

Written evidence submitted by the FSB Northern Ireland (FRE0016)

FSB is the UK's largest business organisation, with around 165,000 members, including around 6,000 in Northern Ireland, across all sectors of industry and business.

Established over 40 years ago, we are a non-profit-making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions.

Northern Ireland is a small business economy, with the highest concentration of SMEs in all the regions in the UK: 98% of all firms employ fewer than 20 people, while 95% employ fewer than ten. Northern Ireland SMEs provide 75% of all private sector jobs, and two-thirds of private sector turnover.

As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in government.

The Federation lobbies decision makers to create a better business environment and welcomes this opportunity to respond to this call for evidence on progress in negotiations on the UK's future relationship with the EU, on behalf of our members across Northern Ireland. We trust that you will find our comments helpful and that they will be taken into consideration.

The Federation of Small Businesses (FSB) is the UK's largest business organisation, with around 165,000 members in total, including around 6,000 in Northern Ireland, across all sectors of industry and business. Established over 45 years ago, we are a non-profit making and non-party political organisation that's led by our members, for our members.

Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in government. FSB lobbies decision makers to create a better business environment and welcomes this opportunity to provide a response to this inquiry.

SMEs in Northern Ireland

Northern Ireland is a small business economy, with the highest concentration of SMEs in all the regions of the UK: 98 percent of all firms employ fewer than 20 people, while 95 percent employ fewer than ten. Northern Ireland SMEs provide 75 percent of all private sector jobs, and two-thirds of private sector turnover.¹

Small businesses are flexible and resilient, able to adapt rapidly to changes and to seize opportunities. However, almost all their energies are currently focused on the Covid-19 public health emergency. They are accessing government support, engaging with landlords, suppliers, creditors; they are looking after their employees, applying for and chasing bank loans. A recent FSB survey of small businesses in Northern Ireland found that nearly 6 in 10 (57%) have been forced to close since the beginning of the coronavirus outbreak.²

Risks associated with Covid-19 will have an impact on business activity for some time yet, so businesses will need supported during this crisis and assisted through the economic recovery.

¹ DBEIS - Business Population Estimates 2019:

<https://www.gov.uk/government/statistics/business-population-estimates-2019>

² FSB NI Covid-19 survey, May 2020: <https://www.fsb.org.uk/resources-page/almost-two-fifths-of-ni-small-businesses-fear-never-opening-again-survey-results-reveal.html>

Some have adapted new business models, introducing takeaway and delivery services, or repurposing to produce PPE or providing services to key workers; others have introduced measures to facilitate social distancing for both staff and customers, investing in Perspex screens and additional hygiene equipment.

For many, it will be a long time before they can hope to make a profit again – and therefore run a viable business – because reducing numbers of staff and customers on their premises will diminish and slow their ability to make sales. FSB members recognise that people’s health and safety must come first, and are doing their best to ensure that their business survives long enough to trade under more ‘normal’ conditions in the future. Of the 60 percent that have closed (see above) nearly 40 percent say they will either not reopen or are unsure whether they will ever open again.

Against this backdrop, it has been inevitable that small businesses have been less focused on the UK’s future relationship with the EU, and what arrangements might be needed at the end of the transition period.

Overview

FSB Northern Ireland gave a qualified welcome to the Protocol on Ireland/Northern Ireland³ included in the Withdrawal Agreement of October 2019, as it avoided a ‘no-deal’ outcome which would have been deeply disruptive to Northern Ireland small businesses, particularly in sectors where supply chains stretch across the border between Northern Ireland and Ireland, such as agri-food. When we surveyed our members in August 2019, 75 percent of businesses expected a negative impact from a no-deal exit, and half of all businesses expected that impact to be significant.⁴

The Protocol is due to enter fully into force at the end of the transition period, on 1 January 2021 – less than eight months from now. We are acutely aware that the practical details around how the Northern Ireland Protocol will be operationalised are not included in the Agreement, but are to be discussed and negotiated in the governmental bodies established by the Withdrawal Agreement, namely the overarching UK-EU Joint Committee; the Specialised Committee on the Northern Ireland Protocol; and the Joint Consultative Working Group.

It is therefore the case that *how* the Withdrawal Agreement will be implemented will be as important as the contents of the Treaty.

3

https://ec.europa.eu/info/sites/info/files/brexit_files/info_site/20200430_note_protocol_ie_ni.pdf

⁴ FSB NI - Survey on the impact of ‘no-deal’, August 2019

The overarching theme in this response is that small businesses must be presented with clear

information and be given clarity on the arrangements which will be put in place at the end of the transition period; and that they must be given adequate time – and support - to prepare. These future arrangements must be workable – pragmatic and flexible.

Concerns

The Protocol creates a set of circumstances whereby Northern Ireland will continue to follow EU Single Market rules for goods and the Union Customs Code of the EU, while continuing to be part of the UK's Customs territory. While this allows frictionless trade on the island of Ireland to continue, it does raise potential issues of concern for trade between Northern Ireland and Great Britain, in both directions.

Concerns relate to the potential need for entry and/or exit declarations, customs declarations, the costs and associated administration of these, transport logistics including journey times and costs, potential tariffs, additional staff costs to facilitate all of these and, ultimately, whether a profit margin can be maintained. Many small businesses operate on tight profit margins, short cashflow periods, and on a 'just-in-time' basis.

It is our members' great concern that more complicated trading arrangements between NI and GB will ultimately lead to Northern Ireland's small businesses being excluded from wider UK supply chains, resulting in a reduction in consumer choice, an increase in costs to both small businesses and consumers, and a proliferation of goods and services which are deemed 'unavailable in NI'.

West-East (NI-GB)

While there has been a lack of clarity, some commentary has suggested that goods being shipped from Northern Ireland to Great Britain may require an Exit Summary Declaration, in line with existing customs practices for goods leaving an EU territory destined for a non-EU territory. As for purposes of trade in goods, Northern Ireland will be de-facto part of the EU Single Market, while GB will be outside its remit.

Currently this trade is domestic UK trade, no different to the transit of goods between Cardiff and Bristol, or Newcastle and Edinburgh. For statistical purposes the Department for the Economy in Northern Ireland measures NI-GB trade as 'external sales', though this is distinguished from 'export' outside the UK.

As part of his evidence to this Inquiry to which we are now responding, the Chancellor for the Duchy of Lancaster, Michael Gove MP, told the Committee *"we have a commitment to unfettered access for goods from Northern Ireland to the rest of the United Kingdom."*⁵

⁵ Michael Gove evidence to FREU Committee, 27/04/2020.

While the term ‘unfettered access’ is open to interpretation, NI businesses could reasonably expect from this statement that the administrative burden associated with moving goods to GB will be no different from present, and certainly not be increased to become so prohibitive that it would prevent access to the wider UK market. Given Great Britain is the biggest single market for external sales for NI businesses, accounting for almost half of all sales outside Northern Ireland⁶, we would have great concerns if this commitment were not delivered. Accordingly, and in the spirit of Minister Gove’s commitment, we would call for administrative requirements, if there are to be any new ones at all, to be as light-touch as possible.

If, in the event, additional processes do become necessary, businesses must be informed of any requirements sufficiently early so that they can prepare. This includes early sight of any Declaration forms, so that they can assess the administrative and staff time requirement, arrange staff training, find and contract an agent to undertake this work on their behalf, and factor in the cost of the declarations and of the staff and opportunity costs of meeting the requirements.

All this is necessary so that they can make an assessment of whether the trade continues to be viable in terms of making a reasonable return on it, despite the new burdens. However, if requirements were to be overly burdensome, there is a great risk that it would undermine the economic basis for trade, regardless of preparation time. While we understand the need for trade to be compliant, in order for the NI Protocol to be a success, it must be workable, and it must recognise the various commitments in the Belfast/Good Friday Agreement, as well as the fact that Northern Ireland businesses remain part of the UK’s single internal market.

East-West (GB-NI)

A greater degree of concern exists around transit of goods from Great Britain to Northern Ireland. If Northern Ireland ports were to be treated the same as an external EU barrier, then the requirement for certificates of origin, entry summary declarations, sanitary controls, and other documentation would add significant cost to small businesses. There is the possibility that, dependent on the outcome of the wider UK-EU free trade agreement, tariffs could be charged on some goods moving across the Irish Sea from GB to NI with a rebate mechanism put in place to allow businesses to reclaim tariffs for goods which have stayed within the UK internal market.

We note the statement made by the Chancellor of the Duchy of Lancaster at the previously mentioned Committee session, where he said the aim of the UK Government was to maintain *“the smoothest possible access for goods from Great Britain to Northern Ireland.”*⁷ It is absolutely vital that this aim is realised.

⁶ NISRA: Broad Economy Sales and Export Statistics, 2019:
<https://www.nisra.gov.uk/statistics/business-statistics/broad-economy-sales-and-exports-statistics>

⁷ Michael Gove evidence to FREU Committee, 27/04/2020

Assessments carried out by UK Government departments and agencies have indicated that customs formalities could carry a heavy administrative cost in some scenarios. Using the benchmark of current UK trade with a non-EU country, a DEXEU impact assessment indicated that the implications of the new Northern Ireland arrangements could be an additional cost of £15-56 per declaration.⁸ Feedback from businesses in the haulage sector suggest that vehicles in transit can contain multiple declarations, which could lead to unsustainable increases in costs for small businesses.

In such circumstances, we would have significant concerns about the administrative burden, feasibility and cost that a tariff rebate system would create. For example, a small manufacturer, which brings in steel from GB, would have to put in place an extensive recording mechanism to account for what finished goods the steel contributed to, and to where those finished goods were sold. Instead, we would argue that a common-sense approach must be taken as to which goods are genuinely considered 'at risk' of travelling into the EU market, with an easy process for firms to self-certify and gain 'trusted trader' status.

Beyond simply trying to minimise burdens, however, FSB NI believes that there is a potentially transformational economic opportunity to be garnered from the new situation, through developing a robust, world-leading compliance system.

Accordingly, in order to achieve a process of smooth regulatory compliance, we recommend the establishment of a new *Regulatory Compliance Certification Service (RCCS)* in Northern Ireland, operating under agreements with the territories to which it would be providing services and certification, enabling goods coming through NI destined for the EU to be certified for regulatory compliance via a 'Singapore-style' single-window regulatory assessment, delivered by the RCCS.⁹

This would not only help avoid regulatory risk, but also position Northern Ireland to become a world leader in regulatory compliance certification systems, and underpin Northern Ireland's position as a centre for global trade.

Services

The issue of managing the transit of goods across the Northern Ireland/Ireland border has been the focus of the withdrawal negotiations, and has been largely addressed by the Northern Ireland Protocol, however, what isn't included in the Agreement is services.

⁸ DEXEU: Impact Assessment on the Withdrawal Agreement Bill 2019:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841245/EU_Withdrawal_Agreement_Bill_Impact_Assessment.pdf

⁹ FSB NI - Making Northern Ireland an Enhanced Economic Zone:
<https://www.fsb.org.uk/resources-page/northern-ireland-as-an-enhanced-economic-zone--fsb-ni-pdf.html>

Services account for 75% of gross value added in Northern Ireland, and 22 percent of external sales by Northern Ireland firms.¹⁰ This is now a key part of the future relationship negotiations, with NI businesses in this sector in the same position as their GB counterparts - reliant on the negotiated outcome.

Research by the Department for the Economy indicated that, without agreement on services, Northern Ireland businesses would face, on average, an equivalent of 14.5 percent tariff on all services sold in the Republic of Ireland. The research also indicated that even a normal Free Trade Agreement between the EU and the UK covering services, such as a CETA-like agreement, would likely have significant negative implications for the ability of Northern Ireland firms and consumers to access EU markets to buy and sell services. The impact would be less than in a 'no deal' scenario, but still substantial.¹¹

Concerns around services were articulated by members recently. One business owner who advises clients on digital marketing strategy in Northern Ireland and the Republic of Ireland, and who has premises in Dundalk, was concerned about his ability to share data across the border in the future. Similarly, a business which previously provided private medical insurance in both jurisdictions is now only serving the NI market, as the parent broker has pulled out of ROI because of uncertainty about the future regulatory landscape.¹²

Having ensured the avoidance of a frictionless goods border on the island of Ireland, Northern Ireland businesses need to be assured that they can engage in the buying and selling of services when the transition period concludes, not least in those many cases where the supply of goods is underpinned and complemented by associated service.

Time to prepare

The decision by the UK Government to trigger Article 50 on 29 March 2017 set in place a two year timetable, according to which the UK was formally due to leave the European Union on 29 March 2019. The stand-still transition/implementation period remains due to end in December 2020, with the new UK-EU relationship due to commence in January 2021.

However, following a change of Prime Minister and the renegotiation of the Withdrawal Agreement, the UK did not formally leave the EU until 31 January 2020, but with the end date for the transition period remaining unaltered.

¹⁰ Department for the Economy (NI): EU Exit and Impacts on NI's Services Trade, 2019: <https://www.economy-ni.gov.uk/publications/eu-exit-and-impacts-northern-irelands-services-trade>

¹¹ Department for the Economy (NI): EU Exit and Impacts on NI's Services Trade, 2019: <https://www.economy-ni.gov.uk/publications/eu-exit-and-impacts-northern-irelands-services-trade>

¹² Feedback from businesses, focus group held on 13/05/2020

This has provided very limited time to prepare, particularly as the details of whatever new arrangements will prevail for which preparation is required are not fully known, and are dependent on the wider free-trade negotiations between the United Kingdom and the European Union.

Only when we know the customs and regulatory relationship between the UK and EU will we begin to get a sense of what procedures will be required for goods transiting between Great Britain and Northern Ireland.

The challenges around preparedness have been exacerbated by the coronavirus outbreak, with both business and government focused on making it through the crisis; a crisis which, for many businesses, is an immediate threat to their very existence. There has been intense government engagement with business but it has, by necessity, been focused in large part on emergency measures and mitigations to support businesses during the unprecedented closure of large parts of the economy. Feedback from members at a recent focus group has suggested that the strength of the public messaging to combat Covid-19 has been very effective, but one of the consequences is that it has crowded out other concerns and policy issues, such as Brexit.¹³

As all government statements on the issue confirm that there will be no change to the end date for transition, it highlights and underscores the growing urgency for the detail around the new arrangements to be published, communicated, and have adequately resourced assistance deployed to help businesses to adapt and implement new systems.

Need for Clarity

Since the Withdrawal Agreement was published, agreement has yet to be reached on its practical outworkings. Some senior figures in the UK Government, including the Prime Minister and the Secretary of State for Northern Ireland, have suggested that there will be no checks nor customs formalities required. Meanwhile, soundings from the EU Commission's Taskforce UK have suggested that Belfast will be treated no differently to Calais, in terms of the level of documentation and procedures required for trade.¹⁴ Indeed, after the Specialised Committee on issues related to the implementation of the Protocol on Ireland/Northern Ireland met for the first time on 30 April 2020, the EU Commission published its interpretation of the implementation of the Protocol as follows:¹⁵

¹³ Feedback from business owner, focus group held on 13/05/2020.

¹⁴ European Commission: Taskforce UK: Presentation on Ireland/Northern Ireland Protocol, March 2020

¹⁵

https://ec.europa.eu/info/sites/info/files/brexit_files/info_site/20200430_note_protocol_ie_ni.pdf

Businesses will need time to prepare for the changes to the customs, regulatory and VAT / excise regimes that the full application of the Protocol as of 1 January 2021 necessarily implies. For businesses in Northern Ireland, this will include:

- *the introduction of customs procedures and formalities for goods entering Northern Ireland from Great Britain, and for goods leaving Northern Ireland for Great Britain;*
- *the introduction of regulatory checks and controls, including SPS controls, for goods entering Northern Ireland from Great Britain;*
- *the introduction of prohibitions and restrictions in respect of goods entering Northern Ireland from Great Britain, and for goods leaving Northern Ireland for Great Britain;*
- *the new regulatory environment in Northern Ireland, in particular as regards technical regulations, assessments, registrations, certificates, approvals and authorisations;*
- *the new regulatory requirements for UK fishing vessels landing fish in Northern Ireland;- the application of VAT and excise rules concerning imports and exports to goods entering Northern Ireland from Great Britain and goods leaving Northern Ireland to Great Britain; and*
- *the implementation of a dual VAT regime in Northern Ireland, with one set of rules applicable to a supply of goods, and a different set of rules applicable to a supply of services. To avoid disruptions of business activity, the United Kingdom should urgently engage with the business community in Northern Ireland, as businesses must be able to prepare for the new requirements well in advance. The Commission services are available to provide any assistance that may be required.*

With such divergent views and mixed messaging from various sources, it is extremely difficult and perhaps impossible for small firms to know for what they should be planning. While at FSB we do our utmost to keep our members informed of upcoming policy changes, we have identified a lack of awareness amongst businesses that a further change in trading arrangements is coming after the transition period.

At a focus group recently, one member commented *“how do I know what to plan for in January, when I don’t know what the outcome will be.”*¹⁶

Government should consider an information campaign similar to that which was put forward in advance of a possible ‘no-deal’ outcome in autumn 2019, to inform businesses and the wider public ahead of the end of the transition period.

Considerable resources were committed to that campaign, and we would expect to see a similar approach, coupled with practical support for small businesses, in the lead-up to the end of the transition period.

However, this will first require a clarified and agreed message within government about whether and how trade will change from the status quo.

¹⁶ Quote from business owner, focus group held 13/05/2020.

Opportunity

While in this response we have addressed some concerns about the consequences of the Northern Ireland Protocol, we also believe that there exists an opportunity for Northern Ireland to maximise its unique position and boost economic activity in the region. If goods from Northern Ireland can be treated as a domestic good in both the UK and EU markets, this could enhance the attractiveness of Northern Ireland as an investment location.

Similarly, in tandem with the right incentives, NI can become a global hub for regulatory assurance and compliance, serving as the 'bridge' between the UK and EU markets. In October 2018, in the midst of intense Brexit negotiations, FSB Northern Ireland brought forward a proposal for NI to become an 'Enhanced Economic Zone', which set out an ambitious vision that would significantly boost the Northern Ireland economy.¹⁷

This policy proposal was built on clearly articulated aspirations amongst the wider FSB NI membership that Northern Ireland should have an ambition and a plan to grow its economic output such that it could become a net contributor to the Exchequer, and boost living standards in the region. Northern Ireland's position in the post-Brexit environment could, if underpinned by the ambition set out in this policy paper and assisted by both the UK and the EU, see it achieve that ambition - to the net benefit of the UK, of all parts of the island of Ireland, and of the EU. Achieving this vision will be based on the goodwill of the key actors, and an interpretation and implementation of the Northern Ireland Protocol which is both workable and generous. It would also be consistent with both parties' stated commitments to respect the Belfast/Good Friday Agreement, which were not only about achieving peace, but also about developing prosperity.

Given the unique economic status which the NI Protocol bestows upon Northern Ireland, access to both future UK and EU Free Trade Agreements (FTAs) is possible and could increase global attractiveness for the region, especially if securely underpinned by a robust regulatory compliance certification service. In research conducted by FSB ahead of the commencement of Brexit negotiations, there was an appetite expressed by growth-orientated small firms to utilise new UK FTAs with emerging markets, such as China, India, UAE and South Africa.¹⁸ This, in addition to access to potential EU FTAs, could create the framework for Northern Ireland to become a key hub for global trade.

¹⁷ FSB NI - Making Northern Ireland an Enhanced Economic Zone:
<https://www.fsb.org.uk/resources-page/northern-ireland-as-an-enhanced-economic-zone---fsb-ni-pdf.html>

¹⁸ FSB – Keep Trade Easy, what small firms want from Brexit, March 2017:
<https://www.fsb.org.uk/resources-page/keep-trade-easy---what-small-firms-want-from-brexit-pdf.html>

Conclusion

Many of the circumstances which will determine Northern Ireland's trading relationships after the transition period will be determined by the nature of the overall UK-EU relationship.

A full and comprehensive agreement on tariffs and standards would make the Northern Ireland Protocol easier to operationalise and reduce friction in the transit of goods between GB and NI.

While we appreciate that we are currently in the middle of a negotiation, it is crucial that pragmatism and the mutual cooperation of all stakeholders comes first so we can arrive at a final settlement which is to the mutual benefit of businesses and households across the UK and Ireland.

We believe that the Joint Consultative Working Group (JCWG) offers some potential for the Northern Ireland business community to input to the shape of the implementation arrangements. FSB is part of a wider delegation of NI business groups and trade bodies who are jointly engaging to ensure that implementation of the Protocol is suitable. Expert input to the JCWG must include Northern Ireland's business representative groups, so that a full understanding of the outworkings of proposed implementation measures is fully comprehended. Only when tested among businesses, will it become clear if proposals are workable.

Once the details around trading arrangements are confirmed, small businesses must have appropriate time to adjust to what comes next and should be supported by government in that process. Small businesses are flexible, and will adapt, but they must know to what they are adapting.

May 2020



Committee on the Future Relationship with the European Union

House of Commons, London, SW1A 0AA

Email: freucom@parliament.uk Website: www.parliament.uk/freucom

14 May 2020

Mike Cherry
National Chair
Federation of Small Business

Dear Mr. Cherry,

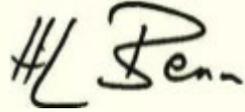
The House of Commons Committee on the Future Relationship with the European Union is inquiring into the progress of the negotiations between the UK and the EU. Under normal circumstances, the Committee would hold regular oral evidence sessions in Westminster. However, measures to prevent the spread of the coronavirus make this difficult.

The Committee wishes to gather as much evidence as possible to inform its deliberations and I am writing to you to ask whether you would be willing to help us with our work by making a written submission. We welcome general responses to our [call for evidence](#), which was published on 4 March. We also hope that you would be willing to answer the more specific questions set out below on issues that fall within your area of expertise. Such submissions need not address every bullet point and can include other matters that you think are relevant to the negotiations and should be drawn to the attention of the Committee.

- To what extent do the Government's negotiating aims meet the needs of your sector? What would you have preferred to be different? On which areas do you believe it should prioritise reaching an agreement?
- Given the UK and the EU's starting positions, are there any areas of reported disagreement that particularly concern you or your organisation? If so, what are they and why?
- The Government said it would "invite contributions about the economic implications of the future relationship from a wide range of stakeholders via a public consultation", and that this process would "begin later this spring". What are your views on this consultation? What was positive and negative about the Government's overall strategy to engage with business in advance of publishing its approach to the negotiations?
- Since the negotiations began, to what extent have you been kept abreast of developments? Have you found the updates from negotiation rounds helpful in assisting your sector to plan for the remainder of the Transition Period? If so, how?
- What steps are you taking to prepare for the end of the Transition Period? Do you have the necessary information and resources to prepare effectively? How long do you need once the final nature of any deal affecting your sector is known to prepare for new arrangements?
- How prepared is your business for the possibility of leaving the Transition Period without a trade deal in place on 1 January 2021? What discussions are you having with EU business partners in order to make contingency plans?
- How much progress would you need to see at the high-level summit in June to give confidence that a deal will be done? If it appears in June that a trade deal looks unlikely, how do you expect this to affect business behaviour? How important is an FTA to your sector versus trading on WTO terms?
- How, if at all, are you seeking to influence the EU in these negotiations? What engagement have you had with the Commission, European Parliament or any other EU organisation?
- How has the COVID-19 crisis affected your ability to prepare for the end of the Transition Period? Have you learned any lessons for contingency planning and supply-chain preparedness from your experiences with COVID-19 that could be applied to preparations for the end of the Transition Period?
- Considering the Coronavirus pandemic, is your business calling for an extension to the duration of the Transition Period? If so, why? If not, why not?

The Committee staff will be happy to discuss the inquiry, any issues raised, or the process for submitting written evidence. You can contact them at freucom@parliament.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read "H/ Benn". The signature is written in a cursive, slightly stylized font.

Hilary Benn
Chair of the Committee