Ready for Business When the Brexit Transition Ends?

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Initiatives: Executive Leadership: Enterprise Strategic Planning and Execution and 4 more

Senior executives haven't done enough to prevent business disruption in January 2021, when the U.K.'s transition out of the EU is completed. Distracted by the pandemic or confused by politics, executive leaders need more than a quick IT systems update to be ready for Brexit in a hundred days.

Overview

Key Challenges

- Senior executive leaders are legally accountable to investors or funding bodies for getting ready to stay in business after the Brexit transition ends. Relying on politicians, suppliers or other agencies to solve all business continuity challenges is unlikely to be considered a reasonable defense.

- Even executive leaders who do business only in the U.K. face administrative complexities, as Scotland and Wales gain local regulatory powers and as Northern Ireland remains subject to the EU regulations and tax requirements to prevent a politically divisive land border.

- Executive leaders doing business under new trade agreements or across new U.K./EU borders must implement customs procedures and replace all permits and certifications as soon as the U.K. is no longer under the EU jurisdiction.

- Senior executive leaders cannot risk accusations of negligence for delaying business readiness activities that they are reasonably expected to complete. Their organization's pandemic response, change fatigue or depleted budgets do not release corporate officers from their responsibility to make the most of every business opportunity.

Recommendations

Executive leaders must respond immediately to these regional trends when executing enterprise strategy:

- Make defensible decisions now by getting your organization ready for the legal and regulatory changes documented by both the U.K. and the EU. Discharge your responsibilities as a company officer by ensuring that all reasonable actions are taken to stay in business.
- Deploy urgently needed digital solutions to minimize trade friction, avoidable delays, additional costs and administrative overheads. Use technology to maximize efficiency and ensure business continuity, both within the U.K. and across its EU borders.

- Focus on new opportunities by reprioritizing core business values such as global branding, reputation and customer experience. Reemphasize quality over cost to communicate greater creativity and value than specified by local regulations, qualifications and certifications.

**Introduction**

Executive leaders have less than seventy five working days left to complete all of the changes needed to continue doing business in the U.K. and across its borders (see Note 1). This is not an unforeseeable or a theoretical scenario. Regulators and investors can reasonably expect executives to be ready for this change.

The U.K. did not request to extend the transition period by the June deadline. By 1 January 2021, the free movement of goods and people ends between the U.K. and the European Union (see Note 2). Trade between the U.K. and the rest of the world has been conducted as a member of the EU since 1973. In 2021, the U.K. trades independently of the EU, its agreements and regulations.

Changes are also required to continue doing business within the U.K. and its territories. EU tax and regulatory requirements apply in Northern Ireland, as agreed in Annex II of the Northern Ireland Protocol. ¹ This compromise avoids the inconvenience of a politically divisive land border on the island of Ireland. The protocol isn’t due for renegotiation for four years, and the U.K. Internal Markets Bill doesn’t renegotiate it. There are also implications for the Crown Dependencies of Guernsey, Jersey and the Isle of Man. ² The change of status is illustrated by the Venn diagram in Figure 1.

![Figure 1: The U.K. Outside the EU](image-url)
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The U.K. Outside the EU

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Analysis

Organizations we speak with still seem poorly prepared for customs, tax and regulatory changes at the start of 2021, in line with U.K. government data. Even fewer organizations are ready for the pace of change as further trade agreements are (re)negotiated. Customs specialists and freight handlers fear that they cannot meet demand. Bureaucracy increases trade friction that can only be eased by digital automation.

Executives face additional costs and operational changes at a time when many organizations are still impacted by a global pandemic. While Gartner is sympathetic to client challenges, it is our laypersons understanding that corporate law offers few exemptions. Company officers can only avoid making changes by deciding to cease their business activity within the U.K. or across its new borders.

Take Defensible Decisions and Execute Them Now

Ignorance of these changes is no longer an excuse for executive inaction. In July 2020, the U.K. published its new border operating model for 2021. Enterprise leaders who decide not to prepare
for border controls risk being held accountable for that decision on the basis of all the evidence available now.

This research does not seek to predict the outcome or timing of any negotiations; it warns executives against gambling on unpredictable outcomes. Senior executives must prepare now for predictable eventualities, such as the need for certification and correct labeling of goods for sale after December.

“We can’t afford to wait for a political solution that might or might not happen.”

— Retail CEO

Betting your business on a negotiating breakthrough seems a risky strategy. Even if countries continue trading with an independent U.K. on similar terms to the EU, leaving the EU requires administrative changes. Customs formalities and regulations apply to countries that have negotiated trade agreements and quotas with the EU. If no EU/U.K. trade agreement is agreed, then trade falls back on WTO trade facilitation. An agreement is still needed to ensure basic continuity measures for transport and travel.

The EU published guidelines on what happens at the end of the withdrawal period. They complement earlier guidance published by the U.K., updated as negotiations evolved. Both sets of guidelines agree that the U.K. becomes a non-EU country, subject to requirements for customs, tariffs, permits and certifications like any other non-EU country: U.K. tariffs and regulations apply to EU exports into the U.K., and EU tariffs and regulations apply to U.K. exports to the EU. All U.K.-issued permits and certifications cease to be recognized by the EU, and EU certifications go unrecognized in the U.K. All of these changes require senior executive management action.

The most critical action is to assess risks to the business strategy and its financials. Budget for all changes needed to continue doing business without excessive expense or delay. Other non-EU markets may become more attractive to companies on both sides of the new EU border. However, clients we speak with believe that existing trade can be continued, and that digital technologies play an important role in reducing friction across new borders. Future trade agreements and regulatory shifts will then bring further changes, where only digital technologies can rapidly take advantage.

Recommended actions for executive leaders:

- Don’t wait, anticipate. Support for scenario planning can be found in our Scenario Planning Playbook but now is your last chance to start putting plans into action ready for 2021.
Maximize Business Continuity and Efficiency

Executives must start completing all necessary changes now to ensure their branded trucks, goods and personnel are not responsible for creating border hold-ups and backlogs in January 2021. The U.K. government is investing in digital solutions, with additional funding to help handle complexity in Northern Ireland where both the U.K. and EU regulations continue to overlap. Regulatory compliance data plays an important role in keeping trade flowing. In How to Budget for Trade War, Brexit and Economic Uncertainty, we saw European food companies replace lost Asian markets with expansion: Early Brexit contingency plans helped respond to a diplomatic spat over biodiesel subsidies for palm oil elsewhere. Technology solutions can automate complexity, submit customs declarations and manage taxes digitally to significantly reduce trade friction.

Make sure your organization can calculate and select optimal trade routes in 2021. The border systems of EU member states follow the World Customs Organization (WCO) data model and goods classification system. Trading organizations are identified by an Economic Operator Registration and Identification (EORI) number, for which the EU provides online validation and an open lookup interface for freight handlers. Goods are classified by a commodity code identifier to ensure applicable tariffs are applied and that goods have the correct permits and certifications for entry into the EU. However, the data flows for the necessary permits and certifications vary by port of access. France, the Netherlands and Republic of Ireland are currently the most common EU entry points for U.K. freight, but get ready to change routes for speed and efficiency.

The U.K. also plans to use U.K.-issued EORI numbers after 2020, risking confusion with EU-issued numbers. Customs formalities for goods shipped into the U.K. can take advantage of the Customs Declaration System (CDS), which uses U.K. commodity codes to apply U.K. tariffs and U.K. sales taxes. A Goods Vehicle Movement Service (GVMS) allows electronic forms to be completed and submitted in advance. This prelodgment of records enables errors or omissions to be identified so they don't result in costly delays at ports. The U.K.'s legacy Customs Handling of Import and Export Freight (CHIEF) system is scheduled for decommissioning in 2021, so many organizations already

■ Activate a command center to act rapidly to detect, manage and exploit the greatest and most likely impacts to operational and strategic goals. Empower it with full executive and business leadership authority to spend now on corrective actions to be executed immediately.

■ Reassess the readiness state of systems to ensure their continued fitness for business as the Brexit endgame unfolds. Use a fitness template and scoring model, such as this Toolkit to evaluate your organization as conditions change: Toolkit: Brexit Continuous Fitness Assessment for End-User IT Organizations.

■ Implement stop-gap solutions, but continue to optimize them over time. Significant changes cannot be completed in time using traditional approaches. Check that IT leaders manage the aftermath of “hacks,” quick fixes or corner cutting as detailed in Create a Tactical Development Plan to Address the Risk of Brexit Disruption.
have migration projects in progress. A U.K. government solution is being developed to ensure that trucks are ready to cross by ferry. The Smart Freight System will continue to be developed into 2021 to improve border efficiency. Make sure your organization and logistics partners make full use of all systems to minimize delay.

Forward-looking executives have already been ensuring that their IT systems can gather and process all the necessary data by asking questions such as these:

- Can our systems ensure that the correct U.K. or EU EORI number is used in each direction of travel?
- Do our systems process sales taxes such as EU VAT independently of U.K. VAT?
- Will the correct amounts be paid to or refunded by the correct authority in every case?
- Can our systems prompt and train staff to make all the necessary changes as they work?
- Do we have enough metadata (data about data) to apply business logic to optimize profitability?
- Who is empowered to address these issues without creating further problems down the line?
- How will our systems continue to adapt and scale as the new trading environment evolves?

Recommended actions for executive leaders:

- Refocus data governance activities to meet these new business outcome requirements. Assess the risk to new projects and existing production systems in routine governance and compliance activities, as described in Implement Your Data and Analytics Governance Through 5 Pragmatic Steps.

- Advanced data management organization’s should activate their metadata as a data fabric, by automating data integration, quality and master data processes to enable data flows to be analyzed without human intervention: This is a key component of the emerging intelligent composable enterprise as described in How to Activate Metadata to Enable a Composable Data Fabric. Less advanced organizations should start here: Streamlining Governance Application With the Data and Analytics Infrastructure Model.

- Assign CxO roles and ownership to ensure goals are met. We estimate that 15% of large enterprises now have a chief digital officer (CDO). The CDO role is defined inconsistently between organizations, so CIOs must clarify whether they, or a CDO, are responsible (see A CIO’s Guide to the Chief Digital Officer). CDOs must consider Brexit one of their challenges (see CDO Success Factors: Three Best Practices From the Fifth Annual Gartner Survey).

Focus on New Opportunities and Reprioritize Core Values

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Executives must explore new opportunities created by the U.K. leaving the EU. The $2.9 trillion global digital economy represented up to 50% of all service exports in 2018. Digital technology services are relatively unaffected by tariffs on physical goods, but regulatory compliance becomes a significant business barrier. Automated services that navigate rapidly changing tariffs and regulatory requirements are a promising new business opportunity.

The EU is creating its own members-only digital economy based on a common set of values for European digital society. The protection of personal data and privacy under the jurisdiction of the EU Court of Justice (CJEU) is a core principle. Fines for noncompliance have caught executive attention.

In July 2020, the CJEU ruled that the U.S.-EU Privacy Shield used by Facebook was inadequate for compliance with the EU’s General Data Protection Regulation (GDPR). This ruling and its implications are explored in What We’re Hearing About ‘Schrems II.’ If the Facebook brand had been un tarnished by accusations of personal data misuse, it might not have become a target for a private lawsuit.

U.K.’s implementation of EU regulations cease to be recognized by EU courts after the U.K. leaves their jurisdiction. As with other EU regulations, U.K. GDPR becomes orphaned and independent of EU GDPR. This applies to the EU Green Deal and all existing EU standards in the U.K., unless agreement can be reached on mutual recognition. The EU Withdrawal Act granted the U.K. government statutory powers to adapt or terminate EU legislation without further parliamentary approval, so U.K. changes can be rapid.

Executives focused on disruption risk missing the opportunities created by change. Swiss neutrality guaranteed privacy in previous centuries, but is now increasingly influenced by the surrounding EU. Luxembourg’s independent financial services lost similar competitive advantages on an EU “level playing field,” but it embraced change to remain the wealthiest EU country. Some scenario planners see this process in reverse: The “offshore banking” regime of non-EU U.K. territories becomes a springboard for the renaissance of independent U.K. financial services.

Divisions over surveillance and security split the global economy into different digital ecosystems. This creates new local business opportunities for adaptable organizations with strong brand values and local expertise. Multiple digital service offerings navigate an increasingly complex geopolitical landscape.

Leaving the EU shifts business focus in the U.K. toward opportunities that differentiate them as non-EU. To trade globally, companies must comply with all local standards, not only those of a single trading bloc. Instead of trying to export their own values or standards, business executives must recognize and protect the sensitivity of different data across many diverse cultural contexts. In this broader context, regulations are rarely as significant to end-consumers as brand, reputation,
quality, adaptability and a genuine respect for their own cultural values. For guidance please see *Digital Ethics: What Every Executive Leader Should Know*.

Recommended actions for executive leaders:

- U.K.-based organizations, including non-U.K. organizations with a presence inside the U.K., must:
  - Respond to U.K. GDPR requirements and compliance as an entity outside the EU. This is a minimum next-step action. Start here: *Ignition Guide Pack for Preparing for Five GDPR Operational Changes*.

- Organizations everywhere must:
  - Dive deeper into the classification of data requirements by business significance in this research: *Classifying Data Requirements for Agile Processes and for Durable, Adaptable Systems*.
  - Don’t let a good crisis go to waste. Extend your crisis command center remit by repositioning your organization to take advantage of the business opportunities created by change. Review how well your organization is taking advantage of this opportunity. Get match-fit to succeed as future changes accelerate.

**Evidence**

1. *The Northern Ireland Protocol and Appendices*
2. *The Crown Dependencies, the EU and the UK*
3. *The U.K. Automatically Issued 88,000 More EORI Numbers After Receiving Just 72,000 Applications*
4. *The U.K. Border Operating Model*
5. *EU Trade Agreements With Non-EU Countries*
6. *EU Preparedness Notices for the End of Brexit Transition*
7. *The U.K. Transition*
8. *Major £650 Million Investment for Northern Ireland*
10. *EU Digital Single Market*
EU General Data Protection Regulation (GDPR)

Publicly Known GDPR Enforcement Penalties Currently Average ~€500M a Year

**Note 1: The U.K.**

The United Kingdom of Great Britain and Northern Ireland (U.K.) currently includes the three countries of England, Wales and Scotland known collectively as Great Britain. British Crown Protectorates are self-governing jurisdictions outside the U.K.; the Bailiwick of Guernsey and the Bailiwick of Jersey, known collectively as the Channel Islands, and also the Isle of Man.

British Overseas Territories include: Anguilla, Bermuda, British Antarctic Territory, British Indian Ocean Territory, British Virgin Islands, Cayman Islands, Chagos Islands, Falkland Islands, Gibraltar, Montserrat, Pitcairn, Henderson, Ducie and Oeno Islands, St. Helena and Dependencies (Ascension and Tristan da Cunha), South Georgia and South Sandwich Islands, Sovereign Base Areas of Akrotiri and Dhekelia (Cyprus) and the Turks and Caicos Islands.

**Note 2: The EU**

The European Union now has 27 members out of the 44 countries in the European region: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Additional territories associated with these countries, such as the Danish Faroe Islands and Greenland or the French overseas domains and territories are either not EU members or not subject to EU customs, excise and VAT sales tax.

**Recommended by the Authors**

- **Toolkit: Brexit Continuous Fitness Assessment for End-User IT Organizations**
- **Countdown to Brexit: Build Resilience to Make Confident Decisions**
- **Create a Tactical Development Plan to Address the Risk of Brexit Disruption**
- **How to Budget for Trade War, Brexit and Economic Uncertainty**
- **Lessons From Brexit: Acting Under Uncertainty**
- **Scenario Planning Playbook**
- **Digital Ethics: What Every Executive Leader Should Know**
- **Ignition Guide Pack for Preparing for Five GDPR Operational Changes**
- **Market Trends: Europe Aims to Achieve Digital Sovereignty With GAIA-X**
- **Classifying Data Requirements for Agile Processes and for Durable, Adaptable Systems**

**Recommended For You**
4 Ways to Set Risk Liaisons Up for Success
Capturing Risk Information from Third Parties
Business Risk-Driven Risk and Control Framework (TD Bank)
Ignition Guide to Launching an ERM Function
Summary Translation: Broaden Application Performance Monitoring to Support Digital Business Transformation
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