

International Trade Select Committee inquiry: UK-EU trading relationship

Federation of Small Businesses (FSB) written evidence

16 April 2021

1. The Federation of Small Businesses (FSB) is the UK's leading business organisation representing small businesses. Established over 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that is led by our members, for our members.
2. FSB welcomes the opportunity to respond to the International Trade Select Committee's inquiry into the UK-EU trading relationship. We would be happy to provide further detail on any of the issues raised in this response, and to provide supplementary evidence to the inquiry later in the year as the UK-EU trading relationship evolves.

What has been the experience of businesses and other stakeholders in the UK regarding the implementation of the trade provisions in the UK-EU Trade and Cooperation Agreement?

3. FSB research has consistently shown that the EU as a bloc is the largest trading partner for small firms, whether in goods or services. Around one in five FSB members export, of which 77 per cent export goods and 24 per cent export services.¹
4. 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-based trading relationship means that small businesses have to overcome a significant number of new requirements and processes in order to continue trading goods and services with the EU.
5. FSB has provided detailed written evidence to the Public Accounts Committee and Lords EU Services Sub-Committee setting out the impact of the new trading arrangements on small businesses. Recent FSB research, conducted in March 2021, further illustrates the impact of the TCA on small firms. The main findings of this research are set out below.
6. The new research shows that one in five (23 per cent) exporters have temporarily halted sales to EU customers since the end of the transition period, and 4 per cent have taken the decision to stop selling into the EU permanently. A further one in ten (11 per cent) exporters are considering stopping exporting, whether temporarily or permanently.
7. A significant number of exporters have made, or are considering, alternative arrangements to ease the impact of the UK becoming a separate customs territory on their business. One option available to businesses is to establish a presence within an EU country. One in ten (11 per cent) of exporters have done this or are considering doing so. Similarly, one in ten (9 per cent) are considering, or are already using, warehousing space in the EU or Northern Ireland (NI). However, these options are not suitable for all businesses – the associated costs,

¹ FSB transition survey, December 2020

administrative burdens and potential changes to supply chains may be prohibitive for small firms.

8. In comparison, fewer than one in five small business importers have temporarily suspended purchases from the EU (17 per cent), and a smaller proportion (6 per cent) are using warehousing space in the EU or NI. These figures, which suggest a lower impact on importers relative to exporters, is likely to be a consequence of the deferred introduction of full import border control processes. It will be important to continue to monitor the impact of the new trading arrangements on importers as full controls are implemented.
9. A majority of small firms have experienced disruption to delivery and supply chains under the new trading arrangements, with 70 per cent of importers and/or exporters reporting shipment delays when moving goods around the EU in recent weeks.
10. One in three (32 per cent) have reported goods lost in transit, and a similar number (34 per cent) have reported goods being held indefinitely at EU border crossings. Of those businesses that have suffered delays, a third (36%) have experienced hold-ups that lasted more than two weeks. These delays have a significant impact on firms' ability to fulfil orders and subsequently their relationships with customers.
11. Previous FSB research showed that a clear majority of small businesses did not feel ready for the end of the transition period. FSB's December 2020 transition readiness survey showed that fewer than half (46 per cent) of FSB members engaged in international trade were confident in their ability to handle customs declarations while more than half (58 per cent) of small businesses that trade in goods did not have experience of dealing with rules of origin.
12. Since the end of the transition period, more than half (55 per cent) of FSB importers and/or exporters have sought professional advice to help them with new paperwork pertaining to EU business activity. This is often to assist with the management of customs declarations, rules of origin requirements and new VAT obligations.
13. The costs associated with complying with the new trading arrangements can be significant for small businesses, which often trade internationally on tight margins. FSB therefore welcomed the announcement of the Government's SME Brexit Support Fund which will allow small businesses to apply for small grants to pay for practical advice and training to adjust to trading under the terms of the TCA.
14. FSB encourages the Government to monitor the roll-out of the Fund. To maximise the impact of the Fund, it is important to ensure small businesses are aware of the additional support available to them and are informed of the full range of advice and support they can access. FSB would also urge Government to keep open the option of extending and/or expanding the Fund, in line with demand and use.
15. In the longer term, in order to improve the regulatory environment for international trade, FSB also recommends that Government examine the benefits of raising the VAT and customs *de minimis* threshold to £1000 to exempt small shipments from the collection customs duties. As exports by SMEs often have low consignment values, a competitive *de minimis* threshold would reduce costs and ease cash flow for many small firms, while potentially increasing efficiency for HMRC when collecting customs duties and import VAT.