



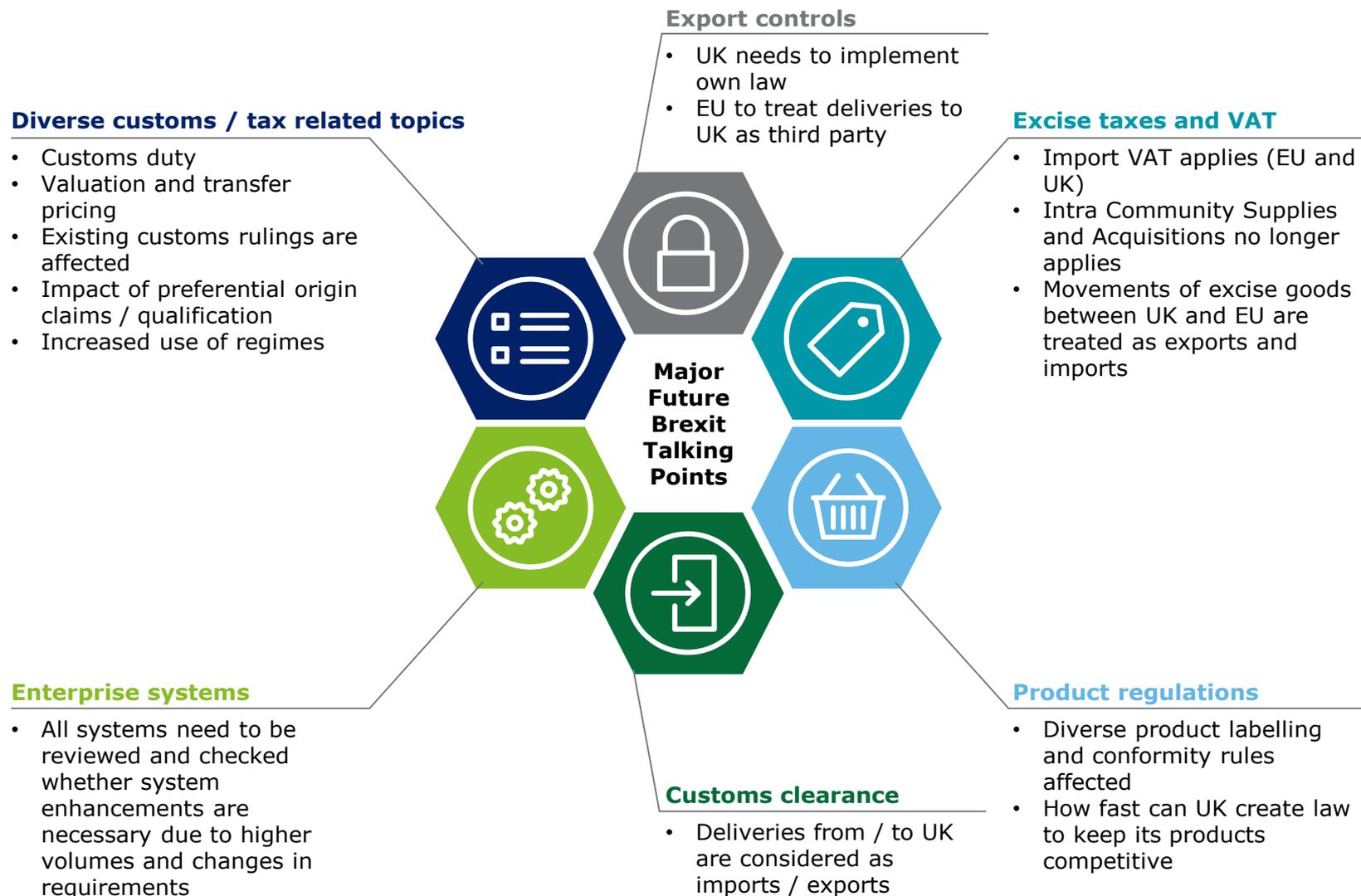
Brexit Update

November 2017

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Global Trade

Potential Impacts



Trade Insights

Export Controls and Sanctions

	Current State	Brexit Impact
Military Exports	<ul style="list-style-type: none"> • <i>Wassenaar Arrangement (WA)</i>: EU Member States (including the UK) control items on the WA Munitions List. Member states can control additional items and can determine licensing regimes. • <i>EU Common Position</i>: the UK uses EU criteria to assess license applications for arms exports. • <i>UK Export Control Act 2002</i>: provides a legal basis for UK export controls. Other EU member states also have national-level discretion and legislation. 	<ul style="list-style-type: none"> • The Export Control Act 2002 will not be impacted by Brexit. • UK controls on WA List items will remain, as well as UK-specific controls. • The UK can alter the criteria used to assess license applications after Brexit. However, the UK has indicated that no change is imminent (in December 2016 oral evidence from Foreign & Commonwealth Office (FCO) head of arms export policy).
Dual-Use Exports	<ul style="list-style-type: none"> • <i>Regulation (EC) No 428/2009</i>: EU determines which goods are subject to controls based on WA List. • <i>Three types of UK license</i>: Open General Export Licenses (OGELs), Standard Individual Export Licenses (SIELs), and Open Individual Export Licenses (OIELs). • <i>Intra-EU transfers</i>: Most exports between EU members are made under general authorisations 	<ul style="list-style-type: none"> • UK control list and license regime will not be bound by EU regulations, but will still implement WA List. • The UK may consider introducing licenses (OGELs) that mirror existing EU authorisations. Alternatively, licensing may depend on the Member State destination. • EU Member States will have discretion in determining licensing regimes for exports to UK.
Embargoes and Sanctions	<ul style="list-style-type: none"> • Several pieces of UK legislation implement the various EU embargoes and sanctions, as well as UK autonomous sanctions (e.g. on Argentina). • EU embargoes and sanctions either implement UN embargoes, expand on them, or exist independently (such as the EU sanctions against Syria and Russia). 	<ul style="list-style-type: none"> • The UK will no longer automatically apply EU embargoes and sanctions • The UK will pursue an 'International Sanctions Bill' ensuring that it will continue to impose UN sanctions and providing a basis for non-UN sanctions. • With the UK's influence removed, EU sanctions in certain non-financial areas may become more lax, putting the UK at a competitive disadvantage.

Opportunities

- The UK will have more freedom post-Brexit in its determination and interpretation of the criteria used to assess license applications. This freedom could be used to approve more applications to export to certain destinations that the EU deems more sensitive.
- The UK may use its regulatory independence after Brexit to create a more favourable environment for businesses – possibly including a streamlined licensing regime for exports to non-EU locations.

Trade Insights

Potential Impact on Exports



UK

- The UK will have flexibility in interpreting criteria and determining timelines for granting licenses for military exports, both to EU countries and non-EU countries.
- The UK could devise new licensing criteria for military exports – meaning that license applications in the UK would be assessed by different criteria than in EU member states.
- Different military and dual-use licenses could be required for UK exports to each EU member state, leading to variation in required licenses for UK origin-exports bound for Europe.
- UK sanctions after Brexit will be at least as restrictive as UN sanctions, but the UK may depart from non-UN, EU sanctions, such as those on Syria and Russia (or interpret them differently).
- The UK will have increased flexibility regarding export controls for non-EU bound exports, although this freedom will be constrained by domestic UK voices such as NGOs.



EU

- Various EU Member States may take differing approaches in how to structure licensing regimes for UK-bound exports of both military goods and dual-use items, possibly leading to a competitive advantage for exporters in certain EU Member States.
- For any EU to UK export, some form of license will be required, although the nature of the license is uncertain with few statements thus far. New licensing requirements could lead to increased timelines for imports to the UK from the EU, creating supply chain disruptions.
- The EU's approach to the imposition of embargoes and sanctions may change in the absence of the UK's influence. For example, there may be decreased sanctions activity from the EU following Brexit given the loss of an influence from the UK, which has often advocated sanctions.

Brexit – What are the options?

Trade Agreement Options

The UK Government is expected to stake out its negotiating positions at the end of 2017. Prior to the election the only politically viable options seemed to be Temporary WTO (zero tariffs) and permanent WTO. It now appears* a transition period is on the table and the other options of temporary EU and EEA level access are being considered.

The UK government has prioritised its ability to control migration, to conclude its own free-trade agreements with other countries, and to return regulatory and legislative dominion to UK courts and administrative offices in any post-Brexit outcome. As such, this would appear to rule out membership in the Customs Union and to limit itself to either a bespoke free-trade agreement (BFTA) or to trading under WTO rules. However, the actual situation is probably less binary than it seems.



Status Quo

This would mean remaining a member of the EU on a temporary basis or at least brokering a deal that maintains current levels of access, in exchange for some ongoing UK contributions/concessions to the EU; this is believed to be an option being considered by some senior UK politicians.



EEA/EFTA

These are the arrangements that Norway and Switzerland, respectively, have with the EU. Both offer access to the single market but also require the free movement of people.



Customs Union

A customs union is a form of trading bloc. It provides a free trade area for those nations within the union and a common external tariff. This is the arrangement which Turkey has with the EU. The customs union with Turkey does not imply access to the EU single market; no free movement of people and no requirement to follow EU laws, except for the laws governing the customs union itself. It also limits the ability to negotiate trade deals with non-EU countries



BFTA

A Free Trade Agreement (FTA) is a set of agreed terms enabling trade between two or more nations (or nation groups). A bespoke FTA between the UK and the EU is the UK's preferred option and is similar to what Canada has with the EU.



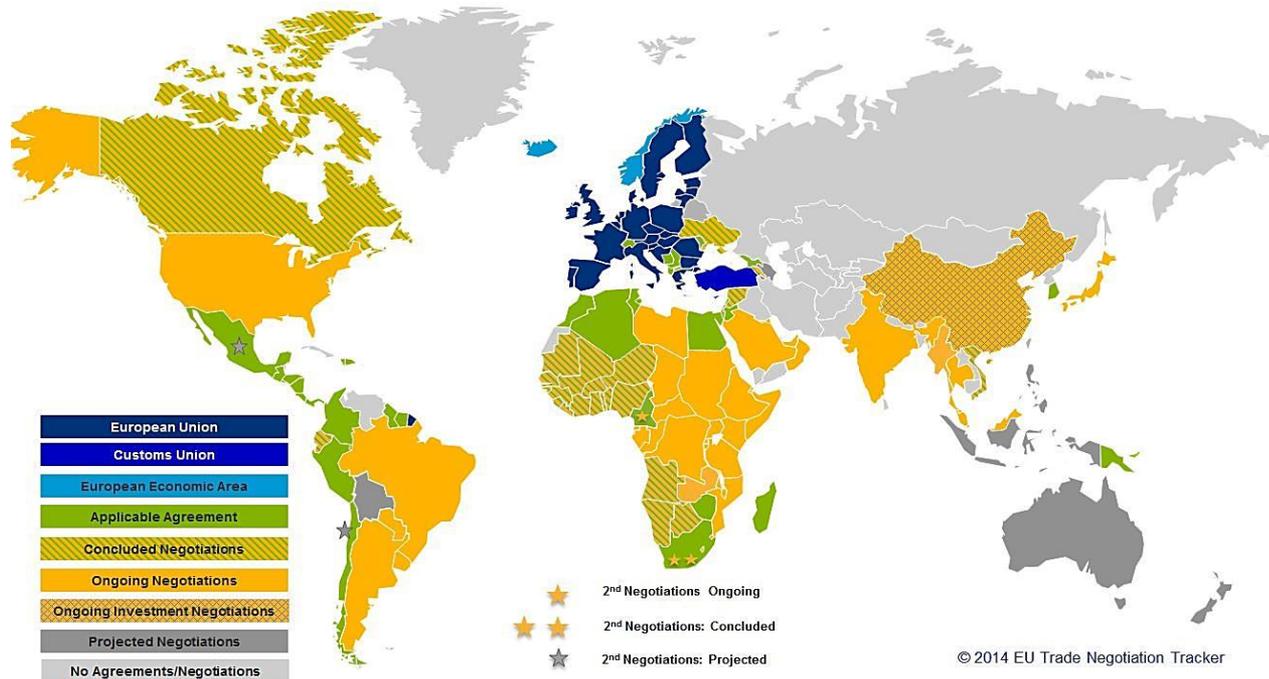
WTO

Australia trades under WTO rules with the EU. Even if a bespoke BFTA deal is done, it is possible the UK will find itself trading under WTO rules even for a short interim period between exiting the UK and the start of the new arrangement

UK Trade with Rest of the World

Existing EU Free Trade Agreements

Overview of the current status of the EU FTAs



EU Position Paper

Customs related matters when the UK leaves the EU



UK Government Papers

1. Customs Future Partnership Paper

- The UK intends to leave the customs union which will most likely result in loss of access to the single market.
- The UK will look to negotiate a transition model with the EU for an interim period to allow businesses to adjust to the new customs relationship.
- The UK is seeking to avoid a hard border between Northern Ireland and The Republic of Ireland. Negotiations will be undertaken to protect trade and everyday movement across the Irish land border.
- The UK will look to implement a bespoke streamlined customs arrangement with the EU. Summary highlights include:



Waiver of requirement to submit an entry/exit summary declaration with goods coming from the EU



Introducing self assessment to allow traders to calculate their own customs duties and aggregate their customs declarations



Through membership of the Common Transit convention, goods will be able to move across the EU to the UK without having to pay EU duties



Allow traders to access existing simplified procedures more easily



Bilateral implementation of a technology based solution for roll on, roll off ports which could consist of pre arrival notification of consignments



UK Government will continue to work with businesses to identify further facilitations or simplifications that could be delivered outside EU negotiations

The paper has not been particularly favourably received:

- Practical application?
- EU acceptance

UK Government Papers

2. Future UK Trade Policy

Reflective paper that does not announce any UK policy

- Positive about the impact of trade in society
- Comments on the economic impact of trade
- Acknowledges challenges of globalisation
- Sets out future trade policies:
 - Transparent and inclusive trade
 - Rules-based global trade environment
 - Boosting UK Trade relations
 - Desire to continue to support developing economies
 - Ensuring a level playing field



UK Government Papers

3. Legislating for the UK's Future: Customs, Excise and VAT

1. The Customs Bill

2. Negotiated Outcomes

3. Northern Ireland/Ireland Border

4. No Deal Contingency Plan

5. Trade Deals

The Customs Bill

- Tariffs
- Classification
- Data
- Non-tariff trade issues



Trade Deals

- Adopting WTO Terms
- Existing Agreements
- EU/EU FTA



Negotiated Outcomes

- Interim Implementation Period
- Customs Administration
- New Customs Partnership



No Deal Contingency Plan

- Importers/Exporters
- Ports
- Airports
- Parcels/Individuals
- Dispute resolution



Northern Ireland/Ireland Border

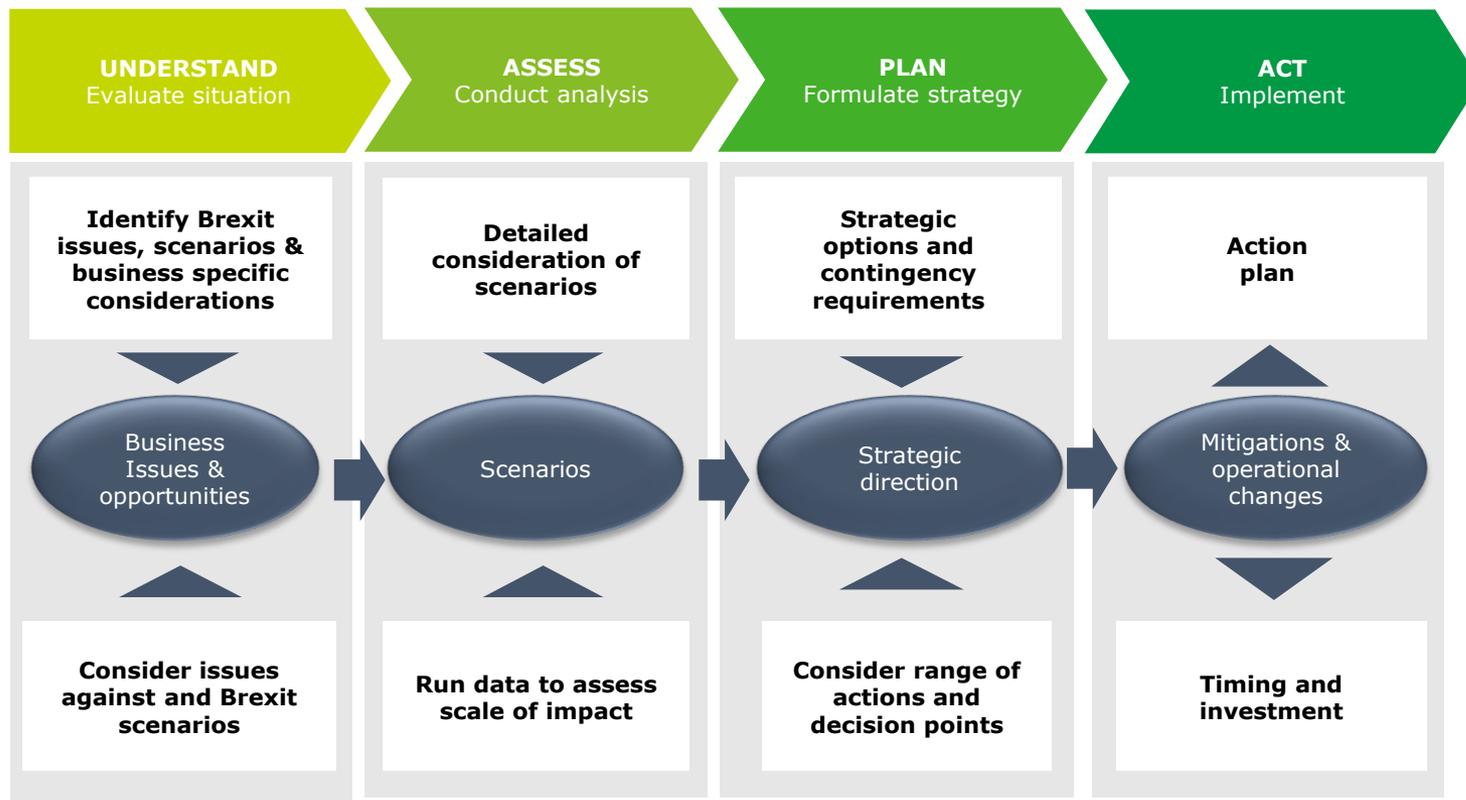
- Trade Exemption
- No Customs Formalities



Brexit – What should organisations do?

We are recommending that clients undertake a comprehensive assessment of the Brexit related risks across their business operations.

We have a methodology that underpins this approach including assessing business exposure against the 'scenario of most change' – which for planning purposes we regard as operating under WTO arrangements and an end to free movement.



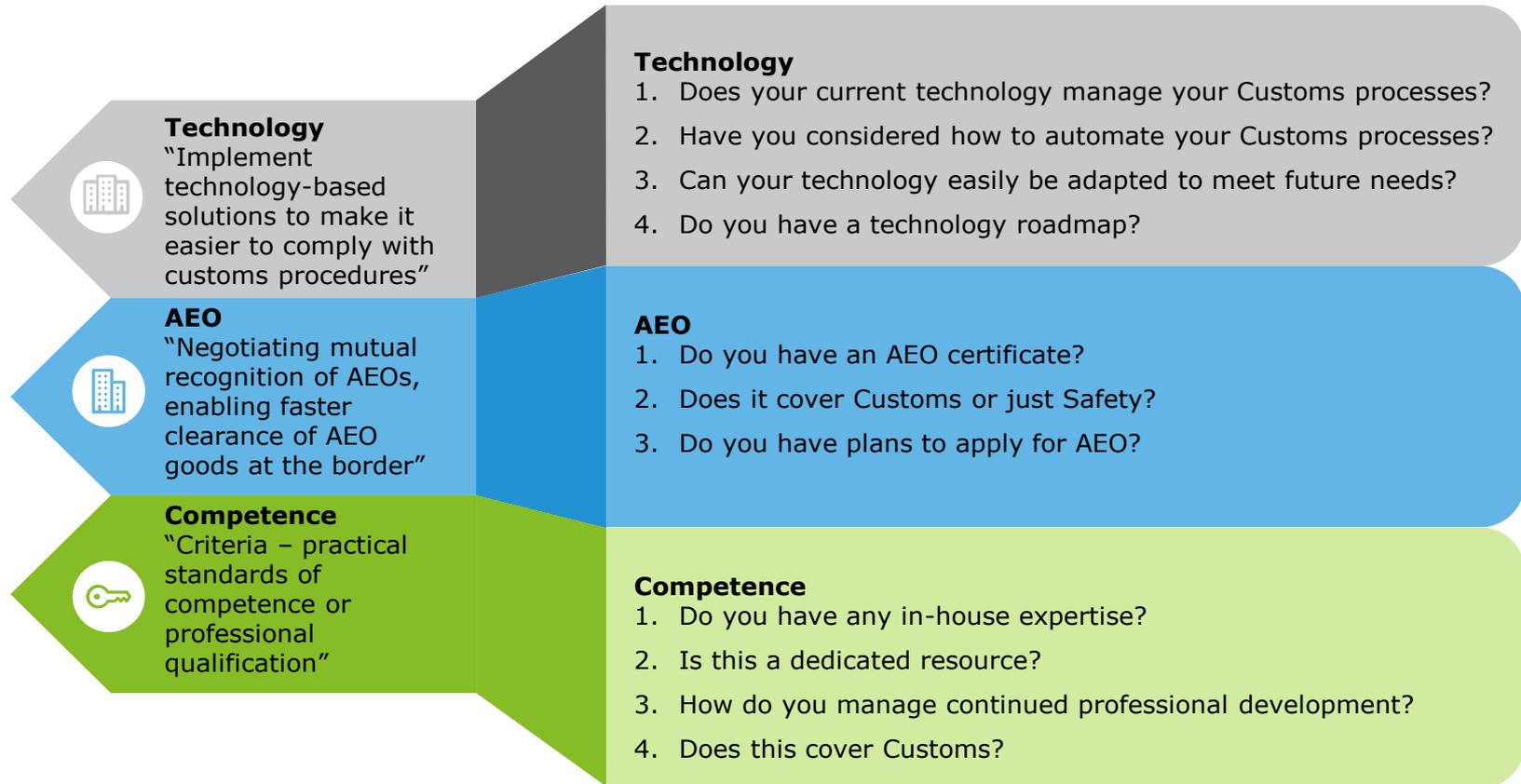
Customs Duty

Assessing the Impact of Brexit

Sector	No. of Declarations	Current Duty	Potential Additional Duties	Additional Broker Charges	Comments
Retail	8,897	£9.3m	£75m + £11.7m (loss of preference)	£29k	Supply chain restructuring and consideration of use of regimes
Consumer Products	4,053	£2.4m	£10.5m £0.9m (UK preference) + £1.6m (export preference)	£200k	Additional resource and focus on clearance times
Manufacturing	35,565	£3.8m	£11.2m 0.3m (UK preference) 14.1m (export preference)	£550k	Use of regimes and focus on customs duty management
Retail	68,516	£20.9m	£44.3m £1.9m (loss of preference)	£281k	Supply chain visibility and systems enhancements
Consumer Products	410	£15.8k	£74.5m £18k (loss of preference)	£1.9m	Supply chain restructuring and consideration of use of regimes. Training and classification review.
Retail	3,096	£1.1m	£0.6m £0.25m (unclaimed preference)	£230K	Identification of potential duty savings due to unclaimed preference of £0.25m
Retail	149,856 Intra EU transactions	£nil	£118m	£525k	Use of regimes and focus on classification.

Preparing for Change

Key considerations



Have you considered your supply chain partners?





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