HOUSE OF COMMONS

Treasury Committee

Oral Evidence: UK's Future Economic Relationship with the European Union, HC 483

Tuesday 7 February 2017

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Watch the meeting

Members present: Mr Andrew Tyrie (Chair); Mr Steve Baker; Helen Goodman; Stephen Hammond; George Kerevan; Kit Malthouse; Chris Philp; Mr Jacob Rees-Mogg; Rachel Reeves.

Questions 534 - 631

Witnesses

I: Jim Harra, Tax Assurance Commissioner and Director General, Customer Strategy and Tax Design, HMRC; Bill Williamson, Customs Director, HMRC.

Examination of witnesses

Witnesses: Jim Harra and Bill Williamson.

Q534 **Chair:** Thank you very much for coming to see us this morning. This subject, which might have been considered a backwater, has now been thrown into relief by the Brexit vote, and there are a lot of important issues we would like to explore with you today. As you probably know, the Committee has looked and been looking at transitional arrangements for some time, which the Government were initially very reluctant to talk about and have now accepted, at least in principle in the White Paper, as highly desirable if not essential, although they do not quite use that phrase. Do you think we need transitional arrangements to deal with the possibility that a deal is not negotiated and that the UK falls back on WTO rules, Mr Harra?

Jim Harra: If there is a significant change like that required, yes, a period during which we can plan the implementation and during which business can plan the implementation would be very desirable. Businesses have not told us that it is essential—we have not heard that from them—but that it would be very desirable. However, we do have to prepare for a day-one scenario where we do not have that.

Q535 **Chair:** Are you prepared for that day-one scenario, in the absence of transitional arrangements?

Jim Harra: Yes. There are three—

Q536 **Chair:** Was that a yes? Before you continue, was that just a straight yes to that question? If we go into WTO rules and we fall back on to WTO rules on day one—and there are no transitional arrangements so, in two years, you are now operating the whole regime—are you confident that you can handle it?

Jim Harra: We are preparing for three scenarios. Obviously the first is the negotiated outcome that the UK wants from the EU. The second is what arrangements we will want in place during an implementation period. The third is what our day-one contingency model is if there is no deal with the EU. It would have to be based on the UK being a third country in relation to the EU, and the EU being a third country in relation to the UK. We are preparing for that eventuality so that, no matter which of those outcomes happens, we are ready for that.

Q537 **Chair:** Let me try to ask the question in a slightly different way. Getting ready for something that may be very bad indeed or virtually impossible to handle is very different from preparing for something about which you are thinking, "This is perfectly manageable. It will just require a redeployment of staff from plan A to plan B." Which of those is it?

Jim Harra: It would be a significant change. It would require changes to our IT systems, which we are currently scoping. It would have resourcing implications for us and other Government agencies, which we are currently scoping as well. We are engaging with business to understand how they would cope with it. It is not the outcome that we will be seeking. It is not the outcome that we expect, but we do have to be prepared for it as an eventuality.

Q538 **Chair:** The UK is in the process of implementing the new Union Customs Code. This is the EU legislation implementing a new system for customs. That has a four-and-a-half-year transitional implementation phase, has it not?

Jim Harra: Yes. Member states have until 2020 to make the full migration to that. We have a programme in place that is already under way—it was under way before the referendum—to make the necessary changes to our policies, our guidance and our IT systems.

Chair: That started at the end of April 2016.

Jim Harra: Yes, that is correct, and in particular that involves us replacing our existing customs system called CHIEF with a new customs declaration service. That is due to come online in early 2019 and, having re-scoped what it is we need to do to cope with whatever comes out of the exit negotiations, fortuitously we think that that new IT platform will help us to deal with that.

Q539 **Chair:** The question I want to get to is, if something like that, which is basically the modernisation of something you are already doing, is going to take four and a half years, why do you think you can handle this shock in virtually no time at all?

Jim Harra: The Union Customs Code is itself a World Trade Organization-compliant customs regime. It contains a number of important trade facilitations that UK trade wanted and that we fought hard over 10 years in the EU to negotiate. Businesses have said that, if we do move to a day-one model when we leave the EU, they would want that to be modelled as closely as possible on the UCC, because it has those benefits in it and also because that is what they are already planning to implement. As we scope that day-one model, we will be looking to see whether we can keep that as close as possible to the UCC, which everyone is already familiar with.

Q540 **Chair:** The answer to my question is really: yes, we can cope. Concertinaing all this is not a problem.

Jim Harra: We certainly believe that we can implement a model on day one that will enable trade to continue. It is not the most desirable outcome. The most desirable outcome is to have an arrangement that gives us more than that. It would mean a significant increase, for example, in the number of customs declarations and that would have an additional cost, both for us to administer it and for businesses to administer it. If we could base it on the existing arrangements, we believe we can get that in place in time. We are in the process of scoping both what would be required and the costs.

Chair: You do not know what the cost is yet.

Jim Harra: We do not at this stage. Obviously a key component of it is our new customs declaration service, which is already funded and we are already building, but there would be further costs on top of that, both in terms of IT change, because there are about 24 other border systems that we operate, and in terms of the resource costs in HMRC and other agencies to administer it.

Q541 **Chair:** The UK could decide not to apply duties to EU imports in this WTO scenario. Although it is not commonly understood, the UK would have to treat all other countries of the world in the same way under the most-favoured-nation rules of the WTO, so this would be unilateral disarmament on trade. Would that obviate the need for customs checks and import and export declarations on UK-EU trade?

Jim Harra: Even tariff-free movement of goods, if they are not in a customs union, would require some kind of customs clearance. You would require declarations. Obviously the fiscal risks are low. In terms of the level of checking etc. that you would expect, if there is no fiscal risk involved, you would not expect that to have the same resource implications as there would be if there were a fiscal risk.

Chair: You would need checks, but they would be dramatically diminished.

Jim Harra: Yes, that would be my view.

Bill Williamson: Good morning, Chair and Committee. Perhaps I could clarify the WTO rules. As Mr Harra has said, under WTO rules, customs declarations would be required, but there is no specification of how those declarations need be made. They need not necessarily be made in written form. They can be made using technology. Under WTO rules, there is no specification on the checking of customs declarations. It is up to national customs authorities to decide upon the level of verification they require for customs declarations.

Q542 **Chair:** If I could just ask one general question—of course I know you will deny this—I have been told that Customs has always been the poor relation in Customs and Excise. In the merger of the Revenue and Customs, the Revenue to some degree treated Customs as the poor relation. That is going to need to be reversed now, isn't it, because customs as an issue has been thrown centre stage with the decision to leave the EU? Isn't that correct, Mr Williams?

Bill Williamson: It is certainly true, Chair, that customs and international trade have suddenly become centre stage. It is also true that of course I would deny that, being the Director of Customs. We have an enviable reputation in the world. The World Bank logistics performance indicator places us as fifth out of 160 countries. We want to be number one, of course. Customs officers in HMRC and Border Force provide an excellent job, and I have always felt that has been fully recognised by HMRC, its predecessor organisation and all of our Whitehall colleagues.

Jim Harra: I would just add there that the department has always maintained an expertise in customs. In the past that expertise has tended to be directed at the EU, because that is where policy was made, and we have had a major impact on the shape of policy there. Since the referendum, there is much more of a national focus on customs policy. It is in part about redirecting our existing expertise at a new set of stakeholders, who are more interested than they previously were.

Q543 **Chair:** You are the most senior man here, I think, Mr Harra, casting no aspersions on Mr Williamson. Just looking at your CV, you too have made your career elsewhere, haven't you? You have made it on the Revenue side.

Jim Harra: Yes, that is right. My background has been largely in direct tax.

Chair: That is a long, long way away from this.

Jim Harra: Yes. I have overall responsibility for all of the department's strategy and policy on direct tax, indirect tax and customs. I have been responsible for customs since 2012.

Q544 **Stephen Hammond:** Good morning, gentlemen. You said, Mr Harra, in your response to the Chairman, that the new CDS is due to come into service in January 2019, yet we saw in the papers earlier this year one of your spokesmen saying it is going to "support any changes to legislation, redesigned business processes," etc. In the same report, another official is reported as saying it is "one of the more horrendous problems". Can you take this opportunity to reassure the Committee that it is going to come online in 2019? Has there been any movement in costs over £71 million, and what extra specifications are you having to make to the system?

Jim Harra: We expect it to come online earlier than that. We expect to have completed the cutover and migration by early 2019, because there will be a period of dual running of our existing system and our new system to enable the trade to make the transition that they need.

Q545 **Stephen Hammond:** How long is that expected to last?

Jim Harra: That is up to a year, so it is from 2018 to 2019—about six months to a year. It is the case, however, that when we were planning this programme it was to enable us to meet our UCC requirements, which we do not have to comply with until 2020. Whilst we were trying to get that in as early as we possibly could, because of the benefits that it offers trade, we always knew that a contingency was that it could be slipped, and that is no longer a contingency following the referendum. We are doing more contingency planning to make sure that, whilst we fully intend to implement that on time and it is currently on track to be implemented on time, we have a decent contingency in the event of any unforeseen issues. It is a high-risk programme. It is recognised as that across government. However, it is on track for delivery to the planned time.

On costs, the last estimate was £71 million over the five-year lifecycle. That has not changed. That is based on the outline business case. There will be a further review by the Major Projects Authority, and I would expect them to do a further report later this year. At the moment, there is no problem with the costs. However, that is its scope—to deliver what we need for UCC. We now need to do further IT changes, both to cope with a day-one model when we leave the EU, in the event that there is no agreement, and also to implement whatever negotiated changes we will hopefully make with the EU. That will involve additional IT change and additional cost, which we are still scoping.

Q546 **Stephen Hammond:** In layman's terms, just so I can understand the last part of your answer, I think the Chancellor told this Committee that he expected customs declarations to rise by as much as 5%, as the consequence of leaving. Are you telling us that it is basically minor specification or major specification changes to the system to cope with that volume of business?

Jim Harra: When the Chancellor appeared before this Committee, he talked about what the consequences might be if the UK moved to WTO rules, as you would describe them. That would be a hard exit with no negotiated customs agreement, where you could foresee a fivefold increase in the number of customs declarations that trade has to make. That is because, at the moment, they do not have to make customs declarations for intra-EU trade. Our current IT system is not scaled to handle that volume of declarations. However, the new customs declaration service would be scaled to deal with that. There would also be other functional changes required for that day-one model.

Q547 **Stephen Hammond:** Where are you in the planning, if we were to have that day-one model necessity for the fivefold increase? How long is that specification upgrade going to take you? It would presumably be included in the review you talked about a moment ago.

Jim Harra: The current timeline for delivering CDS fits with the timeline for leaving the EU, so that does not require adjustment although, as I said, it does require new contingency plans associated with it. The other IT changes are likely to be significantly less major, but they are on a variety of systems, some of which are quite old, so we are currently going through the process of scoping what those are and what they would cost to make sure that they are deliverable within that timeframe. I cannot sit here today and say we have that planned and we are in the process of implementing it. We are actively working it up.

Q548 **Stephen Hammond:** In one of your earlier answers, you said that there would be a review of the business case and that you would do a re-estimate of the costs. Is it possible that, when that review has been done, you can write to the Committee, so that we have some idea of what the cost is going to be for the project, over and above the £71 million?

Jim Harra: Yes, I would certainly look at doing that. At this stage, I do not envisage that there will be any increase in those costs in relation to the existing scope, but obviously—

Stephen Hammond: Sure, but I think we have all agreed that that scope may well have to change.

Jim Harra: Yes, absolutely.

Stephen Hammond: Therefore, it would be very useful to know what change in the cost is directly related to the change in scope.

Jim Harra: Fine—I will take that away.

Q549 **Mr Jacob Rees-Mogg:** Good morning, gentlemen. Could I clarify something on the WTO, please? Perhaps, Mr Williamson, you could help. Am I right in thinking that the WTO allows transition arrangements when deals change?

Bill Williamson: If we were to fall out on a hard Brexit and fall back to WTO rules, of course the UK is a member of the WTO in its own right, but through the EU of course. The schedules are bundled up with the WTO. I am not an expert in this particular area, but I think our expectation would be that the UK would have to have a negotiation with the WTO around membership. There may be adjustments to a number of those schedules, and the EU would have to go through a similar process. I understand there is therefore a process required, which can be a lengthy process, of being able to re-join the WTO and then apply WTO rules. It is very difficult to judge, at this stage, how long that process would be and what the exact arrangements would be.

Q550 **Mr Jacob Rees-Mogg:** The reason for asking is that, if we leave with no agreement, we do not have to put 70% tariffs on Irish beef the next morning. That will become part of a discussion at the WTO, as we move to having the same tariffs for everybody on an MFN basis.

Bill Williamson: I am sure it would form part of the negotiation.

Mr Jacob Rees-Mogg: That is quite important, because it means that, on day one, it is in our hands as to what we do. We will be within WTO rules if we maintain the existing system for EU imports as we have those discussions.

Bill Williamson: There is a negotiated position where nothing changes, even if the negotiations with the WTO have not been finalised. That would be part of that discussion.

Q551 **Mr Jacob Rees-Mogg:** That is very important. In many ways, we are still discussing this as if we are still in the EU and we have to follow what the EU is saying whereas, in fact, it is going to be entirely up to us. The level of customs inspections that we have, not just on EU goods but on non-EU goods, will be an entirely domestic competence. If we want to have a very light touch on everybody, that would be up to us. It will be easier, rather than more complicated.

Bill Williamson: That would be entirely up to us. It is probably worth saying now to the Committee that the way we approach our customs work is to be the most facilitative customs authority we can be. Some 96% of all customs declarations are cleared within seconds, without any intervention from us. That is an approach that we would of course want to continue in any new customs system.

Mr Jacob Rees-Mogg: Most non-EU deliveries, at least by ship, are cleared before they land.

Bill Williamson: At the moment, of course, there are no controls at all on intra-EU.

Mr Jacob Rees-Mogg: Yes, for EU, but non-EU deliveries are by and large cleared while they are still at sea.

Bill Williamson: Non-EU customs declarations are required. They can be pre-lodged before the goods have arrived. They are cleared on arrival, but they are cleared electronically and, as I say, they are cleared in seconds.

Q552 **Mr Jacob Rees-Mogg:** The increase in staff that is proposed and the huge increase in the number of declarations that have to be made is something that we would have to volunteer to impose on goods coming in.

Jim Harra: There is certainly no direct correlation between any increase in the volume of customs declarations and an increase in the resources needed to administer the customs system. First of all, the checks are risk-based. In many cases, for example, you may have an existing trader who makes declarations to us only in relation to their non-EU trade. We would devote a certain amount of resource to checking their compliance. In the future, the same trader will be making a larger number of declarations to us, but that does not mean that we need to increase the resources to monitor their compliance. It will be for the UK to choose how much additional resource it wants to deploy on a risk basis.

Q553 **Mr Jacob Rees-Mogg:** Then there are revenue protection issues, and again they would in our hands. The biggest ones will remain on imports of alcohol and tobacco, and the things that have particularly high levels of duty on them.

Jim Harra: There are three sources of border revenues. By far the largest is import VAT. The second largest is excise currently. Customs duty is the smallest of the three. Of course, 80% of that currently goes to the EU in any event, but that is less than 10% of the total border revenues that we already collect.

Q554 **Mr Jacob Rees-Mogg:** It therefore seems as if a lot of the conversation that we have had so far has been too negative. It has been about the cliff edge leading to great problems and uncertainty, but it does not, does it? Under the Great Repeal Bill, everything remains the same until it is changed. Therefore, at the point at which we leave, under the Great Repeal Bill, all existing EU law will be UK law, all the customs checks will remain the same and all the duties will remain the same until the UK Government unilaterally decide, in discussion with the WTO, to change them.

Jim Harra: That is the broad approach to exiting right across the piece. I would expect a similar approach to be applied in relation to customs. The Government did say in the White Paper that they published last week that they expect to bring forward a Customs Bill specifically, because of the policy changes that may have to be made from day one, which Parliament will want to scrutinise. As I have said, however, the clear request from business is that that, as much as possible, follows the existing model, and that would be how we would expect to approach it.

Q555 **Mr Jacob Rees-Mogg:** To what extent do you think it is possible to reduce what is done on non-EU imports closer to the level of what is done on EU imports, rather than doing it the other way around? That is to say, if you had a free hand and our checks on non-EU imports were not agreed at the European level, how much do you think you could get rid of to make it even easier than it is currently?

Jim Harra: Even now within the EU, whilst there is a common tariff, each member state gets to administer its own customs and makes its own decisions about how many checks are required. The UK has one of the more facilitative customs authorities in the EU, which is why we rank fifth in the world, so we already have considerable choice there. You are right; we could have more choice in the future. Our aim would always be to do this on a risk basis, because the key thing is to keep trade moving smoothly and only to intervene where it is necessary to intervene.

Q556 **Mr Jacob Rees-Mogg:** Is this in some sense helpful? Are there currently risks from goods that come in from the European Union that you find it hard to take action against, because of EU regulations, but where you might be able to make our borders more secure for certain purposes if you had a free hand?

Jim Harra: That is potentially the case. There are no routine customs controls on the movement of goods, including the provision of declarations beforehand, so we are reliant on other means of obtaining intelligence and information about what is crossing the border. Obviously we now use that to manage in particular excise risks and security risks. We do risk-based checks on things crossing from the EU into the UK, but that is done on the basis of less information and less formally required information than would be the case under customs.

Q557 **Mr Jacob Rees-Mogg:** You are quite constrained in a sense in that, if you check a batch of things imported from Brazil, you turn out to be wrong and it is all fine, there is no comeback for the importer. You are completely entitled to do that. Whereas, if it has come from Holland and you do not find something suspicious that you are looking for, they can say that you are in breach of EU regulations and you should not have held this up.

Jim Harra: In theory, they could if we did not have a good excuse for stopping them. All checks on goods moving within the EU have to be on a risk basis, so you have to have a genuine reason for why you have decided to look at that. If an importer felt that we did not have that then, yes, they could take action.

Q558 **Mr Jacob Rees-Mogg:** Overall, we could make this even more efficient. We could have better risk-based checks on goods coming in from the European Union where we think there are problems and you can do it with the same amount of staff, because it is risk-based and you are very efficient. This sounds terrific. This is an advert for Brexit.

Jim Harra: You have put as rosy a view on that as you possibly could. Your basic premise is right that we would be looking to be as facilitative as we possibly could. We would be looking to see whether the UK can make further facilitative changes that we did not get under the Union

Customs Code but that we know UK trade would have liked. In any event, we would be risk-based in our checks, because that is our existing policy. When it comes to staffing levels, there is some routine processing that has to be done and there are some risk-based checks where you can make choices about where you set your risk appetite. It would be for Government to do the value-for-money trade-off on that.

Mr Jacob Rees-Mogg: Thank you. I am just going to finish by saying that I had a meeting with a ports company, which confirmed the efficiency that you are claiming and was very impressed with how efficient HMRC is at clearing things in seconds and not creating delays on non-EU goods. Although we would expect you to say you are efficient, I have also heard this from independent sources.

Bill Williamson: Thank you very much for that.

Jim Harra: That is good to hear.

Q559 **Chair:** Mr Harra, you mentioned the White Paper a moment ago. Did you see the White Paper in draft?

Jim Harra: Yes, the department had an opportunity to see it.

Q560 **Chair:** Did you draft any of it?

Jim Harra: I personally did not draft any of it.

Q561 **Chair:** Did anybody in Customs draft any of it?

Jim Harra: I would need to check that. We certainly would have commented on the elements of it to do with customs.

Q562 **Chair:** You did not produce the first draft, on the basis of which discussions subsequently took place. You were commenting on a draft that was relatively fully formed.

Jim Harra: I am not sure whether that is the case or not. I would need to check with my customs team. I know that we had an opportunity to review what was in the White Paper.

Q563 **Chair:** Yes, I heard you in your answer to the previous question. I would be grateful if you could tell me where this originated, in as much detail as you can.

Jim Harra: Okay. HM Revenue and Customs is completely signed up to what the White Paper says in relation to customs.

Q564 **Chair:** I am sure, and I was not implying anything else in my questions. I was only asking about its provenance, at this stage, but I will move on. I note that it says at the beginning of chapter 8 that the Government will pursue a new strategic partnership and that that includes a new customs agreement. What do you understand is meant by the word "agreement"?

Jim Harra: I go back to what I said before. There are three strands of activity that we are pursuing. One is to reach a new customs agreement with the EU for the future. The second is to understand how long it will take to implement that and what kind of interim arrangements we will need to keep trade flowing while we do that. The third is to be prepared for there being no customs agreement with the EU and no transitional arrangements. We do not have a preconceived idea of what that customs agreement should look like—that will obviously be the subject of negotiation—or whether it would be a freestanding agreement or a chapter of a wider trade agreement with the EU. That is something the Government will obviously settle, in terms of their negotiating position, but also enter into negotiation to achieve.

Chair: You are clear that the Government are seeking a bespoke customs agreement.

Jim Harra: Yes, that is the aim.

Q565 **Chair:** It is a negotiated deal, whether it becomes a treaty or a separate chapter, but certainly an agreement—a specific agreement—not just leaving the customs union without replacing it with anything.

Jim Harra: Absolutely, the UK will leave the common external tariff and it will leave the common commercial policy, so that it can negotiate its own trade agreements, including with the EU, but it will want to have the best possible customs agreement with the EU that enables trade between our borders to move as smoothly as possible. For example, I would expect us in a customs agreement to want to replicate the kind of information flows that we have now between EU member states, which assist that smooth movement and assist the risk assessment. We want to keep the facilitation of mutual recognition of each other's trusted traders, for example.

Q566 **Chair:** When I get into the text—this is paragraph 8.45 and the following paragraphs—we lose any sense of detail, don't we? Motherhood and apple pie is on full view here. "The UK will seek a new customs arrangement"—an "arrangement" and not an "agreement". We have already dropped back to an arrangement. "The UK will seek a new customs arrangement with the EU, which enables us to make the most of the opportunities from trade with others and from trade between the UK and the EU." Then we move on to 8.48: "We will also look to ensure that the UK's own customs systems and processes continue to be as effective as possible." If you were to put in a negative—"we will look to ensure they will be as ineffective as possible"—you can see the absurdity of writing such a sentence. The next paragraph is, "We are also aware of the specific circumstances faced by businesses in Northern Ireland." Then it goes on, "We are committed to negotiating a deal that works". In the next paragraph, "We will want to work closely together with the Irish Government to ensure that, as the UK leaves the EU, we find shared solutions to the challenges." It is unlikely that we would not try to do that, isn't it? We have not really found out very much about these customs arrangements or agreements. Indeed, we do not even know whether it is an arrangement or an agreement, do we? You have said that it was an agreement, but it could be only an informal arrangement.

Jim Harra: Either way, it would have to be agreed with the EU. What that does is set out quite clearly the objective that we want to achieve through the negotiation. This is a unique, unprecedented situation. Normally when you are reaching agreements with other countries on customs, you are trying to bring two divergent systems closer together. Here we have a very integrated system.

Chair: Here we have the advantage that we are starting with a high degree of convergence.

Jim Harra: We will be looking for areas of mutual interest where you will not want to lose that.

Q567 **Kit Malthouse:** Good morning. I just wanted to ask you a bit about some of the practicalities on the ground and what might change at some of the ports. I think you said, Mr Harra, that the Chancellor said there would be a fivefold increase in customs declarations. Is that right?

Jim Harra: The Chancellor said that, in the event that we had a hard exit and did not have any negotiated transitional arrangements or a new agreement, and moved to those WTO rules, you could foresee a fivefold increase in declarations. That is the basis on which we have planned for that eventuality.

Q568 **Kit Malthouse:** On that assumption, what practically would change, say at Dover?

Jim Harra: About 99% of all the declarations that we receive are received electronically, so there is no physical paper for anyone to hand over at the border. As Bill mentioned, 96% of those are cleared electronically within seconds, so they can lodged before the goods arrive in the UK. When it is confirmed to us that the goods have now been presented to the UK, they are cleared within seconds, so there is only 4% subject to checks. The vast bulk of those checks are documentary checks. They do not require anyone to physically check the goods.

Q569 **Kit Malthouse:** Sorry to interrupt, but you say that when the goods are presented they are cleared. Forgive me; I do not really understand how it works. The lorry rolls off the ferry at Dover. It rolls up to the checkpoint.

Jim Harra: It effectively means that we have had electronic confirmation that the goods have now docked in the UK. Within seconds the system will say, "That is fine; they are all cleared."

Q570 **Kit Malthouse:** The lorry does not even have to stop. It rolls straight off the ferry, straight into the UK.

Jim Harra: Correct, because the goods are all cleared.

Q571 **Kit Malthouse:** What you are saying at the moment is that for around 90% of trade from the EU, the only change would be an electronic notification made before the goods come.

Jim Harra: Correct, it would be lodged before the goods come and cleared at the point where they dock in the UK. We currently carry out checks on a risk basis on about 4% of declarations, but the vast majority of those are documentary checks. Again, they can be done electronically. We have clearance standards at the moment of between two and three hours, depending on the mode of transport, so there is only a very small number that are subject to physical checks. Of course, in ports like Dover, at the moment the vast bulk of the trade that comes through there is intra-EU trade and there are no customs declarations at all. There are already checks done on a risk basis for excise and other risks, so this would just be another risk to build in.

I am not saying that there would not be an impact on the port of Dover, and we would need to work that through with that port and other ports, but there are already physical checks done there on a proportion of goods.

Q572 **Kit Malthouse:** I know it sounds a bit odd but, even if there were milliseconds' or a couple of seconds' more delay, that builds up over time, but you do not see that being a practical difficulty. Would you need, for instance, more space to do more inspections?

Jim Harra: We are already engaging with the ports to understand what the impacts on them might be and what their requirements on us will be to make sure that trade moves smoothly. Roll-on roll-off ports like Dover are a key priority for us, because we know that the majority of the trade that currently flows there does not touch the customs system. We will be aiming to make sure that what we build can cope with the way those ports work and that the ports can cope with any adjustments that we need them to make. That all needs to be worked through with them. As I say, there are already a small number of physical checks done on those ports. There is only a small number of physical checks required by our customs controls. It is all risk-based and subject to our own decisions about what we want to do, so we just need to find a way through that.

Q573 **Kit Malthouse:** As my colleague Mr Rees-Mogg said that is fundamentally our decision. If we wanted to build another car park or another lorry park to double the number of inspections, it would be for us decide, on a risk basis, whether we want to or not.

Jim Harra: Yes, as indeed it pretty much would be now. Even now the checks are risk-based. While we are in the EU, if we decided that the risk had increased or our risk appetite had decreased, we could do that now. Certainly the main requirement when we leave the EU would be the submission and clearance of customs declarations, but not any particular types of checks or stops.

Q574 **Kit Malthouse:** Do you anticipate that the greater access to information might lead you to inspect more for contraband guns, drugs or illegal immigrants?

Jim Harra: I think possibly the opposite would be our aim. Where we have imperfect information, what we end up doing is intervening in loads that ideally we would have liked to clear, because there was nothing in them. Our aim is always to get the best possible information that enables us to target our checks only on those consignments that need to be checked. One of the reasons why we are constantly improving that information is to enable the trade to move even more smoothly.

Q575 **Kit Malthouse:** At the moment then, you have no anticipation that you will need more space at Dover. There is no anticipation that there will be any significant delay. For around 90% of the trade, nothing will change practically on the ground. In fact, it might get better, because you will have better information, so could do fewer inspections.

Jim Harra: It will certainly be our aim that there is no disruption at that port or at any other port, but we have to work through with each port exactly what we think is going to happen, in particular because it is a new experience in most roll-on roll-off ports, so we cannot guarantee that there will not have to be some changes at those ports to accommodate this. Our aim will be to try to keep the disruption to an absolute minimum or zero if we can.

Q576 **Kit Malthouse:** The reason I ask is that you have this trade group of the Joint Customs Consultative Committee, which put out a paper before the referendum doing the usual, "It could be a disaster. There could be major disruption at the ports. Everything could grind to a halt." That has changed somewhat, has it?

Jim Harra: There is still uncertainty and businesses will worry about that uncertainty until we can close it. We are not in a position to close it at the moment. What has changed is the UK has voted to leave the European Union. We have to make that work, and we are going through what it is that we need to make that work against a firm objective that trade moves smoothly.

Q577 **Kit Malthouse:** Forgive me, but it seemed rather a Project Fear proposal. Now what we are hearing is relatively benign. Effectively, we were told before the referendum that Dover would grind to a halt and now you are saying the truth is that it is going to be fine.

Jim Harra: I do not want to come over as complacent, but it is our determination that it will not grind to a halt, and that is what we will do.

Q578 **Kit Malthouse:** There is a Brexit sub-group of this committee. Is it going to publish its thinking and findings as we go?

Jim Harra: Bill chairs the committee, so I will ask Bill to answer.

Bill Williamson: I am very glad that you mentioned the JCCC. They have been a group with us since 1969 and we pride ourselves on our consultation with business. It has many sub-groups, one on the UCC that worked closely with us over nine years of negotiation, so we certainly take on board the diverse views of business interests, logistics operators and everyone in the international trade network.

The Brexit sub-group is a new group. I believe it has met twice now. We are very much in listening mode at the moment with businesses, understanding what their issues and concerns are. We not yet in the mode of formulating precise solutions with them but, once we have got the group up and running, and we are able to talk more openly with business about our plans, we will be publishing the minutes of those Brexit sub-group meetings.

Q579 **Kit Malthouse:** I think we would be interested in seeing them. Finally from me, slightly off the subject, I just wanted to ask about the practicalities of the WTO that you mentioned. I think you said that there would be a reapplication process or negotiation required to get us back on to a level footing with the WTO when we leave. I think you said that there would be a year or two-year period to get that sorted out. Do you think it would be sensible for us to start that now? In any circumstance, we will be a standalone member of the WTO.

Jim Harra: As I said, we are doing contingency planning for that day-one possibility that there is no negotiated exit from the EU. One of the strands of that must be to look at what WTO schedules we would want to put in place, as soon as we possibly can. Again, like the other aspects of this project, I would expect there to be twin tracks here.

Q580 **Kit Malthouse:** In the same way we are not precluded from negotiating a trade deal with somebody else because of our membership with the EU for the next two years, we are not precluded from talking to the WTO about our membership commencing the day after we leave the EU, in all its glory.

Jim Harra: I am not aware that we are. We have not started anything formal at this stage but, as part of the scoping of that, we would be looking at what kinds of schedules we can put in place and we would be wanting to have a dialogue on that. Once Article 50 has been triggered, we are really in a different position in terms of what negotiations can get under way.

Q581 **Kit Malthouse:** Say for instance we got to the point when we left the EU and we had not quite got our ducks in a row on the WTO, what would our status be? Would we be members and therefore avail ourselves of the protections of the WTO against dumping and all that kind of stuff or would we have to wait until we regularise things?

Jim Harra: Our view is that the UK is a member of the WTO, but we do not have UK-specific schedules with them, because we are part of the EU customs union. That all needs to be unpicked and replaced, but the UK is a member of the WTO.

Q582 **George Kerevan:** Good morning, gentlemen. Post-Brexit and with the possibility of the UK leaving the EU customs union, what new border controls will be required to police customs and excise across the Irish border?

Jim Harra: That is a matter for the negotiation with the EU. The aim is that we will have as frictionless as possible movement of both people and goods across the Irish border. Both the Irish Government and the UK Government are committed to that, and indeed the EU Commission and the EU's main negotiator have said that they are also committed to that.

Q583 **George Kerevan:** Giving that you are giving technical evidence, there will be border controls, which is different from posts, so I just want you to specify what the likely border controls will comprise and what we need to do to implement them.

Jim Harra: There are in fact already-existing border controls, although they are not physically visible at the border. Excise and VAT is a border revenue that is collected on movements both ways across the Irish border, and we and the Irish currently administer that, without that in any way disrupting the movement of people or goods. We would aim to replicate that in any customs arrangements that are put in place. If you take that worst-case scenario that we have been describing, which is that there is no agreement between the UK and the EU about customs, there would be customs declarations required for movements of goods. However, as I have said, 99% of those are done electronically; they are not presented physically, and 96% are cleared electronically within seconds. We would not at all want to put that in place, but that gives an example of how you can manage the border without physical controls.

Q584 **George Kerevan:** Would that require new technology to be purchased and managed?

Jim Harra: It depends on the businesses. If businesses are currently not operating customs, they would have to, for example, buy some software and prepare to do that, but that is not what we would be aiming to put in place. In terms of the controls that we would then require on the ground, it comes back to what Mr Rees-Mogg said earlier, which is that countries have their own discretion about what kinds of checks they carry out and where they carry them out. The UK would have complete sovereignty over that. Ireland would still be part of the European customs union and would be subject to its requirements but, even now within the customs union, there is considerable leeway for customs authorities to decide on the level of checks they need.

Q585 **George Kerevan:** Have you had discussions with the Irish customs authority?

Jim Harra: Negotiations have not begun with anyone. As you would expect we, and in particular Bill, have regular day-to-day engagement with our counterparts in Ireland and other countries. We are all fully aware of the issues that we are grappling with and the work that both sides are doing.

Q586 **George Kerevan:** I appreciate that you wish to make it as seamless and simple as possible, but the Committee is interested in just trying to get a bit more of the nuts and bolts. Will you need new technology? Will you need new staff to make these border controls work?

Jim Harra: It is too early to say. It is possible that new technologies might be deployable to help to make this seamless. We are looking at that, but it is too early to say what would work.

Q587 **George Kerevan:** What kinds of technologies are they?

Jim Harra: For example, the big change that we made some time ago is obviously electronic declarations. There are other technologies you can put in place that mean that, if you need to do checks or if you think that there is a risk, you can manage that away from the border. Those are all being explored. It is a bit like Dover: we know it is not an easy nut to crack, but we know what it is we have to achieve and we are working to achieve that.

Q588 **George Kerevan:** Dover is a single point of entry. You know where they are coming off the boat and you have your offices. We are talking about a large open border with all the political baggage that we have from the past. Will you need number-plate recognition of vehicles, for instance? I am just trying to get a handle on what kind of technology you are discussing.

Jim Harra: That is one instance of the type of technology that you can deploy that enables you to manage risks away from the border, for example, and therefore would potentially remove the need for any fixed border post checking vehicles or checking goods. It is the kind of example of things that we would be exploring. We want to keep the regulation there at a minimum. To the extent that there is regulation, we want the administration to use the most effective ways to keep that border open and keep everybody flowing seamlessly.

Q589 **George Kerevan:** I appreciate all the management buzzwords. When will we know in harder detail the cost implications and staff implications of the new border controls?

Jim Harra: In relation to Ireland, that will be some way off, because it depends on the negotiation at EU level. What falls out of that will then drive what further measures we might decide that we need to take unilaterally, in relation to that border specifically. It will be some time off. The commitment is there and the ideas of how you might achieve it are there, but we have not begun negotiations and we have not worked those up so, at this stage, we cannot say what it is we are going to do.

Q590 **George Kerevan:** Do you have a team in place looking at those border controls? Have there been discussions with the Northern Ireland Government?

Jim Harra: Yes, there have been discussions. Ministers have standing discussions with all the devolved Governments, including Northern Ireland.

Q591 **George Kerevan:** Are there discussions at your technical level?

Jim Harra: No, they have not begun at the technical level. That involves the negotiations having got under way and us having rules of engagement. The customs authorities in Ireland, the UK, France and other areas are all working on what it is we might need. We are all well aware of what the others are doing and their analysis. We will all, at some point, have to come together, share our thinking and come to common solutions, but now is not the point when you start that.

Q592 **George Kerevan:** Will that wait until after Article 50 has been agreed? When does this process of getting the nuts and bolts sorted out happen?

Jim Harra: The formal negotiations would begin after Article 50 has been triggered. That will make it easier to understand what level of bilateral and multilateral engagement we need formally. In the meantime, everyone is working to get their ideas in place and to make sure we have a common set of objectives and a common analysis.

Q593 **George Kerevan:** Given that we are currently in the EU and you have been operating under the Union Customs Code, the major rules are made centrally by the EU on customs. Even though the UK would be free to apply what tariffs and what rules it wished, the rules on the other side of the border in the Republic would still be determined centrally by the EU. On the Irish side of the border, they are going to have to implement the kinds of customs and excise procedures that are common to all the exterior borders of the EU.

Jim Harra: They potentially are, but that is subject to negotiation. It does mean that this negotiation has to be with the EU and it cannot simply be a bilateral negotiation.

Q594 **George Kerevan:** I take at face value what Ministers in the UK and Ireland have said about wanting as soft a border as possible, when it comes to trade. That is not within the give and take of simply the Irish Government and UK Government. Ultimately, the decision on how hard or soft the border is has to be agreed with the EU.

Jim Harra: Yes, it is a key part of that negotiation.

Q595 **George Kerevan:** Even if we negotiated some form of preferential free trade arrangement with the EU, the very fact of coming out of the EU would still raise the issue of countries of origin, when it comes to the movement of goods. Even with a free trade arrangement of some kind, can you confirm that we would still need some form of border controls in order to police countries of origin?

Jim Harra: You would need customs controls, but those controls need not be at the border. As I have said, the vast bulk of our customs control is not done at the border. It is done in the cloud, if you like.

Q596 **George Kerevan:** I appreciate that, but I think that you said that, on a risk basis at the Dover end at the moment, you are checking on 5% of movements.

Jim Harra: It is possibly a bit less than that, but there is a certain level of checking done at Dover at the moment that is higher than the level of physical checking that we do on customs work alone.

Q597 **George Kerevan:** On that basis, there will be spot checks on the movement of goods on the Irish border.

Jim Harra: First of all, our aim more generally is not to do spot checks at all. They are all risk-based.

George Kerevan: There will be no spot checks.

Jim Harra: That is not our policy at the moment generally. We do risk-based checks. If our intelligence tells us that there is a risk in relation to a consignment, whether a revenue risk or some other risk, then HMRC, Border Force or another agency may intervene. They may do that at the border or they may do that away from the border.

George Kerevan: I am almost finished here. Possibly it is my naivety in using the terminology, but there will be a degree of physical checking.

Jim Harra: Potentially.

Q598 **George Kerevan:** Will you therefore require an agreement with the Irish Government that the physical checks can take place either side of the border and that you would need the ability to cross the border when it came to checks?

Jim Harra: That is not in my mind at the moment. Obviously I cannot rule anything out of the negotiation, but I would be surprised if that features in it. We already manage fiscal risks across the Irish border now, for example in relation to excise. We have excellent co-operation with the Irish authorities to enable us and them to do that. That involves both joint operations and swapping intelligence, but it does not currently involve either of us crossing the other's border.

Q599 **George Kerevan:** There would have to be co-operation between the customs organisations on both sides of the border in order to ensure that there could be physical compliance checks.

Jim Harra: That kind of co-operation is already excellent between the customs authorities within the EU, but also exists between customs authorities more widely.

Bill Williamson: It may be worth just saying something about rules of origin to the Committee in how we deal with the rest of the world. Of course, countries from the rest of the world have to apply rules of origin until goods enter the customs union. At the moment, rules of origin are dealt with through the customs declaration and, as we have said earlier, 96% of electronic declarations are cleared within seconds. We only ask for an original certificate of origin by exception and, in many cases, we do that behind the border. We have post-clearance audit teams that will visit traders' premises to see certificates of origin and, at the point of importation, will take the full amount of duty to protect the revenue. Our philosophy is to do as much as we can behind the border on fiscal controls and rules-of-origin checks, and to deal with as much as we can electronically.

Chair: George, I cannot imagine why you are taking such a close interest in Irish affairs these days.

George Kerevan: My family is from Monaghan; we lived with the border for 100 years.

Chair: We can only guess. Rachel.

Q600 **Rachel Reeves:** Thank you, gentlemen, for coming to give evidence today. Can I just be clear? Can I just try to get some clarity on some of the answers that you have given to others, particularly to Mr Rees-Mogg, this morning? Is it your contention that, if we leave the customs union and we have the same rules for EU and non-EU imports, there would be no additional resources needed for HMRC, in terms of IT or people to administer the new regime?

Jim Harra: No, that would not be my view. In that scenario where there is effectively no agreement with the EU in relation to customs, we would certainly have to make IT changes, and those are the IT changes that we are currently scoping, some of which we are fortuitously already funded to do and are already under way for other reasons, but others of which are not. It is likely that we would need additional resources, both in HMRC and Border Force, to deal with the increased volumes, for example of processing. What I did say, however, is that there is no direct correlation between the scale of the increase in declarations and the scale of the increase in resources that would be required. But, no; I would envisage that there will be additional costs to administer customs, both one-off on IT development and ongoing on resources, in that scenario.

Q601 **Rachel Reeves:** What sort of order of magnitude are you talking about then, Mr Harra?

Jim Harra: We cannot say that at the moment, in part because it would depend on an analysis of the risk and an analysis of the trade-off that we want to make. There are really three factors that customs is here to do: We are here to protect the security of the UK, in terms of what crosses our borders; we are here to collect the border revenues; and we are here to help trade flow. There is a trade-off between those three things, and it depends on where you make that trade-off, what the nature of the risks is, how good our arrangements continue to be with the EU, in terms of exchanging information and intelligence, and what solutions we can produce. We would envisage that we would have to ramp up resources just to deal with routine processing, never mind anything else.

Q602 **Rachel Reeves:** There is a cost then. HMRC would require more resources, both up front in terms of IT and ongoing, in terms of additional people to police whatever the new arrangements are.

Jim Harra: Yes, and no decision has yet been taken on what they would be.

Q603 **Rachel Reeves:** Thank you very much, and what about the cost for business? Is it a case of just buying additional software? Obviously you are talking about having to log, whether from a cloud, at the border or wherever. European exporters that are importing into this country will have paperwork of some sort, either online or physical, which they did not have to do before, so will there be a cost of business as well to the arrangements?

Jim Harra: Yes, there is an administration burden cost on businesses to complete customs declarations. Those vary depending on the nature of the business and the nature of the goods. If we see an increase in the number of declarations, you would expect that to translate into an additional admin burden on businesses. Businesses fall into two groups there. There are those businesses that already trade beyond the EU and therefore are already familiar with customs processes but may have to apply them to a wider range of the goods that they deal in, but there will be other probably smaller businesses that currently trade within the EU but not beyond the EU, so customs declarations would be a new thing for them that they would need to take on board.

Q604 **Rachel Reeves:** Businesses would either face an increase in costs, because they have to have bureaucracy that did not exist previously, or they would decide not to trade because the costs are too great.

Jim Harra: In the scenario you describe where there is no customs agreement that mitigates that, it would be inevitable that an increase in declarations will mean an increase in admin costs, and businesses will make economic decisions based on that. Most businesses currently outsource the job of customs compliance to freight forwarders. Many of those businesses will already be using those freight forwarders to manage their logistics, so it would be a matter of acquiring an additional service from their forwarding agent, who may or may not charge an additional amount for that service.

Q605 **Rachel Reeves:** Thank you. A couple of weeks ago in front of this Committee, we had representatives from the Society of Motor Manufacturers and Traders, and Airbus, and they expressed quite serious concerns about customs controls and the impact they would have on the supply chain. What both of you have said this morning suggests that some of those concerns are unfounded and that it will be pretty much business as usual, in terms of the procedures that you would apply. Do you think that they have missed something? Are they wrong to be concerned? Could you give them assurances that they will not see their supply chains disrupted?

Jim Harra: I do not think they are wrong to be concerned. We are in a period of uncertainty. Businesses can obviously see risks to them from this change, as well as opportunities. The risks in particular in the motor industry and probably in the aerospace industry would come from managing their integrated supply chains, which cross borders, and making sure that their components can all move smoothly and at minimum cost. It is understandable that businesses are concerned because of the uncertainty and because of the potential cost risks, in terms of admin burden.

Our engagement with trade in all sectors is excellent. We fully understand their concerns. We know what our objective must be in terms of managing them, and our task is to make sure that those concerns do not get realised.

Q606 **Rachel Reeves:** Is it not part of the problem that these negotiations are going to require deals to be done between us and 27 other countries, essentially? Just because we decide that this is the outcome that we would like most, with these minimal barriers and the other scenarios that you have taken us through this morning, if we were to have this light-touch regime, with not much change even though we have left the EU, we would require other countries within the EU to have the same rules when it comes to our exports to their countries. I know that Mr Rees-Mogg and Mr Malthouse would be in favour of us unilaterally declaring no tariffs and all the rest of it, but I do not expect many of our exporters would be so keen on that—if German manufacturers can export to us tariff-free, but we do not have the same rights to access their market. Is the same not true with the customs arrangement—that we are only going to have these light-touch customs checks if we have mutual agreement with our European counterparts?

Jim Harra: Potentially, but some of what you covered there was really about trade policy, rather than customs administration, so it is not my area.

Q607 **Rachel Reeves:** You can focus specifically on the customs checks then. Politically, do you not think they would require mutual agreement?

Jim Harra: The commitment is to seek a mutual agreement that is mutually beneficial to the UK and its traders and to EU member states and their traders. In the event that agreement cannot be reached, the UK will have to make the unilateral decisions that are in its best interests and the best interests of its trade. The key priority there is to keep our trade flowing and keep our supply chains protected, but the full expectation is that there will be mutual benefit in protecting supply chains and protecting trade between the UK and the EU, and that is why we would be seeking an agreement with them on customs matters, as well as on trade matters.

Q608 **Rachel Reeves:** You think it is likely that the scenario that you have played out to us this morning, Mr Harra, will only be realised if our European counterparties take a similar attitude towards customs checks.

Jim Harra: This goes back to those parallel strands that I talked about. There is one strand, which is that we want to negotiate an agreement with the EU that is in our interests and theirs, which we believe we can achieve, but the Prime Minister has said that no deal is better than a bad deal here. We have to be prepared for the eventuality that there is no agreement with the EU and so, on a second track, we are preparing for that. You will see the department planning for implementation of a set of measures that are not the measures that the UK Government are seeking to negotiate but that we need to be ready to implement in the event that a negotiation is not successful.

Q609 **Rachel Reeves:** If there were to be no deal, of course we could unilaterally decide to do minimal checks, but we would get no reciprocity from other countries if they took a different approach. This whole thing could break down without that mutual understanding and agreement.

Jim Harra: Obviously reaching an agreement is definitely the preferred position and is indeed the Government's policy for that reason.

Q610 **Helen Goodman:** It is very good to see you this morning. I just want to touch on the issue of the WTO schedules and the way they work. I know that the trade policy is not your responsibility, but I think it interacts so closely with what you do, so I just want to ask you a couple more questions about this. My understanding is that, particularly in agriculture, the schedules that we have with third countries allow for agreements not just about tariffs that are charged but a combination of volume and tariff schedules. To give a simple example, when it comes to importing lamb to the European Union from New Zealand, a certain tonnage is allowed and then, above that, a tariff is paid. Mr Rees-Mogg was fondly imagining that we could simply translate the tariff into UK law using the Great Repeal Bill. Will there not have to be a negotiation with the other European countries about what the UK's share of the tariff-free volume of the imports is going to be?

Jim Harra: I will let Bill pick that up in a moment with more detail, but you are right that, at the moment, quotas are effectively at EU level. One of the issues for exiting the EU is how you unpick the UK's share of those quotas and the remaining EU's share of those quotas.

Q611 **Helen Goodman:** The opening position of the other Europeans is that "You are 15% of the population; you can have 15% of the free lamb." Our opening position will be: "We are the ones who eat all this New Zealand lamb; we want half the quota," or something.

Jim Harra: You can join our negotiating team.

Helen Goodman: I am caricaturing, but it will be something like that.

Jim Harra: I cannot say how the negotiations will go, but it is clearly an area of unpicking that I described. Once we are members of the WTO, our schedules are at the EU level, so it is not just tariffs. You are right—it is quotas.

Bill Williamson: I cannot really add much more to what Mr Harra said. I would have to come back to you having talked to our trade department colleagues. As you say, it is not quite as straightforward. Tariff quotas will be a key area of the negotiations and, particularly in the agricultural area, are clearly one of the most sensitive areas of the negotiations that we have to work through as part of that renegotiation of schedules.

Jim Harra: Can I just add that there has been some discussion on transition as well? The way quotas work at the moment is really on a first come, first served basis across the EU, and then the EU systems speak to each other and tell each other every day how much quota is left. That is an arrangement that you could envisage we would continue for some time, by agreement, while you negotiate what the quotas would be. You are back to those three scenarios: what is the ultimate goal that we want to negotiate? What are the transitional arrangements that we want to retain? And what would be your day-one model, in the event that you cannot reach that agreement?

Q612 **Helen Goodman:** Are you conscious of the fact that, on 5 December, the Department for International Trade issued a written ministerial statement saying that they were opening discussions with the WTO?

Bill Williamson: I was not aware of that.

Q613 **Helen Goodman:** This came to my attention because our ambassador in Geneva wrote a blog on the internet, and what he was saying was, "We want to smooth the transition," and the Prime Minister has said a lot about smoothing the transition. Clearly our current membership of the WTO is not just something that we can unlock and use straightforwardly. Is that a fair assessment? How would you describe the situation, Mr Williamson?

Bill Williamson: That is my understanding. While we remain a member in our own right, because we have an integrated cross-EU set of schedules, we would have to unpick those, as Mr Harra has said. That process of unpicking is something that has to be negotiated across all WTO members and agreed. That is the likely outcome of those discussions. The EU would have to do the same and, as you say, quotas are going to be part of that.

Q614 **Helen Goodman:** Most of the discussion this morning has been about the things that you have under your control, namely the level of controls that we put on imports coming into this country. I have a lot of manufacturing in my constituency and, when I talk to exporters, their anxiety is more about the controls that might be put on them as exporters, rather than as importers. That is not under your control, is it, except through a process of negotiation over the next several months?

Bill Williamson: It is also a process of working across other government departments that have a common interest in the outcome of international trade and the operation of border controls, which we are currently doing. We are working across other government departments and talking to other government departments about their planning and proposals.

Q615 **Helen Goodman:** Pursuing this a little further, I wonder if you could say something about the discussions you have had with Defra. We can all remember arguments about the export of live animals and about cauliflower mountains being dumped in the roads in France. What sort of contingency planning can you make, in case the other European countries with large agricultural sectors decide to take a more aggressive stance on food, where you have animal welfare issues and you have this problem that stuff goes rotten before it can reach the final destination?

Jim Harra: It is a bit beyond our remit. I do understand of course that HMRC and our customs controls are only part of the picture, and trade is interested in what is going to happen right across the piece. Obviously we do liaise very closely with the other agencies that affect either trade or control of movement across borders. There are probably about 20 agencies that operate at the borders, whether in plant health, animal health, medicines etc. Our longer term aim is that, from the point of view of a trader, there is a single window on Government at the border, but that is not where you are at the moment. Instead, we need close co-ordination between the agencies to make sure that we all understand what the risky consignments are, we all share intelligence and we all make that as integrated an experience as we can, but what I cannot do is talk for Defra about what their contingency plans are in relation to agriculture.

Q616 **Helen Goodman:** Are you aware that, in 2006, KPMG did some work for the Government on the administrative burden arising from customs procedures on business? They found that this was about £800 million a year. Do you know about this piece of work?

Jim Harra: I am aware of that.

Q617 **Helen Goodman:** Apparently around a third of that arose from the completion of customs declarations for the declaration of goods outside the EU. If we were to move to a similar regime with the EU as we currently have with third countries, have you any estimate of the additional burden to businesses of that change?

Jim Harra: That goes back to Ms Reeves's question earlier.

Helen Goodman: It is connected to that.

Jim Harra: It would depend on the agreement that we negotiate with the EU. You cannot really understand that impact until we have got through that negotiation and understand what the arrangements are. However, in the event that we moved to customs declarations in the straightforward way, as would apply to third countries, then those kinds of admin burdens of simply completing the declarations and submitting them would apply equally to that trade.

Q618 **Helen Goodman:** What we have heard over the past year now is that people are particularly worried about rules of origin. You may have a very slick computer system so that, once people have filled out the form, you can whizz it around very quickly but, in the first instance, being outside the customs union and not having a special arrangement with the EU will mean that firms will have to fill out more of these rules-of-origin forms initially. Is that right?

Jim Harra: Rules of origin are a feature of trade agreements, and complying with them does involve a compliance cost for business. Of course, the prize that business gets in return for those compliance costs is access to the benefits of the trade agreement. At the margins, I suspect that businesses do make economic decisions about whether it is beneficial for them to bear the cost of complying with the rules of origin or beneficial for them not to claim the benefits of the agreement, if you like, and pay a tariff.

There has been some academic research done about the equivalence of rules of origin and compliance costs as a tariff, for example, and it really varies from sector to sector. In the evidence that you heard last week, for example, the witness from the Society of Motor Manufacturers and Traders was quite concerned about the burden that rules of origin would add, both in terms of the cost of complying and the potential implication of disrupting the supply chain. On the other hand, the view of the witness from the aerospace industry was that they already have such a high level of traceability in their databases that they could comply relatively easily with rules of origin if they had to do so. It really does vary from business to business and sector to sector.

What Bill was describing earlier was that we do have facilitations in place where, even if you do have to comply with rules of origin, you can do that after clearance and movement of your goods. We can put arrangements in place whereby you still have to bear the cost of complying but it does not have to disrupt the flow of your goods as you do so. We will be working with the industry, sector by sector and business by business, to understand that.

Q619 **Helen Goodman:** Small firms sometimes use agents to help them export outside the EU. We have been told that they typically charge between €20 and €80 per declaration. Is that a realistic assessment? What do you think the effect would be of increasing the number of agents that people had to employ if they had to use them for EU trade as well as non-EU trade?

Jim Harra: That is probably an accurate assessment of the range of charges. Businesses obviously use forwarding agents for a whole range of purposes, not just compliance with customs controls. For example, they will manage the logistics of moving the goods themselves. Some agents will offer their customs services as an add-on, sometimes for a very minimal cost, because they are really making their profits from the logistics management, so it varies considerably. This is a market in which there is a high penetration of agents that provide that service and, generally speaking, some of the larger businesses do not use them, because it is worth their while to have their in-house departments.

Helen Goodman: No, it is more an SME issue. Thank you.

Q620 **Chris Philp:** Section 8 of the White Paper sets out the Government's objective, which is to achieve the freest and most frictionless movement of goods and services. In relation to the areas we have been discussing, what in your opinion would constitute the freest and most frictionless movement of goods and services?

Jim Harra: What businesses are interested in there is that their goods move in the time that they require them to move and that they do not experience unexpected delays or delays that disrupt their supply chain, and that, to the extent that they have compliance obligations, the cost of those is kept to a minimum. Effectively, it is that trade moves smoothly and quickly, and meets their needs.

Q621 **Chris Philp:** They presumably want the minimum possible tariffs as well.

Jim Harra: Tariff costs are part of the cost of moving your goods, along with the administrative costs. Sometimes the balance of those can be surprising, as sometimes tariff costs are very low or zero but, nevertheless, there are other barriers to movement. At other times, it is the tariff that is the key barrier to movement.

Q622 **Chris Philp:** Yes—it depends on the sector and the tariff in that sector. In terms of ensuring the minimal delays, disruption and bureaucracy that you just referred to, what sort of agreement with the rest of the EU would deliver that?

Jim Harra: First of all, we have very good co-operation with customs authorities in other parts of the EU, which depends on the flow of information and intelligence between the customs authorities. Those flows enable us to target whose goods we want to check, and allow goods that we do not want to check to flow. One of the key things that you would be looking for is to maintain that good level of co-operation. Also, we all want to explore whether there are aspects of the current union arrangements, in terms of entry into an area, that we can retain if at all possible. That is all subject to negotiation and being worked up, at this stage.

Q623 **Chris Philp:** In the best-case scenario that we do the best deal possible, which I am sure we would argue is in the European Union's interest as much as it is in ours, given that we have said we are going to leave the customs union, there would still—as Helen Goodman said before she left—be a need for those products that have a significant component of non-UK product to go through the rules-of-origin procedures and to make a declaration. That is the case, isn't it? Given we are going to leave the customs union, there is no conceivable scenario in which that rules-of-origin regime would not apply. That is going to apply for sure, isn't it?

Jim Harra: That is potentially the case.

Q624 **Chris Philp:** It is not "potentially"; it is just a statement of fact, isn't it?

Jim Harra: I am not aware of any arrangement that is outside a customs union but involves a free trade agreement where there are no rules of origin to comply with.

Q625 **Chris Philp:** What proportion of our exports to the European Union do you think would exceed the threshold requiring rules-of-origin tests?

Bill Williamson: At the moment, there is a community in the UK that has not engaged with any customs controls at the moment and deals intra-EU. At the moment, I do not think we have any firm information or data about how many of those companies will continue to trade and what the rules-of-origin requirements would be for them. In most cases, one would expect the vast majority of those businesses to require some sort of rules of origin.

Q626 **Chris Philp:** That is the majority. If you take, as an example, our exports to some other market where we have a trade agreement of some kind, to use that as a proxy as a way of getting a feel for the figure, what proportion of exports into those markets typically have rules-of-origin disclosures that go with them?

Bill Williamson: I do not have that data, but I could certainly look to provide you with the statistics if we have them.

Q627 **Chair:** It would be helpful, without a behavioural assumption about whether firms will give up and not trade anymore, to know what proportion of the current intra-EU trade would be hit by rules-of-origin burdens.

Jim Harra: We can look to provide information about what proportion of declarations that are currently made for non-EU trade involve rules-of-origin certification. We will look at what we can possibly do for intra-EU trade, but I am not sure that we will be able to provide anything at this stage, first of all because it would depend on the terms of the trade agreement that we reach with the EU, but also because it would involve data from businesses that are currently not engaging with customs.

Chair: Let us assume no agreement with the EU on the first, and if you could make an estimate for the second, we would be grateful. I would be amazed if the Government are not also asking this of you. I would have thought it is a very basic piece of information you will need to know in order to administer the whole system, in the event of the third of your scenarios—the straight-into-the-WTO scenario—that you cited at the beginning of this hearing.

Q628 **Chris Philp:** Even in the most optimistic scenario, exports into the EU with a significant—or whatever the threshold is—non-UK component will still require the declaration. Even in the best scenario, this will apply. I am looking at the figures on the product groupings that we export to the EU, which are on page 38 of the White Paper. The largest type of product export we make into the European Union 27 is motor vehicles, which account for just over £15 billion of export. That is the single largest product group. It would seem reasonable to assume, given globally integrated supply chains, that all of that would fall foul of the rules-of-origin regulations. The second-largest product group is chemicals and chemical products, which account for just under a shade under £15 billion a year. One would imagine, given the global nature of chemical manufacturing supply chains, the same thing. The top two categories would, on face value, end up getting caught by rules-of-origin regulations. Does that look like a fair assumption to you?

Jim Harra: It is potentially the case. It depends on the trade agreement that we reach with the EU. Rules of origin flow from trade agreements.

Q629 **Chris Philp:** Given we are not in the customs union, the rule-of-origin point will apply in any scenario, won't it? The only way we could have taken that off the table is by saying we would remain in the customs union, which has expressly been excluded.

Jim Harra: They are mainly a feature of free trade agreements where, in order to gain the advantage of no tariff or a preferential tariff, a trader will want to demonstrate the origin of their goods.

Q630 **Chris Philp:** You have also said and the Government have also said that we want to avoid tariffs. You certainly said that we want to avoid tariffs with the European Union and, therefore, the choices are either to be part of the customs union, and that avoids rule of origin, or to pay the tariffs and that avoids the rule-of-origin point. But you said and I think the Government have said that that is off the table, so we are into this rule-of-origin territory, aren't we, according to the policy that you and the Government have already announced? Mr Williamson, you are nodding.

Bill Williamson: You are right in saying that the work that we need to do with these integrated supply chains is at a level of detail, so that we can understand the issues that they have. How we can help to alleviate them, in any way, in the way that we operate customs controls is a piece of work that we will be doing over the next period of time.

Chris Philp: The estimate that the Chairman requested for the proportion of current exports from the UK into the EU-27 that might potentially fall foul of these would be a very useful piece of information. It looks to me like it will be quite high.

Jim Harra: I have just one correction: I did not say—or, if I did, I should not have—that there will be no tariffs, because that is a matter of trade policy, which is not my remit.

Chris Philp: You said it was the least preferred outcome. You said that WTO terms were the least preferred outcome.

Jim Harra: I was speaking about that in terms of customs controls and the use of declarations. I was not talking about it in terms of tariffs, because that is not my area, but thank you for allowing me to clarify that.

Q631 **Chris Philp:** We have talked a lot about the very excellent operation of the UK customs system, and Mr Rees-Mogg made flattering reference to that in his questions. Of course, if we are exporting into the European Union, we will be in part dependent on how efficiently places like the port of Rotterdam and elsewhere operate their own customs systems. What is your opinion of how well set up they are to deal with a potentially new landscape?

Jim Harra: You are quite right that UK exporters are importers from the EU's point of view, and therefore they are dependent on the efficiency of the customs authority in those other member states. You have mentioned Rotterdam in particular. Bill is rightly proud of how efficient UK customs is, but I have to say that the World Bank says that the Netherlands is slightly more efficient than the UK. It is, as you might expect from a world trading nation with a huge port like Rotterdam, extremely efficient. Probably the same analysis applies to EU member states as applies to the UK, which is that a lot of intra-EU trade moves by roll-on roll-off ferries, so those are the ports that are least likely to have facilities for customs controls in place and therefore need to think most about what it is they are going to do. Ports like Rotterdam and Felixstowe, which are big container ports, are less likely to feel any impact from this, because they are already dealing with lots of non-EU trade. It is a matter of flexing their arrangements.

Chair: Thank you very much for coming to give evidence to us this afternoon. Is it this afternoon? No, it is still this morning. We are very grateful. I am not sure that we felt that, in all cases, we had got to the bottom of the points that we were raising; you were exhibiting exemplary caution in replying. We may need to follow up some of the points in written exchanges.

Jim Harra: I am happy to help in any way we can.

Chair: Thank you very much.