

Exiting the European Union Committee

Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372

Tuesday 20 March 2018

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Members present: Hilary Benn (Chair); Joanna Cherry; Sir Christopher Chope; Richard Graham; Peter Grant; Jeremy Lefroy; Emma Reynolds; Stephen Timms; Sammy Wilson.

Questions 1163 - 1197

Witness

I: Dr Lars Karlsson, President of KGH Border Services, former Director of World Customs Organisation, Deputy Director General of Swedish Customs.

Examination of witness

Witness: Dr Lars Karlsson.

Q1163 **Chair:** Good morning, Dr Karlsson. Can I, on behalf of the Committee, thank you very much indeed for coming to give evidence to us today? This is part of an inquiry we are undertaking into the future of our trading and economic relationships with the European Union. We have read your report, *Smart Border 2.0*, with great interest and we wanted to have the opportunity to ask some questions of you about the report.

For the record—you know this, but it is just for everyone else—you are president of KGH Border Services, former director of the World Customs Organisation and deputy director-general of Swedish customs, so you have a great deal of experience.

My opening question to you is simply this. In the model you describe in your report, if I were driving a lorry heading for the border between Northern Ireland and the Republic of Ireland, what would I see under what you envisage and what would I experience? I am trying to get a mental picture, given the very high bar the Government have set about what they do not want to see on the border between Northern Ireland



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and the Republic. At the moment, there is nothing there.

Dr Karlsson: Thank you very much, Chair. Good morning to everybody. It is a great honour and a privilege for me to be here and to discuss this with you this morning. Before answering your question, which is a very good one, I would like to say a few words, if you would allow me to do that.

As you explained, I have had a long career in public service. I have worked with the reform and modernisation of customs and borders for more than 30 years. In that capacity, and also having worked in more than 120 countries, I was commissioned by the European Parliament last summer to do a study on what is possible within the international customs law in relation to international standards and best practices today. What would be the optional model if you actually modelled a border?

The task was to model a border not specifically for the Ireland-Northern Ireland situation but for the post-Brexit situation for the entirety of the UK and the EU. However, it should also obviously be applicable to this land border we are talking about. I say that because it is important to understand that that is where the report put its focus. That was what I wanted to describe.

What is interesting is the fact that a number of things need to happen from a strictly technical perspective. Let me also say that I am here as a technical expert. I am not an expert on Ireland; many others are. I am not an expert on the political dimensions of this issue. I would like to continue discussing this from a technical perspective, specifically because I am Swedish, so I am of course neutral. We are always neutral when it comes to politics.

To your question, it depends on three things, really. There are three things you need to do from a strictly technical, professional point of view when the situation appears in which you are moving goods or people from one territory to another. The three things are these. First, there is a dimension in relation to the international conventions and laws that are there, i.e. what happens when you actually trade. Secondly, there is obviously a dimension around trade policies. Thirdly, there is the dimension of security and safety.

The level you will see at the border depends on the level the two partners would like to have in each of these three dimensions. We normally do not define these things as a hard border. It did not exist until this situation we are talking about right now actually appeared.

Now, what would happen? In the best of situations, the two partners would agree that this is a movement of goods from one territory to another where we could accept the lowest level of confidence when it comes to the legitimacy of legal trade moving from one to another. It could be a situation where this truck is then moving across the border; it



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passes a border without any new infrastructure; and it moves to the other side, i.e. what you would describe as a frictionless border.

There would still need to be things happening post and pre in relation to that movement of goods, specifically for the areas where you actually fulfil the obligation from a customs and government point of view. That means there needs to be information exchange; there needs to be a possibility to identify the truck at the border. It could be identified when it moves from one territory to another. The reason for that is because moving from one territory to another has an impact on the status of the goods themselves.

That was a long answer. I will try to be shorter in the future for other questions. In reality, the two partners could agree on the lowest level. There could be other levels if there needs to be more certainty around the goods or more certainty around some of the three areas that I explained. If so, there is a need for more infrastructure to identify this.

But in the best-looking scenarios where the two parties agree, there has to be a trusted trade lane. That means the partners or stakeholders involved need to be pre-registered in what we call trusted-traders programmes, including what is called authorised economic operators, which is an international standard adopted by 160 countries around the world, including the EU.

If that is done, there could be a movement from what is defined as the exporter on one side of the border to the other through a transporter that is already registered in this specific chain. Already existing infrastructure could be used, such as the GPS/GSM system that is there to identify the moment when it moves from one side to the other.

Q1164 Chair: Even in the most open arrangement you suggest, would there need to be CCTV at the border?

Dr Karlsson: Yes.

Q1165 Chair: The report appeared to suggest that. Would there need to be automatic number-plate recognition?

Dr Karlsson: Yes.

Chair: I just have one further question. There is a reference to gates openings in your report. Would there need to be gates?

Dr Karlsson: Again, what I described was a generic model for the UK-EU border. I described the different levels of certainty that could be agreed, as I just talked about in my previous answer. There could be different levels on different borders, depending on what the two partners agree is the necessary level. If you take the lowest level, in the case I described, there would not need to be any other infrastructure, either CCTV cameras or number-plate readers. It depends on the level in these three boxes



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we talked about: the international customs rules and regulation, the trade policy rules, and safety and security.

If one of the two partners or both agree, "This is a border we would like to surveil", CCTV cameras can be an alternative, having in mind that that of course means new infrastructure at the border; or we could say there needs to be more certainty that the goods really are leaving one of the territories and going into the other. We might want to have more security than only following this truck through GPS. There might be a barcode that needs to be scanned. Then you have elevated it to the next level, with the consequence that there needs to be other types of arrangements in place.

If you keep elevating it, you end up with what normal borders look like. When we look at the European Union's outer border, for instance, in Vaalimaa between Finland and Russia, which has a very high level of certainty, there is very little co-operation.

Q1166 Chair: Finally on this point, can you think of any other border in the world where the two counties involved are not in an internal market or in a customs union where there is a flow of goods without any checks as you have just described?

Dr Karlsson: First of all, no. The answer to the question is that no example like that exists. However, that does not mean that within international customs law, the international standards and best practice, there could not be a system like that.

Let me explain a little more. I am not saying there are no controls in place; I am saying that you are moving some of the certainty that needs to be there from international regulations, so that both parties can continue to sign the other part, which is trade policy, free trade agreements and so forth, but it is taken care of in a different way, away from the border, to make the frictionless border possible.

Chair: That is really helpful.

Q1167 Joanna Cherry: Good morning, Dr Karlsson. I just want to make sure I understand this correctly. You are saying that the proposals in your report are not specifically tailored for the Irish border; they are more of a generic model for UK-EU borders in the future. You are nodding your head.

Dr Karlsson: Yes.

Q1168 Joanna Cherry: Both the United Kingdom and the EU, back in the December agreements, committed to no physical infrastructure on the Northern Ireland-Ireland border, and no related checks and controls on that border.

This Committee has heard evidence from various people, including the Police Service of Northern Ireland, explaining that they feel that any



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infrastructure, checks or controls could be a target for dissident extremist terrorism. Do you understand that?

Dr Karlsson: Yes.

Joanna Cherry: To what extent do the proposals in your report meet this commitment to no physical infrastructure, and no related checks and controls, on this specific border between the north and the south of Ireland?

Dr Karlsson: My report was presented before that agreement was done and the definitions were there. Having said that, yes, it is a generic model, because I sincerely believe that any customs administration I have seen around the world needs to have an operational model that works for the private sector and for trade in the long run, which I assume is one of the reasons for this entire debate we are having.

That operational model can have different simplifications on different borders, depending on the situation you have on the border. My answer is that you might want to use this proposal, if it was to be used, in one way at the Channel Tunnel, in another way for the ro-ro traffic between France and the UK, and in a third way on the Northern Ireland-Ireland border, with different opinions and different risk-management statements, depending on those borders and the environment they are in.

Strictly from a customs perspective—I am still saying this is very possible—my estimation is that within the international standards you could use best practices that are used, elevate them to a level that is closer to 100% than is possible today, which is not the case in any border around the world, and use it with very little friction or no friction at all.

I am saying “very little friction” because for the Northern Ireland-Ireland application there could be traders who would not be in the system I described. There needs to be a model for them as well, even if it is less than 1%. There needs to be a possibility for a new company that never traded before to get into the system as soon as possible.

In general, to what you were asking, yes, it is possible to use this model for the Northern Ireland-Ireland border. Again, both parties need to agree, when it comes to security and safety, “We do not need cameras to look at that”. When it comes to the part about trade policies, “We might find a free trade agreement later on”.

For me, this is the interesting thing, which has been discussed very little in this debate. There are all the formalities you need to have there for many different reasons, which have nothing to do with fiscal policies, taxes, duties and rates but are there for other reasons. There could be numerous reasons for that, including agriculture and other things that are very relevant to the Irish situation.



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For that, you will need something. For that, you will need a trusted-trader programme and other things in place, which will have a consequence and will cost something for the private sector. In my view, from a trade facilitation perspective, it should be as little as possible.

Q1169 Joanna Cherry: We should understand that your report was commissioned and presented in November, before the December agreement, and you did not set out specifically to avoid physical infrastructure, checks and controls, because of course at that stage you did not know that was what would be agreed. Is that right?

Dr Karlsson: That is correct.

Q1170 Joanna Cherry: Should we also understand that, at the time your report was presented to the European Parliament's Committee on Constitutional Affairs, other reports with different views were also presented? Would it perhaps be a good idea for us to look at those?

Dr Karlsson: I am sure there have been other reports and other views. As I said, there are different definitions, which we in the international customs environment normally do not use. That also goes into the political dimension of this specific question. As I said before, I took a stand very early in this process, in relation to the European Parliament, that I would be very willing to use my experience and the knowledge I had to present a technical solution. It is not about technology; it is also about the customs techniques and how you fulfil the obligations so that both these parties are able to continue to trade with other partners and with each other in the most frictionless way possible.

Q1171 Joanna Cherry: About 10 days ago, the Irish Ambassador to the United Kingdom wrote a letter to the *Times* about your report, expressing some concern. He said that the proposals in *Smart Border 2.0* "rely on both physical infrastructure and staffed border posts", which clearly would not meet the commitment made in the December agreement. That is right, is it not? There are references in your report to physical infrastructure, including gates and staffed border posts.

Dr Karlsson: Yes, there are. That is correct in the sense that I say this depends on what the two parties negotiate. It does not have to be like that. Even in the lowest level of confidence here, the two parties would say, "Yes, we will find pre and post measures", to make sure they fulfil the obligations both these trading partners have to the international standards that are there: international conventions and so forth. In this situation, there is still something that needs to be in place. It does not have to be gates; it does not have to be number-plate readers; it does not have to be CCTV cameras. It is up to both sides to decide where the security level needs to be in these three elements.

I just want to clarify that. As I said, this is a generic model. For the Channel Tunnel you may decide that, in certain circumstances where the goods flows are much higher, you need number-plate readers. That was why it was in my report. In another type of environment with another



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type of border, you might decide, "No, it is satisfactory to have a different type of model". Then you could move away from the border, and do those checks not at the border but anywhere else in the supply chain. But it needs to be a trusted-trader supply chain to be in line with international standards.

Q1172 Joanna Cherry: The technology proposed in this report is untested. That is correct, is it not? The proposals you have put out here have not actually been tested at any location anywhere in the world.

Dr Karlsson: No, that is not correct. They have. One of my points is about what are called "smart borders" today. There are a couple of smart borders, which I referred to in my report. They are not 100% smart borders. That is the first thing to say. The best example is the Sweden-Norway border. Some in the debate have said, "That is not applicable, because there is a different political agreement between Norway and the European Union that might be applicable here".

But, from a strictly customs perspective, this is the most advanced smart border we have. Depending on where you are on the border, it might be a 60% to 75% smart border. The reason it is not a 100% smart border today is because there was no business case for that at the time we developed and implemented it there. However, there were scale and operational tests done in some cases for two or three years with the different technologies I am referring to, which worked very well.

When that was about to be implemented on that specific border, at that time the decision between the two countries was: "No, we do not need it, because it still only takes two or three minutes to free goods. There is no political sensitivity there; there is no extra need for more security". That was the reason it only went to 70%, but the tests were there. The same goes for some of the other borders I referred to.

What I am saying is that we take the best practices from different borders where these things have been tested operationally, put them into one framework and elevate that with what we know today. If we do that, we would have what I propose. So, yes, it is tested.

Joanna Cherry: Hang on a second.

Chair: We are going to need to move on. Just ask one final quick question.

Q1173 Joanna Cherry: I just want to clarify that point. You say it has been tested, but in your answer you gave examples of borders that have physical infrastructure and related checks and controls. That is correct, is it not? The Norway-Sweden border has physical infrastructure and related checks and controls.

Dr Karlsson: Yes, the Sweden-Norway border has infrastructure—it is still a very low-friction border—on some of the border posts. On some of the border posts, there is no infrastructure. Again, it depends on what is



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moving across the border. The elements are there; the four or five components for a smart border are there. Moving it to a higher level that could be applicable here has been tested there. But you are absolutely right in the sense that it is not fully operational today anywhere in the world. If you take the best practice from different parts, it is possible to do within the international framework and under international law.

Q1174 Sammy Wilson: Just to follow on from the last question, although a totally smart border has not been put in place between Norway and Sweden, that was a choice made due to the political situation that exists there at present. If, as the Irish Government and the UK Government have decided, there should be no physical infrastructure on the border between Northern Ireland and the Irish Republic, it is possible to meet that requirement by bringing together all the elements you are talking about.

Dr Karlsson: Yes.

Q1175 Sammy Wilson: As far as physical infrastructure is concerned, there is physical infrastructure on the Northern Ireland-Irish Republic border at present. There is vehicle-number recognition, for example, for cars that use toll roads or goods that cross the border that have different tax rates. Guinness would be a good example. At present, there is technology there, which is used to control vehicle movements, collect taxes from them and collect the taxes on goods that cross the border. Do we need much beyond that physical infrastructure, provided we are at the level you have talked about where the EU says, "We do not need that much confidence, because we are confident that the United Kingdom will abide by the rules we set when it leaves the EU"?

Dr Karlsson: It is a very good question. Yes, there are some things that need to be in place. As I explained in my report and referred to before, there needs to be a different type of trusted-trader programme, which is the international terminology for registration. This is just like VAT registration and other types of systems, where you prove you are compliant and you know what you are doing—in this case, trading between two territories—and from what perspective you are doing it. That needs to be in place. It is not in place today, so it needs to be designed and developed.

There needs to be some kind of identifier so we know when it is moving from one to the other, because that is the moment, in international customs law, when goods change status from one to the other. That has an impact on customs duties, free trade agreements, rules of origin and lots of these questions that we will have to answer. What type of tax or what type of duty will be imposed on the products? What trade deals will the UK and the European Union be able to do in the future?

These are the basic things that need to be there to be able to handle this. Of course, that has an impact in itself. You could argue that it is also an opportunity for both sides to do post controls at the premises of a



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company on one side or the other. Again, it will be necessary for that to be developed. I would say, though, that both customs administrations, which I know very well, are highly regarded and have a high level of sophistication and development. There needs to be development of these new structures there.

The highest level of trusted-trader system today—that is, the European Union model—does not embrace all the companies that need to be there, specifically not the small and medium-sized companies, in a very integrated border environment like Northern Ireland and Ireland. But it is doable; it is possible. The competence is there on both sides, and it is something you can do.

Let me also explain why I have the infrastructure in my report, which causes a lot of debate. Again, in London, Dublin or Belfast, you might find a situation where the Government want to check more and want to use CCTV cameras. There is a reason for it and it is possible from a political perspective. I am just describing the technology that is there.

If you want to identify goods without having a trusted-trader system fully in place, or needing more certainty or security in this specific trade lane, you can use a number-plate reader. It is of a quality today that you can use it with very little interference by a border—it could be the Channel Tunnel; it could be the Northern Ireland-Ireland border—without having queues, parking places or all these things that are related to what you describe as a hard border.

Again, it goes back to what level you want to be on. There is a different level on the island of Ireland than there would probably be in the Channel Tunnel. I do not know, but it is a political issue.

Q1176 Sammy Wilson: There is existing infrastructure there at present. There are CCTV cameras; there is vehicle-number recognition, et cetera. It is not a target, although it monitors cross-border trade. That technology could be integrated into any system that is required to do the kind of monitoring you are talking about.

Dr Karlsson: Yes, absolutely.

Q1177 Sammy Wilson: Greater monitoring of goods at the point of either leaving or arrival could mean you do not need physical infrastructure, but it would require the trusted-trader status to be extended to more businesses so monitoring could be done at premises, rather than on the road, hence avoiding any dangers of people trying to interfere with it. Under the current customs rules of the EU, do you believe it is possible to extend that trusted-trader status to encompass more firms to ensure there is more monitoring done in that way?

Dr Karlsson: Absolutely, yes. As I said, that is the fundamental thing that needs to be in place. There needs to be a much more comprehensive trusted-trader programme with different tiers, where there are low thresholds for small and medium-sized companies, which



pose a very low risk, to get into the programme so they are not disadvantaged. There may need to be a special solution in the trusted-trader programme for the Irish situation, again taking into account that there might be a different environment there.

There need to be different levels up to the highest level, which would be the international agreements that the UK, in that scenario, will want to sign with other countries, to get the benefits from these companies in Brazil, China or wherever it might be, and not only with the European Union. A trusted-trader programme like that is not science fiction either; it exists. There are other countries that have similar programmes like that. This needs to embrace more of the trade. That is a correct observation.

Q1178 Sammy Wilson: Does the EU have trusted-trader status arrangements for non-EU countries at present? How extensive are they? Are they currently part of the trade deals the EU sets up with third countries?

Dr Karlsson: Yes, they are. There are around 20,000 companies in the European Union that are authorised economic operators, which would be the highest level of what I described. Many of those instruments are used primarily by the bigger companies. Some countries that have a structure where SMEs play a fundamental part in their export industry have developed specific tiers or specific elements under the international level for these companies. That is what I am suggesting would be the case in this situation as well.

There would be many more companies in the UK part of a programme like this with lower thresholds to get in, but that has more to do with trade facilitation and support of business being part of trade than it really has to do with the border situation itself.

Q1179 Sammy Wilson: I just have one last question. The UK Government put forward proposals in August of last year that encompass some of the kinds of solutions you have suggested. They have been met with a fairly negative reaction. Your own proposals have been met with a fairly negative reaction from the Irish Government and from some within the EU.

Given that they have been tested already at other borders, and you have indicated that they have been tested even more fully on the Norway-Sweden border but not implemented for political reasons, can you explain why there has been such a negative reaction to your own proposals and our own proposals as well?

Dr Karlsson: I am speculating, obviously; that is what you asked me to do. The reason why Sweden and Norway did not process—I was in charge of Swedish customs at the time, so I know this very well—was not political; it was a cost-efficiency reason. It ran very smoothly. It was the fastest, safest border in the world already. Why would you invest another €100 million, €10 million or whatever the price would be to go to a level higher than that? However, this is a totally different environment.



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Why would there be negative reactions? This is one of the issues I would like to clarify by being involved in this with my experience. There have been lots of discussions around tariffs, trade, duties and revenue. That is only a part of the international trade environment, as you all know.

We know today that non-tariff barriers—the administration, the administrative burdens on the private sector, the routines that need to be done to clarify all these mechanics of international trade, including rules of origin, and the different restrictions we have and will want in the future—have a higher cost in most cases, in most countries, than the duties and tariffs themselves. When the focus is on revenue, we forget about what actually happens when we are trading with each other from a customs perspective, but there are reasons why those things are there.

If you have no borders at all and you have free movement, that is the ideal situation from a trade perspective. There is no doubt about that. In the debate, at least as I interpret it, there are still people who think it is a possibility, in relation to international customs law, to negotiate to allow free movement of goods even if you are not in the same customs territory.

I want to note that I am not saying “customs union”, because a customs union can be different things. It takes care of the tariffs, duties and some other things related to that, but if you are in a customs union it does not clarify that you still need to do the formalities and information-sharing around other issues that do not have to do with revenue, tax and duties.

Look at the example of Turkey. If you go to the border between the European Union and Turkey, you see a border between two countries that are in the same customs union. I am sure you would describe that as something very close to a hard border. It is definitely not an example that could be used on the island of Ireland.

A customs union would not solve all these issues either. Excuse me for being lengthy, but it is important to clarify that you need to look at these three elements. One is the formalities you need to have to be able to trade. There are mechanics there. Otherwise there will not be any use in a free trade agreement or an agreement between the UK and the European Union or other bodies.

Then there is the safety and security thing. Where do you want to be on safety and security? You might have a trusted trade lane where you have other means in place that do not require the safety and security element to be done at the border.

Thirdly, you need to look at the trade policies themselves. What is the good trade deal that is now going to be negotiated between these two parties and with other parties around the world?

Q1180 **Stephen Timms:** Can I ask you just about the Ireland-Northern Ireland



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border? As we have been discussing, the commitment there is for no physical infrastructure or related checks and controls. You have told us that this could be delivered by the proposals in your report. I still do not understand how. To take an example you referred to earlier, if a trader that is not in the approved trader system just turns up and goes across the border, if there are no checks or infrastructure, how does the system handle that?

Dr Karlsson: I have stated this in my report, and sometimes that is used in the discussions to say there needs to be infrastructure. Say we have a situation where we develop, design and implement a trusted-trader programme, with a trusted trade lane that takes care of 99% of trade in a very good environment. If that is the case, we still have this 1%. There is somebody showing up for the first time. It is the same for travellers showing up for the first time at the border: it is not part of the arrangements that are there for movement.

How do you solve that? There are two ways to solve it. Again, let me be generic first and then answer your question about the Northern Ireland-Ireland border. Normally, you would say that one of the roads is a customs road where you have more traditional ways of doing this at the border. The other roads, however many there might be—whether it is 200 or 25 does not matter—are the ones where the other system is applicable, where you do not have infrastructure. That is how you normally solve this type of situation, as in North America or Scandinavia.

Q1181 **Stephen Timms:** That is ruled out in this context.

Dr Karlsson: Yes. You would say, "If you are not part of the system, you have to go over here. This is the crossing you should use, and there we have other means in place".

Again, I am not ruling out whatever complications there are around the political situation there. In this specific environment, in the Northern Ireland-Ireland situation, that would still cause a problem. I realise that. What I then have suggested is that, in a situation like that, you could also move that away from the border. You could do the formalities for the first time away from the border, just to take away the sensitivity of the border itself.

For instance, in a practical case, that means you would do the export somewhere else, in Belfast or closer to the border, but not at the border; you would do the import somewhere dedicated to this, where the information is there and you have to go to this specific place. In between, you would have what we in customs call a transit. You would transit the goods from one place to another. Both these territories will be part of the transit convention. Again, there are agreements to be made on customs for this. It would move under customs control, but it would not physically be controlled by the border.



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Again, I am not saying that would 100% solve all the issues you are here to discuss, think about and solve, but it is a practical solution that could be possible to use. You still have the formalities but you move them away from the border.

Q1182 Stephen Timms: Your proposal is that there would be physical infrastructure and there would be checks and controls, but they would not be at the border itself.

Dr Karlsson: Absolutely, yes.

Q1183 Stephen Timms: You made a point about directing vehicles to use a channel rather than lots of smaller roads. We understand that is what happens on the Sweden-Norway border. What happens on the Sweden-Norway border if a heavy-goods vehicle uses a road it is not supposed to use?

Dr Karlsson: In that environment, we move away from how you actually manage trade, which is what I have been writing about in my report. We have a situation where legal trade is going on and people actually know what they are doing. That is one scenario. Then you have somebody who is not following the rules, who is breaking the customs laws and the different types of national legislation that will be there on both sides. They will be held accountable for that one way or another.

How do you detect it? There are different ways of detecting that. In the Sweden-Norway situation, first of all there is a control agreement between the two countries so you do not duplicate controls. You do not duplicate mobile controls either. But you can use a zone on both sides of the border to intervene against different types of transport that are not following the rules that are there.

It will be the same situation in the Northern Ireland environment. It does not just disappear on the other side of the border; it has to move somewhere. There has to be some kind of mobile function that could intervene if there is a situation. That could be everything from a misunderstanding to something deliberate. It could be contraband, smuggling or all these different things that happen all around the world, and, by the way, in London and other places.

Of course, there still needs to be a back-up system for how you deal with these types of offences that happen. That needs to be a back-up to the system itself. There are good examples of how to do it.

The other thing to say is that there will be different types of penalty systems involved. If it is an honest mistake and it is somebody who should have used the roads in the ways they should have been doing, there will be a system for that. At the end of that, they might lose their trusted-trader status so they cannot trade in that simplified way, which will cause some problems for the trader.

Q1184 Stephen Timms: Can I just ask one more question? We learned



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yesterday that the intention is that the transition period is going to end in December 2020. How much of the solution that you propose could be in place by that deadline? Could it all be done?

Dr Karlsson: Yes. That is very relevant question. With the transition period, it is possible to have a first version of this. I am not saying that a full version would be in place, but enough could be in place. It obviously depends on what the two partners agree on specifically for that border.

I would like to expand that and say there needs to be a solution for the Channel Tunnel and the other trade barriers. That is also possible to do in a first version by the end of 2020. There might need to be phases there. It is difficult to say; it needs to be analysed. But it is not impossible to have it in place in the time span that is there.

Q1185 Stephen Timms: When you say a “first version”, which bits would not be there?

Dr Karlsson: To be honest, it is impossible for me to say right now. But, given the time span we have now with the transition period, it is possible to develop, design and implement a trusted-trader programme. A trusted trade lane can solve some of this, as regards infrastructure for the Northern Ireland situation. It is possible to develop that and to have it in place for the traffic going between the UK and the European Union as a model. There is also the element that the private sector needs to be engaged in this. There needs to be support for the private sector at least to be able to use it.

It is possible for that to be there. Depending on whether the Northern Ireland-Ireland situation is an agreement on the lowest level, if there is a strong confidence that this trusted-trader programme and trusted trade lane would take care of these issues, as I argue in my report, it could definitely be done by the end of 2020.

Q1186 Sir Christopher Chope: Your evidence is like a breath of fresh air. You are so positive and imaginative. You are trying to find solutions rather than create problems. Perhaps your ideas would be more attractive to members of the SNP if they were in a position where they were about to get independence from the United Kingdom but wanted to join the European Union. I am sure there would be tremendous enthusiasm for taking up a frictionless border between Scotland and the rest of the United Kingdom. But leave that on one side for the moment.

You said something to the *Daily Telegraph*, and you have touched on it already, about administrative or non-tariff barriers related to the bureaucracy of borders. In the *Daily Telegraph*, you say that one of the benefits of your smart solution is that it would make both the EU and the United Kingdom very attractive destinations for international trade, because those traders dealing with the EU or the UK would not have to put up with these administrative burdens. Could you expand a bit upon that, please?



Dr Karlsson: Thank you. No, I am a positive person. I have worked in trade facilitation for 30 years, and you have to be positive when you do that.

I was referring to the fact that we have legacy systems, as we have all around us in our societies, if we take away this situation and the issues we have right now. Of course, there are reasons why IT systems are upgraded. There are reasons why these formalities in customs, which have been there for thousands of years, are not of the top standard every day.

We all have legacy systems, as I said, or older systems that are not always optimised to support trade facilitation. They have not always gone as far as they can to make this trade as simple as possible while still ensuring all these things we want to do as a society can happen.

Having said that, if this is a moment when you need to find a solution where there was no border, and you need to do it in the smartest possible way, as I tried to describe in the *Smart Borders 2.0* report, you can solve not only the Northern Ireland-Ireland situation. As an expert, I would recommend that you have an operational model that works for all of the UK, with maybe more simplification on the Northern Ireland-Ireland border.

In itself, that model will be better than the one you are operating right now. It will be better than any model that the European Union countries are operating right now. In relation to third countries and what is to come—this is what was picked up on by the media—that is not a disadvantage; in fact, it is an advantage in itself.

If the investment is made to facilitate new trade appearing between the UK and the EU, it would also be applicable for trade going to China, the US or wherever you have it. That would mean a lower administrative burden for companies. At least, it would mitigate some of the costs they have when trading with the European Union.

My comment is absolutely correct, and I stand by that, for sure. If a country invests in a new customs procedure based on what you can do within international standards, conventions, regulations and laws, that is a better model in itself, over time, for having other trade deals and supporting export from the UK.

Q1187 **Sir Christopher Chope:** You have touched upon satellite technology. It is very hard to say that a satellite in the sky is a bit of infrastructure and therefore it offends against the agreements made in December. How sophisticated is satellite technology now? To what extent can it be a substitute for automatic number-plate recognition and things like that?

Dr Karlsson: I would like to just clarify one thing. My report was before the December agreement, as was said here before. The reason I used that example as the lowest level that needs to be there was the fact that



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we tested it between Sweden and Norway for a trusted trade lane. At that time, the reason was trade facilitation; it was not sensitivity to having gates or something at the border. We also tested number-plate readers, barcode scanners and these types of things. These have been tested on that border.

In that case, what we tested was giving trade-facilitation benefits to those who invest in compliance, those who invest in knowing what they are doing with imports and exports. They should benefit and be able to do their exports and imports in the best possible way. In that case, we asked, "Can we use already existing technology without building new infrastructure?" In that case, it was the GSM/GPS system that is already there for other reasons. We all had mobile phones or smartphones already when we tested this. If it is a trusted trade lane, you still want to check it. It could be checked for different reasons. It might be the exporter wanting to know when the importer gets the goods. It could be for other reasons, such as theft or whatever it might be.

We said, "Okay, there is a dedicated phone with a driver, who is a trusted transporter in the system. He is driving for a trusted exporter to a trusted importer". The fact he has a dedicated mobile phone means he can communicate. It communicates by itself, because it is connected to the GPS system, to the satellites. That means you can decide whether you want to follow him from a surveillance perspective, private sector or government, through the entire supply chain. It also means that it can do these types of declarations or statements we are talking about around the border. When it comes to a border, it says, "Click, yes, we are now moving into the other territory". That is done automatically in the pocket of the driver.

In a system like that, somebody might argue, "The driver might throw away the phone or there might be another person using that specific identifier, which happens to be an already existing infrastructure". Yes, of course, that could happen. If it did, he would lose his privilege of using this specific way of working. That was the reason behind this, as an example, rather than not having infrastructure by the border.

Q1188 Emma Reynolds: Thank you, Dr Karlsson, for coming before the Committee. I would like to ask you about when rules and regulations change in the relationship between the UK and the EU. For example, hypothetically—I am not saying this is going to happen—if the UK agreed a free trade agreement with the United States and part of that agreement was to allow into the UK the import of chlorinated chicken, which is something that is talked about a lot these days and is controversial, how would that affect the UK's external borders with the EU? The EU may well be concerned that Northern Ireland would become a backdoor for some of these lower standards. How would the system that you set out today prevent that from happening?

Dr Karlsson: Thank you very much for the question. It is a very relevant one. It goes back to what I said about these rules and



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regulations: why we have borders and why we manage them does not necessarily have to do with collecting tax. We are in Portcullis House today, which is the symbol of collecting tax, borders and hard borders, so it is a proper environment to be in. But there are many other reasons, and this is one of them.

In the system we have today, if you look to see whether this would happen, there would be an external border. There would be checks and inspections to see whether this was the case. In the situation we are talking about, you need to replace that with something not to have what you describe as a hard border with checks, for instance, in the Channel Tunnel. Then you need to look at the system for trusted traders. That is another relevant example of the different types of regulations, e.g. food and agriculture regulations, than customs regulations.

Then there needs to be information about that importer or exporter. The legal person responsible for this in the UK has to know something about this: "It has to fulfil the obligations to get into the UK. I cannot transfer it to the European Union. If I do, I will violate my status as a trusted trader and I might end up with the problem of inspections coming", which is a cost for the importer and the exporter.

But there is a big element of trust needed to replace the systems we have today. Having said that, we also know the transaction controls we do by the borders are not very efficient, unfortunately. Being a customs officer for 30 years, I would wish to say that it is 100% controlled today, but it is not.

Q1189 Emma Reynolds: If the scenario I just set out happened, there is a possibility that it could have a negative impact on the trusted-trader system. Those trusted traders, for example, could claim they did not know about the change of rules, and perhaps they would be responsible for transporting this particular product, which had a lower standard than that the EU wanted, across the border. I do not quite understand. What would be the steps for the trusted-trader programme to deal with that scenario?

Dr Karlsson: It is exactly the same situation as today. If you do it today and you are not aware there has been a change, if you do it in good faith but you are not fulfilling your obligation according to legislation or something that has changed, there is a consequence to that. You might be forced to pay a penalty; there might be consequences for your status with Government. You might need a permit to do this or something like that. The same thing would appear in a situation post Brexit, but there might be other penalties; there might be other types of arrangements.

The European Union also needs to be certain and to trust that the UK is operating a system where it would, one way or another, sooner or later, find out if there are errors like this. We never have 100% control. It is not possible; it is not desirable to have that. It is all based on risk. The agencies involved will have to change their operational model a little.



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They will have to work more with risk management and information, in these trusted-trader environments we are talking about, to mitigate some of this risk, instead of having a checkpoint, a control area, for instance in the Channel Tunnel or on a land border, where you check as much as possible to make sure this does not pass. It is not a different situation from today.

Q1190 Emma Reynolds: Just very briefly, when the rules and regulations change, it could lead to problems. It could lead to the introduction of checks. Do you acknowledge that is a risk?

Dr Karlsson: Yes, you are right. That is always a risk when you change these things. If you changed earlier today, some of the importers and exporters will not have been informed by Government or they will not have informed themselves, which is really their responsibility. That can also happen in the future. It will be a big challenge. Many traders in the UK and the European Union today are only trading internally between the two bodies. Suddenly, they will have to be aware of both the customs legislation in the UK and the customs legislation in the European Union, the UCC. But that is the same as if they start to do exports into the United States, for instance. Then they will have to know the rules for the United States.

Q1191 Richard Graham: Dr Karlsson, you have very clearly laid out proposals you believe could create a smart border, which would meet the UK's requirement to have as frictionless a border as possible. No doubt you have also seen the British Government's two specific proposals. One is for a highly streamlined customs arrangement, where there would be no physical checks or infrastructure at the border, as you covered earlier. They recognise there would be an increase in administration and costs compared to now, which you have also hinted at.

They have also spelled out through the head of our customs service that there would be three key elements to this: the trusted-trader scheme, which you have alluded to, a derogation for small traders, which you have not yet commented on, and, thirdly, a self-assessment form, which the head of customs here said was the direction of travel for customs in the European Union anyway.

Is there anything in that proposal for a highly streamlined customs arrangement that would be either illegal in some way, under WTO or European Union rules, or technically impractical?

Dr Karlsson: First of all, in my work so far I have concentrated on what you would probably refer to as option 2, as far as the border situation is concerned, rather than option 1. From that perspective, I do not know enough about it to answer your question fully. However, from a general point of view, there are elements in customs legislation today, inward processing and other types of things, that are similar, as a technicality, and can be used in these types of arrangements. Small and medium-sized companies will also have to be addressed. There has to be a simplification specifically for them. Again, from my point of view, this is



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based on risk, because the risks are lower from a revenue perspective, for instance.

It is important to say that most of these discussions around other types of arrangements solve some of the issues around duties and tax, which are related to the fiscal side of this equation. But they do not necessarily solve all the other issues that we heard about before. The border administrative issues will still be there. Then, if you find other good models, the solution to those things that are not related to fiscal issues, such as duties and taxes, would have to be agreeable to both parties. Again, I am just speculating, but there might be interest in that.

I agree with what you said and what the head of customs has said on self-assessment. All these issues, including trusted traders, have an element of self-assessment. We ask companies to do more and to be more informed, and Government need to support that and make it work. But self-assessment is there. I would say a combination of the two is likely.

Q1192 Richard Graham: You focused more on option 2. Is that because it is more likely to be acceptable to the European Union?

Dr Karlsson: It is not the reason I focused on it. I was commissioned to look at borders, not at other types of regimes and how you find ways of deferring a payment or other ways of handling the tax and revenue situation. I have not looked into that. That is the reason, really, why I have focused on the border.

Let me just say one thing, sir. Again, whatever regime there is to find the best way to collect tax and have the least possible friction in trade, we still need to solve the other issue: how do you make sure that the rules of origin, for instance, for goods are applicable? If there is a free trade agreement—I know I am getting technical here—and UK exporters cannot prove that more than 50% of the goods are UK goods, there will be a consequence. Either the European Union or you will need to collect tax. There are a lot of issues around it, which will not be solved only by the mechanics of tax.

Q1193 Richard Graham: As you know, there are some people here who are searching for solutions and there are others who would prefer not to find them. Towards the end of 2016, the House of Lords EU Committee concluded that the only way to retain the current open border in its entirety would be either for the UK to remain in the customs union or for EU partners to agree to a bilateral UK-Irish agreement on trade and customs. To some of us, that feels like looking for the analogue solution to a digital problem. Have you seen anything in the British Government's proposals so far that is not possible, given the right political will?

Dr Karlsson: It is a very elegantly put question, and there are some political elements in it. As I stated when I started, I would prefer not to comment on those. From a technical point of view, as I have stated in



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my report and as I have now testified in front of you, there are technical solutions to major parts of these issues. There need to be agreements; yes, there needs to be innovation. But, from what I know and what I have seen so far, I have at least not come into contact with any proposals that would be totally unacceptable in relation to international laws and standards.

Q1194 **Richard Graham:** You have heard nothing from the EU customs organisation that would reflect its concern on the technical side.

Dr Karlsson: I might have, but it is not my position to discuss this in these types of open environments. The reason for that is, very simply, that I would like to contribute with my technical knowledge rather than enter into a political debate. To some extent, even though you put it very elegantly, that is not my area to contribute in. I hope you will respect that, sir.

Chair: Finally, please be as brief as possible because our delegation is here.

Q1195 **Peter Grant:** Good morning, Dr Karlsson. If you were asked today to produce this report, we have established that you would have to change some parts of it because things have moved on with the December agreement. The outline on page 10 of your summary, for example, would have to change. But let us suppose the United Kingdom Government have looked at what you have done so far and like it. Presumably, the next stage for them or the European Union is to contact somebody, possibly you, to take it to the next stage: "We quite like the general proposal. Can you now bring us forward something very definite, specific and tailored to what we need at the Irish border, so we can look at cost, implementation and all the rest of it?"

Have the UK Government asked you to do that? Have the United Kingdom Government contacted you and said, "Do you know what? We think this can work. Can you bring forward a detailed proposal that is tailored to Northern Ireland, rather than the generic one you have now?"

Dr Karlsson: I have not had a direct request, if I understood you correctly, to engage in designing, developing or something like that. I and colleagues, I know, would be perfectly happy to do that. Yes, there have been changes with the latest development, which I am very happy about. We need to find a solution to this. We know trade is a driver of development; we know that we all need trade. That is what generates benefits for our societies to develop.

From my point of view, anybody who can contribute has an obligation to find solutions. I will not comment on whether people want to find solutions or not. But there is knowledge and experience in both HMRC and the revenue commissioners. There is an international community that has come far and that can support this. From a technical perspective, it is possible to do. There is still a range of political questions there, which need to be solved.



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I would try not to be too diplomatic. I have a diplomatic gene in my body, from my previous employment. It needs to start now. If I could say something just as a citizen in our part of the world, I would say I hope we start with the technical solutions as soon as possible. I know they are doing it, but we need to do more.

Even if there is a time span to do something here now, it is extremely important that the professionals in this specific field can start the practical work of finding these technical solutions very soon, even though I have the biggest respect for the other debate that needs to be had. If we lose time, we will all have a problem.

Q1196 Sammy Wilson: This is based on the previous question. Can this be done unilaterally? If these solutions can be found, does it require a request not just from the British Government to look at solutions, but from the Irish Government to see what happens on their side of the border?

Dr Karlsson: A border has that specific definition that there are two sides to it. It never helps if only one side does one thing. However, I feel that what I am describing is based on international standards. It is based on best practice. As I already explained before, it is already in place in different places. There is no place with all of it; that could be here. That helps, because it means both sides know what we are talking about from a technical perspective.

One side might have to drive the process and solve the issues, but that is more of a personal remark. It has to be done by both sides. If a possible solution were to be presented by the UK about how this could be done, there should also be an understanding on the other side about how it could be done. There need to be changes on the other side, if that is your question, yes.

Q1197 Chair: Thank you. That is very helpful. I have one very quick final question. A yes or no will do. You were referring to a customs union earlier. From a technical point of view, in terms of making the border as frictionless as possible, would the UK remaining in a customs union with the EU help, would it make it more difficult or would it make no difference?

Dr Karlsson: You want a yes or no on that. From a technical point of view, it will not make any difference whether you are in a customs union or not. It will make a difference from a tax and duty perspective, yes, to some extent, but you will still have to solve the administrative routines around the border.

Chair: Dr Karlsson, we are all very, very grateful for you coming today and giving such valuable and informative evidence.