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The end of the Brexit transition period

Was the UK prepared?

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Summary

Nearly three months after the transition period ended and the new UK-EU trading relationship took effect, businesses and government are still adjusting to the new normal.

It is too early to fully understand the long-term impact of the new barriers to trade with the EU erected by the Trade and Cooperation Agreement, or to disentangle the Brexit effect from the impact of the pandemic. But this paper examines what we know so far about how businesses have coped since the start of this year, the adequacy of the government's preparations, and the changes still to come.

Introduction

On 24 December 2020 the UK and EU agreed a deal on their future trading and security relationship. Seven days later, the transition period ended and the EU-UK Trade and Cooperation Agreement (TCA) and Northern Ireland Protocol (agreed as part of the earlier Withdrawal Agreement) took effect. The UK had already left the political institutions of the EU on 31 January 2020. However, the transition period meant that very little had changed in practice while the future relationship was being negotiated: 1 January 2021 was the real Brexit for most people, businesses, and the government.

The UK's exit from the EU single market and customs union means businesses now face significant new barriers to trade with the EU27. Although the TCA prevented the introduction of tariffs and quotas on goods trade, firms have to comply with complex rules of origin to benefit. The UK's decision to prioritise regulatory freedom over market access in negotiations means businesses trading goods with the EU face high new non-tariff barriers – like customs and health checks – and new 'behind the border' requirements, such as dual regulatory regimes in chemicals and product standards.

The TCA does little to reduce the new barriers that services firms face outside the single market. Although it guarantees limited market access, there are many exclusions that vary between member states. There is no mutual recognition of professional qualifications and the financial services sector has largely been ignored – the TCA only includes a commitment to agree a memorandum of understanding on regulatory co-operation, which still hasn't been reached.

It is not just the TCA that underpins the UK's new trading relationship with the EU. The Northern Ireland Protocol sets the parameters for trade in goods between Great Britain and Northern Ireland as well as between Northern Ireland and the EU. To avoid a hard border on the island of Ireland, the protocol requires Northern Ireland to continue to comply with many EU rules. The terms of the TCA mean there is a customs and regulatory border in the Irish Sea, with new checks and paperwork on goods moving GB-NI. The government has more discretion on NI-GB trade and has committed to ensuring 'unfettered access' into Great Britain.

Many businesses were not ready for 1 January. Although the government's negotiating position – to leave the EU single market and customs union – was evident throughout 2020, ministers consisently failed to be upfront about the trade-offs that this would involve. The devastating impact of the coronavirus further hampered firms' ability to prepare for Brexit.[1] The last-minute nature of the deal also caused problems; the full 1,246-page TCA was only published five days before it took effect.

The impact on business is still unfolding, with the effect on some sectors – such as agri-food - more obvious than others. The government has described the immediate disruption as 'teething problems', but this is not the full picture. The nature of the new trading relationship with the EU also poses structural issues for many firms – new costs and rules may require businesses to change how they operate to remain viable.

The pandemic undoubtedly monopolised government time and energy during 2020, but despite this pressure, the civil service did manage to prepare for Brexit. But its job is not yet done. It still needs to fully implement the agreements with the EU,[2] and ensure government and business are ready for the (delayed) introduction of full import controls and further regulatory changes in future. In the longer term, the government intends to build the 'world's most effective border' and to use its regulatory autonomy in areas like agriculture and financial services, which business will need to adapt to.

The economic impact of the end of the transition is complex. The huge falls in trade in January cannot be solely attributed to new trade barriers – business stockpiling and the ongoing effect of the pandemic also played a part.[3] It is still too early to judge the long-term impact, although the Office for Budget Responsibility has estimated a 4% hit to GDP over 15 years.[4]

Given this uncertainty, this paper aims to draw some preliminary conclusions about how government and businesses have navigated the end of the transition period and look ahead to some of the challenges to come, such as managing the, at times, fractious UK and EU relationship. As the Northern Ireland Protocol poses many distinct problems for businesses and is subject to specific political sensitivities, we mainly focus on GB-EU trade under the TCA, although we draw on Northern Irish examples where relevant.

Businesses have faced significant disruption – although most of it has taken place away from the border

"We have got to get past Brexit as crisis management. This is our way of trading for the next 50 years. It's permanent. This is Brexit." – Shane Brennan, Chief Executive, The Cold Chain Federation[5]

The end of the transition period did not lead to the sorts of disruption some had feared. But this does not mean it has been smooth sailing. It was inevitable that businesses – even those that are larger and were better prepared - would struggle to adjust given the complexity and speed of changes introduced at the end of the transition period.[6]

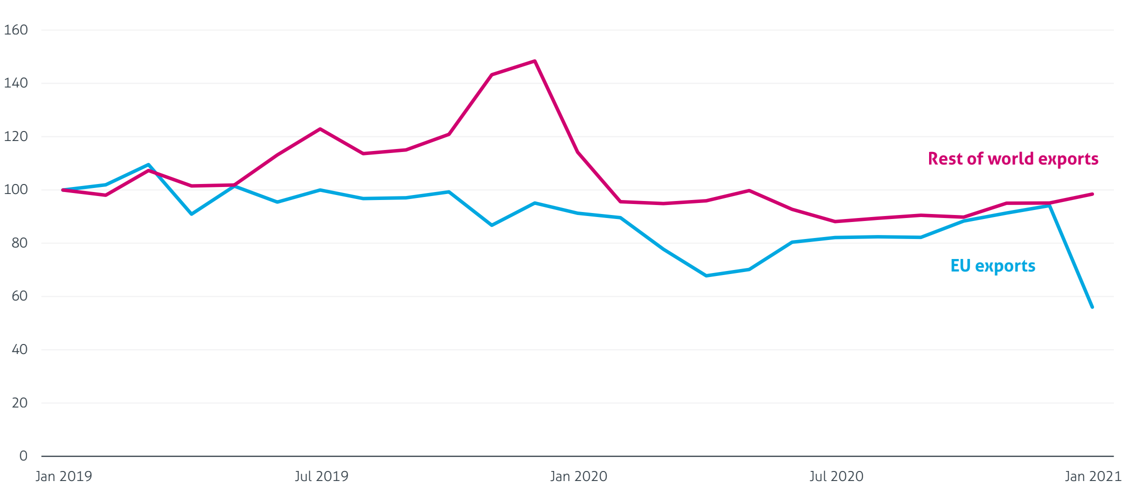
Some of these problems may be resolved as firms adjust to new rules. But the size of the new barriers to trade – especially given how closely the UK economy is integrated with that of the EU – means that some businesses will need to make significant changes to how they operate, or cease trading altogether.

Trade fell dramatically in January – in part due to Brexit

The Reasonable Worst Case Scenario, published by the government in September 2020 as a 'wake-up call' for industry, estimated that 30-50% of lorries could turn up to the Port of Dover or Eurotunnel without the correct paperwork, leading to queues of around 7,000 lorries in Kent.[7] However, the end of the transition period did not result in these levels of traffic disruption at the key channel ports (despite the unexpected closure of the French border over Covid concerns before Christmas).

But while seemingly positive, this disguises a more complicated reality. Traffic flows between Great Britain and the EU were much lower than normal at the start of the year[8] and the first official statistics on UK trade in January – published on 12 March – showed a dramatic fall in trade between the UK and the EU. As shown in figure 1, UK exports to the EU fell 40% between December 2020 and January 2021, while exports to the rest of the world remained largely unchanged. Imports from the EU were also down by 29% over the same period.[9]

Figure 1: **UK exports to the EU and rest of the world (January 2019=100)**

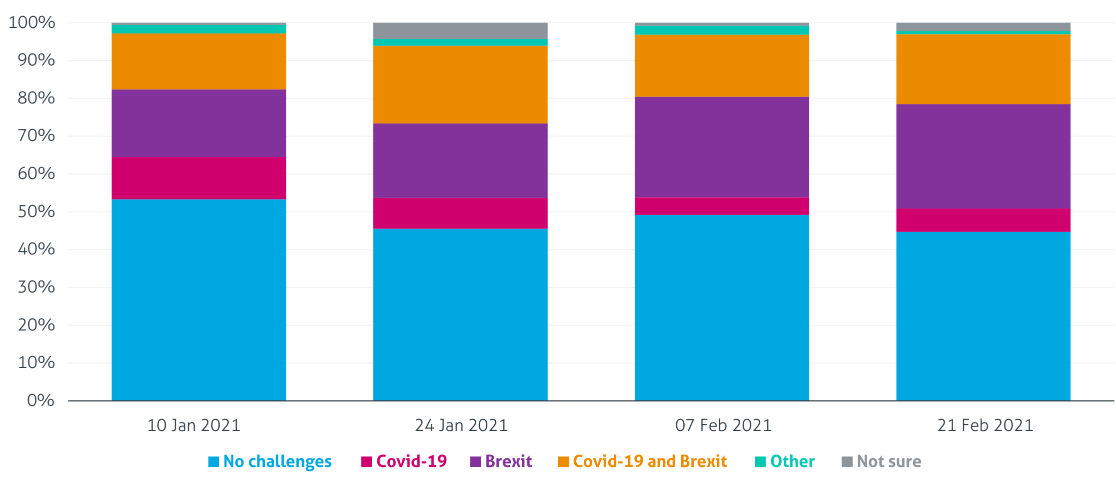


Source: Institute for Government analysis of Office for National Statistics, 'UK Trade: January 2021', 12 March 2021

As the ONS has said, it is difficult to disentangle the cause of these falls.[10] The pandemic has affected global supply chains, altered consumer demand and introduced new barriers when moving goods – such as the need for lorry drivers entering some EU countries to have a negative Covid test. But Brexit has undoubtedly played a part too. Exports will have been dampened by initial confusion over new paperwork and firms temporarily suspending trade to adapt to new rules or to avoid getting caught up in delays. Imports will have been slowed due to firms working through their pre-Brexit stockpiles. Some data suggests that Brexit has been the driving force behind falling trade. German imports from the UK were down 56% in January compared to the same month in 2020 – much more than the 10% reduction in imports from the rest of the world (which have also been hit by the pandemic).[11]

In surveys, businesses reported that both coronavirus and Brexit caused problems early this year. As figure 2 on the next page shows, businesses were most likely to report Brexit as a reason for challenges exporting, but many of those also attribute their struggles to coronavirus, showing that the effects are hard to disentangle.

Figure 2: **Cause of challenges faced by businesses in exporting**



Source: Institute for Government analysis of Office for National Statistics, Business Impact of Coronavirus Survey, January to February 2021

Since February, lorry volumes have returned to near normal levels[12] – although reported increases in empty trucks (on which figures are disputed) suggest the value of trade has not recovered at the same rate.[13] Given the uncertainty and limited data available, it will take months before it becomes clear to what extent the dramatic falls in trade in January were a blip, or indicative of a lasting Brexit impact. However, in the longer-term, economists do expect trade patterns to shift as a result of leaving the single market and customs union, which suggests that cabinet minister Lord Frost's claim that overall freight volumes are returning to 'normal' may not be borne out in the long term.[14]

The impact of the end of the transition period on business has not been uniform

The end of the transition period posed a major challenge for firms trading with the EU, prompting Ben Fletcher, executive director of policy and engagement at Make UK, to describe the first few weeks of the year as "like Dante's fifth circle of hell."[15] With little notice, firms had to make sense of the TCA and Northern Ireland Protocol, navigate new government IT systems that had gone live only days before and complete paperwork that previously was not required.

The impact on different types of business has not been identical. For those with a closely integrated supply chain and business models based on the ease of access to the EU single market, the end of the transition period has caused acute problems. Most visibly, this has been the case for agri-food exporters; James Withers, Chief Executive of Scottish Food and Drink, claimed the Scottish seafood industry was losing £1 million a day in lost sales at the start of the year.[16] While January trade figures from the ONS showed exports of food and live animals were less than half those seen during the same month last year;[17] the Food and Drink Federation reported Salmon exports fell by 98%.[18] The perishable nature of agri-food prevented firms from stockpiling and the short shelf life of these goods left the sector extremely vulnerable to delivery delays. These goods are also subject to particularly extensive new paperwork and inspection requirements. The EU's third-country regime, which prohibits the import of some agri-food goods entirely, has

posed an existential problem for some businesses.[19]

By contrast, the impact on the automotive sector – which stockpiled extensively – has not been as drastic, with firms largely able to continue production. However, the sector did encounter some Brexit disruption, with confusion reported within supply chains over who is responsible for completing new paperwork and delivery delays. Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders, described the industry as "paddling furiously below the water to keep things going."[20] And problems may also be stored up for later in the year when importers have to prove origin for their goods (a task they have been able to defer for up to six months). This is on top of ongoing pressures in the global supply chain caused by Covid-19.[21]

For other sectors, while the impact of the end of the transition period has been huge, disruption has been limited. For instance, financial services firms faced a dramatic reduction in their access to EU markets when EU 'passporting' arrangements ended on 31 December. As a result, some €8 billion in daily share trading moved from London to Amsterdam and Paris on 4 January, while – as of the start of March – firms had transferred an estimated £1.3 trillion in assets to the EU.[22] But firms had known for several years that the TCA was unlikely to allow business to continue as before, and had prepared accordingly.*

Even within sectors, the impact has varied between businesses, with factors such as previous experience of trade with the rest of the world, the size of the business, the impact of Covid on their preparations and the nature of a firm's business model and supply chains affecting how readily firms were able to adapt.

Firms that felt well-prepared have still faced problems – indicative of a lack of transparency around negotiations: a Make UK survey conducted in January found 60% of manufacturing firms surveyed had believed they were ready for the end of the transition period but then faced unexpected disruption.[23] Notably new rules of origin requirements took many well-prepared businesses by surprise – in particular rules on 'reimportation'. These mean that goods imported from the EU to a GB distribution centre and then reshipped to another part of the EU without further processing often face tariffs when sent back to Europe. Although this issue was foreseen by many trade experts, it came as a surprise to many businesses—even large ones. For instance, Marks & Spencer warned that its Percy Pig sweets (produced in Germany but distributed from Great Britain) could cost more in the Republic of Ireland as a result of tariffs.[24]

Some disruption was a result of 'teething problems' – which may be resolved

In January, the prime minister described the disruption some businesses were facing as "teething problems" – short-term disruption that is likely to dissipate (or already has).[25] In some instances, this may well be the case.

* The EU had been expected to make decisions on whether to grant the UK 'equivalence' in financial services before the end of the transition period, thereby allowing some – much more limited – access to EU financial services markets for UK firms to continue. These decisions are still outstanding, creating a level of uncertainty for UK financial services firms. For more information, see *Preparing Brexit: How ready is the UK?, Op cit.*

General confusion over new rules and requirements should reduce and make trading under new conditions more predictable and manageable. Initially, some businesses didn't follow the correct process on agri-food shipments and drivers arrived at ports without the correct paperwork.[26] Some firms have struggled to access haulage services and faced prices inflated up to four times the normal rate, and automotive firms have resorted to air freighting parts to ensure production can continue. Some traders have also experienced inconsistent treatment by border staff – suggesting that new rules have not always been applied in a uniform manner.[27]

But, as businesses and government agencies adjust, these issues should be resolved – as indicated by a steady reduction in the percentage of lorries turned away from the major ports for incomplete paperwork; turnback rates at the short straits ports averaged between 3-8% at the start of the year* (and were reportedly as high as 20% at Holyhead at the start of January), but have since fallen.[28]

These short-term problems have been exacerbated by a lack of capacity in the private customs sector (which helps many firms comply with new customs paperwork), despite government claims to the contrary.[29] Firms have reportedly struggled to find customs agents suited to their needs, prompting Duncan Buchanan of the Road Haulage Association to say that firms were "cherry picking the business they want to do".[30] Many firms have found prices prohibitively high or overwhelmed agents struggling to meet demand, causing delays.[31] There have long been concerns that a shortage of agents would be a problem, and the government may have to further intervene. But again, in theory, this is a problem that should improve with time.

But disruption is the direct consequences of the new UK-EU trading relationship and how trade adapts in the long-term is still uncertain

Even once teething problems have died down, firms face new barriers to trade that won't go away – posing structural challenges for how they do business. These may take two forms.

First, the additional costs of new non-tariff barriers and other regulatory requirements could make pre-Brexit business models unviable, requiring firms to readjust their supply chains or business models. It will take time for firms to assess the full impact of these costs, the true picture will only emerge as short-term disruption eases and the new 'business as usual' becomes clear.

One example is the duplicate regulatory regimes for firms operating in both the UK and EU markets in areas like product standards, chemicals regulation and rules on professional qualifications. The Chemical Industries Associated estimated that it may cost the sector up to £1 billion to comply with the new UK REACH regime.[32] Ultimately, the costs of complying with dual regulatory regimes could prove prohibitive for firms,

* Initial turnback rates at the short straits ports were made up of approximately 50% lorries turned away for both a lack of complete Brexit paperwork and 50% for a lack of a negative Covid test. Public Accounts Committee, *Oral evidence: UK border 2021: update*, 21 January 2021, https://committees.parliament.uk/oralevidence/1585/default

potentially leading businesses to exit or limit their operations in the UK or EU markets.

New rules of origin requirements have also made it less viable to use Great Britain as a distribution hub for the EU, as the rules on 'reimportation', outlined above, present a permanent additional cost for any business doing so. This could see operations move to the EU or Northern Ireland.

There is also evidence that Irish hauliers are adapting their trade routes – making greater use of direct ferry services between the Republic and the rest of the EU, rather than using the UK as a 'landbridge', to avoid the additional transit paperwork and the risks of delay this now entails.[33]

Second, some new rules severely restrict or prohibit certain trade entirely, often having an immediate impact and rendering firms unable to continue as before. For example, EU law prohibits the import of some goods from outside the bloc, including chilled raw minced meat and seed potatoes. Unless the UK and EU agree otherwise, these prohibitions and restrictions will also apply to GB-NI trade once the 'grace periods' agreed between the UK and EU expire. EU rules on shellfish processing also pose challenges for the industry: the government has now committed to building purification sites to address this problem and allow businesses to continue their trade.[34]

There will also be a long-term economic impact that is less easy to quantify, affected by factors such as the decisions firms make about whether or not to invest in their GB operations (choices that may have been on hold over recent years due to Brexit uncertainty) or if EU businesses decide to renew contracts with British suppliers.[35] To some extent, these decisions will also be shaped by policy choices that the UK government makes over the coming years.

Government preparations have largely held up

"I am happy to say that due to extraordinary efforts across Government all those things were done, and we were ready." – Alex Chisholm, Chief Operating Officer, Cabinet Office[36]

While the biggest task facing the government was ensuring businesses were ready for the end of the year, it also needed to ensure that its own preparations were in order. This included building or upgrading at least ten border IT systems, delivering a new traffic management system, constructing new infrastructure at the border and implementing a new immigration system.

Government officials appear relatively pleased with how their preparations have held up, although not all have been tested fully yet: import controls have been delayed further – not coming in until October 2021 and beyond – and Covid has significantly reduced levels of immigration for the time being (as discussed later in the paper).

Officials worked quickly to resolve issues as they emerged

In part, the lack of disruption at the GB-EU border reflects successful government preparations. IT systems, infrastructure, traffic management plans and new services set up to support businesses in complying with the new trading requirements have generally worked well.

For example, CHIEF, the main IT system the government uses for handling customs declarations, was successfully scaled up to meet increased demand – although it will come under more pressure once full GB import controls are introduced from January 2022. The 'Check an HGV is ready to cross the border' service, which was of particular concern prior to the end of the transition period, went live on 14 December and appears to have fulfilled its purpose to ensure most hauliers have the correct documentation.[37] There were some complaints from private software developers that they didn't have time to adapt their products to work with these systems[38] – but concerns that they would fall over immediately haven't been realised.

The government also responded well to the unexpected border closure in the run-up to Christmas after the emergence of a new Covid-19 variant in Kent. Parts of the Brexit traffic management system were repurposed overnight. Although the government was criticised for the conditions hauliers faced,[39] officials adapted their plans to account for the need for hauliers to be able to prove they had had a negative Covid-19 test, allowing the border to reopen. While there were concerns that the additional burden on drivers could increase disruption at the border from 1 January, these were not realised.

A lack of generalised border disruption also meant some government contingency plans didn't have to be put into action – such as the ferry contracts DfT had put in place to ensure the uninterrupted supply of priority goods.

But it has not been entirely straightforward. In January, businesses faced delays in setting up the relevant guarantees with HMRC to support their transit movements as well as having transit paperwork approved at inland border facilities.[40] Initially, some traders moving goods under the Common Transit Convention were confused about what information needed to be submitted to the New Computerised Transit System (NCTS). There also were issues with how UK and French IT systems interacted. But the UK government responded quickly, and worked with French authorities to provide a temporary solution to the problems.

Elsewhere, there was confusion about whether groupage loads (when consignments from multiple traders are transported together on one lorry) could continue. This posed an acute issue for firms that move agri-food from Great Britain to Northern Ireland and are particularly reliant on these shipments. The government has worked constructively with the Northern Ireland Executive and industry groups such as Logistics UK to produce new guidance aimed at resolving this issue.[41]

The government still needs to be ready for full checks on goods imported to GB from the EU

The government has not yet had its border preparations fully tested. It was already planning on phasing in import controls over a six-month period, and recently announced further delays in introducing full checks – citing poor business readiness due to the ongoing effects of the pandemic. On the government's new timetable, firms importing most agri-food goods do not need to pre-notify British authorities until October or January 2022, and full import controls – including full SPS inspections – will only apply from January 2022. (Full inspections on live animals and low risk plants and plant products at Border Control Posts have been pushed until March next year).[42]

These delays were almost inevitable, as both business and government preparations were off track (although the government maintains that it would have been ready for the original deadlines). Before the latest delay was announced, there was already concern that the additional border infrastructure needed at private ports and – where space doesn't allow – government-owned inland border facilities, would not be ready in time. The government's £200m fund to support the construction of border infrastructure at private ports was only allocated on 17 December,[43]and was significantly oversubscribed – leaving some ports with far less money than they had expected. Having bought itself more time, the government needs to consider whether further support is needed to ensure the necessary infrastructure is in place.

Businesses have consistently been concerned about capacity in the private customs sector,[44] which will only increase when full checks are introduced. The further delay to import controls may buy more time for market forces to drive up numbers, and time for the sector to train new agents. But the government may still need to offer additional financial support to recruit new staff and invest in new technology – on top of the £84 million provided last year. It should consider tightening eligibility criteria, such as restricting funding to new recruits, to avoid a repeat of claims last year that government funding has been used to poach existing agents.[45]

The government has also bought itself more time to ensure the Goods and Vehicle Movement Service (GVMS) – which is currently only being used for GB-NI trade and GB-EU trade moving under the Common Transit Convention – is able to cope with a significant increase in demand once it is introduced for most roll-on-roll-off traffic across the short straits from the end of the year. Industry groups we have spoken to have called on the government to use the extra time to test the system more thoroughly with traders, and it is encouraging that officials intend to do so.

Businesses have largely welcomed the additional time to prepare, although the UK Major Ports Group called the delay "unnecessary and disappointing" and said it was urgently hoping to talk to the government about contracts signed and costs already sunk to meet the original deadlines.[46] Frustration over the U-turn is understandable, as it was only last month that a senior official spoke of "complete certainty" over the original timeframe.[47]

Government engagement with business has been mixed

"The new fund will make a significant difference, and we are pleased that Ministers have really engaged with us on this, and come up with an excellent response." - Mike Cherry, Chair, Federation of Small Businesses[48]

Government communications throughout 2020 have been hampered by a reluctance at the political level to make clear the trade-offs involved in the kind of Brexit that the government chose to pursue. The prime minister stated that the TCA meant there would be "no non-tariff barriers" for businesses trading with the EU.[49] This is not true. Leaving the customs union and single market erected significant non-tariff barriers between the UK and the EU, including new paperwork and checks on goods and reduced access to the EU services market. The TCA did little to address this. These changes were the inevitable and foreseeable consequence of the kind of Brexit that the government pursued, and the consistent failure to make this clear – often for political reasons – consistently undermined efforts to drive business preparation.

But although ministers have not always been honest with business, at the official level engagement has been good. Despite delays in publishing guidance at the end of the year, officials have been responsive to industry concerns as the impact has been felt. It is imperative that this continues as changes are phased in across 2021 and into 2022.

The last-minute deal meant government guidance came too late for 1 January

It was not just the political framing that hindered preparations. The TCA was agreed on 24 December 2020 and published on 26 December, just five days (three working days) before it came into effect, leaving businesses with little time to make sense of the provisions before they entered into force. Guidance to help businesses was also released very late: the government published the revised Border Operating Model, outlining how the GB-EU border works, only five hours before many of the changes came into effect.[50] Although businesses called for an 'implementation period', only a few, specific, phase-in arrangements were included in the agreement or agreed separately between the UK and EU.

Detailed guidance on rules of origin was published on 29 December,[51] two days before new rules took effect, meaning that some firms with complex supply chains were unable to assess whether their goods complied with rules of origin requirements in the TCA. Last year, the Society of Motor Manufacturers and Traders indicated that this process could take its members several months.[52] At an Institute for Government event Sally Jones, Brexit lead at EY, told us that it was "deeply frustrating, bordering on negligent" for businesses to be given so little time to make sense of new guidance.[53] In practice, the delay has meant that some firms have been unable to trade tariff-free, although the ability to defer customs declarations (and therefore also defer claims of origin), and to self-declare origin until the end of 2021 (rather than having to rely on supplier certification) has helped some firms.

To some extent, delays in providing guidance are understandable. Some detail could not be known until negotiations were complete, officials working on negotiations – best placed to draft some guidance – were tied up in talks and the Christmas timing of the deal will have presented staffing challenges for government. However, in many areas, it is likely that guidance would have been drafted before negotiations were complete – especially given only a subset of issues were subject to last-minute talks. In other cases, some of the last-minute changes made to guidance did not appear to be deal dependent – for instance the government could have confirmed the final list of border facilities much earlier than 31 December 2020. Earlier clarity would have allowed businesses to be better prepared.

Official-level engagement with business has been more constructive since January

Despite the challenges posed by the late deal and last-minute publication of guidance, businesses have been positive about the government's day-to-day engagement with industry, such as the daily Border and Protocol Delivery Group stakeholder calls and regular seminars – including some co-hosted with customs officials from other countries. These have ensured stakeholders are kept abreast of emerging issues (and solutions) and have allowed firms to quickly raise questions and receive answers from government officials.

The government has been receptive to industry feedback – for instance, creating a new flowchart to help firms understand rules of origin guidance and using case studies to illustrate how new processes work in practice. The government has also made use of its Brexit Business Taskforce to communicate with business and consider issues on a sector-by-sector basis.

The government has also been responsive to challenges specific sectors have faced, for example, following mounting political pressure, launching a £23 million UK-wide 'Seafood Disruption Support Scheme', to provide up to £100,000 to SMEs that can evidence losses incurred when exporting fresh or live fish during January.[54] This money has helped firms weather short-term disruption, but does not change the fact that firms must adapt to higher costs and new rules when trading with the EU.

Despite these steps, issues remain. Some businesses have had problems navigating the guidance, finding GOV.UK infrastructure difficult to use. There are also limits to how helpful general government advice can be, with firms needing bespoke advice – often from the private sector – on how new rules affect their operations.[55] The ONS has criticised the government for using unpublished data to rebut claims made by the Road Haulage Association about disruption to trade – a move that damaged trust among businesses facing real difficulties.[56] There have also been reports that expert officials working 'on the ground' to implement new border checks were not adequately involved in the decision to further delay the introduction of new rules, suggesting problems with internal communications.[57]

The government's task now is to maintain momentum for the changes still to come. In February, the government announced a £20 million fund to help SMEs get ready for new import controls[58] – but given the government's concern about the poor state of readiness, this money will not stretch very far, and experience to date makes clear that even large businesses need help to prepare.

Covid has delayed the full impact of Brexit

"For about 30% of the economy, maybe, Brexit hasn't happened yet" - Nicola Sykes, Director of External Affairs, Pro Bono Economics[59]

In May 2020, there was an assumption that the huge amount of time, money and energy going into responding to the coronavirus crisis would inevitably lead to the government seeking an extension to the transition period. But this did not happen. It was reported that some ministers were against a delay in the hope that the impact of coronavirus would disguise any impact of Brexit – deal or no deal.[60]

To some extent, those ministers were proved right. Where disruption has occurred, it has not always been easy to distinguish whether it has been caused by Brexit or Covid. Covid has also delayed some of the most obvious impacts of the Brexit deal – at least until lockdowns ease and borders re-open.

Border restrictions have drastically cut business and holiday travel, including to the EU

While most of the focus of the Brexit impact has been at the border, one of the key criticisms of the TCA was the limited provisions made for services. And it is the impact on services trade that has been most disguised by the pandemic.

Under the TCA, visa-free short-term business trips are only permitted for a limited range of purposes and Britons can only spend 90 days in any 180-day period in the Schengen Area. Firms that send their staff to the EU to deliver services will need to keep tabs on their employees' travel plans, and holidaymakers and second-home owners could also be caught out.

But while these provisions may dramatically change how certain companies do business in the EU, the pandemic has meant that the reality hasn't taken hold yet. There are some exemptions to the travel restrictions, for example those who need to deliver contract jobs overseas – which means firms delivering those kinds of services are already feeling the effects of Brexit.[61] But those accountants, lawyers, consultants and architects who are all working from home have not yet had to worry about what work they may or may not be permitted to carry out in the EU.

The potential impact of these rules hasn't gone entirely unnoticed. The government has come under pressure from the entertainment sector, which will be hard hit given the TCA doesn't facilitate professional activity carried out by artists, sportspeople or journalists. The limited provisions on cabotage (the ability to pick up and drop off goods within the EU) will also pose a problem for the specialist music haulage industry, which may no longer be able to operate. But the reality is that, for most of the public, such impacts remain theoretical.

The pandemic also means the public are not embarking on holidays to the EU, so are not yet worried about how many days they are spending on the continent or whether they have six months on their passports – preventing disruption at airports. It also means that vets have not yet been inundated with requests for Animal Health Certificates to allow pets to be taken to the EU. The reality of the new UK-EU relationship may not become clear for some members of the public until later this year – although the slow return to normality and likelihood of Covid-related changes to travel rules mean this realisation should be gradual, reducing the risk of major disruption.

With a reduction in international recruitment, the full impact of the end of freedom of movement is yet to be felt

It is not just the temporary movement of people that has been put on pause by Covid. The pandemic has also dampened much international recruitment – the latest ONS statistics on migration shows that there was a 35% fall in the number of work-related visas granted in 2020.[62] We can assume that trend will continue into the first part of 2021. This means that companies that previously relied on the EU labour market to plug any skills gaps may not have had to grapple with the new immigration system yet. It was estimated that around 340,000 SMEs would need to register for a sponsorship licence before the end of 2020.[63]

The new immigration system went live on 1 January 2021, but has yet to be properly tested; whether it can meet demand and the needs of employers will only become clear when international recruitment picks up. The huge new costs that many employers will face when recruiting from the EU is likely to be problematic. Firms will need to register as a visa sponsor with the Home Office, which costs £536-£1,476, depending on the size of the company,[64] and then pay ongoing fees that can run into thousands of pounds per employee.[65] For many small firms with limited financial resources, recruiting from abroad may simply become unviable. At an Institute for Government event in December, concerns were also raised about the new sponsor IT system – with reports it was struggling to deliver the service that had been promised.[66] And it is not just the IT systems that will need to be able to handle the increased workload. The UK Visa and Immigration division in the Home Office will need to be prepared to process a likely significant increase in visa applications.

Beyond the specifics of the new immigration system, the end to freedom of movement will also have an impact on those sectors that rely on low-paid labour and, until now, EU labour. Some sectors that have suffered during the lockdown, particularly the hospitality sector, may not yet had to confront this new reality, although others, such as the agricultural industry, are already feeling the impact.[67] But the overall effect on the economy will likely only be felt with time.

There are still Brexit changes to come

"Nobody can be ready for a change of this magnitude. There needs to be a dynamic and continuous conversation on easements and simplifications. The trade deal is like the green base of Lego that you put additional bricks on" – Adam Marshall, Director General, British Chambers of Commerce[68]

The end of the transition period was clearly a watershed moment in the Brexit process – with significant new barriers to trade with the EU introduced overnight. But it is not just Covid that has delayed the full impact of leaving the EU. Many Brexit changes are yet to take effect. The delay to border control and regulatory changes may cause confusion for businesses struggling to adapt. It is still unclear how the government will manage the end of the window when eligible EU citizens have been able to register for settled status – and what to do about those who miss the deadline.

There is also an ongoing dispute over the UK's application of the protocol. The appointment of Lord Frost to oversee the functioning of the UK-EU relationship was sensible, given his experience. However, since he was appointed, exchanges between the UK and EU have appeared to become more heated. This has fuelled concerns that it will be some time before there will be a stable framework for businesses trading with the EU.

Problems are being stored up by the late introduction of border controls

The phasing in of GB import controls should mean firms are better prepared for when checks take effect later in 2021 and into 2022. Many firms are already familiar with similar processes, having had to comply with full EU import checks since 1 January, or because they chose not to (or were not eligible) to use the easements included in the phased approach.

The government's decision to delay import controls again buys more time for businesses to prepare, ensure the necessary infrastructure is in place and undertake more extensive testing of IT systems. But extending the time without full import checks increases the risk that the UK's favourable treatment of EU imports attracts opposition from other trading partners, and may undermine the government's hope that new border controls will help counter cross-border organised crime.[69]

A long delay could also slow efforts to drive readiness for when checks are eventually implemented. Having delayed introducing full border checks again, it is now critical for the government to maintain the momentum behind preparations and convince firms

that the new deadlines are real. The government will also need to manage expectations. So far, it has pitched the extension as providing more time for preparation, but it is already facing calls to use the time to reopen negotiations and fix 'structural problems' with the deal.[70]

Aspects of the delay could also store up compliance problems for the future. The government had already given firms the option to defer import declarations for six months – and has now extended this to most goods imported until the end of 2021. But there already are concerns some firms have misunderstood the nature of this easement, importing goods without keeping the internal records they will need to comply at a later date, or in the mistaken belief they won't face tariffs, when in fact they will. Extension could make these problems worse.

Beyond July, the government aims to deliver the 'world's most effective border' by 2025,[71] with reforms aimed at reducing the cost and time involved in complying with customs requirements and avoiding duplication for traders. However, many business groups we have spoken to hope that the benefits can be delivered sooner.

Many changes to regulatory regimes have not yet taken effect

It is not just at the border that the government is phasing in new requirements. The UK government decided to delay the full introduction of new regulatory requirements in areas like product standards and chemicals regulation, in order to allow businesses and government more time to adapt to new rules.

For instance, the government continues to recognise the CE marking (printed on products to demonstrate that they comply with EU health, safety and environmental standards) until the end of 2021. It will then allow the replacement 'UK Conformity Assessment' (UKCA) marking to be printed on a label or accompanying document, rather than directly to the product, until the end of 2022.

These measures have largely been welcomed by business, but create a complex timetable of further Brexit changes that firms must continue to prepare for well into 2022 and beyond. These measures may also disproportionately benefit EU firms – as UK exporters had to be fully compliant with EU rules by 1 January.

In some cases, the costs and uncertainty caused by the introduction of new regimes are proving difficult for industry. For instance, the chief executive of the ADS group (a trade body representing the aerospace, defence, security and space industries) said that transition to the new UK chemicals regulatory regime is causing "issues around the cost and availability for some chemicals".[72] In other areas, the post-Brexit regulatory landscape remains uncertain. For instance, the government has yet to finalise its new domestic subsidy regime and give full effect to its new environmental protection regime through the much-delayed Environment Bill – which, at the time of publication, was still at Report Stage in the Commons.[73]

EU rules will also evolve over time. From 21 April 2021, EU requirements on some agri-food imports (such as 'composite products' containing products of animal origin, like pre-prepared meals) are changing. These modifications mean that revised export health certificates may be needed, or that a single product may require multiple certificates, when only one is currently required.[74] Firms trading between Great Britain and Northern Ireland may also be impacted. Affected businesses will need to be ready to comply with the new rules, having only recently adjusted to the introduction of EU import requirements at the end of the transition period.

The government must continue to communicate with affected sectors about the changes to come, and work quickly to resolve outstanding uncertainty about new regulatory regimes.

The government needs to manage the end of the EU Settled Status Scheme grace period

EU citizens who were living in the UK before the end of the transition period have until the end of June to apply to the EU Settled Status Scheme. After this date, those who have not acquired either pre-settled or settled status under the scheme will become unlawful residents.

However, as the Institute for Government has previously argued,[75] the government has no way of knowing what proportion of eligible people have registered, and there is a real risk that many will not do so in time, including many vulnerable individuals. The government has said that those who miss the deadline can only apply later if they have a 'good reason' – but have yet to define what that means.

The EU settled status scheme is also causing problems for employers. Until applications to the scheme close at the end of June, businesses cannot insist that EU/EEA citizens prove that they have the right to live and work in the UK – by showing that they are registered with the settled status scheme, or, if they arrived in the UK after the end of the transition period, that they have complied with the new immigration system. This carries risks for employers, leaving firms open to fines if they are found to be employing individuals without permission.[76] This leaves businesses in a difficult position, and could be having a chilling effect on the employment of EU nationals.

These issues are too important to be left to the last minute; the government needs to set out a plan for how it will manage the end of the EU settled status scheme grace period.

The most urgent problem for the government is to make the Northern Ireland Protocol work

In December 2020, the UK and the EU agreed a number of 'grace periods' to delay the full implementation of EU law applicable in Northern Ireland – to allow more time for UK businesses and government to prepare. However, on 3 March, the UK government announced that it would take some 'temporary operational steps' to support the flow of goods between Great Britain and Northern Ireland,[77] in effect, unilaterally extending the 'grace periods' and further delaying the full implementation of the Protocol.

Action was necessary to avoid disruption to GB-NI trade. Northern Ireland businesses have repeatedly warned that they are not ready to comply with the new requirements. And with political tensions heightened, the Northern Ireland DUP agriculture minister has halted construction on the facilities needed to conduct agri-food checks.[78]

However, the decision to announce the plan without formal approval in the Joint Committee (the UK-EU forum for managing the operation of the protocol) prompted strong criticism from the EU. The Joint Committee's Co-Chair Maroš Šefčovič said that unilateral action was a violation of the protocol and the European Commission has launched infringement proceedings against the UK.[79]

This latest move has severely strained UK-EU relations and alienated the Irish government – a critical player in making the Northern Ireland Protocol work. Nonetheless, discussions in the Joint Committee are ongoing, with outstanding issues regarding its operation still to be resolved.

As the Institute has repeatedly argued, the protocol will only work with co-operation. Just days into his new role in the cabinet, the UK's unilateral move to extend the grace periods suggests Lord Frost intends to apply the confrontational approach that he applied to the TCA negotiations to his handling of the protocol. This is risky and is likely to prove unsustainable. To make the new protocol work – and to avoid disagreements over Northern Ireland damaging the wider UK-EU relationship – the government should work constructively with the EU to find mutually acceptable and sustainable solutions.

In the long term, the government needs to provide certainty for businesses trading across the Irish Sea. This can only come through clear plans on how the UK intends to implement its legal obligations under the protocol, with any flexibilities or derogations agreed with the EU.

Conclusion

The end of the transition period has not been easy for business or government. Huge changes in the UK's relationship with the EU (and Northern Ireland's relationship with the rest of the UK) were introduced overnight – with much of the detail only confirmed a few days before new rules took effect. The government's repeated failure to make clear the trade-offs involved in the kind of Brexit it pursued was unhelpful and undermined preparations, making the adjustment even more difficult than it needed to be.

There has not been the widespread disruption at the border some feared: government preparations have largely held up, and officials have been quick to respond to unforeseen issues. But these successes cannot disguise the fact that the end of the transition period has, undoubtedly, caused widespread disruption – especially for some sectors of the economy.

Foreign Secretary Dominic Raab recently said it could take 10 years to judge the full impact of Brexit.[80] It's certainly true that it will take time for the totality of effects to

unfold. Trade flows have been hit hard - buffeted by Covid as well as Brexit, and many firms are still making sense of new rules and just beginning to adjust their business models and supply chains – a process that may take months or even years. So far, Covid has obscured the full impact of the end of the transition period. The effect of new limits on mobility and the UK's new immigration system will only become clear once travel restrictions are lifted.

Many other Brexit changes – including full import checks at the border and new regulatory regimes – have also yet to take effect, creating a complex patchwork of deadlines that government and business must continue to prepare for. The TCA and the Withdrawal Agreement have set up further changes to come and provide scope for the UK's relationship with the EU to evolve over time, to which business and government will need to adjust. The government should learn lessons from its preparations so far, communicating clearly about the changes still to come, being open about the impact Brexit has had so far and acknowledging the consequences of its choices.

But the latest bust-ups between the UK and the EU in relation to the vaccine rollout and the UK's approach to implementing the Northern Ireland Protocol have highlighted the fractious nature of the relationship. There is a real risk that this could destabilise the new trading environment, fuelling more uncertainty for business. Both sides need to prioritise making the new arrangements work over political point-scoring.

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