

**Government response to Lords EU Goods Sub-Committee Report
'Beyond Brexit: Trade In Goods'**

Overarching findings

1. An agreement with the EU is far better than a 'no deal' outcome, but the TCA does not rectify significant regulatory, logistical and administrative barriers to trade arising from the UK's status as a third country. These barriers particularly affect smaller businesses and those unaccustomed to submitting trading paperwork. In practice, the current outcome falls far short of the ambition of frictionless trade. (Paragraph 21)

- The Trade and Cooperation Agreement (TCA) is the first free trade agreement the EU has ever reached based on zero tariffs and zero quotas. This is in line with our aim to provide liberalised market access for goods, set out in the Government's policy paper *The Future Relationship with the EU The UK's Approach to Negotiations*, published in February 2020. The Government did not seek to achieve fully frictionless trade as this would require regulatory alignment with the EU, which would undermine our regulatory autonomy and sovereignty as an independent trading nation.
- The deal provides continuity for both the UK and EU economies by supporting businesses on both sides of the channel to continue a deep and close trading relationship. Fully frictionless trade would have required the UK to align its regulations with the EU, which was never an ambition in the Government's command paper *The Future Relationship with the EU: The UK's Approach to Negotiations* published in February 2020. The Government has been providing extensive support to businesses to trade successfully under the new arrangements and capitalise on the opportunities created by this excellent deal – helping to boost productivity, unlock investment and safeguard high value jobs in the UK.
- Many businesses have prepared well for the changes, but the Government recognises that this is a period of change for businesses, made all the more challenging by responding to a global pandemic. The Government has therefore provided a range of financial support to businesses during this period, including more than £200bn of economic support since March 2020 as part of our response to Covid-19. Government departments have also been engaging extensively with businesses across all sectors of the UK economy, including through the Brexit Business Taskforce, to support businesses to adapt to our new trading relationship with the EU and compete on a global stage.
- On SMEs specifically, the TCA includes a dedicated chapter designed to help SMEs seize trading opportunities with the EU. In particular, the agreement commits the UK and EU to provide clear and accessible online information on how to trade and do business under each jurisdiction. It also commits each Party to establish SME contact points to ensure the needs of SMEs are considered in the implementation of the Agreement. The Government has also announced a £20m SME Brexit Support fund to help SMEs adjust to new customs, rules of origin, and VAT rules when trading with the EU. Further guidance on this new fund can be found on GOV.UK,

<https://www.gov.uk/guidance/grants-to-help-small-and-medium-sized-businesses-new-to-importing-or-exporting>.

2. We regret the Government's decision to defer establishing the Partnership Council and other bodies and urge it to review this position. Given the many practical difficulties arising in the TCA's implementation, we urge the Government to work with the European Commission to set up these governance bodies swiftly, and to ensure that they operate inclusively and with transparency. (Paragraph 22)

- The TCA was originally provisionally applied until 28 February 2021, but in February, the EU requested an extension of the period until 30 April, to allow for it to complete its outstanding processes, including the European Parliament giving its consent as part of EU ratification. The UK agreed to this extension. The TCA entered into force on 1 May 2021.
- Now that ratification is complete, the first meeting of the TCA committees, including the Partnership Council, will be agreed with the EU, and we will update Parliament on those meetings. It is right that Parliament should be updated ahead of and following meetings of the Partnership Council, which must occur at least once a year under the terms of the TCA. The Government will issue a Written Ministerial Statement both before and after each meeting of the Council. Pre-meeting Written Ministerial Statements will include the provisional agenda, and we will aim to issue these at least seven days in advance. The post-meeting Written Ministerial Statement will detail the key discussion points. We will also ensure that Parliament has sight of agendas in advance of meetings of TCA Specialised Committees. Nonetheless, where implementation issues have arisen prior to the establishment of the Partnership Council, we have engaged extensively with the EU at working and ministerial level to seek their swift and smooth resolution.

3. The Government's future approach to trade with the EU should be ambitious. It must implement the TCA with as little disruption as possible and utilise the bodies established by the agreement to their fullest extent to reach a smoother trading relationship with the EU. We urge both Parties to work in the spirit of cooperation and openness in service of this objective. (Paragraph 23)

- The TCA is the first free trade agreement the EU has ever reached based on zero tariffs and zero quotas. It is an ambitious agreement centred on free trade and inspired by the UK and EU's shared history and values.
- It establishes an institutional structure that reflects the breadth of the agreement, and the wide range of areas of cooperation it covers. The Partnership Council, which has oversight of the agreement as a whole, is co-chaired by Lord Frost. The Partnership Council is supported by specialised committees, which allow for technical discussion in particular areas of the agreement, and by a Trade Partnership Committee, which will oversee the trade relationship.
- This structure is in line with standard practice in international agreements, and will help to ensure that the agreement is working smoothly and resolve any issues that might arise.

Level playing field

4. Following the closure of its consultation on 31 March, the Government should move swiftly to introduce a transparent subsidy control regime. While the nature of this regime should be driven by the consultation responses, we recommend support to help smaller firms navigate the new requirements for cross-border trade as one initial area of focus for UK subsidy control policy. In this regard, the new £20 million SME Brexit Support Fund is a welcome step in the right direction, but we are concerned that the funding provided will be insufficient to meet its objectives. (Paragraph 38)

- The Queen's Speech confirmed that the Government will bring forward legislation in the Second Session to implement the UK's domestic subsidy control regime, providing a legal framework within which public authorities can make subsidies decisions and ensure a consistent approach throughout the UK. The UK's bespoke framework will allow public authorities to provide the support that best suits our needs and represents value for money to the UK taxpayer, whilst complying with our international obligations.
- The Government is offering a range of support to SMEs to help them navigate the requirements of the new subsidy control regime. This includes providing tailored advice to SMEs through trade advisors and helplines, webinars and by publishing online guidance on the UK's international obligations. The Government has worked closely with traders to make sure they have the support and resources they need and will continue to do so. As part of this effort, the Government has also launched the SME Brexit Support Fund, mentioned previously. The Fund continues to receive applications, and the Government is monitoring its uptake carefully.

5. We welcome the Government's stated commitment to high labour and social standards and urge it to approach any changes to these standards with caution. When it identifies a need to amend the current standards, it should proceed with transparency and only after consultation, taking into account the potential impact on UK-EU trade in goods. (Paragraph 42)

- The UK has a strong record for setting high standards on workers' rights and as the sub-committee recognised, we have always been clear that we will continue to ensure that workers' rights are protected. Neither the decision to leave the European Union nor the conclusion of the Trade and Cooperation Agreement (TCA) change this commitment.
- As laid out in our manifesto, we will bring forward measures that will help us build back better, enabling a high skilled, high productivity, high wage economy that delivers on our ambition to make the UK the best place in the world to work and grow a business. These measures will encourage flexible working, protect vulnerable workers, take a smarter approach to enforcement of employment law, and build on the strengths of our flexible labour market to support jobs. It is standard practice when considering new policy and new legislation to proceed with transparency, following consultation where appropriate. This will continue to be the Government's

practice. We will also take account of the potential trade impacts of new regulation where this is relevant.

6. Notwithstanding its confidence that the TCA's complex dispute resolution measures will be used infrequently, we recommend that the Government work with the EU to clarify publicly the precise circumstances in which either Party is likely to invoke them. (Paragraph 49)

- We will continue to work closely with the EU on all issues relating to the implementation of the Trade and Cooperation Agreement, including the commitments that both sides have agreed on the Level Playing Field for Open and Fair Competition. As the Committee has mentioned, the Government expects that the dispute resolution mechanisms in the Agreement will only be used as a last resort and that the Parties will act responsibly and appropriately in implementing this Agreement. The Government will make use of the joint committee structures under the Agreement to raise concerns about any aspect of EU implementation, as required, including through the Trade Specialised Committee on the Level Playing Field for Open and Fair Competition, the Trade Partnership Committee and the Partnership Council.

Rules of origin

7. Rules of origin were among the biggest issues facing traders following the TCA's implementation. The very short period between publication and implementation exacerbated administrative difficulties and costs. Businesses will adapt over time, but the Government must ensure full awareness of the need to follow the rules during the grace period. (Paragraph 62)

8. We recommend that the Government embark on a programme of industry engagement to identify and pursue simplifications to adherence processes. (Paragraph 63)

- Many businesses have adapted well to the changes in the UK-EU trading requirements under the TCA. However, the Government acknowledges that some businesses have faced challenges, including in relation to rules of origin, as the report highlights. The Government agrees with the Committee that businesses will adapt over time, but that increasing business understanding of the rules is a key factor in facilitating tariff-free trade.
- Accordingly, the Government has published extensive guidance on the TCA, including the rules of origin requirements, and is regularly updating GOV.UK based on industry feedback. Beyond this, Government departments also run various helplines and forums which businesses can contact if they need further information on rules of origin and beyond. They include BEIS' Business Support Helpline that SMEs can contact and the EU Transition Trader and Industry Forum that helps businesses who trade over the border. The helplines are listed on [GOV.UK](https://www.gov.uk) and are organised by theme and key actions to assist businesses in selecting the correct helpline.

- The Government also agrees that engaging effectively with industry is important to help businesses adapt to the new requirements. The Government (particularly BEIS, Defra and HMRC) continues to engage extensively with industry stakeholders and business organisations across all sectors. As well as providing more general support and raising awareness, this engagement has helped to identify and resolve various sector-specific issues. In addition to the comprehensive guidance on rules of origin, departments have developed additional materials including on-demand webinars and FAQs.
- Furthermore, as the report notes, to simplify the adherence process for traders, some rules of origin requirements have been temporarily suspended for 2021. We have agreed with the EU that until 31 December 2021, for both goods imported from the EU to the UK and vice versa, traders do not need supplier declarations from business suppliers to be in place at the time the goods are exported.
- Additionally, as part of the Government's staged approach to introducing import controls, traders importing goods into the UK from the EU from 1 January 2021 to 31 December 2021 will have up to 175 days to submit a full customs declaration and pay any necessary tariffs. This also includes declaring any proof of origin. These easements give businesses extra time to make the necessary adjustments to evidence their claims for preference. As the report states, rules of origin still apply during this period and businesses should still ensure that goods meet rules of origin before claiming that products are eligible for zero tariffs; the Government will continue to be clear about this in guidance and communications.
- The Government has also launched the £20m SME Brexit Support Fund, as mentioned previously, to help small and medium sized businesses adjust to new rules of origin requirements when trading with the EU, as well as to new customs, and VAT rules. SMEs who trade only with the EU and are new to importing and exporting processes can apply for grants of up to £2,000 to pay for practical support, including training and professional advice.

9. The Government should make full use of the Trade Specialised Committee on Customs Cooperation and Rules of Origin to ensure consistency in implementation across the UK and EU. (Paragraph 64)

- The Government is committed to maintaining an open dialogue with the EU on the implementation of rules of origin provisions across the UK and the EU. The Government recognises that the Trade Specialised Committee on Customs Cooperation and Rules of Origin will be an important forum over the coming years to discuss issues such as the textual interpretation and practical application of rules of origin provisions, and to ensure consistency in implementation across the UK and EU Member States.

10. We recommend that the Government regularly publish detailed, sector specific data on preference utilisation, and use it both to identify particularly affected sectors and to inform future dialogue with the EU on the implementation of the TCA.

(Paragraph 67)

- The Government notes that preference utilisation data has the potential to inform our efforts to boost exports, by encouraging UK businesses to make use of FTAs including the TCA. Accordingly, the Government will endeavour in the future to regularly publish preference utilisation data for imports from the UK's FTA partners, although staged import controls in 2021 for goods from the EU mean the Government will not be able to collect that utilisation data until 2022. The preference utilisation of UK exports will be reported by partner countries, as it is their customs authorities – not HMRC – which will collect this data. In the case of preference utilisation for EU imports from the UK, Eurostat – the EU's statistics authority – will publish this data, based on the reporting of EU Member States' customs authorities.

11. Through continued engagement at the Partnership Council, we urge the Government to seek a negotiated exemption with the EU, allowing non processed EU-originating goods to be re-exported to the EU without tariffs. In the meantime, the Government should encourage and support affected businesses to apply for duty relief, and to use transit procedures. (Paragraph 75)

- The Government notes the recommendation and remains open to discussing how duty applies to re-exports with the EU. The Government will continue to make businesses aware, through guidance and communications, that they may be able to benefit from using customs special procedures and reliefs offered by the UK and the EU.

12. The EU's rejection of diagonal cumulation in the TCA negotiations was disappointing, and its absence is likely to have a negative impact on supply chains and exporters in developing countries. Although re-negotiation of this issue appears unlikely in the short term, the Government should continue to make the case for full diagonal cumulation and push for related amendments when the TCA's provisions are reviewed. (Paragraph 80)

- The Government notes the recommendation. As the report states, the UK proposed third country cumulation provisions – which would have encouraged trade with our shared FTA partners as well as with a wide range of developing countries – but the EU said it would not agree to this in any circumstances, which we regret.
- However, the Government is confident that the general provisions and product specific rules secured in the TCA will support UK-EU trade across the vast majority of sectors, with valuable facilitations agreed which reflect the nature of UK-EU goods trade. This includes the phase-in period for rules affecting electric vehicle production and rules that allow manufacturers to use inputs from third countries, including developing countries, for goods like chocolate and pet food. The Government worked closely with industry throughout negotiations to secure modern and appropriate rules

of origin. This includes agreeing “full bilateral cumulation” with the EU, which is critical to supporting our highly integrated supply chains.

- The Government remains committed to ensuring developing countries can reduce poverty through trading opportunities. With our new independent trade policy we will enable developing countries’ integration into the global economy, creating stronger trade and investment partners for the future - in particular, through economic partnership agreements and an improved unilateral trade preferences scheme that will contribute to poverty reduction and strengthen our supply chains.
- The Government agrees with the Committee that re-negotiation of this issue is unlikely in the short term. However, we agree to remain open to keeping provisions such as third country cumulation under review with the EU.

13. Rules of origin present both short-term administrative issues and long-term structural challenges, chiefly where certain products do not qualify for zero tariffs under the TCA. (Paragraph 84)

14. Rules of origin requirements are likely to trigger substantial supply chain shifts in certain sectors and adjusting to these changes will incur significant costs for many UK businesses, as well as exporters in developing countries. Targeted intervention could, however, enable some sectors of UK manufacturing to benefit from supply chain shifts. We recommend that the Government take an ambitious approach to the onshoring of some manufacturing processes. For example, the Government should seek to attract manufacturers of cells and battery packs for electric vehicles to shift production to the UK. (Paragraph 85)

- The Government recognises the short-term administrative adjustments and long-term structural changes that some traders will face in order to qualify for zero tariffs under the TCA. As noted, the Government will continue to monitor the impacts of rules of origin, keeping long term structural challenges under review.
- Some businesses may choose to adjust their supply chains if this enables them to meet the TCA’s rules of origin and hence be able to export to the EU tariff-free. This will be a commercial decision for businesses to take and will reflect a range of factors.
- In relation to electric vehicles, the Automotive Transformation Fund (ATF) is a key programme to support the transition of the automotive sector. It aims to develop and embed at pace the next generation of cutting-edge, zero emission technologies in the UK. As announced in the 10 point plan, £500m of funding has been allocated to support R&D and capital investments through ATF over the next four years. This is part of the up to £1 billion previously committed to these efforts. To date, ATF has provided over 50 R&D grants across two funding rounds for feasibility studies which are investigating the scale up of manufacturing processes or the development of new technologies.
- The Government is also investing £318m in the Faraday Battery Challenge to put the UK at the global forefront of design, development, manufacturing, and recycling of electric batteries. This approach joins up R&D from fundamental research, applied development and manufacturing scale-up through the UK Battery Industrialisation Centre.

Technical barriers to trade

15. The failure to agree mutual recognition of conformity assessment will cause duplication of testing of certain products, for which businesses will incur significant costs. The Government should develop comprehensive consultation mechanisms to enable businesses and trade bodies to regularly feed into, and remain informed of, regulatory policy. (Paragraph 97)

- The Government acknowledges the challenges presented by the absence of a mutual recognition agreement on conformity assessment. The Government proposed such an agreement during negotiations last year, but it was not agreed by the EU. Given this, the Government's focus is on implementing the deal and supporting industry to adjust to the changes and take advantage of the opportunities ahead.
- Businesses can be confident in the Government's commitment to consultation when developing regulation. Changes to regulation will be considered through public and parliamentary scrutiny, like any other legislative initiative, and will always prioritise the best interests of UK citizens and businesses.

16. The Government must further consider temporary recognition arrangements to enable pre-transition contractual obligations to be fulfilled. It should raise this issue with the EU in the Trade Specialised Committee on Technical Barriers to Trade. (Paragraph 100)

- Various contractual obligations will have begun before the end of the transition period and continued after it, not all of which are subject to the provisions in the chapter on Technical Barriers to Trade. Should businesses inform the Government of specific issues, we can further consider them, but in the longer-term, trading arrangements will need to reflect the new UK position outside of the Single Market.
- The Withdrawal Agreement ensures that products already placed on the market before the end of the transition period (1 January 2021) can continue to benefit from free circulation until they reach their end user. The Government has also enacted a standstill period to reduce the impact on businesses, through to 1 January 2022 for most CE marked goods. Certain sectors have longer standstill periods. For example, medical devices and rail equipment have 2.5 and 2 year standstill periods respectively.
- The Government notes the recommendation to raise this issue at the TBT specialised committee, and is engaged in discussions with the EU on future agendas.

17. Continued cooperation on technical barriers to trade is critical. While continuing to seek mutual recognition of conformity assessment, the Government must engage with businesses and regulatory authorities to identify areas where regulatory cooperation can be improved, and seek agreement to empower specific regulatory

authorities from both Parties to recognise standards set by, and products approved by, the other. (Paragraph 104)

- As noted above, agreeing mutual recognition across as many sectors as possible was a priority for the Government throughout negotiations as set out in the policy paper, *The Future Relationship with the EU: The UK's Approach to Negotiations* published in February 2020. While we were unable to reach an agreement on this with the EU, the UK is taking numerous actions to reduce disruption to business as much as possible. We agree with the view that continued cooperation on technical barriers to trade is critical, and are carefully considering which issues to propose for discussion at the first meeting of the TBT Specialised Committee.
- Whilst the EU Commission has exclusive competence for the TCA and mutual recognition agreements, individual regulators may participate in multilateral and bilateral activities, including other recognition arrangements (such as the ILAC/IAF partnership for accreditation of conformity assessment bodies), as well as more informal bilateral relations within their designated responsibilities. We will continue to review whether further actions can be taken in this regard, alongside continued cooperation with the EU through the committees established by the TCA.

Sanitary and phytosanitary measures

18. Traders in animal and plant products have been hit harder by red tape than perhaps any others since 1 January. Many of their products cannot be stockpiled but face the most stringent checks. While some of the sector's problems will improve as stakeholders gain familiarity with new requirements—at a cost—physical SPS checks could become a permanent barrier to trade in animal and plant products unless the UK and the EU can agree mitigations to the current regime. (Paragraph 123)

- The Government accepts that some additional friction when moving agri-food goods is a necessary result of leaving the EU. Frictionless trade would require full regulatory alignment with the EU, which would undermine our ability to regulate freely in the best interests of our industry and citizens, and to strike trade deals with other independent trading nations.
- We have put in place a framework to cooperate on SPS measures and to agree to further trade facilitations with the EU in future, including potential reductions in the frequency of import checks, where justified. We believe it is in both Parties' interests to pursue this.
- Importantly, the agreement obliges both Parties not to use SPS measures to create unnecessary barriers to trade in agri-food goods. Over time, this will help to reduce the burden on businesses from border controls and certification requirements.
- We also remain open to an SPS equivalence agreement - which we proposed in negotiations last year - similar to those the EU had agreed with other third countries, as a means to further reduce barriers to trade whilst maintaining the regulatory autonomy of both Parties. We believe it is in both parties' interests for the EU to reconsider their position on this.

Customs

19. The UK's Authorised Economic Operator scheme is, for many businesses, inaccessible. The time-consuming application process and the high threshold for approval means that few businesses can take advantage of the simplifications it provides. We recommend that the Government take steps to simplify the application process and lower the threshold for entry, to enable easier access for small businesses. (Paragraph 135)

- The UK operates two AEO authorisation schemes: AEO Customs Simplifications (AEOC) and AEO Security and Safety (AEOS). A business can hold either or both authorisations at the same time (where both are held this is designated AEO Full).
- Holders of AEOC status benefit from a reduction in or waiver of the amount of guarantee needed to operate transit or a duty deferment account, and they enjoy simplified access to a range of customs facilitations and authorisations which reduce trade friction. The authorisation thus provides significant advantages. This creates a risk to revenue and the proper operation of customs processes. The criteria for authorisation are therefore stringent and must be robustly applied to ensure fairness of treatment.
- AEOS evidences the security of the international supply chain. This status is guided by the WCO SAFE framework of standards. Under Mutual Recognition Agreements (MRAs) with several international partners, AEOS authorisation holders benefit from reduced friction at import into the UK or MRA partner countries and receive priority treatment to minimise the impact of customs controls. The international recognition of the status means that the criteria must again be robustly applied.
- The Government's current focus is on simplifying and streamlining the authorisation process to ensure quicker and wider access to both schemes while maintaining their robustness. As part of the Border 2025 Strategy, we are also exploring options to extend benefits for AEOs, including possibilities for a cross-government approach to trusted trader status.
- The foundation of building a cross-government trusted trader scheme is an efficient streamlined, straightforward and customer-friendly application and authorisation process. HMRC is undertaking a programme of work this year and next to streamline, simplify and digitise the process to make it fast, efficient and seamless.

20. We recommend that the Government seek the EU's agreement to a trusted trader scheme to enable those businesses that do not meet the Authorised Economic Operator criteria to benefit from some simplifications to customs or safety and security processes. This scheme could be tiered to enable even smaller businesses to access some degree of relief. Provision for transporters— common in air freight—should also be sought. (Paragraph 138)

- The UK and EU have agreed to recognise each other's AEOS schemes, in line with best practice for international customs relationships between advanced economies. Our AEOS schemes are guided by the WCO SAFE framework of standards and the UK's agreement with the EU includes criteria, in line with WCO guidelines, that enable both parties to ensure the security of the supply chain. Small businesses are in no way precluded from authorisation as AEOs – indeed in some ways less complex systems, processes and supply chains can make authorisation easier to obtain.
- In addition, the UK and EU both offer a range of additional facilitations and simplifications, such as Simplified Import Procedures, to ease international trade.

21. The Government should urgently clarify the circumstances under which an ATA Carnet is required. Within the Trade Specialised Committee on Customs Cooperation and Rules of Origin, it should seek reciprocal exemptions for the most affected sectors. (Paragraph 142)

- From 1 January 2021, customs processes have applied to all movements of commercial and non-commercial goods between the EU and Great Britain.
- There are facilitations for the temporary movement of goods between the UK and EU, including ATA carnets.
- An ATA Carnet is an international customs document which allows goods to be temporarily imported into a customs territory without the need to pay import duties and make customs declarations. The legal provisions are contained within the Customs Convention on the ATA carnet, and the Istanbul Convention. In the UK, ATA Carnets are administered by the London Chamber of Commerce and Industry.
- Temporary Admission (TA) provides another option (used in conjunction with Returned Goods Relief, which provides relief from customs duty and import VAT for goods returning to the UK). The EU also provides a TA procedure, for goods temporarily imported into the EU. The goods imported must be re-exported within a set time period which is similar to the ATA carnet procedure. Both procedures offer similar benefits and are particularly useful for temporarily importing/exporting goods such as samples, professional equipment or items for auction, exhibition or demonstration.
- We do not foresee any changes to current customs requirements for the temporary movement of goods, including the option to use carnets, given their establishment in existing international law and their longstanding use for goods movements between the UK and non-EU countries. We are committed to supporting businesses as they get to grips with changes to customs systems and processes.

22. The customs intermediary sector does not have the capacity to meet increased demand, and smaller businesses are bearing the brunt of the shortage. The Government should increase and extend grants to the sector to increase the capacity and consider what financial support could be provided to smaller businesses to access the crucial services of intermediaries. (Paragraph 149)

- Government has provided significant help to the customs intermediary sector to scale and take on new clients. Over £80m of financial support has been made available. This included grant funding for customs IT, training, and recruitment. In addition, Government changed the rules to remove the financial liability from intermediaries using their own simplified declaration authorisation on behalf of clients.
- The sector has used this support to increase capacity significantly. The findings of recent Ipsos Mori surveys show that customs intermediaries expected to increase capacity fourfold to meet demand.
- The Intermediary Register on GOV.UK, which lists over 1,100 intermediaries, shows that large numbers are taking on new clients, including those that offer specific services to smaller businesses.
- Customs intermediaries are able to access wider financial support that will help in scaling through initiatives such as the Kickstart Scheme, which provides funding to employers to create job placements for 16 to 24 year olds on Universal Credit. The Recovery Loan Scheme is also available to help businesses of any size access loans and other kinds of finance to recover after the pandemic.

- To further support traders, the Government has also launched the SME Brexit Support Fund mentioned previously.
- We continue to monitor the sector through ongoing surveying, alongside regular interaction with businesses and representative organisations.

23. Funding to support the development of physical customs infrastructure has been insufficient, particularly given the very short timeframe for making improvements. We recommend that the Government release additional funding before these checks are imposed. (Paragraph 155)

- Ports have a statutory obligation to deliver the facilities required to perform border checks and normally these facilities would be funded by ports, who in turn collect revenue from traders for use of the facilities as part of their normal commercial operations.
- In recognition of the unique circumstances of EU Exit, and the timescales for putting infrastructure in place, Government made a £705 million funding package available for border infrastructure, staffing and IT to ensure GB border systems are fully operational.
- £470 million of this funding was earmarked for infrastructure. This includes an allocation of £200 million for the Port Infrastructure Fund (PIF), which provides direct financial support to ports for the building of infrastructure.
- The Government announced in December 2020 the grant allocations from the PIF to 41 ports and this funding is currently being disbursed to ports to progress their projects.
- Where ports are unable to provide their own infrastructure, for example due to space limitations, the Government has allocated £270 million for the delivery of temporary Inland Border Facilities (IBFs). HMRC has already delivered 6 IBFs to support Common Transit Convention (CTC) traffic and compliance checking.
- Together with investment by the Department for Transport to improve the rail and road infrastructure around ports, this is a very significant investment by the Government in infrastructure and demonstrates our readiness for the introduction of full border controls.

24. The Government should embark on a renewed effort to raise awareness of record-keeping requirements, and we also recommend that the Government adopt a pragmatic approach to border inspections as new requirements are phased in. (Paragraph 159)

- HMRC is carrying out targeted communications and awareness raising activity for traders in relation to the introduction of import customs controls, including the requirement for traders to keep accurate records when goods arrive in Great Britain. We have published guidance on how importers should keep records. This will be advertised again in upcoming communications.
- As the customs authority, HMRC acts to ensure that border processes are as smooth as possible, without compromising security. The Government has taken a pragmatic approach to this; in particular, by staging the introduction of full import controls for goods entering Great Britain from the EU.
- HMRC is supporting and building trader capability through an education campaign and related activities to ensure compliance during staged controls and with full controls in January 2022. HMRC is providing a package of activities to educate and build trader capability, for example in making correct declarations and minimising

error. This will ensure compliance and support traders who have limited experience engaging with customs processes.

- Customs checks have an important role to play in protecting legitimate businesses, by restricting the ability of non-compliant competitors to undercut their prices through evading import tax and duties. HMRC will continue to use a risk based, intelligence-led response to compliance issues, working alongside Border Force. This includes risk-based pre- and post-clearance checks, regular monitoring of traders' books and their supply chains, as well as providing education to traders on risks and issues identified. HMRC is working to ensure that the impact of its targeted approach on legitimate traders is kept to a minimum, while continuing to bear down on deliberate revenue evasion.

VAT

25. We welcome the Government's introduction of postponed accounting for VAT, which has mitigated some of the cashflow issues and, by dint of applying to non-EU trade as well, has even given some UK businesses a competitive advantage internationally. We recommend a programme of support for businesses to become VAT registered to enable more traders to benefit from these important mitigations. (Paragraph 175)

- When a business registers for VAT, the UK already has a fast, online registration process and associated support material to help businesses determine whether they are entitled or required to register.
- Those that register have the option to join various accounting and simplification schemes, including postponed VAT accounting (PVA). The use of PVA can have a cash flow benefit as VAT is declared and recovered on the same VAT return.

26. Government support for promoting awareness of VAT implications has, to date, been poor. We call on the Government to take action to improve the understanding of VAT among traders and the customs intermediary sector alike. (Paragraph 176)

- In the run-up to the end of the transition period, HMRC held numerous engagement events with sectors representative of a cross-section of the economy to inform them of their UK VAT opportunities and obligations from the end of the transition period. These events were run in parallel to the publication of guidance and related products on Gov.uk which outlined in simple terms the changes to the treatment of UK VAT resulting from the end of the transition period.
- HMRC, alongside Government more widely, continues to raise awareness and update guidance on the changes now that the UK has left the EU's Single Market and Customs Union.
- HMRC is not the competent authority for VAT (or Customs and Excise) within the EU 27, and is therefore not in a position to provide guidance on the EU 27's (or any other countries') VAT rules, which are the responsibility of those Member States. Nonetheless, to assist British businesses as far as possible in continuing to access the EU's markets, HMRC, and other government departments, are looking to provide further information which better signposts businesses to information made available on the EU 27's websites relating to EU VAT rules.
- The SME Brexit Support Fund, mentioned elsewhere in this response, is also supporting small and medium sized businesses in adjusting to new customs, rules of origin, and VAT rules when trading with the EU.

Transporting goods

27. Some of the issues disrupting transport flows are likely to be short-term, but swift Government action is required to minimise their consequences and lower transport costs. At the same time, we ask the Government to identify and consult with the industries likely to struggle most to move goods in the long term, to consider what mitigations might help to preserve trade flows. (Paragraph 187)

- The Department for Transport (DfT) has consulted extensively with the logistics industry to better understand and help mitigate any adverse impact on transportation costs.
- Some stakeholders' fears of a significant reduction in the number of EU haulage firms taking UK business after the end of the Transition Period do not appear to have been realised. DfT has not received any evidence to suggest that this reduction has taken place. Additionally, competition in the haulage market has been historically strong, with a very large number of operators (the sector is 90% SME or micro-business), relatively high levels of turnover and profit margins of only 1-2%.
- DfT continues to work with stakeholders to monitor the situation. Two drivers' hours relaxations were introduced administratively for the period 23 December 2020 to 21 January 2021, but there are currently no significant queues at ports, despite volumes of cross Channel trucks being back to near normal levels. The previous relaxation was for essential human and animal welfare, based on evidence from industry supported by the sponsor departments (BEIS and Defra) that domestic and international supply chains were under severe pressure due to high Covid-19 cases, and because of stockpiling in anticipation of peak demand for Christmas, the end of the Transition Period and Covid-19 testing.

28. We are concerned that groupage problems appear to be having a disproportionate effect on smaller exporters. We welcome the steps taken to mitigate such problems for the movement of food and animal products, including the Groupage Export Facilitation Scheme (GEFS). We recommend that the Government urgently extend the 30-day attestation period for GEFS and implement a similar scheme for other goods. (Paragraph 194)

- Small exporters can already make use of the Groupage Export Facilitation Scheme (GEFS) for relevant animal products. Groupage exports can also be undertaken without the support of GEFS using the linear and consolidation hub models mentioned in the Committee's report. These may be more applicable to some stakeholders' business models than GEFS. We are conducting extensive industry engagement to establish the strategic position of new hubs as a means to reduce certification burdens and cost, particularly for SMEs, and the time taken for border processes at EU border control posts, covering fish, meat and plant products. The scope and operation of the GEFS will be kept under review with the relevant stakeholders over the course of the year to ensure we continue to have a robust certification process and we will consider whether similar models might be applicable to other types of commodity.

29. In the absence of greater bilateral cross-trade and cabotage rights for UK and EU hauliers, we encourage the Government to seek opportunities to negotiate

exemptions for the categories of goods most affected by the restrictions in the TCA. (Paragraph 199)

- The Department for Transport's assessment is that the TCA allows the vast majority of haulage operations that were being undertaken by UK hauliers before the end of the transition period to continue. However, UK hauliers will not be allowed to undertake more than two additional movements within the EU before returning to the UK.
- The Department for Transport recognises the impact that these arrangements have on specialist hauliers who carry equipment for cultural events, such as concert tours and sporting events. The UK pressed the EU hard on arrangements for specialist hauliers and this issue was discussed in detail as part of negotiations, but the EU was unable to agree more flexible arrangements.

30. The Government should seek to negotiate full fifth freedom rights in the EU for cargo and passengers at the earliest opportunity. As an interim measure, it should seek liberal bilateral arrangements for cargo with as many individual Member States as possible. (Paragraph 204)

- The only additional air transport rights that can be negotiated under the UK-EU Trade and Cooperation Agreement (TCA) are all-cargo fifth Freedom rights. The TCA provides for us to negotiate such rights bilaterally with individual EU Member States for services to points beyond the EU. The Government recognises the potential benefits of liberal all-cargo arrangements and bilateral negotiations are ongoing with EU Member States to exchange fifth Freedom rights.

Guidance, advice and support

31. The Government's detailed guidance on changes for traders is welcome, but it needs to be easy for businesses to understand—including those with lower English-language skills—and honest about the complexity of some of the new requirements. The Government should supply more specific scenarios to help businesses make sense of the mass of information available to them. (Paragraph 219)

32. We welcome indications that the Government is starting to take this message on board. But the Government should take further steps to improve the advice and support it provides to businesses. This includes providing additional training to ensure that all officials interacting with businesses give accurate and informed advice. (Paragraph 220)

- The Government is committed to providing clear, accessible guidance for businesses regarding the new rules that have come into force following the end of the transition period. Over 1000 pieces of business-facing guidance have been published on GOV.UK. To help navigate this large amount of guidance, businesses can use the Brexit checker to generate a personalised list of actions that they need to take. We recognise that many of the new rules that have come into force are complex, and we are continuously reviewing and improving the guidance we have published to ensure that it meets users' needs.

- GOV.UK remains the core online entry point for all users and the home of all HMG information for businesses. The Government Digital Service (GDS) is also coordinating a programme of work to improve the end to end journey for traders across GOV.UK. This includes ensuring that guidance for businesses is accessible and navigable in a way that meets their needs and that there is a coherent offering across various online products and services.
- Government departments run various helplines, regular webinars and forums which businesses can contact if they need further information on rules of origin and beyond and we have a network of 300 international trade advisors.
- Helplines include BEIS' Business Support Helpline that SMEs can contact and the EU Transition Trader and Industry Forum that helps businesses who trade over the border. The helplines are listed on [GOV.UK](https://www.gov.uk) and are organised by theme and key actions to assist businesses in selecting the correct helpline.

33. The introduction of the SME Brexit Support Fund is a welcome step, but the level of funding provided may be insufficient. We urge the Government to monitor the fund's performance closely to ensure it is helping SMEs access the support they need and, if necessary, take swift action to adjust its parameters accordingly. (Paragraph 223)

34. The end of March is too soon for funding for EU transition advisors to end. New requirements are to be introduced later in 2021 and many companies are still struggling with those introduced in January. We recommend that the Government extend this funding until the end of 2021. (Paragraph 224)

- As previously highlighted, the £20 million SME Brexit Support Fund provides targeted support to help SMEs adjust to our new relationship with the EU. The scheme is still open to new registrations and applications. These grants are designed to provide a boost to SMEs trading in goods who would benefit from specific support for customs, rules of origin and the VAT aspects of imports and exports. However, it is important to be clear that on the whole, businesses are adjusting well to the new rules and continue to trade effectively. The Government has worked closely with traders to make sure they have the support and resources they need, and will continue to do so.
- We understand the recommendation regarding EU transition advisors is in relation to the EU Transition funding provided by BEIS to Local Enterprise Partnerships (LEPs). This funding enabled LEPs to target additional resources via their Growth Hubs to ensure local businesses were aware of what they needed to do to prepare for EU Transition. The funding provided by BEIS was conditional on it only being available until 31 March 2021. All Growth Hubs will of course continue to provide general advice and support on issues affecting local businesses, and several LEPs have retained elements of the specialist resources their Growth Hubs have put in place, as part of their core support package for local businesses.