BRITISH EXPORTERS ASSOCIATION

March 2020

DEPARTMENT FOR INTERNATIONAL TRADE (DIT)
CONSULTATION TO INFORM THE MOST FAVOURED NATION TARIFF SCHEDULE, THE UK GLOBAL TARIFF

https://www.gov.uk/government/consultations/the-uk-global-tariff

Overview of BExA

The British Exporters Association (BExA) is an independent national trade association representing the interests of the UK's exporters. Our membership is drawn from across the exporting community, including capital goods manufacturers and international traders (large corporates, MSBs, SMEs and Micro exporters), and their bank, credit insurance and other service providers. BExA seeks to promote the interests of its members and all UK exporters, with a particular focus on trade finance and export credit insurance.

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1. Should the Government remove tariffs on goods of 2.5% or less?

Nuisance tariffs can impose a fiscal and administrative burden on smaller importers, but it can also lead to misunderstandings as a company may select a tariff code with the lowest duty rather than the one that best describes the goods. Although this isn't correct procedure, SMEs don't always have the skill set required to classify goods or may rely on intermediaries who are unfamiliar with the products and think they have selected the more beneficial code for their clients. As the legal liability remains with the importer even though the intermediary has chosen the code it may lead to further issues down the line when HMRC have to audit the selection of tariff codes and issue penalty letters. Education should be considered for tariff classification and further support and guidance for SMEs in particular.

We are reviewing the tariff that has been created to protect the EU MS to see what would benefit an independent UK, but caution should be used when reviewing current sources of information especially prior to the removal or reduction of tariffs as the statistics on intra-EU trade are not as detailed as 3rd country trade. Therefore although it may appear that the UK does not require a protectionist tariff from 3rd countries if we include the EU members of 3rd countries would this view change, eg a higher tariff rate was set because of 3rd country competition on certain products, such as articles of iron/steel because it affect EU manufacturers of these items. If an independent UK removes the tariffs this would also remove the tariffs from EU27 suppliers which may have a detrimental effect on existing UK manufacturers of these goods.

If tariffs are rounded down then that would ease the calculations of customs import duty and may reduce the necessity for SMEs to look at using Free Trade Agreements which can be difficult to comply with and an administrative burden. Also, if tariffs are set too low across the board we would question the effectiveness of increasing our bargaining power when discussing FTA arrangements with overseas markets.

It should also be considered that the removal of tariffs disincentive for UK businesses to broaden their trading portfolio or expand domestic production as it can be met cost-effectively by importing. It may also prove detrimental to domestic producers whose products cease to be as competitive as that of the international exporter. It follows that the subtraction of these tariffs might adversely affect the functioning of underdeveloped domestic industries. By way of an example, domestic producers of hand-tools (e.g. scissors, saws, etc) already struggle to compete with cheaply produced imported products from competing states like China and Taiwan which typically have a duty rate of 1.7-2%. The Government is advised to reach a concrete number of businesses who will either benefit or be negatively affected by these changes.

If import VAT is still collected at the time of import, then the removal of customs duties would have a notional effect on SMEs as they would still have to fund and secure the payment of VAT so the removal of tariffs will not, per se, reduce the administrative burden related to the financial side of importing goods and paying customs taxes.

We welcome the extension of the HMRC training grant scheme until 31st January 2021 but are concerned that it is focussed on completing customs declarations and would suggest that it is expanded to other areas of customs procedures such as the tariff classification of goods.

2. Developing a bespoke tariff schedule provides the UK with an opportunity to simplify the tariff schedule it applies, so that it is easier for businesses to understand and use.

The Harmonised System of Tariffs, set by the WCO, is important for global trade so we would want the tariff schedule format to remain in line with the HS Coding System that is used for 98% of world trade in goods. To move away from this structure would, we believe, be a negative step in launching the UK as an independent trading country. However, the HS Code is only the first 6-digits of the number; the EU currently uses an 8-digit code for exports and at least a 10-digit code for imports and Singapore uses just the first 6 HS digits for the majority of their customs entries.

If simplification of the tariff schedule is being considered we suggest reviewing the necessity of having these additional national endings and revert to the HS Coding System alone.

3. Should the Government round tariffs down to the nearest standardised band?

How would it work if a nearly nuisance tariff, eg 2.7% was rounded down to 2.5%? Would this mean that it would in effect become a zero tariff as per point 1 above? If this being considered, it extends the removal of nuisance tariffs to different areas of the tariff for goods that the UK may still require some level of protection. Also the tariff protection review needs to include statistics on UK-EU27 trade as well as what the UK currently imports from 3rd countries.

We welcome the simplification of the tariff schedule through the use of standardised tariff bands. However, none of this has the impact of reducing the administrative burden which is the foremost complaint from small businesses, though marginal savings can be made.

In addition, if tariffs are set too low across the board we would question the effectiveness of increasing our bargaining power when discussing FTA arrangements with overseas markets.

Although the focus may be on SMEs, and those that do not predominantly trade outside the EU, we should also ensure that the needs of larger businesses are assessed as these companies may have worked on a business plan of many years (both past and in the future) based on the existing tariff structure. A change to tariffs for these companies may bring an inevitable burden of acclimatising to a bespoke tariff system and mean they have to realign their business plans already affected by the UK leaving the EU. These businesses have been working to the no-deal Brexit temporary tariff so clarity is required as soon as possible as adjustments generally require a minimum of 6 months and more realistically 12 months to work into an international supply chain.

4. The Government is considering taking steps towards applying agricultural tariffs that are applied as single percentages. Should the Government consider moving in this direction?

CAP levy, additional Agricultural levies that apply in the EU Tariff are difficult to understand and do cause issues especially if linked to the Meursing code system. We are unsure if these additional cumulative tariffs affect a company's decision on whether to import from outside the EU but it does not appear so on a brief discussion with some members in the agricultural section. It is an additional cost but seen as necessary to maintain a balance of trade, as our exports of such goods are charged with similar costs when sold outside the EU today.

When considering the removal of agricultural tariff we would caution a serious review of EU suppliers that do or may supply the UK if these additional duties are removed and the impact of such competition on UK domestic agriculture/ farming etc

5. Should the Government remove tariffs on key inputs to production and manufacturing?

A complete elimination of these tariffs may prove too broad a move as the removal of customs duties completely would mean stockists and distributors could import at the zero tariff and we are not sure this is the intention of this initiative. If the Government is looking at removing tariffs on inputs to production and manufacturing only for manufacturers of goods, the additional burden on businesses and the UK authorities would have to be considered as this would mean additional checks on the actual end-use of these products.

A good example of zero tariffs based on end-use can be seen in the chemical industry (Chapters 28/29) where companies importing chemicals to produce specific pharmaceutical products claim a 0% duty while anyone not linked to that end-use pay the standard tariff of around 6%. We would suggest making the application process for Inward Processing Relief more accessible to SMEs by streamlining the application process and removing the requirement for guarantees on potential debt as was the case in the UK prior to the adoption of the Union Customs Code (UCC) in May 2016. The benefit of IP is that VAT can also be suspended removing the administrative and financial burden of covering the payment of VAT at the time of arrival. This administrative burden would remain even if the duty rates were set as zero in the tariff.

We also believe that the UK must consider the requirements of the domestic producers who benefit from the competition produced by the use of these tariffs. Although this comes under Trade Remedies, we would encourage a dialogue between government with regard to the Global tariff and the TR section of DIT who will be reviewing Tariff Suspensions, Quota, Ceilings, etc - all useful measures, accepted by the WTO regulations, of protecting and supporting domestic manufacturers while keeping a level of protection in place. The removal of these tariffs may prove detrimental to UK producers whose products cease to be as competitive as that of the international exporter. Hence, an unintended consequence of the removal of these tariffs is the undercutting effect it might have. There have been concerns as to the logistical consistency of this removal.

6. Should the Government remove tariffs where the UK has limited or zero domestic production?

Most small businesses welcome the removal of tariffs which impose an administrative burden on smaller businesses, particularly where there is little domestic production. However, a bespoke trading framework provides the opportunity for underdeveloped domestic industries to nurture new markets. This is particularly so for industries dominated by key competitors (e.g. textiles and toys). To that end, negotiators are expected to adopt a forward-looking approach to the removal of tariffs on such goods. In a similar vein, the UK must begin to view Europe as a competitor and think beyond our interaction with other 3rd countries. The UK must also consider the potential impact of broad-brush amendments on thriving industries (e.g. ceramics) given that we seek to reduce our export market.

We hope the above input is of value and would be happy to further expand if requested to do so.

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