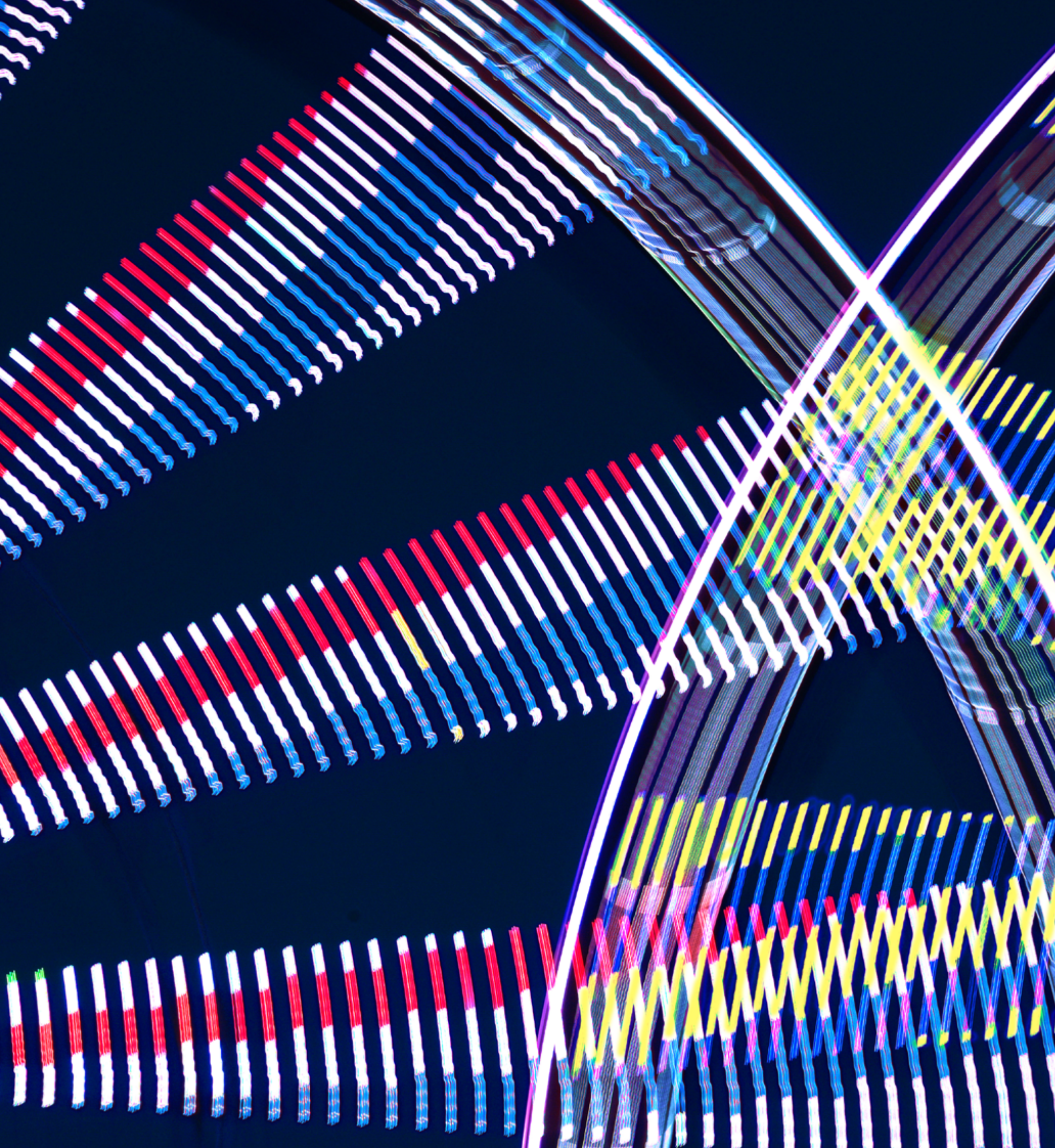


The background of the slide is a dark blue field filled with vibrant, multi-colored wavy lines in shades of red, white, blue, yellow, and purple. These lines flow diagonally from the bottom left towards the top right. Overlaid on these lines is a faint, light-colored grid pattern that also follows the same diagonal orientation, creating a sense of depth and complexity.

**Baker
McKenzie.**

Brexit: Key Implications for the Industrials, Manufacturing and Transportation Sector



Key Implications for Business

With the post-Brexit transition period ending on 31 December 2020 and the prospects of a no-deal Brexit having increased, Industrials, Manufacturing and Transportation (IMT) businesses need to continue to prepare for the key challenges ahead as the UK continues to negotiate a trade deal with the EU.

What should Industrials, Manufacturing and Transportation businesses think about to prepare for the post-transition period? To help you get started, we have identified a number of key areas that will be affected by the end of the transition period, and some practical considerations so that you can plan ahead and minimise the impact to your business.

The global nature of our Firm and the clients we represent means that we have a number of experts who can provide advice that is tailored to your organisation and the challenges that you face. If you would like help navigating the complicated, evolving landscape, please contact a member of our dedicated team of specialists (contact details below) or your usual Baker McKenzie contact. Additionally, for further analysis of more general key legal and regulatory issues resulting from Brexit, please see our '**No deal**' **Brexit Checklist: Key Implications for Business**.

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Supply Chains



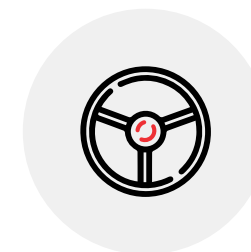
Key issues

- Companies in the Industrials, Manufacturing and Transportation (IMT) sector have some of the most complex supply chains of any sector and, thus, they are particularly susceptible to the impact a no-deal Brexit will have on supply networks and the movement of raw materials, parts and finished goods.
- As the UK and the EU will trade as third countries in a no-deal scenario, duties will be applied and customs declarations will be required for goods crossing the EU-UK border. As a result, IMT companies will experience both financial and administrative burdens related to the movement of goods between the UK and the EU. The risk of delays in clearing customs could affect manufacturing operations and delivery to customers, affecting sales and revenue. The movement of controlled goods between the EU and the UK, and from the UK to non-EU countries, will also be subject to new export licensing requirements.
- Companies responding to supply chain challenges by changing manufacturing locations or suppliers may be able to alleviate the risk of delays but it may also increase other compliance, quality assurance and commercial risks as a result of new supplier relationships.
- Even if a deal is reached, many of these concerns will still be present because goods will need to clear customs and move across the EU-UK border. The extent of the impact in a deal scenario will largely depend on the extent the two sides are able to address inefficiencies through cooperative processes and systems.

Recommendations

- Conduct a full supply chain assessment including where manufacturing takes place and where parts and finished products are moved from and to (including third countries, the UK and the EU).
- Develop contingency plans for mitigating against delays and supply chain bottlenecks, such as stockpiling and identifying additional suppliers for critical locations or components.
- Expand supply chain and customs expertise and resources, with consideration of both personnel and technology needs, such as digitalisation, blockchain and other tools for managing customs administration and supply networks.
- Calculate additional duties and corresponding financial and revenue implications, and consider mitigation strategies.
- Determine whether importer entities or representatives need to be established in the UK and/or the EU and whether other organisational changes are required to adapt to new export licensing requirements.
- Engage with local business groups and industry organisations to understand best practices and approaches to prepare for a no-deal Brexit.

Automotive Subsector



Key issues

- The automotive industry is illustrative of the challenges that will affect all subsectors of the IMT sector and it is expected to be especially hard hit by Brexit, with implications for both the UK and the EU automotive industries. The impacts will extend to vehicle manufacturers, suppliers of systems and components and, ultimately, consumers. Approximately 85% of passenger vehicles imported to the UK come from the EU, representing about one-third of the EU's export. While only 20% of the EU's auto imports are from the UK, this represents approximately half of the UK's auto exports.
- Under the EU's single market, the automotive industry employed complex just-in-time supply chains, and vehicles and parts moved freely. Automotive trade will be disrupted whether or not the EU and the UK agree on a trade deal, but a no-deal scenario is especially fraught. The industry is also concerned that the significant effort required for companies to develop and implement a Brexit strategy will divert resources away from investments in technology and other strategic initiatives to advance the automotive industry.
- Increased trade barriers will hamper the highly integrated European automotive sector after the transition period. Duties and tariffs will be imposed on vehicles and parts, and the sector will have the added administrative burden of customs declarations. These changes will affect costs and increase the risk of delays in production and the delivery of parts and vehicles. Many automotive companies have responded by stockpiling parts and adjusting supply chains to domestic sources.
- After the transition period, EU rules for the automotive industry will no longer be in effect in the UK and any UK legislation and corresponding UK approval authority will be inoperative in the EU. This means, for example, that automotive manufacturers in the UK will lose the status they had in the EU and they will need to establish representatives in the EU to place vehicles on the market and obtain valid vehicle certificates of conformity. Further, with safety and environmental standards no longer under a unified system, automotive manufacturers cannot rely on the EU to recognise UK standards as equivalent to the EU, absent a deal between the EU and the UK.

Recommendations

- Carefully evaluate supply chains for automotive components and systems, including the movement of goods and the location of manufacture to identify potential risks of bottlenecks, delays and shortages.
- Analyse existing commercial agreements with automotive parts suppliers and other third parties and consider the feasibility of addressing Brexit implications in contractual relationships.
- Determine the financial impact of duties and tariffs, as well as additional costs of changes in suppliers and administrative burdens of customs procedures, and consider possible cost mitigation measures.
- Evaluate the need to appoint a representative to conduct actions in the EU and seek the transfer or re-registration of approvals and certificates needed to place vehicles on the market in the EU.

Chemicals Regulation



Key issues

- As a result of Brexit, the chemicals subsector will be subject to duplicate regulatory schemes at the end of the transition period, with impacts on the chemicals subsector, as well as "downstream" subsectors that use regulated chemicals (including many IMT subsectors such as automotive, aviation, plastics, industrials and agribusiness). Prior to Brexit, chemicals were regulated under the EU Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) legislation, which requires the registration of chemicals before they are placed on the market. At the end of the transition period, UK companies will no longer hold valid registrations under the REACH.
- The UK plans to implement a UK version of the REACH in the event of a no-deal Brexit and it will allow EU registrations to automatically transfer to the UK regulatory regime, but companies will need to resubmit registration data to the UK regulator because the UK will not have access to the EU REACH database. However, UK chemical companies wishing to export to the EU cannot rely on UK registrations and they will also need to hold valid registrations under the EU REACH, either by transferring registrations to EU-based entities or appointing an "Only Representative" (used for manufacturers located outside the EU) to access the EU market.
- A Brexit deal could reduce the amount of duplicative regulatory requirements, facilitated by data sharing between the UK and the EU, but the extent of the relief provided would depend on the details and the extent of the agreement on the regulation of chemicals across the two regimes.
- IMT companies should expect similar issues related to other EU chemicals legislation, such as the Classification, Labelling and Packaging Regulation, Biocidal Products Regulation and Prior Informed Consent Regulation, that will no longer apply to UK companies.

Recommendations

- Take actions to transfer chemical registrations from the UK to the EU and establish representatives or business entities as needed in the EU.
- Evaluate supply chains across EU and UK operations and compare against REACH registrations to determine where action is needed to comply with applicable chemical regulatory schemes in all jurisdictions.
- Address risks inherent in complying with duplicative chemical regulatory schemes including establishing processes to ensure consistency in data and information gathering and submittals.
- Consider options for alleviating impacts to supply such as building a reserve of raw materials to minimise disruptions in production.

Aviation Subsector

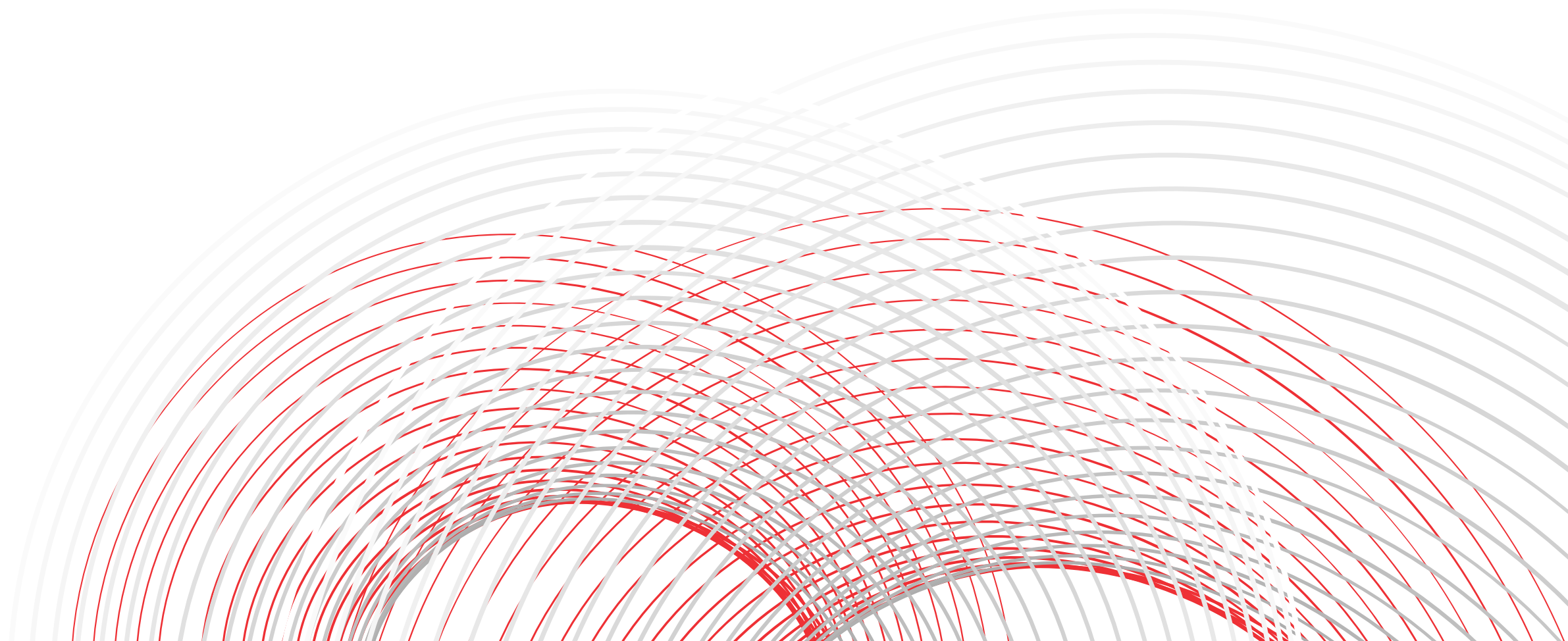


Key issues

- The aviation subsector has some unique issues under a no-deal Brexit, given the nature of air travel and the international agreements and regulatory schemes specific to aviation.
- Without a Brexit deal, the UK would need an aviation agreement with the EU or bilateral agreements with individual countries to travel from the UK to EU countries. The US and the UK have struck an open skies agreement that will apply at the end of the transition period, replacing the EU-US agreement that previously covered the UK.
- EU aviation security rules will no longer apply in the UK, including rules related to aircraft, passenger, baggage, and cargo security and screening. UK passengers will be required to go through passport control when flying into the EU, as will EU passengers flying into the UK.
- UK air carrier operating licences will no longer be valid in the EU and carriers will need to separately ensure compliance with both EU and UK rules for air carriers. Airlines must be majority EU-owned in order to hold an operating licence from a licensing authority of an EU member state to fly between EU countries. Further, certificates of airworthiness, pilot licences and numerous other certificates for aircraft and aviation personnel authorisations held in the UK will not apply in the EU unless transferred or separately obtained.
- The US will recognise the validity of previously certificated UK carriers operating to and from the US and it intends to reissue certificates to those UK carriers. This would allow existing UK carriers to continue to fly to the US, even if they are owned and substantially controlled by non-UK EU interests. New applicants will be required to be owned and substantially controlled by UK interests.

Recommendations

- Closely track the status of negotiations in this area including agreements between the UK and the EU and/or individual countries.
- Take steps to ensure aircraft and aviation personnel comply with EU requirements and certificates, including transferring UK certificates to the EU and establishing EU ownership.
- Businesses and individuals not in the aviation industry may also be impacted and they should prepare contingencies for possible travel disruption, including the movement of both passengers and cargo. Airlines have expressed their commitment to ensuring that air travel runs smoothly even in the event of a no-deal Brexit, but they are also in the midst of addressing disruption and reduced demand due to the COVID-19 pandemic.



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