THE IMPACT OF THE EU-UK AGREEMENT ON UK MANUFACTURERS

It is one month since the Christmas Eve post-Brexit EU agreement came into effect. Since the historic result of the referendum in June 2016, right up to the end of last year, manufacturers have been struggling to work out what breaking ties with our biggest trading partner will actually mean for them. This task has been made harder due to the constant speculation underpinned by little actual detail about a deal, combined with the pressures of an unprecedented global health pandemic. It is no surprise that planning for new trading arrangements has proved to be extremely difficult.

In this paper Make UK outlines the latest position across the manufacturing sector since exiting the EU. It highlights the key issues creating barriers to trade, and makes recommendations for Government that will help manufacturing remain a critical driver of economic growth for the UK economy.

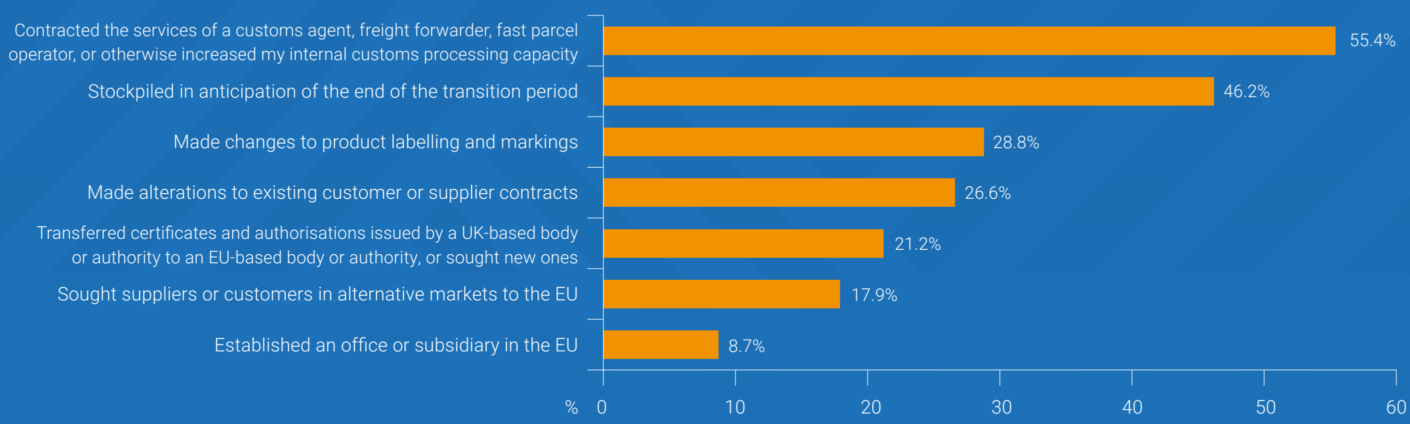
MANUFACTURERS' READINESS FOR THE NEW ARRANGEMENTS FROM 2021

It is clear that there was a mixed degree of readiness across the sector, both in perception and reality. Since the conclusion of the UK-EU Trade & Cooperation Agreement (TCA) manufacturers overall may have felt 'ready' but in reality, they are facing many challenges. Indeed 61% of companies said their business was 'ready' for the new trading relationship but were nonetheless still facing disruption. In comparison less than a quarter (24%) said they were ready, and their business has not experienced any disruption. One in eight companies reported that they were not ready because they were unable to plan or had not yet finished planning before the end of 2020.

It is not the case that manufacturers did not put plans in place to prepare, mitigating actions were taken to avoid disruption from the 1 January 2021. Over half (55%) of companies contracted the services of a customs agent, freight forwarder, fast parcel or other, in order to increase their internal customs capacity. Almost half (46%) stockpiled in anticipation of the end of the transition period – a trend we had seen at numerous points in preceding years, and that peaked in the weeks leading up to the conclusion of the agreement. Additionally a quarter of companies made alterations to existing customer or supplier contracts and almost one in five (18%) sought suppliers or customers in alternative markets to the EU. It is clear, that despite the pressures of a uniquely challenging year, manufacturers did take detailed and robust preparatory measures but were hampered by uncertainty as to the precise nature and terms of the deal until the very end of the year.

Chart 1: Manufacturers took actions to prepare ahead of the end of the Transition Period

% companies citing how they prepared for the end of the Transition Period



Source: Make UK, EU-UK deal survey (Jan 2021)

Such preparations do not come cheap – 9 out of 10 companies had incurred costs. Almost half (45%) said the cost of these preparations to date has been over £10,000 and one in three cited costs between £1,000-£9,999. Only a handful (8%) of companies say they have not experienced any costs associated with preparations.

9 IN 10 COMPANIES HAVE INCURRED COSTS DUE TO THE NEW ARRANGEMENTS

Preparing for the end of the Transition and indeed for the new partnership the UK has secured with the EU, has not come easy for UK manufacturers. Their ability to prepare was severely impacted by several factors. Eight in ten (82%) companies said their preparations were impacted by the uncertainty regarding the detail of what would be the nature of the relationship with the EU, and almost two thirds (64%) cited the lack of all the necessary information on the changes required. The pandemic has also taken much of companies' bandwidth with one in five (22%) citing a lack of resources due to the economic impact of Covid-19.

8 IN 10 COMPANIES COULD NOT PREPARE DUE TO THE UNCERTAINTY OF WHAT THE NEW RELATIONSHIP WITH THE EU WOULD BE

BUSINESSES ARE FACING IMMEDIATE DISRUPTION

The impact of the new rules and trading relationship is already being felt. Eight in ten companies are experiencing some form of disruption to their supply chains (although not all of these are EU-UK related). Of those, a third say they are seeing disruption to imports and exports to and from the EU, while only one in five say the disruptions are predominantly on imports from the EU. One of the reasons for the limited impact on imports are the easements provided by the UK Government – the phased introduction of import controls between GB-EU are in contrast the full application in the EU of these measures from 1st January.

At its simplest the EU is enforcing compliance to the customs process for goods entering their market, whilst the UK is offering much more flexibility on those entering the UK. Make UK and our European partners, warned of the difficulty that businesses would face in adapting the new requirements for border formalities and checks, particularly for the tens of thousands of businesses that have never traded outside of the EU Single Market and Customs Union and it is clear that these concerns were well placed.

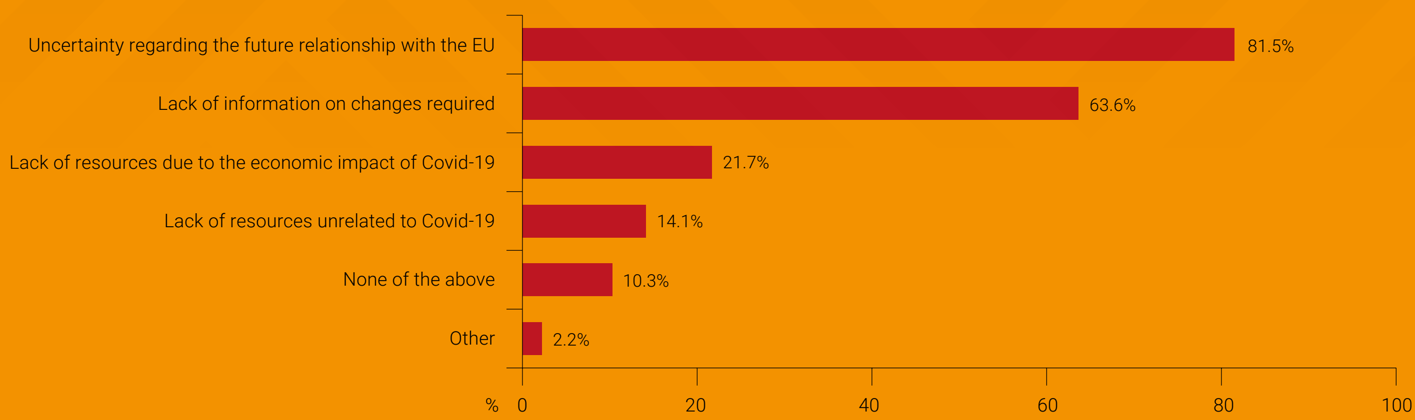
of companies said they were ready for the end of the Transition Period, but are now experiencing disruption

Volumes at UK ports have been relatively low in the early weeks of this year, in part due to disruptions caused by Covid-19 restrictions and stockpiling, but also as companies held off from trading activity while they came to terms with the practicalities of the new rules. As trade volumes naturally pick up over the coming weeks and months, it is expected that operational and practical disruptions will intensify.

The new requirements underlining the terms of trade and the systems that allow firms to conduct trade within the new rules will take time to come common place, not least as the consistency, accuracy and common understanding at the UK and EU level requires further refining. This has an impact on firms understanding system and procedural issues (such as the requirements to meet new Rules of Origin administration) and structural issues (whether firms need to adjust business models and supplier relationships).

Chart 2: Manufacturers' ability to prepare was impacted by a number of factors

% companies citing factors that impacted their ability to undertaken preparations



Source: Make UK, EU-UK deal survey (Jan 2021)

READINESS FOR CHANGES UNDER THE TCA

PRODUCTS

Rules of Origin:
The EU UK TCA includes product specific Rules of Origin, yet not all companies have experience with certificates of origin. A quarter of companies (25%) have not had experience but are aware of the process and a further 8% have not had experience and not aware of what the process entails. For those companies that have not had such experience, this will be a major challenge as proving origin of a product allows preferential tariff rates to apply for tariff trade with the EU. If a product fails to meet these requirements, they will attract a tariff on trade into the UK or the EU. Indeed, depending on the amount of processing of a product in the UK it is possible that if the processing is found to be insufficient then it could attract duties coming into both the UK and then on export to the EU, resulting in double duties.

1 IN 3 MANUFACTURERS HAVE NO EXPERIENCE OF COMPLETING CERTIFICATES OF ORIGIN

Rules of Origin are product specific and understanding particular rules and providing the proof of origin will create new processes and bureaucracy that many businesses have never faced. In some cases with complex supply chains it can prove difficult to gather the information about the parts, materials and sub-components required to complete these calculations accurately. Consequently, depending on the tariff rate applicable for a specific product it may simply be easier for a company to pay the tariff. Many manufacturers have told us they are indeed choosing to pay the tariffs rather than spend the additional time and money attempting to qualify for tariff free access, with serious financial ramifications. Where the cost of paying the tariff is too high, anecdotal evidence suggests that firms are considering withdrawing some products from the EU market entirely, either temporarily or permanently.

Chart 3: Manufacturers are experiencing supply chain disruptions

% companies citing supply chain disruptions

- Yes, predominantly on export to the EU – 8.6%
- Yes, but not related to the changes in UK and EU relationship – 18.3%
- No – 20.4%
- Yes, predominantly on import from the EU – 20.4%
- Yes, both imports and exports from and to the EU are impacted – 32.3%

Source: Make UK, EU-UK deal survey (Jan 2021)

Conformity assessment and product marking:
Rules for goods requiring conformity assessment for the EU market have changed for many businesses. Yet, 75% of companies have not transferred certificates and authorisations issued by a UK-based body to an EU 27-based body or authority. In order to place a regulated product which requires a certification (for example a CE mark on the EU market,) the certification must now be carried out by a body in the EU27 and certificates provided by UK bodies will not be recognised in the EU. While there was ambition that this form of 'mutual recognition' would be agreed between the UK and EU, the TCA does not provide for it, leaving businesses placing goods on the GB, Northern Ireland and EU markets facing the cost and bureaucracy of multiple conformity assessments, registrations and labelling.

The UK has provided some easement in the continued recognition of the CE mark; however, this has only been provided on a unilateral basis and is not reciprocated by the EU. GB businesses placing goods on the EU market will need to move quickly to ensure that their products meet EU market rules, and that relevant contact and representation information is updated. This may be a growing problem particularly for smaller firms who may struggle to meet the additional costs and logistical challenges.

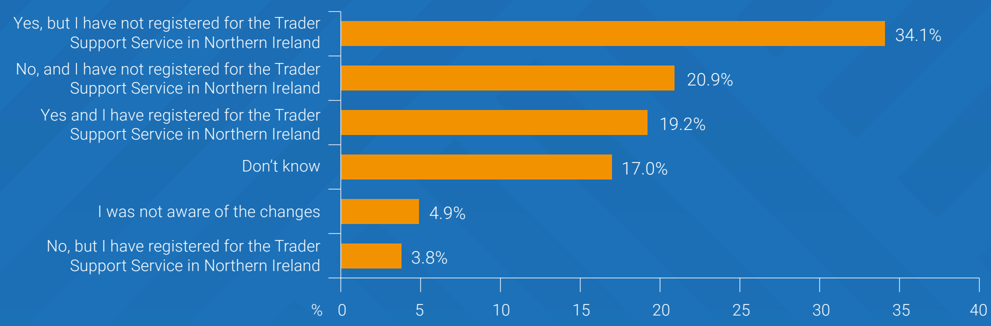
In order to regulate the Great Britain market, the UK Government has introduced new product labelling rules. Products placed on the GB market will need to meet UK market rules and be labelled with a new UKCA mark. While the requirements will be phased in during 2021 with additional easements, two-fifths of companies are not yet familiar with UKCA markings. It is important to note that on day one the market rules for the UK are broadly the same as EU rules and the change is mainly related to additional bureaucracy of double registration, certification and labelling. However, as UK and EU rule markers are likely to adopt divergence on such regulations in the future, there is a risk that additional cost could be introduced with the need to change production processes, designs and standards. The preferred outcome for manufacturers has always to be able to make one product for multiple markets rather than multiple products for different markets, which increases cost and lowering efficiencies in design, production and approval.

PROCESS

Northern Ireland protocol:
The Northern Ireland protocol means that there will be additional checks on goods and declaration between Great Britain (GB) and Northern Ireland (NI). While a number of companies seem to be aware of these new checks, not all companies have put the necessary plans and practices in place. One in five companies say they are aware and have registered for the Trader Support Service in Northern Ireland. From 1 January 2021, businesses moving goods from GB to NI have needed to make declarations and may need to pay tariffs if the goods are at risk of entering into Ireland and other Member States in the EU's single market. The Trader Support Service can help businesses move goods between GB and NI as well as bring goods into NI from outside the UK. It has been designed to guide businesses through any changes to the way goods move between GB and NI and can complete declarations on behalf of a business.

Chart 4: Manufacturers are not yet ready for the changes from the NI protocol

% companies citing readiness and actions taken



Source: Make UK, EU-UK deal survey (Jan 2021)

Rules for payment of VAT:
The UK has left the EU VAT area, resulting in a significant change in how VAT is managed for goods entering the EU and GB markets. VAT is due at the importation in the EU, at the rate that applies to the supplies of the same goods within[1] the EU. VAT is payable to customs authorities at the time of importation, unless the EU country of importation allows a business to enter import VAT in the periodical VAT return of the taxable person. However, for manufacturers these changes are having a lesser impact to date with three quarters of companies not experiencing problems due to the change to the rules for the payment and refund of VAT.

PEOPLE

Traveling to the EU for business:
Almost two-thirds (61%) of manufacturers are regularly sending employees to the EU for business purposes. This is unsurprising as many manufacturers provide a service as part of the manufacturing of a good, undertaking activities such as servicing and maintenance as well as for training or attending business meetings. Despite this being a common and indeed frequent activity among manufacturers, three in ten companies are unaware of the new rules and requirements they need to send workers to the EU to undertake business.

With the end of the freedom of movement for UK citizens to and from the EU, business travel will no longer be as easy as it once was. The TCA does provide the possibility to undertake some business activities without requiring a visa or work permit prior to visiting an EU Member state, for example, going to a business meeting. It is imperative that businesses check the rules that apply in each Member State before they send employees to the EU. There will be border controls upon arrival, thereby allowing officials to ask for documentary evidence that will prove the reason for travel, the duration of stay and where the worker will be visiting or working. The type of documents that may be required again will vary country by country and according to their national law.

ALMOST TWO-THIRDS OF COMPANIES ARE REGULARLY SENDING EMPLOYEES TO THE EU FOR BUSINESS

[1](Note: VAT treatment is different for Northern Ireland)

RECOMMENDATIONS

Manufacturers are adapting to a new global trading environment and supporting them to compete in a new global trading environment is critical. To ease the burden on business, there are several measures Government should take. These are:

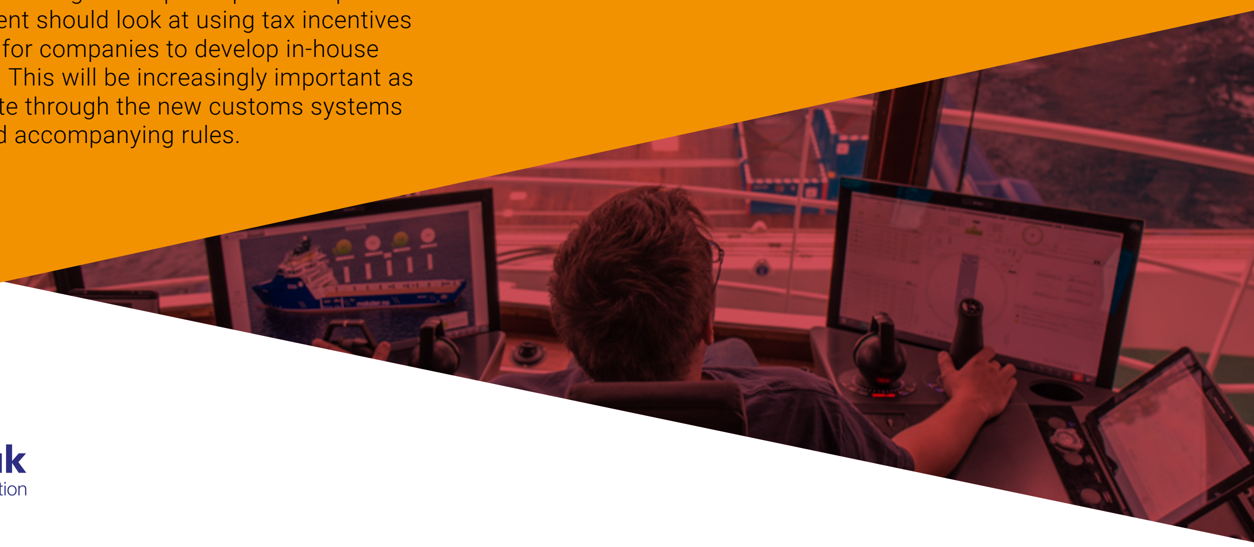
1. Fast-tracking the training of good quality customs agents to smooth the flow at the border. It is vital that we boost the number of customs agents to mitigate the challenges we have seen to date. This must include accelerated training for customs agents fast-tracked to prevent further and future delays.

2. Government action to help coordinate the activities of hauliers and logistics firms and exporters. Government must bring together hauliers and logistics firms to work with exporters and wider industry to find solutions to the issues which are currently causing the problems. By working together, and drilling down into the detail, a smoother trading environment can be reached.

3. Vouchers for advice and support relating to exporting processes and customs training support. The Government must work with industry to upskill the sector to understand and manage complex trade and customs procedures.[2] The UK Government should explore a voucher scheme to help upskill the sector and help develop the knowledge to help companies export. In addition, Government should look at using tax incentives or direct grants for companies to develop in-house customs expertise. This will be increasingly important as employers navigate through the new customs systems and accompanying rules.

4. Tax cuts or rebates for three years to help firms cope with the additional costs of EU export paperwork. The Government should use tax cuts or rebates to offset the new costs associated with trading with the EU. It is estimated that upwards of 275 million new forms will need to be submitted, often by companies who lack experience in this area, at an estimated cost of £13bn each year.[3]

5. A mechanism for EU regulatory tracking, monitoring and support. A mechanism for Government and industry to track EU regulatory development to understand the impact on our trading relationship. A new cross Government Unit should be established that will track, monitor and analyse EU policy developments and consult with industry on the impact of the policy developments on UK trade with the EU.[4]



The Manufacturers' Organisation

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[2] This must include clear UK guidance and support as seen in other countries, such as the Netherlands where companies are offered €2,000 to support Brexit preparedness activities and Ireland where vouchers for €5,000 have been made available
[3] HMRC Impact Assessment (2020)
[4] Examples of EU policy developments that could impact UK trade include the proposal for a Carbon Border Adjustment Mechanism.

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