

The Business Journey Through Year 1 of EU Exit

Maureen O'Reilly, Independent Economist

December 2022

Summary

The UK's exit as a member of the EU is an historic event that has significant ramifications for how Northern Ireland businesses trade locally, nationally and internationally. Engagement with NI businesses through the first year of that journey have highlighted the complexities of how businesses operate. This means that there is no 'one size fits all' assessment of how the changes brought about by EU Exit have impacted both tangibly (e.g. costs/sales performance/markets) and intangibly (e.g. supply chains/access to skills) and how businesses have dealt with those changes.

Business preparation took place in a period of uncertainty about what any EU Exit agreement might look like which created significant uncertainty around what would happen on 1 January 2021. Where businesses were impacted, the extra paperwork, associated costs, delays and confusion around the Protocol and trading with GB-based suppliers dominated. By the end of the first year, for most businesses, rising costs were dominating concerns and EU Exit and the Protocol impacts were beginning to move down the list of key concerns.

Introduction

The main driver for undertaking this research has been the UK's exit from the EU and the importance of understanding what this has meant for local businesses. The context to the research is that most businesses were dealing to varying degrees with the fall-out from the COVID-19 pandemic that preceded full EU Exit by 10 months. Over the last year there was on-going engagement with a broad mix of companies across Northern Ireland (local and externally owned, small and large, manufacturing and services, and spread across NI) to understand what, if any, impact leaving the EU has had on the way they go about doing business.

Working with DfE, the business bodies and others, 40 businesses¹ were selected to 'walk through' the EU Exit journey to understand what changes and/or challenges they have faced

¹ The research is based on 40 businesses and the results are not extrapolated for the NI economy as a whole.

and how that has affected performance, how businesses reacted to any changes/challenges and what, if any, opportunities they experienced or expect to going forward, particularly considering Northern Ireland's position in terms of the Trade and Cooperation Agreement (TCA) and Northern Ireland Protocol. The research was undertaken using semi structured interviews that were largely qualitative in nature. It became clear early on in conversations with companies that quantifying the impact of EU Exit was going to be extremely challenging because if anything COVID was a bigger disruptor to trading than EU Exit. Even when it came to costs, it was difficult to disentangle whether increased costs were as a result of EU Exit or down to supply chain disruption from COVID.

Key Research Findings

The research has demonstrated that businesses can trade in many different ways. Therefore changes such as those brought about by EU Exit has affected different businesses to varying degrees, from those with almost no impact to those where the impact, particularly through the Protocol, has been very challenging and has led to increased costs. The key findings are presented in the following section under four broad headings.

Overarching/political considerations

1. **There was evident stress, fear and uncertainty among many businesses in the first quarter/half of 2021 and some of that uncertainty remains:** There was a sense that most of the businesses were prepared as much as possible but that the UK Government was not, and this caused major distress and business interruption in the first few months of 2021. The build up itself was tense because an agreement was reached so late in 2020 and this was exacerbated by the lack of understanding of what the TCA and Protocol actually meant. Some of the negative impacts anticipated by companies have not materialised but they caused significant distress.
2. **There is the perception of a large gap between the 'theory' and 'practice' in introducing new rules and administration:** The businesses mentioned confusion, and mixed messaging about how new rules/administration were to be introduced and while this has settled down to a degree there are parts of the new trading arrangements where this is still the case. This was apparent through the research itself where businesses used the opportunity of recounting their experiences to ask the Department for the Economy to help them resolve some of the pressing issues they faced as they emerged. A number

of senior figures in companies highlighted that if they couldn't understand the rules/paperwork then there must be issues in communication/explanation of how it all works.

3. **The various political reactions to the Protocol have 'politicised' trade with Great Britain and could damage local and international investment intentions:** A notable finding from this research is that the Protocol and the way it has been portrayed has politicised trading from Great Britain to Northern Ireland. One company did not want it highlighted explicitly that trade had been boosted by the Protocol because of the community to which they belonged. Another was trying to dampen the challenges with the Protocol because of the community to which they were connected. There were wider observations about the politicisation of the Protocol. One software company highlighted that they felt embarrassed about the position Northern Ireland found itself in and how it was perceived externally. Another manufacturer thought that there was a reluctance to deal politically head on with the challenges of the Protocol when it became clear that some of the issues were not simply 'teething problems'. One company felt that there was a lot of 'political brinkmanship'.
4. **There has been evolution and progress with the Trader Support Service (TSS) to help with trade documentation:** The Trader Support Service was introduced by the UK Government in January 2021 to support NI businesses to bring goods in from GB and outside the UK into NI – responding to the special position NI found itself in with the Protocol. At the outset there was confusion and a case of 'learning by doing'. This has settled down to a large degree and for those companies using the service it is a positive experience although others have found a way of dealing with challenges themselves. The main issue now on company minds is that the withdrawal of the TSS would be a challenge for some who have come to rely on it. There is now uncertainty in what happens to the TSS and whether businesses will have to pay for the service going forward.
5. **The messaging between the Department for the Economy and Invest NI around selling the benefits of the Protocol should be consistent:** Some businesses expressed concern around the lack of cohesiveness in messaging from Invest NI and the Department around the opportunities provided through the Protocol.
6. **Dealing with Rising Business Costs are a much greater concern than EU Exit:** It became very clear towards the end of the year that spiralling business costs were now at

the forefront of concerns and that while the Protocol is still a concern for some, EU Exit has moved down the list of concerns considerably for most.

Logistics/Supply chain

7. **A lack of understanding of the logistics of doing business in Northern Ireland has been evident:** The route to market, both purchases and sales, can be extremely complicated for many businesses. It is not simply a journey from 'A' to 'B' but can involve multiple journeys in and out of different jurisdictions both in terms of supplies, intermediate products and final goods. The new trading arrangements have highlighted just how complicated that journey can be and appreciation and guidance on how this would work has been inconsistent, again referencing the gap between 'theory' and 'practice'.
8. **Dealing with the Protocol and particularly the lack of awareness and preparedness of Great Britain (GB) suppliers has been a significant issue:** The complexities, additional paperwork and costs have played a large part in the challenges. The lack of awareness, education and unwillingness of some GB suppliers to trade with Northern Ireland because it involved extra work for them also made trade more difficult. There has been a big gap in understanding by GB suppliers of what the new arrangements have meant in dealing with NI and in some instances this has not been fully resolved.
9. **Rethinking Supply Chains:** It has been very clear that companies have had to rethink existing supply chains because of the Protocol. This has meant that in some instances companies have moved away from existing and sometimes long-standing GB suppliers to others including some based in NI and the RoI. For some this has caused limited disruption while for others it has come at a cost in terms of higher price, lower quality and sometimes both. One company said that they now check if GB suppliers have done business in NI before they use them, because it means they do not have to go through an education process in how to deal with Northern Ireland based companies. Some talked about 'near shoring' as much as possible with positive implications for reducing their carbon footprint. For others they had to make the GB supplier relationship work because they were the only source of supplies.

Cost to business/staffing issues

10. **Increased Bureaucracy/Bureaucracy with Red Tape/Paperwork:** There is significant frustration among businesses about what they consider to be needless rules and processes to be followed that make little sense to them but means a lot of added burden in terms of form filling. An example is the need to declare everything as 'goods at risk' when only a fraction of a purchase may actually be at risk. Changes are also coming into play around UK legislation that affect NI and there is a concern that companies find out about them by accident rather than by design.
11. **There have been costs for some businesses:** This has included rising shipping costs along with delivery delays and problems with product availability, all of which have fed into delays in production that have affected the company's bottom line and relationship with customers.
12. **Companies have taken on new staff and/or diverted internal staff resources to deal with the extent of new paperwork:** Most of the companies engaged with had to either take on new staff and/or divert internal staff resources to deal with EU Exit and specifically Protocol issues in year 1. This has been a significant constraint for some businesses because, particularly if there is a small team, then there has been an opportunity cost in dealing with the new challenges emerging. Generally, it is the larger companies that have been in the position of taking on a new member of staff with the salary ranging from £20k to £25k. In most instances these individuals are dealing 100% with the paperwork involved with the Protocol.
13. **The Impact of EU Exit on staffing and the new UK Immigration Policy is taking its toll for some companies/sectors:** Even before EU Exit the fall-out from the EU Referendum vote had impacted on the retention and recruitment of EU workers. This was affecting certain sectors (manufacturing and hospitality). However, during conversations on Year 1 of EU Exit it has become clear that access to workers more widely, particularly coming out the pandemic, is starting to be a significant challenge and more businesses that may have looked to EU workers to meet the supply gap cannot now do so as freely as they did previously. In addition, some of the more highly skilled companies have noted that internal competition for skills is now at the point that they are training and investing in staff to lose them to other competitors. They said that wages are being pushed up and their competitive advantage vis-a-vis national and international competitors is being eroded. Access to skilled workers is more challenging under new UK Immigration Policy rules.

Looking forward

14. **Lack of certainty on what happens next with grace periods is a concern:** The simplification and temporary suspension of the full application of EU law to NI, known as 'grace periods', while providing some relief to certain businesses is now creating concern and uncertainty. Businesses are asking if/when any changes will take place and believe that the repercussions if they are ended are not fully understood.
 15. **Limited impact on trading performance but potential challenges to competitiveness and investment:** On the whole, EU Exit appears to have had limited impact on sales and export performance. Most companies' trading positions are strong with no disruption to existing customer bases locally, nationally and internationally (although COVID still has an impact for some). Some businesses recognise that trade has not been disrupted because of the Protocol and others have benefited as Irish customers particularly have switched to making purchases from NI rather than GB. There was also a sense that productivity was boosted by having to think harder about how to do business (although again conflated by COVID) and some businesses came up with innovative solutions including one that developed a robotic to complete customs declarations. The impact in terms of competitiveness is more complicated. There is concern that having the added paperwork and, in some instances, cost burden can have knock on consequences for the competitiveness of local companies competing with GB counterparts. There has been some negativity around investment plans because of EU Exit. However, this is not being driven by the new trading arrangements, but rather it is the uncertainty but also reputational damage of doing business in Northern Ireland due to on-going political circumstances.
 16. **Opportunities are starting to emerge:** Most of the businesses see the benefits of Northern Ireland's dual market access. They recognise that it has allowed them to continue to trade seamlessly with the EU, where those trade relationships exist, and some are also now beginning to experience or plan to increase trade outside NI, featuring both GB and the EU in those trade expansion plans. A number of companies also highlighted that they had made product changes to accommodate the new trading arrangements.
-

Research conclusions

The research showed that businesses require clarity and certainty to do business and the experiences of the businesses engaged with through the first year of EU Exit highlights the damaging consequences of neither being in place. In spite of various attempts at 'preparation', businesses were left to deal with significant information failures and misinformation around how new trading arrangements would work which unsurprisingly led to stress and confusion.

The Trader Support Service came into existence and as a new organisation had to itself navigate the new arrangements which has taken time but is now considered a valuable resource by businesses that access it. Others have found ways to navigate the changes themselves and arguably one of the most consistently reported 'costs' of EU Exit and particularly the Protocol has been the staff time involved (new and existing) in getting up to speed with dealing with new arrangements/paperwork requirements and supply chain adaptation.

Businesses have been vexed by the political fall-out and disagreement over the Protocol which has had damaging consequences to NI's reputation and investment potential. Businesses have asked for consistent messaging between the Department for the Economy and Invest NI around selling what businesses consider to be the benefits of the Protocol.

There remain a number of concerns that require attention and support around 'goods at risk', returned goods relief and what is still regarded as fairly onerous supplementary declarations along with what happens next with grace period timescales and the future role of the TSS. The cost of doing business crisis however was beginning to dominate business concerns above and beyond the challenges faced with EU Exit.

For further information or queries please contact analyticalservices@economy-ni.gov.uk