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Committee of Public Accounts

# EU Exit: UK Border post transition

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# Summary

The transition period ended on 31 December 2020. Since that date, trade volumes have been suppressed by the impact of COVID-19, EU exit, and wider global pressures. It may not be possible to separate out the impact of these individual elements on the UK's trade with the EU, but it is clear that EU exit has had an impact, and that new border arrangements have added costs to business. We have repeatedly raised concerns about the impact of changes to trading arrangements on businesses of all sizes and we remain concerned.

Cross border passenger volumes have been a fraction of normal levels since the end of the transition period because of COVID-19 but they may increase from these low levels considerably during 2022. There is potential for disruption at the border, when passenger volumes return to more normal levels and when further checks at ports are introduced as a result of the EU's planned introduction of its new Entry and Exit system. This is particularly the case at the juxtaposed controls such as at Dover, where EU officials carry out border checks on the UK side of the border. Departments should be doing all they can to mitigate this risk and, more generally, factoring increases in passenger and trade volumes into their planning.

The EU introduced full import controls at the end of the transition period. The UK government originally intended to do the same but has since delayed this three times and officials could not give us complete assurance that it would not do so again. However, departments were very confident about their ability to introduce import controls over the course of 2022. We hope that this confidence proves justified. There remains much to be done to introduce import controls, and in particular to ensure that traders and hauliers across the 27 EU member states are ready as the controls are phased in. As they implement these controls, departments need to seek a balance between supporting and educating traders and others about their new responsibilities, and ensuring compliance with the new regime.

The government has ambitious plans to create "the most effective border in the world" by 2025, which includes plans to make it easier and simpler for traders to submit information on goods crossing the border. While this is a noteworthy ambition, it is optimistic, given where things stand today and we are not convinced that it is underpinned by a detailed plan to deliver it. In our view, there is much more work that departments should be doing in the shorter term to understand and minimise the current burden on those trading with the EU, to address the immediate delivery and readiness risks in introducing import controls, and to have a border in place which is operating effectively without further delays or temporary measures.

# Introduction

On 17 October 2019 the UK and the EU concluded the Withdrawal Agreement, establishing the terms of the UK leaving the EU, and setting out Northern Ireland's future relationship with the EU and Great Britain (known as the Northern Ireland Protocol). On 31 January 2020, the UK left the EU, no longer participating in the EU's decision-making, and entered a transition period during which existing rules on trade, travel and business between the UK and the EU continued to apply. On 31 December 2020, the transition period ended, and the Northern Ireland Protocol came into effect with grace periods delaying the requirement for some checks and preparations.

As a result of the UK government's decision to leave the EU single market and customs union, there are new requirements for moving goods across the border. Some of these came into effect at the end of the transition period and others are due to be phased in during 2022. There have also been some new requirements for passengers. Making the changes necessary to manage the border after the end of the transition period has been the responsibility of several departments including the Cabinet Office; the Department for Environment, Food and Rural Affairs (Defra); HM Revenue & Customs (HMRC); the Home Office; and the Department for Transport (DfT). It has also required significant engagement from stakeholders outside government including the border industry, traders, hauliers, and their representatives.

# Conclusions and recommendations

1. **The new border arrangements have yet to be tested with normal passenger volumes and may be further challenged when the EU introduces requirements for biometric passport checks.** Passenger volumes, since the new border arrangements were introduced at the end of the transition period, have been a fraction of pre-pandemic levels. With closer to normal passenger volumes and the EU's planned introduction of its new Entry and Exit System to enter the EU expected in 2022, there is a risk that it will take longer to process passengers travelling from the UK to the EU. This is a particular risk at the juxtaposed controls, such as Dover, where EU officials carry out border checks on the UK side of the border and where queues might build up in the UK. The Home Office is in conversation with the French authorities about how they might operate the new controls without causing queues but those conversations are at an early stage. It is important that the checks that will apply to HGV drivers do not delay throughput of the lorries.

   **Recommendation:** ***Government must set out its scenario planning and modelling for passenger volumes in 2022 and clarify how it will manage the increased pressures and any contingencies that may be required, including those relating to new EU Entry and Exit System requirements at juxtaposed controls. Government should write to the Committee, within six months, to provide an update on its scenario planning and whether its 2022 modelling has proved accurate, with particular emphasis on HGV drivers.***

2. **The new controls in place over the movement of goods from the UK to the EU have created additional costs for businesses and affected international trade flows.** It is not yet clear to what extent the declines in UK trade with the EU since the end of the transition period have been caused by EU exit, or by the COVID-19 pandemic. What is clear is that UK businesses face additional administration and cost when trading with the EU. For example, traders may have to pay an intermediary to help them complete customs declarations and traders in sanitary and phyto-sanitary (SPS) goods selected for physical inspections will have to pay fees to both government and the port. Traders may also need to pay tariffs if their goods do not meet "rules of origin" requirements and there are internal costs associated with complying with the additional requirements. In 2019, HMRC estimated that complying just with new customs rules could cost UK and EU businesses £15 billion per year. HMRC told us in November that it has not updated its 2019 estimate, but that there are indications that the costs to businesses will be less than that estimate.

   **Recommendation:** ***To minimise the costs to business as far as possible, government should: i) undertake a comprehensive exercise to identify and quantify the additional costs the business community and border stakeholders face as a result of new border requirements; and ii) identify opportunities to reduce costs and administrative burden to traders. Government should set out what progress it has made on these points in its Treasury Minute Response.***

3. **More could be done by Government to ensure small and medium sized enterprises (SMEs) are prepared to face the additional costs and administration required by new border requirements.** In preparing for the end of the transition period government provided a range of support to help UK businesses prepare for new

EU controls. This included targeted support to the 10,000 higher-value businesses which had previously only traded with the EU. Some support was provided to SMEs, including the £20 million SME Brexit Support Fund, but narrowly defined criteria meant that many businesses could not access this support and only £6.7 million was paid out. In its preparations for full import controls, HMRC is focusing more on preparing small businesses but acknowledged that it would be challenging for a small business to learn customs procedures and that most would be reliant on an intermediary. The government has also set up the Export Support Service, which brings together different departments to provide support to UK exporters, in particular smaller businesses. It is important that SMEs are not deterred from exporting because of the difficulty of complying with regulation.

**Recommendation:** ***In its Treasury Minute response, Government should identify what issues businesses are facing in relation to the new border requirements and in particular determine how they can provide SMEs with additional support, both through existing mechanisms, including customs intermediaries, and new methods of targeted support. Government should write to the Committee, within six months, to provide an update on what measures have been taken to support SMEs.***

4. **Government intends to introduce full import controls in phases from January 2022, but much work remains to be done.** The UK originally intended to introduce import controls on goods entering Great Britain from the EU when the transition period ended in January 2021. The government has delayed introducing these controls three times and now intends to introduce them in phases between January 2022 and November 2022. Departments have made progress towards introducing the systems, infrastructure and staff necessary but there is still much to be completed. For example, currently, the Import of Products, Animals, Food and Feed System (IPAFFS) for SPS checks cannot communicate with the Goods Vehicle Movement Service (GVMS) system to tell hauliers where they should go if the goods they are carrying are selected for SPS checks. In addition, some of the staff and infrastructure required for the implementation of import controls are not yet in place. The British Port Authority, told us that it requires greater clarity from government regarding the charging regime that government intends to implement to cover the operating costs at its inland sites and on the actual arrangements for undertaking checks at ports, such as the percentage of products that will be checked.

**Recommendation:** ***Alongside the Treasury Minute, Government should write to the Committee setting out what it has delivered so far and its plans for ensuring that it delivers: i) key systems requirements, including links between systems such as IPAFFS and GVMS; ii) staff and infrastructure requirements; and iii) clarity to ports on the charging regime at government-owned inland sites and the volume of checks that it expects to undertake on goods moving through ports.***

5. **There is more to be done to ensure that traders and hauliers across the 27 EU countries are prepared for UK import controls.** Departments have consistently rated a lack of trader and haulier readiness for new border controls as a high risk to the operation of the UK border after the end of the transition period. UK traders have been dealing with EU import controls since January 2021 and the Cabinet Office was very positive about the extent to which UK hauliers, logistics companies and

traders had adapted to them. The focus now is on EU trader and haulier readiness for UK import controls when they are imposed throughout 2022. HMRC told us that 85% of the value of UK imports from the EU are made by large traders who also trade with the rest of the world and it was therefore focusing on ensuring the remaining 15%—around 90,000 traders—that are less familiar with international customs procedures are aware of what they need to do. HMRC has a high level of confidence that traders will be ready for 1 January 2022, but said EU hauliers were at a lower level of readiness. Improving readiness in 27 countries is significantly more challenging than improving it in one, and we share others' nervousness about the state of EU trader readiness for the controls to be introduced throughout 2022 and the lack of visibility and metrics on this.

**Recommendation:** ***In its Treasury Minute response, Government should set out departments' assessment of EU trader and haulier readiness, to determine whether any intervention by either itself or the EU may be required; and set out any plans for additional support.***

6. **Government's arrangements for goods arriving from the EU is untested and could be exploited, increasing regulatory and fiscal risks.** Governments operate import controls for several reasons including: to ensure goods meet relevant standards; to prevent smuggling and illicit activity; and to comply with international obligations. Defra is introducing pre-notification in advance of physical checks and may take a pragmatic approach as people learn the system. HMRC accepted that the sooner import controls are implemented, the better its ability will be to manage fiscal risks and was confident that controls can now be stepped up without disrupting flow. We are less confident, however, and share concerns that many companies are still not fully aware of all the new requirements, for example around rules of origin, and it will take time for them to get up to speed. We also note the potential risks caused by delays putting in place the necessary permanent infrastructure: for example, until the Dover White Cliffs site becomes operational in 2023 trucks arriving in Dover that are carrying goods selected for physical checks will have to travel 60 miles to Ebbsfleet. The further the inland sites are from the ports, the greater the risk that goods could be offloaded on the way. HMRC agreed it would be ideal to have the infrastructure at the port itself and goods controlled at the port but said that it was not possible. It told us it was looking at what surveillance it would need to manage those risks.

**Recommendation:** ***Alongside its Treasury Minute response, Government should provide the committee with its assessment of the fiscal and regulatory risks for imports from EU-GB and set out how it will minimise any potential gaps in the temporary arrangements it intends to operate until all its planned permanent infrastructure is in place.***

7. **Government's ambition for the UK to have the "world's most effective border by 2025" relies on cross-government digital programmes, in which it does not have a good track record.** In December 2020 the government published its strategy to put in place the "world's most effective border" by 2025, this set out the government's strategic objectives and target operating model for the border at a high level but does not contain any significant detail about the delivery plans underpinning these. To support delivery of the strategy, the October 2021 Spending Review provided £838

million to deliver critical customs IT systems and £180 million to deliver a single trade window. HMRC considers these investments should make it easier for traders by making the system simpler and ensuring they only have to submit information once. Defra is also working on a range of digital solutions to reduce burdens on traders. While departments did well putting in place the initial IT capability needed for January 2021, government does not generally have a good track record delivering large-scale IT projects, as illustrated for example in our recent report on Challenges in implementing digital change. HMRC also needs to migrate all users from its existing customs system to the new Customs Declaration Service (CDS). Completing this migration will be challenging given that, by October 2021, only 42 of 5,000 users had moved across. HMRC expects to see a big increase in traders migrating after January, once they have adapted to the introduction of import controls.

**Recommendation:** ***Government should write to the Committee, within six months, setting out the timetable for its planned programme of work to create the world's most effective border by 2025, and the key risks it will need to manage in taking this forward.***

8. **Businesses have faced challenges operating under the Northern Ireland Protocol which need to be resolved.** Both the UK and EU have recognised that there are issues with the implementation of the Northern Ireland Protocol. The Cabinet Office told us that the results of its monitoring of the impact of the Protocol had been very concerning and had revealed considerable diversion of trade. The government is also concerned that the Protocol does not have support among significant parts of the Northern Ireland community. Although the UK government reserves the right to trigger Article 16 safeguards if required, it is seeking a comprehensive negotiated solution. The UK set out its proposed changes to reduce checks required under the Protocol in a July 2021 Command Paper and the EU has also put forward some proposals, including some new suggestions they had previously rejected. The two sides remain in negotiations.

**Recommendation:** ***Government should continue its efforts to resolve the challenges of the Protocol and ensure that departments are ready to put any negotiated outcome into operation, and that it has prepared for any contingencies which may be required if an agreement cannot be reached between the UK and the EU. Alongside the Treasury Minute, it should write to the Committee to update on the state of negotiations and the operational implications.***

# 1 The impact of new border arrangements

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Cabinet Office, the Department for Environment, Food and Rural Affairs (Defra), the Department for Transport (DfT), and HM Revenue & Customs (HMRC).[1] We also took evidence from the British Ports Association, Dr Jerzewska of the Trade & Borders consultancy, and Logistics UK.

2. On 17 October 2019 the UK and the EU concluded the Withdrawal Agreement, establishing the terms of the UK leaving the EU, and setting out Northern Ireland's future relationship with the EU and Great Britain (known as the Northern Ireland Protocol). On 31 January 2020, the UK left the EU, no longer participating in the EU's decision-making, and entered a transition period during which existing rules on trade, travel and business between the UK and the EU continued to apply. On 31 December 2020, the transition period ended, and the Northern Ireland Protocol came into effect, with grace periods delaying the requirement for some checks and preparations.[2]

3. In advance of the end of the transition period, the government put in place an initial operating capability for the GB–EU border and the arrangements necessary to implement the Northern Ireland Protocol. Under the terms of the Protocol, Northern Ireland (NI) is part of the UK's customs territory but should apply the EU's customs rules and follow EU single market rules. Although the Protocol has been in operation since the end of the transition period, the UK and the EU agreed that a number of grace periods should initially apply to certain aspects of the Protocol to give government and traders more time to prepare for the changes to come. The UK and the EU are currently in discussions regarding the Protocol.[3]

4. As a result of the UK leaving the EU, and to comply with World Trade Organization (WTO) rules, the UK is required to apply import controls on goods arriving in the UK from the EU in a way that is no more favourable than it does on goods arriving from the rest of the world, unless any differences are justified by one of the exceptions to the Most Favoured Nation rule as set out in the WTO treaties. This includes customs checks, including on goods moving under the Common Transit Convention (CTC), and sanitary and phytosanitary (SPS) checks on animals, plants and their products. The EU has been applying full import controls to goods moving from the UK to the EU since 1 January 2021.[4] The UK is phasing most import controls in between January 2021 and July 2022, with some limited controls due to be introduced during the second half of 2022.[5]

## The movement of passengers

5. The end of the transition period has also meant changes for how passengers travel between the UK and the EU. Many of the effects of the changes are yet to be fully felt

1 C&AG's Report, *The UK border: Post UK-EU transition*, Session 2021–22, HC 736, 5 November 2021
2 C&AG's Report, para 1
3 C&AG's Report, para 2
4 C&AG's Report, para 3
5 C&AG's Report, Figure 1; and Border and Protocol Delivery Group, *The Border with the European Union*, page 8.

because travel has been severely restricted by the pandemic.[6] The Cabinet Office told us that passenger volumes had been very significantly below normal since the end of the transition period.[7] This reduced passenger flow has meant that more checkpoint capacity has been available at ports to process heavy goods vehicles than would normally be the case.[8]

6. The Cabinet Office told us that it had had some contingency plans in place in case there was disruption to passenger travel during the summer of 2021, but that these were not required. This was because the French authorities were much faster in their throughput of passengers than government had expected and because overall passenger volumes were lower than expected.[9] The Cabinet Office told us that it is planning for a return to normal passenger numbers that would typically be seen in the summer through the short straits in 2022 and that this would be very much higher than passenger numbers seen in 2021.[10]

7. The Cabinet Office noted that another particular challenge at the border was the EU's plan to introduce a new Entry and Exit System for passengers crossing into the EU.[11] The European Commission has said that it expects this to be operational in the first half of 2022 and that it will include biometric passport checks on passengers.[12] The Cabinet Office told us it would be easier to undertake these checks at an airport than, for example, at Dover, where you have a large number of passengers in a car or coach and cannot unload them.[13] It also told us that the new system will be required at all entry points to the EU but will create a particular issue at the juxtaposed controls, such as Dover, because French border checks are on the UK side of the border.[14] The Cabinet Office told us that the French had not yet announced the exact timeline for the change, or how they intended to implement it at the short straits. It said that the Home Office is in conversation with its French counterparts about how this might work but that these conversations are at an early stage.[15] We asked the government about what would happen if, for example, a school coach tour was required to leave its vehicles to undertake biometric passport checks. The Cabinet Office stated that it cannot be sure how these checks would be implemented at this stage as that is up to France in conjunction with the European Commission, as it is an EU rule.[16] It is important that the checks that apply to HGV drivers do not delay the throughput of the lorries.

## The impact of new UK-EU border controls

8. Office for National Statistics (ONS) data for the UK's total trade in goods with the EU (exports plus imports) show there was a 23% and 13% reduction in Quarter (Q) 1 2021 and Q2 2021 respectively against Q4 2020. The ONS however notes that trade flows in 2020 were affected by the COVID-19 pandemic and has therefore been benchmarking 2021 data against data from 2018, which it views as the last 'normal' year where trade flows were

6 C&AG's Report, paras 2.23–2.24
7 Qq 118–119
8 C&AG's Report, para 2.5
9 Qq 118, 124
10 Qq 125–126
11 Qq 117–118
12 https://ec.europa.eu/home-affairs/policies/schengen-borders-and-visa/smart-borders/entry-exit-system_en
13 Q 118
14 Qq 128–130
15 Qq 48, 117–118
16 Qq 123, 131

not impacted by either the COVID-19 pandemic or preparations for the UK leaving the EU. This data shows that the total goods trade between the UK and the EU was 25% less in Q1 2021 and 15% less in Q2 2021, than the equivalent quarters in 2018. These falls are far greater than the falls in the UK's trade with the rest of the world in the same period, but the ONS have warned that international trade flows have been affected by both the COVID-19 pandemic and the end of the transition period and it is hard to disentangle the effects.[17] The Cabinet Office told us that new Q3 2021 data shows the market is now correcting from the declines in Q1 2021, but also noted that trade data in general can be pretty erratic and that it is hard to be sure what the effect of EU exit on trade is at this point in time.[18]

9. There is clearer evidence available of the impact of the UK's new trading arrangements on UK businesses, which now face additional administration and costs when trading with the EU. For example, Dr Jerzewska told us that even though full import controls have not yet been introduced into the UK, the new formalities and costs that have been introduced make it more expensive and complicated to trade between the UK and EU.[19] HMRC agreed that many businesses were incurring additional costs and that the introduction of customs paperwork for goods moving between the UK and EU is particularly a challenge for small businesses. HMRC told us that usually only large traders try to make declarations themselves and most traders will instead employ an intermediary to manage their paperwork, which will obviously come at a cost.[20] In 2019, HMRC estimated that in total complying just with new customs rules could cost UK and EU businesses £15 billion per year.[21] HMRC told us that it has not yet updated that impact assessment because full customs controls have not been implemented and investments planned over the next three years should streamline border processes and make them simpler for businesses. Nevertheless, HMRC indicated it believed that overall costs to businesses would be less than it estimated in 2019.[22]

10. In addition to the new customs requirements, some industries can find themselves subject to extra controls depending on the company's individual supply chain and the industry they are in – some goods will find themselves much more regulated than others.[23] Examples include:

- Exports to the EU of live animals, fresh meat and fish and plants must, since 1 January 2021, go through sanitary and phyto-sanitary (SPS) checks for diseases, pests and other contaminants.[24] Traders in these goods will have to pay for any extra licenses or certificates needed, as well as any fees charged for physical inspections at border control posts managed by ports or the government.[25] Businesses importing such goods from the EU to the UK have not yet been subject to these requirements, but these are scheduled to be phased in through 2022.[26]

17 C&AG's Report, paras 2.2, 2.9, 2.10
18 Qq 86–87
19 Q 1
20 Qq 113, 171
21 Q 114; HMRC impact assessment for the movement of goods if the UK leaves the EU without a deal (third edition) - GOV.UK (www.gov.uk)
22 Q 114
23 Qq 1, 44
24 C&AG's Report para 2.14
25 Qq 15, 28–30, 160
26 Q 146

- Traders in manufactured or processed goods will need to prove the origin of its inputs, in order to prove that a good is made locally and therefore qualifies for the tariff and quota exemptions agreed in the Trade and Cooperation Agreement.[27] Logistics UK told us that it can be very complicated for businesses to get declarations from all their suppliers confirming the origin of any materials or components and HMRC agreed that there is extra cost involved in getting ready all the necessary paperwork.[28]

## Small and medium-sized enterprises (SMEs)

11. In the run up to the end of the transition period, the government provided a range of support to help traders prepare. This included: running a communications campaign across multiple channels; writing directly to businesses to encourage them to get ready; and offering one-to-one support to the 10,000 GB businesses whose trade exceeded £250,000 per annum but had previously only traded with the EU.[29] However, we have previously highlighted the contrast in readiness between larger and smaller businesses, including evidence provided to us by the Federation of Small Businesses who found that, in December 2020, only 18% of SMEs that believed they would be negatively impacted by the end of the transition period had finished preparing.[30] We heard from Logistics UK that, in their view, smaller businesses had been somewhat forgotten and we questioned departments as to whether this was the case.[31] The Cabinet Office told us that departments had focused on SMEs but that there are more of them to reach and they had less capacity to engage.[32]

12. We heard from witnesses; in written submissions; and from cases in our own constituencies about some of the particular issues that smaller businesses have faced as they try to get to grips with new requirements. For example, ADS, which represents the UK's aerospace, defence, security, and space industries, 95% of whose members are SMEs, told us that one of the main consequences its members had reported was the increasing time and cost associated with moving goods, which it said was ultimately harming UK competitiveness.[33] HMRC told us it had opened up a grant scheme for small businesses so that they could get up to £2,000 for support including training staff.[34] However, we note that only £6.7 million of the £20 million that was available was paid out, and that stakeholders representing smaller businesses have reported that the criteria limited the businesses that could benefit.[35] HMRC told us that it had to make sure that the scheme gave value for money and was targeted at businesses who were not familiar with customs.[36]

13. Smaller traders now also need to prepare for full import controls. HMRC told us that it put a lot of effort into reaching smaller businesses.[37] However, it also told us that customs is a highly intermediated process which usually only larger businesses try to do

27 Q 45; C&AG's report, para 2.16
28 Qq 70, 164
29 Q 64
30 https://committees.parliament.uk/publications/4684/documents/47162/default/
31 Qq 69, 174
32 Q 174
33 https://committees.parliament.uk/writtenevidence/40859/pdf/ Para 1.1
34 Q 78
35 C&AG's Report, paras 2.20, 2.21
36 Q 79
37 Q 181

for themselves.[38] It noted that the system in three years would be simpler for smaller businesses to navigate and would be well supported by an “ecosystem of intermediaries” offering a whole range of services, but acknowledged that smaller businesses would still be likely to find it challenging to “self-serve customs”. The Cabinet Office told us that it was positive about the potential to move to digital systems that would help traders. It also highlighted the Export Support Service, which had been operational since 1 October 2021, and which was about bringing departments together so that exporters, and particularly small businesses, had a one-stop shop.[39]

38 Q 171
39 Q 173

# 2 Future risks relating to the management of the border

## The introduction of full import controls

14. The EU introduced import controls on goods entering the EU from the UK at the end of the transition period from 1 January 2021. The UK government originally planned to introduce full import controls on the same date but has subsequently delayed introducing these controls three times.[40] It now intends to introduce full import controls in phases between January 2022 and November 2022, beginning with full customs controls and pre-notification of SPS goods in January 2022.[41] We queried whether there was a possibility of another delay and the Cabinet Office told us that the current plan and expectation was to start introducing checks from 1 January 2022, although it could not categorically guarantee it.[42]

15. Although government told us about the good progress that it has made in putting in place the systems, infrastructure and staff required for the introduction of import controls, we note that government still needs to deliver further changes.[43] For example, Defra still needs to ensure that the Import of Products, Animals, Food and Feed System (IPAFFS), which is used by traders to notify Defra of the movement of SPS goods into Great Britain from the EU, can speak to HMRC's Goods Vehicle Movement Service (GVMS) for moving goods through UK customs.[44] Defra told us that this work is on track and that, if not, there are also other contingencies and workarounds it will have in place.[45] Departments expressed confidence in their ability to put in place the required infrastructure and staffing for full import controls.[46] However, Defra noted that there were some risks around port health authorities' ability to bring in the necessary staff, including vets.[47] We note that some government infrastructure will not be complete when full import controls are introduced and departments will have to operate interim arrangements. For example, the facility for checks at Dover White Cliffs will not be ready until at least December 2022 and the inland site to be used for SPS checks in South West Wales will, if it goes ahead, not be complete until 2023.[48]

16. The British Ports Association, who represent the UK ports, told us about areas in which ports need new information from government to inform the business decisions they need to make as private commercial entities.[49] It wanted government to outline the charging regime that will be in place at the government-run inland checking facilities to inform the development of ports' charging regimes.[50] Ports are also waiting for government to set out the percentage of checks on specific goods from specific places coming to specific ports. Government officials are responsible for deciding how many goods are checked but ports

40 C&AG's Report, Figure 3, para 3.2
41 Qq 138, Q146; and HM Government The Border with the European Union, November 2021, page 8
42 Qq 136–137
43 Qq 95–96, 167; C&AG's Report, para 3.6 and Figure 13
44 Qq 156–167
45 Q 167
46 Qq 95–97
47 Q 102
48 C&AG's Report, para 3.16
49 Qq 50–58
50 Qq 50, 53

need to prepare their facilities for those checks, which is partly determined by how many checks are required. The British Ports Association told us it was concerned about ensuring consistency in this between different routes to ensure a level playing field.[51] The Cabinet Office recognised ports' frustration regarding the development of the charging regime, but told us that charging would mainly be an issue from 1 July 2022 and that it expected to inform the ports of the charging regime early in 2022.[52]

## UK and EU trader and haulier readiness

17. The most significant risk to the operation of the border from 1 January 2021 was that traders and hauliers would not be ready. Despite carrying out a significant programme of work to encourage traders and other border users to get ready, in December 2020 the Border Protocol and Delivery Group (BPDG) rated trader readiness for the end of the transition period as red and border industry as amber-red. Reasons identified by departments why some businesses did not prepare included: a lack of trust in government to advise them on EU withdrawal; pressure as a result of the COVID-19 pandemic; uncertainty about the nature of the final deal; and "fatigue" in the business community.[53] In the event, following the EU introduction of import controls on UK exports 8% of lorries that turned up at the border in January 2021 were not ready for French customs checks.[54] This quickly dropped to 1% however and, overall, the Cabinet Office told us it was very positive about the extent to which traders had adapted to EU import controls after the end of the transition period.[55]

18. Concerns over readiness have led to the government delaying the implementation of import controls three times and departments' focus is now on improving UK and EU readiness for the implementation of UK import controls.[56] Logistics UK told us that improving readiness across 27 member states is significantly more challenging than just one, and told us that it was particularly nervous about the lack of information and metrics on EU readiness.[57] Dr Jerzewska told us that there is a limit to what government can do to encourage traders in EU countries to prepare and that it was likely that the experience at the border in January 2022 would be the same as in January 2021, where a small number of issues arose that caused friction at the border and the authorities had to work together to solve them.[58] HMRC agreed that the experience of January 2021 showed that it was inevitable some traders and hauliers would show up at the border not ready, but these will soon learn what they need to do to avoid future disruption.[59]

19. HMRC told us that its main trader concerns related to small businesses. It had a high level of confidence that large traders, which are responsible for about 85% of the value of imports from the EU to the UK, would be ready for January 2022.[60] Its focus was therefore on improving the readiness of the remaining 15%, which is around 90,000 smaller traders, 41,000 of which carry out what HMRC consider to be a material level of trade (between £50,000 and £1,500,000). Many traders had already submitted customs declarations by

51 Qq 42, 72
52 Q 160
53 C&AG's Report, paras 1.12, 1.13
54 Q 143
55 Qq 59, 143, 154, 175, 176
56 Q 138; C&AG's Report, para 3.3
57 Q 35
58 Q 61
59 Q 161
60 Qq 166, 181

October 2021 and HMRC told us it was still making efforts to improve the readiness of the remaining traders that are harder to reach since they have either stopped international trading or do it infrequently. Even if most large traders and a significant proportion of smaller traders are ready for import controls, the impact on those who are not ready could still be serious.[61]

20. Rather than trader or port readiness, HMRC told us that the readiness of EU hauliers was now the main risk ahead of the implementation of UK import controls. HMRC told us that while EU haulier readiness is improving, it is coming from a lower base and accordingly it is writing each month to 14,000 EU haulage firms to inform them of the need to prepare.[62] DfT has now published its hauliers handbook in 17 languages and set up an information and advice site at the Hook of Holland and on five ferry crossings, and plans to set up more sites in France and Spain. DFT told us that, as it did at the end of the transition period, it had contingency plans to manage any disruption that might occur. However, HMRC noted that this risk could now emerge in the EU as, for example, lorries which do not have the right paperwork would be turned away in Calais.[63]

## The new compliance regime

21. The government needs to introduce import controls for several reasons, including: to ensure imported goods meet the relevant standards in areas such as food and product safety and disease control; to prevent smuggling and illicit activity; and to comply with international obligations.[64] We heard that traders will need to notify government about the goods they are bringing into the UK, for example through systems such as GVMS and IPAFFS, and that departments will enforce controls through a combination of documentary and physical checks.[65]

22. Defra told us that it had learned from experience of checks being introduced by the EU and that starting with pre-notification before introducing checks means that people would have to get used to using the IPAFFS system.[66] It told us that in the early days there would be the option of taking a pragmatic approach as people learn the system.[67] It also said that while traders would need to pre-notify their goods from January 2022, Defra would not start checking, or be in a position to hold freight, until July, when it had completed the necessary work with HMRC on the link between IPAFFS and GVMS.[68]

23. The NAO report notes that, since the end of the transition period, the UK government has chosen to prioritise the flow of goods over compliance, but that, after the introduction of import controls, departments will no longer be able to prioritise flow to the same extent and will need to put in a new compliance regime to manage the fiscal and regulatory risks of goods crossing the border.[69] Dr Jerzewska told us that there were some requirements that were already in place, such as in relation to rules of origin, which were not yet being

61 Qq 181, 182
62 Q 140
63 Qq 109, 143
64 C&AG's Report, para 3.2
65 Qq 144, 146, 158
66 Q 154
67 Q 157
68 Q 166
69 C&AG's Report, para 3.34

fully enforced as compliance is not yet at the top of anyone's priority list.[70] She also noted that getting traders used to new requirements was a process and the sooner the government started enforcing compliance, the better it would go.[71] HMRC acknowledged that the sooner it could implement full import controls, the better it would be able to manage fiscal risks.[72] It told us that the aim of introducing controls in a staged way was to maintain flow as it tightened up control and management of fiscal risk and that it was confident that it could move to the next stage of implementing full controls without disrupting flow.[73] It also said that controls at ports were strict in terms of lorries getting access to ferries and that lorries that do not get ready for the beginning of January will find that they are going to get turned away from the port in Calais, and that they will learn a lesson from that.[74]

24. We were interested in the potential implications for compliance of the requirement for departments to undertake some checks away from the ports at which goods arrive. HMRC acknowledged that it is ideal to have infrastructure at a port and the goods controlled at that port but that it was just not possible. It told us inland border facilities are very close to the port, and there are limited opportunities for offloading, but that it would look at what surveillance might be necessary to manage those risks.[75] However, it also acknowledged that Ebbsfleet, which will be used for customs checks on goods arriving into the Port of Dover until the Dover White Cliffs site is due to be ready in 2023, was some distance from the port, which was not ideal. It noted that the situation would improve over time.[76]

## Future border IT changes

25. In December 2020, the government published its 2025 UK Border Strategy, which set out the government's vision to have the "world's most effective border" by 2025.[77] This set out how the government would improve coordination between government departments and agencies at the border; reduce duplicative asks for data; and make greater use of modern, digital and simple processes.[78] The October 2021 Spending Review provided £838 million over the three years to 2024–25 to complete the delivery of critical customs IT, including the new Customs Declaration Service. It also allocated £180 million to build a Single Trade Window which will reduce the cost of trade by streamlining trader interactions with border agencies.[79] HMRC told us that this Single Trade Window will make things easier for small businesses by ensuring that traders will only have to make one submission of information to get all the relevant clearances from different departments.[80]

26. Ahead of the end of the transition period departments focused on putting in place an initial operating capability at the UK border. The new IT systems, or changes to existing systems, required to provide this capability were all delivered as planned for the end of the transition period. The NAO reports that considerable work is needed to move beyond this initial capability and deliver the additional capacity needed to deal with

70 Q 25
71 Q 60
72 Q 115
73 Q 161
74 Qq 184, 186
75 Qq 147, 148
76 Q 179
77 HM Government, 2025 UK Border Strategy, CP 352, December 2020
78 C&AG's Report, para 3.42
79 BUDGET 2021: Protecting the jobs and livelihoods of the British people (publishing.service.gov.uk), paras 2.190, 4.109
80 Q 172

increased volumes of declarations, ensure the resilience of systems and provide additional functionality to support the introduction of full import controls.[81] Our recent report on *Challenges in implementing digital change* highlighted that delivering complex, large-scale digital programmes remains very challenging for government.[82] For example, the Home Office's programme to replace the police national computer has been delayed by at least five years and seen cost overruns of more than £400 million.[83]

27. Departments' track record delivering IT projects is particularly relevant given that HMRC is still working on replacing its CHIEF customs system with a new Customs Declaration Service (CDS). CDS was originally supposed to be in use by all UK traders in January 2019, but the project has been delayed and in 2020 HMRC extended its contract with Fujitsu to ensure the CHIEF system could be used for another five years, at a cost of £17 million a year. Dual running systems means HMRC has therefore had to carry out work to increase the capacity of both CDS and CHIEF to cope with the increase in declarations it expects following the UK's exit from the EU.[84] CDS now has the capability to process 200 million declarations a year and the main challenge HMRC now faces is transitioning all users from CHIEF to CDS. HMRC now plans to close CHIEF to import declarations in September 2022 and export declarations in March 2023, before turning off the system entirely in June 2023. However, by mid-October 2021, only 42 users out of a population of around 5,000 had migrated to CDS.[85] HMRC told us it expected to see a big increase in the number of businesses migrating to CDS after January.[86]

## The Northern Ireland Protocol

28. The Northern Ireland Protocol came into operation from 1 January 2021, with grace periods delaying the requirements for some checks and preparations.[87] Government told us that the requirements of the Protocol had had a significant impact on Northern Ireland trade including causing considerable diversion of trade.[88] For example, trade between Northern Ireland and Ireland has increased significantly – goods flowing from Northern Ireland to Ireland having increased by 61% year on year between January and August 2021 and goods from Ireland to Northern Ireland increased by 47% over the same period.[89] We also know from examples in our own constituencies that businesses have incurred significant increased costs as well as delays in moving goods because of Protocol requirements.[90]

29. HMRC told us that it had introduced the Trader Support Service as a free to use service to make customs declarations on behalf of affected businesses and is planning to spend £360 million on this over two years. HMRC stated that the majority of businesses moving goods from Great Britain to Northern Ireland are using this service, and that HMRC has

81 C&AG's Report, paras 1.10, 3.7, Figure 4
82 Committee of Public Accounts, *Challenges in implementing digital change*, Thirtieth Report of Session 2021–22, HC 637, 10 December 2021
83 Committee of Public Accounts, *The National Law Enforcement Data Programme*, Twenty-Ninth Report of Session 2021–22, HC 638, 8 December 2021
84 Q 91; C&AG's Report, paras 3.39, 3.40
85 C&AG's Report, paras 3.39–3.41
86 Q 201
87 C&AG's Report, para 19
88 Q 73
89 C&AG's Report, para 4.17
90 Q 78

received good feedback from them.[91] Defra is also providing up to £200 million by the end of 2023 for the Movement Assistance Scheme to help cover certification costs for the movement of agri-goods between Great Britain and Northern Ireland.[92] Defra told us that so far £10 million of that money has been spent.[93] Despite this support, Cabinet Office told us that an April 2021 survey by Manufacturing Northern Ireland showed that 55% of businesses were still struggling with Protocol processes and 36% thought these difficulties were likely to persist.[94]

30. The Cabinet Office told us that, having seen considerable diversion of trade and, due to the lack of support for the Protocol among parts of the community in Northern Ireland, the government had proposed changes to the European Commission to how the Protocol operates. It also told us that it remains the UK's preference to find a consensual way forward, but that Article 16 safeguards remained in place and could be used if needed and justified. It noted that there was a need for pragmatism and for comprehensive solutions to the genuine difficulties being experienced on the ground.[95]

31. The UK government set out its proposals in a July 2021 Command Paper.[96] The Cabinet Office told us that it wants to apply a risk-based approach whereby for most goods only those which are at risk of crossing from Northern Ireland into the EU customs area in Ireland are subject to checks.[97] This would mean forming a trusted trader scheme within which companies would certify whether their goods moving from Great Britain into Northern Ireland would stay within the UK with a light-touch assurance regime for this scheme.[98] The Cabinet Office told us that the EU has responded in the ongoing negotiations with some practical approaches of its own. The Cabinet Office also told us that the EU has begun to open up to ideas that they had previously said could not be done. Negotiations remain ongoing, and the Cabinet Office told us that, with good will and constructive approaches on both sides, it is hopeful of resolution.[99]

91 Q 78
92 C&AG's Report, para 4.15
93 Q 193
94 Q 199
95 Q 73
96 HM Government, *Northern Ireland Protocol: the way forward*, CP 502, July 2021
97 Q 187
98 C&AG's Report, para 4.3
99 Q 74

# Formal minutes

## Monday 31 January 2022

Members present:

Dame Meg Hillier, in the Chair

Shaun Bailey

Dan Carden

Sir Geoffrey Clifton-Brown

Mr Mark Francois

Antony Higginbotham

Kate Osamor

James Wild

### *EU Exit: UK Border post transition*

Draft Report (*EU Exit: UK Border post transition*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 31 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

*Resolved*, That the Report be the Thirty-sixth of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

## Adjournment

Adjourned till Wednesday 2 February at 1:00pm

# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

### Monday 22 November 2021

**Alex Veitch**, Deputy Director Public Policy, Logistics UK; **Richard Ballantyne**, Chief Executive, British Ports Association; **Dr Anna Jerzewska**, Founder, Trade and Borders Consultancy Q1–72

### Wednesday 24 November 2021

**Alex Chisholm**, Permanent Secretary, Cabinet Office; **Jim Harra**, Chief Executive and First Permanent Secretary, HMRC; **Tamara Finkelstein**, Permanent Secretary, Defra; **Bernadette Kelly CB**, Permanent Secretary, Department for Transport; **Emma Churchill**, Director General Border and Protocol Delivery Group, Cabinet Office Q73–207

# Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

EUK numbers are generated by the evidence processing system and so may not be complete.

1 ADS (EUK0001)

2 European Animal Research Association (EUK0004)

3 Heathrow Airport (EUK0003)

4 Office of the City Remembrancer, City of London Corporation (EUK0002)

5 UK Music (EUK0005)

# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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| 25th | The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system | HC 633 |
| 26th | Lessons from Greensill Capital: accreditation to business support schemes | HC 169 |
| 27th | Green Homes Grant Voucher Scheme | HC 635 |

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| 30th | Challenges in implementing digital change | HC 637 |
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| 33rd | Underpayments of the State Pension | HC 654 |
| 34th | Local Government Finance System: Overview and Challenges | HC 646 |
| 35th | The pharmacy early payment and salary advance schemes in the NHS | HC 745 |
| 1st Special Report | Fifth Annual Report of the Chair of the Committee of Public Accounts | HC 222 |

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| 44th | Excess Votes 2019–20 | HC 1205 |
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