FPC response to consultation on the UK Global Tariff - 4 March 2020

FPC
The Fresh Produce Consortium (FPC) has over 600 members, representing 80% of the UK fresh produce supply chain. Members include multiple retailers; importers; wholesale markets; food service businesses; processors; packers; distributors; growers; and other business supporting the UK fresh produce industry. FPC membership spans across not only importers, but also clearance agents, freight forwarders and port operators, all of whom are seeking clarity in order to prepare for new arrangements.

SMEs
The usual definition of small and medium sized enterprises (SMEs) is any business with fewer than 250 employees. There were 5.7 million SMEs in the UK in 2018, which was over 99% of all businesses. According to the EU, definition of an SME is a business with fewer than 250 employees, and a turnover of less than €50 million. On this basis, the majority of businesses in the UK fresh produce supply chain will be defined as SMEs.

Wholesale and food service sectors play a vital role in the distribution of fresh fruit, vegetables and cut flowers across the UK. They are often overlooked sectors alongside retail, however, they are significant, responsible for providing 35-40 % of the UK supply of fresh produce. In particular, they supply the UK's restaurants and catering establishments, as well as prisons, hospitals and schools.

The wholesale and food service sectors are comprised of at least 80% SMEs, and capacity within these businesses is very small. They do not have the same ability to access resources, advice and training in relation to customs clearance processes and plant health requirements.

Some of the traders have only ever traded with the EU and therefore have no experience of the requirements they will need to meet in relation to customs and tariffs in the event of there being no Free Trade Agreement in place with the EU.

These markets have an important impact on their local economy, supporting a wider network of SMEs. Their variety of fresh produce includes both UK grown products as well as exotic products from a range of third countries, meeting the diverse tastes of local consumers from a wide ethnic background.

Section 2:

Tariff Rates

Why are current UK applied tariffs important to sectors?

Fruit and Vegetables
The UK is an overall importer fresh fruit and vegetables, with around 71% of fresh produce on the UK market imported from around 95 countries (excluding the EU), a total of 2.7 million tonnes in 2018. Imports from the EU account for 54% of all imports, a total of 3.2 million tonnes in 2018, which is 39% of the UK market.

UK production of fresh produce was 2.4 million tonnes in 2018, around 29% of the total UK market. (Please note: these figures exclude potatoes.)

Cut flowers and plants

The UK cut flower sector imports 90% of its products. In addition, the Netherlands accounts for 74% of the UK's plants and cut flower imports, regardless of the original source of the product. UK production is seasonal and often volumes are very small. Therefore, unless there is a need to protect UK production, there is no requirement to have import tariffs on cut flowers and plants.

Trade with the EU

The UK fresh produce industry wants a Free Trade Agreement with the EU, with 'zero for zero' tariffs. The dependency of the UK market on EU imports is critical to maintaining our food security. Any new tariff or non-tariff barriers will place immense burdens on businesses by removing frictionless trade, damaging existing trade flows, and will lead to increases in prices for UK consumers.

We recognise that there is a difficulty in liberalising the MFN rates which could hinder securing reciprocal concessions in future trade negotiations. A pragmatic approach would be to replicate the existing position while future FTA negotiations take place, with the exception of those products where there is no competing UK production. We believe that it will be necessary to review further the UK global tariff schedule due to the status of on-going negotiations on future trade agreements (see Table 3).

Trade with non-EU countries

Whilst the UK Government has replicated several trade agreements to maintain mutually beneficial trading arrangements, there are still a number of outstanding or on-going discussions on a future trading relationship with countries with whom the UK trades a significant volume of fresh produce.

A list of the status of the UK's trade negotiations can be found in Table 3.

Certain countries provide specific products and key times of the year, ensuring that the UK has a sustainable supply.

Supporting developing countries

We recognise that a zero percent MFN tariff could impact significantly on smaller developing countries, for example, those producing bananas for the UK market. We believe that there needs to be protection measures in place for these developing countries which would not be in position to compete on a level playing field with larger producing nations across imports of fresh fruit, vegetables, cut flowers and plants.

UK production

The UK horticulture sector, in particular soft fruit and top fruit, is heavily reliant on imports of live plant propagation materials (seedling, plants and trees) exported from nurseries in the European Union. The British soft fruit sector imports 95% of its plants annually; around 100 million plants a year.

Whilst the industry is working to increase UK propagation, there is currently a lack of available glasshouse/permanent tunnel sites in the UK and the restrictions imposed by the UK planning process to build new sites means that UK horticulture will have to continue importing propagating materials from the EU. Significant production capacity and investment would be required.

Additional cost burdens on UK importers

Whilst charges imposed on UK importers under official controls do not form part of this consultation, we believe that it is important to highlight the significantly increased costs which are incurred by UK importers, in particular to cover the requirements of new plant health regulations introduced in December 2019. In addition, several members have raised with FPC their concerns about the impact of additional costs and resources needed to manage new customs procedures and the impact which this will have on operating costs which they will no longer be able to absorb. Without a zero tariff regime it is inevitable that companies will need to pass on these costs to the UK consumer.

Changes to the individual tariffs will to be incorporated into companies' IT systems, tested and approved, in advance. These will take several weeks and cannot be rushed. Companies will also have to take on board any changes to the customs procedures made by UK Government and adapt their own systems.

UK importers will need to make changes to their pricing models to take additional costs into account. There are already businesses undertaking negotiations on selling prices which include pricing for 2021.

Comments on specific tariff rates

An Excel spreadsheet is provided with comments on specific tariff rates. FPC has taken the MFN tariffs indicated in the consultation tariff look-up tool for easy reference for FPC members and to provide feedback to UK Government.

FPC proposes that:

All MFN tariffs should revert to 0% unless the product is produced currently on a commercial basis in the UK. Alternatively the MFN should be equivalent to the lowest value in any bilateral agreement, providing it does not distort trade with competing countries.

Entry Price System, Standard Import Valuation and Simplified Procedure Values

FPC believes that the Entry Price System, Standard Import Valuation and Simplified Procedure Values should be maintained, with some amendments. It is essential that official price information is maintained to support sales on commission.

We do not believe that duties within the Entry Prices, SIVs and SPVs should be applied to UK imports when there is evidence that UK production in those same products is sustainable and competitive. In these circumstances there would be no need to protect UK production. On this basis, alongside the use of the Entry Price System, SIVs and SPVs, we believe that there would need to be a price monitoring mechanism based on import values or wholesale values (not retail). This would enable comparisons to be made.

Entry Prices are in Euro/100kg and converted in £ Sterling according to the prevailing EU exchange rate. It is not clear from the consultation whether there is any consideration of the currency to be used for UK tariffs. FPC believes that prices should be given in £ Sterling.

Products which are not grown commercially in the UK are highlighted in yellow. There is no requirement to maintain an Entry Price for products which are not grown commercially in the UK. The Entry Price varies during the year according to what is in season in the EU.

For example, the UK imports grapes from around 12 different countries, including Spain, Greece and Italy in the EU. The EU has a large volume crop and exports from the end of June through November. Grapes are very price sensitive and any additional costs will harm consumption considerably. It would not been in the UK's interests to introduce a duty on grapes. Removing the Entry Price on grapes may encourage exporters in countries such as Egypt, Peru and Brazil to enter the UK market earlier than currently.

There will be seasonal variations for UK grown products and this should be considered if the UK decides to maintain SIVs/SPVs for these commodities where it may be deemed necessary to protect UK production. Consideration should be taken of the relative volumes of imports versus home production and the realistic potential to increase production, and over what timeframe.

For example, currently there is import duty placed on apples from the USA (4-9% between August – December, and 4% Jan – March). The free on board and cost of transportation over 8,000 miles is already a barrier to trade, and with the import duty renders the US products not competitive against UK grown products available on the UK market at the same time.

In addition, consideration needs to be taken to have a flexible approach to the application of seasonal tariffs on UK imports in order to maintain food security in the event of poor weather conditions affecting UK production. A system which enabled a tariff to be suspended at short notice if UK production, for example of salad crops and vegetables, was cut short due to adverse growing conditions would allow UK suppliers to switch sourcing to other countries, without incurring prohibitive costs which would have to passed on to UK consumers.

Table 1: EU Entry Price System

CN code	Commodity	Volume of UK production 2018 (tonnes)	Availability of UK grown product on UK market	Volume imported 2018 (tonnes)	Period of application of Entry Price
08081080	Apples	297,700	All year	374,349	All year
08091000	Apricots	0	-	9,418	01/06 – 31/07
07099100	Artichokes	0	-	503	01/11 – 30/06
08092900	Cherries	3,600	June – Sept	14,024	21/05 – 10/08
08052200	Clementines	0	-	110,714	01/11 – 28/02
07099310	Courgettes	25,000	June - Oct	100,606	All year
07070005	Cucumbers	47,671[2]	Jan - Oct	159,265	All year
08061010	Grapes	0	-	266,608	21/07 – 20/11
08055010	Lemons	0	-	154,055	All year
0805210	Mandarins[1]	0	-	148,438	01/11 – 28/02
08051022/24/28	Oranges	0	-	263,447	01/12 – 31/05
08093010/90	Peaches/nectarines	0	-	73,829	11/06 – 30/09
08083090	Pears	26,300	Sept - June	130,408	01/07 – 30/04
08094005	Plums	8,700	July - Oct	36,695	11/06 – 30/09
07020000	Tomatoes	90,627[2]	Jan - Nov	388.591	All year

[1]Includes: satsumas (08052110); wilkings (08052150); monreales (08052130); tangerines (080521); others (08052190).

[2]Eurostat 2017 data on UK production - where Defra 2018 production data not available. (otherwise Eurostat data 2018)

FPC seeks information on how long the proposed UK tariff is envisaged to be in force before a second review takes place. There should be future opportunities to ascertain the potential growth of UK production without causing any immediate distortion to trade.

Marginal tariff equivalent

If the prices or value of a product covered by the Entry Price System lies between 92% and 100% of the relevant entry price then a marginal tariff equivalent is imposed as follows:

Actual prices/CIF value in relation to the defined entry price	Marginal Tariff Equivalent equals this proportion of the Entry Price
98% - 100%	2%
96% - 98%	4%
94% - 96%	6%
92% - 94%	8%

Additional steps apply during certain period of the year to **apples, pears and lemons only**.

FPC questions whether the marginal tariff equivalent is used and is necessary, given its complexity and the UK Government's expressed wish to simplify the tariff scheme. We suggest that it is either removed or simplified.

Valuation of Imported Goods
Fresh produce imported into the UK will be purchased in one of two ways. It will be purchased 'firm' on a fixed price or purchased 'on commission'.

When produce is purchased on a firm basis the buyer and the seller have agreed a fixed price for the goods. The seller will raise a commercial invoice to go with the goods when it is exported to the UK. This value should be used by customs to clear the produce and to apply any tariff.
When produce is sold on commission by the seller to the buyer both parties recognise that the ultimate price for the goods may fluctuate according to market conditions. It is the responsibility of the buyer in the UK to advise the seller of the prices obtained for the goods sold and the seller will then raise documentation for the buyer confirming the selling price less commission and other costs. Inevitably some produce will take longer to sell than others, be it from the same country even at the same time of year. It would not make sense to wait until all the produce has been sold for the importer to advise customs of the net price paid for the goods.

It is essential that a number of options are available to UK importers of fresh produce. Currently these are:

- Free of Board Price
- Method 1: Transaction (invoice) value

- **Standard Import Values**

The SIVs are country specific. We seek clarification on how the UK will determine market prices.

- **Simplified Procedure Values**

The UK Government has previously indicated that it wishes to have the option of SPVs (customs values derived from sales prices in specified markets). We seek information on which products this would be applied to, and how UK Government will collect this data. We would like to discuss further the opportunity for FPC to assist the UK Government in providing this data via our wholesale market members.

Table 2: Current products for which SPVs can be used to establish value:

CN code	Product description	Availability of UK grown product on UK market
0701 9050	New Potatoes	May - Sept
0703 1019	Onions	Jan - Dec
0703 2000	Garlic	Aug – Jan (nominal production)
0708 2000	Beans	June - Oct
0709 200010	Asparagus (green)	April - June
0709 200090	Asparagus (other)	-
0709 6010	Sweet peppers	May - Oct
0714 2010	Sweet potatoes – fresh, whole	-
0804 300090	Pineapples	-
0804 400010	Avocado	-
0805 1022	Sweet oranges	-
0805 220020	Clementines	-
0805 211010/90	Monreales and satsumas	-
0805 219011/ 0805 290011	Mandarins and wilkings	-
0805219091/ 0805 290021/91	Tangerines and others	-
0805400011/31	Grapefruit (white)	-
0805 400019/39	Grapefruit (pink)	-
080550901119	Limes	-
0806101090	Table grapes	-
08071100	Watermelons	-
0807190050	Melons	-
0807 190090	Melons	-
0808 309010	Pears (Nashi, Pyrus Pyriofolia)	-
0808 309090	Pears	Sept - June
0809 1000	Apricots	-
0809 3010	Nectarines	-
0809 3090	Peaches	-
0809 4005	Plums	July - Oct
0810 1000	Strawberries	March - Nov
0810 2010	Raspberries	May - Oct
0810 5000	Kiwifruit	-

Products which we believe are not grown commercially in the UK are highlighted in yellow.

One proposal would be for UK Government to gather information on a weekly basis of the expected selling prices of each commodity on which a tariff is to be paid. This could be an automated system over time.

Prices would be aggregated and used for all imports of that commodity for the following week. This process is similar to the way that the Standard Import Value is calculated now. The disadvantage of this method is that the import price is not related directly to the actual selling price of the produce. The advantage is that it is simple to administer and everyone would know what to expect.

Section 3: Views on proposed amendments

FPC supports a UK tariff regime which supports an efficient and sustainable UK fresh produce industry and enables growth to provide UK consumers with greater choice in affordable fresh fruit, vegetables, cut flowers and plants.

Nuisance tariffs
FPC supports the removal of 'nuisance' tariffs of 2.5% or less and welcome the resulting reduction in administration for businesses, in particular for SMEs.

Rounding tariffs down
Standardised banding of tariffs would not necessarily deliver significant advantages for individual businesses unless it were accompanied by the simplification of individual commodity codes. In commercial terms, the method of calculation of due payment is not as important as the actual amount due. A modest reduction could lead to more affordable produce and an increase in consumption.

Agricultural tariffs applied as single percentages
Applying a single percentage would mean that the absolute amount payable increases or decreases in line with changes in commodity prices, resulting in more duty being payable when prices increase. This would result in a double cost pressure on importers. When world market prices drop the opposite would be true, making imports more competitive compared to UK production. Such fluctuations are challenging, and the use of fixed monetary values by the EU is a means of guarding against such fluctuations. There may be scope to further explore this complex area, in which case sufficient time is required to do so.
The UK Government could consider that a tariff should be a percentage of the imported value rather than a fixed sum per weight.

We understand that the quotas do not form part of this consultation, however, a quota system has issues. Volume quotas often penalise imports received later in the season compared to those imports coming in earlier in the season.

Inputs to production
The UK fresh produce industry is providing fresh fruit and vegetables primarily for direct consumption, but also for processing, such as fruit for juicing; fruit and vegetables for convenience foods. The industry is also dependent, like many other industry sectors, on inputs such as crop protection products; fertilisers; biocides; labelling, plastics and packaging materials; labels.

Crates, boxes, pallets and platforms
As an example, we would highlight the use of crates, boxes, pallets, platforms etc. used to transport and carry fresh produce. These can be made from metal, wood, and plastic, the latter in particular which are often re-usable. We seek confirmation that the MFN tariffs relate to the actual boxes etc. (unused) being imported to the UK, and not to the actual use and continued re-use of these products for conveyance and packing of fresh produce (see spreadsheet). It would be unacceptable not to have 0% tariff for products used to convey and pack fresh produce.

Removal of tariffs where there is limited or zero UK production

The UK climate does not favour the growing of many popular ranges of imported fresh fruit and vegetables. FPC would support the removal of tariffs where there is limited or zero UK production. In the first instance, we would suggest consideration should be given to those products listed under the Entry Price scheme and Simplified Procedure Values. These EU schemes were established to protect EU production, however, they should be reviewed to reflect current UK production and UK seasonality (see tables 1 and 2).

Special Safeguard Mechanism

This is rarely used for fresh produce imports, but the EU is permitted to impose additional import duties on top of the Common Customs Tariff in the event of a surge in imports. Trigger levels are calculated each year, based on the average levels of imports over previous three years, adjusted by a factor based on the ratio of imports to EU consumption. Volume of imports is calculated using the system of import licences which are applied for and used by third countries wishing to export to the EU. It is not clear whether the UK Government proposes to retain and/or use this mechanism.

Food Security

The UK fresh produce industry is a critical and vulnerable sector within the UK food and drink industry. The industry plays a vital role in feeding the nation and contributing to a healthy diet.
1.8 million tonnes of imported fresh produce coming onto the UK market during the three months of November – January alone (HMRC statistics 2018).

Fresh fruit and vegetables are highly perishable commodities and any delay in transportation, customs clearance and official controls reduces the quality of produce, shortens shelf-life and compromises food safety, resulting in wastage and shortages in certain supplies.
A significant volume of UK imports from third countries transit the EU, entering the UK at roro ports. According to the Chamber of Shipping, the port of Dover alone handled 2.5 million lorries in 2015, an average of 7,000 lorries a day. We believe that on average approximately 600 vehicles transporting fresh produce transit Dover each day.

UK horticultural production is reliant on imports of live plant propagation materials from the EU, with the British soft fruit sector importing 95% of its plants annually. Any lack of such materials will disrupt UK production for the 2021 season.

Table 3 : UK imports of fresh fruit and vegetables from non-EU countries – 2018 Eurostat volumes (tonnes) and status of UK trade agreements to come into effect on 1 January 2021

Total	**2,758,654.50**	**UK Trade Agreement status as of 25/02/2020**
South Africa	391,071.80	signed
Costa Rica	359,213.60	signed
Colombia	331,445.80	signed
Brazil	149,631.90	
Morocco	146,287.10	signed
Dominican Republic	145,781.50	signed
Egypt	134,648.00	*discussion on-going*
Ecuador	130,190.20	signed
Peru	129,535.70	signed
Chile	127,822.10	signed
Turkey	103,586.80	*Customs Union - dependent on EU relationship*

Cote D'Ivoire	51,373.00	*discussion on-going*
New Zealand	47,502.40	Mutual Recognition
Belize	44,567.40	signed
India	36,749.40	
Israel	36,373.80	signed
Ghana	34,481.90	*discussion on-going*
Mexico	34,216.30	*discussion on-going*
Senegal	33,909.90	
Kenya	33,046.10	*discussion on-going*
Cameroon	32,833.00	*discussion on-going*
Guatemala	31,260.40	signed
Panama	25,337.80	signed
United States	23,522.00	Mutual Recognition
Honduras	20,046.10	signed
Argentina	17,985.40	
China	17,765.10	
Pakistan	15,857.40	
St Lucia	9,894.60	signed
Namibia	7,052.30	signed
Zimbabwe	6,201.40	signed
Nicaragua	5,959.20	signed
Ukraine	4,939.70	*discussion on-going*
Swaziland	3,547.50	signed
Iran, Islamic Republic of	3,529.00	
Jordan	2,926.30	signed
Uganda	2,535.40	
Thailand	2,411.80	
Tunisia	2,249.90	signed
Australia	1,925.10	Mutual Recognition
Saudi Arabia	1,839.90	
Gambia	1,745.90	
Bangladesh	1,336.90	
Uruguay	1,304.70	
Tanzania, United Republic of	1,229.50	
Mozambique	1,228.80	signed
Jamaica	1,059.70	signed
Serbia	1,059.40	*discussion on-going*
United Arab Emirates	913.10	
Zambia	838.60	
Canada	686.80	*discussion on-going*
Rwanda	620.60	
Burkina Faso	613.90	
Occupied Palestinian Territory	593.10	signed
Sri Lanka	422.50	
Malaysia	387.40	
Ethiopia	319.80	
Lebanon	315.80	signed
Uzbekistan	281.80	
Equatorial Guinea	247.70	
Philippines	241.10	
Afghanistan	216.80	
Algeria	193.90	*discussion on-going*

Dominica	187.20	signed
Mali	172.30	
Mauritius	162.00	signed
Myanmar	161.00	
Venezuela	143.50	
Oman	134.90	
Guinea	133.00	
Viet-Nam	107.30	
Korea, Republic of	72.10	signed
Bosnia and Herzegovina	52.90	*discussion on-going*
Barbados	46.10	signed
Hong Kong	42.20	
Kosovo	37.60	signed
Grenada	36.00	signed
Libyan Arab Jamahiriya	32.80	
Indonesia	31.30	
Iraq	25.00	
Sudan	24.60	
Nigeria	23.80	
Norway	21.20	signed
Switzerland	20.40	signed
Albania	20.10	
St Vincent and The Grenadines	13.50	signed
Syrian Arab Republic	10.30	
Japan	5.50	
Lao People's Democratic Republic	5.30	
Seychelles	5.00	signed
Taiwan	4.10	
Somalia	2.20	
Cambodia	1.70	
Nepal	1.20	
Malawi	1.20	
Togo	1.20	
Fiji	1.10	signed
Azerbaijan	1.00	
Cuba	1.00	
Bahrain	0.60	
Singapore	0.30	*discussion on-going*
Qatar	0.20	