EXPLANATORY MEMORANDUM TO

THE CUSTOMS TARIFF (PREFERENTIAL TRADE ARRANGEMENTS) (AMENDMENT) REGULATIONS 2025

2025 No. 1158

1. Introduction

1.1 This Explanatory Memorandum has been prepared by HM Treasury and the Department for Business and Trade and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Catherine Stewart, Deputy Director for Trade Policy, at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

2.3 Mark Lomas, Deputy Director for Trade in Goods (Rules of Origin) at the Department for Business and Trade, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Eva Agerbaek at HM Treasury can be contacted by email at the following address with any queries regarding the instrument: eva.agerbaek@hmtreasury.gov.uk.

3.2 Caroline Nicholls at the Department for Business and Trade can be contacted by email at the following address with any queries regarding the instrument: caroline.nicholls@businessandtrade.gov.uk. Alternatively, the department can be contacted by telephone: +44 (0) 20 4551 0011.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The instrument makes amendments to subordinate legislation previously made under the Taxation (Cross-border Trade) Act 2018 ("TCTA"), which provided for the United Kingdom's Custom, Value Added Tax ("VAT") and Excise regimes to be in place after the end of the Transition Period following the withdrawal of the United Kingdom ("UK") from the European Union ("EU").

4.2 This instrument updates the reference document relating to the rules of origin that apply under the UK's preferential trade arrangement ("PTA") with the Republic of Korea ("the Republic of Korea Origin Reference Document"), following a recent amendment to the PTA agreed between the UK and the Republic of Korea dated 24 October 2025.

4.3 The reference document updated in this instrument has been given legal effect by the Customs Tariff (Preferential Trade Arrangements) (EU Exit) Regulations 2020 (S.I. 2020/1457) ("the Preferential Trade Arrangements Regulations").

Where does the legislation extend to, and apply?

4.4 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

5.1 The Republic of Korea Origin Reference Document is updated to give effect to an amendment to the UK's PTA with the Republic of Korea which was agreed between the UK and Republic of Korea by an exchange of notes on 24 October 2025. The amendment extends the application of certain provisions in the Protocol on Rules of Origin ("the Protocol"), which were otherwise due to expire on 31 December 2025.

5.2 The provisions which have been extended relate to the cumulation of materials originating in the EU, working or processing carried out in the EU, and direct transport through the EU. The first provision makes it easier for goods which have been produced in the UK or the Republic of Korea, using material inputs from the EU, to qualify for preferential tariffs under the PTA. The second provision allows originating goods which have been transported between the UK and the Republic of Korea through the EU to claim preferential tariffs under the PTA. These provisions were set to expire on 31 December 2025.

5.3 The extension of these provisions is for 18 months, until 1 July 2027, or until entry into force of a legally binding instrument to upgrade the existing UK-Korea PTA. It will allow UK and South Korean businesses to continue to utilise these EU cumulation and direct transport provisions under the existing PTA, while the UK continues to negotiate a new PTA with the Republic of Korea, thereby preventing a potential gap in market access from 1 January 2026.

What was the previous policy, how is this different?

5.4 Sections 5.1-5.3 above sets out the previous policy and the changes being made.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 9 of the TCTA gives HM Treasury powers to implement PTAs that His Majesty's Government in the UK agrees with the Government of a trading partner country. HM Treasury can only exercise these powers on the recommendation of the Secretary of State further to section 9(3) of the TCTA. That recommendation has been given by the Secretary of State for Business and Trade.

6.2 Section 17 of the TCTA gives HM Treasury powers to make provision for the purposes of determining the place of origin of chargeable goods, including in relation to goods subject to a preferential tariff rate. The power is exercised on the recommendation made to HM Treasury by the Secretary of State further to section 17(8) of the TCTA.

6.3 This instrument utilises these powers under the TCTA in order to amend the Preferential Trade Arrangement Regulations. This amendment ensures that the UK continues to correctly implement its PTA with the Republic of Korea. This follows the agreement between the UK and Republic of Korea dated 24 October 2025 to amend the PTA to extend the provisions set out in paragraphs 5.1-5.3.

6.4 HM Treasury, in exercising the function of making these Regulations, and the Secretary of State, in making a recommendation on these Regulations, have had regard to the matters set out in section 28 of the TCTA.

Why was this approach taken to change the law?

6.5 The TCTA gives primary powers for the UK to create its own customs regime, including a system of import duty rates and to determine the place of origin of chargeable goods, allowing import duty to be applied to chargeable goods entering the UK. Import duties (or tariffs) are the taxes that an importer needs to pay when bringing goods into the UK.

6.6 The Preferential Trade Arrangements Regulations set out the legislative mechanism through which the UK implements the preferential tariff and related rules of origin requirements that it has agreed with trading partners. Schedule 1 to the Preferential Trade Arrangements Regulations sets out the arrangements to which those Regulations apply, and the related reference documents that contain the corresponding preferential duty rates and rules of origin. To give effect to a new version of the relevant reference document, the reference in Schedule 1 of the Preferential Trade Arrangements Regulations is amended. This instrument effects that amendment to Schedule 1 in respect of rules of origin requirements in the UK's PTA with the Republic of Korea.

7. Consultation

Summary of consultation outcome and methodology

7.1 No consultation in relation to this instrument has been undertaken. This is because the amendments made by this instrument largely maintain the position of existing legislation.

8. Applicable Guidance

8.1 Further guidance is available at https://www.gov.uk/guidance/summary-of-uk-south-korea-trade-agreement#rules-of-origin.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because it largely maintains the position of existing legislation which was covered by an overarching Tax Information and Impact Note: https://www.gov.uk/government/publications/the-uks-integrated-tariff-schedule/the-uks-integrated-tariff-schedule.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies.

9.3 There is no, or no significant, impact on small businesses.

9.4 There is no, or no significant, impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring of this legislation is in line with the government's general approach to tariff legislation, which is kept under review to ensure that it meets the policy objectives set out above in section 5 of this Explanatory Memorandum and ensure burdens on business are carefully monitored.

10.2 The instrument does not include a statutory review clause as the content relates to a tax or duty and therefore meets the requirements of the Small Business, Enterprise and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 The treaty amending the PTA between the UK and Republic of Korea was laid before Parliament on 5 November 2025 for scrutiny as per the Constitutional Reform and Governance Act 2010 ("the CRaG Act"). The Government is committed to bringing the treaty amendment into force by 1 January 2026, to ensure continuity in trading terms for UK and Korean businesses and prevent a potential gap in market access after 1 January 2026. The Government is also committed to observing the 40-day praying period for this instrument. As such, this instrument is laid at the same time as parliamentary scrutiny under the CRaG Act starts, so that both parliamentary scrutiny of the treaty amendment under the CRaG Act and parliamentary scrutiny of this instrument under the made negative procedure will be completed before the end of 2025.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts"). It does, however, relate to the withdrawal of the United Kingdom from the European Union because withdrawal required the UK to replace the EU's customs regime with a UK-specific customs regime.