Title: Taxation (Cross-border Trade) Bill – Unilateral Preferences **IA No:** **RPC Reference No:** N/A **Lead department or agency:** HM Treasury **Other departments or agencies:** HM Revenue and Customs, Department for International Development, Department for International Trade	**Impact Assessment (IA)** **Date: 20/11/2017** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Customs.Legislation@hmtreasury.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Not Applicable

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANDCB in 2014 prices)	**One-In, Three-Out**	**Business Impact Target Status**
Unknown	Unknown	Unknown	N/A	N/A

What is the problem under consideration? Why is government intervention necessary?

Currently, developing countries receive preferential access to the UK market through the EU's Generalised Scheme of Preferences (GSP). As the UK leaves the EU, primary legislation is needed to allow us to continue to have non-reciprocal reductions in tariffs to developing countries. The legislation sets out the framework for these reductions.

What are the policy objectives and the intended effects?

Introducing legislation for a UK unilateral preference scheme will allow developing countries to continue to trade on preferential terms with the UK. The Government has confirmed that market access of beneficiary least developed countries under the current EU scheme will be maintained, if not improved, and that it aims to maintain current access for other developing countries. At this point of the legislative process, this IA therefore assumes that unilateral preferences will remain broadly the same as the current EU GSP.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Options are compared against a baseline of hypothetically retaining the current EU scheme

Option 0 - Do nothing: No legislation
Option 1 - Legislate to establish a UK unilateral preference scheme

Will the policy be reviewed? No **If applicable, set review date:** N/A

Does implementation go beyond minimum EU requirements?	N/A			
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/A	**Non-traded:** N/A		

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Mel Stride ***Date:*** 20. 11. 17

Summary: Analysis & Evidence

Policy Option 1

Description: Powers to create a UK unilateral preferences regime

FULL ECONOMIC ASSESSMENT

Price Base Year N/A	**PV Base Year** N/A	**Time Period Years** N/A	**Net Benefit (Present Value (PV)) (£m)**		
			Low: Optional	**High:** Optional	**Best Estimate: Unknown**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional	Unknown	Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	None		None	**None**

Description and scale of key monetised costs by 'main affected groups'

There is no montised cost. The legislation will not create major changes that would lead to an additional cost to UK firms. Also, as the scheme is voluntary, there is no requirement for UK business to comply and no new regulation is being imposed on business.

Other key non-monetised costs by 'main affected groups'

There is no non-monetised cost.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional	Unknown	Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	Unknown		Unknown	**Unknown**

Description and scale of key monetised benefits by 'main affected groups'

There are no monetised benefits. As none of the benefits have been monetised, an NPV has not been presented.

Other key non-monetised benefits by 'main affected groups'

The key non-monetised benefits of a UK unilateral preference regime are the lower prices faced by consumers on goods imported from countries to whom unilateral preferences are offered.

Key assumptions/sensitivities/risks	**Discount rate (%)**	N/A

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:** N/A
Costs: **Unknown**	**Benefits:** **Unknown**	**Net:** **Unknown**	

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Background

The Taxation (Cross-Border Trade) Bill and approach for assessing impacts

1. The UK's future customs, VAT and excise tax regime will in part be determined by the outcomes of the negotiations with the European Union (EU). The Taxation (Cross-border Trade) Bill does not presuppose the outcomes of the negotiations and as is usual practice for indirect taxes, secondary legislation will be used to set out much of the rules on administration, collection and enforcement. The government is committed to ensuring that Parliament has due scrutiny of the secondary legislative programme and that businesses have as much notice as possible of the contents of secondary legislation to prepare for EU exit. The government will publish further details, including impact assessments where appropriate, when decisions have been taken on how the regimes will operate in practice.

2. There are connections between the content of the Taxation (Cross-border Trade) Bill and the Trade bill. The Taxation (Cross-border Trade) Bill will make provisions relevant to a new UK tariff, including the power to set customs duty, set quotas and preferences, and set out additional tariff-related provisions and how they will be administered. This will include, for example, the tariff applicable to developing countries (unilateral preferences) and in connection with UK trade remedies and disputes post-EU exit. This will allow the UK to impose trade remedy measures including anti-dumping duties, anti-subsidy duties and safeguard measures, where deemed appropriate following an investigation. The Trade Bill provides key measures that are required to build a future trade policy for the UK once we leave the EU.

3. There are additional border activities undertaken as part of official controls which, while vital to the UK's trade, safety and security, are not directly related to the collection of customs duty. These include the regulation of cross-border movements of large sums of cash, tackling counterfeit goods, detecting firearms, explosives and narcotics, disclosure of information to other government departments for non-tax purposes and certain non-tax import and export controls, such as animal, public and plant health checks. The government will set out proposals in relation to these other areas in due course, working with devolved administrations as appropriate. These issues are not covered in the Taxation (Cross-border Trade) Bill and therefore not included in this impact assessment (although this legislation will contribute to the wider safety and security agenda, for example through providing powers for continued customs co-operation).

4. The Taxation (Cross-border Trade) Bill will provide a framework for UK's future Customs regime which should accommodate most outcomes of the negotiations with the EU as well as a contingency scenario. It will also ensure that the VAT and excise regimes function as required. The impacts of the new regime on businesses, consumers and the economy will be determined by the outcome of the negotiations with the EU and the detailed design of the new regimes to be set out in secondary legislation as and when appropriate.

5. Parliament has voted as part of the debates on the notification of Article 50 to commence the withdrawal negotiations with the EU, not to disclose material that would put our negotiation

position at risk. In assessing the impacts of the Taxation (Cross-border Trade) Bill the government is therefore taking a proportionate and pragmatic approach, providing more detail on impacts where the outcome is less dependent on the negotiations with the EU.

6. The Taxation (Cross-border Trade) Bill confers certain powers on the Secretary of State for International Trade. This is the case for decisions around setting reduced tariffs to developing countries via unilateral preferences and to set-up and run the UK's future trade remedies policy which includes the power to impose duties under certain circumstances where imports cause injury to domestic industry. The Government has confirmed[1] that it will seek to continue offering unilateral preferences to developing countries and will require a trade remedies regime.

7. The impacts of the Taxation (Cross-border Trade) Bill are therefore assessed through three Impact Assessments:

- Firstly, an Impact Assessment covering the UK's future customs, VAT and excise regimes (excluding the unilateral preferences and trade remedies elements).
- Secondly this standalone Impact Assessment covering the UK's unilateral preference regime.
- And finally, a standalone Impact Assessment covering the UK's future trade remedies regime.

The problem under consideration

8. Trade plays a vital role in economic development in developing countries. Open trading systems allow nations and firms to export more, become more productive and create the jobs that are needed for inclusive growth. For small and low income countries, the domestic market for goods and services is small and so ensuring market access for developing countries to be able to export into the larger markets of developed countries is vital.

9. But international trade is still constrained by a wide range of tariff and non-tariff barriers. The poorest countries also face substantial constraints and barriers to trade relating to underdeveloped infrastructure, geographical disadvantages or economic vulnerability.

10. Since 1979, it has been recognised in the World Trade Organisation that developed countries may give developing countries "differential and more favourable treatment", and to make commitments to remove or reduce tariff or non-tariff barriers for developing countries without expecting reciprocity. The 'Enabling Clause' is the WTO legal basis for WTO members to provide zero or reduced tariffs on imports of products originating in developing countries. Each WTO member can unilaterally determine which countries and which products are included in their schemes.

11. Currently, developing countries receive preferential access to the UK market through the EU's Generalised Scheme of Preferences (GSP). As the UK leaves the EU, primary legislation is needed to allow us to continue to have non-reciprocal reductions in tariffs to developing countries. The legislation sets out the framework for these reductions. The

[1] https://www.gov.uk/government/news/government-pledges-to-help-improve-access-to-uk-markets-for-worlds-poorest-countries-post-brexit

detailed rules for administering the scheme will be set through secondary legislation. We shall follow up with a more detailed assessment on the impact to UK business at that stage.

12. The changes do not impose any new regulation of UK businesses. Whilst there are rules to comply with a preference scheme, the scheme is voluntary. There is no requirement to use preferential tariffs, but it is generally worthwhile in order to benefit from the tariff reduction.

13. Without new legislation, the UK risks not having a scheme under which to provide unilateral preferences for developing countries, meaning imports from the 71 developing countries that currently benefit from the scheme would revert to Most Favoured Nation (MFN) tariff rates[2].Without a preference scheme, higher tariffs may be introduced on goods from these countries, causing additional costs to businesses, substantial disruption to global supply chains and a harmful impact on economic development in the world's poorest countries.

What are unilateral preferences?

14. Unilateral trade preferences are schemes where WTO members offer non-reciprocal reductions in tariffs on goods from developing countries[3]. The EU currently offers unilateral trade preferences to 71 developing countries through the EU's GSP scheme.

The three tiers of preferences

Everything but Arms
Everything but Arms (EBA) is a special arrangement offered to Least Developed Countries (LDCs). LDC status is defined by the UN. Beneficiaries of the EBA preference scheme are granted import duty-free quota-free access to all products, except for arms and ammunitions. Currently, 49 countries receive EBA.

Generalised Scheme of Preferences (GSP)
The standard GSP arrangement grants tariff reductions to all countries not classified by the World Bank as high or upper middle income. Beneficiary countries of GSP have the partial or entire removal of tariffs on two thirds of all products. There are currently 13 beneficiary countries of GSP.

The enhanced GSP scheme (GSP+)
The enhanced preference scheme grants the full removal of tariffs on essentially the same product categories as those covered by the general arrangements, as long as the beneficiary country implements 27 international conventions. There are currently 9 beneficiary countries of GSP+.

[2] The MFN (Most Favoured Nation) tariff rate is the tariff rate which the UK is obliged to offer as the standard tariff rate to WTO members.

[3] There is also a mechanism for providing preferential access for imports of services from Least Developed Countries, known as the LDC Services Waiver at the WTO. Note that some developing economies also gain preferential access via Economic Partnership Agreements (EPA's)

Which countries receive preferences? [4]

Everything But Arms (EBA)			GSP	GSP+
Afghanistan	Guinea	São Tomé & Príncipe	Congo	Armenia
Angola	Guinea-Bissau	Senegal	Cook Islands	Bolivia
Bangladesh	Haiti	Sierra Leone	India	Cape Verde
Benin	Kiribati	Solomon Islands	Indonesia	Kyrgyz Republic
Bhutan	Laos	Somalia	Micronesia (Fed States)	Mongolia
Burkina Faso	Lesotho	South Sudan	Nauru	Pakistan
Burundi	Liberia	Sudan	Nigeria	Paraguay
Cambodia	Madagascar	Tanzania	Niue	Philippines
Central African Rep	Malawi	Timor-Leste	Tonga	Sri Lanka
Chad	Mali	Togo	Syria	
Comoros	Mauritania	Tuvalu	Tajikistan	
DRC	Mozambique	Uganda	Uzbekistan	
Djibouti	Myanmar/Burma	Vanuatu	Vietnam	
Equatorial Guinea	Nepal	Yemen		
Eritrea	Niger	Zambia		
Ethiopia	Rwanda			
Gambia	Samoa (until 2019)			

Economic Rationale

15. As discussed above, the primary purpose of unilateral trade preferences is to promote economic development in developing countries. There is evidence that GSP schemes have a significant impact on trade exports. Aiello et al (2013), Pareja (2012) and Gasiorek et al (2016) find that the EU's GSP scheme encourages developing countries' exports.

16. Whilst the primary rationale for unilateral preferences is to promote economic development in developing countries, the scheme also provides benefits to the UK. Reduced tariffs mean that UK businesses and consumers can access goods more cheaply. Most of the goods imported under GSP are agricultural goods (often goods which cannot be produced in the UK, for example coco and coffee beans) and clothing. Reducing tariffs on these goods is likely to benefit the UK retail sector and can help to keep prices lower for consumers. Other goods may be inputs into UK production, increasing UK competitiveness.

17. In 2015, the UK imported £18.7bn of goods from eligible countries and of this, £8bn of goods have received a zero or reduced tariff as a result of the GSP scheme.

[4] Correct at time of publication – countries may move in or out of eligibility over time, and the list of countries may be different at the time of EU exit. For example, Samoa is due to have graduated from LDC status by 2019.

In 2016 how much did beneficiary countries import in goods into the UK?

Everything But Arms (EBA)						GSP		GSP+	
Country	Imports (£million's) 2015	Country	Imports (£million's) 2015	Country	Imports (£million's) 2015	Country	Imports (£million's) 2015	Country	Imports (£million's) 2015
Afghanistan	2.0	Guinea	0.8	São Tomé & Príncipe	0.0	Congo	24	Armenia	1
Angola	690	Guinea-Bissau	0.0	Senegal	26	Cook Islands	0.0	Bolivia	13
Bangladesh	2,216	Haiti	2.1	Sierra Leone	1.0	India	6,093	Cape Verde	0.0
Benin	1.0	Kiribati	0.0	Solomon Islands	0.7	Indonesia	1,090	Kyrgyz Republic	1.0
Bhutan	0.2	Laos	22	Somalia	0.1	Micronesia (Fed States)	0.0	Mongolia	9
Burkina Faso	1.3	Lesotho	0.1	South Sudan	0.0	Nauru	0.0	Pakistan	1,096
Burundi	0.3	Liberia	0.8	Sudan	8.0	Nigeria	1,458	Paraguay	13
Cambodia	851	Madagascar	38.8	Tanzania	23.1	Niue	0.0	Philippines	409
Central African Rep	0.1	Malawi	17.3	Timor-Leste	0.0	Tonga	0.0	Sri Lanka	1,143
Chad	0.2	Mali	0.6	Togo	4.5	Syria	5.0		
Comoros	0.1	Mauritania	6.0	Tuvalu	0.2	Tajikistan	0.0		
DRC	1.6	Mozambique	71.3	Uganda	13.4	Uzbekistan	1.0		
Djibouti	1.4	Burma	101	Vanuatu	6.7	Vietnam	3,141		
Equatorial Guinea	264	Nepal	18	Yemen	1.3				
Eritrea	0.0	Niger	0.2	Zambia	15.0				
Ethiopia	147	Rwanda	3.2						
Gambia	3.7	Samoa	0.7	**Total EBA**	**4,288**	**Total GSP**	**11,783**	**Total GSP+**	**2,659**

Source:-HMRC trade (UK trade info)

Description of options considered

The Baseline

18. Under the current system, imports from beneficiary countries receive unilateral preferences as set out in the EU's GSP. Our baseline for comparing options is based on a hypothetically retaining the current EU scheme.

19. We compare this against two options below. The first is a 'do nothing' option, implying no legislation is available to establish a UK preference scheme after EU exit. The second option is to proceed with legislation to establish a UK preference scheme.

Option 0 – Do nothing: No legislation

20. If the UK does not legislate to enable a preference scheme to be set up, we assume that the UK would leave the EU with no mechanism to provide preferences. 'Do nothing' is not

therefore equal to the 'status quo' as it would imply a lack of tariff preferences and therefore a change on exiting the EU. In this case, we assume that all imports from the current beneficiary countries would attract the MFN tariff rate and procedures.

Option 1 –Legislate to establish a UK unilateral preference scheme (our preferred option)

21. Introducing legislation for a UK unilateral preference scheme will allow developing countries to continue to trade on preferential terms with the UK. The Government has confirmed that market access of beneficiary least developed countries under the current EU scheme will be maintained, if not improved, and that it aims to maintain current access for other developing countries. At this point of the legislative process, this IA therefore assumes that unilateral preferences will remain broadly the same as the current EU GSP. Further details will be set out in future impact assessments which assess the impact of secondary legislation.

Impact of options considered

Option 0 – Do nothing: No legislation

22. This option involves trading with developing countries under MFN tariff rates. Under this scenario there would be increases in tariffs faced by the 71 currently eligible countries across many products. Using preferential tariffs businesses in beneficiary countries of the current GSP scheme were able defer to foregone tariffs from exports to the UK. Note that amount of foregone tariffs varies depending on total amount of imports from developing economies and the type of goods imported.

23. The actual impact of this will depend on the reaction of firms and consumers to the increased tariffs. The implied relative change in prices of goods could be absorbed by business, passed on to consumers (who may respond by paying higher prices, or switching to substitute goods), or the change in relative prices may lead to importers switching to importing goods from other countries.

24. This could lead to increased tariff revenue for government. However, the negative impacts on UK businesses and consumers are expected to be significant. Importers will face higher prices, which could impact on UK competitiveness, and UK consumers could face higher prices. This would lead to disruptions to supply chains and costs to business if they need to change their sourcing arrangements. This switching of suppliers is a particular risk to beneficiary countries, which could see reduced demand for their exports, impacting on production, jobs and poverty rates in the developing world.

25. The UK is a major international partner for developing countries and loss of access to the UK market could damage developing countries' economies. Some sectors in developing countries are particularly reliant on their exports to the UK so the impact may be concentrated in certain countries and sectors, such as clothing and agriculture. In the short term this could mean developing countries finding it much harder to find external revenue, which could lead to balance of payments issues and slower economic growth.

26. UK businesses would not have to ensure that imports from developing countries comply with rules of the scheme, as described within the legislation. This could lead to a saving to UK

business. We expect the costs described above to outweigh any benefit from simplification in administrative procedures.

Option 1 – Legislate to establish a UK unilateral preference scheme (our preferred option)

27. Under this scenario, the UK would introduce legislation to allow developing countries to trade via a preference scheme and receive a reduction on the MFN tariff rate. At a minimum, this would mean that the UK would allow businesses in beneficiary countries to defer tariffs and continue to benefit as they do from the current arrangements. There would be no cost increase to UK firms from importing from developing countries, which would occur if trade reverted to the MFN tariff.

28. UK firms are familiar with trading under the EU's GSP scheme and procedures for ensuring that goods brought into the UK meet criteria set out by EU legislation. The UK's legislation will not create major changes that would lead to an additional cost to UK firms. Also, the scheme is voluntary, firms can still import into the UK just not using the preferential tariff rate (instead paying the MFN rate). As such there is currently no requirement for UK business to comply and no new regulation is being imposed on business.

Specific impact tests

Business impacts

29. There will not be any impact on business from the unilateral preference legislation. Therefore, for the purposes of this impact assessment, the estimated cost to business is zero. At this point in the legislation there should be no significant changes from the EU baseline.

SMEs impacts

30. As above, there will not be any impacts on SMEs from the from the unilateral preference legislation.

Equalities impact

31. As discussed above, this legislation is not introducing any new regulation on business and as such the preferred option is not expected to have any significant impact on gender equality or differential impact based on protected characteristics. More broadly, the distributional impact of the unilateral preferences scheme in the UK will depend on how individuals benefit from the scheme as consumers, producers and employees – we do not expect any significant change in these factors from the introduction of primary legislation.
32. The unilateral preferences scheme can help to support gender equality in developing countries by helping to create job opportunities in exporting sectors. These are often in the agricultural or textiles/apparel sectors, which tend to employ a large proportion of women.

References

Gasiorek et al(2016) The impact of preferences on developing countries' exports to the European Union: bilateral gravity modelling at the product level. Empirical Economics, 50 (1). pp. 59-102.

Aiello et al (2009). "Do trade preferential agreements enhance the exports of developing countries? Evidence from the EU GSP."

Pareja (2012) "Do nonreciprocal preference regimes increase exports?" ERSA conference papers