Brexit: the implication for ports

July 2017

Andrew Meaney, Partner, Oxera

Theresa May has vowed to maintain the frictionless transport of goods between the UK and EU after Brexit—although language has changed recently to 'as frictionless as possible'. However, Michel Barnier, the EU's Chief Negotiator, has suggested it is not possible to leave the Single Market and build a customs union to achieve frictionless trade. So how 'frictionless' can our trade get?

Let's start with some facts. UK goods trade with the EU amounts to £466bn, split 57:43 between imports and exports.[1]Putting some flesh on the bones, this includes everything from food, to manufactured goods destined for final assembly (e.g. at the new electric Mini facility in Oxford). This isn't just about the UK and nearby countries such as France and Belgium, either. It has been estimated that around two-thirds of Irish exports to the continent move via the UK.[2]

Since the Single Market was established on 1 January 1993, goods leaving the UK for the EU, and vice versa, have not been subject to customs checks on either side. By way of example, according to the Port of Dover, lorry loads of goods entering Dover from outside the EU (around 3% of the total) are subject to checks that take 45 minutes on average, having been subject to the same checks on entering the EU. Post-Brexit, adding four of those checks (at an Irish port, at two English ports, and then a French one) onto each consignment of Irish goods starts to look unpalatable.

[1] Office for National Statistics (2016), UK Balance of Payments, The Pink Book 2016.

[2] The Independent (2017), 'Majority of exporters travel through Britain to ship goods overseas, 10 March, http://www.independent.ie/business/brexit/majority-of-exporters-travel-through-britain-to-ship-goods-overseas-35517444.html.

A flourishing supply chain for many manufactured goods has grown up using facilities on either side of the Channel:

- a fuel injector for a diesel lorry sold in the UK will have crossed the Channel five times before the truck is even driven by the customer;[3]
- a crankshaft for a BMW Mini will have crossed the Channel three times in a 2,000 mile journey before the car is finished.[4]

Clearly, the UK elements of this chain are at risk if the cost and uncertainty created by customs checks (which can vary considerably in duration) are deemed to outweigh the benefits of doing business in the UK.

One important barrier to ensuring the delivery of frictionless trade is the small matter of a new government IT system. It was agreed well before the referendum was announced that the current HMRC customs clearance system, CHIEF, would be replaced in March 2019. It’s now due to be delivered just before we leave the EU and, having been planned to deliver 60 million clearances per annum, it will now need to deliver 300 million per year,[5] with no understanding yet of what the customs deal with the EU looks like.

A further reason why it will take time to get the necessary provisions in place for Brexit is the UK’s planning system. Despite the summer 2015 disruption in Calais causing Operation Stack to be repeatedly implemented, which led to the government’s COBRA committee being convened to deal with the impact on traffic and drivers, it will be 2018 at least before a lorry park designed as an alternative to using the M20 motorway for parking can open.[6]

So how might this issue play out? We have considered four scenarios—‘degrees of frictionless’, if you will—all of which assume that some type of deal will be in place come 29 March 2019. For one of these (by no means the worst-case scenario), we have estimated the economic impact relative to the status quo using information from the World Trade Organization on the cost of trading across borders.

Minimal friction: low regulation, low enforcement

A deal is struck on regulation, such that additional customs checks that are introduced are kept to a minimum, and performed away from the ports.

While there may be some additional costs borne by businesses, the economic impact would be broadly negligible, to the extent that this scenario looks similar to the status quo.

---

[3] *Financial Times* (2016), ‘UK car industry fears effects of Brexit tariffs on supply chain’, 16 October.

[4] *The Guardian* (2017) ‘Multiple cross-Channel road trips highlight how carmakers and suppliers in Britain and the EU are intertwined’, 3 March.

[5] The Economist (2017), ‘To see how trade may work after Brexit, visit Dover’s docks’, 6 April, https://www.economist.com/news/britain/21720274-while-goods-european-union-pass-through-seamlessly-those-elsewhere-face-long.

[6] KentOnline (2017), ‘Operation Stack: Court hearing for lorry park plans off M20 put back until October’, 15 May, http://www.kentonline.co.uk/folkestone/news/stack-lorry-park-125714/.

Slow trade: low regulation, high enforcement

Enforcement is either undertaken at the ports, or on a random checks basis. However, the number of staff involved increases substantially, and many consignments are subject to lengthy checks.

We estimate the impact of such a scenario to be at least £1bn per year. This is an extremely conservative estimate—it does not account for the economic costs of the uncertainty involved, the extra staff needed (for hauliers, ports and customs officials), the congestion associated with calling Operation Stack (put at £1bn over four days in a recent study by Conservative MPs[7]), the land required for the additional customs checks, or of the wider economic impacts of jobs moving overseas due to uncertainty over the operation of just-in-time logistics. The full cost is likely to be much higher.

Uncertain passage: high regulation, low enforcement

The existing regulations for non-EU imports range from those conducted by Defra, which include require health certificates or import licences, to phytosanitary requirements from the Forestry Commission.

Enforcement is undertaken on a risk basis, intercepting lorries only where necessary. However, the prospect of goods being deemed non-compliant is high, reducing the appetite for import and export.

The degree of uncertainty—in an industry that relies on goods being delivered 'just in time'—could lead hauliers to change their business model. Before the Single Market was introduced, many lorries were sent across the sea (to Ireland or France) unaccompanied—so just the trailer was put onto the ferry, and was picked up by a domestic haulage company at its destination. Arranging for this reverse in working patterns will cause ports to face the costs of changing their facilities, while job opportunities for UK-based lorry drivers may decrease.

High friction: high regulation, high enforcement

Extensive regulation of products, combined with increased levels of enforcement, will lead to a significant increase in the requirements at borders.

The Port of Dover has called this scenario 'Armageddon'[8], potentially leading to an almost-permanent instigation of Operation Stack—with extensive queues on the M20 and surrounding roads in Kent.

Achieving even a low-friction outcome will not be easy, and business in both the UK and the EU needs to know very soon the customs rules under which they will be trading. The decision cannot be part of a last-minute deal on the eve of Brexit, due to the time it will take to get trade moving under the new arrangements. The costs to logistics businesses and their customers, users of the road network and, eventually, jobs in the UK of a relatively limited increase in friction will be

[7] *The Guardian* (2017), Tory MPs call for action to avert post-Brexit ports gridlock', 25 July, https://www.theguardian.com/politics/2017/jul/25/tory-mps-call-for-action-to-avert-post-brexit-ports-gridlock?CMP=share_btn_tw.

[8] The Times (2017), 'Dover fears hard Brexit as election approaches', 2 June, https://www.thetimes.co.uk/article/dover-fears-hard-brexit-as-election-approaches-h8zjffdhq.

considerable. And ‘no deal’ on a customs union would have extremely serious consequences for the UK economy. Providing a policy direction in this area should be a priority for the government when Parliament returns from recess.