



Traders Experience of the NI Protocol 1 year on

The NI Protocol came into operation on 1 January 2021 at the end of the UK's transition period as part of its exit from the European Union.

Throughout 2021, and into 2022, Manufacturing NI has been surveying the sector to assess and understand their issues and put these to the UK Government and the EU to resolve.

Whilst GB traders were permitted an additional 1 year, or in some cases 18 months, to prepare for import controls, NI traders and those sending goods from GB to NI had only a matter of days.

For NI traders, much of the early part of 2021 was therefore taken up with trying to understand the new processes; educate GB (and EU) suppliers and customers or find alternative sources of supply, whilst also trying to continue to run their operations. This caused significant disruption which, as 2021 continued, eased somewhat as firms became familiar with their new responsibilities.

The following results were gathered from a survey undertaken from 6-12 January 2022, achieving 163 responses from NI based manufacturers.

A comparative score for the surveys after Quarter 1 and 2 of 2021 is include for comparison.

Biggest challenges right now

We asked firms to rank the biggest challenges facing their business right now.

Almost 60% of manufacturers reported that access to labour is their biggest issue, 4 out of 5 (80%) ranked this as the number 1 or 2 problem.

Almost two thirds (3 out of 5) rated the Protocol as their least challenging issue, with less than 1 in 7 saying it was their biggest challenge.

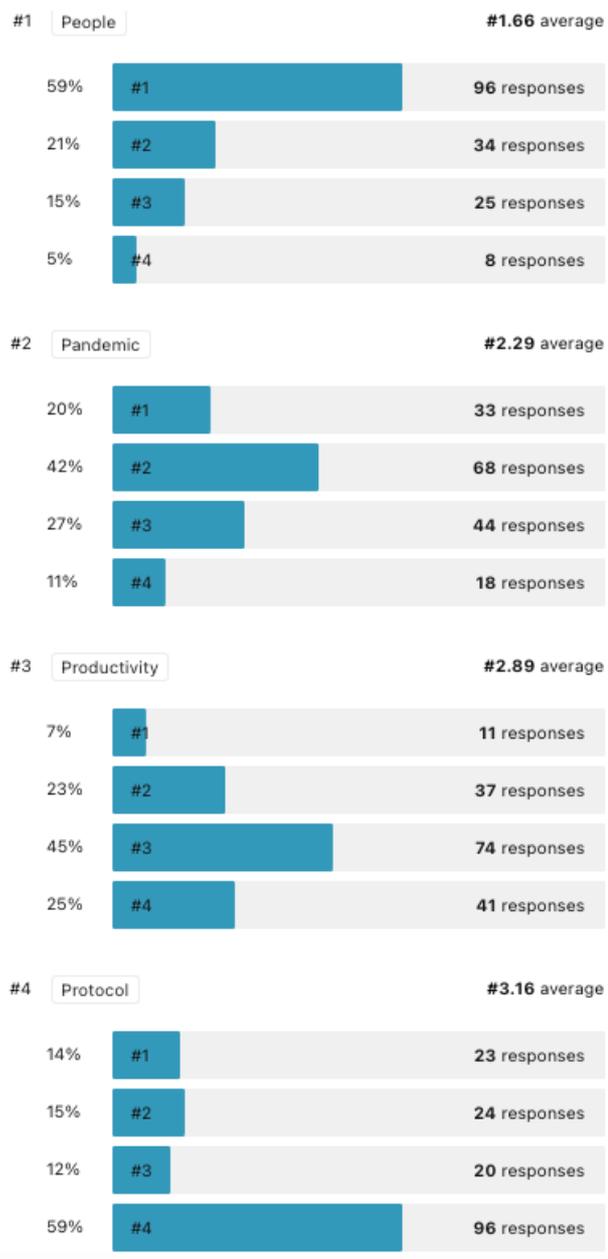
NI has lost 1/3 EU migrants since the EU referendum in 2016 and the usual flow of people arriving in NI to work has virtually stopped during the pandemic.

We also know that there are fewer people of working age coming onto the labour market in this and the decades to come.

Without labour businesses cannot generate the income required to invest in automation. It is clear that the NI Executive and UK Government must find a way for firms to access people, even on a temporary basis, until investment in skills matures and businesses can plan and deliver on investments.

A total of 1,115 positions at firms were vacant from the 163 survey responses. Using this sample and extrapolating industry wide, it shows how pronounced the labour shortage is and the opportunity which exists within the sector to create jobs in every community and constituency in Northern Ireland, as well as generating wealth for the local economy.

The view of manufacturers is that it is the lack of people rather than the Protocol which is causing the biggest strain.

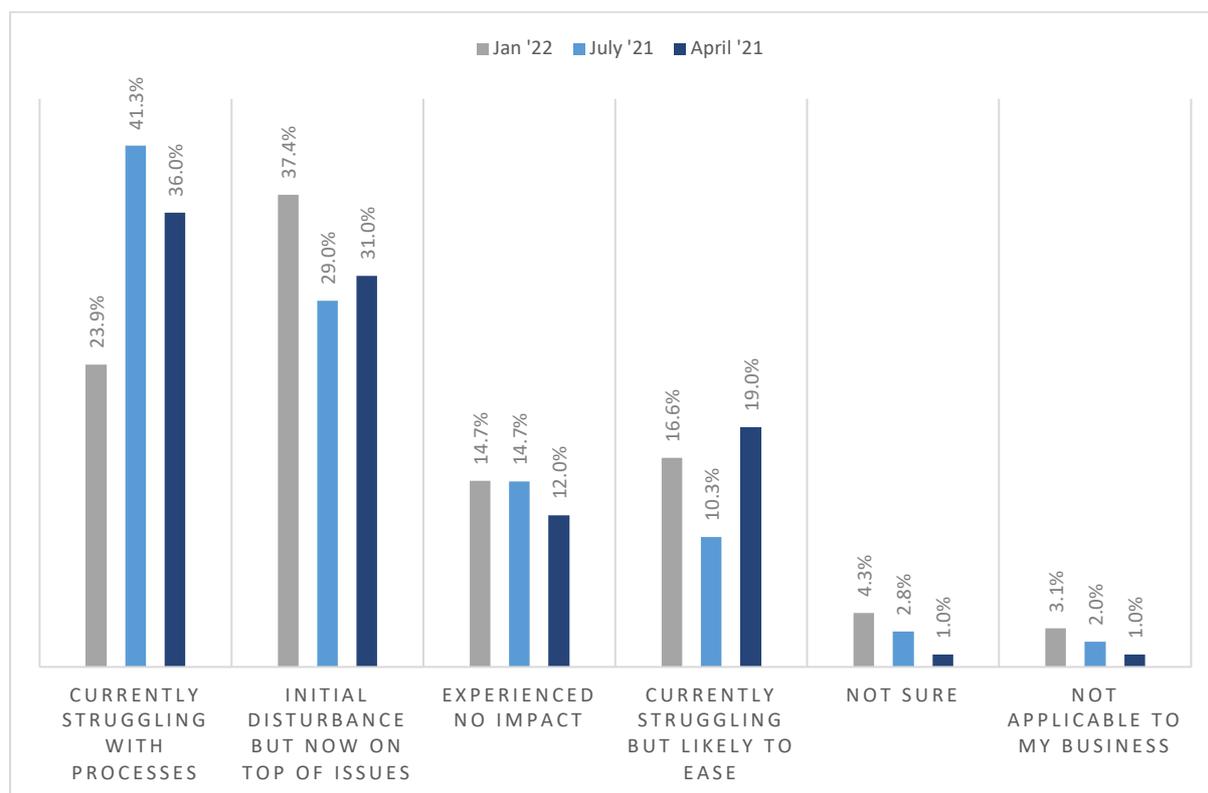


Current experience of the new processes

Some firms, less than 1 in 4 (23.9%), continue to struggle with the new requirements in the Irish Sea but this is significantly down from 41.3% when surveyed in July and April.

The rest, more than two thirds, experienced no impact, are on top of the issues or see them resolving soon.

This demonstrates that as firms become more experienced, or adjusted, they believe issues do not impact negatively on their business.

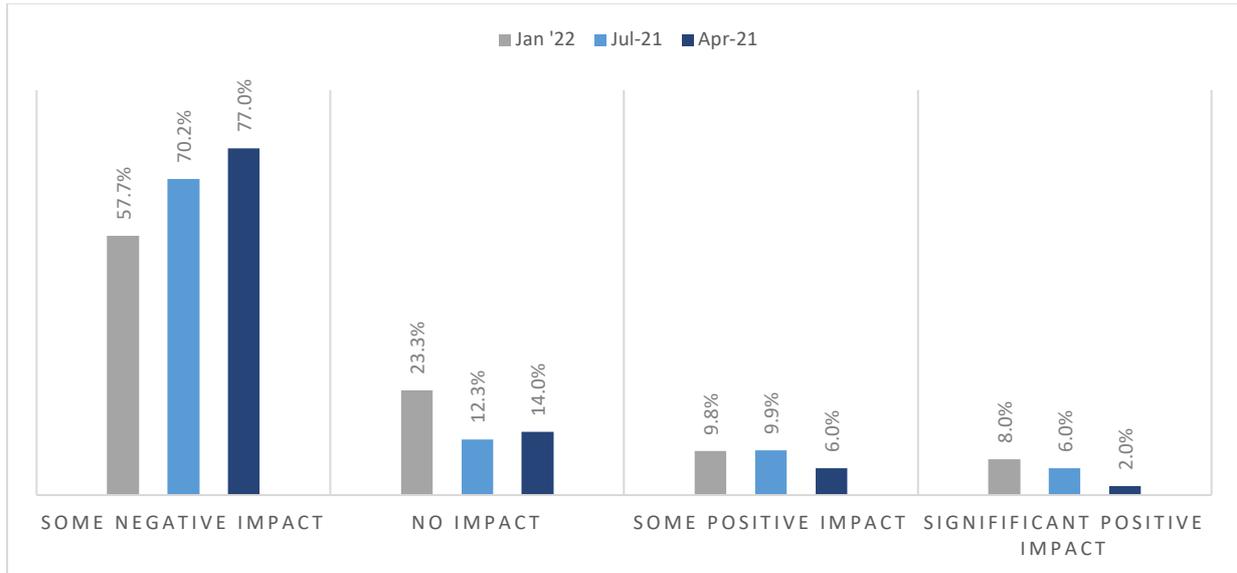


The impact of the first 12 months of the Protocol on their business

Whilst businesses are largely on top of or experiencing no negative impacts (now and easing in the time ahead) the lack of detail and time, the lack of preparedness and willingness of GB suppliers was negatively felt by more than half of firms (57.7%) in 2021.

This is significantly down on both April (77%) and July (70.2%) but demonstrates that a lack of preparedness at both government and business level for what was introduced in January 2021.

Almost 17% of firms experienced a positive benefit in 2021.

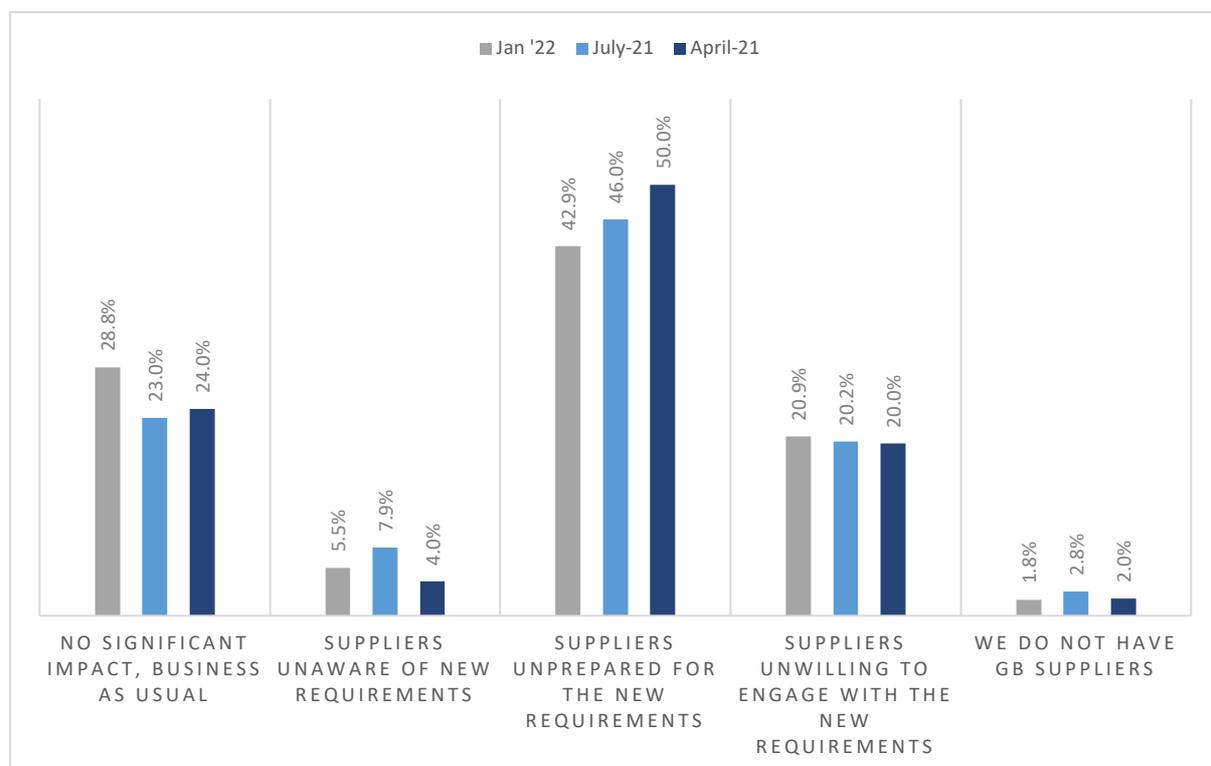


GB Suppliers Performance

Despite a huge effort from NI importers and the Trader Support Service engaging and educating their supply chains through 2021, the awareness, preparedness and willingness of GB suppliers continues to cause strain, as it has done throughout 2021.

Whilst there was an increase of firms reporting business as usual (up to 29% from 23% and 24% reported previously), 2 out of 5 firms say their GB suppliers continue to be unprepared and consistently 1 in 5 firms, c21%, reported throughout 2021 and today that their GB suppliers are unwilling to engage with the formalities in the Irish Sea.

With GB import controls now beginning to be implemented, it could be the case that as more GB traders are exposed to and become experienced in customs formalities that more GB firm may be willing to send goods to NI.



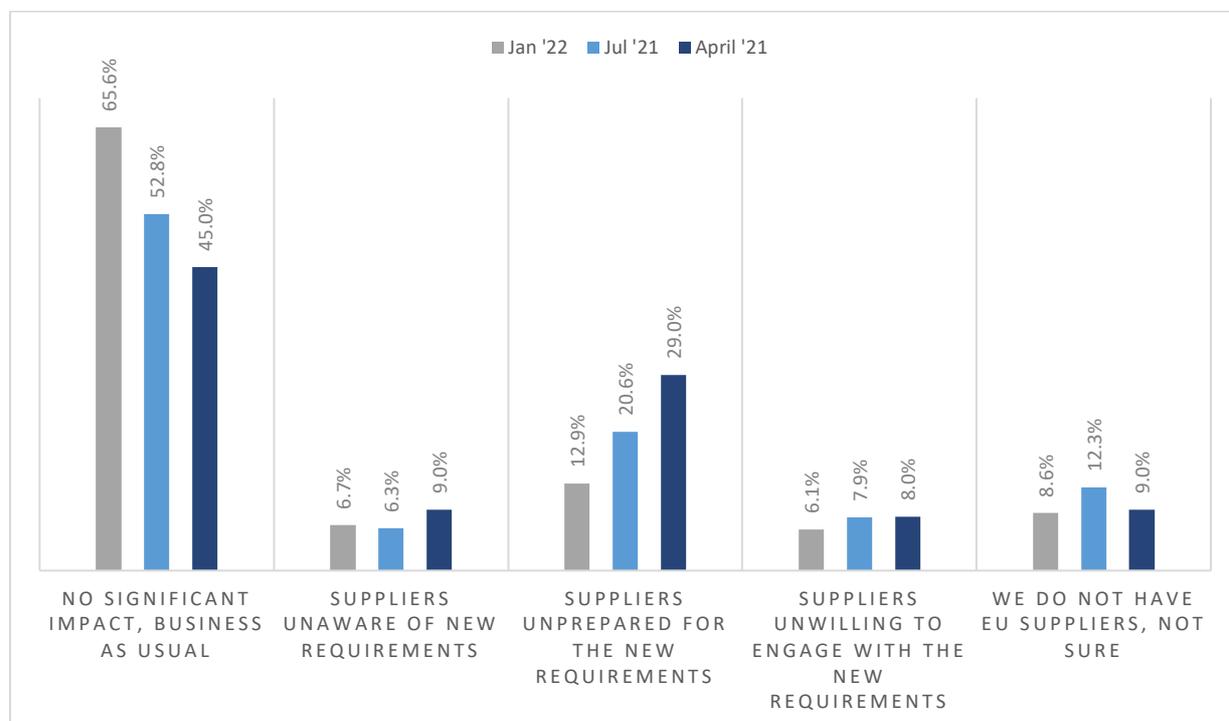
EU Suppliers Performance

The Protocol provides for EU goods to freely circulate to Northern Ireland. As 2021 continued there was a significant increase in manufacturers reporting business as usual. After the 1st year two thirds (65.6%) of firms are now reporting that it is business as usual with their EU suppliers, which is up from 45% in April and just over half in July. Additionally in April, 29% said their suppliers were unprepared and this has now fallen to 12.9%

This is largely down to the work of manufacturers engaging on a business-to-business basis and the work of representative groups engaging with the EU and Member States.

The EU had made a commitment, both internally and throughout Member States, that trading in goods with NI should largely be as it was prior to the UK leaving the EU. We are not aware if this has been done.

However, many firms report that EU origin goods distributed to NI via GB are not freely circulating as promised. The EU must find a way for these goods to maintain their economic origin *en route* to NI.



Impact on GB Sales

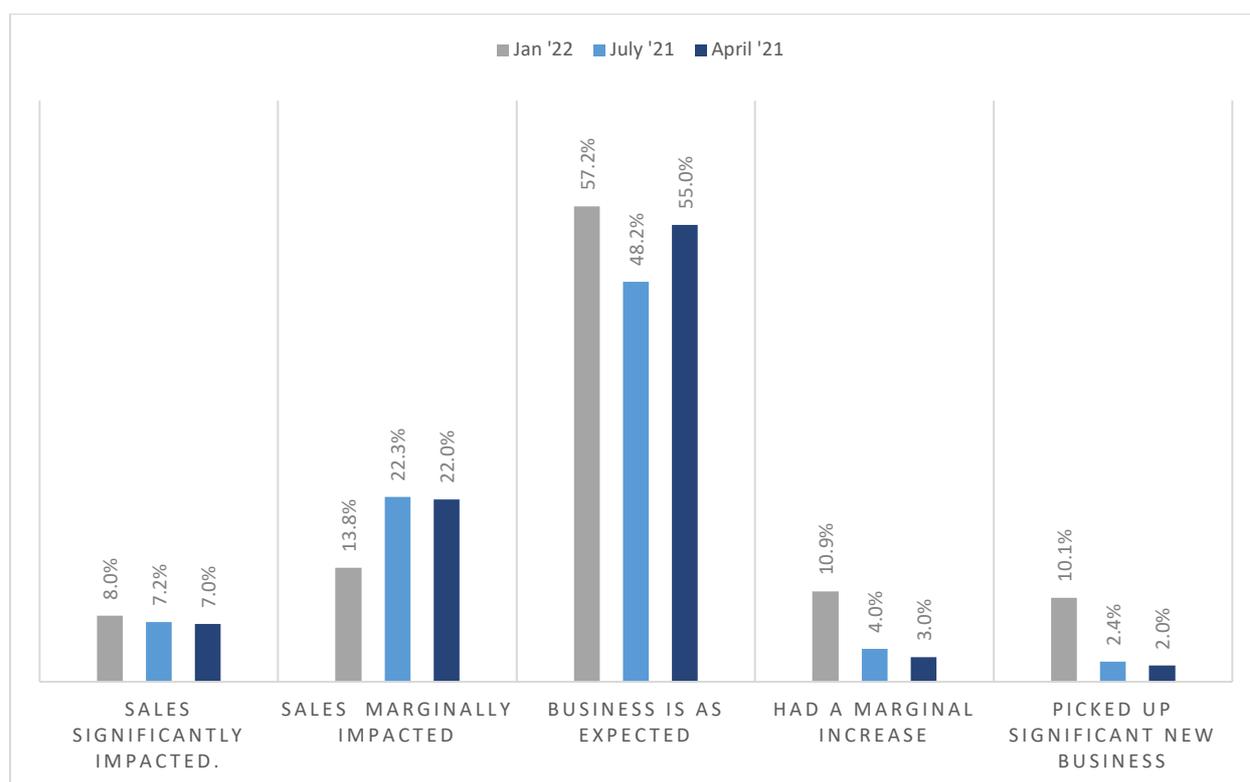
Excluding those who do not sell to GB, there has been a significant increase in firms reporting sales to be as expected. Almost 60% report a settled position which is up from less than half in July.

Around 1 in 5 firms report sales to GB had been impacted, but there is a noticeable drop from 29.5% to 21.8% of those who report a negative impact.

However, there is a significant rise from 6.4% to 20.4% of businesses reporting they've had an increase in business with GB as a result of the Protocol.

This tells us that the confusion around the status of NI goods and unfettered access in early 2021 has reduced, and that GB customers are increasingly looking at NI to supply them as supply chains in GB become strained under the new Brexit import requirements.

The definition and any potential admin requirements to justify what are “Northern Ireland Qualifying Goods” remains outstanding. All evidence now points to any sudden introduction as being negative whilst ensuring only NI goods have unfettered access remains a key ask from businesses to ensure a competitive advantage.



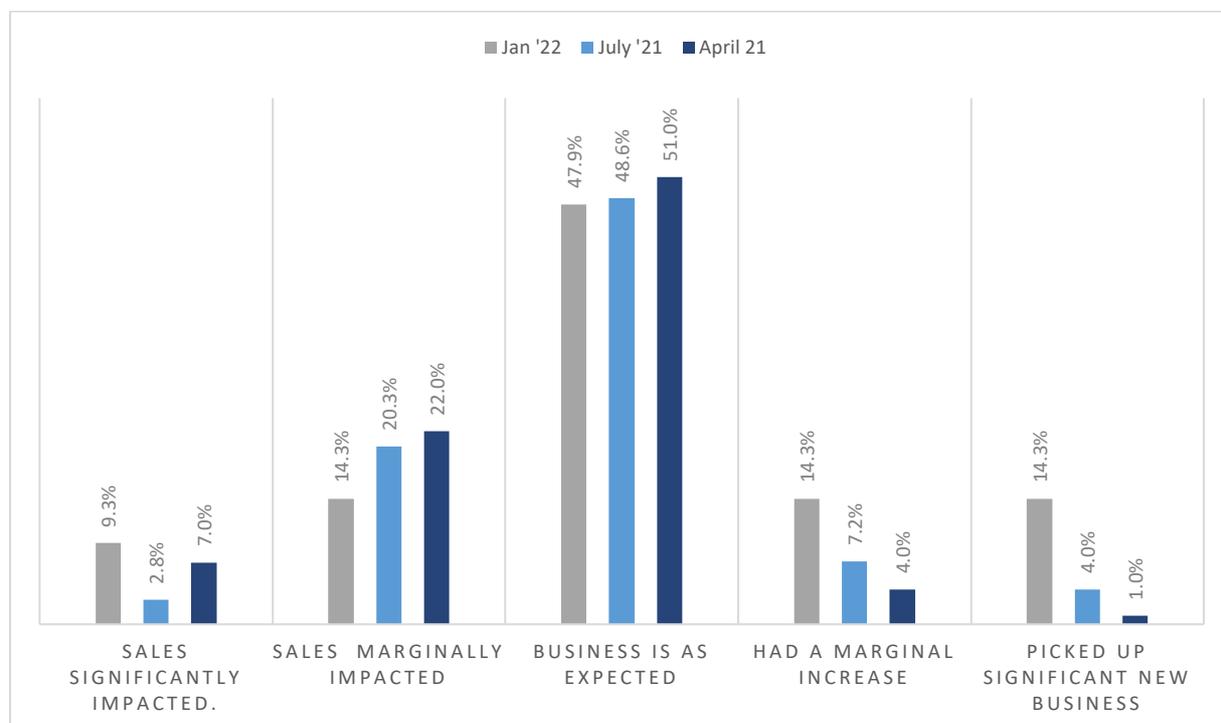
Impact on EU Sales

Again, excluding those who do not sell to the EU (c15% of respondents) around half of businesses reported business to be as expected.

However, whilst there was a continuation of the decline in firms reporting a marginal negative impact, there was a rise from 2.8% to 9.3% of those who say they've had a significant drop. It is unclear the cause for this. It could, for instance, be that full access to the EU's Single Market is not provided for NI businesses (increasingly service provision sits alongside the supply of goods) or that the political uncertainty around the status of the Protocol is damaging confidence with EU buyers.

There is, however, a big jump in the number of manufacturers reporting a marginal or significant increase in business. Now almost 29% have increased trade compared to 5% in April and 11% in July.

This and GB sales are vital sources of income to the NI economy where the value of external sales of goods is on a par with the subvention the Treasury passes to the NI Executive to run public services.



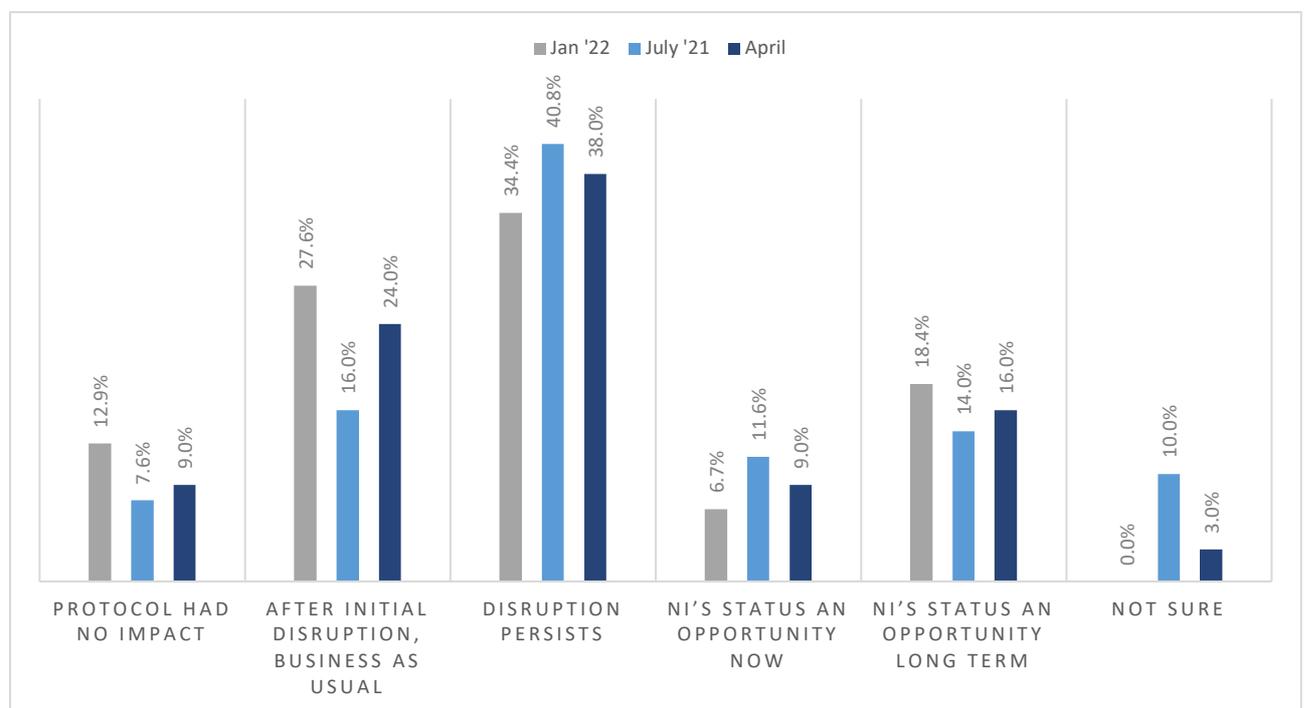
Overall impression of the impact of the NI Protocol

There is a large increase in those who say the Protocol has no impact or that it is now business as usual (40% versus 23% in July).

There is also a marked decrease from 41% to 34% of firms which say that disruption persists. It is important that the UK and EU find simplifications to ease the burden on these businesses.

This is the first time in our surveys that those reporting no impact or business as usual ranks higher than those who are experiencing disruption.

Consistently (in April, July and at the end of the first year) 1 in 4 manufacturers see the Protocol providing them an opportunity now and in the future which when combined with those reporting business as usual shows that 2/3rd of manufacturers report being in a positive place.



What do manufacturers want?

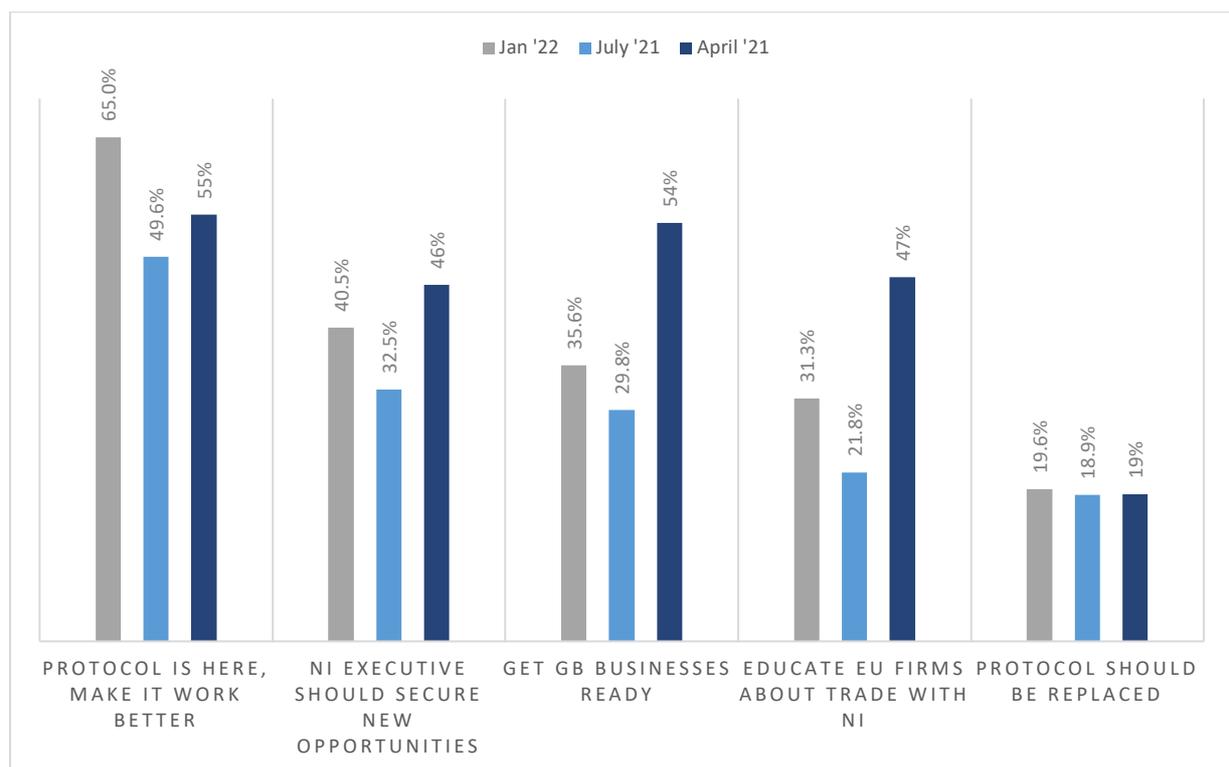
This was a multiple-choice question with respondents offered the chance to have a series of options about what action they would like the UK and EU to take.

Consistently throughout 2021 around 1 in 5 manufacturers said they would prefer the Protocol to be replaced (with what has not been suggested i.e., the equivalent of no deal or something like the Protocol). It appears that most of these businesses trade exclusively in Northern Ireland or process goods and return to GB so they have all the disruption and costs and don't have a recognisably significant EU supply chain.

However there has been a very large rise, now up to 65%, in the numbers of those who accept that the Protocol is with us and wish it to work better through mitigation and simplification.

There is still much more work to be done by both the UK and EU to educate suppliers and buyers in GB and Europe about NI's status and how to trade with it.

Finally, there is strong demand for the NI Executive to secure new opportunities to trade and for inward investment from the unique status we're now presented with.



Comments

Finally, we invited respondents to add comments which they felt were relevant and useful.

Covid

- There was a lot of discussion on the impact the pandemic has had on the business environment, including delays, stock availability and spiralling costs in their supply chains. There were reported concerns that this was underestimated and ongoing.
- There was also lots of praise for the NI Executive's support for manufacturing through rates relief and grants during 2021 but concern about the ending of furlough (full or partial) by the UK Government when we're not yet out of the woods.
- The pandemic has had a very deep impact on turnover and profit with some reporting a big rise in company debt which will take time to recover but, in the meantime, means there's little scope for business investment.
- Some confusion around shifting rules on handling infections and employee absenteeism due to isolation rules.

	Very positive	Positive	Flat	Negative
Turnover	12.9%	25.8%	22.1%	39.3%
Profitability	9.2%	23.9%	31.9%	35%
Debt Build Up	3.7%	8%	58.9%	29.4%

Costs

- Input price inflation in energy, transport, materials and wages are weighing heavy particularly for those who have had the additional cost of Protocol administration.
- The UK Government committed to a tariff reimbursement scheme to be delivered by the Summer of 2021. As of 12 January 2022, this has still not been launched.

Political Environment

- There were concerns about the political environment in NI and what this says to traders, investors and customers overseas and an appeal that more stability be secured.

Brexit

- More assistance is required for smaller traders on handling the administrative burden in the Irish Sea. Some praise and some criticism for the TSS service.
- The breaking of EU to NI supply chains distributed via GB is a problem which makes NI firms uncompetitive against GB rivals. Goods from the EU to NI are supposed to be freely circulating but when distributed via GB they are subject to EU tariffs.
- Rest of World imports, particularly commodities subject to TRQs, have to go through a system of simultaneously clearing quota in UK and EU which firms report as impossible or unmanageable.

Conclusions

Undoubtedly 2021 was a very difficult year for manufacturers and indeed all traders in Northern Ireland as the UK's exit from the EU was confirmed alongside the introduction of new checks between GB and NI. A lack of time, detail, knowledge and experience exacerbated what was always going to be a hugely difficult task for businesses to adjust.

This resulted in costs and supply chain disruption being endured by all businesses which harmed their performance throughout 2021.

However, manufacturers are natural problem solvers and the survey respondents have provided evidence that they are overcoming issues and those who can are increasingly grasping opportunities presented by NI's unique status by picking up more business in GB and in the EU.

Whilst they are 'Protocol Pragmatists' the results confirm that there are still problems within the new arrangements which need resolved.

Two thirds want the Protocol fixed, one fifth want it ditched.

There is a strong desire for the Protocol's operation to be lighter touch by the UK and the EU agreeing simplifications which can secure competitiveness on both an economy wide and individual firm basis. This centres around why goods not destined for the EU need any controls, the costly burden of Supplementary Declarations, EU goods not freely circulating to NI if distributed via GB and the system for goods subject to TRQs being unworkable.

It remains the case that those selling externally can justify the additional administrative burden, but those who trade exclusively in NI or process and send back to GB have all of the pain and none of the benefit which over time will result in significant harm to these firms.

More work is required by the UK to educate GB traders on how to send goods to NI and by the EU to educate their Member States that goods going to and from NI should enjoy free circulation in its market.

The UK has unilaterally extended grace periods in a number of areas which largely don't impact on manufacturing but do have a strong bearing on political stability and economic certainty which are the main foundations of an economy worth investing in.

There is an increasing call for the NI Executive to seek and secure the opportunities for both trade and investment.

One reflection on the findings may be that things are moving in a more positive direction however whilst the Brexit vote has been taken by the UK Government as an instruction to fundamentally shift the UK's economic model, the commitment from both the UK and the EU in the Protocol preamble was *"that the application of the Protocol should impact as little as possible on the everyday life of communities in... Northern Ireland"*. The survey confirms that this is not the experience for many firms. So, more work is required.

Despite the challenges of 2021, the clear view is that it is the availability of people and labour, and not the Protocol which is damaging firms and the manufacturing economy most.