

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

CUSTOMS TARIFF (ESTABLISHMENT)
(EU EXIT) REGULATIONS 2020

TAXATION CROSS-BORDER TRADE (SPECIAL
PROCEDURES SUPPLEMENTARY AND GENERAL
PROVISION ETC.) (EU EXIT) REGULATIONS 2020

CUSTOMS TARIFF (ESTABLISHMENT AND
SUSPENSION OF IMPORT DUTY) (EU EXIT)
(AMENDMENT) REGULATIONS 2021

Monday 22 February 2021

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The Committee consisted of the following Members:

Chair: MR PHILIP HOLLOBONE

Ali, Rushanara (*Bethnal Green and Bow*) (Lab)

Andrew, Stuart (*Treasurer of Her Majesty's Household*)

Bell, Aaron (*Newcastle-under-Lyme*) (Con)

Caulfield, Maria (*Lewes*) (Con)

Duguid, David (*Parliamentary Under-Secretary of State for Scotland*)

Johnson, Kim (*Liverpool, Riverside*) (Lab)

Jones, Mr Marcus (*Vice-Chamberlain of Her Majesty's Household*)

† McFadden, Mr Pat (*Wolverhampton South East*) (Lab)

† Mann, Scott (*North Cornwall*) (Con)

Mishra, Navendu (*Stockport*) (Lab)

Morris, James (*Lord Commissioner of Her Majesty's Treasury*)

† Norman, Jesse (*Financial Secretary to the Treasury*)

† Rutley, David (*Lord Commissioner of Her Majesty's Treasury*)

† Smith, Jeff (*Manchester, Withington*) (Lab)

Thompson, Owen (*Midlothian*) (SNP)

Williams, Craig (*Montgomeryshire*) (Con)

Winter, Beth (*Cynon Valley*) (Lab)

Kevin Maddison, *Committee Clerk*

† **attended the Committee**

First Delegated Legislation Committee

Monday 22 February 2021

[MR PHILIP HOLLOBONE *in the Chair*]

Customs Tariff (Establishment) (EU Exit) Regulations 2020

4.30 pm

The Chair: Before we begin, I remind Members about the social distancing requirements. Spaces available to Members are clearly marked. Mr Speaker has asked that Members wear masks in Committee, except when speaking. *Hansard* colleagues would be grateful if you could send any speaking notes to hansardnotes@parliament.uk. I will now call the Minister to move the first motion, and speak to all three instruments. At the end of the debate, I will put the question on the first motion, and then ask the Minister to move the second and third motions formally.

The Financial Secretary to the Treasury (Jesse Norman): I beg to move,

That the Committee has considered the Customs Tariff (Establishment) (EU Exit) Regulations 2020 (S.I., 2020, No. 1430).

The Chair: With this it will be convenient to consider the Taxation Cross-border Trade (Special Procedures Supplementary and General Provision etc.) (EU Exit) Regulations 2020 (S.I., 2020, No. 1439) and the Customs Tariff (Establishment and Suspension of Import Duty) (EU Exit) (Amendment) Regulations 2021 (S.I., 2021, No. 63).

Jesse Norman: It is a pleasure to serve under your chairmanship, Mr Hollobone. The Customs Tariff (Establishment) (EU Exit) Regulations 2020 were laid before the House on 16 December as part of a package of tariff legislation that came into force at the end of the transition period, and ensured that the UK had a fully functioning customs regime at the beginning of the year. The Customs Tariff (Establishment and Suspension of Import Duty) (EU Exit) (Amendment) Regulations 2021 were laid on 21 January and came into force the following day, as I will explain. The Taxation Cross-border Trade (Special Procedures Supplementary and General Provision etc.) (EU Exit) Regulations 2020 were also laid on 16 December last year, and came into force at the end of the transition period.

Under section 8 of the Taxation (Cross-border Trade) Act 2018, it is the Treasury's responsibility to set the tariff of the United Kingdom. To that end, the Customs Tariff (Establishment) (EU Exit) Regulations 2020 have two main functions. First, they set the specific tariff rates that will apply to each good imported into the UK from countries with which we do not have a preferential trading arrangement. Secondly, they establish a system to ensure that goods that arrive in the UK are properly classified by a commodity code, both to identify what the good is and to enable the correct rate of tariff to be charged.

The Government announced on 19 May 2020 that those tariffs—called the UK global tariff, or UKGT—would replace the EU's common external tariff at the end of the transition period. The UKGT duly came into force at 11 pm on 31 December. It is the UK's first independent tariff schedule since 1973. Importantly, the UK global tariff was created in consultation with a wide range of individuals, charities, businesses, business representative organisations and public organisations. Many factors were considered in setting the tariff, including the interests of domestic consumers and producers, the desirability of external trade and productivity, and existing levels of competition.

The UKGT strikes a balance between those, tailoring the schedule to the UK economy. It is a simpler, more liberal tariff schedule than the one we previously applied, and it is in pounds, not euros. Nuisance tariffs of less than 2% have been removed, and a banding structure has been put in place to round tariffs down into set bands. Many inputs to production have been liberalised in order to support UK manufacturing by keeping costs down. Many products that have low or non-existent levels of UK production have been liberalised, such as pistachios—of which the UK does not, as far as I am aware, have a substantial crop—from 1.6% to 0%, and cotton yarn, from 4% to 0%.

Simply put, now that the UK is no longer part of the European Union, there is no reason to keep tariffs on things that it does not produce unless we, as a Government, have our own grounds for doing so. Around 100 environmental goods have been liberalised in order to promote the deployment of renewable energy generation and energy efficiency, carbon capture and a circular economy through recycling and reducing single-use plastics. That supports the UK's ambition to reach net zero by 2050, and flags the Government's willingness to use trade policy in order to help us deliver on environmental and climate change objectives.

Overall, the UKGT almost doubles the number of tariff lines that have zero import tariffs relative to the EU's common external tariff, with a little under 50% of tariffs now set at 0% compared with 27%, as was previously the case. Crucially, the tariff rates above 0% in the UKGT apply only to those countries with which we do not have preferential trading arrangements. As right hon. and hon. Members will be aware, we have agreed a trade and co-operation agreement with the EU—the first zero-tariff, zero-quota trade agreement that the EU has ever reached. That discharges a Government manifesto commitment.

Beyond that, we have already secured trade agreements with 64 non-EU countries, worth £216 billion of trade in 2019. That accounts for 97% of the value of trade with non-EU countries that we set out to secure agreements with at the start of the trade continuity programme. No other country has ever negotiated so many trade deals simultaneously. The effect of that, combined with other trade agreements and other trade measures, is that the UKGT ensures that 91% of trade has been coming into the UK tariff free, on World Trade Organisation terms or through preferential access, from January this year.

I have highlighted that the UKGT tariffs that we have implemented are specifically designed to suit UK interests and will provide a stable basis for our global trade going forward. The other statutory instruments under consideration are more technical in nature. The Customs

Tariff (Establishment and Suspension of Import Duty) (EU Exit) (Amendment) Regulations 2021 were introduced after the initial package of tariff legislation was laid. The technical modifications in that statutory instrument relate to discrepancies found within the trade remedies regime. A disparity existed for a very limited number of goods between what was being put into practice at the border and what was in the legislation laid on 16 December. That has now been corrected. Given the nature of the disparity, it was deemed appropriate to bring the changes into force as soon as possible.

Finally, the Taxation Cross-border Trade (Special Procedures Supplementary and General Provision etc.) (EU Exit) Regulations 2020 set out continued simplified arrangements for imported goods that are subject to “special customs procedures”, such as cases where the good is imported for a processing operation or is imported on a temporary basis. That also allows those goods to be released from those procedures without the need for a further declaration or duty payment. That category includes pallets, containers and railway carriages imported under the temporary admission procedure, as well as equipment imported under the same procedure for military exercises in the UK. The instrument also makes a minor technical modification to the 2018 Act that provides the legal basis for applying the tariffs set out in the continuity trade agreements, which may in some cases be higher than the UKGT rate. The modification allows traders to choose the UKGT rate if it is more beneficial to them.

The UK global tariff is a simpler, easier-to-use and generally lower tariff regime than the common external tariff that it replaces. It is a regime that has been specifically tailored to the UK economy, and will provide a stable basis for our global trade. I commend the statutory instruments to the Committee.

The Chair: Members will be disappointed to know that we have only until 6 o'clock to debate the measures.

4.38 pm

Mr Pat McFadden (Wolverhampton South East) (Lab): Thank you for your chairmanship, Mr Hollobone. I also thank the Minister for his explanation of the statutory instruments. As he said, this is about the customs regime and our tariff schedules following our departure from the European Union. The tariff rates were first announced by the Government in May last year as the UK global tariff, which succeeds the EU's common external tariff.

The changes will see a large proportion of tariff lines undergoing some degree of change. The Minister mentioned a couple of them—pistachios and cotton thread, I think. The explanatory notes state that the effects of all that are quite varied. I do not expect him to go through everything, because it will deal with a great many different product lines, but if he could give us a couple of examples of perhaps the most dramatic changes, and one or two where there is no change at all, that would help to illustrate what we are talking about, because they will have a varied effect on business. From what the Minister said, I think the policy aim is to get rid of tariffs where there are no realistic UK production or competition implications, but he may correct me if I am wrong in that impression.

Will the Minister also say something about the impact on consumers? I noted his hymn of praise for all the trade agreements that the UK has been able to agree in the past year or two—I think 60-odd were mentioned.

The Minister might have been slightly coy, but I believe that most of those were trade agreements to which we were previously already a party as an EU member; they were not newly negotiated agreements. He may correct me if I am wrong on that. The casual listener—I am sure that many are listening to our proceedings—might have thought that there were 64 new trade agreements. Perhaps there will be one day, but I think most were continuity, rolled-over agreements.

The statutory instruments deal with the tariff schedule changes. What we have learnt, in particular in the past six or seven weeks, is that while tariffs are a major part of international trading rules, the fluidity of modern trade does not rest on tariffs alone; it also rests on the ease and speed with which goods and services can cross borders. I would be grateful were the Minister to update us on the situation with some of the non-tariff barriers we have seen in the news recently.

One thinks of sectors such as shellfish and small distilleries, of trade between Great Britain and Northern Ireland, and of much more, not to mention the export of share trading from London to Amsterdam or the difficulties faced by the UK's world-leading musicians in touring. Those things are not about tariffs, but they are about trade barriers. Taken together, they are having a major disruptive effect on the sectors I have mentioned. I do not want the Minister to be too coy. I would be grateful if he were to update us on the Government's discussions with such sectors and on what the plan is to overcome the difficulties that we have heard about in recent weeks.

As the Minister said, the second and third statutory instruments include a number of technical provisions, alongside changes that seek to replicate arrangements that existed when the UK was a member of the EU under which import duty can be suspended or relieved in certain circumstances. That is often when raw materials or semi-manufactured goods are imported and then processed for re-export or placed on the home market, and when goods such as items for exhibition are imported temporarily. We recognise that, as the notes set out, those changes are technical and the impact expected to be little.

Turning to the third instrument, the Customs Tariff (Establishment and Suspension of Import Duty) (EU Exit) (Amendment) Regulations 2021, if I have understood it correctly, it appears largely to be about amending the first instrument, the Customs Tariff (Establishment) (EU Exit) Regulations 2020. Will the Minister tell us how that came about and why it was not possible to include in the first instrument any necessary corrections that had been identified before it came before us, particularly as we are debating the original and the correction on the same day? It seems a bit odd that we have ended up debating one statutory instrument with another one revising it on the same day. Will he tell us how that came about?

Finally, on timing, the instruments are intended to provide continuity following the end of the transition period. For example, the third instrument states that it will come into force on 22 January, but today is 22 February. What has been the legal basis for the operation of the rules between the publication of the instruments and their being debated here and now, some six or seven weeks after the end of the transition period?

4.44 pm

Jesse Norman: I thank the right hon. Member for Wolverhampton South East for his questions and for his highlighting of certain specific items on which he wants some discussion and feedback.

The right hon. Gentleman asked about areas in which there have been dramatic changes and ones in which there have been no changes. As he has said, there are many areas in which there has been very little change indeed. To give an example, I have talked about the reduction in pistachios and cotton from 1.6% to 0%, which is irrelevant, as we do not produce pistachios in this country. There are also goods—spanners and wrenches, for example—for which the tariff has been reduced from 1.7% to 0%. I am sure that is important for anyone in the car repair trade, and it is part of the overall structure of the approach, which, as he has mentioned, is to liberalise in order to reduce inputs to production costs.

Of course, the right hon. Gentleman is right to flag the fact that in other areas the tariff arrangements are larger. It is worth mentioning that there will be a difference between tariff arrangements that govern goods that enter under these arrangements, and those that enter under a free trade agreement. For example, a finished car that arrives from South Korea, with which we have an FTA, can enjoy a 0% tariff, whereas a similar vehicle arriving from Thailand would have a 10% tariff.

The right hon. Gentleman also asked about the consumer impact. Again, the point of this approach is, in part, to keep production costs low, and the hope is that, by and large, the effect of that will be to lower prices for consumers. There are other areas in which it has been important for the global tariff to reflect the balance between producers and consumers. For example, in certain agricultural tariff areas, although the level overall has been simplified—the levels have been reduced in some cases, and the numbers simplified—there are key areas in which the tariffs remain, broadly speaking, what they were before.

The right hon. Gentleman asked about free trade agreements. Of course, it is true that in many cases the effect of these free trade agreements is to replicate trading arrangements that we enjoyed with the EU countries beforehand, but those agreements still need to be negotiated. The good news is that we start from a very high position of previous alignment with those countries, which has certainly facilitated the process.

The right hon. Gentleman also asked about non-tariff barriers. I can only admire his ingenuity in crowbarring a discussion of non-tariff barriers into the debate about this statutory instrument, which is explicitly about a UK global tariff. It is as though we have separated out black and white and, although we are debating white, he wants to discuss black. Nevertheless, I am of course happy to discuss it. He mentioned shellfish. He will be aware that the Government have put in place a £23 million fund designed to support seafood businesses across the UK that may have experienced a verifiable loss during the movement of goods to the single market. The Government have also committed to a £100 million investment to rejuvenate the industry and coastal communities across the UK. The Government take those issues seriously.

In the case of musicians, as the right hon. Gentleman knows, the Government made a very comprehensive set of suggestions to the EU. Unfortunately, we have not been able to negotiate those as we would have liked, but

that is not through any fault on this side of the equation. I will not speculate on why it is, but it is certainly nothing to do with tariffs and nothing to do with the Government's position, which remains to support our musicians in their employment, where we can, as much as possible. That is evidenced by the £1.6 billion of cultural support funding that we have provided.

As for the legal basis, as the right hon. Gentleman will be aware, these instruments have been introduced on the basis that I described in my speech: the first SI under the made affirmative procedure, and the second and third as described in the explanatory memoranda. However, if he wants any further discussion on that, I am happy to write to him.

Mr McFadden: Can I just ask a question on that final point about the legal basis? The reason I ask is that we are now seven weeks on, and we are debating a set of SIs that are designed to ensure continuity after the end of the transition period. From a legislative point of view, how long can this go on for? In theory, could we come here after six or nine months and say that we need the statutory instrument to ensure continuity after the end of the transition period? In other words, how long after the fact can Parliament debate laws that have effectively come into force—in this case, seven weeks before we have debated them? Is this endlessly elastic, or is there a cut-off point at which the process—the mountain of secondary legislation needed to adapt to this—has to be done and dusted?

Jesse Norman: I think it is worth saying that much of the legislation, as the right hon. Member will know, has taken the form of negative statutory instruments, via the negative procedure, and they have not been prayed against, and one must therefore assume that they are acceptable to Members across the House. On the basis of the rules that he described, it is not infinitely extendable. Under sections 51 and 52 of the 2018 Act, the Treasury may make regulations that come into force before being debated in Parliament, but that is provided only if the debate occurs within 60 days after coming into effect. That has been the legal basis of the operation since 1 January until today.

Question put and agreed to.

**TAXATION CROSS-BORDER TRADE
(SPECIAL PROCEDURES
SUPPLEMENTARY AND GENERAL
PROVISION ETC.) (EU EXIT)
REGULATIONS 2020**

Resolved,

That the Committee has considered the Taxation Cross-border Trade (Special Procedures Supplementary and General Provision etc.) (EU Exit) Regulations 2020 (S.I., 2020, No. 1439).—*(Jesse Norman.)*

**CUSTOMS TARIFF (ESTABLISHMENT AND
SUSPENSION OF IMPORT DUTY)
(EU EXIT) (AMENDMENT)
REGULATIONS 2021**

Resolved,

That the Committee has considered the Customs Tariff (Establishment and Suspension of Import Duty) (EU Exit) (Amendment) Regulations 2021 (S.I., 2021, No. 63).—*(Jesse Norman.)*

4.53 pm

Committee rose.