

CHAPTER 10

INWARD PROCESSING RELIEF (IPR)

10.1 Introduction

So far we have covered the basics for importing goods. Let's move on to planning and how you can reduce your duty bill through the use of various Customs procedures. One of these procedures is called Inward Processing Relief or IPR.

Illustration 1

You are a manufacturer of car shampoo in the UK. One of the ingredients that you need is a chemical that is only produced in America. Therefore, you import this chemical, incorporate it into your car shampoo product, which is then exported outside of the EU.

Using what we have learnt so far - when you import the chemical from America you will **declare it to Customs on the SAD or C88**. Once the declaration has been accepted you will pay any customs duty and import VAT due. The customs duty, remember, is irrecoverable so this will have to be factored into the end price that you charge to your customers.

Now, looking at this logically - the chemical that you imported never really stayed in the EU - it went into a product that was exported. Therefore, is it fair that we should pay customs duty on a product that was never really destined to stay in the EU? This is where IPR might help us. IPR is a regime that allows you **duty relief on goods imported for processing, that are subsequently exported in the "compensating product"**. This is the aim of the scheme, but how exactly does it work?

10.2 Legislation

We'll introduce the legislation first. **Articles 114 onwards of the Code and Articles 496-523 and 536-550 of the Implementing Regs** is where you will find most of the rules.

[Art 114
2913/92](#)

[Art 496-523 &
536-550
2454/93](#)

10.3 Authorisations

The first important point about IPR is that you must be **authorised by Customs** to use it. This authorisation can either be applied for at the time you import the goods, or in advance.

10.4 Simplified authorisation

The first type of authorisation that we're going to look at is the one that you apply for at the time of import. In the UK the application used to be made on a **Form C101**. However, since August 2003, the C101 has not been needed, and the **application is made on the C88**. The importer enters certain details about the goods and processing into **Box 44**. We'll look at the details needed in a minute. This type of authorisation is often referred to as a **simplified authorisation** and is suitable for someone who **carries out occasional processes on imported goods**.

From the 1st April 2010, a **simplified authorisation can no longer be used in the UK for someone operating IPR using the 'drawback' system**. You will learn more about this in a minute, but first we'll look at another restriction in the use of this type of authorisation.

Article 497 of the Implementing Regs gives a restriction as to when this authorisation can be used. It can only be used where the **'economic conditions'** are deemed to be satisfied.

10.5 Economic conditions

Illustration 2

Continuing with illustration 1, we said that in order to be able to manufacture your car shampoo the chemical you needed was not available to be purchased in the EU. Therefore, if you are forced to import the chemical you need, it would seem fair that import duty should not be paid if the end product is subsequently exported.

But, what if this chemical was available to be bought in the EU? EU producers of the chemical would not be happy if the processor was getting duty relief on a chemical that they could supply.

The **"economic conditions" are there to protect this EU producer**. So does this mean that if the chemical is available in the EU, then we won't get any duty relief? Not necessarily. As well as protecting EU producers of the chemical we want to **also encourage the car shampoo manufacture** because you are giving jobs to EU citizens.

The economic conditions have two purposes overall then, one is to protect EU producers, but at the same time encouraging people to manufacture products in the EU. In a little while we will come onto the valid reasons an importer can give to ensure he meets the economic conditions.

To find the specific legislation governing the economic conditions, Article 497(3) refers us to Article 539 of the Implementing Regs. Article 539 says that the **economic conditions shall be deemed to be fulfilled except where an application concerns goods mentioned in Annex 73**. Therefore, you can import any goods for any type of processing under a simplified authorisation, so long as they are not listed in Annex 73.

[Art 497\(3\) & 539](#)
[2454/93](#)

[Annex 73](#)
[2454/93](#)

10.6 Annex 73 goods

This Annex essentially covers agricultural products in certain sectors. For example, rice, milk, wine, fishery products, or products derived from any of these goods.

Illustration 3

What if we were importing rice then? According to Article 539 you can still apply for your IPR authorisation at the time of import, if the processing falls within the list given in Article 539.

[Art 539](#)
[2454/93](#)

As an example, (a) (iv) covers products that will be subject to the '**usual forms of handling**' listed in Article 531. You will see this phrase again later in the customs warehousing chapter.

[Art 531](#)
[2454/93](#)

Article 531 refers us to Annex 72. It covers, amongst other things:

Simple operations, which mostly do not allow the goods to change eight digit tariff code. These operations include:

[Annex 72](#)
[2454/93](#)

1. Simple cleaning operations;
3. Stock taking...weighing of goods;
4. Removal of damaged components;
13. Dilution of fluids - this one can result in a different eight digit tariff code after the dilution has occurred; and
16. Change of packing, and again this one can result in the end product having a different eight digit tariff code to the imported product.

Illustration 4

If we are importing wine and all we are doing is re-boxing it, for example with some fancy Christmas packaging, we only need a simplified authorisation.

We can also use this type of authorisation if we only **import a small quantity** of these products and in this case we can do what we like to the goods, the processing does not have to fall within the 'usual forms of handling' list. A small quantity is defined in Article 539(b) as **150,000 Euros** which is approximately **£97,500** of goods per annum. The logic behind this is that you are not importing a large enough quantity to cause other EU producers any cause for concern.

[Art 539\(b\)](#)
[2454/93](#)

10.7 Throughput period

One of the pieces of information required in box 44 is the **'throughput period'**. This is the time the importer needs to **import, process and re-export the finished product**. If the importer does not detail a period, a **standard six months** will apply.

10.8 Other authorisations

The types of authorisation that we are going to look at next mostly require the same application form. In the UK this is a **C&E 810**, which basically replicates Annex 67 of the Implementing Regs. The types of authorisations are called by UK Customs **'local', 'specific', 'integrated' or 'single community'**. Where an importer is applying for a single community authorisation, application is made on the form in Annex 67, not the C&E 810. We'll look at each of the authorisations in turn.

[Annex 67](#)
[2454/93](#)

10.9 Local authorisation

This type of authorisation covers the same types of products and processing, which we have already looked at for the simplified procedure. For example, products that undergo usual forms of handling or where the value of imports of certain agricultural goods does not exceed 150,000 Euros per annum. The advantage of applying for this type of authorisation is that you do not need to complete box 44 of the C88 every time you import your goods. Instead, you are given an **authorisation number** by Customs, which you **quote on the C88**.

An authorisation can be granted for a **maximum three years**. Customs may lay down in the authorisation a **maximum 'throughput period'** and any application should be **accepted or rejected** by Customs **within thirty days**.

[Art 507\(3\)](#)
[2454/93](#)

[Art 506](#)
[2454/93](#)

If the importer requests it a **provisional authorisation** may be granted from the date of the application and in some circumstances a **retrospective authorisation** may be granted, for a **maximum one year** prior to his application where there has been **no obvious negligence or deception** by the applicant and their records show that all conditions of the relief have been complied with.

10.10 Specific authorisation

This authorisation has the same time constraints on it as for a local authorisation. The only difference is that the **economic conditions are not deemed to be fulfilled**, so the importer needs to satisfy them.

These are referred to in Article 502(2) of the Implementing Regs and amplified in Annex 70. You will see from Annex 70 that it contains a list of reasons as to **why community goods cannot be used**. Each reason is denoted by a two digit code. The importer can pick from these codes. Obviously the more codes he satisfies the more likely his application will be accepted. Remember, we have already said that for goods not appearing in Annex 73, the conditions are deemed to be satisfied. Therefore, there is a standard code of '01', which covers non Annex 73 goods.

[Art 502\(2\) & Annex 70 2454/93](#)

Technically, even if an economic test is not needed the importer should quote a code on his application. The other codes listed are only relevant to certain agricultural products.

An example of the codes are:

Code 10 - unavailability of goods produced in the community.

Code 11 - although available in the Community, comparable goods cannot be used because their price would make the proposed commercial operation, economically unviable.

Code 12 - although available in the Community, comparable goods do not conform to the expressly stated requirements of the third country purchaser of the compensating products.

This is an illustration. You can see from the economic condition codes above that the purpose is to only allow duty relief if there is a **valid reason as to why community goods cannot be used in place of the imported goods**. The Department for the Environment, Food and Rural Affairs or DEFRA carries out the economic test on agricultural goods.

10.11 Integrated authorisation

This covers the same types of products and processes, as we've already mentioned, but the reason for this type of authorisation is that the person is **combining IPR with another Customs procedure**. For example, they might also want to use customs warehousing. You will learn more about customs warehousing in the next chapter.

10.12 Single Community

The final type of IPR authorisation is the Single Community. This is where **processing is going to take place in more than one member state**. The application is initially sent to UK Customs and they will send a copy of the application to the other member states in which the goods are going to be processed.

[Art 500 2454/93](#)

The other member states then have **30 days to object** to the authorisation, and if they don't then UK Customs can authorise the applicant as they see fit.

10.13 Types of IPR - suspension

There are currently two types, **suspension** and **drawback**. Remember, we briefly mentioned drawback a little while ago - because we said that from April 2010 Customs no longer allow a simplified authorisation to be used for this method. Also under the re-write of the Code, mentioned in Chapter 1, the Commission is intending to remove drawback. Article 114(1)(a) and 2(a) of the Code covers suspension. This is where **goods are imported without payment of customs duty and import VAT**, although note that **excise duty must still be paid** and provided the goods are re-exported, duty and import VAT do not become due.

[Art 114\(1\)\(a\) & 2\(a\)](#)
[2913/92](#)

10.14 Types of IPR - drawback

Article 114(1)(b) and 2(b) covers drawback. This is where goods are imported as normal, with **customs duty, excise duty**, where applicable, and **import VAT paid**.

There are currently two types, **suspension** and **drawback**. Under the re-write of the Code, mentioned in Chapter 1, the Commission is intending to remove drawback. Article 114(1)(a) and 2(a) of the Code covers suspension. This is where **goods are imported without payment of customs duty and import VAT**, although note that **excise duty must still be paid** and provided the goods are re-exported, duty and import VAT do not become due.

[Art 114\(1\)\(b\) & 2\(b\)](#)
[2913/92](#)

If the goods are **re-exported, the customs duty is reclaimed**. This reclaim must be submitted within **six months** of the export. The import VAT does not need to be reclaimed as that will have been recovered by the importer in the usual way as input tax on their VAT return. There is no relief for excise duty.

[Art 521](#)
[2454/93](#)

10.15 Suspension v Drawback

Suspension offers both advantages and disadvantages. It certainly offers **better cash flow** as you don't pay your duty or VAT when the goods are imported. However, if the goods are not re-exported, then as well as the duty and import VAT becoming due, Customs will charge "**compensatory interest**". Unfortunately, they do not lend money interest free! If, therefore, you do not know the end destination of the goods at the time of import, you are better off using drawback. However, **drawback cannot be used for all types of goods**. It cannot be used for goods listed in Article 124 of the Code. These include **goods that require an import licence**, goods which are subject to **quantitative restrictions**, or goods subject to **tariff quotas**. There are others listed in Article 124, but these are the main ones. You will learn more about licences, quotas and quantitative restrictions in later chapters.

[Art 124](#)
[2913/92](#)

Example 1

In which annex of the Implementing Regs would you find the 'Economic conditions'?

- A - Annex 72
- B - Annex 67
- C - Annex 69
- D - Annex 70?

There are two types of IPR. What are they?

There are five types of IPR authorisation. What are they called? Fill in the blanks.

The authorisation, which is applied for at the time of import.

The authorisation, where the economic conditions are deemed satisfied.

The authorisation, where the Economic Test needs to be satisfied.

The authorisation that combines IPR with another Customs procedure.

Theauthorisation if processing takes place in more than one member state.

10.16 Equivalence

When applying for IPR suspension or drawback the importer can request to use 'equivalence'.

Illustration 5

You import 5kg of chemicals to be incorporated into your car shampoo product, as well as buying 10kg of the same chemicals from another UK supplier. You use the UK sourced chemical in the car shampoo that is subsequently exported and the imported chemical is used in car shampoo that is sold to UK customers. Customs would need to be satisfied that you have re-exported the imported chemicals.

Unfortunately as the imported chemical was released to free circulation you would not be able to claim any duty relief.

This could be an administrative pain if the importer had to keep each of the chemicals separate and also track where they had come from just to claim duty relief. **Equivalence allows you to store 'equivalent' goods together and 'pretend' that the exported goods contained the chemical that was imported.**

[Arts 114\(e\) & 115 2913/92](#)

10.17 Definition of equivalent goods

If the goods fall within the **same eight digit tariff code**, have the **same technical characteristics** and are of the **same commercial quality** you can count them as equivalent goods.

[Art 541 2454/93](#)

Illustration 6

Continuing with illustration 5, it does not matter which of the chemicals were re-exported and which stayed in the EU. If we have exported car shampoo containing at least 5kgs of chemical we will get duty relief on the whole lot we imported. This is advantageous to the importer because essentially he can pretend which chemicals were exported and which were released to free circulation. And he can match his imports on a first in, first out basis, i.e. match with the earliest imports first. This is useful given that there is a maximum time limit for the importation, processing and re-exporting to have occurred - the 'throughput' period.

10.18 Prior Export Equivalence

A variation on equivalence is 'prior export equivalence'. To use this you **must operate 'suspension'**. It works by **allowing the export of equivalent UK goods before the import occurs**.

[Art 115\(1\)\(b\)
2913/92](#)

[Art 126\(2\)
2913/92](#)

Illustration 7

Imagine the car shampoo manufacturer in illustration 5 was intending to import the 5kg of chemical he needed, incorporate it into the shampoo and then re-export the finished product.

Due to a problem with the overseas supplier, the delivery is delayed. The manufacturer needs to satisfy his customer so uses locally sourced chemicals to make the shampoo before exporting the finished product. His delivery from the non-EU country finally arrives and he uses that in car shampoo, which is sold within the UK. Ignoring the fact that the export happened before the import, we have imported 5kgs of chemical and re-exported 5kgs of chemical in the finished car shampoo.

Under 'prior export equivalence' you are allowed to claim duty relief on the 5kgs of imported chemical **provided that the imports arrive within 6 months of the export having occurred**. (This is reduced to 3 months for agricultural products.)

[Art 543
2454/93](#)

We have said that prior export equivalence is only available under suspension, and this means that when the imported chemical finally arrives duty is not paid on it and never will be because we have exported the same quantity of chemical within the last 6 months.

10.19 Rate of yield

An important aspect of the authorisation is something called the "rate of yield". Customs will need the importer to set a rate of yield, which must be detailed on the application form or C88 if the importer uses a simplified authorisation. This is the **amount of imported goods used in the processing operation, what products result from the operation, and whether any by-products are produced**.

Illustration 8

Rolls of material are imported in 30 metre quantities. The material is used to make t-shirts, of which 60 are produced. The rate of yield would be 30 metres of material to 60 t-shirts.

Standard rates of yield are set out for certain products and processes. You will find these in Annex 69. They cover food stuffs, e.g. oats made into bran.

[Annex 69](#)
[2454/93](#)

10.20 Quantitative scale method

To calculate the duty relief we're entitled to we need to look at how many of the t-shirts were exported.

Illustration 9

In Illustration 8, 50 of the t-shirts are exported, with the remaining 10 being diverted to free circulation. To calculate the customs duty due we can use something called the 'quantitative scale method'.

This bases the duty relief on the quantity of the t-shirts that are exported. We exported 50 t-shirts out of the 60 that were produced. If we multiply this by the duty suspended on the 30 metres of cloth, it will tell us how much duty relief we can get.

[Art 518\(2\)\(a\)](#)
[2454/93](#)

$$50/60 \times \text{duty suspended} = \text{duty relief}$$

10.21 By-products

Illustration 10

Imagine, in Illustration 8 where we had imported the 30 metres of material to make up 60 t-shirts, but there was some scrap material left over.

The rate of yield will be different because you need to take account of all products produced from the imported material. Therefore, if the scrap material is not re-exported, but all of the t-shirts are, we would not be able to claim 100% relief for the duty on the 30 metres of material.

You can, however, **pay duty on the scrap material at the rate applicable to the scrap**, as though you had imported that into the EU in the first place. Therefore, if the scrap has a lower duty rate than the imported material this would be beneficial. To be able to use the rate applicable to the by-products the goods and processing undertaken must be listed in Annex 75 of the Implementing Regs. Our products could fall within Annex 75 as 'waste' or off-cuts resulting from the manufacture of the t-shirts.

[Annex 75](#)
[2454/93](#)

10.22 Value scale method

The quantitative scale method that we have just seen would not work in all circumstances and we may have to use the 'value scale method'.

Illustration 11

We are still importing 30 metres of cloth from a non-EU member state. The cloth has two different textures on it. The cloth is then processed and makes 40 t-shirts and 30 pairs of shorts. The t-shirts are made from one part of the cloth, whilst the shorts are made from the other. Only 20 pairs of the shorts are re-exported and we need to calculate the duty relief that will be given on the original 30 metres of imported cloth.

We can't use the quantitative scale method as not all elements of the imported product are found in each of our t-shirts and shorts. Instead we use the 'value scale method'. To do this we **need to establish the value of the compensating products** that were produced from the 30 metres of cloth.

$$\begin{array}{rcl}
 40 \text{ t-shirts} \times \text{£}10 & = & \text{£}400 \\
 30 \text{ pairs shorts} \times \text{£}5 & = & \underline{\text{£}150} \\
 & & \text{£}550
 \end{array}$$

21.82m

8.18m

30 metres

$\frac{150}{550} \times 30 \text{ metres}$

We will imagine that 40 t-shirts have a value of £400 in total and the 30 pairs of shorts have a value of £5 each to come to a total of £150. If we add up the total value of what we have managed to produce, we have £550 worth of total products. We need to work out what metres of cloth have been used to make the t-shirts and the shorts, and we do this by using the value of the goods produced.

If we take the value of the shorts and divide it by the total value of goods produced, and multiply the answer by the 30 metres, it tells us that 8.18 metres must have been used to produce the shorts. That means that the remaining 21.82 metres of cloth must have been used to produce the t-shirts.

As we have re-exported only 20 of the shorts, then duty relief will be available on $20/30 \times 8.18$ metres. Therefore, duty relief will be granted for 5.45 metres of the original 30 metres imported.

10.23 Discharging IPR

The final thing that we are going to look at in this chapter is how IPR can be ended or discharged without duty becoming due.

Illustration 12

Imagine you import metal sheets for processing. The most common way of ending the procedure without duties being due is by **re-exporting the product** after it has been processed.

You can also end IPR by removing your metal tools to a **customs warehouse**. You will learn more about customs warehouses in a later chapter.

You can remove your tools to another customs regime called "**Temporary Importation**" and if you had originally imported your metal sheets to IPR drawback, then if you place them under **IPR suspension**, you can reclaim your duty.

You can also **sell your goods to another IPR trader**. Provided the buyer disposes of the goods in a qualifying way, duty will not be due.

[Art 128](#)
[2913/92](#)

Import VAT relief can be obtained under the 'onward supply relief' rules. These are contained in regulation 123 of the VAT regulations. This is where the unprocessed goods are put into free circulation and the customs duty is paid but the goods are destined for a trader in another member state. Provided the goods are consigned to a registered trader in another Member State, and leave the UK within one month of release to free circulation, no import VAT is due. Instead the acquirer accounts for supply VAT in their own country.

[Reg 123](#)
[SI 1995/2518](#)

Example 2

Equivalent goods must:

1. Fall within the same digit tariff code;
2. Have the same ; and
3. be of the same

There are two ways to determine the duty relief available. Name them.

10.24 Returns and records

All traders should keep sufficient records so Customs can ensure that the procedure is being carried out correctly.

The records should show:

- **details of goods** entered for the regime, including their **technical characteristics, commodity code** etc;
- any **transfers of IPR goods** to or from other IPR holders;
- the **processing undertaken** on the goods;
- the **rate of yield**; and
- **how the goods were disposed of**, e.g. exports and other disposals.

Records should be kept for **4 years**. If a person fails to comply with their authorisation or the law they could be liable to the **civil penalties** we looked at earlier. **Breaching 'prescribed rules'** could result in fines of **£1,000** or **£2,500**.

If a trader operates 'suspension', he needs to **submit returns** to Customs. These returns are made on form **C&E 812**, for authorisations other than the simplified one. They are made usually **monthly or quarterly**, and detail the goods received and their destination after processing. The return enables Customs to see what goods were diverted to free circulation and therefore what **duty and compensatory interest** is due.

A drawback trader needs to **reclaim his duty** once he has disposed of his goods in a qualifying way. The claim is made on form **C&E 813** for authorisations other than the simplified one and is usually submitted on a **monthly or quarterly basis**. The claim must be submitted **within 6 months of export**, otherwise Customs might not repay the duty.

10.25 Special situations

Where an importer imports parts such as nuts and bolts to IPR and uses them in the manufacture of civil aircraft, then provided they are an eligible operator they are allowed to treat this as discharging the IPR procedure. This means that although the parts have not been exported, duty relief will be given as though they had been.

Answer 1

The correct answer was D. Annex 70 lists the economic conditions.

The two types of IPR are suspension and drawback.

The five types of IPR are:

The simplified authorisation, which is applied for at the time of import;

The local authorisation, where the economic conditions are deemed satisfied;

The specific authorisation, where the Economic Test needs to be satisfied;

The integrated authorisation that combines IPR with another customs procedure; and

The Community (or single community) authorisation, if processing takes place in more than one member state.

Answer 2

Equivalent goods must:

1. Fall within the same 8 digit tariff code;
2. Have the same technical characteristics; and
3. be of the same commercial quality

The two ways to determine the amount of duty relief are:

The quantitative scale method and the value scale method.