



The UK Government's proposals for customs systems between the UK and EU

Paper 9 - EURIS response to the Government Paper, Future customs arrangements – a future partnership paper.

There are 3 specific plans outlined in the Government paper. EURIS has suggested an overall response, and additionally is asking member companies questions on specific sections of the plans.

Overall position:

EURIS supports any proposals that will maintain seamless and frictionless customs systems post Brexit. The suggested interim arrangements are sensible and supported, as are many of the specific suggestions under the 'highly streamlined arrangement', and the 'new customs arrangement with the EU'. However, the increased complexities that would be introduced and the predicted extra costs for businesses would be very unwelcome. The transition arrangements are particularly challenging, given the need for new technology, audit and policing measures, and even with an extensive transition period will be a significant concern for industry. There is also a great uncertainty amongst the industry that the majority of the arrangements as presented would be acceptable to the other 27 members of the EU.

Responses to the details proposals:

A Introductory paragraphs

The proposals to link any new customs system to the industrial strategy objectives is sensible, but this would potentially exclude those industries who are not included in any sector deals or overall approach.

It is unclear how the proposed Customs Declaration Service (CDS) will be developed and implemented. Industry needs to be fully involved in the development of CDS in particular if it is a central pillar of the post Brexit customs arrangements. It is further questionable whether the implementation of an entirely new IT system at the same time as the Exit is a sensible idea. Everyone will need to cope with a brand new system, a sudden and sharp increase in declarations to be made and no real understanding of how it will work. CDS may have been tested rigorously but real time implementation is different to testing.

Specific Proposals

B An interim time period for the implementation of any of the UK Government or negotiated customs plans

EURIS - Agreement on the need for an interim time period for implementation. The 5 year timescales previously recommended by EURIS would seem a minimum period for the innovative structures proposed.

C A highly streamlined customs arrangement

The overall aim to streamline the current approach with the additional use of new technologies is broadly welcomed. *If implemented successfully in full it would have the potential to meet the EURIS objectives.*

The specific questions for members are:

- 1) Outside the EU Customs Union, the UK will set its domestic customs arrangements to facilitate the flow of trade across its border. In order to comply with international rules, the UK will need to extend customs processes to all UK trade with EU Member States, as well as continuing to apply these to trade from partners around the world. These processes will need to:
 - ensure businesses declare goods for import or export and provide HMRC with the required documentation, including customs declarations, safety and security information and any licenses required or supporting documentation (such as that required to demonstrate the origin of goods, as may be required under a future trade agreement between the UK and the EU);
 - enable HMRC to verify that a declaration has been made, that it corresponds to the goods arriving and to intervene if necessary; and
 - ensure that any duties, such as customs duties and import VAT, are paid when goods arrive in the UK and the goods are released.

EURIS proposes these are the processes that will need to be followed.

- 2) Under this approach, the UK would aim to negotiate trade facilitations with the EU and implement unilateral improvements to our domestic regime to make trade with the EU and rest of the world easier. This will support our ability to facilitate trade with other countries in the world, although there will remain an increase in administration compared with being inside the EU Customs Union. While the Government has looked at precedents set by customs agreements between other countries, it is not seeking to replicate another country's model and will pursue the approach that works best for the UK.

EURIS supports these objectives, however the extra costs of administration will impose extra burdens on companies and will hinder trade between the UK and EU.

- 3) The promotion of the free flow of trade in both directions between the UK and the EU would also require the EU to implement equivalent arrangements at its borders with the UK. The Government believes that collaborative solutions would benefit all parties and will work closely with European partners to negotiate and implement such arrangements.

EURIS agrees that this is desirable but would be very difficult to extend to all 27 EU member states.

- 4) The facilitations the Government would seek to put in place would deliver a range of different benefits. Below we provide examples of the ways in which we would seek to facilitate trade across the border, and we will look to explore these and broader facilitations with the EU:
 - A. First, we would look to simplify the requirements for moving goods across borders, for example: by negotiating a continued waiver from the requirement to submit entry and exit summary declarations for goods being moved between the UK and the EU, removing a time-sensitive administrative requirement

EURIS would support this.

- B. through membership of the Common Transit Convention (CTC), which simplifies border crossing for goods in transit, meaning that goods do not need to complete import and export declarations each time they cross a new border - it would allow goods moving between the UK and the rest of the world, and vice versa, to travel via the EU, without paying EU duties, providing cash-flow benefits to traders, and would make border clearances easier at key ports and airports, such as Dover and Holyhead.

EURIS supports this as an objective, but highlights that the UK would be in the same positions as other non-EU member countries with an established relationship to the EU. These include Switzerland, Serbia and Turkey.

- 5) We would look at options to reduce the pressure and risk of delays at ports and airports, for example by:

- A. negotiating mutual recognition of Authorised Economic Operators (AEOs), enabling faster clearance of AEOs' goods at the border - according to HMRC estimates, UK companies with AEO status account for around 60 per cent of the UK's imports and 74 per cent of the UK's exports

EURIS supports this as an objective, but highlights that current use of AEOs is for members of the EU. The UK would need to negotiate continuing involvement from outside the EU. In addition, only a small proportion of mainly large companies have AEO status. Obtaining this status is expensive, burdensome, takes considerable time and is seen as lacking real benefit by many businesses. The figures cited in the paper for the proportion of exports and imports using AEO status are a surprise to us as the EU AEO database suggests that the UK has only 599 AEOs, the majority of which are freight forwarding companies

- B. bilateral implementation of a technology-based solution for roll-on, roll-off ports which could consist of pre-arrival notification of consignments on a port IT system, linked to customs declarations and vehicle registration numbers so that vehicles were not required to stop at the border, enabling traffic to flow smoothly.

EURIS supports this objective, but highlights that this would need the support of other EU member states, and would be an additional cost to these countries. In addition, it is understood that these systems would need new or additional IT systems to be developed and implemented.

- 6) We would look to contribute to the wider safety and security agenda, for example by: negotiating customs co-operation, mutual assistance and data-sharing which replicates existing levels of UK cooperation with other Member States to reduce revenue and security risks to the UK, and improve targeting of inspections, reducing delays for legitimate trader

These proposals are good sense and EURIS would support.

- 7) We would look to reduce the time and costs of complying with customs administrative requirements through exploring the viability of unilateral measures, primarily in respect of imports, for example:

- A. simplifications for business, such as self-assessment to allow traders to calculate their own customs duties and aggregate their customs declarations;

EURIS believes that where these plans would be an extension to existing company requirements – as in most cases – this would add extra burdens to companies, and there are doubts about the practicalities of audits and policing.

- B. speeding up some authorisation processes, for example through increased automation and better use of data, and in the longer-term streamlining authorisation requirements to reduce complexity, such as in relation to the UK's existing framework of duty suspensions and reliefs.

EURIS supports these objectives We would note that current authorisations for reliefs are linked to AEOs either via obtaining the authorisation or demonstration that the standard has been met. Simplified procedures are linked to quarantees, thus reducing any benefits. If these constraints are lifted, reliefs are easier to obtain

- C. making existing domestic procedures easier for traders to access, in a way that is compatible with the UK's international obligations, in order to reduce the requirements traders need to comply with for their goods to be cleared at the border.

EURIS supports these objectives

D A new customs partnership with the EU

- 1) A new customs partnership with the EU, aligning our approach to the customs border in a way that removes the need for a UK-EU customs border. One potential approach would involve the UK mirroring the EU's requirements for imports from the rest of the world where their final destination is the EU. This is of course unprecedented as an approach and could be challenging to implement and we will look to explore the principles of this with business and the EU.

EURIS supports any moves to retain and maintain the certainties and flexibilities of the current systems. However, we would agree with the Government that much of the suggested approach would be new, untried and as a result very difficult to implement, and would require the support of all 27 members of the EU. In many cases it may not be known at the point of importation into the UK that a product's ultimate destination is in the EU

- 2) One potential approach the UK intends to explore further with the EU would involve the UK acting in partnership with the EU to operate a regime for imports that aligns precisely with the EU's external customs border, for goods that will be consumed in the EU market, even if they are part of a supply chain in the UK first. The UK would need to apply the same tariffs as the EU, and provide the same treatment for rules of origin for those goods arriving in the UK and destined for the EU.

EURIS supports this objective, but has doubts about the viability of the systems and procedures required.

- 3) By mirroring the EU's customs approach at its external border, we could ensure that all goods entering the EU via the UK have paid the correct EU duties. This would remove the need for the UK and the EU to introduce customs processes between us, so that goods moving between the UK and the EU would be treated as they are now for customs purposes. The UK would also be able to apply its own tariffs and trade policy to UK exports and imports from other countries destined for the UK market, in line with our aspiration for an independent trade policy. We

would need to explore with the EU how such an approach would fit with the other elements of our deep and special partnership.

EURIS believes that although this could be beneficial if implemented, it would need the full and active support of the 27 members of the EU, which is highly unlikely.

- 4) There would need to be a robust enforcement mechanism that ensured goods which had not complied with the EU's trade policy stayed in the UK. This could involve, for instance, a tracking mechanism, where imports to the UK were tracked until they reached an end user, or a repayment mechanism, where imports to the UK paid whichever was the higher of the UK's or the EU's tariff rates and traders claimed a refund for the difference between the two rates when the goods were sold to an end user in the country charging lower tariffs. Businesses in supply chains would need to be able to track goods or pass the ability to claim a repayment along their supply chain in order to benefit.

EURIS believes that this proposal would place unacceptable burdens on businesses located in the UK with the complexity of tracing all imported goods throughout the supply chain, during production and into export making exporting impractical and unaffordable for all except the largest. This could not only prevent SMEs from newly entering export markets but deter those who currently are exporting. In addition, policing of this could prove difficult and there is a very real potential for fraud similar to that of "Carousel" or "Missing Trader" fraud. Measures will need to be implemented to prevent this without adding further unacceptable burdens on legitimate businesses with extra administration and increased audits.