

BREXIT
- COMMENTS OF INDEPENDENT RETAIL EUROPE -

4TH JULY 2017



Our members are active both in the food and non-food areas (DIY, electronics, sporting goods, textiles etc.). Their activities are as retailers but they are also active in their roles as manufacturers, logistics providers and financial services providers (to name a few of the key areas). As such they will be heavily and potentially negatively impacted by Brexit.

This paper aims to outline some of the risks and complications our members will face and it also provides potential solutions for these challenges.

Please see this as our first contribution to your work, which will be of unprecedented complexity and sensitivity. We stand ready to exchange on these issues and develop more detailed input as the political situation develops and talks progress. We believe the most pressing issues for our sector will only become clearer as negotiations develop and would kindly ask you to consult us as and when you need the input of our sector.

Customs and non-customs border checks

Our members transact and transport across borders on a daily basis. This includes sourcing food and non-food products i) from the UK into continental Europe, ii) from continental Europe into the UK, iii) into Ireland from continental Europe using the UK as a transit point, and iv) from Ireland into continental Europe using the UK as a transit point.

The establishment of a hard border, including customs/border controls and potentially entry and exit tariffs will impact negatively on the seamless supply chain that exists today.

Fresh produce and other perishable products

The most immediate impact of a hard border with customs controls will be on fresh produce and perishable products such as fruit, vegetables, fresh meat and fish.

The longer a product is in transport, the greater the risk of damage, the greater the expense, and the shorter the shelf life. The existence of customs controls would lead to potentially long waiting times where goods on trucks are inspected and delays will occur.

The port infrastructure (particularly at major ports transiting food) in UK, Irish and continental European ports will not be able to cope with the increase in traffic that needs to be inspected post Brexit. Existing facilities are already inadequate for the 'third country' checks that are carried out. In ports that handle third country traffic already such as Hull, London, Dover, Calais, Rotterdam to name a few, the existing facilities will not be able to handle the huge increase in third country traffic when the UK/EU Member States have a third country relationship. To quantify this problem, we anticipate that at least 8000 lorries a day will be arriving from the EU to the UK that will require inspections. These will all need to be inspected when current facilities already have difficulties inspecting the current 500 non EU lorries that arrive each day.

Mandatory food hygiene and safety/sanitary/veterinary inspections, for example, will undoubtedly lead to spoiled food and food waste unless, as a matter of urgency, new port infrastructure is put in place both on continental Europe, Ireland and in the UK. To highlight the seriousness of the issue these border inspections would mean packages being opened, samples analysed and sent for laboratory testing before the vehicle can leave the inspection point.

Solution: This crunch at borders could be eased if a system of pre-registration of goods is developed. In addition, there should be mutual recognition of previous inspections in order to avoid costly delays at ports as well as to avoid potentially hazardous interruptions to cooling mechanisms and release of protective atmospheres needed to ensure the freshness of a product. Product handling in such circumstances should also be minimised, for example through the use of x-ray machines instead of opening containers, which would contribute to extending shelf life.

Replicating the situation between the Turkey/Bulgaria land border (the Kapicule border crossing) where it can take up to 30 hours to pass through into the EU border must be avoided at all costs.

Logistics

Truck quotas are likely to be introduced post Brexit. If quick agreements are not reached on these quotas, logistics operations of our members, when transporting to/from/through the UK will be disrupted. Our members must be able to freely transport goods across borders, including when transiting through the UK to Ireland. If agreements are not found on truck quotas that guarantee the status quo then our members will have to reassess how they transport goods, which would be a costly exercise. Retailers endeavour to act as a buffer to the final consumer price when supply chain costs rise. However, additional costs cannot always be taken up by the retailer and some of these costs would most likely be passed on to the consumer.

Solution: An open access road transport deal should be agreed between the UK and EU. This must guarantee that permits for individual countries will not be needed and that UK and EU trucks can access their respective networks without barriers.

Fisheries policy

Some of our members have their own production facilities, in certain cases, this extends to their own fishing fleet. When the UK leaves the EU, former EU regulated waters will become UK regulated waters. This means fishing boats could be denied access unless an agreement is reached between the UK and EU. This situation may also result in our members having to catch, or source, fish from different areas/suppliers. This cannot be easily done from one day to the next.

Solution: An agreement must be found on fisheries. Realising that such an agreement might take time, we urge the negotiators to announce interim measures long before the day of UK departure from the EU.

Payment fees

GBP/EUR transaction and payment fees may rise post Brexit.

Solution: Given the frequency of transactions between the two trading blocks, we would expect caps on fees to be introduced.

Currency volatility

Currency volatility in GBP and EUR will increase if the UK exit is not negotiated quickly and smoothly.

Solution: We would like the negotiating parties to ensure that the exit agreement is negotiated as quickly and smoothly as possible. We also ask for the negotiations to be as transparent as possible so that our members can make informed decisions on currency transactions.

Labelling laws

Our members source private labels (own brand products) for a wide geographic area; common packaging is often used in order to achieve scale economies. This might no longer be possible if there is no longer mutual recognition of standards and laws between the UK and EU.

Solution: To the greatest extent possible, there should be mutual recognition of laws and standards, particularly in the areas of food safety and consumer protection.

Financial services

Many of our member groups of independent retailers own their own banks and offer financial services to their independent retailer shareholders as well as consumers. The vast majority of capital markets activity in the EU is carried out from providers based and licensed in the UK offering services in different EU countries through this UK license. If passporting of financial services is no longer possible and licenses that have been used are invalidated by Brexit, our members' banks would possibly no longer have the same kind of wholesale financial market access to the services and liquidity offered via the city of London and this might impact its ability to finance itself. Over the long-term this can be remedied by accessing wholesale markets in e.g. Germany. However, in the short-term, all possibilities must be explored to avoid a credit crunch style situation where the real economy becomes negatively impacted by a lack of wholesale financial markets access.

Solution: To provide legal certainty and confidence in the financial system, Brexit negotiators must ensure that EU based companies should be able to have barrier free access to London capital markets. It would be important to introduce transitional arrangements that would allow market participants sufficient time to adjust to the new regime based on the outcome of the EU-UK negotiations.

Tariffs

UK sourced products, even if just speciality products such as beers, cheeses or preserves might become subject to tariffs upon entering the EU. The opposite is true for products being sourced by UK members from the EU. This will make those products more expensive, and sourcing might have to be changed.

Solution: Clarity must be provided at the earliest opportunity about potential options for a comprehensive free trade agreement following Brexit. Tariff free trade, replicating existing arrangements is our preference. However, if tariffs were to be introduced our sector will be hit disproportionately as the majority of high level tariffs are applicable on fruit, vegetable and meat. Ensuring regulatory equivalence, through an ongoing dialogue and court mechanism to ensure legal consistency, maintaining regulatory convergence and not divergence will be key in this respect.

Example of a common transaction after Brexit: Retail HQ in Amsterdam sends cut flowers daily to its Irish points of sale

Flowers leave **Schiphol Airport** by truck



Truck drives **to French/UK border**. Truck boards ferry **to Port of Dover**

We assume border checks will be done in Dover but if it is done in Calais, the principles remain the same.



Pain Point. Truck arrives at Port of Dover where it joins a queue of the 8.000 trucks waiting to clear the border controls/customs that are already arriving that day. (**Solution:** reduce border administration and replace with pre-border electronic registration)



Pain Point. Once the truck reaches the point of control, potentially the next day, the container is opened to check the cargo manifest, as the trailer is opened an entry tariff becomes applicable (**Solution:** free trade agreement for zero or reduced tariffs). As the packages are opened, protective atmosphere escapes and temperatures rise reducing shelf life. Flowers that are handled physically may be damaged and shelf life again drastically reduced. (**Solution:** x-ray scanning/upgrade port infrastructure).

Truck driver **applies for permit for a Dutch truck entering UK roads** (**Solution:** rapid bi-lateral or preferably EU wide agreements on truck quotas). For the purposes of this example we assume it is granted, even though there is a high likelihood this might be not be the case as permits for countries can be used up within days of them becoming available.



Truck drives **to Holyhead for transit through the UK to Dublin, Ireland**



Pain point. As the truck enters the port exit checks it endures another long queue, which potentially lasts until the following day (**Solution:** reduce border administration and replace with pre-border electronic registration).

As the trailer is opened for exit checks an exit tariff becomes applicable, temperatures rise, products are handled, shelf life is again reduced further. (**Solution:** x-ray scanning/upgrade port infrastructure).



Pain point. Truck arrives in **Dublin** where there is a long queue for entry checks into EU territory. As the trailer is opened for entry checks an entry tariff may become applicable, temperatures rise, products are handled for inspections, shelf life is again reduced further. (**Solution:** x-ray scanning/upgrade port infrastructure, reduce border administration and replace with pre-border electronic registration, free trade agreement for zero or reduced tariffs).



Products are delivered to a distribution centre or to points of sale directly.

Problems encountered

- A significant amount of spoilage has occurred due to handling of products and loss of protective atmosphere and/or constant temperature.
- Many flowers cannot be sold for a profit.
- Those that are have to be sold for a reduced margin due to short shelf life.
- There are higher prices and less choice for consumers to account for the higher expense of the longer than pre-Brexit journey and tariffs.
- There are significant cost/ administrative burdens for the retailer who has had to apply for permits, hire staff for longer hours and go through inspections.

Established in 1963, **Independent Retail Europe** (formerly UGAL – the Union of groups of independent retailers of Europe) is the European association that acts as an umbrella organisation for the main groups of independent retailers in the food and non-food sectors.

Independent Retail Europe represents retail groups characterised by the provision of a support network to independent SME retail entrepreneurs; joint purchasing of goods and services to attain efficiencies and economies of scale, as well as respect for the independent character of the individual retailer.

Our members are groups of independent retailers, associations representing them as well as wider service organizations built to support independent retailers.

Independent Retail Europe represents 23 groups and their 369.982 independent retailers, who manage 589.783 sales outlets, with a combined retail turnover of more than 861 billion euros and generating a combined wholesale turnover of nearly 289 billion euros. This represents a total employment of more than 6.226.000 persons.

More information about Independent Retail Europe under www.independentretailleurope.eu