

The unforeseen cost of Brexit – Customs

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“Take back control” was one of the Leave campaign’s main battle cries in Britain’s referendum on EU membership. But reintroducing customs controls on UK-EU trade will have a cost for both business and government. Although it is not yet clear what Brexit will look like, the added costs from trade-related red tape that will result from leaving the EU are certain. And these costs are likely to be significant without adequate reform to customs procedures.

At present, all goods entering the UK from outside the EU require an import declaration.¹ The most common and practical way of complying is to use the logistics providers carrying the goods as agents. Their fees are often dependent on the specific commercial arrangements, but can range from just a few pounds to £25 plus for declaring a sea container. Once Brexit is in place, UK-EU trade will be subject to similar costs.

According to the World Customs Organisation’s latest Annual Report for 2015-16,² the UK made 70.5m import declarations and 6.5m export declarations per year. Based on current trade figures³ it would be fair for UK Customs (HMRC) to expect the number of customs declarations to double once Britain leaves the EU. A corresponding increase in declarations would also arise on the continent since each export declaration at one end of the supply chain is followed by an import declaration at the other. Further analysis is required, but it is easy to imagine an additional cost to UK-EU trade in the order of several billion pounds per year.

Then there is also the risk of physical inspections. Depending on the nature and duration of the inspection, these costs could be anywhere between £52 and £1,540 per consignment.⁴ Ports would need to accommodate the increased demands for inspection facilities. This would be at the expense of losing valuable space for commercial activities.

Reams of red tape

It is likely that any post-Brexit agreement with the EU will require businesses to comply with additional documentary requirements – as is, for example, the case for preferential trade between the EU and Norway, Switzerland or within the Customs Union with Turkey.⁵ Additional requirements might include documents (or their electronic equivalent) to prove origin⁶ – which can be technical and complex – or that goods are free from customs control.

Unfortunately, the adverse impact of trade-related red tape does not stop here. UK businesses require HMRC to give the highest levels of service. The UK’s location as a place to do business depends in part on HMRC’s ability to clear goods through the ports and borders within hours rather than days. Whether HMRC’s infrastructure and supporting electronic systems at ports and elsewhere in the private sector are up to the job is anyone’s guess, especially since applicable laws, rules and procedures still need to be agreed.

Additional red tape from other non-customs border agencies, such as for quarantine and health-related controls, remain unclear, too. An extended period of uncertainty about rules and procedures, as well as the necessary supporting systems, is inevitable. This will be further compounded by the fact that putting the systems that support trade and customs in place, tends to take years, rather than months.

Last but not least, there will be resourcing issues for HMRC. According to the World Customs Organisation's Annual Report,⁷ the UK has about 5,000 customs staff. But the actual figure of staff with experience in the administration of international trade-related customs procedures is likely to be significantly less. This compares poorly with similar-sized countries, such as France (16,500 customs staff). An extra 5,000 officers, for example, with relevant overheads such as office space and pension contributions, could easily amount to £250m per year (£4.8m per week) for the government to fund.

One further concern is that HMRC has very few experts in key technical areas, such as in "valuation" or "origin" – two prerequisites for determining the correct amount of tariff duties. Business practitioners who I have spoken to and deal with Customs on a regular basis have highlighted that several of these individuals are close to retirement.

With UK-EU trade in goods worth £354 billion, appropriate measures must be put in place. An increase of buffer stock to counter administrative and inspection-related delays at ports and borders is one option; but the resulting costs would undermine competitiveness. Significant investment in staff and a system to accommodate the new trade and customs landscape might be another.

The overall scale of additional costs still needs to be assessed – on behalf of the businesses that will be affected, but also for HMRC's development. As so often, the devil is in the detail. And unless innovative solutions to cutting the red tape resulting from the UK leaving the EU can be found, end consumers are likely to bear much of the cost.

Notes

- 1 <https://www.gov.uk/guidance/importing-goods-from-outside-the-eu>
- 2 <http://www.wcoomd.org/en/about-us>
- 3 <https://uktradeinfo.com/statistics/buildyourowntables/pages/table.aspx>
- 4 <http://eprints.nottingham.ac.uk/2143>
- 5 <https://www.gov.uk/government/publications/notice-812-european-community-preferences-trade-with-turkey>
- 6 <https://www.gov.uk/government/publications/notice-828-tariff-preferences-rules-of-origin-for-various-countries>
- 7 [http://www.wcoomd.org/en/about-us/what-is-the-wco/~/_/media/WCO/Public/Global/PDF/Topics/Research/Annual reports/AR English Final 2015_2016.ashx](http://www.wcoomd.org/en/about-us/what-is-the-wco/~/_/media/WCO/Public/Global/PDF/Topics/Research/Annual%20reports/AR%20English%20Final%202015_2016.ashx)