

CHINA TAX ALERT

ISSUE 22 | July 2016

Evaluating the impact of Brexit on your supply chain

According to the referendum result on 24 June 2016, UK will exit EU. Although it may take around two year for UK and EU to complete the exit negotiation, it is necessary to evaluate the potential impact now, for those enterprises whose supply chain arrangements are connected with UK and EU.

According to the referendum result on 24 June 2016, UK will exit EU. Although it may take around two year for UK and EU to complete the exit negotiation, it is necessary to evaluate the potential impact now, for those enterprises whose supply chain arrangements are connected with UK and EU.

Potential scenarios on UK's customs and trade arrangement after Brexit

Similar with other taxation laws, the EU legislation and the European Court of Justice determination are the main sources of UK legislation in customs and trade now. In particular, Customs, Excise and Value Added Tax are governed directly by EU legislation. Membership of the EU gives UK companies access to the internal market (made up of 28 member states) and to a wide network of preferential trade agreements with third countries. So what will happen in the future? There are mainly three scenarios under discussion regarding post-Brexit arrangement:

- Membership of European Economic Area ("EEA"): The EEA is consist of all EU member countries and Iceland, Liechtenstein, Norway (also members of EFTA). It is a well intergraded internal market that promotes free movement of goods, services, people & capital. If UK remains as a member of EEA, it could still enter EU's internal market freely. However, it can no longer utilize the network of free trade agreements (FTA) that EU established with other non-EU countries (except from Iceland, Liechtenstein, Norway). Therefore UK has to re-negotiate free trade agreements with other non-EU economies.
- Membership of European Free Trade Association ("EFTA"): The EFTA is consist of Iceland, Liechtenstein, Norway and Switzerland. Under this scenario, UK could keep FTA with these four countries, however, it has to re-negotiate free trade agreements with EU and other non-EU countries.
- Totally Independent as a WTO member: under this scenario, UK will be excluded from all FTA and beneficial arrangements enjoyed by EU. It has to re-negotiate bilateral free trade agreements with other EU and non-EU countries.

The specific impact of Brexit in Customs and international trade

- It will not be able to gain free access into EU internal market if UK does not reserve EEA membership. It means customs duty should apply to EU imports and exports for UK. The additional uncertainty and time costs due to import and export declaration procedures as well as compliance requirement is also much noticeable. As a result, the affected enterprises have to modify the transaction and declaration setting in their internal ERP system.

- UK is no longer entitled to current network of EU's Free Trade Agreements (FTA). The affected enterprises will be confronted with higher costs of customs duties when trading with those countries who have already signed FTAs with EU. Those UK companies whose supply chain are depend on EU FTA network should review the impact in the future. It also leads to modification of their internal ERP system setting. However, according to some trade experts' opinion, although UK has to re-negotiate FTAs with its major trade partners, it can also take the chance to negotiate some more favourable FTA arrangements in the future.
- The Union Customs Code can no longer apply to UK. Companies with trading between UK and EU will be obliged to take new compliance and declaration procedures. Besides, they can no longer enjoy the current EU customs special arrangements (such as inward processing relief etc.), as well as those benefits shared between EU and other countries (e.g. The China-EU AEO mutual recognition).
- EU anti-dumping laws can no longer apply to UK. EU has been very active and experienced in anti-dumping legislations and investigations. UK will face more severe market competition after losing the support of EU in this regard. UK will have to establish its own anti-dumping legislations.

KPMG's recommendations

For those UK and EU enterprises located in China, and those Chinese enterprises who invests in UK and EU, the customs procedures and duty cost might be the most direct impact they will face after Brexit. It is necessary for them to make well use of the two-year negotiation period to review the supply chain arrangements and trade models, and to adjust their ERP system modules related to customs duty calculation, import and export declaration and country of origin determination.

Besides, considering UK is traditionally much supporting the free trade principle, we may expect that UK establish its own bilateral FTA with China in the future. This will bring new opportunities in supply chain planning. We will keep focusing in this field, and seeking to update latest news and information to relevant enterprises.

Contact Information for KPMG China Trade & Customs Team:

Eric Zhou, Head of Trade & Customs, KPMG China,
010-85087610, ec.zhou@kpmg.com

Northern China :

Helen Han, Director, Trade & Customs Team, Beijing,
010-85087627, h.han@kpmg.com

Central China :

Cheng Dong, Partner, Trade & Customs Team, Shanghai,
021-22123410, cheng.dong@kpmg.com
Rachel Tao, Director, Trade & Customs Team, Shanghai,
021-22123473, rachel.tao@kpmg.com

Southern China :

Philip Xia, Senior Manager, Trade & Customs Team, Guangzhou,
020-38138674, philip.xia@kpmg.com
Melsson Yang, Senior Manager, Trade & Customs Team, Guangzhou,
020-38138612, melsson.yang@kpmg.com

Hong Kong:

Daniel Hui, Partner, Trade & Customs Team, Hong Kong,
+852-26857815, daniel.hui@kpmg.com

Contact Information for KPMG UK Tax Team:

Tim Sarson , Tax Partner, KPMG UK,
+44 20 76944831, tim.sarson@KPMG.co.uk

For any enquiries, please send to our public mailbox: taxenquiry@kpmg.com or contact our partners/directors in each China/HK offices.

Khoonming Ho Head of Tax, KPMG China Tel. +86 (10) 8508 7082 khoonming.ho@kpmg.com	Northern China David Ling Head of Tax, Northern Region Tel. +86 (10) 8508 7083 david.ling@kpmg.com	Michael Wong Tel. +86 (10) 8508 7085 michael.wong@kpmg.com	Henry Ngai Tel. +86 (21) 2212 3411 henry.ngai@kpmg.com	Joe Fu Tel. +86 (755) 2547 1138 joe.fu@kpmg.com	Sandy Fung Tel. +852 2143 8821 sandy.fung@kpmg.com
Beijing/Shenyang David Ling Tel. +86 (10) 8508 7083 david.ling@kpmg.com	Andy Chen Tel. +86 (10) 8508 7025 andy.m.chen@kpmg.com	Christopher Xing Tel. +86 (10) 8508 7072 christopher.xing@kpmg.com	Yasuhiiko Otani Tel. +86 (21) 2212 3360 yasuhiiko.otani@kpmg.com	Ricky Gu Tel. +86 (20) 3813 8620 ricky.gu@kpmg.com	Stanley Ho Tel. +852 2826 7296 stanley.ho@kpmg.com
Tianjin Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	Yali Chen Tel. +86 (10) 8508 7571 yali.chen@kpmg.com	Irene Yan Tel. +86 (10) 8508 7508 irene.yan@kpmg.com	Amy Rao Tel. +86 (21) 2212 3208 amy.rao@kpmg.com	Fiona He Tel. +86 (20) 3813 8623 fiona.he@kpmg.com	Daniel Hui Tel. +852 2685 7815 daniel.hui@kpmg.com
Qingdao Vincent Pang Tel. +86 (532) 8907 1728 vincent.pang@kpmg.com	Milano Fang Tel. +86 (532) 8907 1724 milano.fang@kpmg.com	Jessie Zhang Tel. +86 (10) 8508 7625 jessie.j.zhang@kpmg.com	Wayne Tan Tel. +86 (28) 8673 3915 wayne.tan@kpmg.com	Cloris Li Tel. +86 (20) 3813 8829 cloris.li@kpmg.com	John Kondos Tel. +852 2685 7457 john.kondos@kpmg.com
Shanghai/Nanjing Lewis Lu Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com	Tony Feng Tel. +86 (10) 8508 7531 tony.feng@kpmg.com	Sheila Zhang Tel. +86 (10) 8508 7507 sheila.zhang@kpmg.com	Rachel Tao Tel. +86 (21) 2212 3473 rachel.tao@kpmg.com	Jean Li Tel. +86 (755) 2547 1128 jean.j.li@kpmg.com	Kate Lai Tel. +852 2978 8942 kate.lai@kpmg.com
Chengdu Anthony Chau Tel. +86 (28) 8673 3916 anthony.chau@kpmg.com	John Gu Tel. +86 (10) 8508 7095 john.gu@kpmg.com	Tiansheng Zhang Tel. +86 (10) 8508 7526 tiansheng.zhang@kpmg.com	Janet Wang Tel. +86 (21) 2212 3302 janet.z.wang@kpmg.com	Kelly Liao Tel. +86 (20) 3813 8668 kelly.liao@kpmg.com	Jocelyn Lam Tel. +852 2685 7605 jocelyn.lam@kpmg.com
Hangzhou John Wang Tel. +86 (571) 2803 8088 john.wang@kpmg.com	Helen Han Tel. +86 (10) 8508 7627 h.han@kpmg.com	Tracy Zhang Tel. +86 (10) 8508 7509 tracy.h.zhang@kpmg.com	John Wang Tel. +86 (21) 2212 3438 john.wang@kpmg.com	Grace Luo Tel. +86 (20) 3813 8609 grace.luo@kpmg.com	Alice Leung Tel. +852 2143 8711 alice.leung@kpmg.com
Guangzhou Lilly Li Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Naoko Hirasawa Tel. +86 (10) 8508 7054 naoko.hirasawa@kpmg.com	Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	Mimi Wang Tel. +86 (21) 2212 3250 mimi.wang@kpmg.com	Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	Steve Man Tel. +852 2978 8976 steve.man@kpmg.com
Fuzhou/Xiamen Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	Josephine Jiang Tel. +86 (10) 8508 7511 josephine.jiang@kpmg.com	Central China Lewis Lu Head of Tax, Eastern & Western Region Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com	Jennifer Weng Tel. +86 (21) 2212 3431 jennifer.weng@kpmg.com	Eileen Sun Tel. +86 (755) 2547 1188 eileen.sun@kpmg.com	Ivor Morris Tel. +852 2847 5092 ivor.morris@kpmg.com
Shenzhen Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com	Henry Kim Tel. +86 (10) 8508 5000 henry.kim@kpmg.com	Li Li Tel. +86 (10) 8508 7537 li.li@kpmg.com	Anthony Chau Tel. +86 (21) 2212 3206 anthony.chau@kpmg.com	Grace Xie Tel. +86 (21) 2212 3422 grace.xie@kpmg.com	Bin Yang Tel. +86 (20) 3813 8605 bin.yang@kpmg.com
Hong Kong Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com	Thomas Li Tel. +86 (10) 8508 7574 thomas.li@kpmg.com	Cheng Dong Tel. +86 (21) 2212 3410 cheng.dong@kpmg.com	Jie Xu Tel. +86 (21) 2212 3678 jie.xu@kpmg.com	Michelle Sun Tel. +86 (20) 3813 8615 michelle.sun@kpmg.com	Curtis Ng Tel. +852 2143 8709 curtis.ng@kpmg.com
	Simon Liu Tel. +86 (10) 8508 7565 simon.liu@kpmg.com	Marianne Dong Tel. +86 (21) 2212 3436 marianne.dong@kpmg.com	Robert Xu Tel. +86 (21) 2212 3124 robert.xu@kpmg.com	Bin Yang Tel. +86 (20) 3813 8605 bin.yang@kpmg.com	Malcolm Prebble Tel. +852 2684 7472 malcolm.j.prebble@kpmg.com
	Alan O'Connor Tel. +86 (10) 8508 7521 alan.oconnor@kpmg.com	Alan Garcia Tel. +86 (21) 2212 3509 alan.garcia@kpmg.com	William Zhang Tel. +86 (21) 2212 3415 william.zhang@kpmg.com	Ayesha M. Lau Head of Tax, Hong Kong Tel. +852 2826 7165 ayesha.lau@kpmg.com	Nicholas Rykers Tel. +852 2143 8595 nicholas.rykers@kpmg.com
	Vincent Pang Tel. +86 (10) 8508 7516 +86 (532) 8907 1728 vincent.pang@kpmg.com	Chris Ge Tel. +86 (21) 2212 3083 chris.ge@kpmg.com	Hanson Zhou Tel. +86 (21) 2212 3318 hanson.zhou@kpmg.com	Chris Abbiss Tel. +852 2826 7226 chris.abbiss@kpmg.com	David Siew Tel. +852 2143 8785 david.siew@kpmg.com
	Shirley Shen Tel. +86 (10) 8508 7586 yinghua.shen@kpmg.com	Chris Ho Tel. +86 (21) 2212 3406 chris.ho@kpmg.com	Michelle Zhou Tel. +86 (21) 2212 3458 michelle.b.zhou@kpmg.com	Darren Bowdern Tel. +852 2826 7166 darren.bowdern@kpmg.com	John Timpany Tel. +852 2143 8790 john.timpany@kpmg.com
	State Shi Tel. +86 (10) 8508 7090 state.shi@kpmg.com	Dylan Jeng Tel. +86 (21) 2212 3080 dylan.jeng@kpmg.com	Lilly Li Head of Tax, Southern Region Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Yvette Chan Tel. +852 2847 5108 yvette.chan@kpmg.com	Wade Wagatsuma Tel. +852 2685 7806 wade.wagatsuma@kpmg.com
	Joseph Tam Tel. +86 (10) 8508 7605 laiyu.tam@kpmg.com	Jason Jiang Tel. +86 (21) 2212 3527 jason.jt.jiang@kpmg.com	Flame Jin Tel. +86 (21) 2212 3420 flame.jin@kpmg.com	Rebecca Chin Tel. +852 2978 8987 rebecca.chin@kpmg.com	Lachlan Wolfers Tel. +852 2685 7791 lachlan.wolfers@kpmg.com
		Michael Li Tel. +86 (21) 2212 3463 michael.y.li@kpmg.com	Penny Chen Tel. +1 (408) 367 6086 penny.chen@kpmg.com	Matthew Fenwick Tel. +852 2143 8761 matthew.fenwick@kpmg.com	Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com
		Christopher Mak Tel. +86 (21) 2212 3409 christopher.mak@kpmg.com	Sunny Leung Tel. +86 (21) 2212 3488 sunny.leung@kpmg.com	Barbara Forrest Tel. +852 2978 8941 barbara.forrest@kpmg.com	Adam Zhong Tel. +852 2685 7559 adam.zhong@kpmg.com
		Sam Fan Tel. +86 (755) 2547 1071 sam.kh.fan@kpmg.com			

kpmg.com/cn

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. © 2016 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.