5 years on and far from over – the impact of Brexit on Greater Birmingham's businesses

By Daniel Clarke

Last month marked the fifth anniversary of the UK's vote to leave the European Union (EU). Whatever your opinion on Brexit, it is difficult to argue that the past five years haven't been some of the most testing times this country has faced in recent history, with the challenges associated with Brexit compounded by the advent of the global coronavirus pandemic.

The perennial uncertainty caused by the Brexit negotiations has been felt most acutely by businesses up and down the country. I've watched on as businesses have had to try and make their preparations against a backdrop of perpetually shifting deadlines whilst the ever-present threat of a damaging no-deal Brexit loomed over them. This heightened uncertainty has weighed considerably on business investment decisions in the UK over the past few years and businesses were still awaiting clarity on a number of key areas (such as tariffs and rules of origin) just a week before the end of the transition period in December.

The announcement of a UK-EU free trade agreement on Christmas Eve drew the agonising process to a conclusion and avoided that damaging 'no deal' scenario. However, the new trading arrangements which came into force on the 1 January this year still brought about significant change for businesses and while the deal removes tariffs and quotas, it does not provide the same level of access to the EU market as UK businesses will have enjoyed previously. Now, six months down the line some of these changes are beginning to take shape.

As part of the Greater Birmingham Chambers of Commerce's Quarterly Business Report survey for Q2 2021, we asked businesses a series of additional questions to find out more about how they have been impacted since the end of the Brexit transition period. The survey of 385 businesses was conducted between 17 May – 7 June 2021.

What issues have businesses encountered so far?

By far and away the single biggest problem facing firms is understandably the increased cost of doing business with the EU with nearly 40% of the firms surveyed citing this as an issue. There are a myriad of factors that are pushing up costs for businesses. Whether that be meeting the cost of new documentation requirements or complying with dual regulatory regimes; there is no workaround for this and it is the reality of trading outside the EU Single Market and Customs Union.

Another area of concern is meeting the increasing admin requirements. 13% of the businesses surveyed cited that there was a lack of capacity within their organisation to deal with the new documentation requirements for trading with the EU. Small businesses in particular, do not have the time nor the expertise to deal with the increased workload and are often unable to take on the additional cost of hiring more staff.

Nearly one in four (24%) have been impacted by border delays with 12% highlighting the lack of hauliers available to transport their goods between the UK and the EU. More than one in ten (11%) had also reported difficulty in recruiting EU citizens for their workforce.

Some of the issues can be put down to the initial adaption process with 13% reporting that they had encountered problems due to EU customers not understanding the new requirements for trading with the UK.

Others are here to stay and are hindering UK businesses ability to compete on the European market. The consequence of this is that some UK firms are losing business to EU competitors, with 8% of the businesses surveyed experiencing this so far. 12% of firms reported reduced demand from EU businesses for their goods and services.

Given the lack of normal trading conditions due to the pandemic, for many firms it is still very difficult to know for sure the full extent that leaving the EU has had on their business.

What action have businesses taken to try and address these issues?

One of the ways in which UK businesses have sought to navigate the increasing costs and bureaucracy involved with trading with the EU is by sourcing new suppliers. Brexit has forced some firms to review their supply chains with 10% of respondents reporting that they had switched to using UK based suppliers in response to the UK leaving the EU. Whilst this remains a viable option for some businesses, for others there are no alternative suppliers based in the UK that they can turn to.

Others have had to pass higher costs on to their customers with 16% of the businesses surveyed having done so. For those that have not done so, they have had no choice but to absorb the increased costs at a time when many businesses are already experiencing severe cash flow problems as a result of the pandemic.

A small minority of firms have resorted to moving part of their business operations out of the UK to the EU. Of the businesses we surveyed, only 2% had done so in response to the UK leaving the EU.

As one business put it *"We anticipated problems and opened offices in the EU to mitigate against the worst of this. It is a shame as it moves business away from Britain and it has been expensive. But it was necessary."*

What does the future hold for UK-EU Trade?

The final question we put to businesses was in relation to their future plans for trading with the EU. Despite the changes, 26% of respondents intend to increase their activity in the EU market over the next 2-5 years. More than half of firms (59%) said that they would maintain existing activity with 9% of firms planning to decrease their activity in the EU. 6% of the businesses surveyed said that they would cease trading with the EU in the next 2-5 years.

There is no one-size-fits all approach for businesses when it comes to adapting to the new trading arrangements. Some businesses have encountered difficulties since the start of the year but have managed to adjust and get through relatively unscathed. Others have had their businesses models turned upside down over night.

It has not always been plain sailing for those businesses that have experience of trading internationally (in non-EU markets) either. One business I recently spoke to was caught out by the need to register for VAT in France despite their extensive preparations.

Now that traders have had more time to better understand what is required of them to continue trading with the EU, some will be weighing up whether it is still worth doing so given the additional costs and friction that businesses now face. This is particularly the case for those firms that only do a relatively small amount of trade with the EU.

What next?

The UK & EU Trade & Cooperation Agreement (TCA) is still very much a work in progress and the Northern Ireland Protocol is also proving to be problematic for many businesses in its current form. Several grace periods introduced by the UK government to help give businesses time to adjust have also not yet ended. The most significant being the delay in introducing full import controls on goods imported from the EU which will now take effect from 1 January next year.

Five years on from the referendum, it is clear that Brexit remains far from over for businesses.