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CROSS-BORDER TRADE

Untangling the red tape

INTRODUCTION

While we are currently in an exciting period for online retail, still buoyed by extreme growth across the pandemic, multichannel and ecommerce retailers do face new challenges. The conflict in Ukraine, rising energy prices and inflation are all having to be carefully navigated as retailers look for growth in what is becoming an increasingly competitive market.

Part of this growth for online sellers in particular must come from selling overseas. However, post-Brexit this adds a range of extra challenges to those UK retailers looking to sell into the EU and even beyond.

From tariffs, duties, taxes and customs charges, to guaranteed landing cost, correct paperwork and increased logistics, there is much for expansion-hungry merchants to consider. Staying on top of this ever-growing list of requirements, while at the same time running a profitable business in the middle of a cost-of-living crisis, can be time-consuming and stressful, especially for etailers that offer a wide-ranging inventory across numerous international market sectors.

In this hyper-competitive era of ecommerce, there can be no room for mistakes. If a customer's order arrives late, or worse, with an unexpectedly high bill inflated by local duties and taxes added to the landed price, you can bet that they won't be shopping with you again.

That's why it is crucial for businesses to be transparent about shipping costs from the start of the supply chain journey, especially regarding taxes and duties that can drastically change the end-price for the customer.

Submitting correct and complete data that is aligned to the legal requirements of a parcel's end destination can prevent this negative experience and ensure customer satisfaction. But how do you do that?

In this ebook, produced by InternetRetailing in partnership with Landmark Global, we look in detail at the most common pitfalls that retailers encounter when shipping goods cross-border to the UK from the EU and vice versa. More importantly, we discuss how, with the help of technology, your business can not only navigate these turbulent times but also be ready for any other challenges that lie ahead, with confidence and while providing world-class customer service that differentiates you from your competitors.

Scarlette Isaac, Research editor, InternetRetailing

EXPERT INSIGHT

At Landmark Global, we have been busy pioneering modern trade solutions that enable brands to expand seamlessly into new territories and reach new customers. We are part of the E Logistics business unit of the bpostgroup that helps retailers with all aspects of the ecommerce supply chain, including delivery, customs clearance, returns management, warehousing, fulfilment and much more.

Landmark Global specialises in cross-border distribution and, for more than a decade, has been helping retailers deliver their international orders.

We work with retailers of various sizes, from small startups to multi-channel retailers. International ecommerce continues to grow, especially now that the world is more connected than ever. Our customers look to our expertise to help them understand the delivery requirements of their consumers.

For example, does the consumer prefer home delivery or delivery to a locker, do they have a preferred final-mile carrier, a duty paid or unpaid mode, or how do they prefer to return any unwanted items?

At Landmark Global, we master the challenges of international trade. Combined with our in-house team of dedicated experts, we provide a hassle-free customer clearance. Our client support team works closely with you to answer all your questions and understand your shipping needs.

We are truly a global cross-border delivery company and operate in 25 locations and 11 countries across Europe, North America and Asia. Through a hybrid model of managing our own sites and working closely with our postal and alternative delivery services partners worldwide, we have global reach that allows us to deliver to 220 destinations.

This ebook will talk you through all of the key considerations for retailers who want to grow their international markets and provide an excellent service to their customer.

Jonathan Simons, UK Sales & Client Services Director, Landmark Global

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NEW WORLD ORDER: CHANGES TO UK CROSS-BORDER TRADE

Selling internationally is a fundamental vector for retail growth which opens up a world of opportunities, including the potential to reach new customers, increase brand awareness and launch products in new markets. This is especially true in today's global economy, where consumer appetite for online shopping continues to grow strongly and, thanks to the internet, is increasingly borderless.

Within this, the EU is still the UK's largest trading partner, accounting for 43% of all UK exports and 51% of all imports in 2019[1]. While this has fallen during 2020 and 2021, the bloc still remains the UK's key trading partner in lieu of the government striking new trade deals.

The UK/EU and EAEC Trade and Cooperation agreement[2] was signed on 30 December 2020 and was the agreement that finally made Brexit official and offered a view of the new trading relationship between the UK and EU. Since then, many etailers have found that their relationship with both suppliers and customers on the continent has fundamentally changed.

There has been added complexity to the process of doing business in and with the EU, with changes to taxes, tariffs, duties, data requirements and some rules and

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regulations. There will also be more to come as the UK slowly but surely eradicates EU law from the UK's statute books and replaces it with its own domestic versions.

THE UK GLOBAL TARIFF

As part of this process, the UK has introduced a new tariff regime aimed at giving the UK a clean slate in terms of tariffs on goods, primarily so that the county can negotiate new trade deals in the future.

The UK Global Tariff (UKGT), which came into effect on 1 January 2021, is designed to reduce and simplify tariffs on thousands of goods entering the UK from anywhere in the world, while removing them entirely from certain raw materials and other goods deemed beneficial to the UK economy.

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Conversely, some goods that were, pre-Brexit, traded duty free between the UK and the EU now attract higher tariffs. The UK/EU and EAEC Trade and Cooperation agreement also sees changes to the VAT and customs clearance for UK importers and exporters (see overleaf).

The overall goal of the UK Global Tariff (UKGT) is to have 60% of all international trade entering the UK tariff-free. While pre-Brexit goods transitioning between the UK and Europe in either direction had no tariffs applied, those from other countries did. The UKGT allows the UK control how these goods are tariffed, along with imposing tariffs where it sees fit on EU goods.

IMPORTANCE OF COMMODITY CODES

Taken together, these changes present a number of challenges to retailers looking to sell into EU markets and make the use of commodity codes and other product data more important than ever.

Businesses need to keep up-to-speed with these new processes – especially taxes, duties and data requirements – if they wish to stay ahead of competitors and seamlessly manage ecommerce flows into and out of the UK.

According to the latest Government Business Insights report[3], two-thirds (66%) of UK businesses experienced challenges with exporting in December of 2021, while 79% struggled with importing.

Commodity codes make customs aware of the precise contents of your shipment, alongside descriptions of individual items. These are now a requirement for all goods being shipped to and from the UK.

Getting this code correct is a make-or-break detail when it comes to cross-border trade. Sellers who neglect this step could face delays to deliveries, unwanted fines and, worst of all, an unhappy end customer.

[1] https://commonslibrary.parliament.uk/research-briefings/cbp-7851/
[2] www.gov.uk/government/publications/ukeu-and-eaec-trade-and-cooperation-agreement-ts-no82021
[3] www.gov.uk/government/statistics/business-insights-and-impact-on-the-uk-economy-13-january-2022

THREE KEY CHANGES THAT IMPACT EXPORTS

Understanding the challenges to ecommerce exports is crucial for those businesses looking to expand across the globe, yet so too is knowing how to navigate them without acquiring additional costs or friction.

TARIFF CHANGES UNDER UKGT

The big change under UK Global Tariff (UKGT) is that tariffs will now be set in pounds, not euros. This change will affect the two most common types of tariffs – Ad Valorem tariffs (AV tariffs), which are usually expressed as a percentage of the final price, and Specific Rate tariff (SR tariffs), where there is a specific amount of money charged per unit.

With AV tariffs, the UKGT will be a percentage of the final price, as measured in pounds. With Specific Rate tariffs, the price is demarked in pounds. From a political and economic position, this will bring about two main changes.

Firstly, UK government decisions, along with decisions of the Bank of England, will have much more of an immediate and direct impact on the tariff's real-terms costs. Secondly, UK businesses will be less exposed to currency fluctuations and can make clearer long-term decisions about how much things will cost.

Additionally, sub-2% tariffs will be scrapped and, to aid simplification of the tariff regime further, all tariffs will be rounded down to the nearest whole percentage number. For example, alarm clocks will no longer see a tariff of 4.7% and will be levied at 4%.

CHANGES TO VAT

How VAT is levied on goods sold into the EU has also changed. From 1 July 2022, low value goods under £19 (€22) sold to customers in the EU from sellers in the UK are subject to VAT charged in the UK.

However, the EU is scrapping its low value import threshold – which is also set at €22 – and replacing it with a new import one-stop shop (IOSS) to facilitate the reporting and payment of import VAT on low value goods that are dispatched by, or on behalf of, suppliers from outside the EU.

The IOSS can be used where the value of the consignment does not exceed €150 but it is not available for imports of goods liable to excise duties. Under the IOSS, the supplier charges VAT to the EU customer at the point of sale, then reports and pays this VAT on a monthly IOSS return.

Similarly, etailers selling goods worth £135 or less from one of the 27 EU countries to the UK must charge and account for VAT at the point of sale – in the country where the sale took place.

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This £135 also applies to the value of the total consignment being shipped, not individual items.

Goods and consignments sold into the UK that total more than £135 will also be subject to import VAT charged in the UK, in addition to local VAT and customs duty.

These regulations have been implemented to ensure that VAT is paid to the country where goods have been supplied from.

CHANGES TO CUSTOMS CLEARANCE

One of the biggest procedural changes that will impact UK export operations is that to customs. From 1 January 2022, parcels from the UK to the EU and vice versa require formal customs clearance whereas, pre-Brexit, they did not. As a result, retailers are required to submit customs declarations, which, if inaccurate, may result in unnecessary and unwanted costs, refusal of import into the EU and costly returns.

While sellers can classify goods independently, HMRC advocates getting help from a customs agent to ensure all data is complete and accurate.

CODE CRACKING: IMPORTANCE OF STRUCTURED DATA

Data about goods being bought and sold is now more vital than ever for business looking to sell cross-border. Changing regulations around exports from the UK due to Brexit – as well as in the years ahead by trade deals with other non-EU nations – have made the tracking and understanding of goods and their movements even more critical.

This has created a much more digital approach to exports from both the UK and EU authorities, which means that understanding what data is needed for any product, along with making sure that its associated data is correct, is now vital.

This means that structured data for exports – the formalised data following a predefined, universal structure – takes centre-stage as the first step in these processes.

THE BORDER OPERATING MODEL

As part of the transition to a post-Brexit trading model, the UK government introduced the Border Operating Model, a phased approach to implementing border controls between the EU and the UK now that the two have formally separated.

This requires much more meticulous paperwork on goods sold to and from the EU and UK, data which has to be collated and submitted both as physical paperwork and digitally.

The first phase of the Border Operating Model went live on 1 January 2021. The second phase was then postponed with the goal of giving businesses space to recover from the pandemic, eventually coming into effect on 1 January 2022.

The aim of the Border Operating Model is to force businesses to make full customs declarations and to control imports from a regulatory and health and safety perspective. Under the aegis of these controls, exporters to the EU from the UK and importers operating the other way have to provide a range of declarations and new paperwork in order to be compliant.

WHAT DATA IS NEEDED?

Here, carriers of goods need to provide the correct and corresponding HS codes, country of origin, GB EORI and GB VAT numbers, along with a commercial invoice – as both a hardcopy and digital submission (see panel).

Mastering this data set-up is vital for retailers looking to sell cross-border without any disruptions to the transit time along the way.

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Take, for example, a pair of shoes being imported from the UK into an EU country. Let's say they are priced at £50 on the website. The customer buys them, happy to have bagged a bargain.

However, on delivery, there is a nasty surprise: a bill of £30 incurred as customs charges – plus an added £10 handling fee. Suddenly, the £50 bargain shoes are costing £90. For the retailer, this presents them with either an angry customer likely to elsewhere in future, or a hefty bill for returning the goods, should the customer refuse to pay.

The only way to avoid this is to make sure that the data is correct. Correct and complete data allows for a seamless shipping experience, ending with a happy customer who receives exactly what they paid for.

This data is checked by a customs officer. Once the paperwork is processed, the document will note the shipper's details and the contact information of the end customer. The shipment will also include the export date and airway bill number.

Fees are calculated at this stage, based on the type of commercial goods, their value and the laws that the importing country follows. If the value of the parcel surpasses a tax bracket, the officer will check to see whether taxes and duties have been paid.

KNOW YOUR EORI FROM YOUR COMMODITY CODE

To meet the demands of the Border Operating Model, retailers and carriers need a raft of new paperwork and data on goods to ensure a smooth transitioning cross-border. So, what exactly is needed?

COMMODITY CODES

A commodity code is a sequence of six, eight, ten and, in some instances, 14 numbers used to identify and classify imported goods so that customs duties and taxes can be accurately determined. Restrictions and prohibitions that may apply to the import, export or transit of goods are flagged at this stage. Commodity codes are also referred to as classification codes, tariff codes, customs tariff numbers or HS6 codes. There are two classes of commodity codes:

- **Six-digit commodity codes** are HS codes (WCO Harmonized System). They are used worldwide in monitoring trade volumes and applying international trade measures to goods. The HS nomenclature forms the basis for the eight-digit Combined Nomenclature and the ten-digit Taric Nomenclature.

- **Eight- or ten-digit commodity codes** are used in import and export declarations and in statistics declarations on internal trade between EU countries (Intrastat declarations). The first six digits of the commodity code form what is known as the Harmonised System (HS) Codes. Both the UK and the EU follow this global standard.

Each two numbers correspond to a product category. Take, for example, a jacket with an HS code of 610432. The first two digits – otherwise known as the Chapter Heading – tell customs that the package contains an article of clothing. 6104 together indicates that it is a piece of women's clothing. The complete code 610432 means this is a women's jacket made of cotton.

For imports and exports into the EU and the UK, merchants may be required to add up to an extra four digits to indicate further details about the product's export measures, for example, specific taxes and restrictions that apply. This data is required across the globe to help customs keep a tab on what goods were moving and to apply the correct associated costs.

GB EORI CODES

One trigger that can impede customs clearance is having the incorrect Economic Operator Registration Identification (EORI) number. This is a unique ID code used to track and register customs information.

Businesses importing or exporting into the UK require a GB prefixed EORI number. HMRC started automatically issuing GB EORI numbers to UK businesses it believed

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needed them in 2019. This is followed by a UK VAT number and 000.

EU retailers are also required to have a GB EORI to cover any UK imports. EU EORI numbers are now mandatory for those importing or exporting from the EU.

GB VAT REGISTRATION NUMBER

Part of any EORI that an exporter has includes the companies GB VAT registration number (VRN). This is a unique nine-digit ID issued by the UK's tax authority, HMRC, that effectively acts as each company's VAT identity when doing business with HMRC itself and with any other merchants or authorities around the world.

If you're dealing with a supplier in another EU country then its VAT number will follow a different format with its own country code.

COUNTRY OF ORIGIN

The final piece of information needed is the country of origin of goods which, as the name suggests, is the country from which the goods or materials hails. However, this refers very specifically to the country in which the goods have been grown, produced or manufactured, not the country from which they were shipped or purchased from. If the goods were manufactured from parts or materials from different countries, the country of origin is still defined as the country in which the final item was made.

CASE STUDY: DECIEM

Cosmetics 'umbrella brand' Deciem was founded in 2013 by the self-styled 'most exciting beauty world disrupter' Brandon Truaxe to make the cosmetics business more transparent. During a four-month co-op at a skincare lab, he became angry at the lack of passion, transparency and insight when beauty products were being developed. After selling his first software company many years later, Truaxe's frustration at the beauty industry remained and he set off to make a change in the beauty business.

That change is Deciem, which Truaxe describes as "a humble and happy umbrella of good beauty brands" and includes NIOD, Hylamide and The Ordinary.

The Canadian-based brand is 76% owned by Estée Lauder – which paid $1bn for its stake in 2021 – and opened its first store in the UK in Covent Garden in 2017. It has been selling into the EU using ecommerce since mid 2010s. The Ordinary, Deciem's flagship D2C brand, netted $460mn in sales last year and has developed a cult-like following.

How it adapted to trading post-Brexit is an object lesson in how getting the right help on board can streamline the process and deliver rapid success.

THE CHALLENGE

In preparation for Brexit, Deciem needed to find a service provider that would allow it to continue trade into the EU post-Brexit, with a specific customs clearance model. Deciem wanted to make sure that it was the importer of record, meaning that its consumers wouldn't have to pay duty and tax on delivery.

THE SOLUTION

Landmark Trade Services was able to develop the clearance requirements and meet the expected deadlines to go live before Brexit actually became a reality. Implementation teams from both Landmark Global and Deciem were appointed in late November 2019 and were working towards testing and going live by the end of the year. Both teams went the extra mile to ensure that the on-boarding was a success, often working out of hours to achieve the agreed milestones.

THE RESULTS AND NEXT STEPS

After successful tests, Deciem went live in late December 2019 which meant that the retailer was ready for Brexit. With so much uncertainty in the run-up to Brexit, Landmark Global was able to help Deciem continue servicing its European consumers while making sure Deciem continued to meet its consumer expectations. To achieve this in such a short space of time during the Christmas peak period was an extraordinary achievement.

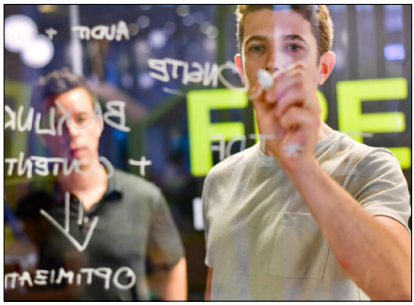
FIVE WAYS LANDMARK GLOBAL'S CUSTOMS EXPERTISE CAN HELP

With a better understanding of regulations and requirements needed to master export growth post-Brexit, what are the next steps? With the right processes in place, retailers can continue to trade between borders without any friction. However, it can be complex, time-consuming and outside core operations. Choosing a logistics shipping partner with in-house customs knowledge and systems can help simplify this process easier and deliver advantages such as:

1. **No delays**
   With the help of customs consultants, retailers can be confident that they have the correct data that complies with customs regulations. This means goods won't be held up at customs clearance and the retailer can know the end customer is getting their order delivered on schedule.

2. **Reduce costs**
   Merchants can avoid shipment problems and take advantage of the UK-EU trade agreement in order to avoid costly duties and taxes. Landmark Global's trade consultants will steer e-tailers in the direction that is most financially beneficial.

3. **Increase customer satisfaction**
   How many customers would be happy with paying additional costs upon delivery? Landmark Global's technology calculates the final cost of a transaction, inclusive of all duties, taxes and shipping costs at the checkout and all in the customers' preferred currency. Now we're looking at increased customer satisfaction and potential for a repeat purchase.



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4. **Ensure the correct data**
   Although the seller is always responsible for filling out customs declarations, the customs brokerage offers a second pair of eyes to ensure that nothing crucial is missing that could hinder the cross-border journey.

5. **Stay ahead of the curve**
   As we've seen, the demands and requirements of each market are always fluctuating. With the aid of Landmark Global's technology, your business can be sure it is fully compliant with the latest legislations in target markets. This includes handling all the paperwork for registering your products in new market.

IN SUMMARY

With the consumers' eyes to the convenience and vast choice available online, there has never been a better time to take advantage of opportunities offered by ecommerce.

There may be drags from the global economy and even from war in far-flung places but if anything, these make looking cross-border for growth even more imperative.

That said, we can't hide from the elephant in the room. It goes without saying that the UK's exit from the European Union has caused some complications for cross-border trade, including country-specific tax regimes, different customs and tariff structures and the addition of extra paperwork load that can appear daunting.

However, as this publication clearly demonstrates, these regulations, tariffs and changes are not an impediment to doing business in and beyond the EU. In fact, they are a key driver for expansion.

Sellers committed to international growth can still enjoy the benefits of selling overseas. It all comes down to having the correct data so that your goods aren't delayed or denied at customs and, more importantly, your customers will get what they expect, when they expect, with no nasty surprises.

Working with an expert in cross-border trade such as Landmark Global can help your business drive growth, maintain customer loyalty and continue to ship between the UK and EU with confidence.

For more information about Landmark Global:

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