

The UK will leave the EU today, ending a 46-year relationship with the bloc. In partnership with Retail Economics, our analysis on what Brexit will mean for the UK retail industry, what milestones to expect and what scenarios could unfold by the end of the year feature in today's (31 January 2020) Retail Week.

It is worth noting that retailers will not be subject to any changes during 2020, as the UK will immediately enter an "Implementation Period" (IP) during which all EU rules, including trade rules, will continue to apply to the UK.

The IP will run from 1 February until 31 December 2020, and is intended to provide a period of stability during which the two sides can negotiate a new trading relationship.

Starting to think about the future risks and opportunities that new trading relationships will bring (tariffs, customs documentation and contracts), and how this will impact your profit and supply chain strategy would be a useful exercise to undertake.

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UK/EU Reach Free Trade Agreement

The UK in the EU	1 February – 31 December Implementation Period			1 January 2021: UK Independent Trade Policy
<ul style="list-style-type: none"> UK leaves EU on 31 January 	<ul style="list-style-type: none"> EU Summit on 25 February to sign off EU negotiating mandate for a new UK/EU trade deal 	<ul style="list-style-type: none"> UK/EU Stocktaking Summit in June 1 July target for an agreement on fisheries 1 July deadline for extending the Implementation Period (for up to two years) 	<ul style="list-style-type: none"> Final UK/EU agreement to be presented to the European Parliament for approval on 26 November 	<p>Scenario 1: Agree the FTA</p> <ul style="list-style-type: none"> Implementation of any new UK/EU agreement <p>Scenario 2: Extension of the Transition Period</p> <ul style="list-style-type: none"> Extension of the Implementation Period for up to two years <p>Scenario 3: No-deal scenario</p> <ul style="list-style-type: none"> UK trade reverts to WTO terms for trade with the EU

UK Trade Relations With the Rest of the World

<ul style="list-style-type: none"> The UK's trade relations with the rest of the world will continue to be set by the EU until the end of the Implementation Period 	<ul style="list-style-type: none"> The UK are free to open trade negotiations with other countries from 1 February 2020, including the extension of existing EU bilateral agreements to the UK The UK to review unilateral trade policy, i.e. MFN duty rates, anti-dumping and preferential tariffs for developing countries 	<p>Scenario 1: Agree the FTA</p> <ul style="list-style-type: none"> The UK is free to apply any new trade deals it has negotiated with other countries The UK is free to set its MFN duty rates, anti-dumping policy and trade preferences for developing countries <p>Scenario 2: Extension of the Transition Period</p> <ul style="list-style-type: none"> Trade negotiations remain open to other countries, but cannot be ratified <p>Scenario 3: No-deal scenario</p> <ul style="list-style-type: none"> The same conditions as scenario 1
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February 2020

During February, the UK and the EU will seek to agree an agenda and timetable for their negotiations on a new trade agreement. There is a wide range of issues that could be covered and it is likely that some areas will need to be prioritised over others. Indeed, a pragmatic phased approach to the negotiations could be adopted which will leave some areas unresolved by the end of the year. The UK and the EU could leave some areas of the negotiations unresolved at the end of the year, where the two sides will have to agree a way forward on a case-by-case basis.

The good news for retailers is that rules (including tariffs) on trade in goods, access for retail services and cross-border e-commerce are all likely to make the cut for negotiations.

The UK will also be free to open trade negotiations with other countries (including the US) from 1 February 2020.

March – August 2020

This is when the substantive negotiations between the UK and the EU will happen.

The UK has said that it wants a Free Trade Agreement (FTA) with the EU, which will deliver duty-free and quota-free trade with the EU while, at the same time, allowing the UK to diverge from the EU in other areas of regulation. The EU is willing to grant tariff-free and quota-free access, but only if the UK does not introduce new regulations that give its producers a cost advantage over EU competitors. Resolving this tension will be one of the biggest challenges in the negotiations.

A stocktaking meeting between the UK and the EU in June will discuss progress and whether any extension of the IP is required to give more time to reach agreement. The government has insisted that it will not extend the IP, but the Withdrawal Bill gives the government the power to do so if it wishes and the EU may press for an extension if it thinks its priorities have not been adequately addressed.

September – December 2020

If sufficient progress has been made, this period will be used for the political ratification process in the EU and the UK of any new trade agreement. On the other hand, if insufficient progress has been made and the IP is extended, then this period will be used for further negotiations.

1 January 2021 Onwards

Provided that the IP has not been extended, the UK will become a fully independent trading nation on 1 January 2021.

For trade with the EU, this will mean:

- All imports from the EU will become subject to customs checks and documentation at the border (except goods from the Republic of Ireland arriving in Northern Ireland)
- All imports from the EU will need to meet preferential rules origin (local content rules) in order to benefit from lower/no tariffs negotiated in an FTA
- Food imports from the EU may become subject to veterinary/plant health checks at the border
- Some products from the EU may be subject to new tariffs if the UK/EU trade agreement fails to agree across-the-board zero tariffs

There is still a possibility that UK/EU trade will face a “cliff-edge” on 31 December 2020, if the UK and the EU fail to reach a new agreement and do not extend the IP. In this case, imports from the EU will be subject to the UK's MFN tariff rates (see below).

For trade with other countries, this will mean:

- The UK will be free to implement any new trade deals it has negotiated with other countries – imports from countries which have bilateral deals with the EU, but which have not extended these deals to the UK, would become subject to the UK's MFN rates
- The UK will be free to set its own “Most Favoured Nation” (MFN) tariffs rates – these are the rates that apply to imports from countries that do not have an FTA with the UK and would apply to imports from the EU in the event that the two sides failed to strike a new FTA
 - It is worth remembering that in anticipation of a no-deal outcome in 2019, the government published a temporary MFN tariff schedule that would have reduced almost all **non-food tariffs to zero and slashed rates for most food products**
- The UK would be free to keep/scrap additional tariffs imposed by the EU – of most interest to UK retailers, this could include anti-dumping duties on some imports from China and special tariffs on imports of a wide range of goods from the US, imposed as part of a trade dispute between the EU and the US