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BREXIT NEWS

For smaller UK businesses exporting to the EU, the new Brexit rules have so far been problematic for many and unworkable for some. One of the unexpected issues that has emerged is highlighted below.

Rule of origin confusion

Since the 1 January, many UK businesses have discovered that they now face significant additional costs and must handle more responsibilities on their exports bound for the EU.

While businesses continue to comprehend the complexities of the agreement, one such difficulty which has become immediately apparent is the "Rule of Origin". The rule means that any goods arriving to the UK from outside the EU, which are then exported from the UK into the EU, will be subject to customs duties. This has come as a surprise to many firms - particularly for those businesses which continue to source their products from outside the UK or the EU and now leaves many UK businesses with a serious competitive disadvantage going forward with a number of unattractive choices to consider.

- 1) The first option is to absorb the additional costs and responsibilities, but this option will increase the costs and therefore impact on the related profit margin arising from EU exports.
- 2) Secondly, UK businesses could cease trading with EU customers which will have the effect of reducing the business activities of the company equal to the revenue foregone by ceasing to trade in this market.
- 3) Thirdly, UK business could incorporate a company in a country which continues to be a member state of the EU. This will eliminate the many difficulties arising as a result of the recent Trade and Cooperation Agreement and should have little or no overall effect on the level of turnover undertaken by the business going forward. Taking such a step could result in increased level of business within the EU over time.

If you are looking at your options please talk to us as we have contacts in the EU who are currently engaged in providing advice to UK companies wishing to explore the option of establishing an EU subsidiary for a UK holding company. If structured correctly, the EU entity can be used as a trading vehicle to import products from outside the EU and distribute them to customers.
