

## **Federation of Small Businesses - Written Evidence (TIG0017)**

1. The Federation of Small Businesses (FSB) is the UK's leading business organisation representing small businesses. Established over 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that is led by our members, for our members.
2. FSB welcomes the opportunity to respond to the European Affairs Committee inquiry into trade in goods between Great Britain and the EU. We would be happy to provide further detail on any of the issues raised in this response.

### **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?**

3. FSB research has consistently shown that the EU as a bloc is the largest trading partner for small firms, whether in goods or services. FSB welcomed the agreement of the TCA and the avoidance of the legal uncertainty, disruption and costs that failing to reach a deal would have created for a considerable proportion of the UK's small businesses.
4. Nonetheless, moving to an FTA-based trading relationship means that small businesses must overcome a significant number of new requirements and processes in order to continue trading goods and services with the EU.
5. FSB's latest quarterly survey, conducted in September 2021 and covering Q3 2021, shows that 21 per cent of small business exporters have stopped exporting to the EU since the end of the transition period – 17 per cent have stopped temporarily, 4 per cent permanently – with a further 7 per cent considering stopping.
6. Many members have reported disruption and delays in shipments when trading with the EU: FSB research published in July showed that an overwhelming majority (92 percent) of exporters and importers had experienced shipping delays in the previous three months.
7. Anecdotal evidence from FSB members shows that businesses are facing significant increases in shipping costs charged by logistics intermediaries and fast parcel operators in light of new customs requirements when passing through the GB-EU border.
8. Although some increases in the cost of trade with the EU seen by FSB members – such as large increases in shipping costs – may be a short-term anomaly, overall the financial and administrative burdens associated

with trade with the EU is expected to remain higher than they were before the end of the transition period.

**a. 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?**

9. A clear majority of small businesses did not feel ready for the end of the transition period and the move to operating under the TCA. FSB's December 2020 transition readiness survey showed that fewer than one in five (18 per cent) of small firms that believed they would be negatively impacted by the end of the transition period had finished preparing.
10. The most common challenges of existing border controls that members have reported to date include unfamiliarity with customs procedures and rules of origin, costs relating to VAT, and disruption to supply chains including delays and increased prices for shipping and fast parcel operators.
11. The administrative requirements and calculations involved in determining whether goods meet rules of origin in FTAs, particularly for complicated manufactured goods, can often be beyond the capabilities of smaller firms. FSB's December 2020 transition survey showed that more than half (58 per cent) of small businesses that trade in goods did not have experience of dealing with rules of origin, and a third (31 per cent) were not aware of the process.<sup>1</sup>
12. The same survey found that the need to complete customs declarations would affect nearly two thirds (63 per cent) of FSB members engaged in international trade, but fewer than half (46 per cent) were confident that they or their staff are able to handle them.
13. FSB members have also reported issues relating to leaving the EU VAT area. While the TCA contains welcome provisions on co-operation and mutual assistance on VAT this does not remove the requirement to appoint a VAT fiscal representative in every Member State, even for businesses that use the EU Import One-Stop Shop. The appointment of a fiscal representative can carry significant costs, both in administrative burden and securities paid towards VAT liability.
14. As noted above, many FSB members have reported experiencing delays and increased costs associated with using fast parcel operators or intermediaries to ship goods between GB and EU. Some FSB members have reported significant increases in the amount charged by fast parcel operators to process customs paperwork, difficulties in reclaiming duties and a lack of transparency within the intermediary sector.

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<sup>1</sup> FSB transition readiness survey, 2020: <https://www.fsb.org.uk/resources-page/fewer-than-one-in-five-small-firms-fearing-end-of-transition-have-prepared-new-study-finds.html>

15. The additional costs and the time required to navigate the new processes associated with trading with the EU impact on small firms' cashflow and resources. The number of exporters that have stopped trading permanently with the EU has held steady at 4 per cent since the start of the year, while the number of businesses that have temporarily stopped exporting to the EU has fallen from 23 per cent in Q1 to 17 per cent in Q3.

**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?**

16. Government has been responsive to business requests for and feedback on guidance on navigating the new trading relationship. FSB welcomes the range of detailed guidance that has been published since the agreement of the TCA.

17. Government guidance is often not easily applied by smaller firms to their particular circumstances, and many SMEs require access to bespoke support that reflects their particular business models, products, or services. Smaller firms lack the human and financial resources of large firms, and often do not have distinct legal or export departments to call upon.

18. FSB therefore welcomed the announcement in March of the Government's SME Brexit Support Fund which will allow small businesses to apply for small grants to pay for practical advice and training to adjust to trading under the terms of the TCA.

19. However, take-up of the fund was limited due to restrictive eligibility criteria which excluded businesses that had previously traded with countries outside the EU Single Market, even those that had exported on a very limited or ad hoc basis, and a limited window for promotion and application. FSB encourages the Government to consider developing a second round of funding with wider eligibility criteria that will help small businesses access the relevant private sector expertise and training.

20. Small businesses often report that navigating Government resources and guidance is difficult and time-consuming. FSB was therefore pleased to see the launch of the Government's new Export Support Service, creating a single point of contact for queries relating to exports to the rest of Europe. In future, FSB would encourage Government to consider expanding this service to cover other regions.

21. FSB also encourages Government to commit to the rapid roll-out of the SME Contact Point foreseen in the SME Chapter of the TCA. Such a contact point is an important means of enabling smaller firms to

understand the terms of the TCA and helping them to understand how to use it.

**a. Having made the decision to delay the introduction of certain checks, how should the Government best use this extra time?**

22.FSB data shows that readiness for the introduction of full import checks is low among small businesses. In addition to launching a reformed version of the SME Brexit Support Fund, as referred to above, Government should therefore use the time created by the extension of the grace periods launch an extensive communications campaign to raise awareness among small businesses of the forthcoming changes.

**7. How would you assess the checks and controls that GB exports to the EU have faced since January 2021, such as Sanitary and Phytosanitary requirements, customs formalities, Rules of Origin, and VAT?**

23.Increased costs and administrative requirements that result from the UK leaving the EU VAT area are one of the biggest concerns for small businesses. FSB therefore supported the introduction of the EU Import One-Stop Shop in July 2021 as a way to streamline VAT declarations and payments for goods to customers based in the EU Single Market.

24.As the UK and EU agreed a VAT Protocol as part of the Trade and Cooperation Agreement, FSB was hopeful that the UK would be included on the EU's list of third countries exempt from the requirement to appoint an intermediary.

25.However, the Council Implementing Decision 2021/942, adopted in June 2021, lists Norway as the only third country considered to have concluded a similar agreement on mutual assistance. UK businesses that register to use the IOSS are therefore required to appoint an intermediary, the cost of which will be prohibitively expensive for many small firms.

26.FSB urges the EU to reconsider this decision, and encourages Government to work with the EU, via the Specialised Committee on Administrative Cooperation in VAT, to consider potential ways forward.

10 November 2021