

Potential impacts of Brexit

tfse.org.uk/transport-strategy

Transport Strategy for the South East: Potential Impacts of Brexit



Task 4a Transport for the South East Transport Strategy: Potential Impacts of Brexit

Prepared by:

Steer WSP
28-32 Upper Ground
London SE1 9PD

+44 20 7910 5000
www.steergroup.com

Prepared for:

Transport for the South East

23433701

Contents

1	Introduction.....	1
	A ‘no deal’ Brexit	2
	Norway Plus.....	2
	Soft Brexit	2
	No Brexit.....	2
	The Withdrawal Agreement	3
2	Government Policy Context.....	4
	Department for Transport’s position	5
3	Potential Impacts of Brexit	8
	Brexit Scenarios and potential impacts on gateways, operating environments and travel	8
4	Potential impact on ports in the TfSE Area	17
	Total growth rates for major and minor ports and role of the SE in UK	17
5	Impacts on the transport sector and economy in the TfSE area.....	19
	Transport Investment.....	19
	Business to Business Connectivity and International Gateways	19
	Labour Markets	19
	Development opportunities	20
	Supporting Deprived Communities	20
6	Potential impacts of Brexit on the transport system.....	21
	Potential Short-term Impacts.....	21
	Freight – road haulage.....	21
	Rail	22
	Aviation.....	22
	Sea (Ports and Maritime)	23
	Cross Modal Issues	23
7	International Gateways – Brexit Preparations	24
	Operation Brock	24
	Ports of the the South East.....	25

Other Gateways within the TfSE Area	26
8 Views of Key Stakeholders	30
What could be the likely short-term, direct impacts (e.g. travel times, reliability, costs) of Brexit on travel?	30
Which industrial sectors might be most impacted? How and where?	31
What could be the indirect impacts of changes in travel demand on the wider economy?	31
9 Summary of Key Findings and Next Steps.....	32
Next steps.....	33

Figures

Figure 1: International gateways in the TfSE area	24
Figure 2: Stakeholder workshop slide on Impacts of Brexit (January 2019)	30

Tables

Table 1: Potential Impacts of Brexit – Port Traffic.....	10
Table 2: Potential Impacts of Brexit – Air Traffic.....	13
Table 3: Potential Impacts of Brexit – International Rail.....	14
Table 4: Potential Impacts of Brexit – Demand for Travel.....	15
Table 5: Potential Impacts of Brexit – Geographical distribution of demand	16
Table 6: Forecast Growth Rates at the major ports in the TfSE area	18

1 Introduction

- 1.1 This report details the task of examining the potential transport impacts of Brexit in the South East before the United Kingdom (UK) leaves the European Union (EU). These impacts will be reassessed after the current deadline for leaving the EU has passed on the 29th March 2019 or an agreed extended date between the UK and EU.
- 1.2 The task looks at the shorter term impacts and their specific impact on the transport system within the Transport for South East (TfSE) area, which may need to be taken into consideration when developing the TfSE's Transport Strategy.
- 1.3 Given the uncertainty about the terms of any exit deal, this task sets out the potential high level consequences. A more detailed analysis will be undertaken once the terms of any deal or no deal are understood.
- 1.4 On 23rd June 2016 the UK public voted to leave the EU. The Prime Minister triggered Article 50 of the Treaty on 29th March 2017 to begin the process of exiting the EU.
- 1.5 The UK is currently in the process of negotiating its exit from the EU. As these negotiations are ongoing, and are very complex, it is difficult to predict the exact impact of Brexit on transport policy, industry, services and operations. It is however noted that government papers have been released to prepare for many eventualities on the impact of Brexit which includes preparations for transport related matters.
- 1.6 Since the vote to leave the EU on 23rd June 2016 there has been ongoing EU and government negotiations and meetings which have been supported by the release of a significant amount of data about the potential impacts on the transport sector. A detailed timeline can be found in a Briefing Paper¹ published by the House of Commons Library which sets out the events leading to the UKs exiting from the EU.
- 1.7 As recognised in TfSE's Economic Connectivity Review (ECR) withdrawal from the EU presents significant uncertainty. With its strong economy and substantial economic assets including its major international gateways, the South East is the most productive area in the UK outside of London and plays a key role to the UK whatever the outcome of the Brexit negotiations. Without the right investment and business-supportive policy decisions, the economy of the South East, and therefore, the UK, may suffer along with the ability of its international gateways to facilitate international trade.
- 1.8 Due to the ongoing negotiations a wide variety of scenarios remain a possibility. The following scenarios have been considered, which are believed to be the most likely:

¹ Source: House of Commons Library – [Brexit timeline: events leading to the UK's exit from the European Union](#)

A 'no deal' Brexit

- 1.9 A no-deal Brexit would mean the UK leaving the EU and cutting ties immediately. If MPs do not approve the deal that the government has negotiated, and there is no alternative deal or move to delay or stop Brexit, the UK could leave with 'no deal' on 29th March 2019 or an extended date as negotiated between the EU and UK.
- 1.10 A no deal Brexit will mean that the UK would be treated by the EU as a 'third country'. The UK would be subject to robust custom declarations and border checks thus delaying movement through the gateways in the TfSE area. The consequences of a no deal will create delays and a significant impact on the transport network in the TfSE area.
- 1.11 The UK would have to follow World Trade Organisation rules to allow trade with the EU and other countries. The UK would also need to negotiate free-trade deals. There could be an impact to all the industrial sectors identified in the ECR. There could be a significant change to operating environments and travel, particularly on routes leading into TfSE's international gateways due to border and custom restrictions.

Norway Plus

- 1.12 Norway is not a member of the EU but it is in the European Economic Area (EEA) which allows the country to be part of the EU's single market. Therefore, this scenario would provide the closest relationship the UK could have with the EU without being a member.
- 1.13 The UK would remain in the EU single market and be able to trade freely with other EU members, but in return it would have to allow the free movement of people.
- 1.14 The UK would also have to contribute to the EU budget, however this would be a smaller contribution than the UK currently makes. The UK would also be required to follow many of the EU's rules and laws including the freedom of movement of goods, services, capital and people. This would mean that people from across the EU would be free to live and work in the UK, and residents from the UK could live and work across the EU. However, the UK would have no formal say in making the EU rules as the UK would not be a member.

Soft Brexit

- 1.15 This would mean the UK leaving the EU but staying closely aligned to the EU. This could mean, keeping the UK in the single market or the customs union or both. It could involve the continuation of free movement. EU citizens would retain the right to settle and work in the UK and have access to public services and benefits; UK citizens would retain the same rights in the EU. A soft Brexit will have a limited impact on priority economic sectors identified in the ECR and changes to operating environments and travel would be limited.

No Brexit

- 1.16 In the scenario of 'no Brexit' it is expected that the UK will continue 'business as usual' in terms of transport. It is likely that the UK would revoke Article 50 and politically it may be necessary to hold a second referendum to confirm a 'no Brexit' scenario.
- 1.17 The Office of National Statistics (ONS) has reported on the 10th May 2019 that growth was 0.5% in the first quarter of 2019, having slowed to 0.2% in the previous quarter. This was partly due to manufacturing growing at its fastest rate since 1988 in the period. The ONS points to evidence of manufacturers stock piling, therefore it is unclear if this economic growth is a long term trend. However, if the outcome of Brexit negotiation is a 'no Brexit' scenario, it is likely

that confidence will be regained in the UK and there is the potential for a short term economic boost because of some of the investment decisions that had been put on hold during the negotiation period now being implemented.

The Withdrawal Agreement

- 1.18 The Withdrawal Agreement ² is the draft agreement on the withdrawal of the UK of Great Britain and Northern Ireland from the European Union as endorsed by leaders at a special meeting of the European Council on 25 November 2018.
- 1.19 The agreement sets out the future relationship between the UK and the EU including the terms of the UK's smooth and orderly exit from the EU, including provisions for an implementation period when the UK leaves the EU.
- 1.20 The 599 page document includes information on the finances, citizens rights including travel between the EU and UK and arrangements at borders.

² Source: Government [website – Withdrawal Agreement](#)

2 Government Policy Context

- 2.1 Since the outcome of the public vote to leave in 23rd June 2016 the government's preparations for Brexit in the transport sector have mainly been focused on the impact on air transport, continuing membership of the European Aviation Safety Agency (EASA), road haulage and on potential delays at UK ports, particularly at Dover.
- 2.2 In June 2018 the Department for exiting the European Union³ published a framework for UK-EU partnership on transport post-Brexit. In the form of a presentation, the Framework explains the UK government's vision for Transport elements of the future UK-EU partnership post Brexit.
- 2.3 The Framework seeks a comprehensive agreement on air transport, providing continuity of services and opportunities, supporting growth and innovation in the future and an enduring solution that negates the need for permits, additional documents, and systematic document checks for all road users.
- 2.4 A White Paper⁴ was also published in July 2018 on the future relationship between the UK and the EU post 29th March 2019. The White Paper sets out the UK's broad ambitions for a Brexit deal including consideration of transport.
- 2.5 At the time of writing a number of treaties are being negotiated between the UK and EU. An Air Transport Agreement has been drawn up which seeks to continue existing aviation access between and within the territory of the UK and the EU. The government has explored options for road transport, including reciprocal access for UK and EU road hauliers and passenger transport operators. There has also been close cooperation on maritime transport and the European Maritime Safety Agency (EMSA) to find a practical and pragmatic way to continue to cooperate with the EU on cross-border trading and security threats. On international rail, bilateral rail agreements have been developed with relevant EU member states to support the continued operation of services through the Channel Tunnel.
- 2.6 On 25th November 2018 the Withdrawal Agreement and Political Declaration on the future relationship between the UK and the EU was endorsed by leaders of the EU Member states at a special meeting of the European Council. However, agreement was not reached by the House of Commons and negotiations have continued.
- 2.7 Should the Withdrawal Agreement be accepted by the House of Commons the UK will leave the EU on 29th March 2019 (or on an agreed extension with the EU) after which there will be a transition period (or referenced by government as Implementation period) between 29th March 2019 to 31st December 2020.

³ Source: Government Brexit [website](#)

⁴ Source: Governments Brexit [White Paper](#)

- 2.8 During the transition period the UK and the EU still need to agree the details of a new trade deal and businesses will need more time to adjust to all the changes that they must make because of the Agreement. The UK will still be in the EU's economic zone; the single market and the customs union during this period. This will mean trade without checks and delays at borders will continue. The UK will continue to follow EU rules.

Department for Transport's position

- 2.9 Prior to the White Paper release in July 2018, the Department for Transport (DfT) requested confirmation of the ministerial direction relating to EU exit preparations in May 2018.
- 2.10 Concerns were raised by the DfT about the amount of preparation required before the 29th March 2019.
- 2.11 Following the release of the White Paper the National Audit Office (NAO) published a report⁵ looking at how the DfT had organised itself (as at July 2018) to support a successful exit from the EU. The NAO report set out the DfT's position to date (as of July 2018) in their preparation for Brexit. The key findings were:
- DfT is delivering and reporting progress on 18 out of 314 EU Exit work streams to the Department for Exiting the European Union as at June 2018;
 - DfT is still to introduce 63 statutory instruments, by March 2019 on top of 64 business-as-usual statutory instruments, as of April 2018;
 - 14 of the 18 work streams setting out contingency arrangement for exit from the EU which are being led by DfT were on track as of March 2018;
 - 52.5 additional full-time equivalent staff were flagged as being required for 2018-19 by the DfT to work on EU Exit, on top of 84 existing full-time equivalent staff;
 - In the event of 'no deal' being reached the number of International Driving Permits (IDPs) to be issued in the first year is estimated to be between 100,000 – 7 million; and
 - DfT and its arm's-length bodies have estimated they will spend £180 million on EU Exit arrangements by March 2022.
- 2.12 Since the NAO report it has been recognised that the DfT has ramped up their efforts to address the significant and complex challenges involved in delivering the wide-ranging set of actions required to support the UK's exit from the EU and have clarified many of the points identified by the NAO report.
- The DfT has acknowledged that their preparation for Brexit has been challenging due to the uncertainty surrounding the Brexit negotiations since the release of the White Paper in July 2018;
 - DfT Brexit preparation projects include traffic impacts; border arrangements and vehicle emission targets and many papers have been released by the DfT over the past few months with updates confirming their position in preparation for leaving the EU; and
 - Due to the uncertain backdrop over the form of the negotiations and associated timings, the DfT has also prepared a large volume of secondary legislation that is required before the 29th March 2019 (i.e. preparation for a 'no deal' Brexit) and has been working with its key partners to ensure preparations are in place including Ports, Airports and Highway Authorities in the South East.

⁵ Source: NAO report – [DfT – Implementing the UK's Exit from the European Union](#)

- 2.13 Despite these efforts, the DfT recognises that they still face considerable challenges. There is work to be done on the contingency arrangements required in case of a 'no deal', with an increasing risk of not being able to deliver these within the time available.
- 2.14 Due to concerns about the UK's preparedness for Brexit following the release of the White Paper, the government released a collection of technical notes in August 2018. These provided guidance on the preparations that should be made if the UK leaves the EU including a 'no deal'. They included reference to driving and transport, importing and exporting, State Aid (which could impact on future investments on Transport infrastructure) and travel between the UK and the EU.

Possible establishment of Free Ports

- 2.15 The government are reporting that Free Ports could be of economic benefit to the UK following Brexit. There is no specific definition of Free Ports and the port arrangements differ between countries in which Free Ports operate. The UK government generally classes Free Ports as:
- "designated areas inside a country geographically, but outside of that country's established customs area, thus allowing components and goods to be imported, manufactured and exported without being subject to the host country's standard tariffs and export/import procedures"*⁶
- 2.16 At present it is not possible to establish Free Ports in the UK as it is currently a member of the EU. Brexit offers the possibility to establish Free Ports and there has been discussion by government about the pros and cons of these. Policy is not established and will be determined by the outcome of the Brexit negotiations.
- 2.17 There are significant numbers of Free Ports around the world including some in the EU but currently no Free Ports operate in the UK (with the exception of the Isle of Man). If this model were to be adopted, then it is apparent that the major ports in the South East could adopt this system, with the potential to attract higher cargo volumes and therefore increase pressure on the transport network.
- 2.18 In simplified terms a Free Port is a clearly defined physical location where goods can be unloaded and modified (stored, assembled, completed, etc.) prior to onward shipment. In legal terms the goods do not enter the country and are not subject to tariffs or other duties. The establishment of a Free Port could act as a stimulus to the local economy but may result in reduced revenues for the government if existing activities are simply displaced into the Free Port.
- 2.19 The potential for Free Ports within the TfSE area would not be relevant if the government were to adopt a policy of unilateral free trade after Brexit. They could, however, be of some limited use during any transition period after March 29th. Such a temporary role would be of limited efficiency and not attract the kind of long term investment on which Free Ports are predicated.
- 2.20 Free Ports may have a role to play at the national level, and could be beneficial in the South East, but until policy is clearer about the nature of the relationship with the EU and government policy for tariffs and free trade is apparent their role remains uncertain.

⁶ Source -House of Commons Library –[The establishment of free ports in the uk](#)

Services Regulations

- 2.21 The EU Port Services Regulations passed into EU law in March 2017 with a two year deadline for member states to implement the Services Regulation. In the UK this regulation is due to come into effect on 24th March 2019 which is only five days before the UK is due to leave the EU.
- 2.22 In summary the main aims and requirements of this regulation are to:
- Promote competition in the provision of certain services within the larger sea ports of continental Europe, such as Rotterdam, Antwerp and Hamburg;
 - Encourage competition by making it easier for these port services, such as mooring and piloting to be provided by outside companies; and
 - Ensure financial transparency, both of port charges (subject to confidential discounts) and of the extent of any public funding of ports.
- 2.23 The structure of UK ports is different from the typical continental model. In most EU countries the state is the landlord in the port and offers concessions for cargo handling. The Ports Directive is designed to promote competition between commercial enterprises in the ports and to eliminate indirect subsidies. In the UK, ports are private companies with freehold status. This is a quite different structure and UK ports have long argued that the Ports Directive is not appropriate in the UK context. It has been suggested during the Brexit negotiations that to avoid costly regulation on UK sea ports, the EU Port Services Regulation should be removed from the EU Withdrawal Bill.
- 2.24 At the very least it has been suggested that the regulation should be removed at the earliest opportunity after the UK has left the EU. The regulation attempts to promote competition within the large sea ports of continental Europe where competition is limited. It has been recognised that a strongly competitive position is already in place in the UK and there are no state subsidies. As such, the regulation is not appropriate to the UK.
- 2.25 At the time of writing the status of this regulation is unknown, however post 29th March 2019 this regulation could have a significant impact to the international gateways in the TfSE area depending on the outcome of Brexit.

Standards and operations.

- 2.26 One of the common issues that has been raised throughout the Brexit negotiations is the impact on standards and operations the UK chooses to apply post Brexit, including those relating to the transport sector. It is expected that in most cases these will be similar if not identical to those already applied in the EU.
- 2.27 Historically the UK has played a key role in establishing standards to its own satisfaction. This suggests that transport standards and operations in the UK post-Brexit may not look that different to how they look now.
- 2.28 UK Transport providers and businesses will require interaction with the EU in the future to ensure standards are maintained and similar transport operations continue. This includes managing the potential effects on the impact to workforce availability post Brexit.

3 Potential Impacts of Brexit

Brexit Scenarios and potential impacts on gateways, operating environments and travel

- 3.1 The following tables set out the various Brexit scenarios and potential impacts on port traffic, air traffic, international rail, travel demand and the geographical distribution of demand. An examination of each table is as follows.

Port Traffic

- 3.2 The development of port demand and the impact of the different scenarios on each trade sector of port traffic will differ markedly. These are explored in Table 1 below. From the current perspective it is not possible to define which of these scenarios is the most likely outcome. We have selected the following categories of trades as being the most likely to be impacted to varying degrees under each scenario:
- a) Containers are the dominant mode for deepsea trade. The level of demand development will vary under different scenarios in line with the overall expansion of the UK economy and the relative importance of trade with the EU and other markets.
 - b) Ro-ro cargo (i.e. accompanied trucks) is the dominant modality of EU trade. The levels of trade demand and the efficiency of this mode will be impacted differently on a scenario-specific basis.
 - c) The direction of trade in exported and imported vehicles is a further sector where the direction of flows will be influenced by the levels of tariffs applied. There will also be an impact on vehicle components under each scenario.
 - d) Agricultural trade and the common agricultural policy (CAP) has been closely determined by membership of the EU. Withdrawal would see changes in the direction of trade, with global sourcing adopted and an uncertain level of support for domestic production.

Air traffic and International rail

- 3.3 Cargo and passenger movements via air and rail could be impacted under different Brexit outcomes including challenges to imports and exports and delays to air and rail travel for both cargo and passengers. These are explored in Table 2 and Table 3 for air and rail respectively.

Demand for travel

- 3.4 The demand for travel could be impacted under different Brexit outcomes. These are explored within Table 4.

Geographical distribution of demand

- 3.5 Under different Brexit outcomes the geographical distribution of demand for travel could change within the TfSE area due to challenges accessing ports and airports at key gateways. These are explored within Table 5.

Table 1: Potential Impacts of Brexit – Port Traffic

Scenario	Port Traffic			
	Containers	Ro-ro cargo	Ro-ro exports for cars and other vehicles	Agricultural products
'No deal' Brexit	Declining trade opportunities and lower levels of investment in the short to medium term could overall reduce consumption / production in the UK thereby constraining container demand growth. Beyond 2019, trade is likely to slump as no trade deal has been reached. Shortsea ⁷ trades could be affected although to some extent compensated by more deep-sea trades. Increased administrative procedures will increase container dwell time for trade with the EU. Deepsea ⁸ trade will be unaffected.	Slower economic growth will result in lower volumes of ro-ro trade in both directions. Increased time for customs procedures will slow trade at the major gateway ro-ro ports including Dover with possible increased use of uncongested secondary ports. Ro-ro will decline as a proportion of total shortsea trades, with containers increasing more rapidly (within a lower overall demand profile).	Investment will contract in the short term. Depreciation of the GBP could see increased exports – especially to non-EU markets. If no specific deals on cars then tariffs will impact on imports and exports from the EU. Other demand may grow more rapidly. In the long term the Pound Sterling will appreciate again, resulting in challenging conditions for the car manufacturers who are also faced with import/export tariffs.	In the short term, current structure of import and exports of agricultural products remains the same. The structure of trades after 2019 will be dependent upon tariff structures. It is likely that the 'no deal' option will see increased subsidies for domestic production and lower import volumes from the EU.

⁷ Shortsea - Trade to and from continental Europe including northern littoral of the Mediterranean

⁸ Deepsea - All other trade beyond shortsea

Scenario	Port Traffic			
	<i>Containers</i>	<i>Ro-ro cargo</i>	<i>Ro-ro exports for cars and other vehicles</i>	<i>Agricultural products</i>
Norway Plus	Overall economic demand will be stronger than a no deal with maintained imports of containerised general cargo. The pattern of trade between the UK and the EU would continue the current pattern, with some increased role for deep-sea containers over the longer term as a more global sourcing pattern is adopted.	The main drivers of demand will not be significantly altered, with limited border checks imposed and the overall development of demand will continue along the baseline.	Imports could proceed along existing lines with volumes dominated by exports and imports to/from EU markets. There could be a slightly lower overall demand profile due to short term uncertainties. It is likely that there will be a further slowdown in domestic production as uncertainties continue about the automotive sector.	The current pattern of food imports will be maintained under this scenario, with a continued high dependence upon food imports, with this focused on shortsea ferry traffic. There may be scope for some increased volumes from non-EU deep-sea suppliers.
Soft Brexit	Following short term disruption, a period of recovery could see a reassertion of the position to 2017 – i.e. a close integration of trade with the EU. Deep-sea non-EU demand could continue to record strong growth funded by general economic expansion and reliance on globally sourced manufactured goods. Asian and other trade regions. Shortsea container flows could remain of secondary importance, with the ro-ro ferry sector continuing to dominate trade to/from the EU.	Little impact on volumes or direction of ferry traffic. The concentration of demand via Dover would only suffer a limited impact from a slight increase in import bureaucracy.	Imports could proceed along existing lines i.e. strong growth would continue to be noted in this sector. There could be a slowdown in the pace of domestic production until current uncertainties stabilise and the structure of long term trade arrangements becomes clearer. The likely outcome is a somewhat slower demand growth in this sector.	The current pattern of food imports could be maintained under this scenario, with a continued high dependence upon food imports, with this focused on shortsea ferry traffic.

Scenario	Port Traffic			
	<i>Containers</i>	<i>Ro-ro cargo</i>	<i>Ro-ro exports for cars and other vehicles</i>	<i>Agricultural products</i>
No Brexit	Baseline demand in a no Brexit scenario could be reasserted. Strong growth in consumer goods demand sourced from China and other Asian imports could continue, with a direct link to the overall pace of economic expansion. Limited expansion is anticipated in containerised goods flows between EU states. Typical annual growth rates could be in the 3.5-4 per cent per annum range depending on macro conditions.	This mode is dominant for intra-EU trade and this could continue to be manifested if Brexit is not pursued. i.e. the existing pattern of trade could continue. Growth rates of around 2.5 to 3% per annum are anticipated.	The degree to which this sector has been adversely impacted by the Brexit uncertainties is not clear. This has been a major demand sector for the UK, but demand growth here is now under pressure from diesel and trade issues and the near-sourcing of Japanese production. Slower growth likely to occur even under a no-Brexit situation.	Growth rates noted to 2017 could be re-approximated with the emphasis on imports - i.e. the focusing of agricultural trade on imports of EU sourced commodities and products could continue. The pace of expansion could be directly linked to macro conditions.
Withdrawal Agreement	The prospect of leaving the EU could be relatively non-eventful for ports handling bulk loads or containers, where exiting processes and systems should be easier to adapt	If the Withdrawal Agreement is implemented it could be a be more challenging to accommodate new customs and regulatory controls at EU and UK ro/ro ports due to new time-consuming and costly processes which likely to delay imports and exports of cargo, trade cars and vehicles and Agricultural products.		

Table 2: Potential Impacts of Brexit – Air Traffic

Scenario	Air Traffic	
	Cargo	Passengers
'No deal' Brexit	In the short term there could be an impact to imports and exports of cargo due to grounded flights. However, if there are queues at the Port of Dover it is likely that cargo numbers will increase on short haul planes from European markets.	In the short term there is a risk of grounded flights resulting in a significant impact to passengers and long queues at airports; however, the DfT has confirmed that if there is a 'no deal' flights should continue as normal. There could be extra passenger trade from TfSE Ports because of passengers avoiding potential congestion accessing the ports and choosing to travel by air instead.
Norway Plus	The UK would remain in the EU single market, able to trade freely and therefore under this scenario would have little impact to air traffic. New EU rule and laws would have to be followed (that the UK has not been party to) which could have an impact on the UK's economic sectors thus impacting volumes of cargo at Airports.	The demand will not be significantly altered at airports, with limited border checks imposed. Although under this scenario the UK would have to follow more EU rules and laws introduced by the EU (which the UK would not have a say in) passenger flows and environments at airports are likely to be unchanged.
Soft Brexit	There would be little impact on volumes or direction of air cargo traffic because under this scenario the UK will remain closely aligned to the EU.	Under this scenario the free movement of people may still continue and therefore the impact will be limited
No Brexit	The degree to which this sector has been adversely impacted by the Brexit uncertainties is not clear but over time growth is expected to rise in line with passenger numbers particularly around the long haul flights, which could lead to a significant increase of cargo.	In the short term due to the uncertainties leading up to Brexit passenger numbers could drop because of people holding back flight and holiday bookings until the outcome of Brexit is clear. Thereafter under this scenario passenger numbers could continue to rise in line with the current passenger number trends at airports in the TfSE area.
Withdrawal Agreement	It could be challenging at first to accommodate new customs and regulatory controls at EU and UK airports due to new time-consuming and costly processes which likely to delay imports and exports of cargo.	The prospect of leaving the EU could be relatively non-eventful for Airport for passengers if the proposed agreements currently being developed by the DfT, particularly given a transition period to adapt to any changes.

Table 3: Potential Impacts of Brexit – International Rail

Scenario	International Rail	
	Cargo	Passengers
'No deal' Brexit	In the short term there could be a risk of delays due to increased border controls affecting the import and exports of cargo due to delayed rail travel. Queues may be an issue for Trucks particularly using the Eurotunnel's Le Shuttle service if strict border controls are introduced adding the likely congestion on roads leading to Felixstowe terminal.	There could be a small risk of delays due to increased border controls; however, there is also the potential for extra passenger trade through other TfSE Ports due to congestion, using the Eurotunnel's Le Shuttle as an alternative. Or increased passenger demand for the Eurostar.
Norway Plus	The UK would remain in the EU single market, and be able to trade freely and therefore under this scenario there would be little impact on International Rail cargo.	Demand will not be significantly altered for passengers using International rail, with limited border checks imposed. Although under this scenario the UK would have to follow more EU rules, passenger flows and environments at between the UK and EU through the Channel Tunnel are likely to be unchanged.
Soft Brexit	Little impact on volumes of cargo using the Eurotunnel's Le Shuttle service.	Assuming a soft Brexit leads to the UK being in the EU single market, free movement across borders will be permitted, therefore the impact will be limited on international rail travel.
No Brexit	There could be a short term drop in cargo imports and exports and economic growth may be slower due to the uncertainties leading up to the outcome of the Brexit negotiations. Eurotunnel's Le Shuttle would be expected to continue business as usual very quickly. Based on current trend freight trains using the tunnel are expected to increase. Freight trains using the tunnel have increase slightly since 2016 (1797), 2017 (2012) and 2018 (2077) with 1,693,462 trucks using the shuttle service in 2018 against 1,641,638 in 2016.	In the short term due to the uncertainties leading up to the outcome of Brexit negotiations passenger's numbers could drop however as the Brexit position settles it is likely that passenger numbers will start to increase. Based on current trends from DfT figures passengers' numbers are likely to increase in 2016 total passenger numbers were at 10,011,337, 2017 they increase to 10,300,622 and in 2018 the figure has increase even further to 10,971,650 passengers.

Scenario	International Rail	
	<i>Cargo</i>	<i>Passengers</i>
Withdrawal Agreement	New customs and regulatory controls will be required at the Channel Tunnel by the end of the transition period. These new controls could delay imports and exports of cargo through the Channel Tunnel.	The prospect of leaving the EU under this scenario could have very limited impacts for international rail passengers if proposed passport arrangements are implemented.

Table 4: Potential Impacts of Brexit – Demand for Travel

Scenario	Demand for Travel
'No deal' Brexit	A 'no deal' could impact economic opportunities and may lead to higher prices for consumers. As a result, patterns for travel would change based on price increases for transport modes.
Norway Plus	Under this scenario demand for travel is likely to remain the same.
Soft Brexit	Under this scenario demand for travel is likely to remain the same.
No Brexit	It is likely that after a small decline in travel due to the uncertainties about the outcome of Brexit, demand for travel is likely to follow similar travel patterns for road, rail and air. Post March 29 th the National Statistics figures could be reviewed when available to confirm this.
Withdrawal Agreement	If the government can pass the Withdrawal Agreement and the DfT can finalise the preparations for Brexit, the demand for travel is likely to remain the same. However, if the UK economy shows evidence of a decline (which may be the case) travel demands may decrease.

Table 5: Potential Impacts of Brexit – Geographical distribution of demand

Scenario	Geographical distribution of demand
'No deal' Brexit	Pressures at south east ports could result in other south east ports, airports and international rail being utilised. For example pressure at the Port of Dover could be relieved by other ports within the TfSE area. In turn this could create local congestion on the transport network.
Norway Plus	This approach could have an impact on the UK's economic sectors but should not have any significant changes to operating environments and travel.
Soft Brexit	A soft Brexit will have a limited impact on priority economic sectors as outline in the ECR and changes distribution of demand will be limited.
No Brexit	Business as usual.
Withdrawal Agreement	If checks and controls are implemented under the final Brexit deal the distribution for demand may change. If delays at ports are experienced supply chains may change their distributions patterns using airports and the Eurotunnel's Le Shuttle as alternatives.

4 Potential impact on ports in the TfSE Area

- 4.1 The following key points (as detailed in tables above) could result from the range of possible Brexit scenarios. Without Brexit - i.e. a continuation of the status quo – the transport and development pressures could be focused on:
- the provision of further deep water container capacity - specifically at Southampton;
 - the provision of more land in Southampton to handle increased trade volumes; and
 - continued expansion at Dover for increased ferry traffic.
- 4.2 This is a further expansion of the established ports in the region to handle anticipated increased volumes based on expansion of the national economy.
- 4.3 Under Norway plus and Soft Brexit, the impact will be limited. The deep-sea container sector will not be significantly impacted and there could be only a limited reduction in the volume of ferry traffic via Dover.
- 4.4 With No Deal, the situation is more complex. It is likely that a slower overall economic growth will be experienced in the short to medium term, although there is clear scope for more rapid expansion. A No Deal situation would have an impact on economic growth in the first two-three years but it is likely that the adoption of a new model for UK trade – i.e. free trade or a series of bespoke trade deals – has the potential to see strong recovery and expansion of the UK economy. This is a consensus view for some economists and should not be discounted by current vested interest groups.
- 4.5 This could take some of the pressure off demand growth at Southampton for containers. Also, a decline in car exports is anticipated, but this may be replaced by increased non-EU imports.

Total growth rates for major and minor ports and role of the SE in UK

- 4.6 Based on trade data from government growth has been focused on the major ports in the region namely Southampton, Portsmouth and Dover, with ro-ro and container flows recording a Compound Annual Growth Rate (CAGR) of 1.3 and 2.2 per cent, respectively between 2010 and 2017.
- 4.7 The import and export of vehicles has been a major growth sector with a CAGR of 8.9 per cent between 2010 and 2017. Southampton has been the major beneficiary of this trend.
- 4.8 Demand has been focused on the major ports, with negative growth occurring at the smaller ports in the region.
- 4.9 Ports in the TfSE area are dominant within the UK for ro-ro and passenger traffic. These are the sectors most vulnerable under a 'no deal' scenario. This could be partially mitigated by Southampton's strong position in deep-sea (i.e. non-EU) containerisation.

- 4.10 Comprehensive forecasting of the impact of different scenarios is complex. However, it is apparent that the combination of adjusted economic expansion and the redirection of trade flows⁹ will impact on anticipated growth rates as shown in Table 6 below.

Table 6: Forecast Growth Rates at the major ports in the TfSE area

South-East Ports ¹⁰ - Forecast Demand Growth to 2030			
Compound Annual Growth Rate	2010-2017	to 2030 No Brexit	to 2030 No Deal
Ro-ro	0.5%	6.5%	3.0%
Containers	-1.6%	2.0%	3.2%
General cargo	1.0%	0.5%	0.5%
Dry bulk	-0.4%	0.0%	1.5%
Liquid bulk	-4.3%	-2.0%	1.5%
Passengers	-3.7%	1.2%	1.1%
Import/Export motor vehicles	6.8%	5.5%	3.5%

- 4.11 In general, a 'no deal' Brexit could see slower expansion in the short term followed by a more rapid economic expansion as trade increases with other partners. This could see container flows increase more rapidly, with other sectors recording a slower growth rate than anticipated in the Baseline forecasts. Norway Plus and Soft Brexit could see growth between somewhere between these other two scenarios.

⁹ Source – [Government Database](#)

¹⁰ South East Ports – Southampton, Portsmouth and Dover

5 Impacts on the transport sector and economy in the TfSE area

- 5.1 The section briefly sets out the possible short-term impacts on the transport and economy in the South East and considers the potential changes in the level and pattern of transport demand arising from these impacts.

Transport Investment

- 5.2 To ensure an effective transition as the UK leaves the EU, significant transport investment in terms of capital and operational (revenue), particularly along corridors and at international gateways identified in the ECR, may be required to address the potential impacts of Brexit.
- 5.3 This could include investment in storage areas, improvements to infrastructure leading into the international gateways and increasing operations and resourcing at international gateways.

Business to Business Connectivity and International Gateways

- 5.4 Transport congestion could be an issue for business to business connectivity in the short term around the gateways in the TfSE area, which will impact on the potential for economic growth. There could be an increase in journey times and a reduction in journey time reliability as the import and export of goods are delayed by additional customs checks at then ports. The priority sectors in the TfSE area, which are most likely to be impacted, are those which rely on efficient trade and supply chain operation with EU partners. These include:
- advanced engineering and manufacture;
 - transport and logistics;
 - low carbon environmental; and
 - marine, maritime and defence.
- 5.5 The enabling sectors identified in the ECR which support the South East economy that could be most negatively impacted are construction and health. Increased travel times and delays at ports and airports and possible increases in the cost of travel due to higher operating costs (exchange rate fluctuations and trends excluded) may also negatively impact the number of international tourists visiting the UK, but may boost domestic tourism if the pound de-values.
- 5.6 The possible imposition of tariffs on goods under a no deal would be likely to have a negative impact to consumers and businesses due possible price rises.

Labour Markets

- 5.7 Improved labour market efficiency, enabling firms to access a larger labour supply, and wider employment opportunities for workers and those seeking work are important to the economy including transport operations and services. There have been concerns raised about the

availability of labour post Brexit however government has stated that this may not be such a significant impact as was originally anticipated.

Development opportunities

- 5.8 Irrespective of the outcome of Brexit, transport infrastructure will continue to facilitate development by unlocking sites and locations that were previously poorly connected.
- 5.9 However, there will need to be further analysis of development sites near to TfSE gateways in the event they need more land area to support their operations and to ensure the transport network near their facilities operates effectively.

Supporting Deprived Communities

- 5.10 The outcome of Brexit may bring an increase in the number of job opportunities and reduced competition for employment as a result of there being fewer non UK EU nationals in the UK labour market. However, there may also be fewer job opportunities because of any general downturn in the economy post Brexit.
- 5.11 In the short term, all the TfSE area's high growth priority sectors are likely to be negatively impacted by Brexit because of a shrinkage in the labour market and/or increased recruitment and visa costs.
- 5.12 In the long term, it could be argued that this will have more impact on sectors which rely more on lower skilled workers including tourism, transport and logistics, construction, and some aspects of the health sector.

6 Potential impacts of Brexit on the transport system

- 6.1 Membership of the EU has had a substantial influence on the market in transport services, the regulation of safety standards and environmental impacts, the development of a trans-European transport infrastructure and relations with countries outside the EU on transport matters. The current arrangements and key potential impact of Brexit to specific modes of transport are set out below.

Potential Short-term Impacts

- 6.2 In view of on the current status of the Brexit negotiations it is likely that there will be many short-term impacts on the transport system in the TfSE area. These may need to be taken in to account in the development of the Transport Strategy. Most scenarios detailed above will have limited impact on the seaborne, air and rail sectors, although a 'no deal', Soft Brexit and Norway Plus arrangements may see some increased customs bureaucracy at the ports with associated delays and congestion.
- 6.3 The 'no deal' option will have short term impacts. For example, Dover will be congested and the failure to prepare additional port capacity in the region may cause disruption to trade flows. This may have an impact on consumer imports and manufacturing supply chains and could see a rapid readjustment with other ports rapidly commissioned. In the south-east this could divert road traffic flows away from the M2/M20 route to local roads. This could be a relatively short term effect ahead of establishment of a new equilibrium.

Freight – road haulage

- 6.4 The TfSE road network and its transport connectivity is significant for the economy. Access to and from gateways already has its challenges on both the local and strategic road networks.
- 6.5 The potential impact on road haulage is one of DfT's main concerns. There are concerns that Brexit and a 'no deal' could have an impact on:
- employment and the lack of skills coming forward within the UK in the haulage sector;
 - drivers' hours rules particularly if the connections between the EU and UK are delayed;
 - challenges to the haulage sector on access to markets; and
 - stricter border controls causing delays.
- 6.6 In September the DfT published a series of ¹¹technical notes on how to prepare for Brexit in the event of a 'no deal'. This included consideration of road haulage, in the UK and EU (including insurance) and operation of bus and coach services.

¹¹ Source: DfT – [No Deal planning information](#)

- 6.7 In summary there appears to be no significant concern within the haulage industry about the impact on haulage drivers in the event of a 'no deal'. However, the haulage industry is concerned around border checks which could have an impact on the industry including coaches travelling to and from the UK.

Rail

- 6.8 The procurement of rail franchising contracts and operations of railways are currently controlled under European laws. Significant historical input from the UK underpins these existing European laws.
- 6.9 Currently operators run services under various certificates and licences from the EU rail regulator. In the UK the safety authority is the Office of Rail and Road (ORR), or the Intergovernmental Commission for the Channel Tunnel. Currently a European operator licence is issued by the ORR under rules set by the EU.
- 6.10 After exiting the EU, the UK will bring EU law on UK statute to ensure services run effectively. The issuing of licences by the ORR and validity of these licences remains under negotiation. Arrangements for cross-border services would be subject to any bilateral arrangements that the UK negotiates with individual EU countries.
- 6.11 In terms of licencing, operators on ORR-issued licences will not be impacted by a 'no deal' scenario however, new arrangements will need to be put in place for the renewal of these franchises which could take time. In terms of rail passengers in the UK, using either domestic or cross-border services, travel rights would remain unchanged.
- 6.12 Based on guidance from government, it is anticipated that there will be very little impact on domestic rail freight. The challenge is likely to be with importing and exporting rail based freight.
- 6.13 In a 'no deal' scenario the UK would still be able to pursue agreements with the EU to maintain cross border rail freight services. At the time of writing the government continues to provide updates on the necessary requirements for operators in a no-deal scenario including travel document requirements.
- 6.14 It has recently been confirmed by government that trains will be permitted to use the Channel Tunnel for three months if the UK leaves the EU without a deal, under a proposed European Commission law.

Aviation

- 6.15 Airports within the TfSE area include Gatwick and Southampton, with Heathrow Airport being on the periphery of the TfSE area. These airports provide connections to destinations throughout Europe and the rest of the world for both passengers and cargo.
- 6.16 A summary of the potential impact on airport operations could include the following:
- Currently as the UK is within the EU it can operate flights (without advance permission) anywhere within the EU following common regulations which have been established through an EU a treaty. Post Brexit these need to be renegotiated to ensure flights continue to operate under the same arrangements;
 - The UK has independent agreements with countries outside the EU which are likely to continue post 29th March 2019. However, the UK will need to have agreements in place

with those countries which operate non-EU air services to and from the UK as part of the UKs current membership of the EU;

- In the event of a no deal, after 29th March 2019 the UK and EU licensed airlines will require advance permission and individual permissions to operate. If permissions are not granted this could cause delay to some flights. Therefore, as part of the Brexit negotiations (including a 'no deal' scenario) the UKs preference is to get a basic agreement and understanding between the UK and EU in place;
- It is likely that operating and route licences will remain in place after the UK leaves the EU. The allocation of slots at UK airports would also remain unchanged;
- Air traffic management would not be disrupted as the UK and EU are required to follow international obligations to provide air traffic management services. NATs will continue to provide these services through the UKs EuroControl membership. Existing EU safety, airspace, and interoperability regulations in domestic law will also be maintained; and
- The same passenger rights for flights (and at Ports) departing the UK would continue to apply after the UK left the EU. EU passenger rights legislation will also be retained in domestic law by the Withdrawal Act.

Sea (Ports and Maritime)

- 6.17 The introduction of robust custom declarations and border checks under a no deal scenario could delay flows in and out the South East gateways. These delays may have a significant impact on the transport network in the TfSE area both on local and strategic roads leading to and from the ports and on railways (for freight movements). It is also likely that increased storage capacity will be required at the ports.

Cross Modal Issues

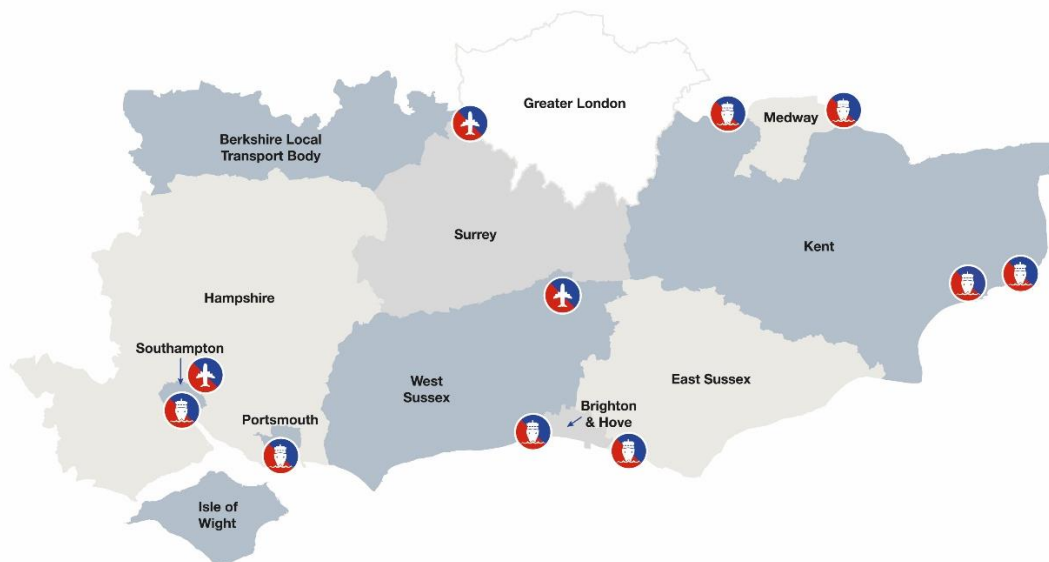
- 6.18 The levels of State Aid to aviation and maritime allows the state to subsidise routes and services that would not be available commercially. It is recognised to be a fair process across the EU and prevents competitive tensions. Outside the EU, the UK could provide subsidies, but post Brexit the EU may insist that the UK follows the current EU State Aid rules and any new rules implemented by the EU thereafter.
- 6.19 In August 2018 the government Department for Business, Energy and Industrial Strategy (BEIS) published ¹²guidance on state aid in the event of a 'no deal' Brexit. BEIS confirmed that *"if there is 'no deal' after 29th March 2019 the government will create a UK-wide subsidy control framework to ensure the continuing control of anti-competitive subsidies"*.
- 6.20 Procurement processes are currently being reviewed by government particularly around issues related to current EU competition law. There could be an opportunity for the UK to shape its own procurement rules. This could have a positive impact for further procurement of transport related infrastructure and operations if these processes were streamlined significantly.

¹² Source: Government Dept. BEIS Guidance – [State aid if there's no Brexit Deal](#)

7 International Gateways – Brexit Preparations

- 7.1 The ECR highlights the importance of the international gateways in the TfSE area which provide swift and efficient access between the UK, Europe and the rest of the world.
- 7.2 Heathrow and Gatwick serve more international destinations than any other UK airports. The Southampton deep-sea port is on the main international shipping line and the Eurotunnel provide a high-speed railway link to the continent.

Figure 1: International gateways in the TfSE area



- 7.3 This section sets out the Brexit preparations that are currently being made at international gateways and Ports in the TfSE area.

Operation Brock

- 7.4 Operation Brock is a multi-agency plan arranged by the DfT, Kent Police, Highways England, Port of Dover, Eurotunnel, Kent County Council and relevant district councils that would come into operation in the event of a no-deal Brexit.
- 7.5 The first stage would involve queuing lorries in buffer zones in the Port of Dover and Eurotunnel and activating the Dover Traffic Access Protocol (TAP) on the A20 to hold lorries in one lane of the dual carriageway.
- 7.6 The M20 Junctions 8 to 9 would then be used to queue lorries on the coast-bound carriageway while allowing traffic to flow as contraflow on the London-bound carriageway. Once this capacity has been reached, Port of Dover traffic will be diverted via the A249 (M20 Junction 7)

to the M2 and the A299 to Manston Airport. Lorries will be held at Manston and then released via the A256 to a new TAP at the end of the A256 before accessing the port from the A2.

- 7.7 The M26 could also be used as a holding area for lorries bound for Eurotunnel if the M20 Junction 8 to Junction 9 holding capacity is exceeded.
- 7.8 It has been reported by Dover District Council (DDC) that any border changes and post Brexit trade arrangements pose both potential risks and opportunities to the Port of Dover and other South East Ports. These are discussed later in this section.
- 7.9 Ports in the South East have been preparing for the UK's exit from the EU since the referendum vote was announced. There has been continued dialogue between ports and the government over the infrastructure and processes that could be put in place to best manage an exit with or without a deal. This includes, for example, the need for international driver's licence to be explored for cars on ro-ro ferries at the various ports and car carrying trains at Dover, as well as lorry drivers.

Ports of the South East

- 7.10 The preparations for Brexit at each of the ports in the TfSE area are set out below. This analysis is based on public statements made by the ports during the current Brexit negotiations.

Port of Dover

- 7.11 The Port of Dover plays a key role to the TfSE and UK Economy. The impacts of Brexit could be significant for the port and the surrounding areas. This has been recognised locally and DDC have drafted two reports (June 2018 and updated in October 2018) on the 'Potential Impact of Britain leaving the European Union (EU) on the Dover District' covering issues such as Transport and Infrastructure; Local Economy and Workforce; Tourism; Funding; and EU Legislation to provide an informed assessment at a local level.¹³
- 7.12 DDC has continued to set out the potential for delays to freight and tourist traffic due to potential regulatory and tariff barriers between the UK and the EU resulting in:
- Capacity issues at the port; and
 - Congestion on the local and strategic road networks around the Port of Dover including the M20 and the Dartford Crossing
- 7.13 The report sets out the contingency planning that has taken place including the development of Operation Brock to address issues arising from any possible disruption at the Dover Straits ports, due to delays to freight and tourist traffic.
- 7.14 DDC's planning has followed government advice and includes a possible 'Day 1 No Deal' scenario, which would result in there being no transition period i.e. a worst case and would include completing customs and border checks post 29th March 2019.

¹³ Source: Potential [Impact of Britain leaving the European Union \(EU\) on the Dover District: June 2018](#)

Port of Southampton

- 7.15 The government has identified that the International Port of Southampton, which is of key economic importance to the UK and is the primary port for car exports (with over 90% of exports going to non-EU markets), could stand to gain from Brexit.
- 7.16 New trade agreements post 29th March 2019 could increase trade at the port. Therefore, to manage this potential increase, investment in local transport infrastructure could be required to manage demand on road rail and at the Ports. Land availability may also require negotiation with land owners to facilitate port expansion and a detailed planning process followed.

Port of Portsmouth

- 7.17 The focus of the Port of Portsmouth's operations is centred around roll-on/roll-off traffic to and from Europe. The port currently handles approximately 500 lorries a day but in the short term this could double if the Port is used to relieve pressure from the Port of Dover under a no deal Brexit.
- 7.18 The Port has warned that in a worst case 'no deal' Brexit there is a risk of lorries backing up on the local and strategic road networks. This could be a significant issue for Portsmouth creating congestion on routes leading into the city including the M275. This will impact access to the Port but also to local businesses and residents.

London Medway – Peel Ports

- 7.19 Brexit could open other possibilities for the UK's supply chain including the use of London Medway – Peel Ports as an alternative to Dover. Although the journey by sea will be longer it has been calculated by Peel Ports that the additional cost is offset by the drop in haulage costs due to delays elsewhere. Non-perishable goods could potentially be held at London Medway and be picked up as required, relieving transport network pressures in and around Dover.

Sheerness Port

- 7.20 The Sittingbourne and Sheppey MP Gordon Henderson has suggested to government that Sheerness port could be used in the event of a 'no deal' Brexit to ease pressure on the Port of Dover. It has the necessary deep-sea access; however, there would need to be investment on the road infrastructure to cater for the increased volumes of freight if the port was to be utilised in the long term.

Newhaven Port

- 7.21 The port provides cross channel connections to Europe for both passengers and commercial vehicles. Existing services out of the port could be extended to help relieve pressure from the Port of Dover. Clearly this would put extra pressure to the local area due to increased numbers of passengers and road vehicles but could also boost the local economy with potential requirements on the use of hotels, local shops and restaurants.

Shoreham Port

- 7.22 The port has been working closely with government to ensure they can support other ports in the South East to overcome possible border disruption. This has included improving the port facilities and storage availability for cargo both for existing customers and exploring new business opportunities.

Other Gateways within the TfSE Area

Airports

- 7.23 The DfT have advised that day to day operations at the airports in and around the TfSE area will carry on functioning as normal if agreements are in place between the UK and EU to maintain flights. However, under a no deal Brexit there could be increased passenger queues at these airports due to the impact of more time-consuming border checks. As noted above, the DfT are currently preparing relevant agreements to ensure journeys for passengers and cargo s are not impacted post 29th March 2019.

International Rail

- 7.24 The situation with International Rail is forecast to be similar to that for airports. If the UK leaves the EU with a deal, passports will still be valid for travel from the UK to the EU and therefore there should be little disruption.
- 7.25 In a 'no deal' situation free movement for British passport holders within the EU could be affected, leading to stricter border processes. There could also be challenges for lorries and cargo using the Eurotunnel if strict border controls are introduced.
- 7.26 Eurotunnel is currently working to ensure that new post-Brexit border controls will have no significant impact on traffic. When the tunnel was opened in 1994, lorries passed through only three types of check, compared to eight separate controls that operate today. The increase in the level of controls over time has not prevented increases in freight traffic from occurring.

Changes in Operating Environments for International Trade

- 7.27 This section provides a high-level assessment of the changes to the operating environment for freight and passenger transport that may arise due to changes to the regulatory regime under which they operate including the need for additional customs or border checks.

Trade and customs checks

- 7.28 If agreements are not in place then customs and border checks could become more stringent after Brexit. It should be noted, however, that management of the flow of trade with non-EU countries is already highly efficient and almost entirely free of customs delays. Less than 2 per cent of goods coming into the UK from non-EU countries are stopped for customs checks. Those that are stopped tend to be because of intelligence-led investigations or on food safety grounds. If no trade arrangements are in place, future UK-EU trade will require customs declarations which, based on the cost associated with non-EU trade, will be around 1 per cent of total traded goods. There are higher estimates of the impact of additional customs checks – perhaps as high as 4 per cent – but these are excessive and would likely decline as new arrangements are refined.
- 7.29 It is not possible to definitively assess the impact of the 'no deal' option on the time taken for a truck to transit Dover (or, indeed, Calais). There are numerous technical solutions that could be applied – for example: 'trusted trader', pre-clearance, off site clearance and so on. These will require political will in both the UK and the EU if they are to be successfully implemented. If these technical solutions are applied (and following a period of establishment), it may well be that the transit times will not be much longer than at present. However, it should be noted that the Port of Dover has warned that even a limited increase in customs clearance times would have severe effects on the flow of goods through the port.

- 7.30 If the model noted for trade with non-EU trade is replicated then a small proportion of trucks will be the subject of closer examination. This will require more land take and may offer some challenges at Dover, where space is at a premium.
- 7.31 If these technical arrangements are not put in place then an average transit time of 30 minutes would cause insurmountable difficulties at Dover and even gridlock. This would result in the redirection of good to other ports – the potential beneficiaries of this will be smaller ports in the region and the possible increased use of UK East Coast ports in East Anglia, Lincolnshire and Yorkshire.
- 7.32 Of course, customs operations go beyond the collection of tariffs on goods as they are traded. It involves enforcement of a wider set of rules and regulations, for example checks on animals and animal products as well as product safety checks. This will also take more time and require more space at gateway ports although, here too, sophisticated systems will minimise these requirements. It is important that there is real scope to establish these permitting processes.
- 7.33 New customs and regulatory checks have the potential to increase pressure on local authority trading standards and this could cause delays to the flow of traffic. This raises wider concerns about the capacity of port infrastructure (about truck marshalling) and would have a wider impact on the transport network. As a minimum, consideration should be made for the provision of larger truck parks away from the port boundaries.
- 7.34 Any disruption of goods flows via Dover because of more stringent regulations of truck flows could result in a diversion of EU trucks to other ports in Hampshire, Sussex or elsewhere in Kent. It is likely that such disruption and redirection would be temporary and only be manifest until new regulatory measures are fully established. However, it remains the case that there is scope here for significant redirection of demand.

Logistics and Supply chain challenges

- 7.35 The degree to which the supply chain will be impacted by a ‘no deal’ situation is not clear. There will be a requirement under adverse conditions for increased inventories and stocks and this will increase final prices; however, the outcome remains unclear. Other factors such as changes in currency values and specifically, the Pound versus the Euro could have even greater effects on pricing.
- 7.36 Business has reported that there will be a significant impact on those business that rely on the re-importing and re-exporting of parts and components if there are increased restrictions and stricter border and custom checks particularly around the UK’s ‘Just in Time’ approach. It is likely that well established integrated supply chains will be affected and could break down if goods for supply chains are not provided in time. This has the potential to have a generally negative impact on the national and regional economy. Once again, the overall impact is unclear and will be dependent upon the actual trading arrangements that are adopted between the UK and the EU.
- 7.37 Infrastructure investment is also crucial in maintaining efficient supply chains and easy access to and from ports for both exports and imports. Inland transport costs are much higher than for seaborne freight. As such, the minimisation of trucking distances within the South East is desirable, although these considerations need to be weighed in relation to the broader role of ports in the South East as national gateways generating significant local employment. It is important that any internal transport links within the South East remain efficient and

integrated wherever possible with ports. Integrated transport links will further encourage investment in ports infrastructure, boosting capacity and productivity.

8 Views of Key Stakeholders


- 8.1 As part of the TfSE Transport Strategy working group on 29th January 2019 and TfSE Transport Forum on 28th February 2019 workshop sessions were held. These groups include many stakeholder representatives from transport operators, businesses and International Gateway leads.
- 8.2 Views were sought on three Brexit related questions as noted in Figure 2 below. It was noted during the workshop that Stakeholders felt that the continued uncertainty of a deal/no deal Brexit made it difficult to assess potential impacts.

Figure 2: Stakeholder workshop slide on Impacts of Brexit (January 2019)

4. The impacts of Brexit


In three groups:

Group 1: What could be the likely short-term, direct impacts (e.g. travel times, reliability, costs) of Brexit on travel?




- Ports / maritime
- Aviation
- Road
- Rail

Group 2: Which industrial sectors might be most impacted? How and where?



IT
Finance and professional services
Advance engineering
Low carbon environmental
Creative
Tourism
Marine, maritime and defence
Transport and Logistics

Group 3: What could be the indirect impacts of changes in travel demand on the wider economy?



Business productivity
Employment and labour market connectivity
Development enabled
Access to international gateways

What could be the likely short-term, direct impacts (e.g. travel times, reliability, costs) of Brexit on travel?

- 8.3 There were concerns on the potential impact on 'Just in Time' logistics, and the flow of freight around the country and questioned if freight or tourists would get priority if there were significant delays at the borders.
- 8.4 There was speculation about what impact a weaker pound might have on transport demand and whether there would be a significant influx of tourists into the UK.
- 8.5 There were concerns raised about the potential changes to border controls and impact the on facilities, systems for checking, reliance on different ports and transport corridors in the South East. Cost implications were also raised as concern and questions were raised on the impact of other infrastructure investments.

Which industrial sectors might be most impacted? How and where?

- 8.6 Stakeholders agreed that the most significant impacts would be felt in the freight sector.
- 8.7 It was recognised that the impacts on the maritime sector would likely to be very different depending upon the port. For example, Southampton deals predominantly in inter-continental trade, and consequently has provision for customs arrangements. Therefore, it is likely that Southampton will be better equipped for Brexit than Dover, which is only designed to deal with 'Ro-ro' trade.
- 8.8 There was a concern about the lack of clarity around the position of the aviation sector, although it was recognised there was a provisional 9-month 'transition' period planned to address operational issues.
- 8.9 In the Road and Rail sector, the idea of disruption as a precursor/driver of innovation was voiced which could open new opportunities.
- 8.10 The IT sector could face large uncertainty, mostly around Cyber security, and the potential impact of less knowledge-sharing in this area.
- 8.11 Concerns were raised on the agriculture sector including food supply, worker demand and the need to change from imports to 'growing your own'.

What could be the indirect impacts of changes in travel demand on the wider economy?

- 8.12 Stakeholders questioned whether more infrastructure would be required post Brexit. It was suggested that less travel might in fact mean that less infrastructure is required.
- 8.13 Stakeholders remained concerned about questions left unanswered on how tariffs and costs would impact upon the transport network, particularly regarding cross-channel trade.
- 8.14 In general, it was felt that the short-term shock could be quite significant, particularly around ports like Dover which are not equipped for the types of customs arrangements which could be required post-Brexit.
- 8.15 Uncertainty and concerns were raised on how the South East would re-adjust its labour market, particularly the agricultural labour market, which is largely based on a foreign workforce.
- 8.16 There may also be a rise in short-distance trips in response to the difficulties around long-distance travel which could impact the TfSE transport network.

9 Summary of Key Findings and Next Steps

- 9.1 There remains many Brexit unknowns and the government picture is changing daily. Since the public decision to leave the EU two years ago it is clear that negotiations are becoming challenging for the government, the UK and its businesses, investors and the public. It remains impossible at this stage to provide the expected outcome following government/parliamentary discussions and negotiations which are continuing.
- 9.2 This review has shown that the transport operations are unlikely to be significantly affected if a Withdrawal Agreement is in place before the UK leaves the EU; however, there remains some concern about the border arrangements that will be in place at the main ports which are likely to create challenges on the transport networks, for the movement of goods and access to and from the main gateways in the TfSE area.
- 9.3 There are a number of potential consequences on a range of sectors including:
- a) An impact on International Gateways and the movements for Freight and Logistics to and from the UK particularly under certain Brexit scenarios as noted in Table 1 above;
 - b) An Impact on International Gateways if a Free Ports system is adopted major ports in the South East could adopt this system. This could have the potential to attract higher cargo volumes and therefore increase pressure on the transport network in the south east;
 - c) A significant impact to the International Gateways in the TfSE area depending on the outcome of Brexit and the direction of services regulation;
 - d) A negative economic impact on Industrial sectors (as identified in the ECR) under a no deal scenario;
 - e) Financial consequences for future Transport Investment due to funding be reallocated to manage increased DfT resource requirements and exit preparations;
 - f) An impact on labour markets unless similar transport operations are adopted post Brexit. There have been concerns raised about the availability of labour post Brexit however government has stated that this may not be as great an impact as was originally anticipated.
 - g) Transport congestion issues for business connectivity in the short term around the gateways in the TfSE area, which will impact on the potential for economic growth.
- 9.4 A number of key findings of relevance to TfSE are set out below:
- The Government have already started to provide funding to local authorities to manage the impacts of Brexit and their local transport networks around Gateways;

- The impact of potential changes to the operational arrangements in place at the gateways in the TfSE area could be significant;
- Most scenarios will have limited impact on the seaborne, air and rail sectors, although a no deal, Soft Brexit and Norway Plus arrangements may see some increased customs bureaucracy at the ports with associated delays and congestion.
- Depending on the outcome of Brexit there could be a need to secure investment to support the flows of traffic to and from gateways on existing infrastructure; and
- If travelling patterns change in the South East there may be a need to make investments to cater for the increased passenger and vehicle numbers.
- Passenger travel trends may also be impacted if costs of travel and/or more stringent border checks are introduced. This could create a modal shift between transport modes which could change travel demand patterns.

Next steps

- 9.5 The analysis will be refreshed and extended once there is more certainty around the government position on Brexit. There will be further Stakeholder engagement / meetings following the outcome of Brexit after 29th March 2019, including views of key stakeholders e.g. Port of Dover, Southampton, Portsmouth and airports for example.
- 9.7 In addition, as part of the Lot B Survey further comments / views from Stakeholders such as Port of Dover, ABP Southampton, Gatwick Airport, Road Haulage Association will be obtained.

Control Information

Prepared by

Steer
28-32 Upper Ground
London SE1 9PD
+44 20 7910 5000
www.steergroup.com

Steer project/proposal number

23433701

Author/originator

Edmund Cassidy

Other contributors

Marc Griffin, Andrew Penfold, Rohan McGinn (Independent Reviewer)

Version control/issue number

V1.0 Draft for Client
V2.0 Final draft for Client
V3.0 Final for Client
V4.0

Prepared for

Transport for the South East

Client contract/project number

N/K

Reviewer/approver

Adrian Hames, Steven Bishop

Distribution

Client:	Client Team	Steer/ Project Management
		WSP: Team

Date

26th February 2019
13th March 2019
5th May 2019
20th May 2019

Address: Transport for the South East
County Hall
St Anne's Crescent
Lewes
BN7 1UE

Email: tfse@eastsussex.gov.uk

Tel: 0300 330 9474

Web: tfse.org.uk/transport-strategy