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Trading with the EU in the event of a no-deal Brexit

KPMG Board Leadership Centre

The UK Government have published a document summarising what a no-deal Brexit would mean for UK businesses - Implications for business and trade of a no deal exit on 29 March 2019. It's a fascinating read and well worth bringing to the attention of your executive teams.

To mitigate the worst impacts of a no-deal Brexit, the UK Government has been taking unilateral actions. Examples include EU hauliers being able to use their licences in the UK and the UK recognising EU batch tests on medicine. This is undoubtedly good news but it does beg the question, will the EU reciprocate? Another gap is around international agreements where around 40 EU trade agreements with other countries will fall away in the event of a no-deal scenario. The UK is trying to sign deals with these countries but those with key trading partners like Japan and Turkey will not be completed in time.

Many of the UK Government's plans also depend on the preparedness of UK businesses. However, the report appraises the situation by saying "there is little evidence that businesses are preparing in earnest for a no-deal scenario, and evidence indicates that readiness of small and medium-sized enterprises in particular is low."

Business seems particularly under-prepared when it comes to customs declarations.

If there were no-deal, both the UK and EU would apply customs and excise rules and VAT to goods moving across the Channel and, to do that, companies would need an Economic Operator Registration and Identification ("EORI") number. The UK Government estimates that approximately 240,000 businesses in the UK currently trade with the EU alone (and therefore haven't needed an EORI number to date). Despite that, it has only received registrations for a sixth of the number that need it.

Recognising this, the UK Government is working on phasing Entry Summary Declarations and setting up or simplifying emergency import new procedures in order to minimise delays at the border and new costs. However the UK has limited influence over what's imposed by EU member states on goods going into the EU.

Businesses also need to understand what the knock-on effects of EU tariffs might mean to their costs.

The picture varies by sector. Life sciences and electronics will only see a minor impact in terms of duty exposure. However, food attracts much higher tariffs; there could be a 10% customs duty on cars; and textiles, for example, attract 12% tariffs. Given how soon a no-deal scenario could become a reality, it is clear that many businesses who currently only trade with the EU need to gain a grasp on customs and tariffs fast.

Here are 6 top tips for preparation:

1. **Import and export formalities in both the UK and the EU**

   Register for a UK EORI number (if you don't have an EORI already) and potentially an EU EORI number too. Review any additional VAT registration requirements. Consider appointing a customs clearance agent. Ensure you or your agent have sufficient information to file any relevant pre-notifications. Consider how you will pay the customs duty and import VAT.

2. **Supply chain partners**

   Review contracts with key suppliers and freight providers. Consider holding more inventory. Ensure hauliers and freight forwarders are prepared with the relevant permits and registrations. Consider enhanced communications with customers and suppliers.

3. **Product specific issues**

   Review changes to licensing requirements. Consider changes to excise processes and review UK /EU port capacity.

4. **Reliefs**

   Consider an application for the emergency procedures just announced by HMRC. Review the reliefs and simplifications available for goods travelling through the EU to the UK. Review whether VAT simplifications are available in new member states.

5. **IT issues**

   Consider any software changes to accounting and duty management systems you may need to make.

6. **General customs compliance**

   Familiarise yourself with both existing and future UK and EU customs regulations. Review customs valuation methods. Review customs processes including record retention and consider your future requirements.

The UK Government's report may state that, "no economic modelling can completely capture the complex ways in which the UK economy could be affected by exiting the EU". However your business still has time to create some certainty on customs and tariffs.

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