



Rt Hon Michael Gove MP  
Chancellor of the Duchy of Lancaster  
Cabinet Office  
70 Whitehall  
London  
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30 July 2020

Dear Michael,

## **House of Lords inquiry into facilitating future UK-EU trade in manufactured goods**

I am writing to you on behalf of the EU Goods Sub-Committee of the House of Lords.

As you may be aware, since June we have been taking oral and written evidence on the impact that non-tariff barriers may have on future UK-EU trade in manufactured goods and how any adverse effects could be minimised, particularly through the UK-EU trade agreement.

We concluded that facilitating UK-EU trade at the end of the transition period will require much more than simply removing headline tariffs. Non-tariff barriers have increased over time, often outstripping the cost of tariffs. New rules of origin, regulatory barriers and customs requirements will be a challenge for many businesses, particularly for the 150,000+ businesses that have hitherto only traded with the EU, and smaller businesses.

With only five months left before the end of the transition period, our recommendations require urgent action.

We found that:

- Businesses are already stretched as a result of the COVID-19 pandemic. There is a serious risk that some businesses, particularly SMEs, will not be able to absorb the double shock from COVID-19 and the post-transition requirements.
- Smaller businesses we spoke to do not feel ready for the new UK-EU trading relationship, or even necessarily know what they should be preparing for. The Government must step up its engagement work to ensure businesses are ready. It should expand its existing guidance offering and maintain a dedicated guidance hub for SMEs that includes options for more personalised support where necessary.
- The Government should continue to argue in favour of more liberal rules of origin, so that businesses across different sectors can benefit from tariff-free access. Without this, the headline reduction of tariffs would mean little to certain



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businesses. The agreed rules should also be as clear and simple as possible, so that the administrative burden of proving origin does not outweigh any tariff costs. Many businesses will be entirely unfamiliar with rules of origin and the Government must disseminate clear and specific guidance as soon as an agreement is reached with the EU.

- The Government should continue to make the case and press the EU for an agreement on mutual recognition of conformity assessments, which would reduce unnecessary duplicative costs for businesses. Failure to achieve this could have severe consequences for parts of UK industry and potentially limit the availability of certain products in the UK.
- While we recognise that the Government wishes to retain the right to diverge on regulatory matters, any decisions on divergence should only be made after careful assessment and consultation with the sectors involved. The Government should set up a mechanism for working closely with UK manufacturers to ensure their views are reflected in future decisions about regulatory divergence from the EU. The Government should also consider what it could do on a unilateral basis to minimise these costs.
- Further work is urgently needed to support the flow of goods across the GB-EU border. A significant proportion of goods will not benefit from the phased-in approach to imports, while the new border operating model does not cover the EU side of the border in much detail. We are particularly concerned that the UK has yet to develop the required capacity in the customs intermediary sector. The Government must step up its efforts to ensure that the UK has a sufficient number of trained customs agents for 1 January 2021.
- The existing Authorised Economic Operator scheme is no panacea and those businesses that trade exclusively with the EU (and will be most affected by new customs requirements) are unlikely to qualify. A complementary trusted trader scheme should be devised urgently, so that it has the potential to play a significant role in facilitating future UK-EU trade. The new scheme must be accessible to a significant number of businesses, offering different status tiers, including one that is easy to obtain for SMEs. Mutual recognition of trusted trader schemes will be essential for maximising their impact.
- The Government should have a contingency plan to work with ECMT members and the EU to ensure continued road access by hauliers under any outcome.

More details on the above, including a summary of the evidence we received, can be found in Annex A to this letter. Serious concerns have been raised with us, which we encourage the Government to consider urgently. BEIS and HMRC have also been copied into the letter as interested parties and we would be grateful if you could pass on the letter to David Frost and his team.



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We are extremely grateful to everyone who contributed to our inquiry so far and provided their expert insight. Due to the volume of evidence received, we have been unable to quote or reference all our witnesses, but the full list of those we heard from can be found in Annex B to this letter.

We look forward to your response by the end of August.

Yours sincerely

**Baroness Sandip Verma**

Chair of the EU Goods Sub-Committee



## ANNEX A

### THE NEED TO LOOK BEYOND TARIFFS

1. Although the UK and EU agree that there should be zero tariffs in the future UK-EU trade agreement, we received evidence to our inquiry that the focus of the trade negotiations should be on minimising non-tariff barriers. Without suitable rules of origin, certain products may not benefit from the tariff-free access in the trade agreement. While the Government has estimated that imposition of tariffs would add an average 3% cost to UK-EU trade in manufactured goods, the rise of non-tariff barriers in a 'standard' free trade agreement would amount to around 5-11%.<sup>1</sup> This would result from the introduction of the new 'behind the border' costs associated with regulatory barriers to trade and 'at the border' costs related to customs procedures.
2. The United Nations Conference on Trade and Development (UNCTAD) – the main UN body dealing with trade, investment and development issues – has found that, globally, non-tariff barriers add, in simple average terms, c. 4% to the cost of trade in industrial goods (2% in weighted average terms). However, Pamela Coke-Hamilton, Director of International Trade and Commodities at UNCTAD, told us that the costs of trading with the EU “are high for specific sectors, some where the United Kingdom has significant exports such as machinery and vehicles”. UNCTAD has estimated that non-tariff measures add, on average, 20.5% to the cost of machinery and 19% to the cost in vehicles when trading with the EU.<sup>2</sup>
3. Due to regulatory alignment, the UK would not face all these costs initially—and will need to weigh the cost of diverging from EU regulations against any potential benefits. Ms Coke-Hamilton explained that non-tariff costs consist of (i) the direct compliance cost associated with adapting to different rules and regulations; (ii) the cost of demonstrating compliance through testing and certification; and (iii) the cost associated with demonstrating compliance at the border.
4. Allie Renison, Head of EU and Trade Policy at the Institute of Directors, told us that “the debate generally focuses too much on tariffs simply because they are the easiest quantitative means for understanding what the impact can be.” Shamik Dhar, Chief Economist at BNY Mellon Investment Management and former Chief Economist at the Foreign and Commonwealth Office (FCO), explained that there is “a huge amount of uncertainty” but that “most studies find that they are now much more

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<sup>1</sup> HM Government, [EU Exit: Long-term economic analysis](#) (November 2018). The costs quoted are based on the assumption that the UK will be introducing 85% of the non-tariff barriers the average EU trade partner experiences. The accompanying technical reference paper acknowledges “it may take more than 15 years to ‘wind down’ these relationships such that NTBs realise their full impacts on trade”.

<sup>2</sup> Average *ad valorem equivalent* estimated in Cadot et al, ‘Deep Regional Integration and Non-Tariff Measures: a methodology for data analysis’, UNCTAD (2015). The manufacturing products affected most by these costs are: optical and medical instruments (23.9%), machinery (20.5%), vehicles (19%), plastics (17.1%) and chemicals (16.6%).



important than tariffs as an impediment to global trade”. Dr Anna Jerzewska, an independent customs and trade consultant to the UN International Trade Centre, agreed that “non-tariff barriers are much more of an issue than tariffs”.

5. Former Australian trade negotiator, Dmitry Grozoubinski, warned that statistics may not capture the full cost resulting from new non-tariff barriers with the EU. He said “a non-tariff barrier does not have to be huge or fatal to make a business consideration change from a factory in Bristol to a factory outside Paris. Often, these fairly minor changes will add up to steer investment, growth and potential export opportunities away from the UK and towards what will be a very large and integrated neighbouring market.” Allie Renison similarly said that, unlike with tariffs, “many firms will feel that the easiest way of mitigating the impact of disruption is just to have a set-up in another country.”

## **A lack of small business preparedness**

6. We were told that the introduction of new rules of origin, regulatory barriers and customs procedures could present problems for small businesses in particular. UNCTAD’s Pamela Coke-Hamilton told us that these types of barriers “disproportionately affect smaller companies” as larger firms find it easier to comply with different regulatory requirements. Professor Crowley noted that while large multinational companies “will handle any emerging differences between the two economies very easily ... Where I am worried about the non-tariff barriers coming to bite is for small and medium-sized firms.”
7. Small businesses complained about a lack of clarity regarding what they need to prepare for. Margaret Wood MBE, Chair of ICW, a small producer of specialist glass, said “we need clarity about the standards that we have to adhere to”. Barry Leahey from Playdale, a small playground equipment manufacturer, said “we have prepared as much as we can, but we do not know what we have prepared for”, while Aston Chemicals told us “we still don’t know what we should be preparing for.”
8. Jayne Mooby from Oxley Group, a small manufacturer of high-specification electronic systems and LED lighting, told us that they “need to understand what the picture will be so that we can get people trained and systems set up ready to go live”. Jill Adamson from Scottish bus manufacturer Alexander Dennis, said: “Given our size, we do not have a dedicated team to scenario plan for the implications of Brexit ... The reality is that we cannot say whether we are prepared, because we do not know what we are preparing for.”
9. When asked about preparation lead-in times, witnesses’ estimates varied from 4 to 12 months. Unless a phasing-in of requirements is negotiated, smaller companies in particular will need extra support to help them meet the obligations that will flow from the new UK-EU trading relationship.



10. **We received evidence from several small businesses that said they did not feel prepared for the new UK-EU trading relationship, or even knew what they should be preparing for. We welcome the launch of the Government's new public information campaign and hope this will provide clearer guidance to businesses, in particular SMEs. However, given the ongoing uncertainty over the shape of the future relationship and the now very short lead-in time, the Government should step up its engagement with SMEs and provide further support if and when an agreement is reached.**
11. **The Government should consider maintaining a dedicated guidance hub for SMEs that includes options for more personalised support where necessary.**

## DESIGNING OPEN PREFERENTIAL RULES OF ORIGIN

12. We welcome the UK's ambitious rules of origin proposals in the draft legal text that allow for inputs from third countries with which the UK and EU have signed a free trade agreement to also be recognised as having originating status. **The EU's offer is limited to a type of bilateral cumulation, but the UK should continue to argue in favour of more liberal rules of origin so that businesses across different sectors can benefit from tariff-free access. In the absence of extended cumulation arrangements with third countries, the UK Government should explore accession to the PEM Convention to deliver some of these cumulation benefits.**
13. The impact of rules of origin is not uniform and will vary by sector. Witnesses told us that some manufacturing sectors may struggle to meet the local content thresholds to benefit from tariff-free access. In some cases, bilateral cumulation will be sufficient to reach the local content threshold. For example, Jill Adamson of Scottish bus manufacturer Alexander Dennis, said: "Many of our vehicles are bespoke and the components required are requested by our customers ... If we were looking at the percentage of regional value content, we would struggle to get to the 40% to 60% that is in some free trade agreements." However, she also clarified that UK-EU bilateral cumulation would allow her products to reach the required content threshold for EU exports.
14. However, bilateral cumulation will not be sufficient in all cases, particularly where specialist materials are sourced from outside the EU and there are limited or no UK/EU structures to support the on-shoring of relevant industries. On-shoring, in any event, would be a long-term endeavour and would not be completed in time for the end of the transition period, or shortly thereafter. Taking car batteries as an example—they are high-value and represent a significant proportion of the cost of the final vehicle, particularly in the case of batteries for hybrid and electric vehicles. They are currently mainly produced in China, Japan and South Korea, and are being increasingly relied upon by car manufacturers seeking to expand their use of green



technology. In this context, Helen Foord of PSA Group called for a bespoke arrangement for car batteries in the UK-EU agreement. Honda told us that cumulation arrangements should go further than bilateral cumulation and should ideally be extended to third-country trade partners (as already proposed by the UK).

15. Such 'trilateral' approach to cumulation is helpful in two ways. First, it would allow manufacturers based in the UK (such as Honda) to source components from a relevant third country, process them and sell the finished product in the EU, while still benefitting from zero tariffs. Second, it would allow UK manufacturers to continue to source materials from the EU (and *vice versa*) for their exports to third countries and still benefit from the third-country trade preferences, assuming a trade agreement is in place between all Parties. This is of particular benefit where the third country in question has a small or expensive supply base.
16. The production of medical technologies is another example where we were told bilateral cumulation would be insufficient. The Association of British HealthTech Industries (ABHI) described the manufacturing of medical technologies as "a global endeavour, with companies routinely sourcing, importing and exporting materials and components from multiple jurisdictions prior to final assembly and distribution. As such, poorly crafted requirements for 'Rules of Origin' may seriously impede that potential for the UK to act or partake in this global operation."
17. Rules of origin are also notoriously complex and are not something that those 150,000+ businesses<sup>3</sup> that have so far only traded with the EU will be familiar with. The rules of origin that are ultimately agreed must be easy to administer, so that administration costs do not outweigh the benefits of a zero tariff. EURIS, which represents the UK-EU industrial product supply sector, told us that "UK-EU Rules of Origin should be as clear and simple as possible to enable smaller manufacturers to meet administrative requirements. Without this, it may be more expensive to meet the administrative requirements than the saving made on any preferential tariffs." Highlighting the challenges faced by smaller firms, Professor Meredith Crowley explained that "rules of origin are taken advantage of by large multinationals that are quite sophisticated and can employ a huge staff to satisfy this. The smaller firms either rely on a multinational that is purchasing to help them smooth this out, or do not bother at all and just pay the tariff ... Smaller firms—these could be firms feeding into supply chains—might realise, 'If the tariff on my exports to the EU is only 2.5% or 3.5%, I might be better off just absorbing that cost, because the cost of satisfying the documentary evidence for rules of origin exceeds that!'"

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<sup>3</sup> HMRC, '[2019 UK Importer and Exporter Population – Trade in Goods](#)', 22 April 2020. Note that EU trade data is only collected from VAT-registered businesses. In oral evidence to the Public Accounts Committee, 5 September 2018 (Session 2017-19), HMRC stated that there could be a further 100,000 businesses in this category that fall under the VAT threshold.



18. Some sectors that are subject to high tariffs (e.g. automotive, textiles) will, irrespective of what the requirements are, need to absorb the costs of administering the rules of origin or decide to stop trading with the EU.
19. **The agreed rules of origin should therefore be as clear and simple as possible, so that all businesses can fulfil the administrative requirements and easily provide proof of origin for customs purposes.**
20. **The Government must help all businesses understand what the requirements will be. Particular support will need to be offered to the 150,000+ EU-only trading businesses that have no experience of supplying proof of origin for their products. In addition to the general advice provided through .gov.uk, the Government should issue clear guidance immediately after an agreement is reached, so that businesses have the tools to access any trade preferences from day 1 after the transition period.**

## REDUCING REGULATORY BARRIERS TO TRADE

21. The UK-EU trade agreement should address, and seek to minimise, regulatory barriers to UK-EU trade at the end of the transition period. Regulatory barriers have increased significantly over time due to growing awareness and interest in health and safety, and the increasing complexity of production. Pamela Coke-Hamilton from UNCTAD told us that such technical measures account for the “lion’s share” of the trade costs for high-income countries. Shanker Singham, who advises companies on competition and trade issues, told us that “regulatory issues and other domestic distortions tend to occupy the vast majority of complaints that people have ... A good free trade agreement will try to work on both reducing the regulatory divergence cost and ensuring that both parties are moving towards more pro-competitive regulation and the resolution of behind-the-border issues.”

### The mutual recognition of conformity assessments

22. One key area will be the mutual recognition of conformity assessments, which would allow the UK and EU to recognise each other’s testing or certification results in areas such as product safety. Professor Crowley told us that the need to seek a new conformity assessment from an institution in the EU would be a significant obstacle for UK firms, citing a paper which found that mutual recognition agreements could boost trade by 20–42%.<sup>4</sup> Dr Peter Holmes and Andrew Hood from the UK Trade

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<sup>4</sup> Maggie Xiaoyang Chen and Aaditya Mattoo, ‘Regionalism in Standards: Good or Bad for Trade?’, *Canadian Journal of Economics/Revue canadienne d’économique*, Vol. 41, Issue 3, pp. 838-863, August/août 2008.



Policy Observatory and Fieldfisher said that “the key to ensuring a free flow of goods lies in Mutual Recognition of Testing and Certification”.

23. We received evidence from businesses about the importance of mutual recognition of conformity assessments. In the automotive sector, Honda told us that the ability to place goods on both the UK and EU markets on the basis of a single ‘type approval’ is “particularly important”. Helen Foord from PSA Group, which operates two Vauxhall plants in the UK, said that without a single type approval “potentially, we would have to replicate the crash testing that we do in Europe for the UK, for exactly the same vehicles”, noting that this would add “tens of millions in cost”. Jill Adamson from Alexander Dennis said she was “very concerned” about the mutual recognition of conformity assessments, saying “without that, we would have huge additional costs.”
24. In the aerospace sector, Paul Everitt from aerospace and defence trade organisation ADS explained that industry’s ambition is that “something certified in the UK would be recognised as appropriate in the EU, and vice versa.” Global aircraft manufacturer Airbus told us that the two sides should “limit any additional certification burden for our products and of those from our supply chain”.
25. On pharmaceuticals, Dr Louise Gill from GlaxoSmithKline said that “the biggest impact for our sector is having a mutual recognition agreement that supports good manufacturing inspections and allows the acceptance of batch testing performed in either the UK or the EU”, explaining that this would increase UK pharmaceutical exports by 9.4% (equivalent to around €2 billion per year).
26. In its negotiating text, the Government has suggested the inclusion of a chapter on Technical Barriers to Trade and an annex on The Mutual Acceptance of the Results of Conformity Assessment (Annex 5-A). However, we note that the EU has resisted the inclusion of these provisions in the UK-EU trade agreement. In a speech on 10 June, Michel Barnier warned about the UK being a “certification hub” for the EU and said that “whatever the outcome of the negotiation ... the UK will no longer be able to grant marketing authorisations for pharmaceuticals or type-approvals for cars for the EU market.”
27. Trade expert and former Australian trade negotiator Dmitry Grozoubinski told us that the inclusion of the mutual recognition of conformity assessments in the UK-EU trade agreement would mean “the two sides would legally commit themselves to accepting certification by laboratories or third-party bodies in the other country”. He explained while the EU may be seeking to retain flexibility in this area so that it can attract investment or business, it “may, either initially or in time, agree to accept UK conformity assessments in certain areas, but they are not signing away their ability to do so.”



28. **An important means of reducing regulatory barriers is for the UK and the EU to agree the mutual recognition of conformity assessments. This will be essential for reducing unnecessary duplicative costs for businesses, facilitating UK-EU trade and safeguarding the competitiveness of UK manufacturing. Failure to achieve the mutual recognition of conformity assessments could have severe consequences for parts of UK industry. It could also limit the availability of certain products in the UK, as businesses might find the additional testing and certification required to be prohibitively expensive.**
29. **While the EU appears reluctant to include these provisions in the trade agreement, we hope that it will take a constructive approach and recognise the assessments conducted by UK bodies across a broad range of sectors. The Government should continue to make the case for and press the EU for an agreement on mutual recognition of conformity assessments.**

## **UK-EU regulatory cooperation**

30. Several witnesses to our inquiry questioned the practical benefits of UK-EU regulatory divergence and argued in favour of keeping it to a minimum. Professor David Bailey and Dr Ivan Rajic told us that this, alongside the recognition of conformity assessments, would be “the least disruptive scenario”, as “a UK manufacturer could produce the same products for the UK and EU markets, and apply for approval with a UK authority, which would be valid in the EU as well.” They argued that producing goods to two different standards would prove costly for businesses and would lead to problems in specific sectors.
31. Witnesses from different manufacturing sectors were vocal in their opposition to UK-EU regulatory divergence. PSA Group’s Helen Foord said “it is critical for our industry that we keep that regulatory alignment from a technical perspective ... Having slightly different rules means that vehicles have to be adapted at additional cost to sell on the markets”. It would also affect manufacturers in the supply chain. Neil Fryer from Delphi Technologies, a major Tier 1 supplier in the automotive supply chain, said: “If there were a divergence of regulation between the UK and the EU, we would have to test thousands of parts twice and get certification twice, which would be complex and costly for our business.” Paul Everitt from ADS pointed out how the structure of the aerospace market does not make a UK-specific approach viable:

*"We do not have a UK market for aerospace products. There is effectively a duopoly with Airbus and Boeing, certainly for large aircraft ... There is only one international market for aerospace. Having a UK-tailored approach does not add any value or offer any new opportunities."*



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32. As regards cosmetics, we were told that regulatory divergence could lead to the need for reformulation for the UK market, which Walgreens Boots Alliance said could “ultimately reduce consumer choice.” Even when the UK and EU are aligned, there may need to be close regulatory cooperation to ensure that unnecessary costs are minimised. Companies that manufacture chemicals, for example, have to demonstrate to regulators that their substances are safe and register them (up until now with the European Chemicals Agency). Richard Ayton from Dow Chemicals emphasised the importance of a data sharing agreement on chemicals registrations, saying that this was “the biggest problem” and that, if left unresolved, “there will be an issue of product availability.” He explained that duplicating dossiers for the UK would be “a big task” due to their complexity and cost, which he said could be up to £5 million for a single substance. While sharing this data could be facilitated under Article 120 of the REACH regulations, he noted this “has not been achieved in prior free trade agreements” and would require “a new level of co-operation” with the European Chemicals Agency.
33. In the absence of regulatory alignment or close cooperation, the UK could choose to unilaterally recognise EU standards to mitigate some, if not all, of the impact. David Henig, Director of the UK Trade Policy Project at the European Centre for International Political Economy (ECIPE), said that “from a trade point of view, it makes a lot of sense.” Professor Michel Ambühl, a former Swiss Chief Negotiator for several bilateral agreements with the EU, explained how Switzerland applies the ‘Cassis de Dijon principle’ and unilaterally allows EU goods onto its market, with certain exceptions. However, while Shanker Singham argued that “the UK could act unilaterally and should recognise EU standards”, he also noted: “It is of course only half the problem. UK negotiators will also fear that this sort of signal removes their negotiating leverage.”
34. **The UK and EU should support manufacturing by effectively managing regulatory cooperation and any divergence. At a minimum, this should involve ongoing structured dialogue across different sectors, which could be established within or separate to the UK-EU trade agreement.**
35. **Regulatory divergence should be kept to a minimum and only be considered after careful assessment and consultation of the sectors involved. The Government should work closely with UK manufacturers to ensure their views are reflected in future decisions about regulatory divergence from the EU.**
36. **The Government should also consider which unilateral measures it could take to reduce the regulatory barriers to UK-EU trade. The Government should, for example, assess whether it would be in the UK’s interest to adopt the Swiss approach of unilaterally accepting EU standards (with relevant exceptions).**



## **SUPPORTING THE FLOW OF GOODS ACROSS THE GB-EU BORDER**

37. A comprehensive agreement on customs could help ease the flow of goods through, for example, the streamlining and simplification of customs forms, offering simplified procedures, a reduction in the need for costly guarantees and the mutual recognition of trusted trader schemes. A zero-tariff trade agreement would also reduce the incentive for checks to verify that the value of goods is not being under-declared and customs authorities are receiving the correct amount of duty.
38. The Government has put forward an ambitious approach to customs cooperation in its draft UK-EU trade agreement, which we welcome. The UK's proposal includes options for simplified procedures, proposes mutual recognition of Authorised Economic Operator schemes, expresses an intention to develop single window technology, and introduces a flexible approach that would give the Parties the option to expand how the UK and EU cooperate on customs through a Joint Committee decision. We note that the EU's offer follows a more standard approach—its draft agreement mostly contains typical provisions the EU has included in other free trade agreements. Having said this, there is much convergence between the EU's and UK's aims, with both sides seeking close cooperation and coordination, mutual assistance where there are breaches of customs legislation, and a commitment to risk-based customs interventions. Given the overlap in aims, both sides have an opportunity to devise an agreement on customs and trade facilitations which will support the flow of goods across the GB-EU border.
39. However, on its own, an agreement on customs and trade facilitations will not ensure the seamless flow of goods between Great Britain and the EU. Irrespective of the negotiating outcome, customs declarations will be required for the first time for goods being exported to and imported from the EU. There are actions the Government should take now to make sure the infrastructure to support customs processes is in place and the customs intermediary sector, logistics companies and traders are ready for the end of the transition period.

### **EU-GB border operations**

40. The 12 July announcement of £705 million being made available for new infrastructure, jobs and technology at the GB-EU border is welcome, as is the publication of a border operating model, providing much-needed clarity for businesses.
41. The ability to defer some customs declarations and Safety and Security declarations on the UK side are welcome simplifications. However, it is questionable the extent to which, on their own, these two main simplifications included in the model will be sufficient to ensure smooth GB-EU border operations. This is because, as a unilateral measure, they cover the GB side of imports only and, we understand, do not cover goods imported into the UK under the Common Transit Convention. So, goods



coming in from France by road from outside France (a significant proportion of goods), will be excluded from these simplified procedures.

42. We have also been told by the Road Haulage Association that, as currently designed, from July 2021, “the Government is in effect asking for the same data to be given into two separate Government systems by two separate parties in the supply chain”, i.e. by the trader and then by the road haulier. **Please tell us what plans the Government has to streamline any future customs data requirements.**
43. **The publication of a border operating model is a positive development, but as it does not cover the EU side of the border, it will necessarily be limited in its ability to facilitate the flow of goods across the GB-EU border.**
44. Witnesses to our inquiry were universally supportive of the Goods Vehicle Movement Service (GVMS) that is currently being developed. However, they also pointed out that development is still at an early stage and that, in the absence of an operational manual, it will still take some time to familiarise themselves with the specific requirements of the new system and set up their IT systems. There are at least three new IT systems that are due to be introduced in 2021 (GVMS, Smart Freight and the new Safety and Security declaration system). The roll-out of any new IT system always entails some risk. **What contingency measures is the Government putting in place to manage any delays/failures relating to the roll-out of these new systems? What will be their degree of interoperability, i.e. how will one of these systems not working as expected affect the operation of the others?**
45. The infrastructure spending is welcome, but with five months until the end of the transition, it risks being too late to have a significant impact at day1 of new UK-EU customs operations. **We would be grateful if you could provide the Committee with information on how much of the £470 million infrastructure spending has already been allocated and what timelines are being envisaged for the building of border inspection posts and other border infrastructure.**

## **Preparedness of the logistics and customs intermediary sector**

46. When we asked our witnesses about the preparedness of the logistics sector, we were presented with a mixed picture: some freight forwarders are as prepared as possible, while smaller carriers, especially road hauliers, are unprepared and unaware of the risks they are facing. We heard from Dominique Willems of European freight forwarders CLECAT that “there is an absolute lack of readiness there”. This evidence was collected prior to the publication of the border operating model, which should have increased awareness among some. Yet while helpful, the model is also a dense 200+ page document. **The Government should raise awareness of**



**the new requirements among smaller hauliers and ensure they have access to relevant training. Please tell us what plans, if any, the Government has to engage with smaller carriers to ensure they are aware of their obligations from January 2021.**

47. Alex Veitch of the Freight Transport Association raised the prospect of a shortage of ECMT permits, which are necessary to preserve UK-EU market access for hauliers in the absence of a UK-EU agreement on transport. An ECMT permit is currently the only document that can replace the Community Licence, allowing goods to be carried by road between the UK and the EU. The Government has previously said that it would seek to sign bilateral agreements with individual EU Member States if there is no separate EU-wide agreement, but we note that this could take time. Last year the EU put forward a now-elapsed contingency measure to deal with the shortage in ECMT permits in the event of no deal on the Withdrawal Agreement. The measure would have allowed EU Member States to recognise Community Licences held by UK hauliers for a limited time after exit – subject to the UK reciprocating. It is not clear whether a similar contingency measure will be available again, although the fact that 80% of lorries operating in the UK are registered in an EU Member State may provide an incentive to the EU. **While the focus should be on achieving a negotiated outcome, the Government should take steps to ensure that UK hauliers continue to have access to the EU (and EU hauliers to the UK) from day 1 after the transition period in the event of no deal.**
48. While estimates vary, it has been suggested that the UK will require about 50,000 customs agents to deal with the additional customs paperwork after the end of the transition period. In late February, the Government revealed in Parliament that only 3,000 customs agents had been trained through the original £34 million grant scheme. The European freight forwarders' association CLECAT told us that the UK still needed to develop its capacity in the customs intermediary sector.
49. We also note that the newly-established UK Customs Academy developed at the request of HMRC states that studying for its entry-level qualification on the fundamentals of customs practice and procedure usually takes 4 months.<sup>5</sup> **We therefore urge the Government to step up its efforts to ensure that the UK has a sufficient number of adequately trained customs agents in time for the end of the transition period.**
50. **Please provide us with a detailed update on progress that has been made since late February on the recruitment and training of customs agents and what steps, if any, the Government is taking to advertise and promote relevant training opportunities.**

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<sup>5</sup> <https://www.ukcustomsacademy.co.uk/qualifications/level-2-certificate-in-customs-practice-procedure/>



## Trader readiness

51. Many witnesses, from large international companies like Walgreens Boots Alliance to SMEs, cited the potential for overly bureaucratic customs procedures as a concern. In practice, it will be the smaller businesses that will be the most affected by the changes to customs processes. Many will not have experience of third-country trade and do not have dedicated customs teams. The 150,000+ UK businesses that have so far traded exclusively with the EU will need to become familiar with the new requirements. Although elements can be outsourced to customs brokers, this can only be done in part as traders still have to check the declarations, and the outsourcing will incur a cost.
52. Crucially, the context in which traders are operating has changed: the COVID-19 pandemic has diverted the attention of smaller businesses away from Brexit. Jayne Moorby from Oxley Group told us that "[s]mall businesses do not have much bandwidth at the moment to deal with a lot of additional administration requirements on top of what they are already doing."
53. We also heard from SMEs about the gradual loss of business advice over the years and the need for dedicated support for smaller businesses. As Margaret Wood, the chair of a small producer of specialist glass, put it: "There is so much information out there and it can be overwhelming for a small business, but with a dedicated business service where there is a bit of handholding we can take this forward."
54. **The Government must expand its existing guidance offer and maintain a dedicated customs guidance hub for SMEs that includes options for more personalised support where necessary. The Government should also proactively reach out to smaller businesses, either directly or through local networks, to raise awareness of the new requirements and the support that is available.**

## *Trusted trader schemes*

55. Trusted trader schemes, could play a significant role in facilitating future UK-EU trade—but the existing Authorised Economic Operator (AEO) scheme is no panacea. In fact, several of our witnesses told us they had acquired AEO status but found it of limited benefit so far.
56. We understand that the existing AEO scheme includes some facilitations, but does not eliminate customs procedures or checks. It lowers a trader's risk profile, leading to fewer customs interventions, and reduces declaration requirements.
57. Witnesses put forward several suggestions for improving the existing AEO scheme to maximise take-up and its benefits. Jill Adamson from Alexander Dennis suggested



that "if, under AEO, there were dedicated customs checkpoints and a faster flow of goods, more companies like us would make the investment to put it in place". Richard Ayton of Dow Chemicals recommended allowing AEOs to consolidate their declarations to avoid declarations on single shipments and allowing for payments in arrears.

58. Yet more important than reviewing the existing AEO scheme will be the creation of a new trusted trader scheme for UK-EU trade. The existing scheme is not accessible to enough businesses to have a widespread facilitating effect. To qualify for AEO status a company must show several years of satisfactory compliance, including record keeping. It is hard to see how companies that trade exclusively with the EU could have acquired such a record. Yet they are the ones that will feel the changes most acutely. Additionally, we have been told that some businesses that may otherwise qualify are put off by the requirements of the application process, including the complex paperwork and IT requirements. This is particularly true for SMEs. Jayne Moorby from Oxley Group explained that it would take her company "about 18 months" to implement the various requirements of the scheme and suggested a tiered system, whereby SMEs would still have to provide certain information, but could obtain a lower level of 'AEO' with reduced requirements.
59. **The Government should devise a new UK-EU trusted trader scheme that is accessible to a significant number of businesses by offering different status tiers, including one that is easy to obtain for SMEs.**
60. **We note that both Parties have offered, to varying degrees, the mutual recognition of AEO programmes in their draft legal texts. Any new, complementary, trusted trader scheme should also be mutually recognised and we urge the Government to raise this in their negotiations with the EU.**



## ANNEX B

### Witnesses to the Sub-Committee's inquiry into the **Beyond tariffs: facilitating future UK-EU trade in manufactured goods**

#### Oral Evidence

<a href="#">Questions 1 - 10</a>	Witnesses <ul style="list-style-type: none"><li>• Allie Renison (Head of Europe &amp; Trade Policy at the Institute of Directors)</li><li>• David Henig (Director, UK Trade Policy Project at European Centre for International Political Economy)</li><li>• Dmitry Grozoubinski (lead trainer at ExplainTrade and Visiting Professor at the University of Strathclyde's School of Law)</li></ul>
<a href="#">Questions 11 - 19</a>	Witnesses <ul style="list-style-type: none"><li>• Dr Meredith Crowley (Reader in International Economics, University of Cambridge and Fellow of St. John's College)</li><li>• Shamik Dhar (Chief Economist, BNY Mellon Investment Management)</li></ul>
<a href="#">Questions 20 - 39</a>	Witnesses <ul style="list-style-type: none"><li>• Helen Foord, Head of Government Relations and Public Policy, Groupe PSA UK</li><li>• Jill Adamson, Head of Financial Reporting and Tax, Alexander Dennis</li><li>• Simon Brimble, Vice-President, Global Purchasing Supply Chain Management, Delphi Technologies</li><li>• Paul Everitt, Chief Executive Officer, AD</li></ul>
<a href="#">Questions 40 - 53</a>	Witnesses <ul style="list-style-type: none"><li>• Dr Louise Gill, Head of Policy, Global Regulatory Affairs, GlaxoSmithKline</li></ul>



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	<ul style="list-style-type: none"> <li>Richard Ayton, Director of Government Affairs, Dow Chemical UK and Ireland</li> </ul>
<a href="#">Questions 54 – 62</a>	<p>Witnesses</p> <ul style="list-style-type: none"> <li>Shanker Singham, Chief Executive Officer, Competere</li> <li>Dr Anna Jerzewska, Independent Customs and Trade Consultant, UN International Trade Centre</li> <li>Professor Michael Ambühl, Professor of Negotiation and Conflict Management, ETH Zurich</li> </ul>
<a href="#">Questions 63 – 72</a>	<p>Witnesses</p> <ul style="list-style-type: none"> <li>Alex Veitch, Head of International Policy, Freight Transport Association</li> <li>Dominique Willems, Senior Manager, CLECAT</li> <li>Robert Hardy, Operations Director, Oakland Invicta</li> </ul>
<a href="#">Questions 73 – 86</a>	<p>Witnesses</p> <ul style="list-style-type: none"> <li>Margaret Wood MBE, Chairman, ICW</li> <li>Barry Leahey MBE, Managing Director, Playdale Playgrounds</li> <li>Jayne Moorby, Marketing Manager, Oxley Group</li> </ul>

## Written Evidence

EURIS (European Union Relationship & Industrial Strategy)	<a href="#">FFT0003</a>
Professor David Bailey (Professor of Business Economics at Birmingham Business School, University of Birmingham); Dr Ivan Rajic (Research Fellow at Birmingham Business School, University of Birmingham)	<a href="#">FFT0004</a>
Cosmetic Toiletry & Perfumery Association	<a href="#">FFT0005</a>



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ADS (Trade association for the UK's aerospace, defence, security, and space industries)	<a href="#">FFT0006</a>
Royal Society of Chemistry	<a href="#">FFT0007</a>
Urology Trade Association	<a href="#">FFT0008</a>
Aston Chemicals Ltd	<a href="#">FFT0009</a>
Cornwall Council	<a href="#">FFT0010</a>
Honda Motor Europe	<a href="#">FFT0012</a>
Airbus	<a href="#">FFT0013</a>
Pamela Coke-Hamilton (Director, Division on International Trade and Commodities at UNCTAD)	<a href="#">FFT0014</a>
British Toy and Hobby Association	<a href="#">FFT0015</a>
techUK	<a href="#">FFT0016</a>
Food and Drink Federation (FDF)	<a href="#">FFT0017</a>
Association of British HealthTech Industries	<a href="#">FFT0018</a>
British Standards Institute	<a href="#">FFT0019</a>
Gambica	<a href="#">FFT0021</a>
AMDEA (Association of Manufacturers of Domestic Appliances)	<a href="#">FFT0022</a>
The Society of Motor Manufacturers and Traders (SMMT)	<a href="#">FFT0023</a>
UK Trade Policy Observatory and Fieldfisher: Dr Peter Holmes and Andrew Hood	<a href="#">FFT0024</a>
UK Trade Policy Observatory	<a href="#">FFT0025</a>
The Chartered Trading Standards Institute (CTSI)	<a href="#">FFT0026</a>
Shanker Singham	<a href="#">FFT0027</a>
Walgreens Boots Alliance	<a href="#">FFT0028</a>
UK Fashion & Textile Association	<a href="#">FFT0029</a>
The Federation of Small Businesses (FSB)	<a href="#">FFT0030</a>
Road Haulage Association (RHA)	<a href="#">FFT0031</a>