

Written evidence submitted ADS

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 £45 billion in exports, and supporting over one million jobs.

The UK's departure from the EU's Customs Union, Single Market, and its agencies and institutions mean that significant non-tariff barriers are unavoidable. However, the UK-EU Trade and Cooperation Agreement (TCA) could have gone further to minimise these barriers. For ADS members, this is particularly apparent in the areas of aviation safety, rules of origin, and chemicals, as well as the subsequent agreement on data adequacy by the EU.

It is vital that the UK and EU continue to work together to overcome obstacles presented by the change in trading arrangements. For businesses in Northern Ireland in particular, the issue of goods defined as 'at risk' of moving into the EU is causing a significant degree of confusion and uncertainty. The EU remains the UK's largest trading partner and both sides must work together to deepen the relationship and strengthen regulatory cooperation in the medium to long-term for our collective prosperity and security.

1. Evidence on the impact of new border arrangements on businesses and industry sectors

1.1 ADS members made significant preparations for the implementation of new UK border arrangements and changes to the way they trade in goods in advance of the TCA being signed in late 2020. However, across our membership the differing size and scale of companies means varying levels of impact on their ability to smoothly adopt new procedures and requirements. One of the main consequences companies have reported is the increased time and cost associated with moving goods, which is ultimately harming UK competitiveness. ADS members not only spent significant time before the end of the transition period preparing for new requirements but have continued to adapt and work through the new and evolving rules and processes required of them throughout the first year of the UK being outside of the Single Market and Customs Union.

1.2 Authorised Economic Operator (AEO) Schemes

1.2.1 When compared to a non-negotiated outcome, the TCA does achieve some positive outcomes in the mutual recognition of Authorised Economic Operator (AEO) schemes. UK companies with AEO status benefit from simplified customs declarations and paperwork when trading with the EU. However, the agreement does not remove the need for administration and customs documentation for goods moving between the UK and EU.

1.2.2 Furthermore, to apply for and be granted AEO status is a complex, costly, and time-consuming process. It is not easily achievable for SMEs, which make up 95% of ADS members, particularly given many smaller companies have no experience of dealing with customs formalities and would therefore find it challenging to pass the initial auditing process. To understand the challenges facing SMEs, it is worth noting it took a major UK aerospace OEM six years to comply and successfully achieve AEO status.

1.3 Rules of Origin

1.3.1 The introduction of rules of origin under the TCA has created a new challenge for ADS members who trade with the EU, as they have not previously had to comply with rules of origin requirements, which are very complex. For the aerospace sector, the WTO Agreement

on Trade in Civil Aircraft negates the need to utilise the origin provisions in the TCA, but this doesn't apply to raw materials and certain components further down the supply chain. Military goods are also not covered by the WTO plurilateral and therefore ADS members operating in the defence sector are now encountering rules of origin requirements for the first time if they trade with the EU. Many do not have the required sophisticated systems and software to calculate 10-digit level codes, or the information on the previous origin of goods that are needed to calculate content. The issue is further exacerbated by the fact that the TCA does not provide for complete alignment on the interpretation of appropriate certificates to prove origin, creating greater uncertainty for businesses.

1.4 Northern Ireland

- 1.4.1 There is a unique challenge for companies based in Northern Ireland importing goods from Great Britain. ADS has engaged with member companies who are now facing additional tariffs despite the fact they currently import raw material from Great Britain for processing into airworthy parts, which would then not be subject to tariffs if they moved into the EU due to the WTO plurilateral agreement. Due to the Northern Ireland Protocol, raw materials moving into Northern Ireland for processing, are now being defined as 'at risk' of moving into the EU and therefore attract the EU tariff. This puts aerospace companies in Northern Ireland at a competitive disadvantage when compared to their counterparts in Great Britain and undermines the intention of the Internal Market Act "*to ensure there are no harmful new barriers to trade between all parts of the UK.*"
- 1.4.2 An example of this would be titanium bolts imported to Great Britain from the USA and then moved into Northern Ireland for processing. HMRC has suggested several actions businesses can take to avoid the tariff; however, all these options come with a cost of their own, be it direct or indirect. Furthermore, while relief can be claimed on goods that are proven to remain in the UK, this adds additional administrative requirements and cashflow burden. Feedback from member companies is that some supply chain modifications have been necessary to preference EU suppliers.
- 1.4.3 Companies that have more exposure to trade with Great Britain are disproportionately negatively impacted by the new arrangements. Businesses that process parts in both Great Britain and Northern Ireland for final sale in the EU seem to be worst impacted by new additional costs. ADS has estimated that the range of costs could be from £50m-80m to the aerospace sector in one year, as companies are faced with costs arising from customs compliance, potential tariffs, increases in logistics costs, and administration for aerospace goods moving from Great Britain to Northern Ireland. The long-term impact of these additional costs will harm the competitiveness of the UK aerospace sector, which already faces growing threats from a range of international competitors.
- 1.4.4 ADS has made repeated proposals to Ministers and Officials in the Cabinet Office and Northern Ireland Office related to a resolution for the aerospace sector in Northern Ireland. The proposals state that the UK Government should, through the UK-EU Joint Committee, seek to agree an exemption for Northern Irish aerospace companies importing parts and materials for processing into Northern Ireland from Great Britain. Aerospace companies in Northern Ireland should be able to use their CAA approval (or equivalent) to apply for a 'trusted trader' type status, which would allow them to import parts and materials from Great Britain without having to pay a tariff. This could 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 could 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.
- 1.4.5 Broadly, the Trader Support System (TSS) has been useful to companies to help guide them through the new requirements and to raise awareness that tariffs on 'at risk goods' will be required to be paid upfront. However, some businesses make extensive use of customs special procedures such as IPR and have found that their business models are not compatible with the current functionality of TSS. This has required additional time, patience, and a general diversion of resources across businesses, stakeholders, and government

officials to try and get goods correctly through the customs process. Companies who have less exposure of goods moving from Great Britain to Northern Ireland have found that the TSS system works acceptably for the basic movements they make but that the additional paperwork and increased costs in more general terms have had a negative impact on their competitiveness.

1.5 Rules Implementation

- 1.5.1 Other key challenges regarding the existing border controls for GB-EU trade have been centred on the operational implementation of new rules rather than the overall policy design. ADS members have reported that EU member states have often had a different interpretation of the requirements than the approach understood in the UK, which has generated additional delays and challenges to the movement of goods. This is true for both companies who have chosen to use the TCA to move goods and for those who have chosen to not use the TCA and to move goods through customs special procedures as part of their complex global supply chains.
- 1.5.2 For example, ADS member companies have reported experiences with businesses in EU member states requesting information beyond that detailed in Incoterms. ADS members have been reluctant to provide this information as it can often result in goods being processed incorrectly, which will incur costs to them and often result in them being non-compliant.
- 1.5.3 ADS and member companies have been engaging closely with the Border Protocol Delivery Group (BPDG) and HMRC to raise issues as they have arisen where, in many cases, bi-lateral conversations have helped to resolve any confusion or provide near-term mitigations.
- 1.5.4 However, some new checks and controls have generated additional friction and damaged the cash flow of UK businesses trading with the EU. There are examples where documentation requirements in EU member states have not aligned with the guidance given to UK businesses by HMG. Resolving these issues at the border under time pressures to ensure goods can be cleared is causing additional work and cash flow tied up in guarantees.

1.6 Customs Intermediaries

- 1.6.1 ADS has received reports that some customs intermediaries are still failing to properly follow instructions given to them by businesses. As it stands, we believe this is because they are overwhelmed with an extreme increase in workload and thus are getting goods through customs controls by any means necessary, even if not as instructed by the customer (businesses). When customs intermediaries do not follow instruction given to them by businesses, this often results in costs to industry. For example, a haulier using their own duty deferment account will create issues for a business who holds a guarantee for the goods in their own customs account. Similarly, if goods are cleared through customs using a different procedure than stated, businesses can find themselves having to go back to HMRC to make corrections on declarations that often go against them in audit and can also result in financial penalties.
- 1.6.2 ADS has also been made aware that some customs intermediaries were turning away the business of new clients, particularly SMEs owing to them reaching their capacity. ADS believes that these concerns and challenges will remain in place until the supply of intermediaries increases or the amount of processing they are required to do is streamlined. In addition, there is a disproportionate shortage of customs agents in Northern Ireland.

2. Evidence on how the Government is managing future risks in relation to introducing full import controls

- 2.1 The UK Government's decision to further delay the full introduction of certain checks and controls on imports of EU goods will be welcomed by some member companies, especially SMEs, as it provides breathing space to continue implementing new requirements. Most relevant to ADS

members is that safety and security declarations on imports will now be required as of 1 July 2022 as opposed to 1 January 2022. However, as previously noted, many ADS members have already been preparing for the full implementation of these requirements and so the postponement delays an eventuality that some of our members have already come to terms with.

- 2.2 In terms of risks, the demand for customs support has potentially been underestimated by all of those involved in the trade and movement of goods from GB to EU. Many firms have opted to outsource support, but the availability of this support is not enough to satisfy the increased demand. This is something that will need to continue to be monitored to ensure that all of those involved, particularly customs intermediaries, are providing reliable and compliant services to industry.
- 2.3 The Government must therefore support the training of more customs intermediaries and ensure the EU member states and GB borders agree on the interpretation and requirements of the new rules to avoid further disruptions when full import controls are introduced. Additionally, the UK Government can use this time to help strengthen supply chains and provide further support to businesses who are not only struggling with disruption caused by Brexit but also other factors including, but not limited to, driver shortages, COVID-19, and energy supply disruptions.
- 2.4 As more companies are required to comply with more customs controls and checks, there is a degree of further disruption anticipated. ADS members have continued to prepare for full customs controls and checks, and whilst there will be some who continue to familiarise themselves with new requirements, we anticipate that the increase in paperwork and checks will have a more profound impact on ports, hauliers and intermediaries who will be at the forefront of the increased workload.
- 2.5 A refreshed communications campaign to 'check an HGV is ready' would be welcome, with government action to ensure that all of those heading to the border are prepared to cross. Similarly, a campaign on the EU side to ensure GB importers and EU exporters have completed all necessary paperwork before goods depart would be useful, although potentially less achievable.
- 2.6 More broadly, ADS sees no benefit in 'border asymmetry', that is the divergence of safety requirements between GB and EU border controls or wider regulatory standards. However, when it comes to trade in goods between businesses that have long-standing relationships, there is usually a record of compliance and level of trust. ADS believes that good compliance history should be taken into consideration to ease controls and requirements on businesses in both the UK and EU. A relaxation to allow businesses to demonstrate that they continue to be compliant and adhere to the new rules through regular reporting, rather than needing to provide information on every single shipment as it happens, would ease the burden on businesses. This is one way in which a balance in arrangements could be sought that is sustainable and supports businesses and supply chains across the UK and EU.
- 2.7 ADS members in Northern Ireland remain concerned about 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 hurt competitiveness, and to remove the requirement for tariffs to be paid on raw materials imported from GB into NI.

3. Other issues

- 3.1.1 A key aspect in the development of the TCA going forward will be the development of an Aviation Maintenance Annex to the TCA. Provisions in the TCA on Aviation Safety cover design and production of aerospace parts between the UK and EU and point towards future cooperation on aircraft maintenance. The Maintenance, repair and overhaul (MRO) sector is a valuable part of the UK aerospace industry, generating a turnover of £3.5 billion in 2020, and ADS would therefore ask the UK Government to support the development of a Maintenance

Annex to enable reciprocity in aircraft maintenance between the EU and UK, fostering and encouraging additional cross border trade.

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