



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

14 March 2019

The Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons
London SW1A 0AA

Dear Nicky,

Thank you for your letter dated 6 March 2019 regarding our tariff policy in the event that the UK leaves the European Union without a deal. I am writing in reply to the specific issues you raised in that letter. Please accept my apologies for the delay in replying.

The Government has announced the tariffs that would apply on UK imports in the event that the UK leaves the EU without a deal, alongside a wider announcement relating to the NI border.

In setting the temporary tariff, we have taken a balanced approach to support the UK economy as a whole. It would maintain open trade on the majority of UK imports, to support consumers and business supply chains, but retain necessary tariff protection for particular sectors of the UK economy. As is covered in more detail in the Northern Ireland no deal policy announcement, these tariff arrangements will not apply to trade between Ireland and Northern Ireland

The requirement to treat the EU and rest of the world trading partners the same meant that an extremely complex set of choices have had to be made. The spectrum of options ranged from liberalising rest of the world tariffs in order to avoid tariffs being imposed on our EU imports – which would benefit UK consumers and supply chains, but potentially impose costs on some UK producers – to retaining tariffs with the rest of the world, and applying these tariffs on our EU imports, where the impact of applying tariffs on EU imports could result in significant price impacts for consumers and supply chains. In setting the tariff, we recognised that neither of these extremes was the right approach.

The UK's tariff regime will be subject to the approval of the House, and secondary legislation to give effect to a tariff would be laid in line with the provisions in the Taxation (Cross-Border Trade) Act 2018. Dependent on the outcome of the votes this week, the Government would bring forward the necessary secondary legislation to implement the tariff schedule.

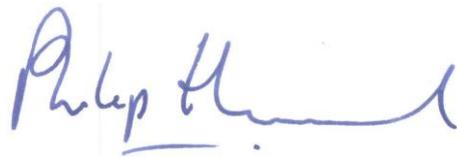
You also asked that we provide an update of the Government's economic analysis produced in November to incorporate a regional and sectoral analysis of both the removal, and the retention, of tariffs on various sectors of the economy. An indication of the long run impact of the spectrum of possible tariff approaches, from full tariff liberalisation to retention of the current EU Most Favoured Nation tariff schedule, was included in the

November analysis. This included an analysis for sectors, and the nations and regions of the UK, of retaining the full EU MFN tariff as this was the 'modelled no deal' scenario. GDP estimates for the other end of the spectrum of possible tariff approaches - full liberalisation of the tariff schedule - was included as a sensitivity analysis, to give a broad indication of the potential economic benefits of liberalising tariffs.

We have, of course, attempted to take into account the sectors and the nations and regions of the UK throughout the development of this policy as far as possible and appropriate. We have also published a Tax Information and Impact Notice.

Finally, you asked for an update on the ability of the UK to negotiate new trade deals in light of the removal of UK tariffs. I am confident that prospective trading partners still have every incentive to enter into new, or revised, agreements: as a temporary policy, an agreement gives partners certainty over long term arrangements, including where we are retaining tariffs on around 13% of UK imports, which includes key products like cars and agricultural goods. Lastly, trade negotiations cover more than just tariffs, including non-tariff barriers, government procurement or services.

Thank you again for contacting me, and I look forward to your response.

A handwritten signature in blue ink, reading "Philip Hammond". The signature is written in a cursive style with a horizontal line underneath the name.

PHILIP HAMMOND