House of Commons

Treasury Committee

Oral evidence: The UK’s economic relationship with European Union, HC 473

Wednesday 7 March 2018

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Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Mr Alister Jack; Alison McGovern; Catherine McKinnell; Wes Streeting.

Questions 296-446

Witnesses

I: Paul Mac Flynn, Senior Economist, Nevin Economic Research Institute, Peter MacSwiney, Chairman, ASM (UK) Ltd, Leigh Pomlett, Executive Director of CEVA and President of the Freight Transport Association, and Shanker Singham, Chairman of the Special Trade Commission and Director of Economic Policy at the Legatum Institute.

Examination of witnesses

Witnesses: Paul Mac Flynn, Peter MacSwiney, Leigh Pomlett and Shanker Singham.

Chair: Good afternoon, and thank you very much to the panel for being here for the next session in our ongoing inquiry into the UK's economic relationship with the EU. We are looking particularly at arrangements for customs and borders. For the benefit of both those in the room and those watching on tape, I am going to ask you to introduce yourselves. Mr Mac Flynn, we'll start with you.

Paul Mac Flynn: I am Paul Mac Flynn. I am a senior economist with the Nevin Economic Research Institute. We are an all-Ireland think-tank based in Belfast and Dublin and funded by the trade union movement. Our interest in Brexit is mainly in looking at impacts on employment and living standards.

Peter MacSwiney: I am Peter MacSwiney, from Agency Sector Management. I am the trade chair of the joint customs consultative committee and a co-chair of the JCCC Brexit sub-group.

Chair: It trips off the tongue!

Leigh Pomlett: I am Leigh Pomlett. I am the chair of the Freight Transport Association, but also a director of CEVA Logistics—a large transportation company.

Shanker Singham: I am Shanker Singham. I am chairman of the Legatum Institute special trade commission and director of economic policy there.

Q296 **Chair:** Thank you all very much for being here today. In this session, we are looking principally at trade in goods between the UK and the EU after Brexit, particularly the sorts of barriers to trade that might be thrown up as a result of the decision to leave the customs union and single market. We are also going to consider options available to reduce or remove those barriers, particularly at the border between Ireland and Northern Ireland.

Mr Singham, I want to start with you, because I think you have written that some people see Brexit as about damage limitation, while others—such as yourself, I believe—see it as about seizing opportunities. Is it your view that the more we seek to limit the damage from Brexit to EU trade, the more we constrain our ability to take advantage of opportunities further afield?

Shanker Singham: Not necessarily. The way we look at it is this. In all the negotiations that are happening as the UK leaves the EU, what we are seeking to do in the UK is basically be able to execute an independent trade policy, which involves doing things unilaterally. What you want to do unilaterally is be able to lower tariffs where you can—for example, agriculture that we don't produce or is not competitive with things we do produce. I'm talking about things like lowering the parts tariff, the intermediate goods tariff. The car parts tariff is 4.5%. You could lower that to zero if you had authority over your tariff schedules—this is something that other countries have done; Canada has done it, for example—and improve your own domestic regulatory environment.

Then there are the trade deals bilaterally, with other countries. Obviously, EU countries are top of that list, but there are others—the US and so on. There is what we can do plurilaterally, which is what we can do in terms of acceding to big platform agreements that are highly liberalising. We have suggested, for example, the TPP. Finally, there is what you can do multilaterally, in the WTO and global standard-setting organisations.

If you can do all that, if the UK can move along those pillars at the same time, there are gains in all those different areas. Those gains are primarily about the reduction of barriers around the world to UK industry, UK service providers and so forth. Yes, with the moving out of the customs union and single market—because in order to do that, you have to have control of your tariff schedules and of your regulatory system—there will be the trade costs of divergence and clearance costs that come from moving from a free circulation system to a free trade agreement-type system. The goal, I think, is to minimise as much as we can the trade costs of divergence, the clearance costs and so forth.

There are multiple ways in which you can do that. The first thing is to ensure UK-EU zero tariffs, but it's not just about tariffs; it's also about clearance. With respect to clearance, I think you want to come up with a customs package that you can basically take to an investor—like BMW or whoever is here—and say, "Look, these are the things that we can do domestically." We have a paper coming out on this very shortly. Many of these are things that actually we should be doing even if we were not leaving the European Union. There are a lot of things that we can do in customs with things like self-assessment. The Dutch have a particularly good self-assessment system called Domproc. We can do things in terms of postponed accounting for VAT, and making the authorised economic operator programme work better here. UK operators are very poor users of the AEO programme, generally: we have about 500 of them; Germany has 5,000 of them. We can try to get that to work better.

We have also suggested taking some of the systems, such as inward processing relief, which enables people to reclaim the tariff that comes with products that are being exported. It does not work very well, it takes a long time to get it, and people use it for warehousing. You can create new systems and regimes—we have one that we call inward storage relief—that help businesses with cash-flow management, because that is the issue in a lot of these kinds of programmes. Those things you can do domestically.

The EU agreement will have a customs chapter—every trade agreement has a detailed customs chapter, and this will be no different. In fact, because we are neighbouring, under WTO rules we can have a special customs arrangement. The Prime Minister has talked about special customs arrangements. We can do a lot of expedited processing. Some of the best borders, such as the US-Canada and the Australia-New Zealand ANZCERTA border, are between countries that are parts of trade agreements, not customs unions.

There is a lot that we can do. If we can collectively put that package together, you can say there is a spectrum: here is free circulation and no cost, and here is massive interference. You can move up slowly and minimise how far you come up the spectrum, so that the benefits of having an independent trade policy can be realised.

Q297 **Chair:** I am particularly keen to hear from Mr Pomlett and Mr MacSwiney on your practical experiences of all this, but before that, I want to follow up and clarify what you just said, Mr. Singham. Are things that the UK could do anyway, regardless of Brexit?

Shanker Singham: Yes.

Q298 **Chair:** You talked about there being a spectrum, so are you saying that there are things that can be done over a period of time, and are unlikely to be done from the word go?

Shanker Singham: Yes. Some will take longer than others. To make sure that we are ready, there are some very basic things, such as HMRC officials going round the country educating people about the AEO and trusted trader programmes. UK businesses do not use these programmes as much as they might. That is something that we could do right now.

Q299 **Chair:** Are you confident that there will be an agreement between the UK and the EU?

Shanker Singham: I hope that there will be an agreement. I believe there ought to be an agreement. It is not entirely in our power, because there is another side. We have done a lot of negotiating with ourselves, but what we need to do now is really engage the other side in a proactive way; not just on customs, but a lot of things, particularly regulatory recognition.

Q300 **Chair:** So start the negotiations and see how that works. I am very conscious of time; I should have said at the beginning that we will try to direct questions to individual members of the panel, but if we are discussing something and other want to come in on although you haven't been asked specifically, please do.

Mr Singham, you have a lot of experience, looking at your CV and everything else. Have you ever advised on a unique situation such as this, where two sides start being identical and pull themselves apart?

Shanker Singham: That is a great point, and it is a huge advantage. This is a unique situation; there has never been anything like this before.

Q301 **Chair:** This is not a situation that you or anybody else has experience of.

Shanker Singham: There are general themes of trade policy that everyone who has been in the trade policy world for 25 years, like I have, would have a view on. The fact that we are going to be completely aligned on day one of Brexit is a huge advantage to us. The fact that we have no tariffs now is a huge advantage to us. What you do with that is to say, "What we are actually engaged in is a regulatory divergence management exercise." We should be offering our regulatory recognition concepts to the EU, and allowing the EU to say why there is something wrong with them. We should be building those regulatory recognition concepts on the existing WTO framework, and be able to say to them, "Here are the reasons why you should. This is a reasonable thing to do."

The critical thing is to win the battle on the alignment of objectives. It is really about the objectives and the goals of regulation. As long as they are substantially the same, then, as the WTO says in the TBT and the SPS agreements, divergence—technical differences in regulation—should not defeat mutual recognition. That is the framework that we should be on.

Q302 **Chair:** Before I hand over to colleagues, Mr Pomlett, Mr MacSwiney, you have heard the theory. I would like to know, from your experience in the logistics industry and from people you know, work with and represent, do you agree with the argument that the greater flexibility to do deals elsewhere that comes from leaving the single market and the customs union, which Mr Singham outlined, makes it acceptable to your businesses and to those you represent to have some short-term instability and uncertainty? Is that something that people are factoring in?

Peter MacSwiney: I think it is an interesting academic argument, to be honest. I do not know what short term is in terms of the disruption, but I come at this from a very practical point of view, which is trying to sort out goods moving through the frontier quickly and without delay. There is no doubt that that will be impacted very severely. We will introduce a whole raft of new bureaucracy, charges and delays, and I am struggling to see a plus side to it, to be honest.

Leigh Pomlett: I have a similar sort of view. It is the practicalities of implementation that would be a concern. Certainly, in a period of uncertainty, we would love all the theory to be put to bed and to have some certainty about what the future will bring for us. I am with Peter on this. In terms of the practicality of the timescales that we are talking about and the lack of certainty we have today—speaking on behalf of the FTA—the uncertainty is what is causing the problem.

When we talk about the sheer numbers—the number of crossings—this is not about trucks. It is about consignments in the trucks. A truck could have 40 consignments in it. When we talk about 3 million to 4 million trucks going across the Channel each year, that is a very important statistic, but what is inside the trucks is far more important. It is not unusual for a truck to carry 40 consignments. It is even more complicated if you go to the Irish border, which is far more porous and the level of consignment per truck is higher.

My concern is the sheer practicality of making this work in 13 months. As we sit here today, we do not know what the solutions are. I am heartened by listening to what my colleague is saying, but those technical solutions will take an awful lot of negotiating. From an industry perspective, I worry that we will end up—we have to do everything we can, practically, in my industry, to avoid it happening—but we hear a lot about those huge queues through Kent. Queues are created from very little—you only have to drive up the M6 or the M5 to know that one little incident can cause a huge tailback. We can draw a parallel between that and what is potentially going to happen at the borders, if we do not find practical solutions. I come in the spirit of finding practical solutions, rather than telling you how difficult life is going to be. We will have to find practical solutions to this.

Chair: I hope we are not going to press you too much. You never know, we might find a solution this afternoon, but if not, we might at least know what questions to ask to find that solution.

Q303 **Mr Clarke:** I am very heartened by what you were saying, Mr Pomlett, about being in the business of practical solutions. The Prime Minister has been clear that we are leaving the single market and the customs union, and it remains overwhelmingly the most likely outcome that, whether or not a deal is agreed, we will leave those organisations. As such, a practical focus is the right way to go.

The European Parliament's Committee on Constitutional Affairs has produced a report that you may have read, "Smart border 2.0", which sets out a range of practical offerings. It says that "regardless of the legal framework for the UK's exit from the EU", a hard border can be avoided. Is the European Parliament wrong?

Leigh Pomlett: I don't know the answer to that question. I really do not know, and I do not feel qualified to answer that question. I am preparing for there being hard borders, purely from a practitioner's perspective. What the future will bring, I do not know, but in terms of my personal planning, I am working on the basis that there will be borders. I hope they will be soft and fluffy, but they are probably going to be harder than I would like them to be. I am not an expert in that field. All I am doing as a practitioner is working on the basis that I hear and read nothing that convinces me yet that there will not be disruption at the border.

Q304 **Mr Clarke:** I would like to look at how we avoid said hard border, because for all sorts of reasons, notably connected to Irish domestic politics, it is literally unthinkable that there should be one. On page 24 this report says, "If inspections or controls are required, these can be conducted away from the border. This can be done either at a specified location (e.g. a customs warehouse away from the border) or at the importers place of business." That does not sound insuperably difficult to me.

Leigh Pomlett: I agree, and I agree entirely with what Shanker was saying about the AEO being a trusted partner. Those measures are absolutely practical and we should pursue them—but with pace. Everything you are talking about is absolutely feasible, but in 13 months I will get a bit nervous. Yes, from where I sit there is nothing unreasonable in what was said, but there are the timescales involved.

Q305 **Mr Clarke:** Anita Graff, who is a former Norwegian customs official and now works for a customs broker called KGH Customs Services, which is one of the largest in Europe, says that the UK could get such a system up and running within 18 months. Within the context of a transition period, which we all hope and expect to see, that would potentially alleviate some of those concerns.

Mr MacSwiney, I want to touch on what Shanker was talking about—the authorised economic operators, or so-called trusted traders. The UK has 604 at the moment; Germany has got 6,000. If we are going to make a success of what the Prime Minister was alluding to in her speech, surely we just need to scale up this programme and scale it up quickly.

Peter MacSwiney: I am not sure I agree totally. People see AEO as the magic bullet, and I am not sure it is. It is important to differentiate between customs activities and surveillance at the border. We have been attempting to have discussions with the Border Force for many years as to where the border is. When you come in as a passenger, there is a very helpful sign that says, "This is the UK border." When you come in as a piece of freight, there is not. It can be inland premises or all sorts of places. It can be within an electronic inventory, for instance, of which we have probably the most sophisticated in the world. There seems to be a reluctance to let goods go at the border, even if you are an AEO or a trusted trader. It is very easy to delink the customs activity—you can delink the fiscal activity from the border, as customs are minded to do, as well as being minded to introduce things such as self-assessment—but it appears to be going nowhere. Even with all this assistance—even if you have a truck load of stuff that is owned by an authorised economic operator—there still has to be some mechanism at the port for somebody to recognise that that vehicle does not have to be stopped. That is a practical issue that we have got nowhere near addressing, let alone solving.

Q306 **Mr Clarke:** Can that not be done in retrospect? I appreciate that if you were literally having to check it in real time, it would be very time consuming, but we are talking about approximately 20%—that seems to be where we are at the moment. That 20% that would fall into the larger operators, so could we not have an arrangement with larger firms that we will do that at another time—it will not be in real time?

Peter MacSwiney: For sure, but they would still be stuck behind the smaller firms that have not done that. It is the physical activity of letting the trucks go as they come off the ferry. The issue is with ro-ro, not with traditional air and sea freight. If you have a pinch point there and somebody who is not okay to go, they hold everything up behind them.

We like the idea of advance information. In return for advance information, we would like a promise that the goods can move. Extracting that promise from the Border Force is proving to be extremely difficult.

Q307 **Mr Clarke:** The Border Force will have to up their game commensurately with the extra pressure on them. I imagine that will have funding ramifications.

Peter MacSwiney: I would imagine so.

Q308 **Mr Clarke:** Mr Mac Flynn, do you think that in principle it is acceptable for us to exempt up to 80% of firms from these border checks?

Paul Mac Flynn: The difficulty with that is that when you are talking about Northern Ireland as an SME economy, you are talking about the vast majority of firms. The problem arises in setting that arbitrary limit and saying, "If you are under 250 employees, you don't have to go through the administration for customs." If you were a company with 500 employees operating in Northern Ireland, why wouldn't you just split yourself into two 250-person companies to get around the arbitrary limit?

It is nice to think that, because Northern Ireland is an SME economy, you can almost dismiss a huge amount of its trade, but I am not sure the fact that it is carried out by small and medium-sized enterprises means that it should be any less subject to the rigours of customs regulations.

Q309 **Mr Clarke:** Would you accept that it is feasible to do so in practice?

Paul Mac Flynn: There are two issues with it. Yes, it would relieve the administrative burden, but I don't see how it does much to tackle the border issue. A truck driving across the border doesn't immediately look like it comes from a firm of either under or over 250 employees.

Q310 **Mr Clarke:** Working on the basis that there wouldn't be a border, so there wouldn't actually be anyone to stop them—

Paul Mac Flynn: You would have to have some sort of border infrastructure to cater to the trucks going across that aren't subject to the exemptions.

Q311 **Mr Clarke:** That would likely be behind the border, one assumes.

Paul Mac Flynn: Yes, but it wouldn't get rid of the need for infrastructure at the border to differentiate between the two. It would make it easier. In terms of a lot of the solutions that have been put forward, whether technology or exemptions, it is fair to say that they make things easier, but I haven't seen any evidence for the idea that they would remove the need for some sort of border fortifications.

Q312 **Mr Clarke:** Very quickly, on cameras—obviously, we are talking about physical infrastructure at the border, which is an issue for the Good Friday agreement—as I understand it vehicle number plate recognition cameras are in place at major crossing points on the border at the moment. When the Government get into the discussions about the nature of the infrastructure that could be in place without breaching those agreements, is the idea that cameras are a problem in fact being overstated at the moment?

Paul Mac Flynn: I think that to fulfil an ANPR system, you would need to vastly increase from what is there. You are talking about main routes from across the border, but there is one motorway route and everything after that is country roads. In terms of the increased camera infrastructure, I am fairly sure the UK Government has ruled that out from its point of view.

Q313 **Mr Clarke:** I just want to understand the framework in which we are playing.

Mr Singham, the Government's position paper suggests that, to avoid inspections at the border for agricultural produce, there could be regulatory equivalents of agri-food measures. That being the case, do we need to think about how that might then limit our free trade agreements with other non-European countries?

Shanker Singham: It comes back to the point I mentioned to the Chairman. What you want to do with SPS measures—animal, plant and human health measures—is agree that the ultimate goal is to protect human, animal and plant health, and that you can achieve different ways of coming up with regulations to do that. From our perspective in the UK, what we want to do is come up with measures that comply with the WTO and the SPS agreement and are based on sound science. It is very hard not to mutually recognise somebody who is complying with the international trade rules. If you can do that, you can minimise the cost.

I have one point on the inspection posts and the infrastructure. The major reason why you might need border inspection posts is for the accredited handling of meat and for veterinarian inspections of meat. The UK could agree to do those kinds of inspections at the facility, with some provision for how you get from the facility to the actual border, and the EU could do the same thing. Now, that is a slight deviation from the Union customs code, but it is not a major deviation. I think that is one of the things we should suggest and then allow the EU to explain why—

Mr Clarke: Why it isn't viable.

Shanker Singham: The only reason why you might have a border inspection post is that. I don't think they would do that. With respect to the Ireland border, yes there is a lot of technology you can put there, even outside this. The Republic of Ireland authorities inspect about 1% of consignments that come in from outside the EU, so we are not talking about a huge inspection rate.

We are also not talking about a huge volume of trade. About 12% of all Northern Ireland's trade with the rest of the world goes to mainland GB and about 1% goes to the Republic. The Republic's figures are very similar. What you actually have is a lot of low-volume, high-frequency trade. That, and your 53 non-SME companies in Northern Ireland selling into the Republic of Ireland, lends itself to some sort of trusted trader programme.

You can also exempt a lot of things. The productivity commissions in New Zealand and Australia have basically said, "We are just going to wave through any products that have less than a 5% tariff." We can do that. The UK can make that decision. Again, if we do that, let the EU decide that they are not going to do that and that they are going to cause a disruption.

Q314 **Alison McGovern:** Mr Mac Flynn, you told the Northern Ireland Affairs Committee: "You can leave the customs union or you can have a frictionless border in Northern Ireland. Tick one box. There is no option for both." Would you explain to the Committee why you hold that view?

Paul Mac Flynn: Quite simply, in terms of rules of origin: the UK will leave the customs union, but will there be something that has the infrastructure of the common external tariff and the Union customs code, whether you call it a UK-EU customs union or not? Without either of those, I cannot see a situation where the EU could possibly agree to not having some sort of—it is worth pointing out the definitions of hard border, soft border and frictionless border. The European Parliament report that Mr Clarke was referring to, from page 37 on, describes what it counts as a soft border. It is in no way a definition of what most people in Northern Ireland, or indeed the Republic of Ireland, would understand to be a soft border. It talks about gates and allowing people in and out. If that is not a border fortification, I do not know what is.

In terms of the customs union, if there is going to be a new, independent, international trade policy for the United Kingdom that means a different schedule of tariffs for third countries, there will have to be rules of origin checks. I cannot see how that would not need to take place on the Irish border.

Q315 **Alison McGovern:** So for most people in Northern Ireland, any of the things that we have been discussing would count as an enforced border, which they would see as a detriment to the current position.

Paul Mac Flynn: Absolutely. I would definitely say that anyone in Northern Ireland, but particularly businesses, considers a soft border to be what the situation is now. Anything beyond that is considered to be some form of a hard border. That is why it is worth being very specific about what is outlined in the European Parliament report: that would not be considered a soft border, as we have come to understand it.

Q316 **Alison McGovern:** Thank you. Mr Pomlett, you recently described the border between Ireland and Northern Ireland as "like a colander", and I was struck by what Mr MacSwiney said earlier about the issues with the location of the border and the physical challenge that we are dealing with. Would you expand on those comments? What challenges do you see in relation to that geography?

Leigh Pomlett: It is just the porous nature of the border. There are probably more crossing points to administer there than in Europe. It is just a physical comment about the nature of the geography of the border between Northern Ireland and southern Ireland and the porous nature of it. It is therefore more difficult to actually practically police that than it would be in other countries where the border crossings are more controlled, and you have a larger flow of traffic going through it. It is just a geographical comment, really.

Peter MacSwiney: You have got—what is it?—508 or 580 miles of border, which is impossible to police in reality, and you also have a community that over the past few decades has been working very hard to remove all checks, all documentation and all inspections. The infrastructure has grown up to support that type of activity. Suddenly to bring in any form of check at any point during the process is going to be extremely difficult, because people would have to change their working practices, and that takes quite a while.

If you are looking for periodic reporting after the event, yes, there are quite a number of regimes that could be introduced to do that, but you have to make sure that you just let the goods flow. The question is, we are happy to let 3 point something million trucks through Dover a year with minimal stoppages, so what is the difference? Why do we not just let them go anyway after Brexit and pick up the reporting after the event?

I do not class that as a particularly radical solution, to be honest, but I am not hearing anybody actually addressing that issue. As a trade, we have offered advanced information to one extent or another many times for many years. The Road Haulage Association have accepted that, in the new world, they will have to give advance information. Everyone is kind of prepared to give that information, but we are not getting any promises back to say, "In return for that, we will just let your goods flow, and you can tell us fiscally about them later."

Q317 **Alison McGovern:** If that was to be done, such an assurance now would presumably be helpful?

Peter MacSwiney: I think that is the only way. I cannot see any alternative.

Q318 **Alison McGovern:** Mr Singham, you mentioned earlier that in order to keep trade flowing, any customs agreement would require some sort of system of expedited processing. That still implies processing, though, does it not? It implies having some system of checks.

Shanker Singham: Are you talking about the Ireland border, or the general EU-UK agreement?

Alison McGovern: Either, or both.

Shanker Singham: On the point that was made before, I agree that AEO is not a magic bullet, but there are a lot of other things, such as CFSP and other programmes, that involve pre-notification and pre-clearance. The goal of a good customs system is to absolutely minimise—it is a spectrum. It is not that you either have a border with lots of checks or no border with no checks. There is a spectrum from one to the other. The goal is—and this is not to do with the UK and Brexit, this is to do with every customs agency in the world—to be a facilitator and to minimise disruptions for the free flow of goods, people and everything else. You can absolutely come up with those mechanisms but, as I said before, I think we need to come up with a package of things and maybe think outside the box on alternative mechanisms that you can use to expedite trade.

Q319 **Alison McGovern:** Speaking of thinking outside the box, in September, the Legatum Institute suggested that we could use drones or airships to monitor the Northern Ireland border. Is that a proposal you support?

Shanker Singham: That is one sentence in an annexe of a 50 or 60-page report. In that report, we also recommended, with respect to Ireland, to first look at the actual volume of trade to determine what sort of trade you are actually dealing with. I mentioned that earlier. Very few large companies are trading across the border, so that lends itself to trusted trader programmes. That does not mean AEO—maybe we can come up with something better for those companies than AEO, frankly, so that what they fill in in terms of customs forms looks more like a tax return. There are a lot of things that we can do there. That is why the European Parliament report that was referred to earlier talked about using this as an opportunity to come up with new things—new customs arrangements. That is just one area that we talked about.

Q320 **Alison McGovern:** If I may, can I ask you to comment on Mr Mac Flynn's point and on what Mr MacSwiney said about people in this area who have been working for some time to remove all semblance of a border, for reasons that we all understand well? What you are describing, however technologically advanced, sounds like a diminution of that position. As Mr Mac Flynn said, anything worse than what we have now will be a serious problem for people in border communities.

Shanker Singham: I think you have to differentiate between goods trade and a border for people and so forth. There are multiple borders right now—it is not as if there is no border between Northern Ireland and the Republic of Ireland. There is a tax border—an excise tax border, a VAT border. All those actually exist. For the people border, because we are going to be part of a common travel area—that will be the agreement—as long as the UK does not impose visas on tourist travel from the EU27, and as long as the Republic of Ireland does not join the Schengen agreement, the CTA will take care of the people movement. That is a significant amount of the traffic across the border, and it does not need to be affected at all by Brexit.

The issue really comes down to the goods border and how you can deal with it. That is why I think having a lot of technical checks behind the border, pushing out the border, is the way to go. There is no reason why we cannot do this. The Republic of Ireland had the Shannon free trade zone—the oldest in the world—for 50 or 60 years, but there were customs checks in the Republic of Ireland. It is possible to do that in a non-invasive way.

Technology is a very important part of the administration of any customs border. It has been used in the US-Canada border and some of the most efficient borders in the world.

Q321 **Alison McGovern:** Finally, you mentioned that we would seek to diverge and "improve"—your words—our own domestic and regulatory environment. You said that there would be costs of divergence, but they would be offset by gains. Are you able to quantify that claim for us?

Shanker Singham: This is a big discussion, of course—models for measuring the gains from trade. The first thing I would say is that it is actually very difficult to quantify the gains and losses in trade agreements. I refer you to the US International Trade Commission report on the TPP, which specifically said that it is relatively easy to quantify the gains from tariff reductions, but very difficult to quantify the benefits of behind-the-border barrier reductions, the regulatory benefits or those from a reduction of what we have called anti-competitive market distortion. That is actually quite hard to do. The New Zealand Treasury and Government attempted to quantify the gains and benefits from the New Zealand-China trade agreement and underestimated them by about 500%.

Alison McGovern: So no, basically.

Shanker Singham: It is very hard to do that, but the way you would do it is you look at the trade costs of divergence, the clearance costs and so on—you can say something about that. You look at the tariff benefits of potential agreements. Then you ask, "If we are able to execute our independent trade policy, what will the impact be on regulatory barriers and distortions in the rest of the world, primarily to UK services providers?" You could postulate a group of countries and say, "If you reduce those distortions by a particular percentage, what is the impact of that?" That is the way you would do it—that is what the ITC did with the TPP agreement, for example.

That is the sort of analysis that you can actually come up with, but do not expect this to be a hard science; it is going to be direction of travel only. There is no country in the world that decides its trade policy on economic modelling of the potential benefits of trade agreements. They do trade agreements where they can, and they have a broad geostrategic goal for how to do that.

Q322 **Rushanara Ali:** The Government's preferred means of achieving the shared objective of avoiding a hard border between Northern Ireland and Ireland is through an agreement on the future of the UK-EU relationship. When David Davis was asked whether the Government's plans for a CETA-plus-plus-plus agreement would be sufficient to avoid a hard border, he replied that it would depend what the pluses were. Is anyone here confident that that would provide the underlying basis for an agreement that avoided a hard border?

Shanker Singham: To repeat what I said before, in the case of Ireland it is not that there is no border now. The goal here is to ensure that—

Q323 **Rushanara Ali:** I am talking about a hard border.

Shanker Singham: Yes, but that is one end of the spectrum.

Q324 **Rushanara Ali:** Many of the examples that you have used would not fit into that definition.

Shanker Singham: Look at the EU-Switzerland border, which is not a very hard border; the Canada-US border, which is a bit harder, but actually works very well; or the Australia-New Zealand border. They are all very different.

Q325 **Rushanara Ali:** You are aware of the unique circumstances facing Ireland and Northern Ireland?

Shanker Singham: Yes.

Q326 **Rushanara Ali:** What we are talking about is in relation to a hard border. From the comments of other witnesses, you will be aware that we are talking about something quite different from some of the examples you are referring to. In that context, could I have a yes or no about whether you feel confident that the CETA comparison would be appropriate for Northern Ireland?

Shanker Singham: You mentioned CETA-plus-plus-plus, whatever that means. One of the pluses might be, and I suggest should be, a special customs arrangement in a chapter on customs in the free trade agreement. There will no doubt be a Northern Ireland-Republic of Ireland protocol in the EU-UK free trade agreement, and that protocol will refer to certain things that are perhaps deviations from the Union customs code and ways that you can actually lessen those restrictions.

Q327 **Rushanara Ali:** Lessen them, but not remove them all together. Can I ask other witnesses whether you have any additional comments or reactions to Mr Singham's remarks? I have quite a few questions, so I want quick-fire answers, if that is okay.

Peter MacSwiney: Everyone talks about the Canadian-US border, but what is important to remember about that is that every truck gets stopped.

Rushanara Ali: Yes.

Paul Mac Flynn: Just a brief point on the idea that because there is an excise border between the Republic of Ireland and Northern Ireland at the moment it is no example of how to operate a good border. Fuel smuggling is a national sport along the border region there. There is actually an argument to be made that you would be better devolving excise to Northern Ireland and equalising it with the Republic of Ireland, on the basis that the revenue you would lose would probably equalise the cost of having to police that arrangement, as is attempted at the moment.

Q328 **Rushanara Ali:** Thank you. You have already touched on this, but do you agree—really this is a question in relation to the dilemmas, if you like, of being in the customs union, what that entails and so on—that the EU's proposal leaves the Government with a choice between binding the whole of the UK to the common regulatory area and the customs union or putting a border in the Irish sea between Northern Ireland and Great Britain? If so, which should it be? Who would like to start?

Paul Mac Flynn: In terms of the document last week, the reaction, particularly in Northern Ireland, in some quarters, was that it proposed a border along the Irish sea; I don't think it necessarily does. It takes from December that there were two separate clauses, one saying that the backstop option was alignment with the single market and the customs union for Northern Ireland, and then a separate agreement that the UK would guarantee that fulfilling that obligation would not necessitate a border between Great Britain and Northern Ireland. The EU felt that how the UK Government deals with that was a matter for the UK Government and not for the EU to comment on.

Peter MacSwiney: I am inclined to agree with that. I think it is difficult to see the problem with aligning ourselves with the UCC, because at the moment, as we speak, we are busily engaged in deploying the UCC as our base for customs law. We are currently loading the new data elements on to the new customs system. We are likely to be, I think, the first ex-member state to fully deploy the UCC. A lot of the other mainland European customs authorities are asking for an extension to 2023, 2025 before they put it in. We are able to get it in before 2020, so it seems bizarre to me that we are rushing ahead with, effectively, European system alignment, yet we are completely throwing out the concept of remaining, either in fact or in spirit, with the single market and the customs union.

Leigh Pomlett: I am not going to add any more to the discussion than my friends to my left, because they are more technically able to comment than I am. There is a practical comment I do want to make though. When you listen to the discussion, you get a feel for how complicated this issue is. We are talking about industry that is probably not that complicated. Look at the sheer training need: I think there are 185,000 companies that become relevant that have never done a customs declaration. Even for relatively small companies, that is a big issue in terms of training. That is beside whatever happens at the border controls and training the people there to be able to administer this traffic. I am talking about the people who work in the companies that I represent. This is a huge and growing issue.

Q329 **Chair:** Are the companies that you represent mostly SMEs? ***Leigh Pomlett:*** No. There are huge retailers through to engineering companies through to transportation.

Q330 **Chair:** Some will employ people already engaged in this?

Leigh Pomlett: Yes. It is just the sheer quantum we are talking about. We are talking from £50-million declarations to £250-million declarations. That is a huge training requirement, both for the border and within the companies. Some of these companies have never done one.

I just want to make it clear that this is not something we should overlook. I am old enough to remember when we did border controls before all this kicked off. What a painful life we had—and I had. I wouldn't want to go back to that. The training needs then were huge. We are talking about vast volumes now. The world has changed.

I didn't want to miss that training point for our nation, almost, and certainly for the industry. It is sometimes not recognised and somewhat overlooked. You are talking one year, or certainly two years, to become an expert or knowledgeable in this field, and we haven't started yet.

Q331 **Rushanara Ali:** Thank you. I have a final set of questions. In response to criticisms of the proposals on Ireland in the draft withdrawal agreement, Donald Tusk said, "until now, no one has come up with anything wiser than that…I will be asking in London whether the UK government has a better idea that would be as effective in preventing a hard border between Ireland and Northern Ireland." My first question is whether you agree with that remark or not? My second is, do you think that the absence of credible proposals arises out of a failure of imagination, or is the objective of having no hard border fundamentally incompatible with leaving the single market and customs union? Who would like to kick off?

Shanker Singham: Can I say a couple of things on that? First, to the point you have made—

Rushanara Ali: Sorry, I haven't got much time. Can you respond to those questions?

Shanker Singham: There is no problem with the Union customs code. I don't think anyone is suggesting we should change from that. It is the single market rules that are the issue. The proposal that the European Union came up with, and which Tusk referred to—

Q332 **Rushanara Ali:** The Government have ruled out being in the customs union, so what do you mean there is no problem with being in the customs union?

Shanker Singham: No one is suggesting that we are going to deviate from the Union customs code, except particularly on the border of Northern Ireland in some very small ways, to allow meat inspections.

Q333 **Rushanara Ali:** It is not a very small way.

Shanker Singham: It is not a particularly major deviation from the Union customs code.

Q334 **Rushanara Ali:** That is not the case. Have you not been listening to the other panellists?

Shanker Singham: The technical checks that we are talking about come out of the single market. The single market rules are where product regulation and those sorts of rules come from. You can't separate those from the customs union.

In response to whether better ideas are being suggested, I think the UK Government have suggested some ideas. It is not true to say that—

Q335 **Rushanara Ali:** Are they better ideas or some ideas?

Shanker Singham: They are ideas. You have to suggest those ideas. I think they are better ideas than what the European Union has suggested, in terms of workability. I don't think the idea of a common regulatory—

Q336 **Rushanara Ali:** So there is no incompatibility between us leaving the customs union and single market and the issues around the hard border?

Shanker Singham: Absolutely not. I think we can come up with mechanisms that work. Another thing we can do is come up with mechanisms like the use of special economic zones and free ports and so forth. If we were able to do that in Northern Ireland and other places and generate economic activity, we could suggest to the European Union that, if they were able to do a special economic zone that was somewhat contiguous on the border or in the border region, that would generate economic activity.

Q337 **Chair:** So far in your answers, we have heard lots of coulds and shoulds. You said that this is a negotiation—there are two parties. If the EU just decides to say no to all the great ideas that Legatum and yourself have come up with, what will happen to Mr MacSwiney's and Mr Pomlett's businesses?

Shanker Singham: That is the purpose of a negotiation: to put forth your ideas. That is how a negotiation works.

Q338 **Chair:** I am asking what happens. Presumably, Legatum have looked forward. If the EU says no, what happens to Mr MacSwiney's and Mr Pomlett's businesses?

Shanker Singham: This is why I think it is so important that we are in the negotiation with the European Union, we ensure that we are not negotiating with the EU in a room by ourselves and we put all the other negotiations on hold until that has been accomplished. I think a much better way of using the implementation period is to actually initiate some of the other negotiations with other countries. The Prime Minister has said that we are going to be able to—

Chair: This evidence session is going to get more and more frustrating, because as politicians we can tell when people are not answering questions. Forgive me for being very, very blunt. If the EU says no, they are not interested in any of Legatum's suggestions—this afternoon we have heard you come out with, "It's Canada" and "This is a negotiation," but let's say they do that—what will happen to Mr MacSwiney's and Mr Pomlett's businesses?

Shanker Singham: I think they can continue.

Q339 **Chair:** Mr MacSwiney, you tell me. What will happen to your business if the EU says no to all these bright ideas and says, "It is this or nothing"?

Peter MacSwiney: The borders will come to a grinding halt unless we come up with some internal, radical suggestions and ideas.

Q340 **Chair:** How is Legatum going to justify this to the country and to our constituents?

Shanker Singham: What we are doing is that we are a resource and we are providing ideas on what could make sense in a trade negotiation. When you, the Government, are looking at what the UK's trade policy should be, it is not just incumbent businesses—it is not just businesses now—that you need to think about. You need to think about businesses of the future. You need to think about small businesses. You need to think about consumers.

Q341 **Chair:** So Mr MacSwiney's business does not need to be thought about?

Shanker Singham: You need to think about all these things. One of the issues is that we are very focused on managers of the UK-EU supply chain, who are very concerned about this. Managers of the UK-EU supply chain will always want the status quo to be maintained, but that does not mean that there are not opportunities for other bits of the British economy—small businesses, businesses of the future and consumers—that could be advantaged by the UK having an independent trade policy.

All we are saying is that if you take that independent trade policy off the table, which you will if you remain in the customs union and the single market, or regulatorily align so completely to the EU that you cannot do trade deals with other countries, you will have taken a lot of benefits and opportunities for the UK off the table.

Q342 **Chair:** You said in answer to Ms Ali that there was no question of getting away from, or not being part of, the Union customs code.

Shanker Singham: There isn't. We are going to be part of the Union customs code.

Q343 **Chair:** So we will be part of the Union customs code but not part of the customs union and the single market.

Shanker Singham: We can replicate the rules of the customs code. We are doing that with CDS, which is built on the Union customs code platform. We will continue with all these things. One of the things that we need to do more proactively—

Q344 **Chair:** We are going to leave it, but replicate it, and that will give us—

Shanker Singham: Just that bit of the customs code. That is a very specific piece of legislation. The Union customs code allows us to do things that we are not doing now. Article 158 allows us to do self-assessment.

Q345 **Chair:** So we could do all this without Brexit?

Shanker Singham: We should certainly do self-assessment, postponed accounting and a lot of these other things. We could do this now, without

Brexit. Even if Brexit had not happened, I would argue that HMRC should be doing this anyway.

Chair: Rushanara, I'm sorry—I interrupted you.

Rushanara Ali: I'm done.

Q346 **Charlie Elphicke:** Mr Singham, before I get on to my main questions, let me just understand. If we were to leave the European Union but stay in the customs union and the single market, would we effectively be in the European Union in all but name?

Shanker Singham: If you were to leave the customs union and be part of the single market—

Q347 **Charlie Elphicke:** No—if we were to stay in the customs union and stay in the single market, would we be in the European Union in all but name?

Shanker Singham: If you were to stay in the customs union and the single market, you would not be able to do a number of things that I outlined at the beginning of this hearing. You would not be able to change your domestic regulatory environment. You would not be able to improve your tariff schedules, lower tariffs in certain things and give benefits to consumers. You would not be able to do deals with anyone else, and you would not be able to operate in the WTO in any other way than you are now.

Q348 **Stephen Hammond:** You would be able to do a deal with another country that was not part of the union that you had signed up to.

Shanker Singham: What some people talk about regarding the customs union is the Turkey option—

Q349 **Stephen Hammond:** Legally, that statement is not true, is it? It depends what customs union you then sign up to and what you choose to do. To be clear, legally, that is not a correct statement.

Shanker Singham: I think it is. The question was about "the" customs union, not "a" customs union or "a partial" customs union.

Q350 **Stephen Hammond:** It cannot be "the" customs union if you are outside the EU.

Shanker Singham: Let us say you have a partial customs union, for example if you replicate the Turkey situation. The problem with the Turkey situation is that Turkey has to follow the EU into the agreements that the EU makes. It takes the burdens of those agreements and it has to negotiate the benefits for itself. I do not think that the Turkey situation, or the partial customs union, would be a particularly good situation for the UK, because the benefits we want are in services, which are the most difficult to get. If you cannot actually put your goods schedule on the table for a negotiation, no one will negotiate with you. That is what they have found in the Turkish situation.

Q351 **Charlie Elphicke:** The Prime Minister has been clear that we are leaving the customs union and the single market. We do trade on a WTO basis in this country, do we not, Mr Pomlett and Mr MacSwiney? I think it is fair to say that most trade at Felixstowe and Southampton is on a WTO basis. Why are there no queues on the roads to those ports?

Peter MacSwiney: Simply, they have more space than your constituency in Dover has, which I think is a significant aspect of it, and it is handled completely differently. In Felixstowe and the other ports, including the airports, there is a system of electronic inventories. The goods are checked in—they are physically located somewhere in the port—and then they are customs cleared. As a result, you make a vehicle booking and you go and collect your container. Whereas with trucks, my understanding—this is not particularly my area—is that most hauliers do not bother with advance booking; they just turn up to the ferry ports and get on the next ferry. They could come across at any time in a four to six-hour period, so you have no idea actually what is coming in advance. That is one of the differences.

Q352 **Charlie Elphicke:** At Dover, about 1% of all lorries are checked. What percentage of boxes are checked at Southampton or Felixstowe? Do either of you have those figures?

Leigh Pomlett: I don't.

Peter MacSwiney: I think it is about 1% of goods that come for physical checking. We are talking about customs here, aren't we?

Charlie Elphicke: Yes. So about the same as lorries that are stopped—1% of lorries are stopped at Dover and about 1% of boxes are checked at Southampton.

Peter MacSwiney: Probably 5% do documentary checks, but not a lot. For the documentary checks, we have an SLA with the national clearance hub, which delays it for two hours. In the maritime and air environment, that is not a problem, but for your guys it would be a disaster.

Q353 **Charlie Elphicke:** Mr Pomlett raises a spectre, as a lot of people like to, of lots of queues on the way to Dover. Is the issue not one of speed of processing and of making sure that the industry starts the clearance process beforehand? Would the way to find a solution to that be for the Home Office and Border Force to be proactive in putting systems in place?

Peter MacSwiney: That is half of it. Interestingly enough, we have talked about the Union customs code, which we are kind of replicating. We still have CEMA—the Customs and Excise Management Act—which was written in 1879 or something. That is still floating about in there somewhere. One thing that the Union customs code does allow is pre-clearance, so it is not unfeasible that, with advance information, you could have the safety and security aspect dealt with and, if you chose, you could do the fiscal clearance. But again, that comes under the heading of the things that Border Force does not like.

Q354 **Charlie Elphicke:** Let us look at that for a second. We are now nearly two years on from the referendum. Do you think that the Home Office and Border Force have been showing the requisite energy that one would hope to see and that they have used those two years well, or have they done very little indeed?

Peter MacSwiney: From what I can see, they have done very little. We have good relationships with Border Force at different levels, but it is pretty ethereal. With the exception of a meeting we had with Phil Duffy shortly before he moved to the Home Office, I have never heard Border Force mention the words "trade facilitation." There are a lot of things—we have some pilot schemes going on at Heathrow at the moment, which have been on the go for about three years, and we are still having this backwards and forwards between customs policy and Border Force as to whether we can do it. There is a reluctance to change the way we do things. I look at all the papers that have come out and it seems to be an absolute given that we are just going to continue with the way we do stuff now, but it is a completely different environment out there in the ro-ro sector. The systems that pertain in the maritime and air environments are really not fit for purpose for the ro-ro ports.

Q355 **Charlie Elphicke:** You have talked a bit about authorised economic operators, which everyone seems to agree are really important and necessary to ensure smooth and frictionless trade. What steps are you aware of that the Home Office and Border Force have taken to promote that and to make the step change that is needed? Have they been energetic and proactive, or have they done nothing?

Peter MacSwiney: Border Force has introduced a system of trusted trader, which is not the same as AEO. I can kind of understand why. If you talk about Northern Ireland, for instance, one of the requisites for AEO is three years of customs activity. Of course, nobody in Northern Ireland would have that. If someone is a trusted trader, you know who they are and whether you can allow them to progress without any form of stop. In terms of promoting these things across the industry, I see a lot of conceptual discussions going on, and a lot of theoretical discussions, but I do not see anybody really addressing the actual, physical issues that are the problem at what we now term, and what now is, the physical border.

Q356 **Charlie Elphicke:** As the Chair said earlier to Mr Singham—I think this is a really central question—if the EU says no, what happens to the FTA businesses and, indeed, freight-forwarders, the whole system, and all the rest of it? If officials and Departments had used the last two years to be fully ready on day one, deal or no deal, do you think that we would be having a different quality of discussion around this table today, and perhaps a different quality of discussion with our interlocutors across the English channel?

Peter MacSwiney: Sorry, I missed the first part of that.

Chair: There were too many questions there.

Q357 **Charlie Elphicke:** If the Home Office and the rest of Government had actually got on with it on day one, and thought, "Right, we need to be ready on day one," do you think that we would be less worried about queues at Dover?

Peter MacSwiney: Yes.

Leigh Pomlett: Absolutely, we would.

Q358 **Charlie Elphicke:** Do you think time could have been used more wisely, Mr Pomlett?

Leigh Pomlett: Absolutely.

Q359 **Charlie Elphicke:** Do you think the Government still have time, if they get a move on, to change the landscape and the quality of the negotiation that we are having with the European Union?

Leigh Pomlett: You would have to get a hell of a wriggle on.

Q360 **Charlie Elphicke:** But could it be done? If Ministers said today, "That's it. Let's do it," could they do it?

Leigh Pomlett: I am not sure that it could be done. It is such a task that I am not convinced. I would be misleading you if I said that I thought it could be done in the timescale. It depends on the timescales we are talking about. If we are talking about 13 months' time, that is a huge task, and I would be lying if I said that I thought that was confidently deliverable.

Q361 **Charlie Elphicke:** Let us that after the referendum vote the Government had immediately said, "Right, let's be ready for any eventuality. Let's put systems in place so that we could completely leave the European Union and not have to do a deal of any kind. Let's put the systems in place and use the WTO trade facilitation agreement that has come in." Could things have been different from where we are today, and would we be less concerned?

Leigh Pomlett: Yes, but they didn't.

Chair: Do you have another question?

Charlie Elphicke: I have three more minutes left, because Mr Hammond took some of my time.

Chair: No, you don't, Charlie. One more question, please.

Q362 **Charlie Elphicke:** Okay, I will ask one final question. If I am in business and I sell someone an item, I issue them a VAT invoice. The system is that the VAT system trusts me, and they can come and audit my workplace. Why can't tariffs be on the same basis, and why couldn't the whole border at Dover, and indeed Northern Ireland, work on that basis?

Peter MacSwiney: There is no practical reason why not. It comes back to your previous question. There does not appear to have been any connection between the political aspirations and the practical solutions. We of the JCCC, for instance, have been talking about self-assessment, and trying to get a self-assessment working group set up. I think it has had one meeting, and that now seems to have stalled. I think that the view from some areas of customs is, "This is a bit difficult, and we have a lot on our plate currently, so we'll leave that until after we have left and then sort it out." I think it is part of the solution, but I do not think that they see the availability of these types of systems as being integral to the solution, and I am really not sure why.

Leigh Pomlett: I have nothing to add to that. I agree. We have wasted enough time talking about this. There are, as I mentioned earlier, technical solutions to this if—I go back to my original comment—we have four years. I worry that we don't, and therefore we will have to find very fast, very slick solutions to this in a very complex environment, and a very severe training one for border controls and for companies.

Q363 **Charlie Elphicke:** In Singapore they clear in seconds, don't they? Why couldn't we do that?

Leigh Pomlett: Perhaps we could, if we had the systems and the people to do it.

Peter MacSwiney: I think we do now. There are computerised clearances. But of course the other thing that you can't forget is—okay, I think we could probably sort our side out. I think we could have done; maybe we possibly still can. But of course it has got to be replicated by the other side—I think the last major traffic jam on the M20 was caused by a strike in Calais. It is not just about our side.

Leigh Pomlett: That is a really important point. We can be as expeditious as we like, but we have to get those on the other side of the channel to act in the same manner. There is a whole set of new complications that that might cause. There is a lot to do.

Shanker Singham: On that point, some of the other customs agencies in other EU member states are doing quite a good job of getting tooled up, and maybe even a better job than we are doing. The Dutch particularly have been—you know, 900 new customs officials. We need to really expedite this.

One of the problems—perhaps my colleagues agree—is that at the policy level people in HMRC and so on are sort of understanding the issues, but by the time you get down to the person who's actually doing customs, they basically haven't got the memo on what this is really about—trade facilitation and not just blocking trade. So some of that training and teaching needs to happen urgently.

Q364 **Wes Streeting:** Charlie's questions open up pretty fundamental questions for us to begin with. The Government's negotiating position is clear, and the EU27's negotiating position is clear. Do you have confidence in politicians to deliver the Brexit deal that people voted for before exit day? Maybe we can start with you, Mr Singham, and work down the panel.

Shanker Singham: Exit day as in March 2019? I would expect that there can be an agreement in the March Council meeting for an implementation period that will last until at least December 2020. That is quite an important deliverable from that conference meeting.

What both Governments need to do is recognise the importance of coming to a trade agreement with each other and the massive losses that will occur if we don't. It is not just losses here. We tend to focus on losses here, but in Bavaria for autos and dairy and beef, in southern Spain for autos and dairy, and in northern Italy for textiles and dairy—there are huge losses potentially in Europe. And if you don't get a financial services agreement, the cost of capital in continental Europe is going to go up by a considerable number of basis points. That means deals will be aborted that would otherwise have been done and all the banks that are here looking at Europe will have lower deal flow.

So I think that making clear the costs of not having a trade deal is really, really important. Actually, it's more important in Europe to get people to start talking about those costs.

Q365 **Wes Streeting:** Mr Pomlett, do you have confidence in politicians to deliver a Brexit deal?

Leigh Pomlett: It is a tough question to answer. I am trying to remain extremely neutral about those things. I would say that they have a massive, massive task on. It is very difficult for me to give you an answer about whether they can achieve it in the timescales—alone, no; with help, possibly. And help from these sorts of sessions, and using agencies to help them, possibly, but it would be foolish to think that this is deliverable within the next 13 months.

Peter MacSwiney: I can answer that very simply: no. I don't know what people voted for when they voted to leave the EU. We have heard that they want to take back control of our borders, and here we are discussing, "Well, actually, how do we remove the controls with our borders?" So I am not sure that is actually taking control, but whatever.

We wanted to take back control of our laws. The Customs Bill is now chugging its way through the Commons, with some difficulty. The trade view is that it is a poor piece of legislation. You could take the view that we had more impact in discussing the Union customs code, which was a piece of European legislation, than we are having success in getting a UK Customs Bill through the Commons.

I don't know if anybody really was aware of the implications of leaving the single market or the customs union when the referendum took place. The last thing the referendum was about was international trade. As I have said before, I see no correlation between the political statements that are being made and a requirement for practical solutions on the ground.

Paul Mac Flynn: I would echo the same thing. It depends what you think fulfilling the Brexit referendum is. From a Northern Ireland point of view, a degree of frustration is building up in terms of the key concerns for Northern Ireland, particularly around how you are going to get over rules of origin and the customs union. There was the customs paper released by the Government back in August. I think you would charitably describe that as a first attempt. The fact that that just keeps getting rehashed in document after document means it feels like nobody is taking us seriously, that bigger issues are going to come along and the kind of Brexit that will be delivered, which is going to be whatever, just pops out at the end of this.

We talked at the start about the gains and losses from independent trade policy as if they are shared out equally. It is quite easy to calculate what the losses from this are going to be, and I would say that it is quite easy to calculate that the majority of them are going to be in Northern Ireland, and the economy of Northern Ireland is going to see very little of the aspirational gains from these wider trade deals. People in Northern Ireland are very aware of this and feel that they are not being listened to.

Peter MacSwiney: I would echo that. I was in Belfast last week and I speak to the small traders and freight forwarders and that size of organisation. I was last there six months ago and you could turn the clock back. They have had no discussions whatsoever in any meaningful shape or form. They are still as clueless today as they were initially on what is actually going to happen on day one—I keep coming back to that.

Q366 **Wes Streeting:** Mr Singham, you said in June 2016, just before the referendum, that whatever the vote, Britain should remain in the single market. Why have you changed your mind on that?

Shanker Singham: I don't think I said that. I wrote an op-ed two days before the referendum that came out in favour of remain, but what I said was that the reason I felt that way at the time was that I knew that this was going to be an incredibly difficult exercise. My issue was whether this was the right time to inflict this incredibly difficult exercise on the global economy and the UK economy and so on.

We take our starting point as the vote that happened. If the vote had been different, we would have had a different approach to how the UK could benefit from international trade and competition—but the vote was the way it was and I see no way of having a good result from Brexit without having an independent trade policy so you can capture the opportunities and the benefits of Brexit, which will therefore mitigate the necessary costs of leaving the customs union and the single market.

I think there are three fundamental contextual points. If they were different, your answer to this problem would be different. The first point is, what is the state of the global economy? What is the state of the global trading system? The global trading system is in crisis. We have not had a global round concluded for 23 years, which is a third of the lifetime of the entire post-war GATT system. As a result, global trade as a percentage of global GDP is down. Measures of industrial output are down, and down from before the financial crisis. The global economy is not doing well. We have had global trade effectively stalling in 2015 and regulatory protection and barriers around the world are on the increase.

The third contextual point is the direction of travel of European regulation, which I believe, as I said in that same article, is going in an anti-competitive direction. I think there are a lot of anti-competitive regulations coming out of the EU.

Q367 **Wes Streeting:** What kind of anti-competitive regulations are we talking about? What are the opportunities for deregulation?

Shanker Singham: Again, I don't think it is about deregulation per se; it is about moving towards pro-competitive regulations. You can look at it in financial services with things, such as MiFID II, that have put tremendous burdens on the financial services industry, particularly smaller players who then have to exit the market. You can look at the audio-visual directive, which has local content regulation. You can look at any number of recent regulations that have come out of the EU, which I believe is damaging to the overall process of competition.

That is what we want. You are concerned about anti-competitive regulations. It is not just regulation that increases the costs on business; it is about anti-competitive regulation and moving towards a pro-competitive regulatory environment. I think there is a lot we can do to improve that. There is a lot we can do with other countries to do trade deals that lower that level of distortion, create wealth in the global economy and make global supply chains move more effectively. That is the starting point. We started with that, and we said, "How can it be successful?" This is the only way that I see that it can be.

Q368 **Wes Streeting:** Where are your numbers on this? It is very easy to say, in the way the Government currently do, "Don't worry. Because we are global Britain, we are looking to seize opportunities around the world." The European Union is our single biggest trading partner. Through the single market and the customs union we have trade agreements with over 60 countries across the world. Where is this opportunity that we don't presently have? How is that going to mitigate and hopefully outperform the trade that we currently have through the single market and the customs union? Where are your workings-out?

Shanker Singham: First, looking at the level of trade that the UK has had with the single market and the EU27, if you go back to 1999, the percentage of UK global trade that was to the EU countries then was 60%-plus of our trade. Now it is down to 40%-plus of our trade. In a customs union and a single market, you would ordinarily expect that trade to be increasing, because supply chains in a customs union are reoriented inside the customs union. That is not happening.

Q369 **Wes Streeting:** But does that not demonstrate that, as part of the single market and the customs union, we are a global trading nation? You have kind of just driven a coach and horses through the argument that we need to leave because otherwise we are not a global trading nation.

Shanker Singham: The point is that our trade with the party that we are really focused on in a trade deal is decreasing. Our trade with the rest of the world is increasing, and there are huge opportunities there. Of the 60 countries you talked about, only about six or seven of them are critical. When we do a roll-over or novation of those agreements, those are the countries we will focus on. The countries that we really need to focus on are Switzerland, South Korea, Mexico, Canada, Japan when it comes through and maybe South Africa. There is a handful of countries that we need to focus on with those agreements.

The great benefit here is if we can do trade deals with the US and accede to the TPP. Accession to the TPP and deals with those countries by themselves are about 60% to 70% of world trade. The fastest growing areas of the world are not the EU27; they are the far east, south-east Asia, developing countries and emerging markets. We need to start facing those in a more effective way.

Q370 **Wes Streeting:** Hasn't the America First approach of Donald Trump underlined the compromise and trade-offs that will be involved in any trade agreement? There has been a reluctance to engage with the realities of trade-offs and compromises within the EU and elsewhere. Do you really think that when people voted to leave they were voting for the kind of future you are painting where we are focusing less on financial regulation? I am not sure people who voted leave in northern England would be happy to see the City of London subject to less regulation. I am not sure they voted for chlorinated chicken or chemical-pumped beef from the United States. Those are the kinds of compromises and trade-offs. I wonder at this stage whether you have been clear about the sorts of factors behind Brexit that were not economic. Do you really think people are going to get the type of Brexit they voted for?

Shanker Singham: I am not a politician, obviously, and I do not know what people voted for. I do not know what was in their minds when they went to the ballot box. All I know is that they voted to leave, and the only way that I think the UK can leave the European Union well and embrace the rest of the world well is through this kind of independent trade policy and through maximising the opportunities and minimising the disruptions. What we have sought to do is to see how that can happen.

With regard to America First, you make a very good point about the Trump Administration. They are a very different Administration to deal with, but it is not unusual for an American President to put America first—that is the normal way of proceeding. There is an opportunity for the UK, particularly now, which is that when the US Administration communicate with members of Congress or agricultural industrial associations in the US, they cannot simply be protectionist on everything. They have to have something in their trade agenda that is not protectionist.

The US Administration have made it very clear that they want to do bilateral deals with countries that are similar to them. A UK-US deal is very popular with members of Congress, with the President and with the Administration because we are broadly very similar economically. It will not be a race to the bottom in terms of regulations and it will not be offshoring of US jobs to the UK. That is why the Trump Administration favours that, and that is to our advantage.

Will there be trade-offs in the negotiation? Absolutely. People will have to make those choices when the time comes. If the Americans say, "We need you to make all these changes," and they have not offered much in return, that is probably not a good deal for us.

Q371 **Mr Clarke:** Mr Mac Flynn and Mr MacSwiney, part of Mr Streeting's questions were about the situation in Northern Ireland. I want to quote from an article by the Member for Belfast South, Emma Little Pengelly, about the report on Brexit 2.0 and the smart border. She says, "The report demonstrates that potential solutions are available, provided there is a will to examine them. That will has been clearly lacking, not only by some here who want to wish away the referendum result, but also by the European Union negotiators." Do you accept that that is a fair criticism of your position and that in effect you are hostile to Brexit as a concept and are therefore not looking for workable ways forward? You are looking to make it clear that you do not believe that this can work and we should therefore retreat from Brexit.

Paul Mac Flynn: That is a politician writing an article. None of us sitting here are politicians; we are not pushing any particular agenda. I think it has been cast by the Member's party, the DUP, as, "If the UK does not want to put up a border, let it be the EU that does it." It is incredibly irresponsible. I am fairly sure that it would be against WTO rules for the UK not to man part of its customs frontier. It is not that the solutions being put forward are not being entertained because nobody has bothered or that nobody is making enough effort; it is simply that some of the proposals being put forward contradict the stated aims of the wider UK position.

Put it this way: if somebody could show me a technological solution that would keep the border in Northern Ireland as it is now, then a lot of businesses in Northern Ireland would say, "That's fine. Go ahead." The problem is that the solutions and the prospective technological solutions that are being put forward are viewed with derision by many in the industry in terms of the time it would take to implement them and their feasibility.

There is a danger here with the technological solutions argument. There is a degree to which people say you start out with a soft border and all of these technological solutions that work in theory, but what happens if they do not work in practice? Then you end by saying, "The camera system wasn't really working. We need to increase spot checks." Then slowly you build up more and more infrastructure. People are sold a deal on the basis of a soft border and then we end up with a hard border because all of these wonderful solutions never worked in practice.

Q372 **Wes Streeting:** I just want to double check. Mr Singham, the quote I gave earlier was from your CapX article, "A Brexiteer reluctantly for Remain". The exact quotation was: "Whatever the vote, creating a situation where Britain is able to carve its own path with respect to certain agreements that relate to investment and regulatory issues while remaining in the single European market must be the next step in

Britain's European journey." That is why I took from that that you are arguing that we should remain in the single market.

Shanker Singham: We didn't vote that way, so we had to come up with a different set of mechanisms.

Q373 **Wes Streeting:** Sorry, your exact quote was, "Whatever the vote". That is why I was curious as to why you appeared to have changed your position from arguing that we ought to remain in the European single market whatever the vote to now arguing emphatically for being outside the single market.

Shanker Singham: Because I don't think it is possible to achieve an independent trade policy now while remaining within the European single market.

Q374 **Wes Streeting:** But shouldn't that have been made clear to voters before the referendum?

Shanker Singham: I was giving my own view of that situation at the time. At the time I was not recommending that we should remain in the single market.

Q375 **Catherine McKinnell:** To follow up on that, what has changed since you wrote that statement and now?

Shanker Singham: I wrote that statement in support of remaining within the European Union. What has changed is the vote.

Q376 **Catherine McKinnell:** What has changed about our ability to pursue an independent trade policy in the single market?

Shanker Singham: If the voters voted to remain within the European Union—

Q377 **Catherine McKinnell:** But you said "Whatever the vote". What has changed?

Shanker Singham: Since I wrote that article, my views about the independent trade policy of the UK have not changed. If you go back to the testimony I gave to this Committee very shortly after the June referendum—I think I gave that testimony in July—I outlined an independent trade policy. I made it very clear, as I have done all the time, that regulatory—

Q378 **Catherine McKinnell:** So your views haven't changed.

Shanker Singham: No, they haven't changed.

Q379 **Catherine McKinnell:** So the advice you are giving is based on the Government's stated aims, as opposed to your actual view.

Shanker Singham: No. I said in that article very clearly that if you align to the European regulatory system, however you do it—whether it is staying in the single market or a voluntary agreement to align—you will not be able to do deals with other countries, because you have to have the ability to have control over your regulatory system. That is what I argued in that article. If you look at the whole article, you will see that.

Q380 **Catherine McKinnell:** Okay. Mr MacSwiney, the trade group of HMRC's joint customs consultative committee, which you are on, issued a paper in January 2017 warning that the possible reintroduction of customs declaration requirements and frontier controls could cause major disruption at the border, particularly at ferry ports and for trade using the channel tunnel. Since that paper was written back in January 2017, have your concerns abated, or have they increased?

Peter MacSwiney: They have certainly not abated. The concern was pretty all-encompassing, and I think that is still the issue today. To take your colleague's point, I think that is a classic example of a political aspiration or a political statement taking no account at all of the practical issues they are dealing with. I think it is probably unhelpful, to be honest.

Q381 **Catherine McKinnell:** What investment and preparation needs to take place to abate your concerns about that disruption?

Peter MacSwiney: There are a lot of slick trade systems and customs entry systems out there. It is true that a lot of the industry still works on paper, but that is not necessarily as bad as it sounds. There are a lot of smarts going on out there. What seems to be missing is that nobody has looked at how trade actually works today—what information is available, when it can be given, who it can be given to and what they can do with it. We are starting from a position of having a conceptual idea internally within Government Departments, which say, "Look at what we have got now. How can we change that to work in Dover?" or, "How can we put that together with this?" I don't think that takes any account at all of the practical issues. The trade are very capable of coming up with a solution. If you go to the trade with a problem and say, "Well, what do you think?"—

Q382 **Catherine McKinnell:** So you are saying that what is required is some direction and clarity.

Peter MacSwiney: Just some realism, I think.

Q383 **Catherine McKinnell:** And the industry will resolve the issues?

Peter MacSwiney: I think so. They are the only ones who can.

Q384 **Catherine McKinnell:** Are firms already spending money on this? At what point do we get to the stage where firms have to take matters into their own hands because it might look like there is no deal?

Peter MacSwiney: As Leigh is saying, the problem you have got is uncertainty. If you look at it in its simplest form, there is a requirement to recruit hundreds more staff who are capable of doing customs entries. That is not an insignificant investment, both in time and in money. People are reluctant to do that now because everyone is sitting there with their fingers crossed thinking, "Do you know what? It may be okay on the day." Without certainty, people are reluctant to commit hard cash to it.

Q385 **Catherine McKinnell:** So people aren't actually spending money at the moment?

Leigh Pomlett: No, but most of the companies I deal with have Brexit committees, which are thinking through various scenarios and practical solutions to them. They are just not sure what the scenario is going to be. It is wrong to have in mind that we are waiting for something to happen. I am personally involved in quite a few workshops, looking at "what happens if" situations and doing some scenario planning. Let us look at the just-in-time systems that we have developed over the years—we have done the logistical design. Supposing there is an hour and a half delay at the border, what would that mean to a just-in-time manufacturing plant? That scenario planning is going on.

Q386 **Catherine McKinnell:** I was going to ask you about that. The Government have proposed technological solutions to preserve that roll-on roll-off trade. Have you thought through, or have the Government thought through, what exactly are those technological solutions that will enable trade to be as efficient as it is now?

Peter MacSwiney: I am not sure; I am not aware of any.

Q387 **Catherine McKinnell:** And who is going to foot the bill for those technological solutions?

Peter MacSwiney: I think that trade always pays. The criticism I have always had of any of the systems is that Government only look at the cost to Government; they do not look at the overall cost to industry. Wherever possible, they kick the cost back to industry. I am not aware of any hard suggestion for a technological solution at a ro-ro port that has been discussed with any degree of intention of deploying it.

Q388 **Catherine McKinnell:** So for industries such as the automotive sector, which very much rely on just-in-time manufacturing, is there any certainty about how efficiently they will be able to operate with these technological solutions?

Peter MacSwiney: Not that I am aware of.

Catherine McKinnell: No clarity yet.

Peter MacSwiney: No.

Q389 **Catherine McKinnell:** Does HMRC have the customs capability, capacity and resources to meet the challenge of implementing these technological solutions?

Peter MacSwiney: Just customs would probably get there. But it is not just customs, of course: you have Border Force, which deploys customs policy. There seems to be a reluctance, as we said earlier, to introduce things such as self-assessment and post-accounting. Unless they introduce some pretty radical customs facilitations, no. But if they were to deploy some other weapons in their arsenal, then yes, I think they probably could do it.

Leigh Pomlett: This is not just about customs, though; this is about scenario planning. Just-in-time applies to all industries, not just the automotive industry.

Catherine McKinnell: Pharmaceutical, food—

Leigh Pomlett: Yes—most, actually. Whatever the disruption is, the lesson is the more we can keep our manufacturing in the way that it is today. I want to convey the planning that is already going on within the industries. Irrespective of what we do, we are not sitting and waiting for something to happen. There is an awful lot of thought and planning going in in the various industries I work with, to manage the consequences, whatever they may be. There is a huge amount of scenario planning going on.

Q390 **Catherine McKinnell:** But you are not necessarily prepared for anything at the moment.

Leigh Pomlett: We are prepared through "whatever you throw at us, we will find a way" planning, but we are not sure what it is that they will throw at us. If you go to one of those meetings, there are "what happens if" scenarios.

Q391 **Catherine McKinnell:** I want to follow up with you, Mr Singham, on the question that Wes asked you, in relation to the roll-on, roll-off trade. Given the comments that you have made, do you think it is sustainable outside the single market and the customs union?

Shanker Singham: Yes, I think it is. On the points that were made here, it is if HMRC started really putting some pressure on some of these new systems, or things that are part of the Union customs code, such as self-assessment and pre-clearance in the CSFP, which is an integral part of the CSFP. Building on the CSFP mechanism were things like inward storage relief, which we have explored. Then there are mechanisms that can be used to limit the disruptions that will come from leaving the customs union.

Q392 **Catherine McKinnell:** Limit or eliminate?

Shanker Singham: Not eliminate. You are moving from a free circulation world to a world where there will be some checks of some kind. You have to remember that throughout the world the whole idea, and why the WTO trade facilitation agreement was agreed, was to lower the level of customs barriers that we face. This is an old world problem. This is a problem where the dynamics are towards fewer and fewer barriers anyway, never mind Brexit.

Q393 **Catherine McKinnell:** To give you a very specific example of time-critical pharmaceutical deliveries, or food, if you are putting additional barriers in place that aren't there, that exist now, then presumably that trade will be impacted.

Shanker Singham: There is a difference between putting barriers in place and trying to ensure that customs mechanisms work. It takes two parties to do that. So, again, one of the things that we need to do is work with customs agencies from other countries so that we get the customs agencies talking to each other. There are some good examples of that. I think the interactions between private port operators and ports—particularly Zeebrugge and some of the other ports in Europe—are pretty good. Actually, because they are having those conversations, they are having conversations with customs agencies as well.

Q394 **Catherine McKinnell:** Have you had a look at any particular regions? For example, the north-east exports 61% of its goods to the EU. Have you had a look at this from a regional perspective?

Shanker Singham: We have looked at it a little bit. I would suggest actually that other people have looked at this really closely, like the British Ports Association, which has more ports in the whole of the UK than anyone else.

Q395 **Catherine McKinnell:** Also the Government predicted quite awful impacts if we do not get a deal.

Shanker Singham: Right, but what is going to happen is that if these Dover-Calais issues cannot be properly resolved, according to Associated British Ports, a lot of its other ports in the UK will be beneficiaries, because of all the trade that will simply move. The idea of doing free ports as well, with some of these other ports in the north of England, is absolutely something that I would concur with.

Catherine McKinnell: Which already exist in the European Union.

Shanker Singham: They don't—

Chair: That leads neatly into Alister's section on free ports.

Q396 **Mr Jack:** I will address the first few questions to you, Mr Singham, if I may. Do free ports have the potential to boost investment and employment in coastal port communities, the test being additionality, creating more economic output and more jobs, rather than drawing that in from somewhere else?

Shanker Singham: I think they do. I think they are a very good idea. There are a number of UK ports that have significant land, which will enable them to do all kinds of manufacturing processes and so on within the port system, improving logistics. Most other countries outside the European Union have a significant foreign trade zone component to their economic development, and there is no reason why the UK cannot do so. It is a way of stimulating economic activity, deriving more jobs and so forth, and I would recommend it.

Q397 **Mr Jack:** The Prime Minister said she would keep the proposal of free ports under consideration. What points of consideration will she need to pay attention to? For instance, is the Treasury potentially a blocker of this idea?

Shanker Singham: There is always a debate in the Treasury between those who want the money now, so people who want the tariffs to remain in place or to apply to that region, and people who believe that if you lower those costs you will actually get more trade and therefore more revenue through taxes and other things. So it is always the static versus the dynamic equation that the Treasury is considering. I come down on the side of the dynamic benefits of things like special economic zones and free trade zones. I think that if you lower taxes and tariffs you increase economic activity.

Q398 **Mr Jack:** Do you think that HMRC is concerned about smuggling? That might be a question for you as well, Mr MacSwiney.

Peter MacSwiney: I am not sure that there would be any more risk of smuggling with free ports than not, to be honest. It is not my area.

Shanker Singham: They are very well secured—every foreign trade zone is very well secured—so it won't increase, any more than you currently have a level of contraband or smuggling.

Q399 **Mr Jack:** If the UK is no longer in a customs union, would that be a significant opportunity? I think you are saying yes, but to what extent?

Shanker Singham: It is an opportunity—it is one of many things that you can do. I think sometimes we focus on one silver bullet that fixes everything. There isn't a silver bullet that fixes everything. Then we have this conversation about technology. Technology is not going to fix everything. I think it is a very important component, and frankly it is being used all over the world anyway. All of the things that were suggested, that we suggested, that Accenture suggested—everyone suggested—is being used everywhere in the world anyway. What I think you want to do is come up with a series of things that you do at the same time, and create a package. Free ports absolutely are part of that package.

Q400 **Mr Jack:** Is there anyone on the panel who does not like the idea of free ports?

Chair: I assume that people know and have looked in detail at them.

Leigh Pomlett: I am not a qualified accountant.

Paul Mac Flynn: Me neither.

Mr Jack: It is a win for free ports, then.

Q401 **Mr Clarke:** Just to go to Catherine's point about the fact that free zones exist under EU law, which I think is in reference to a letter by the Chancellor as well, I just want to get to the heart of this question. Mr Singham, perhaps you can help us with this. Bremerhaven is cited as an equivalent of a free port. As I understand it, it does not have the same flexibilities that we are talking about, in terms of being outside customs duties, and therefore you pay duty only when you cross the land boundary of the port. In effect, all of this is conditional upon Commission approval, for a start, hence why free zones are so comparatively unusual in the EU at the moment, compared with the rest of the world.

Shanker Singham: Yes, and the Poles tried to do a special foreign trade zone, basically, and they were unable to do that for quite a long time. The EU does allow it, if people press enough, but these are fairly limited constructions compared with, let us say, the foreign trade zone law in the United States—

Mr Clarke: Or Shanghai.

Shanker Singham: Or Shanghai or any of these other things. What you want is zero tariffs as product comes in—you can manufacture it, you only incur a tariff in the country of destination—and that you can do other things. There are a lot of other things you can do with special economic zones. In the rest of the world special economic zones are used to improve regulatory environments, to improve immigration environments. There are all kinds of things that countries are doing.

Q402 **Stephen Hammond:** Good afternoon, gentlemen. Thank you for coming to give evidence. I apologise that I will have to go—our sessions are not normally as fascinating and so don't often run on this long—

Chair: That is a compliment.

Stephen Hammond: Although the questions may not be, I am afraid. Mr MacSwiney, you said in a Twitter post, "No politician wants to talk about how we will present goods to non existent Customs officials at locations where there hasn't been a border for decades. They don't seem to inhabit the real world. And don't keep telling me AEO is the answer". So help me, because I would like to live in the real world. You are telling me that AEO is not the answer. The IOD told me last week that trusted trader is not the answer. This afternoon I have heard about technological solutions, drones, airships, ANPR cameras, borders away from borders, non-verifiable self-assessment schemes, mutual recognition schemes that do not exist anywhere else in the world. Which one of these, if I want to live in the real world, should I advocate?

Peter MacSwiney: For me, it is about the definition of where the border is and what controls that border. We have been talking for probably the last 10 or 12 years about the feasibility of the port inventory systems actually dealing with the admissibility of goods into the country, so you would give advance information about what you were shipping. That would go through a series of risk analyses, probably by a Border Force system, and then when those goods came in they would be free to move without any further inhibitions and they would be accounted for at some later date. So that is kind of where we are at.

Q403 **Stephen Hammond:** So it is a border away from a border. We will have a border—just not where it is at the moment.

Peter MacSwiney: Yes. You have got an electronic ring fence. This works now with the transit system, which a lot of goods coming through Dover do. You know who it is coming from and you know where it is going to. Those places certainly are not around Dover. They will come to inland locations and they are allowed to move freely, so I don't see a problem with extending that. You would have the option, of course, with pre-clearance, which is allowed under the UCC.

Q404 **Stephen Hammond:** But you would need both sides to agree the pre-clearance.

Peter MacSwiney: I am not sure, actually. That may be the case.

Q405 **Stephen Hammond:** But it would hinder if you did not, because only one side would get the benefit.

Peter MacSwiney: I think we could probably introduce pre-clearance on the stuff coming in—

Q406 **Stephen Hammond:** We could, but what I am saying is that if we do it unilaterally then we do not get the benefit going the other way.

Peter MacSwiney: No, but it would free our goods coming in. It may not solve the problem of our goods going out.

Q407 **Stephen Hammond:** At that point we might as well just open the border, mightn't we? Come one, come all. Look, when the chief executive of HMRC came in, in September, he was asked in some detail about the timings to put in place the new customs partnership and the streamlining. He said that the transition period is set to finish at the end of 2020, I think. He then said that the highly streamlined customs arrangement would take three years, and the customs partnership would take five years to put in place. What should we do in the period between 2019 and when the systems are implemented?

Leigh Pomlett: There must be a way of accelerating that pace of change. The systems will be required in 2020. In the meantime, there will be a number of practical measures that we could take—you mentioned some of them. It is a bit ugly and a bit untidy, but they are measures that we would have to take to keep traffic flowing until—

Q408 **Stephen Hammond:** When I am debating in the House of Commons on this, and it is claimed that there is this gap, which one should I advocate?

Peter MacSwiney: I am really unclear about this five years. I do not like the new customs partnership. I think it is a ridiculous suggestion. It seems to be based partly on the IPR regime, which is probably the single largest regime within HMRC that has fiscal anomalies and non-compliance. It seems to be coupled with the enhanced end-use process, which again tracks goods. That was very unpopular with the trade when the UCC added some bells and whistles to it. I am very sceptical that that solution would ever work, but even if it were to be deployed I cannot see what HMRC is building. This is all based on trade systems, so I am not sure where he got five years from.

Q409 **Stephen Hammond:** So the pushback to Mr Thompson should be: why is he estimating it to take so long?

Peter MacSwiney: You could ask him what he is thinking of building, to be honest.

Q410 **Stephen Hammond:** Mr Mac Flynn, in preparation for this session I met the British Irish Chamber of Commerce, and they told me that 50% of the UK's trade is with the EU. That rises to 60% when you include countries where we have trade deals at the moment. I want to ask you two questions. They told me that the trade that we do with Ireland in one week is more than we export to New Zealand in a year, and we export more to Ireland in one year than we do to Brazil, Russia, India and China combined.

My first question is this: do you recognise those numbers, and are they approximately the right orders of magnitude? Secondly, given that you are an all-Ireland think-tank, how realistic is it that the UK will be able to replicate something that will ensure that that value of exports can be maintained under any new arrangement?

Paul Mac Flynn: The numbers sound broadly correct. The issue came up with the paper last week about a border going down the Irish sea. It is in the interests of nobody on the island of Ireland to have a border going down there. That is why the position of the Republic of Ireland Government has always been that they want the border issue dealt with under option A, as part of the entire free trade deal. There is a lot of talk about cross-border trade between Northern Ireland and the Republic of Ireland, but it is dwarfed by the trade going across the Irish sea from the Republic of Ireland to Great Britain, and there is the same issue for Northern Ireland and Great Britain.

There was a recent release from the Northern Ireland Statistics and Research Agency showing the profile of firms in Northern Ireland that are trading with, or have external sales to, Great Britain. There are a small number of very large companies. The ones that are trading from Northern Ireland to the Republic of Ireland are all very small, so the administrative burden in terms of a hard border on the island of Ireland is what the worry is there.

I don't think that in the most dramatic scenarios the UK's trade with Ireland is going to evaporate after the implementation period, and you cannot know what the new opportunities in the trade deals in the far east and all these places are going to be, but you would almost have to be in the realm of Pollyanna to think that they could replace the—

Q411 **Stephen Hammond:** The numbers that the British Irish Chamber of Commerce quote to us—well, they actually didn't give me numbers. I like numbers, because then I know whether people are telling me a story or giving me numbers. But broadly speaking, do you think the relative magnitudes they are talking about are right?

Paul Mac Flynn: I know that, from the Republic of Ireland's position, you are talking about up to five to six times the amount of trade going across the channel to Great Britain than is going to Northern Ireland. I would not be able to be more definitive about GB trade coming back.

Q412 **Stephen Hammond:** I have one further question, Mr Singham. It goes back to the point about me quite liking numbers. We all accept that the stated aim is to have an independent trade policy. What I am struggling to understand—I think this is important—is exactly which countries the UK wants to have an independent trade deal with that it does not already have a deal with, or soon will through the EU, and what those deals will do and what terms we will be able to strike, such that it is value enhancing to the UK economy. It clearly won't be the US; we have seen that. China wants to trade only on its rules. I went on a delegation in 2005 to India to liberalise financial services; we are no further forward. The EU is forming a deal with Australia and New Zealand and with Japan anyway. So I reiterate: do you have numbers that you can give the Committee about where the opportunities of the independent trade policy outweigh what we have at the moment?

Shanker Singham: First, it is not about trade deals with certain countries versus a trade deal with Europe. Your independent trade policy includes your trade agreement with the EU and what you can do unilaterally. In fact, most of the benefits that you have from this independent trade policy are what you can do unilaterally, and whether the UK—

Q413 **Stephen Hammond:** Unilaterally—what value is that?

Shanker Singham: It could be very significant. If you have control over your tariff schedules and your domestic regulatory system and are therefore able to lower your tariffs on things like food, clothing, textiles and so forth, and agriculture that—

Q414 **Stephen Hammond:** Absolutely, but there is every evidence that the single market has been one of the great lowerers of tariffs, to the benefit of the consumer.

Shanker Singham: I am not sure that the rest of the world would agree that the European—

Q415 **Stephen Hammond:** Well, no, but look at the benefit—the value—to the UK itself. Has your institute done any analysis that is quantifiable?

Shanker Singham: I have spent a lot of my career looking at anti-competitive market distortions around the world, and we have done analysis of the impact of reducing those market distortions. Let us say that the UK, as an independent trade actor, can, through acceding to the TPP, through a US agreement, give rise to a reduction in distortions. We believe, in terms of order of magnitude, that if you look at the TPP 11 countries, plus the UK, plus the US, and you assume a 20% reduction in distortions in those countries over a 15-year period, which is a fairly conservative estimate, you could get an injection into global GDP of between 0.3% and 0.4%, which is massive.

Q416 **Stephen Hammond:** This is global GDP. Some people don't agree with the analysis by the Government, but of the scenarios there, the worst one is that by leaving the customs union and the single market, we see a—well, the best estimate is that we see a 2% drop for the UK, and you are suggesting a 0.4% increase.

Shanker Singham: That is for global GDP.

Q417 **Stephen Hammond:** Okay, so what is that to the UK? Because that's really important. Dealing with the UK is important.

Shanker Singham: I know, but this is a world of global supply chains, so when you do inject that kind of volume into global GDP, it is UK supply chains and UK companies—

Q418 **Stephen Hammond:** But the closest supply chain relationships that we have are with the EU, and on the best deal we can do at the moment we are going to be 2% down.

Shanker Singham: First, those numbers are based on a set of assumptions that I think are questionable.

Q419 **Stephen Hammond:** Some people around this table might say that your numbers, your assessment and your assumptions are questionable—we have to deal with what we've got.

Shanker Singham: The point is that if your model is based on an assumption that the UK is not going to change at all, which is what it is based on—

Q420 **Stephen Hammond:** No, it is not. I have said that there are three different scenarios, and the UK changes in all those scenarios.

Shanker Singham: No, they don't assume that the UK domestic regulatory system will change; they assume that the UK will do deals with particular countries. That is a different thing. And no one estimates the benefits of a trade agreement without having negotiated the text, so when the ITC did the study of the TPP agreement, they at least had a text to look at. There is no way to know the benefits of a UK-US agreement that you haven't even begun to negotiate, because there could be a tariff agreement—

Q421 **Stephen Hammond:** So we have no way of knowing the upside. You are really saying that there is no way of knowing the downside or the upside; it is just generalised comments.

Shanker Singham: Well, no—

Stephen Hammond: That is what you told me.

Shanker Singham: You can give a direction of travel and you can get an understanding of what the trade costs of divergence would be, but my fundamental point is that, on the benefits of reducing distortions around the world, because regulatory protection is so high and increasing—it has increased so significantly since the financial crisis—there are huge surpluses available in the world.

Q422 **Stephen Hammond:** Indeed. This is my last question—otherwise I will miss the train. I understand that our average weighted tariff with the US at the moment is 2%.

Shanker Singham: Yes, I agree it is not about tariffs with the US.

Q423 **Stephen Hammond:** That is right. It is not about tariffs; it is about non-tariff barriers. That is one of our next sessions. But that is the biggest block to us doing anything. That is the problem, isn't it?

Shanker Singham: It is services liberalisation and whether we can get better services liberalisation with the US—things like the application of Buy America, for example. You are not going to change Buy America for the UK, but you might be able to change the way the US Administration uses Buy America for UK firms. It is also defence trade. You could be part of the overall US defence sector so that you are relieved of the burdens of ITAR and the other import control regulations. There are huge benefits there if we are able to pick them up.

Stephen Hammond: Thank you. Again, I apologise for having to leave.

Chair: Charlie Elphicke has a brief supplementary question.

Q424 **Charlie Elphicke:** What has happened to the share of global GDP in the European Union in the last 40 years? In the future, what percentage of global growth is predicted to come from outside the European Union? Can you clarify that for the Committee?

Shanker Singham: I do not have those numbers off the top of my head, but I can say with certainty that the share of GDP of the rest of the world has increased enormously. That is obviously because of China and India and other developing emerging countries. It is not a shock to say that the fast-growth countries in the world are in emerging markets—that will not shock anyone.

The other answer to your question is that, in terms of dynamic environments, the Global Entrepreneurship Monitor has estimated that, of all the regions of the world, the EU is at the bottom of the list in terms of rates of entrepreneurship. The UK is at the top of a relatively low-performing group. One of the big gains here is to actually have a more entrepreneurial environment here in the UK.

Q425 **Chair:** How many new businesses were set up in the UK in the last year?

Shanker Singham: I don't know. But it's not about start-ups—

Q426 **Chair:** I think we heard it in evidence yesterday, but colleagues will correct me if I am wrong. Wasn't it 500,000?

Mr Clarke: It was of that order of magnitude.

Chair: It was of that order of magnitude. That is pretty entrepreneurial, isn't it?

Shanker Singham: Well, no. I would say this is why the Global Entrepreneurship Monitor does not rate that: entrepreneurship is not about start-ups.

Chair: It's not?

Shanker Singham: No, it is not. Start-ups is very easy: a Government can throw lots of money at them, and lots of people with start-up businesses would all fail in a year. Most entrepreneurs' businesses actually fail within a year or two. What you are trying to do is incentivise that three to five-year growth period for an entrepreneurial company, because that is when they employ people.

Q427 **Chair:** I am sorry; I think that is a redefinition of entrepreneurism. Entrepreneurs will be sitting outside, listening to this, being told that they are not entrepreneurs, but they have done start-ups, which is a hugely stressful thing for someone to do. Of course some businesses will fail, but many will succeed.

Shanker Singham: The Global Entrepreneurship Monitor was a product of Babson College, which I was affiliated with before my current affiliation, which is the leading entrepreneurship teaching institution in the US for undergraduates. They will tell you that what you are really trying to do with entrepreneurs is get that three to five-year period of growth, because that is when they employ people. They employ more people in that period than any other large business. That is the backbone of the economy.

Q428 **Chair:** It sounds like a redefinition of entrepreneurship from the one most people in this place and in this country would consider.

Shanker Singham: That is Babson's view.

Q429 **Stewart Hosie:** Can I deal with some practical points? Mr Pomlett—I will come back to Mr Singham at the end—what are the implications if the customs declaration service is not fully operational by next March and no agreement has been reached with the EU on how customs should be dealt with? What would the implications be on the ground?

Leigh Pomlett: I do not want to use extreme language, but you could end up redefining the way we manufacture in the UK because you would not be allowed to flow material in a just-in-time way, as I referred to earlier. You are redefining the way we manufacture.

Q430 **Stewart Hosie:** So this is partly driven by country of origin-type matters as well as by simply getting the materials in and out.

Leigh Pomlett: Yes. I work with companies where the majority of their supply base is European-based. If you were to delay the material coming in, you would have to re-engineer the way you manufacture. Do not underestimate the costs associated with that. You make money by flowing things, not by stopping them. If we introduced a degree of blockage in the system, we would redefine the way we manufactured and the way we operated logistics across Europe.

Q431 **Stewart Hosie:** You said earlier that the number of customs declarations could increase from somewhere around 55 million to 255 million in the case of a no deal scenario.

Leigh Pomlett: Yes.

Q432 **Stewart Hosie:** How would the manual system fall-back provision cope? Could it cope?

Leigh Pomlett: No.

Q433 **Stewart Hosie:** Tell me what it used to be like in the 1970s, when nobody sold anything, and how things would fall apart today. Give us a flavour of this.

Leigh Pomlett: It is a miserable experience. The very prospect of doing this by paperwork—seriously, it is physically an impossibility to do that, even if you could train people to do it.

Q434 **Stewart Hosie:** I am going to come to that with Mr MacSwiney. There used to be shipping agents on the high street. That is what they did. Those businesses seem, by and large, to have gone.

Leigh Pomlett: They have gone, because you do not need them. You almost have to rewrite history in some respects. There may be a hell of a trade in those companies. You would get the rebirth of those sorts of organisations to make money out of the fact that you had to do this. I remember the days when trucking companies across Europe made money by stopping. It has changed: you make money now by flowing. We could go back to those days. We need to be extremely mindful of that, not necessarily from a freight movement perspective but, as I mentioned, from the perspective of the impact it has on the way we manufacture and replenish in the UK economy. The implications could be considerable.

Q435 **Stewart Hosie:** That is helpful. Mr MacSwiney, you have previously said that you think it is more likely than not that the CDS system will be ready. Systems are one thing, but the serious processing of customs also relies on trained staff. How confident are you that there will be remotely enough trained, qualified, skilled people, even if the system is in place, once we get to next March or even beyond a two-year transition period?

Peter MacSwiney: If you are talking about trained staff to do frontier declarations, there is no chance of having that lot. I have given Customs a hard time, so I will try to give them a bit of support here. I think the CDS system will be available to process declarations. The strategy for that is good. It is worth pointing out that Brexit was never on the table when CDS was envisaged. The plan to deploy CDS is to remove the ex-warehouse declarations from CHIEF, which I think is about 75% of the current volume on CHIEF. That is relatively straightforward, because it does not require a frontier declaration. It does not require a declaration as such; it requires data to be sent to the system. What is complicating that is the move towards the UCC datasets. For me, that is one change too many at the same time, but it would be feasible to remove those entries from—

Q436 **Stewart Hosie:** If you have a paper, or if you could write to the Committee on the UCC changes in the terms you have just described, that would be helpful for us, rather than going into that depth today. That would be very useful.

Leigh Pomlett: Yes.

Q437 **Stewart Hosie:** Thanks. Mr Singham, you have said a great deal today. In your first answer to the Committee, which seems about five hours ago, you started off with a number of ideas about how the UK could craft an independent trade policy and how that could be made to work. There is nothing wrong with that—ideas are good—but can I ask, as you have come up with those ideas, how many days have you spent at an air freight handling depot?

Shanker Singham: When I was in the USA, I represented DHL and the express delivery industry, so I have done a lot of work on facilitation measures and so forth, but my background is as a lawyer and an economist, so it is not really—

Q438 **Stewart Hosie:** Indeed. It is quite important. Have you spent any time at a cross-border ferry or a ro-ro terminal to see how stuff is handled, shipped, checked and moved?

Shanker Singham: Yes. When you represent a client like those companies, you do a lot of work on trade facilitation and those measures. But as a lawyer and an economist, not as these gentlemen are—

Q439 **Stewart Hosie:** That is what I am trying to get to. The legal and policy aspect is fine, but have you actually spent time in a rail marshalling yard or in the cab of a cross-border wagon being stopped at customs and immigration? I ask because it is all very well to come up with the ideas, but without the practical experience of how it will affect the industry on the ground, people will just roll their eyes.

Shanker Singham: But that is our function. We have a paper that we would love to share with the Committee, which we are doing with ACITA, about things that UK Customs could actually do. They are people who are customs professionals, like my colleagues on the panel, who spend their lives working with those issues. What they want from us are the legal and economic interpretations and we work together. That is just how you produce good policy.

Q440 **Stewart Hosie:** Okay. Let us take that at face value in terms of ideas around those areas. In terms of inspections, you suggested earlier that in order to stop vehicles being stopped, they could be restricted to meat products, livestock and that kind of thing.

Shanker Singham: Those are things where there are inspections at border posts, yes.

Stewart Hosie: Indeed, and fair enough so far, but if the livestock wagon is the first one off the ferry, all the other wagons on the boat will get stopped anyway. So even if the exemptions were there and the number of inspections were limited, it does not stop the potential damage. Other exemptions were discussed—perhaps SMEs—but as we heard earlier, if there are 40 consignments on a wagon, and even one is from a non-exempt company, everything gets held up anyway. I wonder if the policymakers in the institute and elsewhere—the proponents of Brexit—really understand the practical implications of what is coming down the line, potentially as early as next March. That is really the question. Do you think there is any real understanding in the academic and theoretical world of the real-life implications of what this is going to do?

Shanker Singham: You make a good point. It is very important for the academic and theoretical world to work with industry professionals, which is why we are doing our work with ACITA, and with people who actually have to do these things. In terms of the particular problem you outlined, that is one of the reasons—trade facilitation and business facilitation has been a topic for 25 years. It goes back to my work on the free trade area of the Americas long ago in the mid-90s. We talked a lot about, and we were trying to promote, green channels and other ways that you can expedite people who have pre-clearance through faster channels, so you do not have the one person who has not filled in any paperwork suddenly stopping everybody at the border. That is a discussion that we were having 20 years ago. There are mechanisms that you can put in place—

Q441 **Stewart Hosie:** I agree entirely. There are many mechanisms—all sorts of green channel-type options—but by next March? By March 2021? A completely revised, rewritten, trained, implemented system to speed up the process?

Shanker Singham: Broadly within that area is what Customs has talked about as maximum facilitation, and that is what HMRC is saying will take five years to do. If you are looking at that timeframe, you are looking at between now and March 2021 or December 2020. If we aggressively pursue these things, I think it is possible to get this accomplished in a three to four-year period—let's say a three-year period. We are where we are.

Q442 **Stewart Hosie:** With the best will in the world, there are two parties at the table—one of them isn't us, and it may take a different view. Let me just come back to the practitioners for a moment. This is my final question. Everything we have spoken about is based on what happens at this end—going out, not coming in. What happens if there is a different or a stricter interpretation of even liberal rules on the other side of the continent or the other side of the world? What happens to cost? What happens to supply chain? How does that get handled?

Peter MacSwiney: With difficulty. A lot of the discussions we have had with customs over the last few years are partly about speeding things up—everyone wants it to be quicker. What is more important—this was mentioned earlier—is certainty. You want certainty of clearance. If it takes 48 hours, you might not like it but at least you know what you are working with. Different interpretations and different regimes make it next to impossible to get that certainty.

Leigh Pomlett: I always hesitate to quote numbers, but I have read and heard of a cost of £4 billion associated with customs costs as a result of this.

Q443 **Chair:** This is on UK businesses?

Leigh Pomlett: Yes. I am not sure what I am going to do with that, but the industry hasn't got the financial clout to deal with it. I am not talking about the freight industry; I am talking about industry in the broad sense.

Chair: Industry generally. Did you say £4 billion?

Leigh Pomlett: Yes, £4 billion.

Q444 **Stewart Hosie:** Can I ask a little supplementary question? I understand from friends that the margins in freight haulage are tight.

Leigh Pomlett: That is true.

Q445 **Stewart Hosie:** If the cost of business shoots up, in the worst case scenario these businesses are simply unsustainable.

Leigh Pomlett: Yes. Let me repeat this so that I am clear. The £4 billion does not relate to the freight industry; it relates to industry. It is true that the freight industry, by and large, is a low-margin business. This is supremely unhelpful in that regard, because the cost is going to come and there is no way the industry will absorb it; it couldn't. It will pass it on, and it will may well come through in consumer costs.

Q446 **Chair:** Thank you very much. One final question, which you may or may not have a view on. One of the borders we haven't explored this afternoon is Norway-Sweden. We have talked about technology and all the things that could be put in place. There has been talk of whether Norway-Sweden provides a model, particularly for the border between Northern Ireland and the Republic. I wonder whether any of the panel has done any work on how Norway-Sweden works. I understand that there can be checks at that border, which I think can take 90 seconds per truck. Mr Mac Flynn, is that an area you have looked at?

Paul Mac Flynn: Yes, but mostly just on the basis that it is put forward as the example of where technology works. You can have the most advanced technological border, but in some cases it still requires stops and physical checks. It emphasises the point that Norway is outside the customs union. If you could get that complete frictionless trade border outside a customs union, why would anybody join one? It goes to the definition of a customs union and the motivation for one in the first place.

Leigh Pomlett: I have been there. It is a question of volume. You can be on the border and you will wait a while for a truck, so we are not talking about 10,000 a day. What always concerns me about systems solutions is stress testing them against the scenario we are describing here, which is one of huge complexity and volume. Drawing a technological parallel with what is happening in Sweden and Norway is interesting and should be explored, but I don't think we should draw the conclusion that there is a solution and that we should copy it.

Shanker Singham: The only point I would make is that Norway is obviously an EEA member, so in terms of product regulation there is a different collection of facts from our situation. The EU-Switzerland border is also interesting to study. It is more relevant to us because it is not an EEA member. It is not entirely the same as our case, because it has multiple sectoral agreements with the EU. It is not a complete analogy, but it is a better one to look at.

Chair: Thank you all very much indeed. You have been generous. This has been a long session, but it has been fascinating. I detected strength of opinion on both sides of the table—from the panel and from members of the Committee. This is undoubtedly a complex issue. We thank you very much indeed for your time this afternoon. If on reflection, having thought about the session, there is anything further you want to add—Mr Singham, you mentioned a report, and Mr MacSwiney, you were going to send us something on the Union customs code—please feel free to write to us. Thank you for your time.