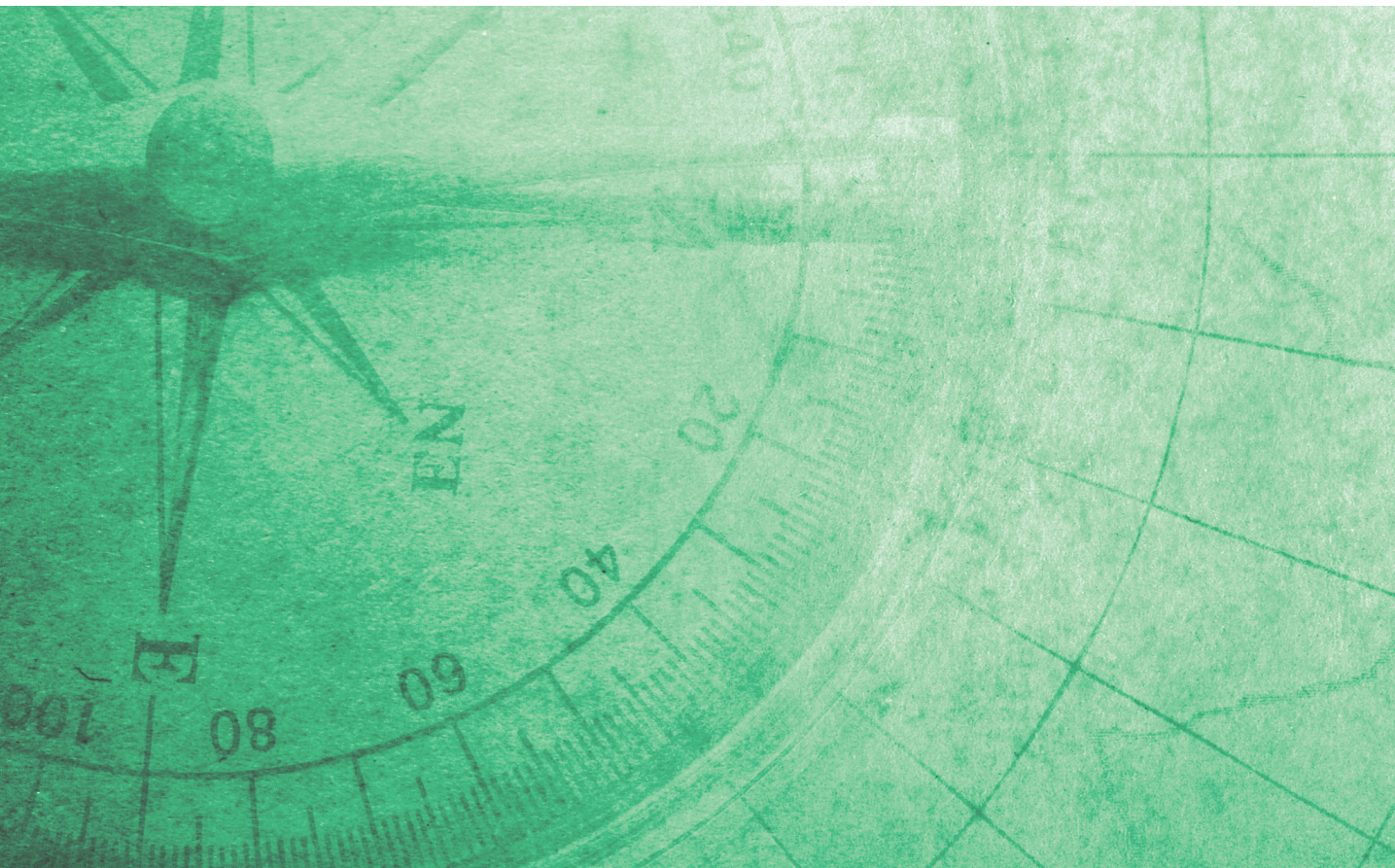




## Navigating the Road Ahead: Beyond Trade Wars and Brexit

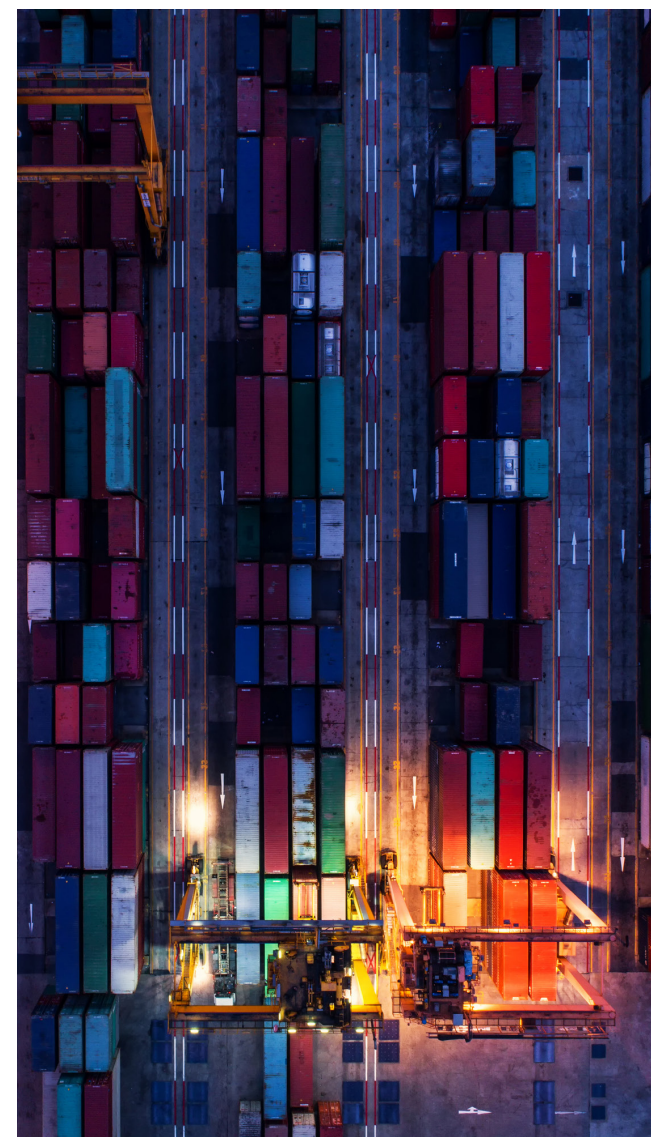
Fourth Quarterly UK Retail Brexit Trade Review – September 2019



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# Introduction: Fourth Quarterly UK Retail Brexit Trade Review

## Welcome to the Fourth Quarterly UK Retail Brexit Trade Review

In appointing his Cabinet, the new Prime Minister Boris Johnson made far-reaching changes that shifted the government decisively towards a rapid conclusion of the Brexit process, potentially leaving on 31 October 2019 without a deal if so required.

However, an alliance of opposition parties and (now former) Conservative MPs opposed to no-deal has passed legislation that will require the prime minister to seek another extension of Article 50 beyond 31 October should no deal be agreed by the EU and the UK.

So, with the Parliament having been prorogued until mid-October, we are still faced with considerable uncertainty, particularly with the unknown outcome of a possible snap election sitting in the background and the outside possibility that the UK may still leave the EU on Halloween.

Companies should continue to prepare no-deal contingency arrangements. Indeed, we have seen a number of retailers publicly setting out their Brexit stall:

On one side of the fence, we have Lord Wolfson, Chief Executive of Next Plc, who says, “better preparations under Boris Johnson have improved the UK’s prospects” and “The encouraging thing is that we are rapidly moving from the gridlock and chaos camp into the well-prepared camp.”

On the other side, we have Lidl’s Irish business confirming that “All existing Lidl contracts contain a DDP (Delivered Duty Paid) clause.” In essence, Lidl has confirmed that its British suppliers will be responsible for additional tariffs in the event of a no-deal Brexit.

In this final edition, we will focus on:

- **Brexit Update** – The risk of a no-deal Brexit on 31 October has been reduced, but has not disappeared. The risk of no-deal at some point in the future remains. At this stage, either leaving with a deal (which would include the implementation period), or a further extension to allow for a UK General Election, look to be the more likely outcomes for 31 October.
- **Practical Steps for UK Retailers to Prepare for a No-deal Brexit** – It is important that plans for a no-deal are put into action now. In planning for no-deal, businesses should:
  - Review all relevant regulatory frameworks and prepare for the immediate loss of automatic EU regulatory approvals in the event of a no-deal exit. Please refer to our Brexit Readiness Guide, published early this year.
  - Prepare for the additional measures that will be required for when personal data is transferred from the European Economic Area (EEA) to the UK and vice versa. The ICO recommends using pre-approved contract terms.
  - Review supply contracts, and logistics and warehousing arrangements.
  - Factor possible increased costs into cash flow projections to mitigate any liquidity issues.
  - Think about the impact of tariff changes and challenges on market competitiveness.
  - Consider timing issues that might be created by border delays in terms of meeting supply and demand.
  - Consider issues that might be created by removing frictionless movement of people and goods.

- **Trade, Customs Duties and Tariffs** – We review 2018 imports and the impact of customs duties on the future cost of tariffs on retail products.
  - A no-deal Brexit would add up to £2 billion on the cost of importing from the EU and Turkey, but would reduce tariff costs on imports from elsewhere by a similar amount.
  - The UK imported around £154 billion of retail products in 2018 – very similar to 2017. The EU’s share of UK retail imports rose from 54% to 55% between 2017 and 2018, continuing a four-year trend towards increased EU sourcing.
  - Volatility in trade relations led to new duties on retail imports of £37 million from the US in 2018, with possibly more to follow.
- **Views From Inside the EU27** – We have insights from:
  - **France** – The French Parliament authorised the government to take any measure relating to the control of goods to and from the UK, including ensuring the continuity of transport of persons and goods through the Channel Tunnel and a temporary regime to ensure facilities and infrastructure are in place, as required.
  - **Spain** – In view of the good relationship between the two countries, the Spanish government aims to maintain the status quo of their mutual commercial relationship and to preserve the rights of UK and Spanish citizens and companies operating cross-border.

- **Poland** – The most important issue for the Polish government is the status of Poles living in the UK, which the government states is dealt with satisfactorily in the Withdrawal Agreement. A key area of focus is to support businesses exporting to and importing from the UK with regard to customs, tariff and regulatory issues, with particular emphasis on customs duty and VAT registration.
- **Germany** – The general principle prevailing in German politics and the economy is still that it favours a potential revocation of the Article 50 notice. The extension to 31 October 2019 has been welcomed.
- **Sector Analysis** – Standard duties would disappear completely on all imports of electricals, health, beauty, DIY, gardening, furniture, flooring, sports, toys and leisure. New duties on imports of food and drink from the EU would be partially (or wholly) offset by reductions in duties on imports of food and drink. A net increase in duties would apply to imports of clothing as a result of new duties on imports from the EU and Turkey.

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# UK Retail Brexit and Trade Summary



# UK Retail Brexit

## What Happens Next?

The Prime Minister promised during the leadership election that he would ensure that the UK left the EU on 31 October, come what may. Unless the government can find a way to circumvent the law Parliament has now passed, his only way to fulfil this promise is to secure a deal and get Parliament to approve it.

This is not impossible; the government is now starting to explore ways to dilute the impact of the backstop arrangements for the Irish border in the existing Withdrawal Agreement, and the EU has said that it is willing to look at new language for the accompanying Political Declaration on the future relationship. The practical deadline for any deal would be the European Council meeting on 17 – 18 October.

Approval of any deal by Parliament would not be straightforward – the Northern Irish DUP would vote against anything resembling the backstop, and around 20 Conservative MPs would vote against more or less any deal, but a number of Labour MPs have indicated that they regret not voting for the Withdrawal Agreement before.

The chances of a no-deal exit on 31 October have reduced substantially, but have not disappeared. It could happen if either the government found a way to circumvent the new law or the EU refused the UK's request. Neither looks likely at this stage. In addition, of course, we could find ourselves facing a similar situation at the end of any extension period agreed.

After a stormy series of meetings, Parliament was duly prorogued on 9 September until 14 October. However, on 11 September, the Edinburgh Court of Sessions ruled that this suspension of Parliament was unlawful because it appeared intended to stymie Parliament's scrutiny of the government's Brexit approach. The case will go to the UK Supreme Court on 17 September – a ruling there against the government would be a serious setback and would cause Parliament to be recalled.

It looks very likely that there will be a UK General Election some time before the end of the year – the government cannot continue to function with no majority.

It is possible that an election would produce a clear Conservative majority, which would allow the Prime Minister to pursue his Brexit policy – renegotiation backed by a real threat of a no-deal exit. However, it is equally possible that an election would produce another hung Parliament (having four parties potentially polling between 20% and 30% would make the election particularly hard to call), in which case, it is hard to see any way out of the deadlock other than another referendum.

The Labour leader has announced that his party would go into the election promising to put a realistic leave option (likely to be based on the existing Withdrawal Agreement) and a remain option to the public in a further referendum.

## What Should You Plan For?

The risk of a no-deal Brexit on 31 October has been greatly reduced, but has not disappeared. The risk of no-deal at some point in the future remains. At this stage, either leaving with a deal (which would include the implementation period), or a further extension to allow for a UK General Election, look to be the more likely outcomes for 31 October.



# UK Retail Brexit and Trade Summary

## Practical Steps for UK Retailers to Prepare for a No-deal Brexit

For retailers and consumer goods firms, the timing of Brexit – seven weeks before Christmas and four weeks before Black Friday – could be a logistical nightmare. At this time of year, available warehousing is at its lowest levels and demand is significantly higher, with the UK Warehousing Association already saying the sector is running full.

With 30% of the food consumed in the UK coming from the EU27, concerns about no-deal in the UK retail sector are so high that Asda, Sainsbury's and Tesco have all issued warnings about food price hikes and empty shelves.

UK businesses have less than three months to plan, but taking practical steps, factoring additional costs into forecasts and planning ahead now may help relieve the financial pressures that failing to plan could otherwise cause. The time to act is now.

### What Issues Face UK Retailers?



#### Trade and Supply Chain Issues

Moving goods may become more costly and difficult, and there is likely to be an immediate interruption to supply as retailers grapple with new UK border requirements and significant delays.



#### UK Borders

The timing of leaving the EU may also have more of an impact, as retailers prepare for Black Friday and Christmas trade. Limited warehousing means there is limited capacity to stockpile goods to mitigate the effect of a no-deal Brexit and to stockpile ahead of a peak trading period.

Retailers need to factor in the possible border delays to ensure they meet contract deadlines and increased consumer demand, and ensure increased costs are accounted for in cash flow projections.

New paperwork, new customs systems and procedures, new permits, new rules and new testing requirements will affect many different industries. The common impacts on all businesses are increased cost and complexity.



#### Tariffs

The administration of new tariffs may also slow down the movement of goods. Further, the imposition of tariffs on exports from the UK (that have previously been tariff free), and the abolition of others, may increase costs and could significantly affect international competitiveness.

Tariffs applied on goods exported from the UK to the EU may make UK businesses less able to compete with their EU counterparts in the EU market.

Equally, the interim tariff plans published by the government earlier in the year, which abolish a number of tariffs, could leave UK businesses challenged by a potential influx of cheap goods.

For many businesses, it will be the first time that tariffs arising on exports to EU member states have been payable in 46 years.

The government remains positive for the UK's future, but is also clear that businesses need to do more to prepare for the impact of Brexit, deal or no-deal.

# UK Retail Brexit and Trade Summary



## What Should Retailers Do?

It is important that plans for a no-deal are put into action now.

In planning for no-deal, businesses should:

- Review all relevant regulatory frameworks and prepare for the immediate loss of automatic EU regulatory approvals in the event of a no-deal exit. Please refer to our Brexit Readiness Guide, published early this year.
- Prepare for the additional measures that will be required for when personal data is transferred from the European Economic Area (EEA) to the UK and vice versa. The ICO recommends using pre-approved contract terms.
- Factor possible increased costs into cash flow projections to mitigate any liquidity issues
- Think about the impact of tariff changes and challenges on market competitiveness
- Consider timing issues that might be created by border delays in terms of meeting supply and demand
- Review supply contracts, and logistics and warehousing arrangements
- Consider issues that might be created by removing frictionless movement of people and goods

Equally, UK retailers should also consider the opportunities that Brexit may create, no-deal or not, and how those opportunities might be exploited to support the growth of the business beyond 31 October.

The short-term impact is likely to be confusing for many retailers, with the potential that some UK exporters will lose market access and some UK retailers will lose product lines. Contingency planning should, therefore, assume the worst, while factoring in that levels of excess stock is not favourable.

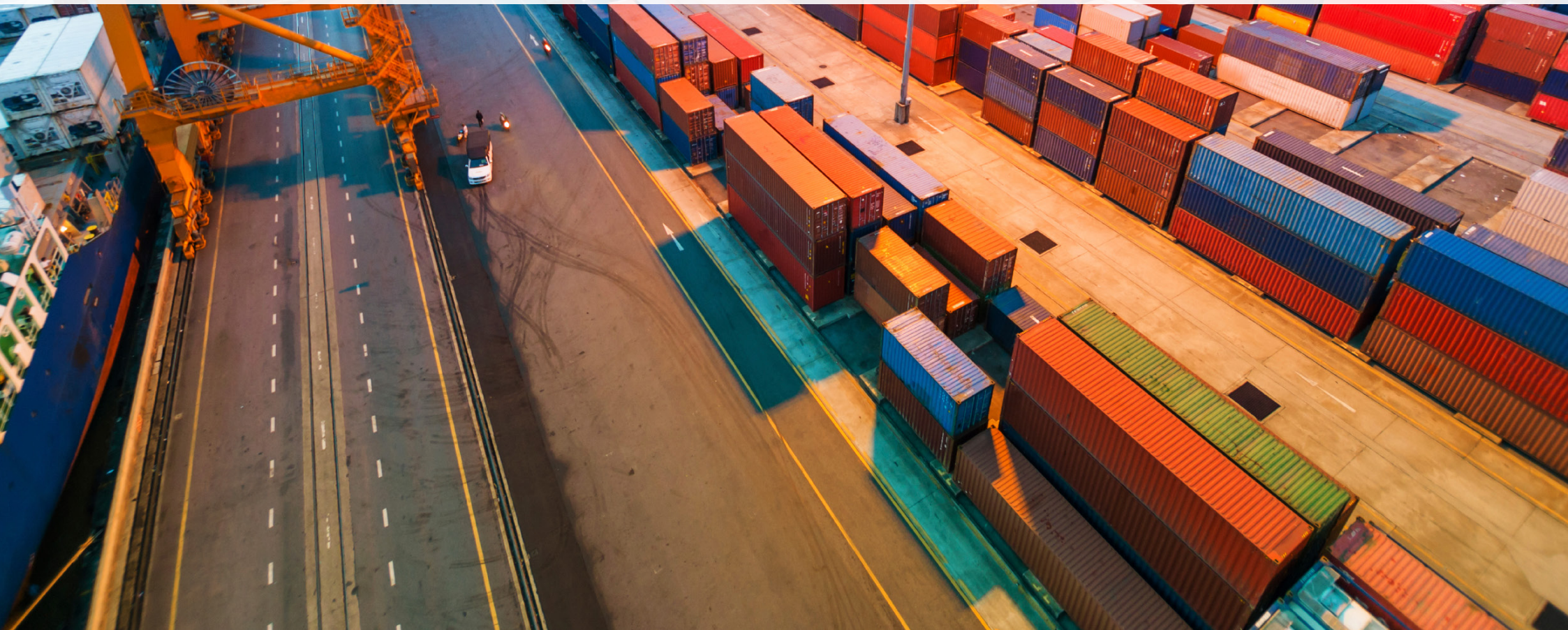
Exit day is not the end of the road or the end of the Brexit discussion. There is a long road ahead for UK businesses and the economy, but if immediate challenges are considered and new opportunities exploited the impact of a no-deal Brexit on UK retailers will hopefully be reduced.







# Trade, Customs Duties and Tariffs



# Trade, Customs Duties and Tariffs

## Executive Summary

### Key Findings

- The UK imported around **£154 billion** of retail products in 2018 – very similar to 2017.
- The EU's share of UK retail imports rose from **54% to 55%** between 2017 and 2018, continuing a four-year trend towards increased EU sourcing.
- Around **£2.5 billion** was paid in customs duties on UK imports of retail products in 2018.
- A no-deal Brexit would add up to **£2 billion** on the cost of importing from the EU and Turkey, but would reduce tariff costs on imports from elsewhere by a similar amount.
- A no-deal Brexit would mean a significant reduction in tariff costs for all non-food retail sectors, except clothing and footwear, where tariff costs would increase.
- Volatility in trade relations led to new duties on retail imports of **£37 million** from the US in 2018, with possibly more to follow.
- Benefits from new trade deals between the EU and Japan, and the EU and Vietnam were slow to yield benefits for UK retailers.

Despite the uncertainty surrounding Brexit, retail imports from the EU continue to grow. The EU's proportion of retail imports has increased year-on-year since the referendum. Furthermore, the largest increases in market share for EU imports are in food, drink and clothing – areas in which tariff rates are anticipated to be highest if a no-deal occurs.

Applying existing standard duties to imports of retail goods from the EU in a no-deal Brexit would add £7.9 billion annually in new costs, subsequently placing upward pressure on prices for consumers. To avoid this outcome, the UK government has announced that in the event of a no-deal Brexit, it would introduce a temporary tariff plan that would reduce the standard rate of duty to 0% for most goods. Duties on certain food categories would be retained, albeit at lower rates, and duties on clothing, bed linen and ceramic tableware would remain at existing rates. This would reduce the no-deal customs bill on retail imports from the EU to circa £2 billion.

Conversely, the reduction in standard duty rates would apply to all countries, resulting in corresponding reductions on duties collected on imports from elsewhere. Imports from China and the US would benefit mostly, with a combined reduction in tariff costs of £1.3 billion per year.

Beyond Brexit, the cost of tariffs on imports from other countries continues to change as a result of new trade agreements with the EU and trade disputes. Such changes will affect UK import costs while the UK stays within a customs union with the EU.

New duties of 25% on a range of goods from the US (notably, whisky, cosmetics and certain clothing) added £37 million, in the second half of 2018, to the cost of importing from the US. Additionally, there is a significant threat of further duties on retail imports if disputes remain unresolved (e.g. steel, cars and subsidies for aerospace). Positive outcomes may arise from a joint initiative launched by US President Trump and EU Commission President Juncker in July 2018 to resolve these disputes in attempts to abolish all tariffs on trade between the EU and the US.

Progress in lowering the cost of trade with other countries has been disappointing. The EU/Japan Free Trade Agreement (FTA) came into force in February 2019, but EU tariffs on key products (e.g. TVs) might take years to lift. The FTA agreed between the EU and Vietnam in 2015 is yet to come into force. On the other hand, the EU and Mercosur recently announced political agreement on a new trade deal, and new negotiations with Australia and New Zealand, launched in 2018, are in progress.

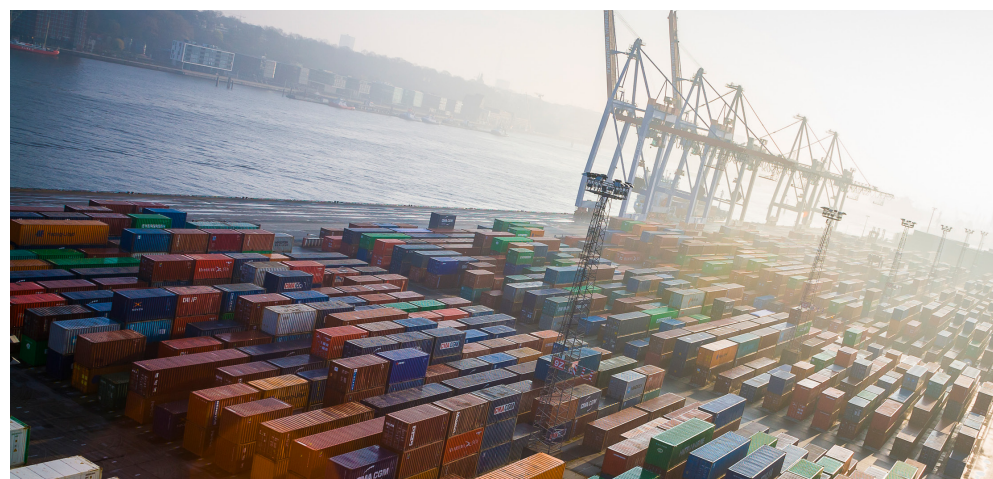
# Trade, Customs Duties and Tariffs

## Review of 2018 Imports and Impact of Customs Duties

### UK Retail Imports 2018

Despite ongoing uncertainty over the UK's future trading relationship with the EU, UK retail imports from it continue to grow. Indeed, the **EU's share of UK retail imports has increased** each year since the referendum, returning to levels recorded in 2014.

| UK Food and Non-food Imports 2018 (£ Million) |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
| Source  | 2014           | 2015           | 2016           | 2017           | 2018           |
| EU  | 72,622         | 71,659         | 77,207         | 83,655         | 85,074         |
| Non-EU  | 59,096         | 63,250         | 67,445         | 70,600         | 69,225         |
| <b>Total</b>                                  | <b>131,718</b> | <b>134,909</b> | <b>144,652</b> | <b>154,255</b> | <b>154,299</b> |
| <b>EU % Share of UK Imports</b>               | <b>55.13%</b>  | <b>53.11%</b>  | <b>53.37%</b>  | <b>54.23%</b>  | <b>55.13%</b>  |



The EU's share of UK retail imports varies significantly within each sector. Goods from the EU dominate UK food and drink with an import market share of 74% in 2018. The EU also dominates health and beauty (69% market share), and DIY and gardening (60% market share). Albeit, non-EU suppliers dominate clothing and footwear, homewares, and sports, toys and leisure.

**Between 2017 and 2018, the EU increased its share of UK imports in most segments**, with significant increases in food and drink, clothing and footwear, and homewares. Nevertheless, the **EU continues to lose its share of UK imports for electricals**, which has declined from 52% in 2014 to 47% in 2018.

| UK Retail Imports by Retail Segment 2018 |                             |                                 |                                 |                                 |   |
|--|-----------------------------|---------------------------------|---------------------------------|---------------------------------|---|
| Retail Segment                           | Imports From EU (£ Million) | Imports From Non-EU (£ Million) | EU % of Total UK Imports (2018) | EU % of Total UK Imports (2017) | Variation in EU Share of UK Imports 2017-2018 |
| <b>Food and Drink</b>                    | 30,169                      | 10,624                          | 74%                             | 72%                             | +2%   |
| <b>Electricals</b>                       | 17,883                      | 20,098                          | 47%                             | 48%                             | -1%   |
| <b>Health and Beauty</b>                 | 12,254                      | 5,405                           | 69%                             | 69%                             | 0%  |
| <b>Clothing and Footwear</b>             | 10,689                      | 16,552                          | 39%                             | 36%                             | +3%   |
| <b>DIY and Gardening</b>                 | 6,869                       | 4,363                           | 61%                             | 60%                             | +1%   |
| <b>Furniture and Flooring</b>            | 4,775                       | 5,163                           | 48%                             | 46%                             | +2%   |
| <b>Sports, Toys and Leisure</b>          | 1,259                       | 3,699                           | 25%                             | 26%                             | -1%   |
| <b>Homewares</b>                         | 1,176                       | 3,351                           | 26%                             | 23%                             | +3%   |
| <b>Total</b>                             | <b>85,074</b>               | <b>69,225</b>                   | <b>55%</b>                      | <b>54%</b>                      | <b>+1%</b>                                    |

# Trade, Customs Duties and Tariffs

## Impact of Customs Duties on UK Imports of Retail Products in 2018

This cost was spread unevenly among imports and differed according to three key variables:

- **Standard (MFN) tariff rates** vary significantly from product to product. At one extreme, most health, beauty, electrical (though not TVs) and IT products are zero-rated. At the other extreme, most food and drink products face significant and sometimes prohibitively high tariffs. For some sectors, significant variation exists within the segment itself (e.g. furniture and flooring compared with clothing and footwear having considerable tariff uniformity).
- Similar products can face different duty rates according to the **origin of that product**. The standard rate of duty only applies to all so-called “MFN” suppliers. These are countries that do not have privileged trading agreements with the EU (e.g. China and the US). Imports from countries that have trade agreements with the EU (e.g. South Africa and Canada) face lower tariffs, as do those from developing countries that benefit from the EU’s Generalised System of Preferences (GSP) scheme (e.g. India and Pakistan). The very poorest of these (e.g. Cambodia and Bangladesh) face no tariffs at all.
- A third variable is **additional duties**. Additional duties are quite rare and apply to specific products from specific countries – **these are in addition to standard customs duties**. In 2018, imports of bicycles from China and Indonesia (and ceramics from China) faced additional Anti-dumping duties, typically around 30%. From July 2018, additional duties of 25% were applied to whisky, clothing and US cosmetics. These newly introduced duties resulted in an additional circa £63 million to the customs bill for UK retail imports in 2018.

| Estimated Cost of Tariffs on UK Retail Imports 2018 |   |                                    |   |   |
|---|---|------------------------------------|---|---|
| Retail Sector                                       | Value of UK Imports From Non-EU Sources (£ Million) | Average MFN Tariff Rate for Sector | Estimated Cost of Standard Tariffs 2018 (£ Million) | Estimated Cost of Additional Tariffs 2018 (£ Million) |
| Food and Drink                                      | 10,624  | 22%                                | 500   | 19 (US)   |
| Electricals   | 20,098  | 3%                                 | 571   |   |
| Health and Beauty                                   | 5,405   | 1%                                 | 25  | 12 (US)   |
| Clothing and Footwear                               | 16,552  | 11%                                | 815   | 5 (US)  |
| DIY and Gardening                                   | 4,363   | 2%                                 | 60  |   |
| Furniture and Flooring                              | 5,163   | 6%                                 | 173   |   |
| Sport, Toys and Leisure                             | 3,699   | 4%                                 | 134   | 1 (US)<br>4 (China)                                   |
| Homewares   | 3,351   | 6%                                 | 150   | 22 (China)  |

Around £2.5 billion was paid in customs duties on UK imports of retail products in 2018.

# Trade, Customs Duties and Tariffs

## The Future Cost of Tariffs on Retail Products

At present, the UK's long-term trading relationship with the EU is uncertain, but for the next couple of years, one of two likely scenarios will emerge: (1) the UK remains within the EU's customs union (on a temporary or permanent basis); or (2) the UK leaves the EU without a deal, and trade reverts to MFN terms. This section considers the potential impact of these scenarios on tariff costs for retail imports over the next two years. Other outcomes are possible, although none are likely to be negotiated and implemented within two years.

### Scenario 1: No-deal/WTO Brexit

**A no-deal Brexit would add up to £2 billion in tariff costs on imports of retail products from the EU and Turkey.**

In our spring 2018 report, we calculated that a no-deal/WTO Brexit could cost £7.8 billion in additional customs duties on imports from the EU (assuming the UK would apply its MFN tariff rates at current levels, as government indicated). However, in early 2019, as part of its no-deal preparations, the UK government published a temporary tariff plan, which would see most tariffs reduced to 0% in the event of a no-deal Brexit. These **new, lower rates would apply to all MFN suppliers (including the EU) on a temporary basis** with the option of reverting to higher rates in the future.

### Scenario 2: Customs Union

As long as the UK remains within the customs union, the cost of tariffs on UK imports of retail products will be determined by EU trade policy. This policy is constantly evolving, resulting in changes to the rates of duty for certain countries. This section summarises the key developments in EU trade policy relevant to UK retail, and assesses the likely impacts to tariff costs on retail imports.

## Scenario 1: No-deal/WTO Brexit

### Impact on Trade With the EU and Turkey

According to the temporary tariff plan, most retail imports would enter the UK duty-free regardless of their source. Duties would continue to apply to some food and drink, but generally at much lower rates. Existing tariff rates would be maintained only for lamb, clothing, bed linen and ceramics. Applying these new duty rates would add up to an estimated **£2 billion in new tariff costs on imports from the EU and a further £150 million on imports from Turkey** (both becoming MFN suppliers to the UK in the event of a no-deal Brexit).

### Impact on Existing MFN Suppliers

The temporary tariff plan would reduce tariff costs on imports from existing MFN suppliers. **The annual tariff bill on imports of retail products from China and the US alone could fall by around £1.3 billion.** Standard duties would disappear completely on all imports of electricals, health, beauty, DIY, gardening, furniture, flooring, sports, toys and leisure.

### Impact on Existing Preferential Suppliers

Certain countries hold trade deals with the EU that entitle entry of goods to the UK at discounts to the standard rate of duty. The UK Department for International Trade has sought to extend these agreements to the UK post-Brexit. So far, **Korea, Chile, Norway and Switzerland have all signed continuity agreements with the UK**, which will keep existing arrangements in place after Brexit. This results in no additional tariff costs for imports from these countries. In fact, tariff costs on imports from countries with preferential deals will decrease in instances where duty rates in the temporary tariff plan are below the preferential rates set in bilateral agreements.

**Canada, South Africa and Japan have not signed continuity agreements with the UK.**

Therefore, imports would revert to MFN terms in a no-deal Brexit scenario. This might increase duty costs on imports of meat and dairy from Canada. Conversely, imports from South Africa and Japan are unlikely to see any increase in duties, as their main trade categories (Japanese electronics, and South African fruit and wine) will be duty-free under the new temporary tariff plan.

# Trade, Customs Duties and Tariffs

**India, Vietnam, Indonesia, Sri Lanka, Pakistan, Bangladesh and Cambodia all receive preferential tariff access to the UK as developing countries.** The UK has already pledged to maintain the same overall level of benefits in any national GSP scheme and has guaranteed continued duty-free access for all imports from least developed countries (e.g. Bangladesh and Cambodia). This would mean no increase in tariff costs on imports from these countries and, in some cases, reductions where the new temporary tariff plan sets rates below the preferential rates for individual GSP beneficiaries.

## Impact of No-deal Brexit on Tariff Treatment for Preferential Trade Partners

| Trading Partner   | Trading Regime   | Impact on Duties Collected   |
|---|--|--|
| Chile, South Korea, Norway, Switzerland                     | FTA<br>Signed continuity agreements with the UK  | No increase in any duty rates.<br>Reduction in duty costs where the new temporary tariff plan sets rates below preferential rates in FTAs.   |
| Canada  | FTA<br>Not signed continuity agreement   | Canada would revert to MFN supplier.<br>Most imports would be duty-free under the new temporary tariff plan, although new duties may apply to some meat and dairy.   |
| Japan, South Africa   | FTA<br>Not signed continuity agreements  | Japan and South Africa would revert to MFN suppliers. However, they are unlikely to face significant new duties because main trade categories would be duty-free under the new temporary tariff plan.<br>Reduction in duties on TVs from Japan because the duty rate is lower in the new temporary tariff plan than in the EU/Japan agreement. |
| India, Pakistan, Indonesia, Sri Lanka, Bangladesh, Cambodia | GSP<br>Government pledged to establish a national GSP scheme at least as generous as the existing scheme | No new tariff costs, as the UK maintains at least existing levels of preference.<br>Duties on imports from India, in particular, would fall where its preferential tariff rate is higher than the rate in the new temporary tariff plan.   |



# Trade, Customs Duties and Tariffs

## Existing and Future Tariff Costs for Top 10 Suppliers to UK Retail Market

| Country                 | Current Trade Regime      | Duties Paid 2018  | Impact of No-deal Brexit on Tariff Costs  |
|-------------------------|---------------------------|-------------------|---|
| EU                      | Customs Union             | 0                 | <ul style="list-style-type: none"> <li>Estimated total of up to <b>£2 billion in new tariff costs</b>, including:                             <ul style="list-style-type: none"> <li>– Up to £1 billion on clothing imports</li> <li>– Up to £1 billion on imports of food (mainly meat and dairy)</li> </ul> </li> </ul> |
| China                   | MFN                       | £1.5 billion      | <ul style="list-style-type: none"> <li><b>Reduction in tariff costs of around £900 million</b></li> <li>Remaining tariffs mainly on clothing</li> <li>Anti-dumping duties on bicycles would disappear, but Anti-dumping duties on ceramic tableware would remain</li> </ul>   |
| US                      | MFN                       | £330 million      | <ul style="list-style-type: none"> <li>MFN tariff bill on imports from the US would <b>reduce by around £280 million</b></li> <li>Unclear whether existing additional tariffs of 25% on imports of food and drink (including whisky), and clothing would continue</li> </ul>  |
| Turkey                  | Customs Union             | 0 on all non-food | <ul style="list-style-type: none"> <li>New duties would apply to imports of clothing and ceramics, <b>totalling £150 million in new duty costs</b></li> </ul>   |
| Vietnam                 | GSP                       | £166 million      | <ul style="list-style-type: none"> <li><b>Reduction in duties of around £80 million</b></li> <li>Vietnam is likely to continue to enjoy modest discounts on tariff rates for fish and clothing via the UK GSP programme</li> </ul>  |
| India                   | GSP                       | £200 million      | <ul style="list-style-type: none"> <li><b>Reduction in duties of around £50 million</b></li> <li>India trades heavily in categories where the UK intends to maintain tariffs – clothing, bed linen, and ceramics</li> </ul>   |
| Bangladesh and Cambodia | Everything But Arms (GSP) | 0                 | <ul style="list-style-type: none"> <li><b>No change</b> – the UK committed to maintain across-the-board tariff-free treatment for all imports from least developed countries</li> </ul>   |
| Hong Kong               | MFN                       | £175 million      | <ul style="list-style-type: none"> <li><b>Reduction in tariffs of around £90 million</b> largely due to elimination of duties on electrical products</li> </ul>   |
| Japan                   | FTA                       | £16 million       | <ul style="list-style-type: none"> <li>Almost all existing tariffs would be eliminated, resulting in a <b>reduction in tariff costs of £16 million</b></li> </ul>   |

# Trade, Customs Duties and Tariffs

## Scenario 2: Customs Union

### New Costs on Imports From the US

Trade relations between the EU and the US are currently very volatile and have led to significant changes in duties for some imports of retail products. Further changes can be anticipated over the next two years, with possible threats of new duties and opportunities for lower duties emerging.

### Main Developments in EU/US Trade

#### Steel Dispute

**£340 million of UK retail imports from the US are currently affected by extra duties.**

On 22 June 2018, the EU applied extra customs duties of 25% to US\$3.2 billion of EU imports from the US, including to a range of food and non-food retail products. These new duties placed new costs of £37 million on UK retail imports (mainly whisky, cosmetics and some clothing) in the second half of 2018.

UK imports of affected products fell by 19% compared with the corresponding period in 2017.

The additional duties remain until the EU and the US resolve their steel trade dispute. If unresolved, the EU will apply duties on a new list of products from 23 March 2021. Although this new list contains fewer food and drink products, it contains more non-food retail products (including ceramics, footwear and a wider range of textiles and apparel). For many products on the replacement list (including apparel and ceramics), the additional duty rate will be 50% – not 25%. Predicated on 2017 UK import data, we calculate these new duties will cost UK retailers £117 million per annum.

#### Boeing/Airbus Dispute

**The EU has threatened new duties on UK retail imports from the US worth £550 million per annum.**

On 17 April 2019, the EU published a list of US products potentially facing additional customs duties if an aerospace industry dispute concerning subsidies is not resolved. These new duties would add additional costs, in the form of customs duties, of up to £550 million on UK retail imports. Additional duty rates could be as high as 100%.

The aerospace subsidies dispute dwarfs the steel dispute. The list of potentially affected products from additional duties is much longer and contains numerous retail products: fish, vegetables, fruit, oils and fats, cocoa and chocolate, nuts, fruit juices, wine, luggage and bags, bicycle parts, toys and games.

However, these new duties are unlikely to be effectual before March 2020 because of numerous procedural steps the EU must implement first.

#### Automotive Dispute

**Further EU tariffs worth US\$10 billion could be applied to imports from the US if talks to resolve their automotive dispute fail.**

In May 2018, the US threatened to apply blanket tariffs of 25% on imports of all cars on national security grounds. With EU vehicle exports to the US worth around US\$40 billion in 2018, European car manufacturers would be exposed to extra customs duties of US\$10 billion. The EU, together with other major auto exporters, said that if the US proceeded with these tariffs, it would have no option but to retaliate (most likely in the form of additional duties on imports from the US).

So far, the US has refrained from applying these new tariffs to imports from the EU and has said that it will not apply them as long as the EU and the US are in trade negotiations. However, if negotiations fail, there is a real prospect that the US would apply additional duties, triggering swift retaliation from the EU.

Although the EU has not yet published a list of products subject to possible additional retaliatory duties, historically, it is reasonable to assume it will include at least some retail products.





# Trade, Customs Duties and Tariffs

## EU/US Trade Talks

**New trade talks between the EU and the US to resolve disputes may lead to the removal of all tariffs on non-food imports from the US.**

On 25 June 2018, EU Commission President Juncker met US President Trump to discuss trade issues. This was against a background of new US tariffs on steel, EU retaliation to these tariffs and the threat of further US tariffs on cars. After the meeting, a joint statement was issued whereby the opposing sides resolved, “to work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods” and “to resolve the steel and aluminium tariff issues and retaliatory tariffs”. They established a joint Working Group to forward matters.

The negotiations between the EU and the US have not begun in earnest, and there is already a disagreement on the scope of the talks – the US wants to negotiate reductions on food and drink tariffs, but the EU does not.

Eliminating all tariffs on imports from the EU would save around £300 million in standard (MFN) duties on non-food and £34 million in standard duties on food and drink, together with the removal of additional duties related to trade disputes.

## EU/Japan FTA Now in Force

**A new FTA between the EU and Japan entered into force on 1 February 2019.** This will eventually eliminate relatively low duties paid on UK imports of retail products (around £16 million annually). The agreement reduces most non-food tariffs on imports from Japan to 0%, with immediate effect. However, for “sensitive” products, tariff reductions are being staggered over a period of years. For example, the EU standard MFN duty rate for televisions is 14% and the new rate for Japan is 12.7%, which will be gradually reduced to 0% on an annual basis over a 10-year period.

## EU/Vietnam FTA Still Not in Force

**The EU and Vietnam concluded an FTA in December 2015. The agreement is not yet in force,** requiring formal ratification by the European Council and the European Parliament. This clearance is expected during 2019, which will pave the way for the agreement to come into force by the end of this year.

The agreement will remove almost all non-food tariffs on imports from Vietnam, eventually saving annual duty costs of £166 million on imports to the UK, though for many products (including clothing and footwear), tariff reductions will be incurred gradually over a period of up to seven years. More limited reductions to tariffs for food and agriculture will also be announced.

In 2018, the UK imported £3.46 billion of non-food retail products (£3.71 billion in 2017) and £349 million of food (£403 million in 2017) from Vietnam. Currently, as a beneficiary of the EU’s GSP scheme, imports of most goods from Vietnam already enjoy lower rates of duty than the standard MFN rate.

## EU FTA Negotiations With Australia and New Zealand Opened

**The EU formally opened free trade negotiations with Australia and New Zealand in 2018.** If successful, the talks will lead to an FTA, eliminating customs duties on most imports. However, in line with all other EU FTAs, the EU envisages maintaining duties in some “sensitive areas”, which in the case of New Zealand and Australia is likely to include agricultural products.

Typically, EU FTA negotiations take a minimum of four years to conclude, often longer. It is, therefore, unlikely that these particular negotiations will result in lower tariff costs within the next two years.

## EU/Mercosur Negotiations Finally Reach Agreement

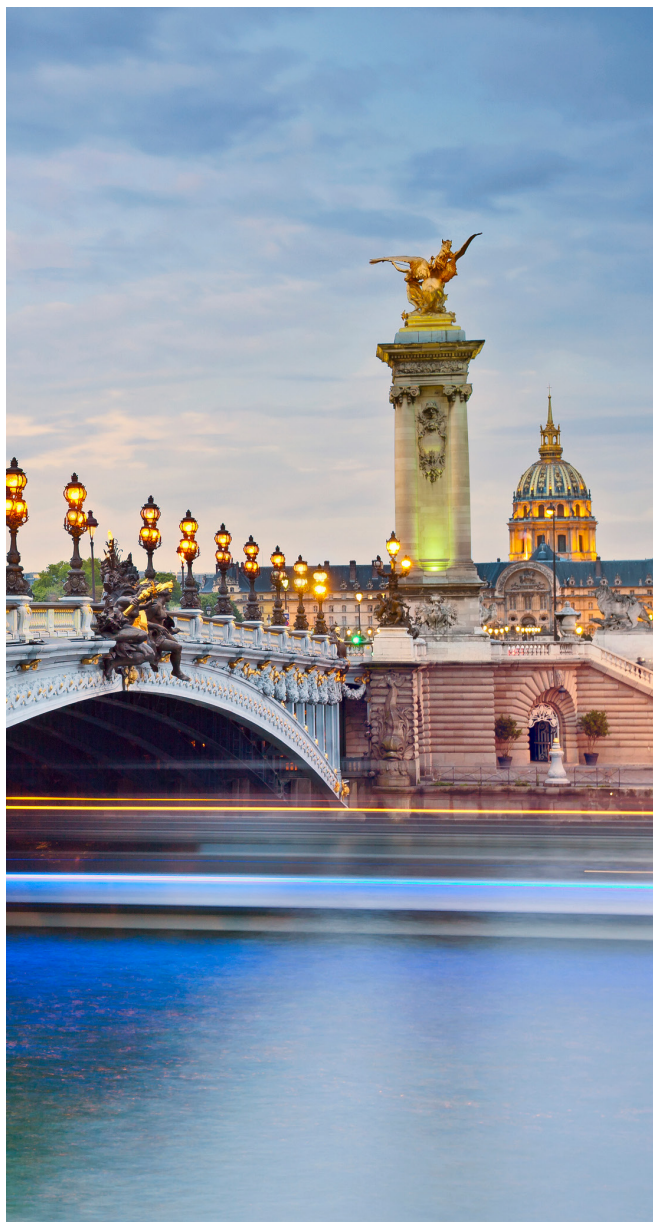
**The EU and Mercosur announced political agreement on an FTA on 29 June 2019,** after 38 rounds of negotiation, launched in 2010. The FTA will lead to significant reductions to duty rates for food and drink from Brazil and Argentina, including improved access for Mercosur to the EU for agricultural production, including beef.



The background features a blue textured surface with yellow stars arranged in a circle, resembling the European Union flag. A white, torn-edged cutout of the United Kingdom is positioned in the center, overlapping the stars. A white horizontal band is placed across the middle of the image, containing the text.

# Views From Inside the EU27

# Views From Inside the EU27



## France

The French Parliament authorised the government to take measures – known as orders (ordonnance) – that should otherwise be taken pursuant to law, in order to map out the consequences of a no-deal Brexit. The government had either six months or a year to pass those orders, following publication of the law.

The government was authorised to take any measure relating to the control of goods to and from the UK and relating to the administrative status of legal entities established in the UK and carrying out business in France. The orders define the conditions pursuant to which economic activities related to the UK and goods flowing to and from the UK can carry on.

The orders provide, in some instances, pragmatic adjustments to existing French legislation, unusual exemptions and simplified administrative procedures and shorter delays to allow regularisation of the status of corporates or individuals concerned.

By way of example, the orders cover the following matters:

- To preserve the interests of France and the status of French citizens and other persons whom European legislation protects
- A simplified temporary procedural regime is envisaged to enable the carrying out of works needed to build, modify or develop, with a degree of urgency, premises, facilities or port, train, airport or road infrastructures, as required to re-establish a control of goods to and from the UK
- Continuity of the transport of persons and goods between France and the UK through the Channel Tunnel
- Access of French entities to interbanking payment and settlement and delivery systems of third-party countries (including, of course, the UK) by ensuring the final nature of transactions effected through these systems



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# Views From Inside the EU27

## Germany

German legislators have adopted a number of Acts of Parliament in relation to Brexit, both on the federal level and on the level of the 16 German states.

The so-called *Gesetz zu den Übergangsregelungen in den Bereichen Arbeit, Bildung, Gesundheit, Soziales und Staatsangehörigkeit* was adopted on 8 April 2019 and regulates the no-deal scenario in the areas of employment, education, health, social matters and nationality.

The general principle prevailing in German politics and the economy is still that it favours a potential revocation of the Article 50 notice. The extension to 31 October 2019 has been welcomed. However, there is a growing tension that the ultimate decision to be taken in the UK whether (1) Article 50 is revoked, (2) Britain leaves with a deal or (3) Britain leaves with no-deal should be taken sooner rather than later in order to avoid further uncertainty for businesses and residents.

The current Brexit uncertainty is having an effect on driving competitors out of business, in particular airlines and affected businesses. An airport in northern Germany, for example, declared insolvency because of (among other reasons) FlyBMI going out of business. Such vulnerable businesses are, therefore, being circled by opportunistic investors.



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# Views From Inside the EU27



## Poland

Poland's government strongly favours a Brexit on the basis of the Withdrawal Agreement and is against a no-deal Brexit. The most important issue for the Polish government is the status of Poles living in the UK, which the government states is dealt with satisfactorily in the Withdrawal Agreement. If there were a no-deal Brexit, Poland's prime minister has announced that he has an understanding with the UK government that would protect the rights of Poles living in the UK.

Further, the government has set aside an additional PLN 1.5 billion (circa £304 million/€350 million) in the 2019 budget to pay for the expected increase in member state allocations payable to the EU.

A key aspect is that following Brexit on the basis of the Withdrawal Agreement, Poland's business with the UK will be regulated on the same basis as that of other EU member states. Thus, the vast majority of the advice provided to Polish businesses is to keep up to date on the guidance issued by the European Commission.

The key areas of focus for Polish businesses are:

- **Data transfer** – Prepare for dealing with the transfer of personal data to the UK.
- **Exporting and importing** – Support for firms exporting to and importing from the UK with regard to customs, tariff and regulatory issues, with particular emphasis on customs duty and VAT registration.
- **Immigration status of UK nationals in Poland** – A third Polish Brexit bill, passed on 15 March 2019, provides that British nationals residing in Poland will have 12 months from the date of a no-deal Brexit to confirm their rights by obtaining a temporary residence permit or permanent residence. The right to apply will be granted to all British nationals and their family members who had been legally residing in Poland until the day of the UK's withdrawal from the EU.
- **Pharmaceutical companies** – Follow updates from the European Commission regarding the registration of medicinal products  
Export of agricultural products, plants and plant products to the UK.
- **Real estate** – Polish law restricts the acquisition of real property, as well as stakes in companies holding title to real property, obliging foreigners to obtain a permit for such transactions. The law provides that EEA businesses are exempt from such restrictions. If the UK ceases to be a member of the EEA, UK citizens and UK businesses will be subject to restrictions while investing in real property in Poland, as well as acquiring shares in many companies.



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# Views From Inside the EU27

## Spain

In March 2019, the Spanish government adopted a set of contingency measures in case the UK leaves the EU without reaching an agreement.

In view of the good relationship between the two countries, the Spanish government aims to maintain the status quo of their mutual commercial relationship and to preserve the rights of UK and Spanish citizens and companies operating cross-border.

Spain represents a core market for major UK investors that see opportunities in the Spanish renewable markets, real estate investments and a wide range of industries including retail and professional services sectors.



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# Sector Analysis



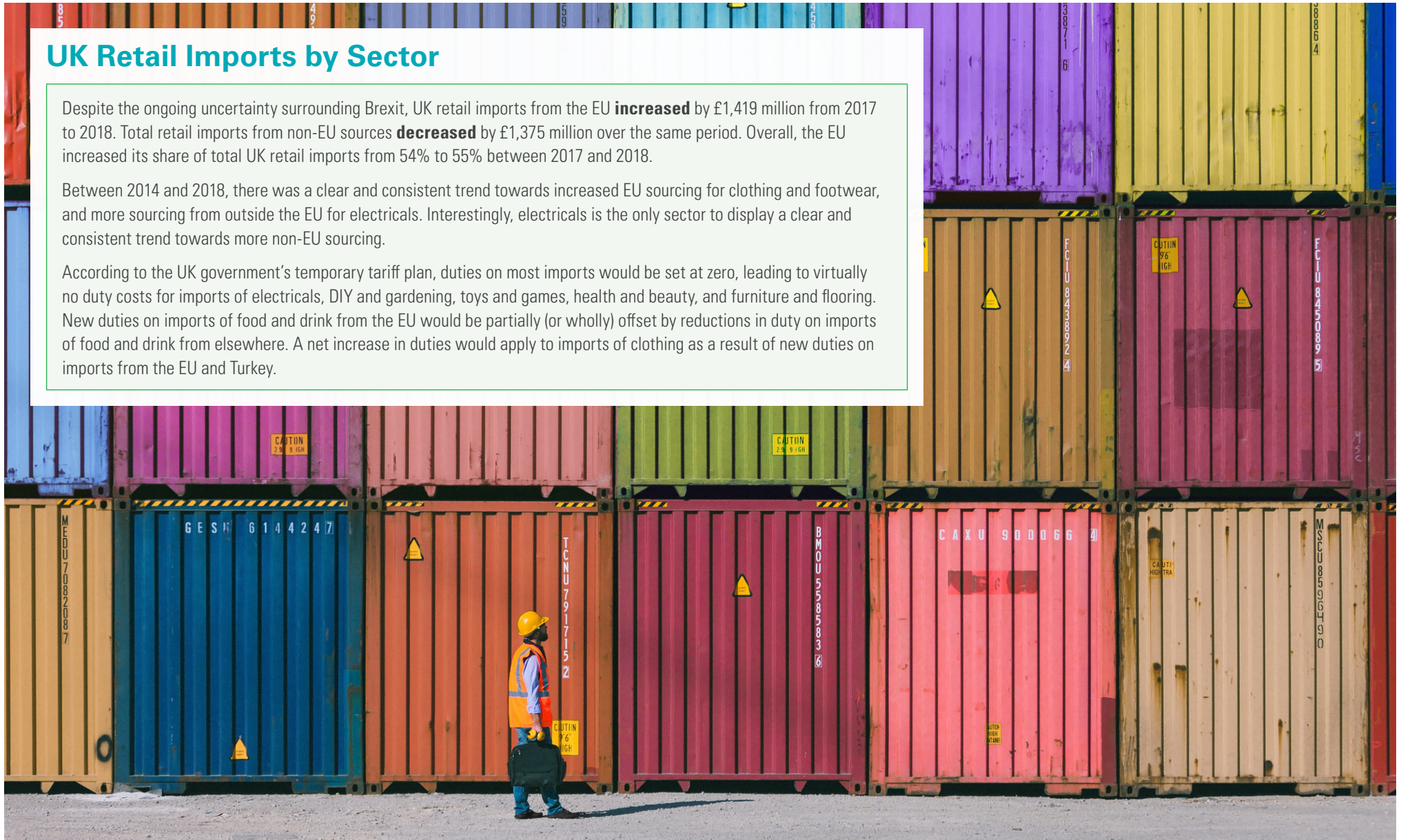
# Sector Analysis

## UK Retail Imports by Sector

Despite the ongoing uncertainty surrounding Brexit, UK retail imports from the EU **increased** by £1,419 million from 2017 to 2018. Total retail imports from non-EU sources **decreased** by £1,375 million over the same period. Overall, the EU increased its share of total UK retail imports from 54% to 55% between 2017 and 2018.

Between 2014 and 2018, there was a clear and consistent trend towards increased EU sourcing for clothing and footwear, and more sourcing from outside the EU for electricals. Interestingly, electricals is the only sector to display a clear and consistent trend towards more non-EU sourcing.

According to the UK government's temporary tariff plan, duties on most imports would be set at zero, leading to virtually no duty costs for imports of electricals, DIY and gardening, toys and games, health and beauty, and furniture and flooring. New duties on imports of food and drink from the EU would be partially (or wholly) offset by reductions in duty on imports of food and drink from elsewhere. A net increase in duties would apply to imports of clothing as a result of new duties on imports from the EU and Turkey.





# Sector Analysis: Food and Drink



The total UK imports of food and drink declined by £663 million from 2017 to 2018, although imports from the EU increased by £134 million.

Vietnam and India (formerly top 10 suppliers to the UK in 2017) dropped out of the list, replaced by Australia and Turkey.

The EU has increased its share of UK imports from 72% to 74%, increasing UK retail's exposure to potential new tariffs in the event of a no-deal Brexit. Applying existing trade-weighted average MFN tariffs for food and drink of 22% would result in new tariffs of £6.64 billion. However, applying the tariff rates announced for a no-deal Brexit would reduce this amount to around £1 billion, a significant reduction. Only lamb would continue to attract the current level of MFN duty.

**Key changes:** A new 25% duty on imports of whisky from the US. The EU/Mercosur agreement will lead to a phased reduction in duty rates for South American agricultural produce, including beef.

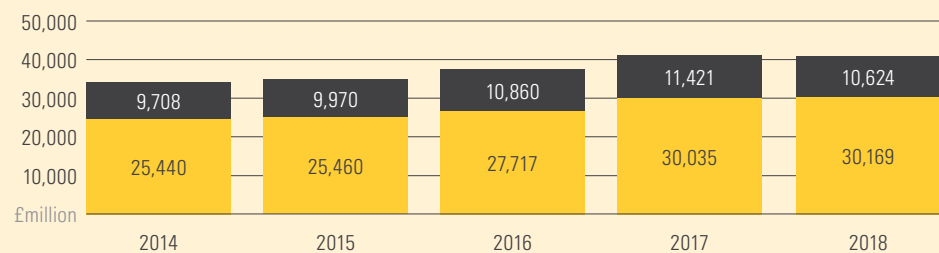
## Top 10 Suppliers to UK Market – Food and Drink

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | % of Total Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|-------------------------|
| EU                             | 30,035                   | 30,169                   | +134                            | 74%                     |
| US                             | 1,125                    | 1,073                    | -52                             | 2.6%                    |
| South Africa                   | 710                      | 727                      | +17                             | 1.8%                    |
| Thailand                       | 692                      | 694                      | +2                              | 1.7%                    |
| New Zealand                    | 639                      | 612                      | -27                             | 1.5%                    |
| China                          | 587                      | 542                      | -45                             | 1.3%                    |
| Chile                          | 481                      | 483                      | +2                              | 1.2%                    |
| Brazil                         | 541                      | 457                      | -84                             | 1.1%                    |
| Turkey                         | 386                      | 411                      | -25                             | 1.0%                    |
| Australia                      | 365                      | 361                      | -4                              | 0.9%                    |

## UK Retail Imports – Food and Drink

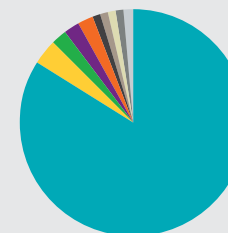
| £ Million     | 2014   | 2015   | 2016   | 2017   | 2018   |
|---------------|--------|--------|--------|--------|--------|
| Total Imports | 35,148 | 35,430 | 38,578 | 41,456 | 40,793 |
| EU            | 25,440 | 25,460 | 27,717 | 30,035 | 30,169 |
| Non-EU        | 9,708  | 9,970  | 10,860 | 11,421 | 10,624 |
| EU Share      | 72%    | 72%    | 72%    | 72%    | 74%    |

## Imports by EU and Non-EU



■ EU ■ Non-EU

## Top 10 Markets



\*Does not include the rest of the world

|                 |              |
|-----------------|--------------|
| 74% EU          | 1% China     |
| 3% US           | 1% Chile     |
| 2% South Africa | 1% Brazil    |
| 2% Thailand     | 1% Turkey    |
| 2% New Zealand  | 1% Australia |

# Sector Analysis: Electricals

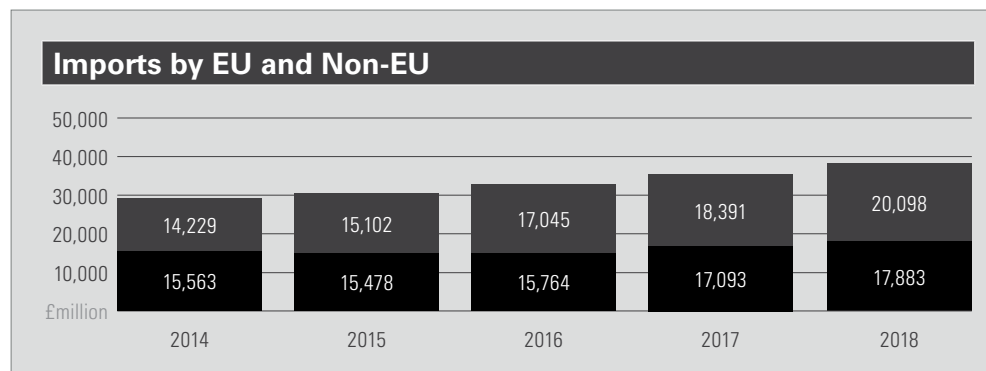


There has been a steady decline in the EU's share of UK electrical imports from 52% in 2014 to 47% in 2018. Generally, low tariffs apply with peaks for some products (TVs).

Most imports of electricals are subject to no (or very low) rates of duty, although televisions are a notable exception, attracting rates of 14%. Under the UK's no-deal temporary tariff plan, duties would be scrapped for all imports of electrical goods.

**Key changes:** The new EU/Japan FTA came into effect on 1 February 2019. Duty rates on televisions from Japan will gradually reduce to 0% over a 10-year period.

| UK Retail Imports – Electricals |        |        |        |        |        |
|---------------------------------|--------|--------|--------|--------|--------|
| £ Million                       | 2014   | 2015   | 2016   | 2017   | 2018   |
| <b>Total Imports</b>            | 29,792 | 30,580 | 32,809 | 35,484 | 37,981 |
| <b>EU</b>                       | 15,563 | 15,478 | 15,764 | 17,093 | 17,883 |
| <b>Non-EU</b>                   | 14,229 | 15,102 | 17,045 | 18,391 | 20,098 |
| <b>EU Share</b>                 | 52%    | 51%    | 48%    | 48%    | 47%    |

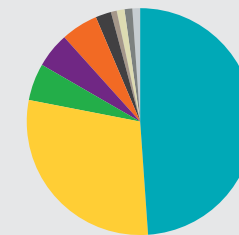


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market – Electricals

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 17,093                   | 17,883                   | +790                            | 47%                            |
| <b>China</b>                   | 9,725                    | 10,702                   | +977                            | 28%                            |
| <b>Hong Kong</b>               | 1,688                    | 2,060                    | +372                            | 5.4%                           |
| <b>Vietnam</b>                 | 1,776                    | 1,947                    | +171                            | 5.1%                           |
| <b>US</b>                      | 1,626                    | 1,874                    | +248                            | 4.9%                           |
| <b>Taiwan</b>                  | 826                      | 889                      | +63                             | 2.3%                           |
| <b>Turkey</b>                  | 504                      | 524                      | +20                             | 1.4%                           |
| <b>Singapore</b>               | 320                      | 317                      | -3                              | 0.8%                           |
| <b>Japan</b>                   | 320                      | 314                      | -6                              | 0.8%                           |
| <b>Malaysia</b>                | 335                      | 267                      | -68                             | 0.7%                           |

## Top 10 Markets



\*Does not include the rest of the world

|                     |                     |
|---------------------|---------------------|
| <b>47% EU</b>       | <b>2% Taiwan</b>    |
| <b>28% China</b>    | <b>1% Turkey</b>    |
| <b>5% Hong Kong</b> | <b>1% Singapore</b> |
| <b>5% Vietnam</b>   | <b>1% Japan</b>     |
| <b>5% US</b>        | <b>1% Malaysia</b>  |

# Sector Analysis: Health and Beauty



The EU's share of UK health and beauty imports has remained constant, at around 69%, for many years. Generally, very low tariffs apply.

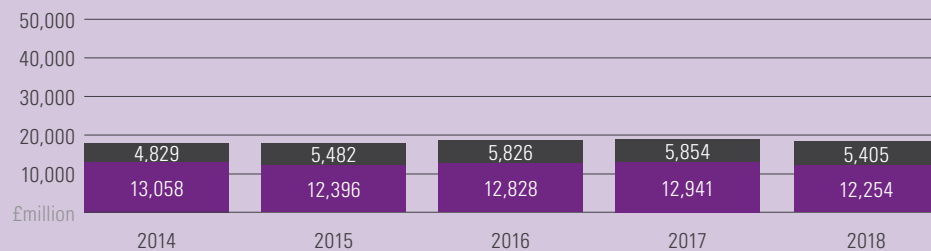
MFN duty rates only apply to a handful of products; the rest are duty-free. Therefore, whatever form Brexit assumes, it is unlikely to have any significant impact on import costs.

**Key changes:** Additional duties of 25% since July 2018 on certain cosmetic products from the US, adding £12 million in new duty costs.

## UK Retail Imports – Health and Beauty

| £ Million            | 2014   | 2015   | 2016   | 2017   | 2018   |
|----------------------|--------|--------|--------|--------|--------|
| <b>Total Imports</b> | 17,347 | 17,877 | 18,654 | 18,794 | 17,659 |
| <b>EU</b>            | 13,058 | 12,396 | 12,828 | 12,941 | 12,254 |
| <b>Non-EU</b>        | 4,829  | 5,482  | 5,826  | 5,854  | 5,405  |
| <b>EU Share</b>      | 75%    | 69%    | 69%    | 69%    | 69%    |

## Imports by EU and Non-EU

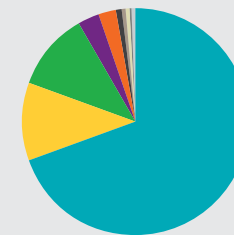


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market – Health and Beauty

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 12,941                   | 12,254                   | -687                            | 69%                            |
| <b>Switzerland</b>             | 2,910                    | 1,878                    | -1,032                          | 11%                            |
| <b>US</b>                      | 1,465                    | 1,862                    | +397                            | 11%                            |
| <b>China</b>                   | 474                      | 485                      | +11                             | 2.7%                           |
| <b>India</b>                   | 348                      | 448                      | +100                            | 2.5%                           |
| <b>Japan</b>                   | 97                       | 127                      | +30                             | 0.7%                           |
| <b>Australia</b>               | 70                       | 100                      | +30                             | 0.6%                           |
| <b>Canada</b>                  | 90                       | 94                       | +4                              | 0.5%                           |
| <b>Turkey</b>                  | 63                       | 65                       | +2                              | 0.4%                           |
| <b>Israel</b>                  | 40                       | 48                       | +8                              | 0.3%                           |

## Top 10 Markets



\*Does not include the rest of the world

|                        |                       |
|------------------------|-----------------------|
| <b>69% EU</b>          | <b>0.7% Japan</b>     |
| <b>11% Switzerland</b> | <b>0.6% Australia</b> |
| <b>11% US</b>          | <b>0.5% Canada</b>    |
| <b>3% China</b>        | <b>0.4% Turkey</b>    |
| <b>2.5% India</b>      | <b>0.3% Israel</b>    |

# Sector Analysis: Clothing and Footwear

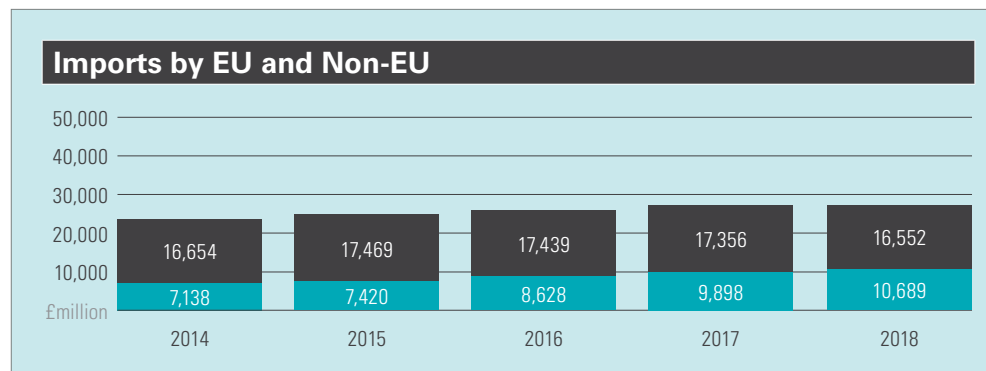


There has been a steady increase in the EU's share of UK imports since 2015. There will be significant exposure to new tariffs in the event of a no-deal Brexit.

Subject to the UK's no-deal temporary tariff plan, existing duty rates would be maintained for imports of clothing, adding up to £1 billion in new tariff costs (dependent on the split between clothing and footwear). A further £150 million in tariff costs would be applied to imports from Turkey.

**Key changes:** 25% additional duties on a few clothing lines from the US.

| UK Retail Imports – Clothing and Footwear |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| £ Million                                 | 2014   | 2015   | 2016   | 2017   | 2018   |
| <b>Total Imports</b>                      | 23,792 | 24,889 | 26,067 | 27,255 | 27,241 |
| <b>EU</b>                                 | 7,138  | 7,420  | 8,628  | 9,898  | 10,689 |
| <b>Non-EU</b>                             | 16,654 | 17,469 | 17,439 | 17,356 | 16,552 |
| <b>EU Share</b>                           | 30%    | 30%    | 33%    | 36%    | 39%    |

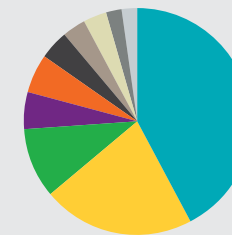


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 9,898                    | 10,689                   | +791                            | 39%                            |
| <b>China</b>                   | 5,998                    | 5,512                    | -486                            | 20%                            |
| <b>Bangladesh</b>              | 2,545                    | 2,569                    | +24                             | 9%                             |
| <b>India</b>                   | 1,511                    | 1,414                    | -97                             | 5%                             |
| <b>Turkey</b>                  | 1,444                    | 1,393                    | -51                             | 5%                             |
| <b>Vietnam</b>                 | 1,024                    | 981                      | -43                             | 4%                             |
| <b>Cambodia</b>                | 877                      | 827                      | -50                             | 3%                             |
| <b>Hong Kong</b>               | 861                      | 725                      | -136                            | 3%                             |
| <b>Pakistan</b>                | 557                      | 586                      | +29                             | 2%                             |
| <b>Sri Lanka</b>               | 563                      | 515                      | -48                             | 2%                             |

## Top 10 Markets



\*Does not include the rest of the world

|                      |                     |
|----------------------|---------------------|
| <b>39% EU</b>        | <b>4% Vietnam</b>   |
| <b>20% China</b>     | <b>3% Cambodia</b>  |
| <b>9% Bangladesh</b> | <b>3% Hong Kong</b> |
| <b>5% India</b>      | <b>2% Pakistan</b>  |
| <b>5% Turkey</b>     | <b>2% Sri Lanka</b> |

# Sector Analysis: DIY and Gardening



There has been a steady increase in the EU's market share since 2015, which is now back to 2014 levels. Generally, low tariffs apply.

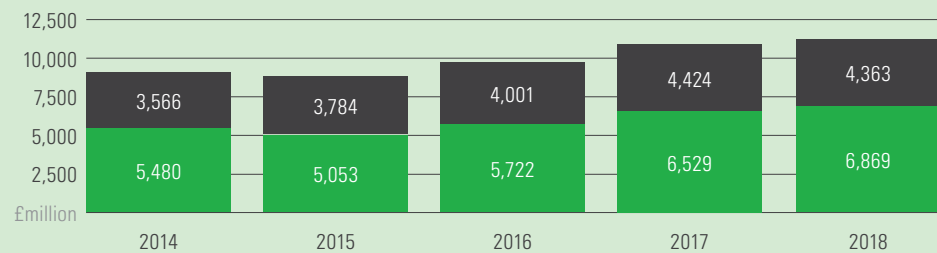
Most duties for DIY and gardening are already at 0%. A no-deal Brexit would mean most remaining duties would be scrapped. However, existing Anti-dumping duties on imports of various steel products and ceramic tiles from China would remain.

**Key changes:** Japan faced lower tariffs from 1 February 2019 as a result of the implementation of the EU/Japan FTA.

## UK Retail Imports – DIY and Gardening

| £ Million            | 2014  | 2015  | 2016  | 2017   | 2018   |
|----------------------|-------|-------|-------|--------|--------|
| <b>Total Imports</b> | 9,046 | 8,837 | 9,723 | 10,953 | 11,232 |
| <b>EU</b>            | 5,480 | 5,053 | 5,722 | 6,529  | 6,869  |
| <b>Non-EU</b>        | 3,566 | 3,784 | 4,001 | 4,424  | 4,363  |
| <b>EU Share</b>      | 61%   | 57%   | 59%   | 60%    | 61%    |

## Imports by EU and Non-EU

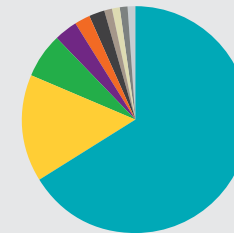


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market – DIY and Gardening

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 6,529                    | 6,869                    | +340                            | 61%                            |
| <b>China</b>                   | 1,586                    | 1,551                    | -35                             | 14%                            |
| <b>US</b>                      | 646                      | 697                      | +51                             | 6%                             |
| <b>India</b>                   | 327                      | 317                      | -10                             | 3%                             |
| <b>Taiwan</b>                  | 258                      | 254                      | -4                              | 2%                             |
| <b>Turkey</b>                  | 215                      | 223                      | +8                              | 2%                             |
| <b>Japan</b>                   | 178                      | 146                      | -32                             | 1%                             |
| <b>Hong Kong</b>               | 171                      | 139                      | -32                             | 1%                             |
| <b>Norway</b>                  | 120                      | 129                      | +9                              | 1%                             |
| <b>Malaysia</b>                | 84                       | 87                       | +3                              | 1%                             |

## Top 10 Markets



\*Does not include the rest of the world

|                  |                     |
|------------------|---------------------|
| <b>61% EU</b>    | <b>2% Turkey</b>    |
| <b>14% China</b> | <b>1% Japan</b>     |
| <b>6% US</b>     | <b>1% Hong Kong</b> |
| <b>3% India</b>  | <b>1% Norway</b>    |
| <b>2% Taiwan</b> | <b>1% Malaysia</b>  |

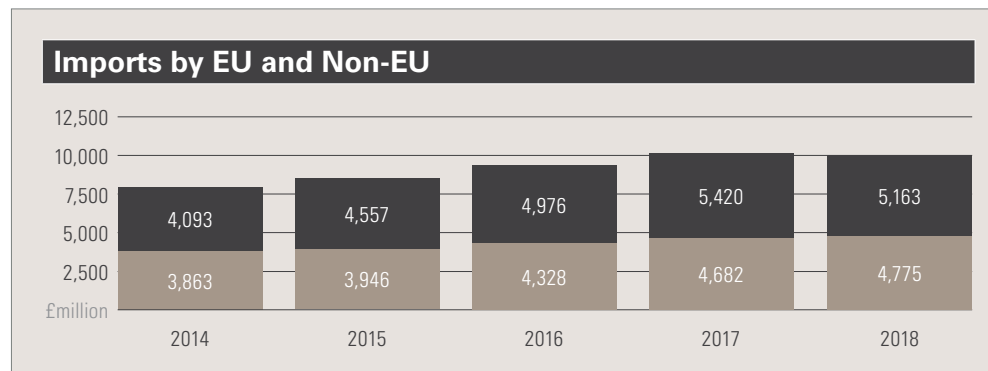
# Sector Analysis: Furniture and Flooring



The EU's market share has remained generally constant for the past five years. Moderately high tariffs for flooring would disappear under the temporary tariff plan.

There will be no tariffs on any imports from this category in the event of a no-deal Brexit, including the removal of the existing 8% duty rate on carpets and other flooring.

| UK Retail Imports – Furniture and Flooring |       |       |       |        |       |
|--|-------|-------|-------|--------|-------|
| £ Million                                  | 2014  | 2015  | 2016  | 2017   | 2018  |
| <b>Total Imports</b>                       | 7,929 | 8,503 | 9,304 | 10,102 | 9,938 |
| <b>EU</b>                                  | 3,863 | 3,946 | 4,328 | 4,682  | 4,775 |
| <b>Non-EU</b>                              | 4,093 | 4,557 | 4,976 | 5,420  | 5,163 |
| <b>EU Share</b>                            | 48%   | 46%   | 47%   | 46%    | 48%   |

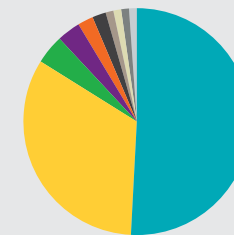


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market – Furniture and Flooring

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 4,682                    | 4,775                    | +93                             | 48%                            |
| <b>China</b>                   | 3,361                    | 3,088                    | -273                            | 31%                            |
| <b>US</b>                      | 416                      | 429                      | +13                             | 4%                             |
| <b>Vietnam</b>                 | 281                      | 283                      | +2                              | 3%                             |
| <b>Turkey</b>                  | 166                      | 171                      | +5                              | 2%                             |
| <b>India</b>                   | 169                      | 164                      | -5                              | 2%                             |
| <b>Hong Kong</b>               | 124                      | 120                      | -4                              | 1%                             |
| <b>Malaysia</b>                | 115                      | 111                      | -4                              | 1%                             |
| <b>Taiwan</b>                  | 76                       | 67                       | -9                              | 1%                             |
| <b>Singapore</b>               | 46                       | 60                       | +14                             | 1%                             |

### Top 10 Markets



\*Does not include the rest of the world

|                   |                     |
|-------------------|---------------------|
| <b>48% EU</b>     | <b>2% India</b>     |
| <b>31% China</b>  | <b>1% Hong Kong</b> |
| <b>4% US</b>      | <b>1% Malaysia</b>  |
| <b>3% Vietnam</b> | <b>1% Taiwan</b>    |
| <b>2% Turkey</b>  | <b>1% Singapore</b> |

# Sector Analysis: Sports, Toys and Leisure



UK imports are down from the top eight suppliers in 2018. Generally, low tariffs apply, with the exception of bicycles. China dominates the UK import market.

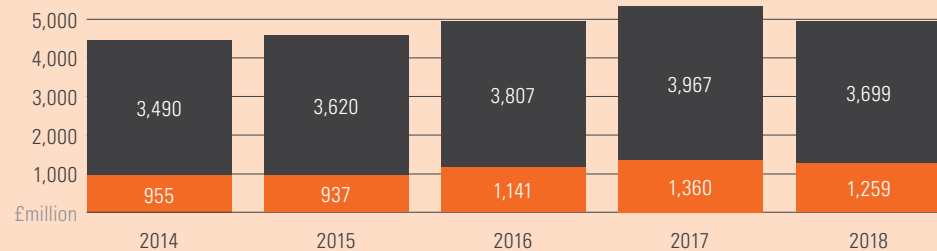
In the event of a no-deal Brexit, remaining duties will disappear, including the standard duty of 14% on imports of bicycles and additional Anti-dumping duties of up to 48.5% on imports of bicycles from China and Indonesia.

**Key changes:** 10% additional duty on playing cards from the US since July 2018.

## UK Retail Imports – Sport, Toys and Leisure

| £ Million            | 2014  | 2015  | 2016  | 2017  | 2018  |
|----------------------|-------|-------|-------|-------|-------|
| <b>Total Imports</b> | 4,444 | 4,557 | 4,948 | 5,328 | 4,958 |
| <b>EU</b>            | 955   | 937   | 1,141 | 1,360 | 1,259 |
| <b>Non-EU</b>        | 3,490 | 3,620 | 3,807 | 3,967 | 3,699 |
| <b>EU Share</b>      | 21%   | 21%   | 23%   | 26%   | 25%   |

## Imports by EU and Non-EU

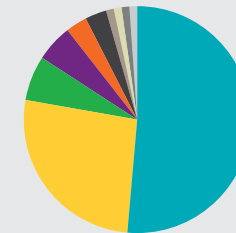


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market – Sports, Toys and Leisure

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 1,360                    | 1,259                    | -101                            | 25%                            |
| <b>China</b>                   | 2,631                    | 2,454                    | -177                            | 49%                            |
| <b>Hong Kong</b>               | 317                      | 298                      | -19                             | 6%                             |
| <b>US</b>                      | 283                      | 244                      | -39                             | 5%                             |
| <b>Taiwan</b>                  | 165                      | 152                      | -13                             | 3%                             |
| <b>Vietnam</b>                 | 161                      | 148                      | -13                             | 3%                             |
| <b>India</b>                   | 45                       | 42                       | -3                              | 1%                             |
| <b>Indonesia</b>               | 44                       | 41                       | -3                              | 1%                             |
| <b>Canada</b>                  | 33                       | 39                       | +6                              | 1%                             |
| <b>Japan</b>                   | 27                       | 38                       | +11                             | 1%                             |

## Top 10 Markets



\*Does not include the rest of the world

|                     |                     |
|---------------------|---------------------|
| <b>49% China</b>    | <b>3% Vietnam</b>   |
| <b>25% EU</b>       | <b>1% India</b>     |
| <b>6% Hong Kong</b> | <b>1% Indonesia</b> |
| <b>5% US</b>        | <b>1% Canada</b>    |
| <b>3% Taiwan</b>    | <b>1% Japan</b>     |

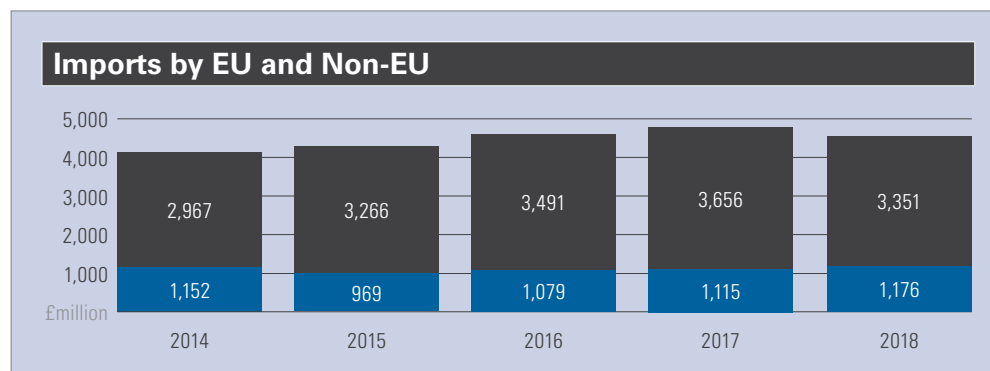
# Sector Analysis: Homewares



Imports from the EU increased at the expense of almost every non-EU supplier in 2018. Under the temporary tariff plan, duties are to remain on some homeware products.

Duties will remain at existing levels on imports of ceramic tableware and bed linen in the event of a no-deal Brexit. Additional Anti-dumping duties of around 30% on ceramic tableware from China would remain.

| UK Retail Imports – Homewares |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|
| £ Million                     | 2014  | 2015  | 2016  | 2017  | 2018  |
| <b>Total Imports</b>          | 4,119 | 4,235 | 4,570 | 4,771 | 4,527 |
| <b>EU</b>                     | 1,152 | 969   | 1,079 | 1,115 | 1,176 |
| <b>Non-EU</b>                 | 2,967 | 3,266 | 3,491 | 3,656 | 3,351 |
| <b>EU Share</b>               | 28%   | 23%   | 24%   | 23%   | 26%   |

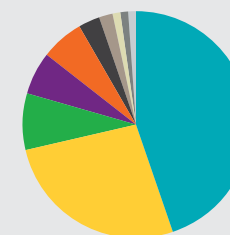


■ EU ■ Non-EU

## Top 10 Suppliers to UK Market – Homewares

| Top 10 Suppliers to UK in 2018 | 2017 Imports (£ Million) | 2018 Imports (£ Million) | 2017-2018 Variation (£ Million) | Share of Total UK Imports 2018 |
|--------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------------|
| <b>EU</b>                      | 1,115                    | 1,176                    | +61                             | 26%                            |
| <b>China</b>                   | 2,219                    | 2,012                    | -207                            | 44%                            |
| <b>Pakistan</b>                | 399                      | 359                      | -40                             | 8%                             |
| <b>India</b>                   | 258                      | 263                      | +5                              | 6%                             |
| <b>US</b>                      | 191                      | 141                      | -50                             | 3%                             |
| <b>Turkey</b>                  | 121                      | 116                      | -5                              | 3%                             |
| <b>Hong Kong</b>               | 91                       | 90                       | -1                              | 2%                             |
| <b>Bangladesh</b>              | 58                       | 54                       | -4                              | 1%                             |
| <b>Vietnam</b>                 | 48                       | 52                       | +4                              | 1%                             |
| <b>Taiwan</b>                  | 43                       | 38                       | -5                              | 1%                             |

## Top 10 Markets



\*Does not include the rest of the world

|                    |                      |
|--------------------|----------------------|
| <b>44% China</b>   | <b>3% Turkey</b>     |
| <b>26% EU</b>      | <b>2% Hong Kong</b>  |
| <b>8% Pakistan</b> | <b>1% Bangladesh</b> |
| <b>6% India</b>    | <b>1% Vietnam</b>    |
| <b>6% US</b>       | <b>1% Taiwan</b>     |



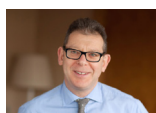
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