

Consumer Goods Sector Report

This report covers consumer goods; and textiles and clothing.

1. This is a report for the House of Commons Committee on Exiting the European Union following the motion passed at the Opposition Day debate on 1 November, which called on the Government to provide the Committee with impact assessments arising from the sectoral analysis it has conducted with regards to the list of 58 sectors referred to in the answer of 26 June 2017 to Question 239.
2. As the Government has already made clear, it is not the case that 58 sectoral impact assessments exist. The Government's sectoral analysis is a wide mix of qualitative and quantitative analysis contained in a range of documents developed at different times since the referendum. This report brings together information about the sector in a way that is accessible and informative. Some reports aggregate some sectors in order to either avoid repetition of information or because of the strong interlinkages between some of these sectors.
3. This report covers: a description of the sector, the current EU regulatory regime, existing frameworks for how trade is facilitated between countries in this sector, and sector views. It does not contain commercially-, market- or negotiation-sensitive information.

Description of sector

4. "Consumer goods" is a collection of goods categories (drawn from ONS 2-digit Standard Industry Classification codes¹) that do not neatly fit into other sectors. Defined in this way, consumer goods represent a relatively small contribution to the national economy, both in terms of value added and employment. However, in many local areas, the manufacture of consumer goods is an important industry.
5. The majority of consumer goods are covered by EU product regulation, which sets both requirements for the product itself (e.g. safety, environmental performance, accuracy, etc.) and the administrative requirements for businesses in the supply chain. This regulation varies in its impact (in terms of cost) according to the product in question. In general, those seen as presenting a higher risk are associated with a higher compliance cost.
6. In terms of markets, the EU is important for exports of most consumer goods, particularly leather goods, and trade with the EU is significant in the context of overall Gross Value Added (GVA) by this sector.
7. The "consumer goods" sector covers those products that are not obviously included in any of the other more clearly-defined goods sectors. As such it contains a very

¹ The UK standard industrial classification of economic activities, abbreviated as UK SIC, is a 5-digit classification providing the framework for collecting and presenting a large range of statistical data according to economic activity

wide range of products for which each subsector is fundamentally different to others.

8. For statistical purposes, data is collected across a wide range of product types which generally comprise both consumer and workplace products. Obtaining clear statistics for consumer products is therefore not possible due to the data collection methodology and so the figures in this report should generally be regarded as illustrative.
9. The sectors covered in this analysis, which reflect 2-digit SIC codes where possible, are:²
 - a. Textiles;
 - b. Wearing Apparel (Clothing and footwear);
 - c. Leather and related products;
 - d. Furniture; and
 - e. Other manufacture (as defined by the relevant 2-digit SIC Code, and which includes anything for which there are no specific reporting codes, including jewellery, toys and sports equipment).
10. This analysis considers general requirements and characteristics relating to consumer goods, and looks at examples within these specific sub-sectors to illustrate the width of variation.
11. As above, many products which would generally be considered “consumer products” are covered by other sectoral assessments and are therefore not focussed on within this report. Specific examples include:
 - a. Cosmetics, cleaning products (covered by chemicals);
 - b. Medical devices (covered by life sciences);
 - c. Machinery/tools (covered by machinery and electronics);
 - d. Cars (covered by automotive);
 - e. Construction products (covered by construction and related engineering); and
 - f. Electronic equipment excluding white goods (covered in machinery and electronics).

Broad model and supply chains

12. The broad model for the sector is that the majority of production is undertaken outside the EU. Much of the product is produced for global markets with limited intent amongst manufacturers to produce variations for small markets. There are also some exceptions where goods are produced in small quantities for the home market but not intended for export.
13. Goods can be supplied by a wide range of supply chain methodologies³, for example:

² Consumer electronics (e.g. white goods), Recreational Watercraft (e.g. pleasure boats - yachts, motorboats, jet skis, etc. – but not large ships) would also be considered consumer goods but are not identifiable at the 2 digit level

³ See Retail market access report for more information on distribution

- a. following traditional methods using UK based importers (who may deal directly with the manufacturer or with an overseas wholesaler) and distribution chain through to retail outlets; and
 - b. distance (largely online) selling where consumers can order from suppliers in the UK, EU or globally and receive products either from UK based distributors or from distributors in the EU or globally.
14. Most UK producers of consumer goods are small, niche, high end producers, as these have been the most able to withstand international competition from low cost producers, mainly from Asia and Eastern Europe. Although domestic producers often rely upon imported inputs, these make up a relatively small proportion of the value of the final good⁴.

Market concentration

15. The general picture is one of low market concentration and a large number of micro/small enterprises. For example, in the manufacturing of furniture, specifically office and shop furniture, four of the largest firms are expected to account for less than ten per cent of industry revenue. For textiles manufacturing, the 4 largest firms are expected to account for 13.1 per cent of industry revenue with a large number of small firms.⁵
16. Table 1 below sets out figures for the number of businesses and employers in identified sub-sectors (set against the total for all manufacturing). The data shows that generally in the consumer goods sector there are a large number of sole-traders and unregistered businesses.

⁴ Ibis World reports for Consumer Good sub-sectors 2017

⁵ Ibis World report for Office & Shop Furniture (May) and Textile & Weaving (March 2017)

Table 1: Consumer Goods Business Population (2016)

Description	All businesses ⁶	All employers
Manufacture of textiles	12,740	3,000
Wearing apparel (inc. footwear and leather goods)	11,385	3,090
Furniture	9,895	4,530
Other manufacturing	23,500	6,045
Total Consumer Goods	57,520	16,665
Total Manufacturing	265,735	87,875

Source: ONS Business Population Estimates, 2016⁷

Contribution to Gross Value Added (GVA)

17. The contribution of consumer goods to GVA is as shown in Table 2 below. The regional and national distribution of GVA as a share of total GVA for the sector is also presented below⁸. However, as above, these figures should be seen as illustrative and not necessarily representative of all consumer goods. Nevertheless, they demonstrate that as a sector, the contribution of consumer goods manufacture to total GVA is relatively small at present.

Table 2: Consumer Goods GVA Contribution, 2016

Description	GVA£M	% of total UK GVA
Textiles and Clothing (inc. footwear and leather goods)	6,288	0.4
Furniture and Other Manufacturing	9,723	0.6
Total Consumer Goods	16,011	1.3

Source: GDP (O) Low Level Aggregates National Accounts ONS

⁶ 'All employers' includes businesses that employ 1 or more employees while 'All businesses' includes establishments that are not registered for VAT or are sole traders

⁷ ONS Business Population Estimates, 2016

⁸ Note the categories are combined, based on how they appear in the relevant dataset

Table 3: Consumer Goods GVA by region, 2014

	Textiles, clothing, footwear and leather goods	Furniture and other manufacturing
North East	2%	4%
North West	17%	11%
Yorks and Humbs	10%	14%
East Mids	24%	10%
West Mids	6%	9%
East of England	5%	11%
London	13%	7%
South East	3%	13%
South West	6%	8%
Wales	3%	7%
Scotland	8%	4%
Northern Ireland	3%	3%
England	86%	86%

Source: Estimates based on calculations from National accounts, Regional gross Value Added and Regional Annual Business Survey

Employment

18. The level of employment in the UK is shown below. Again this suggests a relatively small contribution from manufacture of consumer goods to overall employment.

Distribution of employment by region and country in the UK as a percentage of total sector employment is also presented below.

Table 4: Consumer Goods Employment, 2016

Description	Employment	% of UK total
Textiles and clothing (inc. footwear and leather goods)	120,000	0.3
Furniture and other manufacturing	188,000	0.5
Total	308,000	0.9

Source: BEIS Calculations on ONS Employee and Self Employed jobs

Table 5: Consumer Goods Employment by region, 2014

	Textiles, wearing apparel, footwear and leather goods	Furniture and other manufacturing
North East	3%	2%
North West	17%	12%
Yorks and Humbs	9%	14%
East Mids	16%	10%
West Mids	10%	9%
East of England	4%	11%
London	13%	7%
South East	5%	11%
South West	10%	11%
Wales	3%	6%
Scotland	8%	6%
Northern Ireland	3%	3%
England	87%	86%

Source: BEIS analysis of ONS Regional GVA and Annual Business Survey, Business registers and Employment survey

National and regional footprint

19. Manufacturers are often slightly more concentrated in certain parts of the country for either historical/cultural or practical reasons. This sometimes leads to particular consumer goods manufacturers being of importance in a particular area in terms of economic contribution or employment. However, together with the fact that most of these firms are small, it also means that many manufacturers are likely to be less mobile.

Pattern of trade

20. Trade statistics for the various sub-sectors are shown below. For all of the sub-sectors, imports are higher than exports and imports are predominantly non-EU. This reflects the fact that domestic demand for consumer goods is largely reliant on imports.

21. In terms of exports, the EU is important for exports of most consumer goods, particularly leather goods. This reflects the fact that UK producers tend to produce higher end goods that are consumed in EU countries with higher levels of disposable income. It is reported however, that some producers are increasingly tapping into the growing demand for luxury goods in emerging markets.⁹ Statistics below on the proportion of domestic production exported suggests exports are particularly important for many clothing and footwear manufacturers. UK furniture production is less export focused as it is bulkier, also because of the UK's bespoke legislation and the fact that the UK market is big enough for many suppliers to focus mainly on domestic demand.

⁹ Ibis world market reports, 2017

Table 6: Consumer Goods Imports and Exports, 2016

	Imports			Exports			% of domestic demand satisfied by imports ¹⁰	% of domestic production exported
	EU	Rest of world	Total	EU	Rest of world	Total		
Textiles	2180	3108	5288	1618	952	2570	61%	42%
	41%	59%	100%	63%	37%	100%		
Wearing apparel	5230	13520	18750	4813	1744	6557	98%	91%
	28%	72%	100%	73%	27%	100%		
Leather & related products	3358	4128	7486	1974	525	2499	96%	79%
	45%	55%	100%	79%	21%	100%		
Furniture	2745	2954	5699	654	427	1081	41%	11%
	48%	52%	100%	60%	40%	100%		
Other manufactured goods	6711	8227	14938	4841	5496	10337	84%	72%
	45%	55%	100%	47%	53%	100%		

Source: ONS Trade in Goods and Balance of Payments Data, 2016

22. The global markets for textiles and clothing and other consumer goods imports, excluding the UK, were worth around £577 billion and £608 billion respectively in 2016. Countries besides the 27 other EU member states accounted for £385 billion (67 per cent) and £500 billion (82 per cent) of this global market¹¹.

EU funding

23. The consumer goods sector is not a significant recipient of EU funding in its own right. However, other EU funding may contribute indirectly at the business level. In particular, the range of EU grants and loans for Small and Medium Enterprises (SMEs) which apply to all sectors, or the support for research and innovation (for

¹⁰ Domestic demand includes final consumption and input demand but excludes exports

¹¹ Data obtained from ITC, which is based on UN COMTRADE statistics. The value of the global market is defined as the sum of every country's imports for whom data was available, minus the value of the UK imports. As a rough approximation, the Textiles & Clothing sector has here been taken to comprise HS chapters 41-43 and 50-65, and other consumer goods has here been taken to comprise HS chapters 66-67, 71, 92, 94-95, 97

which there is a separate cross-cutting report). Many SME support programmes are funded through an intermediary, thus making it difficult to identify the exact nature of the end recipient.

The current EU regulatory regime

24. The majority of consumer products are regulated for safety under EU law to ensure common requirements that facilitate the functioning of the Single Market. The extent of – and cost associated with – this regulation varies by product, largely dependent on the level of risk associated with that product. Specifically, as a ‘baseline’, consumer products not covered by sector specific legislation must meet the requirements of the ‘General Product Safety Directive’ (2001/95/EC). These include:
- a. an overarching requirement that products must be assessed (and declared) as ‘safe’ by the manufacturer or importer (often with reference to national, EU or international standards where available);
 - b. a requirement to keep and make available documents demonstrating goods are safe; and
 - c. a requirement to monitor the safety of the goods in use and respond accordingly.
25. In addition, some consumer products must comply with sector-specific safety legislation that establish ‘essential safety requirements’. This type of legislation sets out:
- a. specific objectives relevant to products within the scope of that Directive, for example fire protection of watercraft or chemical content of toys;¹²
 - b. conformity assessment (pre-market testing requirements) – ranges from declaration by the manufacturer or importer supported by documentary evidence through to mandatory use of test laboratories appointed by a Member State;
 - c. various obligations, including documentation, labelling and use of the ‘CE mark’ may also be required to demonstrate compliance with the legislation; and
 - d. in addition to pure ‘safety’ aspects, there is also legislation relating to, for example, environmental credentials of products (energy efficiency, chemical content), consistent labelling (energy performance, textiles), accuracy (in the case of weights and measures) or performance.
26. In practice, this means that some consumer products (for example a soft toy) will need to comply with multiple pieces of product regulation addressing different aspects of the product.

¹²The technical detail is often (but not always) set out in standards produced by the European Standards bodies the European Committee for Standardization (CEN), the European Committee for Electrotechnical Standardization (CENELEC) and the European Telecommunications Standards Institute (ETSI); use of the standards is not mandatory and other means of compliance are permitted, provided that the manufacturer can demonstrate how the solution meets the essential requirements of the applicable legislation

27. Where products (or aspects of products) are not covered by legislation harmonised across the EU, Member States may maintain their own domestic technical regulations as the UK does for furniture and furnishings. The Single Market is based on the principle of mutual recognition which states that, subject to various caveats, a product which is legally marketed in one Member State is entitled to free circulation throughout the rest of the EU. This is underpinned by the Mutual Recognition Regulation which sets out the procedures that should be followed by businesses and enforcement authorities when a product is prevented from free circulation.



28. This framework of regulation is enforced through a system of market surveillance. Provisions on market surveillance – included in harmonisation legislation and the cross-cutting Regulation on Accreditation and Market Surveillance (RAMS) – cover the procedures to be followed by Market Surveillance Authorities (MSAs) to ensure that only compliant products are allowed access to the Single Market (and unsafe or non-compliant products are identified and removed from the market). In the UK, market surveillance policy is the responsibility of the Department for Business, Energy and Industrial Strategy (BEIS) and the activities are generally carried out by local authority Trading Standards. They operate in accordance with the Principles of Good Regulation and the provisions of the Regulator’s Code. This is consistent with the UK’s approach to good regulation which supports businesses to comply with requirements through the provision of guidance and advice, and makes available a range of proportionate sanctions for serious or repeated non-compliance.

29. As for any other UK business, those in the supply chain must comply with other relevant rules, for example on employment and employee health and safety, subject to any cross-cutting exemptions (for example for sole traders). In addition, those in the supply chain for consumer goods are particularly affected by consumer law, which governs the transactions between consumers and businesses in relation to these goods. This includes requirements on unfair trading, misleading advertising and consumer rights. Further details on these rules are included in the Retail report.

International rules and standards

30. The World Trade Organisation's Technical Barriers to Trade agreement aims to ensure that technical regulations, standards, and conformity assessment procedures are non-discriminatory and do not create unnecessary obstacles to trade.
31. EU regulation of consumer goods is underpinned by voluntary European standards which provide a technical route to compliance. In the majority of cases, these EN Standards are drawn from international standards agreed by international standards bodies (e.g. the International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO)). The UK is represented through the British Standards Institution (BSI) in the standards making activities at European and international levels.

Rules affecting trade between non-EU countries and the UK and other EU Member States

32. Consumer goods imported into the UK from third countries are subject to tariffs (either the common external tariff or lower tariffs negotiated as part of the EU's Free Trade Agreements (FTAs)). Textiles and apparel attract relatively high EU tariffs. For example, the average world tariff on clothing and footwear is around 10 per cent rising to 25 per cent for certain types of clothing.¹³
33. Moreover, any goods imported under a tariff preferences provided for by an FTA are likely to need to apply preferential Rules of Origin. This might be relatively simple for certain products (for example simple textiles) but much more complicated for a complex product which sources parts from multiple locations.
34. In terms of regulation, the requirements for third country manufacturers seeking to export to the EU are the same as those within the EU. However, as set out above, harmonisation legislation requires conformity assessment (pre-market testing) to be carried out on products. Generally for consumer goods this can be carried out through a declaration by the manufacturer or importer supported by technical documentation. However, a very small number of consumer goods (such as recreational craft) are considered to present a greater risk and mandatory third party assessment is required. That assessment must be undertaken by test laboratories within the EU, or within a country with an appropriate (mutual recognition) agreement with the EU.
35. In addition, the principle of mutual recognition of technical regulation does not apply to third countries (those outside the EEA) in the absence of a specific FTA, meaning that any divergence in technical requirements represents an additional barrier to trade.

¹³ UNCTAD Trade Analysis Information System.

Devolution

36. Product safety and related technical regulation for consumer goods is a reserved matter, in the interests of providing consistent protections and a level playing field for business.

Existing frameworks for how trade is facilitated between countries in this sector

37. The arrangements described in this section are examples of existing arrangements between countries. They should not be taken to represent the options being considered by the Government for the future economic relationship between the UK and the EU. The Government has been clear that it is seeking pragmatic and innovative solutions to issues related to the future deep and special partnership that we want with the European Union.
38. Manufacturers from outside of the EU wishing to export consumer goods to the EU need to meet the requirements set out in any applicable EU legislation. Many consumer goods fall under the General Product Safety Directive¹⁴, described above. For some products, however, the EU has introduced specific product safety legislation, which places certain additional requirements on importers, such as the need for conformity assessment of products (from declaration by the importer supported by documentary evidence through to mandatory use of test laboratories appointed by a Member State), where there is a greater perceived safety risk. This includes toys and recreational watercraft.
39. Importers and distributors of consumer goods from manufacturers based in third countries must satisfy themselves that the products comply with all relevant EU legislation, including conformity assessment by an EU notified body. These manufacturers would also need to comply with legislative requirements in their home country, and any other countries where they intend to market products.
40. Countries can use bilateral Mutual Recognition Agreements (MRAs) which allow conformity assessment bodies in either market to carry out product testing and certification to each other's legislative requirements. The authorities in both parties agree to accept conformity assessment decisions issued by bodies recognised in one another's markets. Manufacturers still need to ensure that products meet the requirements set out in the legislation where they plan to market the product.
41. The EU has concluded MRAs with seven countries, covering a variety of sectors. Some of the EU's bilateral MRAs have been integrated into FTAs, not all of which cover consumer goods. The EU-Canada Comprehensive Economic and Trade Agreement (CETA) is an example of an MRA which does cover some consumer goods, and offers mutual recognition of conformity assessment for eleven sectors including toys and recreational craft. CETA also contains provisions for voluntary

¹⁴ General Product Safety Directive 2001/95/EC

cooperation on data exchange to support market surveillance activity and exchange of information about the development of technical regulations.

42. Other existing agreements, such as the EU-Swiss agreements and the EEA Agreement, provide for further mutual recognition. For example the EU-Swiss MRAs provide mutual recognition across around twenty product types, including those in CETA and are linked to an agreement that recognises Swiss legislation as equivalent. Where legislation is deemed equivalent, certificates of conformity with the product rules in the EU will be recognised as proving conformity with Swiss legislation, and vice versa. They also cover cooperation on market surveillance of products already on sale.
43. In the EEA agreement, where there is EU legislation for consumer goods, EEA countries adopt EU product legislation into their domestic legislation, and goods that originate from these countries are treated as products from member states. The agreement also includes a system of surveillance and enforcement.
44. Trade in manufactured goods can be facilitated through the use of international standards, such as those developed by the International Standards Organisation (ISO) and the International Electrotechnical Commission (IEC). These are described in more detail above.

Customs

45. There are many customs facilitation arrangements in international agreements. These include the EU's agreements with a number of third countries, such as Canada, Korea, and Switzerland. These agreements differ in the depth and scope of customs facilitation offered. Examples of customs facilitations include: simplifying customs procedures, advance electronic submission and processing of information before physical arrival of goods, and mutual recognition of inspections and documents certifying compliance with the other parties' rules.

Tariffs

46. In the absence of a preferential trade agreement, goods imported into the EU from non-EU countries must pay a tariff. Tariffs are custom duties levied on imported goods. Under World Trade Organisation (WTO) Most Favoured Nation (MFN), a country's tariff schedule must be consistent for all countries it trades with, except those where a preferential trade agreement exists. EU MFN tariff rates vary depending on the good. The EU's simple average of MFN applied duties is 6.5 per cent for textiles, 11.5 per cent for clothing and 4.1 per cent for Leather, footwear & other.

Rules of Origin

47. The EU includes rules of origin in all of its FTAs, which are restrictions on the originating content of products that exporters must comply with to gain tariff preferences. These rules typically reflect both the supply chains of both the EU and

its FTA partner. Many of the EU's rules of origin arrangements are based on the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin, which includes provisions that allow producers to treat content from some third countries as if it comes from their own country.

48. Several arrangements aim to reduce the administrative requirements associated with origin certification, including the EU's Registered Exporter (REX) system, which lets businesses register for self-certification of origin using an online system, avoiding paper certificates. The approach to RoO administration in many US bilateral agreements involves no obligation to provide origin documentation, unless specifically requested.

Sector views

[This section was provided by the Government to the Committee, but the Committee has decided not to publish this section]

HOUSE OF COMMONS EXITING THE EUROPEAN UNION COMMITTEE

Annex: Stakeholder Engagement on European Union Exit (EU Exit) in the Department for Business, Energy and Industrial Strategy

[This information was provided by the Government to the Committee, but the Committee has decided not to publish this section]

HOUSE OF COMMONS EXITING THE EUROPEAN UNION COMMITTEE