



7 Key Changes to UK-EU Trade Post-Brexit



It is now over a year since the UK left the EU and the new trade agreement with the bloc came into force. This was supposed to maintain trade and the flow of goods between the UK and EU by eliminating all duties. It was in fact the first EU trade agreement which removed duties on all goods. Sounds good, but as in all agreements, the devil is in the detail.

For those who expected everything to remain pretty much as before.....well nothing is the same! Where previously trading with the EU was substantially the same as trading within the UK because of the single market, with common rules and regulations, now the UK is a third-party country, and with that trade is more difficult.

It was hoped that the UK-EU TCA would overcome some of the potential barriers to trade, but whilst it does promise tariff free trade, it did little to remove or reduce those barriers.

- An EORI number is required for international trade
- Every shipment to/from the EU now needs a Customs Declaration, just the same as for the rest of the world
- Zero duty on import or export only applies if your products meet strict rules of origin requirements, rules which are specific to each product
- VAT rules have changed, you may need EU Vat numbers, triangulation rules no longer apply
- Certificates & Licences may now be required for certain products, such as Export Health Certificates for product of animal origin

The way we do business between the UK and EU has changed, so must businesses. The changes are not insurmountable and indeed Brexit also brings opportunities. It is imperative that companies of all sizes review their business and operating models in order to adapt to the new norm, maintain competitiveness and grow.

All businesses that trade between the UK and EU will have been affected in one way or another, but the major changes will have been felt by those exporting or importing products rather than offering services.



Supply chains that seemed normal pre-Brexit are now complicated by the changes. Businesses who source from 2, 3 sometimes 4 or more EU countries, process in two or more countries and then finish off in the UK, now find the process difficult. The flow of goods is now much more complicated and potentially expensive due to the costs of customs declarations, possible duties etc, not to mention the effect of steep rises in transport costs in the last couple of years.

Recognising that the rule changes could be difficult for businesses, certain parts of the requirements were introduced with a light touch in 2021. From 1st January 2022, however, that has changed.

There are 7 key changes every export-import business needs to consider moving forward, with some important new considerations for 2022.

01. HS CODE

It all starts with the HS Code. This is the customs harmonised coding for your product recognised by most countries in the world. It determines everything that follows such as duty rates, licences, approvals, procedures to follow.

As from 1st January 2022 some HS Codes have been amended due to a regular 5-year review by the World Customs Organisation. Check your HS codes now to make sure they have not changed.

Ensuring you are using the right code can make a big difference

Check

<https://www.gov.uk/guidance/uk-goods-classification-2022-tariff-stop-press-notice-25>

For the HS Code Changes

02. CUSTOMS DECLARATIONS

The UK Government recognised that the requirement for customs declarations would be a burden on UK importers and so they looked to ease this by introducing the new rules in stages. As from 1st January 2022 most of those easements will stop.

For the whole of 2021 importing businesses have been able to delay providing full customs declarations at the time of import and instead gather the information to submit 175 days later. Many have taken advantage of this easement, though some have been caught out by missing, or not understanding, the 175-day deadline.

As from 1st January 2022, however, full customs declarations at the time of import became a requirement, unless you are approved to make simplified declarations. Failure to submit a customs declaration will mean the shipment is stopped and not allowed to enter free circulation until this is rectified.

Importers must, therefore, make sure they have all the required information to hand to submit their customs declaration at the time of import.

Quite apart from the extra work involved in preparing customs declarations, the costs have been prohibitive for some companies, especially where the import/sales value is low. Sometimes the cost of declaration is prohibitive for them to continue exporting/importing directly. Buying through a UK distributor or selling through a local EU distribution centre are possible solutions, but to many small businesses this is a big headache.

03. RULES OF ORIGIN



As regards Rules of Origin, as we discussed earlier the UK-EU TCA introduced duty free trade on all products, the first such agreement the EU has entered into, but always providing the products meet the often-complex origin criteria to be classed as UK or EU origin.

Up until now, these rules have been applied by customs authorities with a 'light touch', with exporters from the EU or UK able to make a simple statement on invoices on the origin of their products without necessarily holding the supporting evidence at that point in time. Alternatively, importers could claim origin and duty relief based on their knowledge of the products.

From now on, however, businesses must hold the required evidence to support their claim for origin. This may be more complicated and time-consuming than it sounds. You may for example need a Suppliers Declaration from all your suppliers to prove the origin of the components/constituents of your final product. Without the right evidence, duty could become due on your goods and even shipments from 2021 could incur retrospective duty if you cannot comply.

Importers beware, if you have claimed origin based on 'Importers Knowledge' it is your responsibility to gather the required evidence. If you cannot prove it, then duty and penalties may well become due.

Rules of Origin have already been an issue in 2021 and will definitely be more of an issue in 2022. Last year we saw clients incurring duties they were not expecting as the headline from the UK-EU TCA is duty free trade. Many are having to change their operating model to stay competitive.

A common scenario is a UK business that imports from the EU, stocks in the UK and then ships worldwide. If they do not process the items sufficiently in the UK, they cannot claim UK origin and duty becomes due when they ship back to the EU, even though it is an EU product in the first place. Marks & Spencer's Percy Pig product was one high profile example of this scenario which was widely reported last year.

In another example, a UK business did not realise this implication of the rules and incurred £600k of duty last year. Following a **Brexit Review** Go Exporting has advised them how to use Customs Special Procedures on import to alleviate this issue and save them hundreds of thousands of pounds.

In another example, a business has been claiming UK origin and zero duty on sales to the EU of equipment they originally imported from Italy. This is incorrect. They and their customers may well be liable for retrospective duty from 2022 when they must be able to demonstrate evidence of their origin claim.

We could fill a whole article on Rules of Origin and how they vary product to product! For more information download our useful Rules of Origin Guide and Workbook [here](#)



04. PRE-NOTIFICATION OF IMPORTS

For imports into the UK, pre-notification requirements for Sanitary and Phytosanitary (SPS) goods, originally delayed from 1st Oct, came into effect on 1st January 2022.

For products of animal or plant origin, it is now necessary to pre-register their import into the UK. You cannot simply turn up at port.

All required documents, such as health certificates, need to be inputted to the new IPAFFS (Import of Products, Animal, Food & Feed System) to pre-notify UK customs.

There is an exception at the moment for products from Ireland and Northern Ireland until the discussions on the Northern Ireland Protocol are completed.

There will be increased customs controls at all ports and border locations from now on and as from 1st July shipments will need to be routed through dedicated BCPs (Border Control Posts) for document checks and physical inspections.



05. GVMS

The Goods Vehicle Movement Service is a UK IT system for moving goods in/out of the UK and Northern Ireland. Hauliers need to register with the system in order to move goods through many ports which operate the system. A list of ports can be found [here](#)

You pre-register the movement at least 24 hours in advance and receive a Goods Movement Reference to use to clear the whole shipment of goods. If you are using a freight forwarder or courier company for example, it will be their responsibility to register. If you use your own vehicles you will need to register. Without the GMR the shipment will be held at port.

06. VAT

The way VAT is accounted for is an important change post-Brexit and one which requires careful consideration. As the UK is no longer part of the single market or customs union every export and import is liable to VAT at the point of entry into the country.

For imports into the UK, the Government allows all VAT registered businesses to defer this VAT to their next scheduled return, where it then becomes an in/out transaction so has no effect on cashflow.

Some UK businesses have initially not taken advantage of this facility to defer VAT as they did not realise it needs to be advised in advance to their freight forwarder/courier to be included on customs paperwork. Consequently they have had to pay VAT at the time of import. By default some couriers/forwarders charge back the VAT to customers themselves, usually for a fee.

The EU VAT simplification for triangulation is no longer available. This is where a company in EU country A sells to a customer in EU country B, then sources from EU country C and ships direct to Country B. Previously, VAT did not need to be charged.

Post-Brexit, however, where a UK company sells to a client in France say, then sources from Italy and wants to ship directly to France, this now requires a local VAT number. We have seen a number of clients struggling with this point and some actually going to the cost of importing to the UK to then re-export. But this can cause issues with rules of origin as we have already seen.

For those selling B2C there is now a requirement to have a VAT mechanism in the customers country. For orders up to €150 per consignment this can be the One Stop Shop System, for values above that a local VAT number may be required.

07. INCOTERMS

Many businesses have been caught out by using the wrong Incoterms. Incoterms define who is responsible for what in an export/import transaction such as the customs declarations, VAT and duties.

Some EU suppliers have demanded their paperwork be the same as pre-Brexit, which may now mean the UK customer collecting ex-works. The UK importer is then responsible for the export declaration in the EU, this requires an EU EORI for example, not to mention the costs for the declaration.

The same applies to exporters to the EU where some customers have demanded DDP delivery (Delivered Duty Paid). The UK supplier then becomes liable for the import duty and VAT in the destination country which they cannot recover unless they have a local VAT number.

Select Incoterms carefully and understand the implications. The implications can be expensive. DDP brings maximum responsibility to the exporter, including the liability to pay applicable duty and Vat. EXW brings maximum responsibility for the buyer.

We recommend FCA or DAP terms which makes each party responsible for customs arrangements in their own countries.

How do you manage the post-Brexit challenges?

If you have been affected by these, or the many other challenges post-Brexit, it is important to:

- make sure you are fully aware of the rules
- that terms and conditions are clearly agreed with customers and suppliers in advance
- Incoterms need to be clear.
- Ensure you advise your customs agent/forwarder you want to use the VAT deferment option
- Understand and plan for the new VAT rules
- Be aware of the rules of origin in the TCA and how this affects your imports, plus re-exports to the EU. Ensure you hold the evidence to prove origin.
- Review your operating model and the potential benefits of customs special procedures such as Customs Warehousing, Inward Processing, Outward Processing, Returned Goods Relief.
- Review your supply chain to see if it is still the most efficient given the new rules.

There is no one size fits all, every company has its own requirements. Make sure you have the basics right, however.

Trading with the EU is still a great option for businesses due to the terms of the TCA allowing for duty free trade when the conditions are met. The EU is still our biggest and closest trading partner.

Despite the issues we have looked at, once you understand the rules and adjust your operating model accordingly, there are still great opportunities. Shipping costs from the EU have risen, but by no means to the same extent as shipping from Asia at present where a container can cost ten times its pre Covid rate.

Reviewing your supply chain makes a lot of sense, having options closer to home, whether UK or EU, can help insulate against the supply reliability risks we have seen during the pandemic. Many businesses are looking to spread their risk.

From an export perspective the world is now a smaller place. Exporting to the EU is similar to exporting anywhere in the world. This is a great opportunity for businesses to assess export markets and identify those offering the greatest overall potential. Be systematic, don't go by gut instinct. Evaluate all factors such as market size, barriers to entry, currency and country risk etc. There are big opportunities in Asia, Africa and South America for example which exporters may previously have not considered as it was so straightforward dealing within the EU.

For help and advice on managing the implications of Brexit and making the most of the opportunities that are now presented in international markets, contact us today



GO EXPORTING

Opening a World of Opportunities



☎ 0800 689 1423

☎ +44 (0) 800 689 1423

✉ info@goexporting.com

🌐 <https://goexporting.com/>