

Select Committee on the European Union

EU Goods Sub-Committee

Corrected oral evidence: Future UK–EU relations: trade in goods

Monday 8 February 2021

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. 4

Heard in Public

Questions 38 - 49

Witnesses

I: Alex Veitch, General Manager of Public Policy, Logistics UK; Dr Anna Jerzewska, Director, Trade & Borders; Des Hiscock, Regional CEO of Customs Support and Director-general at ACITA.

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Examination of witnesses

Alex Veitch, Dr Anna Jerzewska and Des Hiscock.

Q38 **The Chair:** Good morning, everybody, and thank you very much for joining us for this oral evidence session this morning on the future UK-EU relations in trade and goods. Apologies for starting a little late this morning.

Our first witness is Alex Veitch, general manager of Public Policy, Logistics UK. We also have Dr Anna Jerzewska, who is director of Trade & Borders, and Mr Des Hiscock, who is director-general at ACITA, the UK association for international trade, and regional CEO of Customs Support. A very warm welcome to you all.

You have had prior sight of the questions you will be asked this morning. I ask for timeliness, because this is a time-limited discussion, and for the answers to be as punchy and as precise as possible. To my colleagues, if you have supplementary questions, try to make them as short, pithy and succinct as possible. If our witnesses feel that something needs to be followed up in written evidence after the session, we will be very happy to receive that. If there are any minor corrections to be made to the transcript of this session, send those back to us as quickly as possible.

Baroness Chalker has not joined us yet, so I will start by asking the question that was in her name. This is directed primarily at Anna and Des, but Alex, if you wish to make some commentary on it, please feel free to do so.

What financial impact do the new customs requirements have on traders and consumers? Which sectors are primarily affected?

Dr Anna Jerzewska: Good morning, everyone. There are quite a lot of different types of impact and things to consider here. I assume when you mention customs that you mean all of it together. Within the new arrangements, there are four different areas that can lead to financial costs and can indeed be a problem for companies. I will list them very quickly so that we know what we are talking about.

The first is logistics and border management. That is about how to get goods to the border, and delays at the border, which we have not seen that much with imports, for obvious reasons, but we have seen with exports from the UK. This is all the issues faced by hauliers—new IT systems, Kent permits and all that.

Then you have the new customs arrangements, like the obligation to submit customs declaration forms, to provide data for these forms and to find a customs broker.

The third issue is that some specific products have additional requirements such as for food. For products of animal or plant origin, there are SPS checks, which means an additional layer of requirements and an additional layer of administrative work that you need to do to get

your goods out of the UK. Here again, there are additional costs. A health certificate is quite expensive.

Finally, we will have new obligations related to the actual trade agreement and the deal we signed with the EU. Here we have rules of origin, which are proving to be extremely costly for companies because it is an area that they are not really familiar with. It is a new area that is proving to be extremely difficult for a number of businesses.

With these four layers, there are different costs relating to logistics and delays at the border. If your goods are perishable and there are delays at the border, sometimes by the time your goods get to the client they are no longer in a state that allows them to be sold. Clients are switching suppliers, which is an indirect lost-opportunity cost. With customs arrangements, you have a broker that you need to pay for. With the SPS requirement, you have the health certificates, which are quite expensive. Also, we have seen stories of loads being thrown away because of one item falling down and things like that. With the rules of origin, if you do not know how to prove and demonstrate origin correctly, you will end up paying full tariffs and not be able to profit from the tariff-free provisions.

We have a range of different provisions and a range of different associated costs, and we have seen all this taking place in the first few weeks of this year.

Des Hiscock: Good morning, everyone. I will speak in a similar strain to Anna. Additional transportation costs are definitely driven in part by the unpreparedness of some sectors of the transport industry. I had literally hundreds of messages and communications in January from the sector saying, "We're starting our Brexit preparations now. Can you help?" I suppose there is also a frustration on the part of those who have prepared and who are struggling with the differing procedures and regulations from EU member state to EU member state.

There is now the cost of customs clearance, a cost that was not there previously. This cost varies quite significantly depending on the complexity of the declaration, how often a declaration is needed, and the quality and accessibility of the data presented for making the declaration.

If you are doing it correctly—Anna touched on this—there is the cost of maintaining records for between five and seven years post-clearance. A significant portion of affected customs enforcement internationally occurs subsequent to clearance in audit-based controls. This will have a huge financial impact if organisations do not become compliant now. We must not forget that the Finance Act and senior accounting officer obligations make specific provisions for redress against individuals of offending organisations. So those compliant organisations are spending money to ensure that they remain compliant when applying for duty reductions under the TCA, or they are deciding that the cost and the risk are simply not worth it and are paying the additional customs duty. This is often not considered.

Complex supply chains like the motor industry's are definitely more challenging, but given the nature of their processes and the quality of the data relatively available, these complex supply chains seem to be settling in a lot more quickly than others. We see those costs already coming down.

The unprepared organisations that thought they could rely on EU suppliers to deliver their goods on a DDP basis, only to realise subsequently that those suppliers were not equipped to supply on a DDP basis, are only now putting processes in place. Those suffering most appear to be those where the EU country of origin does not have a direct route to the UK. The additional process and extra costs of administration and costs of having to access a guarantee for a transit document are all adding up and adding to the additional financial burden.

Alex Veitch: There is a lot there to unpack. I will come back in answer to other questions, although one point that Anna made that I would ever so politely challenge was about delays at the borders. There have been some, that is true, but it is also true to say that the numbers have been relatively low and isolated to specific sectors and routes. So I am not sure I would agree that delays at borders on a mass scale can be said to have raised costs for shippers, but I absolutely agree that it is one of the key categories that can drive up costs, as has happened on some occasions and on some routes.

Q39 **Lord Turnbull:** Before I come to my main question, can I come back immediately on this question about delays at borders? I do not think that gives you any evidence at all, because if the problems are frightening people off, there is no traffic and therefore no traffic to be delayed. You could still have a problem without seeing the snarl-ups in Dover.

The question I wanted to ask is this. It is five weeks since the end of the transitional period and there are still lots of complaints and reports of difficulties. The Government, when they write to us, say they have done a great deal to help provide a lot more information. In what way could traders be more effectively supported or advised to navigate through the new customs arrangements? Could you also help us with the distinction between guidance and advice?

Dr Anna Jerzewska: What could be done to help traders? Talking about customs in particular, rules of origin have turned out to be a serious issue for a number of companies, as I mentioned. It really had not been mentioned before January. We knew that we might be getting a deal, but somehow we focused on the tariff-free, quota-free aspect of the deal.

However, every single trade deal comes with rules of origin. It is a complex area of customs that requires some work from companies to prove that their goods are eligible for the tariff-free treatment. In the first five weeks of this year, I saw an incredible number of questions from companies struggling with rules of origin. As other witnesses have said, there are still companies that have stockpiled and are just now starting to import and export, and they still need guidance, help and advice on

customs declarations, border processes and so on. But rules of origin have taken over as the main area of difficulty for companies.

What can be done? We have guidance, so it is not that we do not have it. We have, I think, 60 pages of guidance from the Government on rules of origin specifically, plus additional guidance, plus the agreement, plus the EU guidance. However, that guidance is not necessarily fit for purpose from a business perspective, especially in a situation where we do not have capacity in the industry, enough customs advisers or enough brokers. We do not have enough people to help in the private sector. As a result, the guidance provided by the Government really should be on a different level of detail and more adjusted to the business sector.

On the difference between guidance and advice, if you are talking about what the UK Government publish as guidance, I understand that the guidance is general and the advice is specific for a particular company based on a specific scenario. I do not think that HMRC necessarily has the capacity to offer guidance to businesses, simply because of the volume of queries and the resources HMRC has. It is not really able to provide detailed advice to all the businesses that need it, so it has to outsource this to other organisations and institutions. But it can offer business-specific guidance, as in guidance that is fit for purpose.

I know it sounds quite generic, but this really would help at the moment, given the number of questions and emails coming in at the moment about rules of origin.

Des Hiscock: I absolutely echo what Anna said about the interpretation of the rules of origin. We have seen the same TCA being interpreted very differently in the UK and across Europe. With the document requirements, we were expecting to prove our origin. There is still a dispute as to what the German Government want to produce.

The really important thing here is that we need proper education. We need to stop trying to soften the message. We must realise that crossing an international border is not as easy as filling in a couple of forms. The potential sanctions for misinterpreting those rules of origin and getting things wrong are significant. We need to tell it like it is.

Part of my commercial role is CEO of a specialist software service provider. We are getting hundreds of calls a week from UK and EU organisations based on the original messaging from government. These guys believe they can buy a piece of software that will solve all their cross-border requirements or fill in a form and their problems will be solved. This is really not the case. Traders need to be told that they are crossing an international border, and that complying with regulations in both the country of export and the country of import is absolutely essential.

They also need to understand the limits of what is admissible under the TCA. Most are thinking that goods in free circulation in the UK can enter the EU and vice versa. People are interpreting this on the same basis as

the customs union agreement we have with Turkey. This is not the case. The risk of double duties and not being able to claim preference is very real. The types of contraventions, the absence of controls and non-compliance that we are seeing just five weeks in will have a serious impact on legitimate business.

Education is absolutely essential. The guidance is out there, but I do not think that the Government are in a position to give advice. Specialist consultants in this particular area are in really short supply. Trying to simplify that message and trying to interpret a little bit better is absolutely essential.

Alex Veitch: I would echo many of those points. Our members include hauliers but also operators across all modes and many shippers, consigners of goods and traders. There are two kinds of advice and support they are looking for. One is transactional support to do their customs declarations, and the other is advisory support. Most members have struggled to find both, but particularly the advisory support. New traders and hauliers new to this want to pick up the phone and talk to someone. That is what we do for our members. We have trained our member advice centre through the Customs Academy. It is very tricky if you are a new client. Even to understand what kind of advice you need is very difficult.

I just want to say, in the interests of being fair, that the Government have done a pretty impressive job with the guidance. We were told they had done about 4,000 pieces of guidance before the new year. The trouble is people trying to read it and find what they need. The Government have also discovered YouTube and have done a lot of webinars, guidance videos and the like. Personally, I have always found them open to challenge and changing and improving stuff.

It is a case of taking dense, complex legal texts that the three of us are used to dealing with and turning them into business-friendly guidance. That is a tricky job and one that will take months and months to get right.

Q40 **Lord Shipley:** I want to ask about computer systems and how effective systems such as CHIEF, GVMS and Check an HGV have been in facilitating trade. What changes, if any, are needed?

Alex, back in November you told the committee that there were problems with even basic requirements such as downloading the CHIEF application form and that support was not readily available via a helpline number. Is that still the situation or have things got better?

Alex Veitch: Thank you, Lord Shipley. I will comment primarily on GVMS and Check an HGV. I will give a brief comment on CHIEF. The other two witnesses will want to say more.

We have not had significant problems reported to us about these three systems. GVMS was quite a close-run thing. We did a lot of work with HMRC, feeding back on the system requirements throughout last year. It

is now big enough and has sufficient capacity to deal with the volume of transactions that logistics operators need. There can be thousands of consignments and declarations in each truck in the parcel sector, for example. The capacity is there. User-friendly guidance on the web system came out a week before New Year's Eve, so there were some teething problems as companies got used to how to deal with this thing. Systems-wise, we have not had any issues with it.

We also flagged Check an HGV last year and raised concerns publicly and privately. It is working fine, as far as we are aware.

Honestly, we have not had negative feedback on CHIEF, but I will stop there, because I know that Des and Anna are closer to this system and they may wish to comment on it specifically.

Dr Anna Jerzewska: I am not sure if I am in a position to add much. Since 3 or 4 January, I have been working on rules of origin, given how much need there is for that.

From what I have heard from clients and organisations, I would agree that the problems or issues were not necessarily with systems not working properly. They were more to do with the fact that users did not necessarily have time to learn how to use these systems beforehand. It is all being tested now in practice. That is where issues come.

There were some minor issues with CDS, the new version of the customs IT system that applied in Northern Ireland, not accepting some of the new EORI numbers, but that was very minor. As I said, most of the problems were to do with companies and users in general not having time beforehand and in situations where HMRC needed to change something or something was updated. In a situation where companies, or users, are already unfamiliar with the system and struggling with it, any changes and any disruptions appear much bigger than they would in normal circumstances because no one is particularly ready to use these systems. That is all I can add on IT systems.

Des Hiscock: I would prefer CHIEF every day. I am glad to report that it is holding up well and really coping with the increased capacity. There have been some reports of slow reaction times at month-end, but it seems to be working as expected. The freight and customs software suppliers seem confident that it will continue to do so.

The support from HMRC has also been great. Echoing what Alex said, without a whole lot of additional effort from the Border and Protocol Delivery Group and HMRC's external stakeholder engagement teams, things around CHIEF could have been a lot worse, so I applaud them there.

GVMS also appears to be working well, but bear in mind that it is handling only Northern Ireland trade at the moment. The concern is that it has never been tested in anger, so the jury is still out on that one.

Concerns about CDS into Northern Ireland—and the elephant in the room—remain, as Anna mentioned. Trader support services are working well. When the EORI numbers were not being accepted by the system, it was not actually CDS. This system has been created by TSS as a front end to CDS, and we do not know that CDS is being used or tested in anger as yet. Everything that is going into TSS is going in on an EIDR—entry in the declarant’s records—basis. We are supposed to be pushing information into CDS, but the formats for doing that do not exist as yet. We were supposed to have everything in by 5 February. That date has now been moved to 5 March.

From an industry point of view, this is a real concern. When we start pushing information into CDS, is it going to hold up? The industry is not confident that it will. There is a fear that it will collapse. A lot of people are using this as a route into the Republic of Ireland, so there are huge concerns that we need to get this done. We have moved goods through Northern Ireland into the Republic of Ireland. There is duty and VAT that is due and payable. It should have been paid on 5 February. We have not been able to do that, because CDS is not taking the data on the basis we expected it to. That is a huge red flag and there is huge industry concern about CDS.

The systems you asked about are coping far better than we expected.

Q41 Lord Berkeley: Witnesses will be aware that our committees have been expressing concern over much of last year about the capacity of customs officials and the requirements. We wrote to the Minister in December expressing this. Anna, you have also written that customs is all about interpretation.

So my question, which you have partly answered, is whether there is sufficient staff capacity in customs, in both the private and public sectors. We see many reports of delays. I also question whether customs, in probably the usual way, are trying to make life as difficult as possible, or is that just hearsay? My worry is that we are only halfway there, because of course the inbound system will get more difficult in April and July. Are we ready for that?

Dr Anna Jerzewska: Thank you. There is quite a lot there. We definitely we do not have enough capacity in the industry. There are not enough people.

In terms of the public sector—HMRC and Border Force—in my experience, HMRC has always been incredibly supportive when it comes to helping traders, providing guidance and so on. However, with the increased demand and the helplines that HMRC offers, the traders go through to a call centre—a front end, as it were—and the support available there is quite basic. It is only when you get escalated higher to relevant teams within HMRC that you can get proper interpretation, proper guidance and proper advice. I think that is a question of lack of sufficiently trained staff in the call centre. But within HMRC there is a great deal of experience, knowledge and willingness to help.

In the private sector, things look slightly different. We do not have enough customs brokers, which we have known about for a long time. Whether this number of 50,000 was an accurate estimate or not, we are definitely lacking customs agents. I hear stories from clients who say that they have been dumped by their long-term customs broker in favour of a larger client that they can charge more. It is a market where customs brokers can pick and choose who they want to work with. Clients are looking for new brokers. There is still some capacity with some providers, but you have to look for it and it is not obvious.

We are also missing advisory capacity, as was mentioned. There are not enough advisers. Again, coming back to rules of origin, there are not enough advisers on customs liability, customs responsibility, what it means to be an importer, what records you need to keep and how you deal with it, because it is not just a question of bringing goods across the border; it is a question of being responsible and liable legally for several years to come.

We are definitely missing that capacity and experience, which is causing quite an interesting situation. We have seen in the market that companies without knowledge or experience in customs or rules of origin are attempting to advise and charge clients for that advice without any background in it.

I mentioned in one of my tweets that customs is all about interpretation. When you look at rules of origin or customs in general, you have the FTA text, the TCA, the agreement, which is the basis of it all, but it is still very high level. Then you have the domestic guidance and the domestic interpretation of that. Not only does the EU have its interpretation of that, but every member state interprets the legislation perhaps slightly differently. As we have seen in the past with customs legislation in the EU, even though it is one legislation, every member state has a different way of interpreting it. Then you have the interpretation by the actual customs officer who is accepting that form.

There are so many levels here and you need to combine all that knowledge into your interpretation. You often need to see that this is what the TCA says but this is what HMRC is willing to accept, and those are two slightly different things. If you have people who are advising clients simply based on the text of the trade agreement without understanding customs in a wider form and all the complexities, it leads to bad advice and incorrect advice being given to clients, which will have ramifications down the line in terms of liability.

Lord Berkeley: Thank you. Des, is that your view? Is this a short-term problem or will a lot of companies give up completely?

Des Hiscock: I echo a lot of what Anna has said. There is a big absence of expertise exists in that advisory/consultancy requirement, but there is quite a bit of wasted capacity in terms of people doing actual declarations.

We recently brought up a big problem with HMRC that it needs to address quite quickly. There are a lot of one-off people who import maybe 10 times a year. These are the guys who customs brokers are not wanting to take on. This is quite simply because HMRC has put a couple of easements or facilitations in place that allows brokers to act on an indirect basis and thus reduce their risks, but those organisations have to be UK-established entities. Establishing whether a company is a UK-established entity is quite difficult, because the EORI number and the VAT number are exactly the same.

We have asked HMRC to publish some type of list to make it easier for brokers to identify which importers approaching them will put them at risk and which will not. I am talking purely about being able to identify whether they are UK-registered entities or not. HMRC has that information available. If it was available to the industry, it would be easier to say, "We can take advantage of this facilitation". That is very important. That will allow for thousands more declarations to be taken on on a very simple basis.

Customs has increased its capacity quite significantly. In the operational bits I am involved in, there are a lot of customs officials in training. They are doing exactly what they need to do there. It is very much a temporary arrangement, and we will get there.

Q42 Lord Wood of Anfield: Thanks for coming this morning. I want to ask about the further customs checks and additional SPS checks due to be introduced in April and July. A lot of people have made the point that, whatever has happened since January, a lot of these additional checks are yet to be phased in. How prepared are traders, hauliers and border officials in general for the phasing in of these checks, which is due to start in April with a further wave in July?

Des Hiscock: This is not really my area of expertise, so I hope Anna will back me up on this one.

From my membership, I hear a real fear that the industry is not ready. Rumours have been rife that easements and facilitations will be extended. I have officially approached HMRC and the Border and Protocol Delivery Group, which are adamant that this is not the case and that there will be no extension. It is a huge concern in the industry that we are not going to be ready. I hope Anna can elaborate a little bit further.

Dr Anna Jerzewska: Yes. We are really in firefighting mode at the moment. It seems like companies are getting ready for the next thing to come as it comes. At the moment, it is all about rules of origin and dealing with the TCA.

One upside is that a number of companies, especially the companies I work with, when they look at exporting to the EU or at rules of origin, do not look at one specific thing in isolation; they look at their entire supply chain. They say, "Okay, I'm moving goods from here to here. These are the tariffs. This is what's going to happen". They are also looking at the

further checks and further responsibilities to come. When they are thinking about potentially shifting their supply chains, they are already taking that into account.

You mentioned the checks coming in April and July. The concern is with the actual SPS checks, which are so much more time-consuming and difficult than customs checks. With customs, the checks are not the issue. It is the formalities. It is the forms you need to submit. Actual physical checks are rare; the evidence is that they are less than 5%. With customs, as I said, the problem is not the checks. It is the formalities that technically companies are supposed to be doing now as well. Even if they are entering these details into their own records, they are already liable for anything they import into the UK. A lot of companies do not realise that.

With customs, we will have a compliance issue in July. A lot of companies are importing without realising that they are importing. They are bringing goods in. They are supposed to be entering details into their records. They are supposed to be monitoring. They are supposed to be doing everything that importers need to do. Yet, because they are not aware of it, they bring goods in and forget. I had an email from a client saying, "You told me there'd be a border. I moved goods and I didn't get any paperwork and no one asked any questions, so where's that border?"

From a customs perspective in July, when this starts to be mandatory, there will be a compliance issue. HMRC has said that it will be reasonable and will prioritise flow. They will have to deal with that lack of compliance and slowly educate traders. The problems will be with SPS checks and the potential lack of extension to Northern Ireland and the simplifications there. SPS checks are so much more time-consuming for products that are so much more dependent on quick movements. If you have perishable goods and you have SPS checks, it will be a problem.

So, again, there are capacity issues and physical-space issues, and any potential delays on the SPS side will be difficult.

Q43 Lord Inglewood: We have all heard stories, both in the media and anecdotally, about trucks going back to the EU empty or charging extra to come to this country, or simply deciding not to come at all. Are these modern myths or is there real substance there? Is there any evidence that ad hoc or mixed shipments are more likely to face delays? If so, in the case of both these things, what can be done to deal with it, particularly as far as smaller businesses are concerned?

Alex Veitch: First, on the empty trucks—as you rightly say, there are stories about them in the media—I think it is fair to say that opinions differ on the factual evidence. Our approach is to present the evidence as far as we are aware of it. The standard figure in the industry is that about 30% of trucks ran empty from GB to the EU pre-Brexit. In their daily calls, the Government have told the whole logistics industry sector that empty running is currently about 50%. I cannot comment on other

figures that other stakeholders are giving, but that is the best available data.

The real question is what is going on and what it means. We could look at empty trucks as one indicator of lower exports to the EU. Make UK and no doubt some other stakeholders in the export community will have feedback on this and may well be struggling. The data, though, always runs behind on this. The latest figures I saw for UK-EU trade were from November.

Is there a systemic issue for SMEs or larger businesses in doing fewer exports to the EU? Certainly, as Anna and Des have pointed out, the cost of trade has gone up, so that may be the case. It may be that trucks get fuller. We have just finished a comprehensive survey of our shippers, hauliers and multimodal operator members. That will provide more evidence of the trend and where this might be going. Unfortunately, the timing of this hearing did not quite work, so I will have to send that in writing. However, as one committee member said earlier, just looking at border flows and whether the trucks are empty is nowhere near enough to give you the whole story. I will leave it there, because it is important to follow the facts on this.

Finally, on mixed shipments, we call this groupage in the logistics sector. It could be more difficult. It may be that shipments of this kind come up against more difficulties. Certainly, if I had to pick one thing that has caused problems, I would say it is movements from Great Britain to Northern Ireland of SPS—ie products of animal origin and agricultural products. Using this particular mode has caused problems. It has been trickier to comply. We have worked closely with government to come up with a pilot process and then with Defra and DEARA to develop specific guidance for doing SPS loads by groupage from GB to NI, which is now bedding in. We have worked constructively to help resolve this as well as flagging it as an issue.

Looking forward, this is why we have GVMS: to help deal with mixed loads and consignments with lots of different customers trusting our members to take their contents to the exporting or importing party. This is always trickier. It is much easier when you have your own staff in your own trucks, but there are solutions. It will just be quite tricky to get it right every time and make sure that it works.

Des Hiscock: I absolutely echo what Alex has said. I asked a lot of our members this question before this session. There were a lot of reports of not getting the goods through that they had stockpiled initially.

One problem brought up constantly is that a lot of loads have been cancelled, which could be adding to the empty running. A lot of exporters from the UK especially do not realise that if they want to deliver something into Austria, for example, they cannot just pass an export document. They have to pass an export document accompanied by a transit document so that the goods can transit those European Union countries to facilitate the VAT requirements so the customs clearance

would ultimately take place only in Austria. That bit of education needs to be there and has not been there in the past. It is easy to pass a transit document, but to access it you have to access a guarantee, so there is a financial implication there as well. We found that for a lot of members there is a big piece of education going about. However you expected to export, you cannot do it on that basis.

On groupage loads, I absolutely agree with Alex. We have seen this as a challenge. A lot of transporters were hoping essentially to preclear everything in their loads, especially with vehicles going into inventory-linked ports where they were pushing through clearances. They have found this is a lot more challenging than they expected. There seems to be a requirement for some type of customs-controlled facility that does not seem to exist anywhere other than a port where groupage consignments could be broken down. This is available for sea freight and for air freight. A couple of our members have been considering putting up a facility like this. So the moving of smaller groupage consignments is definitely proving to be a lot more difficult than full truckloads.

Q44 Lord Faulkner of Worcester: Good morning, everybody. Thank you for coming to see us. My question is about lorry drivers' welfare, which, like empty trucks, has been the subject of quite a lot of media attention. We wrote to Michael Gove about this in December. It is fair to say that most of us took a view that we did not get much of an answer. We will come back to that.

The basic question is how the delays at the ports are impacting upon drivers, particularly in terms of their welfare.

Alex Veitch: Thank you so much for the question and raising this point. We voiced major concerns, with the very significant delays due to France closing the border two days before Christmas. I will not repeat those now, but we are confident that lessons were learned by the Government about the provision of welfare, supplies of hot food, toilets and rest facilities should further significant delays arise.

Driver facilities are always an issue in road freight for domestic services as well and, unfortunately, are something that depresses demand for people to come into the industry. We are always pushing the DfT to support that as well.

The inland border sites have welfare provision for drivers. They are not designed for rest breaks. Drivers must take a certain number of breaks in a working day. They have a maximum of two hours to stay there with a fine of £50 if they go over two hours. But if they have what is called a legitimate need, such as a problem with the shipment that needs resolving, we fully expect that fine not to be applied.

Lord Faulkner of Worcester: Have they been up till now?

Alex Veitch: They came in from 1 February. We have not had feedback about unfair fines. We are one week in. I will leave it there.

Lord Faulkner of Worcester: What about fines for entering Kent without the Kent access permit, the so-called Kermit?

Alex Veitch: I had not heard “Kermit” before. That has cheered me up immensely. Thank you very much for that.

Yes, fines are in place. Again, we have not had a big slew of complaints about the fines at our end. We were not very pleased to see the Government do this. It is an incentive to get things right before you go to Kent. Again, it has not created too many issues or complaints from members and international hauliers so far.

Lord Faulkner of Worcester: Thanks. Do Anna and Des have anything to add?

The Chair: Lord Faulkner, if I could intervene, if Des and Anna have things to add, they could put them in writing. That would be really useful for us. Thank you very much.

Q45 **Baroness Kramer:** Are the cabotage restrictions are having any impact on the supply chain? I assume we are thinking here of road and air. If they are having an impact, is there any potential mitigation? I guess Alex is the person to turn to here.

Alex Veitch: This is an opportunity to land a very significant issue with cabotage arrangements affecting important sectors of our economy—the music industry, the arts and other exhibition sectors, and Formula One racing—all of which rely on the ability of UK hauliers, which have world-leading expertise in the movement of these specific and bespoke items, to do their job. In music touring—concerts, classical, rock, anything you like—it is not possible for the business model to continue without a relaxation of cabotage, because these firms need to make many stops across the EU in the course of a tour.

I know this issue is being debated today in Parliament. This is not just a logistics issue. Our members in logistics facilitate this trade for the UK. The UK industry contributed nearly £6 billion to the UK economy in 2019, and foreign tours of orchestras brought in £14.4 million. I am happy to write to the committee with those figures, and I would encourage all stakeholders to support a negotiated agreement between the UK and the EU to allow these companies the ability to make additional stops to carry out their duties for their clients. Thank you.

Baroness Kramer: Is there any air freight issue? We know that a lot of freight travels on passenger planes, not on dedicated freight aircraft.

Alex Veitch: We would like to see a deepening of the arrangements on air transport for the so-called fifth freedom to add liberalisation to air travel, which would benefit both passengers and freight by allowing set-down and take-off to third countries by foreign operators. Again, I am happy to write to the committee with details on that. We hope that could be negotiated through an addition to the air services agreement with the EU.

Q46 **Lord Lamont of Lerwick:** Good morning. Thank you very much for your evidence.

I would like to ask about the consequences of the EU's VAT system for traders. From now on, EU imports will be treated the same as non-EU imports. For imports, VAT will be due at the point of entry and has to be paid to release the goods and the VAT recovered later. What are the consequences of this new system?

Dr Anna Jerzewska: I will mention two things here. I am not a VAT expert, so I will just put that there.

On import VAT, the decision by the UK Government to introduce postponed VAT accounting was very helpful. It was very good. That is an option whereby, if you opt for postponed VAT accounting, you can discharge your import VAT together with your normal VAT on a quarterly basis or whenever you normally do it. You do not have to pay it at the time of import; you can do it at a later point in time. That was very helpful.

The area where I see the biggest impact from leaving the EU's VAT area—it is useful to mention this, because it also gives you an idea about whether some of the changes relating to volumes of exports are permanent—relates to a company's supply chain and where a company tries to avoid tariffs or issues with rules of origin; the Percy Pig issue. The question there is whether a company is manufacturing something in the EU, bringing it to the UK and then distributing it from the UK or just sending some of it back. It does not have to be a distribution business, just a normal operating model, which a lot of companies had because there was never a problem with it.

The first question is always whether you have to bring it to the UK. If you are bringing it only to send it back to the EU, can you supply your customers in the EU directly from your manufacturing facility in the EU? Do you need to bring it to the UK? Because of rules of origin and export and import formalities, we are trying to help companies not to import their goods to the UK and then export them back but to supply directly between member states.

That is when VAT issues arise. There is a loss of triangulation on the VAT side. I will go into details, because I do not specialise in VAT. This is where I need to pass my clients to a VAT accountant, because, for something like that, they might need a VAT representative in one of the member states even though the goods are invoiced through the UK because the UK is no longer in the EU's VAT system. The loss of triangulation has ramifications for clients and, as a result, they might need to set up a VAT representative or a fiscal representative in one of the member states.

This comes up a lot, just because companies are trying to avoid bringing goods into the UK and then sending them out because of rules of origin and import and export formalities.

Des Hiscock: I absolutely agree with Anna. The postponed import VAT accounting gives a huge cash-flow advantage to many UK businesses. Bear in mind that it is not only EU goods but third-country goods that we used to have to pay VAT on up front and claim it back. We now have that significant cash-flow advantage.

One of the biggest problems we have with VAT is that customs law might be completely harmonised across the 27 EU member states but VAT law is not. It is down to the individual national Administrations. You mentioned VAT representatives. What VAT representatives do in France will be totally different to what they do in the Netherlands, for example. It remains quite a challenge.

One of the biggest problems is people not understanding the incoterms. A lot of people want to go to Europe and buy goods on an ex works basis, but they run into a huge problem in not being able to then zero-rate that supply legitimately in the country of origin for export. Not understanding the incoterms and not aligning your international trade terms with your actual transactions could prove to be a huge risk further down the line once you have a VAT audit.

We have the exact same thing with delivered duty paid. A lot of people are purchasing goods on a delivered duty paid basis but, under VAT law, the wrong person then owns those goods when they cross the border into the UK, which could jeopardise their input VAT claim. No one can afford to lose essentially a fifth of the value of their goods.

There is a huge misunderstanding about VAT on international transactions and it needs to be addressed. We are giving a lot of advice and showing people where they are putting themselves at huge risk as a result of the way they deal with VAT. Bear in mind that audit-based controls will be put in place and people will fall foul of the law. That definitely needs to be addressed.

Q47 **Lord Lamont of Lerwick:** I will ask Lord Lilley's question. I do not think he is here. You both referred to the postponed accounting system and said it had been a great help. My question, which has been a little pre-empted, is this. How effective has government support been for using different systems of VAT? Could anything more be done for traders who are using international VAT systems for the first time?

Des Hiscock: It is all about education. We have found the response from government on VAT to be nowhere near what it is on customs. As the JCCC, we have asked on a couple of occasions for a VAT department to [*Inaudible*].

The Chair: Des, you are coming in and out of the microphone.

Des Hiscock: Is that a little bit better or not?

The Chair: That is better. Thank you.

Des Hiscock: So we have asked for this on a number of occasions, but we are just not getting the type of response that we would like from the VAT department in terms of guidance and education.

Dr Anna Jerzewska: So far, I have not heard about any significant issues. There is a bit of a discrepancy with using postponed VAT accounting with the postponed import declarations and the simplifications on the customs side. If you are postponing import declarations until July but you want to use postponed VAT accounting at the same time and you are doing your VAT on a quarterly basis, in April you will still have to estimate the VAT that you should be paying, pay it and then, once you do the import declarations in July, adjust that number. That is the discrepancy: you have to do it twice, but for only six months.

Right now, a lot of companies make their import declarations straightaway when they import goods into the UK, which is a massive help. I have not heard or seen anything different. If you are dealing with import VAT as opposed to postponed VAT accounting, it is done in the same way; you have to log into the government gateway and you get the statement.

There was some confusion initially about how you opt in and what you need to put on an import declaration to demonstrate that you want to do postponed VAT accounting. Companies were not putting the right code in and, as a result, the VAT was charged straightaway instead of being postponed. That was just because of not submitting the right code on an import declaration. That happened initially, and companies and agents are now much more aware of what they need to put on an import declaration.

Q48 **Lord Russell of Liverpool:** After all these very difficult questions we have been lobbing at you, I will ask you a really easy one. What actions, if any, can the Government take to mitigate supply chain issues between Great Britain and the island of Ireland? If any of you can come up with an answer, we will be very grateful.

Alex Veitch: I have a brief and concise answer for everyone on this. Currently, there are several grace periods, as the Government say, on the movement of food and parcels from GB to NI. They relate to plants and animal-origin products, P&R—prohibited and restricted—products of animal origin, such as minced food and so on, and parcels.

Without going into too much detail, we need to see an extension of the current grace periods between the UK and the EU so that large volumes of food products can be moved for longer periods without the need for export health certificates to be produced. The scale of the challenge here is quite extraordinary because of both the cost of having these certifications done and the processes. We would encourage an additional grace period.

The trickier one is prohibited and restricted goods—mince, sausages and processed meats—which cannot be moved into NI for sale at all from 1

July. We are calling for an additional grace period for those as well to enable quite significant re-engineering of supply chains for that. We are also looking to the future. For the products of plant and animal origin, we have been calling for some time for a retail movement system, which is essentially a trusted trader scheme for businesses in the food supply sector. They could be authorised and certified, just like in customs—there are these systems all the time in customs—to move goods that are for sale B to C or for sale through a warehouse for endpoint use in Northern Ireland with simplified export health arrangements.

On parcels, there is a complete grace period for moving parcels from GB to NI. The scale of this is quite staggering. You can have 2,000 to 3,000 consignments on each truck; this is from online shopping. We are asking for an extension to the grace period to allow systems to be put in place.

Similar to food, we are calling for the introduction of a new trusted trader scheme to dramatically decrease the administrative burden on our sector. It should also benefit customers in Northern Ireland. At the moment, if you have 2,000 parcels on a truck, you need a safety and security declaration for each one. Why not allow certified trusted companies to do one declaration per truck so that the companies are authorised as safe and secure. We do this all the time in air freight. We do it all the time in customs with AEO and authorised consigner/authorised consignee. It is nothing new. It could be agreed at the stroke of a pen with the EU through the Joint Committee on the Northern Ireland Protocol. We would like a grace period to be in place until such a long-term procedure can be arranged.

Dr Anna Jerzewska: I would echo a lot of what Alex said about the extension of grace periods, which was also in Michael Gove's letter. We will see whether this is possible within the scope of the protocol.

We need guidance and clarification on the connection between the goods at risk category, which is one of the issues we have had with Northern Ireland, versus rules of origin. We have guidance on goods at risk, which could use a bit more detail. We have rules of origin. How do these two interact in Northern Ireland and how do they need to be dealt with? What are the specific issues about goods at risk? We need a bit more detail there.

Also, we know when the guidance is coming and this will be massively important for Northern Ireland. The Government said they will issue guidance later this year about what constitutes NI goods. At the moment, anything produced in NI with inputs from the rest of the EU can move freely into GB.

As a result of the supply chain shifts, some companies are looking at setting up in Northern Ireland to take advantage of that unfettered access from NI to GB. This will be subject to this new guidance that we know is coming in 2021, but we do not know when and we do not know what kind of provisions will be in that guidance. It will be incredibly useful for supply chains in Northern Ireland to know what the end position will

be and whether there will be any limitations on, for example, inputs from the EU and the Republic going into goods produced in NI and then moving into GB. Will there be any restrictions? Will there be any limitations within the definition of NI goods?

Lord Russell of Liverpool: Thank you very much. Des, in the interests of time, could you very kindly put your comments in writing to us? We need to move on quickly. Back to Baroness Verma.

Q49 **The Chair:** Thank you very much, Lord Russell, and thank you to our witnesses.

Finally, as you know, our committee is concerned with recommendations that could more effectively facilitate trade with the EU, at this stage and within the parameters of the TCA and at a high level. In the interests of time, I encourage you to give me your immediate recommendations now, but the committee would find it really helpful if we could have some more detail behind your recommendations in writing if that is possible.

Des Hiscock: Absolutely. We are looking for better guidance and understanding on the requirements for proving origin. We are pushing for process alignment across EU member states, understanding what is not included and providing clarity over the protection of preferences. They are the bits that jump out for me, but let me take that and put it in writing. I will submit that to you and to the committee.

Dr Anna Jerzewska: I would completely agree with that. We need clarification in the areas where we still need clarification and business-level guidance written from a business perspective.

Alex Veitch: I agree with that. I made my points earlier about the things that need negotiation on: road transport, cabotage and air transport. I fully agree with the points about guidance. The Government could consider asking for an extension to the suppliers' declarations to rules of origin. That might be helpful. I mentioned the grace periods for GB and Northern Ireland. I completely agree with the other witnesses about the need for business-friendly guidance from government.

The Chair: Thank you very much indeed. This session could have gone on for a lot longer. Unfortunately, we are always constrained by time. I thank our witnesses for coming in this morning and for giving us very helpful pointers for our report this session. I remind colleagues that there is a meeting to convene on the other side of this meeting. I remind our witnesses that if there are any minor corrections to be made, they should give them back to us as quickly as possible. Thank you in advance for agreeing to put into writing any extra information on the questions you have been asked this morning that we have not had time to go into in any great depth. Thank you very much. This session of the meeting is now concluded.