



Select Committee on the European Union

External Affairs Sub-Committee

Corrected oral evidence: Brexit: customs arrangements

Thursday 19 July 2018

10.10 am

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Members present: Baroness Verma (Chairman); Baroness Armstrong of Hill Top; Baroness Brown of Cambridge; Baroness Chalker of Wallasey; Lord Dubs; Lord Horam; Earl of Oxford and Asquith; Lord Risby; Lord Stirrup; Baroness Suttie; Lord Triesman.

Evidence Session No. 6

Heard in Public

Questions 81 - 99

Witnesses

I: Jon Thompson, First Permanent Secretary and Chief Executive, HM Revenue and Customs; Jim Harra, Tax Assurance Commissioner, Deputy Chief Executive and Second Permanent Secretary, HM Revenue and Customs.

Examination of witnesses

Jon Thompson and Jim Harra.

Q81 **The Chairman:** Good morning, Mr Thompson and Mr Harra. Welcome to this evidence session, which is part of our Committee's Brexit customs arrangements inquiry. The session is being broadcast. We will produce a transcript and send it to you for any corrections.

Because there are so many questions from colleagues, would you keep your answers pithy and to the point so that we can get as much from the session as we possibly can? Colleagues have a number of supplementaries to the questions you have already been given sight of. Are there any opening comments you would like to make? We are happy to hear from you.

Jon Thompson: To keep it pithy, I have none.

The Chairman: Thank you very much indeed. In the White Paper last week, the Government outlined a facilitated customs arrangement. Could you explain to us how this arrangement would remove the need for any physical customs infrastructure at the border?

Jon Thompson: Certainly. I will try to answer as many questions as possible, and Jim will expand or amplify as the Committee wants.

It is worth taking a step back from the facilitated customs arrangement to the breadth of paragraph 12 of the White Paper, which sets out the proposal for a free trade area, and includes the facilitated customs arrangement, the elimination of tariffs, the adoption of a common rulebook for manufactured goods and for agriculture, and a robust market surveillance mechanism.

It is our view that those four taken together remove the need for customs processes between the UK and the EU—it is not just the facilitated customs arrangement; it is the other three elements together as well. They would operate as if we were in a combined customs territory. We are not, but it would be as if we were, so we would apply the EU's tariffs at the UK border for goods that entered the United Kingdom destined for the European Union.

I am conscious that you have been to some ports. We have travelled widely too. At Felixstowe, for example, a container will come off a lorry and go on to a truck. It is fairly common for it then to be driven round to the Dover to Calais strait. In those circumstances, the goods would have entered the European Union for customs purposes at Felixstowe and the tariff would have been paid at that point, so they are able to move freely between the United Kingdom and the EU. It is the combination of all those elements that gives the proposition that it requires no customs declarations or checks.

The Chairman: There will be questions about ports later, so I will not come back to you on that, although a number of issues have been raised

concerning the time spent at ports, which we may come back to a little later. I am quite keen that we move on. We may come back to the opening question with supplementaries.

Q82 Lord Stirrup: The White Paper talks about a new trusted trader scheme that will enable firms to pay the correct tariff at the point of entry—Felixstowe, in your example—without going back into a repayment system, which is obviously rather cumbersome. Could you put a little flesh on that and describe how, in your view, it would work? What would it look like? How would companies sign up for it? What would the administrative requirements be for those companies?

Jon Thompson: There is an existing scheme, the authorised economic operator scheme, under the Union customs code, which the 28 countries of the EU already operate. The existing scheme provides 21 facilitations for the trusted trader, most notably that it lowers their risk score. The vast majority of customs declarations at the moment are done automatically, computer system to computer system, with a set of risking rules that identify the consignments in which we should intervene.

One of the main benefits of being a trusted trader is that it lowers their risk. It also means that we would notify them of a check, and indeed we might visit their premises rather than their being required to come to ours. Under the Union customs code, that would expand into a self-assessment model rather than an individual transaction model.

It does not suit everyone, to be completely up front with you. It suits those who regularly interact with customs or have very high volumes of transactions. At the moment, 74% of UK exports to the rest of the world, and 60% of imports, are through a trusted trader scheme. The volume is there. We would want to adopt that sort of scheme for intra-EU trade, so we would copy as much as possible of the existing scheme, which is being built under the UCC model for the end of 2020, and then see whether, by working with the industry, we should go further than that.

Lord Stirrup: Are the percentages you gave the percentages of total trade including with the EU, or the current non-EU trade?

Jon Thompson: Those are the percentages for the current rest of the world trade.

Lord Stirrup: If we expand that approach to trade with the EU, there will be an enormous increase in volume, and presumably a lot of companies that have not been engaged in the system will now need to be. Is that correct?

Jon Thompson: That is correct, yes. There are between 145,000 and 250,000 international traders involved in intra-EU trade at present. If you asked them to complete customs declarations, our estimate is that the number of customs declarations would rise fivefold from where we currently are, from 55 million to 250 million a year. The proposition would not require that, but as one of its features it would require that we

adopted the trusted trader scheme for high-volume trade, and therefore mutual recognition of the 27, and the UK would ease the flow at the border.

Lord Stirrup: Would there be a relatively easy administrative process for firms that do not do it now to adopt the system and become new trusted traders?

Jim Harra: The facilitated customs arrangement aims to put no new burdens on EU-only traders. They would not be required to become trusted traders under this scheme. This scheme works—

Lord Stirrup: I am sorry to interrupt. Companies that currently trade just with the EU will not become trusted traders.

Jim Harra: Correct. The aim of the facilitated customs arrangement is to add no new frictions in UK-EU trade, so traders who currently trade only with the EU and do not have to comply with any customs procedures would continue in that way. However—

Lord Stirrup: I am sorry to interrupt you, but I want to make sure that I understand this clearly, because at the moment I do not. After Brexit, presumably they will be required to comply with customs arrangements unless there is some alternative.

Jim Harra: To step back, one of the aims of the proposition in the White Paper for a facilitated customs arrangement is to ensure that there are no new frictions between the UK and the EU. That means no customs controls or customs declarations applying to UK-EU trade. Therefore, those traders would be left in exactly the same position they are in today regarding the admin burdens which they have to incur.

In order to do that, importers in the UK who are importing goods from the rest of the world would have to operate either the UK tariff or the EU tariff, depending on where the goods are destined, so we would seek to make them trusted traders so that at the outset they can identify which tariff is the correct tariff for them to account for. There may be some people in their supply chain who have to join that system, but the aim is to do it as much as possible with UK importers from the rest of the world who are already complying with customs procedures.

Q83 **Lord Stirrup:** Thank you. I understand that now. One of the EU's key concerns in all this, it seems, is the potential for fraud—people bringing in goods from the rest of the world, perhaps not complying fully in regulation or tariff terms and then passing them into the EU. How can that be addressed in a way that would, in your view, satisfy the EU?

Jim Harra: You are right. We would want to negotiate with the EU a method of market surveillance that gives the EU confidence that the UK tariff, if it is lower than the EU's, is being applied only to goods that are destined for the UK, and that the EU's tariff is being applied to goods that are destined for the EU. That is something that we will need to negotiate with the EU. In those negotiations, we would aim as much as possible to

get assurance through a trusted trader scheme, which is already familiar to the EU because we already operate the trusted trader scheme at our border, so that the EU can have confidence that in as much of this trade as possible the tariff declared at the point where the goods clear customs is the correct tariff.

Lord Stirrup: What about the non-tariff issues?

Jim Harra: We would be applying their trade policy at our border, which would include that.

Jon Thompson: Paragraph 17 suggests that we need some institutional oversight for ensuring that it is a verifiable system.

Q84 **Lord Triesman:** I think you have answered most of my questions, but how would the proposition apply to goods traded by companies that trade principally with the EU but where a significant number of the components in the finished product are from somewhere else altogether?

Jim Harra: The aim in the facilitated customs arrangement in the free trade area is that, as well as having the customs arrangement, no routine rules of origin would apply between the UK and the EU. The origin of goods coming into the UK would be established at the UK border and the correct tariff rate applied to them at that point. An agreement would be reached with the EU about the point at which those imports might acquire a UK origin and lose their foreign origin—for example, if they were substantially transformed through a manufacturing activity in the UK—but there would be no routine rules of origin or certification between the UK and the EU.

Jon Thompson: The White Paper estimates that 96% of UK trade would be able to identify the correct tariff at the point of entry, but the particular case you are putting, the 4%, is where we think some further clarification would be required, and there may be some further administrative burden on that 4%.

Lord Triesman: Can that be right in statistical terms? There is a huge amount of discussion among companies that are producing relatively high-value manufactured goods about the capacity of people to introduce as components things that are substandard, liable to be faulty and liable to damage the reputation of the company whose label is on the outside of the goods. How will it help to prevent substandard materials or counterfeited bits arriving inside completed goods?

Jim Harra: Obviously, we have procedures at the moment to prevent that happening, including intellectual property checks and standards checks. The White Paper makes it clear that, in addition to the facilitated customs arrangement, there would be a common rulebook between the UK and the EU for the standards of manufactured goods and agri-foods. It is not our department's area to enforce that, but it goes alongside the customs arrangements, so that the EU can be satisfied that goods

entering the UK that may then pass into the EU have met all those standards at the UK border with the rest of the world.

Baroness Brown of Cambridge: If Jaguar Land Rover is making a vehicle that might be exported to China or Germany, or might be sold in the UK, some of the gearbox components may have crossed the border between different parts of Europe several times. Will there be different levels for the same component? Will they have to take into account at each transition the potential different tariff levels because of the final destination of the vehicle?

Jon Thompson: No, because we are trying very specifically to avoid any intra-EU customs checks or procedures so that there will be a free flow of goods between the 27 and the United Kingdom.

Baroness Brown of Cambridge: Even though the final vehicle is not intended for an EU country.

Jon Thompson: Even though the vehicle might be an export from the United Kingdom to China. That is correct.

Q85 **The Chairman:** Ultimately, all those processes, however simplified you are trying to make them, are still an administrative burden. They will still have some cost element.

Jon Thompson: On Baroness Brown's question, there is currently no process for parts for the gearbox that come and go from Germany to the UK multiple times. The White Paper maintains that situation, so it is no different from the current situation. Does that answer your question?

The Chairman: Yes.

Jon Thompson: You are looking doubtful.

Jim Harra: Perhaps I can clarify. If we were to introduce customs controls between the UK and the EU, there would be a very substantial new admin burden, because all UK-EU traders would have to comply with customs obligations that they do not have to comply with today. The FCA avoids that but at the cost of adding a small amount of admin burden to UK-rest of the world importers, because instead of just paying the tariff they will have to decide which of two tariffs is the correct tariff to pay. We believe that will add a small amount to the admin burden.

The Chairman: But it does add.

Jim Harra: It does add, but significantly less than if there were customs controls between the UK and the EU.

The Chairman: Until you decide, as everybody is expecting, that we do more trade with the rest of the world.

Jim Harra: Yes.

The Chairman: Then, of course, the burdens will continue to increase.

Jim Harra: Based on a static view of trade in 2017, we believe that the additional burden would be around £700 million a year for UK trade. That is applied to UK traders who already operate customs procedures, whereas if you did not do that and instead put customs controls between the UK and the EU, it would be an order of magnitude much larger than that.

The Chairman: But on a static position.

Jim Harra: That is on a static position, correct.

The Chairman: We are hoping not to have that, because the whole point of Brexit is to do further trade with the rest of the world.

Jon Thompson: Yes. We understand that, but the order of magnitude Jim refers to is currently enormous. If you introduced customs declarations between the United Kingdom and the European Union, our current estimate is between £17 billion and £20 billion of administrative costs per year.

Q86 **Baroness Brown of Cambridge:** You mentioned the common rulebook for manufactured goods and for agri-food, which would mean us committing to following EU rules. You may not be the right people to answer this question, but do you think the common rulebook would completely eliminate the need for border checks for agri-food products? Is that your understanding? Have you spoken to EU colleagues about it, and is it a common understanding?

Jon Thompson: It is our understanding that it would be, but I am afraid, as you hinted in your question, that we are not the lead department for that. That is Defra, so we could not go into detail on that.

Baroness Brown of Cambridge: Some of us met Michel Barnier on Tuesday. He had a long list of other reasons why, even if we had a common rulebook, there would still be a need for inspections, but they were not tariff issues. They tended to be special issues to do with pests and diseases, for example, so we were a bit concerned about that, but you are not involved in that.

Jon Thompson: No, I am sorry, we could not answer questions about that.

Lord Horam: Can I ask about the common rulebook? Obviously, we can start off with the common rulebook because that is what we have now, but at some point in the future there will be divergence. What happens then?

Jim Harra: As Jon said, the common rulebook is not our department's area. My understanding is that the arrangement envisages that the UK would have sovereignty to diverge if it wished, but there would be consequences in that controls might need to be introduced between the UK and the EU.

Lord Horam: This interesting word “consequences” has been used quite a lot, but no one has actually pinned it down. You may be the wrong people to ask, and I understand that, but what exactly do we mean by consequences? Have you any idea?

Jim Harra: Depending on how you diverge and what view the UK and the EU take, it might mean that one or other decides that they have to introduce border controls and border checks between the UK and the EU to manage that divergence. That would be a consequence.

Lord Horam: Would that be on a specific product? Let us say there was divergence on the strength of the power of vacuum cleaners. Would that mean that that product alone would have different rules and different tariffs and the rest would remain the same? Is it possible, in other words, to have a different set of rules for one product?

Jim Harra: It would certainly be possible to diverge in relation to just one type of product. The question would be whether you can then administer that divergence without imposing customs declarations on every product that ever crosses the border.

Lord Horam: That is my question really.

Jim Harra: That is not a situation we have encountered. It is slightly out of our area, but it is the type of consequence you would have to consider.

Q87 **Lord Triesman:** A good deal of the discussion in this country has been about the Government’s desire to reach a deal that would help to do the things you have described. For some time, and most of all in the last 36 hours, there has been a huge amount of discussion in Europe, which gets fed back, about the probability of no deal. My questions are about the ways we would deal with or adapt to no deal.

What customs facilitation arrangements currently in place with the EU and third countries would be applicable in the United Kingdom if no comprehensive customs agreement could be reached? How far would they go in bridging the gap between no arrangements at all and the current customs arrangements between the UK and the EU? How would we get any of the advantages that you describe as potentially available—I understand that it is potentially—in those circumstances?

Jon Thompson: To clarify, in that hypothetical situation, which is not the Government’s preferred option, the United Kingdom would be trading with the European Union under WTO rules.

Lord Triesman: Presumably.

Jon Thompson: Besides the authorised economic operator scheme, about which we answered some questions, we would still seek to become members of the common transit convention. That could make some difference, and there are ongoing negotiations. It is not an EU mechanism. After that, I am slightly struggling with whether there is much more that you can do.

Jim Harra: Our assumption is that if no agreement is reached between the UK and the EU, in that no-deal scenario, customs controls would operate both ways on goods moving between the UK and the EU, meaning customs declarations and the potential for checks on goods. Although the UK would wish to have facilitations in place to make that as easy as possible, such as trusted trader schemes, those would not be mutually recognised because there was no agreement. There would be unilateral facilitations that would help to some extent, but they would not be as good as mutual recognition of those facilitations, which is what you would seek to reach in an agreement.

Lord Triesman: In those circumstances, we might be facing your £17 billion to £20 billion of additional costs.

Jon Thompson: Yes.

Lord Triesman: What sort of timescale would it take for us to make those arrangements under the WTO, even the arrangements you described, which are understandably limited to what the WTO does?

Jon Thompson: We are not responsible for tariffs, unfortunately, but my understanding is that the United Kingdom could submit tariffs to the WTO relatively straightforwardly, in a relatively short time.

Jim Harra: We have a plan in place to enable us to introduce customs controls between the UK and the EU from March 2019 if there is no deal. There would be a functioning operating customs system between the UK and the EU, and we can put that in place. It would not be optimal from day one. We would need to make a number of improvements from March 2019 to try to reduce friction and costs in that system.

Jon Thompson: The key issue that has come up in other conversations with Select Committees has been the so-called trilemma: Ministers would need to make a decision about the free flow of trade, the security of the United Kingdom and the raising of revenue, because those are the current three objectives at the border. In the scenario you are setting out, some choice may have to be made between those three objectives in the run-up to April 2019.

The Chairman: If there was that scenario, how would it work at Dover, given the constraints of space?

Jon Thompson: We have done some contingency planning with other government departments about what it means in particular for ro-ro ports. The two largest entry and exit ports of the United Kingdom that would be affected under Lord Triesman's scenario are indeed Dover and Eurotunnel, which are where the significant volume is. It would be reasonable to speculate that traffic would slow, because it is a closed-loop system in which vehicles exiting France may be subject to the EU's checks. I think I have been relatively transparent in Parliament on several occasions that what happens then is that you end up with a

French operations stack, the speed of the ferries slows down and there is an operations stack on the United Kingdom side.

There are questions about what kind of contingency arrangements you can make. The Government propose to publish a series of 70 technical notices that set out some of the detail of how those sorts of scenarios could be accommodated, or what other arrangements might be needed. My understanding is that those technical notices will emerge through the summer, to set out some of the detail in answer to your question.

The Chairman: Obviously, there will, therefore, be an increase in burdens on the HMRC.

Jon Thompson: Sure.

Q88 **The Chairman:** Given the pace of where we are, it would be interesting to know how you are preparing for that. There is going to be a lot of workload increase on you as an organisation.

Jon Thompson: Yes. HMRC officers are not on the actual border. The Chancellor's fiscal remit is given to Border Force, so the impact on the physical border is one for Border Force. Nevertheless, your point is correct in relation to the significant increase in the number of customs declarations that there would be for us.

We currently run a national customs hub in Manchester that handles the 55 million customs declarations that there were in 2016. We would need to increase its capacity to handle the 250 million customs declarations that would arise. We are currently in the process of recruiting people to accommodate that scenario. We recruited 1,113 at the end of May and we have made job offers to almost 1,500 people more, taking us close to 2,700. I expect us ultimately to need between 4,000 and 5,000 additional staff to cope with the volume of increased administration from the increased numbers of customs declarations. We would also require an increase in the number of compliance officers to check those 250 million declarations.

In leaving the European Union, there will be the repatriation of various powers and policies. For example, the United Kingdom will have to make decisions about VAT policy, so we will require an increase in the number of policy officials dealing with those sorts of areas. There are subsidiary issues in relation to technology and IT systems and so on. That is how we ended up with the estimate of 4,000 to 5,000 additional staff.

The Chairman: How many people do you have currently to deal with the 5 million—is it—you are dealing with at the moment?

Jon Thompson: It is 55 million customs declarations, and 750 staff deal with them. We think that we will need to increase that threefold. That is part of the 4,000 to 5,000 additional staff we will require. Although the volume of declarations goes up fivefold, we actually think the number of staff we require will increase threefold, because the risk is fundamentally

different in relation to intra-EU consignments than it is in relation to the rest of the world. It is not a linear relationship.

Lord Horam: You are staffing up very sensibly. How far ahead of the end of March deadline would you really need to know that there was no deal in order to put those plans in place? You cannot do it just like that, as they say.

Jim Harra: We are executing that plan now. We are not waiting for certainty of the outcome. As Jon says, we have offers out to over 1,500 candidates to take up jobs. If, as we expect, we end up in an agreement with the EU, we will put those staff to other work and get the benefits to the Exchequer from that, but we are not waiting for certainty to execute our no-deal plan. We are making progress on it as we speak.

Lord Horam: There is no deadline in your mind by when you really do have to know whether there is a deal or not.

Jim Harra: Not from HMRC's point of view, because we have our plan, we are funded for it and we will make sure that, as far as possible, any costs we incur are not nugatory, because, as I say, we will put staff to good work. There is a challenge in that it is not only HMRC, or government, that has to make changes; we also need trade—ports, for example—to make changes, and that requires investment and costs for them, so they will look for certainty before they move. From their perspective, they are looking for the point when they feel they have to commit.

Lord Horam: You have no idea when that might be, from your discussions with the ports and so forth.

Jim Harra: We have had lots of engagement with the ports. We know, for example, that the likes of Dover would have to make business process and system changes, and that there really is not time to make them by March 2019, which is why, as I said, we would start with a system that is not optimal and that would have to be improved later. Part of that is not because of the time it takes the Government to make changes but because of the time it would take the ports, the hauliers and the freight forwarders, et cetera, to make changes.

Baroness Brown of Cambridge: If there is a good deal that does not require all this, I presume that, very sadly, there would be significant redundancy rounds in departments such as yours. Can you really find roles to accommodate all those extra people?

Jon Thompson: Yes, to be pithy about it. Broadly, people would be in customer services, or what we call customer compliance, which is about risking and technology. We have a huge technology programme, and because of Brexit we have had to pause or stop entirely a whole series of technology projects. We could start those again.

In relation to customer compliance, although there are record revenues and we do exceptionally well on collecting tax, there is still a £37 billion tax gap. We could apply the customer compliance people to those sorts of risks.

Although we are currently meeting all the ministerial targets for customer services, such as answering the phone and speed of returning letters and so on, we could clearly speed that up. The arrangement we have made with the Chancellor of the Exchequer is that, as and when there is a deal, if those people have been recruited we will put them to other useful areas that allow us to achieve more for the Exchequer.

Jim Harra: There is no doubt that over time we would need to rebalance the size of the workforce, but the rate of wastage, for example with retirements, means that it is not unusual for us to recruit between 6,000 and 8,000 people in a year in any event. There is scope.

The Chairman: But you need people with talents and skills.

Jim Harra: Yes. Some of the people we are putting on this work are new recruits but some are existing staff who we are redeploying.

The Chairman: Are you reaching out to Europe for staff?

Jon Thompson: It is possible that in those 2,700 there are EU nationals, yes, because there are large numbers of EU nationals in the current workforce. We have 67,000 employees. I could not tell you how many are EU nationals, but it is likely to be a significant percentage.

Q89 **Lord Dubs:** We went to Dover last week, and although you have dealt with some of the points, can I put these to you? Your people told us that to clear a non-EU vehicle can take an hour and a quarter, whereas an EU vehicle takes two minutes. They said that if there was no deal, or there was not an arrangement similar to the White Paper, it would not just be a matter of staff, it would be a matter of reconfiguration of the whole port area and they would have to put up buildings. We are talking about years, not months. Would you like to comment on that?

Jon Thompson: Certainly. The code we are using with you, and I guess that you see through it, is that we will have a functioning border but it is suboptimal. A choice will have to be made in April 2019 about flow of trade, security of the United Kingdom and revenue. For some period after that, we would have to build up to the optimal situation of running the border. That includes, and we are very open to this, the fact that some ports might need to be reconfigured physically; there may need to be some further infrastructure in some areas. It is very difficult to generalise.

We are very conscious of Dover. I have been myself three times in the last 12 months, and we have been to Calais, Coquelles, Eurotunnel and a range of other ports. It is really quite difficult to generalise. The approach we have taken is to create 19 different working groups, and they are

broadly in three areas. There are geographically focused working groups—for example, on how Kent works in this scenario.

Secondly, there are working groups on mode of transport and what the changes mean for ro-ro ports versus aviation, such as Heathrow. Then there are cross-cutting things such as data exchange and infrastructure. We have developed a plan with the Border Force to engage with all 140 ports to understand how the changes might impact on all 140, because it is very difficult to generalise. What is required at Hull may be very different from what is required at Portsmouth. That is the approach we are taking.

Lord Dubs: You are being put in an impossible position, are you not, because you may find that you have a very short time before these things have to happen. It is putting enormous pressure on you.

Jon Thompson: We will strive to do our absolute best.

Lord Dubs: On the question of how long it takes to clear a non-EU lorry in Dover, is there any way in which the time of an hour and a quarter could be shortened, or is that what you have to work to?

Jon Thompson: My understanding is that you were given that information by a port employee. It is difficult to generalise, because it very much depends on three things: the type and volume of goods on the lorry; whether or not the lorry is accompanied or unaccompanied, because it is quite common to get a trailer but no cab with an individual in it; and the method of importation or exportation, whether it is in a container, a soft-skinned lorry, or a parcel, and whether or not there is a passenger. I would not be surprised if you could provide examples of its taking an hour and 15 minutes. I think we could provide you with examples where it was shorter, but it might also be longer.

At the western dock—you may have seen the facility—a so-called wet stamp is required, an actual stamp on a piece of paper. We would want to have a look at that. It seems, if one might dare say it, a rather old-fashioned way of behaving. We would look to introduce a much more digital way of working, as the White Paper says. We have a project that is looking at the best customs authority in the world, which is Singapore, and the adoption of the so-called single-window technology, where everything is done electronically and you can remove the wet stamp. The long-term aim would be to introduce something like that.

Q90 **Baroness Chalker of Wallasey:** We have not had a good history of government technology acquisition over the last 20 to 30 years. Are you confident that you really are getting the very best advice in your technology advisory group, which is, I know, very large and quite complex? You mentioned Singapore in your last answer. Could we not import from Singapore things that we could use here? We do not need to reinvent the wheel, and I have a horrible feeling that one or two people might be encouraging you so to do.

Jon Thompson: It absolutely would be my approach not to reinvent the wheel. We have been very conscious about where the United Kingdom is in the world customs organisations list, and we are currently ranked fifth. Our first move has been to implement a new customs declaration service—CDS—to replace the customs-handling import and export facility, or CHIEF, as it is known in the trade.

The essence of the customs declaration service is that it is based on the Dutch model. The Dutch are currently ranked second in the world and we are fifth, so we hope that will take us further up the list. We have hired the team that implemented the Singaporean model, which is currently ranked No. 1 in the world, to try to set out our business case for the spending review 2019 for the funding of the single-window technology.

There are 26 government organisations involved in some way or another in the border. Some of those still require you to post forms for a licence to be posted back to you, for example. Singapore has very much thought about the trader and integrated all of government around the trader. That is the fantastic thing they have done there. We are very interested in that and there is an absolute case for the UK to do it. We have set out the bones of it and Ministers are very interested, but, to be transparent with you, it is a significant technology programme—hundreds of millions of pounds—and will take five years to implement, to be up front about it. That is copying someone else and not learning. I would try to avoid inventing anything.

Baroness Suttie: I was going to ask how long you thought it would take to introduce such a new system, but you just said five years.

Jon Thompson: To be clear, Baroness Chalker’s question to me was about single-window technology, and we think that would take around five years.

Baroness Suttie: It would take five years to introduce the Singapore-style system into the UK.

Jon Thompson: Yes, around five years. That is not the same as what is in the White Paper, but the single-window technology would take around five years.

Q91 **Baroness Suttie:** I was in Dover last Friday too. I realise that you do not necessarily know why the hour and 15 minutes figure was given to us, but why does it currently take so long at the west port?

Jim Harra: More than 95% of the traffic that goes through Dover is intra-EU and does not take that time, because there are no controls, but just under 5% is rest of the world trade. It moves under transit arrangements, which involve the lorry reporting to an office of transit and getting its documents stamped, as Jon said. That is what takes the time, but it is a very small proportion of Dover’s trade.

I cannot speak for the port, but I guess that when ports decide what to invest in for speed of turnaround they look at the biggest part of their

volume. Certainly, if we were to see a big increase in the amount of goods moving under transit in the event of a no deal, we would want to look at how we could streamline that. I emphasise that this is only relevant in the event of no deal. If we secure the facilitated customs arrangement, nothing would really change at Dover.

Jon Thompson: To take Jim's answer a little further, one of the options we are looking at is whether the office of destination and/or the office of departure has to be the actual physical border, or whether it could be moved inland somewhere. That would give additional capacity.

Q92 **Baroness Armstrong of Hill Top:** I suspect that at the moment ports such as Teesport will be doing EU trade virtually only backwards and forwards, because they will be working largely with Nissan on cars, both getting components in and cars out. We hope that Hitachi at Newton Aycliffe will be getting lots in from Japan, so I suspect that is not intra-EU, is it? Hitachi is selling trains to Germany at the moment as well as here. How does HMRC see development in areas such as that? A large part of our manufactured trade comes and goes through the north-east, and just-in-time work is absolutely critical. What sort of specific work have you done on those sorts of industries and regions?

Jon Thompson: We have conducted a significant piece of research with industry. We engaged an independent third party to explore those sorts of questions for us, thinking through different sorts of industries, such as chemicals, cars and food. That research was fed into the development of the White Paper. Under the White Paper, imports and exports to the rest of the world are very largely unaffected and intra-EU trade is also very largely unaffected. That is how you end up with the estimate in the White Paper that 96% of trade will be able to pay the correct tariff, if there is any tariff to be paid at all, at the point of entering or exiting the United Kingdom. We were very conscious of that.

We looked specifically at the car industry, and we worked with a number of manufacturers—not the one you mentioned, but at least three others—about how exactly it would affect them and what would happen about just in time, because many of those industries have removed warehousing; essentially, the warehouse is on the back of a lorry travelling between two different points. One car company made really apparent how big a warehouse they might have to build if they had to stock nine days' worth of trade. We have been very conscious of that and we did some great research that fed into the development of the White Paper.

Q93 **Lord Risby:** Thank you very much for sharing with us your views on the possible permutations of staffing and costs. I want to explore them a bit further.

Mr Thompson, when you appeared before the House of Commons Treasury Committee you talked about a possible cost of £20 billion to businesses in this country if we were to leave without a deal. I would like to understand how much you think there would be a cost on business and

on government of the facilitated customs agreement, and perhaps where it might lie. Can you give us some idea of the accreditation and timelines involved in the process?

Jon Thompson: To be clear about the £17 billion to £20 billion cost, that arises if you have to introduce customs declarations for intra-EU trade. Under the White Paper that falls away. Under the facilitated customs arrangement, our estimate is that the administrative burden on businesses is £700 million a year. That is a static estimate, so it does not take into account the behavioural change that may happen, but our current best estimate is £700 million a year. Does that answer your question?

Lord Risby: I was asking about a no-deal Brexit, but you think the figure for the proposed scheme would be about £700 million.

Jim Harra: Our best estimate at this stage, based on static flows of trade, is that the cost to UK importers from the rest of the world of administering the dual tariff would be about £700 million a year. For the very small proportion of trade that might have to engage with the repayment mechanism to adjust the tariff to the correct level, there would be some costs involved. There would be no net cost to them because it is voluntary for them to enter that mechanism; they will do so only if the tariff differential makes it worth their while. There would be a net advantage to them. Nevertheless, built into that would be some cost that we have not yet quantified.

Lord Risby: There would be a sort of accreditation process. You say it is voluntary.

Jim Harra: Yes. The accreditation process for trusted traders would enable them to access the ability to pay the right tariff up front and therefore avoid using the repayment mechanism. There certainly are some costs involved in becoming a trusted trader. You have to pull together evidence to demonstrate to the customs authority that you qualify as a trusted trader. You may have to make some infrastructure changes at your site to make it secure in order to meet the criteria.

However, a lot of UK importers are already trusted traders; as Jon mentioned, 60% of imports from the rest of the world are already under that scheme. In addition, as the White Paper mentions, we are looking at how we can streamline and improve the processes for getting accreditation.

Q94 **The Chairman:** The schemes at the moment, particularly for the SME sector, involve quite complex forms. Is it right that you also expect some sort of collateral security for traders to be accredited to this scheme?

Jim Harra: We can. Some of the simplifications we offer traders enable them to move their goods into the UK with minimal bureaucracy and then clear them later with a supplementary declaration. In those circumstances, we may well seek a financial guarantee so that we are

sure that, when we clear the goods later on, we can get any tariff that is due.

The Chairman: You are asking those people first of all to impact their own cash flow, to collect on your behalf, and then asking them to put down financial guarantees. For the SME sector, it suddenly becomes a really big issue.

Jim Harra: If we introduced customs controls between the UK and the EU, a very large number of small businesses, the EU-only traders, would suddenly become subject to customs controls, and might then bear costs if they wanted to become trusted traders. But the facilitated customs arrangement would affect only existing UK importers from the rest of the world who are already complying with customs arrangements and, in the case of 60% of the value of that trade, are already trusted traders and have the financial securities in place.

Baroness Armstrong of Hill Top: Can you tell us what it would cost government and the public sector?

Jim Harra: I cannot quantify that, but I can explain the additional activity which the UK Government would have to do. First, the fivefold increase in customs declarations falls away. All the costs that Jon mentioned would arise from no deal would not happen, but we would have to administer the dual tariff, and satisfy ourselves and the EU that the correct tariff was being paid. We would have to run the repayment mechanism for the small proportion of trade that touches on it, so there would be some additional costs over what we have today. I cannot quantify it, but in order of magnitude it would be much smaller than if there was no deal on customs controls between the UK and the EU.

The Chairman: You might not have the figures now, but it would be interesting to see what scale of that 60% is small and medium-sized enterprises, and to see what the longer-term impact would be, because it will worry the supply chains.

Q95 **Lord Stirrup:** With regard to fraud prevention, you said that you would have to negotiate something with the EU, and I understand that, but it is still not clear how that would be done, what propositions we have and how they would impact on companies, particularly SMEs.

Jon Thompson: We understand that we need to clarify that further, and we have been working with stakeholders about the further improvements that could be made. We should be transparent with the Committee: trusted trader status does not suit everyone, because of the issues you are putting in the room. It definitely suits those who regularly interact and it suits those with high volumes, but because of the cost of entry, if you are doing only one or two declarations a month, it may be easier to outsource them to a customs agent and do it that way than to go down the route of the authorised economic operator scheme. There is some choice in the market that SMEs can make, and they do indeed engage

customs agents in significant volume when there is a relatively vibrant market.

The Chairman: That is true, but of course, as with all things, when customs agents get to know that there are going to be increased volumes, it is automatic that they will tend to increase costs too.

Q96 **Lord Horam:** We have asked you about costs and the financial consequences for HMRC, and you pretty well answered that, but I have a separate question about the time all this will take to bring in. I think, Mr Thompson, you were quoted as saying in relation to the new customs partnership, which I understand is not the same as the new facilitated arrangement, that it would take five years from the point at which the requirements became plain. Is that roughly the same for the new arrangement?

Jon Thompson: There are two fundamental parts: the operation of the dual tariff and the creation of the repayment mechanism. Our view is that we should be able to implement the dual tariff by the end of 2020. The creation of the repayment mechanism will take somewhat longer. It is quite difficult to estimate that. It is unprecedented, so I am afraid I have to disappoint Baroness Chalker at this point by saying that it would be a unique technology project, because we cannot find anywhere else in the world that does it.

Lord Horam: It is totally new.

Jon Thompson: It is completely new and literally requires coders to sit down and work out how it would work. We cannot at this point say that it would be in place for January 2021.

Lord Horam: So you are saying—

Jon Thompson: We are reviewing where we are and what the current policy is to give Ministers further advice about when the repayment mechanism can stand up.

Lord Horam: Can the scheme work without the repayment mechanism working?

Jim Harra: Yes. All of this is relevant only when there is divergence between the UK tariff and the EU tariff, and we do not know when that will happen. When it happens, we want to make sure that traders can access the correct tariff, and take advantage of a lower tariff, for example, if they are entitled to it. We want the vast majority of them to be able to do that at the outset and not to have to engage with the repayment mechanism, and we will aim for that to be in place for 2021. But for the 4% of trade that is more likely to have to engage with the repayment mechanism, our current view is that it would be some time after that before it could be put in place, both in government and in the trade. The White Paper acknowledges that there would be phased introduction of the scheme.

Lord Horam: Those are the two phases: the dual arrangement and the repayment scheme, which affects a small number.

Jon Thompson: Yes.

Jim Harra: We would aim to have as much as possible in place by 2021, but realistically we would not suggest the—

Lord Horam: Are we talking about the beginning of 2021?

Jon Thompson: At the end of the implementation period.

Jim Harra: Yes.

Lord Horam: It is your view that all this will be workable by the end of the implementation period.

Jon Thompson: We need to be clear. The operation of a dual tariff should be there by the end of December 2020, we believe, but the repayment mechanism would take a bit longer because we need to be clear about what free trade agreements the UK has signed and how much difference that makes to tariffs, and business needs to make an economic decision about whether the tariff differential is worth reclaiming or not.

Industry has been clear with us that it takes between 18 and 24 months for it to adapt. We would need to write a piece of very bespoke technology to allow traders to get the tariff refund, so we are being up front with Ministers that we do not think the tariff refund would be there for January 2021 and it will take some time after that, but industry is also clear that it could not do it either.

Lord Horam: That would be a loose end of the scheme. That bit of it would not be in place.

Jon Thompson: You could describe it as a loose end, if you wanted to. It requires some further work from us to work out exactly what that piece of technology is and how long exactly it would take to acquire it, because it is a bespoke arrangement. We cannot find anywhere else in the world that does it.

The Chairman: That is working on the 4% at this moment in time.

Jim Harra: That is correct.

Jon Thompson: It is.

The Chairman: But it is on the assumption that that 4% is going to increase. The whole point of what we are doing is to increase trade with the rest of the world.

Jim Harra: I would hope not. I know we want to increase trade with the rest of the world, but I want as much of that trade as possible to flow through the channel that can pay the correct tariff at the outset, and I want to keep as small as possible the proportion that has to engage with

the repayment mechanism and adjust its tariff after the event. Four per cent is our view based on a static picture of current trade that would be more likely to have to engage with the repayment mechanism. Even if the volume of trade changes, it does not follow that that percentage would change. Certainly, it is our aim to keep it as small as we possibly can.

Lord Horam: If there was divergence from the common rulebook, the 4% would presumably change.

Jim Harra: The 4% or the 96% relates only to tariffs: the proportion of UK trade we think will be able to engage with customs and pay correct tariffs at the outset, if there are any tariffs, and the proportion of trade we think might have to engage with the repayment mechanism in order to adjust to the correct tariff after the event. It is nothing to do with—

Lord Horam: Regulation.

Q97 **Baroness Armstrong of Hill Top:** You have already said that you have been looking at the needs of different ports, and, I assume, of different airports too, and you said that the change is not just for you and for the government agencies but for them.

Jon Thompson: Yes.

Baroness Armstrong of Hill Top: How much have you been able to assist them in understanding what the changes may look like and what will be expected of them, and how is all that going with both ports and airports?

Jon Thompson: There is a long-standing joint consultative committee on customs. It has been in place for several decades and includes 31 trade organisations, so they have had fairly open conversations with us about the development of policy. I referred to the 19 working groups we set up to understand the geographic issues, the mode of transport issues and any cross-cutting themes.

Ultimately, we would like to set out something that looks a bit like a requirement for what we think ports need to do, and then it would be for the ports to make a decision, because it is a commercial decision for them, about how fast and how far they would meet the requirements. Given that they are in a competitive situation and all 140 ports are not, I believe, in public sector ownership, it is a commercial decision for them to make about how fast they want to go, and there would be some competitive advantage for some of them to go faster.

It has been made clear to us that some airports and some ro-ro ferry ports would attempt to do it much quicker. Some have made it reasonably clear to us that they might not do that, but that is not our decision. It is a commercial decision for them.

Baroness Armstrong of Hill Top: I understand that.

Jim Harra: If we negotiate the facilitated customs arrangement, we expect the impact on ports and airports to be relatively minor. It is only if we leave the EU with no deal that you are into significant change at ports and airports.

Q98 **Baroness Chalker of Wallasey:** Have you had any commercial advice from companies such as Société Générale de Surveillance or Bureau Veritas about using the technology that they seem to be developing all the time to help you to accommodate problems ahead?

Jon Thompson: We have taken fairly extensive soundings, and, as I said, I think I have visited 12 ports and airports myself in the last 12 months. There is a significant difference in the way ports and airports have approached this. In Liverpool, for example, Peel Ports has adopted a fully biometric system, which is very impressive. It can match the container with the lorry and with the driver. It uses hand-scanning technology to prove that that is the driver and then matches the driver with the correct vehicle, with the correct container. Some ports in the UK are right at the cutting edge of world technology. Given my answer to Baroness Armstrong's question, you would expect some of those to thrive potentially in this situation. That may not be the situation for some others.

Q99 **Baroness Suttie:** Can I assume that, if we were to end up staying in the customs union, the current situation would stay as it is other than the necessary modernisation of current systems that HMRC would carry out on a regular basis anyway?

Jim Harra: It is the Government's policy that we will not be staying in the customs union, so we are not planning for that. Some of the facilitations we have discussed, such as the possibility in the future of building a single window, are things that the UK could today think about doing in any event under existing rules.

The Chairman: Thank you, Mr Thompson and Mr Harra. This has been a very informative session for all of us. I am sure we could have given you many more questions, but you will be relieved to know that the session is over. We will, as I said earlier, give you copies of the transcript. Thank you very much indeed.