HOUSE OF LORDS

# Select Committee on the European Union

## Sub-Committee on EU Goods

### Corrected oral evidence: Post-transition customs IT systems and sector preparedness

Monday 9 November 2020

10.30 am

Watch the meeting

Members present: Baroness Verma (The Chair); Lord Berkeley; Baroness Chalker of Wallasey; Lord Faulkner of Worcester; Lord Inglewood; Baroness Kramer; Lord Lamont of Lerwick; Lord Lilley; Lord Russell of Liverpool; Lord Shipley; Lord Turnbull; Lord Wood of Anfield.

Evidence Session No. 1 Virtual Proceeding Questions 1 – 8

## Witnesses

I. Steve Bartlett, Chair, Association of Freight Software Suppliers; Des Hiscock, Director-General, UK Association for International Trade; Sonali Parekh, Director of Policy, Federation of Small Businesses; Alex Veitch, General Manager Public Policy, Logistics UK; Neil Robinson, Chair, Logistics Sector Panel, Cumbria LEP, and Managing Director, Tyson H Burridge.

## Examination of witnesses

Steve Bartlett, Des Hiscock, Sonali Parekh, Alex Veitch and Neil Robinson.

Q1 **The Chair:** Good morning, everyone, and welcome to this evidence session. I welcome our witnesses: Steve Bartlett, the chair of the Association of Freight Software Suppliers; Des Hiscock, regional CEO of Customs Support and director-general of the Association for International Trade; Sonali Parekh, director of policy at the Federation of Small Businesses; Neil Robinson, chair of the Cumbria LEP Logistics Sector Panel and managing director of Tyson Burridge; and Alex Veitch, public policy manager at Logistics UK.

Our witnesses today are taking part in our series of one-off evidence sessions on the key aspects of end of transition readiness. Today, the Committee is looking at customs IT systems and the capacity of the customs sector. There is a live broadcast of the session and a transcript will be taken. It is only an hour-long session, so I ask colleagues and witnesses to be as succinct as possible in their questions and responses, as that will allow us to have supplementaries.

All our witnesses have had foresight of the questions that may be asked today, but colleagues may have decided to change those questions and I cannot promise that you will be asked the same questions you received. I will not ask for introductory comments from our witnesses, but when they are called to speak, if they would like to say a little about themselves, that would be very helpful to the Committee. After the session, the transcript will be sent to all witnesses; if there are things that need changing, please come back to us as quickly as possible.

I will direct the first question predominantly at Steve and Des. Smooth border operations at the end of transition will rely on a functioning and well-integrated customs IT infrastructure. What key systems are being developed to support the movement of goods across the GB-EU border, and how confident are you that the Government are on track to deliver them in time for the end of the transition?

***Steve Bartlett:***[1] We are currently working on six different systems for EU exit; five are changes to existing systems and one is a new system. I will go through them briefly and give you our level of confidence about them. The first system, and the most important, is the legacy customs declaration system called CHIEF. We are working on CHIEF because it needs changes to enable it to support the EU transition. We are getting specifications for that all the time, and my members are being kept extremely busy trying to make changes for the system. However, we are reasonably confident that as long as we do not have too many late changes, we will have it ready in time.

There are at least three different shared EU systems where a UK flavour is being developed: safety and security, computerised transit, and excise movement. HMRC is having to develop three different systems to give

[1] Steve Bartlett is Chair of the Association of Freight Software Suppliers

those systems a Great Britain flavour. We are also working on those. We are reasonably confident about HMRC's ability to deliver them in time to us for testing by the end of the year.

We have one new system, the Goods Vehicle Movement Service—the GVMS—which is designed to help to alleviate delays at the UK border. It is mainly for shipments coming from the EU through the roll-on roll-off or trucking ports. That system will hold all the information that is required for a shipment to be cleared through customs. The idea is that information is gathered ahead of time and is cleared as it crosses the Channel.

The system is available to the haulage industry and traders as a link on the GOV.UK website. However, my members are working on interfaces with the system to enable their customers to provide information electronically. We are working very closely with HMRC, and we are confident that we will be able to deliver that in time, although there are still a number of unanswered questions for us—namely, we still do not know which ports might be using the system.

The one system that causes us concern is the new customs declaration service, known as the CDS, the replacement for the legacy CHIEF system. At the end of last year, HMRC and the trade, including us, agreed a plan whereby, when the software was delivered at the beginning of this year, we would spend the rest of 2020 testing it, with a view to rolling it out to our customers in 2020 and 2021.

Earlier this year, it was mandated that the CDS would be the standard system to be used for Northern Ireland, because the CDS complies with the Union Customs Code—the UCC—which is required for shipments into Northern Ireland. The CDS is the de facto system, but we have some grave reservations about it, because we do not feel it is proven yet. We have a few traders currently live on the system, but they are doing only very simplified declarations, and those declarations are not being done at the frontier.

The issue we have is that a lot of the functionality that we require for the CDS to make it a working system, and the functionality required for EU exit, is not being delivered to us until late November, or even December, so we will not have a test system that we can even begin to do our testing on until December, which leaves us no time at all to test it and deploy it to our customers within a month. As a result, a lot of the software developers I represent are focusing away from the CDS and concentrating on all the other systems I previously mentioned, where they have a good chance of getting ready in time for the end of the year.

**The Chair:** Thank you. Des, may I ask you to contribute?

***Des Hiscock:*** Steve has covered it pretty well. I represent ACITA, which has been absolutely obsessed with ensuring that the UK is operationally ready for trading with the EU on day one when we have left the European Union. We are very glad to be participating here.

To add to what Steve said, CHIEF is the current tried and tested declaration system, and currently it handles 50 million declarations a year. It is reported that it will suddenly need to cope with between 200 million and 250 million declarations a year. We have been assured that the system has been upgraded to handle that additional capacity, and industry experts such as Steve appear confident that that is both possible and probable. CHIEF has proved extremely robust in the past, so I hope that we do not have too many worries. CHIEF is a really good system, but the step-up in capacity is a bit of a concern.

The Goods Vehicle Movement Service—GVMS—which Steve mentioned, needed to be developed specifically for ports that do not have inventory systems that HMRC can access. In principle, we believe the system to be an absolute necessity. Essentially, it is just an electronic envelope, so development should not be too challenging. Given that it is required for UK-EU movements only from 1 July next year, development appears to be on track, and most are quite relaxed about it. However, limited functionality is required for GB to NI movements from 1 January, which is just 52 days away, and, as Steve says, that creates some concern.

Smart Freight, which I think has been renamed "Check an HGV is Ready to Cross the Border", appears to be simple and on track, but as neither I nor any of my members are involved in the development I cannot provide an opinion on its readiness. Other systems that require changes are in safety and security: the ICS, the new computerised transit system, and the excise movement and control system. I understand that development is behind where it was expected to be, but it feels as if we could get there.

Our main challenge, as Steve said, is the CDS. The system is not ready and is unproven. The system has been dramatically descaled from what was initially promised and will not deliver what is required to manage UK borders effectively. As late as Friday last week, we were experiencing problems simply in communicating with the CDS. We were able to establish connections or refresh tokens for authorisations, but we were unable to test the declarations because of authentication problems on HMRC's side. With 52 days to go, that is totally unacceptable. We need to focus on solving that issue, because it is our biggest issue from a system perspective.

**The Chair:** Thank you, Des. If there are supplementaries at this point, I ask that they are as succinct as possible.

**Lord Lamont of Lerwick:** Neither of our witnesses made very much distinction between no deal and a deal. Could the first witness say how significant that is? Michael Gove has argued that the difference in preparing for no deal and a deal is not that great, which seems rather surprising and rather odd. Would you comment on that?

***Steve Bartlett:*** From what I know, whether there is a deal or no deal, declarations still need to be made into the various systems. The Northern Ireland protocol means that the CDS remains in the picture. Whether there is a deal or not, there will be a large volume increase in the number of declarations required to be made. A number of the changes will still need to happen because, as I mentioned before, a number of EU systems that are currently pan-European need to be developed, or are being developed, because we do not have a UK equivalent.

**Lord Berkeley:** Both witnesses have been very critical of the customs declaration service and have expressed doubts that it will be ready by 1 January. Do they have any fallbacks or alternatives to keep traffic moving if it does not work properly?

***Des Hiscock:*** CHIEF is our back-up. It is a robust system and it works well. We believe that capacity has been increased quite significantly to handle what needs to be there, and I believe that is where we need to concentrate our efforts.

Let us not forget that the CDS is a completely untested system. We do not have people trained to make a declaration to the CDS. We are spending all this money on grants and training people to make declarations to CHIEF. The declaration process to the CDS is totally different. All our declarants in this country are completely untrained to make a declaration to the CDS. We should bear in mind that the CDS is far more complex. It takes four times longer to make a declaration to the CDS than it does to CHIEF. Industry has been banging on about it for years. We need to make a decision. We need to put the contingency in place so that we can cope at the end of the year.

**Baroness Kramer:** I hope this is the appropriate place to ask this question, but my lack of knowledge in this area, I am afraid, is legion. From what I can understand from the material sent to us, declarations are different depending on the destination of the ro-ro traffic, whether it goes to France, Belgium or the Netherlands, because the national systems are not identical. Does that create issues? I know that, historically, hauliers have often made a very last-minute decision about which ro-ro port they use, depending on levels of congestion. Is that impacted by any of this? Is there an added complication if someone changes their mind, or does changing your mind now become obsolete?

***Steve Bartlett:*** I am not very familiar with some of the systems that are used in Europe, so perhaps Des could answer that as he has better knowledge than me.

***Des Hiscock:*** Alex has been very involved in it and I think he would be in the best position to answer the question.

***Alex Veitch:*** I was going to raise it briefly in my remarks. The question is a very good one. In addition to the systems that Steve and Des have discussed, for the haulier market there are up to five systems hauliers will need to adapt to, depending on which markets they serve. The most important ro-ro countries are France, Belgium, the Netherlands, Spain and the Republic of Ireland. To be flexible to their customers' needs, hauliers need to understand the specific ro-ro technical systems which the major ports serving their market are putting in place in each country. The content of the declaration is the same, but the systems are different, and you have to be registered and able to use each of them if you wish to serve that market.

**Lord Turnbull:** We have heard some very interesting testimony from the software suppliers sector. One caveat is that we need to understand this morning whether the people who use it—the road haulage operators themselves—share the same view.

***Des Hiscock:*** We need to differentiate between a freight forwarder, a road haulage user and a customs intermediary or broker. Some freight forwarders and road hauliers have a customs clearance division, but, essentially, customs brokers, or people appropriately qualified to make that declaration, would use this service. I am sure you are aware that there has been a tremendous amount of training going on in the last year or so through the grant scheme. I believe that the people who need to make those declarations are adequately qualified and capable of making declarations in the CHIEF system, but I do not believe there would be that capacity if we were to use the CDS system.

Q2 **Lord Russell of Liverpool:** Des, what are the consequences of any delays to the rollout of the new IT systems, and what contingency measures, if any, are being put in place to manage any delays or failures? How effective are they likely to be? I assume that you have read the National Audit Office report that came out on Friday, and I would be interested if you could integrate that into your reply.

***Des Hiscock:*** The consequences could be catastrophic. We need to agree a co-ordinated mitigation plan between HMRC and the industry if we expect to achieve any measure of success. We have a brilliant Civil Service, and I am being HMRC specific here but we need it to be allowed to work directly with our industry experts and our industry sector to solve the issues. Perhaps the industry group needs to be NDA-ed, but we need to stop the current cloak and dagger type of development, where industry experts are not involved until it is absolutely too late.

CHIEF is tried and tested, and there is high confidence across the industry that it will cope with additional declarations. The safety and security declarations are not required on inward movements until July next year. ICS NI appears to be on track. The NCTS appears to be okay, and there are alternative clearance processes available. Although I understand that there are some delays with the EMCS, which are being blamed on the EU, a paper-based alternative is available.

There are two challenges that need to be addressed. The first is the CDS and the UK's unnecessary insistence on pursuing an untested, descoped and incomplete system. It will not be ready. It is unreliable. Its functionality has been significantly reduced. The CDS system requires more data elements to be completed in a declaration than the data elements required in CHIEF. As I said, we do not have declarants trained to make declarations into the system. All training has been correctly aimed at CHIEF. Experienced declarants who have been submitting very simple test declarations into the CDS report that it takes four to five times longer to prepare a CDS declaration than it does to prepare a CHIEF declaration. This is at a time when we will be increasing our declaration requirements almost fivefold. It does not make sense.

If we are to use the CDS for Northern Ireland declarations, the process still needs to be defined. We have not defined the process for Northern Ireland, yet we want to use a new untested system. Looking at Northern Ireland, we do not know what constitutes goods at risk and goods not at risk. There are lots of incomplete bits and pieces around it. The only positive that has come out of it is the Trader Support Service. Let us hope that the messaging, which often seems to break down, is adequate and we get all potential users to register for the TSS.

My second concern is the potential jeopardy we are creating for legitimate businesses by allowing goods to arrive unchecked and undeclared in the UK using a hybrid version of the EIDR—entry in the declarant’s records—during the first six months of next year. The process will definitely be abused. It will create an uneven import playing field and will negatively impact compliant businesses. More importantly, it is totally unnecessary.

HMRC has put a hybrid version of the EIDR in place to plug the hole left by the community service providers or entry systems not being available at ferry ports. If we go back to how the CFSP[2] was originally designed, it allowed customs software to transmit a frontier declaration directly to the CHIEF system using an EDIFACT[3] message through the EDCS[4], which is the messaging and the format utilised for all CHIEF transmissions today. It was extensively tested, and at the time it worked perfectly.

All that is required to reactivate it is the dusting off of some old code by HMRC. It would then be able to exercise direct control over all imports coming from the European Union from day one. To me, it is a complete no-brainer, but it has been completely ignored by HMRC in pursuit of the CDS. Should we not be concentrating on what we have, and what is working, and what we know works, as opposed to an untested system that nobody yet knows how to use and that requires far more resources to operate? At the moment, there appears to be no realistic or workable contingency in place, and that is what we need to push for.

**Lord Russell of Liverpool:** I hope that the people from HMRC who give evidence to us will read the transcript carefully, or perhaps are even listening as you talk.

Steve, what lead-in times do software suppliers need to be able to update their systems to integrate fully with the new IT customs infrastructure set

[2] Customs Freight Simplified Procedure (CFSP) is an electronic customs declaration that facilitates the importation of goods.
[3] Electronic Data Interchange for Administration, Commerce and Transport
[4] Electronic Data Capture Service

up by the Government?

***Steve Bartlett:*** To have successful integration, we need a stable set of requirements, accurate technical specifications and an agreed timescale, which unfortunately has been sadly lacking in some of the activities we are having to do for EU exit. A lot of the decisions and processes are still being discussed with the EU as we speak, so we might not get some of those specifications until way too late.

As a rule of thumb, if it is a small system change, we normally look for about three months of testing and integration, but for a larger system such as the CDS, on which we have been working with HMRC for many years, the testing would run into about six months, with rollout to all customers about 12 months after that.

Q3 **Lord Wood of Anfield:** I have a question for Alex on similar territory, on the logistics side. Are the Government providing the logistics industry with sufficient time to familiarise itself with the new IT systems? More specifically, what further information, if any, do you need now, or in the next week or two, from the Government?

***Alex Veitch:*** As a brief word of introduction, Logistics UK is the new name for the Freight Transport Association—the FTA. We are a large business group in the area with over 18,000 members: hauliers, rail, road, airports, air carriers and customs intermediaries. We have a wide spectrum of members, with our core membership being road hauliers.

The timescales are very challenging, as Des and Steve said. The question is very well phrased, because we work primarily with the users of the systems, and we work with a lot of non-expert users of systems. I will pick a few examples. On the GVMS, we have had good engagement with the project team. We are pushing now for user-friendly business guidance for non-experts on how to use it. To be fair, technical guidance is already available for those who wish to integrate it into their systems, but there are some questions, and we need a basic user guide for those who are not integrated but will instead use a simpler interface.

Someone mentioned "Check an HGV is Ready to Cross the Border", which used to be called Smart Freight. We have raised concerns publicly about the slow delivery of that. Since our campaign, the Cabinet Office team has accelerated delivery. It is now in private testing with a wider pool of business users, and we have been promised that the system will be live in December. The front-end system will be simple but will mask a huge degree of complexity, because the real challenge will be the different commercial parties involved—the haulier, the forwarder, the customs agent, the trader, the importer and the exporter—ensuring that the driver has confidence that they have the information they need to pass through the border to proceed to the EU and thus gain access to enter the county of Kent.

I want to unpack briefly something Steve mentioned about the safety and security declarations that sit alongside the customs declaration. Although most of them will be submitted by the customs agent or the customs professional making the declaration, if, for whatever reason, that does not happen, the safety and security element must be separately submitted, and for ro-ro the legal position is that it must be done by the haulier. That means that the haulier has two options. They either have to get accredited to use CHIEF, which Des has spoken about, or they have to pay an agent to do it for them.

There will be a major challenge for companies getting accredited to CHIEF, because there are thousands of hauliers doing that business. Many thousands of them are not UK-based companies. I did a bit of user testing myself this morning and tried to download the CHIEF application form. It was not working. I tested it with other business groups, and they could not access it either. I could not find a helpline number to help me. It is not easy to do. It is only available in English. I think non-experts are very unlikely indeed to be able to sign up to use CHIEF themselves.

With CHIEF, you can either join it and integrate it into your system or you can send an email to CHIEF. If you are a parcels company with thousands of consignments in your truck, even if you can use CHIEF you will not sit there and send 6,000 emails to CHIEF. That will not work. Hauliers need an arrangement in place with an agent to file safety and security declarations for them.

We now have six or seven weeks to go before Brexit, and I do not think those conversations are happening, so it has the potential to be a major problem on day one. I have used a bit of jargon and I apologise for that, but when you unpack the issue it is just one example of how challenging it is to get a wide group of non-expert users trained and ready to use these systems by 1 January.

Q4 **Lord Wood of Anfield:** I appreciate that detailed example. I think it illustrates the complexity. To go back to your point about driver confidence, how far are we away from drivers, and their bosses, having confidence that when they set off they have the required paperwork at the moment?

***Alex Veitch:*** That is another good question. It is not clear to us how prepared the European haulage sector that serves UK markets is. There is a lot of engagement now on the part of the Cabinet Office's Border and Protocol Delivery Group. In partnership, we and other business groups have run sessions in several EU member states to brief hauliers on what to expect and what "Check an HGV" is. We have been pushing hard to involve more of our members in testing the service, and, of course, supporting communication campaigns by government to encourage all businesses to get ready.

The true answer to your question is: have all these thousands of businesses, particularly the exporters, engaged with government messages, have they got the paperwork ready, and will they be able to give their forwarder, and from the forwarder to the haulier, the necessary information? That question can be answered only by the Government, because they know what the level of engagement has been through their outreach campaigns and their direct communications, particularly to the high-value trader group. The NAO pointed out that there are about 10,000 very high-value traders with the EU. We would love to see the answer to that question, and you may wish to consider it with the government officials giving evidence.

**The Chair:** We have a number of questions, so due to constraints of time, if colleagues have supplementaries we may be able to send them in written form.

**Lord Wood of Anfield:** Thank you, Chair. I have a question for Neil from Cumbria LEP. What is your view on the Government's guidance? Have the Government provided adequate guidance to hauliers such as you, and what challenges do you see? What would you like the Government to do specifically to help you prepare in the next week or two for the end of transition?

***Neil Robinson:*** To give you a brief introduction, I am the chair of the logistics sector for Cumbria LEP. I am also managing director of Tyson H Burridge, a small Cumbrian haulier doing a small amount of international logistics.

There is a lot of guidance, but, as Alex said, it is quite complicated. It needs to be written in hauliers' terms—for non-experts, as he put it. The border-ready documents are 270 pages long and take quite a bit of picking through. I have been attending a lot of webinars and looking into a lot of what is going on. We do one or two international journeys a week. As Des said earlier, a lot of companies have their own brokerage departments, but obviously we cannot do that. We will be relying on the services of a broker, having looked at all the complexities. After today's evidence, I am a bit concerned about how ready the IT will be, to be honest. We are going from 50 million to 200 million transactions and, allegedly, we will be 50,000 brokers short. That is another concern for us.

May I raise the issue of permits? At this stage, we do not have permits. In the case of no deal at the end of December, we will have no permits to operate outside the UK. Heading to the 31 March 2019 deadline, the Government opened up applications for ECMT permits. At the moment, those permits are used predominantly for transition through the EU further afield, and they are limited in number. In 2019, there were about 11,500 applications and 984 permits. That meant that only 10% of the vehicles would be able to leave the UK. We seem to be in a similar position now. The application process was opened up again last week on exactly the same basis.

I believe there are now 2,088 permits, but we are still looking at 20% of what is required. Without them, all the customs declarations and everything else are irrelevant, because we cannot leave the UK. It needs to be raised at the highest level. We have pushed it locally. Industry is pushing for it. We have been told that the ECMT permits are a fallback position, but we have been given no other guidance as to what is likely to be in place. I do not know what the reciprocal arrangements are for EU operators coming into the UK, but if there is no cap on that they will come in and take UK hauliers' business. That is really worrying for us.

Q5 **Lord Inglewood:** I have a question for Sonali first, which I think has already been answered to some extent. Are traders who wish to submit customs declarations themselves confident that they will be ready to operate the new IT systems? How would you rate the Government's engagement with small businesses when it comes to the rollout of these systems and the new requirements inherent in them?

***Sonali Parekh:*** I am director of policy at the FSB. We represent about 165,000 small businesses across the UK. The businesses that we represent, the smallest of businesses—micro and small businesses—will probably not try to undertake their own customs declarations. They are far more likely to rely on an intermediary. That is why it is vital that the capacity of the intermediary sector is boosted.

That raises a slight issue with government funding at the moment. In the customs grants for intermediaries and for larger businesses that undertake their own customs declarations, there are grants for IT, software, training and recruitment. However, for the smallest of businesses, there is a bit more of a gap. They will hopefully try to engage an intermediary, but for the process to work they will need to provide information, whether in relation to classification and commodity codes, or value and origin for entry in the declarant's records. For the system to operate properly, it is absolutely vital that the information is correct, because, whether or not the intermediary they use has direct or indirect representation, the legal responsibility for the veracity and accuracy of the information rests with the smaller business.

Right now, with coronavirus and extreme cash-flow pressures, smaller businesses will not necessarily be in a position to invest in digital adoption, or the technology that they need, for example, to put new record-keeping processes in place. That is a particularly acute challenge for smaller businesses that have to date exclusively traded with the EU and thus have no real experience of completing customs declarations, import or export.

On HMRC and government communication with smaller businesses, where smaller businesses are VAT registered, the Government have written directly to them several times about how they need to prepare. Of course, with non-VAT registered smaller businesses there is far more of a challenge because, by definition, they cannot be directly contacted in the same way.

That is why it is important that lobby groups such as the FSB play their part in widening the Government's communication net. It is also important to remember that right now many smaller businesses are very much in the market for seeking external advice and support, largely because of the coronavirus crisis. Tapping into the wider network of lawyers, accountants and local business groups such as the FSB is absolutely vital to make sure that the message gets across to the widest possible range of smaller businesses.

Another important part of the Government’s communication strategy is a no-regrets policy and being absolutely clear that certain changes will come into place whether there is a second-stage trade deal or not, so a smaller business investing in making those changes, whether through bandwidth or capital investment of some sort, is not wasting either its money or its time; those changes will be necessary. At the current time, when cash flow is so tight, that is an essential message to get across to the wider small business community.

A communications strategy will take you so far, but we have a crisis going on in the shape of the coronavirus and the impending end of the transition period, and for the smallest of businesses there will be a demand or a need for some form of financial support and help. That is why we have been lobbying very hard for transition vouchers to enable smaller businesses, for example, to access some of the expert advice and support they may need to help them to manage the end of the transition period in as seamless a way as possible.

**Lord Inglewood:** You have touched on the second part of what I was going to ask you, which is about the impact of coronavirus on people’s activities. I would like to ask the same question of Neil. I am very glad he raised the point about permits, which seems to me pretty fundamental. How, if at all, has Covid-19 affected preparations—I am sure it has—for traders and hauliers in your line of business?

***Neil Robinson:*** There are time pressures on everybody at the moment due to the coronavirus. We are all playing catch-up. Our sector is extremely busy playing catch-up from Covid-19, and we are also entering the Christmas rush. From a trader’s perspective, a lot of them are not as ready as they could be, because they have been concentrating on getting their businesses through Covid and putting Covid measures in. From a haulage sector perspective I do not think it has held us back much, but from a trader-readiness perspective it probably has.

Q6 **Lord Lilley:** Alex and Des, the updated GB border operating model provides links to where to find further information on the customs platforms for individual EU member states and their ports, but to what extent is there awareness and understanding of those third-country systems?

Conversely, do you know whether freight forwarders and customs agents in the EU are being given early access to the UK’s test versions of the new systems to enable them to prepare?

***Alex Veitch:*** I will be brief. We are very glad to see the useful links and sources of information in the border operating model. It is very welcome. I believe I mentioned earlier that the border operating model team has been organising workshops in various EU member states, which we have supported in some cases. To give you a flavour of the importance of that, recent research from the Northern Ireland Department for the Economy indicates that 20%—a fifth—of ro-ro traffic using Dublin port is carried out by Northern Ireland operators. Currently, there is seamless interaction between companies moving goods through the island of Ireland, and it is vitally important that there is a lot of engagement with both the UK, as in GB/NI hauliers, and overseas operators, on all the different country systems.

I am sorry to say that the part I cannot answer is how ready those companies are, because at this point that would involve survey data and analysis, not only across the UK but across EU markets. We may be too late for that, but I would encourage a question to government officials as to what intelligence they have been able to gather on how far those communications and briefings have landed with the whole of the European haulage sector.

**Lord Lilley:** Thank you very much. We will bear that in mind when we come to them. Des, could you answer the question and add, if appropriate, whether there are opportunities to streamline the submission of information required by the EU and UK customs authorities on both import and export, in your opinion?

***Des Hiscock:*** I absolutely agree with Alex that the information in the border operating model is great. Realistically, I do not believe there is a need to understand the customs platforms of individual member states. Moving goods across an international border is a serious business, and it is not as easy as advertised, as in, "Make sure you have an EORI and decide whether you want to do declarations yourself or appoint a customs broker". There are serious implications.

The EU becomes a third country from 1 January 2021, and an importer or an exporter will need only the same level of understanding of EU customs platforms and EU ports as they would for China, India, Egypt or the USA. We know virtually zero about Chinese ports and customs systems. The context is absolutely essential.

To your other question, Lord Lilley, one of the problems is understanding the difference between a customs broker, agent or intermediary and a freight forwarder. The former are the guys who calculate the tax due, ensure compliance with the regulatory provisions, and are often the organisation that is paying the tax to HMRC. A freight forwarder is essentially a transport broker with very little legal liability. That differentiation needs to be put quite clearly. A lot of freight forwarders and haulage organisations have their own customs capability, but that customs capability needs to stand alone.

Finally, there is huge opportunity for streamlining submission by sharing information. Many customs brokers are already doing that and have been doing it since Brexit was announced. The majority of pan-European organisations have developed processes where data from an export declaration becomes the template for the import declaration. In the past, HMRC did a lot of good work on this type of thing. It had a self-assessment programme that was really good. The six-month implementation process based on the EIDR and the CFSP is, in fact, a copy of one of those self-assessment proposals. If you reactivate industry and HMRC co-operation, you will solve a great many of the short-term challenges next year.

Q7 **Lord Shipley:** I would like to pursue Sonali's answers to Lord Inglewood, on behalf of the Federation for Small Businesses. The questions I was going to ask have broadly been answered.

There have been press reports suggesting that some larger companies are finding it difficult to find freight forwarders willing to take on new customs work. Are you aware of any similar concerns from smaller businesses? If there is more to add, Sonali, we would like to hear it.

May I ask you a specific question on the basis of what you said to Lord Inglewood? You mentioned transition vouchers, but you did not say how much they might be worth. Even if you have transition vouchers, is it a question of money, or is it a question of the availability of professional support?

***Sonali Parekh:*** To take the first of your points, the Government are taking real measures to try to encourage intermediaries to take on new clients from smaller businesses. An extra £50 million has been invested to develop the capacity of the intermediary market, and there has been the removal of the requirement for intermediaries to be jointly and severally liable when undertaking indirect representation. That is an incentive to intermediaries to take on new clients, particularly small businesses. There are clear policy levers.

However, we would express concern about whether a clearly already oversubscribed intermediary market would find smaller businesses a particularly attractive proposition, particularly small businesses that to date have traded exclusively with the EU and therefore have very little capability, if any, in relation to completing customs declarations.

We think it is important that data is made available to show how much new business the intermediaries market is taking on, and to cut that data by the size of business and by the background of the trader. Are businesses that have traded exclusively with the EU being helped or not? They are the most vulnerable cohort, whereas smaller businesses that have traded with the rest of the world have experience of customs declarations. We are keen to see far more evidence in that space to enable us to have confidence that all the smaller business market of exporters and importers is being catered for. We estimate that transition vouchers of between £1,000 to £3,000 could make a material difference at the current time of the coronavirus crisis, with many smaller businesses being so cash-strapped, cash flow being at critical levels, and money not being available for investment in, say, digital tech to support a smaller business at the current time.

It is also important to think in practicalities. I very much welcome the extension of the furlough scheme and the Self-employment Income Support Scheme until the end of March, but the reality is that some smaller businesses may furlough staff they thought they could work with to build up some capability, if they are indeed trading and importing and exporting to and from the EU. Unlike larger businesses, it goes without saying that smaller businesses will not have a dedicated department or even an individual to look at that kind of stuff. They are much more likely to be using a generalist, and they could well be furloughed. There are a lot of practical considerations.

On your final point about the availability of support, generally speaking there is good availability in many different guises, whether that is your local accountant, lawyer or business support expert, or your local lobby group. There can be questions about consistency in the quality of the advice received, but if we could get some financial incentive for smaller businesses to make the investment of time and tech they may need to bring on board to their business, it would pay dividends.

Clearly, there will be some dead weight. The transition voucher scheme inevitably means that some smaller businesses are helped that would have done it anyway, but we think that is offset by the larger benefit to the significant numbers of smaller businesses that are potentially yet to take action. That is not because they are not aware of the risk. It is simply that they do not have the cash flow or the bandwidth.

Q8 **Baroness Chalker of Wallasey:** Des and Alex, do you share the reported concerns about the capacity of the customs intermediary sector? We are told that the UK needs 50,000 more customs agents, as Neil mentioned earlier, and that there is a shortfall. How do you assess the success of the Customs Grant Scheme? What are your thoughts on press reports that funds from the scheme are being used to poach experienced staff from one company to another, rather than to increase the sector’s overall capacity?

***Des Hiscock:*** The figure of 50,000 additional declarations does not compute. An import declaration is a lot more complex than an export declaration, and the figure of an extra 250 million declarations is based on all types of declarations. A good entry clerk can produce 40 declarations a day, which translates to 200 declarations a week. Multiply that by 52 weeks and it gives you 10,400 declarations a year. Multiply that by your 50,000 extra declarants and you get 520 million declarations a year, which is considerably more than the projected requirement.

Bearing in mind that the projection was made long before any economic slowdown, and other declarations such as exports and frontiers are easier and quicker to produce and not included in the projections, I believe the figure of 50,000 and 200 million is considerably overstated. The only time we would run into the problem would be if we had to use the CDS to make the declarations. If we are using CHIEF, I think we will be okay.

The Customs Grant Scheme has been hugely beneficial. There have been some obvious issues, and this is one of the very few places where I am prepared to point a finger directly at the policy guys at HMRC. They missed the boat and the opportunity to create additional skills and jobs in the UK. Their failure to act has resulted in the creation of capacity outside the UK that could have been created here. That lapse continues to create high industry-sector capacity outside the UK, as opposed to in the UK.

We need to say a big thank you for the grant scheme. It was very necessary and large parts of it have run extremely well. The application guys were absolutely great, but the scheme has been abused by some to poach experienced staff from one company to another. It may even be worth considering naming and shaming some of the recruitment organisations that are still making unrealistic promises that will have a negative impact on both individuals and organisations. I must regretfully point my finger at HMRC policy. Training organisations have made numerous requests—I think this fits in with what Sonali said—for training to be available to individuals so that the unemployed can learn a new skill and enter this rapidly growing industry sector.

There is a requirement for someone to be part trained in a smaller organisation, to be able to produce the information for making a declaration, as opposed to the grant being only for people who were going to make declarations. That support function has been excluded completely for smaller businesses, as Sonali mentioned. Last year, experienced EU organisations opened branch offices and created a permanent establishment in the UK specifically to do UK declarations, using UK employees. They, too, have been excluded from accessing the grant scheme because they were not established in the UK for more than a year. That is despite HMRC acknowledging that a shelf company that was more than a year old, purchased from a firm of accountants with absolutely no customs experience whatever, could today apply and be eligible for a grant under the scheme. With the grant scheme has come a lot of good and it has created a tremendous amount of capacity, but if issues are referred back to the HMRC it has been very slow to react to them, and we have missed a trick in that regard.

***Alex Veitch:*** I completely support Des's points about the 50,000 agents number. We challenged that as well. We consider it a large overestimate. The Trader Support Service will ease some of the pressure. If you are a GB company trading with NI or an NI company trading with anywhere, you should be able to use that service, although I have been briefed that it does not go live until 21 December, so there could be an avalanche of requests or a trickle of requests; we do not know. That is there in addition to the grants.

To conclude on a note of positivity, we are seeing more customs service providers enter the market. The Government are trying to balance the right space for the private sector versus the public sector to get involved; there are concerns about the dead weight that Sonali mentioned. Associations are launching their own affiliate services with customs service providers, including ourselves and others, to help our members navigate this tricky area. We hope to see the market move in the direction of support for the smaller businesses that are Sonali's members.

**Baroness Chalker of Wallasey:** Thank you very much, Alex.

**The Chair:** We thank our witnesses this morning for their succinct but very detailed remarks. As I bring this part of the evidence session to a close, I remind our witnesses that you will shortly be sent a transcript. If there are any changes that need to be made, could you make them as quickly as possible and send them back? I thank all our witnesses for a very detailed and informative session this morning. Thank you very much indeed.