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POST-BREXIT UK TARIFF REGIME PUBLISHED

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As of 1 January 2021, the UK Global Tariff (UKGT) will apply at the UK border to goods imported from countries with which the UK does not have a preferential trade agreement. This includes goods from major economies such as China and the US. It will also apply to imports from certain countries with which the EU currently has preferential trade agreements, including Canada, Japan and Mexico, but which have not rolled over those agreements to the UK's benefit. If the UK is unable to agree a trade deal with the EU before the end of 2020, the tariffs will also apply to imports from the EU.

Businesses have seven months to prepare before the new tariff regime enters into force on 1 January 2021.

From the Common External Tariff to a UK Global Tariff

Tariffs are taxes on goods that are imported into a customs territory. As an EU Member State and member of its Customs Union, the UK has applied the EU's CET for almost 50 years.

The UK formally left the EU on 31 January 2020 but de facto remains within the EU Customs Union until 1 January 2021 – the end of the 'transition period' provided for by the UK/EU Withdrawal Agreement. From 1 January 2021, the UK will apply its own tariff policy to goods entering the UK's customs territory.

An exception under the Northern Ireland Protocol to the Withdrawal Agreement will apply to goods entering Northern Ireland. UK authorities will apply EU customs rules to certain goods entering Northern Ireland in an effort to avoid the need for new customs infrastructure on the border between Northern Ireland and the Republic of Ireland.

Countries and trading blocs with which 'roll over' agreements have been signed by the UK, imports from which the UKGT will not apply (updated May 2020)

- Andean countries
- CARIFORUM
- Central America
- Chile
- Eastern and Southern Africa (ESA)
- Faroe Islands
- Georgia
- Iceland and Norway
- Israel
- Jordan
- Kosovo
- Lebanon
- Liechtenstein
- Morocco
- Pacific states
- Palestinian Authority
- South Korea
- Southern African Customs Union and Mozambique (SACUM)
- Switzerland
- Tunisia

What will change?

Further detail of the UK's approach in devising the UKGT is set out in its response to the February consultation. The government has followed its objectives to:

- simplify tariffs and make tariff administration more straightforward
- remove tariffs on key inputs to production and goods where the UK has zero or limited domestic production

Tariff simplification

The UKGT will implement a range of measures to make tariff administration simpler for businesses and government, including removing comparatively low tariffs of 2% or less on nearly 500 tariff lines (so-called 'nuisance tariffs'). Affected products include fish-hooks and pistachios. In response to respondents' concerns regarding impacts on domestic producers and developing countries (whose preferences under special development-focused trade arrangements would have been eroded), this is a less sweeping change than was presented in the February consultation document, which would have removed all tariffs of 2.5% or less, eliminating around 900 tariffs.

Tariffs on around 40% of all product lines have also been rounded down to the nearest 'standardised band':

- Tariffs under 20% have been rounded down to the nearest multiple of 2%.
- Tariffs between 20% and 50% have been rounded down to the nearest multiple of 5%.
- Tariffs above 50% have been rounded down to the nearest multiple of 10%.

Some steps have also been taken to simplify complex agricultural tariff measures, but the government has rowed back on its proposal to eliminate agricultural tariffs based on weight (the intention had been to express such tariffs as a percentage of their value (ad valorem tariffs), but this proved too complex a change). Consequently, only a small number of non-ad valorem duties have, been simplified. Where a tariff is based on weight, the UK has converted the value from Euro to Sterling using the average rate from the past five years.

The UK will stop using the EU's complex Meursing code, which varies tariffs on processed food products on the basis of their ingredients or recipe, and the EU Entry Price System, which varies tariffs based upon global prices. Seasonal tariffs likewise have been simplified, but will remain in place.

Tariff liberalisation

The UKGT will remove tariffs on certain products identified as being 'key inputs to production', with the goal of reducing costs for UK manufacturers and thereby boosting productivity and competitiveness. The Department for International Trade (DIT) states that over £30 billion of imports of this type will now be tariff-free, such as baking powders, photographic film, and industrial salts.

To reduce consumer costs, tariffs will also be removed from products that have zero or limited UK domestic production, affecting a stated £10 billion of imports, such as household refrigerators.

The UK government has also taken on board calls during the February consultation for the liberalisation of tariffs on goods 'critical to the UK's low carbon transition and achieving Net Zero' emissions. Respondents had expressed concern that the proposed tariffs might incentivise businesses to choose more carbon-intensive goods. The UKGT includes targeted tariff reductions covering some 100 'green' products, such as wind turbine parts.

At a glance

- The new tariff regime is the default regime that will apply to goods imported into the UK from 1 January 2021 where the UK does not have a preferential trade agreement with the exporting country.
- It will apply to imports from a large number of countries, including China and the US.
- The UKGT will also apply to imports from the EU if a trade deal is not concluded and to imports from countries party to preferential trading arrangements with the EU where those arrangements are not rolled over to the UK by the end of the transition period.
- Following the introduction of the UKGT, the average tariff rate on goods imported on 'most favoured nation' (MFN) terms will fall from around 7.2% to 5.7%.
- With the UKGT, the government has simplified some aspects of tariff administration, while removing tariffs on key production inputs and goods that have limited or zero domestic UK production.
- The UK has chosen to retain tariffs in key areas such as agriculture to protect domestic industries and developing countries.

Box 1: The UKGT in figures

The UKGT will reduce tariffs relative to the CET, but does not go nearly as far as the UK government's proposed Temporary Tariff Regime, published in 2019, which would have applied in the event of a 'no deal' exit from the European Union, and which was published only weeks before it would have come into force.

	UK imports from MFN countries eligible for tariff-free access, %		Unweighted average MFN tariff
	By Value	By product/ tariff line	
Common External Tariff	52%	27%	7.2%
Proposed March 2019 UK 'No deal' tariff	87%	95%	0.7%
UK Global Tariff	70%	47%	5.7%

Source: UK Trade Policy Observatory, DIT, UK Government

What tariffs has the UK maintained?

The UK has chosen to retain tariffs in areas widely recognised as particularly sensitive. The EU CET can be characterised by generally low tariffs with 'tariff peaks' on sensitive industries (agriculture, textiles) and particularly successful exporting industries (cars, car parts, food and drink products). The UKGT adopts the same approach to 'sensitive' products. Key agricultural and manufacturing sectors will retain tariff protections, including vehicles, ceramics, and chemicals, and sheep meat, beef and poultry. Finished cars will continue to be subject to a 10% tariff.

This decision will serve not only to shield sensitive UK sectors, but also gives the UK government something to offer in trade negotiations with third countries. Tariffs on vehicles, for example, are likely to be a key bargaining chip in the recently commenced UK-Japan trade negotiation (under the EU–Japan Economic Partnership Agreement, tariffs on completed vehicles will progressively drop to zero over a seven year period). The EU has a particularly keen interest in its agricultural and automotive exports, and both sectors are subject to relatively high tariffs under the UKGT.

The UK government also has not reduced tariffs on certain products where tariff liberalisation could negatively impact developing economies. As an exception to the MFN principle, developed countries are permitted to offer non-reciprocal preferential treatment to developing countries – for example, under the Generalised Scheme of Preferences (GSP) or as the UK previously did through the EU's Everything But Arms (EBA) initiative. Reducing tariffs on goods such as bananas, pineapples and cane sugar would erode the marginal difference between preferential rates and the UKGT to the detriment of developing countries – so-called 'preference erosion'. Tariffs on such products have therefore been retained, notwithstanding that many are not produced in the UK.

Which imports will be impacted by the new UK Global Tariff?

Under the MFN provision of the WTO General Agreement on Tariffs and Trade (the **GATT**), the UK is obliged to apply the UKGT to all WTO members except where: (i) the UK has a preferential trade agreement covering substantially all trade, or (ii) another exception applies (such as the GSP for developing countries). Countries whose exports to the UK will be affected therefore include:

- **Countries with no current EU trade deal (e.g. China, US)**: The UKGT will apply to countries with which the UK has no preferential trade agreement in place at the end of the Brexit transition period. Major trading nations with which the EU does not yet have a comprehensive preferential trade agreement in place include China and the US – although the UK is in the early stages of negotiating with the latter.

- **Countries which do not agree a 'roll over' with the UK (e.g. Canada, Japan, Mexico):** During the post-Brexit 'transition period', the UK benefits from around 40 preferential trade agreements as a result of its membership of the EU. As at 28 May 2020, the UK had signed agreements with 20 countries and trading blocs which will 'roll over' existing EU preferential trade agreements on 1 January 2021. Engagement with another 21 countries and trading blocs is ongoing. Countries including Canada, Japan and Mexico have held out from agreeing such roll-over deals.
- **The EU, in the event of 'No Deal' at the end of the transition period:** Alongside various border checks, should the UK and EU be unable to conclude a trade agreement by the end of the transition period, each would be obliged under WTO rules to apply MFN tariffs to the other's imports. Analysis by the UK Trade Policy Observatory suggests that only around 44% of UK imports from the EU would be tariff free in this scenario (source).

Could these tariffs change again?

In 2019, as a "hard Brexit" loomed under the previous UK government led by Theresa May, the UK developed the "Temporary Tariff Regime" (the TTR) which would have applied in the event of a "no deal" exit from the European Union. The TTR was not intended to be permanent, and the UKGT replaces it.

However, several aspects of the apparently more permanent UKGT may prove unviable in the event of a "no deal" exit from the EU.

The UK relies heavily on cross-border EU-UK manufacturing and supply chains, for example in its strategically important automotive sector. As such, access to auto parts from the EU for the UK's own domestic industry will be critical. However, under the UKGT, the UK has maintained the EU's MFN rates on auto parts (generally 3-4%) with some small variations.

Equally, the UK depends on food imports from the EU. Tariffs on these products under the UKGT are high. Because of the way the UK and EU have agreed to split their presently-combined tariff quotas at the WTO, without a trade deal, post-Brexit British products will enjoy almost no tariff-free quota access to the EU and vice versa. In combination, with no UK-EU trade deal having been agreed, it is then likely that the price of food could rise in the UK under the UKGT.

In the event that a "no deal" UK-EU exit looks likely, the UK may therefore need to revise its MFN tariffs in the UKGT on goods such as auto parts and agricultural products for which it is reliant on EU imports. Other options also exist – for instance, it could seek to quickly agree deals with alternative exporters, or it could implement tariff suspensions in the UKGT on these products (known as autonomous tariff suspensions). The prominence of autonomous tariff suspensions in the UK's UKGT policy papers and tariff lists indicates that the government is aware of this option.

Further information

The UK Government has published a UK Global Tariff tool, which can be used to check the difference between the CET and the UKGT.

Businesses can also download the full UKGT.

As political forces reshape the complex rules of international trade, our Trade and Investment Policy Unit offers unparalleled insights into how policy developments affect cross-border business. The Unit brings together Clifford Chance experts from across our global network. If you have any queries regarding the UK Global Tariff or how Clifford Chance can help you respond, please do not hesitate to get in touch.

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