

THE GENESIS INITIATIVE – EUROPEAN CHAPTER

MANIFESTO 2024

THEME – TRADING IN THE EU

Manifesto Pledge

In 2024, The Genesis Initiative will further promote the advancement of trade in goods and services between the UK's micro and small businesses and the EU

Introduction

The Genesis Initiative represents over 100 UK Trade Bodies. The majority of them represent micro businesses (undertakings with 9 or fewer employees). The Genesis Initiative recognises the critical importance of the European Union (EU) as a long-standing and compelling source of trade relations, covering both goods and services.

The UK left the EU, single market and customs union at the end of 2020. UK trade with the EU since then has been regulated by the Trade and Co-Operation Agreement (TCA); the aim of which is to eliminate tariffs and quotas for goods and services between the UK and the EUⁱ while protecting the UK's freedom to regulate in the best interest of its citizens and business. The introduction of the TCA will be followed in 2024 by a new Customs Declaration Service for exports and imports.

In 2022, 42% of UK exports and 48% of its imports were from the EU. This represents a decline over the previous three years.ⁱⁱ This downturn was very much reflected in the fortunes of smaller enterprises in the UK.

Discussion

There is a significant amount of evidence that UK enterprises, particularly micro and small businesses are finding trading in the EU difficult. These conclusions are supported by surveys by FSB, BCC, IOD, LSE and others.

A British Chamber of Commerce surveyⁱⁱⁱ published in December 2023 revealed that almost 60% of British businesses trading with the EU say it is now more difficult to do so than a year ago. Two fifths of those surveyed said they face difficulties adapting to the new rules on buying and selling goods. In particular, the report highlights that 733 businesses (97% SMEs) show the difficulties facing British firms in using the TCA have not eased. The survey underlines the challenges facing UK businesses, which

is accentuated for micro and small businesses with limited resources, facing the new cross-border compliance and various non-tariff barriers.

Another survey by the Centre for Economic Performance (CEP) at the London School of Economics and Political Science, analysing the trade patterns of 1,200 products, found UK imports from the EU fell by 25% when the UK exited from the EU. In particular, for both exporting and importing, the survey revealed that there was a sharp drop in the number of trade relationships between UK exporters and EU importers, with low value relationships. This finding, the report claims, is consistent with claim that the TCA has caused many smaller UK firms to stop exporting to the EU. ^{iv}

The Federation of Small Business (FSB), in their Small Business Index Quarter 3, 2023 report, stated that “one in eight small exporters have temporarily or permanently stopped selling to the EU and a further nine percent are thinking about it”.

Under the new trading relationships, the evidence shows that UK’s small firms have struggled to absorb custom controls, VAT and regulatory red tape resulting in increased costs, rules, paper work, delays and disruption.

Although, the TCA’s aim is to help UK businesses, it would seem that problems in its implementation is the main cause of the difficulties of trading within the EU. It is also likely that the introduction of the Customs Declaration Service for exports and imports in 2024 will set further challenges to businesses in the UK.

Financial services, meanwhile, continue to be a vital part of international trade, accounting for one-fifth of all UK services exports. However, export performance between 2018 and 2021 recorded an 18% decrease in financial services exports to the EU, with only a 4% increase in exports to non-EU countries to offset it.

The annual HM Treasury review of UK financial services 2023 ^v prioritises the strengthening of the UK-based financial and professional services sector via enhanced EU-UK business ties.

On 27 June 2023, the UK signed a long-awaited Memorandum of Understanding with the European Union to increase co-operation on financial services.

Although the MoU does not constitute an agreement, or even a roadmap towards reinstating any of the mutual freedoms enjoyed prior to Brexit, it puts in place an

arrangement between the UK and EU financial supervisors to cooperate around shared objectives; and establishes a 'Forum' mechanism to facilitate resumption of official market dialogue.

Recommendations

The Genesis Initiative strongly recommends that UK small business trading concerns (both goods and services) be actively strengthened in the framework of the EU-UK Parliamentary Partnership Assembly (PPA), created in 2022, and composed of a Delegation of UK Members of Parliament meeting together with a Delegation of Members of the European Parliament.

The PPA was established under the terms of the 2021 TCA and acts as a forum for parliamentarians to exchange views on the implementation and operation of the TCA. The TCA established a Partnership Council as a joint UK-EU body which informs the PPA of its decisions and recommendations. The PPA may make recommendations to the Partnership Council. The PPA meets twice a year, once in London and once in either Brussels or Strasbourg, issuing a report following each meeting.

The Genesis Initiative recommends that UK-EU small business trading concerns be an integral, permanent topic of discussion under the PPA framework, and that the PPA involve EU and UK small business representative bodies. The Genesis Initiative stands by to facilitate this process via its Board Members in London and Brussels.

As regards financial services and mutual access between the EU and UK markets, the Genesis Initiative notes the formation of the Joint EU-UK Financial Regulatory Forum (the Forum) between the EU and the UK to support the sharing of views and knowledge, and cooperation in financial services regulatory matters.

Ahead of its next session in Brussels in spring 2024, the Forum should prioritise the specificities of small business financial firms and sole-practitioners, seeking to market their services in both regions. The agenda could include: (A) EU and UK regulatory developments in financial services affecting small businesses; (B) the respective policies, rules and processes concerning deference regimes, such as equivalence and other tools used to address cross-border issues; and, (C) efforts to prevent and combat money laundering and terrorist financing.

UK Trade Regulations and Standards are inevitably still relatively close to those in the EU as these were embodied within UK legislation for many years. Also, in a

number of cases, the UK was influential in the drafting of those regulations and standards. This presents a good platform for negotiating more effective and efficient co-operation with EU institutions. A good example recently is the UK re-joining the Horizon Europe programme which funds and promotes innovation and research between UK and EU institutions. The Genesis Initiative believes that Government and UK institutions should enhance their activities to engage with EU projects and schemes to enhance UK business in general and small businesses in particular.

i The UK-EU Trade and Cooperation Agreement: summary and implementation - House of Commons Library (parliament.uk)

ii House of Commons Library – Statistics on UK and EU Trade May 2023.

iii Brexit At Three : Fresh Trade Challenges Growing - British Chambers of Commerce

iv cep.lse.ac.uk › pubs › download

v <https://www.gov.uk/government/publications/state-of-the-sector-annual-review-of-uk-financial-services-2023>

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Introduction to the Genesis Initiative Limited

Formed in 1999, The Genesis Initiative has dedicated itself to improving the quality of the debate on micro, small and medium sized businesses and creating economic reform, driven by those businesses, Trade Associations and their members, all supported by Parliamentarians. It is a company limited by guarantee and is cross party in nature. Its vision from inception has been to make the UK the best place in the world for Micro, Small & Medium sized Enterprises to start, grow and thrive.

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