to make their production. If the ordered goods are delayed or not delivered at all, as a result the end customers will also receive the goods with delay or won't receive them at all, if production is stopped. Even if the company manages to produce and deliver on time, in this case it will be related with higher cost for production- due to production lines and workers working night shifts or higher transport cost for fast delivery. Companies can sometimes transfer those higher cost to their customers in order to make a bigger profit and to save their business in turbulent times.

The EU-UK TCA came into effect over two years ago as a result of the UK's decision to leave the European Union. The TCA is a free trade agreement between the EU and UK that sets the terms of the trading arrangements, as well as other key areas. Since the introduction of the TCA, difficulties in the areas of taxes, tariffs and duties have significant negative impact on the business.

This increase is related to many different factors including administrative costs, shipping costs and the cost of inputs. Businesses have reported a competitive disadvantage for the United Kingdom and loss of trade with the EU nearly three times more in 2022, than 2021.

In a recent survey, businesses were asked questions about their supply chains. As previously reported by the BCC, over half (52%) of respondents said they are experiencing shortages of goods and services, rising to seven in ten (70%) for manufacturers. There is a new analysis provided by UKTPO which reveals that a significant part of businesses think these shortages are because of Brexit with over 35% of the survey's respondents identifying this as a causal factor, followed closely by COVID-19. The main shortages listed by the business are amongst electronic goods and in the labour market. (Institute for Government,2023)

Many British businesses, along with the UK operations of multinationals, depend on imports from the EU and are closely integrated with suppliers in the European Union. Indeed, 54 percent of all goods imported into the UK have been delivered from the EU. The EU is the UK's largest trading partner responsible for half of both imports and exports of goods. Moreover, a large proportion of the UK's imports from and exports to the EU are in the form of semi-finished goods—an indicator of the high degree of interconnectedness between UK and EU supply chains. Trading with the EU are of high importance to UK-based companies in the food and drink, chemicals, and automotive sectors.

The introduction of customs and border checks resulted in an increase in the amount of paperwork, as well as longer waiting times for goods crossing the border. Goods cannot move as quickly across the border as before, furthermore, businesses had to invest in technology and systems to manage customs procedures, resulting in increased costs. (Dfreight.org,2023)

What is the solution to the trade problem? Companies can try the so called “nearshoring”, to try to find suppliers closer to them. Those suppliers can be local or the local footprints of international suppliers. This change of the supplier’s portfolio can make the supply chain more resilient and reliable. Buying from a new supplier is connected with risk. The business needs to check if it’s going to receive the requested volume with good quality on time. As a new customer, the company can get worse payment condition or service in comparison with a current supplier. That’s the reason why it can be reasonable for the business to start with smaller orders and to test any new supplier. (Informi, 2023)

Many firms will need to adjust their inventory tactics to maintain service levels in any Brexit scenario. They can reassess their safety -stock levels.

Companies can reinforce their forecasting capabilities so that they can predict and manage the influence of changes in demand on their volumes.

Firms need to manage changes in product specifications or product portfolio. Those changes might be driven by legislation changes or by shifting consumer needs. (McKinsey,2023)

One of the biggest problems caused by Brexit and influencing the supply chains is the labour shortages. Many sectors across the UK are experiencing shortages – with haulage, food and drink, hospitality and construction badly hit. Between November 2021 and January 2022, the number of job vacancies reached a record high of 1,298,400. From the large businesses that responded to a recent ONS survey on business conditions, 37% reported that they had struggled to hire enough staff.

In the haulage sector, which is essential for the transport of semi-finished and finished goods, industry bodies estimate there is a shortage of 90,000 to 100,000 drivers. More generally, companies such as Amazon have also reported problems retaining and hiring enough staff in warehouses and to deliver goods.

The effects of reopening after long periods of Covid-related restrictions contributed to labour shortages in many countries – especially in the haulage, food and drink and hospitality sectors. However, data indicates that the UK has faced worse labour shortages than most European countries, which suggests that UK-specific factors such as post-Brexit changes to immigration rules may worsen the problems. (Institute for Government,2023)

An example for the negative effect on the supply chain due to the labour shortage can be also the Coca- Cola Europacific Partners , the biggest Coca- Cola bottler in the world. The company couldn’t find enough truck drivers to deliver their beloved beverages to the supermarkets in the United Kingdom and had to use train as a transport vehicle , something which hasn’t been done for many years. It was related with more cost and extra efforts from the supply chain planners in the turbulent time.

As another solution some business started to hire workers from non-EU countries or try to find new staff in the United Kingdom by offering higher salaries and

extra trainings. Due to the UK's exit from the European Union, companies have experienced an increase in the cost of hiring workers, as well as an increase in the cost of training new staff members. This resulted in a decrease in the availability of skilled workers, leading to higher supply chain and logistics costs for businesses.

Conclusion

The impact of Brexit on the supply chains in the United Kingdom is significant. The crisis has shown how vulnerable and dependant the global manufacturing systems are.

With the implementation of the TCA, the cost of importing and exporting goods across the border has increased. The red tape and the administration cost connected with the custom clearance has also been increased and a delay of the goods delivery has also been present. This led also to inventory storage decisions that the company had to take in order to make sure it has the right volume of the semi-goods and finished goods to cover the demand of the market. The inventory costs for businesses got higher since goods cannot move as quickly across the border as before, so higher volume is needed.

Furthermore, Brexit has resulted in a labour crisis and difficulties by finding qualified workers or even workers without experience. The cost for the training of new personnel got increased.

The issues that the business faced also affected the end consumer. The cost of the goods got increased, there are delays by deliveries and at some point even in the supermarkets there were reduced or no quantities of products.

Businesses had to take fast decision in order to optimise the supply chain, to reduce the cost and the damage. Supply chains need to be resilient and optimised, so they can get less affected by turbulences-foreseen and unexpected. The effect of Brexit is still ongoing and it there will be more redirections the business will need to take in order to stabilise the supply chains and prepare them for turbulent times.

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