

Prepared by the New Zealand High Commission in London

An update on current logistics and supply chain challenges faced by exporters to the United Kingdom, in the context of COVID-19 disruption and the ongoing impacts of Brexit.

Report

Aotearoa New Zealand exporters are facing significant supply chain and logistical challenges when exporting to the United Kingdom. While issues faced are similar to those experienced around the world, they are exacerbated by the impact of Brexit and other United Kingdom-specific challenges.

An increased demand for shipping and freight caused by the boom in online shopping has been met with loss of passenger freight capacity, rising input costs and challenges in ensuring shipping containers are in the right place at the right time. The distance between the United Kingdom and Aotearoa New Zealand makes these issues particularly prominent for exporters to the United Kingdom; delays have had a notable effect on the export of perishable goods such as fresh meat, and potentially on the willingness of retailers to stock Aotearoa New Zealand products. In December, a United Kingdom House of Commons hearing on supply chains highlighted the extreme uncertainty being faced by United Kingdom importers. United Kingdom-based commentators consider that the challenges will extend throughout 2022.

Brexit has exacerbated these challenges. Primarily, the impact of Brexit has been on the logistics workforce, with fewer people from the European Union available to work in the port and trucking industries. In response, the United Kingdom Government is exploring avenues to increase the resilience of its supply chains, including diversifying supply, partnering with allies and friends to increase the robustness of supply chains, and expanding British production.

Increasing freight costs, time and uncertainty

Exporters are facing ongoing disruption as a result of global supply chain issues.

These challenges include a shortage of global shipping containers, challenges in ensuring containers are physically located in the right place at the right time, loss of passenger freight capacity, rising input costs, and increased shipping demand from the boom in online shopping.

Supply chain issues are particularly problematic for Aotearoa New Zealand exporters to the United Kingdom, because of the vast distance between the two markets. There are a limited number of direct shipping routes from Aotearoa New Zealand to the United Kingdom, meaning that goods need to transit, and so there are more opportunities for delays to affect the freight. Chilled meat makes up a significant portion of our exports to the United Kingdom, and its freshness (and therefore, timely delivery) is critical. There have been [reports](#) that exporters are switching to frozen meat instead of chilled to improve their resilience against supply chain disruption.

On 1 December 2021, the House of Commons' International Trade Committee held an [examination of supply chain challenges](#) (including the impacts of COVID-19, economic challenges and the blocking of the Suez Canal), in which shipping industry representatives highlighted the extreme uncertainty brought about by COVID-19. A contributing challenge raised was the imbalance in import and export volumes, resulting in high costs to ship empty containers to where they are most needed. A shipping analyst, Michelle Bockmann, presented figures that for every container exported from the United Kingdom, three are imported; and expressed that this is exacerbated by pent-up demand and year-on-year growth. Tim Morris, Chief Executive of the United Kingdom Major Ports Group explained the container imbalance by noting "We import more than we export, and what we export tends to be higher value, lower volume. We bring in a lot of containers with t-shirts; we send back one with whisky." According to witnesses at the examination, the ocean freight rate for a container on the Asia-Europe route increased by 366 percent in one year; longer-term contracted rates for the same ocean freight have increased by 465% in the same year.

[Commentators](#) in the United Kingdom anticipate that these challenges will persist throughout 2022. United Kingdom businesses have made long-term changes to the prioritisation of logistics and the relationships they hold with their suppliers, and their suppliers' suppliers, to mitigate these challenges.

Added effects of Brexit

Brexit has exacerbated the impact in the United Kingdom, with Brexit-related impacts on freight largely fall into two camps: worker shortages, and new customs requirements.

The number of people in the United Kingdom employed as heavy goods vehicle (HGV) drivers has [dropped by a sixth](#) in the last three years, despite higher volumes of online shopping and increased freight demand. Online shopping and home delivery has boomed, so former freight workers have been recruited by companies such as Amazon and delivery businesses, tightening the labour supply.

Due to the interrelated nature of these issues, it is challenging to differentiate between the impacts of Brexit and the impacts of COVID-19. [Surveys](#) show that Britons are many times more likely to have experienced shortages of key goods such as food and fuel than comparable countries.

The United Kingdom's full 'post-Brexit' customs controls came into effect on 1 January 2022 following extensions on various grace periods throughout 2021. Most importers are now required to make customs declarations on goods imported from the European Union and pay relevant tariffs, and are subject to border controls and requirements for proof of meeting rules of origin on imports to and exports from the European Union. So far we have not received reports of further challenges faced by Aotearoa New Zealand's exports to the United Kingdom as a result of these new customs requirements. New customs controls only affect traffic between the United Kingdom and the European Union, so will have a minimal impact on Aotearoa New Zealand goods that are exported directly to the United Kingdom.

Impact on Aotearoa New Zealand exports

Aotearoa New Zealand exporters from across multiple sectors have highlighted the impact that the supply chain challenges have had on their business, particularly for perishable goods.

There have been reports of extreme delays in transit; for example, containers carrying Aotearoa New Zealand exports to the United Kingdom were held up in transit in Singapore for three months, incurring costs to the business for storing the containers and challenges in meeting its contractual agreements.

These delays are negatively affecting exporters' contracts and relationships with retailers. One industry representative expressed that if an exporter cannot provide its product on time to a retailer, the retailer will choose to fill the space on its shelf with another good, and it can be challenging to regain their trust and willingness to stock Aotearoa New Zealand products.

The United Kingdom's Food and Drink Federation cited latest official industry figures in its [Quarterly Business Confidence Report](#), identifying that net business confidence fell by 55 percent in Q3 2021 as a result of the ongoing labour shortages and associated issues that are impacting food and drink supply chains. 93 percent of survey respondents experienced delayed or missed outbound deliveries, and 75 per cent reported delayed or missed inbound deliveries. The report identifies the most common labour shortages being of heavy goods vehicle drivers, temporary agency workers, and process, plant and machine operatives.

United Kingdom efforts to improve supply chain resilience

The United Kingdom has recognised the risks to its supply chains, and is exploring avenues to increase its resilience. The pillars to its approach are to diversify supply (including both suppliers, and supply locations), partnering with allies and friends to increase the robustness of supply chains creating strategic reserves of critical goods, and expanding British production.

[United Kingdom think tanks](#) have recommended a mix of approaches, ranging from reshoring production to establishing stockpiles of critical inputs, while collaborating at the bilateral, regional, and global levels to reinforce the international trading system.

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