

Is your business ready for Brexit?

Time is running out for the UK government to agree a Brexit deal with Europe. Unfortunately, most chemical companies are ill prepared for the “no deal” scenario

PAUL HODGES READY FOR BREXIT

Legendary England footballer Gary Lineker best summarised the general sense of disbelief over the state of the Brexit negotiations when tweeting in July:

“A wealthy nation putting itself in a position where it has to stockpile food, medicine, etc., in times of peace is utter madness. What Are We Doing?”

Lineker’s concern was confirmed last month by the head of the British Chambers of Commerce who warned that “precision is what is required” regarding the Brexit process, rather than “declaratory statements”.

Yet today, with less than six months to go before the UK officially leaves the EU, businesses still do not know if the UK will simply crash out with no deal on 29 March, with no transition agreement in place. This is almost unbelievable, given that the EU is the UK’s largest trading partner, taking 44% (£274bn) of UK exports in 2017, and provides 53% (£341bn) of all UK imports, according to a July report from the House of Commons library.

One problem is that the cabinet only finally agreed on its chosen option for the

new EU relationship in August. In turn, this means the civil service is only now starting to be able to advise sector groups, trade associations and other experts on the key issues involved.

A second problem is that the new Brexit department had to be created virtually overnight after the June 2016 referendum, and the average age of its staff is just 31 years. Many have no personal experience of the enormously complex issues involved.

Chemical companies are, of course, right in the middle of this no-man’s-land. They depend on frictionless movements of raw materials and intermediates between their various EU sites, and they are heavily integrated into just-in-time supply chains with key customers such as the auto and food industries.

The UK government has recently warned of possible major disruption if there is a No Deal Brexit, while the head of the European Chemicals Agency told ICB last month (ICB, 21-27 September):

“The only scenario we’re playing around with is hard Brexit,” Bjorn Hansen said. “[This would mean] being ready to cut the secure line to the UK authorities so they can’t access the databases, can’t be involved

in any of our decision-making procedures, are no longer invited to our meetings and can no longer contribute scientifically.”

The Brexit Decision Tree chart highlights the key political risks that lie ahead. Essentially, Theresa May’s survival as premier now depends on her overcoming three quite distinct challenges.

EU-based businesses involved in a supply chain that involves a UK company face a clear risk of disruption

■ Her inability to strike a deal at last month’s EU Summit leaves her facing fierce opposition within her own party to any Withdrawal Agreement (such as the Chequers Plan), that gives the EU a continuing say in internal UK affairs after Brexit.

■ If she survives this opposition, she then has to decide whether to modify the Chequers Plan in order to reach agreement at the scheduled EU Summit this month

■ And even if she can reach an agreement, she then has to seek agreement from Parliament, where most observers believe it is impossible to gain a majority vote for any currently discussed outcome

One sign of the growing tension is the recent threat by May to tie the UK’s agreed £39bn payment for existing commitments to the achievement on a new trade deal. If this happened, it creates a clear risk that the EU would refuse to agree any form of cooperation on transport, regulations and other key areas after 29 March.

As one senior editor on a major financial paper told me recently, May will need all the skills of Metternich to chart a course to safety. Otherwise, her days as premier are probably numbered.

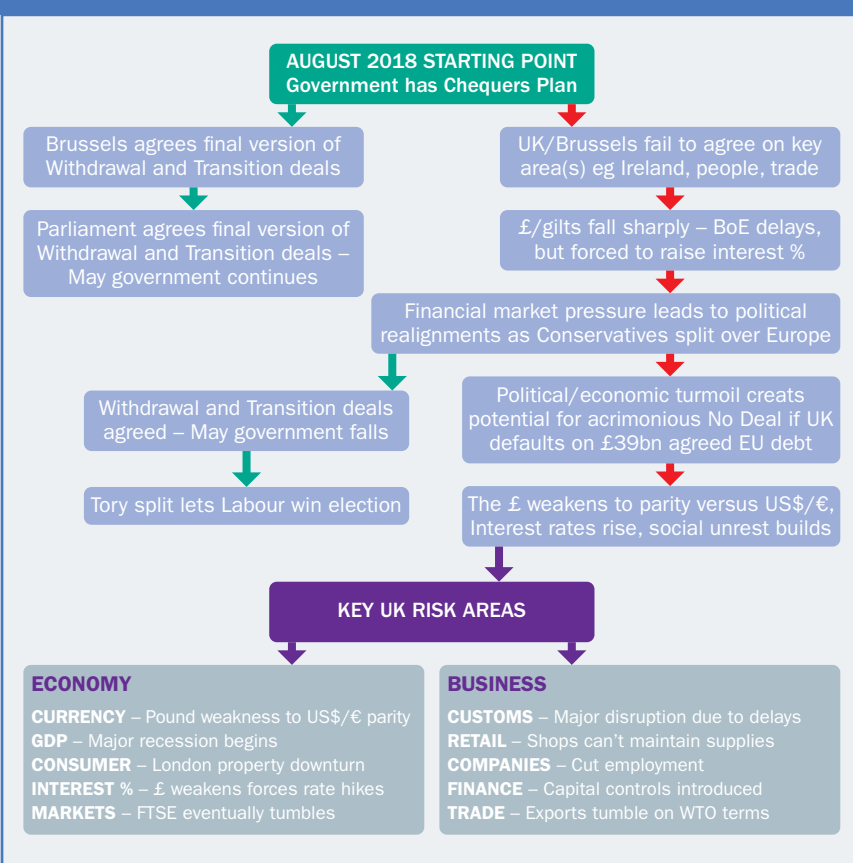
The current gap between the UK and EU positions was emphasised in chief EU negotiator Michel Barnier’s recent evidence to the UK Parliament:

■ He confirmed that the EU did not believe key proposals in the Chequers Plan for the

| BREXIT DIRECTORY | | | | |
|---|--|--|--|---|
| CUSTOMS & TARIFFS | FINANCE | LEGAL | SERVICES & EMPLOYMENT | SUPPLY CHAIN |
| <ul style="list-style-type: none"> ■ Authorised economic operator ■ Customs clearance ■ Export registration and documentation ■ Import registration and documentation ■ Labelling ■ Materials tariffs ■ Testing and product accreditation ■ VAT | <ul style="list-style-type: none"> ■ Anti-dumping ■ Credit check ■ Payment mechanisms ■ Payment terms ■ Tax and VAT ■ Trade insurance ■ Transfer pricing ■ UK export finance | <ul style="list-style-type: none"> ■ Consumer rights ■ Contracts ■ Data protection ■ Dispute resolution ■ EU free trade agreements WTO GATT ■ Governance ■ Intellectual property ■ Regulation <ul style="list-style-type: none"> • Post-Brexit regulation • Regulation outside the EU • Sector regulation • Types of regulation | <ul style="list-style-type: none"> ■ Banking ■ EU licenses ■ EU SME set up ■ Future trade models ■ Insurance ■ Property ■ Right to employ ■ Staffing | <ul style="list-style-type: none"> ■ Documentation ■ Forwarding ■ Hauliers ■ Incoterms ■ Rules of origin ■ Single market for goods ■ Transport |

SOURCE: ReadyforBrexit.co.uk

BREXIT DECISION TREE



£1.9tn debt, and concern over the value of the pound could lead some to reduce their holdings of government bonds.

A No Deal Brexit could also become very difficult if the government followed through on its threat to cancel the agreed £39bn payment. We are already in uncharted waters, and we cannot know if the EU might decide to retaliate by refusing to provide waivers to allow critical areas such as transport to continue without interruption.

In this scenario, a general election might well become inevitable, introducing yet more political risk, as voters tend to punish disunited governments.

It could well be won by the Labour party, who have already indicated they would be prepared to reintroduce capital controls in order to protect their ability to carry through their spending plans.

CHEMICALS IN NO-MAN'S LAND

The Brexit Directory chart shows the scale of the risks involved. It highlights how Brexit potentially involves almost every aspect of business – from customs and tariffs through finance and legal issues, to services and employment and the supply chain.

Of course, many major companies have already spent months and millions of euros in preparing detailed contingency plans. Some are already stockpiling key raw materials and products, and revising relevant contract clauses.

But smaller businesses do not have these resources. Surveys show that only one in seven have done any forward planning for a No Deal Brexit, and official government guidance for a No Deal has only just begun to appear. In turn, this creates a clear risk of widespread disruption, as today's highly integrated supply chains are only as strong as their weakest link. The lack of just one raw material can stop a production line.

As Gary Lineker says, it is hard to believe this is happening. But it is, and so far “declaratory statements” rather than precise detail continue to dominate the process.

It is also easy to forget that a No Deal Brexit will not just impact the UK. EU-based businesses involved in a supply chain that involves a UK company face a clear risk of disruption.

This is why I have helped to launch Ready for Brexit with other colleagues from the chemical industry. As the Scout motto reminds us, to ‘Be Prepared’ could be critical for business survival if a No Deal Brexit does occur. ■



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Irish border and other super-critical issues can either work or be agreed

■ Instead, Barnier proposed the idea of a “Canada plus plus” deal in the form of a Free Trade Agreement covering goods (but not services), plus customs cooperation, plus participation in health, research, Erasmus, aviation and internal security

■ He also emphasised that the UK's £39bn payment was a divorce settlement covering past UK commitments, not an up-front payment for a good trade agreement

THREE MAIN SCENARIOS AHEAD

‘May achieves a withdrawal agreement’

The UK and EU will both lose from a No Deal Brexit and so in principle they could simply “fudge” the trade issue for future discussion during the transition period until December 2020. But although both sides em-

phasise that 80% of the withdrawal agreement is now agreed, this only highlights that the most difficult 20% still lies ahead – issues such as Ireland, immigration and EU citizen rights, and future trade relations.

‘Markets cause a panic on Tory benches’

What happens if May does stumble at this point and fails either to gain an agreement with the EU27 or to get it safely through the Cabinet, Tory party and Parliament? As the Decision Tree shows, this might well lead to financial market pressure on the pound and interest rates. This would also represent more bad news for chemical companies. If even 20 Tory Eurosceptics vote against a deal, then May would have to rely on opposition party votes, and their support looks unlikely given Labour's “six tests” for approving any deal.

‘No deal’ scenario

Exchange rate volatility could become a critical issue for companies and investors if this scenario is reached, with the pound possibly falling towards parity with the US dollar and the euro, causing interest rates to rise while social unrest increased. Foreign investors currently own 28% of the government's

BJORN HANSEN

Executive director, European Chemicals Agency

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