



The Rt Hon Michael Ellis QC MP
HM Paymaster General
Cabinet Office 70 Whitehall London
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Our reference: MC2021/21417

The Earl of Kinnoull
House of Commons
London
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By email:

25 November 2021

Dear Lord Kinnoull,

I am writing to you further to the evidence sessions carried out at your committee on 17 November. The supplementary questions we agreed to write to you on are as follows.

Attendance at the Partnership Council

You asked whether I attend the Trade & Cooperation Agreement's Partnership Council. I can confirm that although I have not done so hitherto, I do intend to do so. My predecessor, the Rt Hon Penny Mordaunt MP, attended the Partnership Council on 9 June 2021 alongside Lord Frost who co-chaired for the UK.

Support programmes

You asked for the full cost of support programmes in money and added personnel. The government announced £705 million in investment to fund new infrastructure, jobs and technology at the GB-EU border, including:

£470 million to build the port and inland infrastructure needed to ensure compliance with new customs procedures and controls, and take the UK's border facilities to the next level, comprising £200 million in grants to ports through the Port Infrastructure Fund and £270 million for inland border facilities.

£235 million investment in staffing and IT systems. This includes:

- £10 million to recruit around 500 more Border Force personnel and £20 million for new equipment so they can continue to keep our country safe and secure;
- More than £100 million to develop HMRC systems to reduce the burden on traders, alongside additional investment in technology to ensure that new controls can be fully implemented in the "Roll On, Roll Off" environment;

- £15 million to build new data infrastructure to enhance border management and flow helping us on our way to the world's most effective border by 2025.

This package is on top of the £84 million already provided in grants to ensure there is sufficient capacity in the customs intermediary sector to support traders.

VAT

You asked that we set out what has been done to address the challenges businesses are experiencing as a result of the European Union's requirement for them to establish a fiscal representative to register for the EU Import One Stop Shop Scheme.

In June the European Commission told the UK that they did not view the TCA VAT and Debt Protocol agreement as equivalent to the EU's Mutual Assistance Recovery Directive (MARD). This means businesses from Great Britain, which are not established in the EU, must appoint a fiscal representative in a Member State to register for the Import One Stop Shop.

Since the beginning of July, the government has repeatedly proposed to the European Commission that we amend the TCA VAT and Debt Protocol, so that businesses from Great Britain do not have to appoint a fiscal representative. We most recently set out our proposed solution at the UK-EU Trade Partnership Committee on 16 November. The European Commission have so far refused to amend the VAT and Debt Protocol. We will continue to seek opportunities to resolve this issue.

Trade Agreements and UK-EU divergence

You asked if any of the 60 rolled over trade agreements reached with countries, with which the EU already had an agreement, contained divergence.

In some cases, the UK applied bespoke solutions to individual agreements as part of the trade continuity programme to ensure they would be operable in a bilateral context. This has meant some slight divergences from the EU agreements in some cases. For example, the existing EU-Turkey Arrangement required competition rules to be interpreted with specific reference to EU law. We have not replicated these provisions as these would not be appropriate in a bilateral context. We have instead agreed a bespoke competition chapter based on Free Trade Agreement precedent.

In addition, the UK expanded the ambition of the trade continuity programme securing agreements that went beyond the existing EU deals. For example, the UK-Japan Comprehensive Economic Partnership Agreement was the first major trade deal that the UK struck as an independent trading nation. It goes beyond the existing EU deal, with enhancements in areas such as digital and data, financial services, food and drink, and creative industries.

Safety and Security declarations

You asked about Safety and Security declarations. Under the revised timetable announced on 14 September, Safety and Security declarations on imports from the EU are not required until 1 July 2022. These are, of course, different from customs declarations. Customs declarations have been

required for the import of goods from 1 January 2021 including an option for full declarations of standard goods to be delayed by up to 175 days. This easement ends on 1 January 2022 when full customs declarations will be required on all goods. Physical customs checks will also be implemented from the same date. The detail is set out in the Border Operating Model, the updated version of which was published on 18 November.

In addition to these questions, we agreed to write to you following on from officials' earlier appearance at the committee on 9 November.

Intra-Europe trade figures to compare to UK-EU trade

You asked that we set out any additional analysis we have on intra-EU trade figures, to aid disaggregation of the various contextual factors that have contributed to changes in trade flows over the months since the end of the transition period. Having looked into this, I can advise you that the Government does not have any additional analysis specifically on intra-EU trade.

You may wish to note that the view from cross-Government trade analysts, including ONS, is that such a comparison would be limited in elucidating the potential impacts of EU exit on UK trade with the EU. There are a number of factors that have impacted intra-EU trade differently to the UK, aside from EU Exit. These include differing levels of stockpiling in 2020 and the fact that the Covid pandemic impacted different countries in different ways with many EU countries applying lockdown restrictions at different points throughout 2021.

Risk analysis about the event of trade between GB and the EU being impeded as a result of a dispute

You also asked that we set out the risk analysis done by the government in preparation for border disruption as a consequence of a dispute with the EU.

Whilst we don't anticipate that there will be a trade dispute, it would not be appropriate to speculate on what measures the EU might or might not take at any time. However, as a responsible government, we regularly maintain our short term contingency plans for a range of scenarios. This includes verifying that the continuity of supply for critical goods (goods that are critical to the preservation of human or animal welfare and/or national security of the UK) is maintained.

Alongside this, we already have a range of well-developed contingency responses, for example, Operation Brock, in the event that trade particularly across the Short Straits is disrupted. Operation Brock was deployed effectively in December 2020.

Providing cost of PricewaterhouseCoopers (PwC) support

We also agreed to provide information on how much HMRC paid PwC to administer the £20 million SME Brexit Support Fund.

PwC were awarded the contract to deliver HMRC grant support in late 2018 and this has underpinned the delivery of the department's grant schemes to support and scale up the intermediaries sector, and help SMEs adapt to new customs rules. They were appointed under the normal commercial tendering process to ensure fair and open competition.

PwC's administration of the grant schemes was comprehensive – they operated the internet portal that applicants used to learn more about the scheme and also apply for a grant. PwC also

reviewed all applications and evidence, undertook appropriate due diligence activity to establish eligibility, and then paid grants.

The £20 million SME Brexit Support Fund built on previous waves of support to businesses. This wave increased the amount that SMEs could claim from £1000 to £2000 and extended the criteria to include supporting training and/or professional advice on issues including Rules of Origin and import/export VAT schemes. In total, 5088 companies were awarded £8.4m

As well as the SME Brexit Support Fund, the Customs Intermediaries Grant Scheme awarded grants of about £89m to nearly 5000 companies.

PwC's total fees across the intermediary and SME grant waves totaled £7.8m. The fees cover the full administration of all applications, including those that were found ineligible. There were a total of approximately 26,000 applications across all grant waves.

How much was the HMRC Brexit IT spend?

You asked how much have the Government spent on IT systems related to Brexit, if we were confident that the amount we spent was enough and if they would work.

During the evidence session Sophie Dean gave assurance that the HMRC IT systems were ready but we also committed to write to confirm the amount spent.

We can confirm that, in 2020-21 the amount spent as reported in HMRC's Annual Report and Accounts 2020 to 2021 (publishing.service.gov.uk) was £294m. This spend enabled the delivery of over 60 IT requirements to support the UK's transition from the EU as well as pre-planned improvements for EU and non-EU trade (e.g. the implementation of the new Customs Declaration Service to replace the old CHIEF system).

A description of the responsibilities of CO, HMRC and other areas of Government with respect to the border

Finally, you asked for an articulation of the split in border-related responsibilities between CO, HMRC and other government departments.

The Cabinet Office plays a central convening role in respect of the border, in recognition of the fact that the border is a complex system encompassing the interests of many departments.

Departments whose Ministers exercise responsibility for different aspects of the border include HM Treasury / HM Revenue and Customs (customs policy and administration), the Department for the Environment, Food and Rural Affairs (the regime for Sanitary and Phytosanitary checks, and for chemicals and other controlled goods), the Home Office (security and immigration policy, and operational delivery at the border through Border Force), the Department for Transport (transport issues related to border disruption), and the Department for International Trade (export promotion).

A comprehensive list of Ministerial responsibilities can be found at

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031025/2021-11_List_of_Ministerial_Responsibilities.pdf and a brief summary table can be found

in Annex A.

Correction regarding advice on EU VAT rules

During the evidence session Sophie Dean referred to the work of the Department for International Trade (DIT's) Export Support Service (ESS) using the example that they could be used to advise on VAT rules. For complete clarity, as neither HMRC nor the ESS are the competent authority for VAT (or Customs and Excise) within the EU, the ESS are not able to provide advice or guidance on EU Member State VAT rules. However, the ESS can signpost UK businesses to published EU VAT guidance so that UK businesses can understand how and when VAT may be charged when goods are imported into EU Member States.

The ESS has established governance to ensure that thematic issues are identified and translated into improvements for its customers. Calls and messages to the service are analysed by DIT and shared with the Departments who contribute to the Service on a regular basis. These thematic issues can then be proposed for Task and Finish Groups which look in detail at a policy problem and progress customer support where needed. The first of these - on the customs intermediary sector - took place over the summer and yielded positive results that we are now seeking to put into practice.

I hope the committee finds this information of use.

Yours Ever,

A handwritten signature in black ink, appearing to read 'Michael Ellis', written in a cursive style.

HM Paymaster General

Annex A

DEPARTMENT	RESPONSIBILITIES
Cabinet Office	<ul style="list-style-type: none"> ● Oversight of the implementation of the Trade and Cooperation Agreement and Withdrawal Agreement, including the Northern Ireland protocol ● UK co-chair of the Joint Committee and Partnership Council ● Oversight of the effective conduct of EU related business with the EU and its Member States ● Supporting the coordination of cross-Government positions on trade issues ● Oversight of the development of cross-Government work on maximising the economic and political opportunities flowing from EU exit ● Oversight of domestic transition readiness ● Lead responsibility in the Cabinet for borders work, including Borders 2025
HMT and HMRC	<ul style="list-style-type: none"> ● Tax policy and customs including border readiness
Home Office	<ul style="list-style-type: none"> ● Border Force operating mandate and operations ● Aviation and maritime security ● Common Travel Area ● Border security
DEFRA, including the FSA and Devolved Administrations	<ul style="list-style-type: none"> ● Trade mandates and post-transition delivery and policy programme ● Agri-food chain
DfT	<ul style="list-style-type: none"> ● Transport including the future of freight strategy
BEIS	<ul style="list-style-type: none"> ● Small business, enterprise and access to finance ● Promoting Net Zero with SMEs ● Internal market implementation and trade
DIT	<ul style="list-style-type: none"> ● Securing world-class free trade agreements and reducing market access barriers, ensuring that consumers and businesses can benefit from both ● Supporting UK business to take full advantage of trade opportunities, including those arising from delivering free trade agreements (FTAs), facilitating UK exports

	<ul style="list-style-type: none"> • Championing the rules-based international trading system and operating the UK's new trading system, including protecting UK businesses from unfair trade practices
FCDO	<ul style="list-style-type: none"> • Engagement with Europe
DLUHC	<ul style="list-style-type: none"> • Local Resilience and Emergencies
DHSC	<ul style="list-style-type: none"> • EU future relationship, NI Protocol and International Trade for matters relating to health, and medicine and medical products
DCMS	<ul style="list-style-type: none"> • Data policy and reform

We also work closely with the Devolved Administrations through the Territorial Offices (Scotland, Wales, NIO).