

CHAPTER 15

OUTWARD PROCESSING RELIEF

15.1 Introduction

This chapter is going to look at **Outward Processing Relief** or OPR. It is another regime that a trader can use to try and save customs duty. Note that this procedure only gives relief from customs duty it **does not cover excise duty**.

Illustration 1

You manufacture a chemical. This chemical is used to produce dishwasher tablets. In order to produce the finished product, the chemical needs to be combined with another chemical. This second chemical is not yet available in the EU so you have to send your chemical overseas to America for the processing to occur. Once the processing has happened the finished dishwasher product is then returned back to the UK. When you re-import the dishwasher tablets, a **C88** will need to be completed and customs duty will be paid on the finished product.

However, some of the value of the finished product comes from the UK chemical. Therefore, should we pay duty on - effectively - an EU product? This is where OPR can help. **It will afford some relief for the EU component contained within the finished dishwasher tablets.**

15.2 Legislation

Before we go into the finer details of OPR we will introduce the legislation. The relevant bits are contained within **Article 145 onwards of the Code** and **Articles 496 - 523 and 585 - 592 of the Implementing Regs.**

[Art 145 -
2913/92](#)

[Art 496-523
& 585-592
2454/93](#)

15.3 Authorisation

In order to use OPR you need to be authorised. Authorisations are contained in Article 148 of the Code and will only be granted if the following conditions are satisfied:

- the person must be **established in the community**;
- it must be possible to establish that the exported goods are **incorporated in the re-imported product**; and
- the **economic conditions** must be satisfied.

[Art 148
2913/92](#)

You will have seen this phrase before. In this respect it means:

- use of the procedure will not seriously disadvantage the essential interests of community producers, or
- carrying out the processing in the EU would be economically unviable, or is not feasible for technical reasons, or because of some contractual obligation.

How do we satisfy the economic conditions?

[Art 502\(4\)
2454/93](#)

Article 585 of the Implementing Regs says that the **essential interest of community producers shall be deemed not to be seriously harmed unless there are indications to the contrary.**

[Art 585
2454/93](#)

In authorising someone to use OPR, Customs will set a **time limit** within which the export, processing abroad and re-importation must have occurred. They will also set a **rate of yield**.

15.4 Types of authorisation

There are a variety of authorisations. They are the:

- **Non-commercial** authorisation. This is used for exports of personal property;
- **The simplified** authorisation, which is used for repairs only;
- **The full UK** authorisation, used for any processes where the UK is the only Member State from which you export your goods;
- **The single** authorisation; used for any processes, where you export goods from more than one Member State;
- **The specific** authorisation; where the exporter is not the person arranging for the processing to be carried out; and
- **The integrated** authorisation, where the person wishes to be authorised for another Customs procedure as well as OPR, for example IPR.

15.5 Full UK authorisation

Application needs to be made on a form like the one in Annex 67. In the UK this is a **C&E1153**. Customs have **30 days** to either **reject or accept** the application. It will take effect on the date of issue and it will apply for a **maximum 3 years**. **Retrospective** authorisations may be granted at Customs discretion, but not going back further than **1 year**.

Annex 67
2454/93

[Art 506-508
2454/93](#)

15.6 Calculating duty relief - method 1

There are two ways of calculating relief, and the **importer can choose** whichever method is of most benefit to him.

Illustration 2

We'll continue with our previous illustration.

The finished dishwasher tablets are re-imported and the CIF value of the consignment is £8,000. The value of the UK chemical included in the product amounts to £3,500. In working out that £3,500, Article 590(2) of the Implementing Regs says that you ignore freight and insurance.

[Art 590\(2\)
2454/93](#)

To calculate the duty, Article 151 of the Code says you work out the duty as normal on the imported product and deduct the duty that would have been due on the exported chemical as though it had been imported from the same country in which the processing took place. We will imagine that if we had imported our UK chemical from America, the duty rate on it would be 5%

[Art 151
2913/92](#)

$$\begin{array}{lll} \text{Consignment } £8,000 \times 4\% & = & £320 \\ \text{UK product } £3,500 \times 5\% & = & \underline{£175} \\ & & £145 \text{ duty due} \end{array}$$

The final duty due on the imported dishwasher tablets is £145. We have managed to save ourselves £175.

15.7 Preference

What would happen if the finished dishwasher tablets qualified for preference on re-import because they originate in a beneficiary country? In this case if you claim the preferential rate, than you also have to use any preferential rate of duty available for your chemical as though it originated in the country where the processing takes place.

[Art 151\(4\)
2913/92](#)

15.8 Calculating duty relief - method 2

The other way to calculate the duty relief is to look at the value added by the processing. Under the Commission's re-write of the Code, it is intended that this method will be the only one available for calculating the relief. This method can currently be used at the request of the importer.

[Art 591
2454/93](#)

Illustration 3

Using the same scenario with our dishwasher tablets, we saw that the finished product had a value of £8,000. We deduct from this value the value of the UK chemical, to give the value added by the processing abroad. We then calculate duty on this value by multiplying it by the rate that applies to the finished product, i.e. the 4%.

$$\begin{array}{ll} \text{Consignment} & £8,000 \\ \text{UK product} & \underline{£3,500} \\ \text{Value added by processing} & £4,500 \times 4\% = £180 \text{ duty due.} \end{array}$$

The total duty due is £180.

This method **ignores the duty rate of the exported chemical** and in our example has resulted in £35 **more duty** than we calculated under the first method. The reason for this is that the UK chemical had a higher duty rate than the finished product, so it was more beneficial to use the first method in our illustration. This second method is more beneficial if the exported chemical has a 0% duty rate.

An importer should carry out both calculations and see which one gives him a lower duty bill. Customs will allow him to use the method that produces the lowest result. However, where the 'value added by the processing' method is used, Customs may deny it if the sole object of the release for free circulation of the temporary export goods had been to benefit from this relief.

Example 1

You need to decide which calculation of duty relief would be most beneficial in this scenario.

The exported product is valued at £1,000, but this includes £100 for freight and insurance.

The re-imported product is valued at £2,500, which includes freight and insurance of £300.

The re-imported product incurs a duty rate of 6%, whereas the exported product has a duty rate of 4%.

You need to calculate the final duty due on the final imported product using the first method we looked at. You then need to look at the second method and calculate the amount paid.

15.9 Other processing under OPR - Free of charge repairs

Illustration 4

Imagine you import watches from Japan. You sell the watches to your customer in the UK who finds that one of them does not work. The customer returns the faulty watch to you.

You then send the watch back to the Japanese manufacturer and because the watch is only a few months old the supplier repairs it free of charge. It's still under guarantee, so he has a legal obligation to repair it. He sends the watch back to you after he's repaired it. Upon re-importation, the goods have to be declared to Customs on the C88 but **can be re-imported free of customs duties**. This makes sense, as in reality it is only one watch that remained in the EU and we'd already paid customs duties the first time it came in!

[Art 152\(1\)
2913/92](#)

15.10 Other processing under OPR - Repairs in return for payment

What if the Japanese supplier in the previous illustration charges you for the repair, because it is a couple of years since the watch was originally imported? In this case, customs duty is going to be payable and it is calculated by **adding the repair costs to the freight and insurance and multiplying the total by the rate of duty for watches.**

What if though, the watch we have sent for repair could not be repaired so the Japanese manufacturer sends a brand new one to replace it? In order to get duty relief the importer must use the '**standard exchange system**' or **SES**. The replacement must have:

- the **same Tariff Code** as the exported product,
- be of the **same commercial quality**; and
- have the **same technical characteristics**.

Therefore, if the watch has been used before being exported, the replacement cannot be new. This does not apply if the watch was being replaced free of charge under a guarantee or legal obligation. **In this case the replacement can be new and still incur no duty.**

15.11 Import VAT

Can we obtain relief from import VAT? The basic legislative provision is **Regulation 126 of SI 1995/2518**. Taking the same illustrations, we'll look at whether you can obtain relief for import VAT when the goods are re-imported.

[Reg 126](#)
[SI 1995/2518](#)

The first scenario was where the Japanese manufacturer **repaired the watch free of charge because of a guarantee or legal obligation**. Import VAT is **not due**.

The second scenario was where the watch was **repaired in return for payment**. Import VAT is due on the amount as though the processing had taken place in the UK. This means that import VAT is due on the cost of the repair, freight and duty but **not the insurance** because insurance in the UK is exempt for VAT purposes.

For goods that are **replaced**, import VAT is due on the full customs value i.e. the cost of the goods, insurance and freight, whether or not the goods were supplied free of charge.

Example 2

You have to decide whether the operation will grant the importer total relief from customs duty and/or VAT.

	Total Duty Relief	Total VAT Relief
Repair free of charge under a guarantee		
Replacement product free of charge (under a guarantee or statutory obligation)		
Repair carried out in return for payment		

Answer 1**Method 1:**

$$\begin{array}{lcl}
 \text{Reimported product } \text{£}2,500 \times 6\% & = & \text{£}150 \\
 \text{Exported product } \text{£}900 \times 4\% & = & \underline{\text{£}36} \\
 & & \text{£}114 \\
 \text{exclude freight and insurance} & &
 \end{array}$$

Method 2:

$$\begin{array}{rcl}
 \text{Reimported product} & & \text{£}2,500 \\
 \text{Exported product} & & \underline{(\text{£}900)} \\
 \text{Processing abroad} & & \text{£}1,600 \times 6\% = \text{£}96
 \end{array}$$

Answer 2

	Total Duty Relief	Total VAT Relief
Repair free of charge under a guarantee	✓	✓
Replacement product free of charge (under a guarantee or statutory obligation)	✓	X
		VAT on full customs value of the goods
Repair carried out in return for payment	X	X
	Duty on repair, freight & insurance	VAT on repair, duty, freight