

TRADE AND COOPERATION WITH THE EU: SIX MONTHS ON



EXECUTIVE SUMMARY

Following the conclusion of the Trade and Cooperation Agreement (TCA) between the UK and the European Union (EU) in 2020, manufacturers saw the greatest single change in how they trade and do business in the EU in more than four decades.

In addition, with the UK taking back full regulatory autonomy, manufacturers face many new rules which apply to the UK market. These are in addition to changes to how manufacturers in Great Britain and Northern Ireland will trade with each other.

This report does not look at the overall trade volumes but, rather examines the impact of the changes to the trade relationship; what has been challenging; what has improved and what obstacles remain for manufacturers.

We have chosen not to look at trade volumes because of the overlapping impact that the Covid-19 pandemic continues to exert across the manufacturing sector, typified by pressures on input costs, supply chain disruption and raw material scarcity. The inability to separate these influences from the change in the trading terms with UK's manufacturers largest export market means that the impact on overall trade volumes will require further analysis at a time when the market has settled.

However, some 96% of manufacturers have reported challenges in dealing with the new trading environment. Being compliant with the new customs paperwork and procedures was the initial challenge, but this has eased as companies' understanding of the new processes has vastly improved. However, while this is true for almost half of firms (47%), over one third are still reporting on-going challenges with customs, primarily small and medium sized enterprises (SMEs).

Our report finds that the experience of the manufacturing sector has been mixed in the first six months of 2021. While there are reasons for optimism that some of the processes are becoming more 'business as usual', some issues remain. We have seen some predictability return to European trade, albeit at a higher cost and with longer delivery times.

The beginning of 2021 also saw new arrangements for UK visitors to travel to the EU on work-related matters. The UK is now a 'third country' from an EU viewpoint, and UK employers have to navigate individual EU member state rules for their mobile workforce. The impact of these changes on business travel has yet to be truly tested, and Make UK continues to monitor the impact.

A further significant change has been to the UK's regulatory environment for manufacturers. Regulations in areas such as employment regulation, environment and climate controls, as well as product legislation has now returned to the UK, a change that brings with it a degree of uncertainty with the potential for market rules to diverge between the UK and manufacturers' largest export market.

This report explores the key trends that UK manufacturers have experienced in the early months of 2021, it identifies policy areas where the UK Government can set out short-, medium- and long-term priorities for Britain's manufacturers as the relationship with the EU continues to evolve.

SIX MONTHS ON – THE EXPERIENCE

The introduction of the Trade and Co-operation Agreement (TCA) represented the most significant change in how manufacturers do business with the EU. What has been witnessed from the start of 2021 was that even businesses that had prepared experienced significant disruption.¹ Six months on and while the vast majority of companies experienced a challenging start to the year, this pressure is easing for some.

Our survey also reveals that how a manufacturer exports to the EU and the individual company's scale of business operations has had a significant influence on their adjustment to the requirements of the new trading relationship. The size of the business is also a factor, with smaller business more likely to still be facing challenges.

Our experience thus far has been that the type of business model that manufacturers use to export or sell goods to the EU has equally affected the impact of the new relationship on their operations and on the way the relationship will develop in the future.

As is common in exports around the world, the vast majority of UK manufacturers export directly to an EU based business customer, be that as part of an integrated supply chain or indeed by sending finished goods to the final customer. Very few of our members export directly to consumers; however, we have seen that almost 1 in 5 (17%) has a UK-based distribution model.

The distribution model has been particularly affected by the TCA due to the requirements under the Rules of Origin set out in the agreement and the lack of cumulation across multiple/third-country markets, thereby limiting the options to meet the preferences for tariff-free access to the EU market.

Chart 1: Trade in goods with the EU

% of companies exporting from the UK to the EU



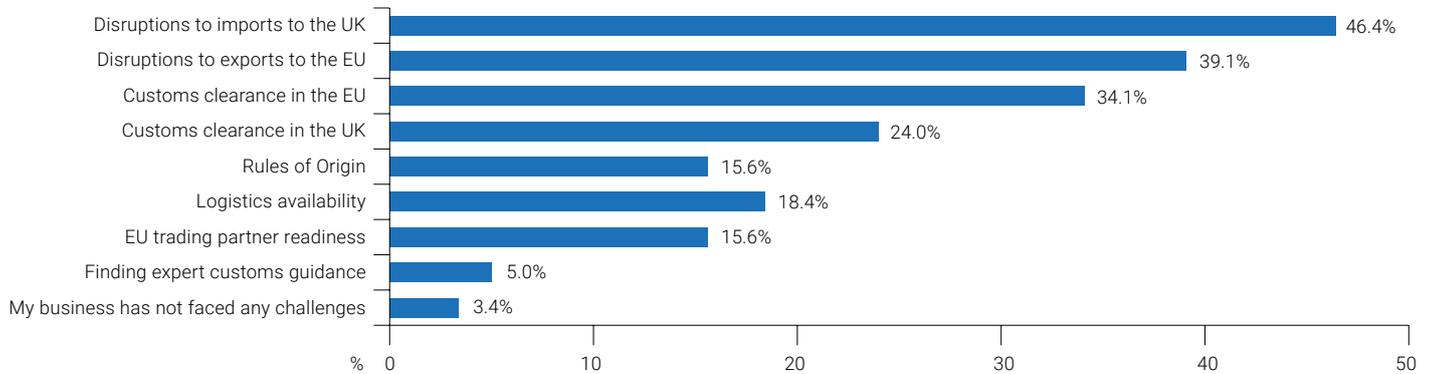
Source: UK EU TCA survey, June 2021, Make UK

**SIX MONTHS ON
JUST 4% OF
MANUFACTURERS
HAVE EXPERIENCED
NO CHALLENGES**

¹Make UK, The impact of the new EU-UK agreement on manufacturing (February 2021): [Manufacturers face disruption as new EU-UK arrangements kick in | Make UK](#)

Chart 2: Import and export challenges

% of companies' experiences challenges



Source: UK EU TCA survey, June 2021, Make UK

If we look at the biggest challenges for manufacturers in the UK since the TCA came into force in 2021, what is clear is that the most significant have been disruptions to both the import and export of goods between the UK and the EU. What is significant, is that while exports to the EU were clearly a challenge, it was disruptions to imports into the UK that presented the most significant difficulty.

- **Customs clearance:** Both imports to the UK and exports to the EU have been disrupted, and the most prominent difficulties over first six months in 2021 have focused on the new formalities for trading across a customs border, with customs clearance representing a significant challenge.
- **Rules of origin:** As reported earlier in 2021², complying with Rules of Origin requirements to ensure tariff-free preferences can be maintained, has proved to be particularly difficult. It has been a challenge for many businesses, particularly those not familiar with applying the strict compliance rules to their products. Rules of Origin was a condition of the TCA that emerged only in the final stages of the agreement, with firms having only a limited time to understand the implications for their business operations. The challenge has been significant and will continue to be so as further administration to provide proof of origin becomes a new compliance issue.
- **Availability of logistics:** Manufactures have experienced difficulties with the availability of logistics for sending goods into the EU as well as problems with EU partners who were not ready or lacked understanding of the new requirements.

It is these customs formalities that have dominated the enquiries from our members. However, manufacturers have also experienced challenges in a number of other areas including:

- Market regulations;
- The change in trading terms for Northern Ireland;
- Business travel

We consider each of these later in the report.

CUSTOMS AND LOGISTICS: IMPROVING PICTURE, BUT CHALLENGES REMAIN

Customs and logistics are the most challenging aspects of the new trading rules. However, in time these new rules are becoming part of business as usual. Our [survey](#)³ in February 2021 showed that the most common reason for disruption to supply chains was the early uncertainty, inconsistency and overall business readiness towards the new future relationship with the EU. What the results now show is that for a majority, customs formalities were a significant challenge at the beginning of the year, but the situation has improved.

This correlates with the evidence from our industry discussions that while significant disruptions were seen at the beginning of 2021, as knowledge and experience improved, predictability is returning to supply chains, albeit with additional costs and greater lead-in times for supplying EU customers and sourcing EU input.

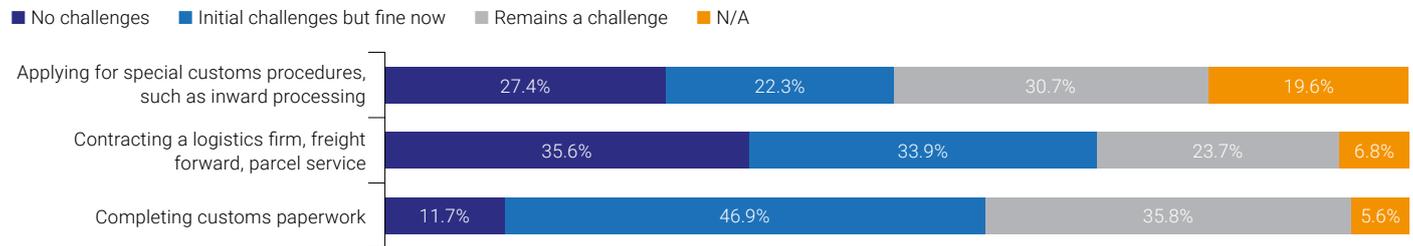
It is important to acknowledge that, while a majority are reporting an improving picture, one-third of manufactures are still reporting that customs formalities, such as completing paperwork, remain a significant obstacles and impeding business efficiency.

²The impact of the EU-UK Agreement on UK manufacturers, Make UK February 2021

³The impact of the EU-UK Agreement on UK manufacturers, Make UK February 2021

Chart 3: Customs and logistics six months on

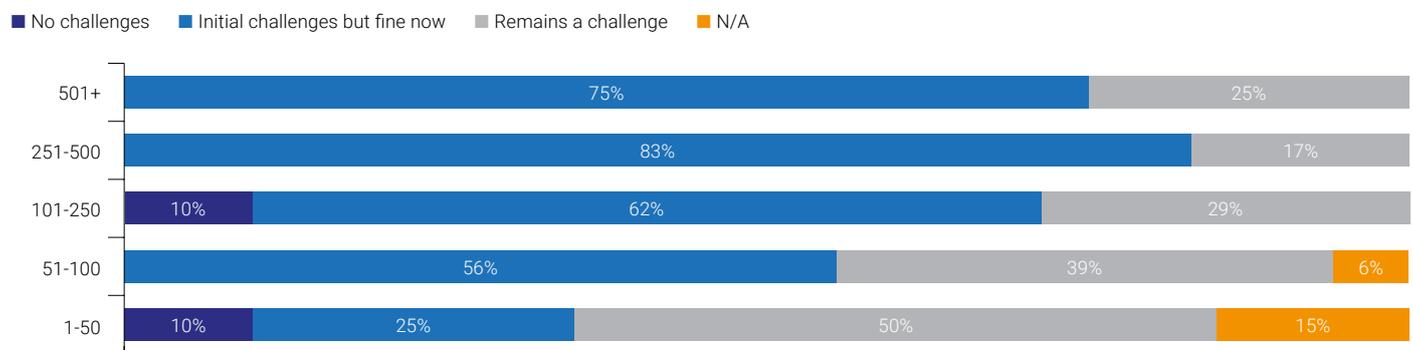
% of manufacturers still facing difficulties



Source: UK EU TCA survey, June 2021, Make UK

Chart 4: Customs paperwork

% of manufacturers still facing challenges



Source: UK EU TCA survey, June 2021, Make UK

When we look at customs and logistics for the manufacturing sector we see this was a major challenge for the vast majority of manufacturers at the beginning of the year. However for almost half of the manufacturers we surveyed, the situation is now improving.

This trend is mirrored when we look at many of the detailed elements of customs requirements for the trade in goods, including understanding Rules of Origin, identifying Commodity Codes and completing Commercial Invoices. All of which are seeing improvements six months' on.

However, many companies (31%) are reporting that specialised customs procedures remains a challenge. This is likely to be due to the longer lead-in time and greater complexity in applying for these processes.

Logistics has been widely reported as a challenge for manufacturers since the beginning of 2021. While this is borne out in our survey results, it is interesting that more than one-third report no issues and one-third reported that the initial challenge had decreased. The size of the business again has an impact on the experience of contracting suitable and available logistics services, with smaller businesses much more likely to still be facing limitations and restrictions in logistic options than larger businesses.

It is welcome that the UK Government has recognised the specific issues faced by SME businesses and has introduced the SME Fund. However, manufacturers are disappointed by the limitations on applying for the fund, as they are exempt if a company has had even one experience trading outside the EU. Having traded once with a partner in a non-EU market does not necessarily mean that a business is fully familiar with the obligations.

Recommendation: Broaden support for SMEs by removing the limitations of the SME Fund and extending the deadline for applications. The Government should also consider similar support as new customs controls are applied later in 2021 and in early 2022.

Make UK has provided further guidance and has recently launched [Exporting: A how-to guide](#), providing a step-by-step guide to exporting⁴. The aim of this guide is help businesses exporting to the EU as well as to markets further afield. The guide aims to set out how to make exporting part of the DNA of a manufacturing company.

⁴Exporting: A how-to guide, Make UK in association with HSBC UK May 2021

EU PARTNERS: READINESS AND CONSISTENCY

A critical concern remains as EU partners' readiness remains low and will be an ongoing issue throughout 2021 and into 2022. Almost half of manufacturers are reporting that EU partners were not prepared for the initial phases of the TCA and are still not ready for future changes that the TCA will introduce in future.

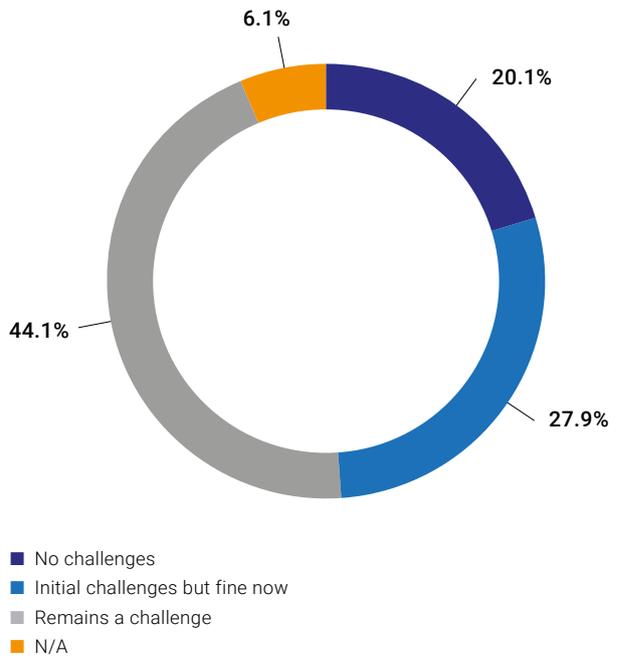
This is a significant and worrying trend, particularly as many EU businesses have yet to experience and will not be prepared for the new UK Import border and customs controls that are scheduled to be operational during 2021. The removal of easements by the UK Government later on in 2021 means that many EU and international businesses will be faced with import and customs controls and the introduction of non-tariff barriers such as recertification of products, with the introduction of the UKCA mark at the end of 2021.

Manufacturers have reported that they have experienced inconsistency with trading into different EU countries with some markets proving more challenging than others. The evidence suggests that the major markets for UK manufacturers are, unsurprisingly, those that have seen the greatest levels of disruption for UK exported goods. When compared with the disruption to the overall export volumes for those markets, the figures suggest that Germany, France, Spain and Belgium have witnessed the greatest levels of disruption in proportion to the level of exports.

Interestingly, the difference between the disruption and the volume of exports is particularly pronounced for France. This may be because France represents the key entry point to the EU's Single Market and Customs Union and the most favoured option for the logistic operations.

Chart 5: EU readiness

% of UK manufacturers facing challenges regarding readiness of their EU partners

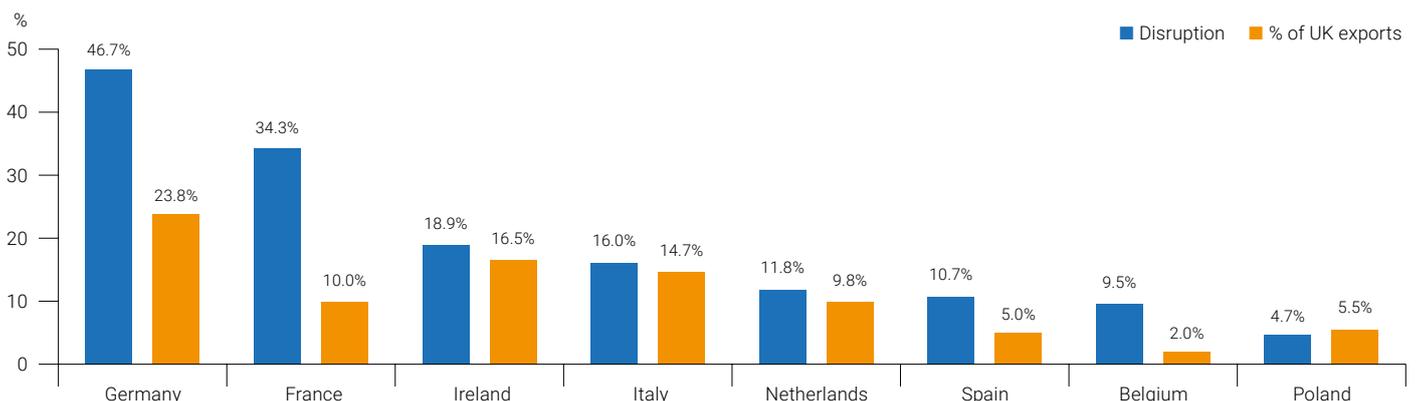


Source: UK EU TCA survey, June 2021, Make UK

What is most concerning, however, is that all of these issues are leading to manufacturers facing bigger challenges when it comes to securing new business in the EU. Almost two in five (37%) businesses are reporting that they still face significant obstacles to securing new business in the EU.

Chart 6: Disruption vs exports

% of countries where disruption for UK manufacturers is disproportionate to exports

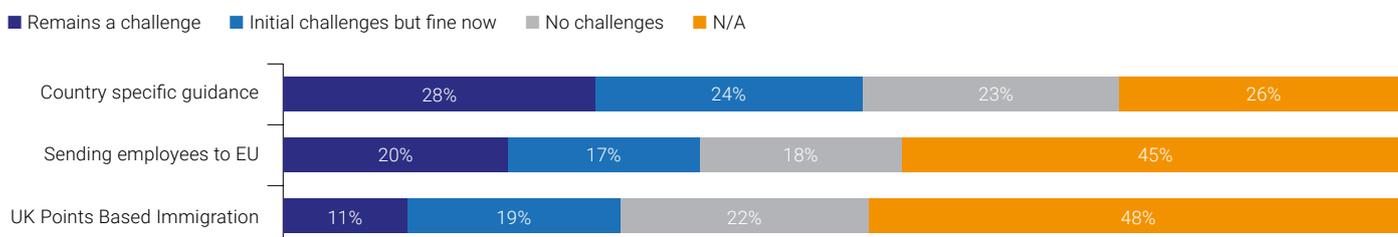


Source: UK EU TCA survey & analysis of EUROSTAT trade data, June 2021, Make UK

MOBILITY AND BUSINESS TRAVEL

Chart 7: Mobility between the UK and the EU

% of companies reporting challenges



Source: UK EU TCA survey, June 2021, Make UK

In addition to new trading processes, manufacturers face new rules for sending employees to the EU for business. We expect that much of the impact of the changes to business travel and mobility of people remains hidden owing to the current travel restrictions as a result of Covid-19. The necessity for business travel is currently limited to sending employees to the EU for essential only business purposes. However for businesses that have sent staff to EU countries for work, the experiences have been mixed, with roughly equal numbers experiencing no challenges (18%) and those that initially faced difficulties (17%) with marginally more seeing it was an ongoing issue (20%).

In addition, the data has also explored the impact of the UK's points-based immigration system, which appears to be bedding in. More than 40% of businesses that have engaged with the process report that they have either not experienced any challenges or that despite initial challenges it is now proceeding well. That said, it is likely that as recruitment picks up and manufacturers look to recruit from outside of the UK, businesses will find themselves facing the new points-based system. For many companies, this will be their first experience of the immigration system and they will see new costs and processes.

As highlighted, while currently just a small number of manufacturers are currently sending employees into the EU, when asked to think about employees travelling to the EU despite Covid-19 restrictions, one in five companies are reporting that this remains a challenge.

The most significant issue has been finding country-by-country guidance, as different rules apply in different member states. Make UK therefore welcomes the Department for Business, Energy and Industrial Strategy (BEIS) publishing an increasing number of country guides.

Recommendation: The Government must produce country by country travel guides updated with changes at national level which will impact business mobility. Make UK is keen to work with the Government to ensure that these guides remain up to date.

While the impact of the changes to mobility and business travel to the EU has been hidden behind Covid travel restrictions, Make UK believes it is important for the UK Government to ensure that businesses understand their new obligations. UK citizens travelling to the EU will enter countries at the discretion of those countries and, in practice, at the discretion of the border officer on the day of travel.

Recommendation: The Government should work with EU member states to ensure consistent application of the rules and requirements for business travel to provide as much predictability as possible. In addition the Government must consider the impact of managing the UK's border on the ability for UK staff to travel smoothly into the EU.

It is also expected that the issues faced by manufacturers with the administration of the export of goods and the often the different interpretations of customs rules, could be replicated in the experience of firms making arrangement for employees to travel. With additional requirements, individual country rules and the complexity of the rules, it is essential that consistency in interpretation and application of the rules apply to future business travel.

While it is to be expected that there is likely to be disruption once the Covid-19 restrictions are lifted and business travel increases, it is anticipated that predictability will return for most simple short-term business visits.

ADVICE FOR MANUFACTURERS

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.

Whether a business traveller will need to apply for a visa depends on the nature of the business visit and what the traveller will be undertaking in 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 his employer may need to inform the member state authorities.

We are currently suggesting that companies consider at least five to six weeks' lead-in time for business travel. This is in part because of the ongoing Covid-19 travel restrictions, but also because of the requirements under the new arrangements with the EU.

It will be important to understand that the right to enter a EU member state no longer exists and 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.

It is important that manufacturers and business travelers check before they go.

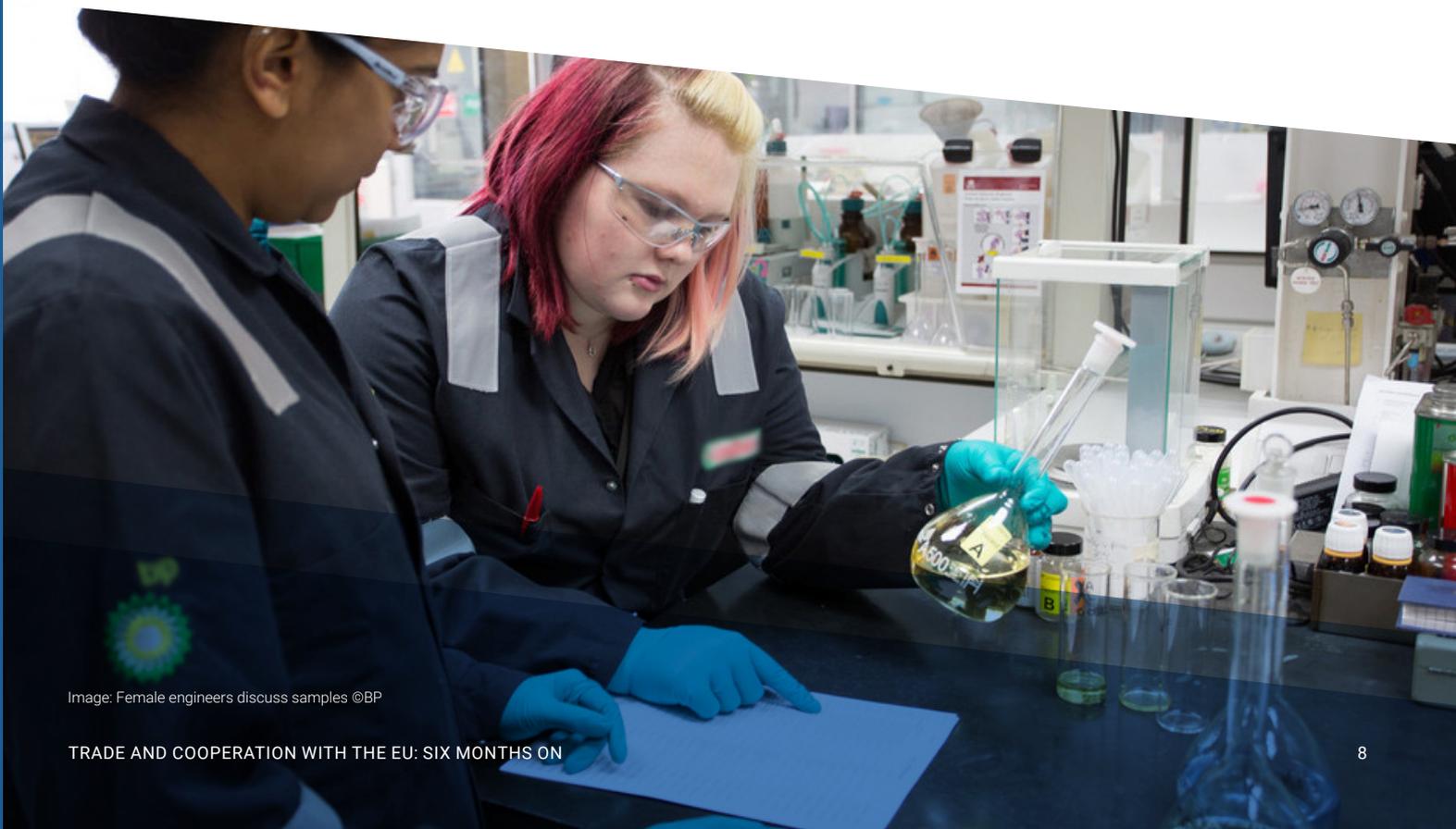


Image: Female engineers discuss samples ©BP

THE NEXT SIX MONTHS AND BEYOND

The first six months of the TCA has presented mixed picture. While some of the pressures on trade in goods would appear to be lifting, it is important to consider what improvements can be made and how both the UK and the EU continue to develop their partnership.

Make UK, as well as our European counterparts, are firmly of the view that it will always be in the EU and UK’s mutual economic interest to develop, evolve and improve the trading conditions, simplifying processes and collaborating on mutual beneficial priorities.

Our survey asked companies for views on the priorities for the UK to help secure additional improvements. Manufacturers have highlighted their preference for the UK Government to review and discuss policies and processes across there major areas; border formalities, Market access legislation and mobility.

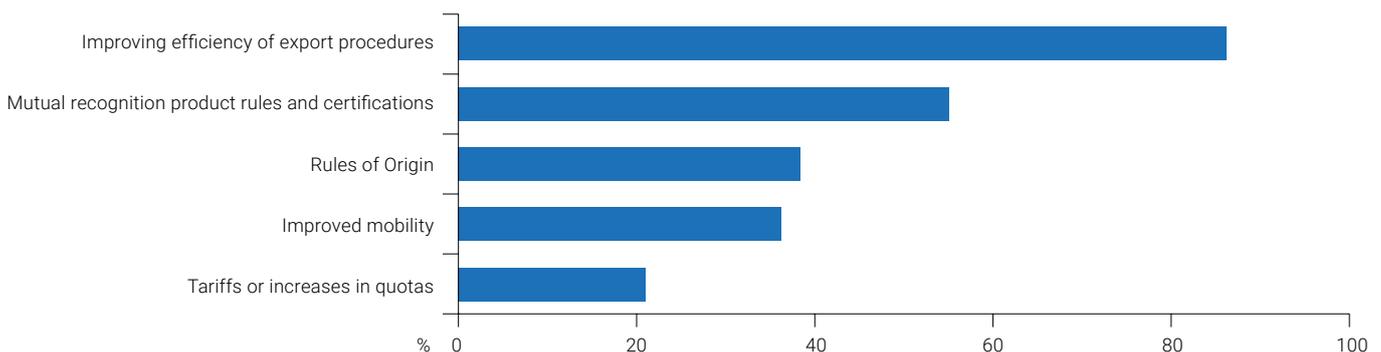
- 1. Customs procedures:** There is a clear preference for securing additional cooperation on customs procedures. Indeed eight in ten companies that we surveyed see this as a key priority for the UK in working with the EU
- 2. Rules of Origin:** The challenges of Rules of Origin have been widely reported and therefore it is unsurprising that manufacturers have highlighted the need to look

at improvements, with almost two in five companies seeing this as a key priority for discussion with the EU. Improvements allowing for a wider scope in cumulation and the administration in securing tariff preferences are highly desirable. While Make UK understands that wholesale change is unlikely, discussions should be held to explore the opportunities for improvement.

- 3. Product standards:** Recognition of regulatory standards would ensure that product standards remain consistent and minimise complex and costly changes of specifications for key international markets such as the EU. It is clear that companies are particularly concerned about product standards and the need for recognition of regulatory standards, with more than half of manufacturers believing that this is an area that the UK Government should explore in more detail.
- 4. Business travel:** the return of business travel is a key element of securing and maintaining important relationships with EU partners. The lifting of travel restrictions introduced by Covid-19 will increase the expectation and need for travel. More than one-third of manufacturers indicate a desire for the UK to work with the EU on changes to the arrangements for business travel that provide for greater consistency and recognition for UK citizens to travel and work within the EU.

Chart 8: Priorities for ongoing discussions

% of manufacturers stating priorities



Source: UK EU TCA survey, June 2021, Make UK



CUSTOMS



86% OF MANUFACTURERS SEE COOPERATION AND FURTHER WORK ON EXPORT PROCESSES AND CUSTOMS FORMALITIES AS THE KEY PRIORITIES FOR DISCUSSIONS BETWEEN THE UK AND THE EU.

While there are calls for increased digitalisation of the border infrastructure, Make UK has, via its input into the Government's 2025 UK Border Strategy, also highlighted the importance of modernisation of the UK border.

It must be recognised that trade involves the passage across two borders: outbound and inbound.

Close cooperation with trading partners and ensuring interoperability between systems to reduce the burden on traders will be vital. Lessons should be learnt from where these principles and processes have been explored including at the US-Canada border as well as the Sweden-Norway border.

Modernising the UK border and eliminating barriers will be an important part of helping manufacturers manage additional cost and time delays from custom processes, which as the report concludes have increased friction across the UK-EU border.

Manufacturers continue to raise concerns about their ability to obtain the information necessary to prepare for submitting customs declarations and particularly for more-complex transactions where multiple government bodies are involved.

Recommendation: The UK should consider models that offer a single-window solution, such as in Canada, which allows industry a one-stop-shop for all interactions with the border requirements.

While trusted trade programmes will play an important part in ensuring that the UK border efficiency improves for export-intensive firms, it can take a significant amount of time to set up customs simplifications or to obtain licences, if applicable. For example, it is currently advertised that the lead time for the granting of AEO status is 120 days, but manufacturers have indicated that in reality it can take much longer.

Recommendation: Paperless processes should be introduced, to overcome issues such as original paperwork going astray during transit. Moreover, paperless solutions would enable manufacturers to track shipments in real time and provide prompts for potential border requirements.





RULES OF ORIGIN

One of the most significant challenges for the manufacturing sector has been Rules of Origin - a condition of the TCA that emerged in the final stages of the agreement, with firms having only a limited time to understand the implications for their business operations. The challenge has been significant and will continue to be so given the limited definition and applicability of the rule to goods trade between the UK and EU and the significant administration to provide proof of origin.

The Rules of Origin agreement in the TCA means that some business models will struggle to continue to be competitive in the UK. This is particularly true where businesses use the UK as a base of operations to supply a distribution model from the UK to both UK and EU customers. If these manufacturers are bringing in materials from outside the EU or the UK, it is difficult to avoid the risk of double tariffs. While this is a direct implication of international trade rules, the integrated nature of the UK and EU markets means that this will be a challenge for many manufacturers.

One of the short-term priorities should be to understand whether there can be a solution to the loss of origin for goods imported into a particular market and then re-exported to the original market. It is also the case that, should material be brought into the UK from the EU and then not processed further, it will attract a tariff on re-export to the EU.

While specialised customs procedures exist to avoid this potential double tariff, companies operating a model where they bring materials in and distribute them from the UK will need to keep the supply chains for the GB market and the EU market separate.

It makes no sense to a food manufacturer that a tomato grown in Spain can be imported to the UK tariff free as it is wholly obtained in the EU, but if the same tomato is then exported from the UK without further processing, it suddenly loses its EU origin, even though the tomato is clearly still from Spain. This also has implications for goods sent between Great Britain and Northern Ireland.

Recommendation: The Government should work with the EU to find solutions to Rules of Origin for goods which transit the UK EU Border multiple times, with limited processing, as part of integrated European supply chains.

Looking at the impact of trade between non-EU countries in a three-dimensional way, consideration should be given to the fact that the trade relationship between the UK and the EU is not in isolation from the trade policies or indeed the trade relationships the UK will have with other third countries. This is particularly true in the area of cumulation in terms of Rules of Origin.

Recommendation: Recommendation: Where the UK and the EU both have a Free Trade Agreement (FTA) with the same third country, the UK and the EU should consider third-party cumulation across the UK-EU TCA. This would be for the mutual benefit of both the UK and the EU.

It is particularly important to address cumulation where the EU and UK FTA agreements are virtually identical. This cumulation could be provided on an equivalent basis, meaning that should the UK or the EU further develop their FTA with a particular third country, that cumulation could potentially be limited.

MOBILITY



Mobility is another priority for manufacturers, and there is a clear desire from one-third of companies surveyed that we should seek to improve mobility between the UK and the EU.

While this remains relatively untested owing to pandemic travel restrictions, Make UK does welcome the provisions for short-term business visits, in particular the inclusion of aftersales activities, including installation and servicing machinery as well as training.

However, many manufacturers work with contractors to carry out these activities. While the current provision for short-term

business visits extends to employees of the contracting party, the UK should consider whether an agreement can be reached to allow third-party contractors to undertake these activities with similar lighter-touch processes.

Recommendation: The Government should explore with the EU the possibility to extend lighter-touch processes for aftersales activities to third party contractors.

MARKET REGULATIONS AND MANAGING DIVERGENCE IN THE MANUFACTURING SECTOR



It was a key pledge of the UK Government to ensure that the UK retained sovereignty to legislate independently of the EU. In doing so, the Government will need to decide how it will exercise this sovereignty to the benefit of businesses and consumers the UK.

Much of the UK regulatory environment for manufactures, in areas such as including employment regulation, environment & climate controls and as well as product legislation has in recent years been developed at EU level with the UK playing a significant role in its design. With the UK's exit from the EU, these powers have now returned to the UK Government and in some cases to the UK devolved administrations.

Notwithstanding the commitments in the TCA, the UK Government and businesses will need to consider how legislation in these areas evolves in the UK. For manufacturers it will be important to consider the impact of changes on our competitiveness globally as well as the ability to trade in multiple markets, particularly those responsibility for significant share of manufactured goods exports.

Manufacturers tell us that they now need to see a period of relative economic, commercial and regulatory stability. For the most part, UK companies will need to continue to comply with

product and other regulations devised by the EU in order to trade, including the need for non-regression on employment and social policy.

Divergence for divergence's sake should be avoided

However, as the UK and EU could seek to diverge on such regulations in the future, there is a risk that additional costs could be introduced as a result of the need to change production processes, designs and standards. Manufacturers are particularly concerned by divergence caused by inertia, with the UK adopting a static legislative environment and EU legislation continuing to evolve. This has already happened for regulations relating to medical devices, where new rules apply in the EU as of May 2021. It is also likely to affect machinery and chemicals as the EU considers further changes in these areas.

Recommendation: The UK Government must consider the implications of divergence. A national interest test should be introduced to assess the impact on trade and the economic benefits of changes.

REGULATORY COOPERATION



The UK should consider how regulatory approaches can help to ensure that companies can sell goods in both the UK and EU markets. This should ensure the maximum availability of competitive markets for UK manufacturers.

We believe it is essential for due consideration to be given to the compatibility of market access legislation, such as product safety rules, while simultaneously exploring innovative legislation for emerging technologies and other areas of regulation that are unlikely to create non-tariff barriers.

Cooperation on regulations has been regularly highlighted as a priority by manufacturers. It is important to explore collaboration in more detail and understand what sorts of models for regulatory cooperation are optimal to negotiate.

In the first instance, Mutual Recognition Agreements (MRAs) across a wide area of policies should be explored. Whether the UK fully cooperates on legislative agenda is a debate for the future, but certainly the area of mutual recognition should be explored.

Make UK welcomed the UK's efforts to secure a wide-ranging MRAs with the EU during the initial negotiations and was disappointed that the EU did not share the same level of ambition. It is important for manufacturers, however, that these discussions are revisited in the future.

When we consider market regulations and the importance of creating as broad a market opportunity for UK manufacturers as possible, it is important that it is understood that manufacturers want to make one product for multiple markets. Manufacturers do not want to be required to make multiple products for multiple markets. Multiple regulatory

environments increase costs and lower efficiencies in design, production and approval.

Make UK has called for a mechanism for EU regulatory tracking, monitoring and support, a mechanism for Government and industry to track EU regulatory developments in order to understand the impact on our trading relationship.

Recommendation: The Government should establish a new cross-Government unit to monitor and track market access regulations in key export markets, including the EU. This will enable the tracking, monitoring and analysis of policy developments and consultation with industry on the impact of the policy developments on UK trade with key trading partners, including the EU.

In the short to medium term, and certainly throughout the development of a new relationship with the EU, key legislation in the areas of labour law, health and safety, and energy and environmental policy should be carried across from the current rules to ensure regulatory stability.

The UK could explore a more flexible legislative environment, with regulation only where absolutely necessary. The UK should continue to assess whether collaboration with the EU in areas of regulation are in the national interest and whether divergence would represent a barrier to free and frictionless trade with our largest trading partner.

UKCA MARK



Many manufacturers are raising concerns about the introduction of the UK's Conformity Assessment mark, the UKCA. At the end of 2021 many businesses, both in the UK and abroad will need to be compliant with the new UKCA requirements.

The challenges in specific sectors, such as construction products, have been widely highlighted, although there are also significant concerns in many manufactured goods sectors.

Many manufacturers in the UK rely on international and EU suppliers that are not ready, are unaware of or are uninterested in complying with UKCA requirements by next year. These processes and requirements risk making UK manufacturers less competitive and the UK a less attractive market.

While it is important to ensure regulatory independence, for a manufacturing sector already making goods to international standards, the Government should consider mitigations in recognition of the fact that the UK and EU rules should ensure that manufacturers only need to make one product for both markets rather than two products with two certifications and two testing regimes.

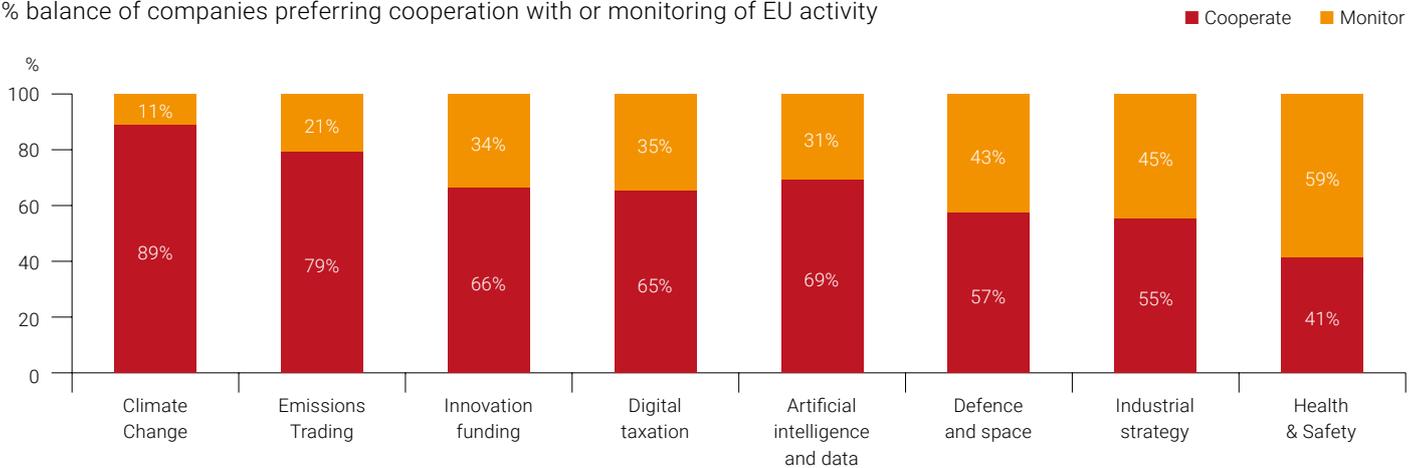
While the pursuit of MRAs with the EU on product legislation should be the long-term aim, short-term fixes such as specific extensions to the recognition of CE marking, the ability of non-UK-based bodies to assess against UK rules, as well as other mitigations should be considered.

POLICY PRIORITIES: TO COOPERATE OR MONITOR

In order to consider how the UK should work with the EU in the future, we asked companies to consider whether they would like to see the UK cooperate or whether they would like to see the UK monitor EU activity in particular policy areas.

Chart 9: Cooperate vs monitor

% balance of companies preferring cooperation with or monitoring of EU activity



Source: UK EU TCA survey, June 2021, Make UK

There is an overwhelming preference for cooperation across a broad number of issues. However, climate energy and environmental policy are particular priorities, as well as innovation funding and the digital economy.

Indeed across the digital economy, manufacturers are keen for the UK to cooperate with the EU both in terms of digital infrastructure on things like artificial intelligence and data and around digital taxation.

While there is still a large desire for companies to cooperate on a range of other areas, including industrial policy and product legislation, the split between those who would like to see cooperation and those who would like to see a monitoring model are much less profound.

This is particularly true on issues such as the health and safety agenda and designing consumer rights for products. This is something that we should take into consideration in terms of understanding how we should work with the EU on regulatory cooperation, or at least with regard to mutual recognition of product standards and market regulations.

MONITOR, TRACK AND INFORM

While the UK and the EU agreed the TCA at the end of 2020 and at the beginning of 2021 the UK legislative book was identical to the EU legislative book, what we will inevitably see going forward is divergence.

Make UK does not support or expect that divergence will primarily be caused by the UK actively seeking to deregulate or to regulate away from the current commitments to high standards. However, we will see divergence through inertia. Divergence through inertia comes about by the UK maintaining a static legislative book while the EU continues to legislate.

While the UK will legislate independently of the EU, we need to ensure we have a system that monitors, tracks and informs companies about developments to ensure that they are ready before the changes take place and that they understand the impact on the UK manufacturing sector from those changes.

Recommendation: The UK Government should establish a formal mechanism of working with the UK business representative organisations that identifies areas where legislation in the EU is changing, considers what the UK response to that change should be and informs businesses of that change.

MEDICAL DEVICES:

We have already seen examples divergence through inertia through the medical devices directive, which has seen wholesale changes to the requirements for the EU market on medical devices while the UK retains the old set of rules. This means that the requirements relating to medical devices on the GB market and on the EU market are now different, generating the need for conformity assessment against two different systems and creating the situation that medical devices that are allowable in one market may be restricted in the other market.



NORTHERN IRELAND: MAKING THE PROTOCOL WORK

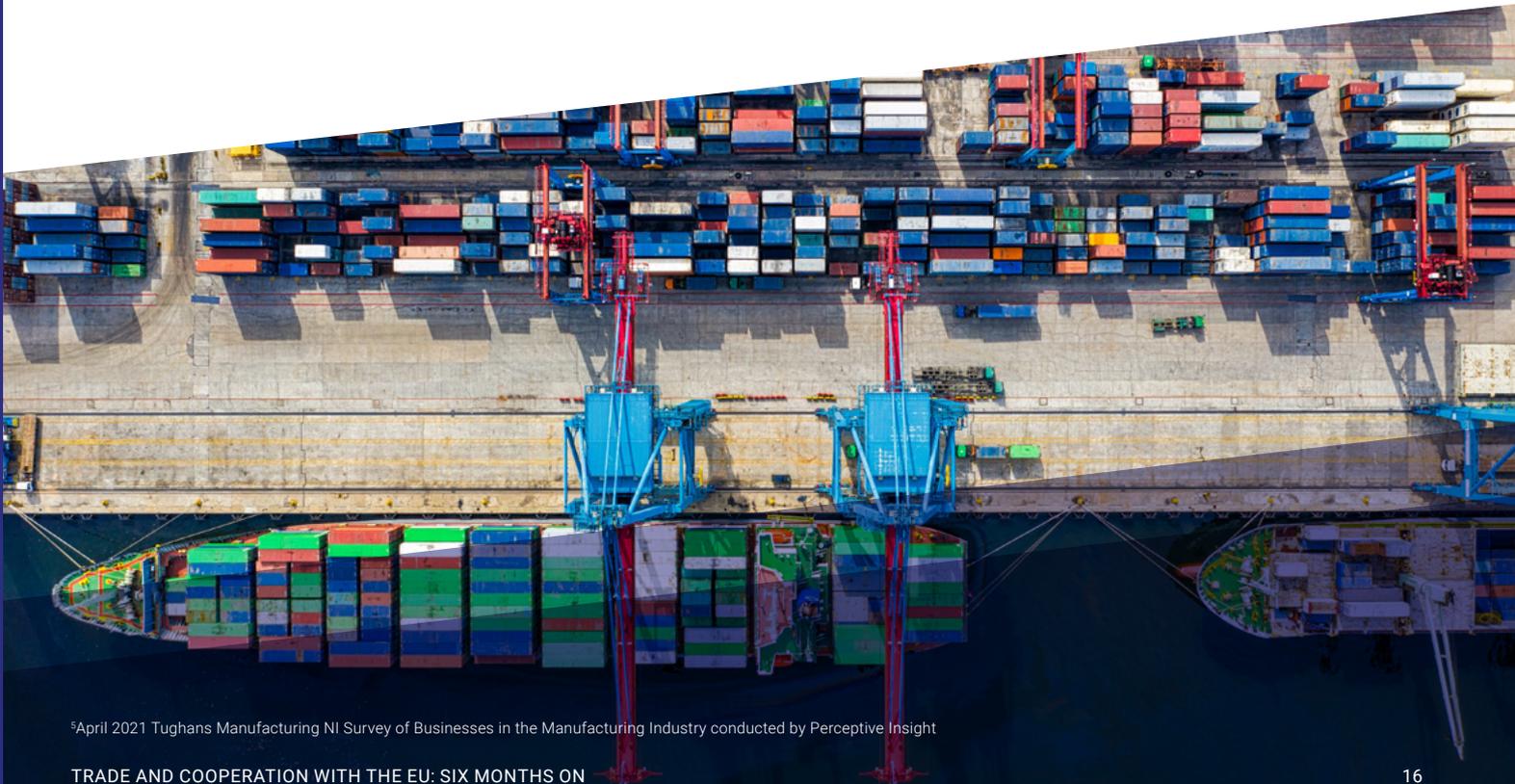
Manufacturers are still experiencing challenges in trading from Great Britain into Northern Ireland. While Northern Ireland remains part of the UK's customs territory and there is not a customs border, the requirements are not dissimilar to crossing one. This means that manufacturers in Great Britain must collect, collate and submit similar levels of information to continue to trade into Northern Ireland.

Even if a business is not trading with the EU but sending goods to Northern Ireland, they will need to monitor the legislative environment going forward. This means that businesses will need to understand how to comply with two sets of rules rather than one.

There is widespread support for the Protocol in Northern Ireland with less than one in five businesses calling for it to be replaced and the majority agreeing it is here to stay and should be made to work⁵.

While the manufacturing sector supports making the Protocol work, it is important to recognise that innovative solutions are found to ensure trade can flow smoothly within the UK internal market. Some manufacturers have highlighted concern that cost and bureaucratic pressures faced by businesses in the UK which are not faced by businesses in the EU makes them less competitive in the Northern Ireland market. What is important is to bring stability and predictability to trading between GB and Northern Ireland to ensure the processes are simplified and cost competitive while providing clear and consistent guidance.

Recommendation: Make UK supports calls for an enhanced Trusted Trader Scheme which would provide a route to certify and audit supply chains to enable more streamlined processes at ports.



⁵April 2021 Tughans Manufacturing NI Survey of Businesses in the Manufacturing Industry conducted by Perceptive Insight

GOVERNANCE OF THE AGREEMENT

The TCA establishes a number of new governance arrangements for managing the relationship between the UK and the EU as well as the Agreement itself. At the highest level this includes the Partnership Council, but under the Partnership Council exists a series of specialised committees.

It is essential that businesses and their representative bodies understand the structures of those committees and how we as the manufacturing sector in the UK feed into those systems. This should include the establishment of a domestic advisory group with appropriate representation from the manufacturing sector.

Make UK will continue to work with our European partner to understand how EU business will feed into the European structures.

INFLUENCE IN BRUSSELS

The UK will need to develop a strategy in order to monitor EU policy development, establish areas for collaboration and ensure it remains a constructive partner with the EU. This will include ensuring that both the UK Government and UK businesses remain part of the conversation in Brussels.

The UK Mission to the EU should work to establish complimentary structures to track and translate policy developments in the UK to an EU audience as well as monitoring developments in EU policy reporting back to Whitehall.

It will be essential to develop a plan for how the UK Government works with UK plc and UK interest groups in Brussels to ensure constructive input into the EU regulatory agenda. This will help ensure that space can be created for areas of mutual interest and potential cooperation.



CONCLUSION

It is essential that both the UK and the EU now look to the future and create an environment for greater cooperation, which is ultimately in the best interest of both the UK and the EU. Make UK is firmly of the view that improving the trading relationship, regulatory cooperation and mobility can only be of benefit to both, so these should be shared endeavours.

RECOMMENDATIONS:

CUSTOMS

Recommendation: The UK Government should work with the EU to ensure greater cooperation on customs procedures, creating systems for single digital submission and enhanced trusted trader schemes.

Recommendation: The UK should consider models that offer a single-window solution, such as in Canada, which allows industry a one-stop-shop for all interactions with all border requirements.

Recommendation: Paperless processes should be introduced, to overcome issues such as original paperwork going astray during transit. Moreover, paperless solutions would enable manufacturers to track shipments in real time and provide prompts for potential border requirements.

SMES

Recommendation: Broaden support for SMEs by removing the limitations of the SME Fund and extending the deadline for applications. The Government should also consider similar support as new customs controls are applied later in 2021 and in early 2022.

RULES OF ORIGIN

Recommendation: The Government should work with the EU to find solutions to Rules of Origin for goods which transit the UK EU Border multiple times, with limited processing, as part of integrated European supply chains.

Recommendation: Where the UK and the EU both have a Free Trade Agreement (FTA) with the same third country, the UK and the EU should consider third-party cumulation across the UK-EU TCA. This would be for the mutual benefit of both the UK and the EU.

MARKET REGULATIONS

Recommendation: The UK Government must consider the implications of divergence. A national interest test should be introduced to assess the impact on trade and the economic benefits of changes.

Recommendation: The Government should establish a new cross-Government unit to monitor and track market access regulations in key export markets, including the EU. This will enable the tracking, monitoring and analysis of policy developments and consultation with industry on the impact of the policy developments on UK trade with key trading partners, including the EU.

Recommendation: The UK Government should establish a formal mechanism of working with the UK Business representative organisations that identifies areas where legislation in the EU is changing, considers what the UK response to that change should be and informs businesses of that change.

MOBILITY

Recommendation: The Government must also produce country by country travel guides updated with changes at national level which will impact business mobility. Make UK is keen to work with the Government to ensure that these guides remain up to date.

Recommendation: The Government should work EU member states to ensure consistent application of the rules and requirements for business travel to provide as much predictability as possible. In addition the Government must consider the impact of managing the UK's border on the ability for UK staff to travel smoothly into the EU.

Recommendation: The Government should explore with the EU the possibility to extend lighter-touch processes for aftersales activities to third part contractors.

NORTHERN IRELAND

Recommendation: Make UK supports calls for an enhanced Trusted Trader Scheme which would provide a route to certify and audit supply chains to enable more streamlined processes at ports.





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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