

International Trade Committee

Oral evidence: The Impact of UK-EU Arrangements on Wider UK Trade Policy, HC 1549 ii

Wednesday 24 October 2018

Ordered by the House of Commons to be published on 24 October 2018.

[Watch the meeting](#)

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

Questions 86-192

Witnesses

I: Richard Wade, Company Secretary, ACITA, and Bryn Ward, Managing Director, UK Customs Solutions Limited.

II: Dr Graham Gudgin, Chief Economic Adviser, Policy Exchange, and Joe Owen, Associate Director, Institute for Government.

Examination of witnesses

Witnesses: Richard Wade and Bryn Ward.

Chair: Good morning, panel. Will you please introduce yourselves for the record? Name, rank and serial number, starting at my left.

Bryn Ward: I am Bryn Ward, managing director of UK Customs Solutions.

Richard Wade: I am Richard Wade, a customs consultant. I am representing ACITA.

Q86 **Chair:** Thank you very much, gentlemen. Briefly, will you each tell us about your organisation, and the roles that your members and customers play in importing and exporting goods?

Bryn Ward: We are a customs clearance broker, dealing in all aspects of import and export, be it compliance or customs documentation, for multinationals, manufacturers, food importers, and exporters. We are 40-strong, based in one location in Felixstowe, doing about 3,000 declarations a month for our big customers—over 3,000 moves a month for our big customers.



HOUSE OF COMMONS

Richard Wade: ACITA is a trade organisation. It was originally conceived in the early '70s as a forum for discussions with Customs on implementation and running of automatic customs clearance systems for import and export. From the beginning it has evolved to become one of the leading practical trade associations. Membership is very broad and includes importers, exporters, service providers, software houses, logistics companies and consultancies.

Q87 **Chair:** It may be a \$6 million question coming up here, but can you summarise the various options of the Brexit negotiations? I am thinking primarily of: the no-deal scenario, in which we will be out at the end of March next year, so five months away; a transition, which I assume will be a continuation of the current situation but not as a member of the European Union, and at the moment we will go for the 21-month transition, rather than the two to 300-year scenario—we will cope with just the 21 months—and the possible post-transition, in which again we should be out of the customs union and the single market, given what the governing party are talking about. How do you see those three outcomes affecting your members?

Bryn Ward: At the moment, at least knowing what the outcome will be so people can prepare is key, certainly for my customers.

Q88 **Chair:** Is it worth preparing for anything at the moment?

Bryn Ward: It is hard to prepare for anything, because you cannot cover all bases and there is a financial impact in trying to increase staff. UK Customs Solutions sent out letters last week for an additional five staff at a low level—as admin staff to be trained up. They are fearing and preparing for the worst but hoping for the best.

Q89 **Chair:** What is the worst in your view?

Bryn Ward: To us, a soft Brexit means a harder Brexit because there is more work to do. If you have deals in with the EU, you have to raise additional certification on all export cargo out of the UK—EUR1s, ATR1s maybe, to prove the origin of the goods so that they can claim the free rate of duty in France, Germany, Spain—

Q90 **Chair:** So a hard Brexit would be easier from your point of view?

Bryn Ward: Well, yes, but neither is easy. From some of the details that I have read, four times as much cargo moves between the UK and Europe than between the UK and the rest of the world. Whatever happens, we assume that there will be some sort of a border and that some sort of declaration will need to be completed. Mine and other businesses in our sector will be concerned about how they cope with the additional paperwork, as the sector is already low on trained entry clerks.

Q91 **Chair:** So if there is a hard Brexit, it will be in March 2019; if it is a soft Brexit, it could be in December 2021. If there is a transition, the period in between should be fairly straightforward. Am I right in thinking that it should be a continuation of what we have today?



HOUSE OF COMMONS

Bryn Ward: Maybe. The trick is to look after existing customers first. So much extra business will come in that it will be a case of, "Look, we have enough now. I cannot take any more business." There will be a break point where you cannot expand anymore. These are potentially going to be simplified declarations which means that the industry will not let you bill extortionate amounts for them; they are going to be fairly cheap to do.

Q92 **Chair:** Mr Wade, what are your views on those three scenarios, given what you have just heard?

Richard Wade: I agree that a hard Brexit would, in many respects, be easier to manage. Generally, I do not think it is realised that there is a balancing act between trade with Europe and trade with the rest of the world. If you make trade with Europe easier, that makes trade with the rest of the world more difficult, and vice versa.

Q93 **Chair:** Explain that.

Richard Wade: If the common rulebook for goods within Europe—that is on the agenda—is too restrictive, it penalises trade with the rest of the world. Similarly, all the origin criteria could creep into EU trade if that makes access to the markets easier, but then you have got to prove that duties are paid and that goods meet the origin criteria if they are produced in the UK.

I totally agree with Bryn that from a practical point of view, and a clearance movement perspective, a hard Brexit is in some respects easier. It is obviously not what some elements of trade want; that is really a political debate, I think, to establish where along that balancing act between European trade and rest of the world trade we want to sit.

Q94 **Chair:** For the bureaucratic dealing with trade and for the paperwork around it, it is easier if it is hard.

Richard Wade: It is clearer, yes.

Q95 **Chair:** Although the traders themselves might complain, for those who are dealing with it, it is easier for you, even though it might be harder for the traders themselves.

Richard Wade: Yes, that is a fair comment. It is very definitely a balance though, and it is where you put the pivot for that balance that is significant.

Q96 **Mr Jayawardena:** Could I get a little more detail on some of the processes that are already in place? This is something that a lot of folk are not aware of—that in terms of our relationship with non-EU countries, we already have systems in place for containerised ports to make sure that goods are tracked, that we know what is in each container and so on so that declarations are made quite easily, in contrast with the scare stories that we hear that could result—could result—from a disorganised, roll-on/roll-off port like Dover. They are very different scenarios. Could you expand on the systems that are in place already at containerised ports for non-EU products?



HOUSE OF COMMONS

Bryn Ward: There are systems there, but the systems are down to the individual company systems. If you book with a global forwarder in Thailand, they will put that on their system, and their wing or agent in the UK will see that information, but not everyone ships in that manner. It depends on the incoterms of the shipment and whether it is Ex Works or DDP or DDU. You may have a company booking a shipment out of Thailand to come here as an import, and they are booking it all the way through—the only thing they are not doing is the customs entry. Potentially, the importer's agent will only find out about it the day it arrives, or sometimes after the day it has arrived. There is no visibility in a lot of the cargo that moves. There are systems out there; there are very good systems, but there is not one system that fits all. There are individual privately owned systems within the sector, and if you are going with a supply chain operator that is one of the big companies, they would forward the information through to their UK offices. Even then, that fails.

- Q97 **Mr Jayawardena:** Yet the proportion of trade with non-EU countries is growing, so clearly it is totally possible to do business with non-EU countries today.

Bryn Ward: Most definitely, yes.

- Q98 **Mr Jayawardena:** In respect of improving those systems, which could in the future be applicable not only to non-EU countries but also to EU countries, what assessment have you made of the possibility and the likelihood of success for trusted trader schemes to streamline the approach for certain folk, particularly for roll-on/roll-off ports and operations, and to massively improve the ability to get that throughput?

Bryn Ward: Potentially, there is something there. My company is AEO-accredited and we are also CFSP-approved. We use our CFSP approval to simplify entries anyway for certain customers into the country and then make a declaration towards the end of the month to declare all the goods that arrived during that month. That system works brilliantly.

AEO is the big one, obviously, but there are not enough people currently signed up to it in this country, whether that be agents or importers or exporters. The benefits to people that are AEO-accredited are very minimal at this time. Its advertisers are globally recognised—

- Q99 **Mr Jayawardena:** I am conscious that other Members have other questions, but I am trying to get you off the fence. What I want to know is how we can improve things with the authorised economic operator system. You say that there is little benefit at the moment. What needs to happen for it to provide clear benefits to business?

Bryn Ward: There needs to be a serious benefit. There is a note on the Customs website that says that people who do not have AEO accreditation will be dealt with as a secondary matter.

- Q100 **Mr Jayawardena:** No, that was not my question. You said that there were few benefits to being an AEO. What are the things that you need in order to streamline processes for business—to ensure that the



HOUSE OF COMMONS

throughput of goods from non-EU or EU countries is streamlined?

Bryn Ward: It is not about what I need. Our industry is a reactive industry: the customer sends the documents and we react to them. We react to any pressure. If you have something like AEO, it needs to set out that your cargo will move easily through the ports and you will then be authorised to make declarations as it goes through or just afterwards—like CFSP, which is already out there. It needs to make it attractive to agents like me to drive the AEO system forward. That would potentially mitigate the need for additional customs staff, because checks can happen afterwards. But it is a really complex question, to be honest—one that needs a long time to talk about.

Q101 **Mr Jayawardena:** Perhaps you could write to us.

Bryn Ward: Yes.

Q102 **Mr Leslie:** I do not know whether you have seen the National Audit Office report that came out this morning about UK border preparedness. It was widely reported in the media today. One of the key things that it says is that outside the customs union we might go from handling 55 million customs declarations a year to handling 260 million a year. You guys are in the business of dealing with that sort of paperwork—that is your thing—but the NAO also says that no deal could mean between 145,000 and 250,000 traders making customs declarations for the first time. Could you give us a sense of the scale of that for your sector? That is a pretty big change.

Bryn Ward: Huge.

Richard Wade: Absolutely.

Q103 **Mr Leslie:** How big? An increase of 20%, 30% or more? A doubling?

Bryn Ward: It depends on the nature of the declaration that needs to be completed. It is all well and good telling you how many declarations we have, but a full declaration might take an experienced member of my team 10 to 15 minutes to complete, while a simplified one takes two minutes. If it was like the old C2 status, where some stuff is done by the shipping line to manifest it as a certain type of cargo so that IT solutions can be implemented, it would be a case of 30 seconds. Once the rules are out there—

Q104 **Mr Leslie:** But in terms of the number of potential customers and the volume of potential transactions?

Bryn Ward: My business would get swallowed up very quickly, and we would close the doors to what we have got.

Q105 **Mr Leslie:** The physical capacity of the business?

Bryn Ward: Yes.

Mr Leslie: I think I should buy shares in customs operations activities. You are one of the few people to benefit from this process.



HOUSE OF COMMONS

Bryn Ward: The thing is that if you do not have an IT solution, you cannot employ that many people and make money out of clear and simplified entries as a commercial venture, because you will not be able to transmit enough per person per day.

Richard Wade: In my opinion, the key is not to handle movements transaction by transaction, but to have a periodic return of some sort. We do it with VAT and have done for a long time. There is no reason why it should not be done with customs duties as well—the values involved are far less in real terms.

Q106 **Mr Leslie:** At the same time as all this, we are moving from CHIEF—customs handling of import and export freight—to CDS, the new, whizz-bang, supposedly wonderful HMRC customs declaration service. But the National Audit Office has flagged it up as amber/red. Its report today says that, of the 12 big infrastructure things that could affect our border, CDS finds its way into about seven. It talks about a multiplication effect: if CDS is at risk, it could bring down TRACES—the Trade Control and Expert System—which is to do with animal movements, and a lot of other things. Are you happy from your observations that HMRC are moving smoothly into this, and do they have the contingencies right?

Richard Wade: Obviously it is totally unproven. We are reliant on what we are being told. We have seen no evidence of whether it will be able to cope or not. I think we would be stupid to hold our breath on that one.

Bryn Ward: We have volunteered to be a test location for the new system. The system is not ready. I have a list here, which I will happily send to you afterwards, which is from my compliance manager and my IT team, telling me about the problems with CDS at the moment.

Q107 **Mr Leslie:** I would be very grateful if you would send that. Paragraph 3.7 of the NAO Report, on page 31, talks about how, if CDS is not up and running, there are a number of contingencies. They could try to keep the existing system going as a contingency. They can take the risk at the border as a contingency—that does not sound like a contingency to me—or they can revert to paper-based systems.

Bryn Ward: We were talking about this outside while we were waiting. I am ready with my staff to handwrite entries just in case, because CHIEF will not cope.

Q108 **Mr Leslie:** On a paper basis?

Bryn Ward: Yes. We are led to believe that CHIEF, the current system, will not cope.

Q109 **Mr Leslie:** So at the same time as going up to that massive volume—potentially a quarter of a million extra transactions—we could be having to fall back on a paper basis.

Bryn Ward: Potentially. All that Richard's members, and certainly my customers, care about is the delays. If the manufacturers that I represent



HOUSE OF COMMONS

have delays at the port and their manufacturing has to stop for an hour, they are talking about tens of thousands of pounds per hour.

Q110 **Mr Leslie:** We are policy makers. This is your chance to tell us, because we are ahead of this happening, how worried we should be about this.

Richard Wade: Very.

Bryn Ward: Very—over everything else that you are talking about, in my opinion.

Mr Leslie: You both said “very” in unison.

Richard Wade: It would bring the country to a grinding halt.

Bryn Ward: It would, because I would have to handwrite my entries. Where one person may do 40 entries in a day, that person will be able to do only eight entries a day. Then we will have to courier those entries under what is called a “phase 1”—I will not bore you with the technicalities—to Salford in Manchester, because we do not have a local customs office—we do have an office, but the staff are not there anymore to cope with this sort of thing, so cargo will stop, cargo will not move, and you will end up having a bottleneck at all ports.

Q111 **Chair:** To clarify, the National Audit Office call this a critical system. You say that it will bring the country to a halt.

Bryn Ward: Most definitely. For me it is the most important thing.

Q112 **Mr Leslie:** The only other adjunct was, when it links across to TRACES, and this animal product, meat export stuff, the NAO report also says that there are not inspection posts for these things in the channel arrangements, or even at the Irish border.

Bryn Ward: I believe Tilbury covers Dover at the moment, and I believe it is a four-man team at Tilbury.

Q113 **Mr Leslie:** So we do not have those inspection posts at the main channel areas, or at the Irish border. If TRACES is brought down, as well as those arrangements, would we have to re-route animal product, meat exports? Where? How?

Bryn Ward: Potentially. Are the policies on TRACES with DEFRA going to change? If they are the same, then the system can be done remotely anyway. It is about physical examination at the port. That is your problem with TRACES. TRACES is a system that shadows CHIEF at the moment. You put in a CVED, which is a vet check, and you put that into the system. When you then do your entry, and the vets have released that out of TRACES, it links to the current entry and then that entry clears. Until TRACES is cleared by the vet, the main entry will not clear. That will not change; it is about getting the vets to release that TRACES thing at Dover, because currently they do not have to inspect the meat that comes into Dover. That is my understanding.

Q114 **Chair:** Are there vets at Dover at the moment? Is there space for vets at



HOUSE OF COMMONS

Dover?

Bryn Ward: I have no idea. My understanding is that it is currently controlled by Tilbury. We deal with a lot of chicken that comes into Felixstowe or Liverpool. I will be able to find that out and come back to you on that.

Q115 **Catherine West:** On the point on everything grinding to a halt, who decides the priorities? In the end, we have to have medicines for people and certain foodstuffs, otherwise we will have some serious problems.

Richard Wade: I understand that someone has actually made the decision that, initially, the priority should be that materials keep moving, at the expense of compliance. That has been mentioned.

Catherine West: Obviously a taffeta skirt from Thailand can sit and wait on a ship if we need fresh products to stock our supermarkets.

Richard Wade: A lorry-load of beef or something like that.

Catherine West: Yes. I am trying to understand who makes those decisions on prioritising.

Bryn Ward: It depends, because you will have lots of different agents doing lots of different products. For instance, I instruct my guys. We import everything from engines, right the way through to frozen chicken. We prioritise foodstuffs, because of their shelf life, and after that would be hazardous goods, because they are not allowed to sit in the terminal. For instance, we bring in fireworks. They have to move. Everything else then comes after those.

However, foodstuffs often enter through what is called route 1, which is a Customs checking of the documents, which go to Salford. Ultimately, Her Majesty's Revenue and Customs at Salford will make those decisions, not traders or agents, because they will have to physically clear them. Some sort of system with another inbox for perishable goods, or something like that, would probably help them out.

Richard Wade: That would also involve other Government agencies.

Bryn Ward: It would. Most definitely.

Q116 **Catherine West:** I imagine a Cobra-style meeting having to be convened, to make sure that we have enough food on the table and enough medicines. Vaccinations are all freshly prepared, and they have a shelf life as well, so it would only take a really bad flu outbreak—

Bryn Ward: It obviously depends on the other agencies, which will be more relevant here than Customs, and how many checks European foods that come into this country will need to go through with the vets or the Forestry Commission, mainly at the Port of Dover, which receives about 80% of all the stuff that comes in on wheels. That will be where the hold-ups are, not so much with Customs. Even if Customs documents have to be handwritten, we can still process them within 24 hours, via a courier



HOUSE OF COMMONS

service to Salford. It depends on the physical checks that may have to be carried out, depending on the border inspection criteria that has to be followed after Brexit.

Q117 Catherine West: At the moment, how many vets are employed at Felixstowe?

Bryn Ward: I am not sure, but there are two to three vets on 24 hours a day, and they will have a team around them. My understanding is that they would send a team member to do the inspection and maybe sample the goods, and the vets have to sign off on them. They don't have to actually physically check everything themselves. However, I think you will find that there are about eight or 10 vets based at Felixstowe. On the basis of those figures that you read out, you would potentially need 20 to 30 vets at Dover if you were going to run the same checks.

Q118 Chair: Just before I bring in Matt Western, Catherine West mentioned food and medicines. We know that Toyota receives about 50 lorries from across the channel per day, which have to wait four hours, and that for Honda it is about 350 lorries. I am not sure whether they have a four-hour lag as well. On food and medicines, the *Financial Times* is today worrying that this may affect the Beaujolais nouveau, for those in the Lords or whoever. For food and medicines alone, how many lorries move across the Channel per day?

Bryn Ward: I am minded to stick a pin in a map. I don't know. I know that we have one customer who brings in 13 lorries of fresh chicken a day. They are a reasonably big player. When you are talking about oranges and tomatoes and stuff like that—especially when they are in season—it could be huge numbers. I have no idea of an actual figure.

Richard Wade: No, I have no idea.

Q119 Chair: Is that discoverable at the moment? The Honda and Toyota figures are just from the companies.

Bryn Ward: That is it. Talking to the big food importers, it will be the big food manufacturers and the fresh produce. I think the fresh produce will be massive.

Q120 Chair: When you say massive, will it be bigger than for Honda and Toyota?

Richard Wade: Yes.

Bryn Ward: Yes, easily.

Q121 Chair: Multiple times bigger?

Bryn Ward: Easily twice, I would say.

Catherine West: Feeding the nation is more important than cars.

Chair: Catherine West makes a very good point.



HOUSE OF COMMONS

Bryn Ward: The guys who arrange the ferry crossings—Norfolkline and so on—will have manifests of what they bring over. They should have an idea of how many of those trucks are chilled or refrigerated, which pretty much guarantees that they will be carrying pharmaceuticals or foodstuffs.

Q122 **Matt Western:** Related to the NAO report, there are suggestions on the news about yesterday's Cabinet meeting of a discussion about ships being chartered by the Government to ensure food supplies. Are the Government's priorities misplaced? What you are talking about is essentially a bottleneck. It doesn't matter how many ships you have out there, loaded with food or whatever. You have to get it into the country through these points.

Richard Wade: We are assuming they will be moving the same volumes of physical goods. It is the clearance and entry part of getting them into the country that is going to be the bottleneck.

Q123 **Matt Western:** So what would you be telling Government at the Cabinet table? Not to charter more ships; what would you be saying?

Richard Wade: I would say look at the border process that they are going to have to create at Dover, because it does not exist at the moment. It hasn't existed for the past 40 years. Something will have to be done to ensure that freight keeps moving. Things that have to be checked at the time of entry are the critical ones. Things such as cars are only a fiscal issue and that can be done after the event on a periodic basis.

Bryn Ward: With cars, they can almost order twice one day and then give themselves a 24-hour window, but you can't do that with food because of the shelf life. It is almost like you want to open up a green lane or something at Dover for foodstuffs and pharmaceuticals, so that they can come in and get dealt with as a priority.

Matt Western: Without checks—in a green lane.

Bryn Ward: Going back to one of the earlier questions, if you had people who were AEO-accredited and authorised, and maybe using systems such as CFSP, then, yes. Ordinarily, if you have a lane there, we can do the declaration, but because it is such fast-moving cargo from Europe, it might be that we have to wait for a ship's bag—so the lorry brings the docs with them. Normally, in this day and age, they will be sent over to you but sometimes you need the originals. You might need the original health certs and everything in order to process them. We can process them but, if that lorry is 101 in the queue, he is not going to get to his check until the other 100 are done, so there is potentially a delay there, no matter what you do with the paperwork. I think it is advisable to have people go to Dover and see how the thing runs at the moment, or maybe speak to some of the big Dover agents and see what they think, because they live this every day.

Emma Little Pengelly: I want to clarify something. At the moment, goods coming from mainland EU have no checks at all, because we know what their standards are and there is no issue about the collection of



HOUSE OF COMMONS

customs, duties and so on. Week one after Brexit, we know that effectively there is a common rulebook, so their standards are going to be exactly the same as ours. What would you be checking for? Unless there is divergence in mainland EU or here, we are just going to be taking the same food, same quality, same medicines with the same specifications. From a pragmatic point of view, why would the Government or the EU require checks?

Bryn Ward: That would be a policy decision. To be fair, what you said is logical. The only check we would need is proof it is coming from where it was.

Q124 **Emma Little Pengelly:** At the moment there is no check, so we have to rely on EU countries shipping here. We have to rely on other countries to say, "It is of the right standard; it has the right certifications; it is fresh; it is not dangerous." We do that at the moment. Given the relationship and given that we know that the standards are the same, we will be aware if there is divergence, because that will have to go through Parliament here or through the EU.

I am wondering, if there were a requirement for checks, what we are checking for. If it is about the collection of customs, for example, presumably that is something the Government could waive initially, if there were to be an issue about food and medicines.

Richard Wade: I think that goes back to one of the points I tried to make earlier. If we make it easy for EU trade, it will make it more difficult for non-EU trade. That is one of the reasons—if you assume that EU trade is as it has always been, or has been for the last 40 years or whatever, and we are no longer part of the single market—you get into the trade situation of it not being the same trading relationship.

Q125 **Emma Little Pengelly:** Post-Brexit, presumably we will still have confidence that food and medicines within the European Union, coming out of the European Union, can be trusted.

Richard Wade: In the short term, yes, I would agree.

Emma Little Pengelly: And in the long term, I am sure that the European Union would argue. They keep their standards and certification relatively high.

Chair: You can keep an open border with the European Union for foodstuffs and medicines, but that's the admin.

Q126 **Emma Little Pengelly:** What are we checking for? Tomatoes coming from Spain will be just as—

Bryn Ward: Currently, with food imports from anywhere in the world outside Europe, DEFRA sets the rules and port health enforces those rules—

Chair: So DEFRA could drop the rules for food from across the world then.



HOUSE OF COMMONS

Bryn Ward: Yes, because they cover the whole of Europe, there is no problem. If you stay within that DEFRA control, there should be nothing with regard to the checks on foodstuffs. If you then put in a border for customs processes—they are two completely different things—all that would have to be written into the customs system is a way in which to override, so that it doesn't look for the TRACES system, which you brought up. You can switch that off on European stuff.

Q127 **Emma Little Pengelly:** On the Irish border at the moment, for example, there are excise duty differentials—alcohol, cigarettes, fuel—and the decision made by the Government was that the balance of risk between putting someone there to ensure that that is being paid is not outweighed by not having infrastructure on the border. That is an example—presumably similar to customs—where the Government make a decision about what checks and barriers they are willing to put in to collect—

Chair: That's currently.

Emma Little Pengelly: Currently—excise duty differentials either side of the Irish border.

Chair: But that is all borders across Europe the same.

Emma Little Pengelly: I presume so. Some countries will decide to have more infrastructure to ensure maximisation of the intake to the Treasury from the excise differentials. On the customs issue, that is a political call and a risk that the UK Government may want to take, but the key thing is that the goods—foods and medicines—coming from the same sort of location are from what the Europeans may argue is a higher standard and into, even if we diverge, a different standard. Some may say that it will be a lower standard, but I do not think that is going to happen. That is an issue about risk as well. I just don't see where the risk is, certainly in an initial period.

Bryn Ward: No. I suppose with quality as well. The companies that are importing the goods from Europe will be rejecting the cargo anyway if it is not good. I think you are 100% right, but again if the DEFRA banner is still going to control our port health and those rules and regulations, there should not be any additional checks at Dover for foodstuffs, which means that we are back to the original thing, which is the bottleneck of all the cargo coming in, so then a green lane or something like that would potentially suffice to speed these things through—still having the entry to do, but a simplified entry. At the moment cargo moves on the T2—

Q128 **Chair:** But that is only 50% of the lorries moving of course. There will be lorries going back in the other direction. We have to wonder what our current European partners might do.

Bryn Ward: Again, I would assume that if we are under the DEFRA banner, they will be following the same things regarding checking the quality of the meat and everything coming out of here. They would not need to check those.

Q129 **Chair:** If we stay in a common rulebook with Europe, it is a lot easier.



HOUSE OF COMMONS

Bryn Ward: Yes—with DEFRA. As far as DEFRA is concerned, it is a different level. We have food standards across Europe that are set up by DEFRA, and that is a completely different discussion from here. Even if we separate, there could be one rule for the rest of the Europe and we could then agree exactly the same rules here, as a separate entity with DEFRA, and the stuff could still move.

Q130 **Chair:** So we would follow European rules.

Bryn Ward: Yes.

Q131 **Faisal Rashid:** What is the message coming from the Government about preparedness for your sector?

Bryn Ward: It is straightforward: we are guessing.

Q132 **Faisal Rashid:** You are guessing—there is no clear message.

Richard Wade: There is no clear message. The only message coming out is, “Prepare for the worst.” That is what some people are doing as far as they can, but we don’t really know what the worst is, or when it is going to happen, more to the point. That is where the transition kicks in.

Bryn Ward: We go to every single meeting and seminar with Her Majesty’s Revenue and Customs, the software providers, ACITA, BIFA and everything like that, and we are told different things by the same people at different meetings on occasion. That may be because things have developed from meeting one to meeting two, but the message that we get from a lot of these offices is, “We just don’t know.” If they don’t know, we haven’t got a hope of knowing.

Q133 **Faisal Rashid:** And we’ve got only four months to go.

Bryn Ward: Yes. With the news, it depends on the channel and the newspaper that is reporting it and which message they want to send to you.

Q134 **Catherine West:** On that point, one of our members asked what we are looking for. One of my worries is that there will be an element of uncertainty, regardless of what happens, even if it runs beautifully. There are organised criminals who try to get through your system every day, be that cyber or by walking things through. What is in place to stop illegal guns, arms and drugs coming in? Presumably, while you are busy worrying about the fresh mozzarella coming through so we can have all the pizzas we need, some other guy who knows that you are going to be a bit at sixes and sevens is going to come in with guns, drugs or whatever and be opportunistic.

Richard Wade: I don’t see why that should be any worse in six months’ time than it is now. Customs get a certain amount of information, in terms of intelligence, but they don’t get the detail of what is on each individual movement.

Q135 **Catherine West:** So you think that there will be just as many checks for smuggling?



HOUSE OF COMMONS

Bryn Ward: You are obviously going to have fewer officers, but a lot of the checks that are run now are automated checks by the system. The system will target certain products, certain countries, certain imports and what have you, and then customs will go and examine them. Certainly, talking about my business, the staff are highly trained to look at stuff and say, "Hang on a minute. We have got X litres of whatever in this container. It doesn't weigh right," and then we report it to Her Majesty's Revenue and Customs intel. It is going to be exactly the same as it runs now with the rest of the world, as long as you have enough customs officers to support that.

Richard Wade: There is a certain amount of intelligence used on intra-community traffic as well—traffic coming to and from the EU. There are some checks done, but they don't have the same amount of data for community traffic as they do for rest of the world traffic, because there is no need for customs entry.

Q136 **Catherine West:** The big Heathrow sting, which you will be aware of, was lined up with some subcontractors, who were basically dishonest, essentially. Would spring next year not be a perfect time to get through all the drugs and guns that are going to our constituencies?

Bryn Ward: It could be, but AEO potentially becomes a weapon for defence against that. You have got two elements: AEOC, which is for customs, and AEOS, which is mainly for manufacturers. If you add that element into the AEO accreditation and make the agents more responsible for additional checks in order to get AEO, as long as the benefits are there for the agents once they have got AEO, you are basically going to train up another load of people across the sector who are going to be additional eyes for you.

Chair: You were saying that you are guessing. To help you guess, Guy Verhofstadt from the European Parliament tweeted this in the last hour: "Progress on the #Brexit negotiations can be 90%, 95% or even 99%, but as long as there is no solution for the Irish border, as long as the Good Friday agreement is not fully secured, for us in our Parliament progress is 0%." You can factor that into your guessing game as time goes on.

Q137 **Faisal Rashid:** Can you briefly explain the role of customs brokers in relation to trade with EU and non-EU countries?

Bryn Ward: Once you've set your policies, we are there to make sure the cargo moves as smoothly as possible in and out of the UK by completing the documentation, to educate our customers in what they need to do, and to set up processes with them.

Richard Wade: I would say that the role of the broker for EU traffic is zero—

Bryn Ward: At the moment.

Richard Wade: —at the moment. Going forward, depending on what relationship we end up having with the EU, they will take the responsibility for most companies' customs activities.

Bryn Ward: I currently have one customer, and we deal with about 2,000 European exports a month for them, but all we do is raise a shipping note and manage the visibility on a log for them. After Brexit, I may need to do the documentation and everything for them, but as Richard rightly says, I just do that bit and then it moves. I do not get involved in the movement, because it is in Europe and there is no border. Currently we literally do nothing at all, because we are not required to do anything. Depending on policy after Brexit, we may have a lot.

Q138 **Faisal Rashid:** Mr Ward, you said recently that the customs brokerage sector might not have sufficient trained staff to meet demand in a no-deal scenario. What would be the implications of that? Obviously you said it would be hard, but you also said that that a hard Brexit might be slightly better than a soft Brexit.

Bryn Ward: That was in *The Times*, wasn't it? Either way, if a border goes up between us and the rest of Europe, there will already not be enough trained staff. A big supply chain operator told me that it would need 600 additional trained staff to do entries on all the European stuff. I would struggle to find six in Felixstowe, let alone 600, and Felixstowe is our biggest port. What we are trying to do is invest in the staff we already have, to bring them up to the highest possible standard, and then employ admin staff to take away the admin task so that my guys can get on with doing what they do. If we had to do in and out entries all of a sudden for all the figures that were mentioned earlier, there would not be enough people for that across all the agents.

Q139 **Faisal Rashid:** But that is the forecast, isn't it? It is quite scary—four or five times more than what you are managing now.

Richard Wade: And that is where a transition period of some sort is essential, regardless of what comes out of the negotiations.

Q140 **Faisal Rashid:** But the transitional period would be if there is a deal. If there is a hard Brexit with no deal on 29 March, then what?

Bryn Ward: Fun and games.

Richard Wade: Regardless, it would be very difficult to just have a cliff edge where everything changes.

Q141 **Faisal Rashid:** The Government are telling the industry to prepare for the worst-case scenario, which is hard Brexit. Are you prepared for it?

Bryn Ward: I am prepared to cover all my current customers. Whether I can take on any more depends on what sort of declaration needs to be made. What Richard said is vital. If you told me today, "That's it—from Monday, you have to start doing an entry for everything that goes in and out of Europe," my guys would be doing a lot of hours, but we would get through it. But you would get a lot of people like European truck operators



HOUSE OF COMMONS

who do not know how to do an entry just turning up at Dover with no documents. You would have a massive load of trucks unable to come in or go out because they did not have the right documents, and it would bottle up really badly.

Without a transitional period, you are asking for trouble. Knowing as soon as possible is key.

Richard Wade: The other part of it is that you need to think in terms of a periodic entry process, so that you are not working on a transaction basis for every parcel that moves across the channel. It needs to be on a monthly or even three-monthly basis.

Q142 **Faisal Rashid:** Do you not have a system where the lorries come in with registration numbers and you already have the information beforehand? "This lorry is coming with this registration number, and these are the goods in it"—do we not have anything like that?

Richard Wade: There is no legal obligation to do that for Community traffic at the moment.

Bryn Ward: You may have a ferry arriving with a manifest at Dover every 40 minutes, but the manifest will have only the vehicle registrations, not what is on the trucks. Additional work and additional staff would be required in order to do that. I am not suggesting that this is the way to go, but the other thing is that they can't cross the Channel until they have got the right documents, otherwise you will have a bottleneck here in the UK. I suppose you could simplify imports by saying we will have a period where we will let imports come in without an entry, but on export entries, you are going to be in the hands of Europe and what they want.

Q143 **Chair:** You mentioned the number of customers that you currently have. How many potential other customers are out there that might want to be your customers?

Bryn Ward: Loads. Hundreds. Thousands, I would have thought.

Q144 **Chair:** Versus the number you have at the moment.

Bryn Ward: In the grand scheme of things, I am a small operator. We specialise in one area. There are companies out there that are doing 100,000 declarations a week. I would be 1% or less of the market, I suppose. I don't know the figure—I would be guessing the figure—but there is loads and loads and loads of work out there.

Chair: Fair enough—it was a very open question. Mr Wade, did you want to answer?

Richard Wade: I was going to say that there are a lot of companies trading with Europe that currently have no involvement with customs activities at all. It might be one person shipping one small box a week or it might be someone shipping 100 trailers a day. There is a massive difference between the large traders and the small one-man bands that are dealing with Europe.

Q145 **Chair:** This could potentially wipe out one-man bands.

Richard Wade: Potentially, yes. It becomes less attractive for them to trade with Europe if they have the overheads of having to do customs entries.

Q146 **Sir Mark Hendrick:** It seems to me that you have all said something slightly contradictory. You have said, Mr Ward, that you are a reactive industry and you are not setting policies, you are responding to what is happening in the real world. You said you would prefer a transitional period, but on the other hand you are saying, "A no-deal Brexit suits us better, because then things are clearer." The problem is that a no-deal Brexit will take place on 29 March and that is it. It is the big bang and you can either deal with it or you can't. From the National Audit Office report, it is clear that the scale of it is such that both of you are predicting that it is going to be a disaster. The only way you are going to get a transitional period is if there is some sort of a deal, and obviously you will get however long afterwards to try to sort things out. In the meantime, let's say there is a deal. Surely it is better to have a soft Brexit and some sort of a deal and then it gives you time to sort things out, rather than the big bang that you are going to get on 29 March.

Bryn Ward: Most definitely. I would just clarify one point. When I talked about a reactive business, what I mean by that is that I have customers who send me the documents 28 days before they arrive and I have customers that send me them the day they arrive. There is no seasonal stuff—it depends on when the vessels arrive—so we might have a quiet Monday, Tuesday and Wednesday and then we might be working all night on Thursday and Friday. That is what I mean by us being reactive.

With regard to a soft Brexit and deals, that will be more work for us, but the thing for me is that it is just about knowing. We are making allowances now as much as we can for a no-deal Brexit, by employing and training new people so that we are able to cope with our customers and hopefully a few more. I am assuming lots of other companies out there like us are doing the same. It is about how much resource and financial risk they will put into this—they put that all in and then something happens and there is no entry to do, and you have got a load of staff that you now don't need anymore. Potentially, we will need them whatever happens.

Richard Wade: At some stage, but you don't know when.

Bryn Ward: At some stage, but it might be another year down the line, and then you potentially have people sitting around waiting for this to happen.

Chair: Once the transition ends.

Bryn Ward: Yes. So we did some figures and we thought we could probably employ 10-12 staff. We have gone for five now with an additional two in January. We have tried to balance out our risk with making sure we have the right level of service to our customers.

Q147 **Chair:** Do you want to come in?

Richard Wade: I was going to say on the reference to deal or no deal and the transition, I think what we are both saying is that even if there is essentially no deal, we still need a transition deal.

Bryn Ward: Yes, that is a good way of putting it.

Sir Mark Hendrick: That is what a hard Brexit is.

Q148 **Julia Lopez:** There has been lots of discussion about how to ease post-Brexit trade friction at borders and how to have fewer physical checks. Some have advocated blockchain, trusted trader schemes and other kinds of technology, such as artificial intelligence. To what extent do you think that those are solutions that you could buy into?

Richard Wade: Solutions that have been trialled over the last 20 years have had various measures of success. Most of them have been reasonably successful, but they have not been implemented because there has been no appetite to spend money on them. There are undoubtedly technical solutions that could help. I doubt that they would miraculously solve all the problems, but they can certainly make massive improvements.

Q149 **Julia Lopez:** Why do you think there has been no appetite?

Richard Wade: The return on investment hasn't been there, but that will probably change now because the volumes will be so massive.

Bryn Ward: There is a lot to be said for the trusted trader schemes, but they need to benefit the agents and the customers even more so. If you had trusted trader schemes that meant fewer checks across the border, you would minimise the bottleneck, you would get products out and you have more admin staff rather than highly trained customs staff doing checks after the event. There is already a system in place, the CFSP, which works brilliantly and has done for years and years—lots of the big multinationals operate the CFSP. At the moment, we do not know whether we will be able to put European traffic on to CFSP once Brexit has happened. We have asked the CFSP team at customs, who do not know the answer. If we can do that, for many of our big national companies already running CFSP, that could be a solution for their cargo to move through without checks.

Q150 **Julia Lopez:** How burdensome is it for a company to become an authorised economic operator?

Bryn Ward: It is expensive.

Q151 **Julia Lopez:** How expensive?

Richard Wade: It varies depending on the size of the company, because the requirements are not the same across the board. A large company will have to jump through a lot more hoops because there is more risk. If it is a one-man band with a small warehouse, the risk is far less because there is less at stake.

Q152 Julia Lopez: Let us say I am a one-man band with a warehouse, and I want to become an authorised operator. How long does it take and what is it likely to cost me?

Bryn Ward: We help people—almost like a consultancy—but like Rich rightly said, multiple locations are different. If you have one, and they are going to put the resource in and have all of their processes written down, you can get the application done very quickly, but it might take six months for Her Majesty's Revenue and Customs to come back to you with everything that is wrong. You then correct that, and HMRC might take another three months to come back to you. Then they do site visits and they might tell you that you need to do this or that. When they were not as busy, you were looking at maybe 12 to 18 months; now I reckon you are looking at two years, if not longer, but that is a guess.

Richard Wade: I think AEO is not necessarily the answer, because its requirements are complex. A process of trusted traders could be far simpler and adequate to meet the needs of EU trade.

Bryn Ward: And the time and cost have to be offset to the customer with the benefits of achieving whatever that is. That is the key. If you say to people "We want you all to do this and we are not really going to give you anything but it makes our life easier," they are not going to do it.

Q153 Julia Lopez: If the Government said "In five years' time, we want every business involved in import-export to be either a trusted trader or an authorised economic operator, and we are going to put in various incentives around that and put in more staff at HMRC," do you think that is a realistic thing for them to require?

Bryn Ward: You can never please all of the people all of the time, but I think that would go a long way to sorting it out. As Rich said, AEO may not be the answer to everything—it may manifest itself as something different after Brexit. Whatever you decide to do, you need to make sure that it becomes compulsory, otherwise you won't be able to trade or you will be looked at after all the other ones are done. There needs to be some significant benefit for the importers and exporters.

Julia Lopez: There could be a tax incentive.

Bryn Ward: Yes, most definitely, so that they put the resource to it and take it seriously. You don't want to be just going through the motions, parking it there and not really following it—when they get an audit three years later, you find out that they haven't been following what they've put out there.

Richard Wade: I have seen examples where people have become AEOs—they actually become an easy target. In fact, the reverse happens in some instances: rather than getting preference, they are targeted because they are an easy target.

Julia Lopez: So there is a strong disincentive at the moment, and it is up to the Government to create policies that include incentives.



HOUSE OF COMMONS

Bryn Ward: Yes, most definitely.

Richard Wade: Yes.

Q154 **Chair:** You have mentioned bottlenecks a couple of times. Would they be mainly as a result of the customs declarations systems or just of physical checks at the border?

Bryn Ward: Mainly the declarations, but a bit of both.

Richard Wade: It depends what comes out of this. Having some sort of periodic declaration process would ease the situation, but a certain amount of checks would still need to be carried out at the border.

Bryn Ward: I don't know the figures, but let's say that 10% of every entry is selected as a route 1, which means that customs have to check that entry. That figure will now be fourfold, so you will need four times as many staff to check those. If they haven't got the staff, it will slow down clearances as well. There are lots of different things. My main concern, which we have touched on, is the system. If the system is not responding quickly enough or, in the worst case, it goes down, there is no recovering from that in the short term, other than handwriting, unless it is up within an hour. There is concern about how much traffic would build up within a short period of time if the system were to go down. We have read some articles—I don't know how good they are—that suggested that a few minutes could result in 27 miles of trucks.

Q155 **Catherine West:** On the question of medicines, one of my concerns is that people will start to import their own medicines via the internet. How many checks are there currently on the quality of what comes in in small packages?

Bryn Ward: Those would all come through express carriers—I don't deal with that.

Richard Wade: On the quality, none. If they are licensable, there might be checks on whether they have licences.

Bryn Ward: We don't clear any imports of pharmaceuticals or small, individual packages. We do personal imports for people who are moving house and that sort of thing, but we don't get involved in that. For those sorts of questions, you need to speak to the big TNTs and DHLs—they will tell you what checks they have in place. It is highly specific to them.

Richard Wade: They do checks. I used to work in the express delivery trade.

Bryn Ward: You would know better than I do.

Richard Wade: But there are very few checks of intra-European traffic.

Q156 **Catherine West:** We could be looking at a bit of a health crisis if people self-medicate. I know that that exists already, but I am thinking about the scale.



HOUSE OF COMMONS

Bryn Ward: The thing is, we are a document business. We rely heavily on the documents that are supplied to us, and we are trained to look out for warning signs from the importer: who they are, the telephone numbers that they give us, the weights and so on. Without opening up the packages, ultimately we have to trust what is on these pieces of paper and whether they are invoices. It is very hard, but that problem exists right now. It is not going to change; it will be exactly the same.

Richard Wade: It is even worse right now, because there is no need to make any sort of declaration on materials that come in from the EU.

Q157 **Catherine West:** At the moment, it is a small but growing problem, but if people who are dependent on a particular drug think that there will be a supply problem, it could get much worse very quickly.

Bryn Ward: To be fair, Richard might have a point. Now, you can go to Spain, walk into a chemist and buy whatever you want—as long as you’ve paid for it, you can bring it back here. If there were a border here, you would not be able to do that so much, so a border going up may reduce the people who are already doing it in and out of Europe—I don’t know. There could be something to be said for that because you have additional checks. At the moment there are no checks. If you have a border, there will be at least some checks. Even if only 10% of them were being checked, that would be 10% more than are being checked now.

Richard Wade: The difference would be that at the moment it is perfectly legitimate to move stuff without any checks. In the future, potentially there should be checks because there should be some sort of declaration. It will be a different situation. Whether it is good or bad I am not sure.

Chair: Thank you, gentlemen. That is a good point to end on. Fascinating evidence from you both, with questions about the future left hanging. I am reluctant to end the session, but unfortunately time is against us and we have a second panel coming up.

I thank you both for your excellent evidence this morning. It was evidently fascinating to the Committee, given the amount of requests I had from colleagues to come in and ask questions. I do not know if they are looking for reassurance or to be scared, with Halloween on the horizon, but thank you both.

Examination of witnesses

Witnesses: Dr Graham Gudgin and Joe Owen.

Q158 **Chair:** Welcome to our second panel. Can I ask you to introduce yourselves for the record, please—name, rank and serial number, so we have you marked down? I will start from my left.

Joe Owen: I am Joe Owen, associate director at the Institute for Government.



HOUSE OF COMMONS

Graham Gudgin: I am Dr Graham Gudgin from Policy Exchange.

Q159 **Chair:** Thank you. In September the Institute for Government rated “code red” the state of preparedness “for a new customs regime and regulatory requirements” in the event of a no-deal Brexit in March 2019, meaning that there are “major issues standing in the way of the Government’s desired outcome”. Who would have thought it? How did you arrive at that conclusion?

Joe Owen: As you mentioned, our classification was whether or not the Government would be able to completely mitigate major negative impacts of no deal in 2019. This is not just based on HMRC performance, but the whole web of Government organisations that are involved at the border.

To pick out some of the big reasons why we put it as red, the first is time for business. The Government’s first communication about what would happen under no deal came a month or so ago, with the release of the technical notices. Generally the advice to business was, “You should read this, and take account of this, and you may want to consider what might happen in this case.” It was basically: “Do some homework, and we’ll tell you what you need to do when you need to do it.”

We are now five months away from no deal. If you look at the kind of changes that the Government have made in the past, they have had significantly longer, and we are yet to get any clear action statement from the Government saying, “You need to do this.” One example would be that, about five years ago—maybe slightly longer—the Government introduced, as part of the Union Customs Code, an entry summary declaration—basically a new piece of paperwork for traders. They gave traders 18 months from the point at which the Government system was finished to be ready for the change actually being enforced. As I said, we are now five months away, and there has not been any clear action saying, “This is exactly what no deal will look like and what you have to do, so you need to do x or y.”

The other big reason we rated it red was just the level of unknowns. In one respect, that is the number of traders who will be affected. HMRC has said that there are about 145,000 traders who trade solely with the EU—that is, they trade enough that they flag up to HMRC, so it can identify who that 145,000 are. HMRC estimates that about 100,000 might be underneath that threshold, but it does not know who they are, or necessarily how to reach them. If you need to communicate to this, possibly, 250,000-odd organisations in five months, it is quite important that you know who they are so you can target that information.

The second unknown is what happens at the other side of the border. A lot of the conversation in the previous panel was saying, “You could unilaterally start letting things in, and we could take quite a relaxed approach at the border.” To an extent that is true, but what happens to our goods in Calais? HMRC has said—I think Jon Thompson gave evidence on this last week—“We cannot give Ministers any assurance about what will happen on the other side of the border. We don’t know.” It is a closed-



HOUSE OF COMMONS

loop circuit in Dover Eurotunnel, so if something is blocking it at one end, that causes problems at the other end. If you remember the famous pictures of queues all the way through the M20 in Kent—that was because French customs officers were striking, not because of an issue on the UK side.

Given that level of unknown in terms of how one side of the border will react, who the businesses are and how we reach them, and the length of time they would have even when you did reach them, we thought that would be flagged as red. Some of those findings have been echoed in the NAO report that came out this morning and again when Jon Thompson gave evidence last week, when he said that two of the three big main risks were preparing business and what happens at the other side of the border.

Q160 Chair: What you say about the other side of the border rings true. My constituency exports a lot of shellfish to France and Spain. That could potentially be got out of the UK, but the lorry has weekly cycles. You are flagging up to people who export fish, shellfish and fresh produce like that that, yes, your lorry can get over to the continent, but it might get snarled up on the way back, which will then affect your weekly rotation. That would be the practical implication of what you are saying.

Joe Owen: It is about getting over to the continent in the first place. They might say, "You've got shellfish and we need to send it to a border inspection post," but there is no border inspection post at Calais; they haven't needed one. The closest one, I think, is in Dunkirk, so there is a question of whether the French authorities would accept that risk of allowing those goods into the country in the first place before they go to the border inspection post. The logic behind some of the veterinary controls and animal and plant health controls is based in the Union Customs Code, and the EU's rule is that you don't want things that could be harmful entering your country. The minute you say, "We'll do checks inland," you have already accepted a certain amount of risk, because a product that could be dangerous is already in your country. We don't know whether the French would say, "Okay, we'll divert it to Dunkirk," or "We're going to put in a special border inspection post." The evidence that Jon Thompson gave suggests that we are still not able to have that kind of engagement with the French authorities, because the Commission are saying, "That's a future relationship issue; we are not talking about that."

Q161 Chair: The National Audit Office has today come up with an interesting report about the preparedness for a no-deal Brexit on day one, and the complexities that might be there. There is also the interdependency on the customs declaration system, and there is likely to be the CHIEF system for handling the imports and exports of freight. What are the practical implications of the border IT system not being delivered on time in the event of a no-deal Brexit?

Joe Owen: Yes, there is quite a good diagram in the NAO report that shows all the interdependencies between the different systems, and how CDS and CHIEF are the central plank. If that falls down, it has implications



HOUSE OF COMMONS

for all the other systems. You heard from your previous panel about how TRACES and the replacement for TRACES will sit behind CHIEF or CDS and send messages to it. IF CDS is not there, there is not much you can do with TRACES given the way it is set up. It is really is a central plank. CDS was designed in 2013 to comply with the new Union Customs Code, and it was halfway through development when the vote to leave the European Union happened. Anyone who has done major IT projects, whether in Government or not, will tell you that if you get a change in requirements and timeline halfway through a project, you are in trouble. It is quite impressive that HMRC managed to recalibrate after that, and it did get back on track, but the NAO report points out that they are now rated amber/red, which is clearly a big challenge. If we secure a transition, then all of a sudden they have 21 months more to play with, but it is certainly getting very tight.

Chair: Yes, I am just looking at the diagram from the National Audit Office report on the customs system. Spun off it immediately are seven systems all depending on it—vehicle licensing, ro-ro ferries, excise and a number of others—but another three are spun off from three out of those seven. The only one that seems to be unaffected is parcels, which goes back to Catherine West's point to the earlier panel, that parcels may indeed be the way we send a lot of trade backward and forward.

Q162 **Sir Mark Hendrick:** You mentioned the problems that might be faced on the other side of the border, at Calais, for example. Until now, in this evidence session, we have been concentrating on what is happening on our side of the border, but surely in the case you raised about infected cattle or cattle with a problem, there is a similar problem on our side of the border as well, in that we do not want to import that. The point was made earlier that perhaps there could be some relaxation of provision in order to allow an easier flow of goods and animals backward and forward, but the problem with that is, because we are outside the EU, we would not have the same legal base through the ECJ to take any legal action against people if, for whatever reason, we had infected cattle or other defective goods. What I am saying is, it is not as straightforward as, "Well, this stuff used to come through without checks previously." Yes, but we had the protection of the Court then. Once we are outside the EU we do not have the protection of the Court. How do you assess, then, what level of checks need to be carried out to ensure that our Customs offices and our systems are not seen as being negligent in what they do or do not let through?

Joe Owen: It is a big challenge, because you have three competing priorities at the border: a fiscal trade facilitation priority, standards—ensuring that things that come in meet your standards and are fit for your market—and the security point about ensuring that smuggling of weapons and things does not happen. However you calibrate the border has to be a judgment call between those three. The position of the Government, as they set out in their technical notices, is that they are prepared to accept the risk by recognising EU product standards to be the same in the short term and allowing things through. I think it is right that the risk does not



HOUSE OF COMMONS

change overnight, but over time, that judgment call on where to place the line between those three competing priorities will be quite an important one.

The UK is quite unique compared with some other countries, in that we have HMRC, which cares about the facilitation stuff, the Home Office, which will care more about the security, and DEFRA and others, which are involved in some of the product standards. In other countries, the decisions on security and trade facilitation all sit in one Department, so that tension between the different and possibly competing priorities of different Ministers and different Departments will be one of the challenges in terms of where we draw that line.

Q163 Catherine West: In terms of HMRC's progress, what risks do you think we might not have covered—we have talked a lot about this—that are posed if this is not accomplished by the time Brexit occurs? Obviously we have the two dates—possibly the end of March and then possibly two years later. Is there anything more you could add in terms of providing us with evidence that Government Departments will look at later?

Joe Owen: The risks for HMRC that we have covered is the business preparedness and what happens on the other side of the border. We have talked about systems; that is a major risk. The level of co-ordination across Departments is also a big challenge. I think there are 26 different Departments or public bodies that play a role at the border, either from a policy or an operational perspective. There is also then local government, because it will be port health authorities and local authorities that will actually carry out some of the inspections on the ground. The question is how you line up that web of organisations so they are all aware of the planning assumptions and what they need to be driving toward, and then operationally how you make decisions. It takes only one of those Departments to apply a slightly different interpretation of the rules to start getting clogs in the system, so the co-ordination is a massive challenge.

Q164 Catherine West: And secondly to that, we are obviously thinking mainly about how we get products in to keep our daily life going, but the other thought is about things that need to go the other way. That relates to the other side—port arrangements that go via France, and I think we have got traffic that goes to Spain and then to the north. What other things do officers and officials need to think about in relation to those other challenges?

Joe Owen: There is a contingency perspective, which relates to the extent to which we control what goes out to try to avoid putting so much pressure on the ports. Is there a way to triage what needs to be driven? Then there is obviously the infrastructure question around Project Brock and turning the M20 into a lorry park.

Q165 Catherine West: That £1.5 million daily loss to the Kent economy is quite a worrying figure. We know that that happened two years ago in a period that was particularly busy in the summer. Hopefully, that is a learning experience, and we can avoid that next time.



HOUSE OF COMMONS

Graham Gudgin: Perhaps I can add a couple of very quick points. The problems of congestion at Calais seem to focus on what might happen on the other side of the channel. It is hard to think that our regulations and procedures would do anything to cause those sorts of difficulties. On the other side, we have to take into account the context. The Pas-de-Calais region is one of the more depressed regions of France, and the politicians there have been making representations to the Government in Paris and saying, "Don't do anything to upset trade through Calais." If there was serious congestion at Calais, a lot of traders would have to make other arrangements. Of course, Calais is a port, and they would then worry that they would never get that trade back, so there are pressures on the other side.

I should also mention WTO rules, which say that you can't use customs procedures as a form of protection. You can use them only if there is a good reason. If there is an outbreak of BSE, foot-and-mouth disease or something, then of course you can, but you can't do it for political and other reasons. We can't stop the French authorities doing that. They could perhaps do it and say, "Sue us," and that would take time. If they hold to the regulations as good members of the WTO, a lot of the worries that appear in the British media shouldn't be realised.

Joe Owen: There is a trade-off, because France is part of the EU, and therefore they need to abide by the regulations in the EU Customs Code, which set out the percentage of different types of consignments that you need to check. It will be a risk for French authorities to say, "We're going to ignore the relevant single market regulation." You are right that the Pas-de-Calais region has been saying, "We need at least to be able to engage with British officials to understand operationally how things will work." It is difficult to predict politically how this will play out. That is why it was raised to such a risk. There is uncertainty about what happens at the other side of the border.

Q166 **Emma Little Pengelly:** On that point, in a sense we are trying to speculate about how France is going to operate the European customs union and single market border with the UK. You have raised the issue of infected animals. We know how European Union, customs union and single market borders operate, because we operate one at the moment. You mentioned risk, but isn't it the case that the European Union assess risk at the moment? They do not require 100% checks on goods coming from countries whose regulations are completely divergent, under WTO rules. Such goods come into our ports day in, day out. We understand from the previous evidence that they require only a very small percentage of physical checks. That risk is there at the moment. What reason is there to think that should increase from 1% to 2% of current checks when that border shifts to between France and the UK?

Joe Owen: The 1% or 2% current checks might be across the whole spectrum of goods that come in, but for certain goods it is much higher than 1% or 2%.

Emma Little Pengelly: With reference to sugar, for example, sugar from



HOUSE OF COMMONS

Colombia—a high-risk country, for some obvious reasons, that is totally regulatorily divergent—comes into the UK through the current EU customs single market border, but we are talking about less than 1% of physical checks. I think there were 13 last year, with two to three shipments physically opened.

Sir Mark Hendrick: What's the percentage for livestock?

Q167 **Emma Little Pengelly:** I am trying to identify. This is a food substance. Obviously, there are risks involved in food. I am assuming that is one of the riskier food groups, which is why I referred to it, but yes, agricultural animals would be in a similar category, wouldn't you say?

Joe Owen: If you bear with me, I do have a number somewhere. Maybe I will send you that following up, because it is significantly higher than 1%. Rules on agri-food currently applied in the UK mean that between 20% and 50% of shipments of beef and lamb, imported from outside the EU, must be checked by a food health agency at the border.

Graham Gudgin: But I think countries like New Zealand have regulatory equivalence. I think the EU accepts from New Zealand because their standards will always be high enough and there are no checks.

Q168 **Emma Little Pengelly:** And presumably, with reference to the previous panel, it is also the case that the UK will be in a unique position in the week after Brexit, in that our rulebook will be entirely aligned, and regulations and standards will have been completely aligned. We have that trading relationship.

Divergence may happen, depending on what the deal looks like, over a period of time. There will be transparency about that divergence. But in the short term the standards are going to be exactly the same. Even with the WTO rules, we should be in a much better position in relation to some of these checks than the rest involved.

Joe Owen: Yes, I think that is a perfectly fair assumption to make. The point I wanted to make was that we just don't know if the EU will take that assumption. We don't know if they will say, "We are going to stick to the letter of the law in the EU Customs Code and, therefore, we will check whatever percentage in terms of the fruit, vegetables and meat that comes through the channel tunnel," or whether they will make that assumption. That is the challenge for HMRC and other Government bodies: how do you plan if there is uncertainty about how the EU will approach it? They have said formally so far that they will apply the letter of the law. That has been the message coming out of Brussels. Whether that is the case in the days or weeks afterwards—

Q169 **Emma Little Pengelly:** Political willingness is the big issue. I want to touch on another topic. There has been some discussion recently around the island of Ireland-into-GB trade issue. At the moment, Northern Ireland does operate on an all-island basis, for example, for animal health. That is for good reason, as we are an island economy, and there is foot-and-mouth and other issues.



HOUSE OF COMMONS

Farming is not necessarily my strong point but, in terms of the UK and Ireland, in relation to the current relationship with the EU, had there been checks? We talked about checks with agricultural animals and the risks involved. In terms of what happens at the moment, is there a system, as you have indicated, in the event of some outbreak? Presumably, there are procedures that are currently operated to stop a disease coming either from here to the European mainland or, probably a bigger issue, from the EU mainland into the UK?

Graham Gudgin: Yes. What was the last one? BSE, I think. The French stopped all imports of beef from the UK for a long time—perhaps longer than was strictly necessary. Certainly, trade between GB and Northern Ireland was stopped. Sheep movements were stopped. There is a whole system for animal disease control. That is in extremis, but that happens now and would presumably happen in the future.

Q170 **Chair:** Just a brief point. The Brexit argument is that we become a third country. The second Brexit argument is that, although we are third country, we will be treated differently, because we will be in regulatory alignment from day one. Is there any risk to the EU of other third countries going to the WTO and saying, “Hey, look, they are nice to this third country. They are not so nice to us. They have given this third country preferential treatment but they are not giving to us.” Is that a risk the EU could face if they go, “Well, we’re all in alignment with the UK—it’s fine,” or is that a fallacious risk?

Graham Gudgin: I don’t think that is a risk. The most favoured nation rules under the WTO—

Chair: But if there is no deal in March 2019—

Graham Gudgin: If there is no deal, we go to WTO rules and we are bound by those rules. One of those rules is that you have to treat all your trade partners the same unless you have a free trade agreement.

Q171 **Chair:** So we become a third country. If the EU treats one third country in one way and another third country in another way, can one of those other third countries go and complain about preferential treatment for third country A—the UK—as opposed to third country B?

Graham Gudgin: I am not sure that I fully understand your example, but most favoured nation rules mean that you cannot do, I think, what you have just said.

Q172 **Chair:** If there is no deal and the EU is asked to be, or it is assumed in the UK that because the rules are the same it should be, more preferentially disposed towards the United Kingdom as a third country than towards other third countries—

Graham Gudgin: It can’t do that.

Q173 **Chair:** It can’t do that. As Mr Owen laid out, other third countries are subject to 20% to 50% checks. If one third country—the UK—is getting only 1% or 2%, do those other third countries have a claim at the WTO



HOUSE OF COMMONS

against the preferential treatment that some are getting versus them?

Joe Owen: My understanding is that, yes, there is a possibility for other countries to raise a complaint. I am not a lawyer—you would need to ask a lawyer this—but there are a number of circumstances under which you can claim, for example, a national security exemption, and there are means by which you could make it viable in the short term, not least because it would take someone to raise a complaint to the WTO and then litigate it.

Chair: You have leeway there, yes.

Joe Owen: You have time, basically. Yes, it is a viable solution in the short term. As you said, there is the possibility of a challenge against the EU, but it is also true that if we leave without a deal and we want to go out and strike new trade deals but we are applying preferential treatment to the EU, with which we do not have an agreement, it might be quite difficult to come in with a strong hand and say, “We will only check X per cent of lamb from New Zealand,” for example. They could say, “Well you’re not checking any from the EU at the moment, so why are you treating this as a trade-off?” and so on.

Q174 **Chair:** So you could anger New Zealanders before you got to the negotiating table.

Joe Owen: It could have complications for your negotiating position.

Chair: Or even worse, Moldova.

Q175 **Julia Lopez:** Dr Gudgin, you have written of the island of Ireland that you think “border checks can be done without personnel or infrastructure at the border” by using online customs declarations and mobile phone and GPS technology, whereas, Mr Owen, the Institute for Government has said that “‘innovative, new ICT’ is not a viable option in the short term”. Is there any reconciling your two positions?

Graham Gudgin: My evidence was really based on the writing and evidence to Select Committees by Lars Karlsson, whom I am sure you all know of. He did the customs report for the European Parliament. He is deputy director of Swedish customs, I think, and chairman of the World Customs Organisation. He said a completely invisible border using GPS-type technology had been trialled on the Norway-Sweden border. He was then asked in one of the Select Committees—not this one—why it was not being used. His answer was that there is a cost—not a huge cost, but there is a cost—and the current arrangements that they use on that border are viewed as completely satisfactory and there is no pressure to change, but the technology is there. If I understand the technology correctly—I am not an engineer in this sense—it would involve mobile phone tracking. I assume all trucks, and even vans, have mobile phones already.

Q176 **Julia Lopez:** How quickly do you think that could be implemented?

Graham Gudgin: I can’t see that it is a huge difficulty. You really need to set up a control room. My understanding is that Network Rail in GB is



already using this technology to replace all physical signalling. It is already there on some lines—I think they are working on the east coast line at present—so they must have control rooms. It seems to me that if you are to use mobile phones to control signalling for trains that are moving at 135 miles an hour, two minutes apart, that needs very precise technology. If they can do it, it is hard to see what the problem is. Even Uber is doing that with its drivers. Why would it be so difficult?

Let me say something about the Irish border. There is perhaps a bit of misunderstanding about the Irish border. If one reads the draft EU withdrawal agreement very carefully, it is clear that the Irish and the EU have some concerns about infrastructure at the border, but that is not their main concern. The main concern is about cross-border co-operation—things like health co-operation: for instance, GPs can refer people to hospitals on both sides. That sort of co-operation stems not from the Good Friday Agreement itself but from the outworkings of the Good Friday Agreement over the last 20 years. I think the Irish are very concerned to conserve that.

There probably is not a great problem on the British side—it is very hard to imagine the British saying, “No, sorry, we will not do this health or other co-operation.” Presumably, the problem will be on the Irish side of the border, where there are all sorts of rules on trade and joint recognition of qualifications in health. They have been pushing on that. For trucks crossing the border, technology does not solve that part of the problem. That probably is the biggest problem from their point of view. But to me, that is a trade problem and we should push it back into the trade negotiations and just say to the EU, “Look, let’s promise on both sides to use our best endeavours to continue existing cross-border co-operation and we will sort this out in the trade talks after next March.”

Joe Owen: On technology, I think you said it was not a viable option in the short term. With regards to the Irish border I think it is right to say that the kind of Lars Karlsson frictionless trade theory was just around customs—it did not take into account the regulatory checks. I think you also stated that it would require cameras at the border, which have been ruled—

Graham Gudgin: No, it is going beyond that. If you look at the end of his report, he talks about completely invisible borders without cameras. Cameras are a big issue on the Northern Ireland border because the police are concerned that republicans will take pot shots at cameras, and about who will replace them and who will protect those who replace them. That is a serious concern. It is beyond cameras.

Joe Owen: Maybe I read a different report; my understanding was that he said there would be cameras involved but we can—

Graham Gudgin: Page 42.

Joe Owen: Okay.



Graham Gudgin: It is a point that comes up a lot.

Joe Owen: If you put that to one side, what you can do with technology is reduce friction at the border, and basically just displace it. That means it happens elsewhere and you try to facilitate and reduce what happens at the border. When it comes to Ireland, one of the other commitments made is to protect the all-Ireland economy. Even if there was technology, all the people who traded across the Irish border as now would have to go through the people who sat here before us to register declarations, which would cost them money. That is a real challenge if you want to protect the all-Ireland economy—that insertion of frictional costs, regardless of the extent to which it is displayed at the border.

In terms of technology in its broader sense, there is big potential for technology in customs. Whether it completely removes the need for a border is subject to debate. You have to look at the timelines that are involved. The CDS system was first designed in 2013 and it should be in place—fingers crossed—by March next year. If you take the Government's major projects and programmes portfolio—the biggest, most innovative and risky projects—on average, the length of an IT project in that portfolio is about five and a half years. IT projects are inherently risky. When we looked last year, on average, for every year an IT had been in that portfolio it had been delayed by 186 days. Is that something that you want to hang your hat on for a cliff edge in December 2021? Do you want to go for untried and untested, or do you try to work with what is existing? If you look at the level of risk that you have—tight timelines and a high level of scrutiny and a big cliff edge—it kind of tends to drive you more towards tweaking what you have rather than going for something big, brand-new and innovative that is not actually in place on that scale anywhere else in the world necessarily.

Q177 **Matt Western:** This is really a question for you, Dr Gudgin. I appreciate you are more embracing in these areas of technology, from what you have been saying. What future role do you think artificial intelligence and blockchain will have to play in addressing the post-Brexit customs challenges?

Graham Gudgin: I very much doubt that I know more than you on this so my answer will not be worth a great deal. I only know what I read. People who understand these technologies think that there is quite a future for using them in customs technology. I think it is an example of what Joe has just said—this is probably some years down the line and is not really very relevant for our current problems. Down the line, the idea is that virtually all customs borders should become invisible and as easy as possible and these sorts of technologies will greatly help, but like all new technology, it always takes a lot longer to materialise than people hope or expect. I am sorry that that is not a very satisfactory answer but it is the best I can do.

Matt Western: That's okay.

Q178 **Sir Mark Hendrick:** Connected to that, everybody wants to use



HOUSE OF COMMONS

technology as much as possible because it can obviously make things more efficient and make borders more free-flowing. The idea that we can eventually move across borders with absolutely no checks whatsoever is surely a bit pie in the sky. If you want to look out for weapons or illegal drugs or to be sure that cattle or other livestock are safe, we need a physical presence there at the very least and some sort of control to make sure that bad things don't happen. The idea that artificial intelligence or any other technology can predict or say what the likelihood is of something being bad without having the enforcement mechanisms physically on the ground to do something about it is surely not realistic.

Graham Gudgin: That is obviously an important issue, but what we are really talking about is where the checks need to be done—

Q179 **Sir Mark Hendrick:** Why isn't the border the most logical place?

Graham Gudgin: It is in many ways. The Swedes and Norwegians say that once things are across your border, everything just gets a lot more difficult. We can point to what Ms Little Pengelly said earlier—that we already have a border between Northern Ireland and the Republic that a lot of animals cross every day and nothing is checked.

Q180 **Chair:** Is that border for animals? I thought the border for animals was the sea. I thought the island of Ireland was one for animals.

Graham Gudgin: Well, it is a border, and animals cross it, but the point is—

Chair: I think the border runs through some of the fields there and they are crossing it several times a day.

Graham Gudgin: You have the same regulatory standards on both sides of the border so there is no need for a check.

Q181 **Chair:** But the island of Ireland is considered one veterinary area, with the checks between Ireland and GB, with Ireland being one.

Graham Gudgin: Yes, but checks still need to be done across the border. Checks are done at the meat processing plants and other places for cross-border checks. It obviously makes sense to have what is called a cordon sanitaire around the island as a whole. Even when I get off my little yacht in Northern Ireland, I see notices straightaway asking if I have been in touch with rabies and that sort of thing. That obviously makes a lot of sense, but the key protection here is regulatory standards on either side of the border—

Q182 **Sir Mark Hendrick:** But I am talking about enforcement. We cannot assume that everybody else is playing by the same rules. In the beginning, I am sure they will be, but later people will think, "Well, this is fine—nobody is checking this, so let's stick in some weapons and make a few bob by putting drugs in."

Graham Gudgin: The main checks will be done at the plants—meat plants and so on. Anything else is smuggling. There is a border at present, for excise duties and—



HOUSE OF COMMONS

Q183 **Sir Mark Hendrick:** I know, but what I am saying is that there seems to be a quest to remove the border and say that technology can take care of everything, so we do not need real people checking vehicles to see what is inside.

Graham Gudgin: Regulatory standards are the real protection. Northern Ireland expects, particularly on animal health, to be always—

Q184 **Sir Mark Hendrick:** I am not just talking about animal health. You seem to be focusing on animal health, but I am talking about the bad stuff that can cross borders.

Graham Gudgin: Well, it applies to drugs and tobacco smuggling, or to fuel smuggling. When I was special adviser to the First Minister in Northern Ireland, fuel was smuggled across the border because the excise duties were lower on the southern side. It virtually wiped out regular petrol stations in the north, so we had to go and ask for more customs officers. Customs officers are checking the border all the time, along with the police.

Q185 **Sir Mark Hendrick:** I am not saying that they are not doing that. What I am saying is that the quest to have virtually nothing at the border, so that everything can flow freely, comes at the expense of having people there to check the things that need to be checked, instead of assuming that everybody is playing by the rules.

Graham Gudgin: But that is what we do now. We have a lot of smuggling—

Q186 **Sir Mark Hendrick:** I am not saying that it is not what we do now, but surely the idea of having artificial intelligence, cameras and technology is to remove the people and let the technology take over.

Graham Gudgin: There are no people for technology to take over at present.

Q187 **Sir Mark Hendrick:** Not at present, but we are going to be outside the EU.

Joe Owen: Obviously the Irish border circumstances are different, but let us take Dover and Calais and the drive to get totally frictionless trade. There are three priorities at the border: fiscal priority, regulatory standards and the security stuff. On the fiscal side, you can accept the risk to a certain extent—it is just money, and you can say “There will be a percentage of revenue that we might not get, but we would rather accept that and promote ease of flow-through.”

Q188 **Chair:** And that is happening at the moment between all 28 EU countries for tobacco, fuel and alcohol.

Joe Owen: This is fiscal in terms of customs duties and VAT. You can make a trade-off that means that you can do things much more electronically at the border. As you heard from the previous panel, most of the declarations and stuff are done in advance.



HOUSE OF COMMONS

On regulatory standards, the benefit of being in the EU is that rules are harmonised. There is the same oversight from regulators—basically, if it is good enough for France, it is good enough for us. If you are outside that agreement, you can try to do checks elsewhere—at factories and so on, as Graham was saying—before goods come in. You can accept greater risk, or you can move checks away from the border, so that you know that what is on X or Y lorry has already been checked and you are happy with it.

For security stuff, you will always want to retain a presence at the border, but most of that is not driven by excise officers sticking their head in the back of a lorry; it is intelligence-led.

Q189 Chair: May I interject? The Karlsson report notes a point of dispute between you. On page 40, paragraph 6.3.3, "What is required for a Smart Border 2.0 solution?", lists 10 bullet points, the last of which is "Technical surveillance of the border (CCTV, ANPR etc)"—as everyone knows, ANPR means automatic number plate recognition. So are we having cameras at the borders, then?

Graham Gudgin: It is further on from that a bit. I do not have a copy with me here, but I can write to you. I will have to point out where he makes the point that I was making.

Emma Little Pengelly: I asked him about it, and I think he said that the report is not a collection of everything that must happen, but a number of variables and options to pick and choose from. He has given evidence to our Committee, so it might be worth our trying to find that.

Chair: Absolutely. Does anyone want to raise any other points?

Q190 Sir Mark Hendrick: That is fine—as long as we accept that there needs to be some presence. I accept that stuff can be displaced—

Graham Gudgin: Sorry, but I disagree with Joe. There does not need to be some presence. There is not a presence on the Irish border, where there is smuggling, and there are obviously difficulties with terrorism and drug smugglers.

Q191 Chair: Are there any EU borders with no presence in the way you envisage for the UK-EU border on the island of Ireland? Are there any other EU borders currently in existence that you would imagine the EU-UK border becoming?

Graham Gudgin: No, not that I know of. I think this is about future improved technology, rather than any existing system.

Sir Mark Hendrick: But you are saying that smuggling is rife now because there is no border.

Chair: But that is in every country.

Q192 Sir Mark Hendrick: But once we are outside the EU, there should still be a border that is enforceable, even though the rules are the same either



HOUSE OF COMMONS

side of it.

Joe Owen: There is also police and judicial co-operation on the island of Ireland, which to a certain extent makes the risk appetite slightly different with respect to smuggling and criminal activity. If you do not have any of that co-operation behind the border between police, security and so on, all of a sudden the border becomes a much more important line in the sand for preventing things from coming into your country from elsewhere.

Chair: Gentlemen, thank you both very much. We will be in trouble if we carry on any longer, so I have to bring the session to a close. I say sorry to panel members and to the Committee members who did not get a chance to ask their questions.