



NI'S MANUFACTURERS AND THE FIRST MONTH OF THE NI PROTOCOL

Background to the Survey

On 1 January, the transition period for the UK's exit from the EU ended and with that a new relationship began under the terms of a new Trade and Cooperation Agreement with Northern Ireland's entering in to the NI Protocol.

The Protocol agreed by the UK and EU in October 2019 establishes a new trading regime for goods including new customs and SPS controls for imports from GB at our ports with NI made goods benefitting from unfettered access to the UK market and retaining the right to freely circulate in the EU's single market.

The survey took place in the most turbulent period at the end of the first month, with significant media attention and in a difficult political environment which included the suspension of some controls at the Ports as inspectors were removed after reports of threats.

Methodology

From 1-4 February, Manufacturing NI surveyed the local manufacturing community about their experiences of the first month of Brexit and the operation of the Protocol. 355 validated responses were received and the results are below.

The survey will be repeated after 3 months and tracked throughout 2021.



Summary

As is widely reported and indeed predicted, the manufacturing community has experienced significant disruption after the end of the transition period and the introduction of the NI Protocol. The absence of detail and time, uncertainty on our status and that of our goods, and political instability all contributing to a month of turbulence.

January was difficult but it is clear from the survey findings that most manufacturers want the Protocol to work. Many believe they are getting on top of issues and looking towards opportunities. However many predict that difficulties will persist and are appealing for the support from our Executive, the UK Government, the EU and its member states to make the protocol work.

Stability

It will be for business to make Brexit work but first requirement for business is political stability to make the necessary plans and investments.

Certainty

Time needed for confidence to return. UK and EU must invest to make the Protocol operable and the NI Executive identify and secure the opportunities.

Simplicity

Many processes are not only new to most but difficult to comprehend leading to significant risk. It must be made easy to do business in and with NI.

Affordability

Brexit brings significant new costs for all UK and EU firms, but additional Irish Sea Protocol costs must be removed or compensated to ensure competitiveness.

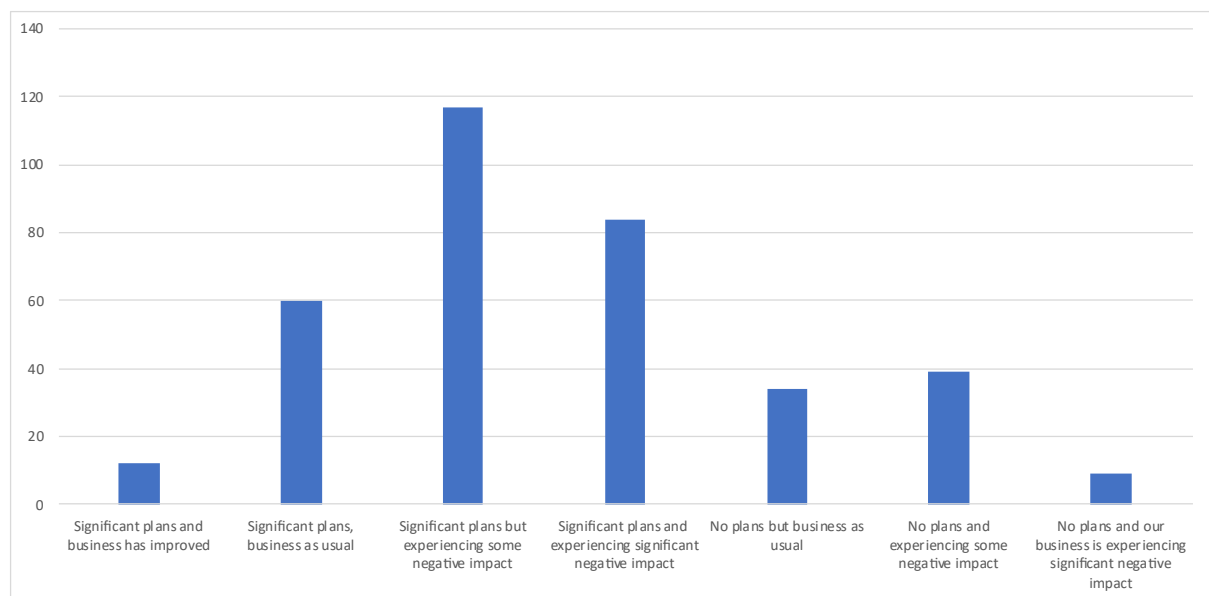


1. Planning

Manufacturers were asked to what degree they had made plans for the end of the transition period and the impact that their planning had on their experience in the first month.

It should be noted that whilst there was to be an 11 month period for businesses to prepare, in the end these 11 months were instead a protracted period of negotiation between the UK and the EU. On 17th December, the Joint Committee agreed on some operational elements of the Protocol, on 21st December the Trader Support Service went live, and on the afternoon of 24th the UK and EU agreed its future relationship through the TCA. With many manufacturers closed from 18th December until 4 January, there was little to no time for firms to understand the new, complex and interrelated agreements and make adjustments.

What planning did you make and was it successful?		
Significant plans and business has improved	12	3.4%
Significant plans, business as usual	60	16.9%
Significant plans but experiencing some negative impact	117	33.0%
Significant plans and experiencing significant negative impact	84	23.7%
No plans but business as usual	34	9.6%
No plans and experiencing some negative impact	39	11.0%
No plans and our business is experiencing significant negative impact	9	2.5%
	355	100.0%



It appears that it was largely irrelevant if firms made plans or not. 30% of all businesses with or without plans experienced no negative impact.

44% of firms reported some negative impact. These businesses are likely to be through the worst of the disruption.

Around 1 in 4 firms report significant impact. As reported later, some believe this is likely to persist.



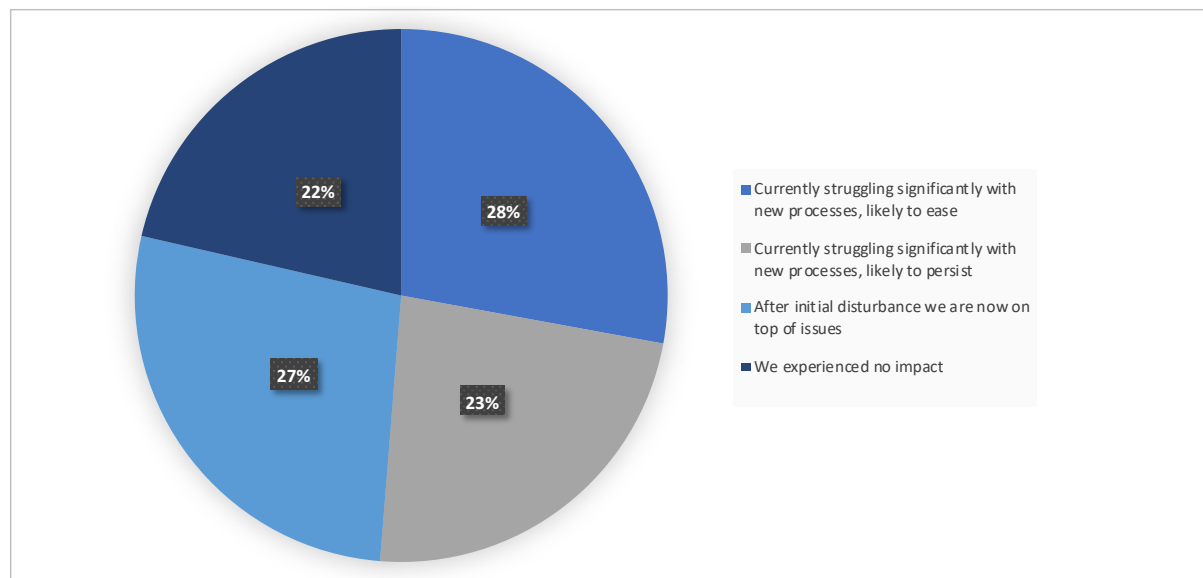
2. How have the new processes impacted?

Given the lack of detail and time to adjust, January 2021 was a difficult month. Over the final few months of 2020, the NI business community were reporting to Government here and in the UK that a period of adjustment was required. For GB businesses, whilst there is an export border with the EU, the UK Government has prioritised flow over collection or compliance for imports. This was not provided for NI importers, as the full border was in place on 1 January regardless of whether the Governments own systems, processes and procedures were in place and tested.

Additionally, no time was provided for businesses here to make necessary investments and mitigations, to understand the new arrangements or indeed to identify potential pitfalls, gaps or dangers in the new relationship that the UK and EU established.

In many ways they were 'thrown in at the deep end'.

How has new Irish Sea Border processes impacted your business?		
Currently struggling significantly with new processes, likely to ease	99	27.9%
Currently struggling significantly with new processes, likely to persist	83	23.4%
After initial disturbance we are now on top of issues	97	27.3%
We experienced no impact	76	21.4%
	355	100.0%



Half of all respondents experienced no issues or quickly got on top of them. A further 28% believe they are making progress and the challenges will ease. That means almost 4 out of 5 believe they are now in a good, stable position.

However 23% believe the challenges are likely to persist. These firms are likely those struggling most with internal capability and experience with customs formalities and those struggling to help or re-orientate their supply chain.



Whilst the UK Government is working hard to ensure the Protocol is operable, as it reaches businesses it is only then that some issues become visible. The issue with potential EU safeguarding tariffs on steel imports is a case in point. Whilst there was a solution found, including a Protocol benefit available to NI businesses only, these issues would have been easier resolved had an implementation period been provided.

As we progress, it is likely that other, as yet unseen, challenges will be uncovered - so it is essential that the NI Executive, UK Government and the EU commit to continuing to vigilant, pragmatic determined to provide solutions.

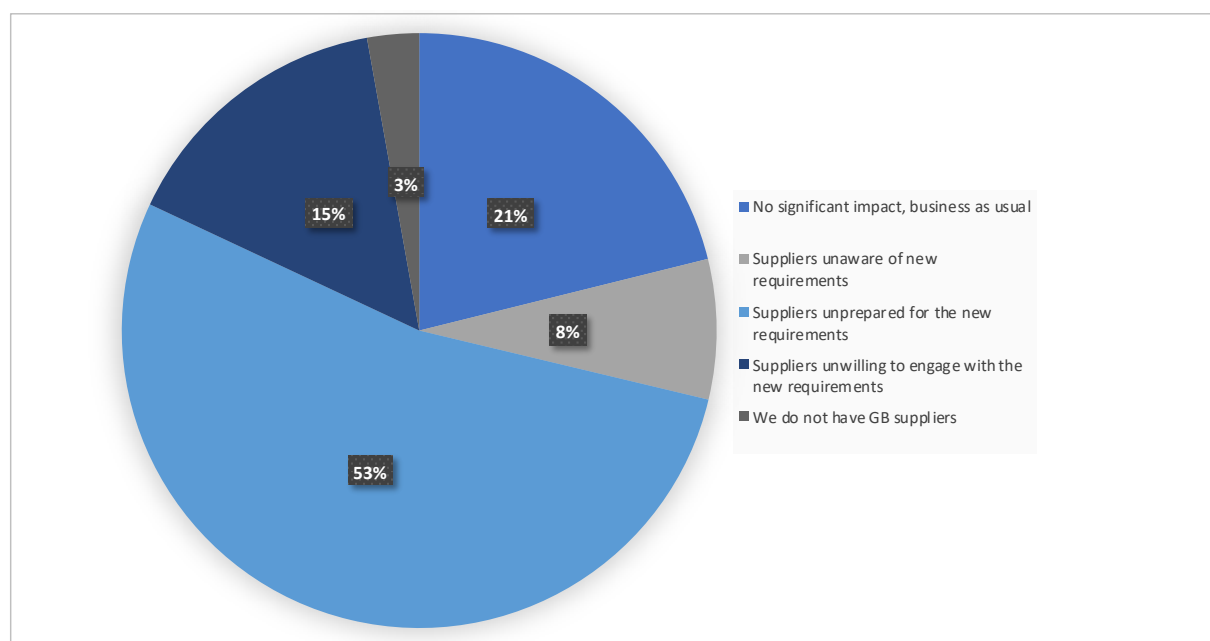
3. Supplies from Great Britain

Most local manufacturers have suppliers in GB.

The awareness, preparedness and indeed willingness of GB suppliers has been a significant challenge as has been widely reported. Indeed there is significant UK media attention on the ability of GB food and manufacturing business to send goods to the EU's single market since 1 January.

Northern Ireland's manufacturers, like other parts of our economy and ecommerce consumers have had very similar experiences.

How have your GB Suppliers reacted?		
No significant impact, business as usual	75	21.1%
Suppliers unaware of new requirements	27	7.6%
Suppliers unprepared for the new requirements	189	53.2%
Suppliers unwilling to engage with the new requirements	54	15.2%
We do not have GB suppliers	10	2.8%
	355	100.0%



1 in 4 businesses have not experienced any issues.

However three quarters of firms are experiencing difficulties with their GB suppliers. More than half, 53%, report their suppliers were unprepared.

This cohort, and the further 8% who were unaware, require urgent intervention from the UK Government to make sure they are quickly up to speed on the new processes.

There has been significant concern that a large part of the GB supply chain would simply cut Northern Ireland out. Thankfully this appears to not be as large as feared but at 15% it is still a significant number unwilling to engage with the new requirements to ship us ingredients, components and raw materials.

Alongside supporting GB businesses to get ready, it is critically important that the UK and EU agree simplifications to make sending goods to us straightforward.

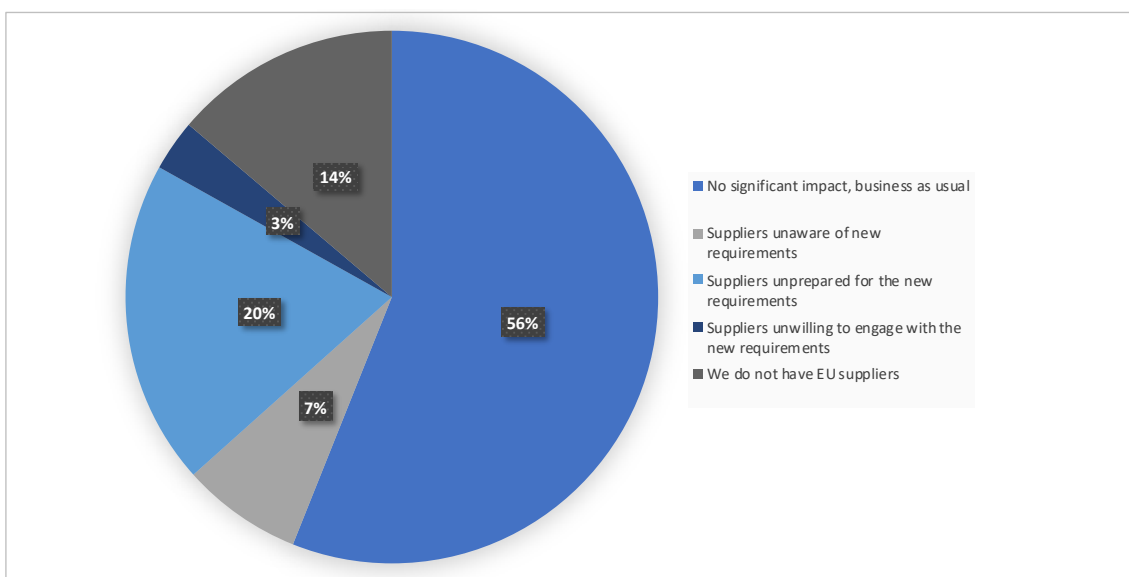
If they do not, the only choice for our firms will be to find new suppliers at home or overseas.

4. Supplies from the EU

Whilst the Protocol brings new controls from GB to NI, our goods are to enjoy free circulation in the EU's single market and EU goods are to flow freely to Northern Ireland too. Whilst few local firms have an EU supply chain, the vast majority of our manufacturers receive materials which are not available locally or from the UK.

How have your EU Suppliers reacted?		
No significant impact, business as usual	199	56.1%
Suppliers unaware of new requirements	26	7.3%
Suppliers unprepared for the new requirements	70	19.7%
Suppliers unwilling to engage with the new requirements	11	3.1%
We do not have EU suppliers	49	13.8%
	355	100.0%





Unlike the picture with GB suppliers, some 70% of local businesses either do not have, or have not experienced any issues with their EU supply chain.

However, almost 1 in 3 report that these supply chains are disrupted. Significantly less are unwilling to supply so the main challenge reported is that EU suppliers struggle to differentiate between the UK and NI. Many manufacturers are spending time informing and supporting their EU suppliers, particularly those who are struggling with transiting goods through customs across the GB land bridge. Whilst there are new or expanded direct links to the island of Ireland from continental Europe, the land bridge will remain hugely significant for our businesses.

The UK's position as a European centre of distribution is under stress. This has become a big issue for local manufacturers who find that whilst EU origin ingredients, components and raw materials may enter the UK tariff free under the TCA, moving these on to NI could result in not being able to benefit from the tariff free deal as they may be viewed as "at risk". This is a perverse outcome, is a barrier and many manufacturers, even those with significant experience in Rules of Origin, are struggling to comprehend.

This also presents a danger as many will not be aware that EU inputs into products made in NI and sold to the EU may in fact attract a tariff. This urgently needs resolved.

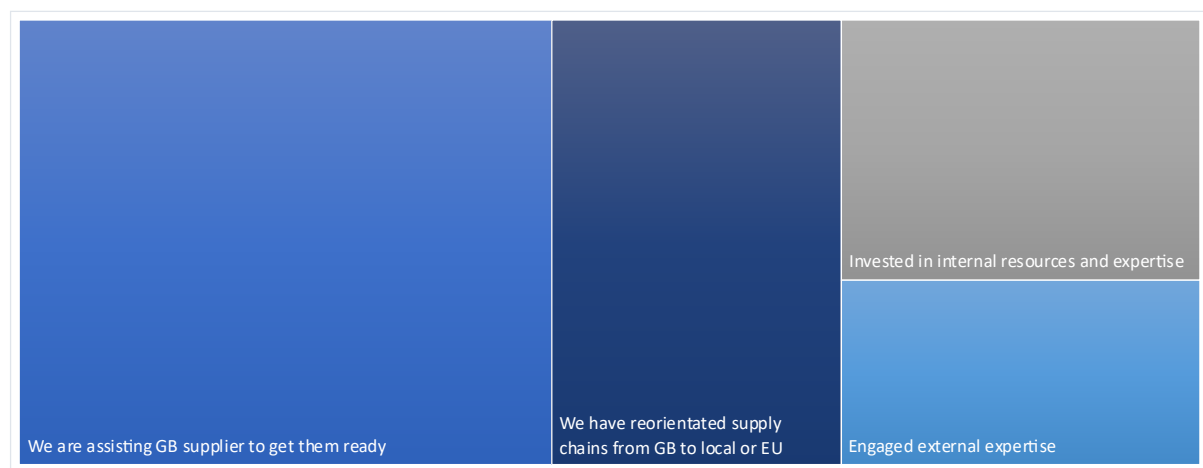
Equally, it should not be left to local businesses to inform their supplier (or indeed customers) in the EU, particularly Ireland, that they can continue to trade with local businesses. EU member states should be making it clear to their businesses that trade should largely be as it was up until 1 January 2021.



5. Actions Taken

Faced with the sudden introduction of the Protocol with no detail or time to prepare, many manufacturers have had to take actions to protect their business, supply chains and ultimately employees.

What actions have you taken?		
We are assisting GB supplier to get them ready	160	45.1%
Invested in internal resources and expertise	63	17.7%
Engaged external expertise	45	12.7%
We have reorientated supply chains from GB to local or EU	87	24.5%
	355	100.0%



Around one third have invested in internal or external expertise. This has largely been around accessing as much training and briefings from the Department for the Economy, Invest NI, HMRC and through MNI hosted online events. Many report struggling to clearly understand the new requirements as many have not engaged with these processes before. Many have relied on their logistics partners (who themselves have been frantically trying to understand and resource up) but many report that the expertise is just not available in the market.

1 in 4 have reported that their struggles with GB suppliers has meant they have already had to reorientate their supply chains to local or EU sources.

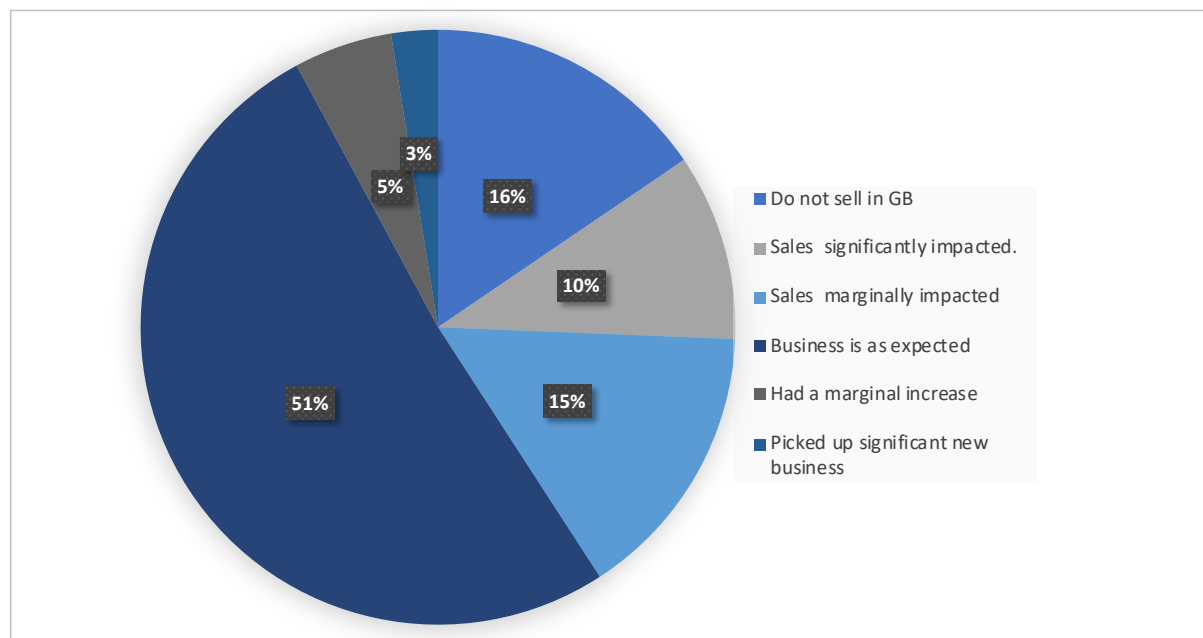
The largest proportion have been working to ensure that their GB Supply chains are capable of continuing supply. In many ways, our manufacturers and logistics partners have acted as unpaid consultants for GB companies struggling to get to grips with the new customs requirements.



6. GB Sales and ‘unfettered access’

NI businesses have been promised ‘unfettered access’ to the rest of the UK market. However, the turbulence experienced by all UK businesses is visible to NI firms too.

Sales Impact – NI businesses are to continue to enjoy ‘unfettered access’ to selling in GB. Leaving aside market condition, the impact of Covid etc. is there an identifiable impact of the NI Protocol on your sales to GB?		
Do not sell in GB	55	15.5%
Sales significantly impacted.	36	10.1%
Sales marginally impacted	54	15.2%
Business is as expected	182	51.3%
Had a marginal increase	19	5.4%
Picked up significant new business	9	2.5%
	355	100.0%



3 out of 4 businesses have maintained or even improved their sales with GB. However, 25% have reported a marginal or significant negative impact. It is unclear whether these impacts relate to supply side issues or whether there is uncertainty as to the status of NI goods in the UK’s internal market.

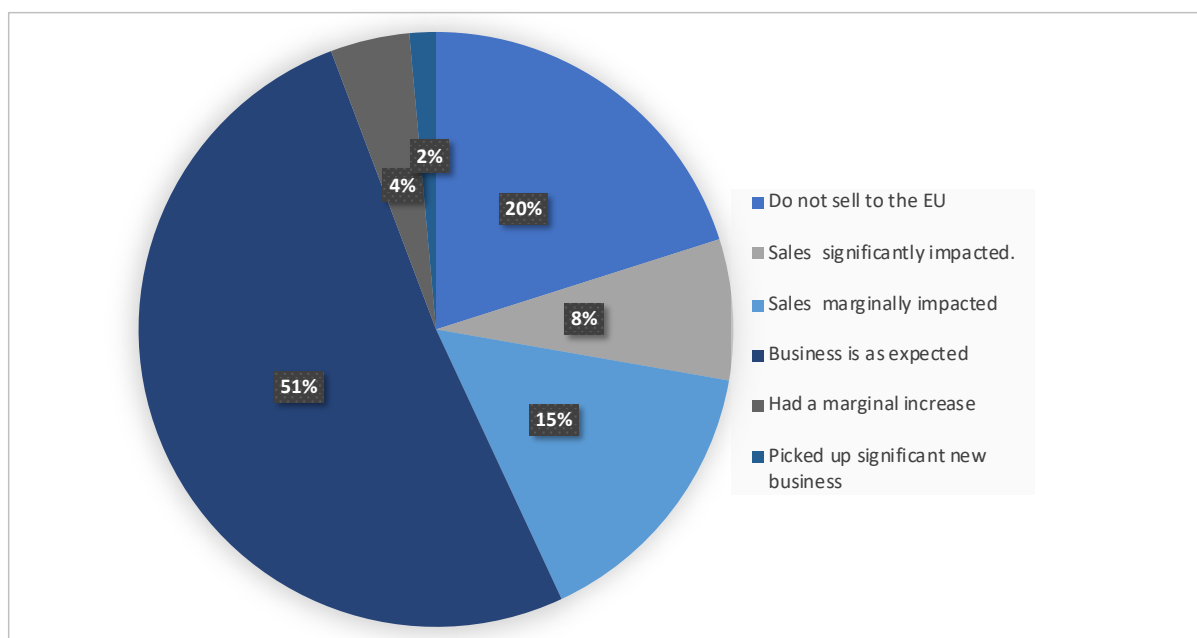
Either way, it is important that the NI Executive and its agencies and the UK Government engage with GB customers to support the work of our manufacturers in providing clarity and confidence.



7. EU Sales and ‘free circulation’

As with GB sales, the uncertainty created by Brexit and a lack of understanding about the status of NI goods in the market has had some impact on sales.

Sales Impact – NI goods can continue to ‘freely circulated’ in the EU’s single market. Leaving aside market condition, the impact of Covid etc. what are the identifiable impact of the NI Protocol on your sales to the EU?		
Do not sell to the EU	71	20.1%
Sales significantly impacted.	27	7.7%
Sales marginally impacted	54	15.3%
Business is as expected	182	51.2%
Had a marginal increase	15	4.3%
Picked up significant new business	5	1.4%
	355	100.0%



Only 23% of firms report a negative impact largely caused by confusion and confidence issues as EU customers struggle to differentiate between UK and NI’s goods having the right to continue to freely circulate in the EU’s single market.

There is a requirement for the EU and its member states to confirm to EU customers and government agencies the status of NI goods. For instance, we have had reports of customs authorities being unaware and unnecessary requirements for ‘permanent establishment’ being insisted upon. These are most visible in Ireland but similar stories are reported in other EU member states, particularly the Netherlands and Poland.

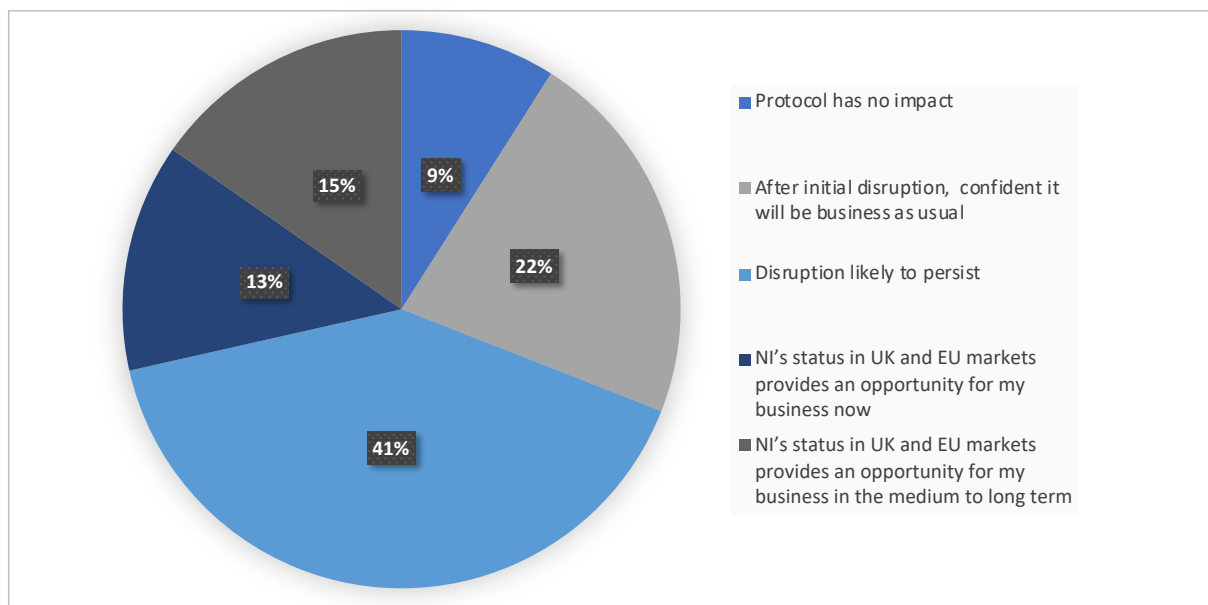
Whilst work is required, reports from UK logistics body that exports to the EU have declined by 68% is clearly not the experience of NI’s manufacturers. They are performing significantly better which is important given that our economy relies more on goods exports and the rest of the UK and this external source of funding is critical to the NI economy as a whole.



8. Confidence

Given their experience of the first, most turbulent, month and in the context of the Covid economic crisis we asked how businesses felt they would see the rest of 2021.

How confident are you for the next year?		
Protocol has no impact	32	9.0%
After initial disruption, confident it will be business as usual	78	21.9%
Disruption likely to persist	144	40.5%
NI's status in UK and EU markets provides an opportunity for my business now	47	13.2%
NI's status in UK and EU markets provides an opportunity for my business in the medium to long term	54	15.3%
	355	100.0%



Around 1 in 3 had no concerns and again around 1 in 3 felt there was opportunities now and through the rest of the 2021. However, 2 out of 5 believed that disruption was likely to persist.

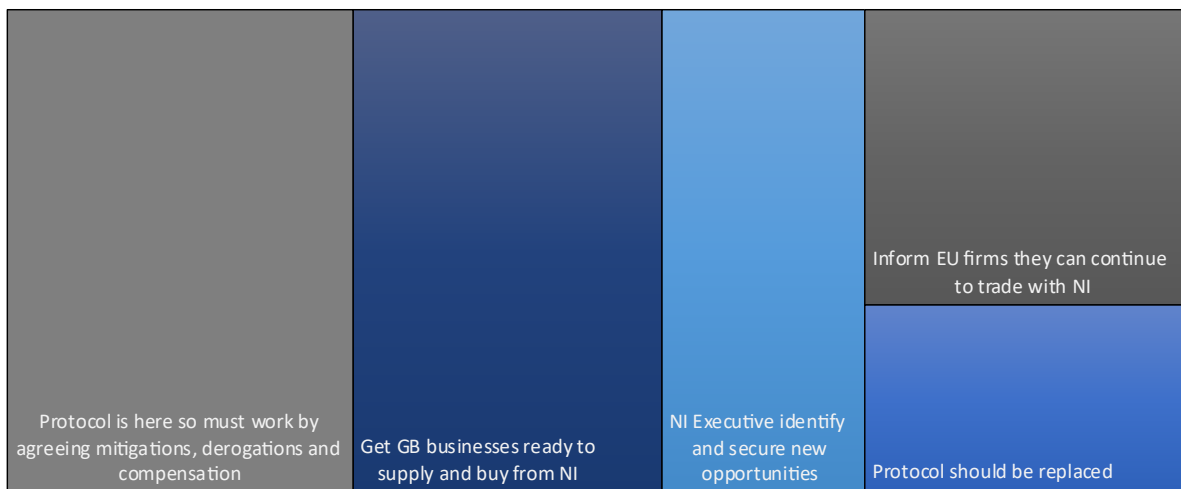
As has already been witnessed, business will adapt and reorientate however it is critical that Governments here, in London and in the EU, work to minimise this disruption. Stability, certainty, simplicity and indeed affordability must be required, particularly as businesses everywhere continue to wrestle with the Covid public health and economic crisis.



9. What do NI's manufacturers want Government to do?

Given their experience after 1 month, manufacturers were asked what actions they believed those in Governments here and in the EU should do to.

What actions do you believe the Government at home, in the UK and EU need to do? (Multiple Choice)		
	Number	% respondents
Protocol should be replaced	67	18.9%
Protocol is here so must work by agreeing mitigations, derogations and compensation	185	52.1%
NI Executive identify and secure new opportunities	109	30.7%
Get GB businesses ready to supply and buy from NI	166	46.8%
Inform EU firms they can continue to trade with NI	106	29.7%
	633	



Manufacturers want the Protocol to work.

To make it work, they are asking the UK and the EU to be active in delivering the necessary mitigations, derogations and compensation. Equally they need the UK and the EU to inform customers and suppliers of the status of NI goods and support their businesses to be capable to continue to trade with NI firms.

Almost 1 in 5 suggest that the NI Protocol should be replaced. For context, when asked a similar question at the end of the past summer this figure was 16%.

1 in 3 are asking the NI Executive and its agencies to identify and secure new opportunities provided by the Protocol. There has been some media reporting of local firms who have already secured new business and Invest NI have received significant new enquiries from potential investors from GB, Ireland, Europe and as far away as the US and Australasia.

These investors first requirement will be stability and certainty. The same is required by home-grown businesses.



10. Comments

Finally, we invited respondents to an open forum to provide some commentary on their experience to date, concerns and ideas.

- **'At Risk' test is confusing and a potential danger on the horizon**

Most firms continue to be significantly confused around the 'at risk' and 'not at risk' test which could result in some goods coming from or via GB being subject to tariff and whether a raft of waivers or other mitigations are available or appropriate. The Rules of Origin system is complex and made more challenging when trying to overlay Protocol requirement. When surveyed there was still no sight of any tariff reimbursement scheme or the use of apportionment. Some concern expresses that GB supply chains sending 'not at risk' under DDP incoterms may be a problem.

- **GB Supply issue were the biggest challenge**

Most said there was a need for support, education and encouragement for GB suppliers to quote, supply and delivery parts and materials in a timely manner Education and suppliers from GB to NI accepting their obligations. Many considered the requirements unnecessarily complex resulting in price rises due to paperwork charges or refusal to supply.

- **Simplification**

The largest call was for simplification of the process for buying from or via GB. Paperwork required for moving material or product from GB-NI, particularly the forthcoming supplementary declarations must be made user friendly and less costly.

There was frustration that unfettered access both East/West and North/South is not yet fully visible.

For those in food, there was worry about the export health certificates requirement with some reporting that this is already causing disruption to the supply chain and added cost.

- **Costs**

Some reported a 2-3 % in additional material burden which is not sustainable for a manufacturing company. This is on top of a reported 7-10% rise in logistics costs. Forthcoming costs of Supplementary Declarations would add significantly more to the administration cost (some will be relying on paying their logistics provider to do this at a charge) resulting in a competitive disadvantage.

Many called for compensation for these additional administrative costs involved.

- **Alignment of Rules**

There was support for the EU and UK rules and regulations particularly around agri-food (SPS) should be brought into alignment to remove burdens on the Irish Sea.



- **Trader Support Service**

TSS is welcome but frustrations continue about the access and quality of advice received. Concern was also expressed about the need to start planning for after the removal of the service. Many would like to see more streamlining and automation and support for transit from NI to GB via ROI.

- **VAT**

Continued access to the EU VIES was helpful but a report that EU do not recognise a NI 'GB' VAT number, advising it is 'XI' but HMRC advise VAT number remains unchanged. Other reports of confusion about VAT responsibilities moving goods from GB to ROI via NI. More detailed clarity is generally required.

- **EU Trade**

Many remain frustrated that they are having to convince EU customers that NI is different from UK and would welcome documentation from NI/UK/EU to provide to customers making our status clear. Some suggested that customs paperwork is still being requested by some couriers to the EU. Confidence in EU procurement from NI must be encouraged and supported by the EU & UK to ensure issues surrounding procurement and contract law are protected.

Companies offering warranties to EU countries only and not recognising that this still applies to NI.

- **Food / SPS**

There was frustration about the SPS requirement for food made in GB but only consumed or sold in Northern Ireland either in retail or (forthcoming) food service and hospitality.

- **Other Feedback**

At the moment disruption caused by COVID is the bigger issue. Grace periods should be extended until the impact of pandemic has ceased.

There is a lack of understanding about using Transit and a workable and affordable groupage system (including EU via GB to NI) is urgent.

Worries about supply of metals attracting tariffs (when out of quota) and potential taxes on food, agricultural and manufacturing machinery including used and not just EU made coming via GB.

Migration rules were a disadvantage versus Ireland and the EU and a call for the scheme in NI to recognise our economy, geography and competitive position.

There is a need for clarity on pallets and on potential need for repackaging onto plastic pallets as wooden pallets require certified.

Finally, a call for help to assist moving supply chains and avoid disruption.



Conclusion

In previous work, we found that when manufacturing grows, the entire Northern Ireland economy grows. In a post-Covid and post-Brexit world, the sector will once again play a hugely important part of our recovery. The breadth of its supply chain, the value add, its dominance in securing an external source of income and most importantly creating and sustaining high skilled high waged jobs across Northern Ireland brings a benefit to our service, retail and leisure industries.

As was widely predicted, the end of the Brexit transition period and the introduction of the Protocol in the midst of the Covid crisis and in the absence of the detail and time to prepare has been disruptive. However the resilience of our manufacturing businesses and their trusted partners in the supply chain and logistics has been in full display.

For our economy to recover, we need our manufacturers. For our manufacturers to thrive, they need a workable Protocol to work. To do this, they require...

The UK Government to...

- Educate and support GB suppliers to NI firms
- Work with industry to simplify processes on the Irish Sea
- Compensate for the additional costs burdens

The EU to...

- Inform and educate EU customers and suppliers to trade with NI
- Provide maximum flexibility to remove or simplify Irish Sea controls
- Work with the UK to provide certainty on issues such as TRQs on steel

The NI Executive to...

- Provide the necessary political stability
- Identify and secure new opportunities
- Support NI firms in minimising disruption

