

GXO UK Excise Due Diligence Policy

Covering all GXO UK group entities including, but not limited to, GXO Logistics UK Limited, GXO Logistics Drinks Limited and GXO Logistics FST Limited – collectively referred to herein as “GXO”

Introduction

This document sets out the excise due diligence policy of GXO in relation to The Excise Goods (Holding, Movement and Duty Point) Regulations 2010, Section 100G - Customs and Excise Management Act 1979 and the requirements set out in section 10 of HMRC Excise Notice 196.

As a business involved in Excise supply chains GXO is obliged to:

- Consider the risk of excise fraud within the supply chains it enables;
- Determine the level of the risk and whether or not it is acceptable to the business; and
- Where necessary, take appropriate action to mitigate and address any risks identified.

Background & Risk

Excise duty fraud involving both Duty Paid and Duty Suspended goods causes significant loss to the Exchequer. Robust laws are in place to govern the holding and movement of Excise Goods.

Breaches of those laws are subject to punitive Excise penalties which, in some cases can be the sum of the potential duty owing plus an equivalent amount as a penalty; in effect, twice the duty amount on the goods involved in the breach.

HMRC calculates the amount of penalty based on the behaviour of the business involved, i.e. its Due Diligence practices and the circumstances and quality of how a breach is declared to HMRC.

Where GXO holds or moves Duty Paid excise goods, there is increased risk as it is the holder or mover of the goods, jointly and severally with the owner / shipper of the goods at the time of any breach that is required to prove the legitimacy of the goods, regardless of ownership.

Scope and purpose

Scope - GXO provides multiple services falling into the scope of the Excise Due Diligence rules and into the related penalty regimes. These services include:

- Excise Warehousing & Transport – Excise Duty Suspended storage (HMRC approved sites) and its associated services

- Holding and movement of Duty Paid Excise Goods

Purpose – to provide defining principles and criteria for prevention of:

- Potential loss to the Exchequer
- Damage to GXO's HMRC Risk Profile by exposure of GXO to punitive action by HMRC
- Commercial reputational damage to GXO

Notes on implementation:

HMRC's Excise Due Diligence measures are summarised in the Excise DD Comparator tool available from GXO UK Tax Team.

Duty Suspended / Duty Paid:

The Duty Suspended environment relies on statutory controls embedded in the terms and conditions of the Excise / Customs Warehouse approvals and as such, presents less risk than holding or moving goods claimed to be Excise Duty Paid.

The Duty Paid environment presents a less manageable risk by virtue of the requirement for proof of duty-payment and the fact that there are few statutory controls on their movement and storage.

To minimise exposure to risk of heavy penalties in the event of goods held or moved by GXO not being of Duty Paid origin, GXO must implement a level of Due Diligence before agreeing to hold or move such goods.

Effective implementation and monitoring of these due diligence measures should **minimise the risk** to GXO however, anything less than documentary proof of duty payment for each alcohol shipment carries a potential risk equal to twice the duty value of the volumes held or moved.

Policy Implementation

Action Required - Excise Duty Paid Goods

- Where holding or movement of any UK Excise Duty Paid product is requested by a customer, the service must not be undertaken before:
 - A full Briefing Paper process (for new customers) to cover financial / business integrity. If any customer falls below the optimum standard for Onboarding to GXO services, they must not be considered for any service involving alcohol.

- The customer agrees a satisfactory form of evidence of UK Excise Duty payment to be provided for each by order / load / product and, not before provision to and, checking of the evidence by GXO and,
- Inclusion of dedicated indemnities in the contract / agreement, whether new agreement or existing
- The customer has shared its own Excise Due Diligence Policy with GXO

- **Evidence –**

- **Duty Paid** - Documentary evidence of the payment of excise duty must be obtained where possible for all alcohol deemed Duty Paid before being held or moved by GXO. Excise goods for customers manufacturing in the UK may be held or moved by GXO on presentation of an undertaking from the customer that the goods are duty paid.

Where an GXO customer purchases duty-paid alcohol from a third party that has no relevant commercial relationship with GXO, only standard forms of evidence of duty payment, as detailed in appendix 1, should be accepted.

- **Duty Suspended** - For alcohol held or moved by GXO deemed duty suspended from an excise warehouse, from import or from UK manufacturer, GXO should obtain a copy of the despatching warehouse's HMRC approval certificate or at least the warehouse authorisation number and verify this against the 'System of Exchange of Excise Data' (SEED) as a minimum. (Standard Excise Warehousing practice).

- **Knowing the customer, assessing the risk, evidence required.**

- Given the risk of non-payment of excise duty in the duty paid supply chain, **comprehensive due diligence procedures** must be performed on all alcohol customers to ensure they are reputable and of good commercial and financial standing. Many elements of the due diligence will exist within the standard customer on-boarding process. See the Excise Due Diligence Comparator.
- The variety of supply methods in the alcohol industry can be broadly categorised as follows:
 - Direct from UK manufacture – where the manufacturer pays excise duty at point of finished product
 - LOW RISK
 - Evidence available at manufacture
 - Direct from import – where excise duty is paid with the UK import declaration
 - MEDIUM RISK
 - Evidence is the import declaration
 - From sole distributor / brand owner / wholesaler / known agent or broker – where willing and able to provide evidence
 - MEDIUM RISK
 - Evidence of original payment can be any of the above or a Warehouse Removal Warrant for the stock
 - From unverified or “grey” supplier – as above – high risk
 - HIGH RISK

- Evidence of original payment can be any of the above or a Warehouse Removal Warrant for the stock

- **Indemnities**

- In all cases, Excise customers whether duty-paid or duty-suspended must provide an indemnity protecting GXO from penalty and duty debt in any circumstance where the customer's due diligence fails or, where goods become subject to debt or penalty.
- Standard "statutory obligation" clauses where linked to a standard liability cap are not adequate.
- N.B. Limitation - No indemnity can protect GXO from penalty action or reputational damage, it can only provide recompense after the fact. For this reason, forms of evidence must be sought in addition to contractual indemnities.
- Timing – all new Excise contracts and all amendments and renewals must include the appropriate indemnity.

- **During service provision:**

- Invoices or commercial documentation, where received with incoming duty paid goods, must clearly state on the invoice "**We, [suppliers name], confirm that Excise Duty has been paid on the goods described**".
- Where a third-party transporter makes delivery to GXO premises of duty paid alcohol, GXO must retain copies of the official transport delivery documents of the third party showing that the goods were delivered directly to an GXO premises.
- Where **alcohol is imported to the UK**, a copy of the UK customs declaration must be obtained proof of UK customs clearance and Excise Duty payment at import. Inbound checks must include checking of the customs declaration for the right Tax Codes, goods classification, and payment details
- Where any Duty Drawback claim is brought to GXO's attention, GXO must see evidence of the original Duty Payment before allowing the goods to leave GXO premises

Actions required – DUTY SUSPENDED:

- Where holding or movement of any UK Excise Duty Suspended product is requested by a customer, the service must not be undertaken before:
 - A full Briefing Paper process (for new customers) to cover financial / business integrity. If any customer falls below the optimum standard for Onboarding to GXO services, they must not be considered for any service involving alcohol.
 - Inclusion of dedicated indemnities in the contract / agreement, whether new agreement or existing
 - Provision by the customer of evidence of eligibility to own and handle Duty Suspended Excise goods (WOWGR Certificate) and evidence of any other Excise registrations in the customer's name

- Completion of a “Matrix of Responsibility” (Available from GXO UK Tax Team). This a short-form responsibility document specific to Excise and Customs functions
- Formal agreement on the correct resourcing for the duty management function and associated systems
- During service provision:
 - The terms of the Matrix of Responsibility and those of the Excise / Customs warehouse approvals must be observed at all times (Matrix available from GXO UK Tax Team)
- **Non-Compliance and Escalations**
 - Where any of the preconditions of business listed in this policy are not met or where GXO perceives wrongdoing by a customer or potential customer in context of this policy, the issue must be raised immediately with GXO UK Tax Team (Customs & Excise Function).
 - Under circumstances where criminal negligence or criminal intent is suspected, GXO is obliged to escalate its concerns direct to HMRC via the GXO UK Tax Team.
 - Where a new or existing customer fails to comply with the requirements set out in this policy, GXO may be obliged to refuse new services or cease existing ones. Such decisions will be made by the GXO Business Unit Director on the advice of the GXO UK Tax Team.
 - In instances where adequate documentary proof of duty payment is unavailable and / or the due diligence at on-boarding proves unsatisfactory to the extent that <GXO UK Tax Team or other senior stakeholder> deem the risk as unacceptable, then alcohol should not be moved for that customer.
 - Evidence of due diligence checks undertaken and resulting actions, should be maintained in the client file indefinitely
- **Continuous Compliance Monitoring**
 - In order to assure compliance with all the terms and conditions of Excise Warehousing approvals, the following controls are to be implemented:
 - i. Monthly Compliance reports for Excise and Customs Warehouses – mandatory returns confirming completion of all HMRC reports and processes
 - ii. Annual Compliance Audits – mandatory audit of every Customs and/or Excise Warehouse – deep functional compliance (Copies of both available from GXO UK Tax Team)
- **Education – Duty-Paid and Duty-Suspended**
 - All GXO staff involved in Alcohol supply chains, from the client onboarding team to warehouse management, staff and drivers must be made aware of the risks of working in the excise supply chain.
 - All staff should have the knowledge and confidence to raise any concerns regarding clients, products or anything unusual in the alcohol supply chain, without fear of being disadvantaged as a result.

- All staff should have a clearly defined method of easily raising concerns to management and senior management, as appropriate. It is often the staff working with products, or in customer facing roles who will see the first signs of any unusual activity.

Records of all checks done should be kept in the client file indefinitely, including noting where issues have been found and how these have been acted upon.

Appendix 1 - Acceptable proof of duty payment (UK HMRC)

| Jurisdiction | Document reference | Documentation |
|---------------------|---------------------------|--|
| UK HMRC | W5 | For Alcohol removed from an excise warehouse to home use - Confirms that duty has been paid (or for UK spirits producers to release to the UK Market) |
| | W5D | For Alcohol removed for home use where duty is paid through a deferred payment account (or for UK spirits producers to release to the UK Market) |
| | EX46 | Specific monthly return for Beer showing that duty has been paid – Very difficult document to get as the producer usually lodges these – therefore alternative proof such as a letter from the brand owner confirming that duty has been paid on the product/or that they only sell duty paid product to the agent (GXO supplier). |

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| | EX606 | Specific monthly return for Wine and Cider Confirms that duty has been paid. |
| | C88 | If alcohol is imported from outside the UK, request/use the C88 as the proof of customs duty (CCT) payment at the point of entry. The C88 will also identify whether the excise duty was paid at import or the goods were removed to an excise warehouse under suspension. |

Appendix 2 - Sample Letter of Indemnity from Alcohol client – please engage with GXO UK Tax Team and Legal Team before seeking to implement with customer

Dear Sir / Madam,

We (on behalf of the company named below) (“Customer”) agree to indemnify GXO and hold GXO harmless from and against all claims, actions, proceedings, and demands which may be brought against GXO or its Group and all losses, liabilities, charges, costs, damages and expenses which GXO or its Group may incur as a result of any investigation carried out by HMRC or any other relevant regulatory body in respect of any Goods held or moved by GXO or its Group on the Customer’s (or its Group’s) behalf and in respect of which any tax, duty or excise or other statutory payment was liable, but was not paid, or was suspended and then became due, or was otherwise not paid in accordance with Applicable Law, the Excise Regulations or applicable Customs Regulations and such loss will include, but not be limited to, liability for the loss of Goods in the event of detention by or forfeiture to the relevant authority and any loss in value to any Goods due to their detention, any excise or customs duty assessment payable by GXO or its Group and/or any penalty or other costs payable to HMRC or other relevant statutory body by GXO, or other liability that GXO incurs or may incur in connection with the Excise Regulations, Customs Regulations or relevant Applicable Law, or any duty payable by GXO if Goods fail to reach an authorised recipient in all cases and in any circumstances or, are found to have been diverted from due process or, to have breached any other applicable regulation. GXO shall not be liable to the Customer for any duty, or for any fine or penalty levied by HMRC or other relevant statutory body in any circumstances.

Yours,

Director or equivalent

Customer Name

Note: - The signatory of this letter should be known to the [GXO client team] or be appropriately validated

| Version | Date | Author | Rationale |
|---------|------------|------------------|-----------|
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