

The logo for ONYX Strategic Insights, featuring the word "ONYX" in a large, bold, white sans-serif font, with "STRATEGIC INSIGHTS" in a smaller, white sans-serif font directly below it. The logo is positioned in the upper right quadrant of the slide, partially overlapping a large white diamond shape that is rotated 45 degrees.

ONYX
STRATEGIC INSIGHTS

Logistics and warehousing in Europe after Brexit

Adaptation strategies

March 2024

Executive summary

Despite 2024 elections, UK-EU trade relations are unlikely to change

- Both the European Union and United Kingdom are holding major elections in 2024. The European Parliament is likely to see gains in seats for right populist and left populist parties, while the UK will almost certainly see a new Labour government come to power.
- Virtually no election scenario opens the door to major changes in UK-EU trade relations. The EU-UK Trade and Cooperation Agreement (TCA) will remain the legal framework for cross-Channel trade.
- A Labour government under Keir Starmer will seek closer trade relations with the EU, but changes will likely be confined to light revisions in key areas, such as phytosanitary checks on food products.

Brexit has contributed to supply chain segmentation between UK and EU

- Evidence from business surveys and investment data show Brexit has driven firms to segment their UK and EU supply chains.
- Brexit is a factor encouraging businesses to expand their EU production and operations, typically for firms whose European presence prior to Brexit was concentrated in the UK.
- Increased customs checks and processing fees associated with moving goods from the UK to the EU are driving warehousing investments within the EU-27. The Netherlands is a top choice for EU warehousing thanks to its lower taxes and proximity to Rotterdam and Antwerp ports and Schiphol airport.

Multiple strategies exist for adapting to post-Brexit logistics/customs

- Companies that transport goods in the UK and EU can optimize their post-Brexit logistics through several strategies.
- These strategies include establishing or expanding warehousing in the EU for the EU-end market, establishing or expanding warehousing in the UK for the UK end-market, bonded warehousing, and inward processing relief.
- High warehousing costs are a key constraint. The UK has some of the highest warehousing costs in Europe. While warehousing costs in the EU-27 are lower, they usually exceed customs and processing costs associated with UK-EU transport.

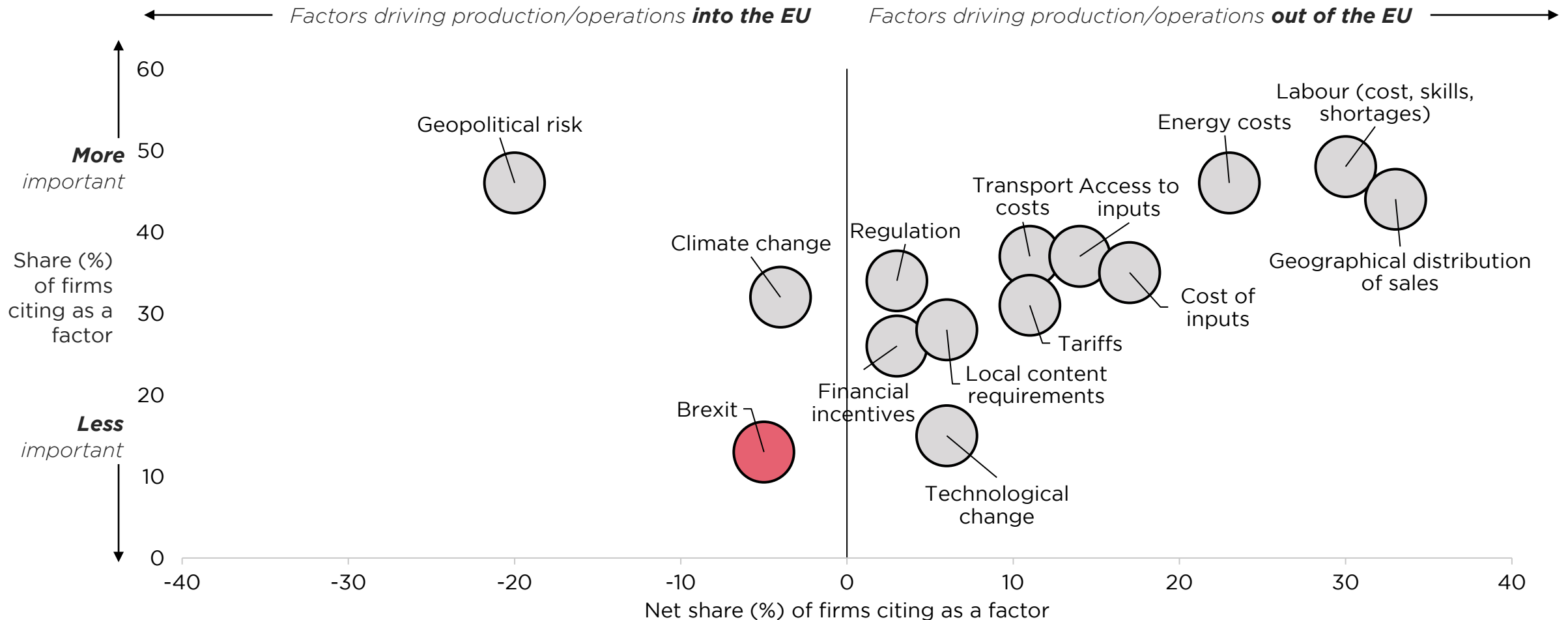
2024 elections could result in tweaks to UK-EU trade

But a UK return to EU customs union is improbable = status quo continues

	European Parliament elections	UK general election
TIMELINE	June 2024	Likely H2 2024
BASE CASE OUTCOME	<ul style="list-style-type: none"> ▪ Notable gain in seats for populist right and populist left parties ▪ Right-wing governing coalition of Christian Democrats and populist right ▪ Von der Leyen remains Commission president with rightward shift in agenda 	<ul style="list-style-type: none"> ▪ Labour government with Keir Starmer as new Prime Minister
PRIORITIES FOR EU-UK TRADE	<ul style="list-style-type: none"> ▪ Revision of trade relations with UK not a priority ▪ Potential for small concessions on a non-salient issue 	<ul style="list-style-type: none"> ▪ Per manifesto, Labour government will not seek to re-join EU customs union or single market ▪ Will pursue closer trade relations on single issues through revisions to EU-UK TCA ▪ Phytosanitary customs checks are a priority -> little short-term impact on other goods

Brexit is encouraging firms to expand EU production

Post-Brexit customs barriers drive segmentation of UK and EU operations



Main approaches for adapting to post-Brexit logistics/customs

Optimization of UK setup for export to EU can reduce costs and red tape

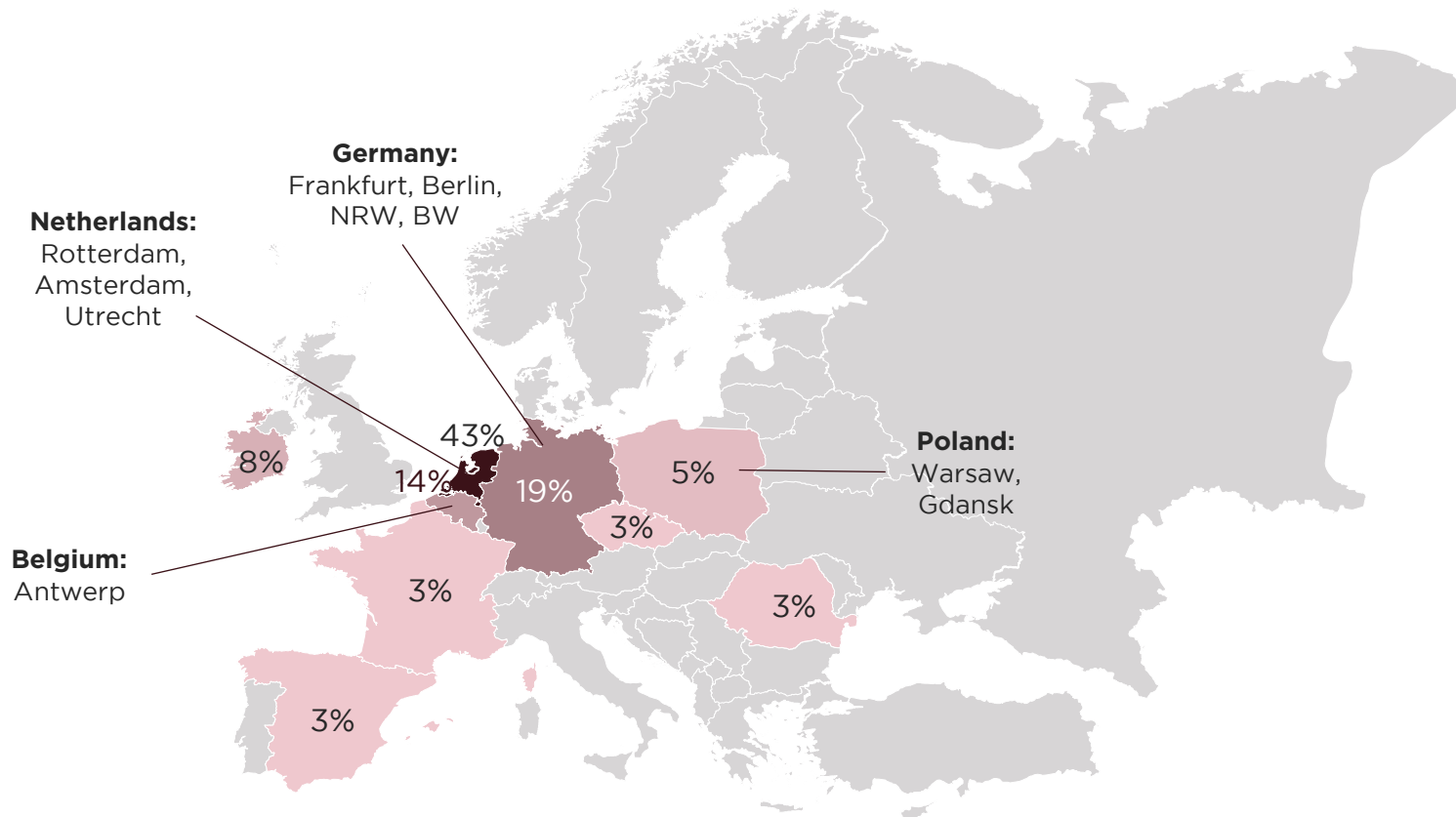
	EU DC FOR EU SALES	BONDED WAREHOUSING IN UK	UK INWARD PROCESSING RELIEF
PROS	<ul style="list-style-type: none">▪ Proximity to EU end-market▪ Shorter lead times▪ Direct import from outside Europe -> avoidance of double taxation	<ul style="list-style-type: none">▪ Eradication of UK duties for re-exported goods -> avoidance of double taxation▪ Useful for cashflow – pay when product is moved out▪ Ability to pool Europe inventory	<ul style="list-style-type: none">▪ Tax relief through suspension of duty and VAT on goods bound for export
CONS	<ul style="list-style-type: none">▪ Product must be segmented between EU and UK -> business becomes more reliant on demand forecasts▪ Inventory management becomes more challenging (e.g., excess stock in EU warehouse, not enough in UK)▪ Costs: Warehousing costs may exceed customs/processing costs of importing from UK	<ul style="list-style-type: none">▪ Still face transport costs and increased lead/processing times exporting to EU▪ Some carriers struggle understanding post-Brexit export/import rules▪ Bonded warehousing has lots of admin and frequent customs checks	<ul style="list-style-type: none">▪ Only applies to manufacturing - Product must physically change state in the UK<ul style="list-style-type: none">▪ This includes final assembly, labeling, etc.

Netherlands is the most common choice for EU DCs

Lower taxes and EU end-market proximity drive new warehousing investment

WAREHOUSING/DC INVESTMENTS IN EU (NEW FACILITIES AND EXPANSIONS)

PROJECTS CITING BREXIT + NEW EU DC INVESTMENTS BY UK FIRMS



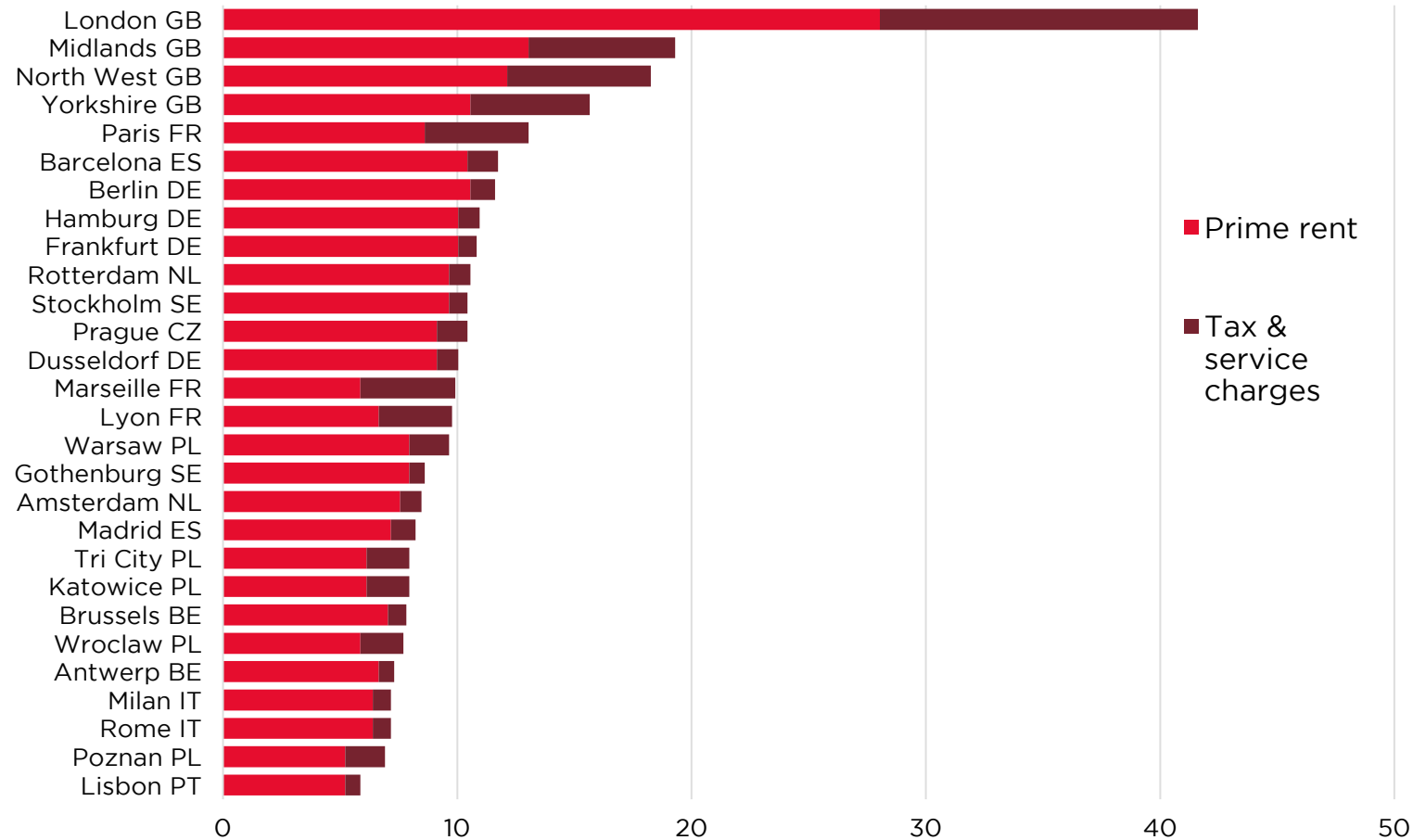
Perennially top-ranked logistics locations in Europe

- **Netherlands:** Venlo, Rotterdam, Amsterdam, Central Brabant
- **Germany:** Dusseldorf, Central Germany, Frankfurt, Cologne, Bonn, Hamburg
- **Poland:** Central Poland-Lodz, Krakow, Wroclaw, West Poland

UK regions have some of the highest warehousing costs in Europe

But lower EU warehousing costs may not always justify adding EU capacity

AVERAGE WAREHOUSING COST, USD PER SQUARE FOOT



- London's warehousing costs are the highest in the world
- Costs in several other UK regions are well above the global and European average
- Lower EU warehousing costs may not justify adding EU capacity, as warehousing costs are still higher than the customs fees associated with EU import
- Rotterdam's warehousing costs remain competitive, but costs rose 21% in 2023 (compared to a global average of 10%) amid strong post-Brexit demand

Source: Savills, Onyx

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