Written evidence submitted by the British Retail Consortium (TCBT06)

Executive Summary

BRC priorities for the Taxation (Cross-border Trade) Bill:

- To secure tariff-free trade with the European Union through a standstill transitional period of sufficient duration to permit businesses and consumers only to have to adapt once to new trading conditions
- Depending upon future UK involvement with the EU on commercial and competition policies, to ensure the appropriate balance between consumer interests with those of producers in any future decisions on trade remedies policy
- To sustain preferential tariff-free or low-tariff trade with developing countries by replicating the current EU General System of Preferences
- To achieve tariff-free trade and as few non-tariff barriers as possible on the flow of goods from the UK to the rest of the European market in any end status agreement
- To achieve agreement between the EU and UK on VAT to reduce the risks from upfront import VAT on company cashflow and to prevent new red tape on registrations arising which would raise the costs of doing business with EU companies.

Introduction

1. The British Retail Consortium (BRC) is the UK trade association for retailers. Our members include online and non-food retailers, including household furniture and home improvements, clothing, footwear, textiles, medicines, cosmetics, and all of the major food retailers, who between them account for over 90% of the UK's grocery sales, as well as a number of food to go companies.

2. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The BRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our society. The BRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference.

3. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.

4. In addition to publishing leading economic indicators on UK retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 200-strong membership and determined by the BRC Policy Board.

5. We welcome the opportunity to contribute to the House of Commons Public Bill Committee's consideration of the Taxation (Cross-border Trade Bill) at Committee Stage. The BRC's focus through our campaign A Fair Brexit for Consumers has been to ensure

UK consumers, prices, quality and availability are at the heart of the negotiations on Brexit. Our research demonstrates why achieving a satisfactory Brexit deal is vital for consumers served by the retail industry.

Priorities for the Taxation (Cross-border Trade) Bill

6. Our priorities for the Taxation (Cross-border Trade) Bill are to secure tariff-free trade with the European Union through a standstill transitional period of sufficient duration to permit businesses and consumers only to have to adapt once to new trading conditions; depending upon future UK involvement with the EU on any common commercial and competition policies, to ensure the appropriate balance between consumer interests with those of producers in any future decisions on trade remedies policy; to sustain preferential tariff-free or low-tariff trade with developing countries by replicating the current EU General System of Preferences; to achieve tariff-free trade and as few non-tariff barriers as possible on the flow of goods from the UK to the rest of the European market in the end status agreement; and to achieve agreement between the EU and UK on VAT to reduce the risks from upfront import VAT on company cashflow and to prevent new red tape on registrations arising which would raise the costs of doing business with EU companies.

7. The division of legislative powers on trade and customs issues between the two Bills is as follows:

Trade Bill	Taxation (Cross-Border Trade) Bill
Implementation of transitioned EU FTAs and other agreements with 60+ countries	Provides for new UK customs, VAT, excise and tariff systems
Creation of new Trade Remedies Authority at arms length to UK Government	Creates legal authority for imposition of customs duties and tariffs to other countries' products
Implementation of WTO Agreement on Government Procurement	Gives powers for adoption of UK tariff rate quotas for third countries
Provides for role of devolved administrations in implementation of trade agreements	Provides authority for unilateral setting of preferential tariffs, or tariff-free rates for over 70 developing countries
	Legal powers for applying additional duties or tariffs in the form of trade remedies instruments after investigation by the Trade Remedies Authority and approved by ministers
	Powers to make preferential tariff and other trade agreements with other countries outside the unilateral arrangements for developing countries

Tariffs and Import Duties

8. The levels of import duty payable in the UK will be determined by the provisions on customs tariffs in clause 8 of the Taxation (Cross-border Trade) Bill, subject to any amendments made by tariff rate quotas, unilateral trading preferences, preferential rates decided by bilateral trade agreements, or the effects of trade remedy instruments, including anti-dumping duties.

9. The BRC has published evidence in our Tariff and Customs Roadmaps that the best interests of business and consumers are served by continued zero-tariff trade between the UK and the rest of the European Market. On customs, sourcing and supply chains would be affected by the imposition of new non-tariff barriers to European trade if a No or Weak Deal Brexit was the result of the Article 50 process. For consumers this would mean delays, reduced choice, availability and quality. This is particularly accentuated in the case of the food retail sector.

10. The BRC has established that the average tariff on food products imported from the EU could be in the order of 22%, with tariffs on Irish cheddar being as high as 44% and on beef of 40%. BRC members report that 79% of food imported by them into the UK comes from the EU-27[1]. Higher tariffs would impact on the price of imported goods, and diminish living standards for consumers. Our research points to potential rises in the price of cheese in the order of 6-32%, on tomatoes of 9-18%, and on beef of 5-29%[2]. We also note other similar studies which show a similar picture, and that consumers would suffer the highest detriment. On services, non-tariff barriers would be the most burdensome, but they would also have strong effects for the trade in goods, such as in relation to customs, and for meat and plant-derived products, from health or veterinary checks stemming from sanitary and phytosanitary requirements.

11. For imports and exports, key arteries for accessing the markets in the rest of Europe are Dover and the Channel Tunnel ports. Of the over 4m movements of trucks and lorries to and from the UK, 2.5m per year come via Dover. Dover is primarily set up as a minimal check port designed for just-in-time supply routes for goods. It is not a Border Control Point for the purposes of checking third country meat or plant imports. If the UK left the Union Customs Code and had to adopt new customs processes for goods coming to and from the EU-27 from the first day of Brexit, significant delays could enter the flow of goods via Dover. The number of customs declarations is estimated by HMRC to likely rise from 55m a year to 255m in such a scenario with up to 180,000 UK companies drawn into customs declarations for the first time. Companies would also face new excise and VAT systems for compliance purposes, which would be costly and burdensome.

12. Retail companies would be particularly affected by delays in the flow of goods across any new regulatory, taxation or customs frontiers between the UK and the EU. For non-food retailers, disruption to just-in-time sourcing chains would affect products such as in the furniture and home improvement sector in which consumers have come to expect efficient delivery of or click and collect functionality very shortly after placing an order.

[1] https://brc.org.uk/media/191612/customs-roadmap.pdf
[2] https://brc.org.uk/media/191645/new-tariffs-mean-higher-food-prices.pdf

13. For food-retailers, just-in-time supply chains mean that products can be ordered one day, and be processed and sent through ports in the Netherlands and Dover to arrive on the shelves the next day. Maintaining the efficiency of these mechanisms is important in terms of highly perishable fresh produce, such as fruit and vegetables. For imported meat products, without an agreement, additional checks on hygiene and standards would be required for third country European produce after Brexit, with no capacity to perform these checks at Dover or Euro-tunnel. Veterinary checks may have to be performed away from certain ports or border control points, increasing the time and costs of importing meat, and reducing time and the quality of meat on the shelves. UK retailers import significant levels of Irish beef, and chilled and minced beef and pork from the rest of the EU-27.

VAT

14. Membership of the EU VAT Area has provided a common framework for EU businesses in terms of the application of the VAT Directives. For intra-EU trade this has meant that businesses have not faced an upfront charge to import VAT – instead it has been dealt with as VAT-free acquisitions under the reverse charge mechanism. Within the EU VAT area, goods are not treated as imported or exported, so there are no cash-flow effects at all for business to business transactions within the EU VAT Area. If the UK does not have a strong co-operative agreement on VAT in place, UK companies could have to register in each EU member state where supplies are made, as triangulation will no longer be available.

15. The Taxation (Cross-border Trade) Bill contains provisions (clauses 41-43 & Schedule 8) which would alter the point whereby VAT becomes payable for business transactions from the UK to the EU and vice versa, viz. it converts the point of the charge to tax from acquisition (zero at the moment) to import. Therefore, import VAT would have to be paid upfront at border entry points for goods imported from the EU to be released into free circulation. The position would become similar to that faced by goods from third countries. As HMRC have established, 132,000 companies would become liable for such registration for this tax for the first time.

16. If the Bill becomes law without any commitment to participation within the EU VAT area, a new common VAT area, or some other form of VAT co-operative agreement, UK businesses will become liable to pay upfront import VAT on goods being imported from the EU-27. Depending upon the purpose of the goods, the import VAT may be reclaimable at a later stage of the sourcing or supply chain, but such a system would involve the company having paperwork to account for the charge, HMRC creating capacity to receive the payments, and companies and businesses having administrative processes for the whole or partial repayment of import VAT.

17. Liability for upfront import VAT would create additional cashflow burdens for companies, as well as additional processing time at ports and border entry points attached to the

customs process. Mitigation measures could include companies instituting a revolving credit facility, or utilising import VAT deferment reliefs. Both measures require involve companies having to take out costly bank or insurance backed guarantees so would increase the costs of importing goods from the EU. HMRC could create a system of self-assessment or self-accounting for import VAT which would obviate the need for upfront cash payments by businesses.

Trade Remedies Authority

18. The relationship between the UK and the EU Common Commercial Policy post-transition will be determined by negotiations on the end status framework. If there is no common commercial or competition policy in place in the end status agreement, the potential UK trade remedies in terms of anti-dumping duties or countervailable duties would become activated via the Taxation (Cross-border Trade) Bill.

19. Any end status agreement will determine the overall context within which any distinct UK trade remedies policy operates given that the EU is keen on securing a level playing field on competition policy and other areas of commercial policy. The BRC would endorse that the appropriate balance between consumer interests and producer interests is reached as part of future trade remedies policy. Consumer interests include issues such as prices, quality and choice, but also environmental, social and labour standards, for example ethical sourcing.

Tariff rate quotas and unilateral trade preferences with third countries

20. The BRC endorses a system on unilateral trading preferences with developing countries which builds upon the foundations of the EU's General System of Preferences. Whether there is a distinct UK policy on tariffs levied depends upon the end status relationship with the EU, in particular whether there is any common external tariff or commercial policy, or neither. If the UK does adopt a distinct policy framework on unilateral trading preferences with developing countries, the experience of BRC member companies is that generous unilateral preferences work in the interests of economic development in the world's poorest countries as well as for consumers in the UK.

21. On tariff rate quotas, the food retail industry makes use of these with particular reference to lamb from New Zealand, and chilled meats from Thailand which raise choice and availability as well as reducing price pressures upon consumers. Depending upon the terms of the Withdrawal Agreement on transition and any end status negotiations on commercial policies, the BRC would seek the retention of these quotas as the foundation of early tariff-free or low-tariff trade with the third countries concerned.

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