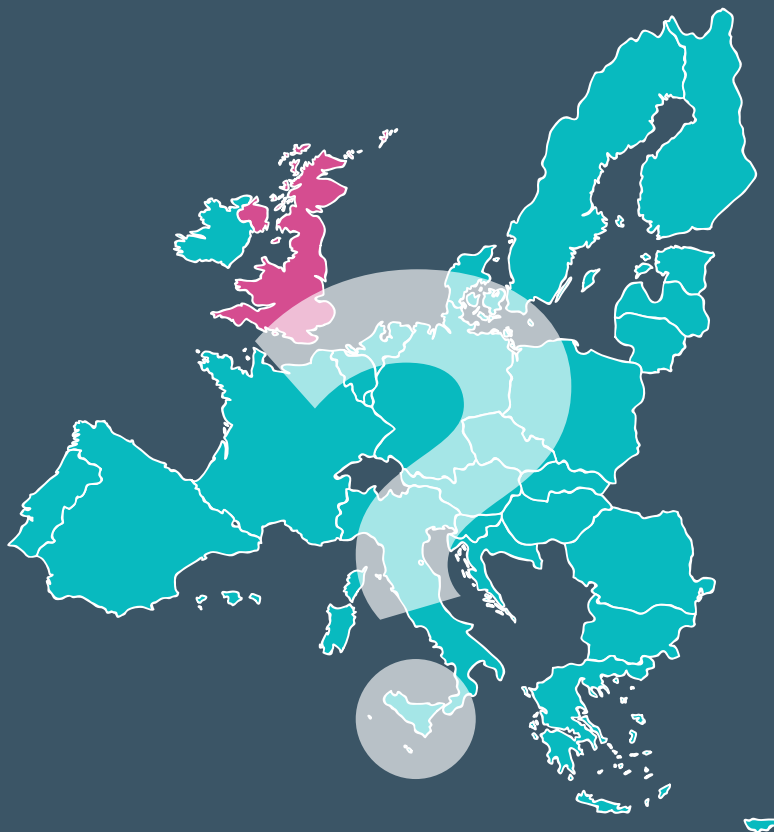

Brexit: what small businesses want

A report on FSB Focus Groups in Northern Ireland



The Federation of Small Businesses (FSB) has around 6,000 members in Northern Ireland - business owners who join for the benefits that membership brings to them individually, and because of the collective campaigning work that FSB undertakes to ensure the policy environment is one where small businesses can thrive.

Small businesses are at the core of the local economy. They account for 99.9% of all businesses in Northern Ireland and employ more people than all larger businesses and the entire public sector – combined. Given their importance these focus groups, conducted in partnership with Ulster University Business School, were undertaken with a view to hearing the opinions of business owners on the potential post-Brexit customs and trading landscape.

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Foreword by FSB

Northern Ireland Policy Chair

When I accepted the position of Chair for FSB's NI Policy Unit, I knew that one of my first priorities was to look at how Brexit might impact on the ability of Northern Ireland's small businesses to do business and to grow.

I therefore asked Mervyn McCall, a member of our Policy Unit and a businessman with extensive knowledge and experience of exporting, to chair a group of members and to take this forward. Having met with a number of key stakeholders and experts, the Brexit group initiated two focus group discussions to examine the potential impact of different customs, trade and border arrangements on businesses in Northern Ireland, as well as to consider innovative solutions. These took place in May/June 2018.

What is clear from those discussions was that in the face of Brexit, as on so many other issues, our small businesses are flexible, adaptable and resilient. A strong message emerged, that while business owners had a diverse range of views on Brexit, they wanted to see trade continue to flow unhindered throughout these islands, and that it is our uniqueness that could be our competitive edge as we move forward.

Focus group participants were very positive about the proposal emerging at the end of May 2018, which allowed for Northern Ireland to align with both EU and UK regulations upon an EU exit. In addition, new ideas emerged around innovative and pragmatic solutions to the border issue, including the idea of NI as an enhanced economic zone.

However, participants were frustrated by the lack of a NI Assembly and the consequent gap in decision-making here, feeling strongly that measures to help our economy and business environment should be taken and implemented irrespective of the Brexit situation. Concern was also expressed about the length of time that the EU Exit negotiations were

taking – not because of the anticipated outcome, but because businesses need to know what trading conditions will be, so that they can plan for the future.

Going forward it is crucial that flexibility and pragmatism are demonstrated, allowing Northern Ireland to prosper in our own unique way after we leave the EU, to generate business and boost the economy, and to move us away from reliance on block grant funding. As a small marginal economy which is still recovering from the Troubles and from the Great Recession of 2008/9, FSB NI and our members have supported several measures recognising Northern Ireland's unique position. These include the devolution of Corporation Tax and its subsequent reduction, a reduction in VAT in the tourism sector in NI, and for the devolution of powers to reduce or abolish short-haul Air Passenger Duty. These measures are necessary to boost the economy and enable Northern Ireland businesses to compete with their neighbours in the Republic of Ireland.

I'd like to thank our speakers – Conor Houston, Deirdre Heenan, Eoin Magennis and Sonali Parekh - for setting the context and providing us with plenty of relevant thinking material to inform our conversations; our partners, Ulster University Business School for facilitating the focus groups; the FSB staff team for organising the events; and, of course, the participants for giving up their time to come, and for their honest and fascinating insight into how Brexit is affecting them and their businesses.

We hope to hold further focus groups in the future, looking more closely at the potential impact of Brexit on the labour market and skills availability, which emerged as a major concern amongst our participants.

In the meantime, I commend this short report to you.

Tina McKenzie

Foreword by Head of Global Business and Enterprise, UUBS

Ulster University Business School is the sixth largest business school in the UK and delivers over £40m of GVA to the NI economy annually. We have a long-standing strategic partnership with the Federation of Small Businesses and were delighted to work alongside them once again in running these focus groups, which examined the potential impact of different post-Brexit proposals with business owners.

It was an honour to host the first focus group in the brand new state-of-the-art building at our Magee Campus, hosted by the Department of Global Business and Enterprise, which provided the perfect surroundings for detailed discussion, and for Ulster University academics to inform participants of the social, political and economic context.

The SME sector, like universities, has a keen interest in the final Brexit outcome. Future challenges around funding streams, access to skills and collaboration mean that withdrawal from the European Union will have an impact in higher education too. Therefore, business and universities have a key role to play in the debate, and in developing and promoting ideas, such as those which have emanated from these focus groups.

To ensure policy-making is informed and creates the right environment for economic growth, the partnership between Ulster University Business School and FSB is of high value and this report is testament to that.

Dr Sharon Loane



New facility at UU Magee Campus

Executive Summary

Businesses do not want Northern Ireland to be disadvantaged by the decision to leave the EU. Northern Ireland's economy has lagged behind that of Great Britain and Ireland for a considerable time, and NI business owners, whether leavers or remainers, see the UK leaving the EU as an opportunity for the local economy and society to improve, thrive and realise its potential.

Focus group participants wanted to home in on the best solution available for people in Northern Ireland to live, work and do business. Business will always look at the opportunities presented by any change, and it was clear from discussions there is an appetite to maximise any advantage NI may have after EU exit. Participants were keen to emphasise Northern Ireland's strengths, including our warm water ports, relatively good infrastructure, a well-educated workforce, and a willingness to work.

Ideally, the solution to the Northern Ireland border will be found in a new partnership between the UK and the EU. It was felt that the best possible outcome for Northern Ireland would be to have access to both the UK and the EU, and be a key link between the two.

While many felt that technology such as Automatic Number Plate Recognition (ANPR), electronic pre-checks, pre-customs declarations and so on may provide a solution, and while many of these already exist and are in current use, business owners also expressed significant concerns in relation to the potential for delays or barriers in the transportation of goods across both the NI/Ireland border and the NI/GB "border".

Unless and until either of the above options, or a mixture of both, is put in place, participants believe Northern Ireland should remain aligned to both UK and EU tariffs and standards.

A number of focus group participants pointed out they have no strong allegiances to any national or constitutional identity, and were more concerned about the standard of living and the social environment for their children. They acknowledged business is easier and more productive in a peaceful and "normal" environment, that peace

brings prosperity, and that prosperity facilitates and enables peace. They were also conscious that NI trade with GB is critical and more valuable than trade with Ireland, the EU or countries in the rest of the world, and felt that NI business would suffer if this trade was disrupted.

In the event that NI's alignment to both the rest of the UK and the EU cannot be agreed through a new customs partnership or a maximum facilitation model, focus group participants proposed that the whole of Northern Ireland should become an 'enhanced economic zone', with taxes, tariffs and charges only becoming payable at goods' final destination. This would enable businesses in Northern Ireland to continue to trade with Ireland, Great Britain, and elsewhere, perhaps even increasing NI's trade and attractiveness as a business location. In effect, this means that if NI or the whole of the UK cannot stay in a customs union / single market, the solutions must be more radical and innovative.

Participants believe that businesses will adapt to any new trading or exporting conditions; many of those with exporting experience told us that once the conditions were identified they would address and meet them. While increased costs in the form of new tariffs, additional paperwork or meeting new regulatory requirements or standards would be unwelcome, there was confidence that business can and will adapt. The deciding factor in determining whether or not to trade with any other country is the potential profit margin.

Post-Brexit opportunities also included the creation of new companies to service export requirements, undertaking any additional work necessary in relation to customs declarations, pre-clearances, certificates of origin, and so on. Otherwise, these services would be provided by customs houses or freight agents, and would not necessarily result in extra costs to the exporter, as it is envisaged they would be included in service quotations as a means of making the provider more attractive. Interestingly, there was little discussion of benefits that an independent trade policy could bring.

Focus group participants were frustrated by the

lack of NI representation and input to the Brexit negotiations. Concern was expressed that the small size of Northern Ireland, especially in terms of trade, has been described in UK government documents as not “economically significant international trade”, and that there is a risk NI could simply be dismissed or ignored as unimportant.

However, they were even more frustrated by the lack of an Assembly and Executive, as the absence of government and decision-making in NI means that long-standing policy needs, such as the health service and the education system, are not being addressed. Strong concerns were expressed in relation to the low availability of relevant skills in Northern Ireland, and the drive to increase exporting activity is also an urgent requirement for the local economy. An ambition to rebalance our economy from the public sector to the private sector has been our priority for more than a decade. We need hard decisions to be taken, and to live within our means. However, participants believed that the decision-making vacuum, and the absence of moves to restore the Assembly, are at least in part due to Brexit, and see little prospect of the restoration of the Assembly until the UK has exited from the EU.

Most of those at the focus groups believe that the UK withdrawal negotiations would “go to the wire” and that agreement on the backstop will not be reached until the last minute. There was some impatience with the “process” and participants do not want to see the present uncertainty being extended. Some businesses are relocating in order to manage the risk of uncertainty.

Focus group participants said that the most useful form of post-Brexit support would be assistance “on the ground” in countries to which they were exporting, as well as access to export financing.

“I think the biggest difficulty will be for people who haven’t yet exported and would like to. It now seems like a big challenge...there’s a role for Invest NI...”

Finally, and looking at the situation more widely than the Northern Ireland viewpoint, concern was expressed regarding the UK’s future participation

and influence in the EU’s Galileo project, which it was felt was vital for supporting the future of geo-location technology including driverless vehicles which use the “blue light” spectrum.



Belfast Focus group, June 2018

Context

Approaching two years since referendum day, the focus groups complemented FSB's UK-wide research programme which began immediately after the vote and resulted in the publication of four reports on different aspects of Brexit – trade, skills, funding and regulation. The research used member survey data collected from November 2016 to January 2017, and FSB has taken this to the highest levels of government, ensuring the views of small businesses are heard in the negotiations.

Indeed, we have engaged the Prime Minister at Chequers and are part of a business engagement group that meets regularly with the Chancellor, the Secretary of State for the Department for Exiting the EU, and with the Secretary of State for Business, Energy and the Industrial Strategy. In addition, our EU policy team has strong engagement within the EU and internationally. More detail on the findings of FSB's Brexit reports can be found in the Appendix to this report.

The focus groups took place prior to the EU council meeting scheduled for the end of June 2018. At that time, although progress had been made on several of the withdrawal issues (citizens' rights and the UK's final payment, for example), no progress had been made on the issue of a "backstop" for the Northern Ireland / Ireland border, and UK negotiators were expected to make a proposal prior to the June meeting.

Ideas being mooted at the time of the focus groups included:

- An alternative to the EU's backstop proposal for NI to remain part of the EU's customs territory. As published in the draft Withdrawal Agreement during March 2018, the NI backstop arrangements would apply to the whole of the UK, which would mean that: a) all of the UK, including NI, remains in the EU customs territory (as per paragraph 49 of the EU/UK Joint Report published in December 2017), and b) all of the UK would remain aligned with EU rules and regulations on goods.
- On Friday 1 June (the day of our second

focus group) The Sun newspaper reported an alternative to the 'Max Fac' option, which relies on the use of technology to address the potential for customs checks, was being considered. The alternative being proposed consisted of two separate elements – a 10 mile-wide buffer zone along the entirety of the Northern Ireland/ Ireland border, and that NI would have an EU/ UK status which would apply the regulations of both (a variant of the Liechtenstein model of parallel marketability).

Given this context, the aim of the Focus Groups was to find out what FSB members think of proposals in practice - to come away with a sense of challenges and ideas.

Presentations

Speakers at each event were invited to give a range of contributions across different parts of the Brexit 'jigsaw'. These included the overall economic environment in Northern Ireland, the regulatory routes available and the possible customs arrangements in relation to SMEs.

Chair of proceedings

Mervyn McCall is the FSB NI Brexit Group Chair. Mervyn formerly led construction firm Mivan and has substantial experience in exporting on a global scale. He is also a former chair of the Institute of Directors. He is now an Angel Investor and has assisted ten small companies, and is owner of the Sliderobes group.

NI Economic Outlook

Dr Eoin Magennis is a Senior Economist at the prestigious Economic Policy Centre in Ulster University. Prior to joining UU, Eoin worked for InterTradelreland and for the Centre for Cross Border Studies where he gained more than 15 years' experience managing and delivering research projects with a particular focus on all-island economic development.

Eoin's presentation highlighted a number of positive indicators for Northern Ireland, with the caveat that uncertainty was contributing to a marginal growth outlook. Across the island of Ireland, paid employment is at the same level as pre-2008 recession, while the UK has seen employment increase by nine percentage points. NI is hindered by high levels of economic inactivity (28% compared to 21% in the UK as a whole).

Feeding into employment in NI, 70,000 net new jobs were created between 2012 and 2017 with manufacturing, services and the hospitality industry being the leading sector creators. Future growth, however, is expected to be dominated by professional scientific and technical jobs, closely followed by those in the hospitality sector. In terms of rebalancing the NI economy, the public sector is likely to continue with the reductions seen over the last 5 years, with the only real growth in public sector employment restricted to the health sector.

Globally, the US, China and EU economies are growing, and exchange rates are assisting exporting firms at present. Locally, dampening factors include political instability and a lack of decision making, which leads to the aforementioned uncertainty.

The Border Conundrum

Professor Deirdre Heenan is a member of the Institute for Research in Social Sciences at Ulster University, and a distinguished researcher, author and broadcaster. She was formerly Provost and Dean of Academic Development at the Magee Campus; is a co-founder of the Northern Ireland Life and Times Survey, and a director of ILEX urban regeneration company.

Conor Houston is a Director of Houston Solutions, a specialist business consultancy. Conor is leading their Brexit division, advising decision makers across the UK. He is former EU Programme Director at the Centre of Democracy and Peace building.

At the heart of their respective presentations, Conor and Deirdre emphasised the importance of



**Professor Deirdre Heenan
& Dr Eoin Magennis**

the NI / Ireland border as a key part of the Brexit negotiations, explaining the proposals made in the December Joint Progress Report and in the draft Withdrawal Agreement. They also outlined the proposed post-Brexit customs arrangements, the new Customs Partnership and the “maximum facilitation” (“max fac”) solution.

It was explained that the Customs Partnership is the preferred solution of the UK Prime Minister, and would allow the UK to collect EU customs duties on goods entering the UK bound for another EU country. However, the EU had rejected any idea of this kind of partnership to date, saying it undermines the integrity of the internal market. There is also a concern that regulatory alignment cannot be guaranteed, and this model therefore does not remove the need for checks.

On the “max fac” proposal, comparison was drawn with Norway’s experience of its border with Sweden, which uses technology such as number plate recognition and online customs declarations. The system provides that vehicles should only be stopped once, and depends on extensive co-operation between Norway (which is not in the EU (but is in the EEA)) and Sweden (which is in the EU). Customs Officials are allowed to operate up to 15km



Sonali Parekh

into each other's territory. Challenges that come with this proposal include the need for co-ordinated legislation, continuous updating of EU rules and regulations, as well as the question of who owns the process and infrastructure. It is a good example of how to minimise friction, but cannot eliminate it.

There had been reports in the days leading up to the focus groups of a third option, a time-limited goods arrangement, remaining in a customs union with the EU until a new customs arrangement can be agreed. This would provide a bridge between the UK's exit and the new arrangement, yet to be negotiated. It is attractive in that it would avoid many of the issues around a border between GB and NI and also on the island of Ireland. The whole of the UK would effectively remain in a customs union with the EU, yet it would have 'left the customs union.' Furthermore, it allows the government more time to set up the procedures for a new customs partnership and the 'Max Fac' proposals.

There was a strong message from Conor and Deirdre that businesses and the business community had a huge role to play in setting out the practical impact and implications of the proposals. Businesses can often find innovative solutions to individual issues and may collectively address some of the

dilemmas, such as the suggestion of NI becoming an enhanced economic zone.

Small Business and Customs, Post-Brexit:

Sonali Parekh is FSB's UK Head of Policy. Together with a specialist team of policy experts, Sonali is located in the heart of Westminster, with direct access to the Cabinet and senior decision makers. Formerly of the Cabinet Office herself, Sonali is leading FSB's Brexit research. Sonali presented the proposed customs arrangements in detail, explaining the nature of cross border trade, including:

- how much of that trade meets any future "economically significant" threshold;
- the average value of trade from NI to RoI on a consignment basis, and vice versa, to help inform thinking around potential low value thresholds/ trade exemptions;
- the practical impact of the two "end state" customs arrangement options that have been proposed;
- how easily small businesses can attribute the non-UK origin of components in goods they are seeking to export;
- the ease or difficulty with which small businesses can segregate RoW imports where the final destination is the EU, from other final destinations;
- options around "self-assessment" for smaller businesses, including the ease (and cost) of direct interaction with the customs declaration service, and how Authorised Economic Operator (AEO) status could be made more small business friendly.

Focus Groups: Key Themes

The following section summarises the main points made by participants in the focus groups which were attended by a total of 25 people. These are participants' own views, and do not represent FSB's position on any aspect of Brexit.

Opportunities for Northern Ireland

Members are optimistic about Brexit – *“where there is change, there is opportunity”*; though also somewhat anxious because of the current uncertainty. It was agreed that business can often find resolutions to individual issues.

The “backstop” arrangements provide NI with a great opportunity:

“a foot in both camps”

“Nirvana for Northern Ireland”

“If NI could be in both the UK and the EU, it would be unbelievably good”

“ideal situation”

“NI’s uniqueness should be championed rather than repeating dogma about sameness”

“It’s about making NI into what it used to be and could be again – 67% of world manufacturing of quarrying and recycling machinery is made in Tyrone...”

There was also a view that, while the current UK/ EU negotiations concerned the draft Withdrawal Agreement, and were being negotiated on behalf of the entire EU, when this is settled, manufacturers in individual European countries will be keen to have new trade agreements that will facilitate their continuing trade with the UK.

‘Free Port’ or Enhanced Economic Zone

One proposal was that the whole of Northern Ireland should become a free port, or enhanced economic zone, handling transitive goods between the EU and non-EU destinations. David Davis’ proposal as reported by The Sun on Friday 1 June saw further refinement of his ‘buffer zone’ idea, applying it to the whole of NI. Businesses had proposed similar concepts at the 30 May focus group. One member, who owns a bathroom distribution company, for example, is considering the possibility of becoming a bonded warehouse - a one-firm level of the free port idea. Business owners felt that:

- Stores and facilities would flourish in Northern Ireland, and it *“could really change NI’s manufacturing base.”*
- The free port model is *“really the only workable model”*, and that it is not incompatible with the Belfast/ Good Friday Agreement. It could mean that GB companies would use NI as a base from which to ship their goods to Europe and beyond, which would greatly boost NI’s economy.
- One issue might be that there is currently no freight rail link between Ireland and Northern Ireland (though there is between Dublin and Cork). It was suggested that we already move too much by road anyway, and that there could instead be two freight ferries between Belfast and Dublin.

Uncertainty/ Planning for the Future

When discussing the UK Government’s proposals for future trade arrangements, participants expressed frustration with the current uncertainty and apparent lack of agreement at government level.

- People cannot plan for every eventuality, but businesses and the business community would like to be able to move when more is known about the future of trade. *“What we do in business, is solve problems.”*

“The biggest problem is that we don’t know what problems we face.”

“...certainty is the issue. If you’re buying a product in or a component, you want to know what the overall cost of the product is so you can work out your margins...[and] if it’s going to be a profitable product. What you don’t want is if you order from Germany or somewhere and then it arrives and the government go, oh, but sure there’s that other tax - I hadn’t factored that in to my margin...”

“The problem that people have, not just in Northern Ireland, is that we don’t know what’s going on, really.”

Flexibility and resilience

Participants were confident that businesses are flexible and resilient, and will adapt to whatever new conditions and requirements are put in place.

- An example was given of how a recent shipping strike in Spain had caused delays in processing shipments, but shippers simply worked twice as hard to make up the time. Similarly, the current level of paperwork is burdensome, so increasing it would just be something that would be incorporated into the necessary work.

“We need flexibility for change in the future.”

- One member admitted that before Brexit, he was unaware that things like the customs union and trade agreements even existed; though he was aware that different products and components have different tariffs, for example, when dealing with Thailand; when exporting, he simply finds out what is required, and works to meet those requirements – “you just find [your] way around it.”

“Whatever is going to apply, we’ll adapt to it. It’s really a problem for the bureaucrats.”

New Non-Tariff Barriers

Participants were advised that future trade agreements with the EU and/or with non-EU countries may require exporters to declare the origin of the components that were used to produce their goods, as well as the products themselves, and asked if this would have any impact on their business:

- Exporters already purchase Certificates of Origin from their local Chamber of Commerce for a nominal fee of £30 or so, for example to export to Iraq or other non-EU countries. Participants also suggested that there may be opportunities for companies to provide new administrative services to navigate Brexit challenges.

“Those companies that I deal with – drinks distribution, manufacturing, plastic, metals, wood etc – already have departments in place dealing with all the paperwork – so I don’t see extra paper work [for a medium-sized business] as a problem.”:

“You need a Rules of Origin certificate? Where do you get that? Chamber of Commerce. So you go to Chamber of Commerce.”

“We had a customer [who] wanted to export to [the Middle East]. [The customer] asked if it is Halal certified. How do you do that? Google it. Get it certified. You don’t just not do it and turn down business.”

“I wouldn’t want it to be too time consuming – wouldn’t want it to be, every time...to have to fill out some form or something else. It would make it impossible for me to do business, so if you could do something maybe once a year perhaps, rather than every single time you work with a client it would make things a lot easier.”

“I certainly wouldn’t have a problem with signing a customs declaration, should it be project based. [But] needs to be kept as simple as possible...”

In the event of there being a dual system of declarations and / or rules of origin, therefore, businesses felt *“it wouldn’t be the end of the world”*

If a new customs partnership meant that the UK applies the Common External Tariff, but if the product stays in the UK, there would be a preferential tariff which could be reclaimed. We asked if firms are aware of the ultimate destination of their exported products, if they remain in the UK or would be exported to, for example, Poland:

“I import hinges from Germany – different hinges have different values...I wouldn’t label each part but I would know if I have to pay a different tariff for that consignment. I would know the quantity...”

“Your Purchase Ledger team allocates different codes...All your product codes are set up; you can identify what’s going back into Europe or wherever...you’re not buying one million products, you’re buying one million of the same product.”

“...would be able to trace every part... would have systems and barcodes...”

“If you’re making a product, you would spend a day working out commodity codes and tariffs etc. You wouldn’t do it for every sale, you do it once.”

Asked if they would take the time to identify and check commodity codes, it was thought that freight forwarders would do that for their customers. If parallel production is needed, or if there is a need to track imports and transformation into new products, participants believe that new businesses will be created to provide these services for other businesses.

Post-Brexit, trade in some goods with some countries may attract a preferential rate of duty. This may be the case if a preferential trade deal is agreed with the EU. Exporters wishing to avail of such preferential rates will need to check their commodity codes and customs classification. However, none of our participants were aware of taking advantage of existing preferential trade deals.



“I work with companies who work with Canada but I’m not sure if they know anything about any preferential rates...You just do business, and as and when a customer in Canada needs it, then you go and sort it out.”

Mervyn McCall

“I have exported to South Korea, but I didn’t know there was an agreement, nor if I used it.”

Otherwise, the costs and benefits would be taken into account when calculating the profit of the sale:

“It depends on the size of the order and the value of the cargo. If it was £100, probably not; if it was £1m, probably would.”

“If you can claim a preferential trade rate of 3%, and you meet the conditions, I probably would [claim it]. Maybe not if 2%, but I would at 5% - and it depends on the time it takes too.”

In relation to a potential increase in paperwork, again forwarding agents would be able to do this, without necessarily increasing the cost of their services, which would likely be included in quoted charges as a means of marketing their services and winning business.



Conor Houston

Echoing FSB's EU Exit report "Keep Trade Easy", exporters said that tariffs never had been particularly significant, because they just trade anyway. Nevertheless, everyone said they would take advantage of any preferential tariffs available.

"If it's going to increase your business, if it's going to sustain your business, I think companies will just adapt."

- It was felt that most issues could be solved through trusted trader status, most likely to be held mainly by freight forwarders etc.

"Any of the companies I work with that export or import, they have departments for it, they employ people to do it, and they just pass that little bit of cost on."

"Within the freight industry, it's just another charge."

"When the Panama Canal charges came in, or the piracy charges, they just added it on."

Technology

Participants were of the view that many of the new technology changes that are being discussed at the moment are also good practice (and would likely have been introduced in the future anyway). There was a general feeling that technology – adopting it, utilising it – was the way forward.

- It was noted that the eFlow website and facility in Ireland for toll roads was very successful, smooth, easy to use – technology already exists and works well. However, the issue with the use of technology is not so much about 'rules' or 'receipts' but about enforceability.

"[I] think it's the application of the technology that needs some thought. I don't think we need new technology, I think it exists and it's how it's applied that is the issue."

- However, participants were concerned about the *"wider social/political consequences, but not about technology."*
- HMRC's CHIEF system for customs declarations should be simpler. Businesses would welcome the opportunity to interact with the system more easily – but there are companies who do it for you. A comparison was made with the use of cleaning contractors – most companies hire a service rather than doing the cleaning themselves.

Small Business Exemption

While a cross-border trade exemption for "smaller traders", as proposed in the UK Government paper, *'Northern Ireland and Ireland'*, was welcomed by focus groups participants, on closer examination the offer did not seem clearly defined. The paper specifically notes that "in 2015, over 80 per cent of North to South trade was carried out by micro, small and medium sized businesses," defined in a footnote as businesses with fewer than 250 employees.

- Participants felt that defining “smaller traders” by number of employees could lead to larger companies splitting into small ones – “everybody would be a small business.”

It was suggested that “smaller trade” could be defined by value of the consignment being shipped, or by the trader’s turnover or profit.

- One participant explained that a consignment of steel, for example, is typically worth £600 – 800. The value of the same quantity of steel varies on a daily or weekly basis, depending on world prices. This is also the case for other materials and goods. As the value of the same consignment of a good can have different values on different days, using such values to define “smaller” could lead to a trader having to comply with declarations and checks on some days but not others. This definition would not, therefore, bring certainty to trading conditions.
- In addition, it could lead to traders exporting the same amount of goods as now, but in smaller consignments.
- Similarly, turnover values could be very high while profit margins were low. The volume or value of a consignment may be high, but not necessarily represent the value to the seller. A dairy industry representative pointed out that a 25,000 tonne consignment of butter could attract just a 1% profit, highlighting the risk of using turnover as a measure.
- It was felt that using a trader’s profit as a definition was not appropriate because it could easily be massaged or falsified.

While a small business exemption sounds attractive, it could create barriers to growth. There was general concern that creating a small business threshold would disincentivise growth, or result in medium- and large-sized companies splitting into smaller ones. Participants felt that anything which disincentivised growth was not advisable or helpful to the NI economy.

Regulatory divergence/alignment

Participants felt that separate tracking systems and different regulatory systems would not be problematic.

- The example of a sausage producer was given: the producer currently makes seven different kinds of sausages for different supermarkets, so that those sold by Marks and Spencer are not the same as those sold by Asda.

In relation to food safety regulations, it was felt that there is no need to diverge from the current standards, no matter what the resulting trade agreement is. Participants of the focus groups agreed that it is possible NI will want the current Sanitary-Phytosanitary (SPS) border to continue.

- An example was given of a timber company which imports logs from Scotland, which have to be SPS checked to ensure compliance with island of Ireland standards, while logs sourced in Ireland do not have to be compliance checked.

Participants would not mind having systems of dual standards:

“Not if it opened a new market to me. If the margin was sufficient, I’d be happy.”

“If we ...were selling to the EU, we would have to meet EU standards. But if we were selling to Nigeria, there would be totally different requirements, we would make a different widget for Nigeria.”

“You would always work to the highest standards – you would always do that anyway - and I think that in Britain we have very high standards, whether it’s agriculture, whether it’s medicine...we’re not going to go back to the dark ages and start selling, you know, iodine-dyed meat or whatever...”

“You have a specification to meet for a particular product for that particular client, and you meet that specification.”

However, there was a question over which regulatory system NI would be aligned with post-Brexit. It was pointed out that enhanced economic zone status for NI could resolve this.



Magee Focus Group, May 2018

Barriers to trade with Great Britain

Participants recognised that Great Britain is Northern Ireland’s biggest market. While any additional barriers to trade, either with the EU27 or with Great Britain, would have substantial negative consequences for businesses in Northern Ireland,

“...a border in the Irish Sea would be catastrophic. Any separation from the UK would be a major mistake.”

- For some, tariffs could be a big issue, particularly if there are different rates between EU/Ireland, and NI/UK.

- One member who doesn’t export, and only sells in Northern Ireland, realised that he obtained wheels for his product from Germany, baskets from Italy and so on. Their margin of profit isn’t easily absorbed. If product parts increase by, for example, £20, that is a lot percentage wise.
- When asked ‘what’s the one thing you want to see in the future agreement in relation to trade, one business owner said:

“as frictionless as possible; no tariffs – although lower ones would be manageable.”

Cross-Border Trade

It was noted that there is a border now between Ireland and Northern Ireland, so talk of “no” border is misleading. Members recognised that the issue relates to maintaining that border’s invisibility rather than about imposing a new border.

Concern was expressed in relation to the increase in time that might be needed to make border crossings if there were customs checks. This was more worrying than the imposition of tariffs or increased costs. Customs stops would be very unwelcome.

“The one thing that businesses want is: no hassle on the border.”

A member in the dairy industry emphasised its importance to the NI economy, and the nature of cross-border processing of milk and butter; that dairy producers are now planning for 2019, but are faced with uncertainty. Ireland is concerned about losing its dairy processing industry, while NI does not have the capacity in terms of facilities and plant, and the cost of creating them is prohibitive.

- It was suggested that perhaps there could be a separate specific solution for the dairy industry.

Trade with Rest of the World

Participants did not feel there were significant differences in ease of trade between EU member states and non-EU countries. It was felt that in some cases it is easier to trade with more distant countries, such as Malaysia, than with EU countries.

“Malaysia is one of the easiest countries to export to.”

- Members said they preferred to trade with fluent English-speaking countries outside of the EU.
- In general, *“you find out the ‘rules’ and work with them.”*

Migration/Common Travel Area

Concern was expressed that there has been a reduction in the migrant workforce, and that Eastern European workers in particular are returning home. This is impacting on sectors such as manufacturing, food production and hospitality, which are having difficulties in recruiting workers.

“The No. 1 concern of almost everyone I talk to is labour and skills...There’s been so much talk in the last 18 months about how we actually need these skills, so there’s a realisation generally that these skills are required...”

It was noted that currency exchange rates have significantly reduced the value of wages in Northern Ireland when converted into Euros.

- It was suggested that one answer to this would be to pay wages in Euros, which although it might increase a firm’s wage bill, would keep the company’s skills base. This need not create a competitive disadvantage if all or most firms did the same.

“Companies need to make themselves more attractive”

- Participants were reassured that the Common Travel Area would continue and that British and Irish citizens could move freely between the two jurisdictions.
- However, there was concern that a potential for illegal immigration across an open NI/Ireland border would result in border check points. One business owner has businesses on both sides of the border, and each business employs people from either side of the border. His employees are anxious about their future ability to work across the border, despite reassurances about the retention of the Common Travel Area.
- In relation to the potential for illegal immigration, participants also expressed concern regarding a future responsibility being placed on employers to make additional checks at the point of recruitment.
- They were also concerned that if a recruited worker is later found not to have the right to work, they could be subject to immediate penalties and potential prosecution.
- One of the presenters noted that there is already a right to work requirement system in place. This was regarded as a burden when it was introduced, but does not now appear to be particularly onerous; after the first tranche of spot-checks, things became routine. The balance is in how heavily policed businesses feel.
- It was noted that there are opportunities to train some of the 28% of economically inactive people in Northern Ireland, to move them into employment where employees are needed.

Concluding remarks by FSB NI's Brexit Group Chair



Mervyn McCall being interviewed by BBC

The Brexit Focus Groups that took place in Derry/Londonderry and in Belfast were an excellent opportunity to hear direct views of business owners on the options for future customs relationships.

It was apparent any additional barriers to trade, either with the EU27 or with Great Britain, would have substantial negative consequences for businesses in Northern Ireland. However, businesses will always look at the opportunities presented by any change of circumstances, and our focus group participants clearly want to focus on a solution which strengthens their role as the engine of the local economy and capitalises upon Northern Ireland being within the UK whilst sharing a land border with the EU. New and exciting ideas emerged, and, it was clear from the discussions there was an appetite to maximise any advantage Northern Ireland may have after we leave the EU.

On the morning of the second focus group in Belfast, an innovative solution attributed to the Secretary of State for Exiting the EU was floated in The Sun newspaper – a proposal seeking to make NI a 'special economic zone', to create a ten mile buffer zone around the border, and to align with both UK and EU regulations - a model echoing the two-tier regulatory system in Liechtenstein.

Interestingly, similar themes were being suggested by business owners at both of the focus groups and therefore garnered even more attention. However, the idea emanating from the Focus Groups involved the whole of NI being the 'buffer zone'.

It is crucial that our unique circumstances are recognised by all sides in negotiations, and that those involved are prepared to devise pragmatic, realistic and innovative solutions to support small businesses throughout these islands, allowing trade with each other in as frictionless a way as possible.

Mervyn McCall

Appendix

FSB's Brexit Research Programme: Overview

Since the outcome of the referendum on the UK's membership of the European Union (EU), FSB has undertaken a comprehensive research programme to analyse the potential opportunities and challenges of the UK leaving the EU. We have focused on four key areas for research, on the basis of our member feedback:

1. Access to EU single market and non EU markets
2. Access to skills, labour and ease of 'doing business within the EU'
3. EU funding and what happens next, especially for business support
4. Regulatory framework post exiting the EU in the short, medium and longer term

Keep Trade Easy: What Small Firms Want from Brexit

- Small Businesses are highly exposed to changes in the relationship with the EU Single Market. 92% of exporting small businesses do so to the EU; 78% of exporting small businesses do so to both EU and non EU. Furthermore, 68% of small exporters begin by exporting to the EU, with only 32% starting outside the EU.
- Just under one third (29%) of small business exporters expect their level of exporting to decrease to some degree as a result of the UK leaving the EU. However, one in five small firms expect their level of exporting to increase and 42 per cent of small exporters are expecting no change.
- 53 per cent of small firms state that non-tariff barriers play a role, to some degree, on where they decide to export and around one-third (34%) state that non-tariff barriers play no role in where they decide to export. If the UK leaves the single market, it is likely that businesses will face new or additional non-tariff barriers when trading with the EU.
- On the possible introduction of tariffs, small exporters are split with 47% telling us tariffs

play a role in export decisions and 42% telling us they don't. However, on non-tariff barriers (licensing regimes etc.) the picture is clearer, with some 53% of our members telling us a change would play a role in to where they decide to export.

A Skilful Exit: What Small Firms Want from Brexit

21 per cent of our members who employ staff employ EU citizens. Almost half of these (47 per cent) predominantly employ mid-skilled workers to address certain acute existing skills shortages. FSB members need simple, straightforward access to people and skills to grow in the future. 30 per cent of small business owners have benefited from free movement rights in the last twelve months to undertake short-term contracts in the EEA. Any restrictions could hamper their ability to accept these contracts.

The Future of Funding: What Small Firms Want from Brexit

EU funding currently contributes to a range of activities which support growth and economic development. Our research shows that 22 per cent of small businesses are targeting growth of between 10-19 per cent. These firms have a distinct set of support needs to enhance their productivity and their ability to grow. Our members tell us they want a one stop shop for advice and guidance.

Regulation Returned: What Small Firms Want from Brexit

53 per cent of FSB members believe 'reducing the regulatory burden' should be the top policy priority for the current 2015-2020 Parliament. This applies to all regulation and is not distinct to EU-derived regulation but the UK's exit from the EU provides an opportunity to re-examine and tailor the UK's regulatory regime to reduce the regulatory burden on small businesses.



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