

## **Written evidence submitted by The North East England Chamber of Commerce (BBP0015)**

### Introduction

The North East England Chamber of Commerce is the largest business membership organisation in the North East region. As part of representing our member's interests we naturally have seen and heard about their preparations for Brexit and the challenges that they are facing.

Before mentioning any preparation attempts, it is important to note that the North East region disproportionately relies on the European Union as its largest export market. Since the referendum, the percentage of North East goods export value that is sent to the European Union has ranged between 59-61% and in 2019 this figure was 59.8%. This is the highest of all British regions and is significantly higher than the UK average of 48.4%. Any disturbances to trade between the United Kingdom and the European Union will disproportionately hurt the North East region.

The Chamber has also been directly involved in assisting our region's business community in preparations. Examples of this include the accredited international trade training programmes that we hold on a number of areas including customs processes, incoterms and other trade related topics. We have held these training sessions periodically over the last year and will continue to do so into 2021. The sessions have always been well attended but in the run up to the end of the transition period this has especially been the case.

We have also recently hosted our 'Brexit Support Week', a series of 13 sessions on different Brexit-related topics that will impact businesses including new customs responsibilities, data regulation and the new UKCA marking regime. These events had approximately 850 attendees across the week demonstrating both the desire for our business community to prepare, but also, with only a month to go, the level of which business still feels that there is preparation to be done.

The Chamber continues to work very closely with our regional Department for International Trade team to answer any business enquiries that come to us.

### Preparation

In the months running up to the end of the transition period, our members have been undertaking extensive preparation measures.

Logistics providers, freight forwarders and ports have been attempting to increase capacity throughout 2020. The North East, with its 7 Eastward facing ports is perfectly suited for trading with Europe and it is believed by some that issues such as the Kent Access Permit and the increased pressure at Southern ports may mean that companies further North may attempt to bring goods into the country at other ports instead. The Port of Tyne and Teesport especially have invested in capacity increasing improvements with this in mind.

In keeping with government guidance, businesses have been ensuring that they have the EORI numbers required of them. They have also been clarifying their Incoterms with their European partners so that come the end of the transition period, it is clear who is responsible and liable for each process of the movement of goods.

Due to the lack of clarity over the UK's future relationship with the EU a number of businesses that have the capacity to do so have been making Brexit preparations on the assumption that there will

not be a deal agreed between the UK and the European Union. This will have used up significant time and funds and it is not possible for many businesses, especially SMEs, to do this.

A number of businesses have made attempts to source material locally rather than import, both as a reaction to the supply chain disturbances brought about by COVID-19 as well as to mitigate some of the disturbances and difficulties associated with importing goods come the end of the transition period. It must be added that international supply chains have been previously established with cost-efficiency in mind, so 'on-shoring' or sourcing more local content is often an increased financial burden.

Businesses whose operations rely on a continual supply of goods entering the UK from Europe, specifically in manufacturing industries, have been stockpiling goods. This is an additional expense as many will have had to find additional warehouse space at a time of year where space is already in high demand.

With this in mind it is worth keeping in mind that the new border operating model will not be experiencing 'full' demand from the outset. A number of members have told us that they have deliberately not taken orders for the first few weeks of January so they can assess how difficult the movement of goods between the UK and the EU will be. Only when these companies restart trading internationally and when stockpiles run dry will we know the full extent of the pressures placed upon the new border and customs processes.

Members who have a relatively high level of EU migrants in their staff have been making sure that they are ready for the changes to the immigration system. This includes ensuring that any new EU staff ready to work in the country before the implementation of the new points based system, and that they are licensed visa sponsor companies in time, to help ensure that there will not be any labour shortages after the end of freedom of movement.

### Concerns

While the business community are preparing for the end of the year, there are a significant number of gaps in overall readiness and serious concerns for what the end of the transition period will currently result in.

As has been pointed out, a number of businesses that can do so have been preparing for a No Deal exit and the businesses that can do this tend to be larger in size. The membership of the Chamber is primarily made up of SMEs, and the business base of the North East region is made up of over 97% SMEs. There is a serious risk that if there is no deal between the UK and the EU, that the vast majority of businesses will not have been able to prepare properly.

Businesses have also had to spend significant levels of time and funding this year addressing COVID-19 either to implement new operating procedures or to cover lost income. This means that businesses are approaching the end of the transition period in a fundamentally weaker position than we expected at the beginning of 2020.

The most pressing concern for businesses for months now, has been the lack of clarity as to what the future relationship between the UK and the EU will look like. Huge questions remain unanswered for businesses such as what tariffs will be applied to their goods on entry to the European market, whether or not the UK will be able to freely transfer data between the UK and the EU or what regulatory standards will need to be used. A pharmaceutical firm that exports around 50% of its exports to the EU and 50% to the United States spoke of how the uncertainty as to how UK pharma standards will be aligned is making preparations for Brexit difficult and making it nearly impossible

to justify investment in their plant. This is something that is common across the region, with the lack of clarity both making preparations more difficult as well as reducing business appetite for investment. Of all English regions, the North East has the highest percentage per head of jobs created by Foreign Direct Investment (FDI), with large Japanese and American firms employing thousands of people across the region. This means that we need clarity so investors want to carry on their commitments to our region.

While businesses have been taking measures such as clarifying Incoterms with partners and obtaining EORI numbers, the Chamber still receives enquiries about these topics on a daily basis, suggesting that the business community is not fully ready in this respect.

The increase in customs responsibilities for British firms moving goods between the UK and the EU has raised a number of concerns. Firstly, as the demand for freight forwarders, logistics providers and customs expertise has skyrocketed, this has led to these operators charging more for their services. This is yet another additional charge that businesses are having to pay and it is also likely that businesses that were late to act will struggle to access the services required.

In addition to this, there are significant concerns about whether there are enough people trained to complete the required customs declarations come the end of the year. The Chamber notes the £50m Customs Intermediary Grant but it is unlikely that this funding alone will be sufficient. Further concerns have been raised about the digital infrastructure required such as the CHIEF system and 'Check a HGV is Ready to Cross the Border' software programme. The fact that these are either set to be finished or upgraded in the next month means that businesses will have relatively little time to get to grips with them. This understandably increases the risk of mistakes being made and the associated problems that would then arise e.g. border delays and additional costs to businesses. Anything that risks border delays presents a serious risk for Just-in-Time supply chains that are common in sectors such as the North East, and support the employment of tens of thousands of people in the North East.

While some businesses have tried to mitigate against some impacts of the end of transition by altering their supply chains, to either make them more resilient or simply closer, this is not an option for many businesses. Sometimes it simply does not make financial sense to do so, as imported goods may still be significantly cheaper. An engineering firm made the point that 90% of their steel is imported due to cost and this will continue to be the case after 2020. It is also often the case that UK businesses cannot source some materials from within our country. This is often the case with the chemicals sector which accounts for over 20% of North East export value. The North East is also a region of immense expertise in the manufacture of electric vehicles. It is important to note however, that significant amounts of the required material cannot be sourced domestically. Much of the technology is currently sourced from Japan and materials such as Lithium for batteries cannot be extracted from within the UK. If we look at the future of the automotive industry, it is only going to be more important that UK firms can access these materials easily and in a cost-effective way.

One final concern is the lack of time to address any shortcomings. We now have a month before the largest change to our trading relationship with Europe, our largest partners, in over a generation. As this submission has hopefully shown, there are still a number of areas where businesses are not ready. Without adequate time to get ready, as well as with the stresses that COVID has placed upon the business community, there is a substantial risk that we will end the transition period unprepared.

*November 2020*