

EUROPEAN UNION EXIT - UPDATE

REPORT OF ASSISTANT DIRECTOR OF BUSINESS AND PROPERTY SERVICES

1. Introduction

- 1.1 This report provides an update to the Scrutiny Coordinating Committee with regard to the EU Exit.

2. Background

- 2.1 The UK left the EU at 11 p.m. on 31 January 2020.
- 2.2 Under the Withdrawal Agreement with the EU, the UK had until 31 December 2020 ("the Transition Period") to negotiate and implement new trade arrangements with the EU.
- 2.3 To maintain the movement of people, goods and services on the single market basis (zero tariffs and quotas, friction-less trade) the UK needed a comprehensive trade deal, customs agreement and regulatory framework with the EU.
- 2.4 The EU–UK Trade and Cooperation Agreement, was signed on 30 December 2020, and was provisionally applied from 1 January 2021, when the Transition Period ended, before formally entering into force on 1 May 2021, after the ratification processes on both sides were completed.
- 2.5 The UK's originally proposed Border Operating Model phased the introduction of customs transitional arrangement into three stages up to 1 July 2021.
- 2.6 In the first stage, from 1 January 2021, traders:
- Could decide whether to defer the UK customs import declaration for up to six months after the date of the import or complete full customs declarations on import.
 - Would not have to submit Entry Safety and Security declarations on all imports.
 - Would not have to submit pre-notification and health documentation for imports of Products of Animal Origin (POAO) or regulated plants and plant products.
- 2.7 In the second stage, from 1 April 2021, traders:

- Would have to submit pre-notification and health documentation for POAO imports or regulated plants and plant products.

2.8 In the third stage, from 1 July 2021, the full new border regime would be implemented, traders:

- Would no longer be able to defer customs declarations.
- Would have to submit Entry Safety and Security declarations on all imports.
- Would have to be prepared for relevant POAO goods to enter Great Britain via a Border Control Post either at port or an inland site, accompanied by POAO documentary requirements.

2.9 The EU was ready to impose its import controls at the end of the Transition Period and, hence, UK exports to the EU have been subject of full customs import controls on entering the EU since 1 January 2021.

3 Timetable Revisions

3.9 On 11 March, the UK Government postponed stages two and three of its Border Operating Model and announced a new timetable for introducing import border control processes, with controls on most EU imports now effective from 1 January 2022.

3.10 This was to give businesses more time to complete customs declarations on goods imported into the UK from the EU, allow the completion of UK border infrastructure and to avoid supply issues during the ongoing Covid pandemic. While tariffs are still be payable where they are due, this payment may be deferred.

3.11 Under the new timetable, from 1 October 2021 there would have been checks on POAO, and agri-food documentation, with the next and main tranche of controls (including physical checks at the UK border and removing the option to use the deferred customs declaration scheme) coming in on 1 January 2022, and the final stage, covering live animals and low-risk plant products, being introduced in March 2022.

3.12 On 14 September 2021 the Government announced a further postponement to the Border Operating Model. Whilst implementation dates in respect of POAO documentation, customs controls and physical checks at the border, and live animals and low-risk plant products remained unchanged at 1 October, 1 January and 1 March 2022 respectively, all requirements in respect of agri-foods imports due to come into effect on 1 October 2021 and 1 January 2022 were postponed until 1 July 2022. Pressures on global supply chains and the potential impacts on businesses recovering from the Covid-19 pandemic were cited as the reasons for the further postponement.

3.13 Full customs controls on UK-EU trade in both directions should therefore be in place from 1 July 2022 onwards and in March 2023 the delayed Customs Declaration Service IT system be fully up and running.

4 EU Exit - Risk Register.

- 4.1 In order to assess and respond to the risks of the EU Exit, an EU Exit Risk Register was created and continues to be updated. The purpose of the register is to ensure key risks are identified, assessed and managed as far as is possible, recognising that a number of the issues are national, and it is difficult for the LA to mitigate.
- 4.2 It has become increasingly more difficult to identify, the extent that EU Exit is impacting on Council activities as opposed to the compound effect of Covid and the current economic and social climate. For example, it was believed that the EU Exit would impact on trade across the Channel, but in December 2020, severe delays occurred at Channel crossings due to Covid and continues to have an impact. Whilst there is currently a reduction in trade with the EU, this can be attributed to a number of factors.
- 4.3 The City Plan has been refreshed to reflect the Council's response to challenges facing local communities, including the impact of Covid and the EU Exit. The Council's overall Strategic Risk Profile has therefore been reviewed in response to the revised City Plan, capturing, Economic, Health and Social issues.
- 4.4 A summary of the EU Exit Risk Register is shown below.

EU EXIT RISK REGISTER (September 21)

	Risk Description	Initial Score	Update	Current Score
R001	Council services are unable to meet demand if the UK's EU exit is accompanied by other significant events, resulting in staff absence and an increased demand for services.	H	There is no current evidence to suggest that the EU Exit has significantly impacted on staff absence or increased demand on Council services.	L
R002	City partners (including Council) not co-ordinating preparations / response to the UK's exit from the EU, especially if accompanied by other events.	H	City Partners have shared intelligence and approaches to communicate with residents. No specific issues.	L
R003	Regional partners (including Council) not co-ordinating preparations / response to the UK's exit from the EU, especially if accompanied by other events.	M	The North East COVID-19 Economic Response Group, made up of the North East Local Enterprise Partnership (LEP), CBI, North of Tyne and North East Combined Authorities with the support of industry, has published the ambitious North East Recovery and Renewal Deal which asks Government for £2.8 billion investment. The recovery plan considers the economic impact of EU Exit.	L
R004	Opportunities are not taken to enable residents and communities to support themselves to mitigate the impact of the UK's EU exit.	H	The Council working closely with the VCSE sector and volunteers provides financial advice and guidance and operates a crisis support scheme for people who lack the financial resources for food and fuel. In addition, foodbanks provide support to people referred to them. The council provides a range of support to foodbanks. The extent to which the EU Exit has contributed to the problems is not easily identifiable.	M
R005	Potential negative impact on the city's economy.	H	Sunderland has been chosen as the base of Nissan 36Zero, a £1bn flagship Electric Vehicle (EV) Hub that will create a world-first EV manufacturing ecosystem. Comprised of three interconnected	M

			<p>initiatives, Nissan EV36Zero brings together electric vehicles, renewable energy and battery production. The projects represent 6,500 jobs at Nissan and its UK suppliers, including more than 900 new Nissan jobs and 750 new jobs at a second Envision-AESC Gigafactory.</p> <p>Whilst tariffs and quotas may impact businesses, in view of the above the overall impact of EU Exit on the city's economy will be greatly reduced.</p>	
R006	Adverse impact on Council finances.	H	The 2021/22 budget (revenue and capital) was approved at Council in March 2021, following the usual consultation and scrutiny. Balanced revenue budget agreed for the year including use of some reserves, although remaining pressures in the MTFP and uncertainty re: comprehensive spending review, fair funding review, detail of the Shared Prosperity Fund etc.	M
R007	Reduction in the availability of care workers.	M	Whilst Covid has placed severe pressures on the care system there is no evidence that EU Exit has had a major impact.	L
R008	PPE is not readily available to support service delivery.	M	Currently, there is not a shortage of PPE and there has been no indication that EU Exit has caused any specific issues.	L
R009	Delays within Council supply chains (e.g., machinery and parts) reducing service capacity and capability.	M	There are currently issues with the supply of many materials, with extended lead in times. The lorry driver shortage is a contributing factor. The extent that EU Exit has contributed to the problems is difficult to define (separate from other factors). As part of the Council's Business Continuity Planning process, all areas are asked to consider alternate suppliers to mitigate in the event of a supply chain failure.	M
R010	Delays in delivering the Capital Programme.	M	There are reported to be increases in the cost and delays to the supply of construction and other materials. However, there is no evidence to suggest that EU	L

			Exit will adversely impact the delivery of the Capital Programme.	
R011	Port of Sunderland does not have the capacity to take on additional measures.	L	No specific issues have arisen.	L
R012	Fuel shortage caused by delays / reductions in supply.	M	There have been no significant fuel shortages following EU Exit.	L
R013	Withdrawal of electricity/gas supply from EU countries leads to reduced electricity supply at a National and local level	L	There have been no significant shortages of electricity/gas arising from EU Exit.	L
R014	Delays in delivering basic food items to market, exacerbated by panic buying creates real shortage in school meals, care & nursing homes and for vulnerable people.	H	There is currently a lorry driver shortage which threatens food and other supply chains. The Council's supply chain of frozen food / fruit & veg groceries is predominately supplied from the EU and may therefore be subject to reduced choice and price increases. Whilst no significant issues have been experienced to date, the lorry driver shortage may exacerbate the situation.	M
R015	Shortages of medicines and medical supplies.	H	There have been no reports of major disruptions to the supply of medicines and medical supplies arising from EU Exit	L
R016	Pace of changes to trading standards regulations and frameworks, i.e., labelling of chemicals/fertilizer and consumer rights.	M	In comparison with the issues that have arisen from Covid, the EU Exit has not adversely impacted on the delivery of Trading Standards.	L
R017	SCC employees fail to register for the UK Settlement Scheme.	M	There has been no adverse impact on SCC resources arising from EU Exit	L
R018	Increase in social unrest and protests.	M	There has not been a noticeable increase in social unrest or protests arising from EU Exit	L
R019	The Council is not in a position to ensure data flows with the EU/EEA can	M	The Council's data has continued to flow between the UK and the EU uninterrupted. On 28 June, the EU Commission approved	L

	legally continue in the absence of adequacy decisions being granted to the UK, and is also unable to meet new obligations under the Withdrawal Agreement		<p>'adequacy' decisions for the UK GDPR, so this means data can continue to flow freely from the EU to the UK, in the majority of cases. (The UK GDPR has a reciprocal adequacy arrangement approving data flows from the UK to the EU/EEA).</p> <p>The EU Law Enforcement Directive (LED) allows for the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties</p>	
R020	Cessation / delays to the receipt of intelligence / information from EU member states	M	<p>The Withdrawal Agreement with the EU retains the participation of UK law enforcement in a number of EU arrangements. The UK has invested resources into Interpol while continuing its commitment to Europol, albeit as a third country rather than a full member.</p> <p>The Agreement also includes arrangements to share information on health risks, such as pandemics, plus ad-hoc access on specific request to the EU Early Warning and Response System tool. Cooperation on other areas that affect health were also agreed, for instance, British scientists will still be able to be included in the flagship Horizon Europe funding programme and the deal commits to ongoing UK–EU cooperation on antimicrobial resistance.</p>	L

5 Summary

- 5.1 The introduction of full import controls for goods entering the UK from the EU is likely to result in some disruption in terms of both the amounts of goods arriving and delays to those arrivals. It will probably be like the immediate and visible effects of export controls (i.e. EU import controls), which have 'settled down' in the sense that we are now seeing the beginnings of a longer-term adjustment to trade being at lower levels than before. It is less likely that there will be a "cliff-edge" situation where the impacts result in immediate shortages and delays at each stage of the introduction of the new controls.

- 5.2 Instead, it is more likely there will be a gradual decline which, as with the current widespread reports of empty shelves and unpicked produce, causes inconvenience but probably no dramatic crisis (although some commentators still warn of it).
- 5.3 The underlying issue of labour shortages means it will be the same story across many sectors, from construction materials to food imports. But because there are other variables that impact on the situation (e.g. Covid), it was always going to be hard to definitively explain any reduction in trade solely in terms of the UK exiting the EU.
- 5.4 The UK supply chain industry works on a just in time basis across many sectors including foods, medicines, construction materials and oil for refining. It is reported that there is relatively little large-scale warehousing in the UK for goods with most goods only being warehoused for a short period at the point they enter the UK supply chain from the EU.
- 5.5 Whilst the UK supply chain industry can cope with increased demands for goods that are already in the UK, delays and shortages of goods entering the UK from the EU will ultimately impact on the timeliness and amounts of goods entering the UK supply chain and the availability of goods in the UK within a relatively short period of time. These delays could be more critical should panic-buying take place and items become unavailable in UK supermarkets and stores.
- 5.6 These impacts will be further exacerbated in a “worst-case” scenario due to a combination of any or all of future Covid-19 waves, winter flu, adverse weather and disruption to global supply routes such as that caused by the obstruction of the Suez Canal by the Ever Given container ship in March.
- 5.7 City partners are likely to experience some disruption and delay to their supply chains for goods from the EU during the next 12 months although this more likely to arise from the adjustment of trade as full customs controls are placed on UK imports from the EU as opposed to trade being unable to take place as a result of the UK exiting the EU.
- 5.8 Vulnerable groups including social care users, children, the elderly, and people that require medication to manage health conditions may, therefore, need increased levels of support. In addition, other city residents may find themselves without access to goods and products which may result in additional pressure on services in place to support the most vulnerable such as food banks. As stated in R004 above, the Council working closely with the VCSE sector and volunteers, provides support and guidance for vulnerable people.

- 5.9 Uncertainty remains regarding the size, scope and distribution of the Shared Prosperity Fund, which is intended to replace EU funding.
- 5.10 The Risk Register attempts to identify areas where the EU Exit is having a major impact. In the majority of cases, it may be a contributing factor and can be considered, to be part of the “new normal”. These risks are now considered and embedded within the Council’s overall Strategic Risk Profile or by specific service areas.