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BREXIT

Continental rift: Brexit takes its toll on SMEs

Six months on from the UK's withdrawal from the EU, small exporters nationwide are struggling to surmount the barriers this has created between them and their markets in Europe

Alasdair Lane

It was billed as the rebirth of UK plc, granting British businesses freedom from the high-handed bureaucracy of Brussels. But, for many SMEs with significant EU exports, Brexit feels less like a renaissance than it does the rocky road to ruin.

Engulfed by paperwork, taxes and unbearable added costs, some are having to shelve their EU operations indefinitely. Others, unwilling to lose their hard-earned customer base on the Continent, are battling through the red tape, desperate to salvage what business they can.

Donna Wilson, a London-based textile designer who runs an eponymous homeware business, is one of the latter group. She says that "selling to Europe used to be seamless. With the EU agreements in place, we didn't have to deal with customs and there were no hidden charges. It was a very easy experience for us and our customers."

Brexit has changed all that. Since January, the company's sales to the Continent, which used to account for about a quarter of its total revenue, have taken a serious hit. Delays to shipments have been partly to blame, but the import fees that have been thrust upon her customers are the main culprit.

"A buyer in Germany recently told us: 'Thank you so much. We love your work, but this is the last time we'll be ordering from you, as we have just been charged a 50% fee.' We put a lot of effort into providing an exemplary customer experience, so that hurt," Wilson says.

It's a pain that many British businesses are feeling. Although the UK secured a last-minute tariff-free trade deal in December, non-tariff barriers have since arisen. These have had a profound impact. The value of British exports to the EU was about 20% lower in the first quarter of 2021 than it was in the last quarter of 2020, according to the Office for National Statistics.

SMEs have borne the brunt of this decline. A survey of more than 1,400 small exporters by the Federation of Small Businesses (FSB) at the end of March 2021 found that 70% had suffered a shipment delay of some description since the start of the year, while almost a third had even lost consignments in transit to the Continent. As a result, 23% had temporarily stopped exporting to the EU. Despite such serious setbacks, the government has remained upbeat,



Daniel Lumpkin/EyeEm via Getty Images

promising that these have simply been "teething problems" that will ease over time.

Some trade experts are not so sanguine. James Sibley, the FSB's head of international affairs, says: "Changes to VAT, rules of origin and customs paperwork are related to our departure from the single market and customs union, transforming our trading relationship with the EU. These changes aren't going away."

But there is some optimism about the UK's ability to agree its own global trade deals. More than two-thirds of the FSB's members export to non-EU nations. While relatively

frictionless trade with the likes of Australia, New Zealand, the US and Japan might not wholly mitigate their losses in Europe, it is an exciting prospect, according to Sibley.

Meanwhile, the government has acknowledged the fact that SMEs have been struggling with post-Brexit barriers and created a £20m fund to support their exports to the EU. The money is not available to businesses that also trade outside Europe - something the FSB would like Whitehall to change.

For Forageplus, a supplier of dietary supplements for horses, seeking help from the state has been virtually fruitless. Kieren Brownhill, general

manager of the business, based in Flintshire, north Wales, laments its near total loss of EU sales.

"We've had no support at all," he reports. "The government basically told us: 'Phone the French Embassy.' It couldn't give us any further information and it didn't help us with choosing the right tariff codes for our products. We keep hearing about how we have a free-trade agreement. I don't know where that's coming from - it's nothing like what we've been experiencing."

Facing similar pressures, some small SMEs have taken the bold step of establishing a base on the Continent. Antos, a dog-food producer based near Kilmarnock, is one such business.

"We have had to move the whole export side of our UK business to within the EU," says the company's owner and MD, Antoon Murphy. "We simply haven't been able to efficiently provide for our European customers from here anymore, what with all the extra documentation that's now required."

Having acquired a warehouse and recruited a small workforce in the south of France, Murphy plans to spend half of the year on EU soil, overseeing the growth of his fledgling Continental operation, Nova Dog Chews, in person.

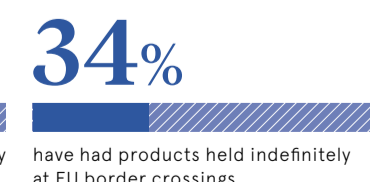
It's an option that several other UK entrepreneurs are considering. The German-British Chamber of Industry & Commerce, for instance, reports that about 250 British SMEs have contacted it in the past 12 months with a view to setting up shop in Germany.

Back in London, Donna Wilson has been making enquiries of her own. "We are looking at a place in Portugal, or maybe in Germany," she says. "That would need investment and a lot of time to organise - and it would eat into our margins. But we're thinking that this would be the way forward."

Having been obliged by the costs of Brexit to focus on the domestic market for the time being, she has a more immediate priority: the firm is planning to open a micro-factory in Dundee.

Wilson doubts that she will even bother attending her sector's big annual trade show in Paris this year, which was once key to winning new business on the Continent.

"Given all the uncertainty we now have about selling to customers in the EU", she says, "it just doesn't feel like that would be a good move at the moment." ●



Federation of Small Businesses, 2021