

Welsh Affairs Committee

Oral evidence: [Brexit, trade and customs: implications for Wales](#), HC 1444

Tuesday 16 October 2018

Ordered by the House of Commons to be published 16 October 2018.

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Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Chris Davies; Susan Elan Jones; Ben Lake; Anna McMorrin; Liz Saville Roberts.

Questions 1 - 32

Witnesses

I: Aarti Shankar, Senior Policy Analyst, Open Europe, and Dr Andrew Potter, Reader in Logistics and Transport, Cardiff University

Written evidence from witnesses:

- [Dr Andrew Potter](#)

Witness Examination

Witnesses: Aarti Shankar and Dr Andrew Potter.

Chair: Good afternoon, Dr Potter and Ms Shankar. Thank you very much indeed, both of you, for coming along here this afternoon. Obviously people around this table have quite strong views for and against Brexit, but we believe you are both here as academics offering us information, so I am quite certain neither I nor any of my colleagues want to get into a direct bunfight with you. We will throw the buns at each other. I know, Dr Potter, you are more specifically dealing with Wales, whereas Ms Shankar takes a more UK view of things. We may tailor the questions accordingly, but please feel free to come in if you have something to offer. Our questions will probably overlap a little bit.

I am told we may have votes at 3.00pm, so we may either curtail it or come back afterwards; we will play this by ear. In fact, we never know around here with votes any more.

Q1 **Liz Saville Roberts:** I have to apologise as my colleague, Ben Lake, and I will need to leave fairly shortly, but we will return. I think this may be true of others.

I would appreciate both your points of view on this. It would be very useful for the Committee to have an explanation of what is different in relation to the rest of the UK about the ports of Wales from an inside Wales perspective and also, Ms Shankar, from your perspective as well.

Dr Potter: From my perspective, what you would say is within Wales the key part is the role Welsh ports play in the Irish land bridge. A sizable proportion of trade that comes in and out of Ireland, certainly stuff that goes by road, comes through either port of Holyhead in the north or Pembroke or Fishguard in the south. Consequently those ports have a key role to play in that land bridge. There is also traffic, which means they play a key role for the local economies in those areas as well. They are big employers and therefore contribute to the local economy as well. That is the real feature of Welsh ports.

Obviously some of the other ports serve more general cargo and some are quite specific. Milford Haven, for instance, is the main oil import location for the whole of the UK. Obviously that comes generally from outside the EU to start with, so the impact there of Brexit will be much less than in other places.

Aarti Shankar: I do not have much to add to that. I agree that Welsh ports play an incredibly important role in serving that land bridge between Ireland and the rest of the EU. Something like 80% of Irish exports that go to the EU via the UK go via Welsh ports, with a similar figure in the other direction. Therefore that is a crucial feature of Welsh ports from an outside Wales perspective as well.

Q2 **Liz Saville Roberts:** Those of us who know Welsh ports know that the



infrastructure, as things stand, is evidently able to cope with the customs checks they are required to implement. If there were a need to conduct customs checks on goods coming in, how do you think they—Fishguard and Holyhead primarily—would be able to cope? To what degree would you say there has been sufficient preparation, given we are 164 days or so away and given Germany is preparing for a no-deal Brexit and that is now quite a reasonable expectation?

Dr Potter: In terms of the infrastructure, since the start of the single market, the ports have generally reshaped their operations to reflect the fact they do not need to do checks. What that has meant is, for instance, where checks occur—such as the security check that has to take place anyway—they have been moved into locations that work better for a smooth flow through. What seems to be the case is that there is potentially less space available at the ports for these additional checks. That means, for instance, vehicles would have to wait outside the port area before they go in or, if they are coming off the vessel, would potentially have to stay on the vessel until the queue clears. There are therefore some concerns over space. From what I have picked up, Pembroke is perhaps less affected by that, as it has a bit more area where vehicles can be handled, compared to Holyhead and Fishguard.

There will be challenges. Equally, I am sure the port operators have started to think about this. What I have picked up is that while they have been planning for this, physical infrastructure changes have not taken place yet at any of the ports because of some of the uncertainty over what outcome from the Brexit negotiations is going to come. While they will have in mind what they need to do if there was a no-deal Brexit and substantial checks were needed, being private firms, they have to obviously make an investment. Their shareholders and owners would not necessarily want to invest in something that then does not happen, so the uncertainty has not helped. However, I think the Chequers agreement, where effectively it has narrowed down to a much more limited range of options, has helped now focus minds a bit as to what might need to be done.

Q3 **Liz Saville Roberts:** Forgive me for one more question. You mentioned of course that these are private companies we are talking about, particularly Stena at Holyhead as the port authority as well. To what degree would you wonder whether their interests are divided—in that they also control ports and harbours that might be making the Belfast to Liverpool or even Scotland crossing—and whether that should be something that is raised in Holyhead?

Dr Potter: My inclination is they would treat all the main crossings they provide between the island of Ireland and the UK similarly because they will all potentially face the same challenges. Obviously there may be some variation depending on what solution is put in place for the Northern Ireland border. However, I would not see them particularly disadvantaging one over the other. If anything, I would think Holyhead is



probably their biggest concern simply because it is the biggest route of the ones they operate.

In the news there has been talk about Fishguard, where there is not the investment in the loading bridge. I suspect that there are a multitude of reasons for that. Equally, it may be a case of trying to make sure that they have got the capital investment available for other ports, because Fishguard is very much a smaller port compared to the others in terms of the volume of traffic it handles.

Q4 Anna McMorris: Could you tell us a little bit more about how the customs and border arrangements are going to work post 29 March? At the moment we are seemingly heading towards a no deal, so perhaps talking through those scenarios in a bit more detail about what needs to change between now and then to ensure goods and supply chains continue to operate.

Aarti Shankar: I will start off by telling you a little bit about how it works presently. As we are a member of the European Union currently, when goods move between the UK and the EU, they move in what is a tariff-free and essentially border-free environment. That is because, as a member, we apply the EU's rulebook and regulations. In customs we are subject to the institutional governance framework of the EU, and equally we share in the database systems that there are. That means essentially we can obviate the need for checks at borders. That does not mean compliance is not enforced. Compliance is enforced by governmental structures via the European Commission and the ECJ.

It is very difficult to say currently exactly what that will look like post-Brexit because there are a number of different paths we could go down. It could be a negotiated deal in March 2019, in which case we stay in a status quo arrangement for the just under two-year transition. In the event there is no deal, you would move to what would be MFN—most favoured nation—trading arrangements with the EU. We would have no preferential agreements with the EU any more on a legal basis. That would necessarily increase tariffs and regulatory and other administrative frictions in trade with the EU.

On the export side you would expect that UK businesses exporting to the EU would face new tariffs, the requirement to comply with product standards checks and compliance arrangements. They would have to submit customs declarations. They would have to prove the origins of their goods. There would be a number of fiscal and administrative burdens to trade with the EU.

On the import side, if we have no preferential deal with the EU, it is feasible the Government can do something slightly different. It is not necessarily the case that exactly what is currently the EU's most favoured nation trading arrangements would be what the UK applies. It would be feasible for the UK to do something different on tariffs. It would be feasible for the UK to perhaps conduct some of the regulatory checks in



different places, not necessarily at the border, in order to cope on day one with what would be a huge surge in the need for capacity at borders.

I do not know if that answered your question, but there are a huge number of different possible outcomes from this. On the export side, there might be a lot more certainty about what we would have to cope with in the event of no deal, but on the import side that is somewhat in the UK's prerogative.

Q5 Anna McMorris: Dr Potter, would you like to add anything to that in terms of the infrastructure that might be needed?

Dr Potter: At the minute, if exports are going on the ferries they have to have a security check. With a no-deal Brexit you would have to have animal checks—potentially you would need those for the facilitated customs area anyway—so any animal or plant-based products would have to have an additional check. Beyond that, you would then have customs checks to do as well if there was no deal. All of these checks effectively add a bit of time. One truck on its own is not a problem, it is when you multiply that by the 200 to 300 you get on a particular ferry arrival that the problems come.

The infrastructure you need is parking areas for trucks to queue in and wait to get through the various checks at the checkpoint. Ultimately land is the key infrastructure requirement to some extent to put the trucks in both before the check and after it. What you will find is operators will change their habits. If there is going to be a queue they will arrive earlier at the port, which then means you need to make sure you have space for them after the checks, but before the boat arrives.

Q6 Anna McMorris: In effect, Anglesey becomes a carpark.

Dr Potter: Parts of Anglesey become a carpark.

Q7 Anna McMorris: The changes to the trade and customs arrangements at UK level, how do you think they may affect Wales? Do you think disproportionately they are going to affect Wales and in what way?

Dr Potter: It is difficult to judge exactly, because again a lot of the implications for the UK will equally apply to Wales. Where it will become a bit more disproportionate perhaps is that a lot of Welsh trade goes to Europe, either to Ireland one way or mainland Europe in the other direction. You may well see some issues there. Equally, the Welsh economy has a strong agricultural foundation and that is really where there is a potential for extra checks, to make sure the animals have been kept well and all those kinds of checks. That is where I think you will see particular impacts.

Is it disproportionate to the rest of the UK? I suspect there will be some sectors where it is disproportionate and then other ones that are less affected as a result.



Aarti Shankar: I agree that in terms of exports to the EU, Wales might be disproportionately affected, in the sense that 60% of Welsh goods exports go to the EU and only about 40% of the UK's goods exports go to the EU. In particular sectors, as Andrew said, the agricultural sector is very important to the Welsh economy. I think 80% of agricultural exports go to the EU and that increases to 90% if we are talking about meat products and stuff like that. In that sense, yes.

Looking at the other side of that goods economy, the manufacturing side, like the rest of the UK, the manufacturing industry in Wales is primarily concentrated in high-value and high-tech manufacturing. A perfect example of that is the Airbus supply line. That is one particular pinch point that Wales will experience, because as I understand it, the Airbus plant in Wales is the only one that supplies Airbus wings for the EU manufacturing line.

Anna McMorris: Just-in-time.

Aarti Shankar: Exactly. Aerospace supply chains are very, very unique in that it is not just a highly regulated sector, this is a sector that relies on just-in-time production. Component parts arrive an hour before they are necessary on the production line and are used. If there is any additional friction in that system, which can be small, it reduces the competitiveness of the particular Welsh business—the Airbus plant in Broughton in this case—in that supply chain. That will therefore have a disproportionate effect on Wales.

Q8 **Susan Elan Jones:** From what you are saying, you could be left in a ridiculous situation where you have the body of the plane sitting in Toulouse and the wings up in North Wales and it just not coming together at the right time. Is that being over-simplistic or is that what we really mean?

Aarti Shankar: Theoretically, yes, that could be a scenario. I would imagine manufacturers will start to shift their supply lines, will start to prepare in advance for that situation, and will begin onshoring some sort of production in the EU or in the UK, as is necessary, in theory.

Q9 **Chair:** Can I come back on a couple of points? What percentage of containers coming into the UK at the moment—20 or 40-foot containers—get checked in the port, roughly? Forgive me for chucking a rather specific question at you. Can you give us an idea, vaguely?

Aarti Shankar: Sure. I am not entirely sure if this is container specific, but to give you an idea, HMRC produced figures last year, which suggested that—talking just purely about non-EU imports—99% of those provide their customs declarations electronically, so there is some possibility for pre-clearance there; 96% of those are pre-cleared instantly, within seconds; and the remaining 4% are subject to some checks as they enter the UK. The majority of those checks are documentary checks, but a small percentage of that could be physical inspections.



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Q10 Chair: I visited the port of Avonmouth yesterday, not specifically to do with this inquiry, but I asked about this. They could not give me a figure, but they said the vast majority of containers just move straight through. I accept your figure, but they said way over 96%. They were literally talking about possibly under 100 containers in a year out of I do not know how many tens or hundreds of thousands having some form of physical check. They also told me that customs do not even bother to have a full-time officer based there because the number of containers needing a check are so small it does not require anything. I have no reason to think they were misleading me in any way, but is that a fair summary of what happens in ports across the UK?

Aarti Shankar: Perhaps Andrew can speak to this, but that tallies with the figures that HMRC produce on non-EU trade. But in the future, if we do not have the same customs union arrangement that we have with EU at present, then we will be looking to increase those checks now on EU imports as well. For particular ports—I do not know that much about Welsh ports—like Dover, where the majority of imports are from the EU, that will be a significant challenge, a significant scale-up in requirements.

Q11 Chair: The head of Avonmouth port was very clear that there was not any particular issue with checking goods that come in and they have a wide range of different goods coming into the area. Some of them are commodities, some of them are going to the construction industry; all sorts of things. His view was there is no issue. There is no issue for them at all. It is the case that the vast majority of goods that come into Avonmouth go straight out of Avonmouth.

Aarti Shankar: That tallies with HMRC's figures from last year.

Q12 Chair: Is it not reasonable for me to assume therefore, if we pull out of any sort of a deal, that is a situation that will apply in ports that mainly import from the European Union?

Aarti Shankar: I would imagine on day one, if there is no deal with the European Union, there will necessarily have to be some sort of compliance checks. Because of the way that ports have organised themselves and because they have become highly efficient and there is very limited need for checks at present—I am thinking particularly about Dover ports here—whether they are able physically to introduce those ports on day one is a different question. Those checks should necessarily take place. They might take place inland. It might be a potential idea for Government to allow goods at least to transit through the ports and enter, so there is not congestion at points of entry into the UK and allow goods then to be cleared elsewhere.

Q13 Chair: What I was being told yesterday was that virtually no containers are checked as they come in—or a tiny handful. But obviously there may be more that are checked at their final destination. Indeed, some are, but they did not have any figures for that. Also, these checks are primarily intelligence led. In our minds we seem to have this picture of—I do not



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know—World War 2, some sort of customs officer on a fence checking everything as it goes through. This is 20th century stuff because the reality in this day and age is that there are very few checks and those that are are specific because of concerns raised by law enforcement agencies. Is that correct?

Dr Potter: You are right in terms of the fact there are very few checks, but you have to bear in mind a lot of ports are already geared for importing from the rest of the world. You give the example of Bristol. A large chunk of their imports come from outside the rest of the world, so they already have the systems in place for handling non-EU traffic, the IT systems and the customs officer. For Welsh ports, quite a few of those will equally be geared for it. To us, the change from whether in the EU or out of the EU is minimal.

Q14 **Chair:** I must not go on about this, but the point I am making is that perhaps we are not ready for this, but if we wanted to be, there is no reason why we could not operate for goods coming in from the EU in exactly the same efficient and fast way that we already operate for goods coming in from out of the EU.

Dr Potter: Technically, yes. Just finishing off the point, Fishguard and Holyhead of course do not generally handle non-EU traffic so are not geared up with the customs and are not necessarily geared up to press the right button on the systems to get the stuff to process it.

In terms of opening up borders, you could effectively have free entry into the UK and no checks, but what you have to bear in mind as well is that it is also what the EU will do on the other side. The goods do flow in both directions and it is if checks that they require at their end then start delaying ferries. It goes both ways, which is an important point.

Chair: I was going to come to that, but I feel, as Chair, I should try not to dominate this so I am going to come back to this very point afterwards.

Q15 **Chris Davies:** Dr Potter, you mentioned the term “land bridge”. When this Committee visited Ireland earlier on this year or end of last year, that term was used a lot by the Irish Government in Dublin. Have you ever done a study as to the economic impact of the UK being used as a land bridge? Because it was clear in the roll-on roll-off stock that the money may go to the port—as in a ferry company—but there was very little money spent in the UK and the UK is used as a land bridge. Would I be correct in assuming that?

Dr Potter: I have not done a study personally. There have been studies done on certainly the impact of ports on the local economies. There was one done by, I think, Oxford Economics a couple of years ago. They found that for every job in the port it generated three additional jobs in the local economy. Some of those are in industries that supply the port or, for instance, local logistics providers. Others will be in the wider economy, either from the people working at the port spending their



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money in the local economy or people passing through the port spending their money as well. There is a feed-out from the ports themselves into the local economy and it is not just the case that trucks pass through.

What would not necessarily be captured is if the vehicles that are coming off the ferries are spending any money in Wales or in the UK as a whole. I suspect that depends on where they are running to. Certainly if they are running to a destination in the UK, I suspect they probably would not stop because of drivers' hours regulations, and that effectively within four and a half hours you can probably get to most places where one of those trucks would come from.

For European vehicles, where they might be then heading on to Dover and onwards, you may well find that they are then spending some money somewhere else in the UK, because I suspect it would be difficult to get to Dover in four and a half hours. They would be stopping somewhere and then that obviously brings benefits to the facilities that they are using. It may not be in Wales though.

Q16 Chris Davies: When we were in Dublin, we met in the port of Dublin a company that was creating a superferry. Superferries have been talked about for a long time. Some people are under the misapprehension that just because Brexit has arrived that the Spanish have come up with a superferry just to bypass the UK where, as we were told quite clearly, this has been in the making for four, five, six, possibly 10 years. Do you think a superferry between mainland Europe and the Irish Republic would have a big effect on our economy here in the UK?

Dr Potter: To be honest, no. I know they have been launched this year, the superferry and also direct services from Rosslare down to France and Spain. I know that in the marketing there has been a lot of talk about these being Brexit bypasses and stuff like that. To some extent there is a degree of marketing hype behind that.

For many of the goods that are passing through the land bridge now, they are time-sensitive. The ferry crossing effectively going direct is sufficiently slower that the trucks would still go through both ports regardless of what the checks are and get to mainland Europe relatively quicker. It will take some traffic. It is not going to have no impact whatsoever. I am sure it will take some traffic away, particularly perhaps on less time-sensitive and more price-sensitive products where it is the cost of having a driver sitting, if there are delays at ports. The driver cost is one of the biggest costs, so sticking an unaccompanied vehicle on a ferry and sending it around would therefore be a more cost-effective option. It will have some impact. Will it decimate traffic across the Irish Sea? I would be very surprised.

Q17 Chris Davies: The question I was asked to ask—which is going to be difficult for you to answer, I think—which is, thinking about options for future UK-EU trade relations, what can be done to minimise disruption to import/export and supply chains? You partially answered that, but I am



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pre-empting your answer is going to be, "It depends what deal we have; whether we have a deal or a no-deal depends on what happens". Is there any way we can safeguard it for Wales? We can gold-plate it for Wales, that Wales will have a different option, a different outcome to the rest of the UK?

Dr Potter: It is a difficult one to judge that because obviously a lot of what we have in Wales is tied in the UK, and then you have to look at aspects that are devolved to the Welsh Assembly. There has been a lot of talk about whether we can look at producing free ports in Wales, for example, as a way of trying to improve competitiveness for them and then attracting new traffic flows or other value-added activities.

Being linked to taxes and obviously customs and stuff, there may be a degree of compliance needed from the UK Government as well in enabling that. But those are the sorts of things that as more transport policy gets devolved to Wales the Welsh Government can particularly look at trying to push forwards. Certainly if they have a policy that they want to develop free ports in Wales, it is something they can take forward with the UK Government to try to enable that.

Q18 **Chris Davies:** Do you see any benefit in the total devolution of Welsh ports to Welsh Government or should there be a natural framework where all ports should work together or within?

Dr Potter: If you look at transport policy as a whole, ports are a key part of that, and it links to economic policy as well, so having more devolution to Welsh ports would be beneficial. Passing as much as possible to the Welsh Government would help give that Wales-wide view across the economy and transport and hopefully enable them to be integrated together.

I suspect representatives of English ports may have a slightly different view on that if it gave Welsh ports an advantage, but I would personally say that the Welsh Government, if they can take that more integrated view, it would be a better place to do it.

Aarti Shankar: I am not sure I can give a comment on that. I do not have anything to add.

Q19 **Tonia Antoniazzi:** To what extent would the UK Government's proposals for future UK-EU relations minimise any increased friction to trade?

Aarti Shankar: I will look at the customs side of that first. The UK's proposals on customs is a novel proposal. The motivation behind it is to marry two quite divergent aims. It is both to ensure that we keep as frictionless as possible trade with the EU, but also equally ensure that we obtain an independent trade policy, if possible. Put those two things together, what the Government have come up with is something called the facilitated customs arrangement. The intention, if I talk through what it is, essentially means that if a good is imported to the UK, if it can prove where its end destination is. Say that end destination is demonstrably in



the UK, it will pay the UK tariff and it will be subject to the UK's trade policy. If that end destination is demonstrably the EU, it will pay the EU tariff and it will be subject to the EU's trade policy.

The motivation behind that is to ensure that if the UK effectively polices the external border for it, then the movement of goods internally between the UK and the EU can effectively continue in a sort of customs union arrangement, which is there is no need for customs declarations and customs checks of moving between the UK and the EU. If that is the case it would mean at borders not much change to what we currently experience at borders with the EU. However, for businesses, it is likely to be a greater burden for them, so they would have to be able to trace their supply chain and prove where it was going and it would require a significant amount of information.

Equally, it would only be traders with a trusted trader accredited status that would be able to access this scheme. That scheme in and of itself requires a trader to prove a secure supply chain, good tax compliance and good commercial record-keeping for a particular period of time; I think it is about three to five years or something. The additional administrative burden on businesses in order to enforce this arrangement is going to be greatly increased, but the operation at borders, if it was possible, with the EU would remain somewhat the same.

Dr Potter: I have to take that up. From what port operators have said, the facilitated customs agreement would have no impact particularly on their operations going forward and it would be much the same as it is now. It is up the supply chain, in other parts of the supply chain, where things like tariffs are handled. At the minute, tariffs are handled separately from the goods arriving in the port; that is for action administrative process done away from the port area. There would be additional work there, but they would not necessarily delay the actual physical movement of the product itself.

Q20 **Tonia Antoniazzi:** What advantages and drawbacks would they bring basically compared to a Canada-style FTA?

Aarti Shankar: It is a much more integrated relationship to what Canada has. We are looking at costings again and what Canada has with the EU is a customs facilitation chapter in its trade agreement. Essentially that does not go nearly as integrated as the FTA proposes. It is simply co-operation on customs matters, a commitment to ensure simplified customs procedures, fast release of goods, and simplified documentation for particular low-value goods. It is a much less integrated procedure and therefore importing a good from Canada does require an importer to produce a customs declaration. It does require proof of origin to be shown when the good enters the UK; it does require a number of other checks. That would be, for businesses, an economic disadvantage to move to that scenario. It would increase both cost and administrative burden for them.



But then on the other hand, if you look at it from a political point of view, it is likely far more feasible for the UK to operate a truly independent trade policy if we go down the route of a Canada-style free trade agreement than if we have a highly integrated facilitated customs arrangement. Essentially what we say under the facilitated customs arrangement is that if there is any differentiation in trade policy between the UK and the EU, all the systems need to be up and working. We need to be able to show exact traceability of where goods are coming from to ensure that that does not increase friction between the UK and the EU. Whether or not that is feasible—I think the EU has doubts as to whether or not that is feasible right now.

From a trade policy point of view, if the UK wanted to operate an independent trade policy, that would be easier under a Canada-style agreement, I would argue.

Dr Potter: I do not have anything more to add to that.

- Q21 **Tonia Antoniazzi:** Do you think it is a little bit disingenuous, however, to use the word “Canada” as an example because there are other free trade agreements, but Canada is a very attractive place? Could we be using other countries as examples?

Aarti Shankar: Certainly from a customs point of view the EU has facilitated customs arrangements with a number of countries; equally with countries that it does not have an FTA with. It has customs facilitation arrangements with the US, with China, so it is possible to point to other countries for which this is the case.

From a free trade agreement perspective, the reason Canada is pointed to is because it is determined to be one of the most comprehensive free trade agreements the EU has struck. South Korea is another one, so there are other examples that you can point to. It is also one of the most recent ones.

- Q22 **Tonia Antoniazzi:** Are there areas where you think that the UK Government’s proposals could be improved?

Aarti Shankar: In terms of negotiability?

Tonia Antoniazzi: In any way, but negotiability, if you can think of any.

Aarti Shankar: If I stick with the customs side of this, one of the things that is clear is that the EU has very strong concerns about the idea of the UK’s facilitated customs arrangements. Those concerns lie primarily on two things. One is the governance arrangements. I cannot remember exactly what the phrase is that the EU’s chief negotiator used, but it was something along the lines of the EU could not countenance allowing a third country to manage its external borders if that third country was not subject to the EU’s institutions and institutional structure. There seems to be some indication that if we could elaborate on what the institutional governance framework would be for an FTA-style customs arrangement,



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then perhaps there would be more engagement from the EU in this sort of agreement.

The other key concern that the EU has is that—and this is implicit in the Government's White Paper—an FTA-style agreement could not be up and running on day one of Brexit. The Government seems to accept that the technology required in order for this system to work as effectively as possible is not in place yet. The Government talks about phased implementation therefore of the FTA, but they does not point to what the interim measure would be. If we wanted this to be truly negotiable with the EU, the Government would need to more explicitly say that in the interim period we would remain in a customs union with the EU.

Q23 Susan Elan Jones: I hope that perhaps there might just be something positive out of all this. I am not personally convinced that there is. In the context of that, do you think that changes to trade and customs arrangements post-Brexit could create some new opportunities for Wales? I understand to do that we have to think of some possible trade and customs scenarios, if you could tell us what they are.

Also, how do you think the UK Government could ensure that Wales is able to take advantage of any of these hypothetical opportunities?

Dr Potter: The opportunity to negotiate trade deals and different tariff arrangements is where you can start to generate quite a lot of the opportunities. You can look at what tariffs are imposed on particular products, both imports and exports, and come up with ones that perhaps help the UK economy. Within Wales, for instance, the steel industry is one where—obviously, there are always lots of tariffs put on the steel industry. Maybe a trade negotiation can look at trying to make steel exports more attractive. The danger is that if you look for equality both ways you end up flooding the market with imports instead.

To some extent trying to identify specific sectors is quite difficult, but it would be couched around trying to find sectors where you could give advantages through trade and trade agreements and tariff agreements to do that. The steel industry is one that is obviously a fundamental part of the south Wales economy and also north-east Wales as well. Are there opportunities that can be developed from that, because there will be shifts? Again, much of the steel industry trades in dollars, so as currency fluctuations have come in potentially you have increased the competitiveness of Welsh exports of steel products.

Equally, if you take Tata Steel, it is an integrated whole across Europe, so some production will probably move to European sites, but that might then make capacity for other production from elsewhere in the world more attractive; Port Talbot, for instance. That would be one industry we might be able to find some.

An interesting one that we had picked up on was the timber industry. Currently through Newport there are quite significant timber imports and



one of the reasons for that is to do with EU regulations around the quality of timber used in construction. Do not quote me on the details, I am not a timber expert. The problem is that wood that is grown in the UK, such as in mid-Wales, does not meet the EU standards so cannot be used in construction. I am not quite sure, I thought a tree was a tree. It was a tree, but there are regulations as to the strength of the tree and the wood. If you could change those regulations then maybe you might make the Welsh timber industry more attractive to housebuilders in the UK to use as an alternative to imported timber. The downside to that is that Newport docks would then lose out because you would not be importing. It would be UK-based production.

Those are some. The free port is another area where we can start to push an opportunity for building new industries, developing existing industries. For instance, Milford Haven is very keen on the free port idea as a way of building on its strong engineering heritage and looking at oversize engineering projects. Being by the port or by the water, it is very easy to get the large items in and out, so you can fabricate them on the dockside effectively and ship them out. Again, building on what we currently have, which is already a very good engineering expertise down there, thanks particularly to the oil industry, and developing that into other markets as well.

Q24 **Chair:** Can I go back to something? There was a point you made, Dr Potter. I think you were implying—without in any way saying so—that even though we could make things very speedy when they come in from the EU, the European Union might take a slightly different view and show a certain enthusiasm for checking items as they come in from the UK. You did not quite say that, but that seemed to be the general drift. Sorry, this is a couple of questions back. You were suggesting that while we might have a wonderfully efficient system and allow everything through, this may not be replicated.

Dr Potter: Yes, because ultimately the EU will have responsibility for its borders and it will decide what level of checks it wants to impose on products coming out from the UK.

Q25 **Chair:** Which port in the EU—maybe this is more for Ms Shankar—currently imports the largest percentage of goods from outside the EU? I am going to suggest it might be Rotterdam possibly.

Aarti Shankar: Or Zeebrugge.

Q26 **Chair:** Presumably they have systems in place similar to Felixstowe or Avonmouth then to allow fast facilitated movement of goods and perhaps customs clearance prior to entry.

Aarti Shankar: I do not know the Zeebrugge port that well. I would imagine so. It does take a lot of non-EU imports and clearly it is not just a matter for the UK. EU ports are also upscaling the number of staff that they have and the capacity that they have in order to cope with a potential scenario that UK goods also need to be checked.



Dr Potter: Also Rotterdam, if I remember rightly, is part of a free port zone. Again, goods there are only passing through the port and being a big trans-shipment port in Rotterdam, they do not necessarily have to clear customs at that point because certainly parts of it are a free port.

Q27 **Chair:** May I say that you have given evidence today very well, because I could not guess what your personal views are, so you have achieved that rare thing of giving us actual information, so I do not want to put any words in your mouth.

It seems a reasonable suggestion that a no-deal outcome is perhaps more likely now than it might have been perceived to have been a few weeks ago; that is a reasonable observation. Given that, shouldn't the Government be looking at ports within the EU that currently bring in a lot of goods from outside of the EU, because the Government might want to take a view that some countries—dare I say it, but you would not agree, France—might want to take a rather more negative view of Britain outside of the EU than possibly a country like the Netherlands, which has always had a slightly different outlook? What I am saying is if I were the Government I might be looking to start sending goods into the EU via a port that already has experience of dealing with non-EU countries with a Government that might be a little bit more accepting of the situation than perhaps Governments elsewhere. Is that something the Government should be thinking about?

Dr Potter: It is difficult for changing trade patterns in a short term. If you look at why Dover-Calais is so popular, it is because of the short duration of the crossing. It ties in nicely with things like drivers' hours breaks, that a driver can get on the ferry, meet his regulatory requirement for a rest break during that crossing and then as soon as the boat docks in France they are off again and they can do the next chunk of driving.

When you start sending stuff over to the Netherlands you have a longer sailing. It potentially pushes up the cost of the transit because you do not get so many crossings per day out of the vessel. That pushes up the ferry tariff for using it, so it increases the cost. There is the time penalty as well. I forget how long the Harwich to Hook of Holland ferry is, but it is nowhere near the same length of time as going across to Calais. While the Government might want to look at that, I suspect that anyone who uses the Dover to Calais currently would probably resist that kind of approach simply because of the time and cost penalties.

Equally, if you are sending goods down to the south of France, potentially you have a bit of back-tracking on the journey as well. There are other ways of getting to France. There is obviously the Channel Tunnel as well, which may provide some. While we talk a lot about the ferries because they are the biggest user—again, trucks tend to use that more than the Channel Tunnel—it may be that the Channel Tunnel offers a slightly more efficient route across the Continent because it has terminals, it is designed slightly differently.



Aarti Shankar: I would agree that trade patterns are hard to change in immediate circumstances. The other thing I would add though is that currently in our trade with the EU we do not need to consider too much where the capacity is for doing particular regulatory checks that the EU requires on non-EU goods, so I am thinking particularly here of animal food imports. Currently animal products can go through the Calais-Dover strait. That is a time-efficient way of it working and it is a highly efficient transit. That is a positive scenario right now for businesses, but in the future, if we have no deal with the EU, it is likely that our animal products will need to go through a border inspection post, which is what the EU requires animal livestock and animal products to go through in order to enter.

Q28 **Chair:** Live animals?

Aarti Shankar: Livestock and animal products in order to enter the EU market. Currently, as I understand it, Calais does not have a border inspection post. There are particular circumstances that will arise in the event of no deal that means that trade patterns would necessarily need to shift in order for our products to continue to enter the EU market. That is just another factor to consider.

Q29 **Susan Elan Jones:** I think it is fair to say the Chair and I probably have a slightly different view on things to do with Brexit. Just going on from the point that he raised, one of my concerns on this is as we sit and think it might be better through the Netherlands than through France or whatever, if you are a manufacturer based in a certain place and you have to get something from A to B, you are not going to think, "How do I do this travelling halfway round the continent of Europe?" Is there not a real risk from all this that people are going to say, "I am fed up with that bit of the supply chain that is outside the EU. Why can we not look at another market within"? That is my big fear. Do you think that is a realistic fear?

Aarti Shankar: It is fair to say that if there are significant frictions in trade with the EU in the future, the parts of—and I am thinking particularly about manufacturing supply chains here—manufacturing supply chains that are currently based in the UK may become less competitive. There may be a need for businesses to review their business model on both sides of that border, so it could mean onshoring productions into the UK, but it could also mean onshoring production into the EU.

Q30 **Chair:** That does cut both ways, doesn't it? Because there will be manufacturers in the UK buying from the continent who may well decide to bring supply here.

Aarti Shankar: Yes.

Chair: Tonia, part of your question has been asked, but part has not.

Q31 **Tonia Antoniazzi:** How important will it be for the United Kingdom to



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remain in the Common Transit Convention?

Dr Potter: That is an important opportunity for facilitating trade, both for Ireland in terms of sending stuff through the UK to mainland Europe and also for us facilitating trade as well. It does make life a lot easier for the shippers of goods and does therefore reduce the friction that might occur. The remaining part of that, and participating fully in it, will be an important part of going forward for any mover of products.

Aarti Shankar: I would agree with that. As I understand it, the Government are very keen to maintain our membership of the Common Transit Convention. There are a number of countries that you can point to that are a member of the CTC and not members of the EU. Some of them are on the accession path, but it should be viable for the UK to maintain membership of that convention. I agree, it is in its economic interest to do so.

Dr Potter: The one thing that will need to possibly happen is to make sure that logistics providers and truck drivers are aware of the requirements of it in terms of making sure they have the right paperwork with them on every step of the journey. Currently lots of journeys do not need that paperwork because of the EU. It will be a training issue to try to make sure that drivers are aware of what the requirements are on them so that they do not fall foul of those regulations as you are passing through Europe. I do not necessarily see it as being a big issue. Our logistics industry is very professional in making sure that drivers can do the job and get it right, but it will be a slight change in culture that may take a little bit of time to bed down at the start as people get used to it.

Q32 **Chair:** I will ask on behalf of Liz Saville. Dr Potter, you have proposed designating Holyhead as a free port. Can you tell us what advantage that would offer? But also for viewers at home, of course, can you just briefly say what you mean by a "free port"? If you have an opinion on that.

Dr Potter: Basically a free port is a designated area where firms within that do not necessarily have to declare customs on the products until they leave the free port zone. You could import goods in, store them in a warehouse there and then you only pay customs when they leave that area. For example, seasonal products work particularly well on those kinds of things because you do not want to order all your Christmas decorations to arrive in September. You will order them across the year, they will make them across the year, but not having to pay customs on them until you want to sell them in October time, it obviously has some financial benefits for the cash flow there. That is the general concept of a free port.

There are a number of opportunities for free ports around Wales. I mentioned already about south Wales. With Holyhead, again it may be a case of trying to smooth out some of those flows of products coming through the port, but if trucks can come off the vessel and go to a warehouse there or storage area there ahead of going out into the rest of



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the UK, it will be an advantage. Equally, if you are looking more generally at developing the port for things like cruises, being able to bring goods in and get them through any sort of stores and supplies and clear customs before the vessel arrives, storing those locally would again help that. There are quite a few benefits from it, particularly if you are holding up goods at that point. Effectively you combine the delay with doing other things at the same time.

Aarti Shankar: The only thing I would add to that is, as I understand it, free ports are also a consideration for other parts of the UK. Manufacturing industries in the north-east might also benefit from free port designation of particular northern ports, Teesside ports, so it is something that the UK should consider in the future if they are outside the EU customs union and the EU's commercial and customs arrangements. It could be beneficial, not just to Wales, but to other areas of the manufacturing industry in the UK.

Chair: Do you have something you can send us on that?

Aarti Shankar: Yes, I can write to the Committee.

Chair: That would be great. I do not think we have any further questions. I do thank you once again; I thought it was excellent evidence. Just to lighten the mood a minute, there is this brilliant series on YouTube, "Look at Life". It is all free. It is just a look at how life was lived in the 1960s in workplaces and one of them is called "A Lorry Load of Pheasants" and it follows two lorry drivers over to the continent, long before we even thought of joining the EU, let alone any of this. It was doable then, in my view. We will manage, but others will disagree. Thank you very much indeed.