
BCF Brexit Implementation Survey Report

June 2021

Introduction:

At the end of January 2021, BCF carried out a survey to help identify the type and scale of issues members were encountering over the first few weeks of the post-Brexit trading relationship with the EU. [The survey found that](#), despite having spent significant amounts of time and money preparing for Brexit, over 80% of members were experiencing problems, especially around complexity and cost of new customs procedures.

Our latest Brexit survey was carried out four months later, between Tuesday 25th May and Friday 11th June 2021. It aimed to establish how things had changed - what issues might have eased, which remained, and whether any new problems had emerged since the end of January.

Summary:

While more members might be getting to grips with some of the customs administration issues introduced through the Trade and Co-operation Agreement (TCA), significant problems remain for most. Transport and shipping availability, delays and costs are a particular problem, both between EU and UK but also between GB and NI. More members are now reporting problems complying with new chemical regulation regimes in the UK as registration deadlines approach or have passed, and with meeting the terms of EU regulations now that the UK is a 'third country.' Indeed, after four months' experience, members are now estimating significantly higher additional operating costs as a result of Brexit than they were in January, with over four in ten (43%) estimating upwards of 5%.

When asked to look further ahead and rank the concerns they have about future business competitiveness, around half of members fear they will lose exports to the EU in future due to added customs costs. Again, the impact of the new regulatory requirements of UK REACH and CLP feature prominently and are expected to lead to increased raw material prices and a loss of some raw materials to the UK market. Moreover, the probability of the UK diverging from EU REACH in the future is now the leading concern to those exporting to the EU in terms of hurting competitiveness.

While exports to the EU are currently holding up, the survey showed two UK members had stopped exporting to the EU and another three are considering following suit due to added costs and complexities of trading. Around a fifth are still concerned their companies may move some manufacturing from the UK to the EU as a result. Worryingly, around a fifth of members reported that EU companies had stopped trading with the UK because of Brexit.

Overall, despite showing huge resilience over the past four months, our June survey results continue to demonstrate how Brexit has impacted negatively on the coatings sector in the form of red-tape and higher costs. Growing fears about how UK REACH will affect the sector are also extremely concerning.

Top 10 Takeaways:

- One-third (34%) of survey respondents reported additional operating costs due to Brexit of between 5-10%, with one in ten (9%) saying costs had gone up more than 10%.
- Increased costs of shipping and raw material import prices are now the two leading current key issues for members, cited by more than 70% of respondents.
- A similar proportion (69%) say their biggest concern about their ongoing competitiveness is the added costs of customs procedures and paperwork.
- Half of respondents (47%) harbour concerns they will lose export opportunities to the EU because of additional complexities under the TCA. Worryingly, 19% of respondents have already reported that EU suppliers no longer want to export to the UK.
- 21% are still concerned that the additional complexities of trading with the EU will lead to their company reducing some of their UK production and moving it to the EU.
- 67% are concerned that the new UK REACH system of regulating chemicals will impact on raw material prices in future, with 60% fearing the new regulations will impact on availability of some raw materials in the UK.
- Nearly four-fifths (79%) believe the new UK REACH rules will impact negatively on their business. 57% think the new UK CLP rules will have a negative impact too.
- Indeed, the proportion of members citing issues encountered with complying with UK REACH rules has more than doubled since January, up from 19% to 34%. The proportion citing similar issues with UK CLP also doubled, up to 19%.
- In the other direction, for those exporting to the EU, 60% fear that having to abide by EU REACH and CLP rules as a 'third country' will impact on their business competitiveness.
- 70% of members feel that the new trading relationship with the EU will lead to fewer opportunities to trade with the EU.

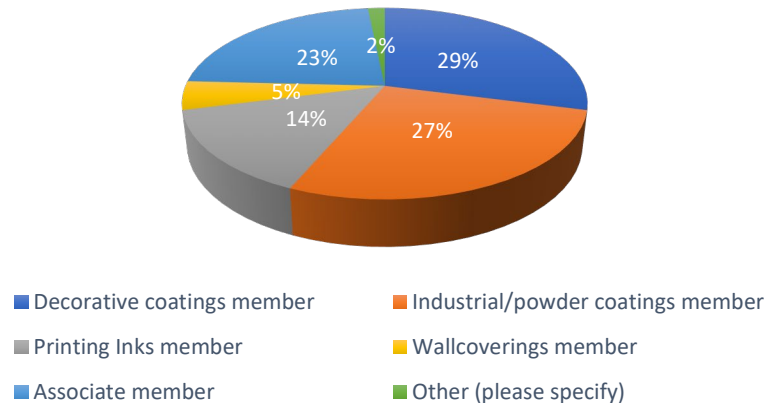
Any good news?

- Despite all the additional costs and complexities, 81% say they are currently still exporting to the EU. (Although two members have stopped).
- The number of members reporting problems with customs paperwork (48%), impact of Rules of Origin (36%) and understanding Rules of Origin (22%) have all dropped, suggesting that members are getting to grips with the new rules. However, these numbers are still high and seem to have come at the expense of extra costs.

Survey results: who responded?

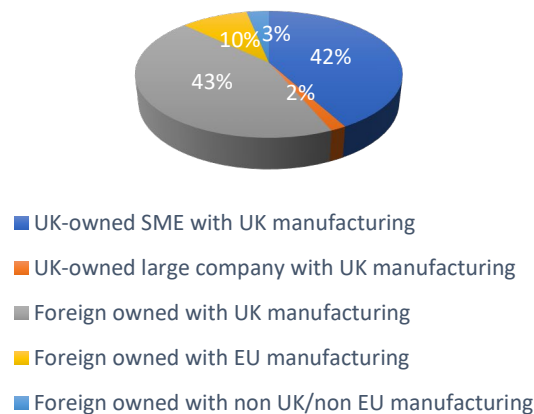
62 of our 250 Full and Associate BCF members responded to the survey. That is around a quarter of our overall membership and is a good representative sample upon which to identify trends and draw conclusions. It is also very similar to the number of responses in January – 68 – and so we are able to compare between the two surveys with some degree of confidence and track how issues have moved up or down the list of members' concerns over the past four months.

June survey respondent by membership type



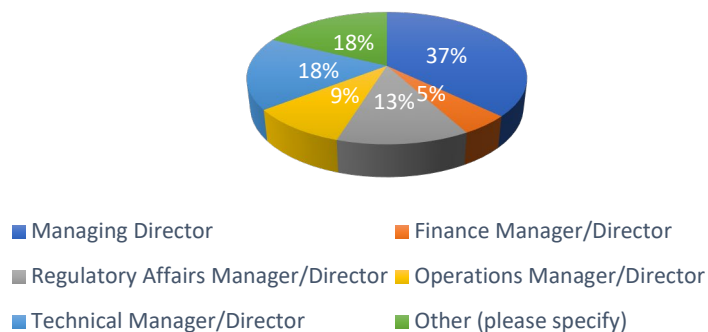
Broken down by type of business, 56% of respondents were manufacturers of decorative and industrial coatings, 14% printing ink manufacturers, and 23% associate (supplier) members. 44% of survey respondents were UK owned companies, and 87% of total respondents have UK manufacturing.

June survey respondents by ownership



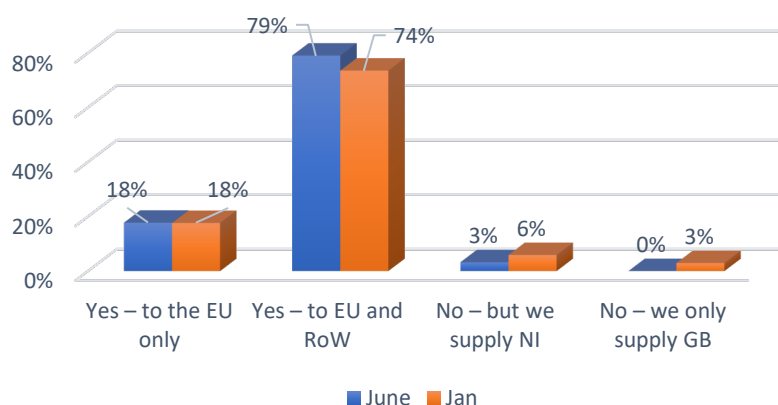
As in January, there were a variety of people responding on behalf of their company, with MDs representing the largest single category. Some members passed the survey around several departments to ensure a comprehensive set of replies. Altogether the breadth of job descriptions from those responding means, again, we have a good balance between the strategic, technical, financial, and operational feeding into our survey responses.

Survey respondees' position in their company

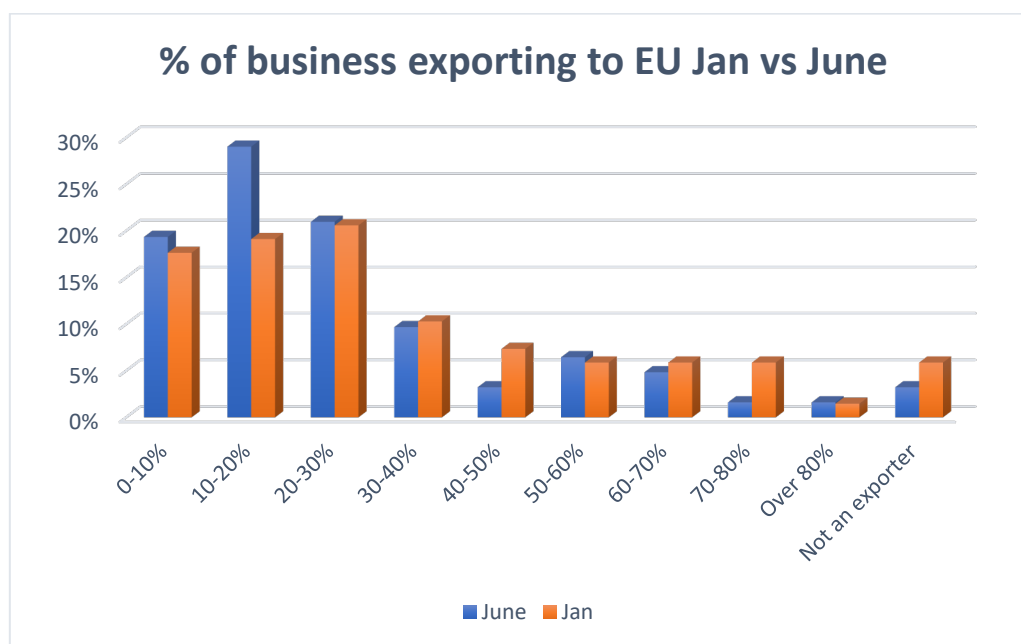


One of the interesting takeaways from the survey in January, was just how much export expertise was included in the replies, both to the EU but also to the rest of the world. So, when members were reporting difficulties dealing with the new post-Brexit customs procedures, this was not due to a lack of experience. It demonstrated just how complicated the new trading relationship was, even for experienced exporters. The June survey respondents also share that export expertise, as can be seen in the chart below.

Survey respondents' as exporters Jan vs June

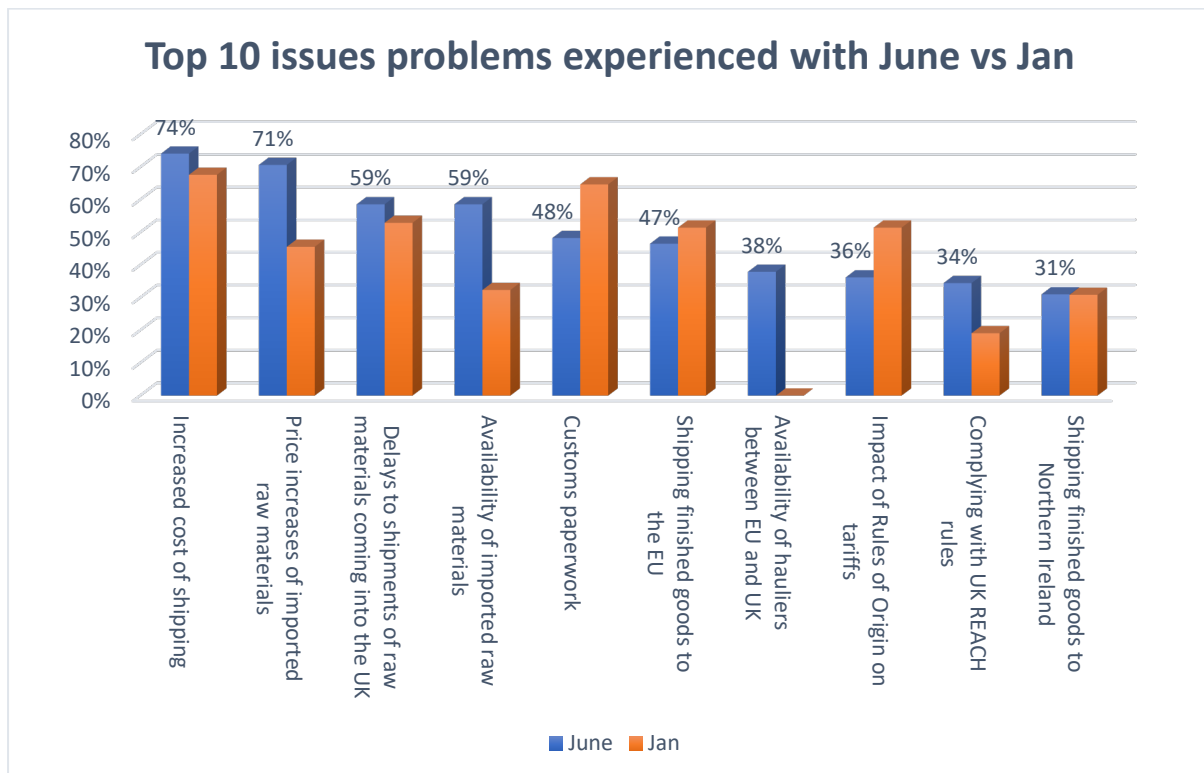


The survey also shows that, as things stand, the number of UK coatings companies exporting to the EU are holding up.



Current problems?

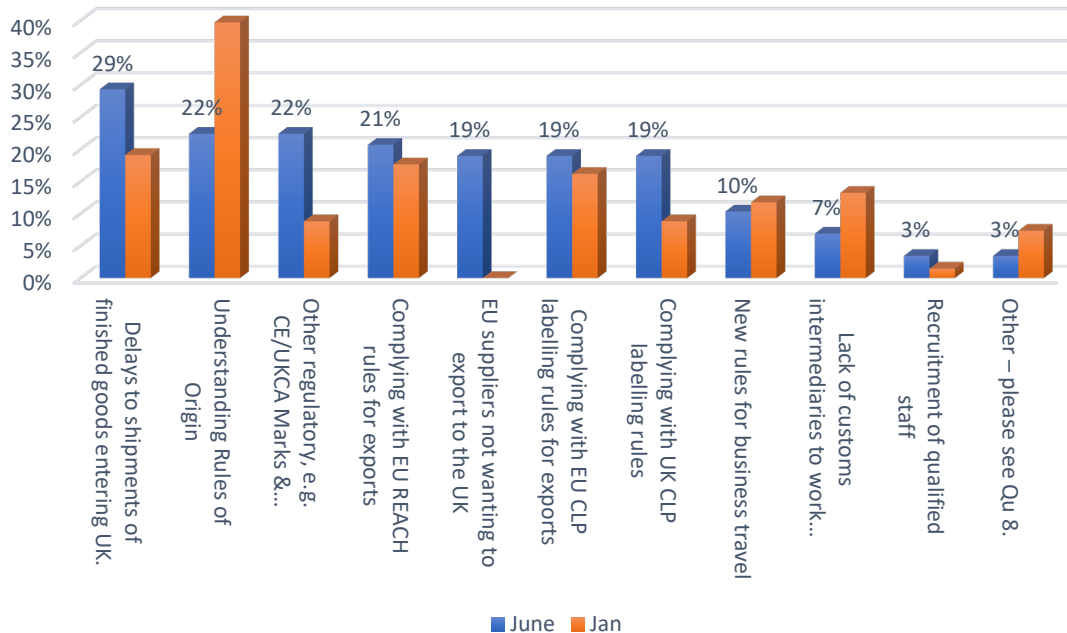
Back in January, the most common types of issue listed as problems revolved around customs paperwork, procedures, and associated cost rises. Two thirds of respondents cited problems with increased shipping costs and customs paperwork. Over half were struggling with the impact of the new Rules of Origin on tariffs, had experienced delays to shipments of raw materials, or were having difficulties shipping products to the EU. This was perhaps unsurprising given the TCA was only agreed on Christmas Eve, giving companies very little time to master the final Agreement.



By June, these proportions had changed. Issues to do with Rules of Origin and paperwork had dropped down the list of concerns, although paperwork issues were still listed by nearly half (47%) of members. Instead, transport issues and associated availability issues and price increases are now affecting the vast majority of members and adding significant costs and increased costs of shipping and of raw material import prices (both on 69%) are the two most commonly cited issues members are having in June. Moreover, they are still encountering delays to shipping between UK and the EU - and having difficulties moving goods between GB and NI – and are also finding the availability of hauliers difficult.

We speculated in January that as many of the deadlines for chemical regulation compliance hit home, these could become more of a problem for members later in the year - this is exactly what has happened. Complying with UK REACH has moved into the top ten problem issues for members, up to over a third (34%) from 19%, with one-fifth (19%) having issues with UK CLP (19%). The same problems were being experienced dealing with EU regulations as a third country exporter: one-fifth (21%) reported issues with complying with EU REACH and a similar proportion said complying with EU CLP (19% up from 9% in January) was a problem.

Numbers 11-21 ranked issues problems experienced with June vs Jan

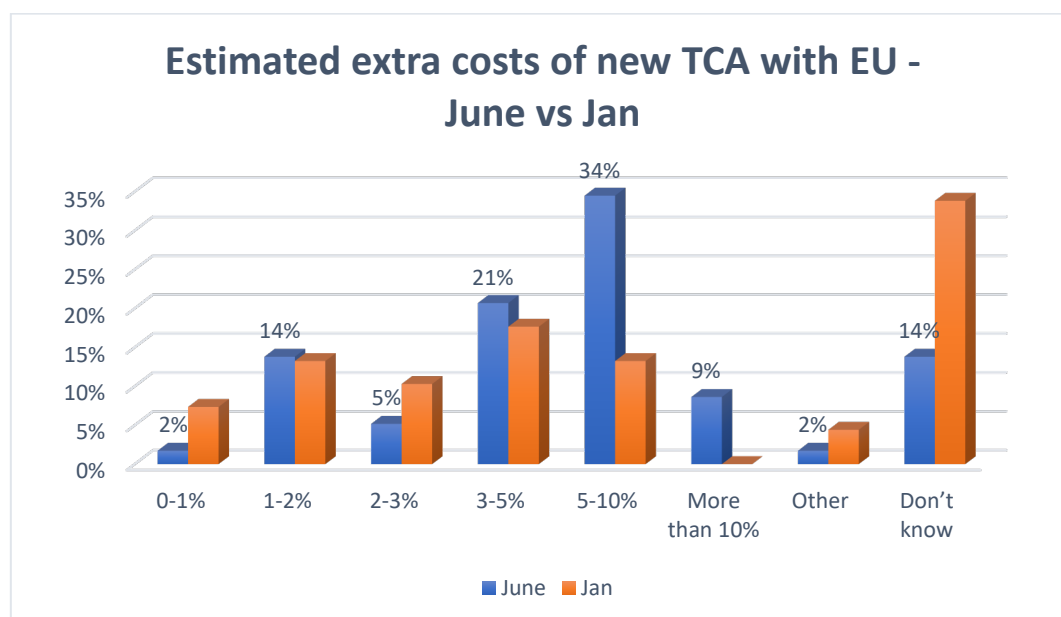


Business travel is still not seen as a major problem for most members, with just 10% choosing this option. However, Covid restrictions have been in place for most of the time since the TCA came into force and this is probably masking the extent of the problem this could be for members in future, e.g. in bringing in engineers to maintain equipment.

Finally, it is worth noting that 19% of members reported that EU suppliers no longer want to export to the UK. This was a new response option added due to feedback we have been hearing from members over the past few weeks. It is concerning and is no doubt adding to some of the other problems being encountered – from availability of raw materials to price increases. Of course, it is probably also a symptom of EU companies suffering from similar price increases themselves, caused by additional customs processes, as well as them struggling with the new regulatory environment too. This is something we pick up on again later in the survey when we look at BCF members' concerns about business competitiveness.

Estimated costs:

Members are now estimating the cost of Brexit to be significantly higher than when asked in January. Back then, when asked to 'estimate how much extra do you think new trading arrangements with the EU will add onto your operating costs?' the highest proportion of responders, a third, said 'don't know': perfectly reasonable given the Trade and Co-operation Agreement (TCA) was just a few weeks old.



By June, respondents are much more certain, with just 14% saying 'don't know.' Instead, more than four in ten (43%) now report increased operating costs of over 5%, with one in ten (9%) citing a figure of more than 10%. As one member said: 'Our operating costs have increased significantly more than we initially expected.' Where are these costs coming from? The answer lies in the responses to earlier questions: more time and money dealing with customs paperwork; lack of availability and increased costs of shipping and transport; having to deal with two sets of chemicals regulations; and increases to raw material prices are all playing a part.

Looking ahead:

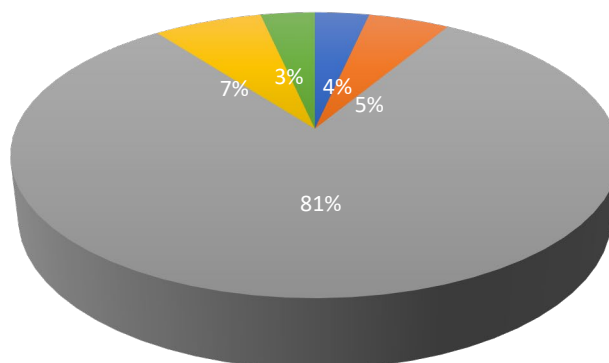
Overall, BCF members remain pessimistic about whether the new post-Brexit trading relationships with the EU and even rest of the world will lead to new opportunities for them. We asked the same question in January and June and the figures for both months are very similar. 69% of respondents – the same proportion as in January - still believe that opportunities to increase trade with the EU will decrease, which is worrying given that the EU is the leading trade partner for our sector. There was a slight rise in the numbers who thought that there might be opportunities to increase trade around the rest of the world (21% up from 13% in January) but this is offset by a fall in those who thought there could be more opportunities to increase trade in the UK (17% down from 24% in January).



As noted earlier, the vast majority of our survey respondents were exporters to both the EU and the rest of the world. We asked members how the new TCA will affect their exporting and the situation has changed very little from four months ago, with 81% (compared to 77% in January) saying they will continue to export to the EU but that it had become more expensive and complicated to do. Only 7% said there had been little of no difference (down from 11%). Two members reported they had now stopped exporting to the EU due to the added difficulty, up from one in January, citing, in particular, problems with complying with EU CLP now the UK trades with them as a 'third country.' There are an additional three members currently re-thinking whether to export to the EU, down one from earlier in the year. On the face of it, this is relatively good news as it shows – for now at least – that members are proving resilient in the face of the new trading rules and are continuing to export to the EU. However, as the earlier question on costs shows, this is being achieved at a price. Moreover, we will see from subsequent questions that there are still fears that exporting will become more difficult in the future.

Conversely, looking for opportunities to trade elsewhere, currently no respondents chose the option which said 'I am not an exporter, but I am now considering it due to the new opportunities from new trade deals.' We will need to see whether new trade agreements can be signed with, for example, the USA or Canada, and maybe even the CPTPP bloc can offer more hope to members in the future but, as things stand, there is little optimism on that front.

Thinking particularly about exports



- I used to export to the EU but have stopped as complying with EU rules as a third country makes it more expensive/complicated.
- I am still exporting to the EU but now I understand the regulations I need to comply with I am reassessing whether to continue.
- I am still exporting to the EU and will continue but it has become more expensive and complicated.
- I am still exporting to the EU and there has been little to no difference for me.
- I am not an exporter, and have no plans to become one, as I don't see opportunities from the new trade deals for me

Looking a bit further ahead we asked how members anticipated the new UK chemicals regulations impacting their businesses. Not a single respondent said that any of the new regimes would be positive, and only a handful that they would be slightly positive. Nearly eight in ten (79%) said that UK REACH would have either a negative or slightly negative impact on their business, with half or more saying the other new regulations would. This is extremely worrying and, taken with responses to other questions in our survey, shows just how much damage the UK's new chemicals regulations could do to our sector if left as currently legislated for.

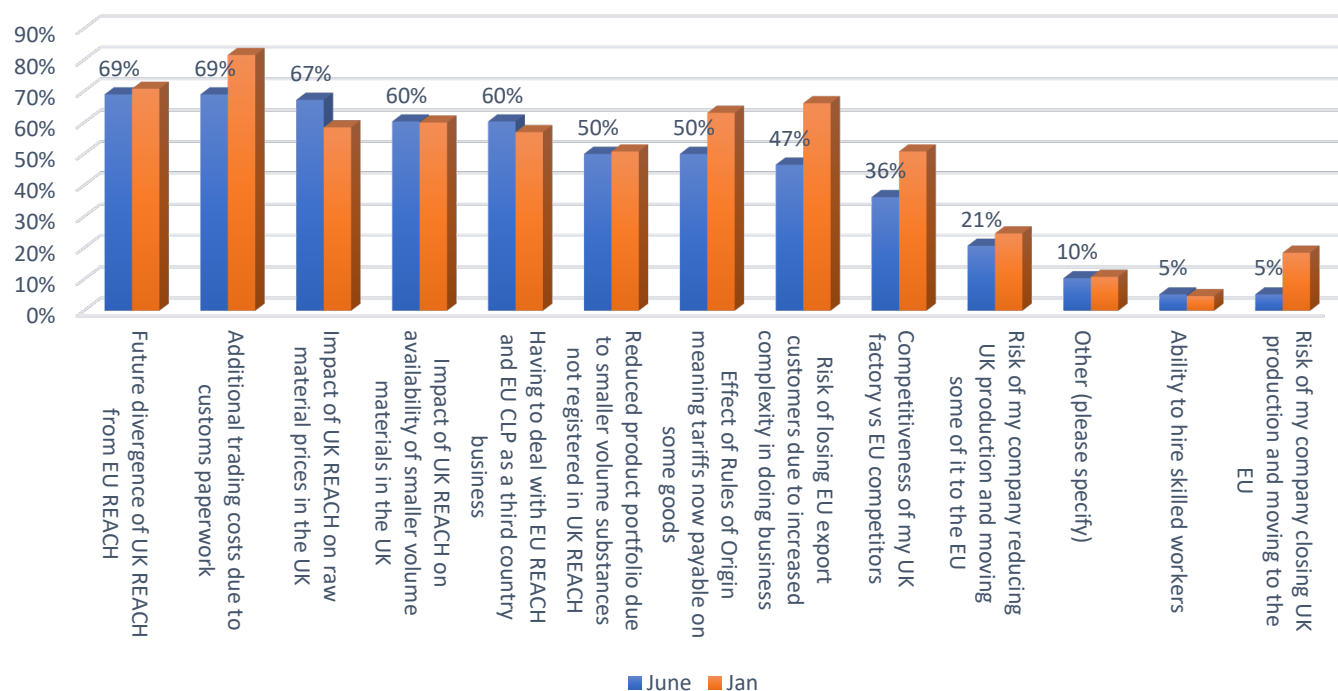
As part of leaving the EU the UK has introduced its own independent chemicals regulatory regime. How do you anticipate any of the new systems impacting on your business?						
	Positive	Slightly positive	No impact	Slightly negative	Negative	N/A
Impact of UK REACH	0%	3%	16%	26%	53%	2%
Impact of GB BPR	0%	2%	29%	24%	26%	19%
Impact of GB CLP	0%	2%	33%	21%	36%	9%
Impact of GB PIC	0%	2%	28%	22%	24%	24%

Finally, we explored in more detail the possible risks and opportunities to their business competitiveness that emerge from the new trading relationship with the EU. This in part mirrored the changes between January and June when we asked what issues were currently giving members problems. So, as seen in an earlier part of the survey, we see a decrease in the number of members fearing that customs paperwork and Rules of Origin will hit their competitiveness. However, the

number who are worried about this remains very high, simply falling from an extremely high level back in January. In fact, concerns about customs paperwork on competitiveness remains the joint top concern amongst members with over two-thirds choosing this option, and still half having similar fears over the effects of rules of origin.

What we also see is the continuing trend of the impact of chemical regulations on competitiveness. Fear of UK regulatory divergence from current EU REACH rules is now the joint top concern of members, at 69%. Moreover, two thirds (67%) are concerned that the new UK REACH system of regulating chemicals will impact on raw material prices in future (up from 58% in January), with 60% still worried that UK REACH will impact on availability of raw materials in the UK. For those exporting to the EU, 60% fear that having to abide by EU REACH and CLP rules as a 'third country' will impact on their business competitiveness.

Biggest concerns for business competitiveness as result of TCA - June vs Jan



As a result, after experiencing nearly six months of the new EU-EU trading relationship, half of respondents (47%) still harbour concerns they will lose export opportunities to the EU because of additional complexities under the TCA. While this proportion is also down, from 66% back in January, that is still a huge number. And 21% are still concerned that the additional complexities of trading with the EU will lead to their company reducing some of their UK production and moving it to the EU.



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Conclusions:

BCF members are proving resilient and are still currently exporting to the EU despite all the new costs and administrative burdens of the post-Brexit trading regime. While more of them have found workarounds to some of the new customs procedures and Rules of Origins since the start of the year, these are still affecting around half of them. The price of being able to cope with the additional red tape appears to be significant extra costs, certainly more than what was estimated back in January.

Whilst exports to the EU are still holding up, there are still significant concerns about how competitiveness will be impacted in future and how this might affect future exports. A couple of BCF members have ceased trading with the EU already and a few more are reconsidering. The effect of added costs and complexities works both ways, of course, and it is worrying that nearly a fifth of members reported that EU suppliers had stopped exporting to the UK. This is a trend that needs monitoring closely.

Finally, concerns about how UK chemical regulations will impact members competitiveness have risen over the past four months. More members are reporting difficulties complying with UK REACH and CLP, and with complying with EU REACH and CLP now the UK is a 'third country.' Although this survey could not cover it, we can assume EU companies are also struggling with, or worried about, dealing with the UK regulations as well, and this is surely one of the reasons why some have stopped exporting to the UK already, even though UK REACH has yet to bite fully. And amongst all this, most members still fear that divergence from EU chemicals regulations will hit their business competitiveness hard. On this latter point, BCF remain committed to lobbying for changes to UK REACH to make the new rules less expensive and less potentially damaging to raw material supplies in the future.