

ADS – Written evidence (FUI0010)

ADS SUBMISSION TO FOLLOW-UP INQUIRY ON THE IMPACT OF THE NORTHERN IRELAND PROTOCOL ON IRELAND/NORTHERN IRELAND

Introduction

1. ADS is the trade association for the UK's aerospace, defence, security, and space industries. ADS has more than 1,000 member companies across all four sectors, with over 95% of these companies identified as SMEs.
2. Northern Ireland Aerospace is a ~£1bn industry and is one of Europe's leading aerospace regions in revenue terms, with over 90 companies employing over 10,000 people. These companies are engaged at the leading edge of advanced aerospace and defence design and manufacturing. Every major commercial aircraft programme depends on structures, components, and expert services from Northern Ireland.
3. The aerospace sector in Northern Ireland is the largest manufacturing sector in the region. Across the UK and Irish supply chain, there are over 800 supply chain companies that feed into the Northern Irish aerospace and defence sectors supporting thousands of well-paid and highly skilled jobs in the region.

Overarching situation for aerospace, defence, security and space

4. ADS members in Northern Ireland remain concerned about the administrative and cost impacts of current implementation arrangements for the Northern Ireland Protocol. Our industries want to see practical improvements to minimise bureaucracy and administrative burdens, which have added costs, and to remove the requirement for tariffs to be paid on raw materials imported from GB into NI. The consistent feedback from our members is that scrapping the Northern Ireland Protocol would be the worst possible outcome, with a preference to continuously seek

improvements to current arrangements instead of abandoning the Trade and Cooperation Agreement (TCA) entirely.

5. ADS recognise that the impacts of new requirements have been different for different businesses. A business's size and how much of its supply chain is linked to Great Britain will be the two main influences on how the Northern Ireland Protocol has affected business costs and functionality. While relief can be claimed on goods that are proven to remain in the UK, this adds additional administrative requirements and consequently cashflow burden. Feedback from members is that some supply chain modifications have been necessary to continue to preference EU suppliers.
6. ADS members' position on the Northern Ireland Protocol has not changed despite recent political developments, and there is a sense of concern about the UK taking unilateral action on the Northern Ireland Protocol. If the UK legislation, when it becomes clear, leads to retaliatory measures from the EU, members are clear that doing business will become a lot harder than it already is with the current set of requirements.

Practical impact of the Protocol

7. Some smaller companies are still working through the impacts of the Protocol on their businesses, and we regularly hear from companies who are trying to navigate new requirements and systems. Broadly, Trader Support Service (TSS) has been useful to companies to help guide them through the new requirements and raise awareness that tariffs on 'at risk goods' will be required to be paid upfront.
8. However, some businesses make extensive use of customs special procedures such as Inward Processing Relief (IPR) and have found that their business models are not compatible with the current functionality of TSS. This has required additional time and a general diversion of resources across businesses, stakeholders, and government officials to try and get goods correctly through the customs process.

9. Companies who have less exposure of goods moving from Great Britain to Northern Ireland have found that the TSS system works satisfactorily for the basic movements they make but that the additional paperwork and increased costs have had a negative impact on their competitiveness.
10. ADS has previously provided details to Government to enhance understanding of the costs being faced by Aerospace companies in Northern Ireland in April 2021. Additional issues aside from Brexit and the operation of the Protocol have created additional challenges for NI businesses, including costs of logistics, energy, materials, and the availability of skills.
11. To better understand the impacts of the new arrangement on aerospace companies based in Northern Ireland, ADS has worked with members and the wider industry to identify areas when new costs are being incurred in the Northern Ireland aerospace sector. ADS member companies in Northern Ireland have reported that since the beginning of 2021 (and the end of the transition period) they have seen:
 - a. Northern Ireland manufacturing firms report a 2-3% rise in additional material burden.
 - b. Northern Ireland firms have reported a 7-15% rise in logistics costs.
 - c. Costs of Supplementary Declarations will add significantly to the administration cost (10-15%).
 - d. Logistics providers to UK likely to charge a premium to provide a service, compared to the EU.

Movement of goods between NI and GB

Northern Ireland aerospace goods moving to Great Britain

12. 12% of Northern Ireland aerospace goods' final destination is Great Britain. Under the new agreement, there are no new requirements for

goods being sold from Northern Ireland to Great Britain. This means there are no new costs for this direct sale, although there have been reports about increased freight costs in recent months, owing to COVID-19 impacts.

Northern Ireland aerospace goods moving to the EU

13.33% of Northern Ireland aerospace goods' final destination is the EU.

There are no new substantive changes or costs involved in this movement as EU member states are not able to impose new barriers or frictions. If goods move directly from Northern Ireland to the EU, there are no new costs. However, if goods move from Northern Ireland to the EU via Great Britain, this trade lane requires a Transit T2 form for each shipment. ADS understands the costs for the Transit T2 to be £35-£50 each. When operating with slim margins, companies that move significant quantities of goods between NI, GB and EU, the costs associated with additionally paperwork become unduly burdensome.

Solutions to the Protocol

14.ADS believes that the UK Government should, through the UK-EU Joint Committee, seek to agree to an exemption for Northern Irish aerospace companies importing parts and materials for processing into Northern Ireland from Great Britain.

15.Aerospace companies in Northern Ireland should be able to use their CAA approval to apply for a 'trusted trader' type status, which would allow them to import parts and materials for aerospace manufacturing from Great Britain without having to pay a tariff. This could even be added as an additional criterion for approval through the UK Trader Scheme. This would avoid having to set up a separate scheme entirely. HMRC can audit these companies in much the same way as they would for other businesses authorised under the UK Trader Scheme and, given the

aerospace sector is already highly regulated, this would not add a significant burden on the sector.

Conclusion

16. The additional costs and administrative burden placed on NI companies is not sustainable in the long-term. The issues with the Protocol need to be addressed to allow the £1bn NI aerospace sector and other manufacturing industries to compete on a level playing field internationally.
17. The outcome of discussions so far between the EU and the UK and subsequent papers that were published throughout 2021 including the UK Command Paper and the EU's response has been welcomed by ADS members. The potential expansion of the definition of terms for goods not at risk would be welcomed by ADS and its members if the scope was expanded to include parts for manufacture, and the shared intention to reduce paperwork and documentation burdens would be supported by all business.
18. However, the reality is that as of May 2022, after one whole year of the Northern Ireland Protocol, no significant changes have been made to the Protocol to address the many issues listed above. ADS members continue to face increasing costs and so are looking for support and ways to make their businesses work, which has often meant changing their supply chains to bypass GB and trade directly with the EU, negatively impacting on firms in Great Britain. It is now crucial for the two sides to work in partnership to ensure the smooth running of the Protocol and support trade and prosperity in Northern Ireland, Great Britain, and the Republic of Ireland.

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