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Policy Brief

Caribbean Exports into the UK Research Study on the New Post-Brexit Procedural Rules

The United Kingdom formalised Brexit by exiting the European Union's single market and customs union on 31 December 2020. Following this, the new EU–UK Trade and Cooperation Agreement came into force on 1 January 2021. The UK's new economic agreement with the EU has the potential to influence trade flows from the Caribbean states as the country drafts new trade rules and procedures with all its partners. Therefore, evidence-driven research on the influence of new post-Brexit customs on Caribbean exporters is both timely and crucial.

The methodology used in this study, given the timeframe, drew on available data in the first quarter post-Brexit, including secondary sources of information, informal interviews with selected stakeholders, publicly available news reports, as well as the information provided on UK government's website (GOV.UK), including Her Majesty's Revenue and Customs (HMRC) website, to identify key procedural changes.[1] In terms of data, bilateral trade patterns of the CARIFORUM (the Caribbean Community [CARICOM] and Dominican Republic) member states with the European Union (EU27) and the UK were examined to identify the relevant trends.

Understanding Caribbean–UK trade flows

In 2017, UK imports from the region were £1.7 billion, around 0.3% of total UK imports...The partner countries within the region with the largest value of trade were Jamaica, The Commonwealth of the Bahamas, Barbados and The Republic of Trinidad and Tobago ... The UK's top goods imported from the region were edible fruits and nuts (HS08, £151 million in 2017) and organic chemicals (HS29, £68 million), representing around half of the total value of goods imported from the region. (DIT 2019)

While the UK is not a dominant market for exports from the CARIFORUM countries generally, for those countries whose exports are concentrated in products such as sugar, bananas, vegetables and rum, the UK remains an important market (Razzaque and Vickers 2015). Therefore, any distortions, including border frictions resulting from new procedures, could have a disproportionate impact on those products into the UK market. If these products are transhipped to other European countries, it could also affect trade with these other markets.

The CARIFORUM–UK Economic Partnership Agreement (CF–UK EPA) and trade facilitation

The CF–UK EPA replicates the 2008 CF–EU EPA on a 'UK only' basis and is a 'continuity' agreement in the sense that it seeks to ensure that the benefits agreed under the CF–EU EPA are maintained under this 'UK only' arrangement. The Department for International Trade (DIT) noted that the agreement was meant 'to secure continuity for trade and preservation of market access' (DIT 2020).

The agreement guarantees the same level of market access for CARIFORUM goods (duty-free and quota-free access) and replicates the commitments made on services under the EPA.

The free trade agreement consolidates and forms a framework for bilateral relations with the UK. The agreement addresses only trade with the UK and not with the EU. A significant difference, however, between the CF–UK EPA and the CF–EU EPA was the conditions existing in the multilateral system at the time of their negotiation. One of these differences was the adoption of the WTO Trade Facilitation Agreement (TFA), which was adopted by the WTO General Council in 2014. Article 29 of the CF–UK EPA recognises the important role of trade facilitation in the promotion of intra-CARIFORUM trade and CARIFORUM–UK trade. The chapter on trade facilitation further enshrines this by making provision at Article 34 for the promotion of regional integration and provides for its monitoring by the Special Committee on Customs Cooperation and Trade Facilitation, established under Article 36. It has been found that the inclusion of these provisions in regional trade agreements (RTAs) reduces costs. It has also been found that 'multilateral spillovers from trade facilitation measures in RTAs on trade costs are found to exceed any discriminatory effects within three years of an RTA's entry into force...' (Duval et al. 2016).

To help traders comply with the new procedures, the UK government has made £20 million available through the SME [small and medium-sized enterprise] Brexit Support Fund.[2] These grants, aimed at training and professional advice, are timely and may help to defray costs, as well as the potential negative impact on trade if traders can successfully navigate these rules.[3]

The new post-Brexit rules and customs regulations

Following the withdrawal of the UK from the EU common market, products from CARIFORUM exporters will now face a border with the EU (27) if the first point of entry is the UK. While the government rules allow for a single point of entry border post into the UK, including Northern Ireland, in practice there have been some reports of separate sets of border procedures for CARIFORUM goods entering through Northern Ireland after 1 January 2021, depending on the destination market and whether the goods are transhipped though the UK, as follows:

1. Great Britain (England, Scotland and Wales)
2. Northern Ireland /European Union

Notwithstanding that there was always a border for non-EU goods, the new customs changes will still affect all exports, as the new procedures will apply to all goods entering the UK – transhipment will only add another level of complexity. Traders or distributors for CARIFORUM goods in the UK will not only be importers but also exporters if the products are to be transhipped and will therefore face multiple layers of customs procedures. These procedures will be evidenced in the following:

- documents;
- processes;
- systems; and
- charges (port, VAT [value-added tax], customs duty, transport).

1 The export process from the CARIFORUM country of origin outside the UK or EU

HMRC, like other customs authorities around the world, requires safety and security data on any consignment to conduct a risk analysis. This information is required to be submitted a certain number of hours before the shipment departs, or penalties may be incurred. The master reference number (MRN) in UK customs is like the unique number assigned to your declaration and does not (as its name suggests) relate to, for example, movement of the consignment or transhipment.[4] The HMRC notes that the MRN is a customs identification number that is created each time a declaration is submitted for importing or exporting

goods. The number generated is specific, allowing your goods to be uniquely linked to the declarant. The classification of the goods is another important consideration. 'Classification' is the process of assigning the correct Harmonised System Code (HS Code), also called a 'tariff code' (which consists of ten digits). These codes are referred to by HMRC as 'commodity codes'. Exporters can use HMRC 'tariff lookup' tools to find the relevant code.[5]

2 The import process into the UK

The submission of a declaration[6] starts the formal process of entry of the goods into the UK, when submitted to the customs authority, usually through an electronic system.[7] This declaration must be accompanied by the necessary supporting documents. Declarations are usually handled by the Customs Handling Imports and Export Freight platform (CHIEF) system, which is being replaced by the Customs Declarations Service (CDS).[8] Some of the information will be the same. However, with the changes because of Brexit, it has been reported that both import and export declarations require more information on the parties and the valuation of the goods. The importer of CARIFORUM goods may need new software to access the CDS or they will need to use a customs agent. Goods first entering Great Britain, then being transferred to Northern Ireland, will face specific procedures. Goods leaving Great Britain for the EU will also face different procedures.

Key procedural changes

As a result of Brexit, there will be two frontiers into Europe rather than one when goods enter Great Britain and are then transhipped to any of the EU member state. This study looks at these changes in three key dimensions: systems, documents and costs, and procedures.

Systems

One of the most significant changes is to the IT systems used by HMRC. The changes at the UK border are complicated by the fact that a transition is taking place to a new customs system, the Customs Declaration System (CDS), which will replace the legacy system, CHIEF. The system 'records the movement of goods by land, air, and sea and allows importers, exporters and freight forwarders to complete customs formalities electronically and automatically checks for entry errors and is part of the HMRC overall risk assessment activities'.[9] The change will have implications for traders and may make it more likely that they will need to use a customs agent to interface with HMRC on their behalf for imports and with the EU customs authorities for exports.

Documents and costs

The main customs document used for imports into the UK is the C-88 form (Single Administrative Document [SAD]). This has more than 50 boxes to capture various data elements relating to the import and can be completed electronically. All goods entering or leaving the UK will need a full declaration. The SAD must be accompanied by the relevant supporting documents, certificates of origin, licences, invoices and transport documents, and any other clearance documents required. What is different now is the need to submit for two border processes or changes to the data elements required, as noted above. HMRC has estimated that the new measures will result in an additional 205 million declarations per year (imports and exports), while an additional 50,000 people will be required to process these declarations. The sheer number of documents will therefore mean delays at the UK borders.

Procedures

The key procedural changes have to do with the imposition of borders between Great Britain and Northern Ireland and the EU. The process starts with the need to get an updated economic operators registration and identification (EORI) number. This will be different for Great Britain (where the numbers start with 'GB') and for Northern Ireland and the EU (where they start with 'XI'). There is also the need, post-1 January 2021, to submit full declarations in accordance with the Border Operating Model for goods moving between Great Britain and Northern Ireland and Great Britain and the EU. There may also be a need to address VAT and excise issues. These issues seem to be complex and are also causing problems for some firms.

Based on the information available, this study estimates that the main changes and consequent impacts are as follows:

- the increased number of declarations to be made (paperwork);
- the need for more staff to process and submit declarations to HMRC;
- the possibility of having to use customs agents, if these were not used before; and

- the need for systems upgrades.

Economic and developmental impacts of post-Brexit rules and regulations

If CARIFORUM exports to the UK face difficulties that cause supply-chain adjustments, the impact could be significant – depending on the product and the importance of the UK market. No direct estimates could be obtained at the time of the study; however, based on available information, it was assumed border issues and delays would add to costs and hence the impact of the new measures. Ceteris paribus, there will be a greater impact on goods that are transhipped into the EU or the rest of Europe from the UK.

The European Commission notes that most goods enter the EU by sea. The impact will therefore depend on whether the particular consignment from a CARIFOURM state enters directly into the rest of Europe or is transhipped through Great Britain. Traders will take time to adjust to the new procedural requirements described previously and may face additional costs that could be passed on to consumers. A greater adjustment in this respect may fall on small traders, who are more likely to have handled the import process themselves. Given that most of this trade will be containerised, the Bilateral Liner Shipping Connectivity Index (BLSCI) can provide important insights, as connectivity has been shown to be an important determinant of transport costs. Reports indicate that transport costs because of COVID-19 have increased significantly. Manufactures in Jamaica, for example, have highlighted this as a significant factor impacting their supply-chain decisions.

Impact of COVID-19 on CARIFORUM trade competitiveness

While world trade declined in the first half of 2020, medical goods export increased over the same period. This increase could be attributed to those products deemed as being critical during the COVID-19 pandemic, with global trade in these products growing by 29 per cent according to the WTO (2020).

Similarly items such as alcohol (demand for which has increased during the pandemic for use in alcohol-based sanitisers), as well as organic chemicals – could be areas of export potential for CARIFORUM. For instance, in February 2020, it was reported that, 'Caribbean rum producers are joining forces with French group, Conseil Interprofessional du Rhum Traditional (interprofessional council for tradition rum; CIRT-DOM), to get the best deal for their exports into major markets, particularly the European Union' (WIRSPA 2021).

Impact of Brexit on CARIFORUM trade competitiveness

The increased costs resulting from the new procedures will increase the cost of Caribbean exports to traders in the UK and in the rest of Europe if those exports are destined for the UK market or being transhipped through the UK. It is assumed that border delays resulting from the new procedures will add to the indirect cost of imports. However, this may present opportunities for CARIFORUM exports, as there may be a disproportionate impact on EU exports.

In addition to the direct costs of trade, the Global Alliance for Trade Facilitation (GATF) has pointed out that indirect costs, such as demurrage, detention charges, higher and lengthier storage requirements, theft, spoilage and penalties, can significantly impact on total trade costs and competitiveness. To the extent that the border issues in the UK impact these costs, there will likely be some impact on competitiveness.

Most-impacted regions and sectors within the Caribbean

The CARIFORUM countries with the largest value of trade with the UK in 2017 were Jamaica, The Bahamas, Barbados, and Trinidad and Tobago. These countries are more likely to face significant impact. The increased costs will increase the price of products exported by CARIFORUM countries to UK markets and traders, and this could be passed on to consumers. This could disrupt supply chains in the short term, particularly for businesses that rely on CARIFORUM imports as part of their supply chain. Given the small share of UK trade under the existing EPA, in this case, we would expect these impacts to be relatively small, although the impacts could be noticeable for some specific companies (footnotes omitted) (DIT 2019) However, arguably, the impact on these suppliers will be less overall if their markets are diversified across Europe and transhipment costs can be mitigated.

Maritime connectivity and costs

The bilateral connectivity for 2020 was greatest between The Bahamas, Dominican Republic and Jamaica with the United Kingdom. This could support positive shifts towards these markets as traders adjust their supply chains.

Border measures and cost

If the UK's rank for trading across borders worsens because of Brexit measures, CARIFORUM countries would likely see the EU27 as alternative entry points to Europe. As per, anecdotal information and preliminary stakeholder feedback suggest that for Caribbean exports, the main entry point will likely be Antwerp (Belgium) and Rotterdam (the Netherlands). Shipping estimates of one shipping line indicated that the cost to ship direct to Rotterdam was less than to the London Gateway (estimate on 12 March 2021). The difference in cost as per this estimate was attributable to import for container inspection fees and port surcharge, as well as handling charges, which were less in Rotterdam.

Addressing emerging bottlenecks and challenges affecting Caribbean exports to the UK

Compliance with new procedural rules could result in the following bottlenecks:

- the inability of traders to deal with new documentary requirements;
- delays caused by the increase in the number of declarations and the availability of border personnel to handle that increase;
- problems in the transition to the new customs systems;
- complying with transit requirements and documentation;
- transitioning to any sanitary and phytosanitary (SPS) requirements – including obtaining the relevant certification of facilities – and maintaining different certification requirements into the UK versus the NI and EU markets; and
- complying with rules of origin requirements or forms for the different markets.

The following strategies could be employed to address arising bottlenecks:

- ensure that the correct EORI number has been obtained;
- ensure that if goods are being transhipped from the UK to Northern Ireland or the EU, the relevant EORI number is also obtained (beginning 'XI');
- ensure that the terms of delivery are settled;
- ensure that labelling requirements into both markets are complied with;
- ensure that custom agent applies for the simplified procedures (where applicable);
- companies with own distributors should have distributors for the UK and in the EU;
- ensure that transhipment protocols and documents are in place; and
- ensure that the correct origin and value are entered onto the required documents.

Conclusion

The new measures introduced by the UK on 1 January 2021 have resulted in many changes, particularly with respect to systems, documents and procedures. This will likely pose significant adjustment costs on all traders. The changes will also likely cause supply-chain adjustments. The extent of these changes will depend on such factors as logistics, supply- and demand-side considerations, as well as the continued impact of COVID-19, and the extent of protectionist and inward-looking policies in global trade.

Brexit is expected to impose indirect costs that could impact competitiveness. Preliminary feedback from stakeholders has suggested additional costs are already being incurred because of issues with making declarations correctly. The data indicate that the changes are significant. Caribbean exporters will need to be aware of these and how to deal with them to mitigate any potential impacts on their competitiveness.

Given that only a few months have passed since the introduction of the measures and the data are available with a significant lag, it is important to monitor the situation as it evolves.

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Endnotes

1. Communication from the United Kingdom to the Committee on Trade Facilitation, G/TFA/N/GBR/2.
2. Institute of Export & International Trade (undated), 'What next after applying for an SME Brexit Support Fund grant?', available at: https://www.export.org.uk/page/BrexitSupportSMEs
3. The deadline is 30 June 2021.
4. That is, it is not to be confused with a goods movement reference, issued when hauliers register on the Goods Vehicle Movement Service, to be able to move goods through a port in the UK that uses the service.
5. GOV.UK (undated), 'Trade Tariff: look up commodity codes, duty and VAT rates', available at: https://www.gov.uk/trade-tariff
6. See Schedule 1 – Customs Declaration, Section 1(1), Taxation (Cross-border Trade) Act 2018, available at: https://www.legislation.gov.uk/ukpga/2018/22/pdfs/ukpga_20180022_en.pdf
7. However, declarations can still be made in hard copy; the PDF version is available from HMRC and if an accessible version is required, this can be requested.
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