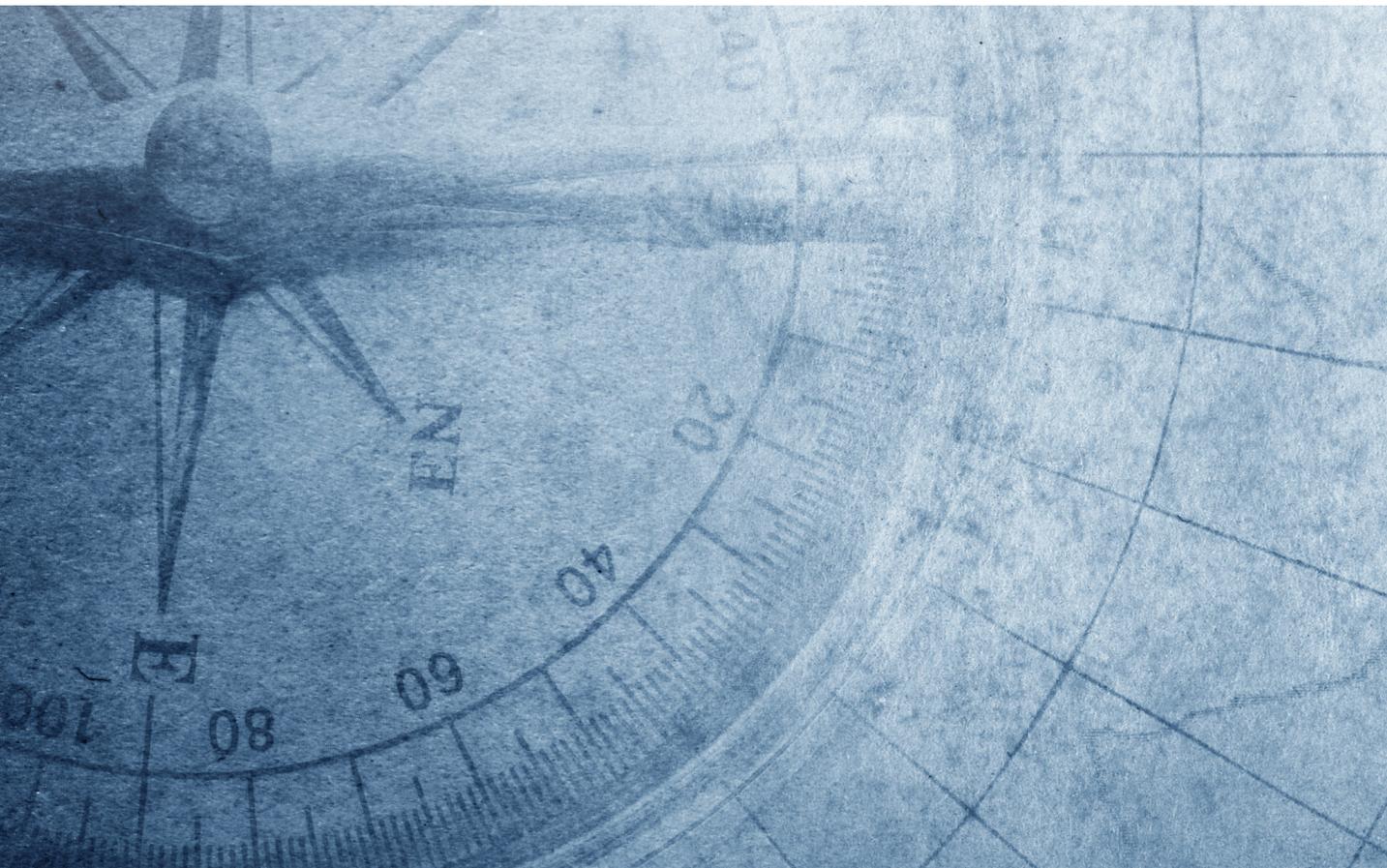




Navigating the Road Ahead: Cost of Sourcing Retail Products Abroad

Quarterly UK Retail Brexit Trade Review



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Introduction: UK Retail Brexit Trade Service

Welcome to the first edition of our Quarterly UK Retail Brexit Trade Review. The review contains economic, policy and legal analysis on the impact of trade and up-to-date narrative on the progress of UK and EU trade negotiations specific to the retail industry. This quarterly review forms part of the UK Retail Brexit and Trade Service.

Squire Patton Boggs and Retail Economics launched the UK Retail Brexit and Trade Service in March 2018 to provide an up-to-date and free-of-charge, economic, legal and tax narrative for the retail industry.

Our Quarterly Reports Provide



Legal analysis from our business immigration, commercial contracts, licensing, employment, intellectual property, tax, supply chain, data protection and cybersecurity experts



Policy and trade insight from the Squire Patton Boggs industry-leading Public Policy and International Trade teams



Independent economic analysis, modelling and authoritative commentary from Retail Economics, used by retailers, food and drink manufacturers, government departments and financial services

What Else Does The Service Include?

In addition to our quarterly reviews, the service includes:

- **Policy roundtables** – Invite-only discussions to accompany the release of each report, aimed at addressing the particular challenges retailers face with Brexit. The roundtables will be interactive with involvement from key business influencers, policymakers, Retail Economics and Squire Patton Boggs.
- **Brexit Pulse Updates** – Monthly briefings (in between the release of the quarterly reports) that will focus on specific elements of the Brexit process.

Who Will Benefit From the Service?

- Board, senior level executives and corporate counsel at UK headquartered retailers or consumer brands
- Board, senior level executives and corporate counsel at international headquartered retailers and consumer brands with current or future footprint in the UK
- Those involved in the global retail supply chain from manufacturers to distributors
- Professional advisers or investors with a significant interest in the UK retail and brands sector, such as banks, accountants, property consultants
- Retail infrastructure providers from property developers to technology providers
- Organisations on the periphery of retail such as sport, leisure, food and drink manufacturers, advertising etc.

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A photograph showing several paper boats made from folded US dollar bills, floating on a map of the Atlantic Ocean. The map features latitude and longitude lines, depth contours, and various geographical labels. The boats are positioned in a line, moving from the background towards the foreground. The lighting is soft, and the overall color palette is dominated by the light blue and green tones of the map and the white and green of the paper boats.

UK Retail Brexit and Trade Summary

Executive Summary: UK Brexit and Trade Quarterly Report

This research outlines three possible trading models for the UK's long-term, future relationship with the EU; each model has different implications for the cost of sourcing imports, both from the EU and beyond. Analysis is provided across eight key sectors within the retail industry, including an outline of a range of opportunities the UK Government should pursue in the event of a 'no deal' scenario.

Three Possible Landing Zones for Brexit

| | |
|--|---|
| World Trade Organization Most Favoured Nation (MFN) | <ul style="list-style-type: none">• A failure to agree a free trade agreement or customs union would mean that the UK's trading relationship with the EU would revert to Most Favoured Nation terms.• This means that the full rate of tariffs would apply to all imports from the EU; though, as with the FTA option, the UK would be free to set MFN duty rates at a lower level and lower duty rates on imports from some developing countries. |
| Free Trade Agreement (FTA) | <ul style="list-style-type: none">• A free trade agreement could avoid tariffs on imports from the EU, but introduce some new costs in the form of customs declarations and compliance with rules of origin.• A FTA with the EU would allow the UK to quickly reduce tariffs on imports from some developing countries and on products where there is insufficient domestic supply. |
| Customs Union | <ul style="list-style-type: none">• A customs union would ensure that import costs stay very much as they are for sourcing both from the EU and from the rest of the world. |



Executive Summary: UK Brexit and Trade Quarterly Report

Key Findings

Food and Drink Under Greatest Threat of Cost Increases

The risk of higher costs from new tariffs is greatest for food and drink from the EU. This is due to a combination of reasons:

- More than 70% of UK food and drink imports originate in the EU. Applying MFN terms could add £6 billion to the cost of food imports from the EU.
- The standard rate of tariffs is far higher than the rate for non-food goods, with duties for some meat and dairy products more than 80%
- To continue tariff-free trade, the EU is likely to demand compliance with a wide range of non-trade regulations
- Either high tariffs and/or non-tariff barriers limit the potential alternative non-EU sources of food and drink

Turkey Is a Special Case

Imports from some countries face lower duties in the UK because of bilateral free trade agreements the EU has signed.

The UK has already announced its intention to maintain these lower rates of duty by replicating the terms of this free trade agreement.

However:

- Turkey enjoys duty-free access to the UK, not because of a free trade agreement, but because it is in a customs union with the EU
- When the UK leaves the EU's customs union, trade will revert to MFN terms
- To continue to trade duty-free, the UK and Turkey will need to negotiate a new free trade agreement from scratch with limited time available

Clothing and Footwear Threats and Opportunities

- The non-food category with the highest average MFN tariff rates is clothing and footwear at 10.8%
- If the UK and EU conclude a free trade agreement, imports of clothing and footwear from the EU would be subject to MFN tariffs if goods do not meet tough rules of origin
- There are realistic prospects of lower rates of duty on clothing and footwear imports from outside the EU
- Imports from India would stand to benefit from improvements the UK might implement to tariff preferences for developing countries
- Imports from Vietnam will also enjoy lower duties if the terms of the new EU/Vietnam agreement can be replicated

The UK Has Scope to Unilaterally Reduce Duty Rates Outside a Customs Union

Outside a customs union, the UK will be obliged to publish its own MFN duty rates. The UK has stated that it will adopt, as far as possible, the EU's existing schedule of duty rates. Nevertheless:

- World Trade Organization (WTO) rules would leave the UK free to immediately vary these rates, either on a permanent or temporary basis
- The Customs and Trade Bills provide the legislative instrument for the government to implement this
- UK government is already consulting on which anti-dumping duties it may scrap after Brexit

- There is a prospect that it will reduce or suspend MFN duties on other products where there is no or insufficient UK production to meet domestic demand
- These changes can be made independently and are quite separate to lower duties as a result of FTAs the UK might agree with other countries

Impact on Sourcing Talent

This research outlines three possible trading models for the UK's long-term, future relationship with the EU; each model has different implications for the cost of sourcing imports, both from the EU and beyond. Analysis is provided across eight key sectors within the retail industry, including an outline of a range of opportunities the UK Government should pursue in the event of a 'no deal' scenario.

Summary of Retail imports into the UK in 2017

| Retail Sector | Imports from EU (£m) | Imports from Non-EU (£m) | Duties under MFN framework (£m) | Risk Category |
|--------------------------|----------------------|--------------------------|---------------------------------|---------------|
| Food and Drink | £30,035 | £11,400 | £6,024 | High |
| Electricals | £17,093 | £18,400 | £220 | Moderate |
| Health and Beauty | £12,941 | £5,900 | £43 | Low |
| Clothing and Footwear | £9,898 | £17,400 | £1,070 | High |
| DIY and Gardening | £6,529 | £4,400 | £251 | Moderate |
| Furniture and Flooring | £4,682 | £5,400 | £133 | Moderate |
| Sports, Toys and Leisure | £1,360 | £4,000 | £28 | Moderate |
| Homewares | £1,115 | £3,700 | £72 | Moderate |
| Total | £83,655 | £70,600 | £7,841 | |

£7.8 billion

could be added to the cost of retail goods if the UK fails to agree a deal with the EU

Introduction: Trade Overview



Leaving the EU is likely to have significant consequences for UK retail operations, with the most immediate and measurable effects concerning the cost of sourcing retail products from abroad. This cost will likely increase, but could decrease if reductions in customs duty rates (tariffs), customs red tape and other non-trade regulation are applied at the border.

Trade Terms

This report explains (in simple terms) key concepts and linguistic jargon that are employed within the debate, including:

- WTO rules and MFN rates
- Preferences for developing countries
- FTAs and customs unions
- Trade defence and anti-dumping

Three Potential Trade Models

Although the government remains committed to a “bespoke” agreement with the EU, as far as trade in goods is concerned there are, in fact, only three models that the UK’s future relationship with the EU can adopt:

- **Model 1:** World Trade Organization (WTO) Most Favoured Nation (MFN) status (aka “hard Brexit”, “cliff edge”, “WTO rules”)
- **Model 2:** Free trade agreement (FTA), which would include extension of the single market or an agreement similar to EU/Canada.
- **Model 3:** Customs union between UK and EU allowing all goods to be traded free of duty and without rules of origin

This report explains each of the three options in turn, assessing the impact on retailers’ sourcing costs by sector. It particularly identifies the relevant features of each option with regard to how cost increases could be mitigated and how cost reductions could be achieved. In addition, the report identifies areas where retailers may need specific advice now and in the future.

Sector Analysis

Leaving the EU may not only affect the cost of sourcing from within the EU itself, but also from further afield. This report analyses these potential effects on the following retail sectors:

- Food and Drink
- Clothing and Footwear
- Furniture and Flooring
- DIY and Gardening
- Electrical
- Homewares
- Health and Beauty
- Sports, Toys and Leisure

For each sector, the top 10 supplier countries are identified (treating the EU as a single country). The current importing conditions are described for each of the top 10 suppliers, together with an assessment of how those conditions may change and their associated impact on sourcing costs.

A close-up photograph showing the corner where the Union Jack (United Kingdom flag) and the European Union flag meet. The Union Jack is on the left, featuring its characteristic red, white, and blue stripes. The European Union flag is on the right, showing a blue field with yellow stars. The two flags are layered, with the EU flag appearing to be on top. A white horizontal band is overlaid across the middle of the image, containing the title text.

Possible Brexit Trade Models

Potential Brexit Trade Model 1: Most Favoured Nation (MFN)

Alternatively described as “hard Brexit”, “the cliff edge” or “WTO rules”, this is the arrangement that the two sides would fall back on if they fail to secure a deal in the exit negotiations.

In trade jargon it is commonly known as “Most Favoured Nation” status; although it is anything but favourable. This model would result in the highest cost outcome for businesses importing from the EU. Import costs from countries that have FTAs with the EU will rise unless the UK negotiates extensions of those agreements with the countries in question.

Key Features

- Standard (MFN) duty rates apply to all imports from the EU
- Duty rates vary considerably from one product to another
- Food and drink imports face highest duties, with meat and dairy duties as high as 80%
- Clothing and footwear duties around 11%
- Computers and IT generally duty-free
- Customs declarations required for all imports (typical cost £50+ per consignment)
- Additional regulation at the border for some products (e.g. food and veterinary certificates), typically adding two days at port for clearance
- With the exception of imports from developing countries, the UK is obliged to apply standard rates of duty to imports from any country which does not have a FTA with the UK; the UK is able to grant unilateral reductions in tariff rates on imports from developing countries

Mitigation

Although the UK must follow WTO rules for setting duty rates, these rules allow some flexibility. Traders may also take advantage of various schemes and reliefs which could lower the cost of importing from the EU:

- The UK could unilaterally reduce any, some or all of its MFN duty rates (although the government has said it will adopt the EU’s rates as its own when it leaves the EU)
- The UK could seek to replicate the terms of the EU’s existing FTAs with other partners
- Temporary reduction in rates for certain goods through tariff suspensions; these are time-limited reductions in duties for specific products, usually where there is no (or insufficient) domestic supply. Such reductions must be offered to all supplier countries and could not be offered just to the EU
- The government would be free to set tariff rate quotas (TRQs) for agricultural products; these are fixed amounts of specified products that are allowed at reduced rates of duty. TRQs are usually established on an annual basis
- Partial relief from tariffs can be obtained through Inward Processing Relief and Outward Processing Relief
- Traders can access simplified customs procedures through Authorised Economic Operator (AEO) status

Table 1: Impact of WTO tariff rates by retail sector (Source: HMRC, WTO, Retail Economics analysis)

| Retail Category | Average Tariff Rate | Tariff Range |
|--------------------------|---------------------|--------------|
| Food and Drink | 22% | 0-80+% |
| Clothing and Footwear | 11% | 2-16% |
| Health and Beauty | 1% | 0-7% |
| Electrical | 2% | 0-6.5% |
| DIY and Gardening | 2% | 0-12% |
| Homewares | 6% | 0-12% |
| Furniture and Flooring | 6% | 0-7.3% |
| Sports, Toys and Leisure | 4% | 0-14% |

Legal Insight

This scenario will require supply contracts with EU partners to be reviewed and responsibility for these additional costs to be allocated between the parties. The costs of the new duties and customs formalities will have to be absorbed somewhere in the retail supply chain even if they are ultimately passed on to the UK consumer. Almost certainly, suppliers in the EU-27 will be highly unlikely to continue to sell their merchandise on a DDP (Delivered Duty Paid) basis to their customers without raising their prices. Standard terms and conditions of purchase will also require revision to reduce risk-exposure to logistical delays because of new customs controls and formalities. Just in time deliveries of fresh and/or perishable produce to supermarkets is one obvious example of business disruption that will have to be properly managed in the future.

Potential Brexit Trade Model 2: Free Trade Agreement (FTA)

This model is the UK Governments most favoured outcome. An FTA is defined as an agreement between separate customs entities (the EU being treated as a single customs entity) that grants mutual preferential tariff treatment (i.e. lower/no duties) on trade in goods.

FTAs may also cover trade in services, investment, intellectual property and regulatory cooperation, but they are not obliged to do so. The WTO lays down certain rules that all FTAs must adhere to. For instance, the EU's EEA Agreement with Norway is a form of FTA.

Key Features

- FTAs must abolish duties on “substantially all trade” – this means that narrow, sectoral deals (e.g. on automotive or clothing) are prohibited
- FTAs allow exceptions where tariffs continue to apply
- In actuality, all the EU's existing FTAs (including the EU's EEA Agreement with Norway) retain some tariff restrictions on agriculture, food and drink
- Goods must meet tougher rules of origin in order to benefit from preferential tariff treatment, otherwise they will be subject to the standard rate of duty
- The UK would no longer be party to the EU's existing FTAs and would be obliged to apply standard rates of duty to imports from these countries
- Customs declarations required for all imports (typical cost £50+ per consignment)
- Additional regulation at the border for some products (e.g. especially food and veterinary certificates), unless a specific agreement is reached for the UK to remain within the EU system for veterinary controls
- The UK is free to negotiate trade deals with other countries

Mitigation

In so far as any FTA retained tariff restrictions on some products, the same mitigation outlined under the previous section would apply.

Legal Insight

Trade between the EU-27 and the UK will still be subject to customs controls even if duties are not paid on merchandise traffic between the two parties. Mutual recognition or alignment of product standards and intellectual property rights could also be achieved so eliminating some of the trading friction. Compliance with the relevant rules of origin may be a tricky area since not all goods imported from the EU will meet the criteria for preferential market access due to lack of added local content. This is especially true for processed foodstuffs and assembled products like, for example, bicycles where large volumes of raw materials and components come from outside the EU-27. Retailing importers will therefore have to introduce new additional compliance procedures to ensure their imports are eligible for tariff concessions.

Clothing and Footwear

11-17%

UK imports are dominated by developing countries, most of whom enjoy preferential access through Generalised Scheme of Preferences. MFN tariff rates are 11-17%

Health and Beauty

£18.8 billion

The UK imports £18.8 billion of health and beauty goods into the UK, with the EU accounting for 69%

“Differences in duty rates are often significant enough to affect sourcing strategies.” – Retail Economics

Potential Brexit Trade Model 3: Customs Union

The UK government has announced that it will leave the EU Customs Union; although it envisages remaining in a customs union with the EU for a potential transitional period.

Nevertheless, the EU is open to the UK remaining in a permanent customs union, with Labour and the CBI pressing for such an outcome. A customs union has distinct features that are different from an FTA. For these reasons, the option of a customs union is considered in this paper.

A full customs union with the EU would result in the lowest cost option for businesses importing goods from the EU.

Key Features

- Customs unions only deal with trade in goods
- All members of a customs union apply the same external tariff to imports of goods from outside the union
- The requirement to apply the same tariff rates applies to imports from “MFN suppliers” and imports from countries that enjoy preferential tariff treatment to the EU
- As all members of a customs union are bound to apply the same duty rates to imports from outside, individually, they have no scope to negotiate preferential trade deals with other partners
- Goods traded within a customs union are not subject to customs duties
- Goods traded within a customs union are in “free circulation” and therefore do not need to meet rules of origin
- A customs union does not always cover all goods; the EU’s customs union with Turkey excludes agricultural produce where tariffs and other restrictions continue to apply
- Customs unions do not always cover trade defence (anti-dumping); Turkey and the EU apply different trade defence measures to imports from outside the union. The EU has also launched anti-dumping investigations against Turkish imports
- Customs declarations may still apply to trade within the customs union
- Additional regulation at borders for some products (e.g. food and veterinary certificates), unless a specific agreement is reached for the UK to remain within the EU system for veterinary controls

Mitigation

For any products not covered by a customs union (e.g. agricultural products), the UK would be free to lower or suspend duties, or establish TRQs on a unilateral basis. Traders can access simplified customs procedures via an AEO status.

Legal Insight

Establishing a customs union would involve the least changes from the current situation where the EU’s Common Customs Tariff extends to all EU member states and allows free circulation of goods inside that area. No duties would apply for UK-EU trade in goods; although, some customs controls would still be required, but likely with a much lighter touch. Regional or diagonal accumulation would apply to processing, production and assembly operations, significantly alleviating the rules of origin problem. On the other hand, membership of a customs union prevents the UK from negotiating its own free trade agreements with third parties and so limiting access to potentially cheaper sources of supply.

Food and Drink

72%

EU accounts for 72% of food and drink imports into the UK

Electricals

£35.5 billion

Electricals is the largest non-food category of imports into the UK



Impact on Sourcing Talent and Future Recruitment Strategies

The retail sector is likely to be significantly affected by restrictions on immigration following the Brexit transition period, given its reliance on EU workers particularly at the middle and lower skill levels. Have you assessed the immigration implications of Brexit?

There are over 170,000 EU citizens working in British retail. Although greater reassurance has now been given to EU citizens already in the UK (both before we leave and during the transition period), there is no clarity yet on the immigration restrictions that will be imposed on those EU citizens arriving from 2021. Losing easy access to this valuable workforce could increase competition in the retail job market driving up costs for retailers.

Rising Costs of The Retail Workforce

Employee costs across the UK are expected to rise over due to national minimum and living wage obligations, post Brexit we could also see:

- The cost of recruitment increase due to a more competitive market, as retailers use additional head hunting techniques to win executive talent and spend more on advertising for junior level staff
- Retailers exploring other sectors for potential employees, at the risk of competing with their supply chain. For example recruiting from food manufacturing, distribution of goods and warehousing could see a rise in salaries due to competition

Mitigation

- Consider designing flexible working solutions that attract, retain and develop the best talent, with a focus on students, working families, pensioners and those seeking to return to work
- Recruit from other customer-facing sectors (e.g. banking, hospitality and health and social care)
- The Apprenticeship Levy presents an opportunity to develop required skills needed for the future. Consider longer-term recruitment drives and skills development for apprenticeships and school leavers
- Look to further engage in corporate responsibility-supporting projects such as the rehabilitation of offenders and encourage the long-term unemployed back to work





Sector Analysis

Sector Summary: Brexit and Trade Regulation on Retail Imports

Characteristics, Risk and Opportunities Across All Possible Outcomes (By Importance of Size)

| | Trade Characteristics | Risks or Threats | Key Opportunities |
|--|--|--|---|
| Food and Drink  | The EU accounts for 72% of UK imports. Imports from elsewhere face very high tariffs (sometimes in excess of 80%) and non-tariff barriers (e.g. veterinary controls). Some imports benefit from reduced rates through TRQs. Splitting TRQs between the UK and the EU is contentious. | <ul style="list-style-type: none"> Tariffs on imports from the EU could total £6.0 billion Veterinary controls on imports from the EU Insufficient TRQ allocation for Thailand, Brazil and New Zealand Failure to replicate FTAs with South Africa and Chile | <ul style="list-style-type: none"> New TRQs/duty suspensions on food and drink not produced in the UK Improved GSP benefits mean lower tariffs on India New FTA with Vietnam Possible FTA with Brazil |
| Electricals  | The EU is the main supplier, followed by China. Many products are already duty-free (especially IT-related). Average duty only 3.14% (TVs 14%). | <ul style="list-style-type: none"> Tariff on imports from the EU from the EU could total £220 million Rules of origin on imports from the EU Turkey loses duty-free access when the UK leaves the customs union | <ul style="list-style-type: none"> New FTAs with Singapore, Japan and Vietnam |
| Health and Beauty  | The EU dominates supply. Most products are already duty-free. Only shaving and deodorants face duties (6.5%). | <ul style="list-style-type: none"> Tariffs on imports from EU could total £43 million Turkey loses duty-free access when the UK leaves the customs union Failure to replicate the FTA with Switzerland | <ul style="list-style-type: none"> New FTA with Japan |
| Clothing and Footwear  | UK imports are dominated by developing countries, most of whom enjoy preferential access through GSP. MFN tariff rates are 11-17%. | <ul style="list-style-type: none"> Tariffs on imports from the EU could total £1.1 billion Rules of origin on imports from the EU Turkey loses duty-free access when the UK leaves the customs union | <ul style="list-style-type: none"> Improved GSP benefits mean lower tariffs for India New FTA with Vietnam |
| DIY and Gardening  | The EU dominates supply, followed by China. MFN duties up to 11%, but average only 3.32%. | <ul style="list-style-type: none"> Tariffs on imports from the EU could total £251 million Turkey loses duty-free access when the UK leaves the customs union Failure to replicate the FTA with Norway | <ul style="list-style-type: none"> New FTA with Japan Removal of anti-dumping duties on ceramic tiles from China |
| Furniture and Flooring  | The EU accounts for almost half of UK imports and China for one-third. Carpets and flooring duties of 8%. Duties on furniture are much lower. | <ul style="list-style-type: none"> Tariffs on imports from the EU could total £133 million Turkey loses duty-free access when the UK leaves the customs union | <ul style="list-style-type: none"> New FTA with Vietnam |
| Sports, Toys and Leisure  | China accounts for half of UK imports. Average duty rates are only 2.52%, but bicycles 15%. | <ul style="list-style-type: none"> Tariffs on imports from EU could total £28 million Removal of anti-dumping duties on bicycles | <ul style="list-style-type: none"> New FTA with Vietnam Removal of anti-dumping duties on bicycles from China and Indonesia |
| Homewares  | China is the main supplier. Duty rates vary considerably from product to product. Rates of circa 12% for textiles and ceramics. | <ul style="list-style-type: none"> Tariffs on imports from the EU could total £72 million Turkey loses duty-free access when the UK leaves the customs union | <ul style="list-style-type: none"> Removal of anti-dumping duties on ceramic tableware from China New FTA with Vietnam |

Sector Summary: Brexit and Trade Regulation on Retail Imports

Focus on regulatory issues

| Sector | Key Issues | Sector | Key Issues |
|---|--|---|--|
|  | <ul style="list-style-type: none"> Impact of preferential rules of origin on import costs from EU Status of imports from Turkey |  | <ul style="list-style-type: none"> Compliance with veterinary checks on imports from UK Potential diversification of food safety and food packaging standards and regulations (e.g. labelling food information to customers, health claims, organic food, genetically modified food, or novel food) that may require applications for new authorisations in the UK |
|    | <ul style="list-style-type: none"> Goods imported from the EU will have to meet the new UK product safety rules: no mutual recognition of the EU CE marking and notified/certification bodies based in the EU |  | <ul style="list-style-type: none"> The authorisation and certification issued in the EU (e.g. regarding chemicals under REACH/CLP, cosmetics testing, pharmaceutical products authorisations under the centralised authorisation procedure of the European Medical Agency) might not be recognised in the UK Goods imported from the EU will have to meet the new UK product safety rules: no mutual recognition of the EU CE marking and notified/certification bodies based in the EU (e.g. medical devices) |

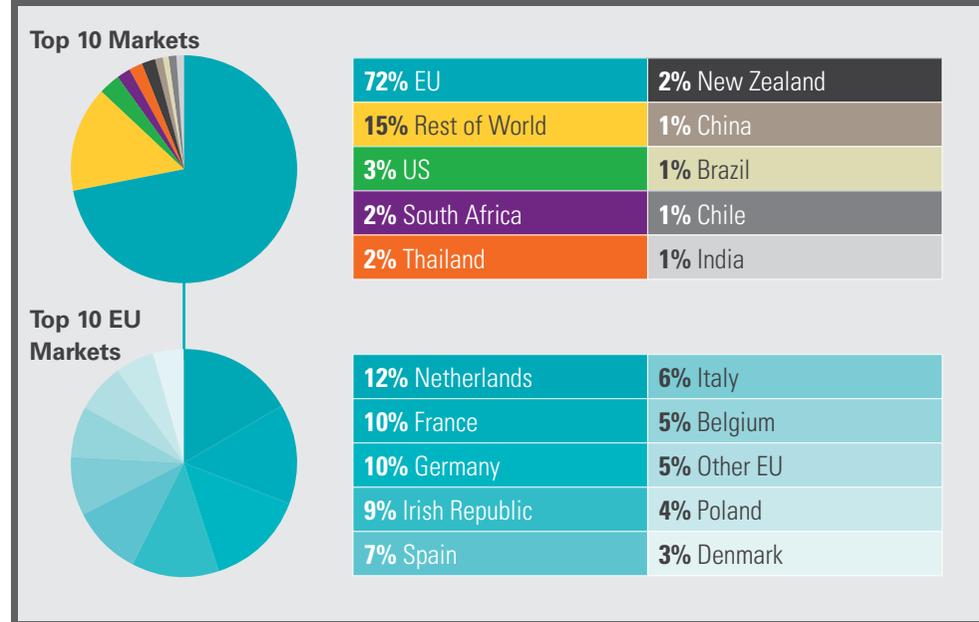


Food and Drink: Key Statistics



| | |
|---|---|
| Outlook ★★★★★ <ul style="list-style-type: none"> Threat of significant new costs on imports from EU outside customs union Limited scope for alternative sourcing | Opportunities ★★★★★ <ul style="list-style-type: none"> New FTAs with Canada and Vietnam Potential new FTA with Mercosur (Brazil) |
| Policy Progress ★★★★★ <ul style="list-style-type: none"> Negotiations with EU have not yet started FTA with Canada now in place FTA with Vietnam to be implemented 2018 FTA with Mercosur in final stages of negotiation | Possible Outcomes ★★★★★ <ul style="list-style-type: none"> Full customs union Preferential trade agreement MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £30,035 | 72% |
| US | £1,125 | 3% |
| South Africa | £710 | 2% |
| Thailand | £692 | 2% |
| New Zealand | £639 | 2% |
| China | £587 | 1% |
| Brazil | £541 | 1% |
| Chile | £481 | 1% |
| India | £429 | 1% |
| Vietnam | £403 | 1% |

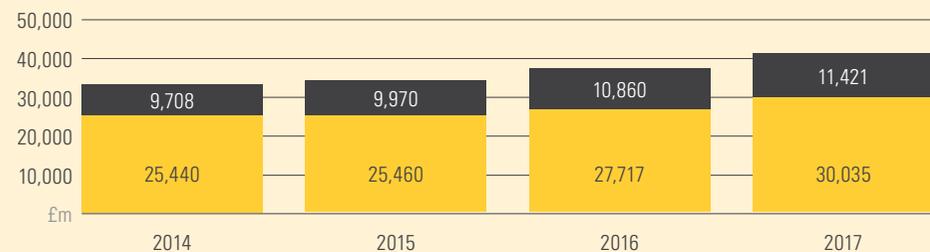


* The top pie chart is for the top 10 countries. %s may not always sum to 100% as 'Rest of the world' is treated as 'one country'. On some pies the 'rest of the world' is not featured leaving 5 under 100%.

Import statistics

| £m | 2014 | 2015 | 2016 | 2017 |
|----------------------|--------|--------|--------|--------|
| Total imports | 35,148 | 35,430 | 38,578 | 41,456 |
| EU | 25,440 | 25,460 | 27,717 | 30,035 |
| Non-EU | 9,708 | 9,970 | 10,860 | 11,421 |
| Eu share | 72% | 72% | 72% | 72% |

Imports by EU and non-EU





| Issues | Risk of new costs | Mitigation | State of play | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|---|------------|--------|-------|--------------|-------|-------|--------------------|-------|-------|------------|---------|------|--------------|---------|------|---------------------|---------|------|--------------------|-------|-------|---------------------|---------|------|---------------------|-------|-------|-------------------------|-----------|-------|--|---------|--------------|----------------------|------------|--------|-------|--------------|-------|-------|--------------------|-------|-------|------------|---------|------|--------------|---------|------|---------------------|---------|------|--------------------|-------|-------|---------------------|---------|------|---------------------|-------|-------|-------------------------|-----------|-------|--|--|
| <p>Tariffs</p> <p>● All existing trade in food and drink with the EU is duty-free. In the absence of a negotiated agreement with the EU, imports from the EU will revert to MFN terms as follows:</p> <table border="1"> <thead> <tr> <th>Product</th> <th>Tariff range</th> <th>Avg. weighted tariff</th> </tr> </thead> <tbody> <tr> <td>Meat/offal</td> <td>0-80%+</td> <td>c.40%</td> </tr> <tr> <td>Fish/seafood</td> <td>0-23%</td> <td>11.0%</td> </tr> <tr> <td>Dairy, eggs, honey</td> <td>0-80%</td> <td>c.40%</td> </tr> <tr> <td>Vegetables</td> <td>0-15.2%</td> <td>8.7%</td> </tr> <tr> <td>Fruit & nuts</td> <td>0-20.8%</td> <td>6.7%</td> </tr> <tr> <td>Coffee, tea, spices</td> <td>0-12.5%</td> <td>2.8%</td> </tr> <tr> <td>Prepared meat/fish</td> <td>0-26%</td> <td>18.1%</td> </tr> <tr> <td>Sugar/confectionary</td> <td>0-13.4%</td> <td>6.8%</td> </tr> <tr> <td>Cocoa and chocolate</td> <td>0-40%</td> <td>c.30%</td> </tr> <tr> <td>Pasta, doughs, biscuits</td> <td>8.5-12.8%</td> <td>10.7%</td> </tr> </tbody> </table> <p>Even if the UK and the EU agree a new Free Trade Agreement or Customs Union, some tariffs on food and drink may remain.</p> <p>All the EU's existing FTAs maintain some tariffs on imports of some food and drink. This includes the EU's EEA Agreement with Norway. The EU's Customs Union Agreement with Turkey excludes agricultural products, to which tariffs apply.</p> | Product | Tariff range | Avg. weighted tariff | Meat/offal | 0-80%+ | c.40% | Fish/seafood | 0-23% | 11.0% | Dairy, eggs, honey | 0-80% | c.40% | Vegetables | 0-15.2% | 8.7% | Fruit & nuts | 0-20.8% | 6.7% | Coffee, tea, spices | 0-12.5% | 2.8% | Prepared meat/fish | 0-26% | 18.1% | Sugar/confectionary | 0-13.4% | 6.8% | Cocoa and chocolate | 0-40% | c.30% | Pasta, doughs, biscuits | 8.5-12.8% | 10.7% | <p>● All existing trade in food and drink with the EU is duty-free. In the absence of a negotiated agreement with the EU, imports from the EU will revert to MFN terms as follows:</p> <table border="1"> <thead> <tr> <th>Product</th> <th>Tariff range</th> <th>Avg. weighted tariff</th> </tr> </thead> <tbody> <tr> <td>Meat/offal</td> <td>0-80%+</td> <td>c.40%</td> </tr> <tr> <td>Fish/seafood</td> <td>0-23%</td> <td>11.0%</td> </tr> <tr> <td>Dairy, eggs, honey</td> <td>0-80%</td> <td>c.40%</td> </tr> <tr> <td>Vegetables</td> <td>0-15.2%</td> <td>8.7%</td> </tr> <tr> <td>Fruit & nuts</td> <td>0-20.8%</td> <td>6.7%</td> </tr> <tr> <td>Coffee, tea, spices</td> <td>0-12.5%</td> <td>2.8%</td> </tr> <tr> <td>Prepared meat/fish</td> <td>0-26%</td> <td>18.1%</td> </tr> <tr> <td>Sugar/confectionary</td> <td>0-13.4%</td> <td>6.8%</td> </tr> <tr> <td>Cocoa and chocolate</td> <td>0-40%</td> <td>c.30%</td> </tr> <tr> <td>Pasta, doughs, biscuits</td> <td>8.5-12.8%</td> <td>10.7%</td> </tr> </tbody> </table> <p>Even if the UK and the EU agree a new Free Trade Agreement or Customs Union, some tariffs on food and drink may remain.</p> <p>All the EU's existing FTAs maintain some tariffs on imports of some food and drink. This includes the EU's EEA Agreement with Norway. The EU's Customs Union Agreement with Turkey excludes agricultural products, to which tariffs apply.</p> | Product | Tariff range | Avg. weighted tariff | Meat/offal | 0-80%+ | c.40% | Fish/seafood | 0-23% | 11.0% | Dairy, eggs, honey | 0-80% | c.40% | Vegetables | 0-15.2% | 8.7% | Fruit & nuts | 0-20.8% | 6.7% | Coffee, tea, spices | 0-12.5% | 2.8% | Prepared meat/fish | 0-26% | 18.1% | Sugar/confectionary | 0-13.4% | 6.8% | Cocoa and chocolate | 0-40% | c.30% | Pasta, doughs, biscuits | 8.5-12.8% | 10.7% | <p>The UK would be free to lower, temporarily or permanently, its MFN rates of duty.</p> <p>A widespread device used for temporarily reducing tariff rates is Tariff Rate Quota (TRQ). TRQs are specified amounts of certain products that may be imported at lower/no duty during a specified time.</p> <p>TRQs normally apply for a calendar year although some TRQs for seasonal products (e.g. cut flowers) are for shorter periods.</p> <p>Some TRQs are universal and can be used by any supplier, others are specific for certain countries.</p> <p>If a UK/EU trade agreement resulted in tariff restrictions on food and drink imports from the EU, the UK would still be able to use the mitigation mentioned above – suspension of duties/TRQs.</p> | <p>Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI)</p> <p>The UK has announced that it will transfer, as far as possible, the EU's existing MFN rates. Therefore, permanent reductions to MFN rates are unlikely at least in the short/medium term.</p> <p>Taxation (Cross-border Trade) Bill contains provisions to allow the temporary suspension of MFN tariff rates, including through the establishment of TRQs.</p> |
| Product | Tariff range | Avg. weighted tariff | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Meat/offal | 0-80%+ | c.40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fish/seafood | 0-23% | 11.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dairy, eggs, honey | 0-80% | c.40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Vegetables | 0-15.2% | 8.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fruit & nuts | 0-20.8% | 6.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coffee, tea, spices | 0-12.5% | 2.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Prepared meat/fish | 0-26% | 18.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sugar/confectionary | 0-13.4% | 6.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cocoa and chocolate | 0-40% | c.30% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pasta, doughs, biscuits | 8.5-12.8% | 10.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Product | Tariff range | Avg. weighted tariff | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Meat/offal | 0-80%+ | c.40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fish/seafood | 0-23% | 11.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dairy, eggs, honey | 0-80% | c.40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Vegetables | 0-15.2% | 8.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Coffee, tea, spices | 0-12.5% | 2.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Cocoa and chocolate | 0-40% | c.30% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pasta, doughs, biscuits | 8.5-12.8% | 10.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Rules of origin</p> | <p>Any FTA between the UK and the EU would be based upon preferential rules of origin. These rules might translate to processed food and drink being non-eligible for preferential tariff treatment.</p> | <p>Not applicable</p> | <p>UK/EU trade negotiations have not yet started.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Sanitary and Phytosanitary (SPS) checks</p> | <p>● Food and drink products from outside the EU must comply with non-trade regulations when they are imported. The most significant of these being veterinary certificates for all animal products.</p> <p>The average cost of complying with veterinary certification is around £350 per container. The bulk of the cost is the storage charge at port pending veterinary approval (£120 per day). The average time for a consignment to clear veterinary checks is two days at the port. Other food and drink products must also demonstrate compliance with other non-food regulations including pesticide residues and GMOs.</p> | <p>Veterinary checks at ports may be avoided altogether if the UK and the EU agree for the UK to remain within the EU's existing system of veterinary controls. This will mean that enforcement of veterinary controls will take place along the supply chain (as is currently the case for all meat products within the EU), not at the border. This in turn will mean that consignments will not have to be held at port pending veterinary approval.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



| Country | Import Treatment | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|---------------------|--|--|---|--|
| US | <ul style="list-style-type: none"> Import regime: MFN White wine, other beverages, fruit and vegetables are the main categories. Average tariffs around circa 15% TRQs for some fruit Negligible meat and dairy trade | <p>Low. Government announced that UK MFN rates will stay the same post-Brexit.</p> <p>Marginal increase in costs if existing TRQs for fruit are not replicated.</p> | <p>● Moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> <p>Significant US exports in categories where there is little UK production and where duty suspensions/TRQs may be possible.</p> | <ul style="list-style-type: none"> Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) 26 September 2017: US and other WTO members wrote to the UK and the EU to object to proposals for splitting existing EU TRQs post-Brexit. |
| South Africa | <ul style="list-style-type: none"> Import regime: Economic Partnership Agreement (EPA) – an FTA between a group of Southern African states and the EU Fruit is a dominant category. Significant wine exports. EPA reduces tariffs on fruit and removes tariffs on wine | <p>● Moderate. Failure to replicate the EU/SADC EPA would mean imports from South Africa revert to MFN terms.</p> <p>Renegotiating the SADC is complicated as it involves several countries.</p> | <p>● Moderate. Renegotiation of EPA may provide an opportunity to allow better access for South African wine and fruits.</p> <p>The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <ul style="list-style-type: none"> Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. Agreement in principle reached in May 2017 with members of the South African Customs Union for EPA to be extended to the UK post-Brexit. |
| Thailand | <ul style="list-style-type: none"> Import regime: MFN Prepared chicken accounts for more than half of food/drink imports from Thailand. TRQ for Thailand reduces tariff from €2.67/kg to 10.9% | <p>● Moderate. Significant increase in tariffs on processed chicken if existing TRQ is not replicated.</p> | <p>● Moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <ul style="list-style-type: none"> Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) 26 September 2017: Thailand and other WTO members wrote to the UK and the EU to object to proposals for splitting existing EU TRQs post-Brexit. |
| New Zealand | <ul style="list-style-type: none"> Import regime: MFN Wine and lamb account for the bulk of imports from New Zealand MFN rate for lamb is 12.8% plus €1.71/kg. Duty-free TRQ for New Zealand lamb | <p>● Moderate. Very significant increases in tariffs if existing TRQ on lamb is not replicated.</p> | <p>● Moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> <p>Significant New Zealand exports of wine where there is little UK production and where duty suspensions/TRQs are possible</p> | <ul style="list-style-type: none"> Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) 26 September 2017: New Zealand and other WTO members wrote to the UK and the EU to object to proposals for splitting existing EU TRQs post-Brexit. The EU is preparing to open FTA negotiations with New Zealand. New Zealand is one of three priority countries for UK bilateral FTA. Joint Trade Working Group established. |

Food and Drink: Non-EU



| Country | Import Treatment | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|----------------|--|--|--|--|
| China | <ul style="list-style-type: none"> Import regime: MFN Fish is the most significant category, accounting for more than a third of food and drink imports Tariffs on fish depend upon species; up to 22%, but typically around 15% Other imports spread across food categories; although, no meat imports because China does not have veterinary approval to sell beef, lamb or pork to the UK | <p>Low. Government announced that UK MFN rates will stay the same post-Brexit.</p> | <p>● Moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <p>Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.)</p> |
| Brazil | <ul style="list-style-type: none"> Import regime: MFN Meat and meat preparations account for more than half of food and drink imports from Brazil; significant imports of fruit (especially melons and papayas) Corned beef is subject to 16.6% tariff TRQ on prepared chicken reduces tariff from €2.67/kg to 10.9% Melons 8.8% tariff, papayas 0% | <p>● Moderate. Significant increase in tariffs on processed chicken if existing TRQ is not replicated.</p> | <p>● Moderate to high. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> <p>EU/Mercosur FTA would significantly reduce tariffs on imports of beef from Brazil.</p> | <ul style="list-style-type: none"> Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) Mercosur (a trade bloc of Latin American countries, including Brazil) is close to concluding a new FTA with the EU. The main outstanding issue is access to EU for South American beef. |
| Chile | <ul style="list-style-type: none"> Import regime: EU/Chile FTA Fruit and wine are the dominant categories FTA gives Chile partial reductions in duties on fruit and duty-free access for wine | <p>● Moderate. Increases in tariffs on wine and fruit if FTA cannot be renegotiated.</p> | <p>Moderate. Renegotiation of FTA may provide an opportunity to allow better access for Chilean fruit.</p> <p>The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <p>Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs.</p> |
| India | <ul style="list-style-type: none"> Import regime: MFN Wine and lamb account for the bulk of imports from New Zealand MFN rate for lamb is 12.8% plus €1.71/kg. Duty-free TRQ for New Zealand lamb | <p>Low. Government announced that it will seek to maintain at least the same amount of preferential access for developing countries.</p> | <p>● Moderate. Considerable scope to further reduce tariff rates on imports of rice and fish by removing from the list of "sensitive products" to which duties apply.</p> | <ul style="list-style-type: none"> Taxation (Cross-border Trade) Bill at Committee Stage. Establishes preference scheme for developing countries. DIT currently consulting on areas for improvement to operation of GSP. EU/India FTA negotiations opened in 2007. No progress since 2013. |
| Vietnam | <ul style="list-style-type: none"> GSP (transitioning to new FTA in 2018). Seafood, fruit, coffee and spices are the main categories MFN rates for seafood are 12-18%; GSP reduces rate to 5%; coffee is duty-free | <p>Low. Government announced that it will seek to maintain at least the same amount of preferential access for developing countries.</p> | <p>● High. New EU/Vietnam FTA agreed, awaiting implementation. Tariffs on seafood are to be reduced to 0% over a period of up to six years. Most fruit will be duty free as soon as the agreement enters into force</p> | <p>Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing FTAs.</p> |

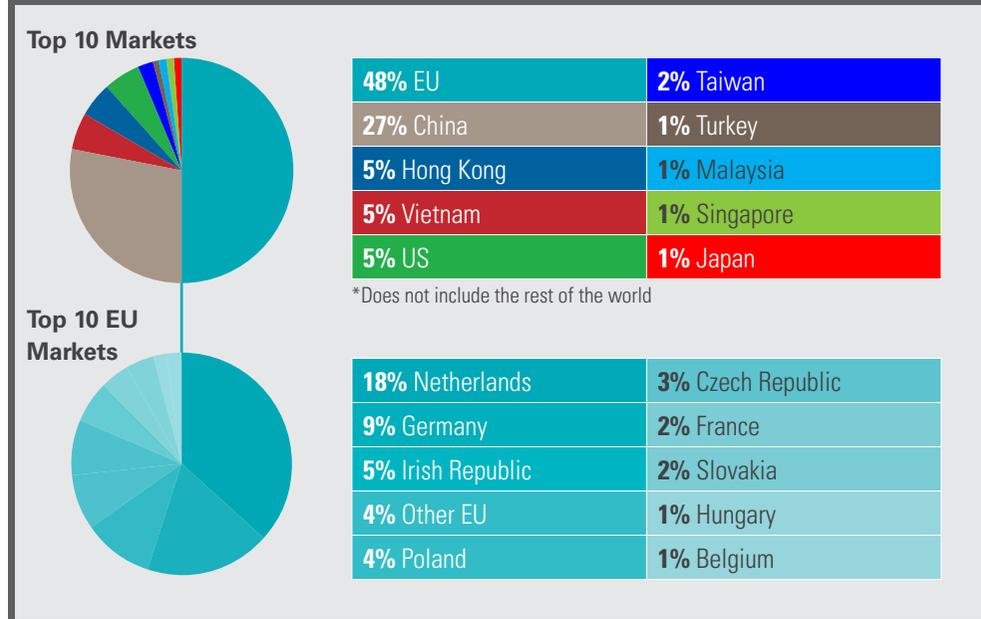
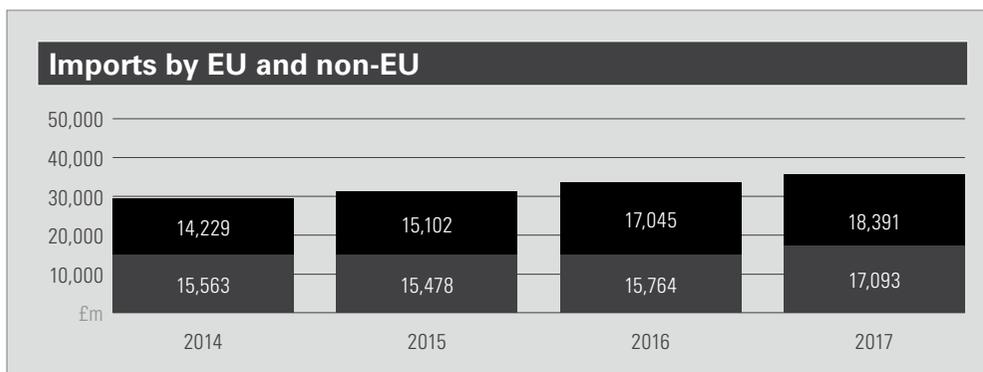
Electricals: Key Statistics



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| Outlook ★★★★★ <ul style="list-style-type: none"> • Risk of cost increases from Turkey • Rules of origin on imports from EU increase some costs | Opportunities ★★★★★ <ul style="list-style-type: none"> • Cost reductions on imports from Singapore, Japan and Vietnam |
| Policy Progress ★★★★★ <ul style="list-style-type: none"> • Negotiations with EU have not yet started • FTAs with Singapore, Japan and Vietnam to be implemented 2018/2019 | Possible Outcomes ★★★★★ <ul style="list-style-type: none"> • Full customs union • Preferential trade agreement • MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £17,093 | 48% |
| China | £9,725 | 27% |
| Vietnam | £1,776 | 5% |
| Hong Kong | £1,688 | 5% |
| US | £1,626 | 5% |
| Taiwan | £826 | 2% |
| Turkey | £504 | 1% |
| Malaysia | £335 | 1% |
| Singapore | £320 | 1% |
| Japan | £320 | 1% |

| Import statistics | | | | |
|----------------------|--------|--------|--------|--------|
| £m | 2014 | 2015 | 2016 | 2017 |
| Total imports | 29,792 | 30,580 | 32,809 | 35,484 |
| EU | 15,563 | 15,478 | 15,764 | 17,093 |
| Non-EU | 14,229 | 15,102 | 17,045 | 18,391 |
| Eu share | 52% | 51% | 48% | 48% |





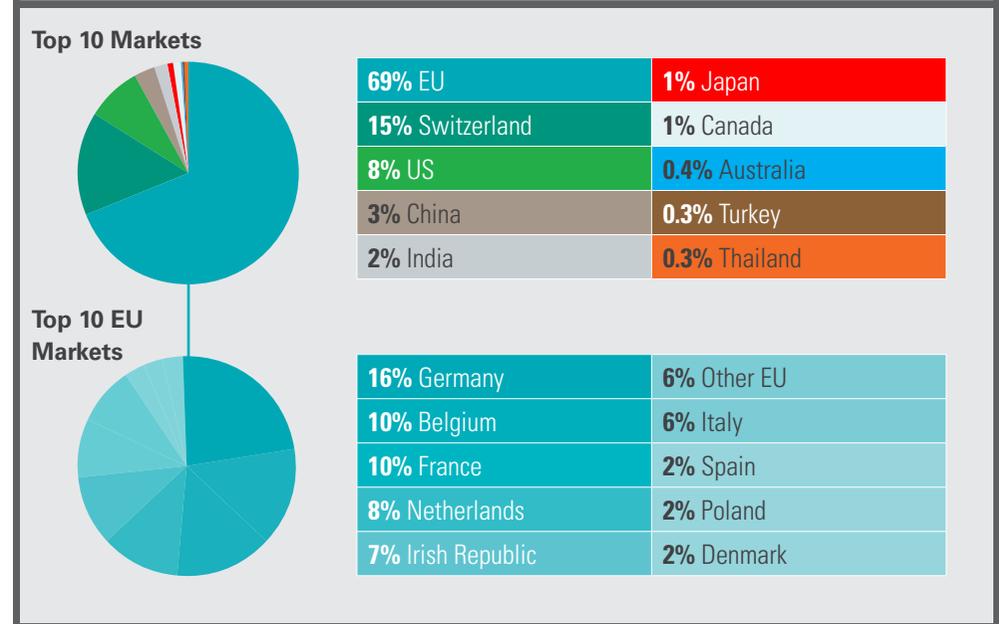
| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|--|---|---|---|--|
| EU | <ul style="list-style-type: none"> • Customs union • All tariffs: 0% | <p>● High. Tariffs revert to MFN levels in the event of no deal.</p> <p>Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| China, Hong Kong, US, Taiwan, Malaysia | <ul style="list-style-type: none"> • MFN • Tariff range: 0-14% • Average tariff: 3.14% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | Low/moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • The UK and the US held “scoping talks” on a new FTA in July and November 2017. • The UK and Hong Kong established strategic dialogue on a trade partnership in June 2017. • UK/Taiwan trade dialogue has been ongoing since 1991. • EU/Malaysia FTA negotiations opened in 2010, but were put on hold in 2012. |
| Vietnam | <ul style="list-style-type: none"> • GSP • Tariff range: 0-9.8% • Average tariff: 2% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | ● High. New EU/Vietnam FTA agreed, awaiting implementation. The agreement will reduce electricals tariffs over a period of six years, with many items gaining duty-free status as soon as the agreement is implemented. | <ul style="list-style-type: none"> • Implementation of an EU/Vietnam agreement is expected in 2018. • Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. |
| Turkey | <ul style="list-style-type: none"> • Customs union • All non-agricultural tariffs: 0% | <p>● High. In the absence of a new FTA, imports from Turkey default to MFN terms when the UK leaves the customs union.</p> <p>In the event of a UK/Turkey FTA being agreed, preferential rules of origin would apply.</p> | None. | UK/Turkey Working Group was established in November 2017 to discuss a UK/Turkey FTA. |
| Singapore | <ul style="list-style-type: none"> • MFN • Tariff range: 0-14% • Average tariff: 3.14% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | ● High. New EU/Singapore FTA will reduce all electronics tariffs to 0%. Some tariffs will be subject to phased reduction. FTA also includes agreements on standards for electronics. | EU/Singapore FTA agreed in 2014, but has not yet been implemented. |
| Japan | <ul style="list-style-type: none"> • MFN • Tariff range: 0-14% • Average tariff: 3.14% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | ● High. EU/Japan FTA will remove all tariffs on electricals; although, some (mainly TV equipment) will be phased out over six years. | <p>EU/Japan FTA agreed in December 2017. Implementation is expected before the end of 2019.</p> <p>The UK and Japan made a joint commitment to replicate the EU/Japan FTA in August 2017.</p> |

Health and Beauty: Key Statistics

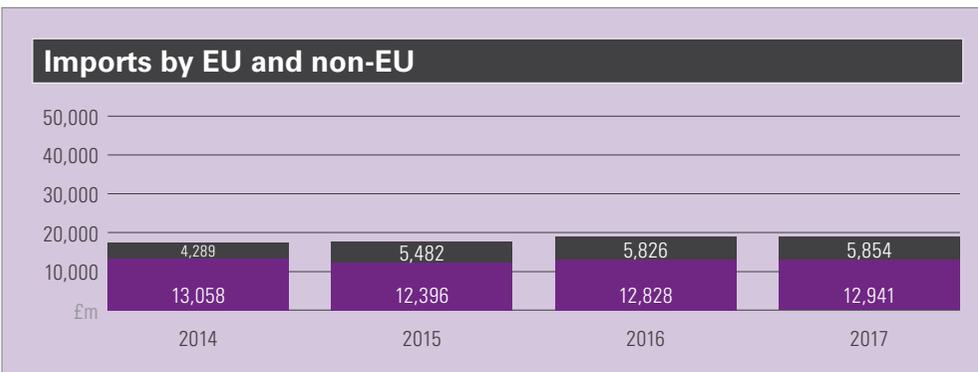


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|--|--|
| Outlook ★★★★★ <ul style="list-style-type: none"> Sector least affected by Brexit because most products are already duty-free | Opportunities ★★★★★ <ul style="list-style-type: none"> EU/Japan FTA removes remaining duties on shaving/deodorants |
| Policy Progress ★★★★★ <ul style="list-style-type: none"> Negotiations with EU have not yet started FTA with Japan to be implemented by 2019 | Possible Outcomes ★★★★★ <ul style="list-style-type: none"> Full customs union Preferential trade agreement MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £12,941 | 69% |
| Switzerland | £2,910 | 15% |
| US | £1,465 | 8% |
| China | £474 | 3% |
| India | £348 | 2% |
| Japan | £97 | 1% |
| Canada | £90 | 1% |
| Australia | £70 | 0.4% |
| Turkey | £63 | 0.3% |
| Thailand | £51 | 0.3% |



| Import statistics | | | | |
|----------------------|--------|--------|--------|--------|
| £m | 2014 | 2015 | 2016 | 2017 |
| Total imports | 17,347 | 17,877 | 18,654 | 18,795 |
| EU | 13,058 | 12,396 | 12,828 | 12,941 |
| Non-EU | 4,289 | 5,482 | 5,826 | 5,854 |
| Eu share | 75% | 69% | 69% | 69% |



Health and Beauty



| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|---------------------------------------|---|--|---|--|
| EU | <ul style="list-style-type: none"> Customs union All tariffs: 0% | <p>● High. Tariffs revert to MFN levels in the event of no deal. Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| Switzerland | <ul style="list-style-type: none"> EU Switzerland FTA All non-agricultural tariffs: 0% | <p>● Moderate. Failure to extend the existing EU/Switzerland deal post-Brexit would mean imports from Switzerland revert to MFN terms.</p> | None. | <ul style="list-style-type: none"> Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. Switzerland “wishes to ensure that the existing mutual rights and obligation in its relationship with the UK will continue to apply after the UK leaves the EU”. |
| US, China, Australia, Thailand | <ul style="list-style-type: none"> MFN Tariff range: 0-6.5% Average tariff: 1.25% Most health and beauty goods are duty-free; shaving and deodorants are 6.5% | Very low. Government announced that UK MFN rates will stay the same post-Brexit. | Low/moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) The EU and Australia concluded a “scoping exercise” for a future FTA. Formal negotiations have not yet started. EU/Thailand FTA negotiations were suspended in 2013. The UK and the US held “scoping talks” on a new FTA in July and November 2017. |
| India | <ul style="list-style-type: none"> GSP All health and beauty tariffs: 0% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | None. India already enjoys duty-free access for health and beauty products. | Taxation (Cross-border Trade) Bill at Committee Stage. Establishes duty-free imports from LDCs. |
| Japan | <ul style="list-style-type: none"> MFN (transitioning to FTA) Tariff range: 0-6.5% Average tariff: 1.25% | Very low. Government announced that UK MFN rates will stay the same post-Brexit. | ● High. EU/Japan FTA will immediately remove all remaining tariffs on health and beauty. | <p>EU/Japan FTA was agreed in December 2017. Implementation is expected before the end of 2019.</p> <p>The UK and Japan made a joint commitment to replicate the EU/Japan FTA in August 2017.</p> |
| Canada | <ul style="list-style-type: none"> EU/Canada FTA All health and beauty tariffs: 0% | <p>● Moderate. Failure to replicate the EU/Canada deal will mean imports from Canada will revert to MFN rates.</p> | None. | Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. |
| Turkey | <ul style="list-style-type: none"> Customs union All non-agricultural tariffs: 0% | <p>● High. In the absence of a new FTA, imports from Turkey default to MFN terms when the UK leaves the customs union. In the event of a UK/Turkey FTA being agreed, preferential rules of origin would apply.</p> | None. | UK/Turkey Working Group was established in November 2017 to discuss a UK/Turkey FTA. |

Clothing and Footwear: Key Statistics



Outlook



- Risk of cost increase from Turkey
- Costs for other main non-EU suppliers unlikely to change
- Rules of origin on imports from EU increase some costs

Opportunities



- Better access for larger developing countries (e.g. India)

Policy Progress



- Negotiations with EU have not yet started
- Customs & Trade Bills at Committee Stage

Possible Outcomes

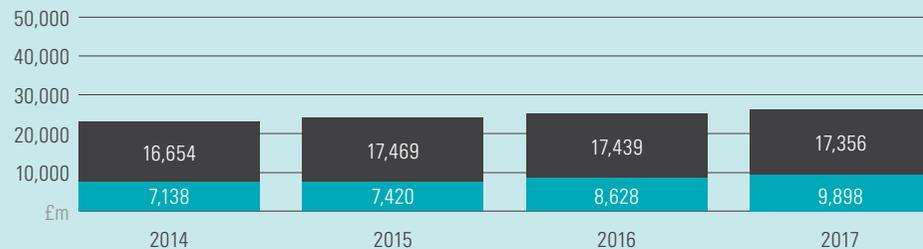


- Full customs union
- Preferential trade agreement
- MFN rules

Import statistics

| £m | 2014 | 2015 | 2016 | 2017 |
|----------------------|--------|--------|--------|--------|
| Total imports | 23,792 | 24,889 | 26,067 | 27,255 |
| EU | 7,138 | 7,420 | 8,628 | 9,898 |
| Non-EU | 16,654 | 17,469 | 17,439 | 17,356 |
| Eu share | 30% | 30% | 33% | 36% |

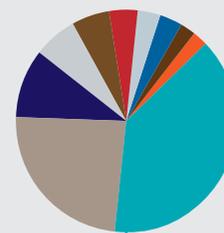
Imports by EU and non-EU



Top 10 Markets

| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
|------------------------|---------------------|------------------|
| EU | £9,898 | 36% |
| China | £5,998 | 22% |
| Bangladesh | £2,545 | 9% |
| India | £1,511 | 6% |
| Turkey | £1,444 | 5% |
| Vietnam | £1,024 | 4% |
| Cambodia | £877 | 3% |
| Hong Kong | £861 | 3% |
| Sri Lanka | £563 | 2% |
| Pakistan | £557 | 2% |

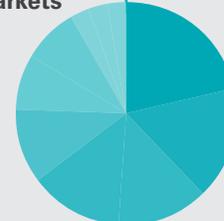
Top 10 Markets



| | |
|----------------------|---------------------|
| 36% EU | 4% Vietnam |
| 22% China | 3% Cambodia |
| 9% Bangladesh | 3% Hong Kong |
| 6% India | 2% Sri Lanka |
| 5% Turkey | 2% Pakistan |

*Does not include the rest of the world

Top 10 EU Markets



| | |
|-----------------------|--------------------------|
| 8% Italy | 3% Spain |
| 9% Germany | 3% Other EU |
| 5% Netherlands | 1% Romania |
| 5% France | 1% Portugal |
| 4% Belgium | 1% Irish Republic |

Clothing and Footwear



| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|--------------------------------|--|--|---|--|
| EU | <ul style="list-style-type: none"> • Customs union • All tariffs: 0% | <p>● High. Tariffs revert to MFN levels in the event of no deal. Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| China and Hong Kong | <ul style="list-style-type: none"> • MFN • Tariff range: 3-17% • Average tariff: 11.28% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | Low to moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) |
| India | <ul style="list-style-type: none"> • GSP • Tariff range: 0-13.5% • Average tariff: 9.6% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | <p>● Moderate. Considerable scope to further reduce tariff rates on imports from India by removing clothing and footwear from the list of "sensitive products" to which duties apply.</p> | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes preference scheme for developing countries. • Department for Trade and Industry (DTI) is currently consulting on areas for improvement to operation of GSP. • EU/India FTA negotiations opened in 2007. No progress since 2013. |
| Bangladesh and Cambodia | <ul style="list-style-type: none"> • Everything But Arms (EBA) • All tariffs: 0% | None. Government committed to duty-free imports from all least developed countries (LDCs). | None. Bangladesh and Cambodia already enjoy across-the-board duty-free access to the UK. | Taxation (Cross-border Trade) Bill at Committee Stage. Establishes duty-free imports from LDCs. |
| Turkey | <ul style="list-style-type: none"> • Customs union • All non-agricultural tariffs: 0% | <p>● High. In the absence of a new FTA, imports from Turkey default to MFN terms when the UK leaves the customs union. In the event of a UK/Turkey FTA being agreed, preferential rules of origin would apply.</p> | None. | UK/Turkey Working Group was established in November 2017 to discuss a UK/Turkey FTA. |
| Vietnam | <ul style="list-style-type: none"> • GSP (transitioning to new FTA in 2018) • Tariff range 0-13.5% • Average tariff: 9.6% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | <p>● High. New EU/Vietnam FTA agreed, awaiting implementation. The agreement will reduce clothing and footwear tariffs over a period of eight years.</p> | Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. |
| Sri Lanka and Pakistan | <ul style="list-style-type: none"> • GSP+ • All clothing and footwear tariffs: 0% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | Low. Sri Lanka and Pakistan already receive duty-free access for all clothing and footwear. Potential improvements to access through more relaxed rules of origin. | Taxation (Cross-border Trade) Bill at Committee Stage. Provides for differentiated treatment for developing countries based upon compliance with non-trade rules (i.e. similar criteria to existing GSP+ regime). |

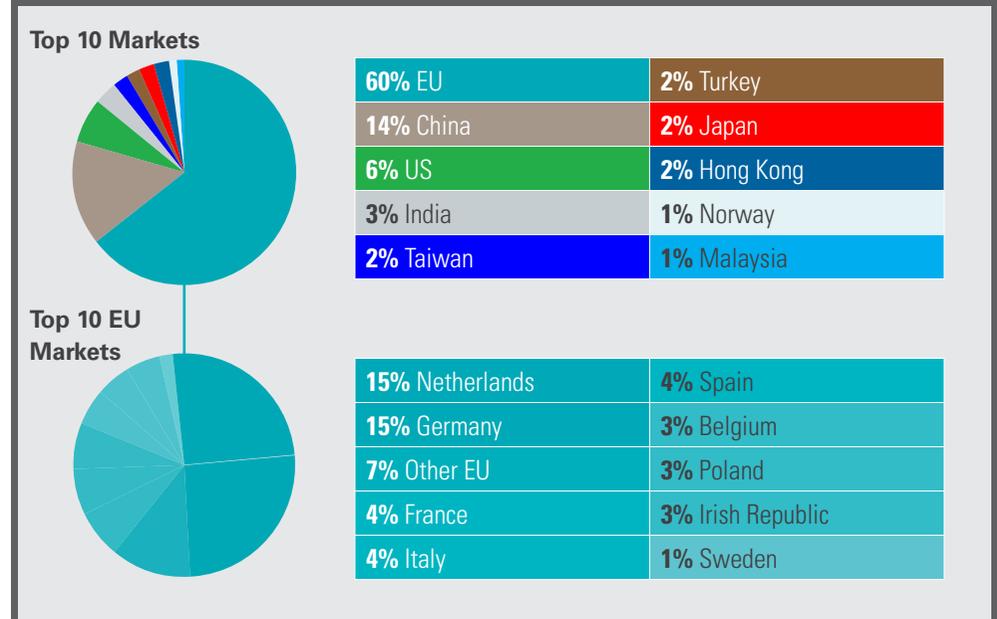
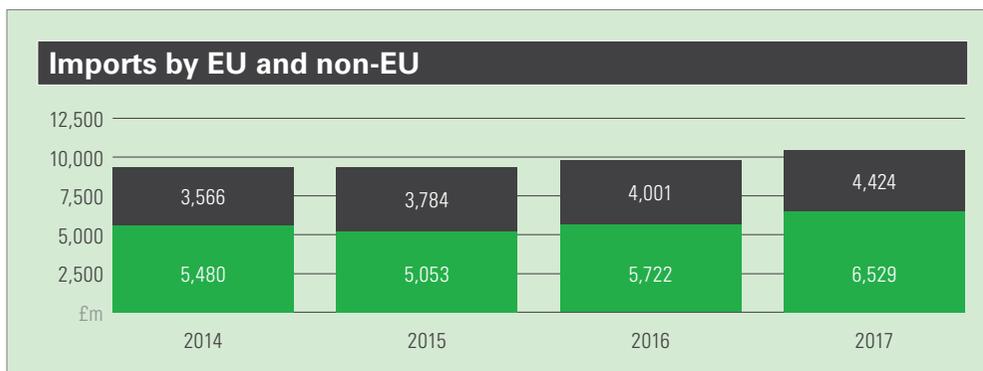
DIY and Gardening: Key Statistics



| | |
|---|--|
| Outlook ★★★★★ <ul style="list-style-type: none"> • Most non-EU sources likely to be unaffected by Brexit outcome • Most tariffs already quite low | Opportunities ★★★★★ <ul style="list-style-type: none"> • Removal of anti-dumping duties on ceramic tiles |
| Policy Progress ★★★★★ <ul style="list-style-type: none"> • Negotiations with EU have not yet started • DIT consulting on extension of existing anti-dumping measures | Possible Outcomes ★★★★★ <ul style="list-style-type: none"> • Full customs union • Preferential trade agreement • MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £6,529 | 60% |
| China | £1,586 | 14% |
| US | £647 | 6% |
| India | £327 | 3% |
| Taiwan | £258 | 2% |
| Turkey | £215 | 2% |
| Japan | £178 | 2% |
| Hong Kong | £171 | 2% |
| Norway | £120 | 1% |
| Malaysia | £84 | 1% |

| Import statistics | | | | |
|----------------------|-------|-------|-------|--------|
| £m | 2014 | 2015 | 2016 | 2017 |
| Total imports | 9,046 | 8,837 | 9,723 | 10,953 |
| EU | 5,480 | 5,053 | 5,722 | 6,529 |
| Non-EU | 3,566 | 3,784 | 4,001 | 4,424 |
| Eu share | 61% | 57% | 59% | 60% |



DIY and Gardening



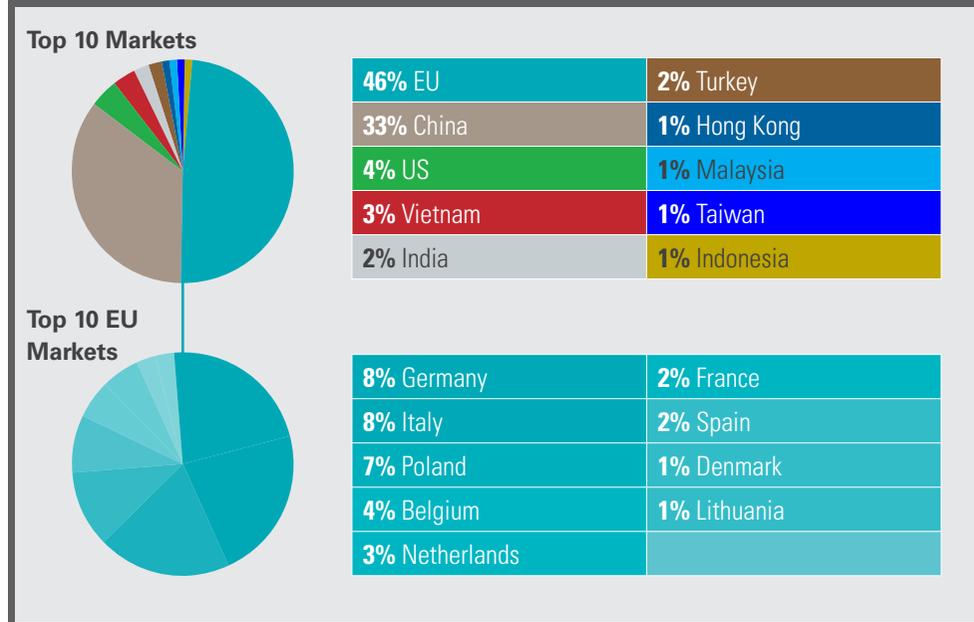
| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|--|--|--|--|--|
| EU | <ul style="list-style-type: none"> • Customs union • No tariffs | <p>● High. Tariffs revert to MFN levels in the event of no deal. Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| China | <ul style="list-style-type: none"> • MFN • Tariff range: 0-10.9% • Average tariff: 3.32% • Anti-dumping duties on ceramic tiles 30-69.7% | Very low. Government announced that UK MFN rates will stay the same post-Brexit. | <p>● Moderate to high. The UK is to review all existing anti-dumping measures. This may lead to removal or reduction in duties on ceramic tiles. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • The Trade Bill establishes Trade Remedies Authority responsible for anti-dumping measures. • Consultation on existing anti-dumping measures are not yet started. |
| US, Taiwan, Hong Kong, Malaysia | <ul style="list-style-type: none"> • MFN • Tariff range: 0-10.9% • Average tariff: 3.32% | Very low. Government announced that UK MFN rates will stay the same post-Brexit. | Low to moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • EU/Malaysia FTA negotiations opened in 2010. No progress since 2012. • The UK and the US held “scoping talks” on a new FTA in July and November 2017. • The UK and Hong Kong established strategic dialogue on a trade partnership in June 2017. • UK/Taiwan trade dialogue has been ongoing since 1991. |
| India | <ul style="list-style-type: none"> • GSP • Tariff range: 0-7.4% • Average tariff: 1.5% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | Low to moderate. Many DIY and gardening products are already duty-free. Some scope for further reduction by removing DIY and gardening products from the list of “sensitive products” to which duties apply. | Taxation (Cross-border Trade) Bill at Committee Stage. Establishes preference scheme for developing countries. |
| Turkey | <ul style="list-style-type: none"> • Customs union • All non-agricultural tariffs: 0% • 0% on horticultural and cut flowers | <p>● High. In the absence of a new FTA, imports from Turkey default to MFN terms when the UK leaves the customs union. In the event of a UK/Turkey FTA being agreed, preferential rules of origin would apply.</p> | None. | UK/Turkey Working Group was established in November 2017 to discuss a UK/Turkey FTA. |
| Japan | <ul style="list-style-type: none"> • MFN (transitioning to FTA) • Tariff range: 0-10.9%. • Average tariff: 3.32 | Very low. Government announced that UK MFN rates will stay the same post-Brexit. | <p>● High. EU/Japan FTA will remove immediately all remaining tariffs on DIY and gardening products.</p> | <ul style="list-style-type: none"> • EU/Japan FTA was agreed in December 2017. Implementation is expected before the end of 2019. • The UK and Japan made a joint commitment to replicate the EU/Japan FTA in August 2017. |
| Norway | <ul style="list-style-type: none"> • EEA (Single Market) • All non-agricultural tariffs 0% | <p>● Moderate to high. Future free trade with Norway would require a new FTA or membership of EFTA.</p> | None. | |

Furniture and Flooring: Key Statistics

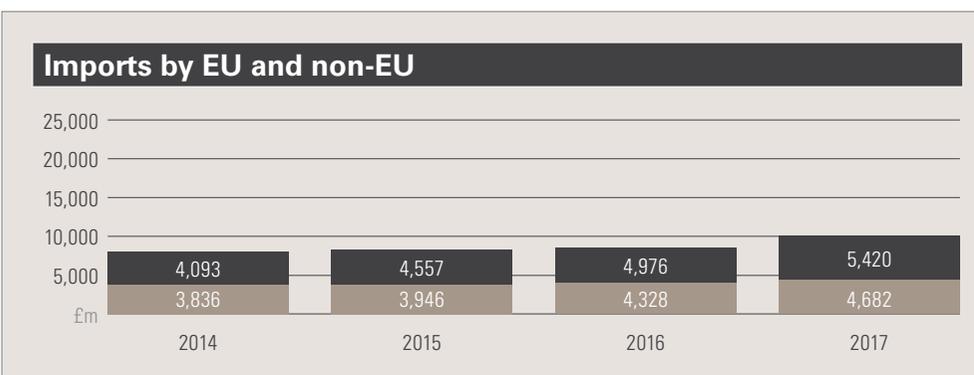


| | |
|--|--|
| Outlook ★★★★★ <ul style="list-style-type: none"> Furniture subject to low duties and unlikely to be significantly affected by Brexit. Carpets/flooring more at risk | Opportunities ★★★★★ <ul style="list-style-type: none"> Lower duties on imports of carpets from Indonesia and India Lower duties from Vietnam as a result of new FTA |
| Policy Progress ★★★★★ <ul style="list-style-type: none"> Negotiations with EU have not yet started FTA with Vietnam to be implemented 2018 | Possible Outcomes ★★★★★ <ul style="list-style-type: none"> Full customs union Preferential trade agreement MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £4,682 | 46% |
| China | £3,361 | 33% |
| US | £416 | 4% |
| Vietnam | £281 | 3% |
| India | £169 | 2% |
| Turkey | £166 | 2% |
| Hong Kong | £124 | 1% |
| Malaysia | £115 | 1% |
| Taiwan | £76 | 1% |
| Indonesia | £65 | 1% |



| Import statistics | | | | |
|----------------------|-------|-------|-------|--------|
| £m | 2014 | 2015 | 2016 | 2017 |
| Total imports | 7,929 | 8,503 | 9,304 | 10,102 |
| EU | 3,836 | 3,946 | 4,328 | 4,682 |
| Non-EU | 4,093 | 4,557 | 4,976 | 5,420 |
| Eu share | 48% | 46% | 47% | 46% |



Furniture and Flooring



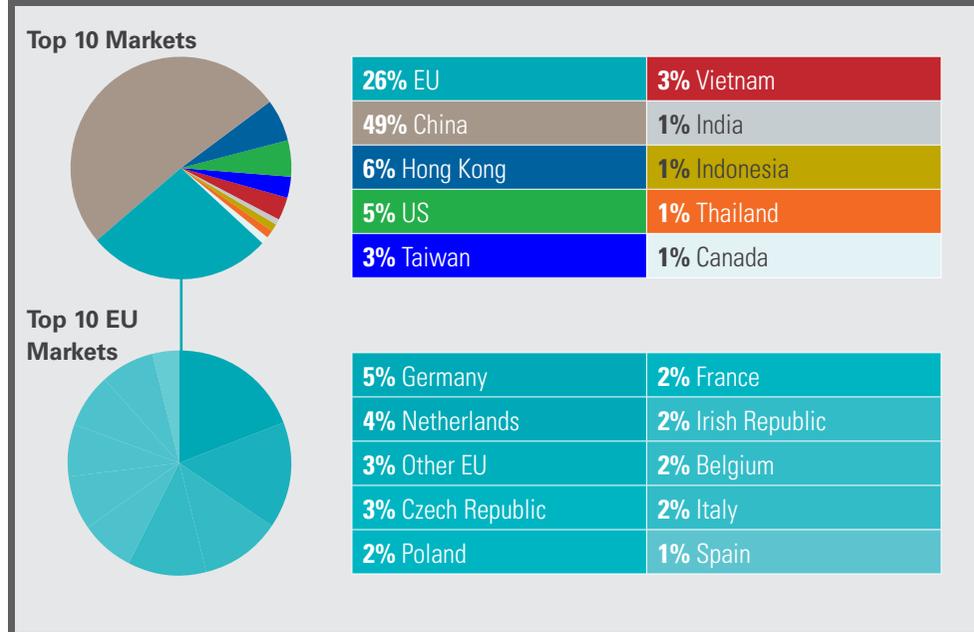
| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|--|---|--|--|--|
| EU | <ul style="list-style-type: none"> • Customs union • All tariffs: 0% | <p>● High. Tariffs revert to MFN levels in the event of no deal. Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| China, Hong Kong, US, Taiwan, Malaysia | <ul style="list-style-type: none"> • MFN • Tariff range: 0-8% • Average tariff: 4.13% • Carpets and flooring attract consistently higher tariff rates (8%) than other furniture | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | Low to moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • The UK and the US held "scoping talks" on a new FTA in July and November 2017. • The UK and Hong Kong established strategic dialogue on a trade partnership in June 2017. • UK/Taiwan trade dialogue has been ongoing since 1991. • EU/Malaysia FTA negotiations opened in 2010, but were put on hold in 2012. |
| Vietnam | <ul style="list-style-type: none"> • GSP • Tariff range: 0-6.4% • Average tariff: 3.5% • Most furniture is duty-free | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | ● High. New EU/Vietnam FTA agreed, awaiting implementation. When implemented, the agreement will immediately remove almost all tariffs on carpets and furniture. | <ul style="list-style-type: none"> • Implementation of an EU/Vietnam agreement is expected in 2018. • Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. |
| India and Indonesia | <ul style="list-style-type: none"> • GSP • Tariff range: 0-6.4% • Average tariff: 3.5% • Most furniture is duty-free | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | ● Moderate. India and Indonesia would benefit from any decision to remove carpets and flooring from the list of "sensitive" products to which tariffs apply. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes legal basis for granting tariff preferences to developing countries. • EU/India FTA negotiations opened in 2007, but have made little progress in the last five years. • EU/Indonesia FTA negotiations opened in July 2016. Relatively slow progress. |
| Turkey | <ul style="list-style-type: none"> • Customs union • All non-agricultural tariffs: 0% | <p>● High. In the absence of a new FTA, imports from Turkey default to MFN terms when the UK leaves the customs union. In the event of a UK/Turkey FTA being agreed, preferential rules of origin would apply.</p> | None. | UK/Turkey Working Group was established in November 2017 to discuss a UK/Turkey FTA. |

Sports, Toys and Leisure: Key Statistics

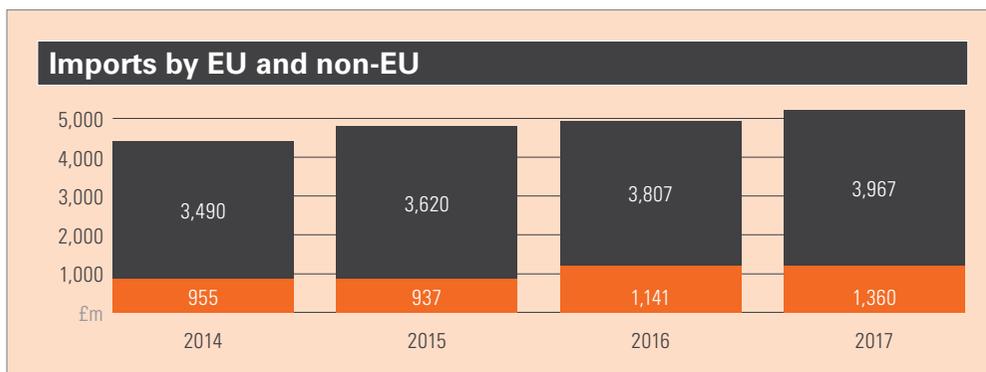


| | |
|---|--|
| Outlook ★ | Opportunities ★★★ |
| <ul style="list-style-type: none"> Impact of Brexit limited for most products because tariffs are already low Bicycles are the exception | <ul style="list-style-type: none"> Removal of Anti-dumping duties on imports of bicycles from China and Indonesia Canada and Vietnam FTAs to progressively lower duties on sports toys and leisure |
| Policy Progress ★ | Possible Outcomes ★★ |
| <ul style="list-style-type: none"> Negotiations with EU have not yet started Canada FTA in place Vietnam FTA implemented in 2018 DIT consulting on extension of existing EU anti-dumping measures | <ul style="list-style-type: none"> Full customs union Preferential trade agreement MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £1,360 | 26% |
| China | £2,631 | 49% |
| Hong Kong | £317 | 6% |
| US | £283 | 5% |
| Taiwan | £165 | 3% |
| Vietnam | £161 | 3% |
| India | £45 | 1% |
| Indonesia | £44 | 1% |
| Thailand | £42 | 1% |
| Canada | £33 | 1% |



| Import statistics | | | | |
|----------------------|-------|-------|-------|-------|
| £m | 2014 | 2015 | 2016 | 2017 |
| Total imports | 4,444 | 4,557 | 4,948 | 5,328 |
| EU | 955 | 937 | 1,141 | 1,360 |
| Non-EU | 3,490 | 3,620 | 3,807 | 3,967 |
| Eu share | 21% | 21% | 23% | 26% |



Sports, Toys and Leisure



| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|--|--|--|--|--|
| EU | <ul style="list-style-type: none"> • Customs union • No tariffs | <p>● High. Tariffs revert to MFN levels in the event of no deal. Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| China | <ul style="list-style-type: none"> • MFN • Tariff range: 0-15% • Average tariff: 2.52% • Anti-dumping duties on bicycles up to 48.5% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | <p>● Moderate to high. The UK is to review all existing EU anti-dumping measures. This may lead to removal of anti-dumping duties on bicycles. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) The Bill establishes Trade Remedies Authority responsible for anti-dumping measures. • Consultation on maintaining existing anti-dumping measures has not yet started. |
| Hong Kong, US, Taiwan, Thailand | <ul style="list-style-type: none"> • MFN • Tariff range: 0-15% • Average tariff: 2.52% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | Low to moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • EU/Thailand FTA negotiations were suspended in 2013. • The UK and the US held "scoping talks" on a new FTA in July and November 2017. • The UK and Hong Kong established strategic dialogue on a trade partnership in June 2017. • UK/Taiwan trade dialogue has been ongoing since 1991. |
| Vietnam | <ul style="list-style-type: none"> • GSP • Tariff range: 0-10.5% • Average tariff: 2% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | <p>● High. New EU/Vietnam FTA agreed, awaiting implementation. This will reduce tariffs on bicycles over a period of six years. All other toys, sports and games will receive duty-free treatment immediately.</p> | <ul style="list-style-type: none"> • Implementation of an EU/Vietnam agreement is expected in 2018. • Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. |
| India and Indonesia | <ul style="list-style-type: none"> • GSP • Tariff range: 0-10.5% • Average tariff: 2% • Anti-dumping duties on bicycles from Indonesia up to 48.5% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | <p>Moderate. Most toys, games and sports equipment are already duty-free under GSP regime. The UK is to review all existing EU anti-dumping measures. This may lead to removal of anti-dumping duties on bicycles from Indonesia. Scope for further reduction on tariff rates from India and Indonesia by removing bicycles from the list of sensitive products to which duties apply.</p> | Taxation (Cross-border Trade) Bill at Committee Stage. Establishes preference scheme for developing countries. The Bill establishes Trade Remedies Authority responsible for anti-dumping measures. |
| Canada | <ul style="list-style-type: none"> • EU/Canada FTA • All sports and leisure tariffs: 0% | <p>● Moderate. Failure to replicate the EU/Canada deal will mean imports from Canada will revert to MFN rates.</p> | None. | <ul style="list-style-type: none"> • Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. • UK Canada Trade Working Group established. |

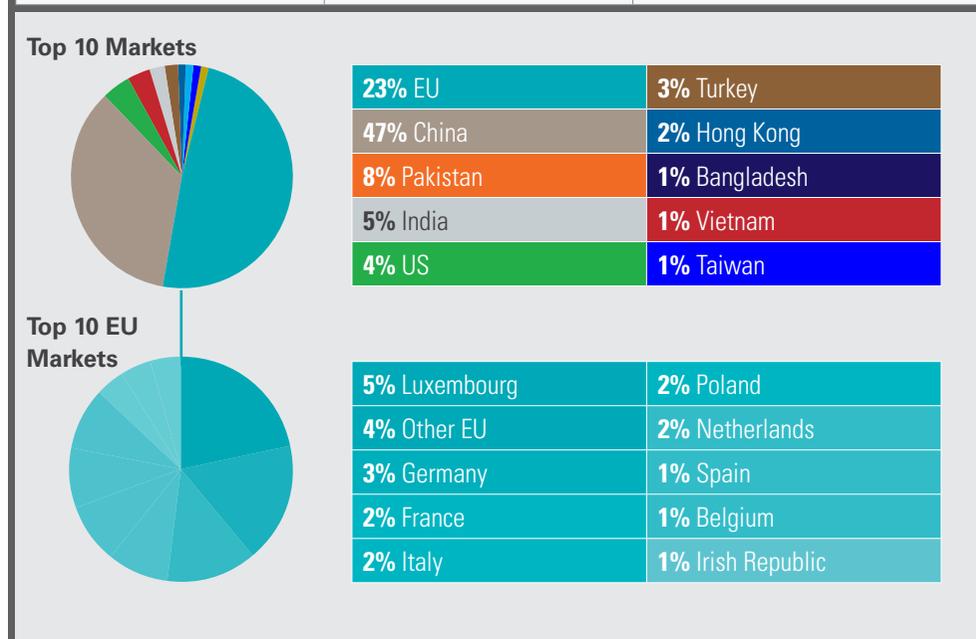
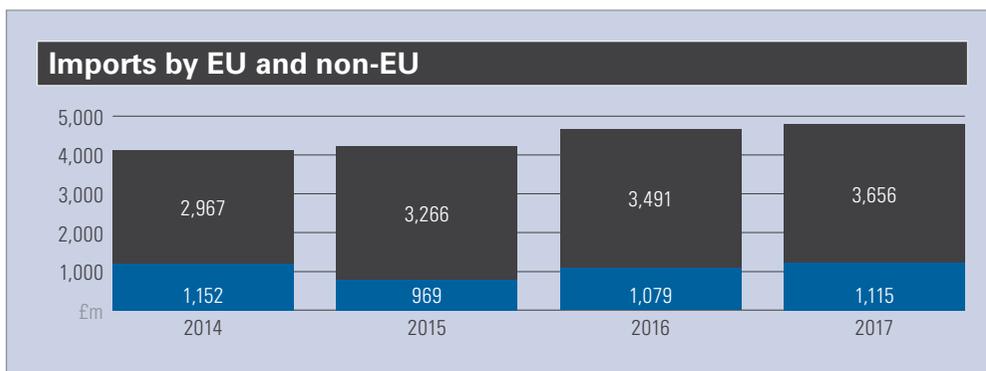
Homewares: Key Statistics



| | |
|---|--|
| Outlook ★★★★★ <ul style="list-style-type: none"> Impact will vary from product to product according to rate of duty Risk of cost increases from Turkey | Opportunities ★★★★★ <ul style="list-style-type: none"> Removal of Anti-dumping duties on ceramic tableware Tariff reductions on household linens from India |
| Policy Progress ★★★★★ <ul style="list-style-type: none"> Negotiations with EU have not yet started Customs & Trade Bills at Committee Stage DIT consulting on extension of existing anti-dumping measures | Possible Outcomes ★★★★★ <ul style="list-style-type: none"> Full customs union Preferential trade agreement MFN rules |

| Top 10 Markets | | |
|------------------------|---------------------|------------------|
| Top 10 markets in 2017 | Imports (£millions) | % of Total Trade |
| EU | £1,115 | 23% |
| China | £2,219 | 47% |
| Pakistan | £399 | 8% |
| India | £258 | 5% |
| US | £191 | 4% |
| Turkey | £121 | 3% |
| Hong Kong | £91 | 2% |
| Bangladesh | £58 | 1% |
| Vietnam | £48 | 1% |
| Taiwan | £43 | 1% |

| Import statistics | | | | |
|----------------------|-------|-------|-------|-------|
| £m | 2014 | 2015 | 2016 | 2017 |
| Total imports | 4,119 | 4,235 | 4,570 | 4,771 |
| EU | 1,152 | 969 | 1,079 | 1,115 |
| Non-EU | 2,967 | 3,266 | 3,491 | 3,656 |
| Eu share | 28% | 23% | 24% | 23% |





| Country | Tariff Regime | Risk of Tariff Increases | Opportunities for Tariff Reductions | State of Play |
|------------------------------|--|---|--|--|
| EU | <ul style="list-style-type: none"> • Customs union • No tariffs | <p>● High. Tariffs revert to MFN levels in the event of no deal. Preferential rules of origin would apply to any UK/EU FTA.</p> | None. | UK/EU trade negotiations have not yet started. |
| China | <ul style="list-style-type: none"> • MFN • Tariff range: 0-12% • Average tariff: 8.52% • Anti-dumping duties up to 36.10% on ceramic tableware | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | <p>● Moderate to high. The UK is to review all existing EU anti-dumping measures. This may lead to removal or reduction in duties on ceramic tableware.</p> <p>The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates.</p> | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • Trade Bill establishes Trade Remedies Authority responsible for anti-dumping measures. • Consultation on existing anti-dumping measures has not yet started. |
| Pakistan | <ul style="list-style-type: none"> • GSP+ • All homeware tariffs: 0% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | None. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes preference scheme for developing countries. • DTI is currently consulting on areas for improvement to operation of GSP. |
| India | <ul style="list-style-type: none"> • GSP • Tariff range: 0-9.6% • Average tariff: 6% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | <p>● Moderate. Considerable scope to further reduce tariff rates by removing bed/table linen and ceramic tableware from the list of GSP “sensitive products” to which duties apply.</p> | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes duty-free imports from LDCs. • EU/India FTA negotiations opened in 2007. No progress since 2013. |
| US, Hong Kong, Taiwan | <ul style="list-style-type: none"> • MFN • Tariff range: 0-12% • Average tariff: 8.52% | Very low. Government announced that UK MFN tariff rates will stay the same post-Brexit. | Low to moderate. The Taxation (Cross-border Trade) Bill contains provisions to allow temporary suspension of MFN tariff rates. | <ul style="list-style-type: none"> • Taxation (Cross-border Trade) Bill at Committee Stage. Establishes UK MFN regime. (Individual tariff rates established through SI.) • The US and the UK held “scoping talks” on a new FTA in July and November 2017. • The UK and Hong Kong established strategic dialogue on a trade partnership in June 2017. • UK/Taiwan trade dialogue has been ongoing since 1991. |
| Turkey | <ul style="list-style-type: none"> • Customs union • All non-agricultural tariffs: 0% | <p>● High. In the absence of a new FTA, imports from Turkey default to MFN terms when the UK leaves the customs union.</p> <p>In the event of a UK/Turkey FTA being agreed, preferential rules of origin would apply.</p> | None. | UK/Turkey Working Group was established in November 2017 to discuss a UK/Turkey FTA. |
| Bangladesh | <ul style="list-style-type: none"> • Everything But Arms (EBA) • All tariff: 0 | None. Government committed to duty-free imports from all LDCs. | None. | Taxation (Cross-border Trade) Bill at Committee Stage. Establishes duty-free imports from LDCs. |
| Vietnam | <ul style="list-style-type: none"> • GSP (transitioning to FTA) • Tariff range: 0-9.6% • Average tariff: 6% | Low. Government announced that it will seek to maintain at least the same level of preferential access for developing countries. | <p>● High. New EU/Vietnam FTA agreed, awaiting implementation. The agreement will remove tariffs on homewares over a period of six years.</p> | <ul style="list-style-type: none"> • Trade Bill at Committee Stage. Provides authority for the UK to renegotiate existing EU FTAs. • UK/Vietnam trade consultations were on 4 December 2017. |

Trade Terms: Understanding Trade Vocabulary

| Trade Term | Summary | Further Detail |
|--|--|--|
| Anti-Dumping/ Trade Defence | Most exceptions to the MFN rule allow countries to reduce the amount of duty they apply to one another. In contrast, trade defence (anti-dumping) allows countries to apply additional duties to imports that are found to have been unfairly traded (dumped). Countries may only use anti-dumping following a detailed investigation that proves injurious dumping. | Anti-dumping duties apply in addition to any standard tariffs that apply and can be very high. The EU currently applies around 100 anti-dumping measures, with a handful on consumer goods, most notably ceramic tableware and bicycles. For example: <ul style="list-style-type: none"> • Bicycles with ball bearings (HS Code 871200) • 14% MFN duty + 48.5% anti-dumping duty on China |
| Customs Union | An exception to MFN, customs unions are explicitly permitted by the WTO. Individual countries may agree to join together in a customs union, which allows them to trade amongst themselves without tariffs and apply a common tariff schedule to imports from outside. The EU is a customs union. | The requirement to apply a common tariff effectively means that individual members of a customs union are unable to negotiate trade agreements with countries outside the customs union, as individually, they have no scope to vary tariff rates and therefore have nothing to offer in negotiations. |
| Duty Suspensions and Tariff Rate Quotas | WTO rules allow WTO members to temporarily reduce/remove their MFN rates. For non-food products, the main device used for this is tariff suspension. The key point here is that the suspension must apply equally to all WTO members. | For food and drink products, a common device to reduce duty rates is Tariff Rate Quota (TRQ). TRQs allow specified amounts of products at reduced removed rates of duty. TRQs normally apply for a calendar year; although, TRQs for some highly seasonal products can apply for much shorter periods. Some TRQs are generally available. Others are country-specific. |
| FTA Free Trade Agreements | An exception to MFN, FTAs are explicitly permitted by the WTO. FTAs are agreements that reduce/remove tariffs on bilateral trade between signatories. WTO rules require that FTAs must abolish duties on “substantially all” trade. This means that narrow, sector-focused agreements are not allowed. | LFTAs typically contain exceptions for “sensitive products” where duties may remain (albeit at a lower level) or are phased out over a period of years. For example, the EU/South Africa FTA provides the following preferential treatment for South Africa: <ul style="list-style-type: none"> • Sweet oranges, fresh (five-year phase out of tariffs) (HS Code 080510) • Men’s/boys’ coats, knitted or crocheted, of cotton (0%) (HS Code 610120) • Bicycles with ball bearings (0%) (HS Code 871200) In many instances, products must meet tough rules of origin in order to benefit from lower tariffs in FTAs. |
| GSP Generalised System of Preferences | A significant exception to MFN permitted by the WTO. GSP is a system of unilateral tariff preferences given by developed countries to developing countries. The EU operates a three tier system: <ul style="list-style-type: none"> • Standard GSP • GSP+ • Everything But Arms (EBA) | <ul style="list-style-type: none"> • Standard GSP beneficiaries (e.g. India) receive duty-free treatment on a wide range of products and reductions in tariff rates on others. • A small group of developing countries receive further tariff reductions under GSP+. Eligibility for GSP+ involves compliance with a range of non-trade agreements (on labour standards, human rights, etc.). Sri Lanka and Pakistan have GSP+ status. • Least developed countries (e.g. Bangladesh, Cambodia) receive standards across the board duty-free treatment known as Everything But Arms. In addition, EBA beneficiaries do not need to meet onerous rules of origin in order to benefit from tariff preferences. For example: <ul style="list-style-type: none"> • Men’s/boys overcoats (HS Code 610120) • 12% MFN rate • 9.6% GSP (India) • 0% GSP+ (Sri Lanka) (Tough Rules of origin) • 0% EBA (Bangladesh) (Relaxed rules of origin) |

Trade Terms: Understanding Trade Vocabulary

| Trade Term | Summary | Further Detail |
|--|---|--|
| MFN Tariffs Most Favoured Nation | These are the standard tariff rates notified in each WTO member's tariff schedule. In most cases, tariffs are expressed as a percentage of the value of the consignment known as "ad valorem duties". However, many agricultural tariffs are applied on a volume basis and are known as "specific duties". | The fundamental principle of the WTO is that all members are obliged to apply their MFN rates equally to all other WTO members. There are some very important exceptions to this rule (covered below), but in general terms, the MFN principle means that a country cannot favour or discriminate against another WTO member in terms of the tariff treatment of imports. Examples of MFN tariffs: <ul style="list-style-type: none"> • Sweet oranges, fresh (16%) (HS Code 080510) • Men's/boys' coats, knitted or crocheted, of cotton (12%) (HS Code 610120) • Bicycles with ball bearings (14%) (HS Code 871200) |
| WTO World Trade Organization | The international organisation that establishes rules for world trade, particularly how countries can use customs duties (tariffs). Almost every country is a member. The UK is a member, although the EU speaks on its behalf in meetings. | All WTO members use the same system for classifying goods for trade purposes. This is called the Harmonised System (HS). Under this system, products are classified down to a six-digit HS code. For example: <ul style="list-style-type: none"> • Sweet oranges, fresh (HS Code 080510) • Men's/boys' coats, knitted or crocheted, of cotton (HS Code 610120) • Bicycles with ball bearings (HS Code 871200) The classification of goods according to this system determines what, if any, tariffs should apply to imports. |
| WTO Tariff Schedules | Each member of the WTO must decide on the rate of duty (tariff) it wishes to apply to each HS code. It must then notify these rates to the other WTO members. These notifications are known as tariff schedules. WTO rules make it difficult to raise tariffs above the notified rate, but easy for them to be lowered either temporarily or permanently. | At present, the UK is part of the EU's customs union and along with all other EU members, applies the EU tariff schedule to imports from outside the EU. When the UK leaves the EU, it will be required to notify the WTO of its own schedule of tariffs which the government has said will replicate the EU's schedule. |



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