

International Trade Committee

Oral evidence: Implications of arrangements for Ireland-Northern Ireland border for wider UK trade policy, HC 665-ii

Wednesday 4 July 2018

Ordered by the House of Commons to be published on 4 July 2018.

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Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Sir Mark Hendrick; Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez; Faisal Rashid; Catherine West; Matt Western.

Questions 79-211

Witnesses

I: Fadi Hakura, Associate Fellow, Europe Programme, Chatham House, and Dr Hasan Turunç, Director, TÜSİAD London Representative Office.

II: Dr Andrew Grainger, Director, Trade Facilitation Consulting, Tim Morris, Chief Executive, UK Major Ports Group, and Nick Platts, Head of Cargo, Heathrow Airport.

Examination of witnesses

Witnesses: Fadi Hakura and Dr Hasan Turunç.

Q79 **Chair:** Good morning, panel. We appreciate your presence here this morning. As ever, time is challenging for Committees. May I first ask the panel, starting on my left, to introduce themselves to the Committee for the record?

Dr Turunç: Thank you for your kind invitation. My name is Hasan Turunç, and I am a representative of the Turkish business association in London.

Fadi Hakura: I am a consulting fellow at Chatham House and the manager of the Turkey project at Chatham House.

Q80 **Chair:** Thank you both. Just to kick us off, can you briefly outline the trade-related arrangements that exist between Turkey and the European Union at present?

Fadi Hakura: First, there is the association agreement—the so-called Ankara agreement—which was signed in 1959 and entered into force in 1963. It set the overall framework of the economic relationship between the EU—then the European Economic Community—and Turkey. In 1971, we had an additional protocol, which essentially established free trade in goods between the EU and Turkey. In 1995, the customs union agreement was signed, and it entered into force on 1 January 1996, creating a customs union between the EU and Turkey.

Q81 **Chair:** Do you have anything to add to that, Dr Turunç? Are you happy?

Dr Turunç: We did some kind of job division—

Q82 **Chair:** Oh, very good. Briefly, what proportion of the EU's imports and exports cross the land border between Turkey and the EU each year? I presume those are the land borders between Bulgaria and Greece.

Dr Turunç: Yes. There are three crossing borders. The first is Kapıkule, which is the largest in Europe and the second largest in the world. Dereköy is a smaller one, and Hamzabeyli was established in 2006.

Q83 **Chair:** So the European Union and Turkey have one of the largest customs borders in the world?

Dr Turunç: Yes, the border at Kapıkule is one of the largest borders in the world—sorry, in Europe.

Q84 **Chair:** And what proportion of the EU's imports and exports go across that border?

Dr Turunç: Given the time, we couldn't get all the information about proportions. We consulted with the Turkish International Transport Agency, which said that 45% by value of Turkey's trade with the EU was carried by that road. In tonnage terms, the road share is 22% for imports and 12% for exports.



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Chair: Thank you.

- Q85 **Mr Evans:** Can you paint a picture for us of exactly what sort of goods are being exported from the EU into Turkey, and the other way around? How many of them are checked?

Dr Turunç: I can send the breakdown in writing. Generally, EU exports to Turkey are chemicals, food, wood products, basic metals and machinery. From Turkey to the EU, it is food, textiles and machinery. From Turkey, it is generally industrial goods; from the EU to Turkey, it is machinery.

What are the checks generally? There are lots of checks. I spoke to TÜSİAD members, who are the biggest exporters of white goods. They also export cars to Europe. They told me that the following checks have been done. First, vehicles at the border are inspected at random—probably a ratio of 5% or 10%.

- Q86 **Mr Evans:** So 95% pass without any checks at all.

Dr Turunç: No. All vehicles are subject to cabin and carbon dioxide checks on their way out. 100% of refrigerated vehicles are subject to X-ray checks. That is contrary to international rules. There are also controls on pesticide residues on food and vegetables. That is done 100%. Bulgaria has set up a lab at the border to analyse pesticide residues to see whether any chemicals remain on the fruit and veg. The offloading and unloading, including the laboratory analysis, costs the drivers or the carriers €800 per transaction.

Another check is the disinfection process. That happened in 2001 after foot and mouth disease issues. Bulgaria set up a compulsory disinfection process at the border, and then Turkey—tit for tat—did it in 2014. That cost €3, officially, but the drivers claim to have paid €25 per transaction. There is also an issue that would be interesting to consider about checks at the border, and that is the corruption cases highlighted by Kati Piri, the Dutch MEP and European Parliament rapporteur for Turkey. She outlined the corruption cases, and I would recommend that the Committee look at them. That is Kati Piri, the Dutch MEP.

- Q87 **Mr Evans:** Can you just explain what this risk-based trade control system is and what its impacts are?

Dr Turunç: As you may know, there were elections in Turkey. We tried to find some of the authorities to talk to us, but it is in transition. When we spoke to the Ministry of Customs and Trade, they had the following criteria for their analysis: the customs duty rates, intelligence from both sides, buyer and seller risk rate, transporter risk rate, periodicity or frequency of travel, trafficking and non-compliance statistics. They combine all those criteria when they check. They share intelligence with the Bulgarian border as well; this data is shared.

- Q88 **Mr Evans:** Shared electronically?

Dr Turunç: Yes. That is the risk analysis conducted by the Ministry of Customs and Trade in Turkey.



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Q89 Mr Evans: So are you painting a picture of an absolute nightmare on the border between Bulgaria and Turkey?

Dr Turunç: What we heard from our members and the transporters is that at weekends it is a nightmare; the queues can go back 10 km to 15 km. The checks are done arbitrarily, and pesticide residues and refrigerated vehicles are subjected to 100% X-rays, against international rules. It could have been improved, and would have been improved, if there had been an agreement. I asked, "How can we do it?" and they mentioned—let me just check what they suggested—that if we had common control, data sharing, joint risk analysis and a common door model, it would substantially improve the situation. It is not nightmarish, but it could be improved.

I was just studying today an issue that my colleagues in Turkey highlighted, which I had never noticed before the Committee meeting: the EU has harmonised common road transport within EU members, but they have two road transport agreements with the European economic area and with Switzerland, which could have solved all the issues they had with Turkey, because we have a customs union road transport agreement with the EU and because the land transport agreement with Switzerland covers goods and passenger transport by road and rail.

Mr Evans: Thank you.

Q90 Chair: Before I move on, Turkey is the EU's fourth largest export market and 15th largest provider of imports, and the EU is Turkey's No. 1 import and export partner. Do the pictures you have outlined there apply on the EU side only, or is the Turkish side equally obstructive?

Dr Turunç: Lots of studies show that the queues on the Bulgarian side are longer.

Q91 Chair: Coming into Turkey?

Dr Turunç: Sorry—from Turkey into the EU.

Q92 Chair: So that is held up by the European Union?

Dr Turunç: Yes.

Q93 Chair: Does Turkey hold up much?

Dr Turunç: Just for your information, the agreement between Bulgaria and Turkey is inter-governmental, not EU-Turkey, so it is not the EU. It is an issue of Bulgaria and Turkey.

Chair: It just seems, as my colleague said, nightmarish that such large trading partners, who trade together day to day, have this scenario while Turkey is trying to move forward and have agreements with the European Union, but I will not detain you much longer.

Q94 Faisal Rashid: What are the main checks carried out on goods at the border, what documentation do they have to provide at the border, and how much time does it consume?



Dr Turunç: I have a list from the International Transport Association of Turkey. First, they check passports and visas, as you may know. Then there is an export declaration, a carnet from Turkish customs officers, invoices for all products, insurance certificates, transport permit, sometimes the original certificates of cargo from relevant Ministries, the MRN number, which is a movement reference number, and the transit declaration T1, which allows Turkey to transit from one country to another within the European Union. Those are the documents.

Q95 **Faisal Rashid:** How much time does it consume for each lorry to actually pass through?

Dr Turunç: It varies. To be balanced with you, we have extensive reports. Some of them say it is 48 hours; some of them say it is 24 hours.

Q96 **Chair:** Forty-eight hours?

Dr Turunç: Yes, to pass through sometimes. That is at the weekends. It happens when the exports are very high on Fridays, Saturdays and Sundays.

Q97 **Faisal Rashid:** So that is going from Turkey to Bulgaria?

Dr Turunç: Yes. It depends on the density at the border.

Q98 **Faisal Rashid:** Do they not have any mechanisms whereby they can provide some advance information so they can reduce the time?

Dr Turunç: We are hoping to improve the situation with this trade facilitation agreement, but at the moment—I checked—no prior documents are required. There is no system. Except the movement reference number, which you can send in advance.

Q99 **Faisal Rashid:** Do all these traders or transporters give you some feedback about the impact it has on their trade? It depends on the goods, really. Some goods have to pass through very quickly, such as perishable goods. If somebody is sitting there for 48 hours, it can have a detrimental effect on their business.

Dr Turunç: Yes. It is costly, first of all, and it reduces the shelf-life of a product, which is another cost. Turkey has expressed those grievances many times at the European level, but every time—I can show you so many quotes that say, "You have to do it at an intergovernmental level." What happened then? The Turkish transporters association, Turkish business associations and also—*[Interruption]*—went to try to work with Turkey to make a case on the border.

Fadi Hakura: I would add that there was a report done by a consultancy on behalf of the European Commission in 2014. I can send the reference to the Committee after the hearing. The consultancy estimated that those checks cost Turkish and EU business €3.5 billion of lost trade a year and that a scenario of complete road liberalisation between the EU and Turkey would create 25,000 new jobs in Turkey. That is an estimate that the current arrangements cost Turkey 25,000 jobs and €3.5 billion of trade between the EU and Turkey.



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Q100 Faisal Rashid: I am quite surprised because we are in the 21st century and the technology is so advanced, but the EU did not see the use of number plate recognition and whatever coming in. They should—sometimes they could—have a list of the goods, the information, the drivers' information and what is coming through this truck in advance through the number plate by scanning it and moving on. Nothing has actually been carried out in that sense.

Dr Turunç: For your information, what we are talking about is not a European Union and Turkey issue; it is a Bulgaria and Turkey issue. It is an intergovernmental agreement between Bulgaria and Turkey. When we speak about the customs union, it covers industrial goods, but it does not cover the drivers and the trucks. That is the main issue that we have to sort out with Bulgaria. I think the UK has to look into that as well.

In addition to what Fadi said about the detrimental effects, what would we achieve with trade liberalisation? I have looked at three studies in the given time, and hopefully we can provide more information in writing after the hearing.

The study by BKP Development Research & Consulting, on behalf of the European Commission, had four scenarios. The most interesting one for us was the scenario of customs union modernisation and an FTA in additional areas. If there is a customs union upgrade and an FTA in some areas, it will generate €27.1 billion per annum in export gains for the EU and the bilateral export gain for Turkey is €5 billion. So that is €27 billion for the EU and €5 billion for Turkey. In terms of real GDP, that is about 0.01% and a €5.4 billion increase in economic welfare in the EU. For Turkey, if there is customs union modernisation and an FTA, GDP rises by 1.44% and economic welfare increases by €12.5 billion.

Another study I looked at on these vital issues is by ICF Consulting, again for the Commission. It was subcontracted by the Commission and was conducted in 2014. It estimated, as Fadi said, a £3.3 billion trade increase—£1.8 billion additional imports from Turkey and £1.5 billion exports to Turkey. That is only through transit liberalisation between the EU and Turkey. It also shows that the EU would make a total annual saving of €145 million with trade liberalisation.

Q101 Faisal Rashid: The question is why they have not taken any action on the back of those studies.

For exports coming into Turkey through the Bulgarian border, how is the situation in terms of time and documentation?

Dr Turunç: It is similar.

Q102 Faisal Rashid: It will take the same 24 to 48 hours?

Dr Turunç: Yes, generally on the Bulgarian side. I don't want to talk in speculative terms, but Turkey has invested heavily in the border. I checked. In terms of technology, the Turkish Union of Chambers and Commodity Exchanges upgraded most of the export borders in Turkey. In Kapıkule, they invested \$100 million in operating the border and they put



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some infrastructure and technology in, such as smart-controlled areas, CCTV and so on. And we have the same situation, because it is not just about upgrading or modernisation of technology. It has to have goodwill on both sides. The corruption cases cannot be discounted. I would really recommend that you look at Kati Piri's report from 2017 on that when you have time.

Q103 Mr Jayawardena: When we visited Norway recently, we heard that there were a number of companies that set up near the border to help people with paperwork—to help facilitate the crossing of the border. Does that happen to any great extent at the Turkey/Bulgaria border?

Dr Turunç: Yes, definitely. Normally a truck driver or any driver can complete the process but Turkish trucks need an agency to start the transaction at the border gate. We phoned and I found out that it is €10 per declaration. They tried to eliminate them by setting up governmental institutions instead of using the private sector, but they make a living.

Q104 Mr Jayawardena: You say the paperwork can actually be completed by any lorry driver anyway. What proportion of people take advantage of a company getting involved?

Dr Turunç: We just met with some of the transport companies. They say 100% go and do that. In fact, some of them already start the visa application with similar agencies. They separate them at the border. They have agencies now. As you may know, some of the Schengen visa applications are subcontracted to the private sector as well.

Q105 Mr Jayawardena: So even though the paperwork is easy, people still go through the companies.

Dr Turunç: The paperwork is not easy.

Q106 Mr Jayawardena: It is not easy. Ah.

Dr Turunç: A truck driver can complete it on his own, but you need to gather all these documents and you need someone who can start the transaction, because you park it and then you go to paper. It makes it faster.

Q107 Mr Jayawardena: Given that the vast majority of the UK's GDP comes from services, and without seeking to create an industry in red tape such as you might just have outlined, do you think that this could be a service that we could set up quite quickly in the UK, given that it is what we do as a country?

Dr Turunç: The culture is definitely there. Whenever there are borders or checks and accountability issues at the border, inevitably some countries will set up there to facilitate and make it faster. I think it is inevitable once there are checks at the borders.

Q108 Mr Jayawardena: And you don't think technology can overcome these issues and streamline things more quickly by more data being put in upfront?



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Dr Turunç: I am not an expert on this issue, but if there is a will, there are many ways. As I said, I recommend you look at the agreement between the European Union, EEA and Switzerland. As you can see, they are not in the customs union but they have such agreements. If the EU wants to have a road transport agreement with the UK that eliminates all these issues—I do not know why Turkey has not applied so far. I think we were assuming customs union modernisation, and full EU membership will solve all these issues since 1963.

Fadi Hakura: May I just add that my understanding is that the EU reserves open access transportation deals for non-EU countries that accept the free movement of people? If a country does not accept the free movement of people, the EU is unlikely to negotiate an open transport arrangement.

Q109 **Mr Jayawardena:** So in that context they are willing to split the four freedoms. They are specifically picking out that freedom as one of the prerequisites for—

Fadi Hakura: At least with Norway and Switzerland, because they accept the free movement of people in the EEA. Therefore they negotiated open access transport deals with them. Because the EU will not accept free movement with Turkey, Turkey seems unlikely to ever enjoy an open access transportation deal.

Q110 **Mr Jayawardena:** So is it a case of splitting the four freedoms and specifically picking out the free movement of people as a prerequisite, or is it actually a wider and different issue with regard to Turkey? How do you know it is specifically because of no freedom of movement?

Fadi Hakura: Because so far so that has been their policy.

Q111 **Mr Jayawardena:** Okay, but is that just your assertion, or have they set it out somewhere that the free movement of people is the prerequisite?

Fadi Hakura: That is at least what is commonly asserted, and that is what we see as their common policy so far.

Q112 **Mr Jayawardena:** But it is an assertion. It is not set out that you have to have this to have that.

Fadi Hakura: As far as I know, it is an EU policy, but not set out very clearly.

Mr Jayawardena: No.

Chair: Free movement of people and of lorries seem to go hand in hand—the reverse is not true.

Mr Jayawardena: Except it has never been set out.

Dr Turunç: Just to answer that, when the customs union came into force in 1995, there were no services. Now they classify road and trucks as services. You would not assume that you were involving industrial goods but not trucks. The understanding has changed completely. The settings in



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the 1990s and now just show how it is out of date. We need to upgrade these issues.

Q113 Chair: Time is, as ever, pressing. I will move on to Chris Leslie, but before I do, a point of clarification. Is the Turkish border and Bulgaria problem an EU problem or a Bulgarian problem? Is the difficulty in Sofia or in Brussels?

Dr Turunç: I cannot give a definite answer, but I think both. I am not trying to strike a balance at all.

Q114 Chair: So the UK may have to work out with Paris, the Hague, Brussels minor, Brussels major, and the other countries it is close to as well, as well as the EU—that is what you may be alerting here.

Dr Turunç: Yes, I think so. Hopefully you will be in the customs union from the Turkish business perspective, because it provides the softest Brexit, and we share our concerns with our partners who are here that the customs union, at least in comparison with the FTA and no deal, is better. If there is a customs union you will have to deal with Brussels, but also the regional states. Turkey has agreements with 25 countries. As far as I know, with Malta, Ireland and one more country we do not.

Chair: Interesting. Thank you.

Q115 Mr Leslie: You are painting quite a scary parallel for how Britain and British goods and British truck drivers may be able to interact if we are out of the customs union and the single market. I commend Turkey for at least getting the customs union so that the goods have the ability to move, but what you have exposed in your testimony is that the trucks cannot necessarily do that. Some of my colleagues might be able to ride their unicorns across the border and take their goods in that way, but in the real world you have a truck that is potentially full of perishable goods. That could really inhibit their use in 24 hours.

I wanted to ask you about the truck permits and the ability, in particular when driving across those borders, to have the right to do that. My understanding is that if we are in the EEA or EFTA we have that land transport agreement as part of that, as you were just saying, because of the freedoms that are part of that. That is a real-world agreement, but if we do not have that style of agreement, you will have to have a permit for each of the individual countries that you will be driving through. The report in the *Financial Times* mentioned Turkish truck drivers never having enough permits—there is a particular example about Austria, for which the drivers run out of permits after a few weeks in each financial year. Could you say a little more about how the truck permit issue is a barrier to trade?

Dr Turunç: I tried to get a percentage figure for each permit from each country, but generally there are five types of permits: bilateral transport permits, transit permits, bilateral entrance permits, third-country permits, and universal permits. Those are regulated by bilateral intergovernmental



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agreements between Turkey and European countries, not the EU. That is why this is sometimes related to individual states, rather than the EU.

For the record, Cyprus, Ireland and Malta do not have an agreement with Turkey. Two of those are islands, and I think that Ireland would not have a road transport permit. Those permits generally cost around €100—

Mr Leslie: Each bilateral one.

Dr Turunç: The transit one. The bilateral permit from Greece costs €25. In Bulgaria it costs €86, in Romania €236, and Hungary €436. Those are the figures that I managed to get in a short time—

Q116 **Mr Leslie:** So if a truck driver is leaving Turkey and trying to get to Germany, and they want to go through Bulgaria or wherever—at least three or four countries—they have to be able to get the permit, which requires availability—

Dr Turunç: I was just coming to that.

Q117 **Mr Leslie:** And then there is the price.

Dr Turunç: Yes. There are never enough.

Mr Leslie: Never enough.

Dr Turunç: When you talk to any transport company in Turkey—we spoke to some of our customers in December, and the permits always run out in the first quarter of the year. After that they have to pay for them.

Q118 **Mr Leslie:** And if they don't have the permit, the truck has to go on to a train because it cannot drive through.

Dr Turunç: In Austria, yes.

Q119 **Mr Leslie:** So they have to stop at the border, get on a train, go through the country for which they do not have a permit, get off the train, and then they can drive where they have got a permit.

Dr Turunç: Yes, because if you drive in Austria the penalties are very high, but also the train is costly. I found that Bulgaria and Germany grant the highest number of permits to Turkey. Romania, Greece, Hungary and Bulgaria—those four countries—can grant transit permits in return for a fee. You can buy them, but not all countries grant them, even with money.

Q120 **Mr Leslie:** Imagine that you are speaking to a British truck driver—this is your moment to be very clear to them. We have 318,000 drivers, which is five times the Turkish number, and they make 2 million journeys across the Dover straits every year. We have not currently got a land transport agreement. We are saying no to the customs union, no to the single market, no to the EEA, and no to EFTA—well, the Government is anyway. What would you say that those truck drivers need to be aware of? What do they need to think about?

Dr Turunç: First, no Brexit would be great for any driver, but I do not want to make a political point here.

Mr Leslie: Make it. It is very helpful.

Dr Turunç: It is the most frictionless way. Mr Jayawardena has been asking me about private companies, and those private companies are there for a reason, which is lack of knowledge. The EU involves such detailed procedures and documents, so if you want to get out of all this mess, I would stay in the customs union, have an agreement on road transport, and invest in an advanced technological infrastructure at the border so that the driver or company does not have to—sometimes it can take a long time also in Turkey to get to the border, for example from Ankara to Istanbul, because of the necessary documents. We need all those agreements, and also the technological infrastructure.

Q121 **Mr Leslie:** Do you agree, Mr Hakura?

Fadi Hakura: I would just add one more thing. It is not just permits, it is the issue of taxes. There was a major legal case, the Lojistik case, involving the Turkish Lojistik company. Hungary imposed a tax on Turkish-registered trucks transiting through Hungary—only on Turkish-registered trucks. The Lojistik company in Turkey filed a case in a Hungarian court and then referred the matter to the Court of Justice of the European Union, which then said that because Turkey and the EU have a customs union, that means the objective promotes free movement of goods between Turkey and the EU. The court said that the jurisprudence that applies to the free movement of goods between EU member states applied to Turkey. It struck down the tax as contrary to the customs union.

That case was groundbreaking because what you find in EU trade agreements is that they take clauses from the EU treaties, such as “customs duties and all charges having equivalent effect shall be prohibited”, or “quantitative restrictions and all measures having equivalent effect shall be prohibited”. These are standard boilerplate clauses that are taken from the EU treaty and put in trade agreements. But what the Court of Justice has said is that those clauses will be interpreted differently depending on the type of agreement. If it is a free trade agreement, it will be interpreted extremely narrowly, which means that, for example, France can impose a tax on Turkish trucks lawfully and the UK can do nothing about it and cannot challenge it in court. In the case of a customs union, because the objective is to create free movement of goods, that was struck down by the court, even though Hungary argued that it applied to services and not to goods. The court said the tax undermines the free movement of goods and therefore it is illegal, because it applied the jurisprudence between the EU member states to Turkey.

Q122 **Mr Leslie:** Do you think the British Government have thought this through?

Fadi Hakura: I only discovered it by looking at the Lojistik case. This is not something that one would have thought of previously.

Q123 **Mr Leslie:** On a register of risk, if you were advising the British Government on this Lojistik truck issue, would you say this is a green



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light, amber or red alert issue?

Fadi Hakura: I would say it was a red alert issue.

Dr Turunç: I agree with Fadi. As I said, I was not trying to make any political statement here. Ironically, it is a red line for the British Government on the ECJ. It is ironic for us. For Turkey the ECJ has been our friend so far.

Fadi Hakura: It has been the best ally of Turkey in taking an expansive approach to the clauses and provisions of the customs union in favour of Turkey, not just in goods, but even when it comes to free movement of people. Those clauses have been applied generally in favour of Turkey and Turkish citizens, as compared to the attitude of the European Commission and individual member state Governments.

Dr Turunç: In addition to permits, I notice the UK has not studied the case of visas for drivers. Goods, trucks and visas for drivers are a really important issue. I just found out a couple of days ago when we were talking to a driver that each driver has to be physically in the embassy for a Schengen visa. It takes 20 days to get a visa. You give your passport and you wait for 14 to 20 days. By the way, we pay them during their waiting time. A Schengen visa is only valid for six months; they have to be renewed after six months. It costs around €100 per application. In addition to quotas and earnings, visa applications will be another issue when it comes to transport.

Chair: The example you gave of Hungary was the ECJ. That was the rest of us in Europe telling Hungary what to do for our benefit, because of the highway robbery of trucks going between the UK and Turkey. That is interesting.

Q124 **Sir Mark Hendrick:** You hit the nail on the head. It seems to me that certain member states are running a racket with charges. This Government talks about wanting frictionless access to markets. At the moment there is a great deal of friction with all the charges that are being imposed. Why isn't this being overseen and policed by the European Commission? It seems this intergovernmental arrangement means that member states can charge what they want, with the exception of taxes because of the jurisdiction of the ECJ in some cases. They can charge what they want for drivers to come both ways in the way of visas and permits and other charges that they choose to make. Why can Bulgaria or any other member state get away with those charges? It seems they can apply as much friction as they like and Brussels has nothing to do with it.

Fadi Hakura: If you are inside the EU club, the Commission has one attitude, and if you are outside I think they take a more standoffish or distant attitude—I would not say hostile. When it comes to Turkey, as part of the customs modernisation negotiations, one of the issues it is adamant about is road transport, but the EU, and the Commission in particular, has taken a very lax attitude to it. It is unlikely that Turkey will get any major changes on land transportation unless Turkey and the EU have free



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movement of people, and that is extremely unlikely to happen any time soon.

Q125 **Sir Mark Hendrick:** I am not on about free movement of people. I am on about the free movement of goods.

Fadi Hakura: The free movement of goods—lorries transiting through European countries without restrictions. Europe will not grant that privilege of an open-access transportation deal without free movement of people between the EU and the non-EU state.

Q126 **Sir Mark Hendrick:** You are saying it suits Europe to have this friction at the borders that exists at the moment.

Fadi Hakura: Yes. Without including free movement of people, those frictions will continue. At best, the Commission would agree with Turkey to improve co-ordination between the Commission, Turkish customs officials and Bulgarian customs officials, but I do not think the EU is ready and willing to grant any major transport benefits to Turkey.

Dr Turunç: In the customs modernisation process, the three major areas that will be expanded are services, public procurement and agribusiness. If we could include services in customs modernisation, the Commission recommends it—some studies have already begun, but there were elections in Europe and Turkey and we are hoping that negotiations will resume soon. I think, and most TÜSİAD members think, that including services in customs modernisation, most of the issues we are having today with road transport will drop. Also, life does not allow any recoup, so Turkish transporters are now using ro-ro to Italy and France to mitigate the issues at the border with Bulgaria.

Q127 **Sir Mark Hendrick:** Can you answer my question of why Brussels is not regulating this and saying what can and cannot be done? Why is it an intergovernmental agreement between Bulgaria and Turkey? It should be an agreement with the EU.

Dr Turunç: I had in my bag earlier a response from an EU Commissioner from when there are questions about it. They always say that the customs union covers goods, not trucks. This is their official answer.

Q128 **Chair:** We will have to move on, but did you say that Turkey is now using boats to go to France and Italy as opposed to driving because of this issue?

Dr Turunç: Some of the private sector companies use ro-ro, yes. Because, as I said earlier, only 45% of Turkey's trade with the EU is now carried by road. That is as of 2014. In tonnage terms, it is only 20% of imports and 12% of exports. So now most of the Turkish companies are using ro-ro services to Italy and France.

I can give you more details of the European centres. For example, we were speaking about BKM Transport, a Turkish company which does transport from Turkey to the UK, and it uses the Italy route or the France route.



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Q129 **Mr Evans:** Just for clarification. Earlier on you said that you think Britain should remain in the European Union. That is your view.

Dr Turunç: I cannot make this kind of—

Mr Evans: You said the best thing for Britain is not to Brexit.

Dr Turunç: I was being asked—

Mr Evans: I know, and you said that, didn't you?

Dr Turunç: I would—

Mr Evans: Yes. To be honest, it diminishes all the evidence you have given, because you are clearly a remainer.

Dr Turunç: I cannot—

Mr Evans: I am sorry. I am have never heard anything like this. Britain has voted to leave the European Union.

Chair: He is allowed to have his view.

Mr Evans: I know, and I am having my view. It diminishes everything you are saying.

Dr Turunç: With all due respect, of course, that was the decision, and he was asking me—

Mr Evans: You and Christopher Leslie should have a dinner date together. You'll get on really well—like a house on fire.

Chair: Order. Listen to the witness.

Dr Turunç: I was asked, "What would be your advice?", and I said from the beginning that I am not an expert. I cannot give any advice. What would frictionless trade be? What would be the minimum, when you think that trade between the UK and Turkey is \$60 billion and it is to the Turkish advantage? One of the few countries, actually, where we have good trade relations is between the UK and Turkey.

My personal opinion—what can I say? How would you answer those questions? I have all respect for the British public's decision on Brexit personally, and at TÜSIAD we have already begun to work with all the Ministers and with the Department for International Trade, the Foreign and Commonwealth Office and the Department for Exiting the European Union. We are trying to help as much as we can to facilitate a smooth transition. That is all I can say.

If you ask my personal opinion, it is different. We can have a coffee outside and talk about it. For a driver, that would be the most beneficial way. Please do not get me wrong. That is my personal opinion.

Chair: We have had a frank exchange of views and I am grateful to both of you for that.



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Q130 Faisal Rashid: Just forget about that. We have been talking about the issues at the border up to now. I will talk a little about the causes or reasons for those issues. Do you think one of them could be intellectual property rights? I think that is one of the biggest issues in terms of trade and those companies. It has been suggested that Turkey needs to do more to enforce IP rights. What would you say to that?

Dr Turunç: I checked how it was implemented. I spoke to some of the Turkish state authorities and the private sector. Most of the implementation of IP rights is done by border seizures, but I have a report by the European Commission, which is a Commission staff working document called the "Report on the protection and enforcement of intellectual property rights in third countries" that was published in 2018. It says, "Turkey has established specialized IP courts and specialized police departments for IP infringements and has adopted a new Industrial Property Code" in January 2017. It is too early to implement. Also, the customs registration system at the border enforcement has proven very efficient. We heard that so many arrests have been made. The EU and Turkey have annual intellectual property working group meetings, and we hope that dialogue continues. With the new industrial property code in January 2017, there are so many improvements.

Q131 Faisal Rashid: Those are the actions taken by the Turkish Government.

Dr Turunç: Yes, and it is acknowledged by the EU Commission report.

Q132 Matt Western: I want to explore some of the physical delays at the border and I wonder if you can illustrate them through some specifics. I am very aware, correct me if I am wrong, that Ford has several plants in Turkey that manufacture Transit vans and commercial vehicles.

Dr Turunç: Yes.

Matt Western: And I think you take engines from the UK to go into those. I also want to look at the examples of, say, the manufacture of washing machines in Turkey—

Dr Turunç: By Beko.

Matt Western: Which then get exported into Europe. I want to look at the sorts of delays that those big organisations are suffering or experiencing at the border. When an engine comes into Turkey, presumably by land, what sort of experience are they having? What sort of time and cost is it taking to get that through the border?

Dr Turunç: Generally, we spoke to Ford about that, and they would love the Committee to visit their facilities at Dagenham if you have time. They are more than happy to show you how the logistics infrastructure functions. The issue here—I think the engines are first shipped to Germany and Italy, and from there to Turkey and then back to the UK. At that moment, we heard that moments and hours are important for the integration, and they have no issues at that moment in terms of facilitating those logistics, due to the UK being in the European Union and Turkey being in the customs union.



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Matt Western: So there are no time delays or anything. It is very straightforward.

Dr Turunç: Yes.

Q133 **Matt Western:** Likewise, all the white goods and so on coming out, there is no delay.

Dr Turunç: Except the border checks in Bulgaria.

Q134 **Matt Western:** Exactly, okay. On the delays we have been talking about before, there has been some improvement in the delays that have been experienced at the border. Is that correct?

Dr Turunç: I am sorry?

Q135 **Matt Western:** The delays that we have been talking about before, say, with the Bulgarian border. There were serious issues some time ago but they have improved significantly recently. Is that the case?

Dr Turunç: There has been some investment, as I said, on the Turkish side. The Kati Piri report has improved some of the co-ordination but it is the same. It has not been substantially improved at the border between Bulgaria and Turkey. It is the same.

Q136 **Matt Western:** It is the same, okay. Can I ask you specifically about the authorised economic operator scheme? How important is that to your members?

Dr Turunç: It is very important. Turkey operates its own economic operator programme. In 2012, there were seven companies in Turkey interested in and qualified for that. But when we spoke to them—all the exporters in Turkey and transporters—they said that that kind of programme is good when there is a mutual recognition agreement between countries.

At that moment, the EU and Turkey did not have that. The EU has concluded mutual recognition of AEOs with Norway, Switzerland, Japan, Andorra, US and China. Turkey concluded, reached and signed one with South Korea in 2014. There are some ongoing negotiations with the EU, US, Georgia and Kazakhstan. Those programmes simplify customs procedures such as green line and they approve the exporters' status, but it is only good for Turkish business when there is mutual recognition between the countries.

Q137 **Sir Mark Hendrick:** Can I ask to what extent Turkey and the EU co-operate on border controls? It sounds very much like the member state, such as Bulgaria or Hungary, tends to be in control of the process. How much EU co-operation is involved?

Dr Turunç: I haven't come across most of the EU co-operation. I was just checking the news; after the immigration crisis, I think the EU has established a border force at the Bulgarian border, so it is more a people immigration problem rather than goods and facilities.



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Q138 **Sir Mark Hendrick:** Is there more that can be done in this area? I noticed earlier you mentioned that getting more technology would be helpful. Would some sort of electronic detectors make that movement a lot smoother and easier?

Dr Turunç: Yes.

Q139 **Sir Mark Hendrick:** What are you looking at in particular? You also mentioned vegetables earlier; you want to check if there are certain pesticides on vegetables. Is that a slow process? Is it a quick and easy process? Is that something that could be automated?

Dr Turunç: It is a definitely a huge process. If you think of the truck first going through pesticides, then an X-ray lamp and then going to the depots, that takes a huge amount of time. The more important thing is technological advancement, whereby the Turkish authorities and the transport companies can co-ordinate with the border in advance, then do some checks. I think that is also doable.

Q140 **Sir Mark Hendrick:** Is that on the Turkish side or on the—

Dr Turunç: On both sides. When we talk to them, they say that a common border, common checks and intelligence sharing will improve the situation.

Q141 **Sir Mark Hendrick:** So, it has to be reciprocal.

Dr Turunç: Yes.

Q142 **Sir Mark Hendrick:** Every check that is done of goods coming into the EU has to be done in the other direction as well.

Dr Turunç: Yes.

Fadi Hakura: When you look at the European Commission, you do not feel a sense of urgency on their side to dramatically improve the functioning of the border between Turkey and the EU. That is not a priority for the European Commission. For them, the key priority is bringing down Turkish trade barriers on agriculture and services—they are much higher in Turkey than in the EU—to enable more penetration of Turkish markets. That is the key for them, whereas for Turkey transportation is the key issue, but you do not feel a sense of urgency on the EU side to handle that matter quickly.

Q143 **Sir Mark Hendrick:** So you think the EU side is driven mainly by exports and is not particularly sensitive to Turkish needs on imports?

Fadi Hakura: My reading is that they are far less sensitive to Turkish needs and priorities than they would be if Turkey were inside the club. I wouldn't say they take a hostile attitude, but they at least take a very distant attitude towards Turkey. The Turkish Government has repeatedly raised the issue of land transportation—the border issue—but the EU has not given it any priority so far. Even if you look at the documents the Commission released on customs union modernisation, you get the sense that it is not an urgent issue for them.



Q144 Sir Mark Hendrick: Do you think that is because, politically, Turkey is not as high on the agenda as it should be? Is that because of political developments in Turkey? Does the current attitude of the Government in Turkey make the EU less sympathetic?

Dr Turunç: It has been like this for a long time.

Fadi Hakura: It does not matter what the politics in Turkey are—it is just the fact that Turkey is outside the club. That is the typical attitude that the European Union adopts with any country outside the EEA and the European Union. The North African states—Morocco, Tunisia and so on, which have a good relationship with the EU politically—have even greater problems than Turkey when it comes to trade.

Q145 Sir Mark Hendrick: They were never considered candidate countries. Turkey was and to some extent still is, even though the Germans and the French might think otherwise.

Fadi Hakura: When it comes to EU accession, neither side knows it is going to happen. It is at least not going to happen during my lifetime. It is not going forward. It seems at the moment that the customs union is the endpoint of trade relations—economic relations—between Turkey and the EU.

Chair: Can I wish you a very long life?

Q146 Catherine West: This question is about the modernisation of the Turkey-EU trade relationship. Can you outline the main proposals that Turkey has made in relation to modernising its customs union agreement? Given our previous conversation about the EU, let's work with what we have got agreement on. What impact would these changes being adopted have at the border? What practical changes would make the whole thing work better?

Fadi Hakura: Turkey's priority of improving land transportation is a key issue. Another issue is asymmetry. Currently, when the EU negotiates a free trade agreement with a non-EU country—South Africa, Algeria or Mexico, say—that country does not negotiate an identical agreement with Turkey, even though Turkey shares a customs union with the EU. Therefore, Mexico, for example, exports its goods to the EU and then tries to take advantage of the customs union with Turkey to sell them to the Turkish market without a reciprocal benefit for Turkish exporters to Mexico. That is a key problem for Turkey.

So far, the Commission has not identified a solution. In retaliation, Turkish customs officers carry out origin controls on Mexican cars entering Turkey via the EU to make sure that they comply with the rules of origin in the EU-Mexico free trade agreement, contrary to the spirit of the EU-Turkey customs union. You have these irritants multiplying, and the EU has so far not given it any priority. They understand Turkey's problem but have not given it any priority as part of the modernisation negotiations.

On the EU side, their key issue is opening up Turkish services markets, public procurement and agriculture, where Turkish restrictions, or

protections, are much higher than those in the EU. That is what the EU is very keen to open up—it always focuses on services liberalisation and public procurement—whereas for Turkey the issues are asymmetry and land transport.

Chair: Thank you both. Thank you to the panel for coming in and telling us—worrying us, perhaps—about the iceberg tip that might be waiting or the golden opportunities, whichever way people want to see it. We appreciate your evidence this morning. It was frank, open and honest. We hope to see you at some point again. I should say that we hope to have Swiss customs and Accenture here from technology, but they were unable to make it today. Hopefully we will have another session.

Dr Turunç: We look forward to seeing in Turkey.

Chair: Thank you.

Examination of witnesses

Witnesses: Dr Andrew Grainger, Tim Morris and Nick Platts.

Q147 **Chair:** Good morning panel No. 2. Starting from my left, please give your name, rank and serial number.

Nick Platts: Name, rank and serial number—it's been a while since I've done that. I am Nick Platts and I am the head of cargo at Heathrow airport. My responsibilities are more around co-ordinating the airport. We don't actually deliver a service. We are not a handling company, we are not a service provider, but we do run the airport. I am the link between the community and the airport itself.

Dr Grainger: I am Andrew Grainger. I am a freelance adviser on trade facilitation issues, with a long history in academia. In a previous life, I was deputy director for trade procedures for SITPRO, which was the UK trade facilitation agency until 2010.

Tim Morris: Good morning; I am Tim Morris. I am a chief executive of the UK Major Ports Group, which is a trade association for large freight ports in the UK. By volume, 95% of the goods that the UK trades come and go by sea. Some 75% of that is handled by UK Major Ports Group members.

Q148 **Chair:** Just a brief opening question from me to get us going: Mr Platts, how much cargo passes through Heathrow, and Mr Morris, how much passes through the ports you represent, on an annual basis?

Nick Platts: On a rolling 12-month basis, we are looking at around 1.7 million tonnes of cargo going through Heathrow. Last year was just shy of 1.6 million tonnes, so we have seen it increase on a rolling 12-month basis. That growth is continuing and forecast to continue. On a tonnage basis it is a bit misleading, because we are most important for the value of cargo, which was about £106 billion in 2017. That is imports and exports of goods through Heathrow. It does not include services.

Q149 **Chair:** What is the largest in terms of both value and tonnage?



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Nick Platts: In terms of value it is us—commodity-wise?

Chair: Yes.

Nick Platts: I will refer to my notes, if you don't mind.

Chair: Notes give me a sense of certainty.

Nick Platts: Or a forgetful mind.

Q150 **Chair:** I will come back to you on that and ask Mr Morris.

Tim Morris: For 2016, based on Department for Transport statistics, UK Major Ports Group members handled 351 million tonnes worth of cargo. Some 60% of that was non-EU and 40% was EU. That 207 million tonnes is 78% of the UK's total non-EU trade. So there is a strong focus around non-EU trade, in terms of the freights that we handle.

Q151 **Chair:** Just to give us an appreciation of the value of that, given that Heathrow's 1.7 million tonnes was £106 billion, what does your 351 million tonnes come to?

Tim Morris: I do not have that number in front of me. It wouldn't scale proportionately, but I would suggest that it is quite a lot of money.

Chair: I am happy with that. If we don't have an answer on that question, I will come to Nigel Evans and we will come back to Mr Platt.

Q152 **Mr Evans:** Mr Morris, 60% of all the goods coming to your ports are from non-EU countries. What percentage of them are screened or opened?

Tim Morris: It depends on the type of cargo and where it comes from. We support the Border Force's and other agencies' risk-based approach. I think you are probably looking at single figures, in percentage terms.

Q153 **Mr Evans:** So the vast majority coming in just rolls through because of technology, trusted trader and all that sort of stuff.

Tim Morris: Yes. There is a range of well-established processes, procedures, intermediaries and systems that operate. It is slightly different for different types of cargo. For containers, it will be different for yams, for car parts, et cetera. There are systems and processes in place already that successfully and efficiently process 200 million-plus tonnes of freight.

Q154 **Mr Evans:** It sounds quite frictionless.

Tim Morris: It is not without friction, but the systems and processes are there today to make it work and to deliver for UK businesses and consumers like us.

Q155 **Mr Evans:** Great—okay. Going to Heathrow, can you describe how goods coming from the EU and goods coming from non-EU countries are treated differently?



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Nick Platts: I will caveat my remarks by saying I am not a customs specialists or a freight forwarder, so I don't get involved in the day-to-day operational impact of different customs regimes. What I can say is that less than 4% of our tonnage comes from the EU, so we are geared very heavily towards rest of world trade. There are a number of electronic systems in place for those goods coming into the country. When they arrive at the border, they are presented electronically to customs, who then clear them in a minute or two. There are some statistics—we can get them for you. I have heard it is less than a minute by the time you actually press the button.

Q156 **Mr Evans:** So 96% of the stuff coming in through Heathrow is non-EU, and it is dealt with within minutes.

Nick Platts: The customs declaration element—the electronic declaration—is dealt with in less than a minute. There is a whole range of processes that sit around that, including security screening and customs inspections. There is a number of different customs teams who get involved in rest-of-the-world traffic, looking for smuggling and other items. They have guys going into the sheds to look for things that haven't been declared.

Q157 **Mr Evans:** Some of those goods are going to be perishable.

Nick Platts: Yes, absolutely. We have a large trade in animals. A lot of live fish come in, strangely. We are a significant port, in terms of animal movements. That is not our biggest commodity, but we have quite a number of race horses, fish, dogs, cats and chickens. Other animals are available.

Q158 **Mr Evans:** Mr Grainger, do you have anything to add on the processes that take place?

Dr Grainger: Just be mindful that, to take the analogy of a container that goes on a ship or a box that goes on a plane, you have got the airline or the shipping line, the person who packed the container and the organisation that carries and handles the container. Those are all different parties. The processing and control of that requires information from each of them. Countries that do things well have systems in place that can bring this information together to satisfy regulatory objectives and make sure the control objectives are met.

Q159 **Mr Evans:** So there is a massive use of technology at the moment.

Dr Grainger: It has evolved from the late '70s onwards. The UK was an innovator in that area.

Nick Platts: We were the first country to have a customs community system, which declared electronically to customs. I think that was in the '70s. We were the first in the world to have that electronic declaration system, and it has evolved since. It is moving into a customs declaration system, which is coming online.

Q160 **Chair:** Mr Morris, can I just probe this a little further? If a container



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comes from China and arrives at a port, the percentage that are checked is very low. Are those checks done randomly? Is there any basis for looking at the blue container as opposed to the red container? What happens?

Tim Morris: The port operator doesn't have visibility of what gets selected for inspection or not. As the gentleman from Heathrow said, there is a community system that operates, particularly in the big freight ports, that Government agencies and parts of the logistics supply chain have access to. The port operator gets a sign from a Government agency that says they want to look at a particular container. The operator then moves the container to the appropriate location for the agency, and the next thing they know is when the system tells them that that container is ready to move on.

Q161 **Chair:** On what basis do they do that? Do they just decide on the day or in the last 10 minutes that the red container is fine but that they don't like the blue one, so they take a look in the blue one?

Tim Morris: Border Force will be able to give you a great deal more detail on this, but my understanding is that they have a sophisticated, intelligence-led approach to selecting what they want to look at. It is not just taking, for example, the eighth container that comes in.

Q162 **Chair:** Presumably the long lead time on a journey from China gives them time to think about that container, whereas a "turn up and go", roll-on roll-off coming into Dover from Calais does not give them that time.

Tim Morris: That is certainly true. There are two factors. The more time that the goods have in transit—whether that is a container or cargo or whatever—the more time there is to develop the risk-based approach on what to do with it when it lands. There is also notification. You know that a container will be on the boat because it has been booked on and so on. "Turn up and go" at Dover is literally that, so you don't have the pre-notification and you have a relatively small transit time in which to do that analysis.

Q163 **Catherine West:** I am aware, through the National Crime Agency, of some high-profile cases in which drug smuggling has not been clamped down on. How robust are the recruitment practices for people who actually handle goods in ports and airports?

Nick Platts: The security background checks and so on are the responsibility of the handling companies involved. They comply with DfT regulations and procedures. It is not something that we, as an airport operator, get involved in. We have a view on those accessing the critical part of the airport, and we have a responsibility to make sure that anyone coming into that part is not carrying anything that they shouldn't be. In terms of cargo, it is down to the handling companies to make sure that the cargo travelling through the airport is known before it is presented. The people working in those sheds have satisfied the DfT requirements on background checks.

Q164 **Catherine West:** Whose fault is the corruption that was found at



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Heathrow in the recent high-profile seizure of millions of pounds-worth of drugs?

Nick Platts: I would have to refer you to the investigating authorities as to whose fault it was. In terms of the insider threat, it is a known risk. The security services are aware of it, as we are, and we work very closely with the security services, including the Metropolitan police, on intelligence sharing and on action, where required, to keep the border secure. We work in partnership with those control authorities.

Catherine West: That is maybe not robust enough, I might suggest, both on arms, which I happen to know is a problem in ports, and with the drugs question. Maybe some tightening up might be required.

Q165 **Chair:** But you believe that that is a matter for Border Force?

Nick Platts: We take steps and actions all the time to secure our part of the airport. Perimeter access and control is down to us. We comply with the DfT requirements and we work with the control authorities on what the requirements are, what the threats are and where the risks might be. We do that both on the passenger side of the business and on the freight side of the business. However, as we are not directly involved in the preparation of cargo for flight, it is a little more difficult for us take some of those interventions. We depend on companies complying with DfT rules.

Q166 **Julia Lopez:** Mr Morris, I understand that there have been some major problems at Felixstowe recently. I presume that it is one of your members?

Tim Morris: Yes.

Q167 **Julia Lopez:** This is to do with the IT upgrade of the terminal operating system. What was the impact of that upgrade, and how did people respond to it? Are there any lessons that we could learn as we prepare for Brexit?

Tim Morris: Without getting into the specific details of an individual company's incident, yes, there was disruption linked to an IT change. I am sure that everybody around the room greets the idea of a major IT change with similar levels of enthusiasm.

I think it demonstrated that, first, people get on the case for this kind of thing very quickly and are under a lot of scrutiny—that is within the individual port itself—and they resolve the situations very quickly.

Secondly, Felixstowe is one of a number of ports in the country that can handle the largest container vessels in the world. I know that the UK having a private sector-based port system, which is unique in Europe, was an opportunity that they saw for them to take other cargo. Cargo was still being unloaded, but perhaps not in the place that they originally thought.

Q168 **Julia Lopez:** So this is somewhere where we are relatively resilient when faced with this problem?



Tim Morris: Yes. The UK has 40-plus ports of reasonable size. In most categories there are alternatives, and my members would contest among themselves who is the best and brightest for taking particular types of cargo. There is a degree of inbuilt resilience within the ports. There are particular pinch points, but for many categories there is what you would probably describe as a healthy level of competition.

Q169 **Julia Lopez:** How easy do you think it would be to integrate the new IT systems there to meet any new IT requirements that HMRC, for instance, would have to implement in the event of a no-deal Brexit?

Tim Morris: You would be facing the generic issues of IT upgrades. Notwithstanding Felixstowe's specific issue about that upgrade, there are well established systems and processes that work at the moment—IT systems, physical systems and interactions with other agencies—that are processing, notwithstanding individual glitches, very substantial levels of international trade right now.

Q170 **Mr Fysh:** One of the things that clearly does not exist at Dover at the moment is systems in the port imagery process that match up with the declarations that would need to be made, which would hopefully be made before you get to the port, in order to solve the issue that you mentioned before. Are there off-the-shelf things that are used at other ports that can be used to match up the CHIEF system, which we are already working with for declarations, and/or CDS when it comes through, with the IT systems that actually record movements through the port?

Nick Platts: Did you say ports or airports?

Mr Fysh: I guess it's a ports issue, although it would be a similar issue. I am interested in whether the systems that you use to do that are different, and why they are different, and how we might think about them for Dover as a result.

Nick Platts: One of our inventory-linked service providers is in a seaport as well as at Heathrow. From a technical point of view, there is knowledge and awareness and there are systems in place that operate at both sea and airports quite well. At Heathrow, because most of our trade is rest of the world, the scope of what needs to happen is well understood. It is engineered quite well from an IT perspective. There are some issues around different systems within trade communicating with each other, but once you filter up to the inventory-linked systems, CCS-UK or CNS, then they are very efficiently linked into CHIEF and will be for CDS. There is a number of interfaces.

The software providers in the UK are very good, very innovative and do some excellent work around providing that front-end interface into those back-end systems, so it is quite good. From an airports perspective, the scope of what is coming doesn't scare me or any of the people I talk to around the airport. The scale of it is a concern, but we are pleased to see that HMRC is responding and CDS is being upscaled to cope with the volume of declarations.



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I think we have the technical capability. We just need to make sure we know what the rules are that we are implementing.

Tim Morris: I support that from a seaport perspective. There are a number of providers who will compete quite aggressively for your business, in terms of providing you with IT systems and platforms. To be more positive about Felixstowe, while 75% of the volume that it handles is non-EU, it processes the EU volumes through exactly the same systems. It is linked into the various different bodies and processes both EU and non-EU trade right now.

Q171 **Mr Fysh:** Do you have anything to add, Dr Grainger?

Dr Grainger: Be mindful that the data that the systems process has to originate from somewhere, so there will be interfaces with shipping lines, importers and exporters, and there are commercial arrangements between the importer and exporter. Data can be of differing quality and differing integrity, so although the technology might be deceptively simple, the processes that enable clean data that can be used for regulatory processes are much more involved.

Q172 **Mr Fysh:** Indeed, the NAO report into the progress in the development of CHIEF and CDS for the eventuality, which came out a few days ago, said that the process of getting the users signed up with their interfaces to that will not really begin until January of next year, because they will only finalise the export protocols in December. How long do you think it would take to potentially implement the interface systems such as you use at ports, at Dover, and how long it would take to sign the businesses up to their parts of the interfaces?

Tim Morris: You would obviously be better off asking Dover that question. The systems and processes are there; you can go out and buy them and implement them. That is one part of the puzzle. As Andrew has said, there are issues around data provision; a system is only as good as the data you will put into it. Dover obviously has a number of very specific characteristics, both physically and in the type of traffic it carries, and it would need to carefully think through how it implemented any system, given those specific characteristics.

Nick Platts: From an airports perspective, the information is there from both an import control system and an export control system. Both of those declarations and that information are made available to the control authorities quite early on in the piece. Because of the speed at which air cargo moves, those systems are quite robust; trade has invested in them over a number of years and works with the control authorities to ensure that it is presenting them with usable information. The bit that my customers talk about is less the technology and more the people at the border and the physical inspections that follow from those targeted inspections.

Q173 **Chair:** Is all air cargo X-rayed?

Nick Platts: All outgoing air cargo needs to be made known. X-ray is one way of making it known.

Chair: Thank you.

Q174 **Matt Western:** Dr Grainger, could you elaborate a little bit more on the causes of friction at borders and how they may be overcome?

Dr Grainger: The principle of friction is where you have regulatory requirements and subsequent administrative processes that are not aligned with those requirements of the business community. That can manifest itself in many ways; a very practical example is when a plane arrives late at night but a veterinary officer or a phytosanitary inspector who has to do an inspection might only be available from 9 to 5. Those sorts of scenarios can quickly agitate things. Another cause of friction could be large-scale changes to systems and the private sector would then have to change its interfaces, which brings us to the previous system, where you have to rebuild infrastructure in your own organisations to link up to the Government systems. There is a whole range; every business you speak to will have different experiences, specific to their organisation, of what friction means for them.

Q175 **Matt Western:** So there is some degree of harmonisation or modernisation of systems as well?

Dr Grainger: In the principles of eliminating friction, yes, modernisation plays a big part. Harmonisation, standardisation and having a common language to share information all play a big part. Sometimes it is about learning from best practices in other countries, so it is about becoming better at things. Maybe it is also about holding yourself and other countries accountable for the red tape and putting in interventions to eliminate that.

Q176 **Matt Western:** A more general question to the three of you: the British Ports Association has said, "To truly achieve the Government's ambition of frictionless trade, it will be important to ports that the only passenger and freight checks" that need to be done at the border and cannot be done elsewhere should be handled there. What do you think can be done elsewhere, and how can that be facilitated? I think you have alluded to some of this in your previous responses, but perhaps you could explain it, Mr Platts?

Nick Platts: You are touching on how the supply chain works and the most efficient way of moving goods through. The historical precedent is that you would do this at the border, but it is worth considering allowing goods into the country, beyond the border, and having inspections and checks inside the border rather than at the border. For aircraft landing at Heathrow, the goods are taken to a shed where Customs would normally conduct their first round of checks; it then goes to a second line of sheds where a different Customs team have the opportunity to intervene and inspect those goods. There is a double layer.



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If capacity is a concern, you might want to look at perhaps increasing the availability of second-line capacity to absorb and to do inspections in a different way. The old rules were built around less technology. I think we could use technology in a different and much more intelligent way, but at the end of the day, that is only as good as the officer on the ground who picks up a box and says, "That says 2 kilos, but it feels a bit heavier than that to me."

Tim Morris: Most large ports in the UK already have facilities in place to do these kind of checks. It is more of a problem for ports that have specialised in EU trade, such as Dover. For those kind of ports, they clearly have to look at space on the port or, indeed, putting in place some inland facilities, such as for Border Force or for health checking. Where to put truck-checking facilities in the south-east Kent quadrant is quite an interesting question.

Q177 **Matt Western:** Are your members exploring those?

Tim Morris: I should be clear: Dover is not one of my members.

Matt Western: Others then.

Tim Morris: At the moment my members are concentrating on what they have right now. I think one thing that all ports agree with is that it would be good to get some clarity on what changes or what additional requirements will be put on them, in terms of checks. That will then drive what we have to do. At the moment, putting in place large amounts of spare capacity just in case things have to change is expensive and disruptive and so on, and it is not something that people are working on now, in a physical sense.

Q178 **Matt Western:** But being businesses, they must have modelled scenarios to examine the implications, costs and time needed for those?

Tim Morris: There has been modelling, but at the moment there is quite a wide range of potential outcomes. There is still a considerable level of uncertainty about new or additional customs requirements over and above what is already in place for processing non-EU trade. With that broad range, it is difficult to commit money, time, space and capital to put in place the physical infrastructure.

Dr Grainger: To answer your question on what can be done away from the border, most things can be, so long as you have a relationship with those organisations that handle the cargo. For trade, the 80:20 principle is probably more like a 97:3 principle. The bulk of declarations are made by a handful of organisations. Smart administrations will try to build relationships with those super users of Government services. You can have something quite bespoke sometimes. The express parcel sector is quite good at negotiating these things and has effectively taken away maybe 25% of the customs control burden.

Chair: We have less than 20 minutes left, because of the time pressures on Wednesday.



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Q179 Mr Jayawardena: The Prime Minister has repeatedly set out that no deal is better than a bad deal. In a no-deal scenario, what would you need to change, how much time would you need to prepare and what have you done so far?

Chair: And do you agree with the Prime Minister?

Mr Jayawardena: That was not my question, Chair.

Tim Morris: I will stick to the practical aspects of the question, given the reaction to the personal opinions of the previous panel member.

Mr Jayawardena: Thank you—very wise man.

Chair: That is the problem with Brexiteers.

Tim Morris: As I have said, most major ports already handle a significant amount of non-EU trade. If it is a case of scaling that up in terms of the data requirements—you will certainly need to process more trucks or more tonnes—then, largely speaking, there is a system of process testing, but there is a reasonable level of confidence that that is possible. What starts to become more tricky is if there is going to be new or additional requirements. We would hope that at least in the initial period there are not, because the risk profile of the tonne of goods that came from France yesterday is the same as it is today. On that basis, why do you need to do something different? As I pointed out to Mr Western, there is still quite a wide variety of uncertainty about what the outcomes might be, and committing what could be quite a significant amount of resource on an unlikely outcome is not an efficient use of resource for any organisation.

Q180 Mr Jayawardena: Does that apply to the airports as well?

Nick Platts: The prospect for us is slightly different. Given that there is a small volume of freight that flies to Europe, I think the scale of any change, should there be additional customs requirements for the EU27 trade, will be absorbed within existing arrangements and processes. The biggest concern we have is on the trucked goods coming from Europe. Some of our airlines bring a lot of their tonnage from Europe by truck, 20% to 30% plus or minus, and any delays at the border at the seaports would have a knock-on impact on that flow of goods. Then it is a question of what the freight forwarders do in response to those delays at the borders. Do they bypass the UK in moving those goods or do they allow a little bit of extra time in the journey time?

Typically, we allow five days from origin to destination for the movement. A flight only takes 24 hours, so there is a little bit of fat in the system to move goods through. It just depends on the arrangements in place and the type of commodity you are talking about. Pharmaceuticals need to move very quickly. They might fly into Heathrow rather than truck from Frankfurt, for example, or vice versa. That reaction of trade to the new rules is a little unclear. The transition period is great, but we would like to know what the final terms are so that we can start to work with our partners and get in place those adjusted flows.

Mr Jayawardena: Do you want to come in on this one, Dr Grainger?

Dr Grainger: Yes, because if you think about a timeline, there are several timelines. There is the industry one and the political one, but you also have the legal issues. They have their own process and institutions that have different time periods. There are administrative issues for organisations such as Customs and also other border agencies and the local authorities to make the necessary changes. There are economic issues to find the resources to make the necessary investments to create incentives for the private sector to provide relevant infrastructure. You have operational issues, which we have heard about, and then the technology.

Q181 **Mr Jayawardena:** Of course, what we also heard from Mr Morris in particular was that it is actually a scaling-up of the existing infrastructure. I am conscious of time, so I will not probe that point further today.

Are there international agreements in this area of customs and trade facilitation that the UK should seek to be a party to that it is currently a part of by virtue of its EU membership?

Dr Grainger: Most definitely yes. The most obvious one is the WTO trade facilitation agreement, which has 13 articles that hold minimal expectations. I am fairly certain the UK would be compliant with that, but they are not very ambitious. If you think about the current status quo, the UK can do better. It does do better. It is just a matter of carrying that over. Also, there is the work with the world of customs organisation. There is the work with specific organisations, such as IMO, ICAO or IATA, and probably the SAFE framework. There is the United Nations CEFAC committee, a dedicated global organisation to look at standardisation and how to share information between regulatory systems and with the private sector.

Q182 **Mr Jayawardena:** Is there anything that we are not part of at the moment or an improvement specifically that we can make?

Dr Grainger: You would have to look at each organisation and when we joined them as opposed to when we were a member of the European Union.

Q183 **Mr Jayawardena:** Does that apply from your perspectives in airports and seaports?

Nick Platts: I couldn't comment. It is not my area.

Tim Morris: I have nothing to add to what Dr Grainger has said.

Q184 **Mr Leslie:** Are you all prepared for a no-deal scenario? Have you been doing any work?

Nick Platts: We are always prepared.

Q185 **Mr Leslie:** What have you done on no deal?



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Nick Platts: I think operational folk will always get the job done, and I am an operator historically.

Q186 **Mr Leslie:** Have you done any work on it, rather than “We can cope.”?

Nick Platts: Yes, we are discussing with our community—our local cargo community—about what we need to do.

Q187 **Mr Leslie:** What is the biggest issue that has cropped up about no deal?

Nick Platts: It is the congestion at seaports for the trucks coming from Europe into the airports. There is a thing called a flight truck; I am not sure if you are aware of these things. It is a truck but it has a flight number and it is customs-controlled because it is a flight number and it is just physically moved by road, although it is an aircraft flight number. So these vehicles going to and from Europe carry a lot of the goods that are flown in or out of Heathrow and other airports in the UK.

Q188 **Mr Leslie:** So that is because if there is no European common aviation area, that would hit trucks as well as planes.

Nick Platts: If it is a hard Brexit and the goods are still flowing from Europe to the UK by road, and there is congestion at the seaports, then getting those goods to Heathrow to connect with the flights would be delayed. How much of a delay is down to the seaports and the operators. The impact that then has on airlines and passengers as a result: we will have to wait and see exactly what the terms—what the Government can get—

Q189 **Mr Leslie:** But “wait and see” is not preparation, is it?

Nick Platts: You look at all the contingencies; you look at the options. You asked me specifically around a hard Brexit, and we are working with our community on the impact of that. What they have identified so far to us through those conversations is the truck goods coming from Europe.

Q190 **Mr Leslie:** The same question, on the ports side.

Tim Morris: I think if you took the consignments that come in—it is similar, EU and non-EU: for example, if you have one container that comes from China to your port and one container that comes from, say, Rotterdam, the challenge is making sure that people are aware that the data requirements will change, because you are going to treat those two containers the same. In some ports that already happens. In other ports, not just for containers—it would be for other bulk terminals as well—you go through this process of “Right, we are going to treat the two the same. Do you have the information flows in place? Do the customers and other people in the supply chain know that the requirements have changed?”

Q191 **Mr Leslie:** Do you think the customers are prepared for that?

Chair: This could happen next March.

Tim Morris: Yes, I think the big international players know what is required. The question mark for all of us is the 145,000 businesses that



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only trade with the EU from the UK. There is a whole education process that needs to happen there.

Q192 **Chair:** There is a lot of red tape for those 145,000.

Tim Morris: It is a new set of processes and systems that they have to go through.

Q193 **Mr Leslie:** There is legal preparation as well. There is this myth that somehow Britain could just decide "We won't put up anything at the borders. We won't institute any checks, cameras—anything," but, Dr Grainger, on the legal side, your understanding is that Britain can't do that because it would be a massive breach with every other WTO member across the world, because of most favoured nation arrangements, wouldn't it?

Dr Grainger: The devil is always in the detail and there are lots of obligations that the UK has—or expectations. It is also the legal responsibilities to our own citizens, as was mentioned earlier. There really are thousands of instruments. You just have to look at product standards—eyewear, glasses—

Q194 **Mr Leslie:** In your opinion, though, could Britain unilaterally just say "No borders with the EU."? Obviously the big no-deal border area is the land border in Ireland, which is less effective—

Dr Grainger: As a citizen I would be worried about the products I would buy in supermarkets. I would be worried about the safety of my food. It would be those sorts of things that I think everyone would expect Government to provide; and if you don't control your borders there is the risk that the controls that you are accustomed to would be undermined.

Q195 **Mr Leslie:** Is it a viable option in the least to have zero borders? Unilaterally Britain says, "Okay, we have got no deal, but we just won't do anything with the EU as a result"—because it would have to do it to the rest of the world, wouldn't it? Is it viable?

Dr Grainger: I think it is a different issue.

Q196 **Mr Leslie:** In your judgment.

Dr Grainger: It is not viable in the sense that I would not trust what I, as a citizen, would expect my Government to provide, because things like the quality of products would be undermined. I would not feel looked after because the borders would not be enforced in that respect.

Tim Morris: I would supplement that with three things. First, I am with the gentleman from Heathrow in that the logistics and supply chain industries, including ports, air and sea, are generally pretty resilient. A way will be found. There may be a bumpy period in the middle, but a way will be found.

Q197 **Chair:** A bumpy period? Does that mean a recession? *[Interruption.]* It is a good question; it is met with seriousness from the remain side and mockery from the Brexiteer side.

Tim Morris: For clarity, a bumpy period would be a period of uncertainty about customs arrangement, not a broader macroeconomic—

Q198 **Chair:** I know some people do not want to hear this, but what will be the economic impact?

Tim Morris: I am not a macroeconomist; I am not qualified to judge that. I don't want to sound complacent about that. The second thing is that there is a specific risk about trucks, as covered in the previous evidence session, and trucks with drivers. That is where the risk is. To put that into context, it is important, but it was 8% of UK port volumes in 2016. That is volume, not value—it will be a higher number for value—but I just wanted to put that into context. There is a problem, and it is important that we identify where the problem is.

Q199 **Chair:** Extra demand could conceivably be put on UK border services next March if we can't just drop everything and open the door. Will it have any knock-on effects for places like London Gateway that deal with the rest of the world if Border Force has to go and do excellent work at Dover and you have to work at Dover?

Tim Morris: Taking the example of London Gateway, which is largely a port for non-EU freight, its view is that it has sufficient capacity to handle more. We are interested in learning from the Government what the new and additional requirements are that might change that picture, or about the re-routing or the new requirements on individual ports to take on additional burdens. Once again, we think we have the systems and processes right now. We are very interested in knowing how that might change going forward.

Q200 **Chair:** The common refrain is that "No deal is better than a bad deal". From your point of view, what deal could the UK Government negotiate that would be worse than no deal? What could they agree to that would make the situation worse for you than no deal would? Is there anything worse than no deal?

Nick Platts: I am an operator so I have a practical head and mind. I am not a political animal, so I will leave the politics to others who are much more learned in that respect. From an airport point of view—

Q201 **Chair:** So you cannot see anything worse than no deal?

Mr Jayawardena: He didn't say that!

Chair: I am just asking the question.

Nick Platts: I am just saying that I am not the right person to ask that question of. From a Heathrow perspective, we are looking for an open and frictionless border, and I strongly believe that the use of technology and a change in processes—particularly in Government policy—will allow us to keep the borders flowing, whatever scenario comes down the line. We want to encourage trade. We want an efficient border but we also want a secure and welcoming border.



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Q202 **Chair:** The question is whether you can envisage the UK negotiating anything worse than no deal? No.

Mr Jayawardena: He did not say that!

Chair: No, but I asked him an open question.

Nick Platts: I point to the volcanic ash clouds that shut Europe down for a week. That had an impact.

Chair: So a volcanic ash cloud could be worse than no deal?

Q203 **Catherine West:** I alluded earlier to drugs and arms, which we know come in. Mistakes and corruption happen. Are our public servants in the border agencies ready for no deal? None of you work for the Government. In your view, are our public servants ready for a no deal?

Dr Grainger: One can look at staffing figures, training and the practices in the UK compared with other countries. For example, most customs training in the UK is done formally on the job. Other countries have very structured training programmes at university level that take several years. They pay significantly more as well, so these are elite professions to join. So, yes, there are lessons to be learned from elsewhere.

Certainly, if you asked among the business community about, for example, how many officers they know who are familiar with origin rules—something very fundamental to control—at best you might get a handful of names.

Q204 **Catherine West:** I mean, we are talking eight months away.

Dr Grainger: Yes.

Q205 **Catherine West:** So the answer is no?

Dr Grainger: Yes.

Nick Platts: From my perspective, I would like to distinguish between policy and the practical. From a practical point of view, as an airport operator we see officers on the frontline doing an excellent job, doing the best they can given the resources they've been given. And the fact that we detect undeclared items and illegal items coming through the airport means that the process works.

There are policy issues that could be changed post-Brexit that would allow the airport to be more efficient and to process more goods more efficiently, and use the Border Force resource more efficiently, and we have made some representations around that to another Committee. And I think that if you change the way that you use that resource, you will get a lot more done for the existing resource.

Also, however, we need to make sure that the passenger border is properly resourced, and I think there are some issues, and we recognise that there are some issues, at Heathrow around immigration, in particular non-EEA passengers coming in. We regret that the service they're getting



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is not one that we would like them to get and we work very closely with Border Force on trying to improve that situation. Anything that we can do to improve that welcome—not just for goods but also for the people coming in to do business here—we'd certainly welcome that.

Tim Morris: I would add only that there are considerable levels of activity from Government agencies like Border Force, in terms of planning—scenario planning. But at the same time, they have no greater clarity than we do about what scenario it is they are actually zeroing in on, in terms of implementing.

Catherine West: We accept that there is a lack of clarity from Parliament, which is why it's hard to plan. However, I also think that the community that you have referred to must accept that just recently millions of pounds of drugs have come in, so we're not talking about a perfect record here, let alone adding what Brexit will bring. It just makes the average citizen worry about what other things might come in. We know that there's a problem with arms from eastern Europe, for example; I know, as they kill children in my constituency.

So, if we know that those problems exist now around illegal things coming into the country, imagine adding the job of Brexit to the Border Force, and we're cooking up a bit of a storm here.

Q206 **Chair:** What I am detecting from Heathrow and the port is that no deal in eight months' time will only be a scenario to deal with and won't be a great problem. You will cope with no deal. Is that correct?

Nick Platts: Yes. From an airport's point of view, we're working on those contingency plans now. We hope that Government can sort something out, but in the absence of that we will have plans ready to go.

Q207 **Chair:** So it's not a major problem; it's just another scenario.

Nick Platts: It is another day at the office.

Tim Morris: From a seaport's perspective, you probably want to draw a distinction between a certain number of ports that are heavily focused on intra-EU trade with self-driven lorries and the rest. It's somewhat of a sliding scale, but broadly speaking there is a concentration of risk.

Q208 **Mr Fysh:** What technological improvements are in the pipeline when you look around the world and could they be used to support customs checks and facilitate checking?

Dr Grainger: There are lots of ideas and principles, the single window probably being the most hyped-up one, where Government agencies work together with the private sector to share information, and to ensure regulatory objectives are met as quickly as possible, so that they can distinguish between trusted organisations and those you have no knowledge of.

However, there is one basic level and that is actually the dialogue with the private sector. In the UK, we used to have a trade facilitation body that



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was dedicated to engaging in dialogue between the regulatory and the business community. That is no more.

Q209 Mr Fysh: What would setting such a thing up again involve, and how would you make it most effective?

Dr Grainger: It is almost like gardening—you have to look after and nurture the environment within which you operate. It is a matter of getting stakeholders together and understanding regulatory objectives and trying to work out systems, procedures, processes, laws and regulations, and designing those in such a way that they don't create friction. Technology advances over time, so there are new ways to do things differently. Certain regulatory requirements may no longer be needed, so you can abolish regulations. You carry on in that way.

Our standard recommendations cover how to set up such bodies, so I urge you to look at those, as well as the United Nations CEFAC Committee, for example, or the example that SITPRO had in the UK.

Q210 Mr Fysh: Would it be suitable, given the focus on considering different opportunities for trade and trade conditions more generally around the world, for such a body to be associated with the Trade Remedies Authority that we might set up?

Dr Grainger: You would certainly want links to the mechanisms of the WTO, so that you can hold other countries accountable to their red tape. Likewise, if you have your person waving the flag in Geneva and being asked about red tape in the United Kingdom, they can give an instant commentary on how red tape is currently perceived. It could be silly things like checks on strawberries for an organic certificate; I remember that at Heathrow. It could be checking for day-old chicks. It could be all sorts of things where something suddenly doesn't quite work well, and somebody in a different country gets very agitated.

Q211 Julia Lopez: Mr Morris, you mentioned that you are quite confident about the preparedness of larger businesses, but that you are concerned about the Brexit preparedness of the 145,000 smaller UK businesses. How many of those do you think would use a freight forwarding company or a trade facilitator to trade, such that they wouldn't be doing the customs declarations themselves?

Tim Morris: I do not have the proportions but I imagine that a significant number of them already use third parties, such as freight forwarders. My point was probably more about the requirements that a freight forwarder would then come and ask of those businesses. We have already talked about rules of origin, for example. I am not sure how many of those 145,000—many of which are SMEs—are aware of the rules of origin and what they mean. While the gateways like Heathrow, Felixstowe, Gateway, Liverpool and Clyde may well have automatic number plate recognition and optical character recognition, and may thinking about blockchain, in terms of the IT solutions, people at either end of that chain potentially need to come along with the process as well. Obviously, if you have a

customs partnership, they will not, but in certain scenarios what they need to do will change.

Nick Platts: If you look at the numbers for the air cargo industry, the top 25 forwarders control 80% of the market. There is a funnelling effect of businesses. They engage with agents and forwarders because of the complexity of customs regimes. I am surprised by the number of businesses I talk to who don't know how their goods get to the end destination; they hand it over to a forwarder and it is all done for them. They pay for that service because the forwarder is the specialist. They may have customs clearance brokers and other sales agents that will have knowledge, but the freight forwarder retains that knowledge of the systems in place. Because of the global nature of the trade, those systems are quite robust and interrelate.

There are some legacy issues around some of those international systems. The International Air Transport Association messaging system has about seven different standards. That is not UK-specific or Brexit-related; it is an issue that the industry has been dealing with for 20 years. On the movement of information, blockchain is a technology that everybody seems to be talking about. There are projects looking at how to move one record of information from origin to destination, with the control authorities and the freight forwarders and everybody involved being able to access that as it goes through, so it will be a more secure movement of information from cradle to grave, which is really promising.

Chair: I thank the panel for their time this morning. It is greatly appreciated. We were up against time, and time has run out. We might follow up at some other point, but I thank you all for your time so far.