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As possible no-deal Brexit looms, companies trading across English Channel, Ireland and Northern Ireland anticipate major changes

On Jan. 15, the British House of Commons voted to reject the deal reached by Prime Minister Theresa May and the European Union by a record-breaking 230 votes. It marks the largest defeat by a sitting government in U.K. history. The defeat also triggered a vote of no-confidence in the prime minister's ruling government, which took place on Jan. 16. The prime minister narrowly won that by 19 votes, and has vowed to listen to opposition members regarding the best path forward for Brexit.

British members of Parliament voted against the deal and crossed party lines for many different reasons. These included the opposition to controversial provisions, such as the "Irish backstop," as well as calls for a second referendum, a softer version of Brexit, stopping Brexit altogether, or leaving the EU with no deal. The prime minister's government is now in a weak state and will have to listen to the many voices calling for a separate deal; however, May's position vis-à-vis European negotiators may be strengthened, after the British parliament demonstrated it would be willing to vote down an agreement they didn't like, even at the last hour.

Impact on trade and shipping

One of the biggest issues that would arise out of a no-deal Brexit is the fate of the thousands of tons of cargo that pass across the English Channel each day. Every year some 32 million people and 4.2 million heavy goods vehicles pass through the channel ports of Calais and Dunkirk and the Eurostar rail station in Lille. Under the current situation, all goods that cross the channel are duty- and tariff-free and do not require inspections. That would all change if the EU and the U.K. cannot agree on a Brexit deal. The U.K. would effectively become a "third country," and trade between the EU and the U.K. would be subject to checks, duties and inspections. The free movement of trade has been in place for more than 40 years, however, and in that time ports on both sides of the channel have become accustomed to a smooth, quick and relatively painless way of doing business.

The coming snarl is the result of many months of stalled negotiations, including conflict over how Irish goods are to enter the EU (through French or Belgian ports, or through two separate English ports then EU ports), as well as a crippling uncertainty as to whether negotiators will meet the deadline for a deal. Some companies are already planning ahead by increasing capacity and seeking alternative routes. Those who have not done so will face long delays and supply chain crunches at the borders.

"By way of example," wrote the authors of a [brief](#) on Brexit and U.K. ports, "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."

Most ports do not have the staff, training or capacity to begin inspecting every good that passes through their hands. The result would be massive delays along the port, dramatically increased costs and a disruption of the supply chain that connects the U.K. to the EU that would have companies scrambling for solutions.

In fact, many of them already are scrambling. The British Department for Transport, for example, signed three

contracts worth some GBP 107 million for additional ferries to ease fears of “severe congestion” in the event of a no-deal Brexit. The contracts were not put out to tender, with the department saying it was a “situation of extreme urgency” brought about by “unforeseeable events.”

The French port of Dunkirk is in negotiations with major North Sea ferry operators over the provision of post-Brexit services connecting the European mainland with the U.K. The development comes as Eurotunnel, the operator of the Channel Tunnel, says the U.K. government’s decision to award contracts to three ferry companies to provide extra post-Brexit capacity is “distortionary and anti-competitive.” Eurotunnel says it reserves the right “to challenge such a measure both in the U.K. and France.”

An Irish hard border and amendments to the deal

One of the most controversial elements of a no-deal Brexit would be the border wall between Ireland and Northern Ireland. The border between Ireland and Northern Ireland has been open for years, following the Good Friday Agreement, but a no-deal Brexit would require visa, health and other checks at the border, just like at the French and British ports.

The U.K. has adamantly opposed a border, saying it would undermine the peace process in Ireland and possibly lead to a breakdown of the Good Friday Agreement. In a statement, Irish Prime Minister Leo Varadkar said, “Regardless of Brexit, the British government will always have responsibilities as co-guarantor of the Good Friday Agreement to ensure that, even in a no deal, there will not be a return to a border. We will not accept a hard border on this island and therefore we are not planning for one.”

Meanwhile, British members of parliament and the prime minister have been discussing changes to the proposal that was voted down. The U.K. government has just over a month’s worth of working days before the March 29 deadline for a deal on Brexit. Some ideas put forward by the members of parliament include:

- An amendment by Labour MP Rachel Reeves aimed at preventing a no-deal Brexit by requiring the prime minister to seek an extension to the Article 50 deadline.
- A bill from Labour MP Yvette Cooper, with the backing of Remainer Tory MPs, that also directs the prime minister to seek a deadline extension if a Brexit deal is not agreed upon by Feb. 26.
- An amendment by Labour MP Hilary Benn that asks MPs to take a non-binding vote on four options: reconsidering Mrs. May's deal, leaving the EU with no deal, seeking to renegotiate the deal or holding another referendum.

Takeaways

- A no-deal Brexit will disrupt supply chains on both sides of the Channel and cause delays and extra costs, and will require significant investments in personnel and facilities to handle the increased customs burden.
- The continued uncertainty over how the EU and the U.K. will solve the Brexit issue has companies scrambling to establish alternatives to their traditional supply chains, underscoring the need for companies that trade across borders to regularly vet their supply chains’ flexibility and resilience.

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