Department for the Economy

Retail Economics

UK Retail Trade Service

Assessing the impact of Brexit on the cost of retail goods in Northern Ireland

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Project Outline

Section 1 is a general assessment of the impact of tariffs and other regulation on the cost of sourcing retail products for the Northern Ireland (NI) market from Great Britain (GB), European Union (EU) and the Rest of the World. Where costs are different between a 'No Deal' scenario and a Free Trade Agreement (FTA), these are highlighted. Where costs vary as a result of the way goods are shipped or the route they take to arrive in Northern Ireland, these are also highlighted.

Section 2 analyses potential tariff costs from all sources for eight retail sub-sectors: food & drink, clothing & footwear, DIY & gardening, homewares, health & beauty, furniture & flooring, electricals, toys, games & leisure.

Section 3 is an assessment of the challenges that new regulatory requirements and costs present from the perspective of retailers currently operating in Northern Ireland, based largely on interviews and questionnaire responses.

Section 4 considers the options available for retailers (and other traders) to avoid or reduce new regulatory costs that may emerge.

The report has two appendices. The first is an assessment and explanation of the UK's new Most Favoured Nation (MFN) tariff schedule which will come into force on 1 January 2021. The second is an assessment of the Internal Market Bill and its likely impact on the provision of retail goods in Northern Ireland.

Basic assumptions

Under the terms of the Northern Ireland Protocol, NI will continue to align with EU Single Market rules, primarily those which relate to goods, despite the fact that Northern Ireland formally remains part of the UK's customs territory. Therefore, **this paper assumes that trade from Great Britain to Northern Ireland will be treated for regulatory purposes as if it were trade from Great Britain to the EU and that the same regulatory requirements will apply**. This is a worst case (most costly) scenario and the actual rules that shall apply will be decided by a UK/EU Joint Committee, which may agree arrangements that are less onerous or costly for traders.

Approach and scope of the paper

This paper seeks to identify specific, regulatory costs (i.e. tariffs, charges, licence costs, approvals costs) that will apply to retail goods in Northern Ireland as a result of the UK's departure from the EU and the application of the Northern Ireland Protocol. However, it does not consider additional internal administrative or operational costs that may arise for companies or traders.

Wherever possible, the research seeks to quantify these costs by reference to publicly available information, including price lists, tariff schedules, and fees.

Where appropriate, this paper will distinguish between costs that arise in the event of a full Free Trade Agreement (FTA) and costs that arise in the event of a "no-deal"/MFN/WTO rules trading relationship.

Official statistics on trade in retail products from GB and NI do not identify the origin of goods. As costs will vary according to the origin of goods, precise economic modelling becomes difficult. However, we have sought to address this by analysing trade data between the UK and EU as a whole and calculating separate average tariff rates for GB goods and EU goods. Then, using trade flow data from the 'Northern Ireland Retail Study' (conducted in March 2019), we have applied these average tariffs to estimate total tariff costs for retail products. This method yields two figures, the lower figure represents the cost if all trade is EU-originating and the higher figure if all trade is GB or RoW-originating. The real cost will fall somewhere between these two figures as UK tariffs on EU goods are lower than EU tariffs on UK and RoW goods, while EU imports from the Republic of Ireland have no tariffs.

This report was finalised prior to the publication of the Northern Ireland Protocol Command paper on 10 December 2020.

Executive Summary

Tariffs will increase costs substantially for retail goods in NI in the event of No Deal

- EU/UK FTA means no new tariff costs on GB or EU-originating goods.
- No-deal means GB-originating goods face EU-level tariffs in NI. On basis of 2019 trade flows up to £915 million in new tariff costs, equivalent to an average tariff of 10.8% for all retail products.
- Costs fully recoverable but will place a strain on companies' working capital, especially during periods of depressed demand that may result from the impact of Covid-19.
- Almost three quarters of costs (£677 million) will fall on food and drink.
- No-deal means EU-originating goods face UK tariffs when first imported to UK (see Appendix on UK MFN rates), but not when they move from GB to NI.
- UK tariffs on EU-originating products are in most cases non-recoverable.
- EU-originating goods entering NI from RoI face no tariffs under any circumstances.
- Up to £826 million in tariff costs collected at UK border on EU retail goods moving to NI at an average tariff rate of 9.7%.
- RoW-originating goods may be liable to EU tariffs when moved to NI, especially when UK tariff rates are lower than corresponding EU rates.
- Possibility of additional tariffs even in the event of a full FTA if EU applies Anti-dumping or Anti-subsidy duties to goods of UK origin.

Sectoral impact

- Under any scenario, food and drink will face the highest new regulatory costs and if no deal tariffs apply, up to £677 million additional import costs would apply.
- On a trade weighted basis, average tariffs on food and drink c.17% under no-deal.
- Food products likely to experience highest costs are dairy products with trade-weighted tariff of c.40% and meat (c.35%).
- Significant new no-deal tariff costs on clothing and footwear from EU (c. 10%).
- DIY/gardening stand to benefit from lower UK MFN rates on live plants and a range of intermediate metal products.
- Health & beauty largely unaffected by tariffs (most are already 0%), but cosmetics and medicines may face new regulatory checks at GB/NI border.
- Electricals will see little change, though EU TVs will face new tariffs under no deal.
- No deal would see significant new tariffs on EU ceramics, glassware and household linens (up to 12%)
- No deal would mean new duties on EU carpets, but balanced by reductions in UK tariffs for other floor coverings.
- Little change for sports, toys, games & leisure, though additional tariffs on Chinese bicycles will be scrapped.

Non-customs regulations will be unavoidable

- Non-tariff regulatory costs are likely on trade from GB to NI even with FTA.
- Cost of submitting a customs declaration for all consignments (£15-56 per consignment)
- In event of full FTA, cost of demonstrating UK preferential origin (EUR1 document).
- Retailers say costs will be highest for heavily regulated products; food and drink; medicines; cosmetics.

- Retailers expect compliance with SPS rules for food to be particularly onerous.
- Special rules in UK Internal Market Bill mean that goods which do not comply with EU Single Market rules may be prohibited from entering NI even if they are allowed elsewhere in the UK.
- Goods from the Rest of the World subject to EU regulatory checks when moved from GB to NI unless otherwise agreed by UK/EU Joint Committee.

Some tariff and non-tariff costs can be avoided or ameliorated

- Tariff costs can be avoided altogether using "Transit" provisions and sourcing directly from RoI.
- Non-tariff costs may not be recoverable but may be ameliorated, in particular by changing the profile of consignments to larger loads of fewer different products.
- Identifying ways for avoiding/ameliorating costs (e.g. through robust mechanisms for demonstrating goods are for NI market or through duty deferment schemes) should be priority for GB/NI food companies and retailers.
- However, limited scope for this through retailers' existing supply chain arrangements.
- Impact of Covid-19 has hampered retailers' preparations for adjusting existing supply chain arrangements.
- Internal Market Bill provides scope for public sector support for retail development possibly including development of supply chains.
- In some cases traders may take advantage of temporary derogations to/phasing in of the application of certain regulatory requirements e.g. Falsified Medicines Directive.

PART 1

Tariffs and other regulatory costs on retail goods in Northern Ireland

Part 1

Tariffs and other regulatory costs on retail goods in Northern Ireland

At present there are no tariffs on trade between GB and NI. There is no need for customs documentation, no border checks for plant and animal health/welfare or compliance with cosmetics or medicines regulations. Following the UK's departure from the Customs Union and GB's departure from the EU Single Market these arrangements will change. In the event of no-deal, significant new tariff costs may arise on goods moving from GB to NI and other regulatory costs will arise. This section considers how tariffs and non-tariff regulations will affect retail goods in NI that originate in:

- Northern Ireland
- Great Britain
- EU
- Rest of the World

Retail goods originating in Northern Ireland

Summary

NI-originating goods for sale in NI will face very few new regulatory costs as a result of the UK withdrawing from the EU, though some new requirements on labelling may arise. Moreover, NI-originating goods stand to benefit uniquely from free access to the EU market via the RoI provided they comply with EU rules, free access to the wider UK market (provided that goods meet criteria of "qualifying NI goods") and preferential access to other markets as a result of UK FTAs.

Tariffs and other regulatory costs

Products of NI origin sold in NI will be least affected by new regulatory costs arising from the UK's withdrawal from the EU. No new tariffs or trade charges will apply under any circumstances and the wider regulatory framework that governs their sale in NI will continue to be the body of Single Market law as defined in Annex 2 of the Northern Ireland Protocol. However, there may be some changes to labelling requirements in order to sell NI goods on NI and EU markets. The precise details have yet to be confirmed but compliance may involve some modest additional cost.

By virtue of the application of Single Market and Customs Union rules in NI, any NI-originating goods would be compliant for sale anywhere in the EU. As long as NI goods enter the EU via the land border with the RoI, they will not be subject to tariffs or other regulatory border controls under any circumstances.

Predicated on the Internal Market Bill, most NI goods made according to standards applicable in NI (i.e. Single Market rules) can also be sold without further restriction elsewhere in the UK, even if they do not comply with regulations applicable to that other part of the UK. However, there may be some additional requirements for highly regulated products such as chemicals, cosmetics and medicines.

Retail goods of UK origin moved from Great Britain to Northern Ireland

Summary

UK-originating goods arriving in NI from GB may be subject to customs duties of up to **£915 million for all goods and £677 million for food alone in the event of a no-deal outcome**. These costs would be recoverable insofar as sales are made in NI and other **measures could be used to significantly reduce the initial amount of duty**.

Regardless of terms stated within any UK/EU trade agreement, **significant non-tariff costs may arise as regulatory controls are put in place on UK goods moving to NI**. These costs are likely to be highest for food products, particularly for goods of animal origin. **These costs may vary considerably depending upon the complexity of individual consignments** and consignments of homogeneous products will face far lower regulatory costs than mixed consignments.

Tariffs

Retail Economics calculates that the total theoretical (recoverable) **customs charge of £915 million** on retail goods of UK origin moved from GB to NI. This is based on 2019 trade flows and **that all goods** moving from GB to NI **are UK-originating**, which is unlikely. This figure excludes the actual recovery of duties in the event of demonstrable retail sales in NI.

The **Northern Ireland Protocol allows for (recoverable) customs duties to be applied** at the appropriate rate if there is a risk that goods could move onwards from NI to RoI (and possibly onward to other EU areas by virtue of free movement provisions). The rules governing the application of these duties have yet to be agreed upon by the

UK/EU Joint Committee, but the rationale addresses circumstances where EU duties would otherwise apply to UK goods, and where economic benefits exist by routing UK products through NI to circumvent these duties. **The applicable rate of duty could be as high as the rate applied by the EU to identical UK products entering any part of the EU**.

According to the Northern Ireland Protocol, **duties would be collected** at the appropriate rate **unless it can be demonstrated that such goods are not at risk of moving into the EU** via the land border with RoI (in which case payment of duty is not required). However, when goods are shown to have been sold on the NI market, duties can be recovered.

In the event of a **UK/EU FTA, there would be no duties to collect on UK-originating goods** as they move from GB to NI.

Though tariffs on UK-originating products may be recoverable they would place a heavy burden upon traders' cash flow. Large amounts of cash could be tied up in customs payments as traders wait for confirmation that goods have been sold on the NI market and then wait for refund applications to be processed. The provisions relating to refunds of duty for goods sold in N.I. have not yet been published but for refunds of customs duties in other circumstances, HMRC commits to give a response within 30 days of receiving an application.

Even in the event of an FTA, the EU Withdrawal Agreement allows for either side to take trade defence action against the other in the event of unfair trade. Typical trade defence measures include Anti-dumping, Anti-subsidy and Safeguard actions. If such trade defence measures are in place against UK-originating products, it is highly likely that the EU will press for those duties to apply to UK-originating products moved from GB to NI. As with other duties, Anti-dumping tariffs could be recovered when goods are shown to have been sold in NI.

The **impact of any new tariffs will affect food traders most** because the level of duty payable, relative to the value of trade, is generally much higher for food than other products. For many meat and dairy products, the effective rate of duty could average 40%, and for some consignments, the rate could be much higher.

Traders in relatively low value food products would be hardest hit as the tariff on many food products is set wholly (or partially) by its weight or volume. These are called specific duties. For example, the applicable tariff for fresh turkeys (0207 24 90) is EUR37.30/100kg; the same rate applies whether the birds are free-range corn-fed bronze turkeys retailing for £70+, or less expensive birds of the same weight that retail for £20 or less. Where specific duties apply the proportionate cost of the tariff increases as the value of the product decreases.

Figure 1 – NI purchases from GB in 2019 and potential maximum duties paid under MFN terms

Retail Sectors	NI purchased from GB (£m)	Potential duties (£m)	Average weighted tariff (%) - EU MFN
Food and drink	3,515	677	19.3%
Clothing and Footwear	1,473	160	10.9%
Health and Beauty	631	2	0.4%
DIY and Gardening	297	11	3.8%
Homewares	355	23	6.5%
Electricals	548	7	1.3%
Furniture and Flooring	357	10	2.8%
Toys, games and leisure	351	7	2.1%
Other non-food*	967	16	1.7%
Total retail/wholesale	**£8,494**	**£915**	**10.8%**

Source: HRMC trade data, UK MFN tariff rates. Global Data estimates. Retail Economics estimates, adjusted to 2019

Figure 2 – EU MFN tariff rates applicable to UK retail products in event of no-deal

Standard (MFN) EU tariff rates for imported consumer goods		
Retail segment	Tariff range	Average tariff
Food		
Meat, offal	0-80%	40%*
Fish, seafood	0-23%	11%
Dairy, eggs, honey	0-80%	40%*
Vegetables	0-15.2%	8.7%
Fruit, nuts	0-20.8%	6.7%
Coffee, tea, spices	0-12.5%	2.8%
Prepared meat/fish	0-26%	18.1%
Sugar, confectionary	0-13.4%	6.8%
Cocoa, chocolate	0-40%	30%*
Pasta, doughs, biscuits	8.5-12.8%	10.7%
Non-Food		
Electricals	0-14%	1.3%
Health & beauty	0-6.5%	0.4%
Clothing & footwear	3-17%	10.9%
DIY & gardening	0-10.9%	3.8%
Furniture & flooring	0-8%	2.8%
Sports, toys & leisure	0-15%	2.1%
Homewares	0-12%	6.5%

Source: Retail Economics, WTO, HMRC
Note: Tariff rates based upon Retail Economics analysis of actual 2019 trade flows from the EU to the UK.

Non-tariff regulatory costs

Aside from the application of tariffs, **other regulatory costs** may apply to UK-originating goods as they move from GB to NI. These costs and restrictions may **arise even if the UK and EU reach a trade agreement**.

All **UK-originating goods traded with the EU will require a customs declaration,** regardless of the nature of any EU/UK FTA. The customs declaration will include a classification of the goods for customs purposes, the declared value of the consignment and notification of the origin of the goods.

A **straightforward declaration can be completed at a relatively low cost**; for instance, a declaration covering a consignment of goods (all of which fall under the same tariff heading) where there are no additional licensing requirements and no claim for preferential tariff treatment for the consignment. The government's Impact Assessment of October 2019 put the cost of completing an individual customs declaration at between £28-£56. Some retailers have reported that simple declarations can be procured for even less.

In the event of a UK/EU FTA, **UK goods seeking tariff-free access to the EU will need** to be accompanied by additional documentation to demonstrate eligibility. The relevant documentation is an **EUR1/EUR-MED document**.

EUR1 documents are issued by the exporting country (typically by Chambers of Commerce), and their price may vary from Chamber to Chamber. The fee for EUR1 documents issued by the London Chamber of Commerce is £45 (London Chamber of Commerce 2019 price list).

In the absence of an EUR1 document tariffs will be levied at the EU's standard (MFN) rate.

Extra regulatory costs will arise for UK-originating food moving from GB to NI. According to the Northern Ireland Protocol, but notwithstanding subsequent future EU/UK trade agreements, the UK will be outside the EU's Single Market system for food safety, hygiene and animal welfare – collectively known as 'Official Controls'. Nevertheless, any food products of UK origin entering NI from GB will need to comply with those rules, and compliance may need to be demonstrated as the goods move into NI. This may require **veterinary certificates and plant health certificates as goods move from GB to NI.**

Common Health Entry Documents (CHEDs) must be used for importing any food into the EU that is subject to veterinary/plant health checks. CHEDs are typically completed by the party responsible for the consignment. Port Health Authorities are responsible for processing these documents and charge a fee usually based upon the weight of the consignment for products of animal origin. The fees are established at the EU level and are currently £52.68 for up to 6 tonnes + £8.78 per additional tonne, up to a maximum of £403.88 per consignment for products of animal origin. For products of non-animal origin subject to CHEDs, there is a flat fee of £47 per consignment.

Animal Health Certificates are required for the importation into the EU of any products of animal origin. They are certified before export by an authorised vet or competent authority in the country of consignment and they certify compliance with specific SPS rules. Different products require different certification.

A leading veterinary company specialising in providing animal health certification for meat exports has said that the fee for certifying a single animal health certificate (covering a single product type for a single consignment) would be £100-£150. Mixed consignments may require more than one certificate.

Many fruits and vegetables require plant health (phytosanitary) certificates for importation to the EU. Phytosanitary certificates are issued by the responsible plant health authority in the exporting country. In the UK, this is the Animal and Plant Health Agency (APHA). APHA charge a standard rate of £25.52 to issue a phytosanitary certificate for export. In addition, consignments must be inspected to ensure compliance with SPS rules before certificates are issued. The fees for inspection are £63.80 per 15 minutes with a minimum fee of £127.60 (Animal & Plant Health Agency guidance notes).

Once goods arrive in the EU they are checked by the Plant Health Authority at the border. There is a charge of £10.51 for processing the Phytosanitary certificate and a fee of £53.10 for any inspection of the consignment.

Other non-SPS regulatory costs may also arise at the border. These are most likely to apply to heavily regulated products such as chemicals, cosmetics and medicines. For medicines these may include import authorisations, marketing authorisations, labelling and packaging requirements and a pharmacovigilance system for those holding marketing authorisations. For cosmetics these may include notification of first importation, safety assessments, record keeping and packaging/labelling requirements. The precise obligations will depend on the detail of any UK-EU agreement. It is also worth noting that enforcement of some of these provisions will happen in market and not at the border and therefore are not strictly speaking trade restrictions (though that fact is of no comfort to the companies and traders that will nevertheless be required to comply).

Figure 3 – Summary of main tariff impacts on UK-originating retail goods moved to NI: No-deal vs. FTA

WTO trading relationship	UK/EU FTA
Under a "WTO" trading relationship, imports of goods from the UK to the EU will be subject to the EU's standard (MFN rates) of duty. These rates vary considerably from one product to another and the following table (Fig.3) contains details for various categories of retail.	Under the terms proposed in the EU's draft Agreement with the UK, customs duties on trade between the UK and the EU shall be prohibited [5].
Specific products may also become subject to additional duties if those products are found to have been "unfairly" traded (i.e. dumped or illegally subsidised). The particular rate applied will depend upon the level of dumping/subsidisation and may even vary from one supplier company to another.	Except for products deemed to have been unfairly traded [6].
Even though NI will formally remain part of the UK's customs territory, these tariff rates will be applied to all UK-originating goods entering NI if those goods are "….at risk of subsequently being moved into the Union [1]"	
Avoidance of costs: Tariff costs will be avoided if it can be shown that goods are not at risk of subsequently being moved into the EU. The criteria for assessing those risks will be determined by the Joint Committee established to oversee the management of the Protocol "before the end of the Transition Period"[2].	Avoidance of costs: Generally not applicable as no ordinary tariff costs will arise for UK goods traded with the EU.
Amelioration: HMRC offers a scheme [3] that allows traders to defer a customs debt for between 2-6 weeks. The scheme requires securities and guarantees to be provided.	Amelioration: HMRC offers a scheme [7] that allows traders to defer a customs debt for between 2-6
Recovery of costs: Tariff costs can be fully recovered "in respect of goods that can be shown not to have entered the Union"[4]	Recovery of costs: UK traders should be able to reclaim any Anti-dumping/Anti-subsidy duties paid on goods shown not to have entered the Union.

[1] Protocol on Ireland/Northern Ireland Article 5 (1)
[2] Protocol on Northern Ireland/Ireland Article 5 (2)
[3] HMRC Notice 101: deferring duty, VAT, and other charges. 2 April 2019
[4] Protocol on Northern Ireland/Ireland Article 5 (6) c
[5] "Except as otherwise provided for in this Agreement, customs duties on goods originating in the other party shall be prohibited" EU draft text of the Agreement on the New Partnership between the EU and the UK (12 March 2020), p.47
[6]"The parties affirm their rights and obligations under Article VI of GATT 1994, the WTO Anti-dumping Agreement, the WTO Agreement on Subsidies & Countervailing Measures, WTO Article XIX of GATT 1994, the WTO Agreement on Safeguards." EU draft text of the Agreement on the New Partnership between the EU and the UK (12 March 2020), p.51
[7] HMRC Notice 101: deferring duty, VAT, and other charges. 2 April 2019

Retail goods originating in the EU

Summary

The regulatory cost of bringing EU-originating goods into NI will depend primarily on whether the UK and EU secure a FTA. **Under an FTA, tariffs will not apply to EU goods as they enter the UK**.

If there is no-deal, EU-originating goods arriving in NI from elsewhere in the UK will be **subject to UK duties and regulatory costs when they first enter UK customs territory**. These duties and other regulatory costs will not be recoverable when goods move to NI.

On the basis of 2019 trade flows, the cost of UK MFN tariffs on imports of consumer goods from the EU to the UK as a whole would be around **£6.97 billion.** The **tariff burden for EU goods moving from GB to NI could be up to £826 million**, with duties of up to £601 million on food alone.

The total burden of tariffs on consumers in NI would be higher than the total tariff burden on consumers in other parts of the UK if EU goods arriving in NI via GB are proportionately greater than EU goods arriving in the UK as a whole.

EU goods arriving in NI from RoI, will face no tariffs or other trade-related regulatory costs as they arrive in NI due to the continued application of EU Single Market and Customs Union rules in NI.

Tariffs

Tariffs on retail goods from the EU will depend on whether the UK and EU conclude an FTA. If there is an FTA, there will be no tariffs. However, if there is **no-deal, EU goods will face UK-level MFN tariffs which we estimate would be £6.97 billion for total imports of retail goods from the EU.** On the basis of 2019 GB-NI trade flows this could mean additional duties of £826 million on EU retail goods destined for the NI market.

Tariffs would be collected when goods first enter the UK's customs territory, after which they are considered to be in free circulation. Once EU goods have cleared UK customs, there should be no further regulatory cost or impediment to their movement into NI. In particular, Article 5 of the Northern Ireland Protocol excludes EU-originating goods from the provisions for collecting (recoverable) duties on goods as they move from GB to NI. However, unlike for GB-originating products, there would be no provision for the recovery of duties on EU retail goods sold on the NI market.

However, under any circumstances, **EU goods arriving in NI from RoI will face no new tariffs**. This is governed by the Northern Ireland Protocol and no measures in the Internal Market Bill seek to override this. No tariffs will apply to these goods, even if tariffs on wider UK/EU trade emerge (i.e. if the EU and UK fail to conclude a FTA).

The UK has formally acceded to the **Convention on Common Transit (CTC)**. One aspect of this convention allows goods to move from one part of the EU to another via a different customs territory (in this case the UK) as if the goods had never left the EU. EU goods moving to the RoI under CTC provisions could use the UK as a permissible 'land bridge' between one part of the EU Single Market and another. **Under the Transit rules customs duties and other formalities would not apply when goods physically enter the UK, or when they move from GB to NI, or when they move from NI to RoI.** Certain requirements must be met to qualify for CTC treatment. Nevertheless, compliance with these requirements in some cases would be far less onerous than compliance with customs requirements and tariffs that would otherwise apply if goods are formally imported into the UK. Nothing in the EU Withdrawal Agreement or the NI Protocol appears to preclude the possibility to ship goods back into NI once they have arrived in RoI under Transit provisions.

Figure 4 – Imports from the EU to the UK in 2019 and potential duties paid under UK MFN tariff rates

Retail Sectors	Imports from EU (£m)	Potential duties (£m)	Average weighted tariff (%)
Food and drink	30,781.3	5,263.6	17.1%
Clothing and Footwear	10,679.1	1,136.6	10.6%
Health and Beauty	12,764.0	29.4	0.2%
DIY and Gardening	6,154.5	171.7	2.8%
Homewares	1,180.9	71.2	6.0%
Electricals	16,130.7	171.3	1.1%
Furniture and Flooring	4,061.6	107.7	2.7%
Toys, games and leisure	1,173.0	22.8	1.9%
Total retail / wholesale	**82,925**	**6,974**	**8.4%**

Note: Tariff rates based upon Retail Economics analysis of actual 2019 trade flows from the EU to the UK.

Retail goods originating in the Rest of the World

Summary

Notwithstanding any other arrangements by the UK/EU Joint Committee **goods from the Rest of the World moving from GB to NI will be treated as though they were being imported into the EU**.

Recoverable **tariffs may apply up to the level of appropriate EU tariff** for goods from the country of origin. However, payment of UK-level tariffs is likely to be taken into account when deciding whether EU tariffs are levied.

Other **EU regulatory controls are likely to apply** at the border.

Goods that do not meet EU Single Market rules will not be allowed into NI.

Tariffs

Imports from the Rest of the World will face UK-level tariffs when they are first imported in to the UK. **Where these tariff rates are substantially the same as EU rates there should be no requirement to levy further tariffs as goods move from GB to NI**.

As a matter of fact, **as the UK leaves the EU Customs Union, its Tariff Schedules will be very similar to those of the EU**. So, where the EU grants preferential tariffs to goods from developing countries, so will the UK. Where the EU has negotiated bilateral tariff preferences with individual countries, the UK has rolled over many of these; Japan, Norway, Switzerland etc. This means that goods from a wide range of countries will face exactly the same duty rate whether they enter the UK or the EU. As such, there will be no economic incentive to import goods in to the UK in order to move them in to the EU and it is therefore unlikely that goods from the Rest of the World will face (recoverable) duties when they move from GB to NI.

Nevertheless, **in future UK and EU tariff rates may diverge**. This might be because of changes to MFN tariff rates, or as a result of new trade agreements or as a result of different trade defence actions. Where this happens, and in particular where UK rates are lower than EU rates, there may be a requirement for tariffs to be paid on imports as they arrive in NI from GB.

In addition, a specific **technical issue for NI arises from the translation of the EU MFN tariff into the UK Tariff and its application to countries which trade on MFN terms with both the UK and the EU (e.g. China and currently the US, Australia, New Zealand).**

As of 1 January 2021, **many UK MFN imports will attract slightly lower levels of customs duty relative to the duties for the same goods in the EU**. This is largely due to the general rounding down of tariffs in the UK Schedule (see Appendix 1). Differences in the amount of duty payable may also arise if the UK-EU exchange rate varies significantly from the rate used in the UK Tariff Schedule to convert specific tariff rates into sterling. A weakening in the value of sterling would mean that the relative value of duties due on a particular consignment arriving in the UK would be lower than the value of duties on the same products imported into the EU.

Where there is a difference between UK and EU MFN tariffs, imports from RoW may become liable for (recoverable) duties as they are moved from GB to NI. For example, the EU MFN rate of duty for live outdoor plants (HS Code 06029050) is 8.3% whereas the UK MFN rate is 0%.

Non-tariff regulation on imports from the RoW.

All EU goods entering the UK will be subject to relevant UK regulatory checks, regardless of their final destination in the UK. For example, if there is a regime of veterinary checks that applies to MFN goods when arriving in the UK, this regime will apply to products as they enter UK customs territory, even if their final destination is NI.

However, RoW goods may be subject to further regulatory checks as they are moved from GB to NI. As in other areas, it will be up to the UK/EU Joint Committee to decide the precise rules and crucial to its decision will be the assessment of adequacy and equivalence of any UK checks undertaken at the UK border with EU rules.

Any RoW retail goods imported into the EU and then moving from RoI to NI will be in free circulation. Though these goods must comply with any relevant Single Market rules, application and enforcement of those rules in NI will continue to apply as in the EU and there will be no new checks at the border between RoI and NI.

PART 2

Sector analysis

Part 2

Sector analysis

This section provides a more detailed analysis of potential new costs broken down into eight retail segments. It also provides a commentary on the state of play of some of the UK's bilateral trade negotiations.

Summary of no-deal Brexit impacts by retail category and origin of goods

Scale
1 = much lower regulatory costs
5 = no significant change to costs
10 = much higher regulatory costs

Category	GB products shipped to NI		EU products shipped to NI via GB		EU products shipped to NI via RoI		Row products shipped to NI via UK	
Food & Drink	8	Much higher (recoverable) tariffs applied at GB/NI border. Significant non-tariff costs, especially for SPS compliance applied at GB/NI border	10	Much higher tariffs apply at UK border. In some cases, these could be prohibitive (some effective duty rates could exceed 80%) SPS rules applied at UK border. No further checks at GB/NI border	5	No change to present arrangements	2/4	Some food and drink from MFN supplier countries would face marginally lower duties when imported into UK. May lead to further recoverable duties at GB/NI border. Potential for further duty reductions on food and drink from Aus, NZ & NZ if FTAs agreed
Clothing & Footwear	7	Fairly high (8-17%) recoverable tariffs applied at GB/NI border on most clothing and footwear.	8	Fairly high (8-16%) tariffs applied at UK border on most clothing and footwear.			5	No significant change to tariff rates for RoW suppliers
Homewares	6	Moderate recoverable duties on most products. Higher rates (8-12%) for ceramics, glassware and household textiles.	7	Moderate additional duties on linens, glassware and ceramics applied at UK border			4	Marginal reductions in duty rates for some homewares from MFN supplier countries. Existing Anti-dumping duties on ceramic tableware from China retained.
Electricals	5	Most UK electricals already 0%.	6	Most EU electricals will continue duty-free. TVs exception (14%)			5	Existing duty rates from most supplier countries remain unchanged.
Health & Beauty	5	Most UK health and beauty already 0%. Some small increase possible in compliance costs for medicines and cosmetics	5	Most health and beauty products already duty-free. Some new tariffs on personal grooming products.			5	
Furniture & Flooring	6	Risk of moderate (8%) recoverable duties on carpets	6	Moderate (8%) duties on wool carpets.			5	
DIY & Gardening	6	Risk of moderate recoverable duties on wide range of DIY and garden products	6	New moderate duties on wide range of DIY and gardening products. No new duties on most horticulture products			4	Elimination of duties on variety of metal articles and most horticulture products will reduce costs for existing MFN suppliers.
Toys, sports, games, leisure	5	Most duty rates already low	6	Most duty rates already low, but new MFN duties on EU bicycles			4	Most duties will remain unchanged but additional Anti-dumping duties (30%) on bicycles form China will disappear.

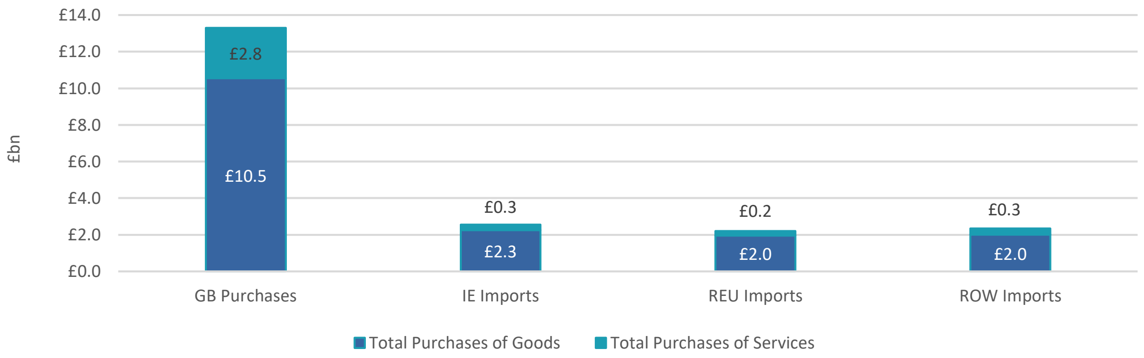
Import statistics for UK and EU by retail sector

Northern Ireland trade data

Trade Partner	Total Purchases (£bn)	Total Purchases of Goods (£bn)	Total Purchases of Services (£bn)
Total Purchases	£44.3	£33.9	£10.4
NI Purchases	£23.9	£17.2	£6.7
GB Purchases	£13.3	£10.5	£2.8
IE Imports	£2.6	£2.3	£0.3
REU Imports	£2.2	£2.0	£0.2
ROW Imports	£2.3	£2.0	£0.3
Total Imports	£7.1	£6.2	£0.9

Source: NISRA Broad Economy Sales and Exports Statistics (2019)

NI external purchases and imports by destination

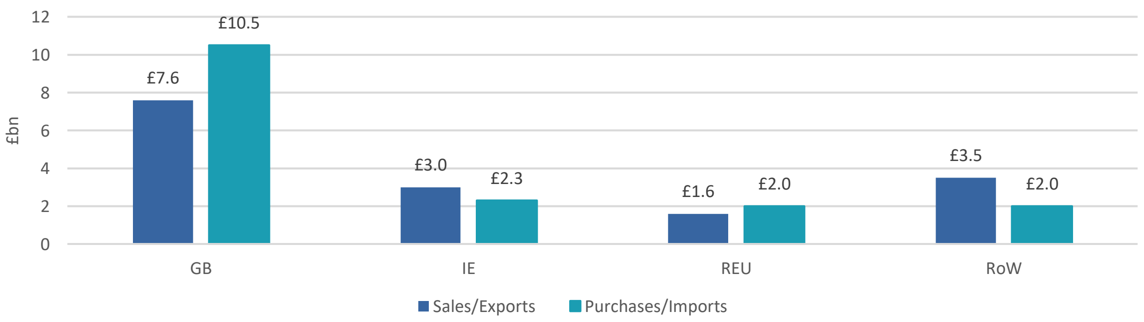


Source: NISRA Broad Economy Sales and Exports Statistics (2019)

Purchases of goods from GB to NI businesses (by value £bn)

Source: NISRA Broad Economy Sales and Exports Statistics (2019)

NI external purchases and imports and exports by destination (excluding services)



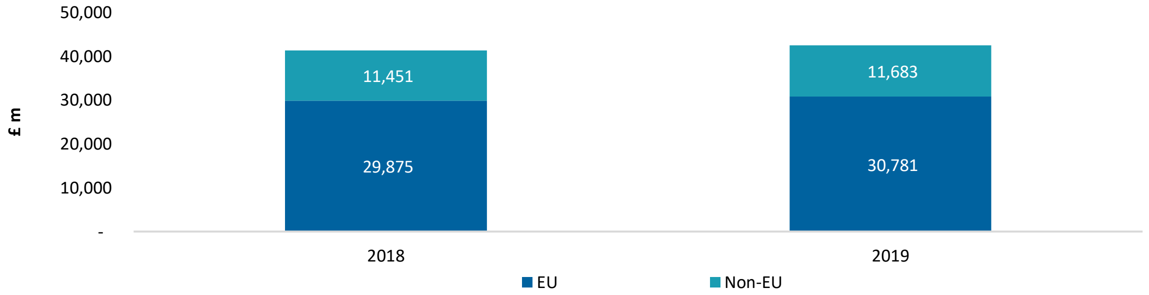
Source: NISRA Broad Economy Sales and Exports Statistics (2019)

Import statistics

£m	2018	2019	% change y/y
Total imports	41,326	42,464	2.8%
EU	29,875	30,781	3.0%
Non-EU	11,451	11,683	2.0%
EU Share	72.3%	72.5%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Netherlands	4,815	4,896	1.7%	15.9%
Germany	4,005	4,242	5.9%	13.8%
Irish Republic	4,065	4,043	-0.6%	13.1%
France	3,908	4,037	3.3%	13.1%
Spain	3,025	3,197	5.7%	10.4%
Italy	2,579	2,723	5.6%	8.8%
Belgium	2,240	2,340	4.4%	7.6%
Poland	1,911	1,933	1.2%	6.3%
Denmark	1,336	1,191	-10.8%	3.9%
Sweden	401	412	2.8%	1.3%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	29,875	30,781	3.0%	72.5%
United States	1,094	1,101	0.7%	2.6%
Thailand	698	741	6.1%	1.7%
South Africa	735	699	-4.9%	1.6%
China	583	699	19.8%	1.6%
New Zealand	613	573	-6.5%	1.3%
Brazil	570	522	-8.3%	1.2%
Chile	484	495	2.3%	1.2%
Turkey	423	461	9.1%	1.1%
Vietnam	416	431	3.8%	1.0%

Source: WTO, HMRC, Retail Economics analysis

Outlook

At present, the outlook for regulatory costs for food and drink is uncertain. Negotiations are ongoing between the UK and three of the Top 10 suppliers to the UK: EU, US & New Zealand but all three negotiations are proving challenging. Imports from these three sources together account for 76.4% of total UK food and agriculture imports. Not only is the outlook for individual negotiations uncertain, but there are conflicting demands from our negotiating partners, that will be difficult to resolve, for example the SPS provisions in a UK/EU agreement maybe incompatible with US demands for market access to the UK for its food products.

Preferential access for imports from South Africa and Chile will be secure as the UK has agreed with these countries a roll-over of the provisions of the existing EU bilateral agreements with these countries.

There will be no change to tariffs and customs regulation on imports from China, Thailand, Brazil and Vietnam (although the latter has agreed a trade deal with the EU it has not yet been implemented).

Tariffs on Food and Agriculture imports from Turkey may increase if the UK is no longer party to the EU's preferential agreement with Turkey and trade reverts back to MFN terms.

A Note about calculating food tariffs

Calculating the average cost of customs duties for meat and dairy is not straightforward. This is because many of the individual tariffs contain two components; an ad valorem rate, which is expressed as a percentage of the value of the consignment, and a specific rate, which is expressed as a set amount of euros per volume or weight. For example, fresh/chilled cuts of beef attract a tariff of 12.8% + 1,768 euros/tonne. This means that the burden of tariffs will be proportionately greater for lower value goods than for higher value goods.

Example:

Consignment A: 1 tonne of beef cuts with a customs value 2,000 euros would attract a tariff of 12.8% + 1,768 euros = 2,024 euros = 101.2% of the customs value of the consignment.

Consignment B: 1 tonne of beef cuts with a customs value of 4,000 euros would attract a tariff of 12.8% + 1,768 euros = 2,280 euros = 57% of the customs value of the consignment.

We do not have access to any detailed statistics for the volume and value of GB meat and dairy sales to NI so it is not possible to calculate an accurate figure for the potential burden of tariffs on that trade. However, if we assume that the product profile and average value of those exports is similar to the product profile and average value of EU consignments to the UK in 2017, then the average tariff rate (combining ad valorem/specific duties) would be around 40%.

Policy progress

UK/EU

The UK's self-imposed deadline of 15/16 October has passed without final agreement on a trade deal with the EU. There are outstanding issues including state aids, where the EU wants assurance that UK provisions will not lead to distortions of competition with EU suppliers and fisheries where there are disagreements on who should be entitled to set catch limits for EU boats fishing in UK waters. Negotiations continue

Agreement on a trade deal has been further complicated by disagreements between the UK and the EU on the interpretation and application of some elements of the existing Withdrawal Agreement, including the application of the NI Protocol.

A failure to resolve these differences may lead to considerable uncertainty on the applicable regulatory framework for food and agriculture operators who trade between GB and NI.

Though not formally linked to the UK/EU FTA negotiations, ongoing disagreements on the Interpretation and application of the Withdrawal Agreement will inevitably affect the chances of a successful outcome of wider UK/EU FTA talks. If these FTA talks fail then trade will fall back onto WTO terms and new tariffs may apply to GB to NI trade (though these maybe recoverable).

UK/US

Talks between the UK and US have advanced to the stage of exchanging market access offers. The atmosphere surrounding these talks seems more positive than the atmosphere surrounding UK/EU talks. However, the US will press hard for access for a range of its food and agriculture products that currently do not meet EU/UK standards. Agreeing to these demands could be difficult for a number of reasons:

There is a widespread view in the UK that US food and agriculture standards are lower/inferior to those in the UK and the Government has already given a commitment to maintaining the current level of standards.

UK farmers and food processors may be at a cost disadvantage vis-à-vis US producers if existing UK food/agriculture standards were maintained for domestic production but changed for US imports.

In any case, the outcome of the US election could significantly alter the direction of these negotiations.

UK/NZ

Trade negotiations were formally launched with New Zealand in Summer 2020 and a first round of negotiations has been held. Negotiations are unlikely to be concluded by the end of this year meaning that NZ access to the UK market will continue on the same basis as present (although Tariff Rate Quotas for agricultural products may change).

Opportunities

Lower cost imports of food and drink from the US if a wide-ranging bilateral deal can be reached.

Reduction/removal of additional duties on specific US food and drink in the event of a resolution of existing trade disputes, mainly relating to subsidies and large aircraft and trade in steel.

Lower cost imports of beef, dairy and lamb from New Zealand in the event of a UK/NZ FTA.

Threats

Very significant increase in tariff costs for imports from the EU (except those coming in to NI from RoI) in the event of No Deal.

Increase in tariff costs of food/agriculture products from Turkey as a result of the disapplication of existing EU/Turkey preferential trade agreement in agricultural products and the EU/Turkey customs union agreement.

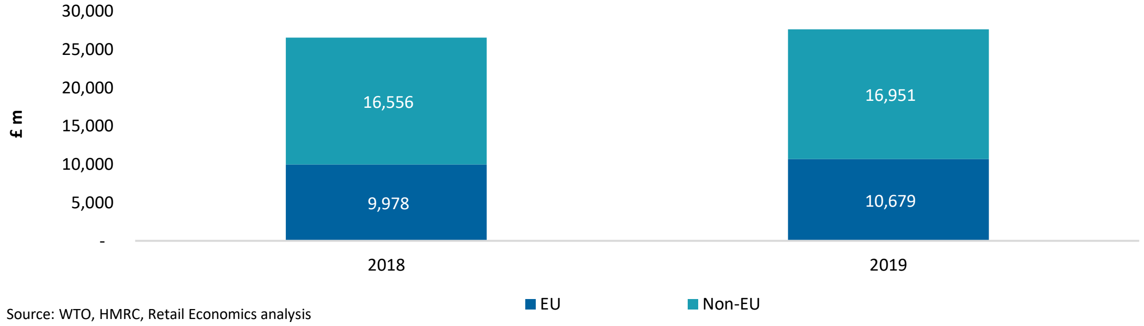
Clothing & Footwear: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	26,534	27,630	4.1%
EU	9,978	10,679	7.0%
Non-EU	16,556	16,951	2.4%
EU Share	37.6%	38.6%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Italy	2,147.60	2,381.69	10.9%	22.3%
Netherlands	1,589.39	1,881.68	18.4%	17.6%
France	1,577.76	1,570.36	-0.5%	14.7%
Germany	1,537.91	1,515.87	-1.4%	14.2%
Belgium	963.03	1,117.78	16.1%	10.5%
Spain	763.87	788.70	3.2%	7.4%
Romania	234.59	217.78	-7.2%	2.0%
Poland	171.20	197.42	15.3%	1.8%
Portugal	224.71	188.78	-16.0%	1.8%
Irish Republic	180.72	184.10	1.9%	1.7%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	9,978	10,679	7.0%	38.6%
China	5,513	5,488	-0.5%	19.9%
Bangladesh	2,570	2,830	10.1%	10.2%
India	1,415	1,467	3.7%	5.3%
Turkey	1,393	1,370	-1.6%	5.0%
Vietnam	981	1,051	7.1%	3.8%
Cambodia	828	821	-0.8%	3.0%
Hong Kong	725	645	-11.1%	2.3%
Pakistan	587	593	1.0%	2.1%
Sri Lanka	515	552	7.2%	2.0%

Source: WTO, HMRC, Retail Economics analysis

Outlook

Tariff costs and customs regulation will remain broadly the same as now for most non-EU Top 10 supplier countries. China and Hong Kong already supply the UK market on an MFN basis and tariffs apply to most clothing and footwear imports at rates of 11-16%. The UK's published MFN tariff schedule maintains these rates.

Bangladesh, India, Cambodia, Pakistan, Vietnam and Sri Lanka enjoy varying levels of preferential tariff access for their products with Bangladesh and Cambodia benefitting the most with across-the-board 0% tariffs for all products. The UK has unilaterally rolled over these benefits for 2021 and beyond.

Imports from the EU may attract MFN duty rates in the event of No Deal adding a significant new extra cost to these products but would be avoided if under a UK/EU FTA, (although products would have to meet preferential rules of origin in order to qualify for tariff-free access).

Imports from Turkey will attract new tariffs, probably at the standard MFN rate if the UK and Turkey are unable to conclude a new trade agreement that would replicate the benefits of the EU/Turkey Customs Union, which the UK will no longer be party to.

Policy progress

The post-2020 trade policy framework has already been agreed for most Top 10 suppliers and their terms of access to the UK market will stay substantially the same as now. However, tariff levels for imports form the UK's largest clothing and footwear supplier, the EU, are currently uncertain. In the event of a No Deal, tariffs on EU clothing and footwear imports will be 10-16%.

Opportunities

In the event of a No Deal outcome, NI clothing and footwear (and linen) manufacturers would enjoy a cost advantage over EU and Turkish producers in supplying the UK market.

Threats

In the event of No Deal Increased tariff costs on imports of EU and Turkish clothing and footwear will put upward pressure on consumer prices. This is most likely to be concentrated in higher value products.

NI clothing and footwear (and linen) manufacturers will be at a cost disadvantage when exporting to the EU market in the event of a No Deal as a result of MFN tariffs. The rate of duty applicable to NI linen (flax) products would be 8%.

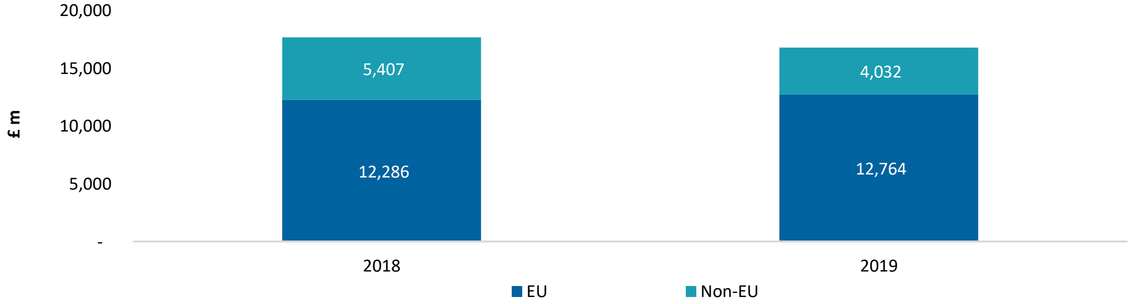
Health & Beauty: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	17,693	16,796	-5.1%
EU	12,286	12,764	3.9%
Non-EU	5,407	4,032	-25.4%
EU Share	69.4%	76.0%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Germany	2,559.22	2,500.46	-2.3%	19.6%
Belgium	2,149.47	1,985.36	-7.6%	15.6%
France	1,964.45	1,852.59	-5.7%	14.5%
Netherlands	1,347.48	1,646.87	22.2%	12.9%
Italy	1,144.07	1,356.35	18.6%	10.6%
Irish Republic	801.64	853.17	6.4%	6.7%
Spain	537.78	663.33	23.3%	5.2%
Poland	420.82	439.30	4.4%	3.4%
Denmark	331.90	415.95	25.3%	3.3%
Sweden	178.45	216.14	21.1%	1.7%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	12,286	12,764	3.9%	76.0%
United States	1,862	1,560	-16.2%	9.3%
Switzerland	1,879	834	-55.6%	5.0%
China	485	520	7.1%	3.1%
India	448	374	-16.6%	2.2%
Japan	127	122	-4.2%	0.7%
Australia	100	105	4.8%	0.6%
Canada	94	99	4.8%	0.6%
Turkey	65	62	-5.7%	0.4%
Israel	49	57	16.9%	0.3%

Source: WTO, HMRC, Retail Economics analysis

Outlook

The overall outlook for imports of health and beauty products is fairly stable.

The EU accounts for more than 75% of UK imports of health and beauty products. These imports will be largely unaffected by Brexit because MFN tariff rates are mainly at 0% (there are a few exceptions for some male grooming products). In addition, relevant pieces of sectoral regulation (including REACH and the Cosmetics Directive) have already been transferred into UK law via a series of SIs. This means that EU cosmetic products manufactured to existing EU standards will continue to be recognized for the UK market although there maybe some new regulatory requirements for evidence of compliance.

Policy progress

The outlook for UK imports of health and beauty is relatively stable because the policy framework for most Top 10 suppliers of health and beauty is already in place.

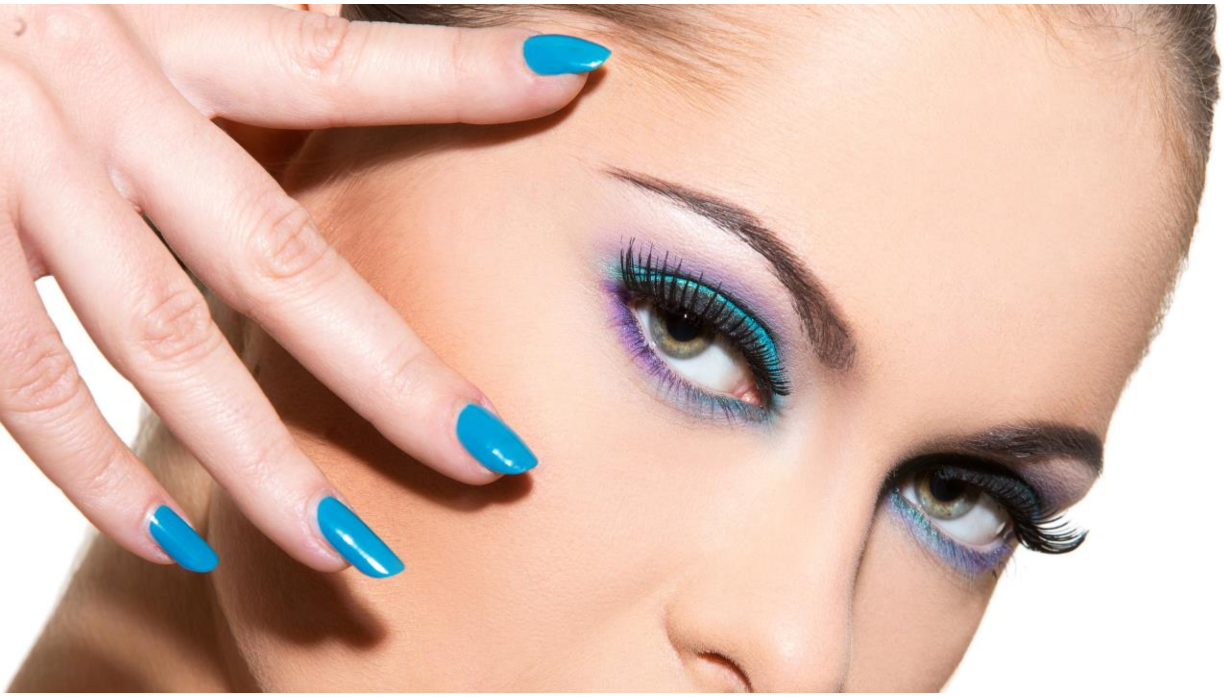
By far the most important supplier to the UK market is the EU. The fact that the UK has already transposed EU rules on chemicals and cosmetics into domestic law and the fact that MFN tariff rates for these products are in the main already set at zero should make health and beauty products one of the easier sectors to include in any future UK/EU FTA and even if a UK/EU FTA is not possible, this will have very little impact on the tariff cost of imports of health and beauty

Canada enjoys preferential access to the UK by virtue on the provisional application of the EU/Canada Trade Agreement (CETA). The UK and Canada have just announced the resumption of talks that if successful will roll-over CETA to apply to the UK.

The UK and Australia have opened FTA negotiations, but as with New Zealand, these are unlikely to be concluded in time for implementation at the beginning of 2021. It is therefore most likely that imports of health and beauty products from Australia will continue on the basis of existing MFN terms.

The UK has agreed with Switzerland and Israel to roll over the terms of existing EU bilateral agreements and has signed a new trade agreement with Japan which largely replicates the terms of the EU/Japan FTA. India will continue to enjoy substantially the same unilateral preferential treatment by virtue of its status as a GSP beneficiary.

Imports from Turkey are likely to revert to MFN terms if the UK and Turkey fail to agree a replacement to the EU/Turkey Customs Union Agreement.



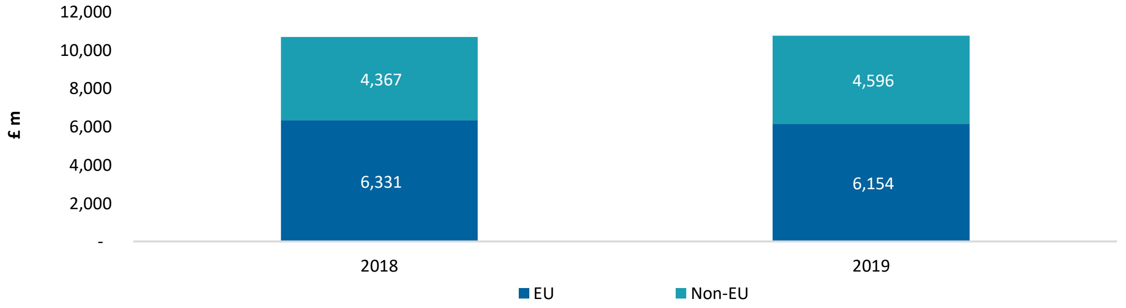
DIY & Gardening: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	10,697	10,750	0.5%
EU	6,331	6,154	-2.8%
Non-EU	4,367	4,596	5.2%
EU Share	59.2%	57.2%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Germany	1,567.02	1,518.17	-3.1%	24.7%
Netherlands	1,286.28	1,203.11	-6.5%	19.5%
Italy	485.22	470.33	-3.1%	7.6%
Spain	444.99	461.41	3.7%	7.5%
France	445.32	441.09	-1.0%	7.2%
Irish Republic	412.84	397.40	-3.7%	6.5%
Poland	367.74	383.46	4.3%	6.2%
Belgium	394.04	360.13	-8.6%	5.9%
Sweden	131.61	137.98	4.8%	2.2%
Czech Republic	147.25	121.92	-17.2%	2.0%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	6,331	6,154	-2.8%	57.2%
China	1,552	1,698	9.4%	15.8%
United States	697	718	3.0%	6.7%
India	318	336	5.6%	3.1%
Turkey	223	260	16.4%	2.4%
Taiwan	254	250	-1.5%	2.3%
Japan	146	137	-6.3%	1.3%
Norway	130	136	5.3%	1.3%
Hong Kong	140	131	-5.9%	1.2%
Indonesia	87	94	7.1%	0.9%

Source: WTO, HMRC, Retail Economics analysis

Outlook

This sector covers a fairly disparate group of products, ranging from plants and bulbs, garden machinery, power tools and hand tools, paints and building materials, timber, tiles, accessories and fittings.

The outlook is stable for most Top 10 suppliers. China, Taiwan, and Hong Kong will continue to supply the UK on an MFN basis. Imports from the US will continue on an MFN basis unless an FTA is agreed in the meantime. The UK has also announced that it intends to maintain existing Anti-dumping duties on imports of ceramic tiles from China.

Imports from Norway will continue duty free by virtue of the roll-over of the EU/Norway (known as the EEA Agreement) in 2019 to include the UK.

Imports from India and Indonesia will continue to enjoy preferential treatment as a result of their GSP status. Imports from Japan will enjoy tariff free access as a result of the newly agreed UK/Japan FTA.

Imports from EU and Turkey, will be subject to MFN rates unless FTAs are individually agreed.

Policy progress

The UK has made a unilateral decision to reduce almost all horticultural and a more limited list of metal product MFN tariffs to 0%. Not only will this mean no new tariffs on imports from the EU, but costs from existing MFN suppliers will reduce in some cases by >8%. This will please the Netherlands in particular which has been pressing hard for continued access to the UK market for cut flowers and other horticulture products.

Opportunities

The UK's MFN tariff schedule eliminates duties on a wide range of horticulture products and on some intermediate metal products.

Threats

In the absence of a UK/EU FTA a wide range of DIY & gardening imports from the EU will attract duties, albeit at a generally low level.

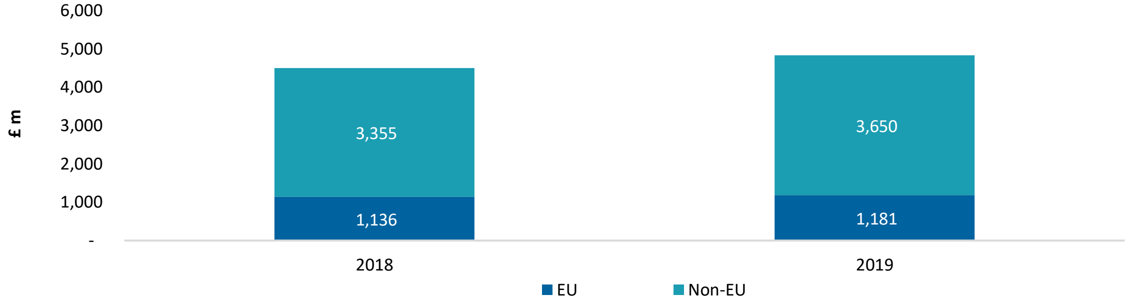
Homewares: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	4,491	4,831	7.6%
EU	1,136	1,181	4.0%
Non-EU	3,355	3,650	8.8%
EU Share	25.3%	24.4%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Germany	275.51	278.45	1.1%	23.6%
France	148.71	147.78	-0.6%	12.5%
Italy	101.79	103.43	1.6%	8.8%
Poland	91.10	96.46	5.9%	8.2%
Netherlands	88.66	93.12	5.0%	7.9%
Spain	64.73	68.25	5.4%	5.8%
Belgium	61.00	66.10	8.3%	5.6%
Czech Republic	40.66	51.87	27.6%	4.4%
Irish Republic	53.35	45.33	-15.0%	3.8%
Austria	29.43	43.50	47.8%	3.7%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	1,136	1,181	4.0%	24.4%
China	2,012	2,211	9.9%	45.8%
Pakistan	359	390	8.6%	8.1%
India	263	287	9.1%	5.9%
United States	141	158	12.2%	3.3%
Turkey	116	112	-3.2%	2.3%
Hong Kong	90	90	0.0%	1.9%
Vietnam	52	68	30.3%	1.4%
Bangladesh	54	58	8.9%	1.2%
Taiwan	38	38	-0.4%	0.8%

Source: WTO, HMRC, Retail Economics analysis

Outlook

The outlook for imports of homewares is highly predictable and stable. The policy framework for 65% of UK imports of homewares is already settled. Imports from China, Hong Kong and Taiwan will continue to have access on an MFN basis. Additional Anti-dumping duties on ceramic tableware from China will be maintained.

Imports from Pakistan, India, Vietnam and Bangladesh will continue to enjoy preferential tariff access to the UK by virtue of their GSP status. Bangladesh will continue to enjoy duty-free access for its homeware products.

The outlook for imports from the EU, Turkey and the US are less certain and without FTAs all would become (in the case of the US, remain) MFN suppliers to the UK.

Policy progress

See previous sections re imports from EU, Turkey and the US.

Opportunities

The introduction of MFN duties on cotton and linen household textiles from the EU and Turkey would give a modest cost advantage to NI suppliers to the NI and wider UK market.

Threats

New MFN duties of up to 12% on imports of homewares from the EU and Turkey may lead to upward pressure on consumer prices for homewares.

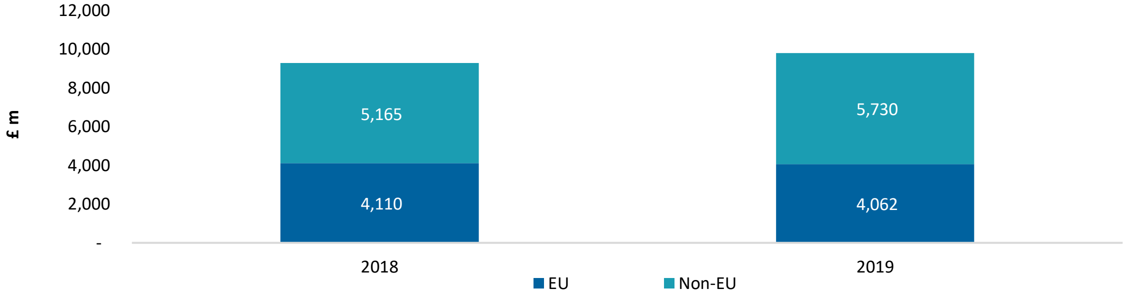
Furniture & Flooring: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	9,275	9,791	5.6%
EU	4,110	4,062	-1.2%
Non-EU	5,165	5,730	10.9%
EU Share	44.3%	41.5%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Austria	711.3	720.2	1.3%	17.7%
Belgium	718.2	717.4	-0.1%	17.7%
Bulgaria	678.8	693.3	2.1%	17.1%
Croatia	325.4	313.9	-3.5%	7.7%
Cyprus	261.7	251.7	-3.8%	6.2%
Czech Republic	208.0	209.1	0.5%	5.1%
Denmark	123.0	137.7	11.9%	3.4%
Estonia	153.4	133.2	-13.1%	3.3%
Finland	108.4	115.2	6.2%	2.8%
France	102.9	111.9	8.7%	2.8%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	4,110	4,062	-1.2%	41.5%
China	3,088	3,088	0.0%	31.5%
United States	429	429	0.0%	4.4%
Vietnam	283	283	0.0%	2.9%
Turkey	171	171	0.0%	1.7%
India	164	164	0.0%	1.7%
Hong Kong	120	120	0.0%	1.2%
Malaysia	111	111	0.0%	1.1%
Taiwan	67	67	0.0%	0.7%
Indonesia	59	59	0.0%	0.6%

Source: WTO, HMRC, Retail Economics analysis

Outlook

The policy framework for most Top 10 suppliers of furniture and clothing is already in place.

China, Hong Kong, Malaysia and Taiwan will continue to supply the UK market on an MFN basis.

Vietnam, India and Indonesia will continue to enjoy preferential access by virtue of their GSP status.

The outlook for imports from the EU, US and Turkey are less certain for the reasons mentioned above.

Any reversion to MFN terms (for EU and Turkey) will impact costs for importing carpets and other floor coverings more than for imports of furniture. This is because most imports of furniture attract zero or very low MFN rates of duty, whereas duty rates for carpets or floor coverings are often around 8%.

Policy progress

See above for EU, US and Turkey.

Threats

New MFN duties of up to 12% on imports of homewares from the EU and Turkey may lead to upward pressure on consumer prices for homewares.

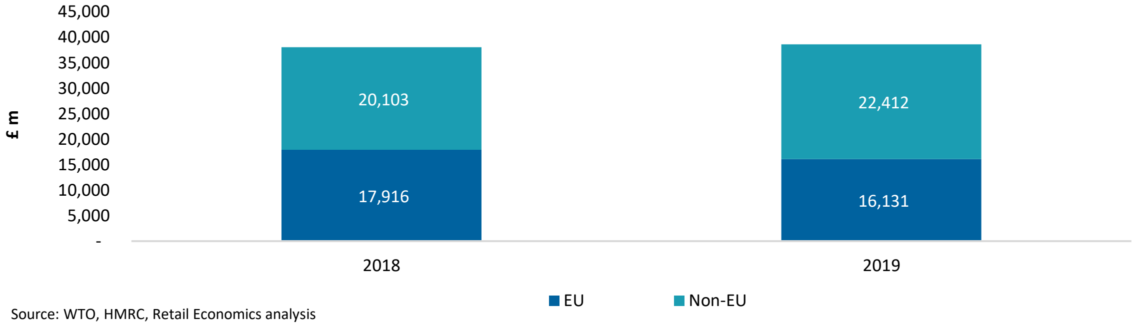
Electricals: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	38,018	38,543	1.4%
EU	17,916	16,131	-10.0%
Non-EU	20,103	22,412	11.5%
EU Share	47.1%	41.9%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Netherlands	7,485.7	6,323.3	-15.5%	39.2%
Germany	3,242.7	2,637.4	-18.7%	16.4%
Czech Republic	1,400.6	1,428.6	2.0%	8.9%
Poland	1,386.1	1,397.4	0.8%	8.7%
Irish Republic	959.8	915.4	-4.6%	5.7%
France	657.1	603.3	-8.2%	3.7%
Hungary	628.2	588.6	-6.3%	3.6%
Slovakia	461.1	417.7	-9.4%	2.6%
Belgium	384.3	377.7	-1.7%	2.3%
Italy	350.7	319.2	-9.0%	2.0%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	17,916	16,131	-10.0%	41.9%
China	10,702	12,641	18.1%	32.8%
Hong Kong	2,061	2,143	4.0%	5.6%
United States	1,875	1,924	2.6%	5.0%
Vietnam	1,947	1,861	-4.4%	4.8%
Taiwan	889	958	7.7%	2.5%
Turkey	525	573	9.2%	1.5%
Japan	314	305	-2.9%	0.8%
Mexico	157	282	78.9%	0.7%
Malaysia	267	270	1.0%	0.7%

Source: WTO, HMRC, Retail Economics analysis

Outlook

The outlook for imports of consumer electricals is somewhat mixed. Around half of UK imports will receive the same tariff treatment as now. Imports from China, Hong Kong, Taiwan and Malaysia will continue to receive MFN treatment. Imports from Vietnam will continue to receive preferential access by virtue of its GSP status. Imports from Japan will continue to receive preferential access by virtue of the new UK/Japan FTA which largely rolls over the benefits of the EU/Japan FTA.

Reversion of EU to MFN terms will make little difference to the cost of importing most electrical items because MFN tariffs are generally very low (>3%) Most IT equipment, including mobile phones is zero rated. The notable exception is televisions, which attract an MFN duty of 14%.

Policy progress

Negotiations with EU, Turkey, Mexico and the US are ongoing. The negotiations with Mexico aim at rolling over the provisions of the EU/Mexico FTA.

Threats

Imports of branded televisions made in Turkey, Mexico and the EU would face new MFN duties of 14% in the event that FTAs are not agreed with these countries.

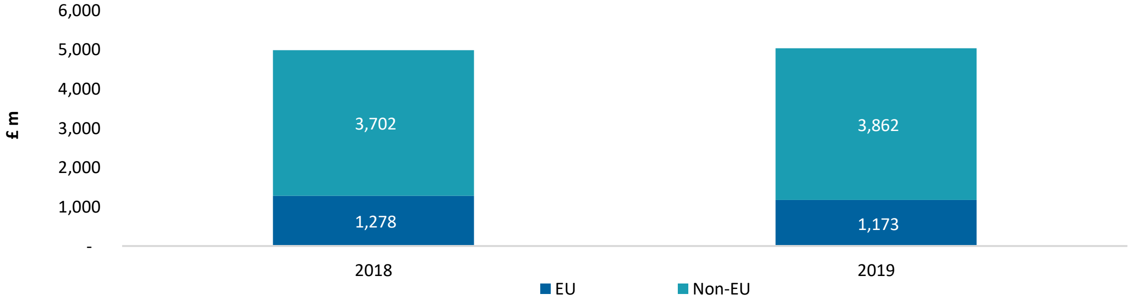
Toys: Key Statistics – UK imports from EU

Import statistics

£m	2018	2019	% change y/y
Total imports	4,980	5,035	1.1%
EU	1,278	1,173	-8.2%
Non-EU	3,702	3,862	4.3%
EU Share	25.7%	23.3%	

Source: WTO, HMRC, Retail Economics analysis

Imports by EU and Non-EU



Source: WTO, HMRC, Retail Economics analysis

Top 10 EU imports

£ m	2018	2019	% change	% EU imports
Germany	235.9	207.6	-12.0%	17.7%
Czech Republic	178.9	195.2	9.1%	16.6%
Poland	141.5	147.1	4.0%	12.5%
Netherlands	182.4	137.4	-24.7%	11.7%
France	110.5	96.3	-12.8%	8.2%
Italy	100.8	93.4	-7.4%	8.0%
Belgium	103.4	82.7	-20.0%	7.0%
Irish Republic	76.5	67.2	-12.2%	5.7%
Spain	52.1	49.8	-4.4%	4.2%
Denmark	24.5	25.4	3.8%	2.2%

Source: WTO, HMRC, Retail Economics analysis

Top 10 RoW Imports

£ m	2018	2019	% change	% of total imports
European Union	1,278	1,173	-8.2%	23.3%
China	2,454	2,510	2.3%	49.9%
Hong Kong	298	328	10.0%	6.5%
United States	244	249	2.1%	5.0%
Taiwan	153	183	19.8%	3.6%
Vietnam	148	138	-6.7%	2.7%
Indonesia	41	69	70.0%	1.4%
India	42	50	18.6%	1.0%
Japan	38	43	12.8%	0.9%
Canada	39	36	-7.9%	0.7%

Source: WTO, HMRC, Retail Economics analysis

Outlook

The outlook for imports of toys, leisure and sports equipment is relatively stable. China alone accounts for just over half of UK imports of these goods and together with Hong Kong and Taiwan will continue to face MFN tariff rates.

Vietnam, Indonesia and India will continue to receive preferential tariff treatment by virtue of their GSP status. Imports from Japan will continue to enjoy duty free access as a result of the new UK/Japan FTA.

Imports from the EU and Canada are at risk of reverting back to MFN levels if no agreement is reached with the UK. However, with the exception of bicycles which attract an MFN rate of 14%, most MFN rates for toys, games and sports equipment are generally low.

Policy progress

See earlier sections in relation to trade negotiations with the EU, US and Canada. Products from this sector are unlikely to raise any particular problems in ongoing FTA negotiations.

Opportunities

The UK has already said it intends to remove the Anti-dumping duty on imports of bicycles from China. These rates vary considerably form one supplier factory to another, but typically are around 30% which is in addition to the MFN rate of 14%. The removal of these additional Anti-dumping duties will result in a significant reduction in the cost of these products on the UK market.

PART 3

Retailers’ perspective on new regulatory costs and burdens

This section of the report focuses on new regulatory costs and burdens from the perspective of retailers drawing upon evidence from a survey of retailers and telephone interviews.

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Retailers' perspective on new regulatory costs and burdens

This section of the report focuses on new regulatory costs and burdens from the perspective of retailers drawing upon evidence from a survey of retailers and telephone interviews. Eleven multiple retailers who transport goods from Great Britain to Northern Ireland (NI) were surveyed in total. These include four of the major supermarkets, two symbol groups, and non-food retailers including pharmacy, DIY, optical and clothing. All interviews were conducted between 8 and 21 July 2020.

This research, and the interviews on which it is based, were conducted prior to the announcement of the Trader Support Scheme on 7 August 2020, so a reaction is not included.

All interviews were conducted on the agreement of anonymity to encourage honesty and to protect commercially sensitive information. We also provide a wider trade view through interviews with members of the Northern Ireland Business Brexit Working Group, including representatives from the Northern Ireland Retail Consortium and the Freight Transport Association (now LogisticsUK).

Summary

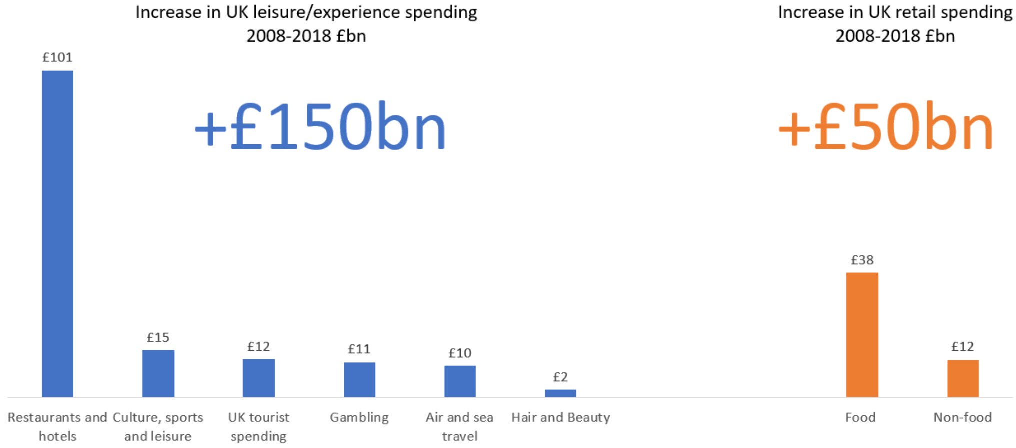
- All the retailers and industry representatives we interviewed had grave concerns over the regulatory burdens they will face at the end of the transition period.
- The impact of Covid-19 has severely hampered any preparation for the end of the transition period.
- The grocery sector is expecting the highest burden of regulatory changes.
- In non-grocery, all sectors had concerns, but they were most acute in DIY and pharmacy.
- There is deep frustration across the industry at the lack of information supplied by government.
- Mitigating against costs by switching suppliers is complex as most supplies will be bought in via the UK supply chain and to source solely for Northern Ireland (NI) would not bring the economies of scale that are available now and will create incremental costs through storage and transportation.
- While all retailers struggled to show their commitment to NI households, they also suggested that increased import costs and additional regulatory burdens would have to be passed on through higher consumer prices to some extent.
- The majority could also not assure their position in NI if their cost base rose to unprofitable levels.
- Most retailers surveyed do not expect large growth in sourcing from NI.

Project outline

In 2017, wholesale and retail businesses located in Northern Ireland (NI) purchased £6.8bn worth of goods and services from businesses located in Great Britain, equating to 65% of all goods imported within the industry [8]. Given NI's reliance on supplies from Great Britain, there are grave concerns within the industry about the emergence of new costs through additional regulation or tariffs.

Indeed, any additional costs to retailers based in NI come at a time when the retail sector is transitioning through a period of intense structural change. Consumers continue to shift a greater proportion of their spending online, while the experience economy demands a greater proportion of household expenditure.

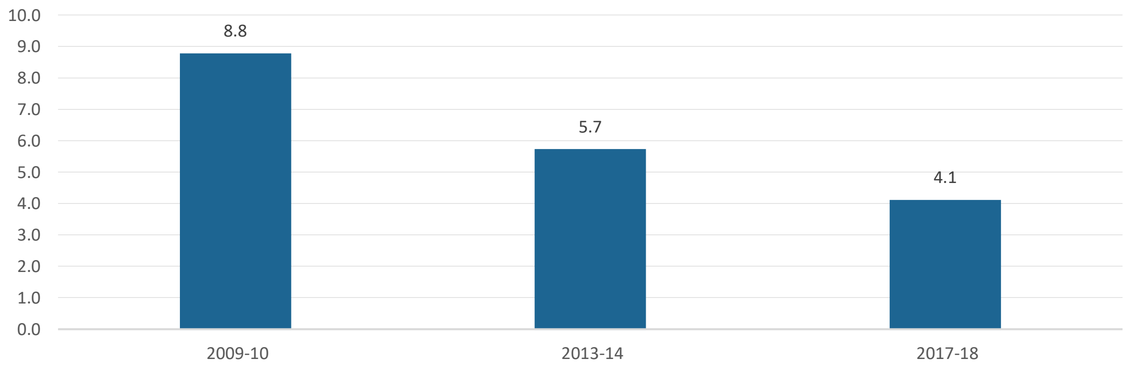
Figure 5 – EU MFN tariff rates applicable to UK retail products in event of no-deal



Source: ONS, Retail Economics

The economics of store-based retailing have changed. Operating costs have risen through successive increases in National Living Wage, National Minimum Wage, business rates and other costs which have significantly eroded profit margins. In fact, from 2009 to 2018, pre-tax profit margins across the largest 150 retailers in the UK have more than halved from 8.8% to 4.1%.

Figure 6 – Pre-tax profit margins for the top 150 UK retailers from 2009 to 2018



Source: Retail Economics, Company Financial Reports

[8] Broad Economy Sales and Exports Statistics 2017, NISRA.

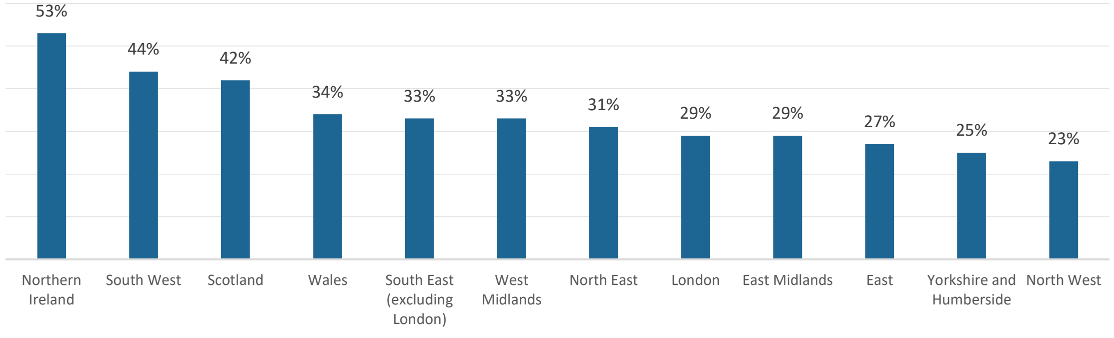
However, against the backdrop of such structural changes, the retail sector faces an unprecedented crisis – Covid-19. Many retailers remain in ‘survival mode’, cutting costs and preserving working capital as they reposition their business to weather the storm as effectively as possible.

Many retailers have prioritised greater resilience of their supply chains and simplified operating models while grappling with the impact of the pandemic. As such, retailers have diverted resources away from Brexit planning as the transition period ends towards the more pressing issue of the pandemic.

Many are planning for, and expect, further disruption to supply chains from the impact of a second wave which is seen as a much more significant risk to business continuity than the impact of Brexit.

Furthermore, many retailers have depleted significant working capital and are in a much weaker financial position given the impact of the lockdown and store closures. Retailers have cut back on costs and preserved working capital to position themselves effectively in order to deal with the pandemic.

Figure 7 – Will the way you shop change on a permanent basis because of the coronavirus?



Source: Retail Economics

The crisis is also driving changes in consumer behaviour. A larger proportion of spending is shifting online as people become more conscious about shopping and socialising in physical locations. Evidence from Germany, Italy, Spain and China shows that even after social distancing measures are relaxed, many customers continue to social distance voluntarily, reluctant to dine out or attend events involving large crowds.

The long-term implications to the retail sector will be vast. Around a third of UK consumers think that the way they shop will change permanently – greater than changes in the way they will travel, communicate or work. However, consumers in NI indicated that they were most likely to change the way they shopped, more so than any other region/country in the UK. Additionally, almost half (45%) of consumers have now purchased an item online that they had only ever previously purchased in-store, since the outbreak [9]. This has exposed them to new customer journeys. Inevitably, some behavioural changes will endure and will remain after the crisis.

Put simply, the impact of the pandemic has side-lined Brexit preparations for many retailers operating in NI.

[9] Retail Economics Consumer Sentiment Survey July 2020

Retail in Northern Ireland: A Snap Shot

Key statistics

- Retailers buy over £2.7bn of Northern Ireland Agri-food, but less than one quarter is used in NI.
- The retail sector is NI's largest private sector employer with around 100,000 employees – around 15% of all NI employment.
- One in every eight households in NI has someone who works in retail.
- NI appears the most volatile retail market in the UK with the highest shop vacancy rate and the most erratic footfall. Currently, NI's vacancy rate is 5% higher than the national average, but at its worst, one in five of NI's shops lay empty .
- Retail is one of the few industries in NI that employs more women than men (a ratio of 55:45) according to the BRC Retail Employment Survey in 2019.
- 1.9 million people conduct 9.9 million retail transactions every week in NI.
- More retirees, students and carers work in retail than any other sector.
- The Retail Industry has paid almost £1 billion in rates over the past 5 years.

Addressing the key questions of the Northern Ireland Protocol

What are the new regulatory burdens that will be facing retailers GB-NI?

Retailers continually brought to our attention that regulatory burdens could not be viewed in isolation, but rather they should be considered as a cumulative burden along with tariffs/customs and transit.

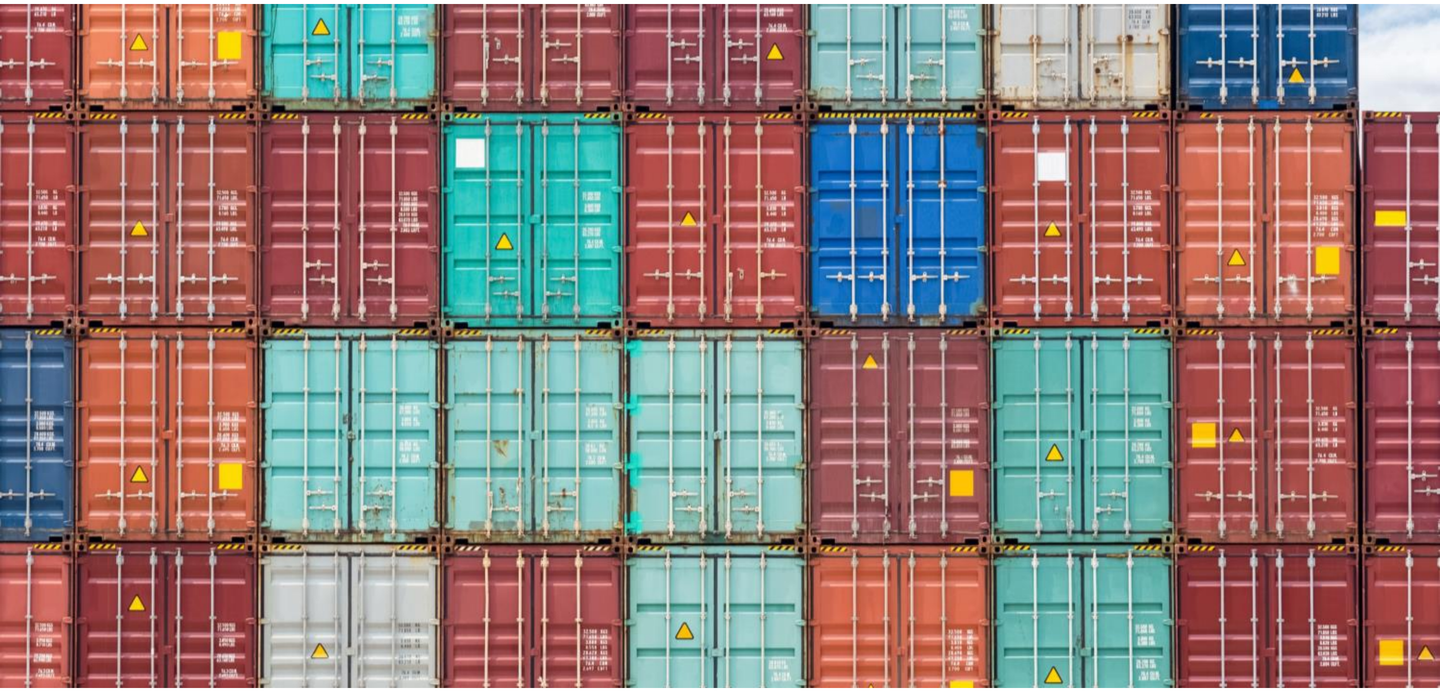
In this sense, a holistic understanding of costs cannot be gleaned until all the 'pieces of the jigsaw' are in place. The following tables, while not exhaustive, reflect the highest priorities for UK retailers operating in NI. All movements will require safety and security certificates.

Grocery

New Burden:	Comments:
Sanitary and Phytosanitary checks (identity and physical). Export Health Certificates.	For products of animal origin and some plant materials. Currently costing £200 per certificate in Great Britain. Some retailers have mentioned that this is "a deal breaker" for their operations in Northern Ireland. This issue has been raised with the EU Commission by the First Minister and Deputy First Minister.
Customs declarations.	Currently costs from £15 to £56.
Customs valuation certificates (if tariffs have to be paid).	
Entry summary declarations (for safety and security declarations purposes).	
Change of labelling (potentially EU and GB address on labels if product is to be sold throughout the UK).	For cleaning products as well as hygiene products such as shower gels. For example, labelling of eggs, fruit and vegetable mixes, honey and olive oils.
Phytosanitary certificates as well as a pre-lodged notification of movement and risk based physical checks.	Needed for any retailers dealing in seeds, bulbs, cuttings, plants or other plant material.
Accounting for or payment of import VAT.	
Checks on controlled goods.	
Checks on excise goods.	
EU organics legislation due to be implemented in NI after 1/1/2021 (Reg 2018/848)	
EU legislation on spirit drinks due to be implemented in NI after 25/5/2021 (Reg 2019/787)	
Health and ID marks. New UK (NI) mark in use from 1/1/2021	
Bread and flour fortification	Iron and niacin levels in GB flour are lower than the minimum required under EU fortification legislation so GB flour and bread will be non-compliant in the EU. Purity criteria of UK calcium carbonate differs from EU requirements

Non-Grocery

New Burden:	Comments:
Regulation of ocular products diverging.	Affecting retail opticians
Labelling of electronic/machinery products will need separate labelling for NI.	Affecting general goods, DIY, some supermarkets, computing and electronics goods retailers. Dual labelling is hugely expensive and for some manufacturers/retailers, prohibitive. There is also a lead-in time required for any labelling changes.
Testing of electronic/machinery products in NI before they can be sold.	Affecting general goods, DIY, some supermarkets, computing and electronics goods retailers.
Regulation of Pharma products diverging as NI is still under EU regulations.	Affecting pharmacies.
Extra registration of pharma products (dual).	Affecting pharmacies.
Dual authorisation for pharma products.	Affecting pharmacies.
Possibility of batch testing in NI of GB products.	Affecting pharmacies.
Phytosanitary certificates as well as a pre-lodged notification of movement and risk based physical checks.	Needed for any retailers dealing in seeds, bulbs, cuttings, plants or other plant matter including DIY, Garden centres and supermarkets.
Design and labelling costs especially if there are new trade deals.	Affecting pharmacies and cosmetics retailers.
Regulated and controlled chemicals will need a prenotification of movement, documentary checks and risk based physical checks.	DIY, pharmacies, some supermarkets.
May need to be dual/triple registration needed as we don't know if the NI controlled database will be stand alone or part of REACH and new UK database.	DIY, pharmacies, some supermarkets.
Sanitary and Phytosanitary checks and Export Health Certificates.	Fast food industry.
Loss of duty preference for example GSP preference if stock moved from GB-NI.	Clothing retailers.
Origin certification for goods that are finished in the UK but for circulation in NI.	Clothing retailers.
Accounting for or payment of import VAT	All retailers.
Checks on controlled goods.	All retailers.
Checks on excise goods.	All retailers.



What are retailers' biggest concerns and what will be the biggest changes to the industry?

During interviews with UK retailers who have a presence in NI, they raised a number of concerns that could impact a challenging end to the transition period, which would occur in the final quarter of 2020 causing a 'perfect storm' of pressures.

These included themes such as:

Covid-19

The ongoing impact of Covid-19 and the possibility of further regional lockdown measures in the event of a second wave.

Economic shock

A deep recession that takes hold in the UK, leading to elevated levels of unemployment, reducing spending power and severely weakened consumer confidence.

Timing

A 'perfect storm' of pressures could occur in the 'golden quarter' for retail as Christmas approaches. For some retailers, the commercial success of Christmas will be more critical than ever given the impact of Covid-19 throughout the year, including the reintroduction of lockdown in November.

In respect of Brexit, one retailer said: "It couldn't have come at a worse time."

Resource

Given the timing, it also means reduced bandwidth to deal with implementing changes, no ability to stockpile for the end of transition, and with footfall already at record lows year on year, one retailer said: "There are already huge concerns about profitability."

Added to this will be preparations needed for the end of the transition period and day one readiness.

Beyond this 'doomsday' scenario, responses to questions on major concerns were thematic.

Lack of certainty

All retailers and trade experts mentioned the lack of information and certainty that is stifling planning. Some even mentioned that they have incurred significant costs from planning events that have changed direction at the last moment (e.g. stockpiling) and are now adopting a 'wait and see' approach.

Currency fluctuations

Retailers also pinpointed currency fluctuations as a major concern. One retailer said: "Any rise in import tariffs would be miniscule compared with the impact of a collapse in the pound". As a result, some retailers mentioned that currency hedges were being placed for longer durations to try to ensure more stability in sourcing costs.

Tariffs/Customs

Most retailers were adamant that additional costs of regulatory burdens arising from customs issues could not be isolated and needed to be considered as part of the cumulative burden post-transition. Of particular concern was the new GVMS solution put forward by HMRC which is being seen as simply moving the administrative bottleneck, rather than being an efficient solution. This again was highlighted as a 'game changer', particularly by non-grocery retailers.

Costs of Export Health Certificates and Phyto-Sanitary Certificates

For grocers this a huge issue. One respondent said: "EHCs are a deal breaker. If we don't get a solution to this, we may as well shut up shop on 1 January. It won't be a game changer, it will be a game ender". The current £200 per certificate as charged in GB is an estimate that GB retailers provided during numerous interviews which would remove any profitability from an already squeezed market.

This is also an issue for those involved in plant products and horticulture and is exacerbated for all retailers whereby all loads entering NI are consolidated (or composite) loads rather than single item loads. This means that in the worst case, but also a likely scenario, a single lorry could require over 300 certificates. These concerns have been raised with the European Commission in the form of a joint letter from the First Minister and Deputy First Minister. The letter highlights the need for the Joint Commission to reach a solution on veterinary checks that allows for the continued free flow of food to NI without unnecessary extra cost or delay.

Labelling

For some retailers this issue is becoming as burdensome as Sanitary and Phytosanitary (SPS). A recent example included the Avian Flu outbreak which necessitated laying hens to be brought inside; subsequently, their eggs had to be relabelled as they were not 'free-range'. This exercise cost over £10 million just on egg products. However, it was highlighted as a problem by non-grocery retailers too, on everything from optical products to electronics.

Delays

Supermarkets are concerned about the delays caused by mandatory checks on paperwork and physical checks on goods. This is important for all parts of the Just in Time supply chain, particularly for fresh foods where concern was expressed not only for cost, but for freshness and product shelf life. This could have knock-on issues concerning customer satisfaction, waste and availability.

Returns

During interviews, every non-grocery respondent stated returns as a particular issue. Many simply did not know the best route for consumers to send returns and were seeking clarity on the best way to deal with them. For example, should they be sent through the Republic of Ireland or Scotland as the best option? Also, there were concerns about repairs of electronic goods and whether export/import formalities needed to be performed for these returns.

Medicine availability

This is only a concern for pharmacies, but nevertheless it is still a serious and legitimate concern. If NI is continuing under EU medicine regulations then this means there has to be a separate NI registered and labelled pool of medicine packs. This would not only be costly, but could lead to shortages because NI would be unable to benefit from UK-wide labelled medicine packs as demonstrated at the start of the current Covid-19 crisis.

Will retailers have all necessary systems in place by the end of the transition period?

All retailers agreed that the global pandemic has greatly reduced their readiness for an end to the transition period. Some non-grocery retailers are in a better position than others as they own their supply chain both inside and outside of the EU. However, this typically means less flexibility in their operating models and greater susceptibility to supply chain shocks – whether emerging from Brexit or from ongoing Covid-19 impacts. However, the vast majority of respondents were wholly negative in their answers with one commenting: *"We can't plan for 1 January because we don't know what we are planning for."*

Across all retailers there was a sense of pragmatism. Most suggested that they would do their best with things that were in their control (e.g. internal systems) and that they were 'throwing the kitchen sink at it'. They also clarified that even for internal systems to be ready it would be 'painful' and 'at a huge cost' and wholly dependent on getting the necessary information concerning the final arrangements from government.

There was little confidence that government systems such as CDS or GVMS would be ready in time. In fact, several retailers called the solutions that have been put forward 'questionable'. One retailer added: *"If this had been a business decision there would have been a fully resourced and planned implementation period."*

Also, there were concerns about the time required for tariff clarification, VAT and SPS, and the fact that Christmas trading will absorb any band width they will have.

Do retailers feel they have been given sufficient information to allow them to prepare for the end of the transition period?

Lack of information
Lack of information coming from government, both at a NI and HMG level. Many commented that without their trade bodies, they would have had next to no information.

Lack of clarity
Complete lack of clarity from HMG on the implementation of the Protocol and the command paper was 'too little, too late'.

Access difficulties
Poor access to government officials at the NI level. Several retailers commented on the inability to get meetings with necessary officials (at a high enough level) and waited several weeks to receive answers to questions.

Confusion
Confusion regarding exactly what details to request as retailers were unclear as to what is happening. One retailer described it as: "The worst type of business chicken and egg situation."

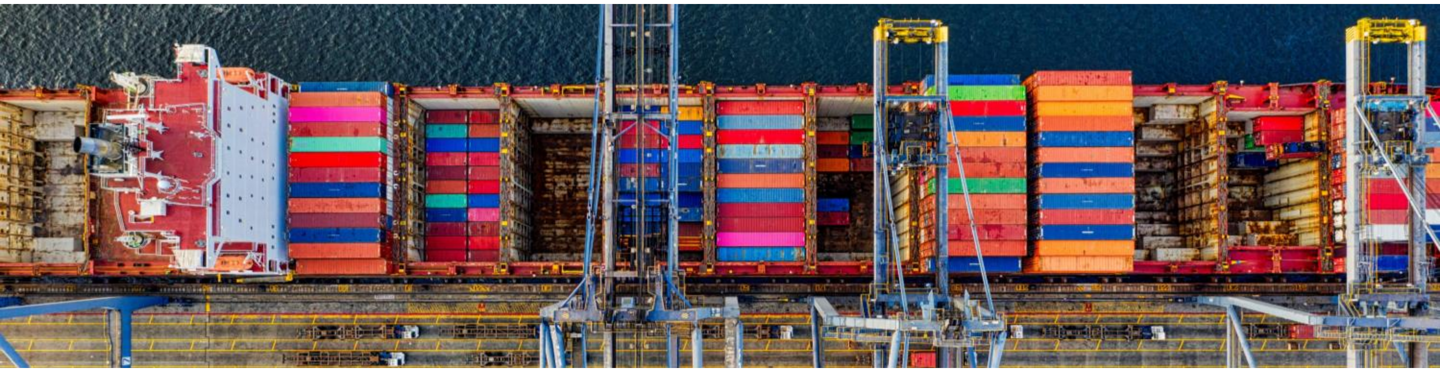
Timing challenges
Request for information as to when they would be receiving the final details.

Too theoretical
The information provided being too theoretical with no practical modelling. The command paper guidance was described as "ambitious blue sky thinking".

Conflict of interest
The notion that certain solutions were being driven by vested interests without due consultation.

Fear of fines
The fear of excessive penalties from wrongly enacted legislation due to the lack of clear information and interpretation bias.

Lack of understanding
Insincere telephone conversations that felt 'scripted' with limited empathy.



Will retailers raise the cost to consumers in Northern Ireland post January 2021 because of the transition period ending?

There was widespread consensus that all retailers were at pains to show their commitment to NI households. However, in the current environment of shifting consumer behaviour towards online and rising operating costs, retailers suggested that profit margins were too low to absorb any further increase in costs. As such, costs would have to be passed on to consumers to some extent, leaving NI households to share some of the cost burden.

One retailer commented: *"After years of cost cutting and reduced profit margins, our options are extremely limited. We either raise prices or reduce packet sizes. Absorbing the potential cost of this magnitude is no longer an option given successive rounds of cost cutting we've already made in the business."*

Some retailers also raised the issue of an 'unfair playing field' with pure online players. A recurring issue was the inequity in costs for pure online retailers and those with a physical presence. Rental costs, business rates and inflexible lease structures are inhibiting some retailers to shift their business models towards a more digitally focused proposition.

One retailer posited that many incumbent retailers in NI are "burdened with these legacy business models, the perfect storm of pressures could lead to further polarisation in the performance of online versus bricks and mortar businesses which could dilute competition in the long run".

Some retailers also noted the inability to maintain the same price profile across the UK given the higher costs to conduct business in NI. They cannot subsidise NI prices from GB sales. At a lower level, each store would have to perform independently regarding profit and loss.

The rise in consumer prices would also occur over a sustained period of time. Any initial impact of new import friction would be felt by consumers relatively quickly. However, over a more protracted period the impact of currency shocks would be felt as rolling currency hedges were renewed and contracts with suppliers were renegotiated on potentially less favourable terms.

One retailer said: *"We're looking to simplify our business in Northern Ireland which would involve focusing on core ranges and localising the proposition. This will ultimately lead to a narrower range and less choice for our customers, but that's just the way the sector is heading."*

In summary, non-food retailers emphasised that margins are under considerable pressure and the impact of Covid-19 has significantly weakened their financial positions. Against this backdrop, any additional cost burdens placing added friction from imports were likely to be passed on to consumers to some extent and could also impact choice.

How much of a percentage rise in costs would make retailers consider their positions in Northern Ireland?

Most retailers were highly reticent to answer this question given the reputational risk. However, they did highlight that margins are already under intense pressure and they were looking to simplify business models to better react to changing consumer trends while Covid-19 impacts meant that they were looking to build more resilient supply chains and diversify their suppliers.

Measures around implementing social distancing and safeguarding both staff and the public have come at considerable cost. The Northern Ireland Retail Consortium estimates that retailers have spent over £7 million to implement these measures.

Contextually, it stands to reason that the complexities of continuing to trade in NI requires a review, particularly for companies where NI made up a relatively small proportion of overall sales.

All respondents stated that their businesses were high volume with low profit margins, and it would not take much of a cost rise to have a negative impact. Some businesses mentioned that **a 5% increase in costs would be sufficient to make trading in NI commercially unviable** without pushing costs directly onto households.

One grocery retailers posited that this was not just about pure profit, but long term decisions needed to be considered on return on investment and whether NI was seen as an area for renewed investment in their current estate or possible expansion.

The symbols said that they would continue to be in NI given their indigenous status.

> *"It's not just about pure profit, but long term decisions need to be considered on return on investment and whether Northern Ireland is an area for renewed investment."*

What are retailers' medium to long term prospects in Northern Ireland?

The consensus is that the impact of Covid-19 has halted, or at least significantly slowed, strategic plans for trading in NI post transition period. Retailers remain in a 'survival' phase where the focus is on cutting costs and preserving working capital in order to weather the storm as effectively as possible. One retailer said that: "The pandemic is using up all our bandwidth at the moment, but we're well aware that lots of work still needs to be done on the Brexit-front."

In the medium to long-term, there is a lack of certainty given that retailers don't know what the end of the transition period looks like. However, all retailers agreed that there is a higher level of risk for their NI operations than anywhere else in their portfolio. Their prospects are directly linked to external factors such as a FTA with the EU or lack thereof, the mitigations gained from the Joint Committee and Specialised Committee talks, as well as the pace of economic recovery post Covid-19.

Again, it was highlighted that there is a significant risk to the continuity of supply if a potential second wave of the pandemic overlaps with an end to the transition period. In this instance, one retailer said that: "With little resilience within the supply chain, we can foresee significant challenges with delays and shortages in some areas."

With heightened levels of uncertainty emanating from Covid-19 and the Northern Ireland protocol, retailers are reluctant to share any long-term aspirations for trading in NI. On the whole, large capex plans have either been scrapped or put on hold given heightened levels of uncertainty, but this was reflected in all parts of business planning and not just relevant to NI.

Retailers switching supply chains and sourcing

How likely and easy is it for retailers to switch supply chains and potentially source from other countries in an attempt to mitigate against additional cost?

Switching supply chains to mitigate against additional import costs will not be easy for UK retailers trading in NI. Supply chains are often deep-routed, with supplies entering the UK and then transported to various distribution centres located across the country (including NI).

Sourcing solely for NI may not necessarily bring the economies of scale currently available, and new costs will also be introduced through storage and transportation.

Interview responses from non-food retailers were unanimous regarding the complexity of switching supply chains and whether their NI operation generated sufficient revenue to warrant the additional complexity to their operating models. Pharmacy and optical retailers, who owned part of the supply chain, were particularly vocal about the complexities involved. They also raised issues about quality control and testing which need to be mutually recognised. Some products can take 18 months or more to test before they are ready for market. Pharmacy is also worried that lack of access to GSP markets for buying will raise costs.

What's more, the shift towards simplifying operating models was repeated across many retailers surveyed, including the need to build more resilient supply chains. For example, one DIY retailer said that they will be looking at increasing their sourcing from RoI for the NI market to remove the need for export formalities.

The grocery sector are more adept at changing supply chains and have done so in the past when necessary. However, they voiced their concerns that many supply chains and joint partnerships have been built up over many years and their range of suppliers is much greater than those of non-food retailers in general.

> *"We intend to move some food directly to the island of Ireland from France and the Netherlands to ensure continuity of supply."*

Over the last few years, grocery retailers have also reduced the number of suppliers they work with, narrowing ranges to simplify their business models to drive greater efficiency. This has benefited households across NI and with low levels of food inflation. However, this trend has been driven by wider structural changes across the grocery market as retailers have reacted to the aggressive growth of the discounters, greater price transparency and renewed customer focus on value.

One retailer also highlighted the dependency of some product groups to particular regions and supply chains making it hard to find alternative suppliers from different countries. For example, all of the biscuits in the island of Ireland come from the UK, but all beans and pasta only come from Italy, while electronics are imported from the Far East.

Another grocery retailer mentioned that they intend to move some food directly to the island of Ireland from France and the Netherlands to ensure continuity of supply, but additional costs would be passed on to consumers. While another retailer said that: “90% of our product for Northern Ireland comes from Great Britain. In fact, Northern Ireland produce goes to Great Britain to be packed before coming back to Northern Ireland for sale.”

Overall, the general consensus for grocery retailers is that supply chains can be changed, but there will be cost implications for both the companies involved and consumers. Lastly, their preference is to continue to source from the UK.

> *“90% of our product for Northern Ireland comes from Great Britain. In fact, Northern Ireland produce goes to Great Britain to be packed before coming back to Northern Ireland for sale”*

Effects of the new measures under the NI Protocol on NI sourcing

What are the potential effects of the new measures under the NI Protocol on NI sourcing for retailers?

> *This question was unanimously answered: “Where more can be sourced from Northern Ireland it will be.”*

However, in most cases retailers already source as much as possible from NI suppliers and therefore none of them are expecting a significant growth in NI sourcing.

What support would retailers like from Government?

From the negotiations:

A safety and security agreement

A safety and security agreement removing the need for entry and exit summary declarations between Great Britain and NI. For this to work, it would also be likely that the same process would is required on shipping between Great Britain and Ireland.

A certified supply chain

A certified and audited supply chain that removes friction on a range of areas including customs, SPS and transit.

A Sanitary and Phytosanitary agreement

A Sanitary and Phytosanitary (SPS) agreement removing the need for physical checks on agri-food products and other plant products and products of animal origin, or at least reducing their prevalence drastically (e.g. EU-New Zealand SPS agreement).

Clear guidance for non risk goods

Clear guidance to demonstrate what goods moved from Great Britain to NI would be classified as ‘not at risk’ and then use facilitation to avoid unnecessary formalities and checks.

Before the end of the transition period, the Joint Committee will establish the criteria for considering which goods brought into NI from outside the EU are not at risk of subsequently being moved into the EU. Consideration should be given to the unique geographical situation regarding trade entering the island of Ireland and where goods entering from Great Britain can be identified as not being at risk to the single market, derogations should be applied to such trade to ensure continued frictionless transit and minimal formalities.

Zero tariffs and quotas for UK products

Zero tariffs and quotas for UK products in the EU and EU products in the UK. Preferential rules of origin (which goods must comply with in order to be eligible for zero tariffs and quota provisions in an EU-UK trade agreement) must be transparent and not overly complex.

In general:

- More tangible access to information and meaningful interaction between retailers and officials when discussing information.
- Clear and unequivocal guidance on what is required before the end of the transition period by businesses. This should be accessible from the largest grocer to the smallest of their suppliers.

"Tell us what we should be doing."

- A clear timetable.
- An achievable implementation period.
- Financial support on any new systems that will be required.
- Tailored support which addressed the wide ranging needs within the retail sectors.
- Reduction in the cost of doing business in NI that is within the gift of the NI Executive already such as business rates.
- A long-term vision for the NI economy that encourages long-term investment.

The Impact of Covid-19 on supply chains and preparations for the end of the transition period

The impact of Covid-19 has highlighted the need for many retailers to develop more resilient supply chains and distribution platforms. As retailers assess the damage from severely disrupted supply chains, the priority has been on agile planning, balancing costs and managing risk, to ensure continuity of supply.

It is also clear that Covid-19 has highlighted the importance of resilient supply chains and has shown that the Just in Time model is fragile, although boasting efficiencies in time and cost.

The research has underlined the importance of supply chain diversification, near-shoring and trying to mitigate against future disruptions. Importantly, the impact of the pandemic has been extreme over the past few months leaving little bandwidth to plan effectively for the end of the transition period.

As one retailer put it: "All that preparation that we had undertaken last year for no deal which was still in place in January 2019 is now gone and we do not have time or resource to plan for the end of the transition. Managing the impact of the pandemic and planning for a possible second wave is our priority."

As greater clarity emerges, more accurate longer-term assessments will be made, and new solutions considered. Here, highly responsive supply chains will be central to retailers' plans where flexibility is essential. In some cases, shorter supply chains to maintain faster reaction times for operating models will be required. Near-shoring may be commercially viable for some, but this will not be feasible at scale for many parts of the market.

Nevertheless, a broader diversification of supply chains will help to mitigate some risk, but multiple suppliers may just be part of the solution where retailers consider leaner inventory, pull ordering and just-in-time manufacturing. Many parts of the fast fashion industry already operate with these agile sourcing models. Other retailers are likely to follow suit, mirroring similar strategies where profitability allows.

But with an intense focus on simplification, efficiency and cost reduction – against the backdrop of the pandemic – the end of the transition period could not come at a worse time for many retailers. This is especially true given many have depleted significant working capital during periods of lockdown, and as a result, are weaker financially.

Northern Ireland Consumers

There are significant differences in circumstances between consumers from NI and Great Britain. The pressures that the NI consumer finds themselves under will only be disproportionately exacerbated by any price rises due to Brexit.

The following statistics are worth considering in this regard:

- NI average wages are the lowest of any region across the UK [10].
- NI households have around half of the discretionary income of GB households. In January 2020 NI households had £119 discretionary income per week compared to £215 as the UK average [11]. This means that increases in food prices would have a disproportionate impact in NI because of the relatively high proportion on vulnerable and low income households
- NI adults have the most unsecured debt of all the UK regions [12].
- 1 in 5 of NI's adults are over-indebted. This is higher than any other UK region.
- 10% of NI adults are 'in difficulty' financially and a further 29% of NI adults are 'surviving'.
- Even though they have the lowest income, NI household spend is one of the highest proportionally in the UK [13].
- Fuel costs and even car insurance are already higher for the NI consumer [14].
- Consumer spending accounts to 65% of the UK's GDP, and 73% of NI's GDP [15].
- Household consumption will account for 67% of GDP growth in the UK over the next 6 years. Therefore, any slowdown in consumer spending or reduction in consumer confidence will represent a significant risk to the UK's and NI's future economic growth.

[10] Office of National Statistics
[11] Asda Income Tracker July 29 2020
[12] Financial Conduct Authority, The Financial Lives Survey 2017
[13] Castle Trust
[14] Confused.com
[15] Consumption Led Growth in an Era of Squeezed Incomes, Ulster University, 2017

A recently published Consumer Council report found that 77% of consumers were worried about the cost of groceries and other household items rising [16]. The same report found that financial stability in the household and stable prices were the two biggest consumer concerns regarding Brexit.

Given the available evidence it is hard to see how NI consumers could deal with cost rises that come from trade and regulatory frictions. Clearly, those who are most economically vulnerable will likely feel the introduction of new costs the most, given their already reduced level of discretionary income.

[16] Consumer Council Expected impact of Brexit on NI consumers Oct 19

PART 4

Avoiding and ameliorating new regulatory costs in NI

This section identifies a variety of ways for reducing regulatory costs though it does not cover specific provisions through the Trade Support Service.

Part 4

Avoiding and ameliorating new regulatory costs in NI

Notwithstanding any future UK/EU FTA and specific arrangements reached in the UK/EU Joint Committee, regulatory costs for retail goods moving to NI may vary significantly according to the way they are shipped and the route they take to the NI market. This section identifies a variety of ways for reducing regulatory costs though it does not cover specific provisions through the Trade Support Service.

Avoiding payment of recoverable duties on goods of UK origin

The Northern Ireland Protocol only requires the payment of (recoverable) duties on goods moved from GB to NI where there is a risk that the goods may be moved on to other parts of the EU. This means that where there is compelling evidence that goods will be sold in NI the requirement for paying duties could be avoided altogether.

Retailers of consumer products that only operate in NI (and not RoI) should be in a good position to demonstrate that any UK-originating goods they move into NI will be sold on that market and are not at risk of being further moved to RoI.

In addition, there are well-established **procedures that allow for deferment of payment of customs duties for up to six weeks**. Using customs deferment provisions for very fast-moving goods with short shelf lives may mean that sales can be made in NI before customs duties are due. In such cases, any customs debt could be null and void before it becomes due. As some of the highest rates of duty would apply to fresh food products with short shelf lives (e.g. fresh meat, dairy, fish etc, this option may be particularly useful to food retailers.

These two considerations may be less advantageous for trade either not directly linked with NI retail (e.g. wholesaler trade), or for longer shelf life products that take more than six weeks to sell.

Establishing de minimis limits for payment of recoverable duties

The Appendix on the UK's new MFN Tariff explains that whilst the new UK Tariff tracks the contours as the EU Tariff, there are many rates that are marginally lower than corresponding EU rates. The differences between the two Schedules means that goods imported into the UK from MFN suppliers will face marginally lower duty rates than the same goods imported directly in to the EU.

These differences are usually small, but they might apply to many individual consignments travelling from GB to NI and it would be helpful for all traders if the UK-EU Specialised Committee could issue clear guidance on the circumstances under which precautionary tariffs are required for this trade. In particular, the Specialised Committee might consider setting a de minimis threshold (representing the difference between the value of duties due in the UK and in the EU, expressed as a percentage of the total value of the goods and below which the collection of precautionary duties is considered unnecessary).

Preferential origin documents

Regular exporters can apply to HMRC to become an Approved Exporter. This entitles them to put the required preference declaration on the invoice and removes the requirement for a separate EUR1 Certificate that may otherwise be required for UK-origin goods to enjoy duty-free access to NI in the event of a UK/EU FTA.

London Chamber of Commerce members are entitled to 50% reduction in fees for EUR1 [17]. Other Chambers may offer similar reductions to their members.

Sourcing goods from RoI

Probably the **most obvious way of avoiding new regulatory costs on retail goods is to increase sourcing from RoI**. Goods moving from RoI to NI will face no new tariffs or other regulatory costs by virtue of the provisions of the NI Protocol. These provisions apply not only to goods of RoI origin, but to any goods of EU or other origin which are legally in free circulation in the EU.

In the event of a no-deal UK MFN tariffs and other regulatory requirements would apply to EU goods as they arrive in the UK. Where the costs of these tariffs and other regulation are sufficiently high, there may be an economic incentive to route EU goods directly to RoI and then move them in to NI for sale there. This may be the case even where it is more expensive and time-consuming to use such a shipping route.

EU Goods in Transit

For some products, especially fresh food, shipping goods from continental Europe to the RoI and then on to NI may be unattractive as it may be too expensive or time-consuming. Using a GB land-bridge may be cheaper and quicker. Neither the Northern Ireland Protocol nor the Internal Market Bill appears to preclude the possibility of using the UK as a land bridge to consign EU goods to RoI under EU CTC rules and subsequently move them back to NI for retail sale. If EU/UK trade reverts to MFN terms and tariffs apply, **Transit provisions may prove to be an economically attractive way of supplying EU goods to the NI market**. This would apply in particular if goods would otherwise face high tariffs or time consuming and costly inspection processes as they arrive in the UK. e.g. products of animal origin.

The calculation on the optimum route to deliver EU goods to NI (i.e. shipping from EU to RoI or using GB as a land bridge for Transit) would include the relative cost of transporting the goods and the time it would take to get, in particular, perishable products to market.

Simplifying consignments of food products to reduce cost of veterinary certification

The views expressed by retailers in Part 3 of this report suggest that mature supply chains within a particular regulatory framework may become unviable if that framework changes significantly. Clearly, there will always be a food market in NI, served by traders that are highly adaptable to regulatory changes and their implications, amongst other factors.

Perhaps the most obvious method of reducing or ameliorating costs associated with EU SPS rule compliance, is to **simplify consignments of food products**, thus reducing the number of veterinary certificates required. Various changes to the organisation of food supply chains could facilitate simpler consignments, including:

- Joint purchasing by retailers (provided that does not breach competition rules)
- Expansion of third-party trade in NI involving bulk purchasing and direct sales to NI retailers
- Expansion of downstream food processing capacity which converts fewer base ingredients into a larger number of food products.

In each case, changes to supply chain organisation may need complementary changes to procurement practices amongst large grocers, particularly the devolvement of procurement practices.

It is worth noting that the Internal Market Bill (see Appendix 2) envisages greater flexibilities for the provision of State Aid, including in N.I. and that the Minister of State for the Cabinet Office, Lord True said that “Northern Ireland will themselves enjoy new flexibilities with respect of service industries”. The government has yet to define in more detail its State Aids regime but it is possible that its scope might include collaborative activities in the retail supply chain. Especially if the aim of those activities is to improve the efficiency of retailers and provide better value for consumers in N.I. by minimising the cost of compliance with new regulatory requirements that arise as a result of the UK leaving the EU.

[17] London Chamber of Commerce 2019 price list

Appendix 1

The UK's new MFN tariff and what it means for the cost of consumer products in Northern Ireland

The UK's MFN tariff schedule was published in May 2020 and will apply from 1 January 2021 when the UK leaves the EU's Customs Union and becomes a separate customs territory. NI will continue to follow some EU rules as per the Protocol of Ireland / Northern Ireland.

Main conclusions

- The UK's new tariff closely follows the structure of the EU's MFN tariff.
- Small adjustments have been made to the UK tariff resulting in a marginal reduction (<2%) in the cost of importing groceries and other retail goods from existing MFN suppliers.
- If UK MFN rates are applied to imports from the EU, the government suggests that this will increase import costs as a whole by 5.7%.
- Retail Economics analysis calculates that import costs of agri-food from the EU could rise by 17.6% if new UK MFN rates are applied.
- The new UK MFN tariffs market could result in **£826 million in new costs** for EU goods on the NI market.

Overall shape of UK MFN tariff

The **UK's MFN Tariff Schedule generally follows the structure and contours of the EU's Tariff Schedule**. The UK Tariff Schedule follows the same structure as the EU by using exactly the same commodity codes to classify goods. It also follows the same format because, in the overwhelming majority of cases where the EU currently applies high tariffs, so does the UK; and where the EU applies low tariffs, the UK does too. In general, UK rates mirror or track slightly below EU rates.

Tariff steps

The UK Tariff adopts a simplified set of tariff rates. The ad valorem (percentage) rates used in the UK tariff are now banded as follows: 2%, 4%, 6% etcetera, up to 20%. Above 20% the bands are 25%, 30%, 35% etcetera, up to 50%. Thereafter, tariff steps are 60% and finally 70%.

For the vast majority of individual product headings (Commodity Codes) where the existing EU tariff corresponds exactly to one of these steps, then that tariff rate is simply replicated in the UK Schedule. For example, many EU tariff rates for textile fabrics are 8%, and the corresponding rates in the UK Schedule are also 8%.

There are many **EU tariffs that do not correspond exactly with the UK's tariff steps**. In such cases, the EU tariff rate is **rounded down to the next available step in the UK tariff**. For instance, the EU tariff for frozen fillets of whiting (Commodity Code 0304 79 30) is 7.5% and the corresponding rate in the UK is 6%.

Very low EU tariff rates (i.e. below 2%) are removed altogether in the UK schedule and are set at 0%. This is particularly relevant to the DIY sector, where many products are currently subject to low rates (also known as "nuisance tariffs") in the EU schedule.

Liberalisation of tariffs and other tariff reductions

Rates in the UK tariff for a few products have been liberalized (i.e. set at 0%), even though the corresponding rate in the EU is above 2%. These reductions generally apply to intermediate products that are used as inputs for processing and manufacturing in the UK. Nevertheless, some of these products are also of interest to specific retailers, such as: metal articles, live trees, shrubs and plants (DIY & gardening), flour, some preserved fruits and vegetables, dried beans, saffron, mixed spices, herbs & vermouth (food & drink), some carpeting and flooring products (furniture and flooring), fireworks, photographic paper, and equipment (sports & leisure). In addition, UK tariffs on some rice products have been reduced, but not altogether eliminated (e.g. long grain husked brown rice [1006 20 17] has been reduced from EUR65/tonne to £25/tonne).

"Specific" tariffs for food and drink

Many agriculture and food products are subject to so-called specific tariffs in the EU Schedule. These are tariffs that are expressed as a fixed amount per volume or weight. For some products, these specific tariffs are used alone. For example, processed cheese (0406 30 90) attracts a duty of EUR215/100kg. Other agri-foods attract both an ad valorem duty and a specific duty. For example, beef carcasses (0201 10 00) attract an ad valorem rate of 12.8% and a specific duty of EUR176.80/100kgs. Where the EU uses specific duties, either on their own, or in combination with ad valorem rates, these are largely replicated in the UK tariff.

Where specific duties are used, **a standard currency conversion rate from Euro to Sterling has been applied** in the UK schedule: EUR1 = 0.83687GBP. This is the average exchange rate over a five-year period. Moreover, the corresponding sterling rate for individual specific tariffs is rounded down to the next lowest whole pound.

Other simplifications to the UK tariff

UK agricultural and food tariffs have been further simplified. The EU's Schedule for some agri-food is further complicated by a range of instruments. Tariffs for some fruit and vegetables are determined by the import (Entry) price of the goods. The lower the import price, the higher the rate of duty. In other cases (mainly confectionary and biscuits), the tariff rate varies according to the specific combination of sugar and fat content of that product. Yet for other products, this can vary according to the time of year they are imported. The UK tariff scraps most of these complicated variations, although it retains some tariffs that vary seasonally. In general, these complicated tariffs are replaced in the UK Schedule with ad valorem rates.

What the new EU Tariff means for UK import costs

Existing MFN suppliers

The cost of importing into the UK from existing MFN supplier countries will fall, albeit marginally. There are no examples of higher duty rates in the UK MFN Schedule compared with the EU Schedule, but there are many examples of new UK rates that are slightly lower than those currently applied to imports from MFN suppliers. These lower rates are largely the result of rounding down ad valorem rates to the next lowest UK tariff step and rounding down specific duties to the next lowest whole pound. In the vast majority of cases, rounding down of ad valorem tariffs will result in cuts of less than two percentage points to the tariff rate (as most ad valorem tariffs are less than 20%). However, in a few cases where EU rates are higher than 20%, the corresponding reduction in the UK tariff rate may be more than 2 percentage points. For example, frozen sardines (0303 53 10) are reduced from 23% in the EU Schedule to 20% in the UK Schedule. Interestingly, imports of cigarettes (2402 20 90) enjoy the largest fall in duty because of this shift to simplified tariff bands (reduced from 57.6% in the EU Schedule to 50% in the UK Schedule).

The government states that changes in the UK's new MFN Schedule will result in an **average tariff for all products of 5.7% in the UK, compared with 7.2% in the EU**. It is unclear on what basis the government has derived this figure, but for retail products, where reductions in most tariff lines are quite marginal, a reasonable estimate is that the new UK Global Tariff Schedule will deliver a 10% overall reduction in tariff costs for goods imported from existing MFN suppliers. For consumer goods specifically, this would imply a reduction in the average tariff rate from 9.7% to 8.7%

Warning about tariff averages

A single average tariff figure for all products does not reflect the significant difference in tariff rates from one product area to another. In particular, it fails to reflect the difference in tariffs for 'agri-food' on the one hand, and 'industrial' products on the other. The government report seeks to address this by providing more specific numbers for agri-food.

However, even averages expressed at the sector level can disguise very significant differences in tariff rates for individual products. In sectors where rates vary significantly from one product to another (e.g. food and drink), an average figure is less useful than in sectors where more uniform rates apply across different products (e.g. clothing and footwear). Furthermore, in relation to food and drink, complexities are compounded by the existence of specific duties which are not easily expressed in percentage terms.

Impact of UK MFN tariffs

The application of UK MFN tariff to trade from the EU will have a significant impact on the cost of importing groceries and other consumer goods. For processed agricultural products imported from all MFN sources, the government calculates an average rate of duty in its new Tariff Schedule of 10.6% versus 15.9% in the EU; and for agricultural products, an average rate of 16.1% in its new Schedule versus 18.3% in the EU. **If these rates were to be applied specifically to trade from the EU, Retail Economics calculates that the average tariff cost for agri-food as a whole would be higher at 17.1%.**

Retail Economics derives this average by applying the average EU MFN tariff rate calculated for agri-food to actual EU trade flows to the UK in 2019, then reducing that average by 10% to account for the cumulative effects of rounding down of tariffs, rounding down of sterling to whole pounds, and adjusting for the outdated (low) exchange rate used in generating specific tariffs expressed in sterling.

Impact of "tariff escalation"

The average tariff rates in the UK's MFN Schedule are lowest for raw materials and highest for finished products, a phenomenon known as "tariff escalation". Tariff escalation helps domestic producers by keeping input prices low, whilst keeping the cost of competing imported finished goods high. The most striking example of tariff escalation in the UK's MFN Schedule is in textiles and clothing. The tariffs rates for many yarns are 0%, fabrics are generally 8%, and finished clothing 12%. The principle of tariff escalation has been developed further in the new UK tariff and many intermediate products will be 0%. For example, there are widespread reductions in duty rates for metal components which are aimed at supporting construction in the UK but which will also benefit the DIY sector.

The phenomenon of **tariff escalation also applies to many agri-food supply chains**. For example, imports of most raw oil seeds attract a duty rate of 0%, whereas seeds that have been converted into usable oils attract a rate of 9.6%. Pork carcasses attract a duty of £44/100kg whereas sausages attract a duty of £84/100kg. Fresh gherkins attract a duty of 12% but pickled gherkins attract a duty of 16%. Not all agri-food supply chains follow this pattern. Duties on processed fish products are pretty much the same as fresh fish. There are even a few areas where the principle of tariff escalation is reversed e.g. wheat attracts a duty of £79/tonne (which translates to roughly 50%), flour attracts a duty of £143/tonne (again roughly 50%), but bread faces a duty of only 8%. Nevertheless, these cases are the exception and not the rule. For some products the rate of duty can even vary according to how the product is packaged; with goods packaged for retail sale invariably attracting higher rates of duty than goods packed in bulk (e.g. milk, green tea, palm oil and tinned fruit). It is therefore puzzling that the UK government states that the average UK tariff for agricultural products will be 16.1% and the average tariff for processed agricultural products will be 10.6%.

Specific issues for Northern Ireland

Summary

Goods imported into the UK from the rest of the world and subsequently moved to NI may be liable to the payment of (recoverable) tariffs, especially in cases where UK duty rates are lower than the corresponding rates in the EU.

Payment of recoverable tariffs

Goods from elsewhere in the world may be liable for the payment of recoverable tariffs if they are at risk of being moved onward to the EU via RoI. As in other cases, the UK/EU Joint Committee is responsible for agreeing the precise rules governing this aspect. However, where duty rates for goods entering the UK are significantly lower than duty rates for the same goods (from the same source) in the EU, it is likely the EU will seek to impose collection of (recoverable) duties when those goods move into NI.

Goods from Preferential supply countries

It is possible that the UK will conclude trade agreements with third countries that allow duty free access for goods to the UK market where the same goods would face duties when imported to the EU. Any such goods imported directly to Northern Ireland or moved to NI from elsewhere in the UK may face (recoverable) duties as they enter NI.

Goods from MFN supplier countries

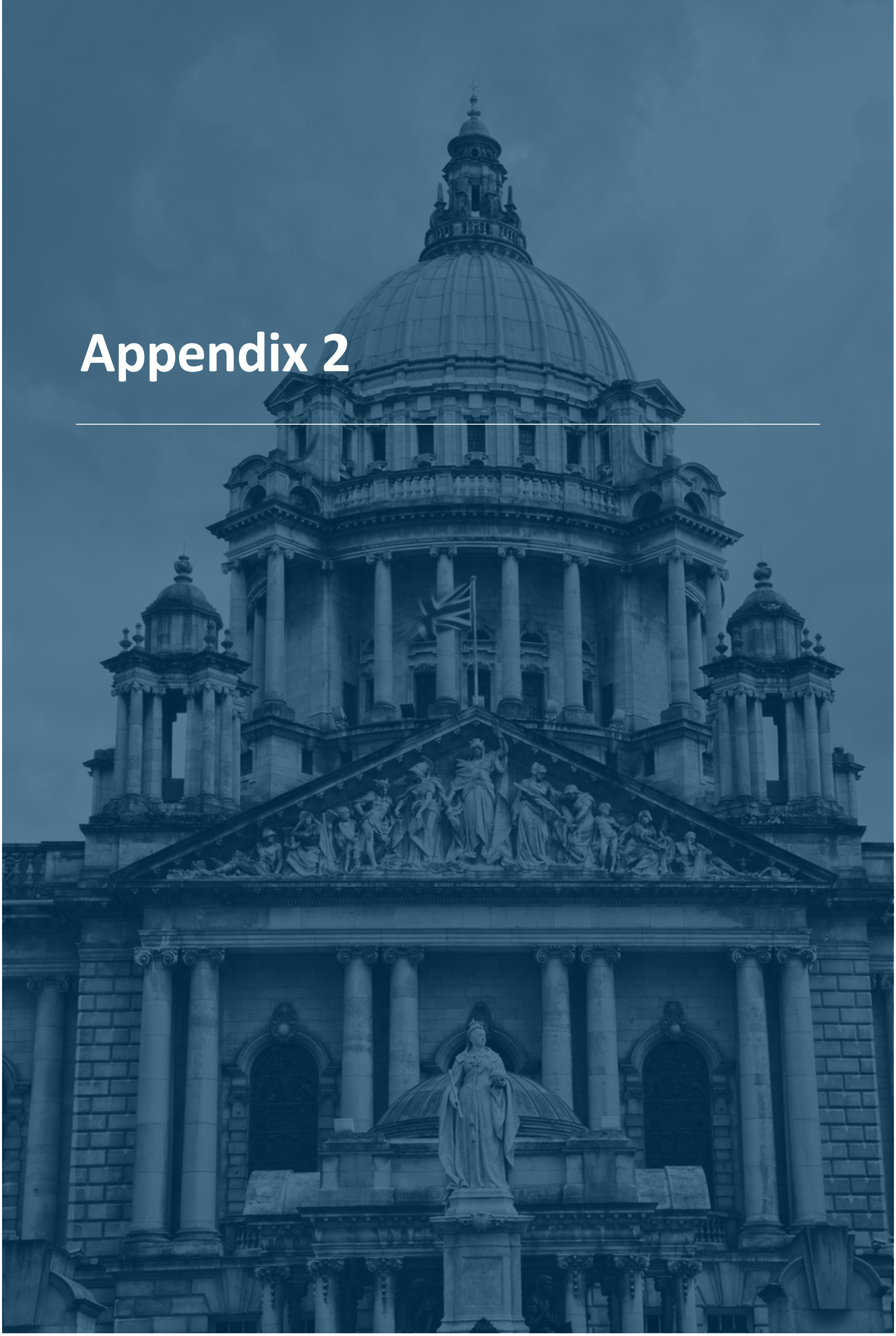
This is dealt with in detail in the first chapter of this report, but in summary, rates of duty for MFN imports into the UK will in many cases be marginally lower than the rates of duty for the same products entering the EU. In these cases the UK/EU Joint Committee will need to take a view as to when the margin of difference is sufficient to justify the collection of (recoverable) duties.

Example of recoverable tariffs – Chinese bicycles

The example of bicycles from China illustrates how the issue of different EU and UK duty rates and recoverable tariffs may arise in practice. Chinese bicycles face a 16% MFN duty when imported into the EU, plus an Anti-dumping duty of around 30%. According to the UK Global Tariff Schedule, the UK will continue to apply an MFN tariff of 16% to bicycles from China, but it will not apply an Anti-dumping duty to these goods. Therefore, Chinese bicycles imported into the UK will enjoy a 30% cost advantage over the same bicycles imported to the EU. As such, there may be an economic incentive to route bicycles into the UK to NI, and then to RoI, whereupon they would be in free circulation. The application of recoverable duties when the goods move from GB to NI would ensure against any trade intended to circumvent EU duties. Naturally, any payment of duties would be recoverable when those goods are sold on the NI market. Duties may not even be required in the first instance if there is sufficient evidence to demonstrate that the goods are not at risk of onward movement to the EU via RoI.

Non-tariff restrictions on goods from the rest of the world

As far as the application of other regulatory requirements is concerned, the **EU may press for any goods entering NI to be subject to exactly the same regime checks as if they had been imported directly into the EU**.



Appendix 2

Implications of the Internal Market Bill on the provision of consumer goods on the Northern Ireland Market

This analysis is based upon the Bill as originally submitted to Parliament and does not take account of any amendment consequent to its passage through Parliament.

This section considers how the Internal Market Bill might affect the provision of consumer goods in Northern Ireland (NI). Due to the scope of work, this is not a legal analysis and makes no attempt to assess the legality of the Bill or its relation to the provisions of the EU Withdrawal Act and the appended Northern Ireland Protocol.

Rather, the analysis attempts to explain the intent of the Internal Market Bill and its consequences for the provision of consumer goods in NI if implemented as described.

The analysis relates only to the provision of consumer goods in NI, and not to the provision of consumer goods originating in NI to other parts of the UK. In particular, the analysis excludes specific provisions in the Internal Market Bill relating to the movement of consumer goods from NI to other parts of the UK.

Summary

The application of the Bill would have very little impact on the rules for the provision of retail goods in NI as agreed in the Northern Ireland Protocol, though it is possible that retail services may be within the scope of proposed new State Aid provision.

In the event of future regulatory divergence between NI and the rest of the UK, the Bill seems to exclude harmonised goods in Northern Ireland from the scope of mutual recognition and non-discrimination principles in that EU Single Market legislation with respect of goods takes precedence. The wording of the exclusion is somewhat vague.

Nevertheless, it is clear that no measures within the Bill would:

1. Restrict the continued free flow of EU goods from the Republic of Ireland (RoI) into NI.

2. Undermine the continued application of existing EU Single Market rules to the provision of EU/NI originating retail goods in NI.

3. Undermine NI retailers' unique advantage in having access to duty free products:

- from the EU via the RoI
- from other parts of the UK
- from other countries that have concluded free trade agreements with the UK provided that these conform to relevant rules in NI.

The Bill allows for the collection of duties (on a recoverable basis) on goods travelling from Great Britain (GB) to NI as provided for by the Northern Ireland Protocol, but reserves the right to determine how the rules should be applied in the event that no other arrangement is agreed.

The principles of mutual recognition and non-discrimination

In relation to the supply of goods in the UK, the Internal Market Bill introduces two over-arching principles:

1. The Mutual recognition principle

The mutual recognition principle means that goods that can be legally sold in one part of the UK can be legally sold everywhere else in the UK, regardless of any local laws ("relevant requirements") which might otherwise restrict the sale of those goods [18].

Article 3 ("Relevant requirements") provides a comprehensive list of the types of local rules and restrictions that are within the scope of the mutual recognition principle. These include:

- Prohibitions restrictions
- Licences and authorisations relating to the sale of products
- Rules about the characteristics and composition of products
- Rules relating to the production of goods, their packaging and labelling
- Identification and tagging of animal products
- Inspections and conformity assessments documentation
- Record keeping requirements
- "Anything (else) which must (or must not) be done before [the goods] are allowed to be sold" (i.e. most of the regulations that make up the body of Single Market rules as defined by Annex 2 the Northern Ireland Protocol).

Mutual recognition and Single Market rules in Northern Ireland

In the context of NI retail, the UK government has indicated that the meaning of Article 11 of the UK Internal Market Bill is that harmonised goods (i.e. those subject to the N.I. Protocol) produced elsewhere in the UK will still need to meet applicable EU standards in order to be sold in N.I., effectively exempting goods sold in N.I. from the principles of mutual recognition and non-discrimination.

General exception to mutual recognition principle

In the context of NI retail, the UK government has indicated that the meaning of Article 11 of the UK Internal Market Bill is that harmonised goods (i.e. those subject to the N.I. Protocol) produced elsewhere in the UK will still need to meet applicable EU standards in order to be sold in N.I., effectively exempting goods sold in N.I. from the principles of mutual recognition and non-discrimination.

Article 4 defines a general exception to the mutual recognition principle, namely **that local laws already in place** when the Internal Market Bill is enacted ***and*** **where no other equivalent rules are in place at the same time across the UK, may still apply to goods from elsewhere in the UK** that are not compliant with these rules. A concrete example would be the specific restrictions on the sale and marketing of fireworks in NI. This restriction would satisfy both conditions of the general exception whereby the rule is already in place, and there are no equivalent restrictions in the other parts of the UK. Therefore, restrictions on the marketing of fireworks in NI would continue to apply to fireworks (and firework suppliers) from other parts of the UK seeking to supply the market in NI.
1 Article 2 (1): "goods…which have been produced in or imported into one part of the UK…and can lawfully be sold there…should be able to be sold in any other part of the UK, free from any relevant requirements that would otherwise apply to the sale.

However, **EU Single Market rules applicable in NI would not be covered by this general exception** because at the time of enactment, the same rules would be in place across the UK by virtue of the application of the EU acquis during the Implementation Period.

Applying the mutual recognition principle in Northern Ireland

UK law is already aligned with EU law in most aspects relating to the sale of goods, thus any future regulatory divergence between the UK and EU will take time to filter through and impact commercial activity in NI.

[18] Article 2 (1): "goods…which have been produced in or imported into one part of the UK…and can lawfully be sold there…should be able to be sold in any other part of the UK, free from any relevant requirements that would otherwise apply to the sale.

Nevertheless, the potential future implications of regulatory divergence for the sale of goods in NI which are not compliant with EU rules are considerable. In order to ensure continued compliance with the terms of the NI Protocol and the Withdrawal Agreement, the Internal Market Bill contains a specific reference to the application of the Internal Market principles to NI:

For provision affecting the application of those principles in relation to the sale of goods in Northern Ireland, see, in particular, the Northern Ireland Protocol and sections 7A, 7C and 8C of the European Union (Withdrawal) Act 2018 (Article 11 Modifications in connection with the Northern Ireland Protocol).

The Northern Ireland Protocol contains an Annex listing all the EU Single Market rules that will continue to apply to NI. Article 7A of the EU Withdrawal Act provides for continuity of application of EU law across the whole of the UK; Articles 7C provides for arrangements to resolve inconsistencies between UK/EU agreements and other UK international agreements; and Article 8C gives the government powers to act through regulation in respect of the Northern Ireland Protocol.

The Bill implies that the body of rules referred to in 7A, 7C and 8C of the EU Withdrawal Act will apply to all harmonised goods in NI regardless of their origin, and the UK government has indicated that this remains their intent. Nevertheless, compared to the other draft provisions of the Bill, the effect of Article 11 with regards the application or otherwise of the mutual recognition principle with regards goods sale in NI is rather vague, and it would benefit traders to have this provision spelt out in clearer terms.

Finally, it is important to note that there are no provisions within this Bill restricting the sale of goods of any origin in NI if those goods comply with local rules (i.e. Single Market) in NI [19].

The principles of mutual recognition and non-discrimination

In relation to the supply of goods in the UK, the Internal Market Bill introduces two over-arching principles:

2. The principle of non-discrimination

The second principle of the Internal Market Bill is **non-discrimination**. This means that "…the sale of goods in one part of the UK should not be affected by [rules] that directly or indirectly discriminate against goods [from elsewhere] in the UK [20].

Application of the non-discrimination principle to UK origin goods arriving in Northern Ireland

The definition here is so broad, meaning it could include regulations imposing checks of authorisations on goods travelling from GB to NI. However, exceptions to the non-discrimination principle would appear to include many, if not nearly all, the checks that are envisaged in relation to trade from GB and NI.

In particular, Article 9 in the Schedule of Exclusions appended to the Internal Market Bill says:

The United Kingdom market access principles do not apply to*… any legislation so far as it imposes, or relates to the imposition of any tax, rate,* ***duty****, or similar charge.*

This would appear that the provisions of the Internal Market Bill could not be used to override any arrangement made in relation to the collection of (recoverable) duties on goods travelling from the UK to NI, although the Bill does empower the government to determine how such duties should apply if an agreement here cannot be reached in the UK-EU Specialized Committee.

[19] Internal Market Bill, Article 12 Sale of goods complying with local law "Nothing in this Part prevents goods produced or imported into a part of the UK from being sold in another part of the UK………. if the sale complies with any requirements applicable in that other part of the UK
[20] Internal Market Bill, Article 5 (1)

Impact of the Internal Market Bill on other regulatory requirements arising from the Northern Ireland Protocol

The impact of the Bill on other potential checks that might apply to GB-NI trade is less definitive. The Schedule of Exceptions allows for checks and restrictions on food and animal feed travelling from GB to NI, but only in tightly defined circumstances and requires risk-based evidence to be effective (for example, to contain an animal disease outbreak). These requirements appear tighter than the precautionary-based rules that otherwise apply in the EU (and therefore NI). Moreover, the Schedule goes on to say that it is either for the Northern Ireland. Assembly or The Secretary of State (depending on who has the legislative competence) to provide the necessary evidence in order for these exclusions to apply.

In reality, it will be for the UK/EU Joint Committee to agree the rules that will apply to the authorisation of trade between GB and NI, and it is unlikely that the UK will agree a regime of checks and authorisations with the EU, and then seek to override these unilaterally through the provisions of the Internal Market Bill. It is more likely that the purpose of these particular provisions in the Schedule of Exclusions is to provide a framework for regulating GB to NI trade, especially for food if an agreement is not reached by the Joint Committee.

The Internal Market Bill would also provide a framework for trade in the event that the Assembly votes down the Northern Ireland Protocol or the Protocol otherwise ceases to apply.

Impact of the Internal Market Bill on EU imports into Northern Ireland

At each stage, the scope of the Internal Market Bill is careful to exclude EU goods arriving on the NI market from RoI. It does not explicitly mention “EU goods” or the “Republic of Ireland”, but the wording of the legislation effectively excludes such products from the scope of the legislation if they arrive directly into NI from RoI and are deemed to be harmonised goods under the scope of EU Single Market legislation. This means that the sale of EU goods would be subject (exclusively) to the local law in NI (i.e. the body of EU Single Market legislation defined in Annex 2 to the Northern Ireland Protocol).

Impact of the Internal Market Bill on goods from origins other than the UK or EU

Both market access principles are constructed in such a way that they would apply equally to goods originating from the UK and goods from elsewhere (provided they are compliant with all relevant local rules applicable to that part of the UK to which they were imported).

Other considerations – State Aid

Although not strictly relevant to the provision of non-NI goods to the NI market, it is worth noting that Part 6 of the Bill introduces wide ranging powers for the government to provide State Aid for a variety of reasons, including economic development. In the House of Lords debate on Second Reading of the Bill on 19 October, Lord True, Minister of State at the Cabinet Office confirmed that there was no intention to override EU rules on State Aid as they will apply in N.I. but made the point that these rules only apply to goods and energy and that they do not apply to services. He said “**Northern Ireland will therefore enjoy new flexibilities with respect to support for its service industries**”. Lord True did not mention retail specifically, however it is widely considered to be a service industry and may therefore qualify for State Aid for the purposes of economic development.

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