FDF Response to the Department for International Trade (DIT) Consultation on Developing the UK Global Tariff Policy

Introduction

1. This submission is made by the Food and Drink Federation (FDF), the trade association for food and drink manufacturing. Food and drink is the largest manufacturing sector in the UK accounting for almost 20 per cent of the total manufacturing sector, turning over more than £105 billion per annum; resulting in Gross Value Added (GVA) over £28 billion and employing more than 430,000 people. Our industry is larger than automotive and aerospace combined in terms of employment, GVA and turnover.

2. This submission is made on behalf of FDF's membership and the food and drink industry. It does not preclude the individual responses of our members and of sector associations that provide responses with a focus on specific commodity codes and sectoral requirements.

3. FDF is a longstanding advocate for trade liberalisation. We supported the WTO Doha Development Agenda (DDA) that aimed to deliver further trade liberalisation and put in place a fairer and clearer set of multilateral trading rules. Following the failure of DDA talks in 2008, FDF backed UK-driven plans for the EU to prioritise ambitious bilateral trade agreements. Given the scale of technical, regulatory and tariff barriers faced globally in agri-food and drink, preferential trade deals can deliver substantial benefits for our industry. However, tariff liberalisation should be undertaken on a multilateral basis – taking unilateral action risks disadvantaging UK-based producers.

Summary

4. Our industry's top priority is to ensure that existing tariff-free trade in agri-food and drink remains tariff free after 31 December 2020. This is especially true for trade with the EU which is by an overwhelming margin our largest market and supplier. We welcome Government's indication that this is a priority outcome in trade talks with the EU.

5. We recognise that the UK requires sufficient negotiating capital for future trade talks with the EU and others and agree that for this reason it is sensible to move away from the March 2019 temporary tariffs which undermined the UK's ability to secure simple continuity trade deals, including a planned agreement with Canada.

6. Given these circumstances, a pragmatic approach would be to replicate the EU's Most Favour Nation (MFN) applied tariff rates in the short-term and undertake a comprehensive review process to update both the UK's applied and bound tariff rates. This would provide sufficient time after trade deals have been finalised with the EU, the United States, Japan, Australia and New Zealand for Government to work with industry to address the issue of specific tariff rates that are currently set in Euros.

7. However, we recognise that Government's new applied tariff proposals could provide useful opportunities by broadly pursuing a pragmatic approach while making improvements that could benefit comparatively small volumes of imports into the UK that are currently subject to full MFN import tariffs, while providing a clear signal to WTO members about the UK's long-term trade policy intentions.

8. On this basis, we support the intention of Government's proposals, but there are areas which will require modification to avoid damaging price implications for producers, consumers and shoppers. Our support is predicated on Government ensuring tariff and quota free trade continues with the EU and other preferential trade partners after 31 December 2020, underpinned by generous rules of origin.

9. FDF remains willing to assist the Government further in the process of setting the UK's applied MFN tariffs, and in wider international trade policy activities, including the UK's negotiations to secure preferential trade agreements with third countries that deliver new market access opportunities benefitting the UK's largest manufacturing industry.

FDF views on the UK Global Tariff Policy Proposals

10. FDF welcomes the opportunity to help shape the UK's applied MFN tariff schedule. In partnership with trade bodies from across the food and drink supply chain, we recently published a policy paper outlining common themes the Government should use to develop its future trade policy. The UK's trade policy will need to maintain a balance between competing priorities to ensure the continued availability of high quality, safe food at a range of price points that meets consumer and shopper demand. Our paper sets out how the food and drink industry and Government can work in partnership to lead a levelling up of prosperity that uniquely delivers for every community across the UK.

11. The views put forward in this response should be seen through the lens of our industry's top trade priority which is to ensure there is a preferential trade agreement with the EU that maintains tariff free trade in both directions, underpinned by generous rules of origin which reflect the existing global nature of UK food and drink supply chains.

12. In the event that insufficient progress has been achieved in trade talks between the UK and EU by the time of the June high-level meeting as foreseen in the Political Declaration, DIT will need to urgently review these tariffs and take action to ensure sufficient volumes of essential tariff free imports reach the UK. Trading with the EU on the basis of these MFN tariffs would have hugely damaging implications for the UK's food and drink supply chain, for the ability of UK manufacturers to produce and ultimately for consumers and shoppers that would face very immediate impacts in terms of both the price and availability of food and drink. The imposition of tariffs and compliance costs on essential near market trade in food and drink would have impacts that cannot be mitigated by any other preferential trade deals.

13. From the close of this consultation, there will be only nine months before the UK's applied tariff schedule enters into force. At the same time, food and drink manufacturers face significant changes to the way they trade with the EU. This creates a very narrow window for Government to confirm full details of the UK's permanent applied tariff schedule, and where possible, for industry to adapt supply chains, secure approvals from customers where required and alter contracts accordingly.

14. Given the need to ensure sufficient leverage for the UK's future preferential trade agreement negotiations with third countries and the costly and disruptive challenge businesses face in adapting to new trade administration processes and procedures, many of which remain unclear or uncertain, we believe a sensible option would be to replicate the EU's Common Commercial Tariff in the short term. This would provide some measure of certainty for industry while the Government focuses all efforts on securing an essential tariff and quota free trade agreement with the EU.

15. With an EU trade agreement and other new preferential trade deals in place, Government could then begin a comprehensive process of setting both the UK's bound and applied tariff rates in a way that preserves essential negotiating capital, delivers simplifications benefiting industry and customs authorities alike, avoids the potential erosion of preferences provided to the world's least developed countries (LDCs), while also addressing the challenges of operating a tariff schedule that has specific tariff rates set in a foreign currency.

16. Tariffs are not always the most important or most challenging component of preferential trade negotiations, however their importance as a crucial tool to secure new market access that benefits UK exporters should not be overlooked. A unilateral reduction of UK tariffs outside of a trade agreement benefits neither the work of UK negotiators nor the UK's long-term trade policy. This was clearly demonstrated by the UK's Temporary Tariff Regime which removed the key incentive for Canada to sign a simple continuity deal with the UK that would allow trade to continue on the basis of the Canada-EU Comprehensive Economic and Trade Agreement (CETA).

17. However, with essential modifications Government's current proposals could strike a suitable balance between maintaining the UK's negotiating capital to help secure tariff free trade with the EU while delivering benefits for industry and consumers. A package of measured simplifications could also deliver a positive signal from the UK to WTO members regarding the UK's constructive pro-trade approach at a time where our industry is experiencing a costly and damaging rise in protectionism and other actions that undermine the WTO's rule-based multilateral trading system.

18. A measured approach to revising the UK's tariffs is essential given the complex seasonal and global nature of the UK's trade in agrifood and drink as well as the potentially far reaching impacts small changes could have for the UK's largest manufacturing industry, for UK food security and for shoppers and consumers. The UK's tariff system must be sufficiently flexible to cope with the demands and challenges that climate change will pose for the UK's agrifood and drink industry, both in terms of domestic production and access to essential imported ingredients and raw materials.

Simplifying and tailoring the UK Tariff

19. FDF supports the ambition of Government to simplify processes and requirements for calculating tariffs. This has the potential to provide benefits for food and drink producers after 1 January 2021 where their imports into the UK of ingredients, raw materials and finished products are currently subject to the EU's MFN tariff rates. However, this will offer only limited benefits for food and drink manufacturers and will have little impact on consumer prices.

20. At present, most imported food and drink entering the UK does so tariff-free, either from the EU, through bilateral preferential trade agreements, or via unilateral trade preferences the UK provides to LDCs. Little more than 10 per cent of imported food and drink arrives from countries with which we trade on an MFN basis however much of this is trade in products of which the UK and the EU has no domestic production and so is not subject to an import tariff.

21. A useful simplification that is not proposed in Government's consultation, which would provide wide-ranging benefits for businesses would be to simplify the actual system of tariff codes and classifications employed in the UK. Businesses using HMRC's Trade Tariff Commodity Code tool often find their goods can be classified under multiple codes with different tariff rates applied. Removing artificial distinctions between tariff codes can help companies to classify their goods at the 10 or 12-digit level more easily. For example, essential imports of chicken and turkey powders can be classified under either of the codes 0210 or 1602. This threatens drastically different tariff implications in Government's proposals. We would welcome exploration of simplification on this area.

Nuisance tariffs

22. As indicated above, we recognise that there is scope for some limited adjustments as proposed in the consultation document. In principle, we support the removal of nuisance tariffs of 2.5 per cent or less and the reduction of administrative burdens for business this would deliver. However, Government should exercise a degree of caution in doing this to ensure changes are consistent with the UK's unilateral trade preferences and avoid adversely impacting the market access provided to LDCs.

Tariff Rounding

23. We are less convinced by the case for standardised banding in the absence of simplification of individual product or commodity codes. What matters to businesses is the actual amount of money they are required to pay, irrespective of how this is calculated – whether or not the cash sum corresponds to a round number as a percentage of value is essentially immaterial from a commercial perspective.

24. The proposals are not clear about whether tariffs of less than 5 per cent which are rounded down to 2.5 per cent would then be abolished altogether as proposed for nuisance tariffs. We would welcome clarity on how these two proposals interact and would encourage the Government to adopt a cautious approach as the outcome could have very significant implications for UK food and drink supply chains. While some sectors and businesses may support the removal of tariffs under 5 per cent to help boost domestic competitiveness, it is clear that it would also have profoundly damaging impacts for our industry. It could also risk eroding the benefits of preferential access that the UK provides unilaterally to LDC agrifood and drink industries.

Agricultural tariff changes

25. That same logic also applies to the current system of specific, compound and mixed tariffs that apply to many agrifood and drink goods. Applying a single percentage means that the absolute amount payable increases or decreases in line with changes in commodity prices, which would add significant volatility for raw material and ingredient prices with impacts on prices faced by consumers and shoppers. More duty is payable when prices increase, resulting in a double cost pressure on importers, the reverse being true when world market prices fall, effectively making imports super-competitive compared to domestic production. Specific tariffs based on a value determined by weight provide an essential safeguard against price volatility for consumers, producers and farmers. Guarding against such fluctuations is essentially the EU's rationale for using fixed monetary values. The current system is, however, in some areas extremely complex and we would welcome exploration of potential opportunities for simplification.

26. While we understand the attraction of converting specific tariffs to ad valorem tariffs, we question whether it will deliver simplifications that will benefit industry, In practice we believe it would have costly impacts for many UK manufacturers of value-added food and drink and would drive up both production costs and the prices consumers and shoppers face. Higher quality, higher value imported ingredients used by UK manufacturers and demanded by UK consumers and shoppers would attract higher tariff costs because of the conversion to ad valorem tariffs. This could have very immediate implications for the choice, price and even the quality of goods available to UK consumers and shoppers.

27. Our industry is uniquely affected by seasonality and ingredient prices are subject to significant fluctuations depending on a range of external factors which would risk ad valorem tariffs significantly pushing up the tariff costs faced by businesses in order to cover those volatility risks. This is especially true for SME producers that would be more susceptible to these changes where they are less able to mitigate against price volatility using forward buying and hedging arrangements, or where such arrangements do not exist or are not well developed such as in the dairy and meat sectors.

28. Converting specific tariffs to ad valorem is a complex task that presents a great deal of risk for our industry. While it may seem like a simple calculation can be made based on an equivalent percentage of the specific tariff compared to the import unit value, determining the correct import unit price is incredibly complex and cannot be decided so arbitrarily. These values will differ enormously depending on a wide range of factors about which tariff codes are not able to distinguish, including the time of year, origin of the product, destination, product quality, cost of delivery, production methods, welfare standards and a range of wider standards that exceed domestic production requirements.

29. Global UN databases on food and commodity prices would typically be skewed towards the lower end of the range of what producers actually pay and using these sources would disadvantage UK producers, and trade in food and drink products that have been produced to high welfare, environmental and social standards.

30. For example, milled rice attracts a specific tariff of €175 per tonne that would be used for imports of both Vietnamese long grain rice costing around €350 per tonne and Indian basmati rice costing €1,000 per tonne or more. Given this wide variation in prices, converting this specific tariff to ad valorem would result in a tariff of either 17.5 per cent or more than 50 per cent. In both scenarios, the importer of the more expensive basmati rice would face significantly higher costs and a damaging loss of competitiveness despite using the same tariff heading.

31. As well as penalising imports of higher quality, higher value products, we have serious concerns that making these changes presents a serious risk in terms of incentivising customs fraud through the submission of incorrect declarations to customs authorities. Given the importance of ensuring trade partners have confidence in the UK's processes and procedures at UK borders, we think it would be unwise for the UK to make a wholesale move to convert specific tariffs to ad valorem tariffs. This would risk undermining UK trade negotiations and potentially consumer trust in the safety, quality and authenticity of the UK's food and drink system.

32. Instead, we urge Government to adopt a longer-term approach to reforming specific tariffs, working through the WTO with key trading partners as part of a drive to improve and modernise the application of tariffs globally.

Meursing Code

33. The Meursing Code has long been a burdensome and costly experience for those trading in composite products impacted by this tariff mechanism. The possibility of 13,608 different tariff rates applying to a single product presents considerable uncertainty for importers. At present, the UK imports around £2 billion of products covered by a Meursing Code tariff line each year. 94 per cent of these imports come from the EU, avoiding the need for businesses to engage with these tariffs. As a result, understanding of how these tariffs are calculated and implications for individual product lines is relatively limited.

34. To identify the Meursing Code to calculate the tariff, UK importers typically need to undertake laboratory testing at a cost of up to £500 for every individual product imported because the tariff is based on precise ratio of sucrose, glucose, milk fat and milk protein content in the finished product, rather than more readily accessible data that producers can provide on ingredients used in the product's recipe. Importers also need to retest products regularly as the figures can and will change as product recipes change, or even because of changes to ingredient sourcing arrangements or manufacturing processes.

35. When a business has obtained this data, it is relatively straightforward to calculate the precise tariff using Government's Meursing Code calculator. The burden and cost of obtaining this data is the key problem that Government should focus on addressing and simplifying rather than the precise formula of compound tariffs that are used by producers to determine the Meursing Code that needs to be used. Importers could benefit from simplifications that allow them to move away from an overly complex system that is based on testing of the finished product to using a simpler system that remains based on a compound tariff, but is calculated using more readily available data on the volume and value of individual ingredients contained in the product.

Removing tariffs on key inputs to production

36. Understanding exactly what the UK's agrifood and drink industries do and do not produce is a complex task. We do see opportunities to remove tariffs on inputs where Government is certain that UK industry will benefit without adversely impacting other essential parts of our supply chain. However, we would urge the Government to adopt a cautious approach. We have serious concerns about the data that is available to Government, their understanding of what is produced and processed in the UK, and the potential impacts of such changes on UK industry and key overseas investments. This proposal also presents substantial risks given the very limited period of consultation that is taking place. In food and drink, inputs that may appear to be of limited value or volume in terms of domestic production can play a key role in just-in-time production processes and would be threatened by wholesale tariff removal.

37. Agriculture tends to be an exception to normal trade practice in that many countries impose tariffs on cheaper imported inputs to protect their own primary producers, even if this means their manufacturers are less competitive as a result. Systems such as inward processing relief, or temporary tariff suspensions are expressly designed to mitigate these effects in specific cases and we believe it sensible that Government focuses on ensuring these schemes are readily available, accessible and understood by industry, especially SMEs, so that industry is best able to benefit from new trade opportunities that will be delivered through the UK's independent trade policy.

Removing tariffs where the UK has zero or limited domestic production

38. This is again an area which is more complicated for agriculture and food than for many industrial products because of factors such as seasonality, regional variations or indeed climate change, which could present growth opportunities in domestic production to replace the need for imports. While not disagreeing with the underlying principles, as above, we would urge a cautious approach to early change. Government should also remain cautious about potential implications of such a move for producers that qualify for and benefit from the UK's unilateral trade preferences.

39. A holistic approach should be taking when considering the removal of tariffs where UK production is limited. The needs of UK food and drink manufacturers must be taken into account to ensure that decisions taken on ingredient and raw material tariffs are joined up with decisions taken on finished products containing these raw materials. For example, where removing tariffs on manufactured food and drink, serious consideration must also be given to allowing commensurate access to ingredients and raw materials from the world market.

The UK Food and Drink Manufacturing Industry

The Food and Drink Federation (FDF) is the voice of the UK food and drink manufacturing industry, the largest manufacturing sector in the country. Our industry has a turnover of more than £105 billion, which is almost 20 per cent of total UK manufacturing, and Gross Value Added (GVA) of £27.5 billion. Food and drink manufacturers directly employ over 430,000 people across every region and nation of the UK. Exports of food and drink make an increasingly important contribution to the economy, exceeding £23 billion in 2018, and going to over 220 countries worldwide. The UK's 7,400 food and drink manufacturers sit at the heart of a food and drink supply chain which is worth more than £120 billion to the economy and employs 4.3 million people.

The following Associations actively work with FDF:

ABIM	Association of Bakery Ingredient Manufacturers
ACFM	Association of Cereal Food Manufacturers
BCA	British Coffee Association
BOBMA	British Oats and Barley Millers Association
BSIA	British Starch Industry Association
BSNA	British Specialist Nutrition Association
CIMA	Cereal Ingredient Manufacturers' Association
EMMA	European Malt Product Manufacturers' Association
FCPPA	Frozen and Chilled Potato Processors Association
FOB	Federation of Bakers
GFIA	Gluten Free Industry Association
PPA	Potato Processors Association
SA	Salt Association
SNACMA	Snack, Nut and Crisp Manufacturers' Association
SSA	Seasoning and Spice Association
UKAMBY	UK Association of Manufacturers of Bakers' Yeast
UKTIA	United Kingdom Tea & Infusions Association Ltd

FDF also delivers specialist sector groups for members:

Biscuit, Cake, Chocolate and Confectionery Group (BCCC)
Frozen Food Group
Ice Cream Committee
Meat Group
Organic Group
Seafood Industry Alliance