Department for the Economy

RetailEconomics

UK Retail Trade Service

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

Summary document

December 2020

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This is a summary document which draws out some of the main conclusions in terms of identifying 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.

This report was finalised prior to the publication of the Northern Ireland Protocol Command paper on 10 December 2020. The full research can be found here: ***Assessing the impact of EU Exit on the cost of retail goods in Northern Ireland***

The research paper is broken down into four main sections.

Part 1: Summary and key findings

This section 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.

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

- European Union (EU)/United Kingdom (UK) Free Trade Agreement (FTA) means no new tariff costs on Great Britain (GB) or EU-originating goods.
- No-deal means GB-originating goods face EU-level tariffs in Northern Ireland (NI). On basis of 2019 trade flows up to £925 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, 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 Republic of Ireland (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%.
- Rest of the World (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.
- Non-tariff regulatory costs are likely on trade from GB to NI even with FTA.
- 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.

Section 2: Summary and key findings

This section 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.

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.

Section 3: Summary and key findings

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.

- 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.

Summary and key findings

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

The main report has two appendices. The first is an assessment and explanation of the UK's new Most Favoured Nation (MFN) tariff schedule which may 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. Please see these for further detail.

- 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.
- 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.
- 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) this option may be particularly useful to food retailers.
- 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.
- 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.

Who we are

Retail Economics is an independent economics research consultancy focusing exclusively on the UK retail and consumer industry. Our subscription service empowers you with a deeper understanding of the key economic drivers supporting the UK retail industry, providing a competitive edge needed to make critical business and investment decisions.

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We provide retail economic insights, data and consultancy services to organisations associated with the UK retail industry.

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