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Central Management Branch

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Dear Stella

Request for Briefing on Department for International Trade consultation on the UK Global Tariff Policy

The Committee has requested briefing following the launch, by the Department for International Trade, of a public consultation: – Public Consultation on the UK Global Tariff – Developing the UK Global Tariff Policy. International trade is not a devolved issue, though it is an issue of concern for all parts of the economy, especially the agri-food sector which relies on heavily on export sales.

The consultation documents (attached at Annex A and Annex B) seek views on the development of a policy for the application of the new UK Most Favoured Nation (MFN) tariff schedule which will enter into force on 1 January 2021 when the transition period comes to an end. The UK Government's intention is to implement a bespoke tariff schedule that is tailored to the needs of its economy, reflecting its interests and free trade ambitions.

An underlying principle of the World Trade Organisation (WTO) is that member countries must apply the same (most favoured nation) tariff to imports from all other members of the WTO (so no one member gets preferential treatment over another). However, WTO members can depart from the MFN principle by entering into a specific Free Trade Agreement (FTA) with another WTO member which enables lower tariffs to be applied to that specific trading partner. The UK MFN tariff will be applied to imports from those countries which do not have a FTA with the UK. In effect, the MFN tariff is the highest tariff that a country applies (sometimes referred to as trading on WTO terms).

The proposals for the UK Global Tariff take the current EU MFN tariff (which is the external tariff for the UK until the end of the transition period) as the starting point and propose changes in application that would result in simplification and liberalisation through the following adjustments;

- Simplifying and tailoring the UK Tariff (setting tariffs that are currently below 2.5% to zero; rounding tariffs down, and making all tariffs a percentage of price with no link to volume or weight);
- Removing tariffs on key inputs to production; and
- Removing tariffs where the UK has zero or limited domestic production.

It is difficult to fully consider the impact of these proposals when the actual tariffs that may be removed have not been listed. Under the Protocol NI would apply the EU external tariff regime. Therefore, these proposals mean there is potential for tariffs on imports to be removed or reduced for GB compared to those applied to imports into NI under the Protocol. This may impact on the ability of NI firms and NI goods to compete in the GB market.

The suggested simplification of expressing all agricultural tariffs as a single percentage of value could affect their effectiveness. Agricultural prices can be volatile and a fall in prices will reduce the tariff applied (if expressed as a percentage of value) and could lead to an import surge at a time when prices are already low which will further compound the market problem. Typically, many agricultural tariffs are made up of two elements, one which is a percentage of price and a second element that is independent of price with the latter continuing to offer a given level of protection even when prices are low.

The removing of tariffs for key inputs to production could have impacts for domestic producers. The removing of tariffs for goods with zero or limited domestic production needs to be considered against processor interests (e.g. where a domestic processor produces a finished good produced from raw materials not produced domestically but the tariff on the finished good is reduced to zero) as well as against producer interests where the good in question is a substitute for another good where there is a producer interest.

Finally, the consultation document includes no analysis of the impacts of these proposed changes. Work carried out by Agri-Food and Biosciences Institute (https://www.afbini.gov.uk/publications/afbi-report-post-brexit-trade-agreements-uk-agriculture) indicates that significant tariff reductions do impact on domestic markets and production.

I hope you find these comments helpful.

Yours sincerely,

Michael Oliver Departmental Assembly Liaison Officer 028 9052 4252

Attachments:

Annex A – DIT Approach to MFN Tariff Policy – Designing the UK Global Tariff for 1 January 2020

Annex B –DIT Public Consultation on the UK Global Tariff – Developing the UK Global Tariff Policy

Department for International Trade

Approach to MFN Tariff Policy

Designing the UK Global Tariff for 1st January 2021

Statement of Direction

The UK left the European Union on 31 January. We now have the opportunity to develop an independent trade policy. The UK has always been a champion of free trade and firm believer in the vital role trade plays in boosting wealth and raising billions out of poverty. We will seek to use our new powers to catalyse free trade across the world.

As part of our new approach, the Government is developing a new UK Most Favoured Nation (MFN) tariff schedule which will enter into force on 1st January 2021. This will be a bespoke regime known as the UK Global Tariff (UKGT). It will be designed specifically for the UK economy and will replace the EU's Common External Tariff which is currently applied on imports into the UK.

In designing this new tariff schedule, the Government will ensure that the UK's position continues to uphold the commitments and values of the WTO where the UK will be a campaigner for and champion of global free trade.

The new UK Global Tariff will apply to goods imported into the UK on 1st January 2021 unless an exception such as a preferential arrangement or tariff suspension applies. In particular, this tariff will not apply to goods coming from developing countries that benefit under the Generalised System of Preferences, or to goods originating from countries with which the UK has negotiated a Free Trade Agreement. The Northern Ireland / Ireland Protocol in the Withdrawal Agreement provides for certain specific arrangements as regards Northern Ireland.

The Temporary Tariff Regime, published in March 2019, was developed for a possible scenario in which the UK left the EU without a deal. Now that the Withdrawal Agreement has been approved by both the EU and the UK, this scenario is no longer relevant.

Policy Objectives

In setting the tariff rates, the Government will uphold the principles set out in the Taxation (Cross-border Trade) Act 2018:

- the interests of consumers in the UK,
- the interests of producers in the UK of the goods concerned,
- the desire to maintain and promote the external trade of the UK,
- the desire to maintain and promote productivity in the UK, and
- the extent to which the goods concerned are subject to competition.

The Government will also seek to balance strategic trade objectives, such as the delivery of the UK's trade ambitions and FTA trade agenda, and to maintain the Government's commitment to developing countries to reduce poverty through trade.

Consultation

The Government is committed to a tariff policy that takes account of the views of all sectors of society and international stakeholders; including the general public, devolved administrations and the regions, businesses, civil society groups, consumers, associations and any other interested stakeholders.

In line with this, the Government today (6th February 2020) launched a 4-week public consultation on the UK's future tariff schedule. This consultation will close on 5th March 23:59 GMT.

The consultation offers respondents the opportunity to provide:

- views on a potential series of amendments to the Common External Tariff to create a bespoke UK tariff regime;
- specific feedback on individual products or commodity codes of importance to them, including on the corresponding tariff rate; and
- information on their interactions with MFN tariffs and the importance of tariffs to their sectors.

Throughout the consultation, respondents are encouraged to provide clear examples to support their view, in particular the likely impact (costs and benefits) on business, consumers and the economy of amending or not amending the tariff.

Proposed Changes

Until the 31 December 2020, when the transition period will end, the UK will continue to apply the EU's Common External Tariff to all goods imported from outside the EU.

From 1 January 2021, the UK will apply its own UK-specific tariffs to imported goods.

The Government's intention is to implement a bespoke tariff schedule that, unlike the Common External Tariff, is tailored to the UK economy, reflecting UK interests and its free trade ambitions.

To inform its development, the Government is seeking views on a series of amendments to the EU's Common External Tariff. These aim to simplify and liberalise the UK's tariff policy:

1. **Simplifying and tailoring the UK Tariff**

   Developing a tailored tariff schedule provides the UK with an opportunity to simplify the tariff schedule it applies so that it is easier for businesses to understand and use. Where possible, the UK is considering:

   - Removing comparatively low tariffs, commonly known as "nuisance tariffs", of 2.5% or less. Removing these tariffs could in some instances reduce the administrative burden on UK businesses.
   - Rounding tariffs down to the nearest standardised band which will be:
     - 2.5% for tariffs currently under 20% (e.g. a 19.2% tariff becomes 17.5%, a 12.3% tariff becomes 10%)

  - 5% for tariffs currently more than 20% and under 50% (e.g. 48% tariff becomes 45%, 22% becomes 20%)
  - 10% for tariffs currently equal to and above 50% (e.g. a 68% tariff becomes 60%)
- Taking steps towards agricultural tariffs that are applied as single percentages.

2. Removing tariffs on key inputs to production

Inputs to production are goods which UK businesses import for use in production and manufacturing of other goods. The Government is considering removing these tariffs to reduce input costs for UK producers and support UK manufacturing.

As part of this assessment, the Government will consider goods listed in the following documents:

- Broad Economic Categories (BEC) list
- List of tariff suspensions that currently apply on inputs to production
- List of goods that have applied for Inward Processing

Please note that these documents are not exhaustive.

3. Removing tariffs where the UK has zero or limited domestic production

The Government is considering removing tariffs on goods where there is zero or limited domestic production with the aim of benefiting UK consumers by lowering the cost of these imports.

To assist identifying which goods fall into this category, the Government will consider goods listed in the following document:

- List of tariff suspensions that currently apply on inputs to production

Please note that this document is not exhaustive.

These principles, alongside the strategic objectives outlined above, represent the considerations the Government is inviting views on; they do not represent final decisions.

The consultation will close on 5 March 2020 and an announcement on the UK's new Global Tariff schedule will follow shortly afterwards.

Department for International Trade

Public Consultation on the UK Global Tariff

Developing the UK Global Tariff Policy

February 2020

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Introduction

The UK left the European Union on 31 January. We now have the opportunity to develop an independent trade policy. The UK has always been a champion of free trade and firm believer in the vital role trade plays in boosting wealth and raising billions out of poverty. We will seek to use our new powers to catalyse free trade across the world.

The Department for International Trade (DIT) is the UK's international economic department responsible for securing UK and global prosperity by promoting and financing international trade and investment, and championing free trade. It is working to establish deeper trade and investment relationships with countries across the world. It is also preparing the UK's first independent tariff policy (or Most Favoured Nation (MFN) policy) in nearly fifty years[1].

The UK Global Tariff (UKGT) will apply to goods imported into the UK on 1 January 2021 and thereafter unless an exception such as a preferential arrangement, e.g. under a free trade agreement, or a tariff suspension applies. This tariff will not apply to goods coming from developing countries that benefit under the Generalised System of Preferences, or to goods originating from countries with which the UK has negotiated a Free Trade Agreement. The Northern Ireland / Ireland Protocol in the Withdrawal Agreement provides for certain specific arrangements as regards Northern Ireland.

The Government is committed to taking account of the views from the general public, business and civil society and international stakeholders and launched a 4-week public consultation on the UK Global Tariff on 6 February 2020. This consultation will close on 5 March 2020 at 23:59 GMT.

The consultation will provide opportunity for respondents to provide:

- views on a potential series of amendments being considered to the tariffs the UK currently applies through the EU's Common External Tariff. Specifically: simplifying and tailoring the UK Global Tariff policy, removing tariffs on goods imported by UK businesses to manufacture other goods and where the UK has zero or limited domestic production
- Specific feedback on specific products or commodity codes of importance to them, including on the corresponding tariff rate; and
- Information on their interactions with the MFN tariffs of other countries and the importance of tariffs to their sectors.

The Government will introduce the UK's Global Tariff policy once it has considered all the evidence, including the response to the consultation, in line with the Government's stated strategic objectives, such as the delivery of the UK's trade ambitions and FTA trade agenda, and to maintain the Government's commitment to developing countries to reduce poverty through trade. The points for consideration set out in the consultation do not represent a final policy position.

[1] To note: whilst the Government previously developed the Temporary Tariff Regime (TTR) in 2019, the TTR was developed for a possible scenario in which the UK left the EU without a deal. Now that the Withdrawal Agreement has been approved by both the EU and the UK, this scenario is no longer relevant.

What is a tariff?

Tariffs are taxes applied to imports when they are imported into the country (more formally known as ‘import duty’ or ‘customs duty’). Importers are responsible for paying any tariff that is due, the costs of these may subsequently be passed onto consumers.

A tariff is calculated based on factors such as:

- **The type of good**. Products are classified by type and given a number, known as a ‘Commodity Code’. Different products can have different tariff rates applied to them.
- **The value or weight of the good. A** combination of both value and weight or in some cases the particular amount of certain ingredients such as sugar, milk or flour.
- **The country of origin**. Imports from certain countries may be eligible for a lower rate of duty. Usually, these are either countries the UK has a trade agreement with; or developing countries which the UK grants preferential access to.
- **The use to which the goods are put**. Products intended for certain uses, such as the development of civil airplanes or for pharmaceutical purposes suspend tariffs as part of wider plurilateral agreements the UK is part of.

Most tariffs are expressed in a simple percentage format. For example, under the current applied tariff rates a tennis racket has a tariff of 4.7%, therefore, when imported into the UK, 4.7% of the total customs value of the tennis racket is owed in customs duties. These tariffs are known as ‘Ad-Valorem’.

Some tariffs are more complicated and are represented either as a specific tariff or as a combination of an Ad-Valorem tariff and a specific tariff. For example, certain cuts of sheep meat have a compound tariff of 12.8% + 311.80 EUR / 100kg – this means that the tariff applied at the border is 12.8% of the total value of the good, plus an additional 311.80 EUR per 100kg of the good.

Bound vs Applied Tariffs

Bound tariffs are the maximum tariffs the UK can apply in line with our legal commitments at the World Trade Organisation (WTO). Applied tariff rates are the tariffs applied at the border, the UK is free to set whatever tariffs it wants, as long as they’re applied equally (in line with the Most Favoured Nation principle) and are below the bound rate.

The public consultation on the UK global tariff is asking respondents for feedback on the current applied tariff rates, and any views on the potential series of amendments, specifically: simplifying and tailoring the UK Global Tariff policy, removing tariffs on goods imported by UK businesses to manufacture other goods, and where the UK has zero or limited domestic production.

Most Favoured Nation Principle

An important principle for tariffs is the Most Favoured Nation (MFN) principle, sometimes referred to as ‘WTO Terms’; as set out in the General Agreement on Tariffs and Trade (GATT). It means that the same tariffs on imported goods must be applied to all WTO trading partners, unless an exception such as a preferential arrangement, e.g. under a free trade agreement, or tariff suspension applies.

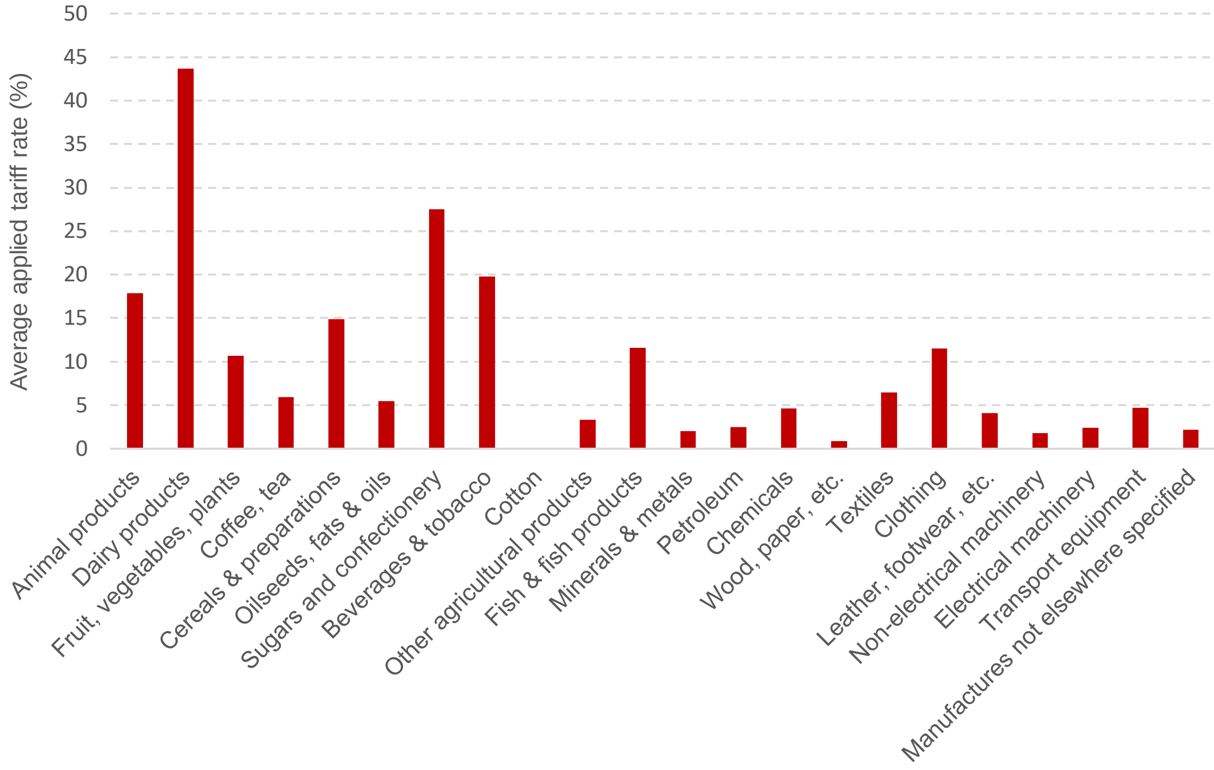

Figure 1. Current UK applied MFN rates by product group. Source: World Trade Organisation (2019)

Until the 31 December 2020, when the transition period will end, the UK will continue to apply the EU's Common External Tariff to all goods imported from outside the EU. For the exact tariff rates that will apply to UK imports during the implementation period please visit: https://madb.europa.eu/madb/euTariffs.htm

The UK's independent MFN tariff policy will come into force in January 2021.

What is the difference between Most Favoured Nation Tariffs and Free Trade Agreements?

Most Favoured Nation Tariffs refer to the tariffs that are applied to trading partners that the UK does not have a preferential arrangement in place with. Within a Free Trade Agreement, negotiating partners can offer countries more preferential access to their markets by reducing or liberalising tariffs. Therefore, if you have a Free Trade Agreement with a country, these tariffs will apply in the place of Most Favoured Nation Tariffs.

Proposed Changes

The Government is considering a range of changes to the UK's current tariff schedule (which the Common External Tariff applied by the EU) to better serve UK producers and consumers and the UK economy including:

- Simplifying and tailoring the UK tariff schedule;
- Removing tariffs on key inputs to production;
- Removing tariffs where the UK has zero or limited domestic production.

Nuisance Tariffs

The Government is considering, where possible, removing comparatively low tariffs, commonly known as "nuisance tariffs", of 2.5% or less. There is a range of reasons why countries may choose to maintain tariffs at a lower level, but the protection value of these tariffs may be outweighed by the administrative burden of collecting these revenues .[2] Some countries have taken the decision to remove nuisance tariffs from their tariff schedule altogether, e.g. New Zealand where there are now no tariffs between zero and 5%.

Simplifying the UK's long-term MFN tariff schedule to eliminate nuisance tariffs may also make things easier for UK importers as they will no longer have to pay such minor tariffs.

Tariff Banding

Tariff Banding is another tariff simplification measure being proposed. Tariff banding is a simplification where instead of having tariff rates at any number from zero onwards, tariffs are kept within specific boundaries, with existing tariffs rounded down to the nearest band. Other countries such as New Zealand have implemented a banded approach to their applied tariffs, which are zero, 5 and 10% with one standardised band for used apparel, and certain high value alcohol[3].

This simplification could be a further step to support UK importers and remove complexity for traders. The UK's proposal is to round the tariffs the UK currently applies into bands. The Government is considering banding as follows:

- Rounding down to the nearest multiple of 2.5% for tariffs under 20%
  For example a 19.2% tariff will be rounded down to 17.5%; a 12.3% tariff will be rounded down to 10%

- Rounding down to the nearest multiple of 5% for tariffs between 20% and 50%
  For example a 48% tariff will be rounded down to 45%; a 22% tariff will be rounded down to 20%

- Rounding down to the nearest multiple of 10% for tariffs above 50%
  For example a 68% tariff will be rounded down to 60%; a tariff of 72% will be rounded down to 70%.

[2] UN Millennium Development Library: Trade in Development; Page 144; By Ernesto Zedillo Ponce de León, Patrick A. Messerlin, Ernesto Zedillo, Julia Nielson, UN Millennium Project, 2005
[3] Tariffs in New Zealand - https://www.mbie.govt.nz/business-and-employment/business/trade-and-tariffs/tariffs-in-new-zealand/

Agricultural Tariffs

Agricultural tariffs are those tariffs that are applied on agricultural goods. A definition of agricultural goods can be found in Annex 1 to the World Trade Organisation Agreement on Agriculture[4].

Agricultural tariffs can be expressed as simple percentages (ad valorem) tariffs. However, they can also take other forms, such as those that contain a fixed monetary element, or those that vary depending on the sucrose content of the good. Moving towards simplification of these more complex tariffs would make it easier for importers of agricultural goods to know what tariff they are being charged.

The Government is considering taking steps towards expressing agricultural tariffs as a single percentage.

Please find below examples of the different tariff types currently in place.

Example of Tariff Types:

Specific tariffs
A specific tariff is expressed as the monetary value per weight of a good. For example, the current tariff for carcasses and half carcases of domestic swine is expressed as: 53.6 EUR/100kg

Compound tariffs
A compound tariff is expressed as a specific percentage plus a monetary value per weight of a good. For example, the current tariff for Fresh or chilled boneless cuts of beef is expressed as 12.8% +303.40 EUR/100kg

Mixed tariffs
A mixed tariff is expressed sometimes as a specific percentage or a monetary value per weight of a good. For instance, the tariff for white cabbages is normally 12% but this may not drop below a value of €0.4/100kg

Unit tariffs
A Unit tariff is expressed as a monetary value per unit of the good. For example, the tariff for live chicken laying stocks is expressed as 52.00EUR/1000 p/st (52 euros per 1000 units i.e. chickens)

Alcohol tariffs
An Alcohol tariff is expressed as a monetary value per litre or per litre of alcohol. For instance, the tariff for some wines is 32.00 EUR/hl. The tariff for some types of rum is 0.60 EUR/% vol/hl + 3.20 EUR / hl for some rums

Lactose tariffs
A lactose tariff is expressed as a monetary value per weight of the good and per lactose content of the product. For example, the tariff for some yogurts is 0.2 EUR/kg/lactic matter + 21.1 EUR/100 kg

Sucrose tariffs
A sucrose tariff is expressed as a monetary value per weight of the good and per sucrose content of the product. The tariff for some maple sugars is 0.4 EUR/100kg/ net/ % sacchar.

[4] https://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm#annI

The above proposed change towards agricultural tariffs as a single percentage will potentially have an impact to the below examples of Special measures:

Meursing code

This applies to processed goods which contain the following 4 components: milk fat, milk proteins, sugar/invert sugar/isoglucose, and starch/glucose. The tariff rate varies depending upon the product's specific percentages of starch, sugar, and milk.

For example, a milk chocolate bar is charged 8.3% + EA MAX 18.7% + AD S/Z. (these denote the content of the agricultural components of the good)

Entry Price System (EPS)

The Entry Price System is a special tariff measure that applies to some certain fruit and vegetable products. An ad valorem tariff applies to these products together with a specific tariff that varies according to the customs value of the goods when compared against the weight, i.e. €/100kg. This gives the entry price. The amount of specific tariff depends on how the entry price compares to the bandings shown in the Tariff. The lower the entry price, the higher the specific tariff. If the entry price of the goods is higher than the top banding by more than 8% the importer must lodge a security based on the tariff payable using a Standard Import Value (SIV).

This is a value set according to market prices. The security is released post clearance on the production of evidence that supports the entry price at the time of importation.

If the goods are imported 'on consignment' the entry price, and the specific tariff, is determined according to the SIV.

See example for globe artichokes below:

From 1 January – 31 May

With an import value of:	Duty
Greater than or equal to 82.60 EUR / 100 kg	10.40 %
Greater than or equal to 80.90 EUR / 100 kg	10.40 % + 1.70 EUR / 100 kg
Greater than or equal to 79.30 EUR / 100 kg	10.40 % + 3.30 EUR / 100 kg
Greater than or equal to 77.60 EUR / 100 kg	10.40 % + 5.00 EUR / 100 kg
Greater than or equal to 76.00 EUR / 100 kg	10.40 % + 6.60 EUR / 100 kg
Greater than or equal to 0.00 EUR / 100 kg	10.40 % + 22.90 EUR / 100 kg

This is only an example of an Entry Price System (EPS). If you wish to know the exact tariffs rates, please visit gov.uk.

Seasonal Tariffs

Seasonal tariffs are tariffs that change depending on the time of year. For example, for Avocados the tariff is applied as follows:

From 1 January to 31 May: 4% from 1 June to 30 November: 5.1% from 1 to 31 December: 4%

Variable Import Duty

This applies to cereals e.g. maize, wheat etc. The duty applied is the difference between the relevant import intervention price (€101.31/t) increased by 55 % (€157.03/t) and the cost of delivering the consignment in question to a UK port (including cost, insurance and freight). The tariff applied varies depending on fluctuations in the price. The tariff rate is altered if daily average import prices differ by more than €5/tonne from the average of the previous 10 working days.

Intermediate Goods / Inputs to Production

Intermediate goods are those which are used as inputs by a process of production to create another product. An example of these goods would be fabric used in the production of clothing items.

The Government is considering, where possible, removing these tariffs to with the aim of reducing input costs for UK producers to support UK manufacturing. To assist identifying which goods are classified as inputs to production, the Government will consider, among other things, the non-exhaustive goods listed in the following documents:

- Broad Economic Categories (BEC) list
- List of tariff suspensions that currently apply on inputs to production
- List of top goods that applied for Inward Processing in 2019

These lists can be found on gov.uk.

While there is no standard definition for intermediate goods, countries tend to apply their own meaning based on their own production.

Please note that these documents are not exhaustive.

Finished Goods

Finished goods are those that will not undergo any substantial processing or transformation and are considered ready for sale to the end-user. They have the essential character of a completed or finished good (e.g. an unpainted car) or a disassembled finished good (e.g. a kit car)

Domestic Production

Domestic production refers to goods that are produced in the UK and are not imported from elsewhere in the world. For example, a pottery factory in Stoke-on-Trent that make ceramic goods would be considered a domestic producer, while ceramic goods produced in China and imported into the UK would not.

The UK, where possible, is considering removing tariffs on goods where there is zero or limited domestic production. To assist identifying which goods are classified limited to zero production, Government will consider, among other things, the non-exhaustive goods listed in the following documents:

- List of tariff suspensions that currently apply on inputs to production

This list can be found on gov.uk.

Please note that this document is not exhaustive.

Additional Information on Tariffs

What is a Tariff Rate Quota?

A Tariff Rate Quota allows imports up to a given quantity of a good to come in at a lower tariff rate. Once imports exceed this given quantity, a higher tariff rate will apply. For example, a Tariff Rate Quota for Beef would mean a certain amount of beef could come into the UK at a low or zero tariff rate over a specified period of time. Once that amount is reached, then a higher tariff rate will apply.

Countries can offer Tariff Rate Quotas to everyone, or can include them in Free trade Agreements with specific partner countries. Additionally, Tariff Rate Quotas can be offered as part of our commitments at the World Trade Organisation.

What is a Tariff Suspension?

Tariff suspensions are used to reduce or totally remove the tariff on specified goods for a specific period of time. They enable businesses that require products as part of their production processes to obtain supplies at a lower cost. This protects existing manufacturing production and, more widely, stimulates economic activity through job retention and creation and through encouraging future domestic production and exports.

Tariff suspensions only apply where identical, equivalent or substitute goods are not produced, or are not produced in enough quantity, within a domestic market. Suspensions also do not apply if goods are finished products that are intended for sale to end-customers without additional processing or without forming an integral part of a bigger final product.

The UK will be implementing its own independent suspension regime in January 2021.

What is Inward Processing?

Inward Processing enables businesses to import goods into a country from outside a domestic market for processing operations, for instance in manufacturing or repair, with customs and excise duty or VAT suspended. Once processing operations are complete, the products can either be re-exported or released for free circulation within the domestic market. If goods are released into free circulation, businesses would have to pay duties and taxes based on the value of the goods at import, or the value of the final product. It is also possible to store processed products under customs warehousing or in a free zone.

What is Authorised Use?

The Authorised Use procedure is available on certain goods imported into the UK, it permits goods to be imported at a reduced or nil rate of duty as long as the goods are put to a prescribed use (e.g. chemicals used in inhalers). This enables the UK to be more competitive in certain trade sectors, goods eligible for authorised use are highlighted in the Trade Tariff.

Examples:

- shipwork goods
- aircraft and parts
- hydrocarbon oil
- marine propulsion engines
- military equipment
- fish

- cheese
- casein (used in the cheese industry)

What is a commodity code?

All goods are classified by a commodity code which is usually comprised of 8 – 10 digits. When importing or exporting to a country, goods are declared at the border by commodity code, this helps to ensure the right duty is paid. Different commodity codes may have different duties, which is why it is important that goods are classified correctly.

The first six digits of a commodity code are determined by the Harmonised System (HS) set out by the World Customs Organisation (WCO). All members of the WCO must use the HS, but then have the option to further define commodity codes at the 7-10-digit level. The HS digits are reviewed every 5 years by the WCO, members can then decide how often they wish to review the 7 – 10 digits.

If you are unsure how to classify your goods please check the trade tariff tool: https://www.gov.uk/trade-tariff

Glossary

Ad Valorem Tariff Rate – a tariff calculated on the percentage value of the product. Sometimes shortened to AV.

Applied Tariff Rate – tariffs applied at the border, the UK is free to set whatever tariffs it wants, as long as they are applied equally (in line with the MFN principle) and below the bound tariff rate.

Bound Tariff Rate – the maximum tariffs the UK can apply in line with our legal commitments at the World Trade Organisation.

Commodity Code – a code used to categorise products when importing / exporting, usually 8 – 10 digits in length. The first 6 digits of the code are determined by the harmonised system set out by the World Customs Organisation. All member states must use the harmonised system, but can then further define at the 8 – 10 digit level.

Common External Tariff (CET) – The Common External Tariff ('CET') is the tariff schedule that the UK currently applies and will continue to apply during the transition period. The CET is the EU's applied MFN tariff schedule.

Compound Tariffs – a tariff rate that is a combination of an Ad Valorem tariff and a specific tariff added together, or one subtracted from the other.

Customs Duty – the duties paid on good imported to a country, often referred to as a tariff.

Compound Tariff Rate – is a combination of Ad Valorem and specific tariff, e.g. paying a percentage based on the value of the product, plus a fixed price per unit of the product.

Free Trade Agreement (FTA) – is a preferential arrangement between two countries / customs unions, that seeks to remove or reduce barriers to trade e.g. tariffs.

General Agreement on Tariffs and Trade (GATT) - the legal agreement between member states of the World Trade Organisation with the aim of minimising trade friction and barriers between countries.

GATT Goods Chapter – The first two digits of the commodity code identify the chapter in which the goods can be found in the Harmonised system as set out by the world customs organisation.

Goods Classification – For trading purposes all goods must be classified by a commodity code. A commodity code is a ten-digit number allocated to goods. The World Customs Organisation has set out the Harmonised System (HS) which is used internationally to standardise the names and numbers to by which to classify goods up to 6 digits.

Harmonised System - is the nomenclature set out by the WCO to classify goods.

Industrial Goods - Industrial goods are those which are used for the production of consumer goods e.g. machinery, raw materials, etc

Intermediate goods – Goods and services consumed as inputs by a process of production.

Most favoured Nation (MFN) is a WTO principle which means that, when applied to tariffs, the same tariffs must be applied to all trading partners, unless an exception applies, for example, that a trade agreement or other preferential arrangement is in place.

Nuisance Tariffs – are defined by the WTO as tariffs that are between zero and 2%. In the context of the Public Consultation on the UK's Global Tariff and development of the UK Global Tariff, the UK is considering removing comparatively low tariffs (2.5% or less).

Specific Tariff Rate – is a tariff calculated by a fixed charge per unit of the product.

Suspensions - Tariff suspensions are complete or partial reductions in the standard tariff rate. They allow unlimited quantities to be imported for a specific period of time, after which the rate applicable reverts to the standard tariff rate.

Tariff Lookup Tool – is a tool made available to the public to help classify goods and calculate tariff rates. This tool is owned and managed by HMRC, who handle all questions on goods classification.

Tariff Rate Quota (TRQ) – is a trade mechanism that allows a limited amount of a specific product to be imported into a country, at a lower applied tariff. TRQ's are most commonly used for agricultural imports.

Tariff(s) – are taxes applied to imports when they enter the country (also known as 'import duty' or 'customs duty')

Taxation (Cross-Border Trade) Act 2018 – The act that allows the Government to impose and regulate customs duties that are imported into, and exported from the UK once the UK has left the EU. As per section 8(5) of the Act, there are five key principles established in the act that the UK's trade policy must give due regard to.

Trader – An individual who buys and sells goods.

World Customs Organisation (WCO) – an intergovernmental organisation that regulates customs administrations across WTO members.

World Trade Organisation (WTO) – an intergovernmental organisation (which the UK is a member of) which sets out the global rules and regulations for trade for its members.

WTO Terms – The Most Favoured Nation (MFN) principle is sometimes referred to as 'WTO terms' which is a WTO principle which means that the same tariffs must be applied to any trading partner, unless an exception applies, such as a free trade agreement (FTA).

The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

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