parcelhero INDUSTRY REPORT

DELIVERING BREXIT

The True Cost of Leaving the EU

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EXECUTIVE SUMMARY

Should the UK decide to withdraw from the European Union, international delivery experts ParcelHero predict

1. A typical rise of 30% in costs on an imported item due to:
   • An average 5%-9% added to the price of an item in duties (where duties apply, depending on the item)
   • Plus VAT of 20% (including shipping & insurance) when buying from countries within the EU - and only reclaimable in you are VAT registered
   • Plus increased transport costs - the UK outside the EU would be a less competitive market for international couriers
   • Plus 'customs clearance' charges from a courier company: typically around £15

2. The average SME regular importer/exporter to the EU (excluding 'one man bands') will be spending around £163k extra annually, including duties. The UK will face £11bn in new tariffs on imports of £220bn.

3. A typical £150 purchase from the EU will now cost around £195, an increase of £45 or over 30%.

4. Businesses and consumers will face a mass of new red tape: Customs forms with proof of origin for every shipment arriving in the UK would be required

5. SMEs and internet traders will find EU suppliers three times more likely to prefer to trade elsewhere in the EU than with the UK.

6. The cost of consumer goods will rise by around 32% if the UK follows the model of countries such as European non-EU member Norway. A typical pair of Levis 501 jeans that costs £56 in the UK costs £71 in Norway and £81 in Switzerland; and a £59 pair of Nike shoes costs £77 in Norway and £88 in Switzerland.

7. British exporters seeking to price goods competitively could easily fall foul of the Union's protectionist anti-dumping rules and face extra duties

8. Britain might not qualify for the many favourable trade agreements negotiated by the Union with key countries and markets around the world, including the planned TTIP between the US and EU aimed at removing most customs duties.

9. Choosing to set our own tariffs would mean moving outside the EU's Common External Tariff. That entails setting our own duties on 19,000 individual tariff codes - a move leading to increased border delays and red tape for EU businesses looking to trade with the UK.

INTRODUCTION

"Should the United Kingdom remain a member of the European Union or leave the European Union?" The debate surrounding the question being put to the UK voters on June 23 has largely been dominated by emotive arguments about benefit costs for European Union (EU) migrants, safeguarding borders and sovereignty. In fact, were Britain to leave the EU, the most immediate and noticeable impact would be a significant increase in the cost of sending and receiving items into Europe and beyond.

It may not be the sexiest of topics, but the imposition of duties, customs clearance charges and red tape, including compulsory customs forms for every shipment, could be very damaging for business and expensive for consumers.

If the UK votes leave the European Union, it could result in a 'perfect storm' scenario in which there could be significant issues with customs and taxes that could impact on both the people and businesses of the UK and those wishing to deliver into the country. This would undoubtedly make an independent UK a less attractive market for businesses during any transitional phase.

AN EXIT, OR A WALL?

ParcelHero's research reveals that increased delivery fees and higher import costs following the UK's exit from the EU will hit SMEs and start-ups particularly hard; and add significant complication and increased expense for UK internet retailers and online marketplace traders doing business with the EU. What might look like an exit could in fact become a wall between the UK and EU.

Were the UK not to have immediate membership of a group such as the European Economic Area (EEA), or to have Free Trade Agreements (FTAs) with the EU in place at the time it exits from the Union, duties would also be payable at EU borders. Where any duty is applicable on an item, the average is between 5% and 9% - depending on the kind of item being bought or imported. [1]

Further, different rates of VAT apply in different EU member states when trading with countries outside the EU: ranging from 17 to 27%. [2] VAT would also have to be paid separately, and include the cost of the actual shipping and insurance; and would only be reclaimable by those senders who are VAT registered.

Finally, delivery companies will typically charge around £15 in administrative 'customs clearance' fees.

Bringing these extra transport costs, duties and taxes all together is not entirely straightforward but an easy rule of thumb (advocated by eBay and MoneySavingExpert.com) is that the charges for delivery, customs and VAT will add around 30%-33% to the price listed when being imported from a non-EU country. [3] This means a typical item that cost £150 will cost around £195 once Britain is outside the EU.

A go-it-alone Britain unable, or unwilling, to sign up to the EEA will also have to set its own rates of excise duty and import VAT for imported products, and establish customs controls: just as European EU outsider Switzerland does currently. This would result in inevitable border delays surrounding the increased level of red tape; while EU-based businesses and customers may well find the prospect of paying duties on British goods unattractive and be more inclined to buy from fellow EU member countries.

Part of the reason many British SMEs currently prefer to trade within the EU is that the EU's single market employs three tools to boost trade. First, it eliminates tariffs on goods. Second, it establishes the right of companies and people to sell their goods, services or labour, or to invest, in other member-states – the so-called 'four freedoms'. Third, it reduces the cost of potential exporters having to comply with 28 different rule books. The EU creates minimum regulatory standards, and then requires all member states to allow goods that comply with those standards to be sold unhindered. This means that exporters no longer have to produce 28 distinct products to comply with differing national rules. [4]

British manufacturers would certainly have to continue to comply with EU product standards and other technical specifications in order to sell their goods to other EU countries. In all likelihood, UK firms would continue to manufacture to only one set of product specifications determined by the EU, in order to avoid the costs associated with duplication.

WHY IS TRADING WITH NON-EU COUNTRIES SO EXPENSIVE?

The EU is the UK's main trading partner, worth more than £400bn a year, or 52% of the total trade in goods and services. Complete withdrawal from the EU could see trade barriers erected, with car exports to the EU, for example, facing a 15% tariff and imports a tariff of 10% [5].

In addition, as we have seen, the cost of transportation alone – duties aside - would be more. In this report we'll be looking closely at the costs of shipping items to and from Switzerland and Norway: as they are European countries, but do not belong to the European Union. By looking at the problems and costs surrounding shipping items to these two countries we can see how Britain would be impacted, were we to withdraw from the EU.

For example ParcelHero will ship a 10kg parcel to Italy for £14.47 (all prices quoted in this paper are the basic rate before any VAT or surcharges, and correct as of March 9, 2016) on its Economy 2-5 day Service through one of its major delivery company partners; but the cost to Switzerland – broadly the same distance and also in Europe but, crucially, outside the EU – is £36.72.

Why a difference of over £22? The simple answer is that many shipping companies don't want to service non-EU countries because of the complexities of border controls, including Customs Invoices. This means that there is little of the fierce competition between couriers that serve the EU market, and that those operators who do chose to deliver into Switzerland build the cost of delays and bureaucracy into their prices.

And because Switzerland qualifies as an international destination rather than EU, the next day Express service to Italy becomes a 3-day service into Switzerland.

To put this price difference into context both Holland and Switzerland have a population of around 8 million and so might be expected to be sent the same approximate number of parcels. Yet ParcelHero customers – business and private – sent over three times more parcels to Holland in 2015 than they did Switzerland. Clearly Switzerland is a less attractive market for SMEs.

As another example shipping a package from the UK to Sweden via a ParcelHero partner's Economy service costs £20.49. Shipping to neighbouring Norway costs £36.72 because Norway – like Switzerland - has not joined the European Union and thus is a less attractive destination for couriers to serve. That's a difference of over £15.

Why is this? Although Norway - unlike Switzerland - is part of the EEA, and therefore the single market, businesses must still complete Customs and VAT forms when goods are shipped into and out of the country. Were Britain to place itself in the position of Norway, outside the EU, it too could incur significant extra charges in importing parcels and goods – even before facing the issue of paying duties for 'foreign' goods it wants to ship from mainland Europe. And this cost difference is reflected in

the amount of items ParcelHero customers sent to Norway: 36% less than to Sweden in 2015.

In the same way, Iceland (in Europe but outside the EU) and Luxembourg (in Europe and in the EU) both have a population of well under a million people; in fact both have less than 600,000 inhabitants. Yet ParcelHero's customers sent 494% more items to Luxembourg than to Iceland in 2015.

These figures show UK SMEs have a distinct lack of appetite for trading with European states outside the EU. And over 66% of those businesses regularly shipping to Norway and Switzerland through ParcelHero said that they would prefer the two countries to join the EU to reduce administrative costs.

THE SWISS OPTION

As we've already seen, it is most likely that a stand-alone Britain would immediately follow the example of those other European EU outsiders, Norway, Switzerland, Iceland and Liechtenstein. They belong to the European Free Trade Association (EFTA). If the UK re-joined EFTA (it was once a member but left it to join the Common Market in 1973), it might also be accepted into the EEA, as the 28 EU member countries are, together with Norway, Iceland and Lichtenstein (but not Switzerland), and thus remain a part of the single market. This would mean VAT and import duty arrangements would remain broadly similar – though, remember, businesses would have to complete customs and VAT forms when goods are shipped into the EU. Further, the UK would no longer be in a position to influence the development of the EU's trade policies from inside; but would have to abide by its rulings.

And, as we have seen, ParcelHero's data shows that even keeping duties in-line with the EU's, there are still extra transport and administration costs that make non EU countries considerably less popular to do business with than those within the Union.

Many experts believe the UK is far more likely to follow the example of Switzerland than Norway, however. Switzerland wanted to be freer to negotiate its own terms and so, as we have seen, held back from joining the EEA. Instead its relationship with the EU rests on a series of agreements – 20 of them important, another 100 less so – and not all important sectors are covered. Switzerland has free trade in goods but, unlike Norway, it has no agreement with the EU on services. [6]

However, the EU is increasingly frustrated with the Swiss model, as every time regulations change a series of new agreements must be made independently with Switzerland. So it is by no means sure that this would be acceptable to the EU. And the UK might not find life outside the EEA so rosy: the services market is a particularly key one for the UK which it would want to protect.

This begs the question, would we really want to follow the Swiss model? If the experience of British SME's trading with Switzerland is a good guide, then other countries might not be eager to trade with the UK in the future if it follows the Swiss path.

SMEs in particular can face a fog of red tape when shipping to Switzerland. Original goods from countries with which Switzerland has concluded a free trade agreement or from developing countries will usually be imported at reduced duty rates (customs preference) or even free for some items. However valid proof of origin is mandatory for the importation of so-called goods of preferential origin. [7]

As we have seen this extra red tape has led to many couriers introducing so called 'Customs Clearance Charges', generally paid for by the receiver. Courier firms and Swiss Post's various charges for their services associated with customs clearance differ from one company to the next. For example, it costs 16 Swiss Francs (CHF) for letters and small parcels via Post, GLS and Hermes to clear customs in Switzerland (except when they originate from Austria, France, Germany or Italy in which case this is reduced to 11.50 Swiss Francs). [8] The standard 'customs clearance charge' applied by UPS, DHL, FedEx and TNT for importing goods from a non-EU country is at least £15. Swiss Customs are at pains to point out that though these might be called 'customs clearance costs' by the carrier, Swiss Customs has no influence on them.

It can be a very complex procedure indeed shipping to Switzerland, as the sender will need to fill in the customs contents form CN 23 and enclose a copy of the invoice or another document which certifies the value of the goods (internet print-out, contract of sale, etc.) [9].

Shipping into Switzerland can be particularly convoluted as – almost uniquely - its import duty is calculated based on weight. For example sports shoes have a duty rate of 206 Swiss Francs (CHF) per 100 kg, a cotton dress has a duty rate of 171 Swiss Francs per 100 kg and car parts 12 Swiss Francs per 100kg. [10]

In addition to duty, imports are subject to sales

tax of 8% which is calculated based on the cost of goods, insurance, freight and any applicable duty. However, from the UK, as a member of the EU currently, most goods exported to Switzerland can be zero-rated for UK VAT purposes, as long as documentary evidence of the export is kept. Any extra charges made for freight, shipping, postage or delivery are also zero-rated.

If the UK business accounts for VAT on the Flat Rate Scheme - as many SMEs and start-ups do - it must include the value of the export in the turnover on which the Flat Rate VAT is paid. This may mean that the business is better off not being on the Flat Rate Scheme. [11]

This all adds up to a complicated series of obstacles for those businesses seeking to trade with Switzerland: and by extension facing EU countries seeking to trade with Britain if it follows the Swiss model – especially if we adopt the duty by weight calculation!

THE 'HARD LANDING'

So far we have mainly examined the options and costs of shipping parcels surrounding a successfully negotiated exit from the EU ensuring membership if the EFTA and the EEA or equivalent trade agreements. Retaining the good-will of the member countries of the European Union, and ensuring membership of these organisations and/or negotiating successful trade agreements, is known as the 'soft landing'. The 'hard landing' – withdrawal from the EU in acrimonious circumstances without membership of other bodies or any free trade agreement in place - would leave Britain outside the single market; a challenging position even for one day. It would have no choice but to act immediately to ensure controls were put in place to apply duty and tax to products imported into the country.

This is by no means an easy task as the World Trade Organisation's tariff code system – the basis of the EU, US and most of the rest if the world's system for imposing duties – consists of over 5,000 main content codes covering around 19,000 harmonised tariff schedule codes. [12]

Further, were the 'hard landing' to mean the end of free movement of goods between the UK and the EU, it could have huge implications for business if border controls were introduced. The cost of enforcing UK borders would be significant and introduce considerable delays. Negotiating a comprehensive free trade agreement could take years and have an uncertain outcome. And if Britain went for a completely clean break with the EU its exports would be subject to tariffs and, as we have seen, our products would still have to meet EU production standards, harming the competitiveness of British business [13]

This position is summarised in a report issued by the Britain Stronger in Europe campaign issued in December 2015. Britain would be landed with £11bn in new tariffs if it left the EU and did not get a free trade agreement. [14] This would be equivalent of £176 for every person and £426 for every household in Britain. The figure is based on UK imports from the EU at a value of £220bn, facing a tariff set at a level of "most favoured nations".

To get an idea of how much the total cost could be of trading with our European neighbours from a position outside the EU and with no trade agreements in place, we only need to look at our own existing rules for importing goods from outside the EU into the UK and the amount of red tape involved. Without membership of EFTA or a negotiated FTA these are the duties and taxes that European companies would be facing.

The UK charges VAT on gifts worth more than £34 from outside the EU, other goods worth more than £15 and alcohol, tobacco products and fragrances (e.g. perfume, eau de toilette and cologne) of any value. Other countries have their own tax thresholds, for example in France there is a 45 Euro threshold. Other countries also have different rates of VAT. While the UK charges 20%, Germany charges 19% and Spain 21% for example.

Once you've handed over your credit card details, paid for your goods and the postage and packing/shipping charges, that might be just the start. Here's what else you may need to be prepared for when purchasing an item from outside the EU [15]:

- On anything valued at £15 or over, you will be charged VAT. Only if you are VAT registered will you be able to reclaim this via your quarterly VAT Return
- Driven by the value of the imported goods, there will be import duty. If this amounts to £7 or more, it will be charged to you
- There will be a Customs charge
- There will be a Customs clearance fee - that's a fee from the delivery company for administrating the process of customs clearance and completing the importation of your goods legally into the UK.

If the UK votes 'non' to continued membership, our former EU trading partners would be faced with a very similar array of charges and bureaucracy to that currently facing overseas nations from beyond the EU, and Britons would find themselves paying considerably more for items in terms of duties, taxes and fees. Worse still, a stand-alone Britain might fall outside the EU's Common External Tariff structure. This would leave European Union-based companies picking their way through a whole raft of new duties. They could be forgiven for seeking to trade within the EU rather than choose to negotiate all this red tape and increased duties.

As mentioned, we can already see something of this reluctance to deal with non EU countries just from the way our own companies operate. UK SMEs in particular will often steer clear of trading with non-EU countries such as Norway. Even if they don't, the additional duty and excise costs make their products uncompetitive. Small wonder then, that is likely that small EU traders, such as online marketplace companies using Amazon or eBay to reach UK consumers, are likely to withdraw from the market as their UK customers won't be willing to pay the extra taxes, duties and fees. And UK-based traders would experience exactly the same situation in reverse.

If the UK balked at the requirements of a free trade area, it could opt to trade with the EU under World Trading Organisation (WTO) rules [16]. The UK would not have to comply with EU regulations, but it would face the EU's Common External Tariff (CET) and substantial non-tariff barriers (NTBs) to trade. For example, food imports are subject to an average EU tariff of 15 per cent, while car imports face a 10 per cent tariff, and car components, 5 per cent. Under this scenario, UK manufactured exports could be hit hard. For example, the EU is easily the biggest market for British car-makers, and the country's car components industry is fully integrated into pan-EU supply chains. In fact many of the goods manufactured in the UK would be much less cost-competitive within Europe if they faced tariffs.

One final concerning prospect facing any non-EU importer (including UK companies in a post EU Britain) who is not on the best terms with the Union is the prospect of falling foul of anti-dumping duties. Anti-dumping duty is charged in addition to normal customs duty and is applied across the EU. It is designed to allow the European Commission to take action against imported goods from outside the EU that are sold at less than their normal value – that being defined as the price for 'like goods' sold in the exporter's home market.

A UK exporter seeking to sell his goods at a competitive price may well find himself penalised by this rather protectionist measure.

TRADING WITH THE EU FROM OUTSIDE

To get an idea of the scale of impact facing an SME company such as a manufacturer of car parts or a retailer of sports equipment it is useful to establish the true extra costs. ParcelHero's small business customers typically send products such as shoes, watches, clothing, books, toys, car parts and golf equipment.

Let's look at three items frequently sent by individuals and businesses through ParcelHero:

digital cameras, golf clubs and car parts. How much duty would the importer have to pay on these goods if arriving from beyond the EU?

- Even from outside the EU there are no duties payable on a digital camera coming in to EU countries,
- There are duties of 2.7% of the overall value on golf clubs,
- There are duties of 4.5% on a gearbox and 10% on a CKD car kit.

Of course from inside the EU there would be no duties payable. We'll be returning to these key products later, incidentally, when we look at the costs of developing significant new trade by shipping to markets far beyond the EU – one of the 'Holy Grails' of those who seek to leave the Union.

Many businesses maintain Britain needs to trade with the EU. Since its formation in 1993, the European Union has become larger than any individual economy in the world, with its GDP surpassing the USA's in 2003. The EU in 2014 accounted for 44.6% of UK exports of goods and services, and 53.2% of UK imports of goods and services. Although the UK has historically recorded a trade in goods deficit with the EU, as mentioned earlier, its services are a key market and its trade in services balance with the EU is much more favourable, running a surplus in each year since 2005, which reached £15.4 billion in 2014. [17]

And while that trade in goods deficit might be argued as a strong reason for looking to expand markets beyond the EU, the honest truth is that we import a lot of European goods not because we are doing the Europeans a favour, but because UK consumers want to buy things that cannot be produced at home – think of all those German cars and French luxury goods.

Were Britain to leave the EU, the Government might decide to impose large tariffs on European imports to protect our own manufacturing industry, but this probably wouldn't prove very popular. British consumers are very fond of their BMWs and Audis; not to mention their Dior and Gucci. The likelihood is we would still run a trade deficit with the EU, but, as with imports, we would have no say over the rules governing the single market. [18]

One further important question for the parcel industry and SMEs is: after independence, would consumers who suffer damage as a result of cross-border sales with the rest of the EU be protected? Would Britain's businesses, particularly SME's and online marketplace traders, still benefit from the protection they get from EU law and regulations if they were to find themselves beyond the EU's jurisdiction?

BORDER CHECKPOINTS

A further consequence of Britain exiting the EU and facing a hard landing would inevitably be increased border controls. Border checkpoints slow up parcel and freight transit times and add extra costs.

Furthermore, if VAT rates and even duty on products such as tobacco and alcohol were to vary significantly with EU countries then 'border raids' by savvy European consumers may eventually force increased border controls.

The repercussions of UK withdrawal could also

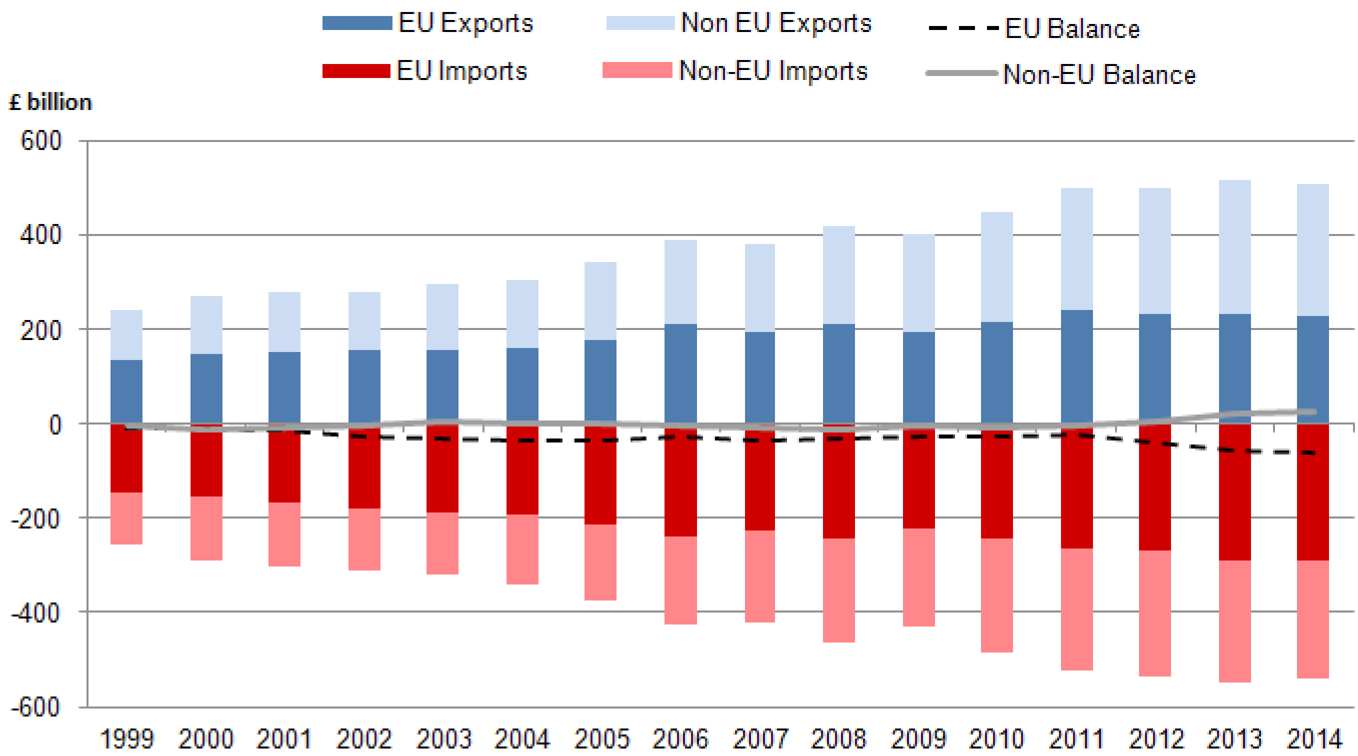

Figure 1: UK exports and imports to EU and Non-EU

Source: www.ons.gov.uk/ons/rel/international-transactions/outward-foreign-affiliates-statistics/how-important-is-the-european-union-to-uk-trade-and-investment-/sty-eu.html

lead to the adoption of its own excise duty and import VAT for imported products, as we have seen. This would lead to customs controls such as those of Norway and Switzerland. Britain would also be free to impose exemptions on a free trade agreement, as does Norway already over fisheries and agriculture.

The result of all these restrictions would be delayed transit times and increased costs for companies seeking to trade with England. Were the UK to introduce border controls, it could have huge implications for logistics companies particularly. One further hurdle for exporters is that rules of origin would apply to British exports to the EU, and the administrative costs of working out the tariff costs of extra-EU imports can be large. [19] This could have huge implications for consumers in England.

TRADING BEYOND THE EU

UK exports of goods and services to non-EU countries have grown at a faster rate than imports, driven largely by services exports. This has resulted in the UK running an overall trade surplus with non-EU countries (value of exports exceeds imports) over the past three years, which reached £27.8 billion in 2014, as shown by the grey dotted line in Figure 1 [20].

The argument sometimes deployed by those who want out of the EU is that leaving would, somehow, encourage British manufacturers to concentrate on exporting to the likes of the so-called BRIC nations, Brazil, Russia, India and China. How much would it cost UK businesses to turn their attentions beyond the EU to these new markets, and how competitive would UK products be?

Whilst they are key markets for Britain's major industries, its SMEs and internet retailers do not benefit from significant trade with the BRIC nations.

Currently SMEs and marketplace traders using ParcelHero send just:

- 0.25% of total overseas shipments to Brazil,
- 0.14% of shipments to Russia (due to customs restrictions, only commercial shipments to Russia are accepted. Parcels cannot be sent to private addresses.)
- 1.13% to India
- 2.1% of items to China.

The combined total for the BRIC nations is less than ParcelHero's shipments to the Republic of Ireland (a member of the EU) alone (6%). That's a vanishingly small base for building a whole export policy on.

A recent survey by ParcelHero partners FedEx revealed a slightly stronger BRIC market: 16% of UK SME exporters trade with China and 10% with Brazil. These are bigger numbers than ParcelHero's own figures but small beer compared to the 96% of SMEs who trade with Europe.

The reason why small businesses are less keen to do trade beyond the comfort of the EU is not hard to fathom. The world of duties is bewildering indeed beyond the EU. Let's return to the example of three typical products frequently shipped through ParcelHero: digital cameras, golf clubs and car parts [21].

The same digital camera that no duty is paid on within the EU, or even when exported into the EU from outside, would attract:

- 30% duties and 17% tax in Algeria
- 20% duties in Brazil plus other fees
- No duties in Russia, but 18% tax
- 10% duties in India plus other charges
- No duties in China, but 17% tax.

For the golf clubs which attracted no duty on from within the EU and 2.7% shipping from outside into the EU, the importer pays:

- 30% duties in Jordan.
- 20% duties in Brazil,
- 10% plus 18% taxes in Russia
- 10% plus other duties in India
- 14% duties plus 17% taxes in China.

And duties on car parts shipping to the Bric nations reveal the true scale of duties beyond the EU. Take a look at the duties on a CKD car kit payable in India:

- 18% on a gearbox and 35% on a CKD car kit in Brazil;
- 10% on a gearbox and 125% on a CKD car kit in India;
- 10% on a gear box and 25% on a CKD car kit (plus 17% tax) in China.

What do these figures tell us? That the UK products will struggle to be competitive in many overseas markets. And further, were the UK to de-link its duty structure from the EU's common external tariff, other nations considering trading with us might find an independent UK's unique tariff structure equally bewildering and unattractive.

COST OF LIVING RISES IN AN INDEPENDENT UK

We have only to compare the cost of living in the UK currently costs to those of Norway and Switzerland in order to understand the implications for the UK economy. The cost of living in countries on the Continent that have not joined the European Union can be significantly higher. As we have seen, Norwegian customs authorities may charge duties and taxes on your goods upon import. Although Norway is part of the EEA, and therefore the single market, businesses must complete customs and VAT forms when goods are shipped into and out of the EU.

Even for big companies, this is a significant cost and administrative burden, for smaller ones it can be a huge barrier to trade, and SMEs will often steer clear of trading with Norway. Even if they don't, the additional duty and excise costs make their products uncompetitive. ParcelHero's partner carriers such as DHL Express and UPS allow for this extra level of bureaucracy and warn customers of potential extra import charges. Couple this with the high level of taxes traditionally paid within non-EU countries such as Norway and Switzerland, and the cost of living could rise steeply for an independent England.

- Consumer prices in Norway are 32% higher than those of the UK.
- In Switzerland, consumer prices are 58% higher than we pay in the UK.

To put that into context the table below demonstrates the difference in costs between the UK, Norway and Switzerland for some common staple goods [22]:

We have seen there are costs involved in trading with these countries surrounding customs clearance. These cost doubtless contribute to the higher price of goods. And in the case of Switzerland the sometimes substantial duties payable because Switzerland has not signed up to the EEA also plays its part in the higher price of these goods. Of course, these differences are not solely due to the fact Norway and Switzerland are outside the EU. Both countries, as mentioned, choose to apply high levels of taxes in return for a better living standards for their citizens. However, the fact they operate outside the EU does create costs that cannot be entirely ignored.

COUNTRY	RICE – 1KG	ORANGES - 1KG	WINE	LEVIS 501 JEANS	NIKE SHOES
UK	£1.36	£1.77	£7.00	£56.36	£59.36
NORWAY	£2.07	£1.92	£10.77	£71.37	£77.13
SWITZERLAND	£.174	£2.27	£8.50	£80.98	£88.35

THE CASE FOR BREXIT

This report has emphasised the case for UK remaining at the heart of a reformed Europe. However, there are a number of benefits that might be gained for shippers of parcels, SMEs and small businesses were Britain to leave the EU.

While the EU has reduced average tariffs from 5 per cent in 1990 to 1 per cent in 2011, those on footwear and clothes remain high, which makes it difficult for more efficient producers outside Europe to export to the EU [23].

Taking control of these tariffs may encourage trade with a wider variety of nations. This means withdrawing from the EU altogether could potentially reduce the prices of imported goods from outside the EU, on the assumption that the UK reduced tariffs to below EU levels. Indeed, Britain might opt to have a unilateral free trade policy. This assumes the UK would be as success in brokering comparable agreements on its own as the EU has been.

Canada has recently signed a Comprehensive Economic and Trade Agreement with the EU, which is set to eliminate trade barriers in most areas but does not require free movement or budgetary contributions, as an example of what is possible [24]. Although it should be noted that the UK Government's report - Alternatives to membership: possible models for the United Kingdom outside the European Union – reveals that 'the EU-Canada Trade Agreement offers significantly less access to the Single Market than the UK currently enjoys under our special status in the EU' and that the agreement has taken seven years to negotiate and is still not in force.

The EU is not as important to British trade as it used to be, and continuing turmoil in the Eurozone would make it even less so. As mentioned previously the UK would be free to establish bilateral trade agreements with fast-growing export markets such as China, Singapore, Brazil, Russia and India through the World Trade Organisation [25].

It's an idea that is fine in theory, but as we have seen, BRIC nations are not yet a significant market for UK SMEs compared with Europe[26].

The Vote Leave website, Vote Leave Take Control, claims: 'Instead of a uniform harmonisation that is hard to fix, a reformed Europe could work on the basis of mutual regulatory standards, combined with global standards where appropriate.' It argues the current annual cost of EU regulation to the UK economy is £33.3bn [27].

Vote Leave also says that by leaving the EU the UK regains an independent vote in world trade negotiations at the World Trade Organisation. It's a claim we'll be investigating in our conclusion.

These are all strong reasons why Britain may have success if it votes to leave the European Union. But do they outweigh the evidence of ParcelHero's own overseas shipment numbers and the level of duties and increased customs procedures and delays – not to mention vulnerability to dumping duties and issues around tariff code harmonisation – that would strike an independent UK?

TRADE WITH THE USA: OUTSIDE THE TTIP

This report has looked at the repercussions of leaving the European Union in terms of our trading relations with both member countries and non-member countries. One key trading relationship is particularly likely to be impacted by the UK's decision to leave the EU: that with the USA.

In July 2015 President Obama publicly supported the UK remaining within the EU. [28] He said: 'Having the United Kingdom in the European Union gives us much greater confidence about the strength of the transatlantic union. And is part of the cornerstone of institutions built after World War Two that has made the world more safer and prosperous. We want to make sure that the United Kingdom continues to have that influence.'

The US Government's official Trade Representative, Michael Froman, stated publicly in October 2015: 'I think it's absolutely clear that Britain has a greater voice at the trade table being part of the EU, being part of a larger economic entity. We have no FTA with the UK so they would be subject to the same tariffs – and other trade-related measures – as China, or Brazil or India.' [29]

This is particularly important in relation to the planned Transatlantic Trade and Investment Partnership (TTIP) agreement between the USA and EU.[30] Though details of the new agreement are somewhat sketchy, the EU has revealed that it is planned to 'remove nearly all customs duties on EU-US trade'. [31] It cites as an example the import and export of new cars between the EU and USA. New cars imported into the USA pay a 2.5% tariff and new cars imported into the EU pay a 10% tariff. Under the new agreement there will be no duties to pay on cars sold between the EU and the USA. The TTIP has yet to be signed, but some exprts believe this could well happen before President Obama leaves office in January 2017.

The problem for the UK will be that if it chooses to leave the EU it will, as the US Official Trade Representative made clear, fall outside such agreements. That would mean British cars exported to the US, such as those made by Jaguar Land Rover, would still be hit by the current 2.5% US tariff on cars, that EU companies will no longer have to pay, leaving it at a disadvantage to European competitors.

13% of all cars made in the UK are shipped to the USA, with an average value of over $28,000. It's a market worth over $5.86bn to the UK. But US buyers are likely to turn away from Jaguar and Land Rover towards Mercedes and BMW if it costs over $700 more to buy a UK product than an EU competitor.

And under the TTIP the EU will in turn abolish its 10% tariff on US cars; presumably leaving the UK alone to pay duties on the $133M of cars it buys from the USA, amounting to $13M, unless the UK unilaterally decides to drop such tarrifs.

It is also predicted that British exports of fuel, chocolate and many other products could also be at a disadvantage if TTIP abolishes tariffs on those products as expected. [32]

CONCLUSION

ParcelHero's own figures have revealed that there are significant increased costs associated with trading with non EU which could result in overall costs of £45 on a typical £150 import. In addition our customers are three times more likely to trade with an EU country than an equivalent outside the EU. And 66% of our users who serve European non-EU countries Switzerland and Norway say they would prefer them to be inside the Union to reduce red tape.

ParcelHero's figures are mirrored in the findings of our partner carrier, Fedex. Fedex reveals the average UK SME (excluding 'one man bands') involved in regular imports and exports, exports £553k a year to Europe and imports £535k [33]. It reports 96% of British SMEs who export, export into Europe. France is the number one export market for British SMEs – 57% of SMEs who export, export into France. Germany is the second biggest market (49%) followed by Spain (37%). (The top non EU destination is the US: 35%.) If we take our – somewhat crude - 30% extra cost rule of thumb formula again, the combined extra transport fees, duties and taxes would cost the typical SME importer around £163k a year.

In this paper we've also seen the sometimes high duties non-EU countries must pay when seeking to trade with Europe, (an average of 5-9%, with food imports subject to an average EU tariff of 15% and car imports to the EU 10%). The UK Government report 'Alternatives to Membership' explains the situation succinctly: 'If we could not reach agreement with the EU on a new arrangement, our trading arrangements would revert to WTO rules. This would provide the most complete break with the EU. It does not entail accepting free movement, budgetary contributions or implementing EU rules. But it would cause a major economic shock to the UK. WTO rules mean that the EU, and all countries with which we currently have trade deals, would have no choice but to apply WTO tariffs on exports from the UK – putting our companies at a competitive disadvantage. Meanwhile, the UK would face a difficult choice between either raising tariffs on imports from the EU or lowering tariffs on imports from all countries. Raising tariffs would have knock on effects on UK jobs and incomes, as well as on the attractiveness of the UK as a destination for international investment. Lowering tariffs would deny the UK revenue, and undermine our negotiating position in future trade deals.' [34]

We have also seen that the cost of seeking to set our own tariffs is moving outside the EU's Common External Tariff. That will probably mean setting our own duties: and there are 19,000 unique classification numbers that would need to have new duties applied, a move likely to lead to increased border controls.

All this might be worth it if Britain were to thrive in new markets by lowering tariffs for other overseas nations: but again ParcelHero's own data shows those SME-scale UK traders using ParcelHero currently send more items to the Republic of Ireland, than to the entire BRIC nations put together. That's a very low base on which to start a new export policy. And with duties of 20% on digital cameras to Brazil, 14% plus tax on golf clubs to China and 125% on car parts to India – plus customs restrictions prohibiting the delivery of items to non-business addresses in Russia - there's small wonder these nations don't attract UK SMEs - for whom these kind of products are some of the most popular sales items typically being shipped.

It's by no means certain that a go-it-alone UK could somehow manage to negotiate the same favourable trade agreements with the rest of the world that the EU – with all its significant clout – has. Nor is it true that stepping outside the EU would mean our products no longer have to fit all the rules and regulations surrounding their manufacture and distribution – if we wish to still sell our goods in Europe.

And shippers looking to sell their products at competitive costs in the EU could well find themselves on the wrong side of its fierce anti-dumping protection measures and face significant extra duties over and above those usually applied.

We've also seen the repercussions that could well impact on transatlantic trade if the long-awaited Transatlantic Trade and Investment Partnership agreement (TTIP) is signed between the USA and the EU. If the UK steps outside the EU, the US has made it clear it believes Britain would not be a part of the TTIP. And that means it would not benefit from the planned removal of nearly all customs duties between the EU and US, putting us at a severe disadvantage with our EU rivals.

It is true that the UK has surrendered its seat on the World Trade Organization and the ability to create its own border tariffs – but it still has a voice through the powerful EU lobby at the WTO, and the repercussions of introducing our own border tariffs could mean a sea of red tape, a fall in trade between the UK and the EU, and new duties and costs.

Many large UK manufacturers, such as automotive companies, have been vocal about

the fact that they stand to gain more from remaining within the EU; however, we have seen in this paper that the same holds true for small retailers and SMEs. To give one small example, a hefty 20% of Amazon Germany retailers actually come from the UK [35]. Over 10,000 UK marketplace traders are selling their products on the German site as Germany is a profitable territory to trade into. The addition of duties, taxes and fees would wipe out this profitability at a stroke. It's one more example of the value of trade within the EU. With this in mind ParcelHero believes it is better for SMEs, for retailers and, of course, the average person seeking to send parcels abroad, that the UK remains inside the European Union.

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