Prime Minister Boris Johnson promises that the UK will leave the EU on 31 October with “no ifs or buts”. With three months left until the UK is due to leave the EU, the Prime Minister states that he hopes to negotiate a better deal, but concern remains that the UK will leave the EU with no deal. Are UK businesses prepared for that? The majority are not.

The Confederation of British Industry (“CBI”) has recently published a report setting out practical steps that UK businesses can take to reduce the harm of a no deal Brexit.

We look at the issues businesses face, why they need to prepare and what steps they can take. The consequences of failing to prepare may see many businesses in many different industries struggling and in financial distress.

The CBI reports that whilst businesses have already spent billions preparing, the business community, smaller businesses in particular are not ready for no deal.

With 4 out of 10 SMEs that trade internationally having no contingency plans, and thousands of small companies unable to divert resources to prepare, the impact of
no a deal Brexit may, in the short term at least, see UK businesses under intense financial pressure.

What issues face UK businesses?

Trade and supply chain Issues

Moving goods may become more costly and difficult and there is likely to be an immediate interruption to supply as businesses grapple with new UK border requirements and significant delays at UK borders.

The timing of leaving the EU may also have more of an impact, as businesses prepare for Black Friday and Christmas trade. Businesses will need to factor in possible delays to meet consumer demand and ensure any increased costs are accounted for in cash flow projections.

New paperwork, new customs systems and procedures, new permits, new rules and new testing requirements will affect many different industries. The common impacts on all businesses are increased cost and complexity.

Tariffs

The administration of new tariffs may also slow down the movement of goods.

Further, the imposition of tariffs on exports from the UK (that have previously been tariff free) and the abolition of others, may increase costs and could significantly affect international competitiveness.

Tariffs applied on goods exported from the UK to the EU, may make UK businesses less able to compete with their EU counterparts in the EU market.

Equally, the interim tariff plans published by the Government earlier in the year, that abolish a number of tariffs, could leave UK businesses challenged by a potential influx of cheap goods.

For many businesses it will be the first time that tariffs arising on exports to EU member states have been payable in 46 years. The impact on the automotive industry is expected to be huge with an estimated additional £800 million payable per year in tariffs.

Who bears these costs? If manufacturers pass the cost on it is estimated that the additional tariffs payable will increase the price of a UK-built car by an average of £2,800, given car parts often cross the channel many times.

The Government remains positive for the UK’s future but is also clear that businesses need to do more to prepare for the impact of Brexit, deal or no deal. These issues will affect most business in most industries in some way.

UK businesses only have three months to plan but taking practical steps, factoring additional costs into forecasts and planning ahead now, may help relieve the financial pressures that failing to plan could otherwise cause.
What should businesses do?

The CBI recommends that businesses should resume plans for a no deal Brexit immediately and its report includes helpful timelines that focus attention on the immediate and key issues which UK businesses will face from Day 1 should the UK exit without a deal.

A full copy of the CBI report can be read here (CBI Report).

The report considers, amongst other things, the impact of no deal on movement of goods, people, tariffs and taxation and regulated goods and services. It also clearly explains what the UK has done so far to prepare for a no deal Brexit and recommends what more the UK can do.

For smaller firms, who are least prepared for no deal Brexit, because of lack of resource to do so, the CBI suggests engaging with Trade Associations and Business organisations. It also recommends that there should also be a targeted communications campaign with simple and clear advice for firms, by the beginning of September.

The CBI have established a help desk EUNegotiations@cbi.org.uk to help manage a fall out from a no deal Brexit, which businesses, members or not, can contact.

Comments

Michael Gove, Chancellor of the Duchy of Lancaster and the new minister in charge of no-deal preparations, commented in The Sunday Times on 28 July 2019:

“No deal is now a very real prospect, and we must make sure that we are ready” and said that planning for no deal was “now this government’s No 1 priority”.

He promises: “The entire machinery of government will work to help ensure our businesses will be ready, our factories will be ready, our hospitals will be ready — and the British people will be ready.”

However, if businesses themselves fail to prepare they could end up losing the battle.

With 3 months to go, if businesses do not plan and take steps to address the immediate pressure that a no deal Brexit will place on them as outlined in the CBI report, they may struggle and consequently find themselves in financial distress.

Conclusion

It is important that UK businesses that trade with EU member states to plan for a no-deal now but also consider opportunities that Brexit creates, no deal or not and how those could be exploited.

In planning for no-deal, businesses should:

- factor possible increased costs to cash flow projections to mitigate any
liquidity issues;
• think about the impact of tariff changes and challenges on market competitiveness;
• consider timing issues that might be created by border delays in terms of meeting supply and demand; and
• consider issues that might be created by removing frictionless movement of people and goods.

Exit day is not the end of the road, or the end of the Brexit discussion. There is a long road ahead for UK businesses and the economy with new opportunities as well as immediate challenges: contingency planning should however always assume the worst case.

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