# Institute of Directors – Written Evidence (TIG0007)

*The Institute of Directors is Britain's oldest representative body for directors, founded in 1903 and awarded a Royal Charter in 1906. In addition to instructing us to represent our members, around 20,000 directors of predominantly small-to medium-sized businesses, our representations below also take account of our broader Charter commitment 'to foster a climate favourable to entrepreneurialism and wealth creation'.*

Over the past year we have been supporting business through the adjustment process of the Brexit transition period. Our own survey data, as well as conversations with individual members has revealed just how challenging the process has been, from dealing with strong administrative burdens, mounting tariff and non-tariff related costs, and unfamiliar customs procedures with often unclear guidance on how to approach them. We therefore appreciate the opportunity to submit evidence to the EU Affairs Committee on trade in goods in the hope that it will be helpful to this inquiry.

(Please note all of the data referred to in our responses comes from IoD surveys)

**1) What have been the overall consequences to date of the implementation of the Trade and Cooperation Agreement and the end of the transition period for GB-EU trade in goods, in the UK's first year outside the Single Market and Customs Union?**

Since the transition period began earlier this year, we have consistently been monitoring our members' experiences of trading with the EU, the implementation of the TCA, and the challenges that they are facing.

In a survey we sent out in January, 14% of our members reported they stopped trading with the EU as a result of Brexit, which only dropped to 11% in our September survey, with 8% saying they have stopped trading permanently. 37% have said they are trading less or permanently stopped trade due to Brexit, with members saying exports have been hit harder than imports; 48% are experiencing a loss in exports compared to 37% with imports.

A significant consequence is the cost increases associated with the new arrangements. In January, 79% of businesses claimed they were experiencing cost increases. In September that figure dropped to 68%, but with 86% of these having seen costs rise by up to 50%.

General feedback has shown that these costs are related to increased paperwork in combination with delays, which has created a huge burden particularly on SMEs when competitors in other countries do not face the same barriers.

**1a) What have been the key challenges of existing border controls for GB-EU trade in goods so far? To what extent have these challenges improved or worsened over the course of 2021, and how might they be mitigated further?**

Members have consistently been grappling with the new border controls, with survey data showing 52% of members found customs arrangements challenging in January, in particular customs changes, VAT and rules of origin. This rose to 60% in April, with similar challenges being felt. In fact, some businesses have reported that it is much easier to simply pay the tariff than trawl through documentation to work out if their goods meet the origin requirements.

Businesses have reported that other than these specific challenges, the hardest part of the transition period has been the confusion that has accompanied the adjustments. There have been delays at the border, exacerbated by inconsistencies in guidance between government departments, and a lack of options by way of finding answers. Members have turned to customs agents and intermediaries, but found that they are equally as in the dark about the arrangements. Others have found the lack of advice specific to their business and their issues very challenging, as government guidance has been broadly very general.

**2) Do you agree with the Government's decision to delay further the introduction of certain checks and controls on imports of EU goods into GB? What are the advantages and disadvantages of this decision?**

We can understand the advantages of this decision. It gives business a bit of extra breathing room to prepare for the changes, and allows them to continue trading for a bit longer with fewer barriers in the way.

However, the decision has contributed to an environment of uncertainty, as business don't know when to prepare for the changes, and have to delay adapting to the changes they have been preparing for. It also sends the signal that the government isn't ready, and isn't prepared to support businesses make the adjustment.

Overall, we do not agree with the decision to delay the introduction of checks, because it shows that government is feeling hesitant, and businesses need certainty. It would be better for businesses to, in the interest of consistency and stability, keep to the planned schedule. Government needs to prove that they are ready to be proactive about supporting businesses through the adjustment phase, and that they have a longer-term view of our relationship with the EU.

**2a) In your view, what were the key factors underpinning the decision to delay the introduction of import controls?**

Government has said the reasons for these delays are the pressures that have built up due to the pandemic, and resultingly on global supply chains, which have suffered under delays, logistics shortages, and a surge in demand coming out of the pandemic.

It could be partly this, and partly that they need more time to fully prepare for the changes themselves.

**3) What are the implications of continued 'asymmetry' between GB and EU border controls, for example on the competitiveness of GB businesses, on border security, and on customs revenue? Are these asymmetric arrangements sustainable?**

At the Institute of Directors we have heard anecdotal stories of EU companies pulling out of trading with the UK because it's too much hassle when compared to trading with other countries within the EU. Examples cited are hauliers having to deal with additional declarations, digital customs systems, and less accessible guidance from EU governments on the new requirements for exporting to the UK. This could lead to reductions in supplies to UK businesses, who will then have to switch to domestic providers that were not their first choice, so presumably less advantageous either in terms of price or quality.

Moving into the new year the focus is likely to shift away from the detail of the new customs requirements to more strategic business planning considerations around whether it is worth investing in the necessary expertise to continue to monitor a shifting situation. Ultimately it may be the hassle factor of continual upheaval and adjustment that determines whether to continue trading across the EU border. Similarly there is a "hassle factor" for UK companies trading with the EU over and above the rate of any tariffs, that may ultimately lead to a judgement that the extra costs in terms of time and money are not worth it.

For the particular case of trade between Great Britain and Northern Ireland, what businesses need is certainty so that firms can make the necessary arrangements.

**3c) To what extent are businesses, ports, hauliers, the customs intermediary sector and other relevant groups ready for the introduction of full customs controls, and the expiry of other relevant grace periods, from 1 January 2022, and for additional SPS controls from 1 July 2022? Are there any particular challenges or concerns ahead of these deadlines? How do current levels of preparedness compare to previous preparedness for the end of the transition period on 31 December 2020?**

Our data shows that preparedness before December 2020 was quite split. 30% said that they had more to do, but they thought they would be prepared by the end of the year; 30% said they felt fully prepared; 31% felt there was more to do, and were not sure if they would be prepared before the end of the year.

At this time, we don't have data specifically on the preparedness (we will ask in December), but from our most recent survey, only 24% businesses responded that they felt confident about their business' future since the UK left the EU in December 2020. 34% have said they feel less confident, and 42% reported no change in confidence.

**4) Ahead of these changes, what is your assessment of the quality of existing Government communications, guidance, advice, funding and support for traders and ports? If there are any shortcomings, how should these be addressed?**

General feedback from members is that government guidance has been very confusing. They have had to filter through too many links before arriving at the relevant information, not helped by the fact that there has been not enough consistency in advice between government departments.

Businesses have also found that there hasn't been too much opportunity to find tailored advice for their organisation. The One Stop Shop Export Support Service will hopefully be able to help business access the advice they need for their unique problems.

In terms of funding, the SME Brexit Support Fund did not go far enough at all. £20 million, with a maximum grant of £2,000, was not sufficient enough to help small businesses with the challenges of adjusting to the new controls. Moreover the eligibility requirements were much too narrow. Organisations who trade with mostly the EU, but the rest of the world in a minority were not eligible for the fund, despite facing the same obstacles as other businesses when trading with the EU. 87% of our members said they were either not eligible for the funding, or did not intend to apply.

At the IoD, we are calling for the SME Brexit Fund to be reinstated, but will a wider eligibility. In the wake of the changes to border controls coming in January, this will aid business readiness, and assist with the extra costs that arise due to extra administration, tariffs, using intermediaries, and accessing training in customs procedures.

29 October 2021