EU Exit – What does it mean now?

Note from Kite Brexit Team

Information correct as at 15:00pm on 14.01.2021

The UK secured a Free Trade Agreement (FTA) on Christmas Eve, 24 December 2020, notably the Trade and Cooperation Agreement (TCA) which will shape the UK's future trading arrangements with the UK.

The UK parliament ratified the post-exit trade deal on the 31 December 2020, implemented by the European Union (Future Relationship) Act 2020, whilst the EU gave its provisional agreement to the terms. The EU is in the throes of translating the text into the 24 official languages of the EU and awaiting approval from MEPs which could be February or March.

The UK's transition period ended on the 31 December 2020 meaning that it left the European Single Market and Customs Union, ending the free movement of goods and people under that arrangement. The TCA became live following the end of the transition period.

It worth noting that for the purposes of trade, Northern Ireland, due to the Northern Ireland Protocol, remains part of the EU's single market for trading purposes with it applying EU customs rules at its ports. So, any goods flowing from the UK to Northern Ireland are subject to the same checks as they would if they were entering any other EU country.

What sort of deal did the UK get?

The deal goes further than most FTAs in that it encompasses more than just trade as has provision for security arrangements and creates a framework for dispute resolution as well as covering trade.

The deal eliminates tariffs and quotas on cross border trade provided rules of origin are satisfied (goods will have to have a UK or EU origin), although customs checks (non-tariff barriers) are applied.

The trade deal also included a technical annex regarding organic equivalence meaning that both the UK's six organic certification bodies and organic produce will be recognised in the EU until 31 December 2023.

What has been the experience so far?

It is hard to gauge the impact of the new trading arrangements largely due to the stockpiling of imported products prior to the end of December and the latest Covid-19 restrictions overshadowing what would be regarded as 'normal' trading patterns.

Lack of preparedness has caused some issues with consignments en route to ports without the correct paperwork causing delays. Some Northern Irish supermarkets are having to rationalise ranges whilst the new rules are navigated by the supply chain. UK supermarkets have written to the Government warning of the potential for further disruption in Northern Ireland once the three-month grace period ends on the 31 March 2021.

The requirement for UK lorry drivers entering France to have a negative Covid-19 test is skewing the effectiveness of cross-border transit but is not directly linked with the new post-exit trading arrangements.

What will be the longer-term implications?

The UK has introduced some transitory provisions that will phase in some of the requirements of the new arrangement, however they have largely not been reciprocated by the EU (on imports into the EU from the UK). The Border Operating Model will become fully operational on 1 July reducing the paperwork burden in the first six months.

There is a VAT impact of Brexit; exports are zero-rated but imports into the UK are subject to import VAT, it also applies to services provided outside of the UK. The full effect of this may not be felt until later in the year as the UK Government has deferred the payments of VAT for six months.

Safety and security certificates will not be needed for the first six months, and animal health certificates and pre-notification for animal and plant products will not be required until April creating a phased approach to the new trading regime.

What about trade deals with other countries?

Most, but not all, third country agreements have been rolled over from the previously trading relationship enjoyed whilst a member of the EU, with agreements between the UK and 60 countries (access to 70 countries was enjoyed via the EU) being agreed as of 1 January 2021. Trade with countries where agreements have not been rolled over will continue under WTO terms where tariffs will be applied until agreements are reached.

The tariffs applied to countries we do not have an agreement with will now be subject to the rationalised tariff regime the Government announced last year, UK Global Tariff (UKGT), replacing the EU's Common External Tariff (EU's CET).

Deals with Canada and Mexico have been agreed and are believed to start in early 2021.

A deal with Japan was agreed in October 2020 which differs from the access enjoyed under the EU, and the UK government are still in trade talks with the US, Australia, and New Zealand.

What else will change?

The 1 January 2021 also saw the implementation of the Immigration and Social Security Co-ordination (EU Withdrawal) Act 2020, which stops the free movement of people from the EU into the UK, replacing it with a points-based immigration system.

Fundamentally the impact of a restrictive immigration policy is likely to impact UK dairy farm labour in that it prevents access to 'new' or future EU labour. Whilst there is scope to sponsor employees at farm manager level there are strict criteria that need to be met plus financial and legal requirements. For most fam labour requirements there is no immigration route under the new system.

The restriction on EU labour, in the long-term, is likely to affect the availability of farm staff putting pressure on businesses who do not currently employ EU staff as the pool of suitable staff shrinks.

Any EU nationals residing in the UK prior to the 31 December 2020 can apply for EU Settled Status enabling them to remain in the UK, applications are open until 30 June 2021 and the scheme is free.