

Brexit: continuity in the supply chain needs the right transitional period

Below is a statement issued today by Christian Verschueren Director-General of EuroCommerce, addressed to European leaders ahead of the European Council on 14/15 December:

EuroCommerce, on behalf of retailers, wholesalers and importer/exporters, welcomes the announcement on 8 December that the Commission considers that sufficient progress has been achieved on the first phase of the negotiations to allow discussion of the UK's future relationship with the EU. It hopes that the European Council will agree with the Commission assessment.

In a supply chain built on just-in-time deliveries, the movement of goods, and particularly fast-moving consumer and perishable goods and medicines, is extremely time-sensitive. Any delays or border queues will disrupt important production processes and damage perishable consignments. Disruption of current supply chains would lead to price volatility and market uncertainty for all involved.

We therefore ask negotiators, if the Council agrees to move to the second phase of negotiations, to agree quickly on **a suitable transitional period, ensuring legal predictability and allowing all parts of the supply chain to adjust** to whatever new trading arrangements are finally agreed. Since it seems almost inevitable that no agreement on these definitive arrangements can be reached before the deadline of March 2019, this transitional period needs to be long enough for there to be a realistic prospect of such an agreement to be completed and enter into force.

During the transitional period, it is important that goods continue to move freely and without tariff or quota restrictions between the UK and the EU, taking account of highly integrated supply chains between the UK and EU, and particularly with the Republic of Ireland. These transitional arrangements must avoid undermining the integrity of the single market, assure observance of all relevant EU standards and regulations, and give all economic operators legal certainty. These arrangements need to be enforceable under EU law.

Why the right transitional arrangement is important: A few facts about the integrated nature of the EU-UK supply chain

1. Free flow is vital to the supply chain

The volume of traffic both ways across the English Channel is considerable: 4 million lorries use the Channel Tunnel and ferry ports every year (i.e. up to 14,000 every day), while a further 850,000 lorries cross between the UK and Ireland every year, both across the land border with N. Ireland and across the Irish Sea. No EU free trade agreement with a third country hitherto has removed the need for border customs checks on goods from that country. None of the ports currently serving EU-UK trade on either side of the Channel is equipped or has the personnel to cope with the examination of the significantly higher number of loads that a hard border and tariffs would require. On this basis, further delays would be incurred with, for example food safety and hygiene inspections needed for food products, or retesting of medicines, entering the EU. A typical consignment of EU animal-derived food products going through the UK ports takes around 2 minutes. Such imports from third countries can often take over 2 days, while customs

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and sanitary checks are completed. WTO estimates suggest that these additional customs and other controls could add at a minimum 5% to 9%, or some €2.5 billion per year, to the cost of doing business with the UK.

2. The UK: EU27's single largest trading partner in agri-food products and key in non-food

Exports of all goods from the EU27 to the UK were worth €290 billion in 2016, making it the EU27's second-largest export market after the US. UK goods exports to the EU in 2016 were €175 billion.

The UK was also the world's largest importer of EU27 agri-food products¹, worth €57 billion in 2016. The UK is nonetheless a major market for large agri-food exporters such as the Netherlands (€8.5 billion), France (€5.4 billion) Germany (€4.9 billion), Ireland (€4.6 billion), Spain (€3.9 billion) and Belgium (€3.1 billion). 40% of the agri-food products consumed in the UK are imported, with nearly 75% of these imports coming from the EU. Disruption of trade will also adversely affect UK agri-food producers who exported €33.5 billion of their products to the EU – for example 90% of UK lamb and beef exports go to EU27 markets.

3. Closely integrated and complex supply chains

Integrated supply chains have built up between the UK and the rest of the EU in the 44 years the UK has been a member. This covers almost all industries, and with many companies across the economy reliant on just-in-time deliveries, disruption of supply chains by slower customs formalities, interruption of logistics, new tariffs and different standards will affect the way many companies do business.

A good example, and one of concern to EuroCommerce members, is the food supply chain. The figures below illustrate why these products matter in terms of ensuring continuity:

- The UK is not self-sufficient in dairy, importing €2.4 billion of these products from other EU Member States in 2016.
- One third of EU beef exports (mainly from Ireland) are currently sold on the UK market, with the UK today importing over 20% of its requirements from EU Member States.
- It also imports €4.5 billion of fruit and vegetable products from EU27 countries, in particular from Spain (€1.6 billion) and the Netherlands (€1 billion).
- The UK is also a major importer of wine from the EU, buying some €2.3 billion of wine, with France (€1 billion) and Italy (€750 million) the largest exporters.

4. High agri-food tariffs

As illustrated with the figures for goods above, agri-food products are only a part of the overall picture of trade between the UK and the rest of Europe. Agri-food products imported into the EU, however, are subject to an average tariff bound under WTO rules of 22%, some facing tariffs of over 80%, as compared to an average 2% tariff for non-food products. With no transitional period, and if WTO-bound tariffs applied between the EU27 and the UK, the disruption of trade by new customs formalities could result in real and urgent problems for EU and UK producers alike.

¹ Agri-food products correspond to Chapters 1 to 24 of the Harmonised System

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EuroCommerce is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 31 countries and 5.4 million companies, both leading multinational retailers such as Carrefour, Ikea, Metro and Tesco, and many small family operations. Retail and wholesale provide a link between producers and 500 million European consumers over a billion times a day. It generates 1 in 7 jobs, providing a varied career for 29 million Europeans, many of them young people. It also supports millions of further jobs throughout the supply chain, from small local suppliers to international businesses. EuroCommerce is the recognised European social partner for the retail and wholesale sector.