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# Potential Impacts of Brexit Scenarios on Transportation of Goods Between Finland and the UK

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# Abstract

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Britain's possible exit from the European Union will have far-reaching effects. This study concentrates on the potential effects of Brexit on the transportation of goods between Finland and the UK. The Brexit scenarios that are given the most focus are 'remain' and 'no deal', in which case the UK would leave the EU without having negotiated a withdrawal deal. The UK leaving the EU is expected to cause impacts in three main areas: tariffs, payments and customs procedures.

This thesis was carried out as a desktop study. It includes an analysis of the status of trade between Finland and the UK in the 2000s. The analysis is based on literature on the subject and is supported by graphs I created with Excel using trade data I downloaded from the Finnish Customs Uljas database. The UK is a major trading partner with Finland, and Finland maintains a positive balance of trade with the UK. However, the trade volumes between the countries have been in decline since 2002. A turnaround in the trade trend between Finland and the UK does not seem likely in the years following Brexit.

The starting point for the study is the European single market, which is an ongoing project that promotes seamless trade between EU member states. This is further facilitated by the EU Customs Union, which ensures that member states do not pay tariffs on goods obtained from other member states, and do not carry out customs checks on goods that are in free circulation in the EU.

Tariffs are one of the main barriers to trade. If the UK leaves the EU, it may introduce tariffs on a wide range of imports from the EU. Likewise, the EU Common Customs Tariff will apply to goods imported to Finland from the UK in the absence of a trade deal that removes all tariffs and quotas from trade between the UK and the EU. Therefore, importing and exporting certain goods between Finland and the UK will become more expensive.

The SEPA system facilitates the transfer of payments between EU member states. Payments are unlikely to be affected by the UK leaving the EU without a withdrawal agreement, as a country can remain within the SEPA system even if it leaves the EU, as long as it continues to fulfil the conditions required by SEPA.

The introduction of customs checks on goods transported between the UK and member states such as Finland is likely to be one of the biggest impacts of Brexit on transportation. Customs checks on products that previously did not require customs treatment are likely to cause delays and congestion in main customs thoroughfares such as the Port of Dover and Finnish ports. This can have a detrimental effect on supply chains, and some manufacturers have already left the UK in anticipation of difficulties. Companies that engage in trade in goods with UK will need to prepare for the possibility of delays and additional costs resulting from the increase in customs procedures.

**Keywords**
Brexit, trade, transportation, customs, tariffs, payments

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# 1 Introduction

The British exit from the European Union – Brexit – is a topic that is shrouded in uncertainty, but its effects are potentially wide-reaching. In 2017, the UK was Finland's eighth-largest trading partner in imports, and Finland's seventh-largest trading partner in exports (Statistics Finland 2019). How will Finnish companies that trade with the UK be affected by Brexit? How will the transportation of goods be affected? What about payments? What should companies take into account in preparation for a possible no-deal Brexit? These are the main questions that this paper aims to answer.

This study focuses on the possible outcomes of a no-deal Brexit in contrast with the way things are currently, with the UK being a member state of the European Union. The possible outcomes of the "deal" scenario are afforded less attention because while writing this paper, the likelihood of a withdrawal agreement being reached has become increasingly remote. Furthermore, even if a deal were reached, the deal would only be a prelude to eventual negotiations that would have to take place regarding the actual terms of the withdrawal. The withdrawal agreement does not actually contain a detailed plan of what the UK's future relationship with the EU would be, and instead focuses on the technicalities of the withdrawal. Therefore, there are too many possible scenarios to reasonably consider the actual outcomes of the "deal" scenario. (Channel 4 News 2019.) However, some possible "deal" scenarios are discussed in section 3.5.1.

After the description of the research methods, in chapter 3, as theoretical background, I will provide an overview of relevant stages in the process of European Union. After this, I will provide an analysis of the status of trade between Finland and the UK as further theoretical background. This is followed by a description of the three main Brexit scenarios: deal, no deal, and remain. I will then tackle the question of the potential impacts of the various Brexit scenarios on the transportation of goods between Finland and the UK.

I will examine the areas of transportation where impacts from Brexit can be expected. I have identified three main areas where impacts can be expected: tariffs, cross-border payments, and customs procedures. One chapter is dedicated to each area. I will provide theoretical background at the beginning of each chapter, after which I will examine the potential impacts under the "remain" and "no deal" scenarios. For each area, I will describe the current state of affairs, and these are in effect descriptions of the outcome under the "remain" scenario, as this scenario involves the UK remaining in the EU. This is followed by a discussion of the impacts on transportation under a "no deal" scenario for each topic.

## 1.1 Background

With a referendum on Brexit held on 23 June 2016, which was narrowly won by the leave camp, the UK took its first steps towards leaving the EU. The exit process under Article 50 of the Lisbon Treaty was formally initiated on 29 March 2017. This started a two-year countdown, at the end of which the withdrawal should have been put into effect, either with a withdrawal agreement or without one. There was also the possibility that Brexit could be cancelled or that the two-year withdrawal period could be extended. (BBC News 2018a.) In fact, the Brexit deadline has been delayed twice: once in March 2019 for a shorter period, and in April the deadline was delayed until 31 October 2019 (Sandford 2019). As the year 2020 draws to a close so another Brexit deadline is approaching, as the Brexit transition period is due to end on 31 December 2020. By this date, the outlines of a deal should be in place, or else the UK will automatically be excluded from the EU's main trading arrangements, and a "no deal" Brexit will take place. (Edgington 2018.)

The UK is one of Finland's main trading partners. For many businesses that engage in trade with the UK, it is important to prepare for the changes that Brexit will bring. This brings us to the aims and objectives of this thesis.

## 1.2 Aims and objectives

The aim of this thesis is to gain an understanding of how the transportation of goods between Finland and the UK will be affected if Brexit takes place, under the two likely Brexit scenarios, "remain" and "no deal". The main areas where Brexit can be expected to have an impact on goods transportation are tariffs, payments, and customs procedures.

The study will be of use to Finnish companies that engage in importing or exporting or otherwise transport goods to or from the UK. Consumers who order goods from the UK may also find the information useful. Furthermore, politicians who are concerned with trade relations with the UK may find the information useful.

## 1.3 Delimitation

This study focuses on factors of Brexit that relate to the transportation of goods. Therefore, I will focus on aspects related to tariffs, border controls, and currency movements under the different Brexit scenarios, as well as under the current circumstances, while the UK is still a member of the EU. I will not be studying the impacts of Brexit scenarios on trade in services. Nor will I be studying the effects of Brexit on the free movement of labour, nor on the possible impacts of Brexit on national economies.

## 1.4 Key concepts

**Article 50 of the Treaty of Lisbon** provides for the withdrawal of member states from the EU. Once the article is invoked, the Treaties will cease to apply to the country when the withdrawal agreement enters into force or two years after the notification of withdrawal. The legal right to withdraw from the EU has only existed since the entry into force of the Treaty of Lisbon in 2007. (European Parliament 2018; Rothwell, Capurro & Midgley 2018.)

**Barrier to trade**: an obstacle to trade typically imposed by a government. Natural barriers to trade include distance and language. Tariffs are an important barrier to trade, while non-tariff barriers include import quotas, buy-national regulations, red-tape barriers, exchange controls, voluntary export restraints, local content requirements and export credit subsidies. (Krugman, Obstfeld & Melitz 2018, 262-265; Rice University [n.d.].)

**Hard border**: A border that is controlled and protected by customs officials, police, or military, as opposed to one where people are allowed to pass through with very little controls. (BBC News 2018b; Cambridge Dictionary 2018.)

**Hard Brexit** involves the UK leaving the single market and the customs union in conjunction with leaving the EU. It would allow Britain to regain control of its borders, and entails new trade deals being made and applying British laws within Britain. WTO rules would be applied to trade with EU member states. (Buchan 2018.)

**Import quota**: A restriction on the quantity of a good that may be imported. The restriction is usually enforced by issuing licences to a group of persons or companies. In some cases, the right to sell in a country is given directly to the governments of exporting countries, as in the case of sugar and apparel. Import quotas always raise the domestic price of the imported good. (Krugman & Obstfeld 1991, 195-196.)

**No deal**: If a withdrawal agreement is not agreed upon before end of the two-year period after the invoking of Article 50 of the Treaty of Lisbon, and this period is not extended and Brexit is not cancelled, then the UK would leave the European Union without an agreement outlining the terms of the withdrawal or new trade relations. (BBC News 2018a; BBC News 2018b.)

**Soft Brexit** would see the UK would remain in the European single market, the customs union, or both, even though it would no longer be an EU member state. Remaining in the single market would mean that trade in goods and services with European member states would remain tariff-free. Remaining in the customs union would mean that border checks would not be carried out on exports. The model is applied to Norway, Iceland and Liechtenstein, which are part of the European Economic Area and are thus part of the single market. (BBC News 2018a; Buchan 2018.)

**Tariffs**, also called customs duties, are a tax that is levied when a good is imported. Tariffs are the oldest form of trade policy and are a traditional source of government income in the USA. Their real purpose is not only to provide revenue, but also to protect certain domestic sectors. (Krugman & Obstfeld 1991, 181-182.)

**Withdrawal agreement**: The withdrawal agreement sets out conditions for withdrawal from the EU under Article 30 of the Treaty of Lisbon. The agreement focuses on issues related to the withdrawal process, and does not concern the future relationship between the EU and the UK. This is because, according to the European Commission, an agreement on the future relationship would require a different legal basis, and would be necessary to negotiate with a country that is not a member state. However, a Political Declaration setting out the key objectives for the future relationship has been attached to the withdrawal agreement. (Lexology.com 2018.)

**World Trade Organization (WTO)**: The WTO is a global organisation that manages trade rules for 164 member countries. It is also a forum for negotiating trade agreements and settling trade disputes. If the UK does not agree on a withdrawal agreement and Brexit goes ahead, then it will trade with EU member states in accordance with the rules set by the WTO. (Collins 2018; WTO.org 2018.)

## 2 Research methods

I am carrying out desk research on the topic. This can also be called secondary research (Travis 2019). Considering the large amount of information searching required to establish a clear picture on the subject because of the lack of expert academic studies or books on the subject, desk research is a suitable method for tackling the question at hand.

### 2.1 Research design

My research question is: What are the different Brexit scenarios and how will these affect trade between Finland and the UK in terms of freight forwarding?

The investigative questions I aim to answer are:

IQ1: What is the current state of trade between Finland and the UK, with respect to freight forwarding?

IQ2: What are the possible outcomes of Brexit if:

IQ2.1 the UK remains in the EU in terms of:

- tariffs
- border controls
- currency movement

IQ2.2: the UK leaves without a deal and continues under WTO rules (‘no deal’) in terms of:

- tariffs
- border controls
- currency movement

IQ3.1: How will any changes caused by Brexit affect the operations of Finnish shipping companies?

IQ3.2: How will any changes caused by Brexit affect the operations of the customers of Finnish shipping companies?

IQ4: What recommendations can be made to shipping companies?

The theoretical component of the study consists of a description of the history of the European union in relation to international trade and a discussion on tariffs and barriers to trade.

## 2.2 Data collection tools

I have used Google to search for articles in online newspapers such as the BBC, and publications by the Finnish and UK governments, the European Union, organisations such as the Confederation of Finnish Industries and Statistics Finland, and think tanks. I have used the databases available in Haaga-Helia's library services – mainly ProQuest – to find research papers on related subjects.

Due to the current nature of the topic and the focus on trade between the UK and Finland, books are not available my research topic. However, I have found relevant information in books for the theoretical sections: the section focusing on the history of the European Union, the section on tariffs theory, and the sections on customs processes in trade between Finland and EU member states and non-EU countries.

For the purposes of analysing the volume of trade between Finland and the UK, I accessed data available on the Finnish Customs Uljas database. I imported the data in .csv format and analysed the data in Excel.

## 2.3 Data analysis methods

I carried out an analysis of trade volumes between Finland and the UK using import and export data available from the Uljas database provided by Finnish Customs in order to support the information I obtained from the article by Kaarna, Kuusisto, Telasuo and Tulonen (2018). I analysed the data using pivot tables and other tools in Excel, and created graphs based on the data to insert into the analysis based on the article.

I initially imported the data classified according to the CN (combined nomenclature) format. However, the total import and export volumes in my analysis did not match the volumes mentioned in the above-mentioned article, which used data based on the SITC classification. After looking into the issue I discovered that data in the SITC format, which is maintained by the UN, is usually used in economic comparisons due to its international comparability, and therefore, I re-imported the data in SITC format and carried out the analysis again (Finnish Customs 2020a). After this, the totals that I obtained were in line with the totals quoted in the article.

### 2.4 Validity and reliability

Properly executed desk research provides a satisfactory understanding on the subject. Due to the transient nature of the topic, as there are changes taking place in relation to Brexit on an almost daily basis, I have attempted to find the most up-to-date information whenever possible. Since the topic has to do with future scenarios, a certain degree of uncertainty is necessarily involved in the results. However, a large part of the possible outcomes of Brexit involves implementing procedures that already exist, particularly in the case of customs processes in trade with countries outside the EU. Here, the uncertainty lies mainly in how the customs authorities are able to cope with the increase in workload caused by the change in customs processing requirements, as the changes in terms of what is required to be done are already known.

# 3 Unification and separation

In this chapter, I will present the key areas of the European Union that are relevant in relation to Brexit. These are the single market, and the EU Customs Union. I will also provide an overview of the status of trade between Finland and the UK, including which product groups Finland principally exports to the UK and imports from the UK. To conclude the chapter, I will provide a description of the various Brexit scenarios: deal, no deal, and remain.

During the time of writing this paper, the likelihood of a withdrawal agreement being approved and a deal being reached has become increasingly slim, while the likelihood of a no-deal Brexit taking place has increased. With the British parliament having passed a bill preventing a no-deal Brexit from taking place, the likelihood of a no-deal Brexit taking place has decreased as well (Sparrow 2019). However, it may be possible for Boris Johnson to evade this block (Walker, P. 2019).

## 3.1 The single market

The European Union is an ambitious project of unification, to which Brexit poses a major setback. Already in 1991, the European Community, which consisted of 12 member states at the time, constituted the most important customs union in the world (Krugman & Obstfeld 1991, 230). More recently, it has been described as “the world’s prime example of how a customs union can work” (Krugman & al. 2018, 301).

The purpose of the single market program was to prepare the European Community for globalisation (Dinan 2014, 205). In the 1980s, the European Community (EC) had 12 member states: The six founding members were France, Germany, Italy, Belgium, Netherlands and Luxemburg. Denmark, Ireland and the United Kingdom joined in 1973. Greece joined in 1981, and in 1986 Spain and Portugal joined. (European Commission 2019a.)

> The single market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services. A functioning single market stimulates competition and trade, improves efficiency, raises quality, and helps cut prices. The European single market is one of the EU’s greatest achievements. It has fuelled economic growth and made the everyday life of European businesses and consumers easier.
> (European Commission 2019b.)

*The Cost of Non-Europe* report was compiled under the leadership of Paolo Cecchini and published in 1988. It was based on a questionnaire to 16,000 companies in the four largest member states, and aimed to estimate the cost to the EC of maintaining a fragmented market. Areas that were examined include cost to firms of administrative procedures and delays caused by customs formalities, the opportunity cost of lost trade, and the costs to governments caused by border controls. While the extensive report was deemed to be overoptimistic, it played an important part in the positive sentiment regarding the single market programme. (Dinan 2014, 218-219; En.euabc.com 2019.)

A target year of 1992 had been set for the implementation of the single market. By the end of 1992, the necessary measures to eliminate borders had been implemented by the European Council. These include the removal of customs formalities, paperwork and inspections. Other related measures include removal of duties on the fuel in trucks and a new statistical system for monitoring trade after the elimination of border checks. Requirements regarding plant and animal health, the livestock trade and trade in agricultural products were also necessary to implement the removal of border controls. (Dinan 2014, 220.)

The single market programme consisted essentially of a host of measures to remove technical barriers to trade via product standards, testing and certification, movement of capital, public procurement, free movement of labour, free movement of services, transport, new technologies, company law, intellectual property, and company taxation. Businesses were most affected by standards, testing and certification. (Dinan 2014, 221.)

A prerequisite for free movement of goods was that products are of a certain quality standard. This was achieved through statutory harmonisation of essential health and safety requirements with which products had to conform. If this approach was not feasible, then the old approach of developing a single, Community-wide, detailed set of technical specifications for a given product was used. (Dinan 2014, 221.)

While the single market was successfully implemented by 1 January 1993, it still remains a work in progress. The benefits of the single market are not always realised because its rules are not known or implemented, or they are hampered by other barriers. In 2015 the European Commission launched the Single Market Strategy, which aims to improve mobility for service providers, ensure that innovative business models can flourish, make it easier for retailers to do business across borders, and enhance access to goods and services across the EU. (European Commission 2019a.)

## 3.2 The European Union Customs Union

The European Union Customs Union is integral to the functioning of the single market (European Commission 2019c). It is a key component of the European Economic Community as outlined in the Treaty of Rome in 1958 (Kesner-Skreb 2010). The customs union was completed in 1968, when all customs duties and restrictions were removed between the six member states of the European Economic Community. National customs duties on products from the rest of the world were replaced by a common tariff. (European Commission 2019d.)

The introduction in 1987 of the Single Administrative Document helped to standardise customs processes in trade between member states and third countries. The Community Customs Code was adopted in 1992 by the EU. (European Commission 2019d.) Before this, customs regulations were harmonised through directives which, after adoption, had to be implemented in the legislation of each member state. This meant that rules were not applied throughout the Community since the countries would implement the directives in their legislation at different times, causing discriminatory situations. (Kesner-Skreb 2010.)

In 1993, the free movement of goods finally become a reality. Customs formalities at borders were dispensed with, eliminating long queues for checks and good declarations at EU borders. Uniform customs legislation also became directly applicable in all EU member states. (European Commission 2019d.) A new Union Customs Code was adopted in 2013, and took effect in 2016 (European Commission 2019d; Kesner-Skreb 2010).
In the meantime, in 1994, the Integrated Tariff of the European Union (TARIC) was launched in digital format in 1994 (European Commission 2019d). TARIC is a multilingual database that provides information on all requirements relating to specific products when importing into the EU. These include the temporary suspension of duties and antidumping duties. (European Commission 2019e; European Commission 2019f.)

In 2003, a computerised transit system was adopted in the EU, featuring electronic declaration and processing. The EU launched the Customs Risk Management System in 2005. The system links more than 800 customs offices, providing a digital platform for exchanging information about risks and irregularities. In 2005, the EU adopted legislation to enhance customs security through measures such as advance cargo information, risk-based controls, and measures aiming for end-to-end supply chain security. (European Commission 2019d.)

In 2008, the EU introduced the Authorised Economic Operator status. It is an internationally recognised quality mark which indicates that a company has a secure role in an international supply chain, and that its customs procedures comply with procedure. The voluntary program provides access to simplified customs procedures, and the possibility of fast-tracking shipments through some customs, safety and security procedures. (European Commission 2019d.)

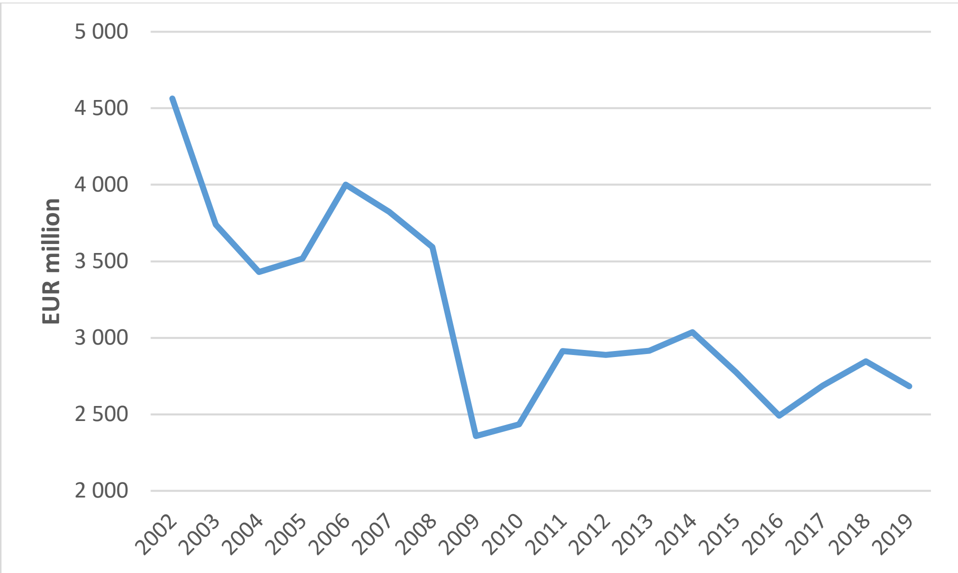
### 3.3 Analysis of the status of trade between Finland and the UK

In 2017, the UK was Finland's eighth-largest import partner based on value, and Finland's seventh-largest export partner in terms of value. Imports from the UK amounted to EUR 1.8 billion, which is 2.9% of Finland's total exports in 2017. Exports were EUR 2.7 billion, or 4.5% of the total. (Statistics Finland 2019.)

#### 3.3.1 Exports from Finland to the UK

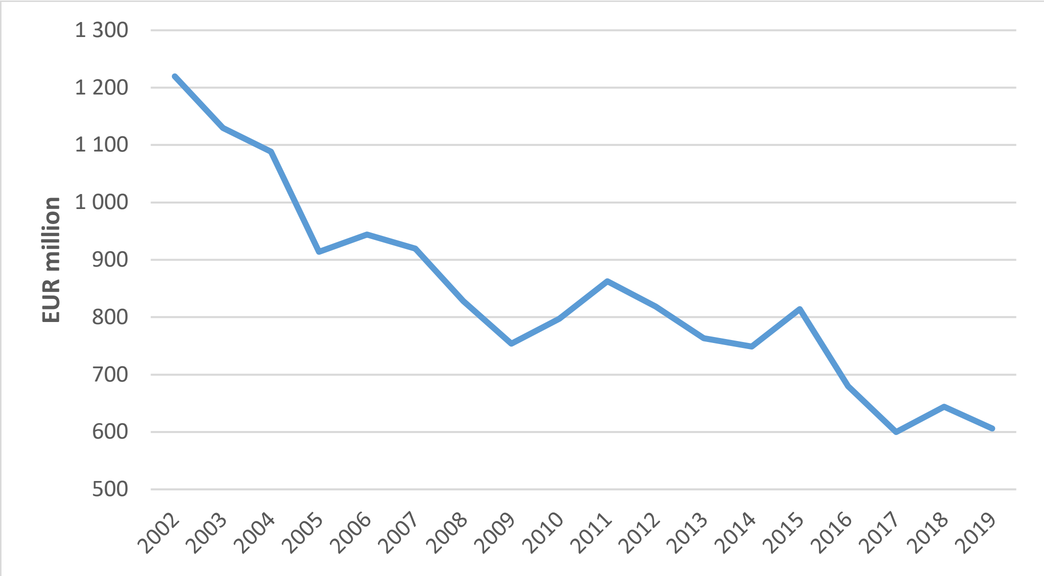
The proportion and value of Finland's goods exports to the UK have declined steadily in recent years. The proportion was 4.5% in 2017, while in the early 2000s, the UK accounted for nearly a tenth of Finland's exports. The highest annual value of exports to the UK in the 2000s was in 2002 at EUR 4.6 billion. (Kaarna, Kuusisto, Telasuo & Tulonen 2018.)

Figure 1. Total exports from Finland to UK, 2002–2019 (Finnish Customs 2020b)



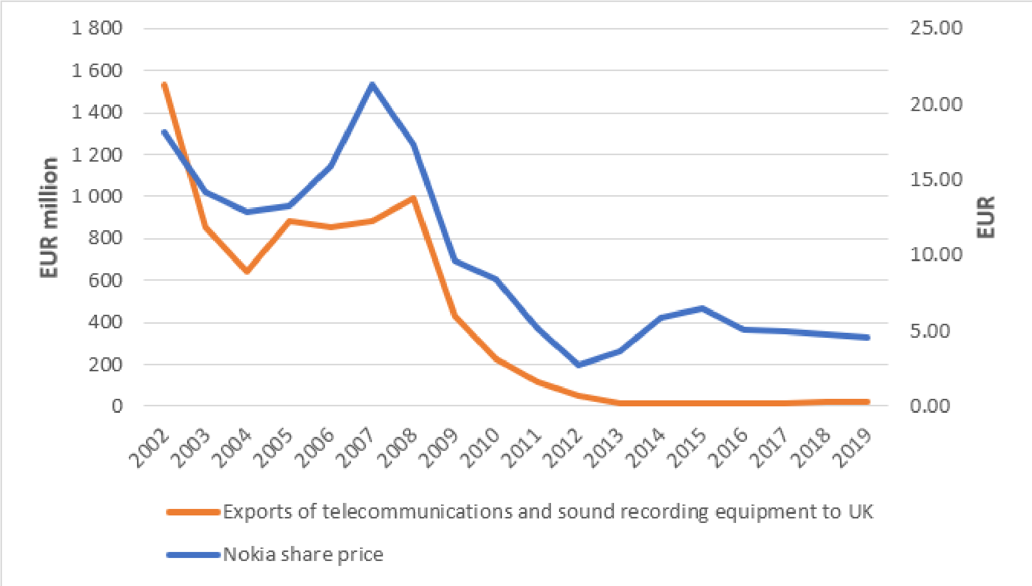

In 2017, the largest product group in terms of value exported to the UK was paper and board (Kaarna & al. 2018). The share of paper industry exports has declined substantially in the past decades, as it accounted for over 40% of Finland's exports to the UK in the early 1990s, while in recent years, the proportion has been under 30%. The UK remains the third-largest importer of paper and board from Finland after the USA and Germany (Finnish Customs 2018).

Figure 2. Exports of paper, paperboard and articles thereof to UK 2002–2019 (Finnish Customs 2020b)



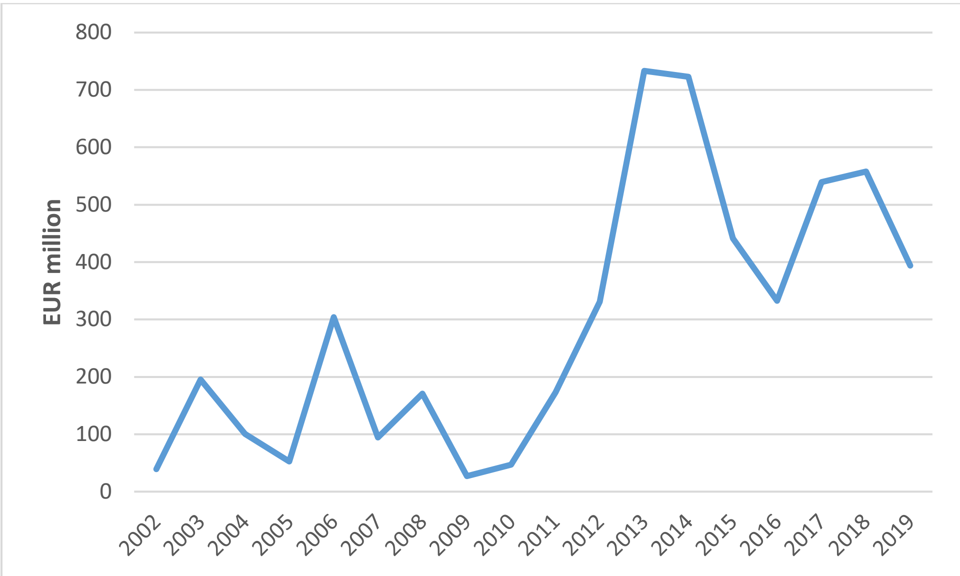

In the first decade of the 2000s, mobile phones were also a very important export to the UK, with the proportion of exports exceeding that of the paper industry in 2001, 2002 and 2008. (Berg-Andersson, Kaitila, Kotilainen & Lehmus 2017.) Figure 3 below shows exports of telecommunications and sound recording equipment to the UK in comparison with the Nokia share price.

Figure 3. Exports of telecommunications and sound recording equipment to UK vs. Nokia share price, 2002–2019 (Finnish Customs 2020b)



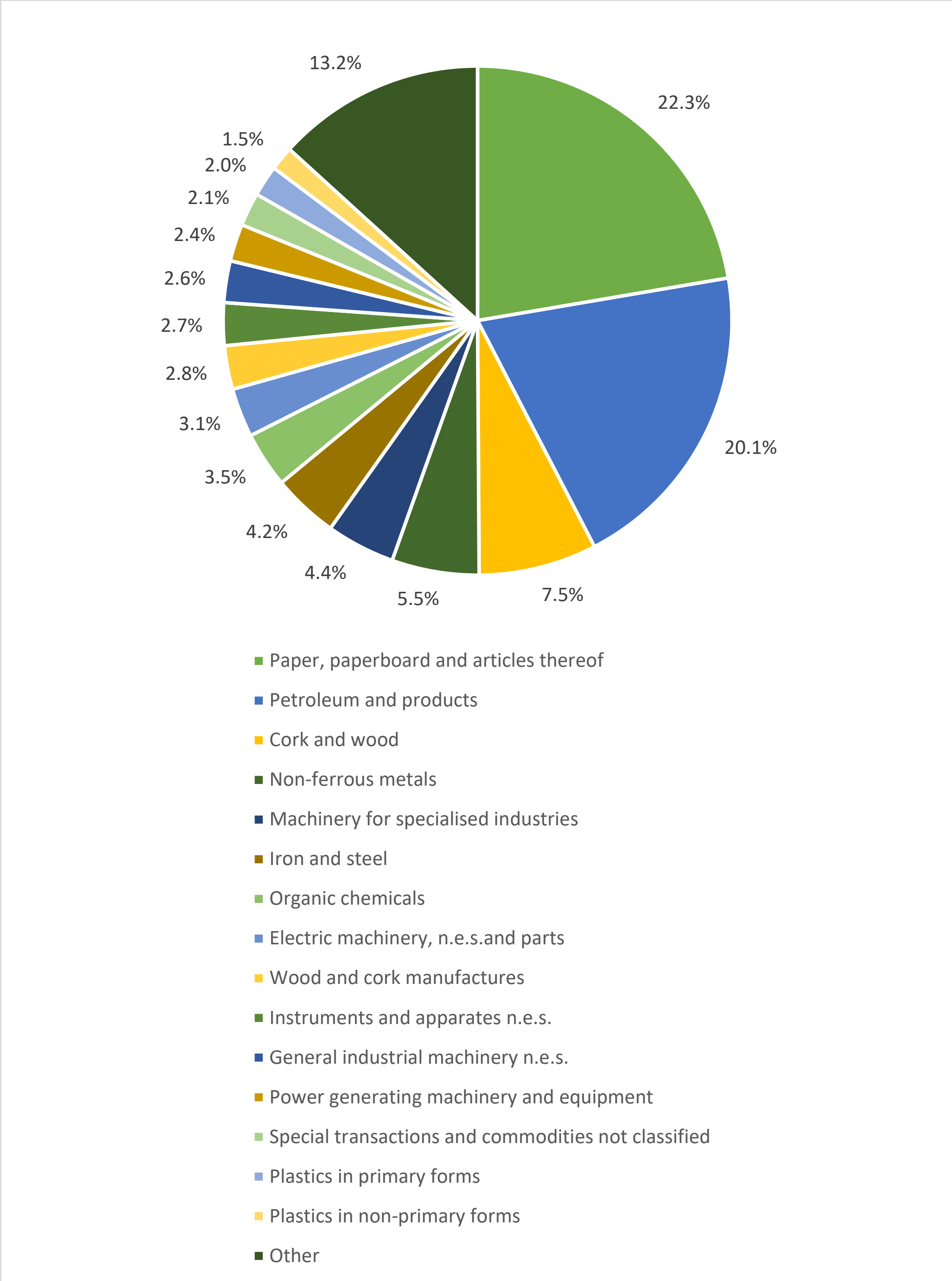

The proportion of refined oil products exports to the UK has increased substantially during the past decade. In 2017, they accounted for one fifth (EUR 539 million) of Finland's exports, while in 2007, their proportion was much lower. (Finnish Customs 2018; Kaarna & al. 2018.) In January-August 2018, the UK was the third-largest importer of Finnish refined oil products in terms of value after Sweden and the Netherlands (Finnish Customs 2018).

Figure 4. Exports of petroleum and products to UK, 2002–2019 (Finnish Customs 2020b)




Some of the other important product groups exported from Finland to the UK in 2017 were steel, tractors, medical devices and equipment, and other chemical industry products (Kaarna & al. 2018). Metals and metal products accounted for 10.7% of Finland's exports to the UK in 2017, industrial machines and equipment for 9.7%, other chemical products for 9.3% and wood products for 7.5% (Finnish Customs 2018). Figure 5 shows the top 15 exports from Finland to the UK in 2017 according to the SITC level 2 classification.

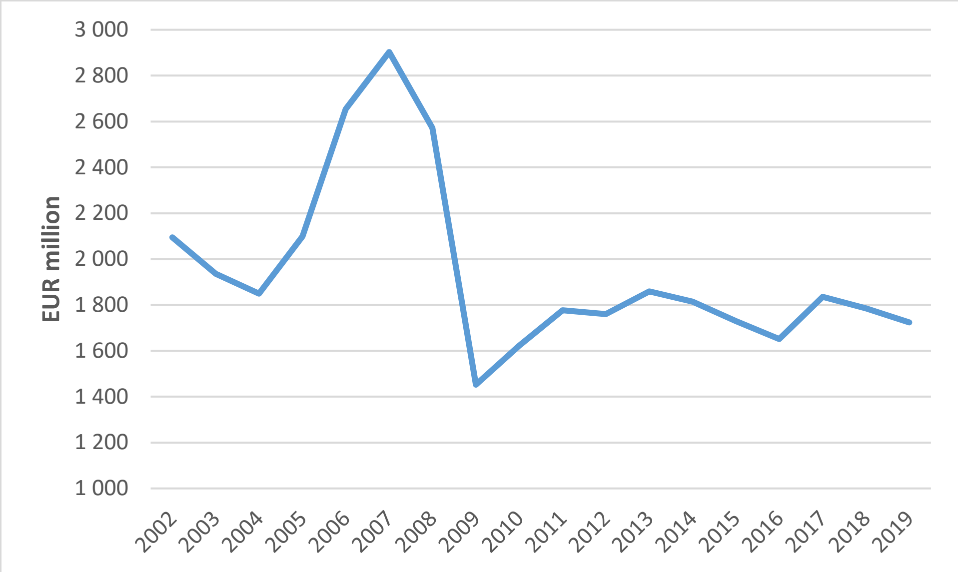
Figure 5. Top 15 exports from Finland to the UK in 2017, SITC level 2 (Finnish Customs 2020b)



### 3.3.2 Imports from the UK to Finland

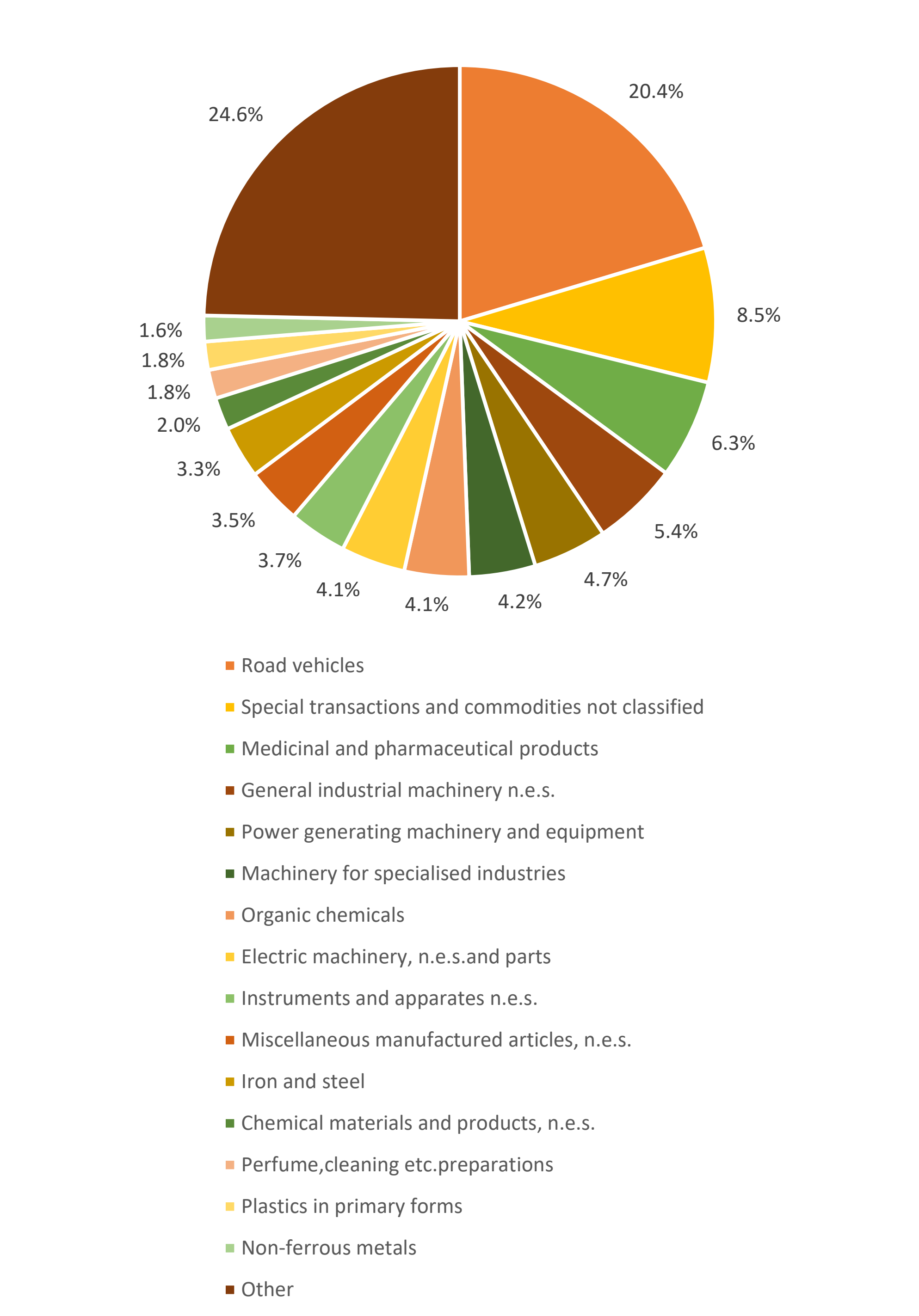
The value of imports from the UK has also declined, though not as quickly as exports. Imports in the 2000s peaked in 2007 at EUR 2.9 billion (5% of imports from the UK), after which they have declined, remaining under EUR 2 billion since 2009 (around 3% of the total). (Kaarna & al. 2018.)

Figure 6. Total imports from UK, 2002–2019 (Finnish Customs 2020b)



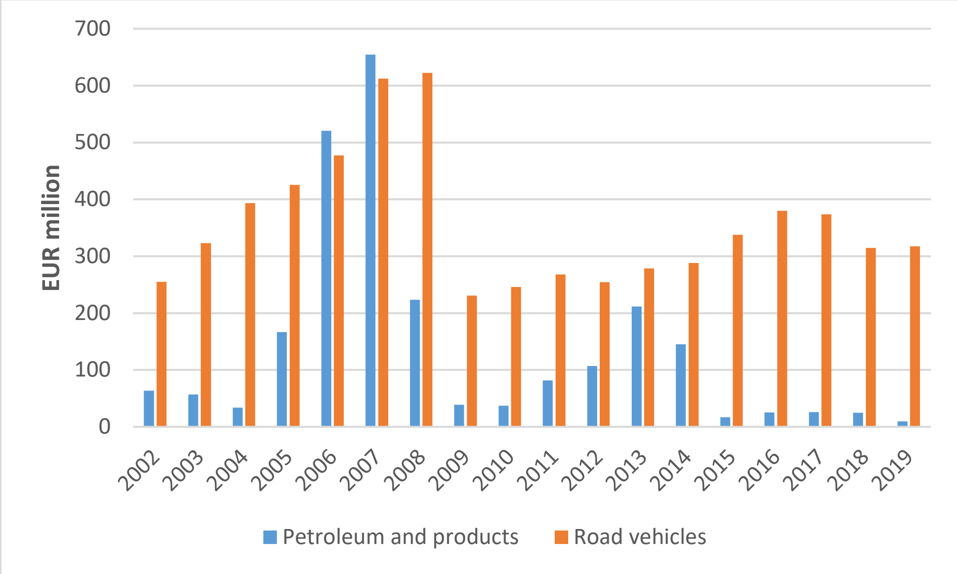

In 2017, the main items imported to Finland from the UK were machines, cars, and pharmaceuticals. The proportion of motor vehicles has declined slightly over the past decade, while the shares of the other largest groups in terms of value have increased. Around a quarter of the value of imports consisted of transport vehicles and more than a fifth consisted of chemical industry products and machines and equipment. (Kaarna & al. 2018.)

Figure 7. Top 15 exports from Finland to the UK in 2017, SITC level 2 (Finnish Customs 2020b)




The data obtained from the Uljas database shows that imports of petroleum and oil products and road vehicles peaked in 2007 and 2008, respectively. After a substantial decline, road vehicle imports continued at a moderate level while petroleum imports remained at relatively low level.

Figure 7. Imports of petroleum and products vs. road vehicles, 2002–2019 (Finnish Customs 2020b)




### 3.3.3 Overview of trade between Finland and the UK

With Finland's exports to the UK consistently exceeding imports from the UK, Finland's balance of trade with the UK has been positive in the 2000s. The trade surplus was at its highest in 2002, when it reached nearly EUR 2.5 billion. The trade surplus was slightly over EUR 1 billion in 2015. (Berg-Andersson & al. 2017.)

In 2016, a total of 2,455 companies engages in the export of goods from Finland to the UK, while 14,850 companies engaged in importing form the UK to Finland. An important portion of business between Finland and the UK also takes place through the subcontractor network. There were around 200 subsidiaries of Finnish companies in the UK. (Kontkanen 2018.)

## 3.4 Brexit

There are three main scenarios for Britain's future relationship with the European Union. These scenarios can be called deal, no deal, and remain. (European Movement International [n.d.]; SBS News 2019).

The UK's departure from the EU is a unique situation in that the negotiations for a future treaty start from a point of statutory and regulatory harmony between the states concerned (Institute for Government 2018, 2). If the UK reaches a deal with the EU, it will have to determine which agreements it remains in and which ones it leaves from. One of the principal options in Brexit is whether to continue being a part of the single market – and thus accept the four freedoms: the free movement of goods, services, capital and labour. The free movement of goods is an especially important issue in Brexit because of the backstop – the assurance that a hard border is not created between Northern Ireland and Ireland after Brexit (Campbell 2019). Other agreements whose membership will shape the future of UK-EU relations include the European Economic Area (EEA), the European Free Trade Association (EFTA), and the European Union Customs Union (EUCU). (European Movement International [n.d.].)

## 3.5 Brexit scenarios

If Brexit takes place, the UK will become a so-called third country in relation to EU member states, like Norway and Switzerland, and all other non-EU member states. However, it can still be a third country with "deep and special partnerships", which is the outcome Theresa May has proposed. (Behr, R. 2018.)

### 3.5.1 Deal

In the first Brexit scenario – deal – the EU and UK agree on a deal that sets out the terms under which the withdrawal takes place. The terms are stated in a legally binding Brexit withdrawal agreement, and a non-legally binding statement on future relations. If the withdrawal agreement is implemented, this will be done within a transition period, also called the implementation period, that lasts from the end of the withdrawal period, 29 March 2019, to 31 December 2020. The transition period can be extended once by up to two years. This would allow businesses to prepare for the time when the legislative changes of Brexit enter into force. (Edgington 2018, HM Government 2018a, European Commission 2019g.) Although the Brexit deadline has been postponed until October 31, Boris Johnson, the Prime Minister of the UK, has indicated that the transition period would not be extended beyond 31 December 2020 (Mason & Walker 2019).

The withdrawal agreement contains a term called the backstop, which ensures that a hard border is not created between Northern Ireland and the Republic of Ireland. Under the backstop provision, the entire UK would remain in the European Union Customs Union after the transition period, until a better solution is found. (Buchan 2018.)

Essentially, the withdrawal agreement focuses more on how the technicalities of the UK leaving the EU are to be taken care of, and what happens after the UK leaves is not actually specified. The terms of the future relationship between the UK and the EU remain to be agreed upon. There are several alternatives that are being discussed. These include the Norway, Canada and Singapore models. (Channel 4 News 2019.)

The Norway model involves remaining in the European Economic Area (EEA) and the single market. Norway contributes to the EU budget and complies with most EU laws, including the four freedoms of movement of goods, services, capital and people. However, Norway cannot influence EU decision-making because it is not represented in the main European institutions. (Morris 2019a.)

Norway is not a part of the EU's Common Agricultural Policy or the Common Fisheries Policy, and therefore, it can determine its own policy in these areas. Norway is also not covered by EU rules on justice and home affairs. (Morris 2019a.) Norway is also not in the customs union, meaning that it does not apply the EU's common tariffs. It has to carry out customs checks at its border, but it is also free to negotiate trade deals with other countries. (Channel 4 News 2019.)

The fact that, in the Norway model, customs checks need to be carried out poses a problem for the UK because of the backstop issue. If the Norway model were to be applied, a new customs arrangement with the EU would have to be devised, and this model would be called "Norway plus." (Morris 2019a.)

The Canada-style arrangement involves signing a trade deal resembling the Comprehensive Economic and Trade Agreement (CETA). This would allow control over EU immigration, and freedom to make trade deals around the world. (Channel 4 News 2019.) CETA removes tariffs on a majority of products exported between Canada and the EU, and makes contracting between the regions open at local, regional and federal levels. Border controls would not be removed, but electronic inspection methods are proposed to be introduced to speed up customs processes. (BBC News 2019a.)

Due to the Irish hard border question, a "Canada plus" model is proposed, in which investments would be made in new technology to carry out the customs checks without requiring stops to be border. One problem with the model is that it took seven years to negotiate CETA. Therefore, reaching an improved version of the deal could take a very long time. (Channel 4 News 2019.)

### 3.5.2 No deal

If no deal is agreed upon and a decision to remain in the EU is not made through a second referendum, the default outcome would be for the UK to cut ties with the EU, and relations with the EU and other countries to take place under World Trade Organisation (WTO) rules (Morris 2019b). In this situation, the basic assumption is that "the UK and EU would trade on non-preferential WTO terms with tariffs set at EU applied Most Favoured Nation (MFN) rates." However, in practice, these terms of trade would be subject to negotiation. (HM Government 2018b.) The UK would be free to set tariffs and negotiate trade deals with the countries with which it trades (European Movement International [n.d.]). It will also need to renegotiate some 750 trade deals that it is a part of as an EU member state (McClean 2017).

### 3.5.3 Remain

The third alternative is to remain in the EU. This alternative seems more likely than before because reaching a deal has turned out to be nearly impossible, and a no-deal Brexit has been made illegal following a bill passed by the parliament (Sparrow 2019). On the other hand, Boris Johnson, the current British Prime Minister, seems even more determined than his predecessor Theresa May to see Brexit through.

The most likely way for the remain scenario to be realised is if a new referendum is held and the remain vote wins. Under the remain outcome, the UK's withdrawal from the EU would be cancelled and trade would continue to take place just as it has until now with the UK being a full member of the European Union. Thus, in the following pages, the descriptions of the current state of affairs in customs, payments and tariffs are in effect descriptions of results under the remain scenario. These are contrasted with the likely outcomes under the no deal scenario. Where applicable, real-world consequences will also be discussed.

# 4 Tariffs

It is natural for countries to strive to protect their domestic industries. There are various actions that governments can take to protect their national industries and improve the country's competitiveness. These include imposing taxes, or tariffs, on international transactions, granting subsidies for other transactions, setting legal limits on the value or volume of certain imports, and other measures. These are called barriers to trade, and the way in which a government applies these actions is called its trade policy. (Krugman & al. 2018, 243.)

Barriers to trade can be natural barriers, tariff barriers, or nontariff barriers. Natural barriers to trade include distance and language. Nontariff barriers include import quotas, which limit the quantity of a certain good that can be imported. Embargoes prohibit the importing or exporting of a product altogether. Buy-national regulations involve governments generating rules that favour domestic manufacturers and retailers. For example, a government can impose an overt ban on using imported steel for railways, as is done in the USA. In a more subtle form of regulation, entry of foreign products can be made difficult through customs regulations, such as requiring that bottles are a quart in size rather than a litre. (Rice University [n.d.].) A red-tape barrier restricts imports without imposing a formal restriction. A famous example is a French decree in 1982, under which Japanese VCRs had to pass through a small customs house in Poitiers, which is nowhere near a port (Krugman & al. 2018, 265).

Exchange controls require companies that earn foreign exchange (currency) from exports to sell the currency to a control agency such as a central bank. This way, governments are able to control the amount of foreign exchange sold to companies and control the amount of products that can be imported, contributing towards a favourable balance of trade. (Rice University [n.d.].) Other non-tariff barriers include voluntary export restraints, local content requirements and export credit subsidies. (Krugman & al. 2018, 262-265).

Tariffs make imported products more expensive, making them less able to compete with domestic products (Rice University [n.d.]). Tariffs cause the price of a good to increase in the importing country, and to decrease in the exporting country. As a consequence, consumers lose in the importing country and gain in the exporting country. The government that set the tariff also gains revenue. (Krugman & al. 2018, 249.)

## 4.1 Tariffs theory

Tariffs, or customs duties, are a tax that is levied when a good is imported. They are the simplest form of trade policy, and serve a dual purpose: they bring revenue to the governments that impose them, and they protect certain domestic sectors. Tariffs provide a price advantage to locally produced goods over similar imported goods. (Krugman & Obstfeld 1991, 181-2; WTO.org 2019a.)

For an importing country, local producers gain because the price of domestically sold goods increases and domestic production rises. This results in an increase in the producer surplus – the difference between the price at which a producer is willing to sell and the price that he or she receives. (Krugman & al. 2018, 250-251.)

The foreign export price is also lowered, and domestic consumption falls. Domestic consumers are worse off, as they must pay a higher price for the products as a result of the tariff. The government gains benefits from added revenue obtained via the tariffs. Thus, tariffs cause both positive and negative effects to the various parties concerned within a country. (Krugman & al. 2018, 251-252.)

The net effect of a tariff on welfare can be calculated as the consumer loss less producer gain less government revenue. In the exemplary theoretical case of a small country that cannot affect foreign prices, the costs of a tariff clearly exceed its benefits. (Krugman & al. 2018, 254.)

While tariffs have a purely economic incentive at their core, they are often used as weapons in trade wars. Country A imposes tariffs on country B's exports, causing country B to retaliate by setting tariffs on country A's products. This can easily cause both countries to be worse off due to the reduction in trade volumes. (Krugman & al. 2018, 253.)

In addition to retaliation, tariffs can be used to resolve economic and trade disagreements. US President Trump has been using tariffs as a negotiating tool, having launched an investigation into Chinese trade policies in 2017 (BBC News 2019b). The tariffs address a variety of issues that the US has with China including China's failure to buy more US agricultural products, and the failure of China's administration to curb sales of the synthetic opioid fentanyl (BBC News 2019c). Key issues behind the trade war also include intellectual property theft and forced technology transfer, which are endemic in China (South China Morning Post 2019).

There are two types of tariffs: specific tariffs and ad valorem tariffs. Specific tariffs are applied as a fixed charge for each unit of goods, e.g. $3 per barrel of oil. Ad valorem tariffs are collected as a fraction of the value of the imported goods, e.g. a 10 percent tariff on completed cars. (Krugman & al. 2018, 243.)

Tariffs have widely been used by countries to protect certain domestic industries from competition from foreign imports. Thus, they are an important tool for protectionism. However, more recently, governments have preferred to protect domestic industries through nontariff barriers including import quotas and export restraints. (Krugman & al. 2018, 244.) However, tariffs have seen a comeback with the numerous tariffs recently imposed in the trade war between the United States and China.

For an entity that is transporting goods from one country to another, tariffs are essentially no different than shipping costs. If a country imposes a tariff on a product, then the shipper in another country will not be willing to move the product unless the price difference between the two markets is at least the amount of the tariff. (Krugman & al. 2018, 246.)

One of the objectives of the Treaty of Rome establishing the European Economic Community was to eliminate tariffs on trade between EU member states. Signed in 1958 and ratified in 1959, the treaty provided for a 12-year period in which tariffs within the EU should be removed. This objective was met six months ahead of schedule in 1968. (Senior Nello 2009, 26, 86.)

As an EU member state, the UK currently applies the EU's Common Customs Tariff to goods imported from outside the EU (European Commission 2019h; Walker, A. 2019). Average tariffs within the EU's Common Customs Tariff are quite low, at around 2.8% for non-agricultural products, although in some product areas tariffs can be quite high (Morris 2019b). The level of tariffs on imports from third countries under the Common Customs Tariff has decreased as a result of the various rounds of the General Agreement on Tariffs and Trade (GATT) (Senior Nello 2009, 86). GATT was replaced by the World Trade Organization on 1 January 1995 (Amadeo 2019).

If Brexit takes place without a Brexit agreement (no-deal Brexit), the UK will cease to apply the EU's tariff policy, and will have to decide what tariffs to impose (Walker, N. 2019). As we will see below in section 4.3, the UK has already set up a UK Global Tariff that will be enforced in the event of a no-deal Brexit.

## 4.2 UK tariffs as an EU member state

The Treaty of Rome forbids import and export duties and payments with a corresponding effect between EU member states. Restrictions on quantities of imports and exports and other measures with corresponding effect are also forbidden. However, an exception can be made to the ban on quantity restrictions if the measures are justified based on public morals, general order or safety, or for the protection of the health or life of people, animals or plants. Such restrictions have been used in conjunction with foot and mouth disease epidemics in the UK and later in other parts of Europe. (Melin 2011, 248.) As an EU member state, 100% of products that are imported from and exported to the EU are tariff-free (Stanford 2019).

## 4.3 Post-Brexit tariffs

If the UK opts for a hard Brexit, the UK will trade according to WTO rules. Each WTO member state has a tariff list as well as a quota list, in which the taxes on imports of goods and limits on the number of goods are set out. These are known as the countries' WTO schedules. (Morris 2019b.)

The WTO schedules set out the maximum tariff levels that WTO member states can impose on imports from other WTO member states. Countries may set tariffs that are below these levels, but countries are generally obliged to apply the same tariffs to goods from all WTO member states. (Walker, N. 2019.) This is known as the most-favoured nation clause. Under the clause, any benefits that are accorded to one WTO member state must be accorded to all other member states as well. (WTO.org 2019b.)

In a notable exception to the most-favoured nation clause, countries are allowed to discriminate against other WTO member states if they set up a free trade agreement that applies only to goods traded within the group (WTO.org 2019b). An example of this is the European Union. Countries can also provide developing countries with privileged access to their markets (WTO.org 2019b).

56% of imports from to the UK non-EU countries are currently exempt from tariffs (BBC News 2019d). Transferring the existing tariffs levied on goods imported from non-EU countries directly to imports from the EU would not be feasible, as this would cause new tariffs to be effective on EU imports, driving up prices of consumer goods and disrupting supply chains. On the other hand, if zero tariffs were maintained for trade with EU countries, this would have to apply to trade with the rest of the world as well. This would result in the UK being open to competition with countries with unfair trading practices. (Government Digital Service 2019.)

### 4.3.1 Tariffs on imports into the UK from Finland and other EU states

From 1 January 2021, the UK Common External Tariff will be replaced by the UK Global Tariff, which will apply to all imported goods. A tariff will be applied to goods unless an exception is applied, the goods originate from countries included in the Generalised Scheme of Preferences (usually developing countries), or the country from which the goods are imported has a trade agreement with the UK. The tariff has also been removed on some goods used in tackling coronavirus. (Government Digital Service 2020a.) However, not all goods are subject to tariffs. For example, paper and paperboard are not subject to tariffs when imported into the UK (Government Digital Service 2020b).

A tariff-rate quota applies to some products. This allows a certain amount of a product to be imported at a lower or zero tariff rate. The tariffs on many goods have been reduced or removed. The terminology for the reductions is as follows: 'Liberalised' refers to the tariff having been reduced to zero. 'Simplified' indicates that the tariff has been rounded down, in other words, 'banded.' 'Reduced' means that the tariff has been reduced by more than what the simplification measure would entail. (Government Digital Service 2020a.) Tariffs on imports to the UK are listed based on the 10-digit commodity code classification, which complies with the TARIC and CN classifications (Government Digital Service 2020c; Transferwise.com 2020).

Just like paper and paperboard, wood and articles of wood are also not subject to tariffs. Light oils and preparations of petroleum or bituminous minerals, which were the top export from Finland to the UK according to the CN level 6 classification in 2019 are also not subject to tariffs. However, electric conductors, for a voltage > 1,000 V (CN 854460), which was the 11$^{th}$ largest export item from Finland to the UK in the CN level 6 classification in 2019 at EUR 50.67 million, will be subject to a tariff of 2.0% from 1 January 2021 onwards. (Finnish Customs 2020b; Government Digital Service 2020b.)

### 4.3.2 Tariffs on imports from the UK to Finland

In case the UK does not conclude an agreement providing for zero tariffs and zero quotas on goods with the EU, Finland will apply the EU Common Customs Tariff on UK products after the end of the transition period (European Commission 2020a). The tariff rates vary depending on the kind of good and where they come from. The rates are based on the economic sensitivity of products. (European Commission 2019h.) In order to calculate the customs duties when trading goods, the following factors must be considered:

- the value of the goods,
- the customs tariff to be applied, and
- the origin of the goods.

(European Commission 2020b.)

The tariffs that will be applicable to products imported from the UK depend on what kind of trade agreement is concluded between the EU and the UK (Finnish Customs 2020c). While origin of goods information is required for calculation of tariffs, a category of customs duty called “third country duty” exists in the EU Common Customs Tariff, which is applicable to all imports of a type of good from a non-EU country or territory (European Commission 2019f). While the items with the greatest import volumes from the UK in 2019 such as motor vehicles and medicines are not subject to customs duties when imported from third countries, chemical products under the section sodium hydroxide (caustic soda) in aqueous solution (soda lye or liquid soda), under the CN code 281512, are subject to a third country duty of 5.50% (European Commission 2020c; Finnish Customs 2020b).

### 4.4 Impact of post-Brexit tariffs in the UK

As tariffs are a barrier to trade, any additional tariffs will discourage, rather than promote, trade with a country that imposes tariffs. Beacham (2019) envisions situations in which chemicals will be subject to tariffs as they cross the English Channel, even when products are being taxed to a subsidiary of the same company, amounting to a tax on intra-company trading. There are two ways in which tariffs can be avoided, both of which are subject to strict customs rules and controls.

One way to avoid tariffs is for companies to seek duty exemption because of inward processing. This refers to a substance being exported as a raw material, being processed into a different product, and then being exported again. (Beacham 2019.) The other alternative is to make a claim for duty exemption. If a company’s business is dependent on a material that is not produced in sufficient quality or quantity in the EU, the company can make claims under the scheme. Both of these schemes are provided for by EU legislation, and the UK would have to form its own system allowing for these exemptions in the event of a no-deal Brexit. (Beacham 2019.)

# 5 Cross-border payments

A key element in any business is making and receiving payments. Since there is no harmonised international system for cross-border payments outside the EU, cross-border payments can be tricky to carry out and slow to execute. Moreover, they may incur additional charges. (Massaro 2019.)

## 5.1 Payments as an EU member

The Single Euro Payments Area (Sepa) is an EU initiative that aims to make cashless payments simpler by creating common payment instruments and an innovative market for retail payments. The two primary instruments that have been introduced across Europe are Sepa Credit Transfer and Sepa Direct Debit. (European Central Bank 2013; European Payments Council 2019a.)

Sepa Credit Transfer allows businesses to transfer assets to another company inside or outside their home country within a single business day. This makes making cross-border payments as simple as making payments within the same country. With Sepa Direct Debit, a company can directly charge an account in another country. This allows consumers to pay for services from other countries using direct debit, for example. (European Central Bank 2013.)

These transactions are enabled by adopting an international standard for identifying bank accounts – the International Bank Account Number (IBAN). The Business Identifier Code (BIC) is also used to enable Sepa transactions. Sepa transfers are used for all credit transfers and direct debits within the EU, both in euros and in other currencies. Payment cards also fall under the Sepa scheme, allowing consumers to use their payment cards to make purchases all over Europe, and merchants are also able to accept cards from all EU member states. (European Central Bank 2013.)

## 5.2 Post-Brexit payments

As Sepa is the preferred method of making payments in Europe, it is certainly in the UK's interests to remain within its scope (Finextra Research 2016). In its decision of 7 March 2019, the board of the European Payments Council (EPC) decided to approve the UK's application for UK payment service providers to continue participating in the Sepa scheme if a no-deal Brexit were to take place. (European Payments Council 2019b.)

Under a no-deal Brexit, this decision is subject to regular review to ensure that the UK continues to comply with the EPC's Sepa scheme participation criteria. If the UK were to enter into a free-trade agreement with the EU, the decision would also be subject to regular review. If the UK were to remain in the European Economic Area, the terms of remaining in the EEA would be sufficient to ensure that UK laws would remain sufficiently aligned to meet the Sepa participation criteria. (European Payments Council 2019b.)

### 5.3 Post-Brexit credit card fees

With respect to credit card payments, a surcharging ban has been in force in the EU since 13 January 2018. This ban makes it illegal for companies to charge additional amounts based on the customer's method of payment. If the UK leaves the EU, this ban is likely to be lifted in the UK. After this, UK companies will be able pass the costs of processing credit card transactions, typically 3–5% of the cost of the transaction, to customers. (Dormand 2018; Onpex.com 2019.)

While the ban does not apply to payments between businesses, in the case of B2B transactions, although companies may add a surcharge to cover the costs associated with card payments, they are not allowed to charge more than what is needed to cover the card payment fees (Dormand 2018). Presumably, this restriction will also be lifted when the surcharging ban is no longer in force.

# 6 Customs procedures

Customs processes are where Brexit is likely to have some of the greatest impact. Within the EU, customs checks are not carried out, making cross-border trade between EU member states seamless. It is sufficient to indicate the Community status of goods or that the goods are in free circulation, and full customs clearance is not required (Melin 2011, 248).

When it comes to trade between Finland and the UK, Brexit would change all of this. Customs checks would have to be carried out on all goods arriving in Finland from the UK, and on all goods arriving from anywhere outside the UK to the UK. Finnish customs will have to process 600,000 consignments per year with greater care if Brexit takes place. This will take additional resources in terms of both personnel and warehousing space, and the customs authorities have already started recruiting. (Parviala 2019.)

The current state of customs procedures between Finland and the UK is described below in section 6.2 below on customs procedures in intra-Community trade, and the situation following Brexit in the no-deal scenario is described in section 6.3 on customs procedures in trade between Finland and third countries. The latter is described separately for both imports and exports. The procedures are described from the Finnish point of view. After this, I will provide an analysis of potential impacts on trade from increased customs processing requirements in UK ports in section 6.4.

## 6.1 Customs theory

Customs procedures promote the legality and fluidity of companies' foreign trade through co-operation with customers and by relying on electronic data interchange in the management of supply chains. The customs authorities collect tariffs, taxes and payments related to foreign trade and goods production using electronic systems. The customs authorities specialise in crime prevention related to cross-border transportation and taxation. They promote national security in co-operation with other safety authorities. The customs authorities protect consumers and the environment by being responsible for the inspection of imported foodstuffs and consumer goods, and by monitoring import and export restrictions. (Melin 2011, 246.)

### 6.2 Customs procedures in intra-Community trade

In intra-Community trade, goods are generally transported from one member state to another. Customs clearance is not required, but the community status of goods does need to be proved. Community goods are goods that are wholly produced in the EU and goods that have been brought from outside the EU to the EU area, cleared through customs, and released for free circulation. (Melin 2011, 248.)

As a general rule, goods that are in free circulation within the Community are considered to be Community goods. The customs status of such goods does not need to be presented unless the goods are transported from one member state to another through a third country or through international areas. In such situations, proof may need to be provided to the customs authorities of the receiving country that the goods are Community goods. In the following cases, the Community status of goods needs to be proven: when transporting Community goods from a place in the Community customs area to another through a third country (a non-EU country); when transporting goods from a Community country to another by sea or air with a vehicle that has stopped or will stop in a harbour or airport of a third country; or if a ship stops in a free port in the Community's customs area, as stopping in such a port corresponds with a stop in a third country. (Melin 2011, 249.)

The Community status of goods can be proven with a T2L or T2LF document. In place of these documents, a Single Administrative Document (SAD) form, a trade invoice or another administrative document such as a bill of lading can be used. In case of a consignment by air, the Community status is commonly indicated with a "C" marking in the bill of lading. Some shipping companies that engage in regular maritime transport within the EU have been authorised by the customs authorities to declare the status of their cargo in their cargo manifests. (Melin 2011, 249.)

Some persons may be given the status of "authorised sender" by the customs authorities of a member state. A sender with this status has the right to independently use documents needed to demonstrate Community status without the confirmation of customs. In this case, the document must also have the marking "simplified procedure." (Melin 2011, 249.)

Community goods status is given to goods that:
1. are produced completely within the Community customs area, and that do not contain items that have been imported from countries or regions outside the Community customs area;

2. have been imported from countries or regions outside the Community and released for free circulation;
3. have been produced within the Community customs area from either only goods in item 2 or from goods referred to in items 1 and 2. (Melin 2011, 249.)

Country of origin does not need to be mentioned in Community goods or the documents related to them. Certificates of origin are also not used in trade between member states. Many of the documents (e.g. trade invoice) no longer travel with goods. Documents that still do travel with goods are International Maritime Organization (IMO) documents that travel with hazardous substances, Administrative Accompanying Documents (AAD) related to excise tax, accompanying documents of electronic notifications, and T2 accompanying documents for electronic customs transit. (Melin 2011, 249-250.)

### 6.2.1 Value-added tax (VAT)

Community sales are tax-exempt if both parties to the transaction are VAT registered companies. The buyer pays the tax in accordance with its country's VAT rate. The buyer's VAT code must be visible in the trade invoice, or else the seller may be obliged to pay the VAT according to its country's tax rate. (Melin 2011, 250.)

In intra-Community procurement when purchasing goods from another member state, VAT is transferred completely within the scope of Finland's taxation, and the buyer pays the tax according to the Finnish tax rate. When both the buyer and seller are liable to tax: The buyer should receive a tax-free trade invoice, the buyer independently calculates the VAT from the trade invoice total, and the above-mentioned VAT is entered in bookkeeping as deductible purchase tax. If the buyer is not VAT liable or does not have a VAT code, the seller invoices the transaction price with tax according to the selling country's tax rate. (Melin 2011, 250.)

The monitoring of value-added taxation takes place through VIES (VAT information exchange system). The system contains the details of all the entities that are liable to VAT in all the member states. VIES is accessible via the Finnish Tax Administration's website, and can be used to check the validity of the VAT code of a party in a transaction within the Community. (Melin 2011, 250.)

The value-added taxation of Community sales and purchases is carried out in conjunction with Finnish taxation. Community sales and purchases are declared in the monthly declaration for domestic sales. In addition, a summary declaration and an annual declaration must be submitted. (Melin 2011, 250.)

### 6.2.2 Excise taxation

The EU's harmonised excise taxation comprises alcohol, alcoholic beverages, tobacco and liquid fuels. A minimum excise tax rate has been set for these, which can be exceeded by a member state if it wishes. According to the Community excise tax system, products are always taxed in the country in which they are consumed. Therefore, goods can be produced, refined, stored and also transported exempt of tax within a member state or between member states. It is the businesses, authorised warehouse operators and other importers that are liable to excise tax. (Melin 2011, 251.)

Excise tax is levied in conjunction with customs clearance only in exceptional situations, when the importer is an unregistered entrepreneur. In other cases, excise duty collection is based on the tax declaration by an authorised warehouse operator or registered business. (Melin 2011, 251.)

### 6.2.3 Statistical reporting

Statistics on intra-Community trade are collected with Intrastat forms. Both exporters and importers are obliged to provide a statistical notification on intra-Community trade to the customs authorities. The obligation to provide statistical information is based on the value of annual imports and exports. (Melin 2011, 251.) If the value of a company's imports or exports exceeds EUR 600,000, then it is obliged to provide statistical information. The statistical declaration can be provided either using the Intrastat Declaration Service, via direct messaging exchange, or using the Posti Messaging TYVI service. (Finnish Customs 2019a.)

## 6.3 Customs procedures in trade between Finland and third countries

In the event of a no-deal Brexit, goods traded between Finland and the UK will be regarded as imports and exports, rather than intra-community supply. All goods transported between Finland and the UK will be subject to customs clearance. In addition to possible tariffs, importers will have to pay VAT on the customs duty-inclusive price of the goods.

Therefore, the higher the customs duty on the goods, the higher the VAT payable. (Finnish Tax Administration 2019; O'Shea 2019.)

While businesses do not need to pay VAT on imports from within the EU, a company that is VAT-liable in Finland that imports from the UK when it is no longer an EU member state will be obliged to pay VAT on goods received from the UK to the Finnish Tax Administration on its own initiative. The company will then be able to reclaim the VAT paid in its next VAT return. Goods that are exported from Finland to the UK will no longer be treated as VAT-exempt intra-community supply. Instead, they will be treated as VAT-exempt export sales. (Finnish Tax Administration 2019.)

In trade between the EU and third countries, the EU customs tariff and common trade policy are complied with. These include monitoring imports, quantitative restrictions, tariffs, tariff exemptions and reduced tariffs, dumping regulations, countervailing duty, refining transport, monitoring of exports, preferential agreements, the GSP (Generalised System of Preferences) system, and quota arrangements related to international agreements. (Melin 2011, 252.)

The EU has concluded bilateral trade agreements with various countries and groups of countries. It also has trade agreements with developing countries that accord special treatment to goods arriving from developing countries. Import quotas have been set for many such products. The origin of products must be proven when importing goods. Licenses may also be required. (Melin 2011, 252.)

The customs tariff, which includes customs tariff headings and information on the amount of customs duties, is the same in all EU member states. A customs tariff heading can be found for all imported goods. This serves as the basis for payment of customs duties and preparing trade statistics. The same customs tariff headings are used also in the collection of intra-Community statistics. (Melin 2011, 253.)

The EU's set of tariff headings is called the Combined Nomenclature (CN), and is based on the global Harmonized Commodity Description and Coding System (HS) (Melin 2011, 253; Unstats.un.org 2019). The common tariff of EU member states is called TARIC (Melin 2011, 253).

### 6.3.1 Goods arriving in the EU

When goods arrive within the area of the European Union and physically cross the customs border, they must be presented to customs. After this, a general notification is made on the goods and possibly also other notifications. If a clearance type is set for the goods as soon as they arrive in the customs area, they do not need to be stored temporarily. If a clearance type cannot yet be determined, temporary warehousing follows. The customs tax is carried at the end. (Melin 2011, 254.)

When goods other than Community goods are brought to Finland, a summary declaration and possibly other notifications are submitted to the customs authorities. Under EU legislation, transport companies are also required to submit data in electronic format regarding goods transported from outside the EU before their arrival in the EU customs area. This security data is submitted as an entry summary declaration through the Customs Safety and Security System (AREX). AREX is connected to the other Finnish customs systems and to the systems of other EU countries. This way, the customs authorities ensure that importing the goods into the EU is permitted and that the goods have been presented before a customs clearance procedure is assigned to them. (Finnish Customs 2019b; Melin 2011, 254.)

A summary declaration is required for goods arriving from EU ports and EU airports by air and sea in the AREX system. An entry summary declaration is presented for goods arriving by road or rail. If an electronic entry summary declaration has been provided for goods arriving from outside the EU, a separate summary declaration is no longer given. The status of the entry summary declaration changes to summary declaration in conjunction with an approved arrival notification and presentation. The purpose of the summary declaration is to enable the temporary storage of undeclared goods, for example, to ensure that imported goods are assigned a customs-approved treatment or use within the prescribed time. (Finnish Customs 2019b; Melin 2011, 255.)

The arrival notification and presentation must be presented by the transport company with respect to goods for which a summary declaration or an entry summary declaration has been given. If the goods are warehoused temporarily at the arrival point, the arrival notification and presentation also contains information for the customs authorities on the temporary warehouse in which the goods will be unloaded. In road transportation, the arrival notification and presentation is replaced by presenting the goods and the reference number of the notification containing their safety information. (Melin 2011, 255.)

The customs treatment must be assigned within a set period of presenting the summary declaration. The set period is 45 days for goods transported by sea, and 20 days for other goods. Goods for which a customs treatment is not assigned immediately in conjunction with import can be transferred to a temporary warehouse when the customs authorities have given permission to unload the goods. (Melin 2011, 255.)

When the goods have been unloaded in a warehouse, an unloading report is provided to customs. Here, the amount of goods that has actually arrived in the country is notified to customs. This can then be compared to the amount of goods declared in other documents. If transit is in question, a transit declaration is also provided to customs. (Melin 2011, 255-256.)

A customs-approved treatment must be assigned to goods arriving in the EU customs area from third countries. The customs treatments in importing are:

- setting the goods in a customs procedure
- transferring to the free zone or to a customs warehouse
- re-exportation from the community customs area
- destruction under customs supervision
- surrender to the state

(Melin 2011, 256.)

Setting the goods in a customs procedure can mean one of the following:

- release for free circulation
- transit
- customs warehousing
- inward processing
- production under customs supervision
- temporary admission
- outward processing

(Melin 2011, 256.)

The most common customs procedure is release for free circulation. If the imported goods originate from outside the EU and the goods have not been cleared by customs, within the EU, the goods can only move under customs control to the customs unit in which the goods will be cleared, for example in the case of transit. (Melin 2011, 257.)

Imported goods are declared for customs procedure with a customs declaration. A customs declaration can be made with a Single Administrative Document or with an Electronic Data Interchange (EDI) message. Declaring with an EDI message is subject to permission from the customs authorities. (Melin 2011, 258.)

### 6.3.2 Export procedure

When exporting outside the EU, the exporter or its representative must declare goods that are to be exported from the EU customs area to third countries under the export procedure. This allows the customs authorities to determine which export regulations apply to the goods in question and how these must be applied. The goods can be submitted in the export process either from free movement, from a free area or from a customs warehouse. An export tariff may be collected in principle if applicable, although this is rare. In practice, tariffs levied in Finland and the EU are all import tariffs. (Melin 2011, 276.)

An export declaration must be made in conjunction with exporting. Export declarations have been made in electronic form since 2009. Paper SAD forms are only used temporarily and in exceptional situations when the customer's or customs authorities' data system is not working. (Melin 2011, 276.)

In the direct export procedure, the point of departure and exit of the exported goods are in the same member state. The exporter submits the export declaration electronically to the customs authorities, and the data system of customs sends a response that either approves or rejects the declaration. In a normal situation, where the declaration is faultless and approved, the declaration is approved, after which a release message is sent, to which are attached the release decision and the Export Accompanying Document (EAD). The EAD document corresponds to the third page of the SAD document, which must be presented together with the goods to the customs unit of the place of exit. The customs unit of the place of exit confirms the exit of the exported goods directly in the customs data system, which sends a release decision to the issuer of the export notification. With this document, the exporter can prove the tax-free status of the sale to the tax authorities. (Melin 2011, 276.)

In indirect exporting, the export process begins in Finland and the goods leave the EU through another member state. The customs clearance process is the same as in direct export until the EAD document has been presented together with the goods at the point of exit. After this, a customs official at the point of exit in the other member state retrieves the information of the export notification into its national export system using the MRN (Movement Reference Number) number in the EAD document, and makes a confirmation in its national export system. The electronic export system of the Finnish customs authorities automatically receives a notification from the exit country's data system regarding the ending of the export procedure. Finally, the data system of Finnish customs authorities sends an electronic release decision to the provider of the export notification, as in direct export. (Melin 2011, 276-277.)

Goods leaving the EU must be presented to the customs authorities at the point of exit, as well as the accompanying document or fallback procedure document that accompanies the exported goods. In transport other than road transport, the transportation company or port or airport operator can present the exiting goods at the point of exit using the following electronic notifications: arrival at the exit location, exit manifest presentation, and exit notification. (Melin 2011, 277.)

The three-part electronic declaration enables the following: ensuring that a customs declaration that contains security information has been made on the goods, providing the customs authorities with an opportunity to inspect the goods at the point of exit, making the customs clearance process for exported goods entirely electronic from beginning the export to presenting the exported goods at the exit point, and enabling a fluid logistics chain in ports because of the use of one declaration which is always carried out before a ship's departure. (Melin 2011, 277.)

### 6.4 Impacts of post-Brexit customs procedures in the UK

In addition to the elimination of tariffs, the removal of other non-tariff barriers to trade was also necessary to enable the free movement of goods within the EU. As we saw earlier in section 3.2, although intra-EU tariffs were removed in 1968, free movement of goods was not achieved in the EU until 1993 (European Commission 2019d). Border delays and non-tariff barriers have been identified to as potentially being more substantial barriers to trade than tariffs (Byrne & Rice 2018).

The removal of border controls between EU member states is made possible by EU-wide agreements on product standards and rules of origin. These make it possible for companies to import goods from outside the EU and then trade these goods within the union without being liable to additional checks. After the UK leaves the EU, it will no longer be covered by these agreements. This will likely result in a substantial increase in non-tariff barriers. (Byrne & Rice 2018.)

The Port of Dover is the UK's primary route of entry and departure for goods. Of the 4.5 million heavy goods vehicles that pass through British ports every year, over half pass through Dover. Trucks that are destined for EU countries are able to board ferries in less than two minutes. An additional two minutes in customs processing will produce a 27 km queue, and further delays will have a corresponding lengthening effect on the resulting queue. (Blitz 2017.)

Customs officials currently process around 500 trucks that are going to non-EU countries every day. After Brexit, this could increase to 10,000 a day. The challenge is daunting. However, given the right preparation in infrastructure and technological aids, even this kind of increase can be managed. This could involve the building of a lorry park for 36,000 heavy goods vehicles, and the introduction of new technology to speed up processing of customs documentation. (Blitz 2017.)

The impact of border controls is likely to be highest for industries that send goods back and forth across the channel, such as the automobile industry. When the industry operates with a just-in-time supply chain, any delays will cause substantial disruption to the industry. As a consequence, the UK automobile industry, which is mostly foreign-owned, is already suffering substantially. Investment has also been reduced by some 70% in the first six months of 2019. Car manufacturers have withdrawn their manufacturing from the UK, closed down factories, and the French carmaker PSA has recently announced that it would shut down its Vauxhall factory in Ellesmere Port in the north-western part of the UK if it becomes unprofitable. (The Guardian 2019; Jolly 2019)

# 7 Discussion

Whatever the outcome of Brexit, if the UK does leave the EU, it does not mean that ties with the EU would be severed overnight. The UK has close economic ties with the EU, as well as security-related co-operation. It is not in the UK's interests to become disconnected from the EU. On the contrary, the maintenance of the ties is important and this needs to be through a formal relationship. Therefore, even a no-deal Brexit will result in the beginning of a series of complex negotiations. (Stewart 2019). This is actually quite similar to outcome in which a withdrawal agreement is agreed upon.

## 7.1 Key findings

A no-deal Brexit would cause major changes to customs processes, as all goods going to and coming from the UK would be subject to customs clearance. As we have seen above, this process is much more complicated than the process required for goods traveling within the EU. This can cause considerable delays to shipments in both Finland and the UK. Freight forwarding companies, their customers and other businesses are also facing additional costs due to the increased warehousing capacity requirements resulting from increased customs processing, and contractual penalties for late delivery. Furthermore, just-in-time supply chains that rely on rapid and timely deliveries will face difficulties, with widespread repercussions across industries.

Some goods will become subject to tariffs. However, for the major Finnish export industries to the UK – paper and oil products – the tariff on the relevant goods is zero. The increases in import tariffs will also lead to increases in VAT payments. The EU Common Customs Tariff on imports from third countries will apply to imports from the UK, while exports to the UK will be subject to the UK Global Tariff. Payments, however, are likely to remain unaffected for the time being even under a no-deal Brexit.

Brexit will pose a challenge especially for companies that have, until now, only operated within the Single Market. Businesses intending to trade with the UK will need to become acquainted with the customs clearance procedures that are required for trade with third countries. Businesses need to obtain information on the requirements on trade with third countries and on the criteria that products from outside the EU must meet in order to be permitted to be exported into the internal EU market. (Finnish Customs 2020c)

Considering that the trend in trade between Finland and the UK has been declining in the 2000s, this trend does not seem to be likely to reverse in the near future. Brexit is likely to cause this declining trend to strengthen, rather than causing imports and exports between the countries to increase.

## 7.2 Recommendations to freight forwarding companies

Freight forwarding companies are recommended to invest in personnel resources and training so that they can handle the additional paperwork involved in dealing with the increased workload for shipments to and from the UK. They should look into the possibility of obtaining additional warehousing capacity in the UK and in Finland to accommodate for substantial delays in customs clearance.

Freight forwarding companies should also launch an information programme aimed at their customers in order to make their customers aware of the potential changes to tariffs and customs clearance, and the delays and additional costs that can be expected. Freight forwarding companies may also need to adjust the pricing of their transportation services to account for the increase in costs caused by the increased customs clearance procedures, delays and warehousing need caused by Brexit.

## 7.3 Recommendations to businesses that import and/or export with the UK

Businesses should take into account that shipments to and from the UK will likely take much longer than previously if a no-deal Brexit takes place. If their supply chain depends on speedy delivery of goods, businesses may consider relocating subsidiaries or finding partners in other countries that are EU member states. If they opt to keep their UK-based suppliers and do not relocate their subsidiaries to EU member states, businesses should adjust their schedules to accommodate considerable delays, as well as their budgets because of possible increases in shipping and warehousing costs.

Companies should also prepare for additional costs to imports from the UK due to the EU's tariff schedule for imports from third countries being applied. Exports to the UK will be subject to the UK's Global Tariff regime. Companies should also consider how an increase in the cost of goods resulting from the imposition of tariffs exported to or imported from the UK will affect the sales of the goods and make adjustments accordingly.

Businesses that import and/or export to and from the UK regularly should look into the possibility of attaining Authorised Economic Operator status or authorised sender status, to simplify the customs process.

### 7.4 Reliability of results

There is a substantial element of uncertainty to this study as I do not know which of the proposed scenarios will become reality, if any, since future scenarios are in question, a large amount of projection is involved. However, should the no-deal scenario take place, which has become the focus of this study due to its greatest perceived likelihood, the results in relation to customs procedures are fairly certain to hold true if a no-deal Brexit takes place. This is because, if the UK becomes a third country, the customs procedure for trade with third countries already exists and these will likely be applied in their present form, unless the UK is accorded a special customs status that exempts it from customs procedures required for all other third countries, which is unlikely.

The results regarding payments are also quite reliable, as they are justified based on EU practices that are in force. As for tariffs, the UK has published a UK Global Tariff that it will apply to imports as of 1 January 2021. The EU's Common Customs Tariff will be applied to goods imported to the EU from the UK after the end of the transition period.

The big question mark is how the increased customs processing requirements will be managed, and this is where the biggest disruptions to trade can be expected. UK citizens are reported to have started gathering additional food supplies in anticipation of shortages, and the availability of medicine after Brexit has been a major source of concern in the UK. The Irish border issue does not seem to be any closer to being resolved, so this remains a major cause of uncertainty. Furthermore, there may be some other unexpected repercussions that I have not considered.

### 7.5 Suggested further reading

As the end of the Brexit transition period at the end of 2020 is approaching, the news is the first thing to follow. Publications on Brexit by governments and trade associations will continue to provide valuable information, and in time, more studies and books will also start to emerge on the subject.

### 7.6 Reflection on learning

I have made substantial gains in my knowledge regarding free trade, tariffs and non-tariff barriers to trade, the role of tariffs and border controls in the evolution of the EU, and customs procedures in intra-Community trade and trade with third countries. I have also deepened my understanding of the international nature of supply chains and the impacts that imposing barriers to trade can have on them. Furthermore, I have learned to appreciate the complexity and large amount of work involved in trade negotiations, and have gained a deeper appreciation for the achievements and legacy of the EU. I have also exercised my data analysis abilities and learned about the importance of using the correct goods classification system in data analysis.

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