

In brief: UK Global Tariffs

At the end of this year the Transition Period will come to an end and the UK will terminate all current relationships with the EU.

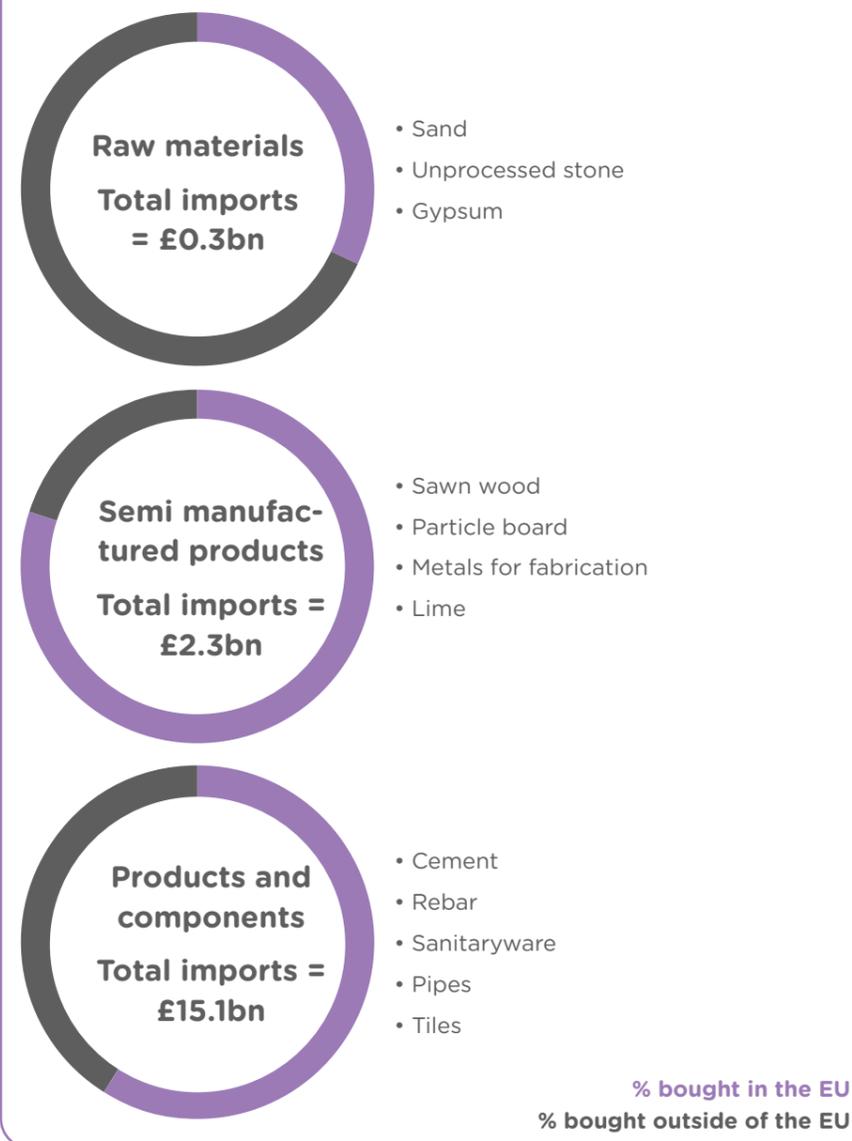
Trade negotiations have been reportedly slow moving, reaching a deadlock several times.

Access to labour and materials are of critical concern for the UK construction market. With the Government announcing plans for a points-based migration system late last year, the less-understood of these two issues has been the impact of tariffs.

A matter of location

Trade barriers to goods coming from the EU are important to UK construction as according to the Department for Business, Energy and Industrial Strategy (BEIS), just over 60% of the construction industry's total imports come from the EU's tariff-free bloc.

The charts below demonstrate the proportion of goods the UK buys from the EU, along with some examples of what falls into each category. It's clear that for the construction industry as a whole, the EU is a major provider, particularly of manufactured goods.



UK Global Tariffs

Assuming that the trade negotiations end in a No Deal situation, EU trade would be covered by the UK's new UK Global Tariffs (UKGT), published in May 2020 to replace the EU's Common External Tariff.

Changes to these 12,000 tariffs have been generally classified as: no change; liberalised; or simplified. However, it is important to consider these against the current EU trade agreement where imports would have been zero-rated. Anything other than zero in the new guidelines will constitute an increase to goods bought from the EU.

On the positive side, this general lowering of tariffs will be a benefit to goods bought outside of the EU (assuming that there is no trade deal in place there either).

Impact

Using the government's materials schedule and applying the proposed tariffs to previous years shows that in the round, as shown in table 1, the impact of the tariffs is fairly small, especially considering that materials generally account for 40% of an overall project cost, and these tariffs would apply to just the imported portion of the materials.

However, with some tariffs as high as 7% or 10% on goods which are

frequently bought from the trading bloc, there is a concern that the impact could be felt more severely by some trades and if these are significant packages for the project, the impact could be higher overall.

Looking to 2025?

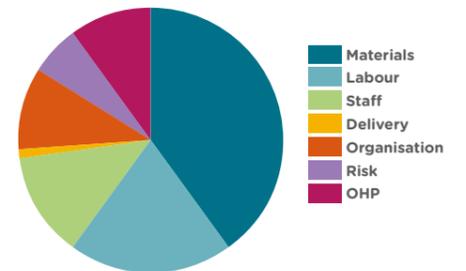
In 2013 a joint strategy (Construction 2025) between government and industry was released for the future of the UK construction industry. One of the key aims was to halve construction's balance of trade by 2025 which, at the time, stood at £6bn.

Since then, the industry's trade deficit has grown to £10bn on the strength of imports, clearly a misstep against the strategy and one with repercussions in this new trade environment.

Understanding supply chains

With so much uncertainty on what the ultimate changes to international trade will be, the impact of these changes is something of a moveable feast. Therefore it would be prudent to try and understand the key items or trades that are dependent upon EU imports. These will vary in significance on a project-by-project basis. Understanding the whole-life journey of construction components can also only help the industry to achieve a more carbon-aware future.

Average components of cost for an office project



Generally, materials account for 40% of a project spend. Tariffs would be applied to the imported proportion of this 40%

Table 1: The expected average impact of UKGT on total imports into UK construction industry

| Commodity group | UK total spend in 2019 | % Sourced from the EU | Cumulative cost impact of UKGT |
|-----------------------------------|------------------------|-----------------------|--------------------------------|
| Raw materials | £0.3bn | 32% | -1.0% |
| Semi-manufactured products | £2.3bn | 80% | +1.8% |
| Products and components | £15.1bn | 59% | +0.5% |
| Total construction imports | £17.7bn | 62% | +0.7% |



This section originally appeared in our July 2020 Market Report.

[Click here to read the full article](#)