Walpole

Trading *with Europe*

TRENDS, ISSUES & SOLUTIONS

Pictured
Edward Green

Executive *Summary*

The UK's £81bn luxury sector has a longstanding and mutually beneficial relationship with Europe. It is a key export market, a source of investment for UK firms and an integral part of the luxury supply chain. Luxury is an Anglo-European success story, based on delivering an excellent consumer experience for visiting tourists and residents alike.

The current conditions around Britain's trading relationship with the EU present a number of challenges, and sit alongside a worsening global trade landscape. Delays, increases to costs, paperwork, tariffs and rules of origin all have made trade more difficult. In response, some brands have been forced to establish fulfilment centres in Europe, diverting investment and jobs away from the UK.

Beyond the policy landscape there are several broader challenges that have hit the sector, with the delays, costs and paperwork causing consumers to lose confidence, while inconsistent enforcement at the border has led to brands struggling with exporting even after agreements to smooth trade have been made. Particular challenges around VAT, returns and shipping of samples have been raised as areas where progress could be made.

The impact of this has been to reduce the proportion of exports to the EU from 42% of the sector's exports in 2017 to 32% in 2022 – a drop of nearly 24%. New analysis conducted for Walpole by Frontier Economics for this report suggests a negative 'Brexit effect' with exports 43% lower than had they followed the trajectory of exports to the rest of the world.

Given the Government's ongoing reset of UK-EU relations, and the need to support business in a challenging trade environment, Walpole is calling on the Government to:

- Join the PEM Convention to support automotive and textile exports
- Introduce a new digital labelling scheme to reduce complexity
- Introduce a Youth Mobility Scheme with the EU with two or three year visas
- Secure a UK EU SPS agreement
- Bring together freight and courier companies to deliver consistent approach to trade rules
- Launch a consumer confidence campaign in the EU to reassure customers it is easy to buy from the UK

Cover images: Burberry, Bond Street, Bremont

Contribution of luxury *to UK economy*

£81bn

2022 TURNOVER

11%

COMPOUND ANNUAL GROWTH RATE 2017-2022

219k

DIRECT EMPLOYMENT

235.3k

INDIRECT EMPLOYMENT (TOTAL 454.3K[1])

£105-135bn

2028 TURNOVER FORECAST[3]

[1] Includes both direct and indirect jobs.
[2] In nominal terms a lower-case scenario would see the sector growing to between £105bn and £110bn by 2028, while a higher-case scenario could see that figure rise to between £125bn and £135bn.

"Luxury is a *global phenomenon,* but it calls the UK and Europe its home. *It is a generator of jobs and growth in the UK,* and that prosperity relies on strong links to the continent."

Helen Brocklebank, CEO, Walpole

Introduction

Businesses across the UK have faced challenges trading with Europe in recent years, and the UK luxury sector is no different – prior to the UK's departure from the EU, it represented 42% of the sector's exports, supported by well-established supply and distribution networks.

Luxury brands have sought to adjust to these new headwinds with pragmatism, finding workable solutions, absorbing the impact of increased costs as well as administrative burden, and finding innovative ways to mitigate challenges. However, nine years on from the Brexit vote, as our new trading relationship has solidified, there remain a number of practical difficulties that governments on both sides of the channel could address.

This short briefing paper focuses on a number of the specific challenges companies are having day to day in doing business with the continent, and proposes a number of adjustments that would make things simpler, smoother and more straightforward for businesses and consumers alike.

Over the last decade, businesses have been grappling with an increasingly challenging global trade landscape across all markets. The complexity of the UK-EU trade relationship sits in the context of increasing US tariffs, and a challenging environment in Asia with reduced consumer demand in China. Improved trading conditions with all three of these markets is essential if the British luxury sector is to reach its £125bn growth target by 2028.

Why does Europe matter to British luxury?

The luxury sector is a global powerhouse and an Anglo-European success story. The British luxury sector has grown in size and influence alongside its European stablemates, reaching £81bn in 2022 (3.7% of UK GDP), and supporting 454,000 jobs across the length and breadth of the UK. This growth is in the context of ongoing strength of the European luxury sector, where European luxury brands account for 72% of the global high-end market. The links between the UK and European luxury sectors are deep-seated and broad.

"Luxury is a global phenomenon, but it calls the UK and Europe its home. It is a generator of jobs and growth in the UK, and that prosperity relies on strong links to the continent." *Helen Brocklebank, CEO, Walpole*

SUPPLY CHAINS

Luxury's commitment to high-quality, high-craftsmanship goods with traceable, ethical sourcing means that in some cases products or components that cannot be produced domestically can be sourced only from or through the EU. For example, while we have a strong tradition of shoe and leather accessory-making here in the UK, the leather itself is often shipped from Europe to factories in Northampton and the Midlands.

In some cases, workforce challenges mean that the UK may lack the skills necessary to produce the whole product, while in others international consumers put a premium on goods (or part thereof) being sourced from certain regions or countries. As such, even when goods are manufactured in the UK, and largely sourced from domestic suppliers, there remains an interdependence between the British and European sectors.

It must also be recognised that the reverse is true and there are many products and skills the UK has that are in short supply in the EU, and therefore barriers to trade have a negative impact for EU businesses as well.

For instance, while Italy boasts the best women's footwear manufacturers and silk scarf producers, and Grasse in France is acknowledged as the home of perfume, Scotland is highly regarded for its cashmere production with numerous European luxury brands using British manufacturers to produce their cashmere accessories and clothing. These supply chains operate in both directions, and are central to the business model of the sector.

Furthermore, employment links span the continent in the hospitality category, where young graduates of the highest-rated European hospitality schools are in demand across the sector. The presence of these graduates in UK hotels drives up standards and shares best practice, which in turn benefits those businesses beyond the tenure of these graduates.

THE LUXURY CONSUMER

This longstanding interconnection and mutual benefit also exist across the customer base. Luxury is a sector which prioritises the long term, and focuses on retaining clientele. As such, many British luxury brands count European consumers among their regular shoppers. Their habits and expectations have been formed over many years of patronage and are rooted in expectations around service and quality. Given that acquisition of new customers can be several times more expensive than retaining existing customers, this established consumer base is vital to ensuring profitability.

Likewise, Europe is seen across the world as the epicentre of luxury, with high-end tourists travelling for the luxury experience. As such, while it is possible to pivot away from Europe, there remains a necessity for brands to be present there to capture international traveller retail spend. This is the case even where brands already have a strong presence in the rest of the world.

For example, a Chinese customer might buy British goods in China but will also travel to Europe to shop. British brands need to cater to this or will lose that customer to European competitors. As the impact of the loss of Tax-Free Shopping in the UK becomes more entrenched, the need for frictionless exports to the EU is ever greater, as they will absorb more and more of high-end tourist spend. This tourist spend in turn impacts the UK's exports, as customers who purchase luxury products while travelling then remain customers in their home market.

INVESTMENT

Countless British brands receive investment from Europe's biggest corporate entities, including Kering, Richemont and LVMH. This investment allows businesses to grow through additional funding, expertise and expanded global networks to further drive revenues.

There are numerous examples of European investment across the sector including Prada Group purchasing Church's shoes, Chanel's investment in Orlebar Brown, Kering's ownership of Alexander McQueen and Creed, and LVMH's investment in Glenmorangie and Belmond. Under the investment and direction of their owners these brands, and many others, have experienced sustained periods of growth, as well as significant investment into their UK operations, digital expertise and workforce.

EXPORTS

Owing to this close relationship, the UK's exports to EU markets are crucially important across a number of luxury categories. While the proportion of EU exports as a share of overall exports has dropped, the overall value of exports has increased from £16bn to £18bn. As such the EU remains the biggest export market for UK luxury at 32% of exports. This compares to 22% for both the US and Asia, and 14% for the Gulf.

While many businesses have diversified beyond the EU, it remains a crucial market for many brands; in particular the French, Spanish and Italian markets are important for many luxury products. Likewise, there are specific other European markets that are hugely important for specific sub-sectors of luxury, for instance the Nordics are a valuable market for English sparkling wine and homewares.

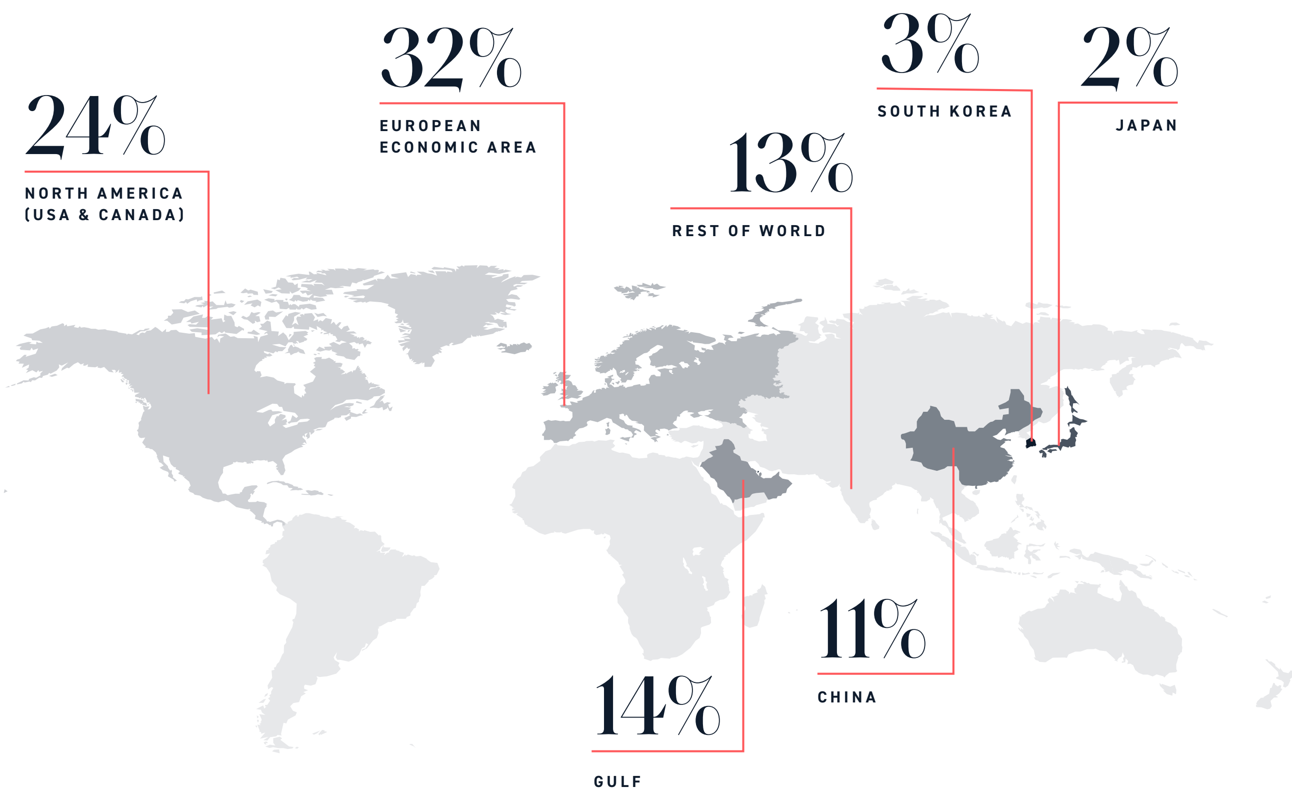

Figure 1: Total exports by major market

Impact of Brexit

Given the historic and ongoing importance of Europe to the UK luxury sector, Brexit has had a substantial impact on trade between the UK and EU. For the first time, Walpole is able to assess the impact of the UK's departure from the EU on the sector.

UK exports of luxury goods across the range of sub-sectors are shown in Figure 3. Relative to 2019, 2022 exports to EU are 49% lower, while exports to ROW have largely recovered to 2019 levels and are only 11% lower.

As such, exports to the EU are 43% lower than if they had followed the ROW trajectory. This could be indicative of a potential 'Brexit effect' but should be read in conjunction with the overall export growth figures. These showed an increase in overall exports to the EU but a drop in the EU's share of high-end exports relative to the rest of the world, suggestive of a negative Brexit effect caused by several changes.

First, changes to trade costs could affect exports of high-end products to the EU. Trade costs include tariffs and

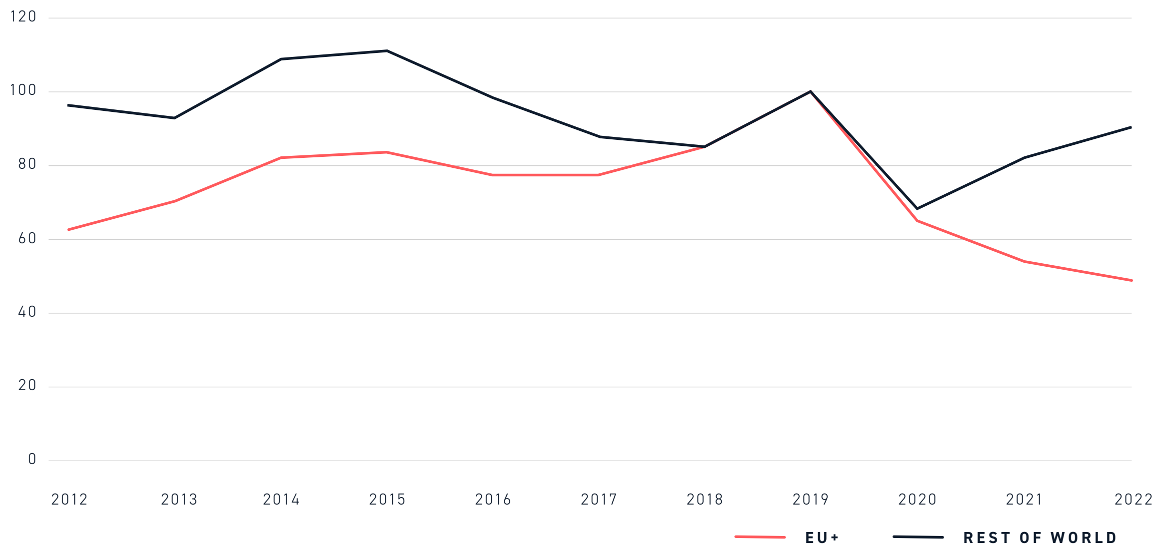

Figure 2: **Relative change in high-end goods exports EU+ vs Rest of World**

Note: Baseline 2019 values = 100

Source: Frontier analysis of UN Comtrade data

SECTOR	EFFECTS OF BREXIT ON TRADE WITH THE EU
Overall	-43%
Fashion and accessories	-64%
Interior design, home and craftsmanship	-50%
Jewellery, watches and precious metals	-43%
Wine and spirits	-23%

Figure 3: Effect of Brexit on trade with the EU across selected luxury categories.

Source: Frontier analysis of UN Comtrade data

non-tariff measures. The UK-EU Trade and Cooperation Agreement provides for tariff and quota free trade in goods (subject to meeting rules of origin requirements), so the source of trade costs would be from non-tariff measures.

The non-tariff measures are wide ranging, and include border administrative requirements and paperwork, and regulatory differences that require demonstrating compliance at the point of import. None of these were applicable prior to Brexit. Secondly, Brexit may have introduced barriers to the purchase of high-end products and services in the UK, such as through the end of the UK's tax-free shopping scheme (VATRES).

The impact of this has been particularly significant in some categories, particularly fashion and accessories, plus interior design, home and craftsmanship. While the impact has been less significant in wines and spirits than in other sectors, nevertheless, it remains negative.

While exports remain higher than they were in 2017, there is a considerable lost opportunity that needs to be addressed if the sector is to maximise the growth potential it can deliver for the UK economy.

Right
The Glenturret

Trends since Brexit

As outlined previously, the economic impact of the withdrawal of the UK from the EU has been considerable, and this impact has been felt across a wide range of luxury sub-sectors.

BARRIERS TO TRADE

The first of these is the impact of both changes to the trading relationship and the impact of the pandemic on global trade operating in combination to drag down competitiveness. However, it is clear that the new trading relationship has created barriers to trade that outlast the pandemic and have a meaningful impact on business – these have taken the form of increased costs, lower demand and more complexity for businesses and consumers.

While in some cases the preparation done to ensure businesses were ready for Brexit meant that they had good crisis management and supply chain plans for when the pandemic hit. In most cases, the combined impact of the increased trade barriers that are slowly being erected with Europe and the wider global supply chain issues have impacted the ability to do business with a customer that has high expectations for service, speed and quality – which new trade barriers make hard to live up to.

SALES TO TOP PERFORMING EUROPEAN CUSTOMERS

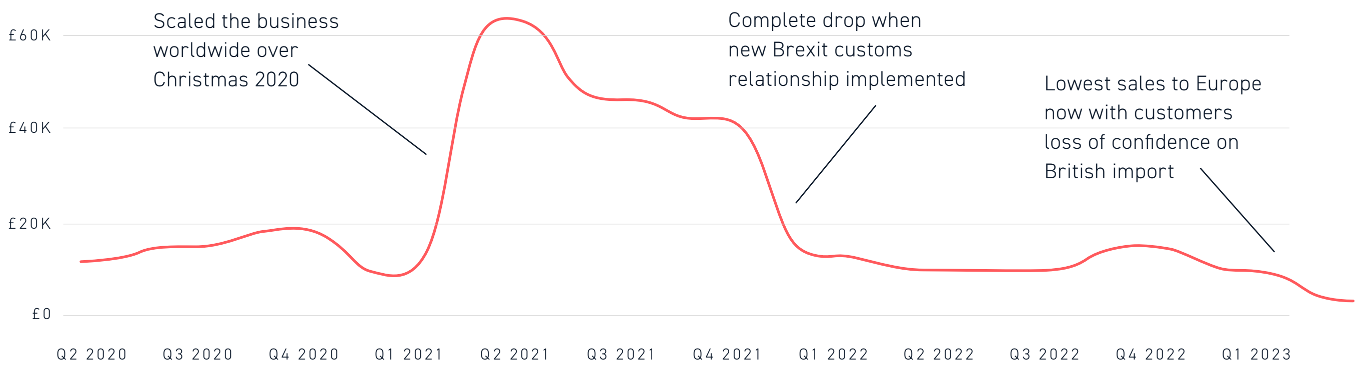

Figure 4: Impact of customs changes on one SME

> “We had a huge amount of *buffer stock for Brexit* and then we went into the pandemic, so we managed to keep the factory open and *still sell.*”
>
> *British health and beauty business leader*

DELAYS

One of the main concerns raised by businesses is not that it is impossible to export, only that it is more difficult and significantly more costly, and that there are delays that previously did not exist.

While this is true for all businesses, the impact of these delays is greater for luxury brands as the customer has both very high expectations and is easily able to alter their spending habits to a more streamlined service, which is available from many EU-based brands. These delays have a range of contributory factors; however, one is the rising volume and complexity of paperwork. This requires certification and compliance checks, and this added administrative burden is especially costly for small businesses.

In the initial period after the UK’s departure from the EU, there were some cases where large stockholdings had been built up in anticipation of challenges after leaving the EU, which in turn helped businesses mitigate the impact of supply chain degradation over the pandemic. However, this unexpected benefit was limited and as trade barriers have remained businesses have seen delays becoming an unfortunate part of their operating model.

Likewise, delays on components entering the UK have driven companies to alter their business model, with longer lead times and more stock purchased in bulk rather than just-in-time. This in turn drives up cash flow challenges and costs as businesses now must store large volumes of some components that make up their products.

PAPERWORK

Businesses from across sectors have been affected by a dramatic increase in paperwork since the outset of the new trading relationship. While some have adjusted over time, the burden has been even more onerous for those exporting food and drink, or plant products where export health certificates and additional checks are in place.

In some cases, this is where trade has become impossible – at least for an interim period. This has driven some businesses to temporarily withdraw from the EU market entirely, and caused considerable additional costs for others.

FULFILMENT CENTRES

In order to try to mitigate these risks, many brands are establishing fulfilment centres within the EU. These centres hold stock to dispatch to customers without having to ship it across the UK/EU border, with all the challenges that still presents. While these centres typically stock fewer goods than the main UK stores, they still allow high demand/volume goods to be dispatched more quickly.

“Shipping food direct to the customer is now impossible... the rules require you to have a phytosanitary certificate to prove that, as the receiver of these goods, the cows that produced the milk that went into the butter that went into the biscuits had been raised and husbanded in a way that was in accordance with EU standards.” *Retail CEO*

This has been mirrored by companies needing to establish a commercial entity within the EU (or find a fiscal intermediary) for VAT purposes. The €150 de minimis threshold is low for

Above
Aston Martin

“The *biggest challenge* has been more around trying to deal with the VAT side of things.”

Founder of a fashion SME

any business, but for luxury brands this is exceptionally low, driving more businesses to invest in creating an EU commercial entity.

“The biggest challenge has been more around trying to deal with the VAT side of things.” *Founder of a fashion SME*

Brands have expressed frustration that they have had to take these steps, as their preference would have been for investment in the UK or in expansion, not in plugging gaps in existing services. Overall, it is this opportunity cost, running to standstill, which is most impactful on UK businesses.

One of the consequences of this is a greater premium being placed on good quality service from third-party logistics companies to conduct deliveries to the continent, and navigate the more complex landscape, at increased cost.

TITLE	1ST MAY 2021- 31ST DEC 2023	1ST JAN 2024 - 31ST DEC 2026	FROM 1ST JAN 2027
Vehicle value	40%	45%	55%
Battery pack	30%	60%	70%
Battery cell	30%	50%	65%

Figure 5: Trade and Cooperation requirements for content originating from UK or EU

Source: EU-UK TCA

TARIFFS AND RULES OF ORIGIN

While the Trade and Cooperation Agreement allows for tariff-free trade, the impact of rules of origin, duties and the risk of tariffs on businesses is significant.

Some companies report that exporting their product for finishing in the EU and then re-importing it may incur tariffs if the tariff number does not change. This is especially challenging for smaller businesses, for whom access to expert advice and support on these matters can require expensive external advisors or considerable resources to research, implement and manage new processes.

Likewise, for automotive manufacturers, the impact of rules of origin for EV battery packs are likely to be a challenge come 2027. In order to be recognised as being of EU or UK origin – and thus eligible for zero tariff – certain percentages of value must originate from the UK or EU. Vehicles and batteries that do not meet the requirements face a 10% tariff at either the EU or the UK border.

Ahead of the January 2024 implementation date, UK and EU carmakers warned that they would not be able to meet the new requirements, owing to challenges sourcing batteries made within the UK and EU. As such there was an agreement that the 1st January 2024 deadline would be removed, and that the system would move straight to the 1st January 2027 system on that date (moving from column one to three of table 5 directly).

The TCA rules also require both the vehicle as a whole and the battery alone to qualify separately as local content. As such the car cannot qualify unless the battery does so. At the time the TCA was agreed, it was envisaged that the growth of home-grown battery suppliers would enable auto manufacturers to meet the evolving requirements. As this market has not developed as anticipated, there is now a cliff edge that manufacturers face in 2027. Part of the agreement for this extension was the introduction of a lock-in mechanism to prevent any further changes from being made before 2032.

Pictured
The Glenturret

LABELLING

The cost and complexity of labelling requirements across different member states is a challenge for many brands – particularly for the food and beverage industry and cosmetics brands, where much more regulatory information is required and the size of the product is small enough to make it practically challenging to produce compliant labels that fit with brand design language.

For instance, a whisky brand exporting to Ireland requires three separate warning labels, in addition to two other information labels and a public health label. The requirements are different across the EU, with different levels of consumer information required, varying language requirements and even different rules about the use of the word 'importer' where some countries prefer 'EU Office'. All of these requirements come on top of EU-wide requirements, and add administrative burdens, cost and complexity for business.

Spotlight

These trends have created several specific challenges to trading that have been consistently raised by businesses.

"Where once we ordered maybe six to eight weeks before a bottling, we are ordering bottles six to nine months before a bottling. Our provider is no longer sending bottles directly to us in the UK. If we purchased them through their UK agent, we would pay almost double the price we pay in France." *Winemaker*

These challenges are not the fault of Brexit or UK Government policy. Some are the product of poor implementation on the side of EU member states, and in other cases the challenge emerges at a consumer or business, not political, level. However, these remain challenges that need addressing, and while the sector continues to solve its problems, it looks to do so in partnership with government.

CONSUMER CONFIDENCE

The impact of the UK's departure from the EU has been one that has generated significant attention and uncertainty from consumers and businesses across the European Union. British companies were the most prepared and have found many solutions to the challenges it has presented. However, the same cannot be said for European consumers and businesses, who our member companies sell to.

While some EU businesses were well prepared for the changes to the trading relationship, others have struggled to adjust, or simply ended relationships rather than manage the change. Likewise, EU consumers have noticed the uncertainty around trading arrangements and altered their behaviour accordingly, even in cases where there may be little or no impact on them. As such, UK brands have had to invest heavily in rebuilding those relationships.

Below
Simpsons Wine Estate

Photography: @ThomasAlexander

This has been exacerbated by the difficulties many brands had in the transition period around delays, charges and costs, where uncertainty and confusion drove customers away from buying British products. These habits, once formed, can be difficult to break and represent a significant challenge to profitability in these markets.

The impact of this has been felt in a dramatic reduction of business from the EU, and from increases in negative reviews from those who continue to shop with British brands. Delays and unexpected costs to the consumer (through both taxes and courier fees) are doubly harmful to brands as they serve to alienate new clients and provide a negative base of comparison for longstanding customers who remember the more straightforward process of a decade ago.

To address this isn't simply a matter of policy, but of changing perceptions, and these can only be rebuilt over time. That said, there is considerable opportunity here if consumers' minds are changed.

INCONSISTENT ENFORCEMENT

One of the biggest drivers of falling consumer confidence for both B2C and B2B trading is the inconsistent application of the rules and changeable costs to clients. This spans from differences in enforcement between member states, and even between ports of entry, to unpredictable pricing through online platforms, and even different approaches to paperwork by individual customs inspectors or logistics companies.

While delays in themselves make it challenging to manage customer expectations and experience – central to the luxury offering – the lack of a predictable timescale for delivery can make it even more challenging. This is the case both at the national customs border and within the destination country as couriers enforce their own charges and checks. The potential for varying delays is considerable. In some cases, brands report only a delay of a few days; in others, it is much longer.

Businesses report that this has improved over recent years, as couriers and freight companies have adjusted to the new rules.

> "Where once we ordered maybe six to eight weeks before a bottling, we are *ordering bottles six to nine months before a bottling.* Our provider is no longer sending bottles directly to us in the UK. If we purchased them through their UK agent, we would *pay almost double the price* we pay in France."
>
> *Winemaker*

However, there are still significantly more issues than prior to the UK's withdrawal from the EU.

The impact of this is that businesses must weigh up the risk of alienating customers by publicising the longest potential delay window (thereby driving customers to competitor brands within the EU), or alienating customers through perceived poor service when longer than expected delays do take place.

Likewise, inconsistent application of the rules is not just causing delays, but the incorrect application of charges, fees and other additional costs. One fashion brand reports an attempt to charge significant import duties on products sent to Belgium, despite no duties being owed.

RETURNS

One of the biggest areas of challenge relates to products that are returned. Many businesses use online platforms for their sales and factor taxes and other costs into the initial price presented to the consumer. This is especially the case with smaller businesses for whom the cost of running their own platform would be prohibitive.

Businesses use online platforms to ensure that the purchase is frictionless and that customers have the best experience possible – something vital to the luxury business model. However, it leads to challenges with the administration of refunds, especially when administered through some online platforms. Businesses can be forced to credit the full order, which would include the proportion of VAT and duties paid by customers, which some businesses then struggle to recover.

While some brands have opted to split out the taxes and charges from the main product price, this is a less positive customer experience. In a hyper competitive marketplace such as luxury, this can be the difference between customer retention and loss. Furthermore, this would still place the onus on the brand to recover the taxes and charges from the third party logistics provider, adding to the administrative burden, which is especially challenging on smaller businesses.

SAMPLES

One further challenge that luxury brands have faced is the challenge of getting samples, free gifts for influencers or tester products for journalists into the EU.

This kind of exporting is essential to luxury businesses' marketing plans as it is critical to building brand awareness, encouraging repeat trade and delivering a high quality customer experience.

The challenge that many brands are facing is that courier companies are unwilling to ship products valued at £0. Businesses also highlighted the risk of sending high value products to journalists who would not pay customs charges, meaning the product is tied up at customs for long periods of time – representing a considerable value of stock that cannot be realised.

SUSTAINABILITY

One of the other areas raised by brands as a concern is the varying approaches to sustainability across the UK and EU. While there are significant concerns about the EU's developing approach to packaging, waste and ecodesign regulations, the current member state-led approach has led to considerable challenges in adapting products and packaging to meet new requirements.

The luxury sector has embraced the need for sustainable business practices and leads the way in delivering meaningful change to its business model to protect the environment. However, the implementation of specific regulations has presented challenges, and in some cases risks harming the environmental gains the sector has made.

"This clearly creates challenges for us to monitor and manage the requirements of each country and ensure our initiatives that are designed to reduce our environmental impact meet the regulations in each country" *Retail COO*

For the purposes of UK/EU trade, a plethora of differing requirements, regulations and laws governing packaging, use of plastics and ecodesign has led to compliance challenges for UK businesses seeking to export. Given the central role product design and presentation of shipped goods has in creating the aura of luxury and delivering a positive customer experience, these regulations are of particular interest for the sector.

Recommendations

While businesses have sought to address these problems through partnering with third party logistics firms, establishing EU-based entities to smooth the export process or other such costly and complex approaches, there is an opportunity for the Government's ongoing negotiations to address a number of the concerns raised in this report.

The recent improvements heralded since the Windsor Agreement demonstrate that there is now a willingness to address some of the challenges that emerged from the 2016 to 2021 period, and that willingness must now be harnessed to deliver improvements for businesses across the UK. We recognise that a significant number of these recommendations can be delivered only through the agreement of the EU or other third parties. However, the Government's ongoing engagement with the EU presents a unique opportunity to deliver these changes.

The Government also holds considerable influence in the market more generally, and could use its position to convene and deliver meaningful change outside the realms of UK-EU diplomacy.

BILATERAL AGREEMENTS

The export and investment partnership agreed by the last government between the UK and Italy has been cited by businesses as an example of how to start streamlining exporting into the EU without the need for EU-wide agreement. We welcome Keir Starmer seeking bilateral agreements with Germany and other EU countries, however these should encompass economic and well as security cooperation. The Government should seek to strike further such deals, especially with France – a key market for the UK luxury sector – and Spain, where companies raise particular concern about the challenges of getting beauty products into the country.

VAT

The UK Government should seek an agreement with the EU on VAT cooperation. This would reduce the need for an intermediary and therefore simplify trade for some businesses, and make sending free samples between UK and EU more straightforward.

DIGITAL LABELLING

The challenges around labelling create significant burdens for business as described above. The EU is working to introduce a digital product passport where certain transparency and traceability requirements can be declared online and linked to on packaging.

The UK Government should seek to introduce a similar, streamlined and interoperable digital labelling scheme that would allow businesses to update a website with the relevant information for multiple jurisdictions. This would drive improved productivity across consumer goods categories.

SANITARY, PHYTOSANITARY AND VETERINARY CHECKS

The checks on food and produce entering the EU from the UK is a considerable barrier to trade. The UK Government should seek a veterinary agreement with the EU in order to reduce this barrier. If modelled on the New Zealand-EU agreement, it would not present a barrier to Free Trade Agreements with third countries, nor would it require dynamic alignment, as it is based on an equivalence arrangement. This would significantly reduce the friction of food and beverage trade between the UK and EU.

"We have just had a nightmare getting vines into the country and out of the now obligatory government warehouse, where they were not kept in optimum storage conditions. It was touch and go whether they were still in a condition to plant." *Winemaker*

RULES OF ORIGIN

To address numerous challenges around rules of origin that affect fashion and apparel and automotive brands particularly significantly, the UK Government should seek to join the Pan-Euro-Mediterranean Convention on Rules of Origin. This would provide for more favourable Rules of Origin across a number of categories, including textiles, as well as alleviating the cliff edge on EV batteries that automotive manufacturers face in January 2027.

INVESTMENT IN TRADE RESEARCH

The Government rightly offers tax incentives to innovative businesses that invest in research and development; likewise, those who register new patents are incentivised through the Patent Box scheme. It also rewards those firms that invest in new and more efficient plant and machinery through the 'full expensing scheme'. However, there are no similar incentives for companies that invest in trading internationally, despite the considerable costs of doing so and the Government's stated ambition of boosting exports to £1 trillion by 2030. The introduction of a tax credit or incentive for those firms that invest in researching and building international trading opportunities should be recognised in the same way the other investments above are supported.

THIRD-PARTY LOGISTICS AGREEMENTS

The Government has considerable power to bring together businesses and other stakeholders. If it was able to bring together third-party logistics organisations and industry to agree a common approach between 3PL firms regarding how they will handle shipments into the EU, this would represent a small but significant easing of trading challenges without requiring the EU's agreement.

CONSUMER CONFIDENCE CAMPAIGN

To address the belief among European consumers that buying products from the UK is more costly, complex and subject to delays, the UK Government should work with the industry to build a consumer-facing advertising and media campaign to allay these fears and encourage customers to buy from the UK.

Likewise, to address the concern among European businesses, the UK Government should produce written media for distribution by embassies and at trade shows that lays out the simplicity of trading with businesses in the UK and what resources the Government offers to those businesses trading into the UK.

YOUTH MOBILITY SCHEME

Access to European labour markets was a significant asset to our sector, and did not discourage businesses from investing in the training and development of home-grown talent – in fact it complemented it, as the wide range of British designers working in European brands demonstrates.

The interconnection of European and British luxury talent is an asset to both sides. It allows accelerated development of the high-skilled workforce necessary to deliver luxury products and experiences.

As such, we would encourage the Government to agree a Youth Mobility Scheme with the EU, modelled on the agreements the UK already has in place with Australia, Canada, New Zealand, South Korea, Japan and many other countries, including a two to three year visa for workers coming to the UK.

COMPETITIVENESS

The UK Government should recognise that the new trading arrangements with the EU represent a reduction in the competitiveness of the UK compared to our previous position, and undertake a wide-ranging review of how to make up this competitiveness gap.

This should include consideration of macro-economic issues, such as the impact of increases to Employers National Insurance Contributions, but also sector-specific concerns, such as the loss of Tax-Free Shopping, which the EU offers – which drives growth and increased tourist spending.

> At a time of *global uncertainty* and *trade challenges,* the Government must seize the opportunity to *smooth the trade barriers* with our closest and largest trading partner.

Helen Brocklebank, Walpole CEO

Conclusion

The challenges of importing and exporting to the EU under the Trade and Cooperation are not exclusive to the luxury sector.

However, there are specific challenges that affect the sector's business models more deeply owing to the fundamental nature of the way the sector operates and the centrality of Europe to the sector. Likewise, the sector already exports £38bn to non-EU markets. The EU, with its vibrant tourism industry and the integrated supply chains between UK and EU is essential if luxury brands are to continue to grow. This is why the sector cannot simply replace EU trade with non-EU trade – it must have both.

The result of these changes to the trading relationship has been considerably increased costs and reduced competitiveness in a sector that is an export superstar and growth industry for the future. In hampering the success of the sector this also impedes the Government's own objectives, in particular delivering sustainable long-term growth and its ambitious export targets.

If adopted together, these recommendations would provide a significant boost to brands' export prospects in a complex and challenging global trade landscape, and would bolster the UK's prospects for growth.

About Walpole

Walpole is the sector body for the British luxury industry, which is worth £81bn to the UK economy, supports over 450,000 jobs and contributes 3.7% of the UK's GDP. A not-for-profit organisation, Walpole speaks on behalf of more than 250 of Britain's finest brands including Alexander McQueen, Aston Martin, Burberry, Claridge's, Fortnum & Mason, Glenfiddich, Harrods, Jo Malone London, Rolls-Royce Motor Cars and Wedgwood, and is recognised in both Westminster and Brussels.

With a mission to promote, protect and develop the business of luxury in the UK, Walpole brings its members together to collaborate and connect. Key events include the annual Walpole British Luxury Summit and the Walpole British Luxury Awards. It also provides a collective voice for luxury on key topics, commissions industry-leading research and works with government on issues affecting the sector.

Walpole runs the flagship Brands of Tomorrow programme to develop new British luxury brands – alumni include Bremont, Emilia Wickstead, Nyetimber and Orlebar Brown – and works with the London Business School MBA programme to help develop the talent of the future with Luxury Leaders of Tomorrow. Walpole also spearheads the British Luxury Sustainability Manifesto, with the vision of making British luxury the global benchmark for luxury sustainability.

thewalpole.co.uk

About Frontier Economics

Frontier Economics is one of Europe's largest economic consultancies, with offices in London, Dublin, Brussels, Paris, Cologne, Berlin and Madrid. Its 400+ economists tackle some of the most pressing and challenging questions faced by decision-makers, whether in sectors such as financial services, creative industries, digital media or aviation, or in relation to policy questions such as climate change, trade policy, education and health.

frontier-economics.com

Methodology

For the assessment of the Brexit effect on the sector, Frontier Economics compared UK exports to the EU with UK exports to the rest of the world (ROW). By using ROW as a counterfactual, we implicitly assume that exports to the EU would have grown at the same rate as to ROW absent Brexit. This allows for the fact that both exports to the EU and ROW could be affected by other shocks (such as Covid-19). The difference between the growth trajectories might be therefore interpreted as an effect of Brexit.

Whether this is a valid inference depends on how closely exports to EU and ROW track each other pre-Brexit. If they show similar trends pre-Brexit, we would expect them to have evolved similarly, after the date Brexit actually took place, had Brexit not happened. Since Brexit did happen, the differences after the date Brexit took place would then be attributable to Brexit. On the other hand, if their pre-Brexit paths for exports are very different, this suggests ROW is not a good counterfactual. It is also difficult to draw any strong conclusions if there is considerable spikiness in the data. Because we are looking at differences in trends, the analysis can take into account the effects of other shocks, such as Covid-19, that affect both the EU and the rest of the world.

The analysis uses UN Comtrade data. This is a dataset based on international customs declarations in goods trade and goes down to a very granular product classification. Although this does not map exactly to the product definitions in the required manner, based on the product descriptions and by comparing price per quantity to adjacent goods in the hierarchy, we have identified around 300 relevant product codes that can be considered high end. The data is extracted for UK and all trading partners, going back as far as 2012 to 2022, the latest year that annual data are reported at the time of this analysis.

The data is less comprehensive than the data used for the export analysis in Walpole's *Luxury in the Making* report (LITM), which drew on a variety of sources for the purposes of comparing the state of play in 2022 and 2017. For this analysis, we needed to examine trends on an annual basis, and this frequency was not available for the other sources, such as Bain & Company. Hence numbers presented here do not necessarily correspond to the numbers in LITM, but rather for the subset of products for which Comtrade data can be used to draw inferences about high-end products. The results thus should be read as providing an indicative guide to what Brexit effects are for those classes of products.

The UK left the EU on 31st January 2020, with transitional arrangements ending on 31st December 2020. We use 2019 as the baseline 'pre-Brexit' year, owing to sharp movements in 2020 due to Covid-19, which make that year problematic as a reference point. The figures are adjusted for CPI. 'EU+' denotes EU + EFTA countries, i.e. the single market.

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