

Annexe C: Submission from Federation of Small Businesses

1. FSB is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.
2. FSB welcomes the opportunity to provide evidence to the Committee on the EU-UK Trade and Cooperation Agreement. Unless otherwise stated, the data used in this submission is taken from FSB's 2023 report [Customs Clearance](#).

SME export activity

3. A fifth (22%) of UK SMEs exported their goods, products or services overseas in 2022, most commonly to other businesses (53%) and directly to consumers (41%). FSB research has consistently shown that Europe, is the largest destination for UK SME exports whether they trade in goods or services, with (93% of exporters say they sell to European countries). The largest country destination markets for UK SME exports are the Republic of Ireland, Germany and France and the biggest non-EU markets are the USA, Australia and Canada.
4. FSB Scotland's 2023 [Big Small Business Survey](#) found that the majority (90%) of Scottish SMEs sell to other parts of the UK, while almost two fifths export to both Europe and further afield. The research also found that over two fifths of Scottish small businesses continue to generate some of their income from the EU.

Trade in goods and services between the EU and UK

5. FSB welcomed the agreement of the TCA and the avoidance of the legal uncertainty, disruption and costs that failing to reach a deal would have created for a considerable proportion of the UK's small businesses. Nonetheless, moving to an FTA relationship means that small businesses have had to overcome a significant number of new requirements and processes in order to continue trading goods and services with the EU.
6. Very few small firms have a dedicated staff member (7%) or team (2%); those that do are more likely to have more employees (38% of SMEs with over 50 employees compared to 5 per cent of businesses with fewer than 10 employees).
7. FSB surveyed members on the impact of the Trade and Cooperation Agreement (TCA) on their trade activity during the first 8 quarters following the UK's formal exit from the EU. The number of small firms that have stopped trading temporarily with the EU fell from two in ten (19%) in early 2021 to one in ten (9%) in Q4 2022

while the number that reported stopping permanently remained around 4-5 per cent.⁶

8. Feedback gathered through interviews and focus groups with FSB members shows that many small firms still find navigating UK-EU trading rules extremely burdensome.
9. With regard to goods trade, the most commonly reported issues relate to the loss of or delays in product transportation, difficulties completing customs paperwork and navigating VAT processes. While there are options available to businesses to facilitate EU trade, such as warehousing in an EU Member State, these arrangements are often expensive and relatively few SMEs have opted to do so: in Q4 2022 just 5 per cent of exporters said they had or were looking to warehouse in the EU.⁷
10. In relation to services trade, mobility of professionals for business purposes is one of the top barriers reported by FSB members. While provisions on mobility and Mode 4 services in the TCA were welcome, they represented a significant change to the status quo for independent professionals and contractual service providers versus single market membership. The many national reservations in the agreement, which create a regulatory patchwork that small firms must navigate, have been particularly difficult for SMEs in highly regulated professions such as architecture, accounting, engineering, and legal services.

Developing the trading relationship further

11. There remain several policy options that UK Government and the European Commission could pursue to further boost trade at this critical time and to address the barriers and frictions of UK-EU trade. These include:
 - a. Removing the requirement to appoint an intermediary to use the EU Import One Stop Shop (IOS) for VAT;
 - b. Working towards mutual recognition for conformity assessment;
 - c. Accelerating the mutual recognition of professional qualifications in key sectors;
 - d. Agreeing a veterinary agreement to remove or reduce the number of SPS checks for food, drink, and products of animal origin.
12. We would also encourage UK Government and the European Commission to support maximum cooperation through the TCA through setting up all Working Groups envisaged by the Treaty, in particular the SME Committee.

⁶ FSB Small Business Index, Q1 2021-Q4 2022

⁷ FSB Small Business Index, Q4 2022