

Written evidence submitted by ADS (BBP0014)

1 SUMMARY

- 1.1 ADS is the trade association for the UK's aerospace, defence, security, and space industries. ADS has more than 1,100 member companies across all four sectors, with over 95% of these companies identified as Small and Medium Size Enterprises (SMEs). The UK is a world leader in the supply of aerospace, defence, security and space products and services. From technology and exports to apprenticeships and investment, our sectors are vital to the UK's growth – generating £79 billion turnover a year in the UK, including £46 billion in exports, and supporting over one million jobs.
- 1.2 Businesses have twice before been in the position of facing a Brexit 'cliff-edge', whereby the last-minute nature of the negotiations has created significant uncertainty as to the future relationship between the UK and the EU, and what that means for business. The preparations and expense our members have previously undertaken to prepare still serve them well today. However, the uncertainty produced by the current negotiations and the lack of time with which to deal with the outcome before the end of the transition period on 31 December 2020 is highly damaging to business confidence and their ability to prepare.
- 1.3 The widespread impact of the pandemic is significant, but the aerospace sector has been disproportionately affected. The grounding of flights and imposed quarantine periods for people arriving in the UK from abroad, has resulted in a loss of demand for not only air travel but also for new aircraft. The delivery of built aircraft has in many cases been postponed, major manufacturers have cut production rates and orders for new aircraft and engines have continued to decline. The lack of demand in the sector has filtered down to the UK supply chain and has placed significant pressure on companies, particularly on their cashflow. This has meant that companies are less able to stockpile to help mitigate the impact of potential border disruption and delays arising from the new rules for moving goods that will be imposed at the end of the transition period. Many SMEs are focused on securing their own survival and have less capacity to focus on changes to trading that are coming.
- 1.4 It is crucial that a deal on the future relationship between the UK and the EU is reached that provides our members with certainty and that minimises the costs of leaving the EU as much as possible. A non-negotiated outcome would be the worst possible situation for businesses and would cause significant damage to our sectors which are already facing huge challenges.

2 WHAT CERTAINTY DO WE NEED FROM NEGOTIATIONS?

- 2.1 Securing a deal on aviation safety with the EU (a Bilateral Aviation Safety Agreement - BASA) is a priority for industry, as is outlining what that deal would mean in terms of new regulations, processes and costs in the future. As it stands, businesses have no information on how to prepare for a 'deal' outcome as it is still being negotiated. In any event, the UK will recognise the existing European Union Aviation Safety Agency (EASA) certificates and approvals for up to two years from the end of the transition. Previously, EASA said it would recognise CAA approvals for nine months in the event of a non-negotiated outcome, but those mitigation measures have not yet been revived. It is crucial that these measures are made available to prevent significant costs for businesses from day one, many of whom operate across both the UK and EU member states, at a time of crisis for the sector.
- 2.2 Regarding chemicals, the introduction of UK REACH (the UK's new chemical regulation regime) will significantly increase costs for the UK aerospace sector which includes major downstream users of chemicals. It is vital that a data sharing arrangement between the UK and EU systems is negotiated to reduce these costs and aid preparedness.
- 2.3 Businesses are anxious to know how the UK-EU Joint-Committee will define goods 'at risk' of moving into the EU when they are being moved from GB-NI. Clarity is also required on the reclaim mechanism in the event a tariff is applied to a good that remains in NI.

2.4 On the issue of dual-use and export-controlled goods, the Government should make clear whether the UK office which currently processes the licenses for these goods can continue operating as it does today in supporting both Great Britain and Northern Ireland. It would be in the interest of the UK to have relative control over these licenses.

3 THE UK GOVERNMENT SHOULD IMPROVE ITS PREPARATIONS TO HELP BUSINESSES

3.1 Further steps need to be taken to help implement new measures at the UK external border to minimise disruption after the transition period. It is crucial that the Government fills gaps in the current guidance, such as a Border Operating Model for Northern Ireland. There are still huge amounts of uncertainty concerning how the changes at the border will impact the time it takes for goods to pass through the border. For example, significant infrastructure upgrades are required, and thousands of customs agents need to be recruited. The requirements from the EU side also depend upon individual member states, which have the potential to be streamlined if an agreement on customs is reached.

3.2 In the context of Northern Ireland, clarity is required on the introduction of export declarations for moving goods from Northern Ireland to Great Britain. Companies are also anxious to know the criteria for goods that will be deemed 'at risk' of moving into the EU and therefore subject to tariffs.

Under the GB-EU Border Operating Model, ports need to choose whether to use the Temporary Storage Model, the Pre-Lodgement Model (utilising the Goods Vehicle Movement Service - GVMS), or a Mixed Model to process imports. Businesses are unable to fully prepare for changes at the ports they use until individual ports make a decision on which model they will use. The Government should publish information quickly on ports' finalised models and the required systems they will use so that traders can adapt their business models as necessary.

3.4 The following are crucial actions the Government should take to enable businesses to prepare for the end of the transition period:

- Demonstrate that the IT systems needed for customs declarations will be ready and capable, including but not limited to both CDS and CHIEF.
- Recruit and train sufficient customs and border agents.
- Deliver significant infrastructure in and around ports to help mitigate the risk of disruption.
- Demonstrate regulators, such as the CAA are ready to undertake significant new responsibilities from 1 January, such a design organisation approvals and rulemaking.

3.5 The new systems and processes that the Government is introducing are yet to be operationally tested. With just one month until the end of the transition period, it is essential this takes place to identify and rectify any unforeseen issues before 1st January.

3.6 Robust contingency plans must be in place if any of these issues are not resolved otherwise, we can expect significant levels of border disruption. ADS analysis in 2019 concluded that late delivery penalties as a result of delays at the border could be 1%-2.5% of the sale value per day. On top of this, the cost of complying with the EU's third country customs documents and procedures could be between 10%-15% of the sale value of the good. In total, we estimated that the cost of new customs arrangements could be around £1.3bn to the aerospace sector alone. At a time when the industry is crippled by the COVID-19 crisis, these additional costs are likely to be extremely damaging. This is before the cost of duplication of certification is considered, and as set out above, we still have no clarity on the extent to which the UK and EU will recognise each other's approvals from 1st January.

4 ACTIONS THE EU CAN TAKE

4.1 The EU should reintroduce previous no-deal mitigations which recognise UK airworthiness approvals and certificates for a set amount of time after the end of the transition period. Furthermore, as it stands businesses will get EASA third country approvals for production and maintenance, but not design work. The EU should rectify this omission.

4.2 The EU should also implement temporary measures to ensure the continued flow of data while it finalises the data adequacy assessment of the UK. It is currently unclear how long its data adequacy assessment of the UK will take and what progress has been made thus far. In the event of no data adequacy agreement, the responsibility and therefore the cost of ensuring data can flow between the UK and EU falls on individual businesses. Businesses would have to undergo a lengthy and costly legal process to implement Standard Contractual Clauses between themselves and the business they are exchanging data with.

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5 ANNEXE – BREXIT ISSUES MATRIX

4.1 The following table makes it clear that while there is significant uncertainty as a result of the ongoing negotiations, there are several actions the UK and EU should both urgently take to enable businesses to prepare for the end of the transition period.

<p><u>Issues dependent on the outcome of negotiations</u></p> <p>Aviation safety</p> <ul style="list-style-type: none"> • Recognition of certificates, approvals, release documents etc. • Transfer of existing work from EASA to CAA. <p>Customs & borders</p> <ul style="list-style-type: none"> • Mutual recognition of AEO status <p>Northern Ireland</p> <ul style="list-style-type: none"> • Determining factors for at risk goods. • Customs checks for moving goods NI-GB (export declarations). <p>Chemicals</p> <ul style="list-style-type: none"> • Data sharing between UK & EU REACH systems, and related costs <p>Defence and security</p> <ul style="list-style-type: none"> • A defence and security partnership. • Industrial security clearances/Security of Information Agreement. <p>R&D</p> <ul style="list-style-type: none"> • UK participation in Horizon Europe 	<p><u>Issues on which the UK Government can take unilateral action</u></p> <p>Aviation safety</p> <ul style="list-style-type: none"> • CAA state of design and rulemaking capability • Cost of CAA approvals (if dual certification is required) <p>Customs & borders</p> <ul style="list-style-type: none"> • Readiness & capability of systems (CDS, CHIEF, GVMS, Check an HGV etc) • Infrastructure and 'type of Ports' currently unknown – delays likely • Number of trained customs agents and border agents <p>Import VAT</p> <ul style="list-style-type: none"> • Support for firms that need to increase liability because of the addition of EU trade. • VAT only reclaimable for 'owner of goods' <p>Northern Ireland</p> <ul style="list-style-type: none"> • New customs checks for moving goods GB-NI (export declarations).
<p><u>Issues resolved – industry can prepare</u></p> <p>Customs & borders</p> <ul style="list-style-type: none"> • Requirement of information for customs declarations and shipping documentation. (importing) • Time to adjust for new import procedures (July implementation) <p>Goods Under export control of Dual Use goods</p> <ul style="list-style-type: none"> • Arrangements for moving dual use goods between GB-NI & EU • New export licenses required (when EU ones not valid in UK) <p>Chemicals</p> <ul style="list-style-type: none"> • UK REACH in operation from 1st January, businesses need to familiarise themselves with registration deadlines. • Requirements for moving chemicals between GB & NI. 	<p><u>Issues on which the EU can take unilateral action</u></p> <p>Aviation safety</p> <ul style="list-style-type: none"> • Cost of EASA approvals (if dual certification is required) <p>Customs & borders</p> <ul style="list-style-type: none"> • Time to adjust for new export procedures • Member states agreeing on one set of procedures through EC <p>Data</p> <ul style="list-style-type: none"> • Data adequacy assessment • Level of systems and data sharing UK will have access to.