

BREXIT/COVID-19 IMPACT ON FASHION

Following an industry-wide roundtable meeting, Fashion Roundtable highlighted the key issues, impacts and unforeseen consequences of Brexit in our [open letter](#), with a call to action. The letter, which was signed by more than 450 industry representatives across manufacturing, retail, creative, education and more, was presented to the Government last week, requesting that representatives from the industry meet with the relevant Ministers to help chart a path and create solutions to the impact of Brexit and Covid-19. The Government is yet to respond.

Key Points

- Successive lockdowns are having a devastating impact on the retail sector, and there is a notable lack of parity between the Covid-19 rules for fashion creatives and other creative workers;
- Fashion companies and retailers are facing costly obstacles in the wake of Brexit, including high import duties and onerous paperwork due, in part, to the so-called "Percy Pig" problem;
- Ending tax-free shopping will place the UK luxury fashion sector at a competitive disadvantage given the EU27 offer tax-free shopping to international visitors;
- Current visa requirements for fashion creatives such as models are antithetical to the fashion industry's nature that relies heavily on last-minute bookings and the ability to move around with ease.

Covid-19 Rules

Before the pandemic onset, the most imminent risk to the UK fashion industry's strong performance seemed likely to come from a hard Brexit. However, any recovery has been delayed by a winter resurgence of the virus and renewed public health restrictions. 2020 marked the worst year for the high street in a quarter of a century with 320 shops closing every week, suffering its worst annual sales performances on record. Driven by a slump in demand for fashion products, Oxford Economics forecasted the fashion industry's £35bn UK GDP contribution could fall to £26.2bn, a hammer blow against a sector that had been thriving for several years.

There is a lack of parity concerning other job roles in the creative industries and how Covid-19 rules apply. TV production staff are included on the travel exemption list. Still, fashion creatives are not, even though fashion creatives perform almost similar roles to performing arts professions and TV production staff (i.e. photographers are allowed to come to the UK and not self-isolate as long as they are working on TV production, but not if they're working on fashion shoots).

Successive lockdowns are also having a devastating impact on the retail sector. Retailers suffered their worst annual sales performance on record in 2020, driven by a slump in demand for fashion and homeware products. According to the British Retail Consortium, while food sales growth rose 5.4% on 2019, non-food fell about 5%. It meant an overall fall of 0.3% in a year dominated by the Covid-19 impact, the worst annual change since the BRC began collating the figures in 1995.

Nearly 180,000 retail jobs were lost last year, up by almost a quarter from 2019. It should be noted that this is having a disproportionate impact on women.

Challenges with Exports and Imports

Fashion companies and retailers face costly obstacles in the wake of Brexit, including high import duties and onerous paperwork. A European shopper who buys from a British retailer could be hit with taxes and fees, reaching 30% of the product price to import the item. Those costs can add up given how much business UK companies tend to do in the EU. In 2019, clothing and apparel exports were in the top 10 goods exports to the EU and accounted for 3.1% of total UK exports. New regulatory barriers make UK goods less competitive in EU markets.

The so-called "Percy Pig" problem concerning origin rules remains a significant challenge for retailers in the fashion industry. Some goods sold will still be subject to substantial tariffs even if manufactured within the EU, imported to the UK and then re-exported to the EU.

The following quotes from industry representatives highlight several key issues around unforeseen costs, delays, and paperwork:

Jenny Holloway, CEO Fashion Enter: "We have to order threads from Guttermann in Germany, and normally it takes 5 days. Our latest order took 3 weeks using UPS. The original order was for £50 of threads, but because of the new VAT regulations being £134 as a minimum threshold for EU orders, we complied with that and over-ordered at that amount. When it arrived, we were charged an additional £44.85 by UPS for 'additional paperwork' and EU compliance. This thread is being used to make PPE. Just one order of cotton has quadrupled in cost and escalated delays. Our Belles of London brand, which we make here at the factory and was doing well in the EU has seen sales go off a cliff for orders from Germany."

Valery Demure, Valery Demure Showroom and Consultancy: "We are struggling with shipping samples back and forth. The documentation is taking so much of our time and small brands are struggling with added costs and delays. A client of mine used to send 18ct jewellery samples to London for €100 and now it is €400 for a small shipment. We are seriously looking at relocation to the EU after 27 years of business in the UK."

Jamie Gill, CEO Roksanda: "Although we are grateful to just retain zero-tariff trade, (which still came as a great surprise), the increased declaration process will cost us administratively. Immediately we are feeling the brunt of high freight costs and changes to EU VAT. It's burdensome alongside the on-going impact of the pandemic and removal of VAT for our international Buyers".

Kenneth Mackenzie, 6876: "My business is living with this every day and it is a nightmare. The shipping price increases, with long delays and VAT are making it unsustainable for internet order shopping. A shipment this week had to clear customs in the UK came via Belgium - Luton then ended up in Heathrow, taking 9 days for a 2 day service. The only viable business solution if I want to keep my brand afloat is to keep EU produced items, that I manufacture in Portugal, exclusively for my EU sales and not sell

those at all in the UK, which is a loss to not only my UK sales and taxable income, but also my UK manufacturers, as I will inevitably have to increase my Portuguese manufacturing.”

VAT Retail Export Scheme

By mistaking the number of VAT refunds for the number of users, HMT seriously underestimates the number of international visitors affected by ending the VAT RES. 4.6 million people use the VAT RES, which is 30% of all non-EU visitors and 70% of non-EU tourists (the critical market for tax-free shopping).

The net cost to the Treasury is not up to £1.4 bn but only around £360 million. This is based on OBR forecasts of the reduced level of retail sales to non-EU now a 20% tax has been added, (which OBR forecasts will generate £310 million in VAT, not HMT’s estimated £500m) and the actual level of VAT currently paid by EU visitors on retail sales, which is just £50 million, not HMT’s forecast £900 million.

The error is because HMT has failed to consider the relatively low spending of EU visitors compared with non-EU visitors who spend three times more. More importantly, this is the gross savings in VAT returns from ending the VAT RES. To get the full impact on HMT VAT revenue, you need to consider any fall in the level of spending in associated areas (e.g. hotel rooms, restaurants, transport, culture). A fall of just 10% in these sales (likely as high spending visitors visit fewer times, spend less time in the UK and spend less money) would cost HMT £300m in lost VAT, wiping out any expected gains. Anything more would result in a net loss of VAT to HMT.

The ‘shop and ship’ option already exists and is not attractive to shoppers. Bicester Village report that of their 7 million visitors in 2019, not one asked to use shop and ship. It is more bureaucratic, more expensive and less secure. Visitors will choose the tax-free options of other European countries. HMT know this because they have put no figure in their calculations for any VAT refunds via the Shop and Ship scheme.

Paul Barnes, CEO Association of International Retail: “As the Independent Office of Budget Responsibility has made clear, there is much uncertainty over HMT’s figures on the decision to end the VAT Retail Export Scheme. Just a small drop in visitor numbers and spending would wipe out any VAT revenue HMT predicts from ending the VAT Retail Export Scheme and will lead to a significant net loss to the Treasury. With this policy estimated to cost around 40,000 jobs throughout the UK, we support the call from the Chairman of the Treasury Select Committee for an independent assessment into the full impact of this decision.”

Freedom of Movement for Fashion Creatives

The fashion industry’s concerns on freedom of movement largely echo those raised recently by the music industry about the need for work permits for each EU member state and paperwork for moving products and equipment. Like the music industry, fashion creatives rely on free movement to facilitate last-minute bookings and short-term work. As a result, an effective migration and work visas system is essential for UK’s £35 billion a year fashion industry.

Out of the UK's 15,000 models, the British Fashion Model Agents Association (BFMA) estimates that just under half of those models are British, a quarter is non-EU, and almost a third are EU citizens. In the UK, 50 per cent of creatives are self-employed and often get offered work in the EU at 24 hours notice, as highlighted by the Incorporated Society of Musicians. Now that the Brexit transition period has come to an end, UK models and other creatives will require Tier 5 sponsorship alongside non-EU models.

Under the UK's new points-based immigration system, fashion creatives will need to obtain a "tier 5 certificate of sponsorship" to work in the UK or a "permitted paid engagement visa" one-off visit. For some agencies, 25% of model bookings come from the EU, but the new immigration rules will make it more difficult to organise shoots at short notice and for creatives to hop from one country to the other with relative ease.

A key concern highlighted by the UK fashion industry is that the rules threaten the UK's status as a global hub for fashion creatives and note that many high street EU brands in the UK, such as Zara, may find it easier to arrange shoots in the EU27.

The ability for samples, including garments and equipment is also of concern for the UK's fashion industry and creatives. In the eyes of customs, a "sample" is something that you could not resell. But most fashion samples are pristine and could be resold, and would be subject to full duty. As with other goods entering the EU, it will require the correct documents to clear customs. Using an ATA carnet is the primary way samples will get into the EU - which can be very costly and is currently priced at £325.96. The same issue that musicians were facing with their equipment.

John Horner, Managing Director, Models 1: "We are very concerned at the lack of response from the Government. Models are critical to every aspect of the fashion industry's interface with its customers, and this is managed on a global scale. It seems absurd that both the EU and the UK government put forward freedom of movement proposals for the overall creative sector and simply because they couldn't agree, have walked away, putting many industry sectors in jeopardy. 30% of models represented by major UK model agencies are from the EU, and 25% of income is derived from the EU. It is all at risk and work will be lost to UK plc."

Greater Government Support

We ask that the Government meet with Fashion Roundtable and other industry leaders and representatives to discuss our concerns and work together to find solutions to the myriad of problems caused by Brexit and the Covid-19 pandemic.