CBI RESPONSE TO THE DEPARTMENT FOR INTERNATIONAL TRADE'S CONSULTATION ON THE UK GLOBAL TARIFF:

Business welcomes the opportunity to contribute to the government's consultation on the future of the UK Global Tariff.

The ability for the UK to set its own tariff schedules is a critical part of the country's new independent trade policy. Businesses want to support the government in making the best of this freedom and the CBI has consulted widely with members to form recommendations about how to do that, engaging with five separate working groups and numerous individual firms to help prepare this response.

The setting of tariffs has a strong link to the government's wider agenda to promote greater regional equality by levelling up. If based on a clear strategy for the economy, established evidence and extensive stakeholder engagement, the UK Global Tariff will have an important part to play in delivering prosperity across industries and regions.

The CBI is the UK's leading business organisation, speaking on behalf of 190,000 businesses that together employ around a third of the UK's private sector workforce. Its mission is to help businesses create a more prosperous society. The CBI will continue to support the government in engaging the business community as the UK's tariff policy evolves2 over time.

As an umbrella organisation representing a wide variety of sectors and industries, it is not the role of the CBI to take a view on specific tariff lines and many of our members will be submitting their own specific recommendations.

However, there are some clear principles that CBI members would like the government to consider in developing a new UK Global Tariff:

1. **Introduce greater transparency to the government's plans and priorities for the economy, and the links to a new tariff and trade policy**
2. **Take advantage of the opportunity to link tariffs with the UK's wider levelling up agenda and other domestic priorities**
3. **Ensure that the publication of the UK Global Tariff supports ambitious agreements with third country negotiating partners**
4. **Prioritise select changes to those areas for which there is a clear and evidenced benefit**
5. **Continue to simplify customs administration as well as examining customs duties themselves**
6. **Ensure proper communication with business and the wider stakeholder community in delivering a new tariff schedule**

1. Introduce greater transparency to the government's plans and priorities for the economy, and the links to a new tariff and trade policy

Recommendations to government

- **Publish an Impact Assessment alongside the government response to this consultation and the new UK Global Tariff**

- **Establish an independent Office for Trade Impact to help assess the impact of UK tariffs and the opportunities available from wider trade policy**
- **Publish details of support available to companies to enable them to adjust to the UK's new trade policy**

The opportunity to vary tariffs is a new and exciting freedom for the government. It represents a possibility to make improvements that can benefit consumers, companies and the regions and nations of the UK.

But changes to the UK's tariff regime are also likely to create winners and losers across different individuals, industries and parts of the country. Even among those companies who may benefit from the UK Global Tariff, some firms are nervous about the potential implications for domestic suppliers and customers, should the government choose to liberalise.

Introducing greater transparency to the government's plans and priorities for the economy, including on tariffs – and trade policy more widely – can help these businesses to better understand the direction of travel and the benefits of opportunities coming down the track. Ultimately, this would enable firms to have an increased ability to plan, invest, innovate and grow. Businesses therefore recommend the following to government.

Publish an Impact Assessment alongside the government response to this consultation and the new UK Global Tariff

Firstly, the CBI recommends that the Department for International Trade publishes a full Impact Assessment (IA) alongside the new UK Global Tariff and consultation response, indicating the likely benefits – and potential challenges – stemming from planned changes. Businesses appreciate that tax policy is usually exempt from full IA, given that changes to taxation take place relatively frequently. However, the specific local and sectoral effects of tariffs are different, and businesses need clarity over the implications of a new tariff policy to help them plan.

Establish an independent Office for Trade Impact to help assess the impact of UK tariffs and the opportunities available from wider trade policy

Secondly, in the longer term, the CBI recommends that the government create an Independent Office for Trade Impact to help support the country's new trade and tariff strategy. This would be an independent agency of government and could be a vital tool to help ensure that there is clarity over the inherent trade-offs in tariff policy and trade negotiations.

As is the case with equivalent bodies in Australia and the United States, such a body could provide impartial expert evidence and cutting-edge analysis on trade, helping to share information and build consensus for the economic basis and implications of different policies. While such an agency would not set the UK's tariffs themselves, it could have a role in providing an independent evidence base to support the government in setting them.

Publish details of support available to companies to enable them to adjust to the UK's new trade policy

Thirdly, should government deliver on the liberalisation agenda, specific businesses, sub-sectors and regions of the country are likely to face significant disruption, requiring help to re-adjust. Government should be transparent about this, publishing details of planned adjustment and assistance for those sectors likely to be worst impacted. Information is needed on plans to help support the human costs of tariff liberalisation, with positions on retraining, redeployment, early retirement and support for entrepreneurial activity. For instance, the trade liberalisation agenda in Australia was part of a systematic process that reduced tariffs over time, but also provided industry assistance to business to adjust, reposition and/or repurpose.

2. Take advantage of the opportunity to link tariffs with the UK's wider levelling up agenda and other domestic priorities

Recommendations to government

- **Work with the CBI, business and other stakeholders to ensure that there is alignment on trade, Industrial Strategy and regional policy**
- **Consider offering businesses duty relief for imports of R&D inputs**
- **Support the UK's wider goals to reach net-zero**

The government's vision of a Global Britain, levelling up all UK regions, and leading the world in innovation and low-carbon technologies is enthusiastically supported by business and by the CBI. We believe in bold action on skills, net-zero and innovation to help spur growth and investment across the UK's regions. A new tariff and independent trade policy should be part of these wider discussions, forming one piece of a planned strategy for the UK's economy.

Work with business and other stakeholders to ensure that there is alignment on trade, Industrial Strategy and regional policy

As our national trade strategy develops further, business will be looking for clear plans for how the government will coordinate its work across Whitehall to ensure that trade policy and domestic planning of the economy are working in tandem. Tariffs should take into account regional priorities as set out in emerging local industrial strategies that are jointly agreed between local leaders and central government. This joined-up approach would enable all regions to reach their full economic potential, adding momentum to the levelling up agenda.

This requires collaborative working at all levels between DIT and BEIS, starting at the top with a DIT/BEIS taskforce led by the Industrial Strategy Director and the Director General for Exports. However, these challenges are not solely for government, and business looks forward to further discussions on how to create a sustained national dialogue on the importance of free trade and how to make it deliver for all parts of the UK. One potential means to help make progress in this area may be for officials leading the Industrial Strategy – and plans on the levelling up agenda – to consult with DIT's Expert Trade Advisory Groups.

Consider offering businesses duty relief for imports of R&D inputs

The UK currently spends 1.7% of GDP on Research and Development (R&D) – far below the 2.4% OECD average – and UK investment is particularly limited outside the South East. This tail of underperforming regions risks holding back progress in improving the UK's national R&D performance, and with that, progress on regional competitiveness and growth.

One immediate area where there may be scope to link the UK's domestic priorities to the new UK Global Tariff is around the government's R&D agenda. This consultation provides an opportunity to consider if current tax incentives for R&D could be supplemented with lowering the input cost of R&D spend for businesses, via reliefs from tariffs. This could help boost R&D investment for those businesses and organisations that bring inputs into the UK for R&D purposes. It would mitigate against the sometime substantive costs of R&D, with one company incurring annual customs duty costs of £250,000 on R&D inputs imported into the UK.

Support the UK's wider goals to reach net-zero

Global leadership on climate change can drive UK competitiveness and secure long-term prosperity. UK business stands squarely behind the government's commitment to achieve net-zero emissions by 2050, as formalised through changes to the Climate Change Act in 2019. This is the right response to the global climate crisis, and firms are ready to play their part in combatting it.

One means to help achieve the UK's climate targets in a trade context is to consider removing existing or planned tariffs on 'environmental goods' (both input and end use). This could include imported goods and materials used for renewable and low-carbon energy generation (such as nuclear power), water purification, waste recycling and environmental monitoring.

However, it will be important to consider the impact this may have on the UK's industrial and manufacturing sectors and their ability to compete internationally. The CBI acknowledges the merits of home-grown manufacturing to reduce emissions, but also believes trade is a key element of the low-carbon transition, so any future policy decision in this space must balance the challenges on both fronts.

The CBI therefore recommend the government consider setting out a long-term goal to reduce tariffs on environmental goods, consulting with UK industry to clearly identify what commodity categories this could cover. This should also examine how the competitive nature of UK manufacturers will be protected in this and future decision making. It should also be based on further consultation with stakeholders to assess what constitutes an environmental good, giving businesses the time to put forward evidence to support this.

In the year in which the UK is hosting COP 26, the UK must solidify its global leadership in this area and help stimulate further discussion on the Environmental Goods Agreement at the WTO. This is a chance to provide a clearer path to reaching net-zero, as well as demonstrating the UK's role as a global climate leader, while helping to strengthen the credibility of the rules-based trading system.

3. Ensure that the UK Global Tariff is in sync with wider trade priorities

Recommendations to government

- **Prioritise ambitious agreements with third country negotiating partners**
- **Adjust tariffs depending on the outcome of UK-EU negotiations**

Prioritise ambitious agreements with third country negotiating partners

The UK's applied import tariffs have a strong link to the government's leverage and negotiating capacity when it comes to new Free Trade Agreements (FTAs) with the EU, the United States of America, and other trading partners. Past experience in negotiating the rollover of the EU's FTAs to apply to the UK in the event of a no deal Brexit has demonstrated the importance of tariffs as a tool to secure market access. It is therefore essential that changes to the UK's schedules do not undermine these efforts. This was perhaps the strongest message from CBI members in response to the government's plans for a new UK Global Tariff.

Should major reductions to the UK's applied tariffs be introduced, this is likely to create a deterrent to reaching an ambitious agreement with the EU, leading to serious consequences for British business.

Adjust tariffs depending on the outcome of UK-EU negotiations

Given that both the British government and the European Union have stated their intentions to secure a zero tariff, zero quota free trade deal, business assumes that the UK Global Tariff will not apply to trade in UK-EU goods. But many firms would offer different responses to this consultation dependent on a UK-EU agreement being in place or not. UK import tariffs must therefore adjust based on the trajectory of negotiations with the EU and the likelihood of a no deal at the end of 2020. In a situation where a deal is not agreed, the UK will need to adapt the UK's applied tariffs, giving firms plenty of time to prepare for new schedules.

4. Prioritise select changes to those areas for which there is a clear and evidenced benefit

Recommendations to government

- **Take advantage of the opportunity to make select improvements to the UK's applied tariffs in specific areas where there is a clear and evidenced benefit, rather than wholesale change**

The CBI represents a range of companies, sectors and industries. In seeking to respond to this consultation the organisation has engaged with five formal stakeholder networks, which cut across groups representing manufacturing, international innovation, international trade and energy and climate change. We have engaged members across the regions and nations of the UK, as well as many of our trade association members. The diversity of firms represented on these committees has enabled the CBI to hear many different views and opinions.

Overall, businesses understand that the government has a short time frame in which to make amends to the UK's applied tariffs. But the complexity of the issue and the limited time frame for businesses to share information creates the potential for unintended consequences in some areas. Firms would therefore like to see the government take advantage of the opportunity to make select improvements to the UK Global Tariff in specific areas where there is a clear and evidenced benefit.

The area of tariffs is complex, with varied views between sectors and indeed between different companies in the same sector with different operating models. Therefore, the CBI has recommended cross-economy analysis in our response. However, to illustrate the differing views among members we've incorporated some of the key points recurring across feedback:

<u>Simplifying and tailoring the UK tariff</u>

- There has been a mixed response across different sectors to the various suggestions put forward in the consultation to simplify and tailor the UK tariff.
- Some firms have analysed how these potential changes would impact individual commodity codes and are supportive of the proposal to abolish nuisance tariffs of 2.5% or less, anticipating - in some cases - significant reductions in customs duty costs.
    - Companies in the aerospace sector are particularly pleased to see the government consulting on simplifications and nuisance tariffs. The WTO's Plurilateral Agreement on Trade in Civil Aircraft provides for the elimination of duty on civil aircraft. However, due to the complex approach that EU legislation takes to achieve this objective, a high proportion of firms need to reclaim duty anyway. Companies of all sizes can struggle with the complex processes involved in reclaiming this duty, and SMEs often struggle to recoup the costs.
    - Moreover, a very high proportion of aerospace products attract duty rates of approximately 2.7%. These materials are commonly used throughout supply chains and within SMEs, who find it difficult to access the duty relief available via the WTO Plurilateral Agreement. Aerospace businesses would therefore welcome inclusion of this category in simplifications regarding banding.
- Elsewhere, agricultural firms are concerned over the simplifications suggested to move towards agricultural tariffs applied as single percentages. In this case members envisage potential unintended consequences for the government's stated plans to maintain high animal welfare and environmental standards and on the relative competitiveness of UK companies.
    - For example, looking at farming, in the UK around 16% of egg producers' cost of production is directly related to EU legislation which sets the baseline for standards, such as around stocking densities of laying hens. This makes the average cost of EU production higher than in many other countries. Under current WTO rules the EU is unable to prohibit imports of the basis of welfare alone. As such the EU Common External Tariff sets a duty of 30.40

EUR / 100 kg for the import of fresh shell eggs. This high external tariff means it does not make economic sense to import eggs from outside of the Union or outside of EU FTA's. The high external tariff effectively protects Union producers from being undercut by imports which do not meet strict welfare standards.

- Some pharmaceutical and social care members encourage the UK government to commit to the principles and spirit of the WTO Pharmaceutical Tariff Elimination Agreement in updating the UK schedules. The WTO-managed Agreement has not been updated since 2010, and as such, active ingredients (APIs) and intermediates, used in the manufacturing of medicines, do not automatically qualify for tariff-free treatment, and pharmaceutical companies need to leverage duty facilitation schemes or other tariff mitigation measures to reduce additional duty costs. Some members have therefore been keen to see the UK government ensure components of medicines manufacturing are subject to full tariff liberalisation and that products used in research and clinical trials (including placebos) are not subject to tariffs in any future updates to the UK tariff schedules or in future trade agreements.
- Most firms consulted are unclear on the benefits of standardised banding, as this makes minimal difference to the extent of the administrative burden on them. The complexity of managing a 6.5% tariff rate as opposed to a 5% one is not generally perceived to be different. As detailed below, firms believe that there maybe more that can be done to ease the processes associated with customs, rather than the cost of the custom duty itself.

Removing tariffs on key inputs to production

- A large number of companies are concerned by the lack of a definition around inputs to production and have requested further information.
- Members have highlighted that the existing lists of inputs suggested as a starting point by government will not take account of inputs that the UK currently sources from the EU. This will require significant analysis in the eventuality that the UK does not reach agreement with the EU.
- In some manufacturing sectors, energy and infrastructure, as well as wines and spirits, there is support for the government's consideration to remove tariffs on production inputs and intermediate goods. WCO commodity codes of interest include inorganic chemicals, organic chemicals, pumps, motors and plastics, as well as inputs to alcoholic drinks production, such as bulk liquid imports, glass bottles and closures.
- In many other sectors, as above, companies have concerns over the impacts that this will have on them. Some of those sectors which may be considered limited production still represent thousands of jobs including in the supply chain. Meanwhile, emerging areas of UK manufacturing will face harsher competition just at the stage at which they are being established.

Removing tariffs where the UK has zero or limited production

- As above there are firms from within the CBI's membership which are pleased to see the government's proposals being put forward and believe that this may be appropriate in specific circumstances. In the area of wine, for instance, as over 99% of wine is imported, tariffs are unnecessary to protect a domestic industry.
- With careful analysis and clear evidence, the list of tariff suspensions could be expanded to fit the requirements of the UK's manufacturing base. However, many companies are concerned to what extent government can source appropriate data and information to quantify what is produced and processed domestically. The likely impacts of the proposed changes on UK industry and its overseas investments present risks given the limited time available for businesses to feed in.
- Unilateral tariff liberalisation may threaten to undermine developing country industries, where many local producers are not ready to compete on the UK market with international imports. Around one third (£10.6bn) of the imports entering the UK from developing countries do so on a reduced or zero tariff basis via the EU's non-reciprocal generalised scheme of preferences (GSP), GSP+ and 'Everything but Arms' (EBA) initiatives. It is important that a new tariff policy supports – rather than undermines - trade with developing countries, in part as this helps to sustain the UK's soft power overseas.

5. Continue to simplify customs administration as well as examining customs duties themselves

Recommendations to government

- **Continue to support businesses to trade through the simplification of customs administration and documentation**
- **Develop bilateral co-operation and communications between customs authorities**
- **Rapid processing and development of trusted trader programmes**
- **Minimise customs burdens for goods moving from Great Britain to Northern Ireland**

As demonstrated above there are opportunities for the government to reduce duty costs for some firms. But the administrative burden of dealing with tariffs can be as challenging as paying duties for some companies, and the principles being put forward in the government's consultation do not reduce compliance cost or effort at the point of import.

Regardless of who businesses trade with, a top priority in this area is to see government take this opportunity to deliver new customs facilitation arrangements, eliminating as many burdens and as much red tape as possible. The CBI has developed some core principles with business.

Continue to support businesses to trade through the simplification of customs administration and documentation

Utilising global best practice to keep trade simple is important to support existing levels of trade and encourage more UK businesses to get exporting.

The new UK import scheme should simplify forms and documentation where it can while still meeting international requirements. Where products for specific use are exempt from duties, Governments need to ensure that the administrative process required to prove exemption does not cost more than the original tariff being waived.

Develop bilateral co-operation and communications between customs authorities

The UK has 36 agencies overseeing elements of the policy and operations for customs, ranging from HMRC and other central government departments, to agencies ensuring that there is regulatory compliance at the border, to specialists checking plant products, to local authorities working at firm-level. The government must ensure that these organisations speak with one voice to business and have a clear set of priorities to help support the UK's ambitions to increase global trade.

In parallel with this domestic coordination the UK can work with partner authorities to minimise red tape both within and outside of trade deals. These include:

- Enforcement of intellectual property rights by the customs authorities
- Facilitation of transit movements and transhipment
- Interagency coordination at borders
- Relations with the business community
- Supply chain security and risk management
- Exchanges on the use of information technology, data and documentation requirements
- Checks and controls at the border

Rapid processing and development of trusted trader programmes

Trusted Trader programmes, such as Authorised Economic Operators (AEO), are statuses granted to businesses that have demonstrated that their role in the international supply chain is secure and that their customs controls and procedures meet UK and EU standards in order to qualify. Government must ensure that these programmes are linked to a wider variety of benefits including self-assessment, simplified electronic documentation; pre-arrival clearance for export and pre-arrival clearance for import.

According to HMRC estimates, UK companies with AEO status currently account for around 60 per cent of the UK's imports and 74 per cent of the UK's exports. The UK should therefore explore how to increase the numbers of companies registered as AEO or an equivalent Trusted Trader programme by making these accessible to a wider number of companies.

The UK can also follow international best practice and ensure that it continues to develop Mutual Recognition of AEO programmes with third countries. At present, for example, the EU has this in place with Switzerland, Norway, Andorra, the United States of America, the People's Republic of China, and is negotiating with Canada and Hong Kong.

Minimise customs burdens for goods moving from Great Britain to Northern Ireland

Work should begin rapidly to develop the detail underlying the Northern Ireland Protocol, with minimising additional customs burdens on goods travelling from Great Britain to Northern Ireland, while it stays in the UK's customs territory as a top priority. The protocol states that Northern Ireland will remain aligned with the EU on goods (including certain laws for VAT on goods) and applies EU tariffs in Northern Ireland, except for movements within the single customs territory of the United Kingdom. This means tariffs will not be required on goods moving from Great Britain to Northern Ireland, unless those goods are at risk of moving on into the EU, in which case they will pay the EU's tariffs. While the definition of what goods are "at risk" is to be defined by the Joint Committee currently being established, the operating assumption is that all goods passing from GB-NI are "at risk" of onward movement to the EU.

Businesses are concerned that if they are moving goods from Great Britain to Northern Ireland, goods that will never leave the UK will nonetheless be required to go through the full regulatory checks and customs declarations when they cross from Great Britain to Northern Ireland. Negotiating mutual recognition of regulation, testing and enforcement would mitigate some of the need for checks for goods moving from Great Britain to Northern Ireland and facilitate this movement. Manufacturing businesses are also keen to minimise risks of duty circumvention, particularly where there are trade remedies on a product.

6. Ensure proper communication with business and the wider stakeholder community in delivering a new tariff schedule

Recommendations to government

- **Put in place a review mechanism to enable business to feed in information on impact and help the government take swift action in response**
- **Publish government communications enabling businesses to prepare for changes to the UK's tariff regime in good time and with sufficient support**

Put in place a review mechanism to enable business to feed in information on impact and help the government to take swift action in response

Business welcomes the chance to feed into the government's consultation on new MFN tariff schedules and are pleased to have the chance to input formally. This is something that many firms have requested over the last few months, following the release of the Temporary Tariff Regime.

Companies understand that there is a need for the government to move quickly in developing and publicising a new tariff regime, in order to support wider goals surrounding the UK's exit from the EU.

However, this is a highly technical and complicated issue and many firms find it both labour intensive and difficult to model the effects of potential changes. It takes companies time to come to understand the proposals, collect relevant information, analyse it and come to conclusions about what changes could mean for their business, or for their suppliers. The relative lack of contextual information surrounding the consultation, without the full list of changes likely to be made to the UK's schedules, and with key hyperlinks not available during week one of the consultation, has further complicated business ability to react.

Consequently, given the short timelines to input evidence, alongside the potentially significant impact of some of the changes suggested, there needs to be a mechanism in place to review the effects of changes to the UK's tariff regime from the first day of operation. This should enable firms to feed in new information directly to officials, highlighting impact when it becomes available, in order to enable government to implement mitigations swiftly. This may include, for example, cases where UK manufacturing sees unexpectedly steep competition from imports.

Publish government communications enabling businesses to prepare for changes to the UK's tariff regime in good time and with sufficient support

There are now nine months until the UK's applied tariff schedule enters into force. At the end of this period UK exporters and importers will face huge changes to trade with the EU, our largest existing trading partner. This creates a slim window for government to confirm full details of the UK's permanent applied tariff schedule, and for industry to review and understand a new schedule, assess supply chains, and attempt to alter contracts accordingly.

Firms therefore need to consider how to prepare for these changes now: getting agents in place, mapping and managing supply chains, preparing for new administration. The CBI urges government to support businesses to get ready, learning from previous attempts to engage UK plc on planning for new trading arrangements, including tariffs.

The CBI stands ready to support the government on its approach to these preparations, galvanising our members to ready them for change, encouraging businesses to share good practice and amplifying government communications with them in real time. This will be particularly important for small businesses, who are less aware of and able to prepare for change, especially when it comes to such technical issues.