



Department for
International Trade

Preparing for our future UK trade policy



Prime Minister Theresa May set out in her Florence speech of 22 September 2017 how the United Kingdom will be the strongest friend and partner to the EU after the UK leaves the EU.

You can find the text of the speech here:

<https://www.gov.uk/government/speeches/pms-florence-speech-a-new-era-of-cooperation-and-partnership-between-the-uk-and-the-eu>

Highlights include:

- The speech reiterates that while the UK is leaving the EU, we are not leaving Europe. Britain has always – and will always – stand with its friends and allies in defence of our **shared values**, our security, stability and our prosperity.
- The speech offers further reassurance to EU citizens living in the UK that they will be able to carry on living their lives as before, and commits to incorporate our agreement on citizens' rights fully into UK law;
- As we build this new relationship, there is no point starting from scratch – unlike a country like Canada, we start from having the same rules and regulations as the EU.
- So we propose a unique and ambitious **economic partnership** based on our rules and regulation being the same at the start, and on maintaining our commitment to free trade and high standards – while allowing for us both to make changes where we want to, in a stable and orderly way.
- "So there is no **need to impose tariffs** where we have none now, and I don't think anyone sensible is contemplating this," the PM said. And "when it comes to trade in goods, we will do everything we can to avoid friction at the border."
- We are proposing a **strictly time-limited implementation** period where we continue to have access to one another's markets on current terms and take part in existing security measures. We expect this to last for a period of around two years. And it should be agreed as early as possible, so as to provide certainty.
- On **immigration**, it will take time to put in place the new system required to re-take control of the UK's borders. So during the implementation period, people will continue to be able to come and live and work in the UK. But there will be a registration system – an essential preparation for the new regime.

Our approach

As the UK prepares to leave the EU, we are developing our approach to deliver our own trade policy that is well-placed to reflect the needs and potential of the whole of the UK. We have a well-established and respected track-record in championing free trade from within the EU. As we exit the EU, the UK will build on this and play a proactive role in the global rules-based multilateral trading system, as well as building on and expanding existing bilateral trading relationships, and having the opportunity to take unilateral action where appropriate.

In order to ensure continuity in relation to our trade around the world and avoid disruption for business and other stakeholders, the UK needs to prepare ahead of its exit from the EU for all possible outcomes of negotiations and to ensure that we have the necessary legal powers and structures to enable us to operate a fully functioning trade policy after our withdrawal from the EU.

Our future trade policy principles

The overarching objective of our new trade policy is enhanced economic prosperity for the UK, through the development and delivery of a UK trade policy that delivers benefits for business, workers and consumers across the whole of the UK. In doing this, the Government commits to the following underlying principles. The UK will:

- Pursue economic prosperity for the UK and lead by example through our liberal economy and pursuit of free trade;
- Develop, support and enforce a fair and proportionate rules-based system for trade, domestically and internationally;
- Develop a trading framework which supports foreign and domestic policy, sustainability, security, environmental and development goals; and
- Develop a trade agenda that is inclusive and transparent.

3. Boosting our trade relationships

Boosting our trade relationships

As we leave the EU, and develop our own trade policy, the Government is committed to ensuring that UK and EU businesses and consumers can continue to trade freely with one another, as part of a new deep and special partnership. We will also boost our trade relationships with old friends and new allies. As the European Commission's own "Trade for All Strategy" suggests, 90% of global economic growth in the next two decades will come from outside the EU, so it is likely that a greater proportion of UK trade will continue to be with non-EU countries.

The UK will look to secure greater access to overseas markets for UK goods exports as well as push for greater liberalisation of global services, investment and procurement markets. We will also seek ambitious digital trade packages, including provisions supporting cross-border data flows, underpinned by appropriate domestic data protection frameworks.

Any new trade arrangements and trade deals will ensure markets remain open and fair behind the border. We will maintain a high level of protection for intellectual property, consumers, the environment, and employees. We will ensure that decisions about how public services, including the NHS, are delivered for UK citizens are made by the UK Government or the devolved administrations.

As the Prime Minister set out in her speech in Florence, the UK will seek to agree a time-limited implementation period with the EU, during which access to one another's markets should continue on current terms. This would help both the UK and EU to minimise unnecessary disruption and provide certainty for businesses and individuals as we move towards our future deep and special partnership with the EU. The UK would intend to pursue new trade negotiations with others during the implementation period, having left the EU, though we would not bring into effect any new arrangements with third countries that were not consistent with the terms of our agreement on an implementation period with the EU.

As we prepare to leave the EU, we will seek to transition all existing EU trade agreements and other EU preferential arrangements. This will ensure that the UK maintains the greatest amount of certainty, continuity and stability in our trade and investment relationships for our businesses, citizens and trading partners.

3.1 Trading with the EU

The UK Government is committed to securing a deep and special partnership with the EU, including a bold and ambitious economic partnership. The UK wants to secure the freest trade possible in goods and services between the UK and the EU.

A close trading relationship benefits both the UK and EU Member States. As a bloc the EU accounts for the largest single proportion of UK trade. In 2016, UK imports from and exports to the EU totalled £553bn,²⁹ with over 200,000 UK businesses trading in goods with the EU.³⁰

²⁹ Source: ONS: Balance of Payments Q1 2017, ONS, June 2017

³⁰ Source: HMRC 2015 VAT Registered Importer and Exporter Population

5.6 The government will do whatever is necessary to prepare for EU exit, including bringing forward further legislation if required. The Customs Bill would allow the government to implement certain interim arrangements to be agreed in negotiation with the EU, including the model described above.

Traders

5.7 As set out in the Future Partnership Paper, the government has considered two broad approaches to a future customs relationship with the EU that most closely meet the objectives set out above. How the UK proceeds will depend on negotiations with the EU, but the two models provide different approaches, and a range of subsequent choices that will affect the UK's customs arrangements.

A 'highly streamlined customs arrangement'

5.8 The first of these is a 'highly streamlined customs arrangement' between the UK and the EU, which, while introducing customs formalities to UK-EU trade, would seek to minimise these additional requirements as far as possible. This would consist of facilitations that would deliver a range of different benefits. Below are examples of the ways the government would seek to facilitate trade across the border. The government will look to explore these and broader facilitations with the EU.

5.9 The government will look to simplify the requirements for moving goods across borders, for example:

- 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.
- remaining a member 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.

5.10 The government will look at options to reduce the pressure and risk of delays at ports and airports, for example by:

- negotiating mutual recognition of Authorised Economic Operators (AEOs), enabling faster clearance of AEOs' goods at the border, the Government will seek mutual recognition of AEOs with the EU.
- 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.

5.11 The government 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 traders.

5.12 The government 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:

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

- 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
- making existing domestic simplified 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.

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5.14 Further details of the specific facilitations that the government would seek to put in place are set out in the Future Partnership Paper. The Customs Bill will make provisions that would allow the government to implement these facilitations, insofar as they relate to the collection of customs duty, and the government is engaging with a variety of businesses alongside other potential users to develop the detail of this proposal. As discussed below, the government will set out proposals in relation to certain issues not related to the collection of customs duties (such as the provision of safety and security information) in due course.

A 'new customs partnership'

5.15 The second model is a 'new customs partnership' with the EU. The government believes that the UK and the EU should jointly consider innovative approaches that could support UK-EU trade outside of a customs union arrangement, while still removing the need for customs processes at the border.

5.16 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.

5.17 By mirroring the EU's customs approach at its external border, the UK 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 them, 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 the aspiration for an independent trade policy.

5.18 Further detail on this approach is in the Future Partnership Paper and, as it sets out, the government recognises that this is an innovative and untested approach that would take time to

develop, implement and negotiate with the EU. The government is keen to explore this approach with businesses and other stakeholders to understand the practical complexities involved in making it work, and whether it could achieve the Government's objectives as set out in paragraph 5.1.

5.19 Given that this is an innovative and untested approach that would need to be discussed further with the EU and businesses, the Customs Bill could not be drafted to specifically provide for the implementation of this outcome. Should negotiations conclude that future customs arrangements with the EU should follow this model, further domestic primary legislation may be required.

The movement of goods by individuals via travel or post

5.20 The Bill provides the necessary powers to implement a negotiated solution on goods carried by passengers or sent as small parcels. The government's aim is to ensure that people travelling between the UK from the EU can continue to carry on as they do now, and that the movement of goods as small parcels, via Royal Mail and fast parcel operators, continues to operate effectively. This will maximise fluidity, protect revenues and guard against an increase in tax evasion.

The Northern Ireland-Ireland land border

5.21 The UK government and the EU recognise the unique economic, social and cultural circumstances of the land border between Northern Ireland and Ireland, and will work together to secure the best possible outcome from negotiations as part of a UK-EU deal. The UK government, EU and Irish government all share the aim to avoid a hard border.

5.22 In line with these shared objectives, the UK has already published a Northern Ireland and Ireland Position Paper. The paper set out nine key principles on which to base a future customs solution. These include aiming to avoid any physical border infrastructure; preventing any new barriers to doing business within the UK, including between Northern Ireland and Great Britain; and agreeing at an early stage a time-limited interim implementation period. Based on these principles, and in recognition of the unique circumstances of the Northern Ireland-Ireland land border, the UK government proposes two creative solutions to explore with the EU, as outlined in the Future Partnership Paper. The Northern Ireland and Ireland Position Paper also sets out that the UK will seek to ensure that individuals travelling to the UK from the EU, and vice versa, can continue to travel with goods for personal use as freely and as smoothly as they do now.

5.23 Under the highly streamlined customs arrangement, the UK believes it would need to go still further to agree specific facilitations for the Northern Ireland-Ireland land border. A cross-border trade exemption acknowledges that many of the movements of goods across the land border are by smaller traders operating in a local economy, and they cannot be properly categorised or treated as economically significant international trade. The cross-border trade exemption would ensure that smaller traders could continue to move goods with no new requirements in relation to customs processes at the land border. In 2015, over 80% of north to south trade was carried out by micro, small and medium-sized businesses.

5.24 For those businesses not eligible for an exemption, the UK will explore how to ensure that administrative processes could be very significantly streamlined, including for 'trusted traders' on either side of the border. This could, for example, allow for simplified customs procedures, such as reduced declaration requirements and periodic payment of duty.

5.25 The alternative option of a new customs partnership arrangement with the EU would remove the need for the UK and EU to introduce customs processes between them. This would enable the border between Northern Ireland and Ireland to continue to be seamless in relation

to customs. 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.

A contingency scenario

5.26 While the government hopes for and expects a mutually beneficial outcome to negotiations, it is prudent for both government and businesses to plan for a contingency scenario, where the UK leaves the EU without a negotiated outcome on customs arrangements.

Traders

5.27 In this scenario, the Bill will make provision for the UK to establish a standalone customs regime from day one, including setting tariffs and quotas, and establishing a goods classification system in line with the government's WTO obligations. The UK would apply the same customs duty to every country with which it does not have a trade deal or otherwise provide preferential access to the UK market, such as schemes for developing countries. The level of this duty would be decided by the government, and set out in secondary legislation before the UK leaves the EU. Currently, for the EU as a whole, only around 30% of imported goods (in value terms) are subject to the Common External Tariff. On the whole, traders who already import from outside the EU should see no change in the customs declarations procedures for those imports.

5.28 Traders that currently trade only with the EU will be subject to customs declarations and customs checks for the first time. Traders would need to be registered, which will provide them with an Economic Operators' Registration and Identification System (EORI) number. Imported goods would be liable to customs duty and import VAT. Certain goods may require import or export licenses, and traders exporting to the EU would have to submit an export declaration.

5.29 The government is actively considering ways in which to mitigate the impacts on traders of such a scenario, and the Customs Bill will make provisions that would allow the government to implement such facilitations.

Preparing for a contingency scenario

5.30 The government is committed to developing solutions to the issues that implementing a new customs regime would raise, particularly in the areas, such as ro-ro ports and the Northern Ireland-Ireland land border, that are likely to be the most complex. The government is seeking the views of businesses and other stakeholders on these solutions.

Roll-on roll-off ports (Ro-ro)

5.31 Many of the UK's ports and airports already facilitate imports from, and exports to, non-EU countries, and are therefore familiar with ensuring customs formalities are completed. This means that the ports and airports likely to see the greatest change in a contingency scenario are those that currently only (or predominantly) deal with intra-EU trade.

5.32 The impact is likely to be greatest where goods are travelling in vehicles (e.g. HGVs, vans, etc.). This is partly because the time available for processing declarations is far shorter than goods arriving at container ports where there can be many hours between the ship docking and the goods being unloaded and then re-loaded onto a vehicle which then removes them from the port.

5.33 Most goods entering or leaving the UK on a vehicle (from or to the EU) go through a ro-ro port or terminal, which are typically characterised by the fluidity of trade. The government will work to ensure trade flows through the ports as seamlessly as possible. Vehicles and their occupants travelling from continental Europe currently undergo immigration checks but are not

subject to routine customs controls. In a contingency scenario where an interim period cannot be agreed, customs declarations would be required for UK-EU trade once the UK leaves the EU.

5.34 Because of the nature of the trade and the fact that the majority of ro-ro ports are space-constrained, it would not be desirable to hold vehicles for any amount of time in order for declarations to be lodged. Therefore, the Bill will enable the government to require that consignments are pre-notified to customs, as well as enabling the unilateral measures set out above in relation to the highly streamlined customs arrangement.

5.35 In this scenario, the government would need to be able to confirm that businesses have complied with customs obligations. The government will work closely with industry on what would be required.

5.36 As set out in the Future Partnership Paper, the UK will seek to negotiate continued membership of the safety and security zone. However, in a contingency scenario where the UK does not have membership, the carrier would be required to lodge a pre-arrival safety and security declaration for imports and exports.

5.37 Because customs declarations would also be required under a highly streamlined customs arrangement with the EU, the processes outlined above would represent a stepping stone to the technology-based solution set out in the Future Partnership Paper for roll-on, roll-off ports.

5.38 The principles underlying a contingency model for exports would be similar to those set out above for imports. It would not be desirable to hold vehicles for any length of time at ports to present goods to Customs for export. Therefore, presentation would take place inland as much as possible, and at the port there would be a means to confirm that goods have left the UK.

The movement of goods by air, maritime or rail freight

5.39 In a contingency scenario, goods imported from or exported to the EU via air or bulk/containerised maritime traffic would require customs clearance. As there are well-established processes in place in many airports and maritime ports which currently handle a mixture of intra-EU and non-EU traffic, the government expects customs arrangements at these locations for UK-EU trade to be broadly similar to how non-EU goods are currently handled.

5.40 Very little rail freight travels between the UK and continental Europe. Since rail freight routes came into existence after the lifting of customs controls for intra-EU traffic in 1993, the UK has not had to operate a customs regime for rail freight. The government expects the requirements for rail freight would be similar to other modes of transport. Declarations would be required for rail consignments, and the arrival of goods into the country would need to be notified to Customs in a contingency scenario.

The movement of goods by individuals via travel or small parcels

5.41 Under a contingency scenario, for goods carried by passengers or sent as small parcels, the government's aim is to avoid disruption, enable efficient and effective tax procedures and guard against an increase in tax evasion. For individual travellers entering and exiting the UK carrying goods (including across the border with Ireland), the tax processes will be kept as close as possible to what they are now whether they enter from the EU or the rest of the world (and similarly for exit).

5.42 This will, for example, ensure that people travelling to the UK from the EU can continue to carry on as they do now and if they do, they will not have to pay any UK tax on the goods that they bring back with them for personal use.

How the government will keep engaging with businesses

6.5 The government will continue to engage with stakeholders, including across the business community, following this publication, during the passage of the Customs Bill, and as negotiations on the terms of the withdrawal from the European Union (and on the future partnership with the EU) progress.

6.6 The government welcomes responses from businesses and consumers on the content of this White Paper. This will aid further policy development and allow the government to consider specific business and consumer impacts as the full detail of the new customs regime and changes to the VAT and excise regimes are laid out through secondary legislation.

6.7 In addition to the request for information contained in the Future Partnership Paper, the government is interested to hear about the following areas.

6.8 Operational impacts. For example:

- If your business is part of an EU supply chain, including on the island of Ireland, how will the preparations for a new standalone customs regime affect your operations? Are you considering any changes to your current way of doing business including sourcing and trade activities? In your response please provide some detail on the time-sensitivity of your supply chain.
- How long will your business need to prepare for the two broad approaches to a future customs relationship, as set out in this paper and the Future Partnership Paper and the contingency scenario? Please provide some detail on the changes you expect to make.

6.9 Fiscal border process. For example:

- If your business already trades outside the EU, what examples of best practice should the UK consider when designing its own border processes to achieve trade that is as frictionless as possible?
- How can the government employ technology to best effect to ensure traffic and trade flows smoothly?
- What can ferry operators, ports, train operators and terminals do to help traffic flow smoothly?

6.10 Employing intermediaries. For example:

- When and why would you consider using a freight forwarder or other intermediary to facilitate the trade of your business? Does this decision differ for non-EU and EU trade? Please provide further details on your engagement with intermediaries.
- Does your business have the necessary skills in-house to comply with a customs regime without employing an intermediary?
- As an intermediary (such as a customs broker or freight forwarder), what is your assessment of the opportunities and risks to your business arising from the changes proposed in this paper?
- As an intermediary, how do you see the market for your services developing as a result of the changes in this paper? Will you make changes to your business in response?

6.11 Costs. For example:

- Do you anticipate additional costs for your businesses in adapting to the changes in this paper? How could those costs be reduced?
- Would you consider seeking external expert advice to help your business understand costs under a new customs regime?
- Do you expect to have to make one-off investments into new IT systems or hire staff in order to adapt to the new customs regime?

6.12 Need for further information. For example:

- What information would be helpful from government as you prepare for changes? When would you need this information?

6.13 In your response, please provide detail on your business and how you trade. In particular the government will be better able to understand what the changes in this White Paper mean for your business if you provide details on:

- the size of your business
- the type of goods you trade
- how regularly you trade
- whether you import and/or export
- who you trade with (EU and/or non-EU countries)

6.14 The government is interested to hear from consumers about the following areas:

- Do you expect there to be changes in any of the following: range, availability, quality and price of goods and services? Please give details of any concerns, as well as any positive benefits you feel new customs arrangements may bring.
- Do you have any other concerns about new customs arrangements? What information would be helpful for you to have from government?

Box 6.A: Stakeholder responses

The government welcomes responses to these questions and the content of this white paper. These can be sent via email to CustomsStakeholders@hmtreasury.gsi.gov.uk, or alternatively via post to:

Customs White Paper Responses
HM Treasury
1 Horse Guards Road
SW1A 2HQ

While there is no deadline for providing feedback, responses before 3 November 2017 are encouraged.