

## **Local Enterprise Partnership Network – Supplementary Written evidence FUU0021**

### ***ADDITIONAL LEP EVIDENCE TO HOUSE OF LORDS EU GOODS SUB-COMMITTEE***

#### ***3. Which of the TCA's provisions on maintaining a level playing field do you identify as the most important? What effects do you anticipate these provisions having for small businesses in particular?***

1.1 We welcome the TCA and its clarity on all the areas of labour and social standards, environment, and climate that the UK will keep the current levels of provisions. There may well be specific aspects of the sets of controls that businesses find irksome and, in some cases, costly to adhere to. However, at least business know where they stand. LEPs are pleased that the TCA commits the UK to current environmental standards and is ambitious in its scope for EU-UK cooperation on climate change matters.

#### ***4. While the UK has discretion over its subsidy regime, the requirement for the creation of an independent subsidy control body may limit the Government's flexibility to grant subsidies. Within the parameters of the TCA, how much freedom does the UK have to pursue its priorities through subsidies?***

1.2 From a **local** perspective, LEPs take a rather different position than that implied in this question (as set out in our previous evidence to the House of Lords EU Internal Market Sub-Committee short inquiry into the level playing field and state aid in March 2020). Our position is quite pragmatic, the vast majority of instances of grants to projects/businesses with which we are involved are small and it is difficult to see them rubbing up against the types of subsidy issue that the TCA is concerned with.

1.3 At present LEPs and our local partners are in a period of interregnum where we are not entirely sure what regime applies and there is no legal "cover" and no guidance on the interpretation of the six general principles on subsidy control under the TCA. Others have started the need for UK Government to set out an interim "safe harbour" system to provide greater certainty for the vast majority (say 99%) of awards. This could lead to a very risk averse approach by local partners and our Accountable Bodies at present in effect trying to apply the old EU State Aid regime and principles until it is clear what the UK one will be.

1.4 We there welcome the **creation of an independent body** and early clarity on the UK internal subsidy control regime as:

- 1) This would provide clarity and certainty in the assessment and planning of grant support by LEPs and our partners locally
  - 2) It would ensure policing of rules as between England and the Devolved Administrations.
- 1.5 TCA requires that both parties adhere to “common principles” for their regime of subsidy control. We consider that these six principles

**5. *Now that the TCA has provided some clarity on future subsidy controls, what state aid policies should the Government focus on in order to pursue its “levelling up” agenda? How should the Government engage with key stakeholders to support the economic sectors and geographic areas in most need?***

- 1.6 We are not sure how much clarity the TCA does actually provide as the guiding principles are very broad and offer the UK Government ample opportunity to develop a bespoke subsidy system.
- 1.7 As set out in our previous submission on State Aids in 2020 to the House of Lords Internal Market Sub-Committee it is important that the new regime:
- Is long lasting and not subject to excessive tinkering – to provide certainty to business and bodies supporting businesses
  - Has a set of simple subsidy rates – to support the levelling up agenda these ought to be varied by geography based on objective need criteria at relatively large geographies (local authority district or travel to work areas
  - LEPs recognise the need to retain control on maximum levels of support for businesses across the UK (ie “aid intensity”), but the levels of maximum support available in most parts of England for SMEs are simply too low to make any difference to many business decisions.
  - A simpler system aligned by geography to the new Shared Prosperity Fund allocations and levels of resources would make eminent sense and should re-enforce the focus of levelling up by a clearer collective focusing of resources and support by geography.
  - Have a new UK de minimis level to at least £400,000 to £500,000 (compared to €200,000 at present) (the TCA in effect provides for a de minimis level of approx. £350,000) given to a single beneficiary over 3 years)
  - Clarify those areas of business support that do not count towards the de minimis total and ensure that they are exempt (e.g. business advice and consultancy up to say £10,000)

- Create a single online system of recording state support to businesses to make any operation much simpler and less time consuming.

**6. What impact will the TCA's provisions on labour and social standards have on different sectors and sizes of businesses, and are these provisions a positive outcome for the UK?**

1.8 LEPs are generally supportive of the TCA in this regard and that the UK and EU maintain similar levels of labour and social standards.

**8. What are the primary causes of delays in the transportation of goods between Great Britain and the EU? What impact are these delays having on supply chains?**

1.9 In response to this issue I have sought direct input from two LEPs with large Port operations and from hauliers and manufacturing businesses within our local geography.

**Port of Dover**

1.10 The headline feedback from the Deputy Chair at the Port of Dover was that the initial teething issues were resolving themselves with specific and detailed problems reducing from 200 per day at the turn of the year to 10-15 now. However, this was on the basis of 7,000 vehicles movements rather than the 10-11,000 peak. Additionally, 7,000 was around 10% down on the previous year as many businesses had stockpiled supplies in advance of the end of the EU Transition period.

1.11 The position on preparedness for export had improved significantly with hauliers getting used to what is required and being better prepared. There was a marked difference on preparedness from the start to the end of January.

1.12 There were considerable concerns raised on cost escalations by businesses, particularly around couriers and VAT. It was also clear that Rules of Origin was causing considerable concerns for businesses and it was felt that a Task Force was needed to find a way through the current challenges.

1.13 A weather eye was being kept on Eastern European drivers as they were not coming in the same numbers and were seen as critical to the movement of goods, given the numbers of drivers from the area. This was apparently due to providing a backload – unwilling to return to Europe from the UK with an empty truck.

**Port of Liverpool**

*Irish Sea Update*

- 1.14 There have been no queues massing at any of the ports and there is no expectation that there will be any. Hauliers are simply not collecting the cargoes from the traders until all of the required paperwork and reference numbers are in place
- 1.15 The GB-Ireland-NI supply chain appears to be shifting towards direct GB-NI shipments as procedures for travelling through Ireland appear to be more complicated and more issues/delays are being experienced. GB-NI routes are seeing an increase in throughput accordingly
- 1.16 Next day deliveries have significantly reduced as they are now look at 2-3 days – appears to be less urgency at present but wait to see if this changes.
- 1.17 Port of Heysham is benefitting from the 'Irish Sea Hub' model, with routes to Belfast, Warrenpoint and Dublin (Top, Middle & Bottom). Extra capacity being considered for the Heysham to Dublin route.
- 1.18 Volumes on Liverpool to Dublin routes are down approximately 30%.
- 1.19 HMG/HMRC systems i.e. GVMS seem to be holding up well to the volume of entries.
- 1.20 There are some issues with the different Agencies (DEFRA, DAERA, Border Force etc.) and how they require notification and alerts to be recorded using different systems and procedure.

#### *Northern Ireland Protocol*

- 1.21 The key reported issues are:
- Understanding and joining the Trader Support Services
  - Understanding and completing the paper-work
    - Applying for Good Vehicle Movement numbers
    - Checking Entry Summary Declarations
    - Registering for the Import Control System
    - What documents comply for an Entry In Declarants Records (EIDR)
  - Classifying goods as "not at risk"
  - Obtaining an XI EORI Number

#### ***Haulier Perspective***

- 1.33 Some hauliers are suspending groupage operations into Europe as each delivery requires significant amounts of paperwork to accompany it, there are significant time and labour costs and one small error can delay the whole load. Businesses are reporting difficulties in finding alternative carriers.

- 1.34 A concern has been raised that French Border Agency are making things extremely difficult and trying to find reasons to delay imports as long as possible. It is hoped that this will soon settle down.
- 1.35 Small parcel deliveries to Europe and Northern Ireland still appear to be an issue as DPD and UPS have suspended or reduced deliveries.
- 1.36 A local haulier is reporting that the transportation of hazardous waste to Europe is proving problematic due to the licensing requirements. In order to carry this material, a licence is now required for each individual country and in some countries, Germany for example, a licence is required for individual regions. It is understood that these licences can take up to 12 months to issue. The haulier has therefore decided to suspend all European operations until this can be resolved. This approach has been shared by other operators.

### ***Business Perspectives***

- 1.37 A large paper manufacturer, which exports 70% of their finished goods are facing multiple issues. They had a vehicle turned around at Rotterdam and returned to the UK (at their cost) as the load was not cleared within the allocated time. They have a customer in Switzerland for finished board, they previously shipped the board to Germany for cutting and then transported the cut board to Switzerland in smaller quantities at the customer's request. They are no longer allowed to do this as the board has to go directly to Switzerland – the deal does not allow it to be worked on in Germany. The business feared it would lose this customer and have therefore opened warehouses in Germany, Poland and Holland to carry stock for servicing European customers in a timely manner. This is all adding additional costs to the business.
- 1.38 Alongside the known issues of Rules of Origin, VAT, increased paperwork and transportation issues businesses are reporting increased supply chain costs. This is proving challenging, particularly as businesses have reduced trade, generally. For example, an upholsterer - catalogue choice halved as a result of supplier cancelling fabric orders from EU, due to price increase and long delays. This is having a knock on effect on customer service and choice.
- 1.39 Businesses across a range of sectors are reporting issues relating to range and availability of stock – this ranges from opticians reporting limited range of frames to constructors identifying shortages on materials.
- 1.40 Other businesses echo concerns around customer service and subsequent cash flow, as suppliers are having issues with import delays due to paperwork, courier and price increases. For example, a blinds fitter has experienced a supply lead time increase for products from 14 days to 6+ weeks. This has caused frustration as customers

are opting to cancel orders and opt for other firms that are importing lesser quality products from China.

- 1.41 One business has been so concerned about the challenges that it has written to their local MP advising that they are considering withdrawing production from the UK. Excerpts from the letter say: "While we have spent the last year on countless webinars and getting prepared for Brexit, the actual details of the deal that has been done and voted for is not only a disaster for us as an exporter, I believe it is a disaster for the UK and does not represent the interests of the electorate and taxpayer, and will ultimately see less wealth for the UK, with more tax and duty to be collected in Europe. I will explain as below. Firstly, the details of the deal which we were preparing for were only published days before they were in put into practice and have given us no time to adjust, in fact all our staff were on holiday. All the support and guidance we had received has been about how to export to the EU after Brexit, forms etc and ticking boxes, not about the fine details, managing the associated costs and mitigating the impact ..... In fact, almost the only way to solve the issue is to not import our products to the UK at all and have them delivered directly to our EU customers from wherever we make them and look to wind our UK production down as its products face tariffs and an ongoing reduced manufacturing infrastructure".
- 1.42 Businesses are reporting shipment difficulties in trading with Germany. German businesses were not prepared for the changes and UK businesses are being asked to help in completing German documentation. One business reported that they had lost 4 days over this and it is costing 2-3 times more in shipment costs. If the goods are over 1,000 euros, then a formal export document (MRN) is required. Exporter of Record must electronically submit the formal declaration in German Customs Application (Atlas). Agents cannot prepare, submit or declare on the shipper's behalf. The Shipper will then need to contact their local customs office to obtain the MRN before the goods are ready to ship. A German supplier therefore decided to cancel the order after being advised that the parcel service has informed them that there will be no shipments to the UK until further notice. Adding that in future customers from the UK will have to arrange the collection of their goods themselves as the procedures are too complicated for us.

**9. How can issues identified with customs controls and processes be most effectively remedied, and what should be done to minimise disruption in the short term and economic damage in the long term?**

- 1.22 As outlined previously some direct and continued hand holding support to businesses to help them to navigate the changes and be better

prepared to ensure that fully compliant paperwork is in place. This needs to extend beyond the current three month period of support provided by BEIS.

- 1.23 Rules of Origin is a significant issue and this might require a specific concerted approach to address the challenges.
- 1.24 In the medium term government needs to ensure that funding is targeted at seriously supporting business recovery – currently concerned that the focus of both Levelling Up Fund and the Shared Prosperity Fund appear to be bypassing business recovery. The £22million BEIS annual funding for business support, whilst welcome is insufficient to the task.

**10. How much of a burden is it to comply—and demonstrate compliance—with the rules of origin and with any other requirements introduced by the TCA? Is there a risk that smaller businesses with fewer resources will be disproportionately affected?**

- ***In the absence of mutual recognition of conformity assessments, what is the cost to UK businesses of duplicative certification procedures? What can the Government do to minimise any negative effects of regulatory divergence?***
- 1.25 Rules of Origin appear to be causing the most significant issues for businesses, with a number of businesses flagging serious concerns about this. One business reported that they recently attended an Institute of Export event, with over 60% of the companies attending saying that they were not confident in their understanding of the new rules, with the audience likely to be long established. Cumbria LEP is arranging an urgent masterclass briefing session for businesses to try and help them navigate the issues.
- 1.26 One exporter working in the Defence industry, exports 82% of its product to 34 countries around the world and has been exporting since the 1970s. Their main concern is the huge potential administrative burden that this will place on the business, whilst still facing the pressure of the COVID pandemic and the challenge of staying productive to be competitive in an international market. Customers are asking for rules of origin and to supply this they need full records of where items have come from down to component level. For example, a part on a PCB Board within a light could result in 50 individual parts needing checking. To source the information it is a case of either asking suppliers if it isn't stated on their paperwork, or cross checking paperwork already received. Requests have increased since the end of transition with UK and EU customers asking for details either of commodity code information or country of origin. This will further intensify in July due to the declarations becoming mandatory and then

there will be the exemption expiring in December. The company has 52,596 inventory parts on their system and 17,929 sales parts on which they would need to complete the Rules of Origin review. The business is now looking at setting up a customs free warehouse but this is difficult given the complexity of the process and the other business challenges that they are facing.

1.27 Other manufacturing exporters have reported that they are amending their Bill of Materials to comply with new % rules, but it is only possible to do this if the parts are not complex and re-qualification is not required.

1.28 The issues that businesses seem to be grappling include:

- Determining Country of Origin
- % Maximum non-originating materials allowed
- Levels of processing required to alter country of origin
- 3rd Country representation for animal derived produce
- Duties applicable and 3rd country trade agreements when non-originating

1.29 There is a real concern about the disproportionate impact on smaller businesses for whom RoI could be a significant disincentive to export to the EU (along with other administrative costs).

***11. What are the consequences for UK businesses and customers of leaving the EU's VAT system? How can the Government ensure minimum disruption and cost, both in the short term and the long term?***

1.30 There are still some issues around UK freight forwarders not being familiar with new rules about import VAT, and how it can now be shifted to a VAT return declaration. Instead they are continuing to code import entries as last year, resulting in physical VAT charges before goods can be released by HMRC.

1.31 It has also led to increased administrative burdens for companies trading with the EU in terms of accounting for and collecting VAT. Again, largely a serious issue for SMEs.

*Additional Question on Diagonal Cumulation*

1.32 Our understanding is that an option for the TCA/FTA would have been for the UK to have joined the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention). Apparently, this was the preferred approach for the EU. The PEM Convention allows for cumulation between all signatories to the agreement (i.e. diagonal cumulation).

- 1.33 The UKs' negotiating mandate suggested that it would prefer rules of origin based on those agreed between the EU and Japan in the FTA. They are potentially more permissive when it comes to content requirements than PEM. But they would have required EU exporters to the UK to comply with another set of different rules rather than one set for the whole continent.
- 1.34 The negotiations did not result in agreement on 'diagonal cumulation'. Clearly, the reason for this can only be answered by the negotiating parties.