

# A FAIR BREXIT FOR CONSUMERS

THE CUSTOMS ROADMAP

Winter 2017

#BREXIT



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## INTRODUCTION

The UK Government has launched a new phase in the discussion on our future trading relationship with the EU. The goal of our *A Fair Brexit for Consumers* project is to ensure we get the best deal for consumers. An essential element of this is maintaining the choice and availability of affordable, quality products for consumers.

European supply chains are a key part in delivering the products we buy everyday. The majority of those goods are ones that need to be transported quickly, particularly food. This means we need a system of controls after Brexit that ensures that goods can continue to be imported without delays, disruption or additional costs, which would affect availability on the shelves, increase waste and push prices up.

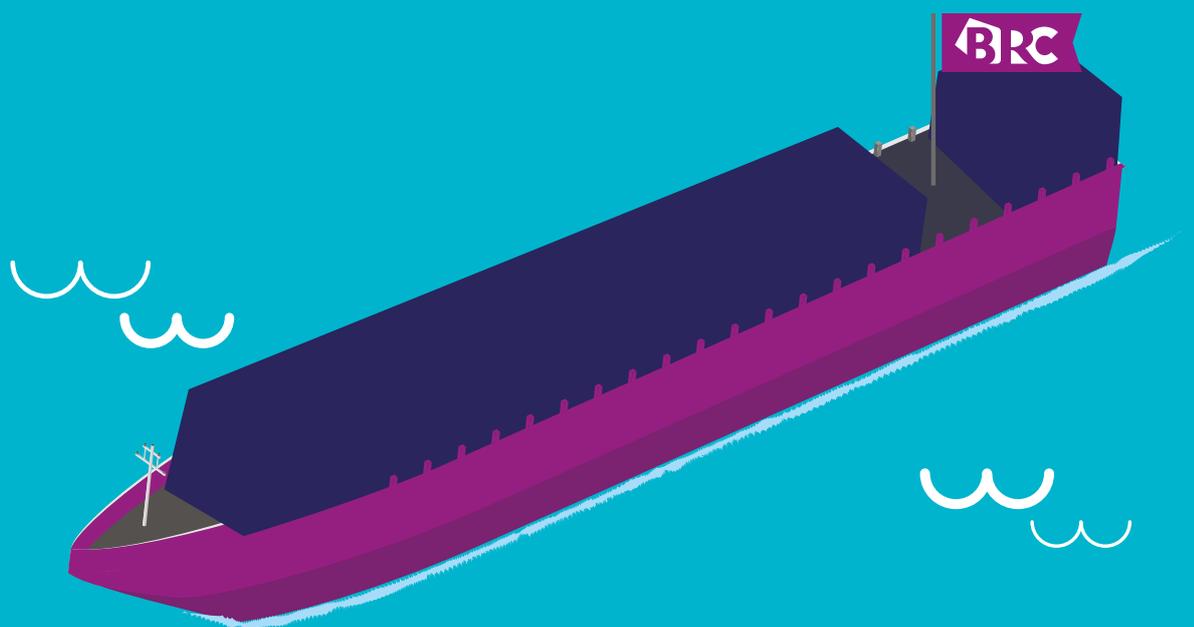
We are encouraged the UK Government has published proposals to avoid disruption to trade when we leave the EU but we should not underestimate the complexity and scale of the challenge. Agreement and implementation of detailed plans to cover everything from documentation to food safety inspections is needed quickly to avoid disruption for consumers. We believe more detail and planning is required around issues like security, transit, haulage, VAT and mutual recognition of enforcement regimes between the EU and the UK on a number of agreements.

In our previous paper, the *Tariff Roadmap*, we detailed why we need a tariff-free trading deal with the EU to avoid higher prices for consumers. Looking ahead, we will also look at the people and workforce aspects of our future relationship with the EU. Here, in the *Customs Roadmap*, we set out the practical challenges and considerations the UK Government faces in delivering as frictionless trade as possible for consumers and the essential steps that must be taken to achieve this. We have based this on discussions with supply chain experts in our member companies and specialists such as the International Meat Trade Association (IMTA) on specific trade issues.

Our aim is for consumers not to notice any difference in terms of the availability of affordable, quality products when they make purchases or visit stores post-Brexit. We believe our recommendations will help to achieve that and enable our world-leading retail industry to not just continue serving customers, but also build on its huge contribution to the growth of the UK economy.

# RECOMMENDATIONS

- Agreements on security, transit, haulage, VAT and people.
- Mutual recognition on veterinary, health and other checks with the EU.
- Early clarity for businesses on what transitional conditions will be in place in the interim.
- Investment in IT systems to deliver the Customs Declaration System (CDS).
- Co-ordination between agencies at ports and borders.
- Investment in capacity and staff at ports.
- Access for all companies, particularly SMEs, to the customs “fast-track” – the Authorised Economic Operator (AEO) status.
- Beneficial resolution to issues on trade, borders and supply chains with the Republic of Ireland and other key import markets such as Turkey.



# THE CUSTOMS CHALLENGE

**4M**  
trucks across our borders annually.<sup>1</sup>



**500**  
POUNDS PER DAY  
is the cost of holding a delayed driver with a refrigerated lorry at a port.



AROUND  
**50-60**  
designated points of entry (Border Control Points) to the UK for imports from outside the EU.



**55M**  **255M**  
PER ANNUM  
Estimated increase in customs declarations in the UK without a post-Brexit customs deal.<sup>2</sup>

DOVER CURRENTLY HANDLES  
**10,000**  
freight movements a day between the UK and the continent. It has no physical infrastructure for holding consignments pending customs clearance.



AN ADDITIONAL  
**180,000** FIRMS  
could be drawn into customs declarations for the first time, if the UK exited solely on WTO terms.<sup>3</sup>

THE UK IMPORTS  
**42%**  
of Irish food and drink exports.  
Worth **€4.1 billion**.<sup>4</sup>

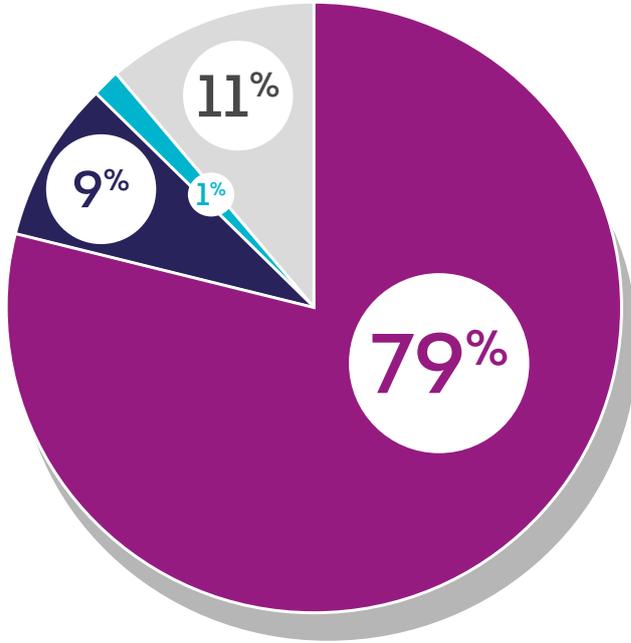


THE UK IMPORTED  
**£1.4BN**  
worth of clothes from Turkey in 2015.<sup>5</sup>



1. Source from the Freight Transport Association. 2. Source from HMRC. 3. Source from HMRC. 4. Ireland's Department of Foreign Affairs and Trade. 5. Turkey's Ministry of Economy. Converted using an exchange rate of 1.528504.

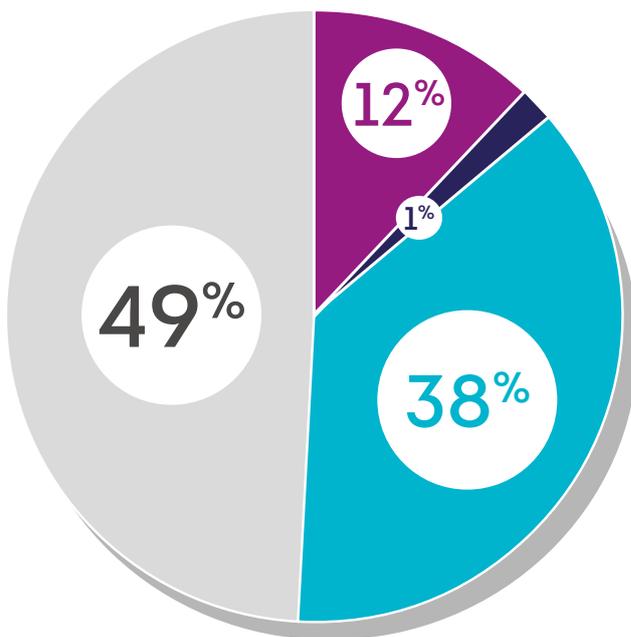
## FOOD IMPORTS



BREAKDOWN OF FOOD IMPORTS BY RETAILERS	
<b>EU</b>	<b>79%</b>
BEVERAGES	43%
FRUIT & VEGETABLES	21%
MEAT & FISH	14%
CEREAL PRODUCTS	7%
OTHER	16%
<b>BILATERAL AGREEMENTS</b>	<b>9%</b>
FRUIT & VEGETABLES	60%
BEVERAGES	38%
OTHER	2%
<b>GSP</b>	<b>1%</b>
FRUIT & VEGETABLES	42%
FATS & OILS	35%
OTHER	23%
<b>OTHER (MFN)</b>	<b>11%</b>
MEAT & FISH	30%
FRUIT & VEGETABLES	14%
OTHER	19%

Source: BRC data – survey of members in 2016.

## NON-FOOD IMPORTS



BREAKDOWN OF NON-FOOD IMPORTS BY RETAILERS	
<b>EU</b>	<b>12%</b>
CLOTHES	54%
FURNITURE	14%
OTHER	32%
<b>BILATERAL AGREEMENTS</b>	<b>1%</b>
CLOTHES	88%
OTHER	12%
<b>GSP</b>	<b>38%</b>
CLOTHES	84%
FOOTWEAR	12%
OTHER	5%
<b>OTHER (MFN)</b>	<b>49%</b>
CLOTHES	49%
FOOTWEAR	12%
FURNITURE	8%
ELECTRICALS	5%
OTHER	26%

Source: BRC data – survey of members in 2016.

# RED TAPE ROAD

## CURRENT ROAD

As a member of the EU, the UK uses the Single Administrative Document (SAD) as the customs declaration for all products. It is the key tool for customs clearance purposes.



## WITHOUT A STRONG CUSTOMS DEAL

In order to complete an SAD correctly if we exit the customs union, a range of new supporting documents will be required.

1

## CERTIFICATE OF ORIGIN

Necessary to ensure right duties paid and satisfy EU Rules of Origin.

2

## SECURITY CERTIFICATES (UNLESS AN AEO)

Required to prove safety of goods being imported across customs frontier.

4

## COMMERCIAL INVOICE

Required for customs declaration and calculation of tariffs.

5

## FREIGHT DOCUMENTATION

If no third country agreement with EU will need haulage or shipping permits.

6

## VAT CERTIFICATION

Without co-operation with EU on VAT, additional forms will be required.

8

## HEALTH AND VETERINARY CHECKS

Additional documentation is required for food covering health and veterinary checks.

7

## CUSTOMS VALUATION DOCUMENTATION

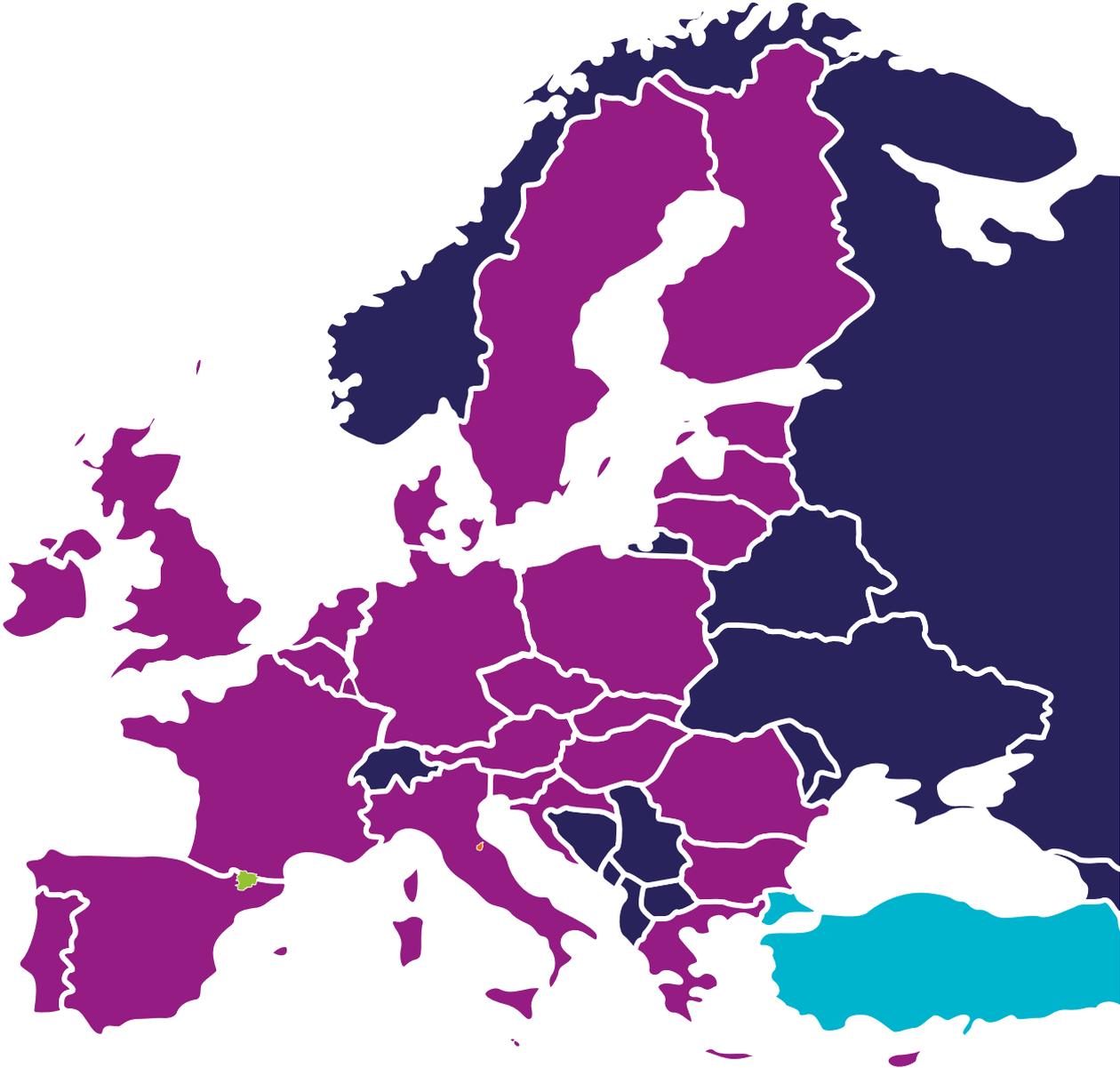
Required for calculation of customs duties payable at border control.

3

## TRANSIT PERMIT (UNLESS AN AEO)

All third country operators without agreement on transit with EU will require documentation.

# CURRENT CUSTOMS ARRANGEMENTS



KEY	
	EU Customs Union
	EU-Turkey Customs Union
	EU-Andorra Customs Union
	EU- SanMarino Customs Union
	Outside Customs EU Union

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# THE ROAD AHEAD

Brexit presents huge challenges to maintaining the current flow of trade that delivers the huge choice of quality, affordable products on the shelves for consumers. Whilst transitional arrangements may help to alleviate some of the challenges, we believe it is crucial to develop robust systems that secure our trading position for the future. We have set out a series of recommendations on customs and border controls that will deliver both security and continuity of imports. Some of these issues are complex and detailed but crucial to replicating the benefits to consumers of our existing and future supply chains.

A customs agreement on its own cannot solve the new trade challenges that will affect the goods on UK shelves. The UK and EU must also reach agreement on health and veterinary checks on the goods that need them, security, VAT, haulage, transit and drivers to ensure goods can move between markets as efficiently as possible. Importers have told us delays to clear additional checks would add costs and interruption to supply chains.

New checks on rules of origin and new declarations would be the most significant barrier to the smooth flow of goods between the UK and EU. One way we could speed up the process is by extending the use of the Authorised Economic Operator (AEO) scheme. This is a version of the “trusted trader” scheme that is used by other countries and allows importers to “fast track” customs, reducing the burden of checks, security and taxation requirements for regular importers.

We could also address safety checks on food and other products by having a system of mutual recognition of inspections and regulatory standards with the EU. Currently we have a system which recognises a common approach to food safety by all EU countries which avoids additional inspections at our ports. We could replicate this system of mutual recognition to avoid unnecessary interruption to trade.

Additional VAT procedures, admin and red tape could be limited by changes to EU tax law and the EU VAT code to allow for special treatment for EU-UK goods transactions. At present, UK importers moving products into the UK from the EU are exempt from having to make upfront payments of import VAT on their goods. This does not apply to goods outside the EU customs area. UK importers are required to pay import VAT upfront, for example, on goods coming from Turkey, which has a customs union relationship with the EU. Although these payments are eventually recoverable, the introduction of import VAT on all goods being imported from the EU could represent a major cash flow burden for importers.

Agreements on the security of goods entering the UK and EU markets are also crucial to limit friction on goods movement. Norway and Switzerland have bilateral agreements that reduce delays at border entry points. The UK should seek to replicate these with the EU. The UK Government has signalled its intent to enter the Common Transit Convention to ease potential new burdens.

The role of haulage in transporting goods across customs borders should not be underestimated. To reduce further delays, the UK and EU will need to strike deals on the movement of trucks or lorries, vehicle registration, and the ability of drivers who are EU nationals to drive vehicles into the UK and vice versa if a customs border is created between them at some point after 2019.

Ensuring UK and EU ports are ready for a new customs system is also key. In the UK, investment is needed in port capacity, roads, warehouses, and IT systems to ensure the new Customs Declaration System (CDS) is ready for the challenge in 2019. A more integrated approach by different agencies to customs and other regulatory controls should be introduced.

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## REPUBLIC OF IRELAND

UK trade and supply chains with the Republic of Ireland are particularly important, especially for food produce. Many manufacturers and retailers are very closely linked across the border with Northern Ireland where goods cross several times during manufacturing or processing. The 310 mile Northern Ireland/Republic of Ireland border would become the only physical land border between the UK and EU after Brexit with hundreds of crossing points. It will be a priority for both the UK and the EU to ensure the border does not make the dumping of goods on markets easier and the ability to track food through all stages of production harder than at present. At the same time, avoiding a “hard” customs and trading border is a key objective in the negotiations given the economic harm businesses could face from additional red tape and disruption to their business models.

There is a need for a series of complimentary solutions and a high level of coordination to overcome the particular challenges retailers will face across the Northern Ireland/Republic of Ireland border with sourcing or supply chains. An agreement on mutual recognition of product standards and regulations will be crucial to avoiding burdensome health or veterinary checks. We also need a system of mutual recognition with the EU on customs “fast track” systems (AEO) to help with coordination. At the same time, the UK should also broaden the scope of its customs “fast track” into a “trusted trader scheme”.

For the transitional period, a customs union relationship between the UK and EU would help with the implications for trade and the Irish border.

## TURKEY

Turkey is a key part of supply chains for textiles and clothing retailers in the UK who often choose to import from Turkey because of its relative proximity to the UK and the comparatively efficient customs and transit arrangements in place. Three per cent of UK non-food imports come from Turkey and 79 per cent of these are of clothing.<sup>6</sup> At the moment, the UK’s trading relationship with Turkey is anchored in the EU-Turkey customs union agreement, which excludes most agricultural goods. As and when the UK leaves the EU customs union, it will also no longer be part of the EU-Turkey customs union. The UK will need to agree a strongly co-operative trading relationship with Turkey ahead of March 2019 that permits goods to flow into the EU and onwards to the UK with as little friction and duties as possible, and avoid disruption to supply chains.

6. Based on survey of BRC members, 2016

## TIME IS OF THE ESSENCE

As our figures show (page 5), the EU is much more significant to our supply of food products rather than to non-food products. Over three quarters of our food imports come from the EU. Obviously, these are products with much shorter shelf life and the transit is much quicker than products such as electricals and clothing, which often comes from outside the EU.



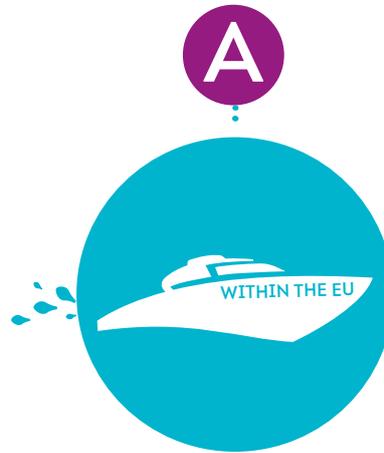
Slower and longer journey from outside the EU.



More likely to be non-perishable good.



Adequate time to process the documents.



Faster and shorter journey from within the EU.



More likely to be perishable good.



Ensuring perishable goods can continue to arrive quickly into the UK and processes happen at pace will be vital.



# THE CUSTOMS ROADMAP

BEFORE BREXIT

BREXIT DAY

2 YEARS ON

## DEAL

1

UK-EU reach deal on security, VAT, and customs in post-March 2019 trading relationship.

Agreement obtained on transit of goods to and from the EU.

2

A transitional customs union comes into force with no new customs duties and charges and minimal checks.

Single Market rules are applied to ensure no cliff edges.

3

Negotiate deep customs co-operation in final status Free Trade Agreement (FTA).

The UK maintains strong customs, transit, security & haulage co-operation with EU.

## INFRASTRUCTURE

1

The UK prepares plans for investment in ports, roads and IT.

2

UK invests in IT resources to make new customs system work - the Customs Declaration System.

3

UK finalises preparedness of ports and roads infrastructure as FTA implementation date approaches.

## PROCESSES

1

The UK reaches an agreement with the EU on haulage and shipping.

Veterinary and health checks are analysed and reviewed.

2

UK implements new systems for veterinary and health checks for imports from the EU.

The UK extends "Authorised Economic Operator" status (for third countries and EU) to cut potential customs red tape.

3

The UK ensures FTA has arrangements on adequacy or mutual recognition to reduce burdens from veterinary, health or other regulatory checks.

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# CUSTOMS Q&A

## WHAT IS A CUSTOMS UNION?

- A customs union is where states agree to have zero tariffs and no customs duties, fees or charges, or any quota restrictions, quantitative restrictions or measures with similar effects, on commodities covered by an agreement. The purpose of a customs union, like that of other trade agreements, is to make it easier for member states to trade. Countries within a customs union all have a common external tariff for goods covered by the agreement being imported at any point into the customs union area.
- Examples of customs unions are: the EU Customs Union which subsists between all EU member states, with a common external tariff, and rules on tariff-free and quantitative restriction free trade. Provisions exist to deal with the dumping of goods by third countries into any part of the customs union area. Another customs union is that between the EU and Turkey – this covers only some goods (for example it excludes non-processed agricultural products).
- The EU Customs Union means that the EU negotiates trade deals on behalf of the bloc, and member states do not negotiate their own trade deals. The EU-Turkey customs union prevents Turkey from reaching trade deals with third countries which go beyond the terms of the agreement with the EU. A temporary EU-UK customs union would prohibit the UK from implementing new trade deals on goods with third countries while it subsisted, but not those which related to services.

## WHAT ARE FREE TRADE AGREEMENTS (FTAS)?

- An FTA is an agreement between countries to reduce tariffs and non-tariff barriers to trade between them. They have tended to focus on liberalising trade in goods, rather than on services. The growth in effectiveness of FTAs in recent years has focused on harmonising and aligning regulatory standards – one of the key non-tariff barriers to growth in trade.
- The difference between an FTA and the EU Single Market is that with the latter there is a single set of regulatory rules governed by a single set of institutions, including the Commission and the Court of Justice of the European Union (CJEU), which guarantee the freedom of movement of goods, services, capital and people within the Single Market area. With an FTA, more limited provision is made on services with less extensive joint institutions and dispute resolution processes.

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## WHAT ARE RULES OF ORIGIN?

- Rules of origin apply to the importation of goods unless covered by a customs union agreement. These require documentary proof on importation of the origin of the products. There are different rules which apply depending upon the products. Cumulative rules of origin can permit goods to be exported even where the source materials have originated outside the country of origin for the goods.

## WHAT IS AN AEO?

- The EU Authorised Economic Operator (AEO) system permits qualifying companies to undergo streamlined customs procedures under the Union Customs Code. It applies to companies authorised for customs simplification (AEOC) or security or safety (AEOS) or a combination of the two. The advantages of AEO status include fewer documentation and physical based checks in terms of customs processes, the ability to have prior notification and priority treatment if selected for customs control procedures, and greater efficiency of goods movements. The EU has signed Mutual Recognition Agreements with third countries such as Norway, Switzerland, Japan, the US, and China to extend the benefits of the system offering fewer security and safety based customs controls. The UK could seek similar status on leaving the EU.

## WHAT ARE SANITARY AND PHYTOSANITARY (SPS) CHECKS?

- For imports of live animals, meat, plants, trees or products of animal origin sanitary and phytosanitary standards set by either the UN Food and Agriculture Organisation (FAO)/World Health Organisation (WHO) Codex Alimentarius Commission, or the World Organization for Animal Health, or the FAO's Secretariat of the International Plant Protection Convention, apply. Checks to satisfy these are to guard against risks to human health from pathogens, contaminants, evidence of alteration or residues.
- Within the EU Internal Market and customs union territory goods originating and imported internally are deemed to be in free circulation across the participating states, but for all third countries, unless alternative arrangements can be made, Directive 97/78/EC sets out the requirements and standards for health and veterinary checks to import animal products, or goods of animal origin into the EU. These include physical inspections and laboratory testing of samples of imported consignments. Dover is not an approved Border Inspection Post (BIP) for the carrying out of such inspections and tests, despite being the principal port for movement of food imports from the EU-27 into the UK market.

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## THE BRITISH RETAIL CONSORTIUM

Retail is an exciting, diverse and dynamic industry undergoing transformational change. The BRC is at the forefront – enhancing, assisting, informing, and shaping. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture.

The BRC leads the industry and works with our members to tell the story of retail, shape debates and influence issues and opportunities which will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3 Cs.

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BRITISH RETAIL CONSORTIUM

2 London Bridge, London SE1 9RA  
+44 (0)20 7854 8900 | [info@brc.org.uk](mailto:info@brc.org.uk) | [brc.org.uk](http://brc.org.uk)

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