

The impact of Brexit

on cross border e-commerce
between the UK and the EU

The ship-from-store opportunity

StoreShippers
ship from store

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Introduction

On 23 June 2016, a narrow majority of the British voted in favour of leaving the European Union (EU). In the British EU-referendum the Leave camp took 51.9% of votes, while the Remain camp won 48.1%. The fact that nearly 17.5 million Britons voted in favour of a Brexit ultimately caused the United Kingdom (UK) to leave the EU on 31 January 2020 at midnight, making it no longer a Member State of the EU.

Even if by the end of 2020, when the transition period is over, the EU and the UK conclude a very ambitious partnership covering all areas agreed in the Political

Declaration, Brexit will have a major impact on all stakeholders. One of the sectors that will be deeply affected by Brexit is the retail sector. Especially retailers in the UK who sell or buy products to or from the EU, and vice versa, will be hit hard and will have to adapt their business operations to the new situation.

In this white paper, we describe the changes and new regulations resulting from Brexit, what the changes and consequences are for global retail and why a ship-from-store fulfilment strategy is a solution to this problem.

"It is still unclear what Brexit will definitely look like after the transition period"



New regulations

During the transition period, the EU law continues to apply in the United Kingdom and little changes for citizens, consumers, businesses, investors, students and researchers in both the EU and the United Kingdom. This means that there is no impact on customs or taxation during the transition period. However, this will change from 1 January 2021.

Although it is clear that a lot will change from the beginning of next year, it is still unclear what Brexit will definitely look like after the transition period. The transition period is used to further negotiate the future relationship between the UK and the EU. By far the most important topic that is being negotiated is the trade agreement, which includes customs procedures and import duties. Several scenarios are possible for this.

“By far the most important topic that is being negotiated is the trade agreement”

Soft Brexit

If the negotiations succeed before the end of this year, it will promote and continue trade between the UK and the countries in the EU. A possible scenario is that the Norway model will apply to the UK. In principle, this means complete free trade. That is, the UK is in the single market, it is subject to free movement rules and it pays a fee to Brussels, but is outside the customs union. Variations are also possible within this model. There is little chance that this model will be chosen, because the British government wants to leave both the single market and the customs union.

In addition, it is possible that a comprehensive trade agreement will apply between the UK and the EU. This is the case with Canada, for example. In that case the UK will leave the single market and the customs union. The British would then be able to conclude trade agreements with other countries, but British companies would then have to pay import duties if they want to sell in the EU. Moreover, it would be a bad outcome for financial institutions.

Hard Brexit

If the negotiations fail, the UK will leave the EU without agreements on, among other things, trade tariffs and customs cooperation. In the absence of a new agreement, trade rules would change from those of the EU – based on its single market and customs union – to those of the WTO. In that case, the EU will treat the UK as a non-EU country and there will be no trade agreements or partnerships. While the UK will be free from EU regulations,

they will immediately face the high import and export tariffs and other restrictions and regulations. When exchanging goods between the EU and the UK, it is expected that in this scenario at least the following changes will have to be taken into account:

- Customs formalities. In the event of a hard Brexit, there will be no free movement of goods and services from next year on. This means that customs declarations must be submitted. In addition, customs duties must be paid on goods.
- VAT rate. VAT legislation is a major point of contention for the Brexit negotiations. If the EU and the UK fail to reach new agreements, the VAT legislation on the purchase and sale of goods will change.
- Import duties and other fees. If no agreement is reached, this will affect import duties and other fees. This can make rates of duties and taxes between the UK and the EU very high.
- License. It may be that businesses will need a special license to import or export certain goods.
- Product requirements. Product requirements could possibly change due to Brexit. For example, goods that are transported to the UK next year may receive a UKCA marking instead of a CE marking. The packaging must be adapted to this.
- Quotas. Businesses may be affected by quotas for certain goods.

Changing customs regulations for cross border e-commerce

With the introduction of Brexit, the UK will also eliminate the de minimis value thresholds for import duties and taxes on e-commerce orders. The de minimis value is the declared value of an e-commerce order for which no duties and/or taxes have to be paid when importing e-commerce orders by consumers from retailers from outside the customs zones. The de minimis value for the UK for import duties is GBP 135 and for VAT GBP 15. These thresholds will be eliminated by British customs per 1 January 2021, which will have an impact on all orders from the EU to the UK with a value below GBP 135. The de minimis value for the EU for import duties is EUR 150 and for VAT EUR 22. These thresholds will be eliminated by EU customs per 1 July 2021, which will have an impact on all orders from the UK into the EU with a value below EUR 150.

Dealing with these customs regulations requires a fair amount of work to ensure that e-commerce orders move smoothly between the EU and the UK. Below you'll find a checklist.

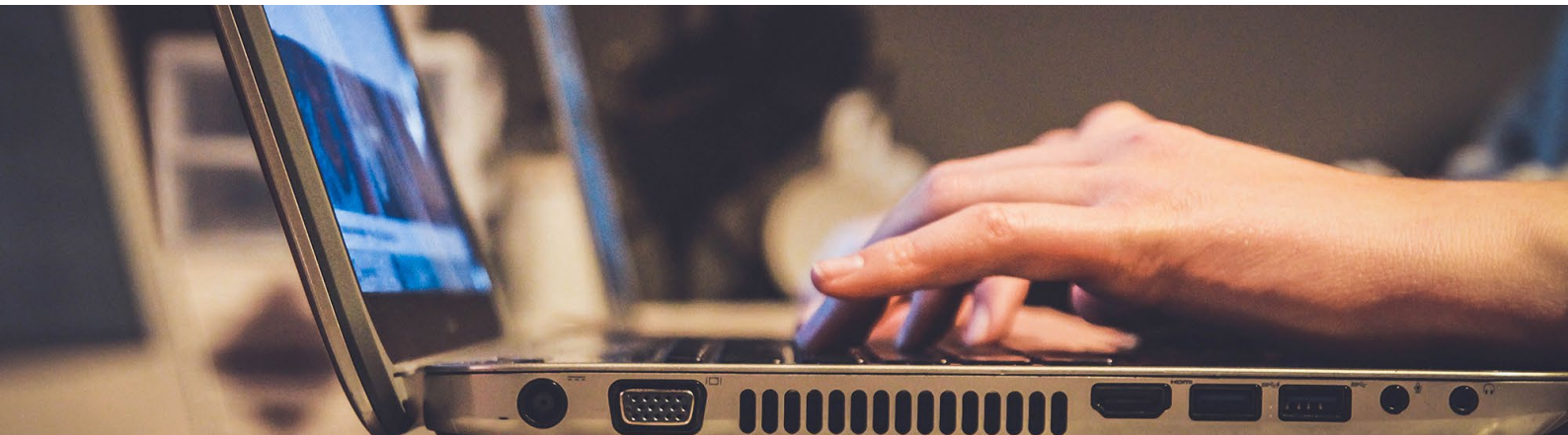
Checklist

1. Do you have an EORI number?
2. Have you confirmed your VAT number?
3. Have you mapped Harmonization Codes and product classification codes to all your products and SKUs?
4. Are your current carriers Brexit-ready and are you clear on what customs data they need from you?
5. Are your systems able to calculate Duties & Taxes on outbound shipments?
6. Are your labelling and dispatch systems able to capture and transmit the required customs data?
7. Are you set up for Paperless Trade?
8. Can you offer customers Delivery Duties Paid (DDP)?
9. Does your customer returns portal make it easy for EU customers to return goods and with the correct documentation for duty relief?
10. If all goes wrong – what is your back-up plan to ensure continuity of delivery and returns to and from the EU?



Impact on cross border e-commerce

The choice of the British to leave the European Union has significant consequences for cross border e-commerce. The EU accounts for 47% of the UK's total trade - 43% of UK exports and 49% imports. Much of this trade concerns online retail. Consumers in the UK and the EU shop a lot at foreign online stores. 73% of products bought online by British consumers come from domestic online stores, 16% of the goods purchased online are purchased outside the EU and 11% are ordered from an EU country. The biggest e-commerce export market is the US, followed by Germany, France and the Netherlands. Moreover, the UK is also the most popular destination for cross border online shopping among online shoppers in the EU purchasing abroad, followed by Germany and France.



Impacted retailers

The above shows that trade between EU countries and the UK is an important part of the success of (online) retailers in these countries. Brexit will therefore have far-reaching consequences for cross border e-commerce. How much Brexit will affect a particular retailer depends on the future agreements made between the EU and the UK. But there are types of retailers who are particularly affected by the UK's departure from the EU:

Retailers in the EU selling goods or providing services to consumers in the UK

- Inditex, the world's largest textile distribution group, is an example of this. The company is best known for the brands Zara, Massimo Dutti, Bershka and Pull & Bear. The UK is one of Inditex's

main markets. Inditex has 12 logistics centres located in Spain and the Netherlands. A no-deal Brexit will imply change to the UK-EU trading relationship. With only logistics centres outside the UK, this could affect Inditex's shipping and sales policies.

UK retailers selling goods or providing services to consumers in the EU

- An example of a British retailer is Asos. Over 60% of Asos's sales come from outside of the UK. Half of this comes from the EU, followed by the US with 20%. Asos has already responded to the possible consequences of Brexit by placing a warehouse in Germany. ASOS will use the additional capacity to handle more orders from outside of the UK if Brexit disrupts trade. Companies such as C. & J. Clark and The Hut Group have already

followed Asos's example, to shield themselves from potential tariffs and other barriers to the cross-border movement of goods after the UK leaves the European Union.

Retailers outside the EU and the UK who now fly to Europe via a single gateway

- Brexit could affect retailers outside the EU and the UK, using the UK as a bridge to the rest of Europe, or vice versa. These businesses outside the EU and the UK may bypass the UK as a place to set up

their future logistics centres. It may be more efficient to choose to put their stocks directly into EU warehouses to benefit from a common EU market.

When the free movement of goods and people between the EU and the UK disappears, the above retailers will have to adapt their shipping and sales policies to the new circumstances and rules. Moreover, they will be confronted with longer delivery times, higher costs and a decline in purchasing power.

"Retailers will have to adapt their shipping and sales policies to the new circumstances and rules"



Longer delivery times

It is very likely that from the 1st of January 2021, the UK will no longer be able to benefit from open borders, which allow the free movement of goods and people. This will result in stricter customs regulations for parcels exchanged between the UK and the EU. In addition, border controls will return, which will cause long queues at the border. Together this means that it must be taken into account that the delivery times of orders will become longer and that additional delays may arise.

As a result of developments in the area of delivery speed and delivery options, consumers have become increasingly demanding. A few years ago, consumers found it perfectly normal to wait a few days for their order to arrive. Nowadays, retailers

can no longer permit a long delivery time. Retail giants who are able to deliver their products faster and faster have introduced consumers to a better alternative and changed their expectations. 80% of consumers want to receive their package at least the next day, and 49% of consumers even state that same-day delivery makes them more likely to shop online. The longer delivery times as a result of Brexit will make it more difficult for UK retailers to compete in the EU and for EU retailers to compete in the UK when they have to rely on cross border shipping only.

Higher costs

In the event of a no-deal Brexit, EU countries will be subject to import duties on British products, and vice versa for EU products. Without a trade agreement, after 1 January 2021, trade with the United Kingdom will fall under the standard agreements of the WTO instead of under the rules of the internal EU market. It is estimated that shipping costs will increase by 30% due to higher import duties, additional customs and stock costs. This will make it more expensive to exchange products between the UK and the EU. Retailers will therefore have to take into account varying shipping costs and will have to incorporate higher logistics costs in their retail rates.

Decline in purchasing power

Uncertainty about the Brexit negotiations has led to declining economic confidence among companies and investors. The value of the British pound has fallen sharply since the Brexit referendum. The no-deal scenario for Brexit will only push this value further down. The value of the British pound has been found to rise as the UK tends towards more integration with the EU and to fall as Brexit appears to be heading towards a no-deal scenario. Some even argue that the more harsh Brexit gets, the weaker the pound will get. A weaker pound means that producers of raw materials that the UK imports will become more expensive and that inflation in the UK can rise. This will reduce the purchasing power of British consumers and slow down economic growth. As British consumers will have to spend less, retailers, like most businesses, will be affected.

“Shipping costs will increase by 30% due to higher import duties, additional customs and stock costs”

Shifting market

Although Brexit has many negative consequences for most retailers, a (hard) Brexit can also have a positive effect for UK retailers. Because it will become more expensive for British consumers to buy products abroad, it will likely have a positive effect on domestic purchase. On the other hand the export from UK retailers to the EU is likely to drop significantly. Cross border sales will slow down between the UK and the continent and that will have a huge impact on retailers that sell and ship e-commerce orders between the UK and the EU.

This shift will be reinforced by the elimination of the de minimis values in both customs zones. The duty and tax benefits that online sellers from outside the EU and the UK (including Chinese sellers) have will disappear for the UK per the 1 January 2021 and for the EU per 1 July 2021. The exemption of VAT for items with a declared value of EUR 22 for the EU and GBP 15 for the UK will disappear and also the exemption for items with a declared value of EUR 150 for the EU and GBP 135 for the UK will disappear. Any e-commerce order that travels between the EU and the UK will have to incur import taxes and duties and have to undergo all the tax and duty procedures involved.



Ship-from-store as a solution

Currently, most retailers and marketplaces ship their online orders from one or a few distribution centres around the world, one of which is usually located somewhere in Europe for their European customers. Retailers choose to place distribution centres so that they can deliver as quickly, cheaply and simply as possible. This means that they place these centres in such a way that they have to deal with customs clearance as little as possible. American and Chinese businesses making decisions about warehouses or logistic capabilities, would normally consider the UK as location. Until now it was not necessary to have a separate warehouse for the European mainland and for the UK. However, with Brexit this will be necessary, because the border crossing will entail custom controls, additional red tape and costs. It then becomes more difficult to transport goods across customs borders, which makes the supply chain uncertain and expensive.

Many carriers are therefore transferring their warehousing and distribution capacity from the UK to the European mainland, or they have opted for multiple inventory locations: one in the EU and one in the UK. In addition, many American and Asian businesses with a production facility in the UK have investigated options for an (additional) base on the European Mainland. Moreover, production activities are relocated from the UK to the EU to avoid delays and extra costs.

For brick-and-mortar retailers there is an easier and more cost-effective way to bypass chaos and long waiting times at the border, namely by implementing a ship-from-store fulfilment strategy.

“Until now it was not necessary to have a separate warehouse for the European mainland and for the UK”



What is ship-from-store?

Ship-from-store is a fulfilment process where retailers use stock from their brick-and-mortar store estate to fulfil (online) orders. Instead of using centralized distribution centres, the physical store is used as a small distribution centre, to support the digital platform. Fulfilling orders this way turns the store into a virtual hub and ensures that orders are sent smoothly and quickly to the consumer.

The solution

With a ship-from-store strategy, items are fulfilled in the store and shipped from the store directly to the consumer. This means that brick-and-mortar retailers will have no or less trouble with the future closed borders between the UK and the EU. This is, because items can travel in bulk to the store before they are packed for delivery to the final consumer. In traditional e-commerce logistics, where orders are shipped from a distribution centre, parcels travel hundreds, or at least tens, of miles before they are delivered to the end consumer. With a ship-from-store fulfilment strategy retailers have the opportunity to ship locally from a store in geographic proximity to the consumer. This ensures fast delivery and makes it possible to ship items at relatively low costs.

“Ship-from-store ensures fast delivery and the shipment of items at relatively low costs”

Other options

Retailers and marketplaces who don't have a brick-and-mortar store can instead use alternative fulfilment centres, such as a micro-fulfilment centre or dark store. Micro-fulfilment centres are small warehouses with a smaller footprint than traditional distribution centres and are often located in accessible urban locations, close to where the consumers live. Because they are in close proximity to the consumer, they support to fulfil online orders fast and efficiently. Some of these micro-fulfilment centres are stand-alone warehouses and others are occupying spaces that are already part of the urban landscape, such as vacant retail premises or parts of office buildings. Variations of micro-fulfilment centres are dark stores and converting space inside existing stores into micro-fulfilment centres.



Conclusion

It is clear that Brexit has far-reaching consequences for cross border retail. The extent of this impact depends on any agreements that will be made between the UK and the EU. However, deal or no deal, cross border retail will mainly be negatively impacted by Brexit in the short term. Retailers will have to adapt to the changed situation between the EU and the UK, which will lead to longer delivery times, higher transport costs and lower purchasing power among British consumers.

Nevertheless, with the right strategy, Brexit does not have to be all negative in the long term. A ship-from-store fulfilment strategy

offers brick-and-mortar retailers and marketplaces the opportunity to circumvent problems resulting from future closed borders. This is, because items can travel in bulk to the store before they are packed for delivery to the final consumer. With a ship-from-store fulfilment strategy retailers have the opportunity to ship locally from a store in geographic proximity to the consumer, which ensures faster and cheaper delivery.

It is important that retailers do not wait until the end of the year to think about how they need to adjust their business. The sooner they start to get ready for changes, the lower the risk that they will encounter problems and unpleasant surprises.

“The sooner retailers get ready for changes, the lower the risk they will encounter problems and unpleasant surprises”



Meet StoreShippers

StoreShippers provides sustainable urban collection services and sustainable same-day delivery in cooperation with bicycle couriers and other eco-friendly couriers around the world. It is the mission of StoreShippers to build a global sustainable ship-from-store network to connect global online visibility with local offline presence.

StoreShippers offers brick and mortar retailers on both sides of the Channel the opportunity to implement a ship-from-store strategy on short notice. With one IT integration StoreShippers provides access to local couriers in all major cities in the UK and Western Europe.

Any questions?

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Want to learn more?
Check out our global network and services, at
www.storeshippers.com

or contact our sales team, at
hello@storeshippers.com

Let's connect

We ask bicycle couriers around the world to connect with our platform. Together we can boost sustainable delivery. We invite omnichannel retailers and pure players with an urban footprint to contact us. Let's boost ship-from-store!

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Disclaimer

The information in this whitepaper is gathered from public sources. The purpose of this white paper is to give a general impression of the impact of Brexit on global retail.