

Logistics UK – Written Evidence (TIG0010)

About Logistics UK

Logistics UK is one of Britain's largest business groups and the only one providing a voice for the entirety of the UK's logistics sector. Our role, on behalf of over 18,000 members, is to enhance the safety, efficiency and sustainability of freight movement throughout the supply chain, across all transport modes. Logistics UK members operate over 200,000 goods vehicles - almost half the UK fleet - and some one million liveried vans. In addition, they consign over 90 per cent of the freight moved by rail and over 70 per cent of sea and air freight.

1. What have been the overall consequences to date of the implementation of the Trade and Cooperation Agreement and the end of the transition period for GB-EU trade in goods, in the UK's first year outside the Single Market and Customs Union?

The first few weeks of 2021 were challenging in terms of compliance as traders and authorities were getting familiar with new processes. At micro level, a number of businesses saw their consignments being turned away at the border or retained for several days, the impact of which on these companies shouldn't be underestimated. However, this didn't translate into systemic disruptions at the border, partly because of the implementation of upstream compliance processes. In a number of instances, missing documentation or other EU import readiness issues were identified before the goods reached the border, sometimes resulting in slowdowns in supply chains.

As businesses and their various partners (eg. certifying officers) acquired more experience, some of the issues that were labelled as "teething problems" subsided during the first quarter of the year. Other obstacles simply made certain business models unsustainable. The supply chain restructuration that ensued such as a changes in suppliers, routes used or the level of consolidation of consignments -where such adaptations were possible at all- limited disruptions but very often came with additional costs that won't be eliminated with time or experience. These costs are either passed on to consumers or result in margin erosion.

Crucially, the impact on businesses is varied depending on their specific circumstances.

In the road transport sector, the Trade and Cooperation Agreement (TCA) rules on market access (ie. the right for UK transport operators to carry out transport operations to, from, in or through the EU) work reasonably well for general haulage companies. However, the transport chapter doesn't offer any sustainable solution to UK touring companies carrying equipment on pan-European cultural tours (eg. concerts, sport events, etc). Prior to the end of the EU Exit transition period, 85% of transport companies servicing these tours were UK-registered. The two-journey limit introduced by the TCA is incompatible with all business models where the same load needs to be moved to different successive locations across Europe and returning to the UK between these deliveries is unnecessary and inefficient. To counter this restriction, touring companies have been left with no option but to relocate to the EU or risk losing business to European competitors. This area constitutes a gap in the TCA and requires a jointly agreed solution with the EU.

a. What have been the key challenges of existing border controls for GB-EU trade in goods so far? To what extent have these challenges improved or worsened over the course of 2021, and how might they be mitigated further?

Exporting agrifood products which are subject to sanitary and phytosanitary (SPS) checks has proved particularly challenging in particular because of the inconsistencies between different EU member states. While Export Health Certificates (for products of animal origin and composite products) and Phytosanitary Certificates (for plant products) are always required,

the authorities of each country have differing expectations as to how to fill them. This is challenging for the UK official vets who certify consignments and for companies who export to several countries. This improved over time as certifying officers became more familiar with these expectations, but these inconsistencies remain suboptimal. There is also anecdotal evidence of inconsistent enforcement over time at a given point of entry into the EU depending on the official examining the documentation.

Groupage remains particularly difficult. A groupage load is a truck load comprised of consignments from different customers, bound to different destinations and potentially including SPS goods (products of animal origin and/or plant products) and non-SPS goods. These groupage loads are inherently complex as they require evidence of customs formalities for each consignment. Moreover, as far as SPS goods are concerned, a different certificate is required for each combination of origin-type of product. One missing or incorrect document prevents the whole truck from being cleared. Businesses adapted their operations where possible to minimise these difficulties but trading from outside the single market remains more complex and costly than during the transition period.

2. Do you agree with the Government's decision to delay further the introduction of certain checks and controls on imports of EU goods into GB? What are the advantages and disadvantages of this decision?

The decision to delay the introduction of import controls has been met in the logistics industry with mixed feelings. It was not something the industry had asked for. While there was relief in some parts of the industry, the decision also penalised those companies that invested time and money to be ready for the deadline. It is now crucial that Government sticks to the latest timeline to allow stakeholders in the UK and the EU to plan confidently towards the new deadlines.

The additional time should be used to improve processes wherever possible -for instance Logistics UK welcomes the Government's intention to allow electronic certification of products of animal origin (electronic EHCs) and plant products (e-Phyto) as soon as the requirement to produce sanitary and phytosanitary (SPS) documentation for imports comes into force in July 2022. Logistics UK also calls on the Government to use the additional time to improve guidance, consolidate it and make it available in a user-friendly way even for small traders without prior experience of trading with non-EU countries.

b. In your view, what were the key factors underpinning the decision to delay the introduction of import controls?

The Government acknowledged that the decision to delay certain import controls wasn't driven by a lack of readiness within the industry but rather by the broader supply chain pressures facing businesses, from the lasting impact of the pandemic to increasing maritime transport costs, as well as labour shortages. Concerns about the availability of border control posts to carry out SPS physical checks and uncertainty about the level of readiness of EU exporters might have played a role as well although these factors weren't mentioned by Government.

3. What are the implications of continued 'asymmetry' between GB and EU border controls, for example on the competitiveness of GB businesses, on border security, and on customs revenue? Are these asymmetric arrangements sustainable?

As a result of this asymmetry, EU exporters have not felt the full impact of the end of the transition period yet -unlike UK exporters who have been experiencing the full set of EU requirements since 1 January 2021. This may impact on the level of awareness and the sense

of emergency EU supply chain partners perceive in relation to their preparations for the next stages of UK import controls -which can only be successful if EU exporters are ready.

The introduction of customs formalities, SPS requirements and other border formalities on GB to EU trade has reduced the competitiveness of GB businesses supplying customers based in the EU single market compared to their EU competitors -this would be the case even if UK import requirements had been introduced immediately at the end of the transition period. The asymmetry resulting from the staged introduction of UK import controls, however, weighs down on the relative competitiveness of UK exporters compared to EU exporters

In terms of biosecurity and preserving the integrity of the border, the level of risk associated with products coming from the EU didn't change overnight on 31 December 2020. However, in the longer term it is necessary to implement the final operating border to minimise uncertainty about future cliff edges. The level of acceptance for the current asymmetric model in the industry is also likely to decline over time.

a. What, if any, are the legal implications of delaying the introduction of import controls with respect to the UK's international obligations, both under the TCA and as a member of the World Trade Organisation?

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b. Have the UK authorities applied existing checks and controls consistently to imports from different EU Member States?

Logistics UK is not aware of inconsistent application of checks depending on the country of origin of imports. However, many import requirements are yet to be implemented as Government opted for a staged introduction of import controls.

c. To what extent are businesses, ports, hauliers, the customs intermediary sector and other relevant groups ready for the introduction of full customs controls, and the expiry of other relevant grace periods, from 1 January 2022, and for additional SPS controls from 1 July 2022? Are there any particular challenges or concerns ahead of these deadlines? How do current levels of preparedness compare to previous preparedness for the end of the transition period on 31 December 2020?

Compared to the end of the transition period, the availability of guidance has improved. Businesses have access to a lot of information about the future processes -whereas significant pieces of guidance had been published between Christmas 2020 and New Year just days before the changes came into force.

However, certain important pieces of information are missing and prevent businesses from adjusting their processes or remodelling their supply chains if necessary. At the time of writing, the details of the operating model of border control posts in GB are not known. For instance, businesses don't know what types of SPS commodities will be accepted at each location. The release of these details will be crucial to allow companies to complete the last mile of their readiness journey.

For the upcoming stages of the UK import timetable, the readiness of EU traders will be equally important as that of UK businesses. For instance, it will be the responsibility of EU exporters of agrifood products to arrange for export health certificates and/or phytosanitary certificates to be issued ahead of the arrival of goods. This requires certifying veterinary officers in the countries of departure of the products to be available in sufficient number at locations and times that are compatible with just-in-time supply chains. A lot of outreach has

been done both at industry level and by Government to increase the level of awareness and readiness among EU stakeholders. Informal surveys show that the overwhelming majority of the sample of EU businesses trading with the UK are confident they know some but not all of the procedures required to move goods between the EU and GB. Less than a quarter declare being aware of all relevant procedures, suggesting a large effort will need to be made in the coming weeks and months. It is worth noting that -in the SPS area- the new timetable has moved the requirements affecting EU exporters to July 2022 while the January 2022 deadline will primarily affects UK importers.

4. Ahead of these changes, what is your assessment of the quality of existing Government communications, guidance, advice, funding and support for traders and ports? If there are any shortcomings, how should these be addressed?

Governance produced a very large amount of guidance and gave business representatives opportunities to provide feedback and suggestions on the best way to disseminate the information.

Coverage: There are fewer and fewer gaps in guidance. However, certain aspects of future import processes aren't finalised yet and therefore not covered in any guidance. Businesses need sufficient advance notice to adapt their processes and take all the necessary steps to be able to comply with future processes. These gaps should therefore be addressed as soon as possible.

Audience: EU readiness will be crucial to make a success of the future stages of the UK import timetable. While it is challenging to assess the level of readiness across multiple countries and industries, Government has taken into account the need to engage with EU businesses. Dedicated teams were set up within BPDG and departments to disseminate information and collect feedback from EU stakeholders, including an extensive programme of country-specific webinars ("industry days"). Logistics UK welcomes this approach and offered to use its own network of contacts to amplify readiness advice.

Quality: Government has been engaging with business representatives to improve the quality of existing guidance, clarify ambiguities and use clear language. The sheer amount of information available makes it difficult for any individual to keep abreast of all developments. It is therefore crucial to consolidate guidance, make it accessible in a user-friendly way and differentiate it by target audience. Logistics UK would like to highlight a number of positive developments in this regard (eg. haulier handbook, launch of the "Check How to Import and Export Goods" service, etc.). However, at the time of writing the Border Operating Model hasn't been updated following the decision to delay import controls. Updating and maintaining all sources of information is crucial to avoid confusion.

a. Having made the decision to delay the introduction of certain checks, how should the Government best use this extra time?

The extra time should be used to optimise guidance but also to clarify the details of upcoming import processes (eg. driver routing and driver notification in case their vehicles are selected for physical inspections; details around the temporary storage and pre lodgement customs model; construction and staffing of border control posts as well as details of the commodities that will be accepted at each location, etc.).

The delay in introducing certain requirements is also an opportunity to simplify certain processes, for instance to digitise SPS certificates (export health certificates and phytosanitary certificates). Government should use the extra time to make the necessary IT developments.

c. Do you have confidence that the Government's revised timetable for the introduction of checks will be delivered on time?

An additional delay to the introduction of import controls would create adjustment costs, increase uncertainty and undermine the level of trust required for businesses to invest in readiness.

It is important to note that the industry needs sufficient advance notice to adapt their processes to new requirements, train their staff and coordinate with their supply chain partners. It isn't sufficient for Government to build the new systems and processes on time; the timeline of delivery needs to cater for sufficient time for training, pilots and interaction with testing versions.

5. Is disruption to trade flows or supply chains expected from the implementation of additional checks and controls from January and July 2022? If so, what form might any disruption take, and can it be mitigated by Government action?

The risk of disruption will depend on the level of readiness of UK and EU businesses, on official vet capacity in EU countries for movements of agrifood goods from the EU to the UK. It will also depend on the enforcement approach UK authorities will adopt towards the inevitable errors that will initially occur in the immediate aftermath of the two deadlines.

6. What, if any, is the relationship between the timetable for the introduction of new checks and controls and the current challenges facing supply chains due to labour shortages?

The labour shortages are creating significant challenges for companies to maintain their day-to-day operations, thus using up resources that could otherwise be dedicated to preparations for the upcoming import controls. It is imperative Government takes vigorous action to address the driver shortage without delay. Logistics UK welcomes the package of measures announced on 26 September. It includes several measures Logistics UK asked for (increased DVSA driver testing capacity, funding of training, visas -although the length of the visas granted is less than what would be necessary to attract new drivers in significant number). These must be delivered quickly to enable industry to focus on upcoming changes to the trading regime.

7. How would you assess the checks and controls that GB exports to the EU have faced since January 2021, such as Sanitary and Phytosanitary requirements, customs formalities, Rules of Origin, and VAT?

a. What has been the impact of these checks and controls on British traders and hauliers?

SPS and customs formalities resulted in increased compliance costs for businesses trading with the EU, which in turn can lead to price increases for consumers or reduce margins for businesses. They also slowed down operations or made certain business models unsustainable, requiring extensive remodelling of supply chains or pushing a number of businesses away from the EU export market. However, despite undeniable disruptions, they

didn't translate into border gridlock or visible systemic disruptions -which is testament to the resilience of the logistics industry.

As in all free trade agreements, rules of origin mean that certain exports -depending on where raw materials are sourced and/or how much processing is done in the UK- don't qualify for preferential treatment, ie. they are liable for customs duties. Furthermore, rules of origin are so complex that certain traders prefer to ignore them and not claim preferential treatment even though their exports are eligible, because the red tape would outweigh the benefits of zero-tariffs. Research conducted by Yohannes Ayele for UKTPO suggests that the utilisation rate of the TCA's tariff preferences was 69.70% in April 2021.¹

Hauliers find themselves in a peculiar situation when carrying out accompanied roll on-roll off from GB to the UK: they often have very little control over the completion of customs and SPS formalities of the goods they move -these are completed by the haulier's customers and their supply chain partners- but they face the consequences of instances of non compliance identified at the border. Drivers and their vehicles can be held up at the border while the issues are being solved by the traders without receiving direct information from border authorities -who interact with the declarant of the goods rather than the transport company. These difficulties are compounded in case of groupage as this model poses specific challenges -described in our answer to question 1.b.

b. Have these controls on GB exports been applied fairly, proportionately and consistently across EU Member States?

After a very short period of leniency at the beginning of January 2021, SPS checks have been applied in a rather strict manner by EU member state authorities. Genuine errors on documentation resulted in delays or turn backs. However, the most persisting grievance is about the inconsistencies in how these requirements are applied by different EU countries. While Export Health Certificates (for products of animal origin and composite products) and Phytosanitary Certificates (for plant products) are always required, the authorities of each country have differing expectations as to how to fill them. This is challenging for the UK official vets who certify consignments and for companies who export to a variety of countries. This improved over time as certifying officers became more familiar with these expectations but these inconsistencies remain suboptimal. There is also anecdotal evidence of inconsistent enforcement at a given point of entry in the EU depending on the official examining the documentation.

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¹ Ayele Y., 29 July 2021, Tariff-free trade with the EU: not so PUR and simple, UKTPO, Link: <https://blogs.sussex.ac.uk/uktpo/2021/07/29/tariff-free-trade-with-the-eu-not-so-pur-and-simple/> (last accessed on 27 October 2021)