DBT Trade Strategy Submission

17 January 2025

Summary of Logistics UK View

Logistics UK wants to see:

- The government urgently rebuild confidence and credibility among the logistics sector that it can provide workable solutions that deliver the certainty, stability, simplicity, and affordability the sector needs to trade smoothly.
- The government create a dedicated role, 'Minister for Logistics and Supply Chain', that would have cross departmental responsibility for the many aspects of the logistics sector and would streamline the sectors interaction with government.
- The efficient delivery of the 2025 UK Border Strategy, and within that, the Single Trade Window and Border Target Operating Model (BTOM), in close coordination with the logistics sector.
- Government work with the EU on customs and border policies to find pragmatic solutions to assist the smooth flow of trade. This includes the introduction of the EU Entry and Exit System (EES) in 2025 and finding a bespoke, digital, upstream solution for juxtaposed border areas.
- Efficient implementation of the Windsor Framework, underpinned by a trusted trader approach, and greater collaborative action to maximise NI's economic potential given its unique dual-market access.
- Evolution and expansion of our trading relationship with Europe, including a comprehensive Veterinary Agreement, focussed on making trade as frictionless as possible.
- Free Trade Facilitation Agreements and Free Trade Agreements, with logistics and connectivity at the core of negotiations, to unlock market access and enable efficient trade systems for UK logistics companies, to grow UK-world trade.

About Logistics UK

Logistics UK is one of the country's largest business groups, and the only trade association which represents all of logistics. Our mission is to support, shape and stand up for safe and efficient logistics. Our membership of more than 20,000 includes global, national and regional businesses and SMEs spanning road, rail, inland waterways, sea and air as well as the buyers of freight services, such as retailers and manufacturers. We deliver services, representation and thought leadership, helping members and policy makers to seize new opportunities for the sector and the economy as a whole, right across the country.

Logistics UK members operate over 200,000 goods vehicles - almost half the UK fleet - and some one million liveried vans. In addition, they consign over 90 per cent of the freight moved by rail and over 70 per cent of sea and air freight.

The cumulative impact of changes

The cumulative impact of changes to trade and border policies is adding significant cost and inefficiency to the sector. The logistics sector in recent years has had to deal with Brexit, the Covid-19 Pandemic, the war in Ukraine and other geopolitical issues, such as the Red Sea Crisis, as well as the recent cost-of-living crisis. The sector prides itself on its resilience, for always finding a way. Whilst many of these are directly out of the control of the UK government, there are also things that are either partially or fully in its remit. This includes the Border Target Operating Model (BTOM), UK-EU relations, the Trade and Co-operation Agreement (TCA), Windsor Framework, unnecessary divergence with the EU and Free Trade Agreements (FTA).

The past decade has brought enormous challenges for many businesses, and this is particularly true for the logistics sector. The lack of stability and certainty has damaged business confidence and hindered investment, both domestic and international. Many businesses that previously were trading internationally, are now solely focusing on the domestic market. As such, the UK has seen a decline in its exports, whilst still being overly reliant on imports. The Office of National Statistics stated that total goods exports decreased by £3.2 billion (11.5%) in July 2024, after the effect of inflation was removed. This was because exports to the EU decreased by £1.4 billion (10.9%), and exports to non-EU countries decreased by £1.7 billion (12.1%).[1] Furthermore, the UK economy shrank for the second month in a row in October as concerns about the Autumn Budget continued to weigh on confidence. Official figures showed a 0.1% drop, despite expectations that the economy would return to growth after a fall in September.[2] This again highlights the need for Government to meaningfully engage with industry and draw on its expertise in identifying key enablers to drive economic and trade growth.

Action needed from UK government:

- Ensure the government takes a consistent approach, giving the logistics sector the reassurances and clear communication it needs without delay.
- Ensure there is meaningful consultation and co-design, with trading experts, before new policies are introduced and that the new Trade Strategy has a clear and practical focus on removing the barriers to exports and reengaging UK businesses who have removed themselves from the export market.
- A closer and easier trading relationship with the EU is key to achieving success.

Dedicated Logistics and Supply Chain Minister

The logistics sector underpins the economy, safely and efficiently delivering for its households, businesses and public services, every day. It is critical national infrastructure, comprising road, rail, maritime and air transport, together with warehousing, ports and other logistics hubs.

There is widespread consensus that UK productivity and growth is too low. By putting logistics first, with the right partnerships, regulations and investment, government can deliver productivity gains that will supercharge the UK economy by up to £8 billion per year by 2030.

Logistics delivers big public value on small margins, ensuring the availability of the products households, businesses and public services we all rely on, every day. This strengthens connections between businesses and their customers, facilitating market expansion, boosting competition, and encouraging innovation. Logistics is a major sector in its own right. It contributes £185 billion to the economy each year (12% of UK non-financial GVA), is one of the UK's largest employers, providing good jobs with strong career progression – 2.7 million people (8% of the UK workforce) are employed in logistics roles, and its key hubs provide a catalyst for further growth and investment, helping places to thrive. Logistics has transformed the UK and is now delivering for the future. It helped deliver the country's canals, roads,

[1] Office of National Statistics. UK trade: July 2024 - Total value of UK exports and imports of goods and services in current prices, chained volume measures and implied deflators. (September 2024) Source: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/july2024#:~:text=Total%20goods%20exports%20decreased%20by,%C2%A31.7%20billion%20(12.1%25).

[2] BBC. UK economy shrinks for second month in a row. (December 2024) Source: https://www.bbc.co.uk/news/articles/cq5lw84w1yeo#:~:text=The%20UK%20economy%20shrank%20for,after%20a%20fall%20in%20September.

railways, airports and ports, has driven revolutions in global trade and e-commerce and is now innovating to deliver decarbonisation and even greater efficiency.

Whether manufacturing or retail, healthcare or education, every part of our economy relies upon logistics to provide all the goods needed to generate business and growth. Innovative, integrated infrastructure backed by a national logistics network will deliver efficiencies and opportunities that can benefit us all. Giving logistics a voice at the heart of government would ensure that the needs of industry and business are heard, and that our sector can work with government to drive up the country's productivity. A dedicated Minister would recognise that logistics sector operations are cross-departmental and would better streamline engagement and decision making.

In a world of increasing volatility as a result of geopolitical tensions and climate change, the frequency of Black Swan events is also likely to increase. To effectively prepare, respond and build resilience in the face of increasing unpredictability, logistics as a core part of the nation's infrastructure, should have a seat around the Cabinet table. A recent example where having a dedicated Minister for Logistics and Supply Chain would have demonstrated its strategic benefits, is the closure of Holyhead Port and the Holyhead to Dublin route as a result of storm damage. This closure has caused widespread disruption to GB and island of Ireland trade and resulted in additional business cost and loss of business to the haulage and logistics industry during its peak season. This situation has brought into sharp focus the fragility of the port network which is critical for trade, and a dedicated UK government Minister would have enabled the UK to be better prepared from a contingency planning and future resilience perspective.

Action needed from UK government:

- Logistics UK is calling on the government to create a dedicated Logistics and Supply Chain Minister. This Minister would have cross departmental responsibility for the many aspects of the logistics sector impacting on the economy, society and environment and would build resilience in government in the face of increasing volatility globally.
- Working with devolved governments and key stakeholders, produce contingency plans and a resilience action plan for the main trading gateways servicing the UK economy.

Border Target Operating Model (BTOM)

BTOM continues to risk delays, traffic congestion, higher prices, reduced choice for consumers and shortages, particularly to perishable and 'just in time' products. It poses a disproportionate risk to smaller importers and groupage operators given the impact of additional paperwork and costs. The burden on businesses is also heightened as a result of government not providing the clarity that businesses need, in a timely manner, to enable them to plan ahead.

Trade data shows that the UK is more reliant on EU imports than the EU is on UK exports. GB is particularly reliant on such imports coming via the Short Straits, through the Port of Dover and LeShuttle and is particularly reliant on fresh food imports in the winter. According to the government's 2021 Food Security Report, the UK continues to rely on seasonal supplies of some products in order to meet consumer demand, particularly fresh fruit and vegetables.

Friction on trade with Europe has already had a significant effect, increasing the cost of food in the UK and reducing the value of the UK's exports to Europe. According to the Centre for Economic Performance, a research centre at the London School of Economics, December 2019 to March 2023 saw an approximately 25 percentage point increase in food prices. Had Brexit not transpired, this increase would have been 8 percentage points lower.[3] This increase, which predates the new UK import controls, has resulted from a combination of higher transportation costs, supply chain redesign, customs complexity and reduced volumes transported.

Action needed from UK government:

- Government to establish a meaningful engagement mechanism with the logistics sector for the implementation of BTOM changes.

- Government to provide clarity to enable businesses to better plan ahead including how many checks are being carried out, on what commodities, and how and when checks will be fully scaled up.

[3] Centre for Economic Performance. Brexit and consumer food prices: 2023 update. (May 2023) Source: https://cep.lse.ac.uk/pubs/download/brexit18.pdf

- Government to provide a user friendly, one stop shop containing a breakdown of all importation fees.

- Greater assurances from government that Border Control Post (BCP) facilities have the capacity and capabilities, including staffing resource at all times required, to efficiently inspect and process loads. Where necessary, government should support the extension and streamlining of opening hours in all BCPs so imports are not unnecessarily delayed.

- Improved training of inspection staff, especially on how to handle and reload goods more carefully and at busy periods. These staff must be aware of the major financial consequences of mishandling goods. Carriers are willing to give instructions on this and in the cases of unaccompanied transport are willing to provide further additional instructions. As part of the solution, drivers should be permitted to assist inspectors in reloading cargo. This would assist the carrier in continuing its journey more efficiently while reducing the risk of damage or mistakes during the checking process.

- Sufficient capacity provided at Sevington, and within other relevant authorities, to efficiently and effectively carry out inspections and process samples, to ensure just in time produce is not delayed.

- Provision of adequate welfare facilities for drivers at BCPs. Facilities should include an area where drivers can access appropriate rest room and hygiene facilities and purchase good food and drink options. The current lack of facilities, compared to those available for drivers in the EU, is a significant deterrent to hauliers willing to transport goods to GB.

- Government to publish the full costs for operating Sevington BCP that the Common User Charge (CUC) is to cover. Not only would this bring transparency to this not-for-profit policy, it would also give reassurance to industry that the facility is being run efficiently given the additional costs to businesses in meeting BTOM requirements.

- Government to publish modelling to evidence the assertion by the previous government that the cost increases of BTOM will contribute only 0.2% to food and drink inflation over three years, with an accompanying explanation as to how this number has been arrived at.

Digitalisation and the Single Trade Window (STW)

On 5 November 2024, it was announced that development of the STW in the 2025 to 2026 financial year has been paused due to financial challenges. This news was deeply disappointing to the logistics sector, who want a single point of contact to input required customs and border data. This delay means that the STW will not be available for use to submit Safety and Security (S&S) declarations, as part of phase three of the Border Target Operating Model (BTOM) from 31 January 2025.

Instead, GB S&S declarations will need to be made via the government's existing S&S GB service, which entails additional costs, either to purchase the software required to make declarations, or to pay a customs agent to do this. In addition, as the S&S GB does not support multiple consignments under one declaration, there is a significantly higher administrative burden for groupage operators who move a multitude of consignments often with varying risk categorisations at the same time. This undermines the viability of groupage operations which are critical for SMEs in particular who need to find cost effective ways of moving smaller volumes of goods.

The objective of the STW is to deliver a one government approach at the border, and it has long been campaigned for. This pause on development effectively pauses a key benefit amidst all of the additional burdens and costs facing logistics operators trading and moving goods.

Action needed from UK government:

- Development of the STW should be reinstated and accelerated with government focused on what can be achieved now in reducing the data burden on traders and to streamline trade.

- The STW should be interoperable with the EU system for trading efficiency purposes.

UK-EU Relations and Trade

According to the Office for Budget Responsibility's economic and fiscal outlook published in October 2024, "weak growth in imports and exports over the medium term partly reflect the continuing impact of Brexit, which we expect to reduce the overall trade intensity of the UK economy by 15 per cent in the long term"[4].

Brexit reduced overall EU-UK goods trade flows by almost one-fifth, according to the Economic and Social Research Institute in October 2022. UK to EU goods trade was down by 16% and trade from the EU to UK was down by 20% relative to the scenario in which Brexit had not occurred. Improvements to the TCA can help reduce this gap. By volume 68% of our trade is with Europe and, by value, 57% is. As such, Europe is a critical trading partner for the UK.

The UK's importance as an EU trading partner declined between 2017 and 2022, with the UK exporting less to Europe, compared to other countries exporting to the EU. In 2017, the UK's non-energy exports to the EU represented 4% of total imports to EU countries. However, in 2022, this was just 3.1%, which equates to a decline of over 20%.

Logistics UK is encouraged by the government's commitment to a 'reset' in UK EU relations and the coordination role being played by Minister Nick Thomas-Symonds who is responsible for Constitution and European Union Relations in the Cabinet Office.

Action needed from UK government:

- Evolution and expansion of our trading relationship with Europe, including a new comprehensive Veterinary Agreement, focussed on making trade between GB and the EU, and GB and NI, as frictionless as possible.

- It is important that government works closely with, and acts on the advice of businesses who have the trading expertise and experience of market access barriers, to maximise the benefits of UK EU trade.

The Logistics Sector's Priorities for the UK EU TCA Review.

The UK government should press for early agreement with the EU on the parameters, process and priorities for the review, including agreement that this will be an expansive rather than a limited, technical review. The UK government should consider an enhanced partnership and cooperation in respect of the trading of critical minerals to support supply chain resilience.

The following is not an exhaustive list but sets out key barriers to the trade and movement of goods being experienced by the logistics industry, and recommended actions to improve the flow of trade and supply chain resilience. Some can be progressed within the current EU-UK trade agreement. Others will require renegotiation. From the perspective of the logistics sector, all of the actions proposed below will bring benefit to UK EU trade.

<u>Rules of Origin.</u>

To avail of zero tariffs under the UK EU TCA, businesses must comply with rules in respect of the origin of their goods. This means there must be a qualifying level of processing in the UK or EU to access zero tariffs. There is a lack of clarity when it comes to Rules of Origin and Processing Rules which is impacting goods which can legitimately qualify for zero tariffs.

Action needed from UK and EU:

- Publish clear and detailed guidance for traders on definitions and the evidence levels required to demonstrate that sufficient processing, and by implication bilateral cumulation requirements, have been met, particularly around the current definition of 'simple' processes for example simple cutting, simple placing in bottles.

[4] Office for Budget Responsibility. Economic and fiscal outlook. (October 2024) Source: https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf

- Ongoing, close monitoring of the potential economic impact of Rules of Origin changes, with learning from the experience of battery electric vehicles, to avoid future cliff edges detrimental to UK EU supply chains. Close attention to be paid to the UK EU battery electric vehicle supply chain to ensure it is developed sufficiently to avoid significant tariff liabilities when delayed changes to the Rule of Origin take effect on 1 January 2027.

- Urgently agree shared guidance on the definition of Active Cathode Materials for the purposes of Rules of Origin for batteries and battery manufacturing, which has been pending since the Trade Specialised Committee mandated the parties to agree on the guidance in 2022.

Customs

Customs arrangements under the TCA are not being implemented or are not being implemented in a consistent manner and there is a lack of clear guidance for UK and EU traders, all of which is adding friction to UK EU trade.

Action needed from the UK and EU:

- Much closer engagement between UK and EU customs authorities.

- Greater consistency in TCA interpretation and application by Member State customs authorities on GB and NI exports to reduce customs delays and misapplication of VAT.

- Sufficient staffing capacity and training of EU and UK border and customs staff.

- Greater alignment on Safety and Security controls to remove the need for Entry Summary Declarations (ENS). In the meantime, cooperation to ensure the new EU Safety and Security Declarations regime, the Import Control System (ICS 2), facilitates smooth and undisrupted GB-NI trade across the Irish Sea.

- UK government to create an accessible, easily digestible one stop shop of up-to-date information and guidance on requirements for GB exporters trading with the EU.

- Ensure interoperability of the UK Single Trade Window and EU Single Window Environment for Customs to streamline future trade.

- A pilot programme for joint customs offices initiated.

Trade and movement of Sanitary and Phytosanitary (SPS) goods.

Controls and charges on SPS trade have significantly increased the bureaucratic and cost burden on smaller traders and logistics providers, and groupage operations in particular, with delays, especially to perishable goods, resulting in financial losses to traders.

Actions needed from the UK and EU:

- UK government action to address concerns of GB importers and logistics providers in relation to implementation of the Border Target Operating Model.

- Greater harmonisation of SPS clearances across the EU to reduce delays and costs.

- An end to the EU ban on seed potato imports from GB with a derogation based on demonstrating equivalence of regulations. A reciprocal arrangement may benefit EU states equivalence applications for UK market access.

- Agreement on a comprehensive SPS and Veterinary Agreement to remove and reduce barriers in both GB - EU and GB to NI trade.

Transport arrangements.

The TCA chapter on the Mode 4 category of contractual service suppliers does not cover artists and cultural professionals. As a result, artists, associated technical support staff and transport providers are not allowed to stay in Europe for more than 90 in 180 days without a visa. This is not a realistic or workable situation for the arts and music industry.

Actions needed from the UK and EU:

- A Cultural Touring Agreement to:
  - allow artists and associated technical support staff to travel visa-free for more than 90 in 180 days and
  - exempt companies and organisations transporting material carried under an ATA carnet (i.e. the stage, sound, lighting equipment, instruments etc required to facilitate a performance) from cabotage regulations contained within the TCA to allow the most efficient use of a vehicle on cross-border tours.
- Extension of the EU cabotage exemption to include UK HGV drivers and land-based maritime transport workers working in short-sea, high frequency UK-EU maritime routes (e.g. France, Belgium, Netherlands, Denmark, Spain) who need to travel very frequently (often on the ships themselves) for shipping operational reasons.

Regulatory divergence

As the TCA allows for largely tariff free trade in goods between the EU and UK, enhanced regulatory cooperation provides the biggest opportunity to improve bilateral trade relations. While the EU and UK pursue their respective regulatory agendas, divergence poses a significant and live threat to the free flow of goods and services.

Actions needed from the UK and EU:

- Mutual recognition for conformity assessment (CA) and product marking labelling, or unilateral recognition by both sides of the other's CA processes linked to international standards.
- Monitoring and management of active and passive divergence.
- Alignment between the UK and EU Carbon Border Adjustment Mechanism (CBAM) alongside Emissions Trading Scheme linkage as envisaged within the TCA to reduce the burden on businesses.
- Alignment on legislation related to deforestation and trade with clarity provided to businesses on how to comply.

Windsor Framework and protection of the UK Internal Market

In 2023, trade between GB and Northern Ireland was worth £17.1 billion in sales and £16.2 billion in purchases.[5] The logistics sector is working hard to meet all of the requirements of the Windsor Framework, but further action is needed to ease GB to NI trade and protect the NI consumer, until a new UK-EU Veterinary Agreement is in place. The delay to custom and parcel changes to 31 March 2025 is welcome given serious concerns about readiness, but government must use this time wisely and improve communication, including through the use of case studies, with the logistics industry. Greater collaboration between the NI Executive, UK government and EU is needed to realise the opportunities in NI from its unique UPS of dual market access.

Action needed from UK government:

- A trusted trader based, proportionate and pragmatic approach to SPS checks, with a clear escalation to resolution process in place to keep lorries moving.

[5] Department for the Economy. Northern Ireland Economic Trade Statistics 2023 & Northern Ireland Annual Business Inquiry (December 2024) Source: https://www.economy-ni.gov.uk/news/northern-ireland-economic-trade-statistics-2023-northern-ireland-annual-business-inquiry

- In light of the unique challenges faced by groupage operators, a Trusted Haulier Scheme to be established to allow groupage loads to board ferries while obtaining and submitting all of the required data to keep loads moving.
- Ahead of new customs and parcel requirements from 31 March 2025, logistics businesses need clear and timely guidance to enable them to plan and adapt to new requirements. Guidance and advice must be tailored and targeted to all actors across the supply chain, including hauliers, with the use of case studies to reflect a range of business models. Operational guidance must also set out how mixed loads of consumer and business parcels will be efficiently identified and inspected and how this regime will be enforced.
- The government must lead on an urgent communication and awareness campaign to ensure, GB suppliers in particular, are aware and prepared for requirements under the Windsor Framework to help mitigate withdrawal from the NI market.
- To improve the digitalisation of GB to NI trade, the new Trader Support Service (TSS) being procured by HMRC should be more user friendly, ease the burden, including the compliance burden, currently unfairly placed on hauliers, and better facilitate groupage movements.
- Government must ensure robust mechanisms are in place to assess and manage the impact of potential UK-EU divergence on NI businesses and consumers. This should include publication of an overall risk register.
- Clarity is urgently required on how NI will be impacted by divergence on the Carbon Border Adjustment Mechanism. While the EU deforestation regulation has been delayed by 12 months, businesses in NI need clarity on how they will be impacted.
- Greater collaboration is required between the NI Executive, UK government and EU to realise tangible benefits of Northern Ireland's unique Dual Market Access. This should include the appointment of an EU Economic and Trade Envoy to NI.

Entry Exit System (EES)

The planned introduction of the EES has now been delayed to 2025, however it still risks adding further border friction. EES will replace manual passport stamping with physical biometric scanning at the Schengen Area's external border (airports and seaports). As well as impacting individuals crossing for leisure and business purposes, drivers of freight vehicles will also have to use the system. This system has been designed with EU airports in mind and a bespoke solution is required for the unique situation at juxtaposed borders, particularly at the Short Straits – a key trading route.

If EES checks are required at the Short Straits, which includes the Port of Dover and LeShuttle, this will add significant friction to the movement of people and goods. The volume of passengers undergoing checks, particularly on coaches and at peak passenger periods, will lead to lengthy delays for outbound freight with knock on effects for the pick-up and transportation of imported consignments. Analysis conducted by independent transport modelling experts MDS Transmodal in partnership with Logistics UK, shows that even if delays were limited to 90 minutes for the 3.35 million HGVs that passed through the Short Straits in 2023, the cost to the economy would be £400 million pa.[6]

Under the current requirements, registration will be required every three years. This means that first time registration stops, with resulting knock-on effects on freight movements, are likely to remain continuously high and consistent with consequential impacts on trade and congestion in Kent. Impacts will also be felt at French ports, demonstrating the need for a bespoke solution that benefits both the UK and French economies.

The European Commission has confirmed that EES will now be phased in in terms of the level of checks, but significant details in respect of the approach and timing are still outstanding.

Action needed from UK government:

- Government must work as closely as possible with French Authorities and the EU to ensure the introduction of EES does not negatively impact trade.
- Central to this, is the availability of an App to allow pre-registration to take place away from the physical border. This App should be a core element of the test of Member State readiness before roll out.

[6] Logistics UK. Postponement of EU Entry/Exit System "good news for business" says Logistics UK. (October 2024). Source: https://logistics.org.uk/media/press-releases/2024/october/postponement-of-eu-entry-and-exit-system-good-news

- In advance of EES going live, there must be robust testing of IT system and contingency planning in place.

- Pre-emptive management plans to be in place to prevent lengthy traffic queues from forming at the juxtaposed borders at the Short Straits to keep trade flowing. This must include sufficient resourcing of operational partners on the ground in Kent by government.

EU Customs Reform

On the 17 May 2023, the European Commission put forward its plans for their most significant and comprehensive reform of the EU Customs Union. This reform is in response to the current pressure under which EU Customs operate including the increase in trade volumes (including e-commerce), the increase in the number of checks at the border to meet EU Standards and shifting geopolitical realities and crises. The objective is to simplify customs processes for businesses, particularly for trusted traders. This reform relies on digital transformation, to cut down on unnecessary customs procedures, replacing traditional declarations with a smarter and data led approach to import supervision and security. A new EU Customs Authority will oversee an EU Customs Data Hub and customs changes will include abolition of the current threshold whereby goods valued at less than €150 are exempt from customs duty.

Action needed from UK government:

- Given the significance of planned changes to EU customs procedures, government must work closely with the EU, monitoring and responding where it is in the UK's interest to do so.

- Government to establish a Customs Forum with UK ecommerce businesses to advise and inform government approach and policy.

UK EU Divergence as a barrier to trade

In this post EU exit trading environment, active and passive divergence between the UK and EU is creating significant uncertainty and friction to trade.

Live examples of divergence include the Carbon Border Adjustment Mechanism (CBAM), Emissions Trading Scheme and Deforestation Regulation. To take a case of active divergence, CBAM, the lack of alignment between the UK and EU on the start date, pricing and administration is a cause of concern for business. With the UK's mechanism set to come into effect a year after the EU version, this increases the risk of the UK becoming a temporary dumping ground for carbon intensive goods such as iron, steel, cement, and fertiliser as global rivals seek to avoid paying the EU's CBAM. Moreover, the cost burden of duplicative reporting requirements, and the management of differing pricing schemes, has the potential to slow down trade in goods between the UK and EU. Business is also concerned that EU manufacturers could decide not to export into the UK, while UK manufacturers remain tied to the EU as their biggest market, and replacing this market would present a series of significant challenges.

An example of passive divergence is vehicle standards 'Euro 7' rules on vehicle emissions. In April 2024 new EU rules on vehicle emissions were adopted, following approval by the Council of the EU. The new regulation, known as 'Euro 7', sets limits on exhaust emissions for cars, vans, buses and HGVs. In contrast to this, the UK law remains based on the previous Euro 6 requirements, and the government has so far not indicated an intention to mirror Euro 7 requirements in domestic law. As a result, UK carmakers have to get their vehicles retested to Euro 7 standards if they want to maintain access to the EU market.

Action needed from UK government:

- The UK government should seek to avoid unnecessary divergence with the EU when it is in the UK's best interest.

- Government must ensure robust mechanisms are in place to assess and manage the impact of potential UK-EU divergence. This should include publication of an overall risk register which is frequently updated as developments occur.

- The UK government should work in collaboration with the EU on existing and future initiatives for business and trade to ensure the smooth flow of trade.

Free Trade Agreements (FTA)

Logistics UK wants to see Free Trade Facilitation Agreements and FTAs to unlock market access and enable efficient trade systems for UK logistics companies, to grow UK-world trade.

The UK has dropped from 4th in 2014 to 19th in 2023 in the World Bank's Logistics Performance Index (LPI), as a result in falls in timeliness, infrastructure quality and the quality and efficiency of customs operations.[7] Efficient trading and logistics systems and new FTAs are key to reversing this decline and boosting trade. As a nation with longstanding and excellent trading links worldwide, UK PLC stands ready to benefit from the opportunities of new trade agreements thanks to the country's interconnected supply chain.

In 2022 and, taking 2017 as a baseline, the UK's overall trade has not recovered from the pandemic in the same way as other world regions and the balance of trade is poorer than for other regions. The UK's ratio of imports/exports is 2.03 whereas for Europe and Mediterranean, excluding the UK, the ratio is closer to 1:1. While some trade deals may only yield small benefits to the nation's business in the short term, access to innovation and increased productivity which the deals deliver will have longer term benefits for the overall health of the UK economy.

In progressing trade deals, government must identify the UK businesses which have goods and services which are in demand by other countries. This should consider the quantities of said goods or services which will make the transaction viable. The government should also work closely with diplomatic missions overseas on potential trade leads.

Logistics UK understands the rationale for the requirement for non-disclosure agreements in respect of trade negotiation updates, but this prevents trade associations from effectively engaging with their member businesses to seek views. A more open approach by the Department for Business and Trade (DBT), weighted by risk, would better facilitate the input of businesses who have the trading expertise and experience of market access barriers to advise government on maximising the benefits of international trade.

In trade negotiations, connectivity and trade corridors, must be a core consideration rather than a critical issue to be addressed after a deal has been signed. Given the reliance on deep sea shipping for international trade, greater scrutiny and transparency should be applied to the charging regime by Shipping Lines to mitigate the impact of UK inflation and ultimately UK consumers.

Trade and transport policy must be aligned. The UK must have robust and appropriate transport infrastructure to support the UK government's trade strategy. Currently, there is a limit on freight movements in airports in south east England due to capacity restrictions and night flight rules. DBT has a role in ensuring there is greater focus on existing and future transport infrastructure to enable operational opportunities for business and trade. This can facilitate the increased movement of physical goods and will help avoid placing a ceiling on the UK's growth ambitions. Moreover, this will support the UK's ability to compete internationally as well as attract both international and domestic investment.

Action needed from UK government:

- The government should work closely with diplomatic missions overseas on potential trade leads.

- Trade deals should include simplification of custom processes and opportunities to digitise the movement of goods to smooth trade. Trade barriers must be a consideration at the beginning of negotiations, as well as what actions are required to minimise them before any deal is signed.

- Trade deals must consider the connectivity levels between the UK and the FTA country and address route challenges as part of the trade deal plan.

[7] The World Bank. Logistics Performance Index (LPI). (June 2023) Source: https://lpi.worldbank.org/international/global

- Greater openness by DBT where possible, to enable input from businesses who have the expertise to help inform government strategy on trade negotiations.

- Greater transparency and scrutiny of the charging policies applied by Shipping Lines given the consequential impact on UK shippers, inflation and the UK consumer. The UK Competition and Markets Authority should explore a number of options including a 30 day public notice period for increased charges as occurs in the US.

- Additional night flight capacity at airports without curfews to support the UK's trade ambitions.

- Commitment across government to deliver appropriate, robust and sustainable transport infrastructure to support the UK government's trade strategy and growth ambitions.

- Government should demonstrate clearly how it is monitoring and assessing the impact of FTAs.

- Government to create the conditions for good access to a skilled workforce and mobility for skilled UK workers, at all levels, to enable the UK to compete internationally.

- When government purchases goods from overseas, consideration should be given to the upfront costs to UK taxpayers, compared to if the contract had been placed with a UK supplier. Whilst the overseas option could save initial costs, the UK option could generate income tax, national insurance contributions, corporation tax, and VAT income for the government from both the prime supplier and UK based sub-contract suppliers as well as creating employment.

Potential of Tariffs on Trade between UK and USA

Currently, it is not clear if the new President of America will introduce tariffs on imports to the US. This uncertainty is a cause of concern for UK shippers and traders. It is important that the UK carefully considers any response if tariffs are imposed in light of its strong trading relationship with the US and EU. The UK government should ensure it uses all available options, such as diplomatic and political contacts in Washington DC, to ensure there is widespread understanding of the impact that tariffs will bring to UK-US trade.

Action needed from UK government:

- The UK should carefully consider all possible outcomes ahead of the potential implementation of US tariffs.

- Utilise all political and diplomatic options available to advise of the negative impact on the US economy any 'tariff war'.

- Ensure that strong bilateral trade is maintained with all the UK's key trading partners.

Conclusion

The logistics industry underpins the UK economy and is critical to enabling trade. It is therefore essential that the logistics sector is recognised in the upcoming Industrial Strategy, Ten Year Infrastructure Strategy, Transport Strategy and Trade Strategy. These strategies should all be aligned to recognise the critical role of logistics, which is and will continue to be a key fundamental foundation of growth in the UK.

Given the tumultuous trading environment businesses have had to operate in, government must urgently rebuild confidence and credibility among the logistics sector that it can provide workable solutions that deliver the certainty, stability, simplicity, and affordability the sector needs to trade smoothly. Key to this is significantly improved communication with industry. Guidance, advice and responses must be issued in a timely manner, to give the sector appropriate time to imbed new processes.

Logistics UK is calling on government to create a new role, 'Minister for Logistics and Supply Chain', that would have cross departmental responsibility for the many aspects of the logistics sector. Having a dedicated minister would not only

streamline the sectors interaction with government, it would support a critical national industry and help build resilience in the UK economy in the face of increasing climate and geopolitical instability.

The EU is the UK's largest trading partner. Government must ensure effective and efficient delivery of the 2025 UK Border Strategy, and within that, the BTOM and STW and work in close coordination with the logistics sector. The government should work with the EU on customs and border policies to find pragmatic solutions to assist the smooth flow of trade. This includes the introduction of the EU EES in 2025 and finding a bespoke, digital, upstream solution for juxtaposed border areas. There should be efficient implementation of the Windsor Framework, road-testing of proposals, and ongoing meaningful engagement by the UK and EU with the logistics sector. Greater collaboration between the NI Executive, UK government and EU is also critical to maximise NI's economic potential given its unique dual-market access.

Evolution and expansion of our trading relationship with Europe, including a new Veterinary agreement, focussed on making SPS trade as frictionless as possible should be a priority. Furthermore, the government should be ambitious in its Free Trade Facilitation Agreements and FTAs to unlock market access and enable efficient trade systems for UK logistics companies, to grow UK-world trade.

Ultimately the government's trade strategy must deliver tangible, measurable benefits for the UK, be sufficiently resourced and have the commitment right across government to capitalise on the opportunities available.

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