



European Affairs Committee

Oral evidence: Trade in goods

Tuesday 2 November 2021

4 pm

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Members present: Earl of Kinnoull (The Chair); Baroness Coultie; Lord Faulkner of Worcester; Lord Foulkes of Cumnock; Lord Hannay of Chiswick; Lord Jay of Ewelme; Baroness Jolly; Lord Lamont of Lerwick; Lord Liddle; Lord Purvis of Tweed; Viscount Trenchard; Lord Tugendhat; Lord Wood of Anfield.

Evidence Session No. 3

Heard in Public

Questions 33 - 55

Witnesses

I: Richard Ballantyne, Chief Executive, British Ports Association; Dr Anna Jerzewska, Founder and Director, Trade and Borders; Sarah Laouadi, Head of International Policy, Logistics UK.

Examination of witnesses

Richard Ballantyne, Dr Anna Jerzewska and Sarah Laouadi.

Q33 **The Chair:** Welcome to this hybrid European Affairs Committee in the House of Lords. This afternoon we are continuing with the public evidence sessions for our trade in goods inquiry and we welcome three witnesses: Richard Ballantyne, Sarah Laouadi and Anna Jerzewska—I apologise for stumbling on the pronunciation there. Could I ask the three of you, for the benefit of the public who are watching, introduce yourselves to very briefly when you speak for the first time?

As it is a public evidence session, a transcript will be taken. We will send it to you and would be grateful if you could go through it and notify us of any corrections that need to be made, as it will be the basis of some of the evidence that we quote in our report, which we expect to agree and publish in the middle of December this year.

We have quite a bit to get through this afternoon, and I appeal for both questions and answers to be crisp so that we can get through the maximum amount of material in the time we have.

It is coming up to a year now since the end of the transition period and the trade and co-operation agreement came into force. How would you characterise the overall impact of these changes for GB-EU trade in goods, and what are the key challenges that remain?

Dr Anna Jerzewska: Thank you for inviting me. I am the founder of an independent consultancy, Trade and Borders, and I advise a range of private and public sector clients on customs and international trade matters.

In terms of impact, I think the bottom line is that it is now more expensive and more complicated to trade with the EU, both ways—whether you trade between GB and the EU or EU and GB, it is now more expensive and more complicated. We have new formalities and new costs, new fees—in some cases we have licences and permits and so on. We have rules of origin that we need to comply with; if we do not, we have tariffs. I think that is the main impact now. How companies respond to that and the impact on individual companies will depend on a number of factors, from the size of the company and the industry they are in to very individual in-company specific factors.

That is the overall picture. I think we will get into the challenges in more detail later in the session.

Richard Ballantyne: Thank you Lord Chair, and good afternoon to your committee members, my fellow witnesses, and members of the public who may be deciding to watch this session on what is quite an interesting further stage of the UK's departure from the EU, with excellent scrutiny from this committee.

I am Chief Executive of the British Ports Association, which is the national port association for ports and port terminals. We represent 86% of the

cargo activities that go through ports in the UK, including all the major roll-on, roll-off operators. That sector of ports are seeing potentially the biggest impact from the UK's departure from the single market and the customs union, because each day they facilitate tens of thousands of lorries or trailers, depending on the type of roll-on, roll-off activities they specialise in, which are typically built on a fluid and rapid processing of units through the ports—whether they are driven by a driver who goes on the ferry or collected by a different driver at each end.

You talked about the challenges, Lord Chair. It is probably fair to say that I would echo a lot of the concerns and points that Anna raised. However, for the ports industry, certainly in the UK, without being too basic a lot of the fun is still to come. We are looking at the introduction of import controls in the UK—customs, sanitary and phytosanitary controls—whereby goods will be checked potentially on arrival into the UK, and that is where we could see the most physical disruption and intervention at our ports.

As has been well shown in the media and by government, these deadlines have been extended somewhat. So once we see those deadlines reached next year, I think we will probably be in a better position to give you the full analysis. However, the preparedness and the readiness of the wider freight and logistics industry is something we are very mindful of, and the overall costs of trade, even for exports, is something we are also very mindful of.

Finally, I will give an example of one particular sector that I think is quite interesting to look at, the fishing industry. Predominantly a lot of fish is landed into the UK in places like Cornwall and Devon in the south-west, on the south coast, and Wales and northern Scotland of course. Some 80% of the fish we land are exported.

The vast majority of that is exported to the continent of Europe by truck, and we have seen a big impact on that sector with the introduction of new controls on arrival into European ports, as those products are taken to places like Boulogne and Zeebrugge fish markets and elsewhere for onward use. The fish price has been hit substantially, and we have seen some vessels taking their catches directly to Europe—that is in the news at the moment.

But we have also seen trade and the numbers of fish landings into the UK decline dramatically, certainly at the beginning of the year, and when we get the annual statistics it will be interesting to see whether that industry is continuing to do what it does normally, which is to employ thousands of people around our coastal communities, often in deprived regions, sustaining towns and villages around our coastline. That is one example, but I am happy to take further questions during this session.

The Chair: Thank you very much for that very full answer. We will, of course, go into the detail of a number of those areas later in questions. That aside, perhaps we could move to Sarah.

Sarah Laouadi: Thank you very much. Thanks for having me today. I am Head of International Policy at Logistics UK. We are one of the largest business groups in the UK and we represent all parts of the logistics industry, from transport operators in the road sector to customs intermediaries, freight forwarders, representatives of the different modes of transport and freight users—importers and exporters—in different sectors of the economy, which means that I will be speaking on behalf of the whole logistics system when looking at the impact of the end of the transition period.

In this regard, I think it is fair to say that there was a learning curve. Over the first few weeks of the year, the percentage of vehicles that were turned back at the border, arriving on the EU side from the UK, was relatively high because there were initial mistakes, possibly misunderstandings or misinterpretations of the new rules. However, during the first few weeks of the year, this rate of turn backs steadily decreased, because the initial errors were corrected—whenever it was possible—to the extent that the Government decided to remove the requirement to have a Kent access permit, in the second part of April, because it was felt that the compliance issues that were remaining in certain cases at the time would not translate into systemic disruptions, traffic disruptions or issues that would create gridlock at ports, or on the roads leading to the ports.

That said, certain issues persisted and it is unlikely that they will be entirely eliminated, because they are actually part of the new trading landscape with the EU. In certain cases, it simply takes longer to export goods to the EU, and there will be differences between companies depending on how their supply chains are organised. I was speaking to a company a few days ago, explaining that the goods they used to send to the EU within one day were now reaching their destination—in the country of destination in the EU—in three or four days. This is just an example, but it illustrates the fact that supply chains are not exactly working as they used to before the end of the transition period.

In addition, there are still inconsistencies between EU countries in the way they interpret the requirements. For instance, if you look at the Sanitary and Phytosanitary formalities that are required to export meat products from the UK to the EU, all EU countries will require an Export Health Certificate, which is a document that is produced by an official vet certifying that the consignment is safe to go.

But the exact expectations of each EU country as to how to fill the certificate diverge, which is creating additional costs for UK exporters, and when those costs are not passed on to the end consumers, or not shared between the different supply chain partners that are involved in the movement of goods, this can result in margin erosion for exporters; this goes back to what Anna explained about the cost of exporting to the EU.

Looking at the developments since the beginning of the year, it is interesting to see that the ONS Business Insights and Conditions Survey,

which was published in September and looks at data that was collected in August, shows that the top three challenges for importers and exporters were the additional paperwork, the cost of transportation, which is increasing for different reasons, and the customs duties themselves.

What I would like to highlight in relation to these top three challenges is that most importers and exporters no longer refer to delays or traffic disruptions when they describe the situation they are facing, which I believe is testament to the learning curve and the improvement that has taken place, and shows that a number of initial issues that could be solved have been solved.

Q34 The Chair: Thank you very much. That was a very full answer. I would just like to ask one follow-up question of Anna. You have written in various publications that the impact of Brexit was not homogeneous but varied significantly between different businesses. Would you be able to summarise in just a few sentences why you think that?

Dr Anna Jerzewska: Yes, absolutely. The first level is that if you are exporting to the EU versus if you are importing into the UK, you are faced with different rules at the moment. Even though in the UK we still have the obligation to submit the customs declaration and to proceed with border formalities, that is not necessarily fully felt by UK businesses.

The second level is that there are differences between industries. Last week you heard from the Food and Drink Association, and obviously an industry like this has additional controls—SPS requirements. Pharma is an example of another industry that is highly regulated and where you cannot manufacture the products, move the products, market the products without a special licence. So there are differences between industries.

However, the third level is that there are differences even in every industry, and when I speak to companies I hear a very broad spectrum of responses to what has been happening, from “I can no longer trade. My business is no longer profitable”, to “I’m not actually affected, because the EU has never been a significant market for us”. So you have quite a wide range of responses.

Obviously I work with individual companies and do not run surveys and so on, so my sample size is quite small, but from everything that I have observed and heard from companies over almost a year, the side of the spectrum that is having difficulties and experiencing additional cost is much larger than the side that is not impacted.

The Chair: Thank you very much indeed.

Q35 Lord Lamont of Lerwick: Good afternoon. To what extent have traders, ports and the logistics sector adjusted to the new trading landscape, and have any of the initial problems that were seen at the beginning of the year in any way subsided? Perhaps if we could start, again in the same order, with Anna.

Dr Anna Jerzewska: I think if it is a question about the ports and logistics sector it is better for Richard and Sarah to address this question.

Lord Lamont of Lerwick: It is not just about ports. It is more general.

Dr Anna Jerzewska: Okay. From a company's perspective, from a trader's perspective, for companies that are exporting to the EU, obviously some of these initial challenges have now been addressed. I think Sarah and Richard also mentioned that initially we saw companies making a lot of mistakes just because the information and guidance was issued fairly late, meaning that the companies did not really have enough time to prepare for the new requirements.

A lot of that has changed, especially if we are talking about imports to the EU where the controls were introduced from day one. However, the level of compliance, in my opinion, remains quite low. Taking the example of rules of origin, companies might very well be issuing a statement claiming where their products are originating, and that gets them through the border, but they might not be doing the work to ensure that they are compliant with that statement. So some of the problems have gone away, but the underlying issue of lack of awareness and compliance is unfortunately still there, and there are more of them to come with UK border formalities being introduced next year.

Richard Ballantyne: It is a good question. I think I will follow a lot of Anna's lead on that point. One thing I would point to perhaps is a potential fall in exports to the EU, which is likely to show or be indicative of some of the new challenges and trading relationships that exporters and traders have to get used to. I would point to the figures that have been published and are being published in due course—I think that is a good indicator—and as Anna and I said in our opening statements, we will not know fully the actual impact on ports and logistics operators bringing goods in until we get the new controls that are being phased in over the next nine months or so enforced at our frontiers.

Sarah Laouadi: I believe there has been an improvement since the beginning of the year, because the initial issues caused by a lack of information or simply by the fact that traders were not familiar with the new processes have been alleviated to some extent, which is why we are in a better situation now on the fluidity of exports than at the beginning of the year.

However, looking ahead, it is likely that we will see another decline in compliance and an increase in the potential mistakes, issues and disruptions that could result from the upcoming import requirements, because those will be yet another cycle of new requirements and trade procedures for companies to engage with. I would very much confirm what the other two witnesses highlighted about the upcoming import requirements and the fact that we will only know the full picture once the full regime is in place.

Lord Lamont of Lerwick: Could I go back to Anna? In your first reply to

Lord Kinnoull, you talked about it being much more expensive. Could you say how much more, and is this just the cost of extra form filling? Can you give examples, and is there any prospect of any of it being absorbed?

Dr Anna Jerzewska: Unfortunately, it is very difficult to generalise; the costs will differ depending on the company. I usually just simplify it by saying that there are direct and indirect costs. The direct costs are exactly as you said. The cost of paying someone to submit an export or import declaration on your behalf, the cost of a licence or SPS documentation or any kind of permit that you might require, are external direct costs.

Then there are indirect costs—the cost of training your employees, hiring new staff, and costs that are difficult to measure but none the less there. For example, if you have an employee who was hired to do a certain job but they spent the last six months trying to get their head around Brexit regulation and the changes, then they are not doing the job that they were initially hired to do. So there is an opportunity cost there, and all these costs add up.

The size of that cost is individual to every company. In some cases, it is quite easy to absorb, especially if it is just customs and the customs duty might not be significant. In some cases, especially for larger companies, this cost is never great but it can be absorbed. For other companies that cost might be difficult to absorb, and in this case you can either pass it on to someone—for example, the final consumer, your clients, your suppliers, depending on the relationship—or you can change your business model, and many companies are in that kind of space where the costs are high and they are trying to see what they can do with the cost.

Just to give you an example, I recently spoke the other week to a wine importer and wine industry expert. I was trying to give advice to a smaller B2C importer into the UK that wanted to import wine, and the advice that I was given was that below a certain size of shipment it is no longer profitable, given the fees and extra formalities. If you are a big company, a large importer, you are fine. It is not great, but you can absorb these costs. It is not an ideal situation, but you can still function. For the B2C wine importer that I was talking to, it is no longer profitable to import wines into the UK. So it very much depends on individual circumstances.

Lord Lamont of Lerwick: Would it be fair to say that large, multinational companies, dealing not in SPS but in manufactured goods, would be able to adjust their systems perhaps to this more easily and would have much fewer problems than small or medium-sized businesses?

Dr Anna Jerzewska: That is the general rule, yes, absolutely, although it is always so difficult to give a general answer, because we have seen examples of very different arrangements. For example, one company that I speak to has a very good relationship with their supplier in one of the EU countries, and they were able to split the cost between the supplier

and themselves, the buyer. So there are different arrangements available depending on what you can do. I think businesses take it on a case-by-case basis, but in principle you could say that bigger companies have more resources and are able to manage this a little bit better.

Q36 Lord Foulkes of Cumnock: Can I add my thanks to you for coming along and giving your evidence so eloquently? Can you help me in relation to the challenges, or what I would call problems, that you have described and that you are facing? How can you determine that they are caused by Brexit and not, to some extent anyway, by Covid, as some people might claim, and would a comparison with the trade with other non-EU countries help you to determine the cause of the problems that you are suffering? Anna, could you start?

Dr Anna Jerzewska: That is a very good question. In terms of customs, it is not difficult to distinguish between the two. Covid obviously has had a profound impact on how we trade, what we trade and so on. But, again, in customs, it is very, very clear what is Brexit related—the fact that we used not to have any customs formalities between GB and the EU and now we do, and the fact that we did not have to submit SPS paperwork and now we do—and what is not. So that is a very clear distinction between the two.

It is difficult and problematic when you try to look at it from more of a macroeconomic perspective and measure it, because if you look at government-level trade statistics, which is the information that we have, how do you tell whether a drop in exports to the EU is caused by the fact that there is less demand versus the fact that these clients in the EU are now buying from someone else who is also in the EU? This is something we would not know just by looking at the data, and for that we would need company-level data, which we do not have. So on the ground I think there is less confusion. What is difficult is measuring this on a national or international level—the macroeconomic level. Then it gets a bit trickier to measure this.

In terms of rest of the world trade, we have also seen a bit of a difference between countries where there is no trade agreement versus countries where there is a continuity deal in place. We had some initial Brexit-related difficulties—well, the change from an EU FTA to a continuity trade deal—and there were some small initial disruptions, whether it was because companies were not sure what needed to happen, or the local authorities initially perhaps did not accept the new types of proof support and so on and so forth. But, again, I do not think that Covid and Brexit can be confused when you look at it from a company perspective. It is only when you try to measure it in broader terms, without knowing the industry specific information, that it is a bit difficult.

Richard Ballantyne: I follow Anna's points. I made the point earlier about the fall in exports. I understand that the fall has been 11%, if you compare us this year with pre-Brexit and pre-pandemic numbers, so that is quite a marked decline in our exports to the EU. I do not have the

figures for rest of world at the moment but it does feel as though there has been a bit of a Covid impact. As Anna said, it can depend on the trading relationship, but it can also depend on how badly they have been hit by Covid and whether their economies have been locked down, so to speak.

Sarah Laouadi: I think it is important to acknowledge the impact of Covid as well, because companies are facing the consequences of that right now. There were lockdowns in almost all countries of the world, and—more specifically—some lockdowns affected port operations globally. The port of Yantian in the east of China was closed in May and June. Later, in August, the port of Ningbo, in China again, closed for maybe 10 days, something like that. It obviously had an impact on deliveries and on operations across the globe, but it is also affecting UK businesses expecting their supplies to come from various parts of the world.

We have seen abnormal trade patterns because of the unusual consumption habits during the pandemic, and it meant that the container rotations globally were not as smooth as you would want them to be to move the goods as effectively as possible, and there are other factors at play in relation to investment decisions on the part of shipping lines. But the abnormal trade patterns have had an impact, just like the driver shortage—which was largely fuelled by a driver testing backlog at DVSA, because the tests that drivers need to take to get the qualifications and get into the industry, get into the profession, could not be completed, understandably, during the lockdowns, because it is intrinsically a face-to-face-activity.

All of that obviously played a role, but as Anna pointed out, when you look at the individual formalities and the cost items, you can easily attribute them to the end of the Brexit transition period. If you look at the cost of an export health certificate—which can range from £120 to £170 depending on the local authority or the certifying officer that issues them—this is very clearly a Brexit-related cost. I would say that at company level, traders know why they are facing extra costs. At a macro level it is difficult to disentangle the two and allocate the share to each factor.

Lord Foulkes of Cumnock: That is very helpful and very fair. I do not know if you saw the evidence that we got last week when I tried to tempt the witnesses to say whether they thought there might be a temptation for some people in government to use Covid as an excuse for some of the problems that are in fact arising from Brexit. None of them rose to the challenge. Do any of you want to rise to it?

Richard Ballantyne: Not particularly, but I would say I think it is easy to confuse some of the factors, as Anna articulated very well. The fact that certain economies closed down meant that demand was impacted and we had impacts on our own logistics industry. There is still a lack of storage in certain locations, and we are still seeing things like container surges around the world, which is not helping, but those are distinctly

global issues and I think you can separate and see some of the real-life examples of how differences with trade with the EU will have an impact on certain commodities, certain routes, et cetera.

So I think it is easy for us to confuse the two—I am not suggesting that politicians will make that mistake intentionally—but once you probe into them it is fairly straightforward to work out, at the moment at least, what is Covid related and what is Brexit related.

Lord Foulkes of Cumnock: You are being very fair. I will have to follow your example. Thank you.

Q37 **Lord Purvis of Tweed:** This is linked to Lord Lamont's question. I understand that with a lot of UK exporters, when they are sending their goods it will be to a number of different markets, not just to one country or one destination, and therefore the cabotage rules under the EU agreement have been relevant. How much of an impact has the difference in the cabotage rules made for when businesses are deciding whether or not they wish to carry on in the market, or whether or not it is extra costs to the business? I am not sure who might want to volunteer to be the most qualified to answer that. Maybe Sarah, I do not know.

Sarah Laouadi: I am happy to take this question. As you mentioned, under the Trade and Cooperation Agreement the number of cabotage operations that can be carried out by UK transport operators in the EU is limited to two operations within seven days following the international part of the journey. That has been reduced from three operations in seven days previously, when the UK was still a member of the EU. I would say that this has worked relatively well for the general haulage industry based in the UK, and for the customers of the haulage industry—all the exporters who need transport services to move their goods.

I would like to point to a statistic that highlights that: 85% of the transport companies that move goods from the UK to the EU through the short straits are companies based in the EU, which means that those companies who serve UK exporters are not faced with this two-journey limit, because as companies established within the single market they are affected by the cabotage limit, which is the number of operations within one single EU country, but they are not limited in terms of how many borders they can cross in the EU—they can move goods between several EU member states without a limit to the number of such operations—which has limited the impact of the negotiated cabotage rules for UK exporters.

Where the cabotage rules and the cross-trade rules—which is the ability to move goods between two different EU countries—have been particularly problematic for UK companies is in a very specific sub-sector of the economy. I am referring to those transport companies that move goods on cultural tours and pan-European events, where the equipment they move has to reach multiple locations, multiple concert venues, for instance, in different EU countries and it is not economically sensible to bring the load back to the UK every two operations in the EU. This has

been the main problem that we have identified on behalf of our members in relation to the transport rules, and the cabotage rules in particular, of the TCA, and that is something we keep engaging with the Government on, because we believe that this part of the industry deserves an agreed solution, together with the EU, that will give them certainty over time and will give them alternatives, because at present they are left with very few options if they do not want to relocate to the EU.

The Chair: Thank you very much indeed. We are not making terribly quick progress. It is fascinating, but I really would appeal for crisper answers to the questions, otherwise we will not finish, which would be a great shame.

Q38 Lord Jay of Ewelme: I want to ask a question about ports, which I think is mainly for Richard Ballantyne. I imagine that the new import controls, to which you have already referred in an earlier answer, will require new border infrastructure. Are we right in thinking that constructing that infrastructure is the responsibility for the ports but that the Government are providing financial support and additional inland facilities as necessary, and is the current government financial support enough? It would be very odd if the answer to that was yes, but anyway, let us see what you have to say.

Richard Ballantyne: I think it is a great question. Yes, typically border infrastructure is provided by the port operator, but given the short notice and the extreme circumstances we were in, where we did not know the terms of the UK's EU departure deal until very much the eleventh hour, the UK Government opted on this occasion to release a port infrastructure fund allowing ports to begin to cover the cost of their infrastructure—their building on site—and they also had a separate pot of money to fund inland facilities at some of the particular gateways.

Most of that infrastructure is being built now. There were lots of discussions and negotiations between port operators and the Government about what would exactly be needed, what scale of infrastructure is needed. There were some frustrations with that and some port operators felt that the Government was not giving them enough, and there are some extreme examples where port applications were either completely denied or partially declined, and so there was some discussion—that is still going on between certain parts of the industry. But for the most part the port operators, predominantly in ro-ro ports it has to be said, unitised and ro-ro ports, so container and roll-on, roll-off freight, that is where we are seeing infrastructure being built and most of that is, I am glad to say, either ready or about to be ready in time for the next stages.

I cannot comment completely on whether the inland facilities will be ready in time—those are government schemes—but we understand there is good progress there. I guess the question now is on to the mechanics of these things. Who is going to staff them? Will it be some port operators staffing them, or some government officials? Will those staff be ready in time? Probably, but maybe not in some places. Then there are questions on some of the detail, such as how users of those facilities will

be charged. So if you are importing some goods and they are inspected, there will be a charge levied on you, and I think industry is finding itself a bit bemused by this because that is an extra cost that perhaps they had not thought about, and the mechanics of that need to be touched on.

Lord Jay of Ewelme: Are sensible and constructive discussions continuing between the port operators and the Government on precisely those questions that you have just mentioned? Do people feel reasonably comfortable that they are being addressed, even if solutions have not yet been found?

Richard Ballantyne: Depending on the individual discussions, there could be some localised discussions about particular facilities and the timeframes of operation—when they will be open—through to the points on charging that I mentioned. I would say there has been quite a lot of frustration from the ports industry in respect of getting the number of checks—it could be Sanitary and Phytosanitary checks or what the size and capacity of those facilities need to be—and I would say the various relevant parts of government are still finding their feet and working out exactly what they can resource at some of those locations. So there is still quite a lot to do. I would say the discussions are always constructive, but yes, there have been some frustrations on our side from my members on this.

Lord Jay of Ewelme: Just one final question. There are various dates for different things to be done. Is January 2022 or July 2022 the more significant deadline as far as you are concerned?

Richard Ballantyne: I think both are very important. There will be different requirements for each stage, of course, but at the moment the next stage for the ports with the border infrastructure is to get them approved by the relevant government agencies. There is a lot of testing and piloting of BCP infrastructure going on at the moment—everything from turning on cooling systems to make sure they can refrigerate certain goods, through to the staffing levels, et cetera. Getting those formally approved is the next phase for us, which is all pre-Christmas. As for whether the Government have sufficient resources to approve those in time—I am sure they will but it does feel like everything is a bit last minute dot com, so we would urge the Government to continue to pull out all the stops to make sure that we are not left to the very eleventh hour again.

Lord Jay of Ewelme: That is very helpful. Thank you very much indeed.

Q39 **Lord Hannay of Chiswick:** Could you just give a ballpark figure for the amount of resources that the Government have had to put into this, which can be perhaps best described as a Brexit cost?

Richard Ballantyne: On the border infrastructure alone, there was just under £200 million allocated to the 40 or so port applicants. I recall that an additional £250 million was allocated or budgeted towards the building of inland infrastructure—that is, the physical infrastructure. I think there

is also a similar amount allocated to the Border Force and other agencies for staffing, for other government things that the ports will not see directly, and then if you go outside that, you go to the HMRC and the customs systems it has developed, whether that be for Northern Ireland, whether that be for the goods vehicle movement service or other initiatives, I think the figure was over £1.5 billion for borders infrastructure in terms of physical, digital and staffing, but I could be wrong. That would probably need to be verified by some of your researchers.

The Chair: Sobering numbers.

Q40 Lord Lamont of Lerwick: To what extent has this new investment in ports been away from the larger existing ports like Dover and on to ports like Immingham or ports in the north of England that could do with extra investment, and has there been as a result any consequential change in the pattern of trade more towards these smaller ports in the north, away from the south?

Richard Ballantyne: I think it is a very good question. We have to remember that this infrastructure investment is very much for government infrastructure at borders. This is not building new quays or port infrastructure, not providing new cranes, et cetera, which is typically commercially provided and privately financed, and really, the nature of the Border Control Posts facility requirement has been very much on what existing facilities those ports may have, but also what their requirements for facilitating goods and trade will be. There is a list of the applicants and the funding they received. It is quite varied. Some ports in the south have received substantial amounts, either directly or indirectly, but equally, some ports in the north-east and other parts of the UK have received quite a lot.

Coming back to your point on trade flows. I think there has been a bit of a change, and that move, initially, was from roll-on, roll-off accompanied freight—goods that are driven into the UK by the same driver. We saw a bit of a move to unaccompanied ro-ro freight—so where that trailer is collected by a UK haulier. But equally, in the last few months we have really started to see the impact of driver shortages and one or two other circumstances—fuel, et cetera—which has perhaps not reversed that trend, but it has certainly maintained a sustained level of activity for the driver accompanied—so where the typically European drivers are bringing goods into the UK and then going back via an accompanied ro-ro port.

Q41 Lord Hannay of Chiswick: Could we now switch to the issue of delays that the Government announced in September, when they announced the delay in the introduction of import controls into GB, principally dealing with Sanitary and Phytosanitary requirements but not entirely. From your perspective was the delay a welcome one, or was it, at best, on balance, the right decision? Following on from that, in light of this delay, to what extent will the preparations that businesses and ports made for the original set of deadlines be a simple waste of time and resource? Will the delay lead to duplication and having to do the whole thing all over again

with additional cost to business? Thirdly, giving evidence to this committee last week, Lord Frost said that “as regards government preparations, we were ready on the original timetable”, and that that delay was to give businesses more time. Do you agree with that?

Richard Ballantyne: I think in answer to your question about whether that was welcomed by us and, in my case, by my members, I think the answer is both yes and no. There was quite a strong view from certain port operators that because borders infrastructure, funding and agreed specs and approvals had not been as rapid as many in the sector had hoped, there was a strong case to extend, and so this extension was a welcome development.

Equally, some ports had invested and rapidly built borders infrastructure, so they were somewhat frustrated that they had got ready and then found that the goalposts had been moved, so to speak. But broadly, I think a lot of people have looked at the customer base of ports, ships and carriers, and seen that this has been generally quite welcome, particularly by certain parts of the economy. I think that many port operators were somewhat resigned to the fact there was going to be an extension, and it has been welcomed by quite a few.

I would also suggest that industry felt that there was a need for additional time to allow for other things, like government to get ready. I would push back somewhat against Lord Frost on his point about the Government being ready, because there certainly were not the staff available for things like Sanitary and Phytosanitary checks at BCPs that will be provided by government departments and agencies.

Then finally, on your point about whether there has been wasted resource, we are now seeing that some port operators are a little bit nervous that they have built border infrastructure, control posts, et cetera, which are either now ready or due to go online, and they are a bit nervous that there could be further delays for which they still have to pay the operating costs, pay the staffing, pay energy usage, pay sometimes business rates, for those facilities with no opportunity to raise revenue from charging operators to use those BCPs, for the inspection costs, et cetera. So yes, there is some concern and it is something we are watching very closely.

Dr Anna Jerzewska: Whether this was the right decision—yes, absolutely that was the right decision because no one was ready. When I think about border readiness, I think of this as an entire end-to-end process. When we talk about readiness, we talk about not only the Government, infrastructure and IT systems being ready but also things like guidance issues on businesses and traders being ready. When it comes to borders—something so complex and involving so many actors—we are pretty much as ready as our weakest link. In many cases these are the traders, the companies. Unless everyone is ready, we are not ready.

Listening to Richard's very comprehensive response to the previous question, one thing that strikes me is the lack of co-ordination. Even putting that initial deadline aside, with the new deadlines that we have, even now—we are already in November—there seems to be this, as Richard mentioned, last-minute feel to a lot of these processes, and that is not necessarily helpful.

So I think it is the right decision. I personally do not have any information to substantiate what Lord Frost said and—to be fair to Lord Frost—he was not the first person to say it. This was also mentioned in the official press release when these delays were announced, so he is repeating what was mentioned in the press release. I have not seen anything to confirm that anyone was ready for the original deadline and so I too will have to push back on that.

In terms of the resources and the repeated planning, on the company level, one thing that is becoming very apparent is a bit of deadline fatigue when it comes to all these deadlines being pushed and extended time after time. There is a little bit of a sense of lack of urgency: "Oh these deadlines are probably going to be postponed, it is going to happen over and over, and the companies that have not been compliant so far are not necessarily being punished for it either, so why should I actually care?" It is becoming increasingly difficult to have these conversations with companies and try to encourage them to be compliant because of these numbers of deadlines and it is very easy for a company to miss a deadline just because there are so many of them. So it is just making it a little bit harder for the private sector to keep up, to even care in a way, and to understand why it is important for them to keep track of what is happening.

Sarah Laouadi: The announcement in September about the postponement of the import timetable was met with mixed feelings. Within Logistics UK, within our membership, there was relief in some parts of the industry because businesses were already facing a number of supply chain pressures in relation to the pandemic, in relation to the driver shortage and the global maritime transport crisis in terms of rates and capacity. That said, the successive postponements penalise those businesses that had invested time and money to be ready and that had expected to have built a comparative advantage over less prepared competitors, so I would echo some of the frustration that was mentioned already by previous witnesses.

The postponement also means that to some extent we are losing momentum for UK companies—but also EU exporters—to get ready, because they have now seen that the deadlines can be extended at the very last minute. So we have to be very careful not to undermine the confidence that businesses and their EU counterparts, supply chain partners, suppliers and customers, have in this country's plans regarding the upcoming import requirements.

Briefly on the level of readiness within government and within the industry, I think it may boil down to the perception of readiness. The

Government may well consider that their plans are on track, that the processes and IT systems are being delivered on time—in that they are being delivered before a specific requirement comes into force—but from the industry's perspective that may not be sufficient and businesses need advance notice to be able to take the actions that are required, for instance, to make adjustments to their supply chains, to reconsider the way they are moving goods and the routes that they are using. So the Government may claim that they are ready, because the different workstreams are progressing as planned, but it may not be sufficient from the companies' perspective.

Q42 Lord Liddle: When Lord Frost came to talk to us last week, he was absolutely adamant and said that, "we will stick to the dates that are now in place". Do you believe him?

Sarah Laouadi: I would say that the discussions that we have had with the different government departments, with the officials, are encouraging in this regard. The new deadlines seem to be taken seriously. Now we need this level of engagement, this momentum to continue over time to make sure that everybody remains focused on the new deadlines. So it is encouraging, but to be confirmed over time, I would say.

Richard Ballantyne: Do I believe him? Yes, I believe the Government are committed to them, and I think Lord Frost has made it clear that is their aspiration. What we might find is a bit of a— I would not call this a fudge officially, but you might find that the major deadlines are honoured but there may be one or two easements that the Government introduce to help trade get used to things further, now that we are working towards what the Government expect to be the end of the road, but as I say, there may be one or two little things it has to do, and that could be on customs, that could be on Sanitary or Phytosanitary controls, or things away from border infrastructure to help traders get ready.

Dr Anna Jerzewska: I will just add one sentence. I think the difference in the definition of readiness that Sarah mentioned is absolutely crucial and, whether or not this deadline is going to be respected, the crucial question will be: is everyone ready versus are the government systems ready, do we have enough time for users to understand these systems, know how to use them, know how to approach the different requirements? I hope the deadlines are set, but I think more important than whether the deadlines will stay is how we approach them.

Lord Liddle: Okay, that sounds about 80%, I think.

Q43 Lord Purvis of Tweed: Lord Frost said in his speech that he gave in Lisbon that, "We are never going to adopt the same levels of checks and controls required by EU systems because we don't believe the level of risk requires them". Can I ask how you respond to that? Are there advantages to us not checking certain goods while they are being imported, while the EU checks them if they are being exported?

Dr Anna Jerzewska: I will give an answer, but I will stick to my area of customs, because border checks or controls have many functions—you

can have anti-smuggling, risk-based checks, you can have SPS controls and checks. Customs is a little bit different because compliance with customs does not necessarily happen at the border as it is. We have the National Clearance Hub and a lot of the verification of customs compliance happens first inland and secondly after importation. HMRC has three years after the goods have been imported to check compliance, to go back to traders, verify whether everything was done correctly and apply punishment—fees or charges, or any other measures that it wishes.

From a customs perspective, whether it is 3% or 5% of goods that are being checked at the border, that does not really make a big difference. It would probably for anti-smuggling and SPS controls—that is a completely different measure—but from a customs perspective we have other ways, and not much of it happens on the border at the time of import. Most of it is done inland after goods have been imported.

Sarah Laouadi: At Logistics UK we care a lot about enforcement. We are all about compliance as well. We believe that a rule that is not enforced can penalise compliant businesses. However, we do support a risk-based approach to border controls and border requirements. The Government need to find the right balance between preserving biosecurity, for instance, security of the border on the one hand and the fluidity of the traffic on the other hand. We trust that the Government will use all the data that is already available, and the additional data that will become available as the Sanitary and Phytosanitary pre-notifications come in from January, to define that right balance.

Compared with what the EU has been doing since the beginning of the year, it is clear that certain requirements were enforced by EU Member States in a very strict, legalistic way, even when it had no bearing on the actual level of risk. For instance, I have anecdotal evidence of consignments that were refused at the border because the documentation had been filled using blue ink instead of black ink, or the other way around—I do not even remember. Our members found this odd and difficult to understand, and we do not think this is justified. We hope and we are confident that the UK Government will adopt a pragmatic approach towards those genuine errors that do not have any effect on the actual level of risk posed by a consignment, and that they will focus their resources on the areas where there really is a risk.

Lord Purvis of Tweed: Richard, before you answer, you said something before which I thought was interesting: that the Government may have a number of checks relevant to what they can resource. Could we be in a position where the checks and the controls are determined by the capacity of the Government, or what they want to pay for as regards the facilities, and the Government's ability to have the checks, rather than as a risk-based system as far as what Anna and Sarah have outlined?

Richard Ballantyne: I do not represent the Government of course, so that is difficult to say, but I would have a hunch that it might have a strong impact on our border strategy. You are probably better off

focusing those kinds of questions towards the UK Government, Border Force, someone from HMRC, et cetera.

I think just on the point, I generally follow Anna's excellent example there: I think just because checks are not taking place does not mean that the goods are not subject to controls and we are not securing our borders and do not still have a full idea of what is going through our ports and coming into the country.

I think it is important—as Sarah said—to keep trade flowing, so I would imagine there is potentially a degree of pragmatism, but we also have to have consistency. I have a number of ports in my membership and there are a lot of different ways to get goods in and out of this country through our ports, an excellent selection, but we cannot have certain routes being prioritised over others so that there is a commercial advantage or disadvantage for certain operators. I think it has to be a fair system.

On the EU, yes, there were always lots of stories about the colour of ink and various things, and particularly—the example I talked about at the beginning—fish exports and export health certificates and other things. There were some stories of rather onerous arrangements but—broadly speaking—we are picking up from our members that their customers and their customers' customers are suggesting that some of that has calmed down. You still have full controls, you still have the regimes in place, but they are being more pragmatic. It is just the new systems—as I think Anna said at the top of this session—are completely different from the previous trading relationship, there are so many more requirements, and even if they are being more pragmatically enforced by European points of entry and to be in the UK, "the rules is the rules", there is still a new regime that our trade has got to get used to.

Lord Purvis of Tweed: Apparently, in 26 months' time, we are going to have the best border in the world—according to the Government. What is the current objective measure for having the best border in the world? How would we know?

Richard Ballantyne: Yes, good question. The 2025 border strategy that you are referring to; I was encouraged to sign the foreword, so I have to own up to sharing the Government's aspiration about the best border.

Lord Purvis of Tweed: Well, you absolutely will know then.

Richard Ballantyne: In fairness to the Cabinet Office, which leads on this area, and UK Border Force, these discussions are continuing in parallel to the Brexit discussions and preparations, so they have not just left this alone, and we are looking at lots of snazzy new systems and arrangements that may come online. But I think, from my perspective, if we want the best border in the world, we are going to have to introduce some targets for Government, KPIs, et cetera. I think, it has to be said, for a part of the Government that is traditionally looking at securing our borders, making sure that criminals, terrorists, people who should not be in this country are kept out, our country is secure, there is a bit to be to

be done on the trade facilitation points and making sure that we are competitive and open for business.

The Chair: Thank you very much indeed. It is an interesting area.

Q44 **Baroness Jolly:** The first part of this question is probably for Richard and the second part for Sarah and Anna. First, how prepared are ports and businesses for the changes that are still coming in from January, notably the introduction of full customs declarations and the expiry of the grace period for suppliers' declarations for rules of origin?

Richard Ballantyne: I think that is another very good question. There is a lot going on and, in terms of customs, what our departure from the EU Customs Union means in the case of port operators is that if they have EU traffic, those goods are subjected to customs declarations for customs controls. The ports have to provide typically an inventory linking system through to HMRC to clear those goods so that the customs declaration can be approved by the authorities or, in the case of a select few ports, roll-on, roll-off ports particularly, we are having this new GVMS system I mentioned earlier, which is designed to facilitate the flow of predominantly road goods vehicles—but can be any freight—through the borders without stopping in the traditional manner which could cause congestion.

So there is a lot going on with the ports. They are getting the approvals through from the UK Border Force, and those approvals have certain conditions on them. So there is a lot of discussion between individual port operators and government about what they need to do, the requirements at those points of entry, and then further, as to what kinds of systems they will need, how they interface with the HMRC systems, such as CHIEF and then, eventually, CDS.

So there is a lot going on really. I think the fundamental question was: will the ports be ready? In a hunch I would say, yes, I think the ports will be ready, but there may be—as we discussed earlier—one or two other factors, trade preparedness and other things, which have a slight impact on what we see happen in 2022

Baroness Jolly: But in your view, are the Government doing all they could do and should do?

Richard Ballantyne: Particularly on customs, yes. I think there is a lot going on. Some of it has been a bit of a scramble, I have to say, but we have seen good resourcing of the relevant agencies and teams from the border and protocol delivery group and HMRC. This is a rather negative thing to say, but on a scale of frustration I think we found dealing with the authorities and getting ready for the physical side of things—the checks, the border control post infrastructure, et cetera—more frustrating generally than some of the requirements, which hopefully will be a bit more seamless and less around intervention.

Q45 **Baroness Jolly:** Finally, for Sarah and Anna, is there sufficient staffing capacity both in HMRC and in the customs intermediary sector, to meet

this increased demand?

Dr Anna Jerzewska: I am not necessarily sure whether there is enough capacity. I obviously will not comment on HMRC's internal capacity. In terms of companies, coming back to the previous question, companies are completely not ready.

I do have to take into account the fact that companies that I work with—companies that look for a customs consultant—usually are not the ones that are ready. So I obviously need to bear in mind that there is a self-selecting sample out there.

There are two things around company readiness and the readiness for the customs procedures that are going to be introduced. One is whether the goods move across the border, whether the goods are able to get into the UK, and that is a question of whether all the documents required are submitted, are they filled in, is the question of the colour of the ink important, are systems working and everything like that.

A completely different question—from a customs perspective—that is actually much more important is, are these documents filled in correctly, are companies declaring the correct information on the on the customs declaration, are they declaring the right commodity code, are they being charged the right amount of customs duty? I think this is a completely different story when it comes to customs compliance, and here we are definitely not ready, and the one thing that the Government could do or HMRC could do to help with that is more guidance and clearer guidance and better guidance, because the guidance we have at the moment is not really business friendly and is not very user friendly.

Even for myself, when I try to use the guidance, clicking through a number of screens to get to the right information, it is just not organised very well, which again, traditionally, HMRC was one of the best organisations in the EU in terms of quality of guidance offered. I think we need to go back to the style of guidance that that we once had, which was very comprehensive, very detailed and very, very helpful. I think we have the capacity, we just need to change up a little bit the guidance that we have published on the website.

Baroness Jolly: Sarah, would you like to add anything?

Sarah Laouadi: I would echo Anna's point on the guidance. We have been calling for more consolidated, more user-friendly guidance, because the amount of information which is available now is becoming really difficult to navigate.

There have been good developments in this regard. There are good examples: the haulier handbook is a good example of information being tailored to a specific audience. The check how to import and export your goods service is also something that is meant to present the information in a more interactive, more tailored way. Those are good developments that need to be continued and supplemented until the whole set of guidance is made more user friendly.

About the level of readiness, in particular in relation to customs intermediaries, which was one of your questions, at the beginning of the year we received feedback from members suggesting that customs intermediaries were overloaded and our members were affected either directly or indirectly, because their suppliers were struggling to find the right capacity. Since January, the situation has changed a little, and we have not received the same degree of concern about intermediary capacity. We run regular surveys with our members, our logistics performance tracker, and the last one is showing the number of importing and exporting challenges around customs paperwork, around costs, but not specifically about the lack of intermediaries as a major issue.

Finally, about readiness, I would like to highlight that we need to look at the whole system, and the success of the next stages of the import calendar will require also EU businesses to be to be ready. We have only informal surveys around the level of readiness of EU businesses, and they suggest that the overwhelming majority of them are aware of some of the procedures that they will have to comply with, but not all of them. Under a quarter of them declare being confident, and again, you have to take into account all the vices that you can have in such surveys. So I really want to highlight the importance of co-ordination across supply chains on the two sides of the border.

Q46 Lord Wood of Anfield: I just want to continue this theme about how ready business is for the rules of origin and customs rules that are going to be enforced in nine weeks' time. Anna, you mentioned before that previous deadlines have been postponed, as you rightly said, because no one was ready. How much more confident are you about this raft of requirements, that business will be ready, and if there are problems—either similar to last time, or at least significant—do you think there will be a case for the Government to either delay again or to pursue a very light-touch approach to enforcing these regulations, these new requirements, for a period after the beginning of January?

Dr Anna Jerzewska: It is a big question. In terms of readiness I would say, when it comes to customs and rules, unfortunately we have a set of new requirements coming in in a couple of weeks' time, companies are still not fully aware of the requirements that have been in place since last January, so the level of compliance, the level of awareness is incredibly low. That is something that HMRC is also very well aware of.

The chances of companies understanding the importance and what it actually means that the grace period for suppliers' declarations is ending, in general that is one of the most misunderstood simplifications out there, first of all for companies to know that it is even happening and then to understand what they need to do as a result and what that means.

However, I think HMRC is in an incredibly difficult position here because on one hand, given how late this information was provided, it seems unfair to go after companies because a lot of them genuinely did not

know what was required of them. There is probably a group of companies that were aware and still did something else, you cannot exclude that, but equally it does seem a little unfair to go after companies in this first year, this first initial period. On the other hand, what do you do going forward? How do you promote compliance without a stick—without enforcement? So it is a very delicate balance.

Although I think a light-touch approach will have to be an answer, HMRC need also to start promoting compliance and stressing the fact that going forward we need to respect these rules, and for companies that have been respecting these rules all through 2021 and have seen other companies saving, eight, nine, 10 months' worth of customs duties because they did not submit any paperwork, that is not a very good message for these companies in terms of, "We want you to be compliant". So it is a very delicate situation and a difficult position for HMRC, but we have to start supporting companies in being compliant.

Richard Ballantyne: I will just add a very basic point. I think it is not just about the readiness and preparedness of some of the people Anna was very well articulating and describing there; there are also others, importers, et cetera, who will not be familiar with what the arrangements and the costs associated with them are.

I mentioned earlier about border control posts and the infrastructure costs associated with that if goods are checked, et cetera. That is going to be something that is disproportionately higher for importers from Europe because they are used to fairly cheap shipping costs, just because of how close the continent of Europe is to Britain, whereas when you are importing things from further afield shipping costs are invariably higher. As a proportion, it could be hundreds of pounds extra loaded on to your shipping costs because they have been held up for some kind of inspection. That is something people need to be ready for. So not just the actual technical preparations, but also the understanding that costs are going to go up—the other costs associated with goods taking longer.

Q47 **Lord Wood of Anfield:** I just have a quick follow-up. Obviously, we have a series of deadlines or new requirements coming in January, and then in July we will have another raft of them. Which one of them keeps you up most at night worrying on behalf of companies? Rules of origin is the one that witnesses seem to be most worried about, companies having to become very quickly au fait with complex rules of origin requirements. Is that the one that is most of concern for you or is it something else?

Dr Anna Jerzewska: From my perspective, my biggest worry is not getting the goods into the country. It is finding out three years from now that you have been doing something wrong and that all the customs duties that you have not paid over the last three years are now due because you got the goods into the country but you have not actually been compliant. So it is that that worries me on behalf of my clients.

Lord Wood of Anfield: That makes sense.

The Chair: Thank you very much indeed. We move on to very patient Baroness Couttie.

Q48 **Baroness Couttie:** Thank you, Lord Chair. Sarah, in your opening remarks you alluded to the fact that certain EU countries are applying TCA checks and controls differently as goods enter from the UK into their countries, and we have taken evidence in previous sessions which have highlighted this is an issue. I would like to understand a little bit more, in a bit more depth, about those issues, and also to understand whether you think that despite the differences they are still being applied fairly and proportionately and whether, in comparison with other third countries which have trade agreements with the EU, they are being applied fairly, or is the UK being treated differently in some way?

Sarah Laouadi: In terms of those discrepancies or inconsistencies, I think they are compliant with the legal framework. The principles are harmonised across all EU member states and they apply the same regulations—official control regulations—that provide limits to what they can do. However, the member state authorities absolutely have the right to implement that in slightly different ways, and we are talking about details that do not affect the philosophy behind the rules, or their impact on trade. What is affecting UK exporters is the diversity of different expectations coming into force all at the same time whereas they used to trade freely with the EU without having to comply with any Sanitary and Phytosanitary requirements and without any customs formalities.

Baroness Couttie: So you think it is more the diversity of issues, rather than one or two countries just being a little bit more zealous in the way that they are applying them?

Sarah Laouadi: I would say that the main challenge is the diversity combined with the novelty of those requirements at the beginning of the year, and trying to compare with the way other third countries are treated or their goods when they are arriving at EU borders. I think a comparison is a bit difficult to make, because there are virtually no other third countries that trade with the EU on a roll-on, roll-off company basis as intensively as the UK does.

When containers arrive at EU ports, if they sit in the terminal for a bit longer—unless it lasts for months—no one will notice if it takes five hours more to clear the goods. When you have the company loads that come on a truck with a driver, this is becoming much more critical. So the whole challenge about the introduction of those checks was to translate a model that worked for containerised trade to a roll-on, roll-off company model, which is much more time sensitive, I would argue, and much more difficult to organise in practice around regular physical checks.

Baroness Couttie: Anna, have you anything to add to that?

Dr Anna Jerzewska: No, I think that was an absolutely comprehensive answer.

Q49 **Baroness Couttie:** Moving on, another issue that we have heard

particularly affects SMEs is VAT, or the equivalent in the various EU countries. There seems to be some difficulty in VAT, particularly with smaller businesses. We have heard all sorts of anecdotal stories and particularly consumers—at the other end when they receive their goods—receiving unexpectedly large bills for VAT. I just wondered what you had heard from the people that you work with and your perspective on this issue.

Dr Anna Jerzewska: That is an issue, especially for smaller companies and B2C sales. One of the problems is that the EU rules on VAT have changed this year. The thresholds and the way you report in different member states have changed. It is a brand-new system for everyone and it coincides with Brexit, which is not helpful in any way. With many of my clients, it is not something that I necessarily deal with, I pass them on to a VAT expert, but a lot of countries need to register for a VAT representative in one of the member states and that can be an issue, particularly for B2C sales, smaller shipments and cases where UK companies—for various reasons—need to import into the UK. It is less of an issue when it is just a question of a UK company exporting to the EU, to an EU client.

Baroness Couttie: Sarah, have you anything to add to that?

Sarah Laouadi: Nothing to add to what Anna has said.

Baroness Couttie: Thank you very much.

The Chair: Thank you very much indeed. We turn to the even more patient Lord Tugendhat.

Q50 **Lord Tugendhat:** My question is really aimed first at Anna, but it is obviously not exclusive. Both ONS and OBR trade data suggests that despite facing more checks and controls, UK goods exports to the EU have recovered faster than imports since the start of the year. I wondered whether that is in line with your experience and to what you attribute this perhaps slightly surprising outcome.

Dr Anna Jerzewska: It is one of these questions where we have a bit of a disconnect between the macroeconomic level and what we are seeing on the ground. It is not consistent with what I have seen, but there you go. That just goes to show that there is this difference. It is one of these situations where you would have to look at this from a more in-depth perspective, industry by industry, what was actually happening. I think overall, the only answer I can give is that customs and other non-tariff barriers now between the UK and the EU are not the only thing, and it is more expensive and more complicated to trade, but not impossible. I think there are very close supply chains between both sides and these supply chains still function. It is a little bit more difficult, it is much more expensive, but they still function, and I think that is why we are seeing a recovery, but maybe someone else has something to add.

Lord Tugendhat: Before turning to the others, could I press you on one point? One of the striking features of the year so far is that the German

rate of growth has been rather low and, given the weight of the German economy in the EU, I wondered whether this might provide some explanation of that.

Dr Anna Jerzewska: It might, I just do not really have a very clear answer as to why this is happening. We can think about this on the macroeconomic level, but I would not be able to give an answer that I can substantiate fully. I think we can speculate. It is very likely that it is just a combination of a number of factors, whether these are contracts, whether these are business arrangements, I am hesitant to give one answer to such a complex question. I think the answer is that there would be a number of factors there.

Lord Tugendhat: What do the other two witnesses feel about this matter?

Sarah Laouadi: I can offer an assumption as to what some of the factors might be. We are seeing a shortage of semiconductors, which is affecting global trade, based on what I have read. It is possible that this is affecting the ability of UK imports to recover, especially if you bear in mind that road vehicles are the UK's top import from the EU and they require a number of components that rely on the supply of semiconductors—that is just one out of many possible factors. It is an assumption that would have to be further tested, but it is possibly part of the problem and part of the explanation for the discrepancy between imports and exports.

Richard Ballantyne: I share some of Anna's surprise. I did not recognise those figures, but as you say, that is what the ONS and others are reporting. Sarah gave a very good example; I would just throw in the fact that there is still a trade imbalance, the UK imports more than we export, so perhaps there is something in that as a larger factor, but I probably cannot give any more of an authoritative view than that.

The Chair: Thank you very much. Our penultimate questioner is Lord Trenchard.

Q51 **Viscount Trenchard:** Thank you, Lord Chairman. I would like to ask what steps you would like the Government to take—both unilaterally and after agreement with the EU—to address and mitigate barriers to GB-EU trade in goods. Richard, could I start with you on that please?

Richard Ballantyne: I have to say we are not a political organisation, so it is difficult for me to suggest certain things that might have political connotations, but if there was a request it would be around being pragmatic around policies and when the UK starts to discuss certain aspects of the negotiated UK-EU trade deal. I think we would be looking at being more pragmatic around Sanitary and Phytosanitary controls and other measures, where we share similar regimes that we do not think are going to cause particular risks to our borders, et cetera, if we do not have full control. I think, where suitable, it is pragmatism and flexibility. But we are not alone, we do not just think about the UK's relationship alone,

we would also like to see more pragmatic processes, which require less of an onerous process at our borders if risk analysis supports that, with other nations that we trade with.

Viscount Trenchard: Sarah, do you have anything to add to that?

Sarah Laouadi: Yes, we would like the Government to do three things—

The Chair: I am sorry to interrupt, but unfortunately, we are having a vote in the House now, so we are going to adjourn this evidence session for five minutes.

The committee suspended for a Division in the House.

The Chair: There will be another vote, so I ask the witnesses to try and keep the answers very crisp. That would be a big help. We are tantalisingly close to the end, the person who is going to run the home leg is itching to do it, and I hope will be able to do it. I am going to restart the evidence session now; we are missing Lord Tugendhat but in view of the pressing time problems I think that would be right. Perhaps you would re-pose your question, Lord Trenchard.

Q52 **Viscount Trenchard:** My first question is: what steps would you like the Government to take—both unilaterally and in agreement with the EU—to address and mitigate barriers to GB-EU trade in goods? We have already heard from Richard. Sarah, you were going to answer, I think.

Sarah Laouadi: Yes, I would like to refer to three types of actions. First, we would like the Government to provide the missing pieces of information about the future processes. An example of a missing piece of information would be the exact way in which drivers will be notified that some of the goods that they move are being selected for physical inspections. The second type of action would be improving the guidance; we have touched on that already. The third area is about optimising the processes. To give an example of that, we are delighted to see that the Government intend to offer the possibility for electronic certification for agri-food products, for instance, that are subject to Sanitary and Phytosanitary processes. We would press the Government to deliver that. It is not exactly something that requires renegotiation with the EU—the TCA opens the door for that—but it certainly requires co-ordination at technical level.

Viscount Trenchard: Thank you. Anna, do you have anything to add to that?

Dr Anna Jerzewska: I will be very brief. On the bilateral level, as Richard mentioned, pragmatism. Not allowing small misunderstandings, that will occur, to escalate and become a problem. On the unilateral level I think there is much more to do. I will echo everything that Sarah just said. In addition, I think the efforts behind Border 2025 are very important and revisiting all the border procedures and all the processes is extremely important. But yes, guidance, guidance, guidance, that is really the key in terms of making the TCA work better.

Q53 Viscount Trenchard: Could I just ask a quick question about mitigations, which occurred to me following Lord Frost's call for a more digital border? Do you think the Government should encourage the adoption of technologies such as digital trader services, supported by the Institute of Export & International Trade, and would this not assist companies in complying with the new formalities?

Dr Anna Jerzewska: Absolutely. The fact that we still use paper in international trade is unfortunate. Any trade facilitation measures should be encouraged. What is a bit concerning sometimes is the expectation for technology to solve everything. Technology is a tool. The bases are good processes and efficient processes that are set out. Technology can help, but the processes are the underlying measure that need to be there need to work well.

Viscount Trenchard: Thank you. Would either of the other two of you like to add to that?

Sarah Laouadi: I would just add that we have to be careful to introduce technology where it makes sense, at the right step in the supply chain. For instance, when it comes to direct interactions with drivers at the border, that is not the most promising area for digitisation. However, in other areas, certification for instance, we are absolutely in favour of more digitised processes to minimise the risk of errors and to facilitate border movements.

Viscount Trenchard: Thank you. Richard, is that also applicable at ports?

Richard Ballantyne: I would say there is probably no silver bullet, no immediate overnight solution certainly, but there is a lot more we can do to embrace technology and automation and digitalisation in our flow of logistics and customs, et cetera.

The Chair: Thank you very much. The home leg from Lord Faulkner.

Q54 Lord Faulkner of Worcester: A slightly different question from me. We have obviously been hearing a lot about barriers to trade in goods and we have been discussing these today, but we have also had evidence during our inquiry about the problems that businesses have had with other difficulties, particularly labour shortages in the haulage sector and the shortage of HGV drivers. Do you see these two sets of issues as separate or are they inextricably linked? Perhaps I could ask Sarah to go first, please.

Sarah Laouadi: These are two distinct issues, but they are affecting the logistics industry simultaneously. If you are working for a company, struggling to organise your day-to-day transport operations, you would feel the impact of those two distinct issues at the same time. But if you look at the factors, the causes, of the driver shortage, you can see that there is a bit of Brexit in there, but there are a lot of other elements as well.

I believe Brexit played a role in the departure of 16,000 EU drivers, but it is difficult to distinguish the weight of Brexit in this departure compared with other reasons. An EU national who was a driver in the UK may have decided to leave for Brexit-related reasons or because they wanted to spend the pandemic closer to their family in their home country.

Moving to another factor in the driver shortage, you have the normal turnover that you see in any profession, people retiring and leaving the industry for personal reasons. Here again, not directly related to Brexit—not necessarily—but crucially, the pandemic interfered with driver testing, and I think I alluded to that earlier.

DVSA driving tests came to a halt during the lockdowns: they conducted 45,000 fewer tests than normal, this year and last year. This is one of the main factors affecting the driver shortage and can quite easily be separated from the impact of EU exit, but in any case, our call on the Government—in relation to the driver shortage—is to do everything which is in their power to alleviate the issues, and that will help free up time for companies to fine-tune their preparations for the upcoming requirements.

So there could be a broader take on short-term visas that have been added to the visa scheme; we would expect the Government to deliver on parking spaces, because as per the Government's own assessment—in a study that was published in 2018—the current availability of parking spaces is more than 1,400 parking spaces short; and we would expect the DVSA to continue clearing the backlog of tests, and hopefully, once this is cleared, we will get back to a much more manageable situation that will leave businesses in the logistics industry with more time to fine-tune the actions that they have already put in place to be ready for the upcoming import requirements.

Q55 Lord Faulkner of Worcester: How much has the supply chain disruption and the shortage of goods on supermarket shelves been because of the barriers in trade in goods and how much has been because of the labour shortages? Maybe, Richard, you have a view on that.

Richard Ballantyne: Yes. I would have to say it is not really my area and I am looking from afar, but I would suggest it is all of the above—so to speak. I think, without throwing her under the bus, it might be one for Sarah, potentially, given that she represents the wider logistics industry.

Sarah Laouadi: I can comment on that briefly. I may give you a slightly disappointing answer because I think it is very difficult to give you a percentage of the disruptions that could be allocated to one or the other factor, but, as I said, the driver shortage played a role, as well as the disruptions to global trade patterns because of the pandemic. The lack of capacity and the high rates in the ocean freight sector are also affecting the movement of goods and the imports into the country. There were port closures because of Covid outbreaks. So it is very clear that there is more than one factor affecting the availability of goods and supply chain disruptions that we are seeing.

Lord Faulkner of Worcester: Perhaps a last word from Anna. Have you anything to add?

Dr Anna Jerzewska: In my experience the only place where this interacts or overlaps is when EU companies are deciding whether they want to extend contracts with UK clients or suppliers, and this becomes an overall picture of how difficult it is to trade with the UK at the moment.

Lord Faulkner of Worcester: Thank you all very much.

The Chair: And thank you from me on behalf of the whole Committee for a very, very interesting evidence session. You have given us thorough and full answers and we are very, very grateful indeed. Could I say that if anything occurs to you that you would be able to supply us in writing, we would be very grateful if you could send that in, and we will consider that as part of the evidence for the report? The report, as I said, will come out in mid-December and I hope that you will read it. That said, thank you very much again.