



CHINA TAX ALERT

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Evaluating the impact of Brexit on your supply chain

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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.

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