



UK CUSTOMS REGIME POST BREXIT

MODELLING THE IMPACT AND MITIGATING COSTS

NEPIC NOVEMBER 2020

AREAS FOR DISCUSSION TODAY

- ▶ What we know and know we don't know about UK customs Arrangements
- ▶ Those that want to gaze into the crystal ball
- ▶ Modelling - Applying the knowns & assumptions to your business to quantify impact
- ▶ Mitigation Scenarios: Customs Declaration Costs
EU Hub Solution and IP/OP loops
- ▶ Check List

What we know, and know we don't know, about UK Customs arrangements

Knowns...

- ▶ UK Customs Tariff (not WTO rates)
- ▶ UK Customs Regulations
- ▶ Customs Declarations needed - therefore commodity codes, origins, customs valuations and a process for making declarations
- ▶ VAT Reverse Charge applies
- ▶ Temporary customs simplifications
- ▶ Current authorisations for relief schemes will continue to apply
- ▶ UK has some FTA in place (List is here)

Known Unknowns...

- ▶ Whether the transition period will be extended
- ▶ Whether we will have a free trade agreement (FTA) with the EU
- ▶ What other FTA we will have and when
- ▶ If there are FTA then what conditions will apply under these agreements, or do we?
- ▶ Whether the UK infrastructure will cope - given that we are roughly doubling the number of imports and exports subject to customs regulation (Systems, Available Customs Brokers etc.)
- ▶ You don't have time to wait for resolution of these points. Actions take time and often approvals from HMRC. So need to make some educated guesses and assumptions ... or risk inbound and outbound supply chain disruption

Those that want to gaze into the crystal ball ...

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- ▶ EU/UK Transition Arrangement Extended beyond 31.12.2020

- ▶ Yes 23/10 or implied prob 30%
- ▶ No 2/9 or implied prob 82%
- ▶ I would guess this will not happen ...
- ▶ All odds as of 04.11.2020 - if you would like to place a bet: click [here](#)



- ▶ EU & UK FTA in 2020

Yes 4/11 or implied prob 73%

- ▶ No 21/10 or implied prob 33%
- ▶ I guess this will happen but its impact will be more limited than generally accepted
- ▶ But perceived wisdom ... hope for the best but plan for the worst, which takes us into planning ...
 - ▶ Model impact
 - ▶ Implement Tactics to Mitigate the impact

Modelling- Applying the knowns & assumptions to your Business to quantify impact

Inputs

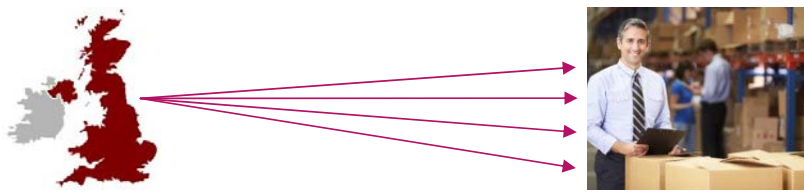
- ▶ Current Rest of World Imports/ Export customs data - removal or FTA & new UK Tariff (if hard to come by you can but it from HMRC)
- ▶ Movements to and from the EU - both will attract duties and customs declaration costs (Available from Accounts (Intrastat)
- ▶ Current customs planning authorisations
- ▶ Potential customs valuation issues (royalties, tooling, R&D spend etc.)(from Chart of Accounts)
- ▶ Contractual Terms (including Incoterms to show who will be bearing the costs/ risks)
- ▶ Revisions to historic numbers from Purchasing and Sales teams

Outputs

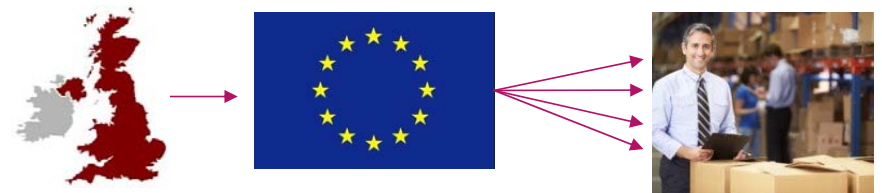
- ▶ Additional Costs in the UK
- ▶ Additional Costs in the EU
- ▶ Customs duty
- ▶ Customs declaration costs
- ▶ Other barriers (Determining customs classifications, intellectual property issues, requirements for transfer pricing studies etc., ability to of the parties to act as importer or exporter etc.)
- ▶ Barriers need to be removed (must do or stop supply chains)
- ▶ Mitigation is subject to Business Case: Benefits v Costs; Likelihood v Impact

Mitigation #1: Customs Declaration Costs EU Hub Solution

Before



After



Customs Declarations	Before	After	Savings
Export	100 per week@£40=£234,000 pa	5 per week @£40=£10,400 pa	£223,600 pa
Import	100 per week@40=£234,000 pa	5 per week@£40=£10,400 pa	£223,600 pa
			£447,200 pa

Also logistics costs savings but will have set up costs and ongoing maintenance contracts. Hub also used for EU purchases that are sold to the EU market. Set up can be light touch (fiscal representative and outsourced) to fully established (own co and facilities)

Mitigation #2: IP/OP loops: Scenario 1 – do nothing

XY
Product A (Be)
Annual shipment (mt) 8,500
Unit cost £/mt £435
Annual value £3,697,500

ZZ BV
Finished product
Value £6,250,000
Comm Code 3907
Rate 6.50%
Duty £406,250
Landed Value £6,656,250

ZZ UK
Product A
Annual Value £3,697,500
Comm Code 2917
Rate* 6.0%
Duty £221,850

Product B
Value £1,680,000
Comm Code 2905
Rate* 4.0%
Duty £67,200.00
Total Duty £289,050.00

Finished product
Annual shipment (mt) 10,000
Unit cost £/mt £625
Value £6,250,000

Product B
Annual shipment (mt) 3500
Unit cost £/mt £480
Value £1,680,000

*UK published duty rates for 2021 for Products A and B

UK duty costs	£289,050
EU duty costs	£406,250
Total duty costs	£695,300

Mitigation #2 cont'd: IP/OP loops: Scenario 2

IP in the UK & OP in the EU (Assuming no FTA)

XY		
Product A		
Annual shipment (mt)	8,500	
Unit cost £/mt		£435
Annual value		£3,697,500
ZZ BV		
Finished product		
Value	£6,250,000	
Value for Duty***	£2,552,500	
Comm Code	3907	
Rate	6.50%	
Duty	£165,913	
Landed Value	£6,415,913	

ZZ UK		
Product A		
Value	£3,697,500	
Comm Code	2917	
Rate*	6.00%	
Duty payable**	£0	
Duty suspended**	£221,850.00	
Product B		
Value	£1,680,000	
Comm Code	2905	
Rate*	4.0%	
Duty payable**	£0	
Duty suspended**	£67,200.0	
Total Duty	£0	
Total duty suspended	£289,050	
Finished product		
Annual shipment (mt)	10,000	
Unit cost £/mt		£625
Value		£6,250,000

Product B (US)		
Annual shipment (mt)	3,500	
Unit cost £/mt		£480
Value		£1,680,000

*UK published duty rates for 2021
 **Duty suspended in the UK under IP; the duty liability is discharged when the finished product is re-exported to EU
 ***Value for duty is the sales value less the value of EU Product A (the Product A content is subject to duty relief under OP)
 Model includes IP & OP.

Duty No Relief	£695,300
Duty Payable	£165,913
Saving	£529,388
IP Savings (UK)	£289,050
OP Savings (EU)	£240,338
	£529,388

Check List

- ▶ Get a UK issued EORI & EU Issued EORI
- ▶ Determine Customs Elements (classifications, origins, customs values, licensing requirements etc.)
- ▶ Model Customs Impact of Brexit
- ▶ Agree with customers and suppliers who will be exporters and importers (both EU-UK and UK-EU)
- ▶ Work out how customs declarations will be made (both ways and in the UK and EU)- customs brokers or inhouse
- ▶ Identify and implement Planning to Reduce Impact (if material)
- ▶ Apply for training grants (100% funded)
- ▶ Don't forget the ROW imports!

- ▶ Want to explore this further:
 - ▶ Talk is recorded and available through NEPIC
 - ▶ 1:2:1 Meetings

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UK CUSTOMS REGIME POST BREXIT

Anticipating and mitigating the impact

NEPIC Meet The Members Expo 2020



Practical considerations

- Deal or no deal, changes are coming
- Anticipate the potential pinch points:
 - Establish responsibility for import/export documentation
 - Identify where there is capacity for your product
 - Pre-booked v Turn up and go
 - Knock on effects of those less organised than you
 - Customs Declaration System
 - Border Control Posts – EU destinations as well as UK
 - Deliberate/activist blockades



Practical measures

- Formal agreements to allocate responsibility
- Understand not all obligations are transferrable
- Avoid the 'battle of the forms'
- Incoterms : Consider strategically – don't just default to EXW
- Express/bespoke provisions
- Force majeure
- Express/bespoke provisions
- Export hubs
- Tax considerations : Permanent establishment v outsourcing



NEPIC - Virtual Round Tables for Manufacturers

- Tuesday 17 November
- Wednesday 19 November
- Scheduled dates TBC
- Separate meetings for chemicals and pharma members
- Please register interest with NEPIC



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