Constitution, Europe, External Affairs and Culture Committee
Thursday 23 May 2024
13th Meeting, 2024 (Session 6)

Review of the EU-UK Trade and Cooperation Agreement inquiry

1. The Committee is conducting an inquiry into the Review of the EU-UK Trade and Cooperation Agreement (TCA). The focus of the inquiry is on how trade in goods and services between the EU and UK is currently working, if there are areas where it can be improved, and whether there is an interest in developing the trading relationship further.

2. A call for views opened on 29 September and closed on 30 November. It received 16 submissions which are available to view online.

3. In terms of evidence sessions: on 8 February there was a scene-setter for the inquiry – a roundtable session with members of the Scottish Advisory Forum on Europe; on 7 March a panel of representatives of the agri-food sector; on 14 March evidence from the UK in a Changing Europe; on 21 March a roundtable with businesses who were members of either Food and Drink Federation Scotland or Agricultural Industries Confederation; on 28 March a panel with Scottish Quality Crops, Seafood Scotland, Scottish Meat Wholesalers Association, and Salmon Scotland; on 2 May an evidence session focused on the Windsor Framework; and on 9 May a panel with business representative groups.

4. This week we have a panel with the Independent Commission on UK EU Relations think tank.

5. A SPICe briefing is attached at **Annexe A** and the Commission's Brexit & Goods: Trade Strategy for Unlocking UK-EU Growth & Opportunities report, published in October 2023, is also included at **Annexe B**.

Clerks to the Committee
May 2024

Annexe A: SPICe briefing

Inquiry into the review of the EU-UK Trade and Cooperation Agreement – The Independent Commission on UK – EU Relations

The Independent Commission on UK-EU relations

According to its own website, the Independent Commission on UK-EU relations (the Commission) exists to:

> "Examine and explain the impacts of the Brexit agreements on the UK economy and society and, working with sector leaders, propose amendments to the agreements which if implemented would benefit communities and businesses across the UK."

The Commission sets out that it is politically independent. Its membership is made up of leaders from business, industry, trade unions, media, academia and civil society.

The Commission is co-chaired by Mike Clancy, General Secretary of Prospect trade union, and Janice Hughes, CEO of Graphite Strategy. Commission members include Lionel Barber, former editor of the FT, Anna Jerzewska, founder of Trade and Borders, Adrian Binks, CEO of Argus Media, John Kerr, former diplomat, now Deputy Chairman of Scottish Power and a crossbench member of the House of Lords. and Paula Surridge, political sociologist at Bristol University. A full list of the Commission's membership is included on its website.

According to its website, the work of the Commission is funded by a range of individuals and organisations including Henry Tinsley, David and Elaine Potter and Musicians Union.

The Commission sets out its purpose as to work with "sector leaders to establish the impact of the UK departure from the European Union on our economy, society, politics and place in the world". In addition, the Commission is working to identify areas where UK-EU agreements can be built upon.

The Commission's engagement with the review of the TCA

The Commission views the 2026 review of the Trade and Cooperation Agreement (TCA) as an opportunity to "revisit the arrangements between the UK and our closest neighbours and major trading partners".

The Commission published a report Brexit and goods: trade strategy for unlocking UK-EU growth and opportunities in October 2023 which set out how it believes trade in goods between the UK and the EU can be improved by removing barriers imposed by the TCA.

The crux of the Commission's argument is that the UK's departure from the EU has had a negative impact on UK-EU goods trade and has resulted in increased costs for UK exporters. Ways to address this negative impact include seeking to align with EU rules to open up opportunities to develop trade by removing a number of non-tariff barriers. For example, the report highlights a number of different sectoral developments which would be beneficial:

The Commission's view of the current trading picture

The Commission's report sets out the trend in UK-EU trade following EU exit.:

> "Although goods trade between the EU and UK recovered most of its previous level in value terms following a sharp fall in the early months of 2021 the current value of trade is well below what would have been expected[1] had the UK performed on a comparable level with other trade partners.
>
> It was initially difficult to separate the effects of Brexit from the pandemic and Russia's invasion of Ukraine, with all major economies suffering dramatic falls in trade due to restrictions on movement and disruption to supply chains. But research released in October 2022 shows reductions in UK to EU goods trade of 16% and of EU to UK trade by 20% relative to a scenario in which Brexit had not occurred[2]. Trade data for April 2023 showed an overall rise in global exports but goods exports to the EU remained weak declining by 0.5%[3].
>
> The Office for Budget Responsibility has since found that whilst trade in other major economies has rebounded to 3% above pre-pandemic figures, UK exports remain 12% lower than in 2019[4]. The difference is attributed to the UK Government's decision to depart the EU on the terms set out in the TCA when other, less damaging routes were available."

Leading on from the trading landscape after EU exit, the Commission's report set out proposals for reducing non-tariff barriers, these include:

- Pursue maximum alignment on chemical regulations and joint access to UK-EU chemical databases.

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[1] btgadvisory.com/articles/general/britains-underperformance-in-goods-exports-intensifies-as-further-obstacles-loom
[2] esri.ie/news/brexit-reduced-overall-eu-uk-goods-trade-flows-by-almost-one-fifth
[3] docs.google.com/document/d/1y0ntEjCINJ0BdWA1HUUMLr8oq5rEoyRz/edit
[4] obr.uk/box/the-latest-evidence-on-the-impact-of-brexit-on-uk-trade/

- To support the automotive sector, extend the TCA's exemption of rules of origin requirements on electrical vehicles to ensure no tariffs apply in the future.
- Increase shared UK-EU interconnector capacity and align UK and EU emissions trading schemes to boost the energy sector.
- Food and drink - agree a new SPS agreement to reduce checks, costs and delays.
- Medical goods - agree mutual recognition of batch testing on medical products to reduce the costs and administration facing the pharmaceutical industry.

Regulatory cooperation

The Commission argues that regulatory cooperation will be important for UK-EUK trade and that the UK should seek to remain aligned with the EU and remain in the European standards system. The Commission states that:

> "An effective way to ensure a smooth and affordable flow of goods trade would be via mutual recognition schemes, although it is likely that the UK would have to make standards concessions to achieve this."

In addition, the Commission argues that regulatory divergence would present challenges for exporting businesses.

Rules of Origin

Following the UK's departure from the EU manufacturers in the UK are required to demonstrate the originating status of goods traded with the European Union (EU) in order for these to be entitled to preferential treatment under the Trade and Cooperation Agreement (TCA) between the UK and the EU. Make UK define rules of origin in the following way:

> "Rules of Origin (ROO) allows an importing country to identify and classify the origin of a product. It is a straightforward process when the product is produced in a single country. Given modern global supply chains comprising of components and processes undertaken in numerous states, the application of this ROO can be very complex. ROO's provide different functions but how they are set affords either a degree of protection or liberalisation offered to a given industry by the importing country. ROO's are lawful international trade tools, allowed for under World Trade Organisation (WTO) terms and common practice within international trade agreements. A range of different types of ROO rules apply and more than one rule can apply to a product."

In written evidence to the Committee, business representatives have highlighted that the Rules of Origin requirements in the TCA could be addressed during the review. The Commission's report highlighted how Rules of Origin apply under the TCA:

> "The TCA includes provisions on rules of origin but this is a complex system whereby tariffs may be imposed on goods if a certain percentage of the

> product originated outside of the UK or EU. The percentage of the product which must originate in the UK or EU varies from sector to sector, and even product to product.
>
> Rules of origin will change over time as certain exemptions expire. For example, as of next year 45% of an electric vehicle's value be required to originate in the UK or EU to qualify for tariff-free trade, otherwise it will face a 10% export tariff. This percentage will then rise again in 2027. Industries are calling for an extension of such exemptions which if not agreed, could mean a loss of key industries in the UK.
>
> Despite the tariff-free deal agreed with the EU, a study by the University of Sussex found up to £3.5 billion of British exports were unable to prove rules of origin and therefore had taxes applied under the TCA, accounting for 10% of British goods exports to the EU[5]."

The Commission suggests that Rules of Origin are an area where the TCA could be further developed for example, by adopting an approach where tariffs are only paid on the parts of a final product that do not meet the rules of origin, rather than the entire product itself. In addition, the Commission has suggested the UK should sign up to the Regional Convention on Pan-Euro Mediterranean preferential rules of origin (PEM Convention). The PEM Convention includes 23 contracting parties including the EU, EFTA States, North African, Middle Eastern and non-EU European Countries. According to the Commission for UK-EU Relations:

> "All signatories to the convention have replaced protocols of rules of origin in FTAs between each other with the rules of origin laid down in the PEM Convention, streamlining procedures. This allows for diagonal cumulation (provision under agreements between more than two countries, that allows members to use products originating in the others without the final good losing its originating status) between all signatories to the agreement and facilitates the dispersion of supply chains across the zone, making it easier for exported goods to qualify for preferential free trade agreements between the various parties."

Sanitary and phytosanitary agreement

Sanitary and phytosanitary (SPS) requirements are measures designed to protect humans, animals, and plants from diseases, pests, or contaminants. Goods subject to these measures are food products, live animals, products of animal origin, animal feed as well as plants and plant products.

Following Brexit, UK exporters of agri-food products are now required to meet the EU's SPS requirements. These exports are subject to checks at the EU border and where appropriate will require the checking of export health certificates. More information on export health certificates is provided in a SPICe blog.

[5] export.org.uk/news/567785/A-tenth-of-British-exports-to-the-EU-have-faced-tariffs-since-the-start-of-2021-new-research-finds.html

The Committee has heard from a number of witnesses that an SPS agreement between the UK and the EU would help to reduce the challenges to exporting to and importing from the EU. The Commission on UK-EU Relations report also highlighted the non-tariff barriers faced by SPS products and suggested that these barriers have "caused a major increase in costs and delays for farmers and food and drink producers in particular". As a result, the Commission report states that the UK Government and the EU should seek to reach an SPS agreement.

VAT deal

The Commission's report also suggested that the UK should seek a VAT deal with the EU which would reduce costs and red tape for companies. According to the Commission:

> "Changes to VAT have harmed British companies and goods trade.
>
> This is largely due to having to pay sales tax upfront on goods imported from the EU, creating cash flow problems and increasing the cost of doing business.
>
> Consumers have also suffered from higher prices and companies have had to resort to costly insurance backed guarantees if they are forced to pay the tax upfront.
>
> The Government should pursue a deal where the UK can remain part of the EU-VAT area so that companies do not have to pay the tax when importing goods."

A further agreement supporting smaller businesses along the model which Norway enjoys with the EU could also be explored:

> "A similar deal is already in place for Norway that exempts smaller firms from the requirement to have a fiscal representative for VAT in the EU. Norway is the first country with which the EU has a VAT cooperation agreement. As a member of the European Economic Area it has a similar VAT system and a strong track record on VAT cooperation with the EU, particularly on energy."

Conformity markings

Conformity markings are used to indicate that a product is safe and meets the standards of the country it is to be sold in. As part of the Brexit process the UK Government had planned to move from the EU's CE marking and towards a new UKCA system.

In October 2023, the UK Government announced that it intended to introduce legislation to extend recognition of goods that meet EU requirements (including the CE marking), indefinitely, beyond 31 December 2024 for many products.

The Commission on UK-EU relations report welcomed this approach but highlighted that for medical devices and construction products were not covered by the announcement and will still have to use UKCA meaning products in these sectors being required to conform with two different sets of rules depending on the destination of a product for sale.

Issues to discuss

Today's evidence session with representatives of the Independent Commission on UK-EU Relations is an opportunity to discuss the Commission's proposals for the TCA review in 2026.

As set out above, the Commission has previously published a report on Brexit and goods which focuses on issues such as regulatory alignment, consistent conformity markings, rules of origin, an SPS agreement and a VAT deal. The Committee may wish to discuss the suggested approaches in all these areas with the witnesses. In addition, the Committee may wish to discuss with the witnesses whether there are other areas of the TCA which could be adjusted to benefit the trade in goods between the UK and the EU.

Finally, the Committee may wish to discuss with the witnesses what opportunities they see for the UK and the EU to negotiate changes to the TCA such as those suggested by the Commission.

Iain McIver, SPICe Research

CEEAC/S6/24/13/1
Annexe B

Independent Commission on UK - EU Relations

BREXIT AND GOODS

TRADE STRATEGY FOR UNLOCKING UK-EU GROWTH AND OPPORTUNITIES

01

ABOUT

INDEPENDENT COMMISSION ON UK - EU RELATIONS

The Independent Commission is a politically neutral, timebound commission which examines the impact of the Trade and Cooperation Agreement (TCA) and the Windsor Framework on the UK.

As well as looking at impacts on different sectors of the economy we look more broadly at impacts on sectors including security and defence, health, education and human rights.

Members of the Commission are leaders in business, journalism, civil society and academia. They work with a team of expert advisors.

The intended outcome of the Commission is to recommend changes to the TCA and Framework which if implemented would improve outcomes for UK sectors and the people who live and work in the UK.

Our recommendations will be developed in collaboration with UK and EU politicians and relevant officials. We confer with parliamentarians from all parties as well as with regional, devolved and local politicians and party staff.

As well as informing parliamentarians and political parties the Commission will inform the public of its work, both to highlight and explain challenges created by current arrangements and potential amendments.

For further information see:
www.ukeucommission.org

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FOREWORD

On 24 December 2020, the then Prime Minister, Boris Johnson, announced the conclusion of the Trade and Cooperation Agreement (TCA) with the EU, hailing it as "A comprehensive Canada style free trade deal between the UK and the EU, a deal that will protect jobs across this country. A deal that will allow UK goods and components to be sold without tariffs and without quotas in the EU market. A deal which will if anything should allow our companies and our exporters to do even more business with our European friends."[1]

It was obvious at the time to anyone with even a casual acquaintance with the basic legal and practical realities of trade that that assessment was, to use the most generous possible term, wildly overblown. Now that the fogs caused by the Covid pandemic and the immediate shock of Russia's invasion of Ukraine have largely cleared, this report shows that the reality that is now in plain sight belies Mr Johnson's bullish assessment:

- Jobs have been lost as exports are made harder and key imports needed for supply chains more expensive and difficult to source;
- Rules of origin requirements, particularly hard for SMEs to administer, mean that tariffs are reality for many of our exports to the EU despite the "zero tariff" headline; and
- As a result of those tariffs and of the extensive regulatory checks to which many UK goods exports are now subject, the UK is doing rather less business with our European friends than it would have done had the UK continued to take part in the single market or customs union.

The question, however, is how to start repairing the damage. One important part of the solution lies in recognising that the ability to (in Mr Johnson's words) "set our own standards, to innovate in the way that we want, to originate new frameworks for the sectors in which this country leads the world" – the benefit that, for less bullish supporters of the Johnson deal, was supposed, however implausibly, to off-set the realities set out above – has turned out to be largely illusory. That is not for want of effort by Ministers and civil servants in finding "Brexit opportunities": nor is it for want of legal powers to depart from EU regulation, which were already extensive before the Retained EU Law (Revocation and Reform) Act 2023 was passed and which are now, after that Act, very great indeed. Rather, three basic truths have emerged.

- There is little public or business appetite for departing from much EU regulation on, for example, product safety and standards – which is unsurprising when you remember that almost all of it was supported by the UK when it was a member.
- For businesses that export, or hope to export, their goods to what is and for the foreseeable future will remain our largest and most secure overseas market, it makes no sense to manufacture goods or components to anything other than EU standards.
- The fact that, in order to preserve the open border with Ireland, Northern Ireland under the Windsor Framework remains (in essence) subject to EU regulation in the area of goods, combined with the need to avoid creating barriers to NI/GB trade, militates against divergence between standards applicable in Great Britain and the EU standards applicable in Northern Ireland.

1. gov.uk/government/speeches/prime-ministers-statement-on-eu-negotiations-24-december-2020researchbriefings.files.parliament.uk/documents/CBP-7593/CBP-7593.pdf

Once the vision of major regulatory divergence in product standards is recognised for the mirage that it is, the way is then open to the approach set out in this paper, namely "alignment": that is to say, giving legal form to the reality that, in many if not most cases, the UK public interest in this area lies in tracking EU standards, and in devising legal structures of enforcement and interpretation that allow the EU to be confident that, when importing goods from Great Britain (whether those goods arrive in Calais or in Belfast) there is no need to verify their compliance with those standards. Alignment therefore opens the door to agreeing with the EU modifications of the TCA that remove or at least substantially reduce regulatory barriers thrown up by the Johnson deal and reduce the remaining impact of the Windsor Framework on GB/NI trade. As the report explains, food products are an obvious and stark example of where that can and should be done. As to the inevitable criticism from supporters of the Johnson deal that that way forward compromises UK sovereignty, that criticism comes from those whose approach to sovereignty is that of the miser's approach to money: that it is to be hoarded uselessly rather than to be spent usefully.

On customs and VAT barriers, the report makes sensible proposals: joining the PEM, and either joining the EU VAT area or, perhaps more realistically, reaching a Norway-style VAT arrangement that significantly reduces export frictions caused by VAT: again, it is important to note that the Windsor Framework keeps Northern Ireland in the EU VAT regime for goods (with some limited additional wriggle-room) and therefore, in practice, limits the extent to which VAT on goods in Great Britain can depart from the EU system. The fact remains that, outside the customs union, rules of origin are an inevitable barrier, and one that particularly hits small business. But none of that means that more modest changes cannot make a more modest, but still significant, difference.

It cannot be guaranteed that these changes are negotiable with the EU, not least because the EU (as well as the UK) may be under new political leadership by the end of 2024. And if negotiations do begin, many other issues will also be on the table and progress will depend on the geopolitical context, which only a fool would claim to be able to predict. But, given the importance of economic growth to all parties' plans for the UK, the fact that progress may be difficult and that success cannot be guaranteed is no excuse for not attempting it.

George Peretz KC

1 EXECUTIVE SUMMARY

31%
OF TOTAL BUSINESS INVESTMENT

7/10
OF THE UK'S TOP EXPORT DESTINATIONS ARE EU MEMBER STATES[2]

THE IMPORTANCE OF GOODS TRADE TO THE UK ECONOMY[3]

- Goods trade is a vital part of the UK economy.
- 262,500 British businesses trade internationally with a value of £414.1 billion in goods exports and £644.6 billion in imports.
- 7 of the UK's top 10 export destinations are EU member states.
- Goods trade encompasses a number of industries including automotive, energy, pharmaceuticals and manufacturing and is key to job creation, investment and livelihoods.
- Many services are also embedded in manufactured goods.
- Goods trade has increasing geopolitical linkages with its role in industries reaching net zero, tackling carbon intensive trade and securing supply chains.
- The UK needs to maintain a strong flow of goods trade, through prosperous links to other markets and a trade policy fit for the current economic climate. A strong relationship with the EU is critical to achieving these objectives.

SPECIFIC CHANGES AND IMPACTS OF THE UK'S DEPARTURE FROM THE EU

- Leaving the EU has been challenging for goods trade, creating additional costs and administrative burdens, deterring non-EU partnerships and slowing supply chains.
- The mobility of workers is now more restrictive, border checks are time consuming and tariffs are costly.
- These burdens have affected goods trade, with small businesses hit particularly hard.
- Tariffs now apply to goods that do not meet rules of origin requirements and delays at the border are now commonplace.
- Sanitary and Phytosanitary (SPS) products have new certification requirements.
- It is essential that the UK Government grasps the scale of the long-term challenges facing goods trade and works closely with the EU as likeminded partners on economic priorities.

2. researchbriefings.files.parliament.uk/documents/CBP-7593/CBP-7593.pdf
3. gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version

OVERALL IMPACT

- The costs of importing and exporting goods have increased significantly and this has impacted sales margins.
- The variety of goods exported has dropped given the uneven sectoral impact of the UK-EU Trade and Cooperation Agreement (TCA).
- Business investment in the UK is 31% below the pre-referendum trend. By contrast, business investment in the EU is currently 2% above its pre-2016 trend.[4] This has had a major impact on goods trade.
- The Retained EU Law Act 2023 raises concerns around the direction of the UK's regulations, raising the risk of future divergence, costs and barriers.
- the Windsor FrameworK has left Northern Ireland's economy smaller compared to a no-Brexit scenario and has created trade friction with Great Britain.

THIRD COUNTRY FREE TRADE AGREEMENTS (FTAS)

- Third Country engagements have in some instances reduced tariffs, reduced market access barriers and opened up new markets.
- However they are yet to have the desired impact on goods trade, with the monetary value often notably small and with some sectors feeling little or no benefit.
- Some agreements are expected to have adverse effects on certain sectors.
- Industries largely favour existing EU FTAs with the rest of the world that were in place for the UK as a member state before Brexit.
- Business groups are concerned that the UK's FTA programme will lead to divergence from EU regulations, delivering a lower quality of goods into the UK.
- Some markets are difficult to make significant breakthroughs in as seen with the lack of progress on a UK-US FTA due to concerns around protections for the NHS, food standards and divergence from the EU market.

4. institute.global/insights/geopolitics-and-security/three-years-brexit-casts-long-shadow-over-uk-economy

RECOMMENDATIONS

General

- Further align trade policy with industrial strategy to incentivise investment, business confidence and the development of goods industries of the future.
- Join the Pan Euro Mediterranean Convention to simplify rules of origin requirements.
- Pursue maximum alignment on chemical regulations and joint access to UK-EU chemical databases.
- Agree a new VAT deal that reduces costs and red tape for companies.

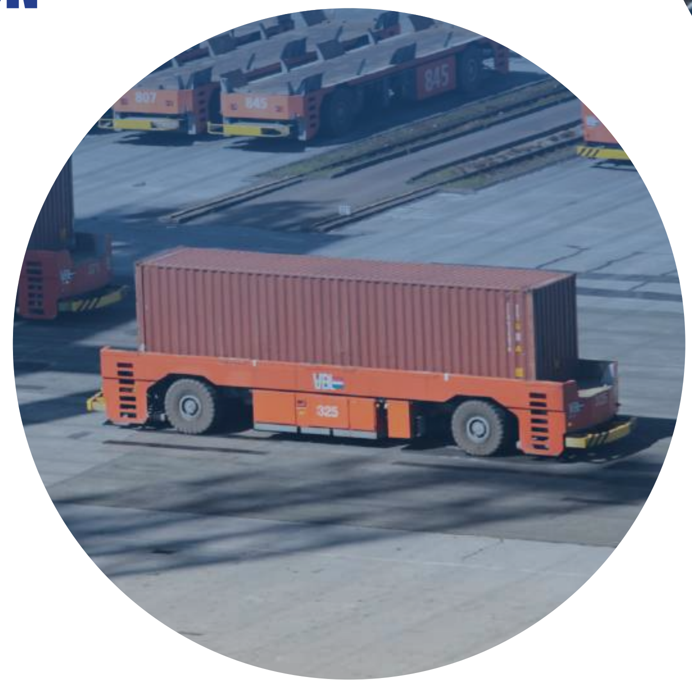
Sectoral

- Automotive - to support the automotive sector, extend the TCA's exemption of rules of origin requirements on electrical vehicles to ensure no tariffs apply in the future.
- Energy - increase shared UK-EU interconnector capacity and align UK and EU emissions trading schemes to boost the energy sector.
- Food and drink - agree a new SPS agreement to reduce checks, costs and delays.
- Medical goods - agree mutual recognition of batch testing on medical products to reduce the costs and administration facing the pharmaceutical industry.

Conclusion

- Brexit has had a negative impact on UK-EU goods trade.
- Costs and administration have increased, goods trade is down and there are concerns that newly negotiated FTAs, the Retained EU Law Act 2023 and a fractious political climate will make the situation worse if not reevaluated.
- If left unresolved, UK goods trade will continue to suffer, with wider impacts on livelihoods, economic growth and job creation, in already difficult economic circumstances.
- Continued disruption will also make it difficult for the UK to attract EU investment and contracts, severing commercial, academic and research ties.
- The TCA review provides an opportunity for meaningful changes and additions which would undo Brexit-related complexities and cost increases.
- The UK economy is struggling compared to many of its European partners. The UK should be ambitious in its approach to forging stronger ties that could ease trade friction.
- Reform would not only be good for the economy but also in allowing the UK to navigate a complicated international trade climate.

2 INTRODUCTION



Goods trade occupies an important place in the UK economy. The UK is the world's seventh largest goods exporter, trading with 160 nations at a value of £813.3 billion a year, £330.2 billion of which is with the EU.[5] The EU is the UK's largest trading partner, accounting for 42% of UK exports and 52% of UK imports in 2019.[6]

Small and medium-sized enterprises (SMEs) account for around a third of exports.[7]

Following Brexit trade in goods became the focus of much interest, with some seeing opportunities for the sector in wider FTAs through tariff reductions.

However, UK goods trade largely depends on a close EU relationship.

Trade in goods is a key, tangible strength of the UK economy. Increased trade barriers have inflicted measurable damage, harming a hugely significant part of the UK economy and businesses of all sizes.

Whilst the TCA sets out the terms of trade between the UK and EU it has not prevented this disruption, with increased costs, administration and reputational damage.

The key challenges facing trade in goods largely relate to customs checks and certification issues; however, there are further issues including around rules of origin and VAT.

Although goods trade between the EU and UK recovered most of its previous level in value terms following a sharp fall in the early months of 2021 the current value of trade is well below what would have been expected[8] had the UK performed on a comparable level with other trade partners.

It was initially difficult to separate the effects of Brexit from the pandemic and Russia's invasion of Ukraine, with all major economies suffering dramatic falls in trade due to restrictions on movement and disruption to supply chains. But research released in October 2022 shows reductions in UK to EU goods trade of 16% and of EU to UK trade by 20% relative to a scenario in which Brexit had not occurred.[9] Trade data for April 2023 showed an overall rise in global exports but goods exports to the EU remained weak declining by 0.5%.[10]

5. gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version
6. commonslibrary.parliament.uk/research-briefings/cbp-7851/
7. british-business-bank.co.uk/wp-content/uploads/2020/02/UK-SME-Exporting-FINAL-VERSION.pdf
8. btgadvisory.com/articles/general/britains-underperformance-in-goods-exports-intensifies-as-further-obstacles-loom

The Office for Budget Responsibility has since found that whilst trade in other major economies has rebounded to 3% above pre-pandemic figures, UK exports remain 12% lower than in 2019.[11] The difference is attributed to the UK Government's decision to depart the EU on the terms set out in the TCA when other, less damaging routes were available.

Similarly, the Windsor Framework set out provisions for Great Britain – Northern Ireland trade. The announcement of the Windsor Framework in February 2023 included steps to smooth trade flows, reduce administration and ease political tensions.

While welcome the Framework does nothing on its own it does not resolve the wider Brexit issues impacting the UK, including harm to goods trade. It is intended to support the 2020 arrangements, not revisit or change them.

It is essential that more is done to alleviate the Brexit induced pressures facing trade in goods, particularly at a time when the UK economy is struggling compared to its peers and is facing further austerity and tax rises.

A more ambitious trade agreement between the UK and the EU could help to alleviate some of this economic pressure, with a positive impact on business profitability and livelihoods at a time when many are struggling with the cost of living crisis.

This report details the impact of the TCA and the Windsor Framework on goods trade to this point. Looking ahead it outlines possible changes to both the TCA and the Windsor Framework.

The UK Government should be ambitious ahead of the planned review of the TCA in 2026. Changes to the the Windsor Framework would need additional discussion between the EU and UK. If both agreements can be changed in ways which would improve outcomes for the people and businesses of the UK and EU then this should be a government priority.

This report outlines how that goal could be achieved.

As part of our research for this paper we conducted focus groups and interviews with key stakeholders to identify the main challenges facing goods trade and what viable solutions are possible. A full list of contributors can be found below.

9. esri.ie/news/brexit-reduced-overall-eu-uk-goods-trade-flows-by-almost-one-fifth
10. docs.google.com/document/d/1yOntEjCINJOBdWA1HUUMLr8oq5rEoyRz/edit
11. obr.uk/box/the-latest-evidence-on-the-impact-of-brexit-on-uk-trade/

3 THE VALUE OF UK GOODS TRADE

VALUE OF UK'S GOODS EXPORTS LOWEST OF ALL G7 NATIONS

£128bn
VALUE OF TOP 5 UK GOODS EXPORTS

8.8%
DECREASE IN VALUE OF TOTAL UK-EU IMPORTS IN 2023 EXPORTS

£414bn
VALUE OF UK GOODS TRADE EXPORTS IN 2022

£169bn
VALUE OF TOP 5 UK GOODS IMPORTS

UK GOODS TRADE DEFICIT WIDENED TO £64.1 BILLION IN JAN 2023

- In 2022 the UK exported £414.1 billion and imported £644.6 billion in goods trade.[12]
- The value of goods imports decreased by £4.9 billion (8.7%) in January 2023. Goods imports from the EU fell by £2.5 billion (8.8%) and those from non-EU countries fell by £2.4 billion (8.7%).[13]
- The value of goods exports decreased by £0.6 billion (1.8%) in January 2023 and the trade in goods deficit widened by £1.4 billion to £64.1 billion in the three months to January 2023.[14]
- Analysis from the Organisation for Economic Co-operation and Development (OECD) for January 2023 shows the value of the UK's goods exports to be the lowest of all the G7 nations, at £30.85bn.[15]

12. gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version
13. ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/january2023#:~:text=1.-,Main%20points,8.7%25)%20in%20January%202023
14. ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/january2023
15. ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/octobertodecember2022

Top 10 UK goods imports and exports in the 12 months to the end of February 2023[16]

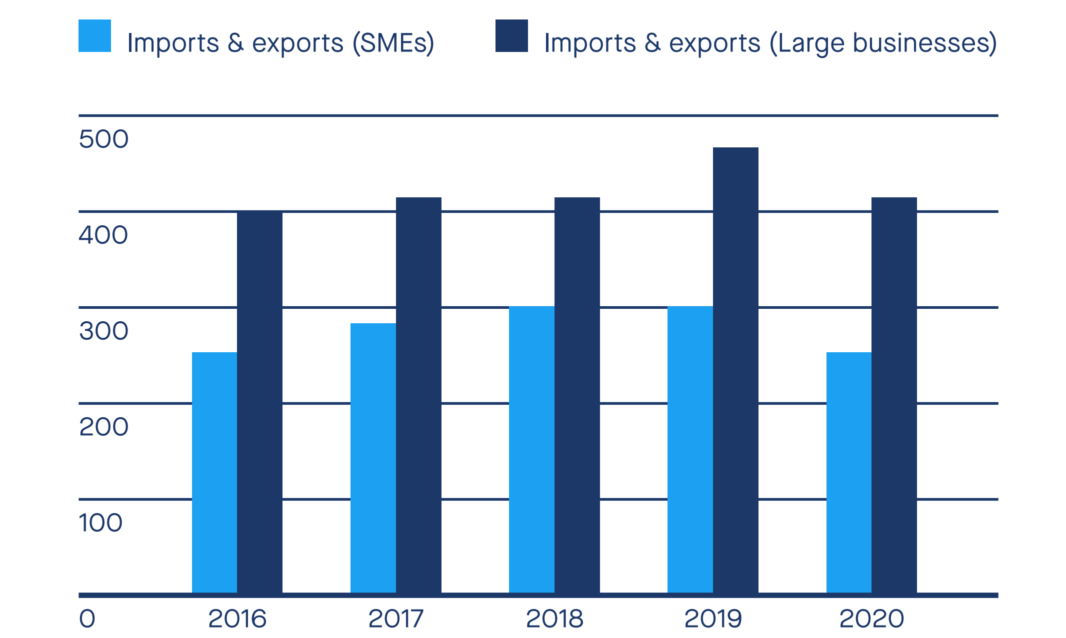
Imports

- Gas (£47.3 billion)
- Cars (£36.0 billion)
- Crude oil (£32.9 billion)
- Medicinal and pharmaceutical products (£30.2 billion)
- Mechanical Products (£23.2 billion)

Exports

- Mechanical power generators (£29.1 billion)
- Crude oil (£28.8 billion)
- Medicinal and pharmaceutical products (£26.3 billion)
- Cars (£26.0 billion)
- Refined Oil (£18.4 billion)

Value of goods and trade in £ billions (2016-2020)[17]



16. ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/february2023
17. commonslibrary.parliament.uk/research-briefings/cbp-7851/

4 THE TCA AND THE WINDSOR FRAMEWORK - SPECIFIC CHANGES AND IMPACTS

4.1 THE TCA

Goods trade before brexit

EU-UK Trade

The Single Market enabled UK citizens to study, live and work in any EU country and vice versa, ensuring free movement of goods, services, capital and persons in a single EU internal market.

By removing technical, legal and bureaucratic barriers, the EU allowed citizens to trade and do business freely.

The Single Market also removed non-tariff barriers such as different rules on packaging, safety and standards.

External trade policy

The Customs Union ensures there are no tariff or non-tariff barriers to trade between member states and members impose a common external tariff on all goods entering the Union.

The European Commission negotiates on behalf of the Union as a whole in international trade deals, rather than each member state negotiating individually. It represents the Union at the World Trade Organisation and in any trade disputes mediated through it.

Goods standards and regulations

The UK and EU shared standards and regulations on goods trade, creating a shared conformity assessment marking system and simplifying trade.

Goods trade under the TCA

EU-UK Trade

Outside the Single Market UK citizens can no longer move freely in the EU and vice versa.

Work and study visas are required.

Border checks and tariffs apply to goods trade (albeit the latter only where rule of origin rules are not met).

The TCA provides for zero tariffs and quotas only for goods that meet rules of origin requirements and sets out a level-playing field in areas such as environmental protections, climate change, social and labour rights, which is designed to ease trade. The objective is to prevent one side from gaining an unfair competitive advantage by, for example, lowering environmental protections which might make it cheaper to produce a product.

External trade policy

The UK operates an independent trade policy, with the ability to negotiate bilateral FTAs and an independent seat at the World Trade Organisation.

The UK is now excluded from the EU's FTAs, losing access to many preferential trading arrangements and having to begin its own FTA programme.

However the UK did work to roll over as many of these agreements as possible to ensure as much continuity in trade relations as possible.

Goods standards and regulations

The TCA does not mean that the UK is not allowed to deviate from EU rules, but does mean it could face consequences in terms of reduced access to EU markets or the implementation of tariffs if it did so. The same principle also applies to the EU.

SPECIFIC CHANGES AND IMPACTS UNDER THE TCA INCLUDE:

Rules of origin and tariffs: Prior to leaving the EU, the UK was able to trade tariff-free in all goods with the EU. The TCA includes provisions on rules of origin but this is a complex system whereby tariffs may be imposed on goods if a certain percentage of the product originated outside of the UK or EU. The percentage of the product which must originate in the UK or EU varies from sector to sector, and even product to product.

Rules of origin will change over time as certain exemptions expire. For example, as of next year 45% of an electric vehicle's value be required to originate in the UK or EU to qualify for tariff-free trade, otherwise it will face a 10% export tariff. This percentage will then rise again in 2027. Industries are calling for an extension of such exemptions which if not agreed, could mean a loss of key industries in the UK.

Despite the tariff-free deal agreed with the EU, a study by the University of Sussex found up to £3.5 billion of British exports were unable to prove rules of origin and therefore had taxes applied under the TCA, accounting for 10% of British goods exports to the EU.[18]

Sanitary and Phytosanitary (SPS) products: Brexit meant new controls on a number of SPS products. Controls now include requirements for import pre-notifications, health certification, documentary, identity and physical checks at the border, and entry via a Border Control Post. This has caused a major increase in costs and delays for farmers and food and drink producers in particular.

Customs checks and paperwork: In terms of customs checks, the EU introduced full checks on UK goods at the border in January 2021 when the transition period came to an end. This requires additional paperwork and often the inspection of goods by customs officials. This has led to increased transit times and queuing, most notably in the extensive queues frequently seen at Dover where hauliers wait to board ferries to the EU.

The UK is yet to introduce checks on EU imports and has repeatedly delayed the introduction of these checks. This means that there is further red tape to come, which is likely to increase friction and make trade even more complex than before. The Cold Chain Federation has warned that when these checks come into force they will deter many EU suppliers and push up food prices because of the complex forms and costs involved to exporters. The UK Border Operating Model could provide more certainty but this is dependent on effective implementation.

HMRC estimated that customs checks could increase from 55 million to 270 million a year and safety and security declarations from 7 million to 92 million.[19] The National Audit Office has since found that between January and August 2021, 48 million customs declarations were made, which compares to a total of 44 million in the whole of 2020. UK importers must now also pay VAT on consignments with a value of over £135.[20] The total cost of the UK's new border measures is estimated to be £1.2 billion.[21]

Transport and logistics: There are a number of new rules for hauliers post-Brexit. A Kent Access Permit (KAP) helps determine that a driver/vehicle has the correct paperwork needed for EU import controls. Drivers need to ensure that they have the correct operator licences and permits for the countries they are travelling to or through. The Goods Vehicle Movement Service (GVMS) is

18. export.org.uk/news/567785/A-tenth-of-British-exports-to-the-EU-have-faced-tariffs-since-the-start-of-2021-new-research-finds.html
19. nao.org.uk/wp-content/uploads/2020/11/The-UK-border-preparedness-for-the-end-of-the-transition-period.pdf
20. nao.org.uk/wp-content/uploads/2021/11/The-UK-border-Post-UK-EU-transition-period.pdf
21. bloomberg.com/news/articles/2021-11-05/u-k-spends-1-4-billion-on-brexit-border-but-trade-still-slumps

used by hauliers along with traders and carriers. EU based hauliers can also use the GVMS but they need to obtain a GB Economic Operators Registration and Identification number (EORI), all of which create more paperwork.

Challenges around just in time delivery: Just in time delivery is the process of creating goods in a ready state, or completing their production, so that a minimal inventory can satisfy demand and a delivery can take place with immediate effect in order that consumers receive what they want precisely when they want.

Under the TCA, this has become unworkable due to new delays, demands and complexities. The breakdown in the just in time supply chain processes means that UK companies are turning away from sources of lower-cost production to suppliers closer to home. Products based on a just in time business model are no longer reliable over long distances. Sourcing domestically reduces the need for excess inventory and buffer stock, thereby improving working capital efficiency but reducing UK-EU trade.

Time cost: According to MakeUK almost three-quarters (74%) of companies have experienced or are experiencing delays at the border and 1 in 3 (28%) are experiencing delays of between 1 to 2 weeks. Over half (51%) say this has led to increased costs and over a third (35%) have lost revenue with one in five losing potential business.[22]

Financial cost: New red tape is costing an average 8-9% for goods exports and imports, at a cost of around £25 billion a year on UK exports of just under £300 billion to the EU.[23]

4.2 THE WINDSOR FRAMEWORK

Customs border in the Irish Sea: Under the Framework Northern Ireland is formally outside the EU Single Market, but EU free movement of goods rules and EU Customs Union rules still apply. This ensures there are no customs checks or controls between Northern Ireland and the rest of the island of Ireland. So, in place of an Ireland/Northern Ireland land border the framework has created a de facto customs border in the Irish Sea, separating Northern Ireland from Great Britain.

Windsor Framework: The Windsor Framework will introduce green and red lanes to reduce checks and paperwork on goods that are destined for Northern Ireland and separate them from goods at risk of moving into the EU Common Market. It also includes a number of agreements on medicine control, VAT and alcohol duty.

22. makeuk.org/news-and-events/news/manufacturers-still-struggling-to-cope-with-crippling-delays-moving-goods-in-and-out-of-eu
23. commonslibrary.parliament.uk/research-briefings/cbp-7851/

5 OVERALL IMPACT OF THE TCA AND THE WINDSOR FRAMEWORK

5.1 THE TCA

Trade: Increased costs and bureaucracy have changed how the UK trades with the EU. According to the British Chamber of Commerce three quarters of firms have not grown their businesses post-Brexit, with 80% seeing the costs of importing to the EU go up and 53% saw sales margins decrease.[24] Brexit is estimated to have reduced UK-EU goods trade by one fifth.[25]

According to the London School of Economics, there has been a drop of around 30% in export varieties.[26] In light of little change in relative export volumes, this suggests that many smaller businesses, with lower-value exports, have stopped exporting to the EU due to increased costs caused by the TCA.

By contrast EU imports fell by 25% following the implementation of the TCA.[27] When the full scale of the TCA and subsequent checks are introduced for EU businesses seeking to export to the UK, UK imports may fall even further.

Nearly all UK sectors face lower trade with the EU. In particular exports of manufacturing goods, food, drink and chemicals have declined. MakeUK has found that 96% of manufacturers have reported challenges in dealing with the new trading environment.[28]

Regulations: In 2022, the government introduced the Retained EU Law (Revocation and Reform) Bill, which in its original form contained provisions (called the "sunset clause") that would have automatically repealed thousands of pieces of regulation inherited from the EU unless a minister acted to retain and replace them.

Those provisions were strongly criticised by the legal profession and business groups, as well as trade unions and environmental NGOs, and during the passage of the Bill through Parliament the government backed down. The Bill as finally enacted (usually referred to as the Retained EU Law Act 2023) repeals only a few hundred named pieces of legislation, most of which had in practice expired anyway.

However, the Act still gives Ministers huge powers to weaken or repeal regulations inherited from the EU without consultation or adequate Parliamentary scrutiny, while not allowing them to strengthen those regulations if appropriate (for example, to match developments in EU regulation).

The Act also creates very significant and unnecessary uncertainty as to how remaining EU regulations in force in the UK are to be interpreted as from the end of 2023: uncertainty that leads to costs and that deters investment.

A CBI poll of 2,000 UK businesses has found that the vast majority are against weakening health, safety and environmental regulations as part of a package of retained laws from the EU.[29]

SMEs: The impact on SMEs is disproportionate. More than three quarters have reported that the TCA has made it difficult for them to increase sales and grow their business.[30] Disadvantaged by fewer connections in overseas markets and not having in-house customs and logistics experts, many have had to alter their supply chains, moving away from just in time delivery. According to the Federation of Small Businesses 25% have stopped exporting to the EU and 81% have seen cost increases mainly due to shipping costs.[31]

24. britishchambers.org.uk/news/2022/04/bcc-trends-still-point-to-lack-of-sustained-boost-to-exports
25. esri.ie/news/brexit-reduced-overall-eu-uk-goods-trade-flows-by-almost-one-fifth
26. blogs.lse.ac.uk/businessreview/2022/04/26/brexit-the-major-trade-disruption-came-after-the-uk-eu-agreement-took-effect-in-2021/
27. lse.ac.uk/News/Latest-news-from-LSE/2022/d-Apr-22/Imports-from-EU-make-up-smaller-share-of-UKs-imports-under-post-Brexit-trade-deal
28. Trade and Cooperation with the EU: Six months on www.makeuk.org › eef › files › factcards
29. cbi.org.uk/media/4112/the-red-tape-challenge-final.pdf
30. britishchambers.org.uk/news/2022/12/brexit-trade-deal-not-delivering
31. fsb.org.uk/resources-page/one-in-three-closed-small-firms-fear-they-ll-never-reopen-amid-widespread-redundancy-plans.html

Attracting Investment: Business investment in the UK is 31% below the pre-referendum trend. By contrast, business investment in the EU is currently 2% above its pre-2016 trend.[32] This has had a major impact on goods trade.

For example the UK's automotive industry, a key aspect of its goods trade, has particularly suffered due to Brexit. This was evident in that the world's largest seller of electric and hybrid cars, BYD, has ruled out building its first European car factory in the UK because of Brexit. BYD aims to account for one in 10 battery cars sold by 2030[33] and be among the top three EV brands in Europe. A lack of clarity around the exemption of rules of origin requirements on electric vehicles was a key factor in this decision.

BYD aims to build up to 800,000 fully electric cars in Europe by 2030. Had it built its factory in the UK these would have been British-produced. BYD would have employed UK workers. BYD's citing of Brexit and consequent costs and trade barriers as a key concern in its decision to build in Germany should be of concern to the Government.[34]

The range of parts in a vehicle and complexities in interwoven supply chains make it difficult for the automotive sector to meet rules of origin requirements, risking further tariffs. This combined with a Brexit-induced unattractive investment climate, skills shortages and trade barriers, have made the UK an uncompetitive market for goods trade.

By contrast, the US Inflation Reduction Act provides significant state aid for the manufacture of electric vehicles, adding to an already competitive international market. The UK risks lagging even further behind without forging a closer EU relationship which would enable a more strategy on the manufacture of electric vehicles and make the UK a more attractive destination for goods manufacturers.

5.2 THE WINDSOR FRAMEWORK

Trade between Ireland and the UK continued to expand in 2022, despite outstanding issues over trading arrangements. The value of imports to Ireland from mainland Great Britain rose 55% in 2022 from 2021. Northern Irish imports into Ireland climbed by 32%[35] while Irish exports to the region increased by 31%. However, these numbers largely reflect post-pandemic recovery, with the impact of Brexit becoming increasingly clear as new rules are implemented and the impact of stockpiling is fading.

Economic modelling by the Fraser of Allander Institute has found that the increased trade barriers for Great Britain goods means that Northern Ireland's consumer prices will rise by an estimated 4.3% compared to a no Brexit scenario, reducing overall economic welfare by 2.4%.[36] It also found that the Windsor Framework could leave Northern Ireland's economy 2.6% smaller compared with a scenario in which the UK had stayed in the EU.

32. institute.global/insights/geopolitics-and-security/three-years-brexit-casts-long-shadow-over-uk-economy
33. ft.com/content/a38acb75-23ab-4eae-b5c3-d4e880748986
34. theguardian.com/business/2023/mar/12/china-byd-blames-brexit-as-it-rules-out-uk-for-first-european-car-plant
35. assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1185655/ireland-trade-and-investment-factsheet-2023-09-21.pdf
36. strathprints.strath.ac.uk/70916/1/FEC_43_4_2019_Economic_Commentary.pdf

6 THE UK'S FTA PROGRAMME

6.1 NEW AND ROLLOVER DEALS AGREED BY THE UK SINCE BREXIT

Since leaving the EU, the UK has completed trade agreements with Japan, New Zealand and Australia, as well as gained admission to CPTPP. An FTA with India is currently under negotiation and negotiations with Switzerland were recently launched. In addition 33 continuity agreements have been agreed[37]. Negotiations with the US are ongoing although no breakthrough is expected in the foreseeable future.

6.2 IMPACT OF FTAS

Despite hopes for a boost to trade in goods through tariff reductions and increased market access the UK's FTAs with non-EU markets have so far had mixed results. Ultimately it is unclear to what extent they will compensate for the losses in trade with the EU.

Australia and New Zealand: It is estimated that the UK-Australia FTA will increase UK GDP by only 0.08% or £2.3 billion a year by 2035[38]. The deal will have an adverse effect on agriculture, forestry and fishing, as well as semi-processed foods and the manufacturing of some transport equipment.[39] Considering the decline in UK-EU trade outlined earlier in this report, these gains are minor. The UK's deal with New Zealand is estimated to have a negligible impact on UK GDP.

Japan: The UK-Japan FTA was the first agreement the UK signed as an independent trading nation. However exports to Japan fell from £12.3 billion to £11.9 billion in the year to June 2022. Exports in goods fell 4.9% to £6.1 billion and services fell 2% to £5.8 billion.[40] This is partly due to Japanese companies changing their business models in Europe as the UK can no longer be relied on as a gateway to the EU, with 73.7% of respondents to the Japanese annual business survey citing Brexit as their main UK concern.[41]

CPTPP: There is concern that the "big prize" of accession to CPTPP will lead to the lowering of rules due to CPTPP rules on climate goals, animal welfare and workers' rights.

CPTPP's requirement that members allow the cross-border transfer of data by electronic means could conflict with the EU's data adequacy decision. The EU's response is not yet clear but if the UK risks its own data adequacy deal with the EU it would impact the growth of British businesses in the digital sector.

CPTPP also raises concerns about the ethical aspects of how the UK trades in goods with plans to cut tariffs on palm oil from Malaysia, which can be as high as 12%, as part of the accession. This undermines the UK's pledge to tackle

37. Wikipedia: Eiser, David; McEwen, Nicola; Roy, Graeme (7 April 2021). "The Trade Policies of Brexit Britain: the Influence of and Impacts on the Devolved Nations" (PDF). Brill Publishers & Emmerson, Carl; Johnson, Paul; Mitchell, Ian; Phillips, David (May 2016). "Brexit and the UK's Public Finances" (PDF). Institute for Fiscal Studies.)
38. commonslibrary.parliament.uk/research-briefings/cbp-9484/#:~:text=Limited%20economic%20effect,billion%20a%20year%20by%202035
39. commonslibrary.parliament.uk/research-briefings/cbp-9484/
40. export.org.uk/news/624379/Trade-data-indicates-below-par-performance-by-UK.html
41. blogs.sussex.ac.uk/uktpo/2022/08/08/what-has-happened-to-uk-japan-trade-one-year-after-signing-the-cepa-fta/

deforestation, climate change and enforce high environmental standards in goods trade.

In terms of monetary value CPTPP is only expected to grow UK GDP by 0.08% over 15 years.[42]

India: A UK-India FTA has the potential to boost the food and drink sector, particularly through tariff reductions on Scotch whisky. However proposed deadlines have now long overrun. India has lodged an objection with the World Trade Organisation to Britain's protection of its steel industry and domestic rhetoric around immigration has soured relations. This has left companies uncertain and risks another blow to what was deemed a potential Brexit 'win'.

6.3 POTENTIAL IMPACTS IF CLOSER TIES ARE NOT CREATED WITH THE EU FOR GOODS TRADE

The majority of businesses favour closer ties with the EU on goods trade.[43] From an economic, regulatory and practical standpoint this is the most advantageous direction for the UK.

Analysis has found that weakening existing legislation across key environmental sectors could further destroy nature, worsen public health and incur costs of £82.94 billion over the next 30 years.[44]

If the UK pursues further divergence from the EU it would risk the imposition of further tariffs or quotas and the narrowing in scope of the TCA. Substantial divergence from current TCA level playing field commitments would also reopen issues around the regulatory frameworks of Northern Ireland, all of which risks a further increase in costs for businesses needing to comply with two distinct regulatory systems.

Furthermore, given that European product standards are recognised globally, further divergence would be counterproductive in building stronger trading relationships with non-EU markets.

Outside trade deals the UK is looking to use its independent trade policy more creatively through freeports. However post-Brexit trade agreements with 23 different countries, totalling 10% of the UK's goods exports[45], included clauses that specifically prohibit manufacturers in freeport-type zones from benefiting from the deals.

The Office for Budget Responsibility has also warned that the main impact will be to relocate activity and jobs rather than create them, at a loss of £50 million per year in tax revenue.[46]

What's clear is that UK companies prefer to utilise the long-established links they have with EU markets, with close geographic proximity and similar business values. Based on current information, a stronger relationship with the EU will far outweigh any benefits from FTAs with non-EU markets and any perceived benefits from operating an independent trade policy.

42. gov.uk/government/publications/comprehensive-and-progressive-agreement-for-trans-pacific-partnershipcptpp-conclusion-of-negotiations/conclusion-of-negotiations-on-the-accession-of-the-united-kingdom-of-great-britain-and-northern-ireland-to-the-comprehensive-and-progressive-trans-pac
43. edie.net/majority-of-uk-businesses-against-weakening-regulatory-standards-in-retained-eu-law-bill/
44. edie.net/bonfire-of-retained-eu-environmental-laws-could-deliver-82bn-blow-to-the-uk/
45. ft.com/content/625d1913-9242-4d97-9d0b-9cd6925c4e0e
46. researchbriefings.files.parliament.uk/documents/CBP-8823/CBP-8823.pdf

7 CASE STUDY: DJ PAUZE AND THE IMPACT OF BREXIT ON SMALL BUSINESS

DJ Pauze, also known as Gav Pauze, has produced musical works that have reached over 150 countries. In 2009 he set up Pauzeradio.com which archived his radio shows.[47] In 2012 the site expanded by opening a blog section which publishes album reviews, press releases for new reggae albums, reggae artist biographies and much more. In 2013, Pauzeradio developed into an online vinyl store focusing on reggae roots and dub, but also selling clothing, books and merchandise.

Pauzeradio has a global customer base and before Brexit was able to sell to EU customers with very few costs, shipping problems or delays. Before Brexit the business was growing strongly and with much of the vinyl made in the EU a frictionless UK-EU trade relationship was important. EU imports were far more affordable than imports from the US which meant that Pauzeradio's vinyl were pressed in France and Germany, making their main competition EU-based record shops.

During the transition period there were few problems but in 2021 Pauzeradio ran into issues.

It became commonplace for orders to take three months to reach customers due to border delays and complications. When they did the cost of shipping had soared in addition to the requirement for customers to pay VAT. Many orders were returned or did not reach their destination which meant costly tracking fees, refunds and further delays.

Ultimately Pauzeradio lost 96% of its EU customers and eventually ceased its direct EU operations altogether. Larger companies have the resources to open EU-based warehouses and handle new logistics requirements but this is not something Pauzeradio has the ability to do. Likewise given that VAT is legislated at a member state level rather than EU wide, there are further costs and administrative processes for companies selling to different countries.

Pauzeradio raised their concerns but like many small businesses were dismissed, with elected representatives not grasping the scale of the challenges facing them.

Like many SMEs, the wider knock-on impacts of Brexit mean that Pauzeradio is struggling to give its network of freelancers work grow as a business, invest in new products or export to new customers. Furthermore, they are less able to support upcoming, younger artists by stocking their work.

Pauzeradio would like to see the UK Government rethink its decision to not pursue a waiver scheme for touring musicians. They also believe the government should consider a VAT deal that would keep the UK in the EU-VAT area and would allow companies to not have to pay tax when importing goods. Furthermore, they must go further in providing practical, tailored guidance to SMEs on issues such as VAT and rules of origin as opposed to endless pages of technical information.

Beyond the economic impact SMEs are vital to livelihoods, communities and wellbeing. For Pauzeradio "project fear is now project reality". Significant efforts are needed to overcome the hurdles that SMEs continue to face.

47. pauzeradio.com

8 HOW THE TCA COULD BE IMPROVED

The TCA is not due to before review until 2026. However, an earlier start to the negotiations would be beneficial as they are likely to be lengthy and complex. In addition there may be elements which can or need to be adapted or resolved before this date.

REGULATORY COOPERATION

A key issue for trade will be regulatory cooperation (maintaining a level playing field). Where possible the UK should remain aligned with the EU and remain in the European standards system.

Regulatory divergence would create problems for any firms that export, especially for tech firms. An effective way to ensure a smooth and affordable flow of goods trade would be via mutual recognition schemes, although it is likely that the UK would have to make standards concessions to achieve this.

CERTIFICATION MARKS

Certification marks on commercial products are used to indicate product standards and regulations. New certification processes can be costly and cause delays to trade.

As part of the Brexit process the Government planned to move from the EU's CE marking and towards the UKCA system.

The government planned to replace the EU CE marking with a domestic, copycat UKCA system. This would have meant UK manufacturers exporting to the EU would have needed to comply with two systems, and businesses importing from the EU would have needed to affix UKCA markings.

Fortunately the government then retreated on this plan, in August this year, indefinitely postponing UKCA's introduction and stating businesses would be free to use either mark. However, medical devices and construction products were not covered by the announcement and will still have to use UKCA.

To meet UKCA marking requirements medical devices, a key part of UK goods trade, will now need to be registered with the Medicines and Healthcare products Regulatory Agency to be placed on the UK market and manufacturers based outside the UK will need to appoint a single UK responsible person (UKRP) to take responsibility for the product. This means further costs and complex procedures for medical equipment.

The government has changed its UKCA plans on a number of occasions. This adds to business uncertainty and delays investment decisions.

SANITARY AND PHYTOSANITARY CHECKS

There should be an attempt to reach an agreement on SPS checks. The Confederation of British Industry (CBI) has highlighted this as a key issue for reducing costs to businesses and the number of checks needed at borders.[48]

As stated earlier the UK is currently not enforcing checks on imports, and yet this one-sided system is already causing significant disruption and cost. An agreement which takes into account animal welfare and standards would allow at least some checks to be bypassed, saving money and time, particularly if accompanied by effective implementation to the border operating model and single trade window.

RULES OF ORIGIN

There have also been calls to reach a better arrangement on rules of origin. One suggested fix to the current system is an approach where tariffs are only paid on the parts of a final product that do not meet the rules of origin, rather than the entire product itself.

This would produce a graded system, where, in simple terms, the tariffs vary according to the percentage of the product produced outside the UK or EU. This would likely require the UK to make significant further concessions.

48. cbi.org.uk/media/6598/what-happens-now-10-business-priorities-for-uk-eu-trade-after-brexit.pdf

9 HOW THE WINDSOR FRAMEWORK COULD BE IMPROVED

Whilst the Windsor Framework was a welcome development there is still more to be done to improve the Windsor Framework.

In order to reduce friction in trading arrangements the UK Government should prioritise administration and a more data-driven compliance approach.

The UK Government should also provide assurances of how it will prevent harmful divergence arising from changes to UK regulation as a result of the Retained EU Law Act 2023.

Using committees relating to the Withdrawal Agreement, the Windsor Framework and TCA could provide more opportunities for businesses to engage on matters of UK and EU trade policy. Both the UK Government and European Commission have agreed to establish regular engagement with Northern Ireland stakeholders, including individuals and businesses, through the structures of the Withdrawal Agreement.

10 RECOMMENDATIONS

USE THE EU'S FRAMEWORKS AND PROGRAMMES

In light of the new political goodwill following the Windsor Framework the UK should renew its efforts to participate in the Copernicus Earth observation project, the Horizon Europe research fund (whilst utilising the Horizon Europe Guarantee) and the nuclear regulator Euratom. Closer collaboration in this form will improve political relations and simplify procedures, opening new possibilities for UK institutions.

Closer collaboration or full membership would have benefits for goods industries through stronger links between academics and industry, investment incentives and an export boost from the UK retaining technological innovations.

FURTHER ALIGN TRADE POLICY WITH INDUSTRIAL STRATEGY

Furthering integration of trade policy into a wider Industrial Strategy is crucial for investment in clean growth, business confidence and technological development, all of which contribute to a strong flow of goods trade.

Ensuring UK businesses thrive in EU markets will boost trade and investment flows for critical sectors and support productivity in the regions. The merging of BEIS and DIT is a good start but more needs to be done to ensure that trade policy is working towards the betterment of the UK's infrastructure and investment needs.

Further integration should include a review of all trade provisions in UK trade agreements to stress test them against climate goals, in particular measures that impact on industrial strategy, with a focus on investment flows and regulatory cooperation with the EU. Trade in green goods would stand to benefit, supporting climate-friendly technologies, transport, and green finance.

This should be complemented by setting up a supply chain taskforce to ensure that UK goods trade is agile and ready to adapt to challenges such as future conflicts and pandemics. This would monitor the vulnerability of critical supply chains to assess risks and identify areas in need for reform.

Targeted investment in renewable energy and life sciences is also required to give the UK a boost in areas where it has recognised expertise, such as offshore wind. Utilising our comparative advantage is key to supporting goods trade and making the UK an attractive market to our EU partners.

If approached effectively, the UK could benefit from the optionality presented in its trade policy, drawing on existing precedents in EU trade policy, as well as in wider trade deals.

SUPPORTING KEY GOODS EXPORTERS

Despite recent challenges the UK maintains relative strength in areas such as automotive, food and drink and pharmaceutical exports. It is essential that these industries are supported.

Automotive: From 2024 electric vehicle parts will lose access to tariff free trade under the TCA. The UK should pursue an extension of the present grace period in support of the automotive sector.

The prices of many electric vehicles which are sold or made in the UK and EU could increase by 10% or more from 2024 when tariff exemptions end. Under the TCA, a maximum of 45% of the value of products is allowed to originate from outside the EU in order to benefit from zero-tariff trade. Until 1st January 2024 at least 40% of the content of electric vehicles and 30% of batteries must originate from the EU or the UK. From 2024 until 1st January 2027, this increases to 45% of the vehicle and 50-60% of batteries.

If this is not averted, it will be another setback for the UK's automotive trade, which is already struggling in light of the US Inflation Reduction Act, which is curbing inflation partly by allowing US firms to create low-cost batteries in the US through subsidies, drawing jobs and investment from the UK.

Continuing to exempt UK and EU electric vehicles from tariffs would not only boost the industry but would also demonstrate a stronger UK-EU partnership in an increasingly competitive international economy.

Energy: Another important focus should be energy. There is scope to increase shared UK-EU interconnector capacity which could be achieved through an expansion of the terms of energy cooperation enshrined in the TCA.

Leaving the EU means that the UK and European energy markets are no longer integrated. The TCA lays out plans for loose interconnectivity between the EU and UK energy markets. The UK should prioritise developing this for closer and more fruitful ties.

The UK could rejoin the EU's solidarity mechanism on energy which creates a mutual obligation to cooperate with the bloc in the event of an energy emergency and would give the UK a legal right to EU assistance in a crisis.

The UK has already demonstrated its capability by establishing interconnectors with France, Belgium, Norway and Netherlands and Germany and signing a landmark memorandum of understanding facilitating renewable energy cooperation between the UK, EU and other North Seas countries. This agreement marks a major step towards setting out a framework for future collaboration for an initial period until 30th June 2026. Building on this and ensuring its effective implementation should be a government priority, as it would forge stronger energy ties with the EU, boosting the UK's energy trade and domestic production.

This also allows the UK and EU to build on shared values in meeting its climate targets, including a legally binding approach to net zero, given our markets have been built together for decades as part of the Internal Energy Market.

CBAM: An alignment of the UK and EU Carbon Border Adjustment Mechanism (CBAM) would also be a huge step forward in increasing cooperation and boosting a number of industries and exporters, making the UK a more attractive destination for future energy projects.

CBAM is a long-term EU policy development where as part of the European Green Deal a tariff is placed on carbon intensive products imported by the EU. There is a monetary and ideological argument for an aligned UK-EU scheme to prevent further disadvantage to UK companies, with the UK carbon market dwarfed by the EU scheme and the need for stronger UK-EU trade ties at a time of economic insecurity and geopolitical instability.

As the EU is the UK's main trading partner in carbon-intensive goods, a failure to align risks UK companies being penalised by the CBAM, with financial transfers from the UK to the EU, potentially amounting to €1 billion. UK exporters will also need to prove that they've paid CBAM costs adding further administration. Even if the UK's mechanism is the same as the EU's, this proof will still be required without a legally binding framework to merge the mechanisms.[49]

Food and drink: There are steps that the UK Government can take to boost trade in goods through the food and drink sector.

For example, an agrifood agreement that simplifies border checks would benefit trade in food and drink products. A New Zealand style deal to reduce checks on SPS products such as plant, animal and public health products, would ease trade flows and reduce customs and border delays. New Zealand's arrangement with Brussels means that around 1%[50] of its goods are subject to SPS checks upon arrival, versus around 30% for the UK. A smoother flow of trade for food and drink products would reduce costs for companies and prevent costly delays at the border.

The UK should also look to mutually share databases with the EU's Rapid Alert System for Food and Feed (RASFF) to alleviate the struggles facing SMEs regarding prohibited items and to mitigate global risks to food safety. The RASFF is a system for reporting food safety issues within the EU. It requires food and feed safety requirements to not differ significantly between member states, meaning that the UK would likely have to commit to shared or similar standards to use the system.

Doing so would not only ease UK-EU trade of food products but would also harmonise standards for the betterment of public health and safety.

Pharmaceuticals: Under the TCA the UK and the EU agreed to mutually recognise inspections on medical products but did not agree to mutually recognise batch testing. The UK unilaterally recognises the EU's batch testing which led to confusion for the industry.

UK sponsors of clinical trials operating in the EU now need EU-based legal representation, which adds significant expense and makes it harder for UK-based researchers to lead pan-European clinical trials.

49. lse.ac.uk/granthaminstitute/publication/what-does-an-eu-carbon-border-adjustment-mechanism-mean-for-the-uk/
50. cbi.org.uk/media/6914/cbi-uk-eu-veterinary-agreement-paper-2021.pdf

The UK should pursue a mutual recognition of batch testing to reduce barriers to collaborative research and innovation. This would support UK traders in exporting into the EU with minimal paperwork and delays.

This could be supported by a more regular meeting of the Working Group on Medicinal Products, established in accordance with the TCA's governance structure, which should assist the Trade Specialised Committee on Technical Barriers to Trade.

This approach would significantly reduce costs for the industry, with the cost of batch testing at around £3,600 per batch and a cost of between £330 million and £615 million for importers to set up new batch testing.[51]

JOIN THE PAN-EURO MEDITERRANEAN CONVENTION

The Regional Convention on Pan-Euro Mediterranean preferential rules of origin (PEM Convention) includes 23 contracting parties. This includes the EU, EFTA States, North African, Middle Eastern and non-EU European Countries. All signatories to the convention have replaced protocols of rules of origin in FTAs between each other with the rules of origin laid down in the PEM Convention, streamlining procedures.

This allows for diagonal cumulation (provision under agreements between more than two countries, that allows members to use products originating in the others without the final good losing its originating status) between all signatories to the agreement and facilitates the dispersion of supply chains across the zone, making it easier for exported goods to qualify for preferential free trade agreements between the various parties.

The UK should consider joining the PEM Convention to reduce costs for goods traders, simplify procedures and minimise tariff liabilities.

CERTIFICATION MARKS

Medical devices and construction products were not covered by the UKCA reversal. The TCA does not provide for a form of "mutual recognition", leaving goods makers facing the cost and bureaucracy of multiple conformity assessments, registrations and labelling.

Many businesses would prefer the UK to continue to follow the existing CE system. Any manufacturer exporting to the EU will have to ensure its products comply with and are certified by both systems, and businesses importing from the EEA will need to affix UKCA markings.

The UK Government should reconsider this approach as it will bring new, costly and complicated procedures to goods traders. SMEs in particular may struggle to meet additional costs and logistical challenges.

If the government do go ahead with the UKCA markings as mandatory in any form, a system of mutual recognition is needed. This would go some way to repairing the harm in that it would cut costs and facilitate trade in these sectors.

RETHINK REACH

Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) is an EU regulation addressing the production and use of chemical substances, and their potential impacts on both human health and the environment.

UK REACH was set up after Brexit and is a regulation that applies to the majority of chemical substances that are manufactured in or imported into Great Britain.

UK REACH no longer guarantees compliance with the EU's chemical controls, risking further divergence and costs to traders. The British Coatings Federation (BCF) described this as a "major threat" to manufacturing and four fifths of its members[52] believe it will impact negatively on their businesses, fearing a loss of access to chemicals currently imported from the continent due to the costs of registration. There may also be concerns around an inability to export to third markets where REACH compliance is required.

Both systems mean a duplication of certification and added costs for UK manufacturers which is likely to mean that some EU chemicals are not available in the UK as manufacturers will be unwilling to get a UK REACH certificate for a relatively small market.

The UK should seek maximum alignment with the EU on chemicals, with joint access to databases of information, which would reduce costs and obstacles for companies.

The chemicals industry is key to goods trade and a new approach would be hugely positive for goods trade, benefiting a number of industries from energy, to cosmetics, transportation and more.

VAT

Changes to VAT have harmed British companies and goods trade.

This is largely due to having to pay sales tax upfront on goods imported from the EU, creating cash flow problems and increasing the cost of doing business.

Consumers have also suffered from higher prices and companies have had to resort to costly insurance backed guarantees if they are forced to pay the tax upfront.

The Government should pursue a deal where the UK can remain part of the EU-VAT area so that companies do not have to pay the tax when importing goods.

The UK could also establish a supplementary deal favouring smaller firms, reducing costs and red tape.

A similar deal is already in place for Norway that exempts smaller firms from the requirement to have a fiscal representative for VAT in the EU. Norway is the first country with which the EU has a VAT cooperation agreement. As a member of the European Economic Area it has a similar VAT system and a strong track record on VAT cooperation with the EU, particularly on energy.

51. assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079975/Batch_testing_consultation_impact_assessment.pdf

52. coatings.org.uk/news/603475/BCF-press-release---UK-REACH-major-threat-to-UK-manufacturing-says-coatings-industry-survey.html

11 CONCLUSION

The TCA has had a marked impact on goods trade between the UK and EU. There are clear ways in which it could be improved which would benefit UK exporters, businesses and by extension the whole economy.

Policy makers should take every opportunity to minimise trade barriers between the UK and the EU, which remains our largest trading partner.

The UK economy is faring badly in comparison to the EU. The ratio of trade relative to gross domestic product has fallen by 8% between 2019 and 2021, driven by a sharp fall in trade with the EU and this is 3% greater than comparable countries. Business investment in the UK is 31% below the pre-referendum trend whilst in the EU it is 2% above its pre-2016 trend. The share of UK trade covered by FTAs is 63% which is a fall from 64% in 2019 when the UK was inside the EU.[53]

As outlined, there is increasing evidence to suggest that the current state of affairs is having a negative impact on UK trade and the economy. UK trade with the EU has dropped dramatically, and the UK has amongst the worst economic outcomes in major economies since Brexit began.

As in all negotiations, the UK must be prepared to make some concessions, as must the EU. It will require substantial political will to successfully negotiate and implement these changes. Without this willingness any hopes to improve the current deal and ease barriers to trade are likely to fail.

As things stand the UK economy is struggling compared to many of its large European partners. An improved economic and political relationship with the continent would go a long way to addressing some of the current issues.

53. institute.global/insights/geopolitics-and-security/three-years-brexit-casts-long-shadow-over-uk-economy

12 LINKS TO KEY DOCUMENTS

Links to key documents

- Bennett, Adam, & David Vines, 'The EU–UK Trade and Cooperation Agreement: lessons learnt', Vol. 38, Issue 1, Spring 2022, pp.68-81, available at: https://academic.oup.com/oxrep/article-abstract/38/1/68/6514747?redirectedFrom=fulltext&login=false
- Central Statistics Office, 'Goods Exports and Imports May 2022', 18th July 2022, available at: https://www.cso.ie/en/releasesandpublications/ep/p-gei/goodsexportsandimports-may2022/
- Economics Observatory, 'What has been the economic impact of the Northern Ireland Protocol?', 28th April 2022, available at: https://www.economicsobservatory.com/what-has-been-the-economic-impact-of-the-northern-ireland-protocol
- European Commission, 'The EU-UK Trade and Cooperation Agreement', available at: https://ec.europa.eu/info/strategy/relations-non-eu-countries/relations-united-kingdom/eu-uk-trade-and-cooperation-agreement_en
- European Council, 'The Protocol on Ireland and Northern Ireland explained' available at:https://www.consilium.europa.eu/en/policies/eu-relations-with-the-united-kingdom/the-eu-uk-withdrawal-agreement/the-protocol-on-ireland-and-northern-ireland-explained/
- Freeman, Rebecca, Kalina Manova, Thomas Prayer & Thomas Sampson, 'UK Trade in the Wake of Brexit', Centre for Economic Performance, Discussion Paper No.1847, April 2022, available at: https://cep.lse.ac.uk/pubs/download/dp1847.pdf
- House of Commons Briefing Paper, 'End of Brexit transition: trade', 18th December 2020, available at: https://researchbriefings.files.parliament.uk/documents/CBP-9083/CBP-9083.pdf
- House of Commons Briefing Paper, 'The UK-EU Trade and Cooperation Agreement: summary and implementation', 30th December 2020, available at: https://researchbriefings.files.parliament.uk/documents/CBP-9106/CBP-9106.pdf
- Institute for Government, 'UK–EU future relationship: the deal', available at: https://www.instituteforgovernment.org.uk/publication/future-relationship-trade-deal/goods
- National Audit Office, 'The UK border: Post UK–EU transition period' 5th November 2021, available at: https://www.nao.org.uk/wp-content/uploads/2021/11/The-UK-border-Post-UK-EU-transition-period.pdf
- Office for Budget Responsibility, 'The latest evidence on the impact of Brexit on UK trade', March 2022, available at: https://obr.uk/box/the-latest-evidence-on-the-impact-of-brexit-on-uk-trade/
- Peter Holmes, 'Reviewing the TCA: How to Salvage Something from the Wreckage of Brexit', Progressive Economy Forum, May 2022, available at: https://progressiveeconomyforum.com/wp-content/uploads/2022/05/Brexit-report-web.pdf

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CEEAC/S6/24/13/1
Annexe B

BREXIT AND GOODS

TRADE STRATEGY FOR UNLOCKING UK-EU GROWTH AND OPPORTUNITIES

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