Talking about tariffs

If the UK makes a "no deal" exit from the EU, then it is likely that the UK will trade on WTO rules. But what does that mean for tariffs and prices?

Businesses will be trying to understand how this could affect the goods and raw materials that they purchase and the products they sell. Here's an example:

- Imagine that Kakes Ltd makes lemon drizzle cake:
- Think about what raw materials you need to make a lemon drizzle cake. To what extent does Kakes Ltd need to import them from outside the UK? To what extent does the UK grow/make these? For example, it is likely that flour and eggs are sourced from the UK and so no additional tariffs would therefore apply.
- However, what about lemons? Lemons are not typically grown in the UK and so Kakes Ltd buys them from Italy. Kakes Ltd will want to know:
  - What is the UK's proposed tariff for the import of lemons to the UK?
  - In its contract with the lemons supplier, what does it say about who will pay for any import tariffs?

  (In reality, it is likely that the import tariff for most lemons will be at zero or preferential rates, because the UK cannot produce its own lemon requirements and it has indicated that it will continue to apply preferential tariff rates for least developed and developing countries.)
- Where does our client sell its lemon drizzle cake? Does it export it to the EU and beyond? In which case:
  - What is the EU's WTO import tariff on lemon drizzle cake?
  - What is the WTO tariff for any other country where our client wants to sell its cake (assuming there is no trade agreement between the UK and that country)? Is this higher or lower than the tariff that currently applies while the UK is a member of the EU (taking account of any trade deals in place)?
  - If additional import tariffs apply, who will bear the cost of these? Is Kakes Ltd able to increase the prices that it charges its customers? Has it agreed that its customers bear the cost of import tariffs?

There's a contract law dimension

The contracts that a business has with its suppliers on the one hand and customers on the other may include specific terms which specify how and when prices can be varied. Similarly, contracts may specify whether it is the selling or buying entity that is responsible for paying any import tariffs that apply. This may be agreed by way of an Incoterm.

There's a commercial dimension

When faced with price increases caused by higher tariffs, are customers prepared to pay more or would they switch to cheaper alternatives from other sources? Are producers of premium products (such as whisky produced in Scotland) better able to raise prices to customers in parts of the world where demand is strong?

There's a political dimension

Tariffs for different products vary hugely to reflect the trade policy of different countries. For example, does the government of a country want to encourage imports for products that can't be made in that country (low or zero tariffs)? Or does it want to discourage imports (because, for example, it wants to protect a national industry)?

Tariffs are complicated

Finding the exact tariff that a country has set for a product is no simple matter. For example, tariffs can be set by reference to weight, value or per unit. Often, countries set tariff quotas, meaning that a certain tariff will apply to a particular quantity of goods entering the country, and that a higher tariff will apply to goods in excess of that quantity.