# Twitter Thread by Peter Foster

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## It's OUT! The first #Brexit Briefing of 2021...which explores how unrealistic some industry expectations are about 'fixes' to the current deal, now the penny is dropping about what it means for supply chains and UK position vis-a-vis EU

So take the example this week, where the @Foodanddrinkfed raised the issue that UK-hubs for food and drink were "unworkable" since goods that came in from the EU were attracting full tariffs when the were spun back into Ireland or other EU members /2

https://t.co/PY0ernQ73u

@Foodanddrinkfed They were backed by other EU associations - and both said they would lobby UK govt and @EU_Commission to 'fix' what they presumed was an "unintended consequence" of the deal....except that both EU officials and UK govt have basically shrugged. The deal is the deal. /3

@Foodanddrinkfed @EU_Commission This is in no way confined to food industry - clothes and retailers are also hard-hit.

But lots of industry has wrongly bet that 'common sense' and 'self interest' would prevail once the nasty negotiations phase was out the way...but that's not the signal being sent. /4

As one EU official puts it: “You can’t expect the UK to remain the food import hub for the EU. It’s not sustainable, and makes no sense in the mid-to-longer run." And that applies to financial services, clothing, retail goods....a bureaucratic curtain has descended. /4

So what does that mean?

Well on the 'micro' front it means that businesses will start to split their supply lines between the EU and the UK...shrinking their UK footprint as a result. Take @AstonChemicals which supplies chems to cosmetics industry.... /5

@AstonChemicals As @DanilLoughran tells me, they shipped their last UK-EU load on Dec 18....now all the EU product will go into Poland. As a result her UK warehousing staff headcount has shrunk by one third. /6

@AstonChemicals @DanilLoughran Why? Because importing all the chemicals into the UK for distribution to EU makes no sense - they need dual registration, risk tariffs because of rules of origin + all the border delays and paperwork. So she hubs from Poland. /7

https://t.co/KwtJIWTNoa

> While British importers and exporters wrestle with the UK's new EU trade border this January, some businesses have taken a more radical approach to addressing the challenges posed by life after Brexit: give up on cross-Channel trade altogether.
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> One such company is Aston Chemicals in Aylesbury, a medium-sized business that imports and distributes specialist chemicals for some of the world's leading cosmetics brands. It dispatched its last ever load to Europe on December 18.
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> "It was emotional after 30 years of trading, and we hoped it wouldn't come to this," said Dani Loughran, Aston Chemicals' managing director, "but the duplication of EU chemical regulations, the risk of tariffs because of rules of origin, border delays and increased freight and administration costs left us no choice."

@AstonChemicals @DanilLoughran It's a similar issue for Premium Plus UK, but as a dental devices importer, their issue is medical services directive that means EU importers must be responsible for goods them import (a legacy of bursting breast implants)...but makes it non-viable to hub from UK too. /8

For others such as Shane Burnett, the founder of Premium Plus UK, a Bournemouth-based dental medical devices maker, the decision has already been made. Last year he hastily opened a new subsidiary in Poland to handle his EU customers, which make up 65 per cent of his client base.

He said that strict EU rules on importing medical devices simply made it unviable to use the UK as a distribution hub for the products he imports from China. He has let four staff go in the UK as the business shifts across the Channel.

“It would cost a fortune to do all that paperwork because now each EU customer becomes an ‘importer’ and that’s financially unviable,” Mr Burnett said. “It makes much more sense to ship the whole lot into Poland in one big hit, do the customs and then distribute round the EU.”

@AstonChemicals @DanilLoughran For others like @reneewatson77 of Curiosity Box science kits, it's more wait and see if it makes sense to pay for dual certification - EU 'CE' mark and the UK's UKCA mark - which will cost her £20,000 her small business doesn't have. /9

For Renee Watson, founder and head of explosions at The Curiosity Box, which makes science kits for children in Eynsham village, Oxfordshire, it is the cost of certifying her products separately for regulators in the UK and EU that may tip the balance.

It will cost £500 a product to obtain the new “UKCA” safety marks, which indicate conformity with UK safety standards and which — for now at least — essentially duplicate the EU’s existing CE mark, which confirms a product meets the bloc’s safety, health or environmental requirements.

With about 36 products to register she estimates she is facing a bill of about £20,000. “I wish I had that sitting in the bank,” she said. “But we need to make sure we are compliant and can absorb the costs as schools will not be able to afford it if we passed them on.”

@AstonChemicals @DanilLoughran @reneewatson77 Others like Kiran Tawadey of @hampsteadtea will get through by shift processes - more warehousing in German, but that means bigger loads and £65k-£75k to her base costs. How long she keeps basing of out the UK she isn't sure /10

https://t.co/4DIjZB00bX

> "One pallet of mixed teas could conceivably have 10 different commodity codes because teas are not a single product and can be blended with products from all over the world. So it makes sense to group the paperwork together — and send 36 pallets to the EU in one go," she said.
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> The pallets will also need to be heat-treated to conform to international standard "ISPM 15" for non-EU countries. The cost of the new pallets will be £16, compared with £6 for the old ones.
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> Ms Tawadey estimated the company will have to double its cost base in respect of storage in order to hold greater stocks of raw inputs, and will also have to operate a mirroring distribution network based in Germany, to service clients inside the EU's single market. She has calculated the new systems will add £65,000-£75,000 a year to her base costs.

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea All this will make life very interesting (to put it mildly) for those at the sharp end like Paul Jackson's @ChilternDist which has invested £1m in recent years in temperature-controlled distribution...and now waits to see how the border shakes down in practice. /11

Preparing to meet these challenges has not been helped, 58-year-old Mr Jackson added, by the eleventh-hour nature of the deal and the failure of the government to roll out systems like its Kent Access Permit sufficiently far in advance.

“Fresh food is a just-in-time business. We pick up on Monday, to be at a UK supermarket regional distribution centre on Thursday, so product is on the shelves on Friday — it is not clear exactly how that will still operate,” he said.

The combination of delays and handling new paperwork could cause staff retention issues in a field where there are already serious driver shortages. “Drivers were already stressed keeping up with delivery notes and other paperwork, but with Brexit the responsibilities are that much greater again and some may well just say ‘I’ve had enough’,” he said.

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea @ChilternDist Which is to say that #Brexit impact is not really about 'delays at the border'...it's the permanent, structural disadvantage of UK businesses vis-a-vis EU counterparts. i.e Those 'non-tariff barriers' that @BorisJohnson said did not exist (in a universe of alternative facts)/12

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea @ChilternDist @BorisJohnson And the idea that UK business can 'just do more exporting to the rest of the world' overlooks the basic fact that they could do that as an EU member - but didn't, for a variety of existing reason. viz someone else doing it cheaper usually. /13

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea @ChilternDist @BorisJohnson Brexiters love to defy economic gravity (particularly when it comes to services) but the economic reality is that competing with advanced economies on your door step is what keeps you productive - it provides economic muscle tone, because you have to compete /14

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea @ChilternDist @BorisJohnson As @JohnSpringford explains to me beautifully, it is about specialisation and exchange: “The UK provides advertising to big business in Germany and big business provides the UK with cars" and it that process that we’re weakening by #Brexit /15

John Springford, deputy director and former chief economist of the Centre for European Reform, said that it was inevitable that barriers to trade created by leaving the EU would act as a drag on the forces of "specialisation and exchange" that had been driven by the creation of the EU single market.

As he explains: "The UK provides advertising to big business in Germany and big business provides the UK with cars — it is that process that we're weakening, which ultimately means that UK wages are likely to grow less strongly over time."

In short, the laws of economic gravity point to the "very, very high" likelihood that the UK will end up poorer than peer economies in Europe a decade from now.

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea @ChilternDist @BorisJohnson @JohnSpringford The net result is that UK workers shift into lower paid, less productive jobs over time and the UK will end up poorer relative to its EU peer-economies. That may even happen without anyone noticing - we don't live the counterfactual. /16

@AstonChemicals @DanilLoughran @reneewatson77 @hampsteadtea @ChilternDist @BorisJohnson @JohnSpringford It may even be that the politicians who rode to power on the back of a bus emblazoned with alternative facts will continue to prosper politically, but you can't escape that they have signed essentially a reverse-cooperation agreement with the EU. Truly unique thing to do. 17/ENDS