

TCA08 Make UK

Senedd Cymru | Welsh Parliament

Adolygiad o weithrediad y Cytundeb Masnach a Chydweithredu rhwng y DU a'r UE | UK-EU implementation review of the Trade and Cooperation Agreement

Ymateb gan: Make UK | Evidence from: Make UK

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Make UK research – TCA still presenting challenges to manufacturers three years on

Government urged to continue working with EU to boost exports for both sides

- **90% of businesses are still dealing with increased challenges trading with the EU three years after the TCA came into play**
- **Customs administration and clearance are the biggest barriers (64%) followed by logistics issues (52%) while demonstrating Rules of Origin is still a problem for 36% of companies**
- **But in spite of the difficulties 74% of Britain's manufacturers continue to favour trading with the EU over other destinations, with exports to the EU up 26% on 2021**
- **To continue export momentum, Government should work with the EU to simplify and improve the TCA – simplify customs paperwork to make it easier to clear goods into and out of EU and UK**
- **The Trade Access Programme (TAP) should be reinstated to help businesses seek out new markets and grow business overseas alongside an Export Council to deliver policy as part of a wider Industrial Strategy**
- **To combat the chronic labour and skills shortage businesses need to see improvements to business mobility – urgent changes needed to short term work purpose visas and professional and technical qualifications must be recognised in UK and EU**

Britain's manufacturers are calling on the Government to continue working closely with the EU to make exporting easier and improve Britain's Trade and Cooperation Agreement (TCA) with the EU so companies both sides of the Channel can prosper and grow their businesses through the delivery of more frictionless trade.

When the new post-Brexit trading arrangements came into force three years ago, 96% of UK manufacturers said the new rules were badly disrupting trade with the EU. Our latest trade bulletin published today shows that some 90% of UK companies still find trading with the EU a challenge. Customs paperwork and border delays prove the biggest barrier for 64% of companies, with logistics an issue for over half of exporters (52%). Demonstrating Rules of Origin of goods is still difficult for 36% of businesses as they struggle to ensure their goods meet the tariff-free rules of entry to the EU, by showing they contain sufficient product of UK origin.

However in spite of any difficulties, nearly three in four companies (74%) are still exporting to the EU, with Britain's manufacturing sector exporting £230 billion worth of goods to the EU last year, up 26% from 2021. Overall, however, the effect of the new arrangements on businesses is varied with just one in three seeing export volumes increasing moderately or

significantly over the last two years. But two in five (40%) say they have experienced a moderate or significant decline in export volumes.

While the EU is still the UK's largest export market, the US remains a critical market and is a significant second destination for manufacturers with nearly half (48%) exporting there. The other top five non-EU destinations for exports are Northern Ireland, Asia & Pacific and Canada. These results, especially for small and medium-sized businesses, indicate that companies may well be using the new skills they have learned navigating the new complex customs rules for EU trade to expand into wider global markets.

With a critical labour shortage in the UK's manufacturing sector, accessing skilled EU workers remains a key challenge. The new data shows that recruiting from the EU has become harder for 44% of companies in the last three years, and changes to the UK's Shortage Occupation List of necessary skilled workers has been slow to recognise the record labour shortages across the sector. Manufacturers want to see cooperation with the EU on business mobility to and from Europe – particularly around the arrangements for short-term working visas and where professional and technical qualifications can be recognised both in the UK and EU.

Earlier this year the UK and EU negotiating teams worked together to successfully draw up the Windsor Framework which restored the smooth flow of goods crossing the Irish Sea from Great Britain to Northern Ireland. . Manufacturers are now calling on Government to continue in this spirit of cooperation to look at how the TCA is working in practice and how it can be improved.

Nearly four in five (77%) of companies believe the UK and EU must collaborate to improve export procedures, customs administration and goods clearance and EU and UK levels. A simplified Trusted Trader scheme is needed which can be applied across all EU member states. Greater cooperation on regulation is also required with a call for the indefinite extension of CE marking recognition for all UK manufactured goods and internally HMRC must separate Customs from the rest of the department to give customs agents direct access to a dedicated team. Ultimately, mutual recognition of UK Advanced Tariff, Origin and Valuation rulings by the UK or UK rulings (and vice versa) would dramatically support trade.

Stephen Phipson, CEO Make UK, the manufacturers' organisation said:

“It is clear that manufacturers across the UK have performed strongly on the international stage in the last year with conditions remaining challenging. Since Britain left the EU, companies have had to deal with the new trade arrangements of the TCA merging with global disruption brought about by the Covid pandemic. Yet Britain's manufacturers have powered through to build international trade in new markets while navigating through the minefield of challenges which still remain in trading with our closest partner, the EU.

“Government must jump on this potential and look to manufacturers as they continue to explore new markets further afield as well as closer to home. Reinstating the Trade Access

Programme would help companies identify opportunities overseas and to move into new markets while providing in-market support would ensure companies get the correct advice in a time critical manner to help them compete successfully on the global stage.

“What is fundamentally missing and needed is an Exports Council to deliver joined-up policy to support trade which should be incorporated into the body delivering an overarching Industrial Strategy here in the UK.”

ENDS

About Make UK

Make UK, the manufacturers’ organisation, is the representative voice of UK manufacturing, with offices in London, Brussels, every English region and Wales.

We represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and the EU – is designed to help British manufacturers compete, innovate and grow.

From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused.

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TRADE BULLETIN 2023

**THREE YEARS ON FROM THE TRADE
AND COOPERATION AGREEMENT**



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INTRODUCTION

The UK's exit from the European Union in 2016 was one of the most significant events in the last 50 years for British trade. Finding a new and workable way of trading with our closest economic, trading, and geographical neighbour was essential. The Trade Cooperation Agreement (TCA) between the UK and the EU was concluded in December 2020 and activated the following year. A 'No Deal' scenario that would have seen the UK leave the EU without an economic and trade cooperation agreement, was not an option that would have met the demands of UK manufacturing.

In December 2020, the TCA was billed as the solution to economic uncertainty: allowing the vital UK/EU trading relationship to continue despite Britain's exit from the EU. However, three years on, substantial challenges remain for many of Britain's manufacturers in their trading relationship with Britain's biggest export market, the EU.

For more than four decades, UK manufacturers had become used to being part of complex, 'just-in time' supply chains that spanned multiple EU Member States – component parts travelled seamlessly across borders several times before products were finally assembled and sold.

The introduction of the TCA disrupted this arrangement. It meant businesses had to quickly understand new administrative requirements, such as customs and related paperwork that were necessary for exports to be legally placed on the EU market. Furthermore, additional burdens, such as export accounting and new tax rules, were put in place to make sure goods exports meet Rules of Origin requirements to retain tariff-free access into the EU, and that goods and

products were correctly tested and labelled for sale in the EU. Just as companies were getting to grips with the new trading rules, the COVID-19 pandemic hit, significantly impacting the UK manufacturing sector. The pandemic has made it difficult to definitively pinpoint the cause of any downturn on trade with the EU as a consequence of the new trading relationship. COVID-19 brought with it pressures on input costs, supply chain disruption and raw material scarcity, exerting additional strain on companies already struggling to cope with new trading rules.

Six months after the introduction of the TCA, Make UK conducted a study on its impact which showed that 96% of companies were facing serious challenges in continuing to trade with the EU. Our new research reveals that, in some cases such as in the movement of goods the matters has improved, 90% of manufacturers say they remain subject to these challenges and continuing friction when trying to trade with the EU. Logistics issues remain a barrier for 52% of respondents, while 36% have difficulty meeting Rules of Origin requirements for their goods, for allowing these goods to meet the tariff-free requirement of entry to the EU. Nonetheless, despite these difficulties and restrictions, Britain's manufacturers continue to favour trading with the EU, with nearly three in four (74%) of manufacturers still exporting to the economic bloc.

- A) There is no doubt that in the future, changes will be made to the TCA and the regulatory/legislative regimes between the UK and EU. These will bring fresh challenges for manufacturers. We have highlighted only a few factors which are already impacting ongoing trade arrangements below: the introduction of the Border Target Operating Model (BTOM) in 2024, meaning the phased introduction of custom rules and checks when exporting goods to Great Britain (GB).
- B) The introduction of the EU's Carbon Border Adjustment Mechanism (CBAM) from October 2023 which, though not a provision in the TCA, applies a carbon tariff on carbon intensive products imported into the EU from a third country such as GB.

Manufacturers continue to look for new opportunities away from the EU. Therefore strengthening their focus to look further afield to sell goods and related services. More firms than ever before are exporting to North America, India and Gulf States. It's possible that manufacturers, having made adjustments to comply with the new EU trade rules, are using their newly acquired trade administration knowledge to start exporting into other countries.

Since the inception of the TCA and its introduction in 2021, the global dynamic has changed significantly affecting the terms and rules of trade and the confidence in the historic foundations that have supported the rules based approach to economic development through trade. Whether through the impact of the Covid-19 Pandemic, the impact on fuel supply and cost through regional conflicts and the geo-political decisions on the origin, ethics and due diligence in supply chains, have changed and impacted the terms under which the TCA is now supporting UK and EU trade relationships. Improved relations between London and Brussels can progressively understand the challenges brought about through the TCA and the wider geo-political considerations that can create the opportunities to seek implementation changes to reduce the frictions that are bearing down on UK and EU supply chains.

THE LATEST IN TRADE

In 2022, the UK's exports of goods and services totalled £713 billion, and imports totalled £751 billion¹.

The pattern of UK trade continues to demonstrate that the UK generally imports more than it exports, meaning that it runs a trade deficit. A deficit of £163 billion on trade in goods was partially offset by a surplus of £125 billion on trade in services in 2022. However, the overall trade deficit was £38 billion in 2022².

The manufacturing sector accounts for 49% of all UK exports, contributing over £432 billion to the nation last year, of which over £230 billion was exported to the EU – a 26% increase in export value from 2021³.

Though there are signs that more companies are undertaking export activity, this is tempered by reduced volumes of overall trade. Looking specifically at the time between just before the TCA and just after (2020 against 2021), exports in tonnes had declined by 12% globally, indicating that whilst export values had increased, we exported less goods to the world. This negative change in volumes occurred between UK and EU trade, which declined by more than 18 million tonnes in manufactured goods⁴ between 2020 and 2021 (equivalent to an 18% fall) compared to the rest of the world, which increased by 4%. However, though there was some continuing overlap of the

impact of the TCA from the impact of the global pandemic and other geo-political events, there is now stronger pointers that it is clear from the data that UK trade with the EU was impacted proportionately more than it did with the rest of the world.

It is worth noting that between 2021 and 2022, export volumes recovered somewhat by approximately 9 million tonnes to the EU, but nonetheless remained below 2020 levels. The increase in export values reflects rapidly rising inflation, which continues even today and therefore results in little value to the UK in real terms. Significantly, our reliance on imports, which has continued to grow in volumes, likely fuelled inflation further.

In terms of importing, volumes of imports from the EU declined by 13% in 2020, and by 14% to the rest of the world just prior to the inception of the TCA, indicating that businesses were unable access materials at that time. This is more likely related to COVID-19 restrictions that closed several ports and reduced trade, meaning manufacturers in the UK were already one step behind when economies reopened in 2021. The difficulties in accessing imports in 2020 may have also resulted in a reduction in exports in 2021 due to lower numbers of finished goods ready to trade.

Table 1 – Volumes of trade since 2018, in Tonnes (X=Exports, M=Imports)

Tonnes	EU X	EU M	ROW X	ROW M	Totals X	Totals M
2018	108,284,922	123,723,477	52,058,211	168,258,120	160,343,133	291,981,597
2019	106,902,572	115,315,200	47,388,378	169,527,093	154,290,950	284,842,293
2020	104,596,994	100,436,539	40,973,577	156,582,837	145,570,571	257,019,376
2021	85,888,217	98,745,621	42,736,081	165,197,970	128,624,297	263,943,591
2022	95,277,618	108,431,276	36,030,666	179,390,584	131,308,285	287,821,860

Source: UK trade info

Table 2 – Annual % change in volumes of trade since 2018

% change	EU X	EU M	ROW X	ROW M	Totals X	Totals M
2018	-	-	-	-	-	-
2019	-1%	-7%	-9%	1%	-4%	-2%
2020	-2%	-13%	-14%	-8%	-6%	-10%
2021	-18%	-2%	4%	6%	-12%	3%
2022	11%	10%	-16%	9%	2%	9%

Source: UK trade info

¹ONS (2023), ²UK Trade: Goods and Services publication tables, data reported in CVM for all commodities (incl. precious metals)
³ibid

⁴UK trade info (2023) analysis
⁵ibid

WHERE DO EXPORTS GO?

Despite the UK's exit from the EU's Single Market and Customs Union, manufacturers continue to favour trading with their closest neighbours, with nearly three in four (74%) manufacturers currently exporting to the EU.

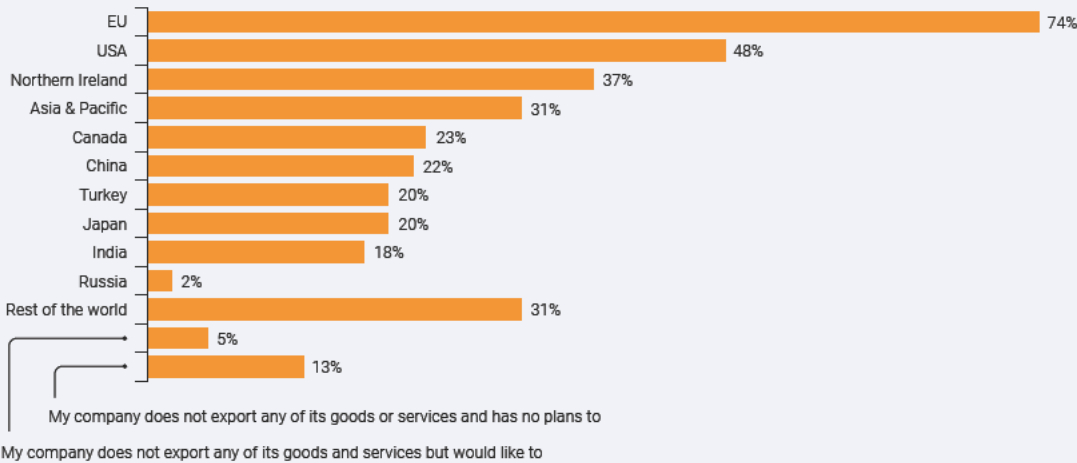
Outside of trade with the EU, the US remains a critical market and is a significant second destination for manufacturers – indeed, nearly half of manufacturers from our survey exported to there. This is unsurprising given, as an individual destination, the UK (including Northern Ireland) exported over £56 billion to the US in 2022. Outside of the EU and the US, other key destinations for exports are Northern Ireland, Asia and Pacific, and Canada. The presence of Northern Ireland reflects the importance of the Windsor Framework in ensuring stability of trade with GB and the overall UK-EU trading relationship. It also confirms the unique position of Northern Ireland with its dual market access arrangement with GB and the EU. The significance of Northern Ireland is also reflected

in the official statistics, with £30 billion worth of goods journeying there from GB last year.

It is perhaps a reflection of the growing geo-political links between foreign and trade policy that trade activity with China reported in this survey has reduced and does not appear in the top five manufacturers' export destinations. In the official statistics, China is the UK's fifth largest destination for UK goods when compared to our exports to individual countries: in 2022, we exported more than £27 billion worth of goods⁵.

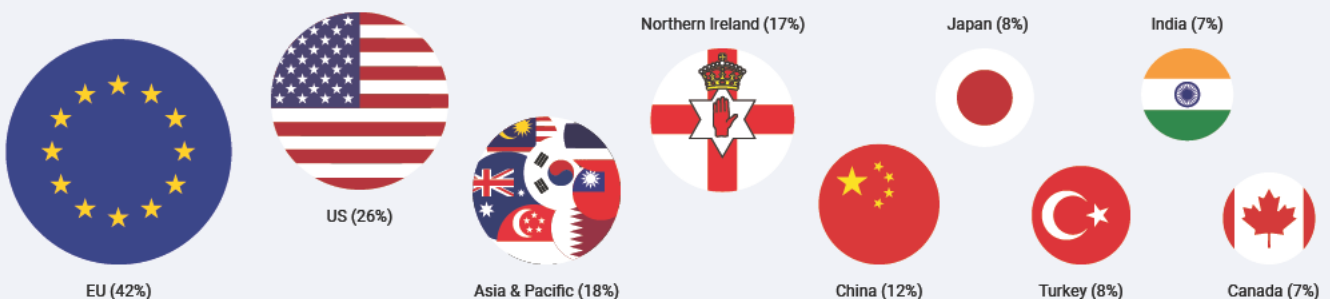
These results indicate that both geographical proximity, cultural similarities, and now, wider trade considerations, continue to dictate trade relations for many UK manufacturers and their exporting choices. Despite the relative increase in trade frictions between the UK and the EU since 2020, manufacturers continue to do business with their closest neighbours.

Chart 1: The EU remains the top choice for exporting manufacturers



Source: Make UK TCA survey 2023

Average % of UK exports that go to the following countries



⁵Make UK, The Facts (2023)

THE TCA – A STATUS UPDATE ON TRADE AND COOPERATION

Six months after its introduction, we conducted a study reviewing the initial impact of the TCA on UK manufacturers. This identified several challenges faced by businesses.

Some 96% of manufacturers had reported difficulties in dealing with the new trading environment – particularly regarding compliance with the new customs paperwork and procedures. While this had somewhat eased, 47% of companies found that their understanding of the new processes improved, over one third continue to report ongoing challenges with customs, primarily small and medium sized enterprises (SMEs).

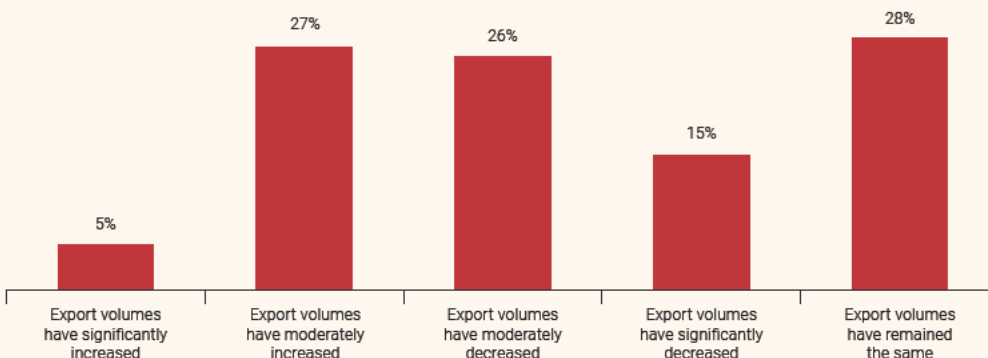
Our latest research shows that there has been little improvement. 90% of businesses say they are still dealing with increased challenges when trying to trade with the EU. By a clear majority, the issue of customs typified by administration and related customs clearance remains the biggest barrier to trade, with 64% saying this is a major problem. Additionally, logistics issues persist (52%), whilst being able to demonstrate Rules of Origin (36%) continues to prove difficult as companies struggle to ensure goods meet the tariff-free rules of entry to the EU.

The response from manufacturers on how export volumes have changed since the beginning of the TCA is a mixed bag. Just under one in three (32%) of manufacturers have indicated that export volumes have increased moderately or significantly over the last two years. On the other hand, two in five (40%) of manufacturers have experienced a moderate or significant decline in export volumes. However, 28% of manufacturers have experienced no change to export volumes. Overall, the findings here indicate that the impact of the TCA on trade volumes is weighted more to the negative side.



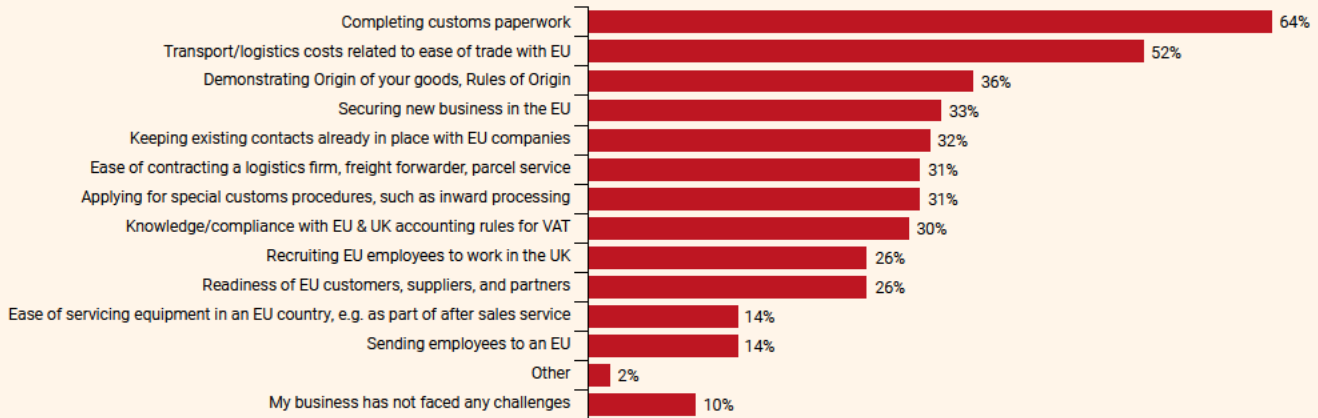
of manufacturers still face challenges to completing customs paperwork

Chart 2: Two in five manufacturers have experienced a decrease in export volumes



Source: Make UK TCA survey 2023

Chart 3: Manufacturers still face issues related to customs, logistics and rules of origin



Source: Make UK TCA survey 2023



NEW CHALLENGES



LABOUR AND SKILLS

A significant change for UK manufacturers is the ability (or lack thereof) to recruit workers from the EU, with 44% of businesses reporting greater difficulties in the last three years.

Manufacturers have relied heavily on workers from the EU due to the shortage of critical (vocational) skills in the UK, such as welding and toolmaking. However, the loss of freedom of movement as a result of the UK's exit from the EU, the wider limitations on labour and business mobility provided for in the TCA, coupled with the impact of the Covid-19 pandemic when many EU workers resident in the UK returned home during long periods of inactivity, has unfortunately worsened the labour shortage for Britain's manufacturers. This has meant that, following the rebound in global activity since 2021, UK job vacancy levels have reached record heights. The ensuing opportunity costs to productivity amounted to more than £20 million a day in lost revenue at peak, meaning manufacturers lost out of significant potential growth.

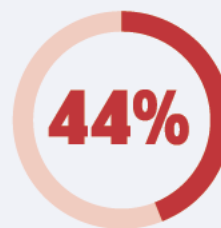
These issues continue to go effectively unaddressed, particularly as the Migration Advisory Committee (in charge of the UK's shortage occurred list (SOL)) has been slow to recognise where businesses are facing the worst cases of labour shortages.



SECURING NEW BUSINESS RELATIONSHIPS

From the perspective of UK manufacturers, trading with the EU has become more bureaucratic and cumbersome, as identified by the top issues being related to customs administration and related clearances of goods, and logistics. Our survey finds that, for 38% of manufacturers, it has become more difficult to maintain ongoing relationships and certainly to secure new business in the EU.

The introduction of the TCA immediately put in place formal border controls on exports from the UK to the EU, and with that, the most significant change to the terms of trade with the EU. Though formal controls for goods exported to the EU became an immediate reality for GB exporters, the introduction of formal and extensive controls to goods entering GB from the EU will only come into effect in 2024 when the Border Target Operating Model (BTOM) goes live. This is likely to create additional friction between EU suppliers and supply chain customers. Our new survey reveals that there is already increased disruption to trade, with 36% of UK companies saying it has become more difficult to secure business in the EU as EU companies are less willing to work with them.



44% said that recruiting EU workers have become more challenging in the last 3 years



SENDING WORKERS ABROAD

UK manufacturers do not just export and import goods, they also undertake trade in services in their export of goods to the EU and other international markets. Services offered by manufacturers significantly boost their revenue streams and include:

- Base services (provision of goods and spare parts)
- Intermediate services (provision of product repairs, maintenance, overhauls, helpdesks, training, condition monitoring), and
- Advanced services (provision of customer support agreements, outcome contracts)

Exporting businesses require increased business mobility and recognition of professional and technical qualifications to allow skilled employees and contractors to travel and undertake contracted activities.

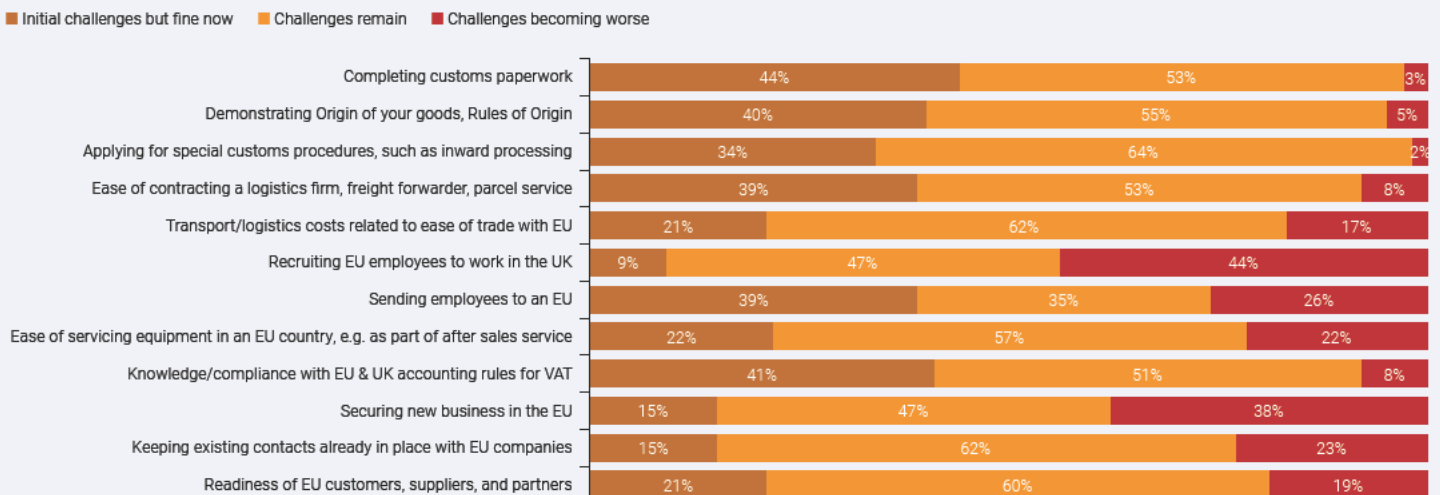
The rules regarding travel to the EU for purposes of business and work, as well as eligibility for simplifications in entry into an EU member state, changed with the introduction of the TCA. Equally, the rules for entry to the UK for reasons of work, business and residency for EU nationals are now based on a points-based system, which has also added complexity for EU-based firms requiring staff to undertake business travel to the UK.

Anyone travelling to the EU for the purposes of work and business should ensure that they understand and comply with the extra requirements. The key message to manufacturers is check the rules before travel. While the TCA provides for the possibility of visa free travel, the specific requirements and conditions are determined by individual EU member states, and there are different rules for each country. If a traveller is considered to be working, and particularly if they are undertaking commercial or customer-facing activity, they may need both a visa and a work permit. Again, depending on the type of activity or work, the traveller or their employer may need to inform the member state authorities.

It is important to understand that the right to enter an EU member state no longer exists. Therefore, businesses will need to ensure that their employees have the right paperwork with them and, if working in the EU, that they have met the local market's labour requirements.

Seldom is the challenge of working abroad so severe as to be impossible. Indeed, whilst these issues have presented further problems for one in four companies, they have also practically disappeared for 39% of businesses.

Chart 4: Some challenges are getting better whilst others are getting worse



Source: Make UK TCA survey 2023



SIMPLIFYING THE PROCESS

UK manufacturers continue to experience challenges – from managing their trading relationship with the EU, to domestic policy and regulatory changes affecting new taxes and reliefs to investment. However, it is no longer change that manufacturers long for but simplification of what is already there. Indeed, 62% of manufacturers highlighted that they want the UK’s domestic tax and regulatory system streamlined to make it easier to compete⁶. In terms of trade, manufacturers have indicated they want something similar.

With the improving nature of political relations between the UK and EU, it should be possible to review the current operation of the TCA in practice and see how it can be improved to benefit both parties. Nearly half of manufacturers (47%) want more effective customs and regulatory cooperation between the UK and EU, in the hope of simplifying processes and reducing barriers to trade. This must be coupled with a long term UK-focused industrial strategy that should include a plan to boost both export and domestic growth.

Alongside these top two solutions to helping industry export more goods, over a quarter of manufacturers (26%) believe a reinstated and comprehensive Trade Access Programme (TAP) would provide businesses with better opportunities to grow overseas, by seeking out customers in new markets in a more streamlined way. These shows are critical as they allow manufacturers to demonstrate supply-chain supporting products, something particularly important to many UK manufacturing SMEs, who produce critical components for end product solutions.

Survey responses further indicate that 26% of manufacturers also believe that the creation of an Exports Council to deliver policy would better support trade. This could be incorporated into an overarching body responsible for delivering a domestic Industrial Strategy. Beyond suggestions for a TAP and Exports Council, a similar share of businesses expressed a desire for additional financial aid to deliver trade exhibitions, though 17% of manufacturers have also indicated they do not require any further support for exporting.

Chart 5: Manufacturers want cooperation between Governments and an Industrial Strategy



Source: Make UK TCA survey 2023

⁶Make UK/RSM, Manufacturing Growth: Tax and Regulations (2023)

AUDIT PREPAREDNESS - COMPLIANCE OR COMPLICATION?

Following the introduction of the new trading rules under the TCA, HMRC has begun to conduct audit and compliance checks to ensure that businesses are completing all relevant customs, administration, and tax requirements.

Manufacturers experienced in importing and exporting to and from third countries prior to 2020 are familiar with the requirements for a customs administration audit. However, businesses that are new to the customs compliance and audit requirements that are now equally important for trading with the EU may be unaware of, or ill-prepared for, the administration requirements.

Our survey found that only 28% of manufacturers have been subject to a recent audit from HMRC, though a further 18% expect an audit in the future. Significantly, the largest group of respondents are not expecting an audit (41%), and there remain some (14%) who do not know if they will be audited at all.

Furthermore, our results show that while 70% of manufacturers believed they were fully prepared for a previous audit, 28% felt that they were only somewhat prepared. In comparison, looking ahead to the preparedness of those expecting future audits, nearly three in five manufacturers (59%) are somewhat prepared, compared to 29% who are fully prepared. This suggests that the actual process of auditing may pose less of a challenge than is currently perceived by businesses. However, these results should not mean that manufacturers should relax their procedures of monitoring and data collection, as various penalties can be applied if an audited business fails to meet its obligations regarding requests for information.

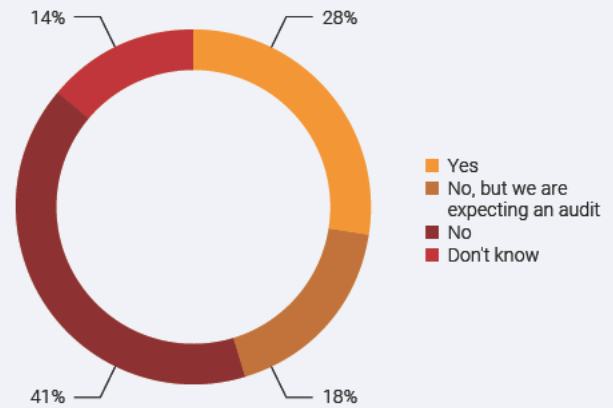
According to HMRC, typical reasons for failure can be:

- Infringements of customs regulations
- Failure to comply with any customs-related approval, authorisation, registration or licence
- Misdeclarations
- Failure to comply with a customs procedure
- Failure to produce information
- Failure to keep records
- Inaccurate returns or documents
- Unauthorised removal of goods from customs supervision

Thus, UK manufacturers must ensure that they are able to meet legal requirements if they wish to continue exporting and importing. It is important to seek support if you are unsure of any obligations or your ability to pass audits.

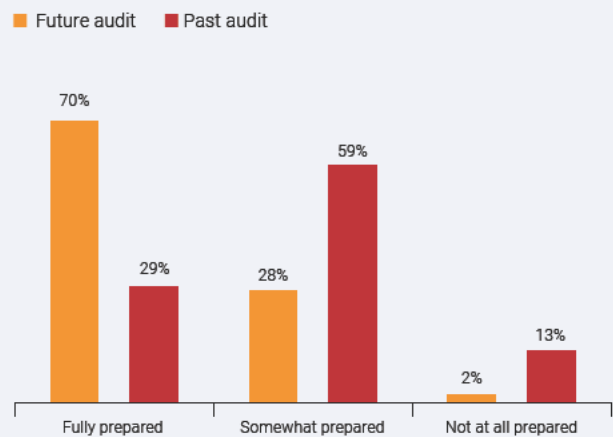
More information can be found [here](#).

Chart 6: Nearly half of manufacturers have either been subject to an audit or are expecting one



Source: Make UK TCA survey 2023

Chart 7: Manufacturers believe that they are not fully prepared for future audits



Source: Make UK TCA survey 2023

ADDITIONAL FORCES CONTINUE TO DRAG ON MANUFACTURING GROWTH

Outside of the additional administrative and regulatory requirements to trade with the EU, the most severe disruption arises from reasons not directly resulting from the TCA but, rather, domestic cost and price pressures relating to rising raw material and energy costs.

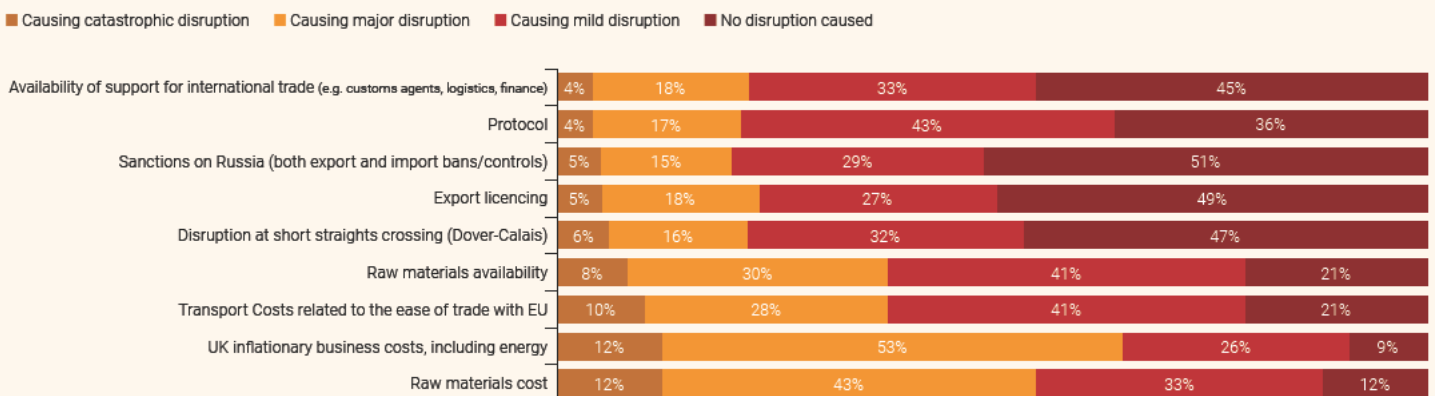
The most impactful of these two factors is price pressures. The majority (91%) of manufacturers report disruption caused by inflationary costs, including energy price inflation, with 53% of these reporting major disruption. It is concerning that, for at least one in ten manufacturers, the cost of raw materials, energy and transport costs are causing catastrophic disruption for businesses.

Knock-on uncertainty from the UK's exit from the EU and the post-pandemic recovery shock factors have contributed to

a shortage of raw materials, which is causing disruption for 79% of manufacturers. Transport costs related to trade with the EU also rank highly, with 80% of manufacturers feeling the effects of increasing cost.

Though several of these challenges are a result of external forces, it is important to look at how the TCA is working in practice, and whether it can be improved over time to lower the burden of costs that manufacturers face.

Chart 8: Domestic cost and price pressures found to be leading causes of disruption



Source: Make UK TCA survey 2023

THE NEED FOR COOPERATION IN A COMPETITIVE WORLD

As the relations between the UK and EU continue to improve, there are opportunities to take steps that can further enhance the TCA. Our survey results have helped us identify areas where increased cooperation between the UK and EU can be explored right away and areas that need to be monitored for suggested improvements in the future.

The overall outcome of the survey indicates that manufacturers largely favour cooperation in many aspects of trade and regulation. In almost all identified opportunities, more than half of the manufacturers have opted for cooperation as the first instance.

It is important to remember that the challenges around customs administration and goods clearance exist at both UK and EU levels, and nearly four in five (77%) of businesses believe cooperation is needed to improve the efficacy of export procedures. This goal would be best achieved by developing improved (and simpler) guidance on customs, rules of origin, VAT and other key issues (such as a trusted trader scheme), and ensuring such guidance is consistently applied in the UK and across all EU member states.

Guidance, which is clear, practical, and accessible for business in both the EU and UK is the next critical step.

A further area of cooperation identified by respondents would see improvements to business mobility, particularly the arrangements for short-term work purpose visas, where professional and technical qualifications could be recognised at UK and EU member state level. To meet the challenges of the current labour and skills shortage, a broadening of options for occupations and skills covered by the shortage occupation lists should be considered.

It is clear that market regulation challenges persist for goods entering the EU market from Great Britain. UK manufacturers supporting EU-wide supply chains, faced with the administrative burden of seeking additional conformity assessment testing in the EU, would welcome easements that would allow the mutual recognition of markings for manufactured and related goods.



GREAT MINDS REGULATE ALIKE

UK manufacturers want to see much greater cooperation in regulation. Despite the marketed benefits of leaving the EU, which included greater domestic sovereignty and powers over regulations and related matters, it has become increasingly clear that improved cooperation and co-ordination between the UK and EU on future regulatory and legislative agendas is important to manufacturers.

This is so that new trade barriers are not imposed on businesses which could affect mutually beneficial trade opportunities in the future. The dangers from regulatory divergence by either the UK or the EU impose additional cost and administrative burdens on both sides.

UKCA AND CE MARKING

Currently, either the UKCA or CE marking can be used on products being placed in Great Britain.

Originally, the government deadline for when businesses would have to stop using the CE marking on the GB market was the 31st December 2021 but was extended first to 2024, and now indefinitely for a defined group of industrial products and components.

This is largely due to the government receiving feedback and evidence from businesses and trade associations (including Make UK), emphasising that a hard stop on CE marking could lead to a litany of unintended and potentially unfortunate consequences.

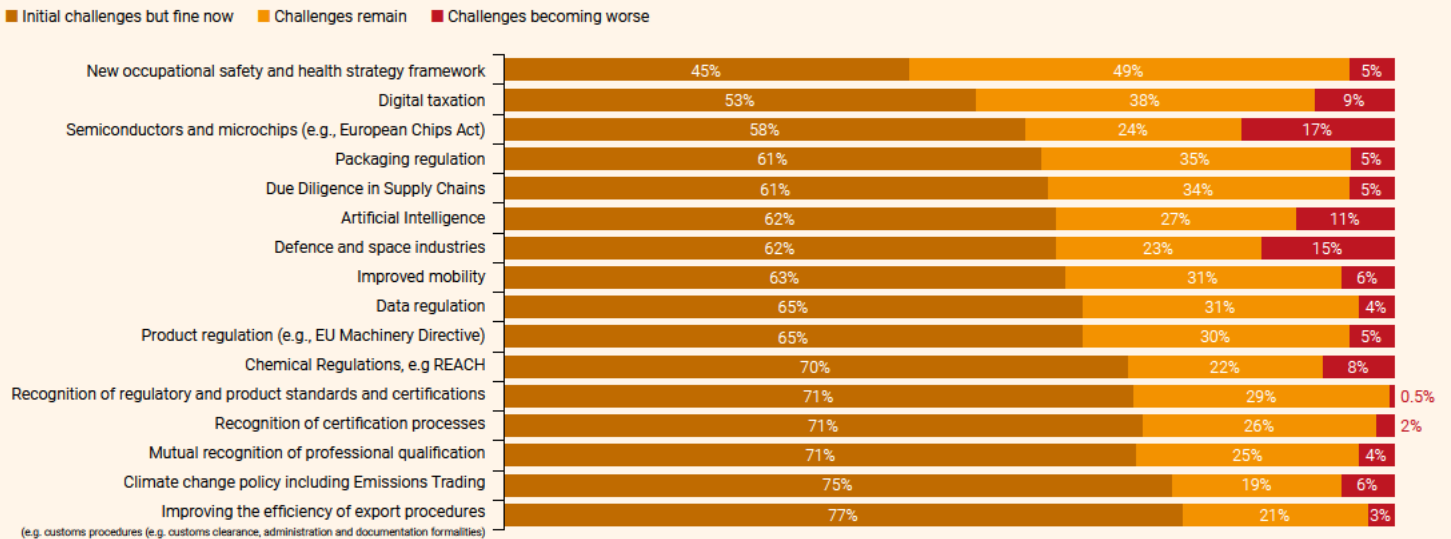
However, due to the absence of a centralised goods regulatory system, the change hasn't covered areas like construction products and medical devices, so manufacturers are advised to double check that their product complies with the correct requirements.

This unnecessary complexity has naturally led to UK manufacturers calling for consistency across all products areas when it comes to conformity markings.

CONFORMITY ASSESSMENT BODIES

Businesses which require third party certification and want to use the CE marking will need to use an EU notified body to achieve conformity. The only way that British conformity assessment bodies will be able to use the CE marking is if the UK negotiates a mutual recognition agreement (MRA), or if a body located outside of the UK is recognised under an MRA with the EU.

Chart 9: Manufacturers want to cooperate on regulations

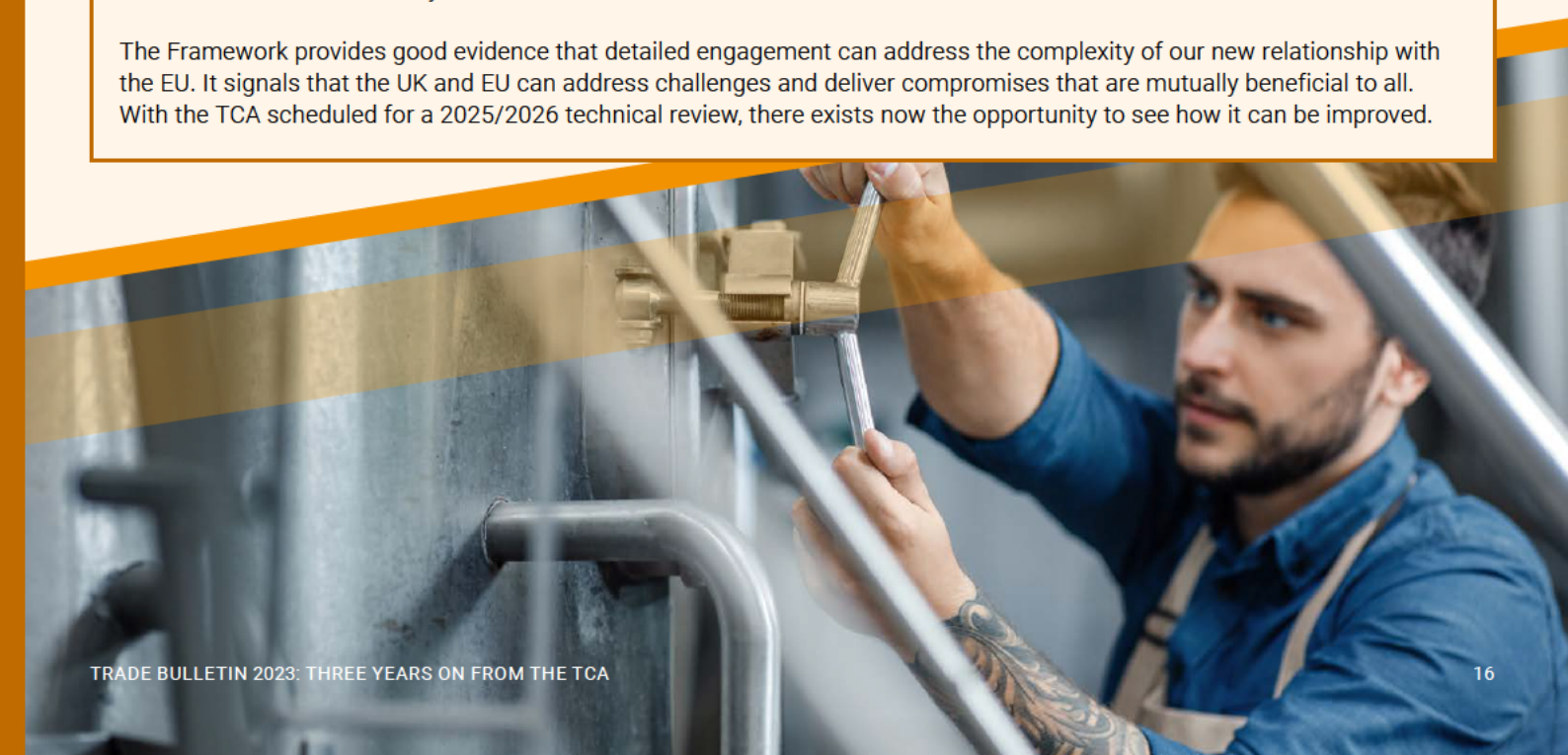


Source: Make UK TCA survey 2023

UNDERSTANDING THE WINDSOR FRAMEWORK

The Windsor Framework, announced in early 2023, confirms a willingness and commitment by the UK and EU to review and conclude practical solutions that can deliver on-the-ground changes intended to improve trade flows between Great Britain and Northern Ireland. The Framework avoids a hard border across the island of Ireland and imparts no material limits on the ability of the UK to operate outside the EU single market and customs union. It also allows for minimal checks and controls on goods moving from Great Britain to Northern Ireland. The agreement signifies a welcome new sense of the UK Government working collaboratively and pragmatically with the EU and supports controls that are risk-based and proportionate. This should mean the best of both worlds, where companies based in Northern Ireland can trade into Great Britain and the EU seamlessly.

The Framework provides good evidence that detailed engagement can address the complexity of our new relationship with the EU. It signals that the UK and EU can address challenges and deliver compromises that are mutually beneficial to all. With the TCA scheduled for a 2025/2026 technical review, there exists now the opportunity to see how it can be improved.



RECOMMENDATIONS

SHORT TERM

- 1. Improve access to specialist teams in HMRC to deal with international trader issues:** Unlike other tax areas managed by HMRC VAT, Corp Tax, PAYE, National Insurance etc, issues around Customs usually need immediate attention to keep goods moving and avoid costly delays (e.g. demurrage, missed deadlines for customers, missed shipping etc.). This could be achieved in any, or all, of the following ways:
 - Separate Customs from the rest of HMRC as there are fewer external agents for Customs matters (as opposed to accountants on every high street) and, unlike the other taxes.
 - Give agents access to a dedicated team at HMRC who can assist
 - Reduce the admin costs to give businesses more time to input internal processes to handle customs themselves.
- 2. The UK and EU must discuss an agreement on VAT cooperation:** This is to reduce the administrative burden on UK companies requiring a fiscal intermediary in the EU to conduct trade with the EU.
- 3. Make the indefinite extension of CE marking recognition for all UK manufactured goods a permanent change:** This should cover all goods and products produced using a manufacturing process.
- 4. Establish a broader UK/EU agreement on mutual recognition of professional qualifications:** This should allow agreements to be made with individual EU member states on mutual recognition of professional and technical qualifications.
- 5. Establish how arrangements for business mobility between the UK and EU can be improved:** This could include extending the time duration for short-term visas for work purposes and broadening the reach of the shortage occupations list (SOL).



MEDIUM TERM

- 6.** **Improve the Inward Processing (IP) procedure available to businesses:** This has been the most popular special procedure available and should be enhanced in the following ways:

 - Increase the number of times a business can move goods in a calendar year from 3 to 20: Currently businesses can import under IP only three times in a calendar year, provided each movement is below £500k in value, without the need to go through the authorisation process. This change would particularly benefit SMEs.
 - For SMEs, reduce the value of each movement to £20k to rebalance the increased number of movements: It would greatly benefit SMEs, and not expose HMRC to any greater revenue risk, if they were to allow 20 movements to happen for up to £20k. This would mean regular but smaller value movements would not require full authorisation, greatly reducing red tape.
- 7.** **Simplify and clarify the Bill of Discharge (BoD) procedure:** More specifically, simplification should be directed at the BoD 1 for authorised businesses and BoD 3 for Authorisations by Declaration. The BoD can be confusing to businesses as it is unclear what data is required for compliance, particularly following the recent Thyssenkrupp ruling which resulted in a huge penalty for BoD errors.
- 8.** **Seek a new arrangement that creates a mutual recognition agreement on conformity assessment and markings for manufactured and industrial goods.**
- 9.** **Seek to deliver further flexibility on business travel arrangements between the UK and EU so that a broader range of trade and business activities will be allowable.**
- 10.** **Secure closer regulatory cooperation so that UK manufacturers are not hampered by trade barriers through regulatory divergence without prior knowledge, input and scrutiny.**
- 11.** **Ensure access to the Energy Trading Scheme (ETS), the Carbon Border Adjustment Mechanism (CBAM), and other 'environmental' schemes which are separately being introduced by UK and EU, as all could prove to be barriers to trade.**
- 12.** **Escalate completion of the Single Trade Window and removal of all paper processes**
- 13.** **Produce country-by-country guides on the rules of business access and mobility, as they are different for every EU nation state.**

LONG TERM

- 14.** **Mutual recognition of UK Advanced Tariff, Origin and Valuation Rulings:** These advanced rulings provide peace of mind for businesses who are striving to be compliant, and therefore the recognition by the EU of UK rulings (and vice versa) would support trade.
- 15.** **Consider the scope of the product-specific rules of origin and cumulation, including options that offer additional flexibility in the absence of more bespoke arrangements.**
- 16.** **Strengthen cooperation on bilateral VAT arrangements and adopt common regulatory approaches:** This should include facilitating further e-commerce and greater cross-border trade in goods, by cutting cross-border VAT red tape.
- 17.** **Deepen cooperation for cross-border labour mobility including broad-based reciprocal youth mobility and exchange schemes between the UK and EU.**
- 18.** **Deepen wider regulatory cooperation options in areas such as conformity assessment for product areas (like chemicals), and in wider technical barriers to trade:** The objective is to reduce current regulatory compliance requirements, which can boost mutual trade volumes and reduce costs.



Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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