



Greater Birmingham  
Chambers  
of Commerce



Coventry & Warwickshire  
Chamber of  
Commerce  
The Ultimate Business Network



Black Country  
Chamber of  
Commerce

# The Impact of Brexit

An Analysis of Businesses Based in  
the West Midlands Combined  
Authority Area

January 2023

Supported by:



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# Executive Summary

Feedback received from local businesses across Greater Birmingham, the Black Country, and Coventry and Warwickshire indicated that businesses of all sizes and across all sectors are facing a number of issues as a result of the United Kingdom's (UK) departure from the European Union (EU). The impact of these issues – and thus the actions taken by businesses to overcome such issues – varied according to the size and sector of the business responding.

## Key Findings

- Approximately two in five (43%) businesses reported that importing goods from the EU was more difficult as a result of the UK's departure from the EU.
- The majority of respondents said that there had been no change in their ability to export goods to the EU, move goods between Northern Ireland and Greater Britain, and provide services to or purchase services from the EU.
- Manufacturers were significantly more impacted by the UK's departure from the EU than services firms, particularly with regard to importing and exporting goods and recruiting EU workers.
- The most commonly encountered issue by businesses was increased costs, followed by supply chain issues and border delays. Microbusinesses and SMEs were more acutely impacted by such issues than larger businesses.
- Businesses were more likely to either pass on increased costs to customers or absorb increased costs themselves than any other action to overcome issues relating to the UK's departure from the EU.

## Recommendations

As a result of the findings from this report, the Greater Birmingham Chambers of Commerce, Black Country Chamber of Commerce, and Coventry and Warwickshire Chamber of Commerce recommend the following actions for national and regional stakeholders to alleviate the issues that businesses are facing when trading with the EU during a time in which rampant inflation and soaring overheads are severely hurting businesses.

- National stakeholders should urgently work to remove existing barriers to trade which are hampering businesses' ability to trade with the EU and resulting in increased costs.
- National stakeholders should seek to bolster trade links between local businesses and European counterparts, as well as with non-EU countries to help businesses grow and invest.
- The UK Government should explore the implementation of a financial support mechanism, with a particular focus on microbusinesses and SMEs, to facilitate increased levels of trade.
- The UK Government should consider retaining the CE markings mechanism beyond 2025/26 to keep costs down for businesses
- Regional and national stakeholders should work collaboratively to provide businesses with information, support and guidance to help businesses adapt to complex trading requirements and navigate the post-Brexit trading landscape.
- The UK Government should take immediate action to encourage increased migration of EU skilled and semi-skilled workers in order to alleviate ongoing recruitment issues.
- The UK Government should seek to reach a negotiated solution with the European Commission on business compliance burdens with the Protocol on Ireland/Northern Ireland.

## Background

The Greater Birmingham Chambers of Commerce (GBCC), Black Country Chamber of Commerce (BCCC), and Coventry and Warwickshire Chamber of Commerce (CWCC) have been sponsored by the West Midlands Combined Authority (WMCA) to deliver a range of activity to inform local businesses about the latest Brexit-related developments. As part of this project, the Chambers have produced this report to provide insight into the impact that the UK's departure from the EU has had on businesses across the WMCA area.

This is the second year that GBCC, BCCC, and CWCC have produced an impact analysis report relating to the UK's departure from the EU. The questions posed at local businesses have been matched where possible to those from 2021 in order to enable baseline analysis to be conducted and year-on-year changes to be measured. Any references through this report to the previous report or last year's report refer to '[\*Post Brexit Transition Period: An impact analysis on businesses based in the West Midlands Combined Authority Area\*](#)'.

### Collection of Data

Data was collected via the Quarterly Economic Surveys run by the Greater Birmingham Chambers of Commerce, Black Country Chamber of Commerce, and Coventry and Warwickshire Chamber of Commerce. The surveys ran from 7<sup>th</sup> November to 1<sup>st</sup> December 2022.

462 businesses from across the West Midlands completed the survey: 43% were from Greater Birmingham, 31% from Coventry and Warwickshire, and 26% from the Black Country.

Of the 462 respondents: 44% employed between one and nine employees; 32% employed between 10 and 49 employees; 17% employed between 50 and 249 employees; and 6% employed 250 or more employees. Microbusinesses comprise 89% of all businesses in the WMCA area, small and medium-sized enterprises (SMEs) comprise 10.4% of all businesses, and large businesses comprise 0.5% of all businesses. In this report, businesses employing between one and nine employees are labelled microbusinesses, between 10 and 249 employees are labelled SMEs, and over 250 employees are labelled large businesses.

27% of the businesses that responded classified themselves as manufacturers, and 73% classified themselves as services firms. This is closely aligned to the sector demography of the WMCA area, in which manufacturers comprise 24.7% of all businesses and services 75.3%.

## The Impact of Brexit

### Ease of Doing Business

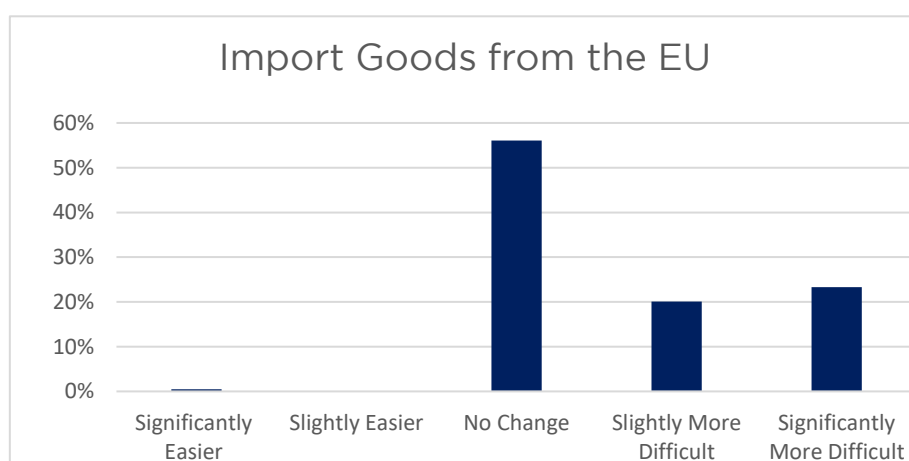
Businesses were asked about the extent to which the UK's departure from the EU had impacted on their ability to import goods from the EU, export goods to the EU, move goods between the UK and Northern Ireland, provide services in the EU, and

recruit workers from the EU. Percentages presented below may not add up to 100% due to rounding differences.

‘What impact has the UK’s departure from the EU had on the ease with which your business can do the following?’

### *Import Goods from the EU*

56% of businesses reported that there had been no change on their ability to import goods from the EU as a result of the UK’s departure from the bloc, whilst 23% reported it was significantly more difficult and 20% reported it was slightly more difficult. Just two businesses reported that it was significantly easier to import goods from the EU. 59 businesses did not respond to this question.

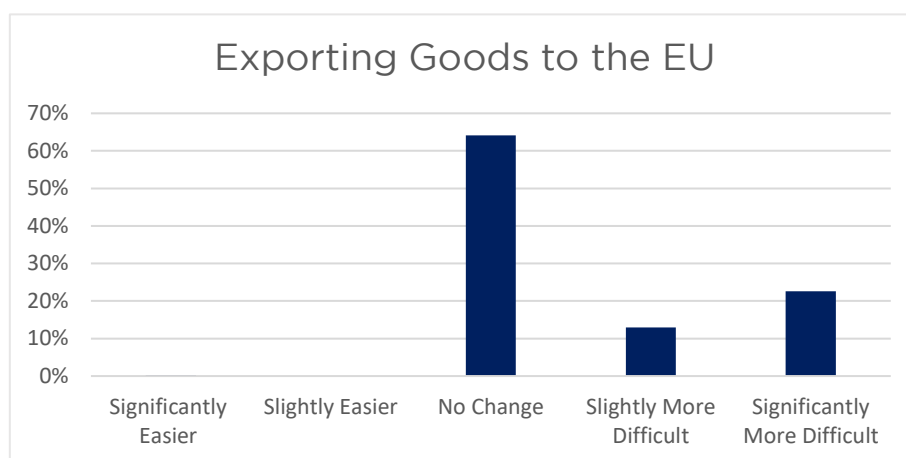


More than two thirds (69%) of manufacturers reported that importing goods from the EU was more difficult to some degree as a result of the UK’s departure from the EU. 30% shared that there had been no change in their ability to import goods.

### *Export Goods to the EU*

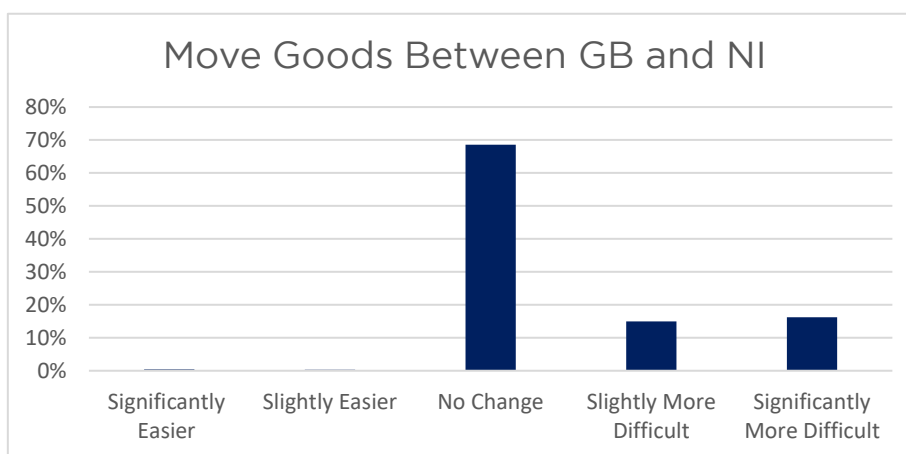
64% of businesses reported that there had been no change on their ability to export goods to the EU, slightly fewer than our last report where 66% reported no change. 23% reported that it was significantly more difficult – more than our previous report – and 13% reported that it was slightly more difficult to export goods to the EU. One business reported that it was significantly easier to export goods. 77 businesses did not respond to this question.

The majority (63%) of manufacturers reported that it was either significantly or slightly more difficult to export goods to the EU. 37% shared that there had been no change in their ability to export goods to the EU.



### *Move Goods Between Great Britain and Northern Ireland*

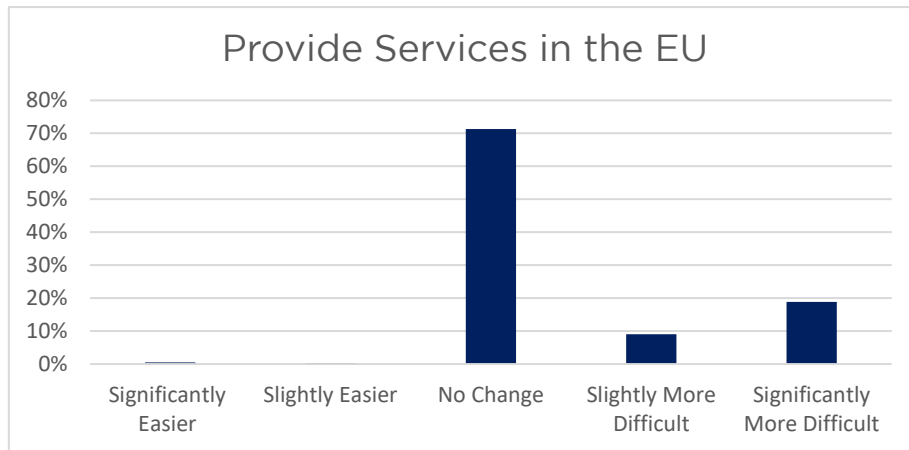
69% of businesses reported that there had been no change on their ability to move goods between Great Britain and Northern Ireland as a result of the UK's departure from the EU. 16% of respondents shared that it was significantly more difficult and 15% that it was slightly more difficult - both similar to our previous report, in which 18% shared it was significantly more difficult and 13% slightly more difficult. One business reported that it was significantly easier. 87 businesses did not respond to this question.



### *Provide Services in the EU*

71% of businesses reported that there was no change on their ability to provide services in the EU compared to 67% last year, whilst 19% reported it was significantly more difficult and 9% reported that it was slightly more difficult. Two businesses reported that it was significantly easier, and one business shared that it was slightly easier to provide services in the EU. 86 businesses did not respond to this question.

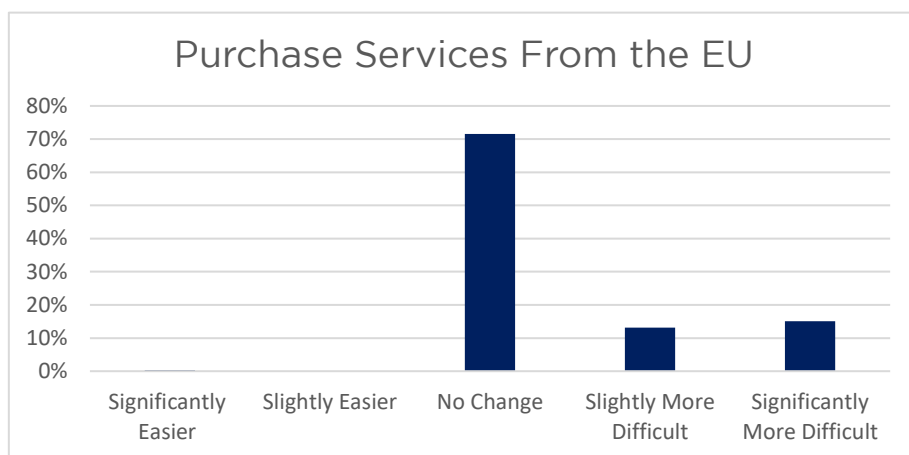
Nearly one quarter (24%) of services firms reported that it was either significantly or slightly more difficult to provide services in the EU. However, three quarters (75%) reported no change in their ability to provide services. One business reported that it was slightly easier to provide services in the EU as a result of the UK's departure.



#### *Purchase Services from the EU*

72% of businesses reported that there was no change on the ease with which they could purchase services from the EU as a result of the UK's departure from the bloc. 15% reported that it was significantly more difficult to purchase services and 13% that it was slightly more difficult, with just one business reporting that it was significantly easier. 90 businesses did not respond to this question.

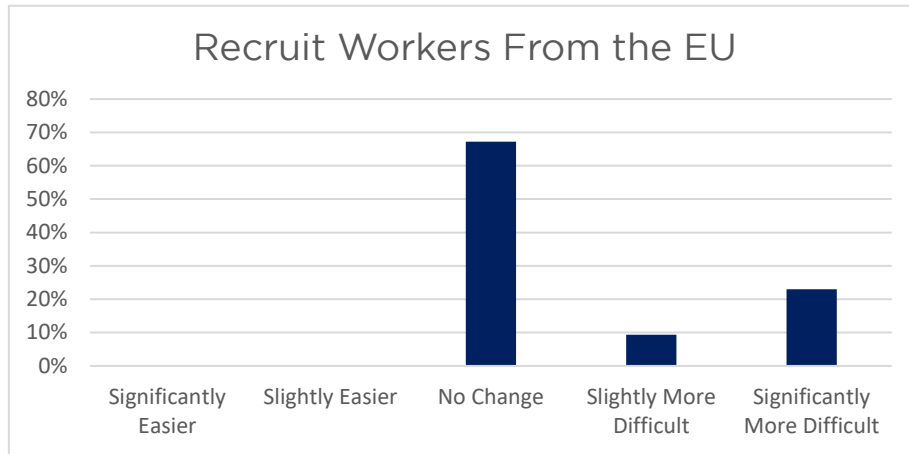
Nearly one quarter (24%) of services firms reported that the UK's departure from the EU had made purchasing services from the EU more difficult to some degree. 76% reported no change.



#### *Recruit Workers From the EU*

67% of respondents shared that the UK's departure from the EU had not changed the ease with which they could recruit workers from the EU, 4% fewer than last year. 23% reported that it was significantly more difficult and 9% that it was slightly more difficult to recruit workers from the EU, compared to 16% and 13% respectively in last year's report. One business shared that it was significantly easier and one business shared that it was slightly easier. 87 businesses did not respond to this question.

Nearly half (48%) of manufacturers found that recruiting workers from the EU was more difficult to some degree; however, the majority (51%) reported no change in their ability to recruit workers from the EU.



## Issues Encountered by Businesses

Businesses were asked what, if any, issues they had encountered as a result of the UK's departure from the EU.

### *Increased Costs*

50% of respondents had faced increased costs, a 10% increase compared to our last report. This issue was more likely to be flagged by microbusinesses and SMEs.

### *Lack of Capacity and Resources*

21% of businesses reported that lack of capacity and resources to deal with new paperwork requirements as a result of the UK's departure from the EU was an issue for their organisation. This is slightly higher than our last report, in which 18% reported the same concern.

### *Reduced Demand from EU Businesses*

Fewer businesses reported reduced demand from EU businesses for their products and services than in our last report, with 13% reporting this as an issue compared to the previous 16%. This was felt more acutely by microbusinesses and SMEs than large businesses.

### *Lost Business*

Previously, 12% of businesses surveyed reported losing out on business to EU-based competitors. However, 17% of businesses now reported this as an issue. This was most prevalent for microbusinesses and SMEs than large businesses.

### *Other Issues*

27% of firms reported that border delays had affected their business, just one per cent lower than the previous report. One in five respondents encountered import VAT-related problems affecting EU customers. 34% of respondents had experienced supply chain issues as a result of the UK's departure from the EU. 4% of respondents had experienced particular issues with sanitary and phytosanitary requirements on food or plant exports, with the majority of these respondents based in the Black Country.

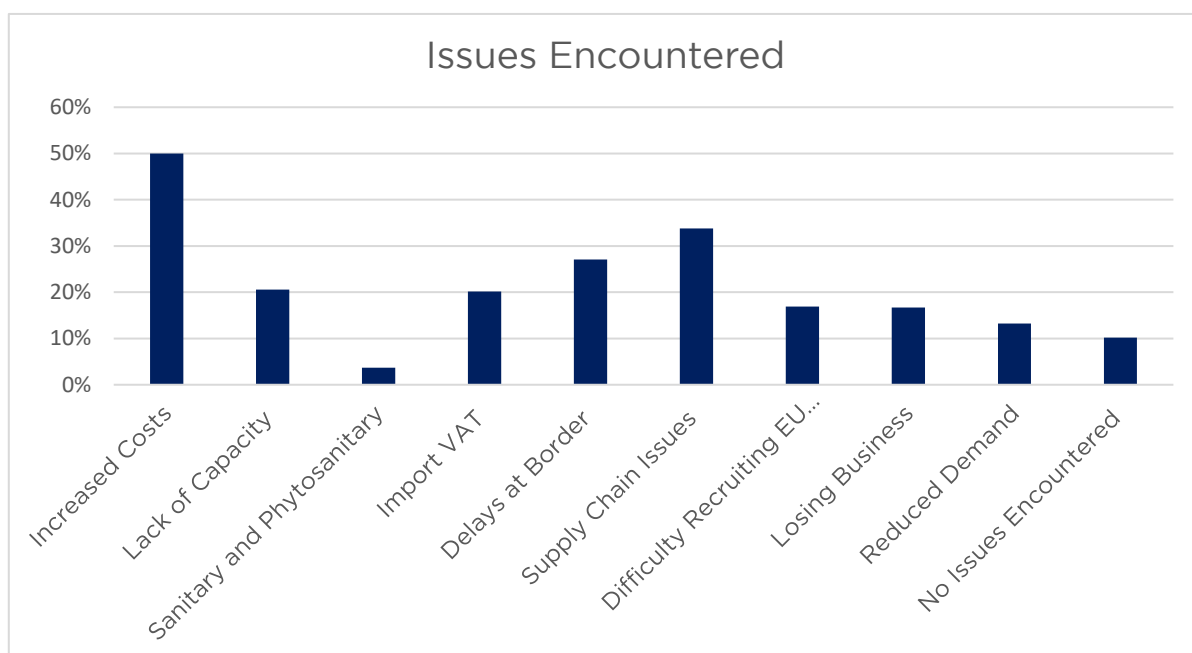
According to 317 businesses surveyed in Greater Birmingham and the Black Country, 11% had experienced an issue relating to the definition of qualifying goods in the rules of origin for preferential tariff treatment under the EU-UK Trade and Cooperation Agreement. One quarter (25%) of manufacturers reported this as an issue, as did



12% of SME and microbusinesses. Similarly, 9% of respondents based in Greater Birmingham and the Black Country reported that regulatory duplication costs was an issue for their business, with more than one fifth (21%) of manufacturers encountering this issue and 9% of SME and microbusinesses.

### *No Issues*

Fewer businesses (10%) reported experiencing no issues at all as a result of the UK's departure from the EU compared to 14% in the previous report.



## Navigating Issues

Businesses were asked which, if any, of the following actions they had taken to overcome or navigate the issues that they had encountered.

### *Suppliers*

21% of all respondents had sourced new or additional suppliers as a result of the issues that they had encountered since the UK's departure from the EU. Manufacturers were more likely to source a new supplier than services firms, with 38% taking this action compared to 15% of services firms.

17% of businesses reporting switching to UK-based suppliers to navigate such issues, including 17% of SMEs and 20% of large businesses. Manufacturers were more likely to switch to UK-based suppliers, with 28% doing so compared to 14% of services firms.

### *Supply Chain*

14% of businesses diversified their supply chains as a result of the issues which they had encountered, with 30% of large businesses reporting to have done so compared to 13% of microbusinesses and SMEs. Nearly one quarter (24%) of manufacturers also reported diversifying their supply chain.

### *Method of Transportation*

Fewer than one in ten (9%) businesses reported changing their method of transportation used for moving goods between the UK and the EU. However, manufacturers were much more likely to do so than services firms, with 24% doing so compared to 4%.

### *Distribution*

4% of respondents altered where their goods are distributed from when selling products to EU customers. As expected, more manufacturers (8%) reported doing so than services firms (2%).

### *Commercial Entities*

4% of respondents reported setting up an EU commercial entity for trading with customers in the EU. Large businesses were more likely to do so than microbusinesses and SMEs, with 17% doing so compared to 3%. There was little difference between responses from manufacturers (5%) and services firms (3%).

### *Costs*

One in four (25%) businesses passed on increased costs to their customers, including 25% of SMEs. 42% of manufacturers reported passing on increased costs to their customers, whilst 19% of services firms reported doing so.

Nearly one fifth (19%) of businesses shared that they had absorbed increased costs. As expected, larger businesses were more likely to absorb cost increases than microbusinesses and SMEs, with 27% doing so compared to 19%. Nearly one third (32%) of manufacturers reported that they had absorbed cost increases compared to 15% of services firms.

### *Stockpiling*

One in ten (10%) respondents reported that they had stockpiled goods in order to navigate issues encountered as a result of the UK's departure from the EU, including 10% of microbusinesses and SMEs, and 10% of large businesses. Nearly one quarter (24%) of manufacturers reported that they had stockpiled goods compared to 5% of services firms.

### *Non-EU Markets*

Just 3% of respondents reported that they had expanded into or entered non-EU markets as a means of dealing with issues that had arisen from the UK's departure from the EU. 5% of manufacturers had reported taking this action, compared to 2% of services firms.

### *Business Operations in the EU*

4% of businesses based in Greater Birmingham and the Black Country reported moving or establishing business operations in the EU in order to navigate the issues that they were facing. Manufacturers were more likely to do this than services firms, with 10% of manufacturers moving or establishing operations in the EU compared to 2% of services firms. Unsurprisingly, larger businesses were also more likely to move or establish business operations in the EU: 12% reported doing so compared to 3% of SME and microbusinesses. Data was not available for Coventry and Warwickshire on this topic.

### *Recruitment*

16% of businesses based in Greater Birmingham and the Black Country shared that they had recruited staff from the UK in order to address the issues arising from the

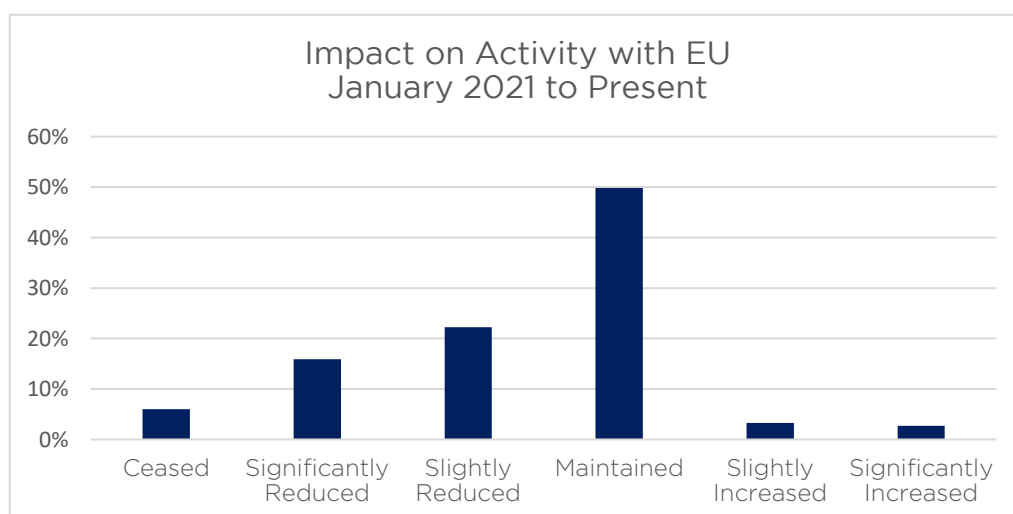
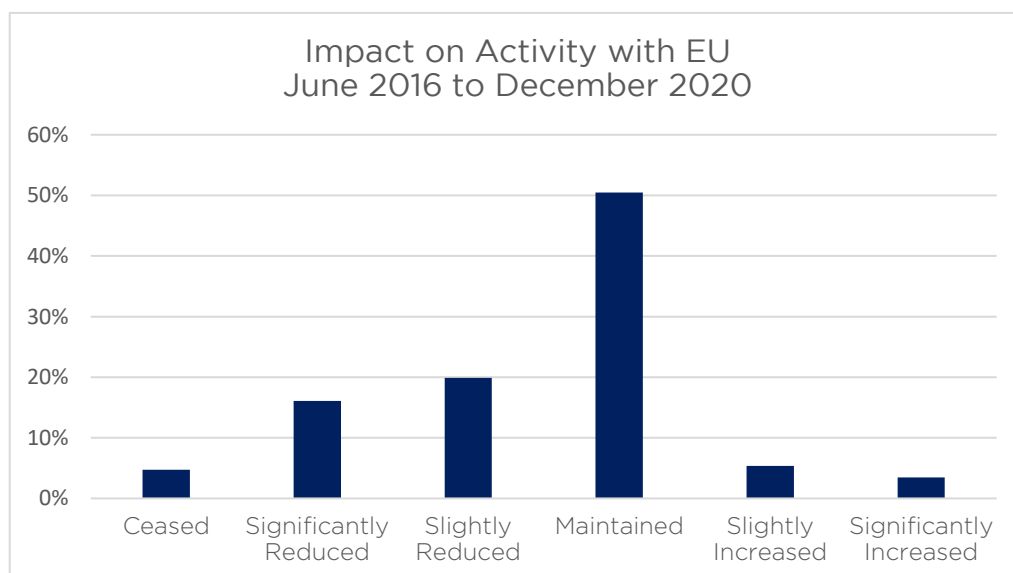
UK's departure from the EU. Nearly half (46%) of large businesses took this action, compared to 13% of microbusinesses and SMEs. Manufacturers were also more likely to recruit staff from the UK: 20% reported doing so compared to 14% of services firms. Data was not available for Coventry and Warwickshire on this topic.

## Changes Over Time

Businesses were asked how their business activity with the EU had been affected over two time periods: between the result of the referendum and the end of the transition period (June 2016 and December 2020), and since the end of the transition period in January 2021.

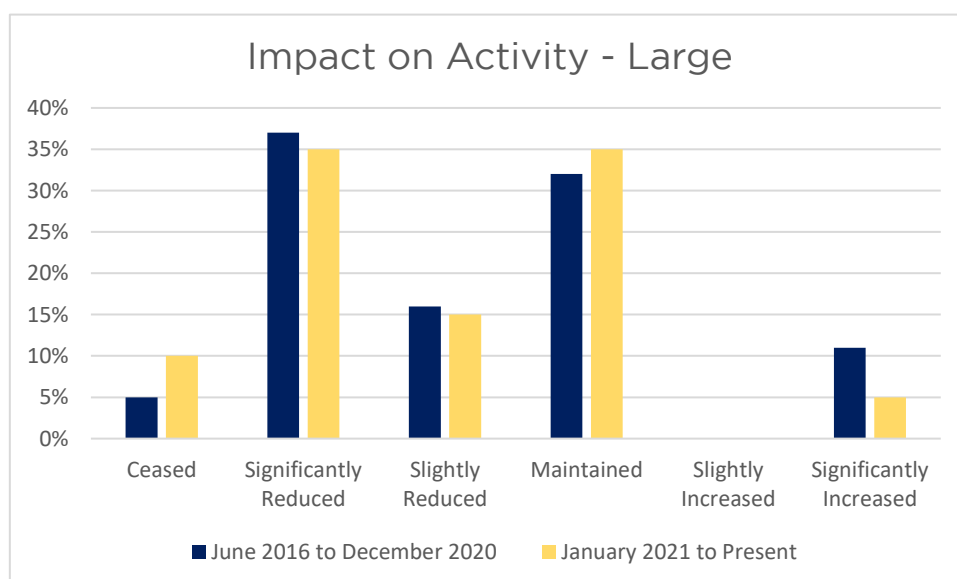
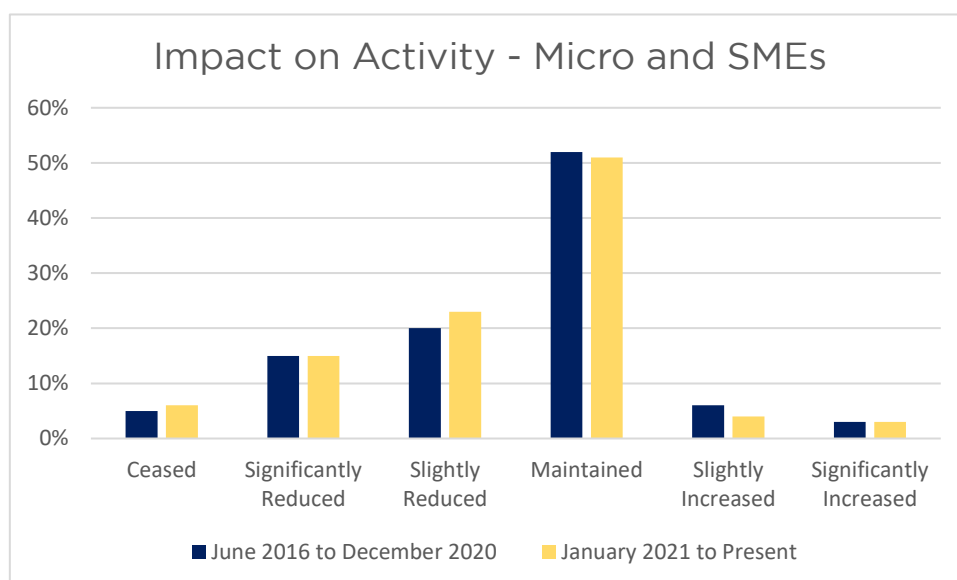
The majority of businesses in both time periods had either maintained their current level of activity or significantly or slightly reduced activity. 5% of businesses had ceased all trading with the EU between June 2016 and December 2020, and 6% had ceased activity following the end of the transition period.

8% of respondents had either slightly or significantly increased their activity with the EU between June 2016 and December 2020, compared to 6% between January 2021 and the present.



Large businesses were more likely to have reduced activity to some degree than SME and microbusinesses over both time periods: between June 2016 and December 2020, more than half (53%) of large businesses reduced activity compared to 35% of SME and microbusinesses. This gap narrowed following the end of the transition period, with half (50%) of large businesses reducing activity from January 2021 onwards compared to 38% of SME and microbusinesses. These results may be somewhat surprising, given the anecdotal evidence obtained from smaller businesses since the UK's departure from the EU: many have noted that they lack the resources - both financial and human - and time to both understand and comply with new trading requirements. However, due to their size, microbusinesses and SMEs are significantly more agile than larger firms and were likely more able to adapt the relevant processes in order to trade with the EU.

Large businesses were also more likely to cease all trade with the EU as a result of the UK's departure, with 5% doing so between 2016 and 2020, and 10% doing so following the end of the transition period. In comparison, 5% of SME and microbusinesses ceased trade between 2016 and 2020, and 6% ceased trade from January 2021 onwards.



Manufacturers were more likely to reduce their activity with the EU than services firms, with 47% doing so between 2016 and 2020 compared to 31% of services firms. Following the end of the transition period, half (50%) of manufacturers reduced activity with the EU to some degree compared to one third (33%) of services firms. Services firms were considerably more likely to maintain their existing level of activity with the EU throughout both time periods - with 57% doing so between 2016 and 2020, and from January 2021 onwards - compared to manufacturers, 37% of whom maintained activity between 2016 and 2020.

## Trade with the Rest of the World

Businesses were asked how their activity with the rest of the world - non-EU member states - had changed since 2020 as a result of the UK's departure from the EU.

63% of respondents reported that there had been no change in their activity levels with non-EU member states as a result of the UK's departure from the EU. Nearly one quarter (23%) of respondents shared that their activity had increased to some degree, whilst 14% noted that it had reduced to some degree.

SME and microbusinesses were more likely to have increased trade with non-EU countries than large businesses, with 24% doing so to some degree compared to 15% of large businesses. They were also less likely to reduce activity with non-EU countries than large businesses, with 11% of SME and microbusinesses doing so compared to 45% of large businesses.

## Challenges and Opportunities in 2023

Businesses were asked to identify the opportunities and challenges on the horizon in 2023 for their business as a result of the UK leaving the EU.

### *Challenges*

Respondents most commonly cited increased costs as a major challenge for their business on the horizon. This challenge was cited more often by businesses based in Greater Birmingham than in Coventry and Warwickshire or the Black Country. In the Q2 2022 West Midlands Quarterly Economic Snapshot, more than two thirds of regional manufacturers shared that they expected the prices of their goods and services to increase in the following three months, mirroring the data recorded in this report whereby 41% of manufacturers expect to pass on increased costs as a result of the UK's departure from the EU to their customers. As well as increased costs, businesses shared concerns over other macroeconomic factors such as inflation and fluctuating exchange rates. One business noted that inflation was driving up labour costs, which firms had already been struggling with as a result of fewer EU workers in the country.

The second most cited challenge on the horizon for respondents was recruitment. Businesses had major concerns over ongoing staff shortages and the lack of EU workers available to fill vacancies, as well as increased difficulty recruiting EU students. Recruitment and retention have remained a significant challenge for firms across Greater Birmingham for some time, with 71% of businesses experiencing recruitment difficulties in Q3 2022 according to the Greater Birmingham Chambers of Commerce's Quarterly Business Report. Recruitment difficulties have also been felt more acutely by manufacturers, with 82% of manufacturers encountering issues in the Q2 2022 West Midlands Quarterly Economic Snapshot.

A number of businesses also flagged that the increased administrative burden as a result of the UK's departure from the EU was a challenge. From more paperwork to more 'red tape', businesses had concerns over their ability and capacity to navigate increasingly complex and everchanging rules in order to continue trading with the EU. Anecdotal evidence suggests that increasing paperwork and bureaucracy has impacted microbusinesses and SMEs more acutely, many of whom may lack the resources to ensure they are sufficiently compliant with new trading rules.

Other challenges raised by businesses include ongoing supply chain issues, with several sharing their frustration regarding shipping and transport delays, long lead times, and the skyrocketing price of raw materials. As well as this, a significant number of businesses shared that increasing regulatory divergence between the UK and EU would pose a challenge for their business over the next year, including rules of origin requirements to UKCA markings.

### *Opportunities*

Though respondents highlighted far fewer opportunities than challenges on the horizon for 2023 as a result of the UK's departure from the EU, an increase in non-EU trade was the most commonly cited opportunity. Respondents noted that new Free Trade Agreements would help them to explore and enter new markets, with several mentions of new opportunities in Commonwealth countries.

Several businesses noted that they were hoping the UK's departure from the EU would result in less regulation on business in the coming year, with the Government pledging to 'cut red tape' via the Retained EU Law (Revocation and Reform) Bill in 2023.

Other opportunities cited by businesses included the growing demand for overseas investment and the opportunity for businesses to review their supply chains as a result of the UK's departure from the EU.

## Stakeholder Support

Businesses were asked to identify what support from regional and national stakeholders would be most beneficial to help them trade with the EU. Responses generally fell into five broad categories:

### *Removal of trade barriers to encourage activity*

Businesses identified an urgent need for Government to remove barriers to trade, including taking action to reduce delays and transport costs which had both skyrocketed since the UK's departure from the EU. With regard to new customs requirements, businesses were hopeful that action would be taken to simplify documentation - including via more electronic automation - and reduce tariffs and/or customs charges.

Having identified regulatory divergence as an obstacle to trading with the EU, a number of businesses identified the need for regulatory alignment and mutual recognition of products and standards.

Some businesses also noted that changes to the VAT policy for goods and the introduction of beneficial foreign exchange rates for importers and exporters would help them to increase trade with the EU.

### *Bolstered trade links between local businesses and European counterparts*

Improved trade links was the second most commonly cited support needed from regional and national stakeholders. Businesses overwhelmingly proposed that re-

joining the EU would help bolster trade links, closely followed by the proposal that the UK access either the Single Market and/or Customs Union. Respondents also hoped that the Government would seek to negotiate a more beneficial trade deal with the EU to improve trade opportunities for local firms.

#### *Action from UK Government to facilitate increased levels of trade*

Businesses proposed a range of actions that they would like to see the UK Government take in order to facilitate increased levels of trade between the UK and EU. Businesses emphasised the benefit that financial support – either in the form of loans or grants – from the UK Government would have on their ability to trade internationally, with particular attention brought to financial support for microbusinesses and SMEs.

Businesses also identified a need for a support mechanism that would enable them to expand their global trade reach with both EU and non-EU countries, including help connecting with key trading bodies and the implementation of a targeted expert support system. It was noted by respondents that doing so would require additional funding for the Department of International Trade in order to increase the department's engagement with businesses.

#### *Information on changes to legislation and available support*

Throughout the survey, respondents had flagged that they were struggling to understand and navigate complex new rules that had followed the UK's departure from the EU. As a result, a number of businesses reported that information from regional and national stakeholders on both changes to legislation and available support would be most beneficial for their business.

#### *Facilitation of greater flows of labour*

With nearly one third (32%) of respondents reporting that recruiting EU workers had become either significantly or slightly more difficult since the UK's departure from the EU, it was anticipated that businesses would identify actions needed from stakeholders to facilitate greater flows of labour between the UK and EU. Indeed, GBCC's Quarterly Business Report results in 2022 revealed that more than three quarters of local firms that had attempted to recruit had faced challenges, the highest figure on record.

Responses from businesses varied from the simplification of the visa and sponsorship process to the removal of work permits. Given the persistent recruitment difficulties across all sectors and job roles, businesses identified the need for EU migrants to be more easily employed in unskilled and semi-skilled roles. Businesses also noted the need for more information on people and mobility, including on routes to employing the EU workforce. Several businesses suggested that a relaxation of the UK's current immigration laws would help their business to increase trade with the EU.



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