

WHICH WAY OUT?

A FAIR BREXIT FOR
CONSUMERS

OCTOBER 2016



BREXIT: THE IMPACT ON RETAIL SPENDING AND SHOP PRICES

RETAIL SALES

X.X% **1.2%**
QTR 3 PREV. 12 MONTHS*
(EMBARGOED UNTIL TUESDAY 11 OCT 2016)

*JUNE 2015 - JUNE 2016

SHOP PRICE INFLATION

-1.8% **-1.8%**
QTR 3 PREV. 12 MONTHS*

FALL IN

13% **14%**
£: EUR: £: \$:

23 JUNE - 5 OCTOBER 2016

THERE HAS BEEN NO DISCERNIBLE IMPACT ON RETAIL SPENDING AND SHOP PRICES SINCE THE VOTE

- We have had three months of slow sales growth
- Retail sales were already slowing pre the vote as a result of a softening of the underlying drivers of spending, such as real wage and employment growth
- We are in the fourth year of falling shop prices as a result of intense competition and transformational change in the industry as consumers have access to more choices and greater ability to compare prices than ever before
- The rate of shop price deflation has not changed markedly since the vote
- At present it is difficult to link any impact on spending or prices to the referendum outcome, despite the best attempts of some

UPWARD PRESSURES ON SHOP PRICES ARE IN THE PIPELINE

- Some retailers face increases in input costs either now or the near future as they negotiate new contracts with foreign suppliers following the devaluation of the pound
- The data on imports show a clear jump in prices faced by UK businesses, particularly for non-food
- As they introduce stock bought post referendum, retailers will have to decide how much of any increased cost to pass onto their customers
- The decision to pass on costs will not be an easy one. On the one hand, rising property and labour costs are already creating pressure points in many parts of the industry and the exchange rate movement only adds to the growing imperative to pass cost increases on. On the other hand, competition remains strong and many retailers may absorb much of the cost into their already squeezed margins in order to maintain their position in the market
- Overall, we expect some pass through to shop prices, probably focused in the first half of next year, although those price increases are likely to be less dramatic than implied by the exchange rate movement

- This is the backdrop before considering any implications of any new tariffs that could arise depending on the exit route taken
- Hence the need for a negotiating strategy by government which is based on the need to keep consumer prices down

THE FUTURE IMPLICATIONS FOR RETAIL SPENDING WILL DEPEND ON WHAT HAPPENS IN THE WIDER ECONOMY

- The amount of money that consumers have available to spend is key to the future outlook along with their financial and job security
- Even before the referendum real wage growth had softened and, notwithstanding the outcome of the vote, most economists expected consumer spending and the economy as a whole to see a drop in the pace of growth from earlier expectations
- It is too soon to assess the knock on impacts on jobs and wages from any slowdown in business investment as we have yet to see hard evidence on the extent to which investment levels changed post 23 June
- If GDP growth does slow to 0.7 per cent next year as independent forecasters are now, on average, predicting then that will be felt keenly by retailers
- We are in uncharted territory, Brexit was not a normal economic event so it's difficult to calibrate any model of the future with any confidence

The next year will bring challenges for retailers looking to keep prices low for their customers and the very last thing they will need are further cost pressures bought on by new regulatory burdens such as new tariffs and customs red tape. It is difficult for the Government to directly affect the macroeconomic conditions, but it can and must seek to minimise the disruption and cost directly associated with the Brexit negotiations. We stand ready to help the Government identify these potential costs and to avoid them.

OUR CAMPAIGN OBJECTIVES

The overall goal of our campaign is to ensure the UK government strikes a fair deal for consumers in its exit negotiations with the European Union. There will be many interest groups looking to influence the talks, but we strongly believe that protecting the interests of consumers – and we are all consumers – will lead to the fairest settlement for our country as a whole. As is so often the case, the interests of the retail industry coincide entirely with the needs of the consumer.

While our objectives are likely to change over time as the process unfolds, we have defined three initial aims:

KEEP PRICES LOW FOR CONSUMERS

British retailers have a remarkable track record in driving down prices for consumers. Competition and increased efficiency have for the past half-century or more reduced the proportion of the household budget spent on essentials like food and clothing, freeing up resource for luxuries and leisure time activities and improving the quality of life of our nation as a whole.

While leaving the European Union and potentially the Single Market could offer up the potential for new trade deals in Europe and beyond, there is also a significant risk from ending existing arrangements with our closest trading partners. This would impact our trade with both the EU and with countries with which we currently have trade agreements through the EU.

With some categories of goods potentially attracting tariffs of up to 27 per cent, this could add a very significant cost burden on imported items into a retail industry that is already having to cope with rising costs in areas such as business rates and payrolls. There is a limit to the amount of increased cost retailers can absorb and so if the UK consumer is to avoid rising household bills Brexit negotiators will need to prevent any increase to import tariffs and look for opportunities for improved trading terms.

The BRC is uniquely placed to assist the Government in this work. We are the only industry body able to speak on behalf of UK retail as a whole, with our membership encompassing food, non-food and online players. We will work closely with all of the government departments involved in the Brexit negotiations, advising and supporting them with insight and confidential industry data. It is in everyone's interest that we and the Government are successful in this task.

A FAIR DEAL FOR EU COLLEAGUES

The BRC will also be campaigning with other industry groups for an early end to the uncertainty facing EU workers now residing in the UK and contributing to our economy. The UK retail industry employs approximately 120,000 EU nationals who make a huge contribution in every type of role from the boardroom to distribution centres and customer service. They deserve early reassurance that they will still be welcome here, whatever Brexit may bring, and they should not be used as a bargaining chip in the negotiations.

FOCUS ON GROWTH

Against this backdrop the BRC will be making the case to government to introduce legislation and regulation that will promote growth, during what will be a challenging time for retailers and the three million people they employ.

While retailers are happy to play their part in working for a constructive outcome to the Brexit talks, they will also be dealing with the impacts of a challenging economic outlook, intensifying competition and rapid structural change – making it considerably more difficult to protect consumers from the impacts of a greater regulatory burden.

Most economists are downgrading their economic growth forecasts in the wake of the EU referendum, and if they are right our high streets and town centres will be placed under further strain. It is essential that these pressures are mitigated by policies for growth and a ban on increased red tape.

IMPACTS ON INTERNATIONAL SOURCING COSTS

	CUSTOMS UNION	SINGLE MARKET	FREE TRADE AGREEMENT	WTO RULES
CUSTOMS DUTIES ON IMPORTS OF NON-FOOD FROM EU	All imports from EU would be guaranteed duty-free entry into UK		Imports may be duty-free depending upon negotiations. Duty-free/reduced duty trade more likely to be achieved in non-food than for food	Imports from the EU would attract the UK's full standard rate of duty. Up to 16 per cent on clothing and non-food, and significantly higher for food
CUSTOMS DUTIES ON IMPORTS OF FOOD FROM EU	Imports of food would be subject to full rates of import duty. Typical rates might be 20 per cent, but higher for meat and dairy			
FREE TRADE WITH OTHER COUNTRIES	The UK can't conclude its own trade deals	UK free to negotiate trade agreements with other countries, lower its duty rates on imports from developing countries and lower so-called WTO rates of import duty		
CUSTOMS PROCEDURES	Under any Brexit scenario customs controls of some form are likely to be re-introduced on trade with the EU. These controls will be lighter and less burdensome under some scenarios (i.e. Customs Union and Single Market)			
EXISTING IMPORT PREFERENCES FROM NON-EU COUNTRIES	UK would continue to apply duty preferences agreed by the EU	Outside the Customs Union, the UK would not have access to the preferential terms of the EU's trade deals		
RULES OF ORIGIN	No need for imports to meet tougher rules of origin	Tougher rules of origin would need to be met for imports to qualify for reduced/zero rates of duty		No need for imports to meet tougher rules of origin

- PINK: MOST UPWARD PRESSURE ON CONSUMER PRICES
- ORANGE: SOME UPWARD PRESSURE ON CONSUMER PRICES
- GREEN: NO ADDITIONAL PRESSURE ON CONSUMER PRICES

WHAT IS...

...CUSTOMS UNION?

- Where different countries agree to all apply the same tariff rates to imports from outside the Union and abolish customs duties for trade between themselves.
- If the UK left, it would mean no new tariffs on non-food products from the EU and that imports from beyond the EU would continue to attract existing rates of duty.
- Goods entering the UK from the EU would not have to meet stringent and costly rules of origin.
- Ties the hands of the Government on trade policy and UK would not be able to strike its own deals with other countries.
- Would not deliver free trade in food unless the UK remained a part of the Common Agricultural Policy (CAP).

...SINGLE MARKET/EEA?

- More than a free trade area.
- A set of rules and institutions that taken together guarantee free movement of goods, services capital and people within the Single Market area.
- Would guarantee duty-free imports of non-food from the EU, but would not deliver free trade in food unless the UK continued to apply the CAP.
- UK would not benefit from the EU's FTAs but would be able to pursue their own.
- Imports from the EU would have to meet more stringent rules of origin in order to qualify for lower/duty-free access to the UK. The World Bank has calculated the cost of meeting these rules to be equivalent to a duty rate of 2-6 per cent.

...FREE TRADE AGREEMENT (FTA)?

- A deal between two or more countries that allows preferential terms of trade between the signatories.
- WTO requires any FTA to cover "substantially all trade" between the parties i.e. more than half of the trade in goods.
- Not all free trade agreements deliver free trade and most of the EU's existing FTAs contain restrictions and exceptions to the rule of free trade, most often on food and agricultural products.
- To qualify for preferential tariff treatment in FTAs, imports have to meet more stringent rules of origin.

...WTO RULES?

- Shorthand for Most Favoured Nation treatment.
- Requires all WTO members to publish a schedule of its tariff rates and apply these equally to imports from all countries.
- Only exception is for imports from developing countries and imports from countries that have agreed FTAs with the importing country.
- If the UK falls back onto WTO rules for its trade with the EU it would be obliged to apply its MFN rates to all imports from the EU.
- Outside the Customs Union the UK would be free to set its own rates, although most likely that the UK would simply adopt the same MFN rates as it applies as part of the EU.

...RULES OF ORIGIN?

- The criteria needed to determine the national source (origin) of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports.
- In order for goods to benefit from preferential duty rates, they usually have to comply with stringent rules of origin that typically require more of the value of the finished product to have been added in the country to which the preferential rates apply.

FOR MORE INFORMATION

BRITISH RETAIL CONSORTIUM

2 LONDON BRIDGE,
LONDON SE1 9RA

P | +44 (0)20 7854 8900

E | info@brc.org.uk

BRC.ORG.UK

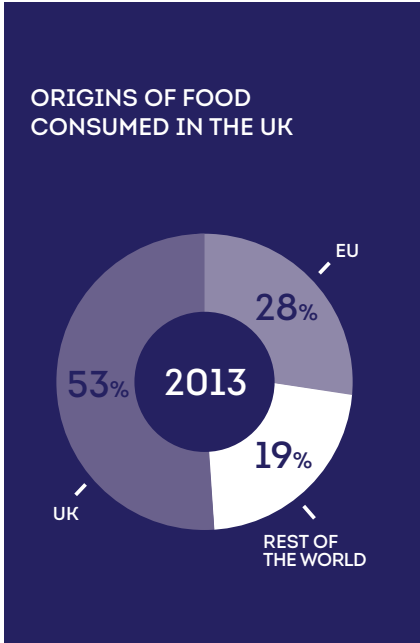
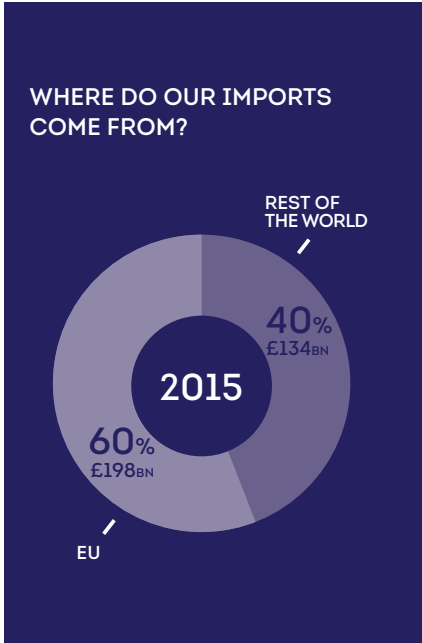
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BREXIT & RETAIL

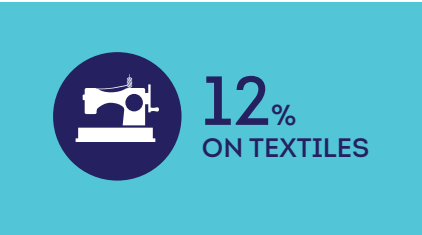
MOVING GOODS ACROSS BORDERS

TRADE
UK IMPORTS

		SPECIAL TRADE AGREEMENT
CHINA	£36 BN	NO
US	£35 BN	NO
NORWAY	£13 BN	YES
CANADA	£9.5 BN	YES
SWITZERLAND	£9 BN	YES
TURKEY	£7.5 BN	YES
JAPAN	£7 BN	NO
HONG KONG	£6.5 BN	NO
INDIA	£6 BN	NO
SOUTH KOREA	£4 BN	YES



ALL IMPORTS FROM THE EU ARE DUTY FREE NOW. BUT IF WE DON'T GET A DEAL WITH THE EU...



EU NATIONALS

120,000 EU NATIONALS IN UK RETAIL

120,000 COLLEAGUES DESERVE REASSURANCE

REGULATION + RETAIL

