

# Managing customs costs in a downturn

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Given the current global economic downturn and the credit crunch, businesses across all industries are coming under significant pressure to reduce costs and better manage cash flow. This brief outlines some of the key customs duty and cash flow saving mechanisms, that will help to keep related liabilities and costs to a minimum.

## Cash flow costs

Most companies participate in the "deferral" arrangements which allow payment of customs duties to be postponed until the month after the goods have been cleared.

It is possible to further delay the payment of duties by storing goods in a "Customs Warehouse" after importation. Payment of duties can be delayed until the month after

the goods are removed from the warehouse.

Companies can, subject to certain conditions, apply to have their own storage facilities approved as a Customs Warehouse.

## Managing duty drivers

Two key drivers determine the duty liability of imports; their classification which sets the duty rate and the value to which the duty rate is applied.

A review of classification can often identify opportunities to re-classify goods at a lower duty rate.

A valuation review can often identify costs included in the price paid for the goods, which can be excluded from their dutiable value.

## **Avoiding duty on re-exports**

Customs duties are not generally recoverable.

If it is planned to export some, or all, imports outside the EU, duty can be avoided on those re-exports if stored in a Customs Warehouse.

Similar duty relief can be obtained through the Customs Inward Processing regime for imported raw materials intended to be used to manufacture products for re-export.

## **Other relief for raw materials**

Application can be made for a duty relief for raw materials which can not be obtained in the European Union in the necessary quantities.

The application process takes approximately a year and relief may not be granted (or may be limited) if the application is objected to by EU producers of similar goods.

## **Opting for “end product” duty**

In certain circumstances the duty on raw materials can exceed the duty which would be payable on the imported finished products. (Examples include chemicals used in the production of pharmaceuticals). In these circumstances it is possible to opt to pay the lower duty on the finished product which can often be nil. This can allow duty to be reduced or eliminated.

## **Minimising duty on capital equipment**

Duty rates on capital equipment can be as high as 6%.

Application can be made to secure a reduced or nil rate of duty on capital equipment where it can be shown that similar equipment is not available within the European Union.

The application process takes approximately one year so early planning is essential to benefit from this opportunity.

## **Exploiting EU trade agreements**

The EU has a large number of trade agreements with third countries. These agreements allow products and raw material to be imported from those countries duty free or at a reduced duty rate. To secure these duty preferences it is necessary to obtain confirmation from the foreign supplier that the goods meet the particular requirements of the relevant trade agreement.

## **Exploiting export markets**

In economically challenging times, companies may look to increase exports. However these efforts can be frustrated because of protective barriers in the target markets.

As indicated above the EU has an extensive network of trade agreements with third countries

and many of these operate on a reciprocal basis.

Companies can increase their export penetration by exploiting these agreements to receive reduced or duty free access in target markets.

## **Maximising benefits across the supply chain**

Many companies have complex supply chains. Production and distribution may be undertaken on a staged basis in a number of EU countries and products and materials may move between different locations.

Cash flow and duty benefits can be further maximised by applying the planning technique outlined in this brief on a cross border or pan-European basis.

## **How can we help?**

We have an experienced team with national and international expertise which can review your imports, exports and supply chain to identify opportunities to deliver duty, cash flow and compliance efficient savings.