

Written evidence submitted by Dr Lars Karlsson (FRE0020)

1. *What do you expect customs and import/export clearance arrangements to look like after the Transition Period? What procedures, administration and controls do you expect to change? What impact will changes have on current border customs systems and how prepared is the sector to make these changes?*

From January 1st, 2021 customs procedures and formalities will be needed for all goods moving between United Kingdom (UK) and the European Union (EU). This means that both tariffs and border formalities will be applicable. Further agreements such as Free Trade Agreements (FTA) will have an impact on the process by removing or reducing the tariffs on certain goods. The border formalities, however, will be introduced regardless of an FTA unless the UK enters into a more advanced customs cooperation agreement.

Due to volume of trade, the movement of goods over the English channel should be a priority. Goods moving through the Eurotunnel and via ro-ro traffic will have to be handled with smart border solutions. This means handling the customs formalities and administration before and after the border crossing, identification of the operator at the border, with risk management done based on pre-arrival information during the journey, and selection done at arrival. This will need a fully-electronic flow of information supported by technology solutions that make all elements of the process as fast and predictable as possible.

A vital component to making this approach work as seamlessly as possible is the segmentation of trade based on risk and the use of compliance management models that recognize low-risk and compliant supply chain participants. Compliance management models – often called Authorized Economic Operator (AEO) models – exist in more than one hundred countries around the world, including existing programmes in the UK and the EU.

The current UK compliance management AEO model needs to be updated to a modern, tiered Trusted Trader programme with an AEO++ level at the top for large businesses that have demonstrated low risk and compliance and an entry-level for small and medium-sized enterprises. Other tiers can be added to meet the needs of different business sizes and risk and compliance levels. The UK should aim to enrol as many businesses as possible across the entire supply chain to facilitate seamless trade.

The updated compliance management model should be supported by a technical Mutual Recognition Agreement (AEO MRA) between the UK and EU where all Trusted Traders/AEO companies are recognized by the other party in line with international standards. This will remove any duplication of controls at the export and import borders for programme participants. The desire to sign such an AEO MRA is included in both UK and EU future

relations negotiation mandates.

Smart border solutions can be quickly implemented for all UK-EU trade as the basic preconditions are already in place and future smart border arrangements are based on existing international standards. The technology and systems needed are already available, including for drive-through-borders and similar mechanisms. A strong recommendation is to start scale tests of a smart border model as soon as possible.

All checks, inspections and other controls should be based on risk management. As many as possible of these checks, inspections, and controls should be done before and after the border crossing. A very large portion of the risk-based transaction checks, controls and inspections can be replaced by system based compliance and control programmes for known low risk operators - such as updated AEO/Trusted Trade programme participants - using risk mapping techniques, compliance monitoring, self-assessment and self-inspection schemes. This makes the negative impact on operators minimal. Using risk-management and compliance management models, world's best practice is that less than one percent of imports are subject to physical controls and most of these can be handled away from the border.

The movement of goods from the UK to the EU through Northern Ireland (NI) and from the EU to the UK through NI, will be treated as imports and exports and will be subject to customs procedures, formalities, checks and controls due to the fact that the goods are moving between two customs territories. In these cases, existing system and border processes will handle the arrangements and no new systems or infrastructure is needed.

Goods moving within the customs territory of the United Kingdom - NI-GB and GB-NI - should not be subject to customs checks and controls. The key is the intention to move goods within a single customs territory.

The NI protocol recognizes the challenges involved in this set-up but, based the origin and destination of the goods, there are international practices, models and methods to mitigate the risks of goods in these cases deliberately or unintentionally moving between the two customs territories. These mechanisms include risk and compliance management of traders involved in the movement of goods using an AEO model as described previously. Customs interventions in relation to the movement of goods in the internal UK customs territory should be strictly restricted to risk management-based situations.

There are areas such as agriculture/food where sanitary and phytosanitary controls will need to be carried out, as the island of Ireland is a single epidemiological unit. Such controls already exist today. The required information exchange between and within customs territories can be done electronically and any checks that need to be done can be made at border inspection posts at designated points of entry. In some cases, these controls can be done at approved trader's premises. There are also existing international conventions for specific topics that, signed by both parties, will require interaction between the trader and relevant authorities. These cases are rare and can be handled electronically and be based on risk.

In this context I want to draw the attention of the Committee to the fact that many of the proposals presented by the Alternative Arrangement Commission last year are valid for the implementation of the Northern Ireland protocol.

It is also essential that the private sector involved in trade and subject to the NI protocol is made properly aware of and prepared for the changes. This includes potential new requirements and registrations.

In my opinion it is possible to prepare for the changes described above in the time available. There is a need, however, to bring clarity to what businesses need to do to prepare, and for government to support business with these preparations. This preparatory work needs to start as soon as possible.

2. *What impact has the Coronavirus pandemic had on wider preparedness for new customs border arrangements and what support could be offered the help the sector adapt?*

We have already seen that the Coronavirus pandemic has impacted everything, including international trade. Trade recovery will be at the centre of post-Coronavirus pandemic recovery strategies. Trade facilitation in combination with increased compliance ensuring a higher degree of predictability will become an important part of these strategies.

From a strictly customs perspective, the crisis has not changed the actual border processes that need to be implemented but rather it has impacted the ability and capacity for both government and the trading community to prepare for future changes.

These circumstances certainly demand a strict and efficient plan for the implementation of the new day one border operating model.

There will also be a need for more government support for business in their preparations, especially support dedicated to SMEs. This can be done through various mechanisms and activities, such as enhanced customer engagement, additional communication, promotion of existing support instruments, additional training grants, support with building the pool customs experts required, and other measures.

3. *What additional sanitary and phytosanitary procedures and regulatory checks may be required on goods moving between the UK and the EU? What impact could these new requirements have on trade flows and supply chains? What steps could both sides take to reduce these requirements?*

There will be a need for additional capacity at border inspection posts at crucial border crossings. These facilities can be located some distance from the actual border.

The rules for SPS procedures and checks for certain goods will apply to movements between NI-GB and GB-NI, so more such checks will have to be carried out. The capacity of the

facilities will have to be adjusted to handle these checks in an efficient way. There are ways to minimize the impact of these checks by using risk management and self-assessment techniques for registered Trusted Traders as described above.

For other regulatory checks I refer to my answer to Question 1.

4. *What must the Government, ports and businesses do between now and the end of the Transition Period if the new arrangements are to work successfully? What lessons can be learned from current practices trading beyond the EEA? The Government anticipates that an additional 50,000 customs officers will be required to oversee the post-Transition arrangements. How many of these additional officers have been recruited, trained and deployed? How many do you expect will be in place by the end of 2020? •*

Based on experience from other countries and current international trends, government should urgently start updating the current AEO concept into a modern tiered Trusted Trader programme. In addition, decisions on the day one border operating model – including customs procedures and formalities, border processes, and systems requirements - has to be communicated to the trading community as soon as possible.

Furthermore, government must support the customs service provider sector to grow its capacity. This industry will be one of the corner stones in making the new arrangements work successfully. Private sector supply chain participants need to prepare in relation to building capacity, enhancing competencies, and changing routines and systems.

Private sector capacity is one of the most important questions that needs to be addressed. There is a massive need for customs experts, both in the service provider industry, as well as in companies engaged in export and import.

There are more than 150 000 companies in UK that have not previously handled customs procedures and formalities. Customs competency and capacity is essential for the post-Brexit-transition. There is a need of 50 000 – 70 000 new private-sector professionals in the customs service provider industry. To address the current shortfall, the UK Government has provided funding for the training of private sector customs experts. In addition, HMRC has launched several initiatives targeting future private sector customs professionals such as the online UK Customs Academy which offers professional and academic qualifications free of charge. There are other providers also offering different training options. Up until now approximately 1 500 future customs experts have taken advantage of the opportunity for education and training. While several hundred students have signed up for the HMG initiated UK Customs Academy, more needs to be done to ensure that the goal of over 50 000 private sector customs service professionals is reached by the end of 2020.

A marketing campaign is needed to make people – and particularly young people – aware of the job opportunities available in this dynamic and international sector and how they can gain qualifications. In this context I want to underline that in media this sector is often described as ‘form-filling’ while in reality the customs profession today serves a complex and important industry providing a wide-range of services including supply chain and data analytics, regulation, logistics and trade compliance.

The existing education grant funding to provide education free of charge needs to be made available to individuals and not just companies. This will create opportunities for thousands more people to gain qualifications. The period that the grant funding is available also needs to be extended beyond January 2021 to ensure that there is an expanded pool of talent available to companies and private sector customs service providers.

If the proposed actions above are implemented now, it is possible to train 25 000 - 30 000 more private sector customs experts by the end of the transition period, and the remainder during first half of 2021.

5. *Do all checks have to take place at the border? What impact will changes have on current border customs systems and how prepared is the sector to make these changes?*

No, most of the required checks can be done away from the border, both before and after arrival. Only some SPS checks are needed to be done at specific facilities, such as border inspection posts. It is possible to do these checks – as well as other risk based surveillance efforts - with a segmentation risk and compliance model (a tiered Trusted trader programme) in combination with existing technology solutions.

There is insufficient preparation in the private sector due to a lack of clarity about the day one border model and the situation has naturally not improved during the Coronavirus pandemic. Government needs to firstly decide on, and then communicate, the requirements in relation to the new day one border model. Secondly, government needs to implement an extensive programme to support traders with their preparations to build competency and capacity.

There should be specific efforts dedicated to the professional private sector customs service provider industry as this sector has a crucial role to play in this context.

Support for customs training should be extended to all companies involved in international trade – including EU trade – and support should also be provided for the recruitment of new people into the private-sector customs service profession.

6. *What infrastructure will be required to facilitate the new customs and clearance arrangements? How soon can this be put in place? How should such changes be funded?*

Most of the infrastructure required is in the form of processes and programmes - such as an updated Trusted Trade programme – and systems to support the implementation of smart borders.

For channel tunnel traffic, there is a need to develop the facilities for a smart border in combination with a new modern tiered Trusted Trader programme based on the current AEO concept.

The infrastructure needed is a drive-through-border concept with pre-arrival customs declarations with necessary information/data sets and an identification mechanism at the border. It is my opinion that this model can be implemented, in a first version, during the transition period, subject to when the work starts. The infrastructure needed is not as expensive as commonly believed. There are different ways to fund infrastructure of this kind, either through government investments or through various commercial models in partnerships with private sector industry. The important thing is to bring clarity about the border model for traders as soon as possible so they can prepare properly.

For the NI-protocol there is no new physical customs infrastructure needed for the necessary arrangements.

The systems for registration of operators and Trusted Trader segmentation can be developed and implemented in a first version within the transition period if the process is started as soon as possible. The existing AEO programme model can be used as a basis to shape the new updated Trusted Trader compliance model. Technology that can support the model is available on the market now.

The capacity to do SPS checks might have to be somewhat extended, but this is also possible to do within the transition period.

My suggestion is to start practical pilot tests with stakeholders as soon as possible. I know that industry is ready to participate.

- 7. Will the arrangements be different if the Transition Period concludes without a deal between the UK and the EU? What would be the main challenges of this outcome? How prepared is the sector to deal with this?*

The border procedures and formalities from a customs perspective are in principle the same with or without a deal. A Free Trade Agreement (FTA) can naturally remove and/or lower tariffs (and thus costs) for trade between UK and EU.

An FTA to some extent also simplifies the customs and border procedures for many traders, however many of these facilitation measures can be implemented outside a formal FTA.

If an FTA is agreed and ratified it also must be implemented by the private sector. This will demand specific support from government through communication and engagement with

various stakeholders, including trade organizations, trade representatives and individual traders. Overall, engagement with the private sector and the community is essential for the remaining transition period and the following phases of the process.

There are, in addition, a range of other potential agreements, also at a technical level, that can simplify the trade between UK and EU, including technical customs agreements on mutual recognition of AEO/Trusted Traders, and technical agreements on exchange of data.

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Committee on the Future Relationship with the European Union

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07 May 2020

Dr. Lars Karlsson
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Dear Dr Karlsson,

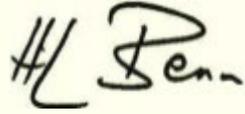
The House of Commons Committee on the Future Relationship with the European Union is inquiring into the progress of the negotiations between the UK and the EU. Under normal circumstances, the Committee holds regular oral evidence sessions in Westminster. However, measures to prevent the spread of the coronavirus make this difficult.

The Committee is keen to gather as much evidence as possible to inform its deliberations so I am writing to you to ask whether you would be willing to help us with our work by making a written submission. We welcome general responses to our [call for evidence](#), which was published on 4 March. We also hope that you would be willing to answer the more specific questions set out below on issues that fall within your area of expertise. Submissions need not address every bullet point and can include other matters that you think are relevant to the negotiations and should be drawn to the attention of the Committee.

- What do you expect customs and import/export clearance arrangements to look like after the Transition Period? What procedures, administration and controls do you expect to change? What impact will changes have on current border customs systems and how prepared is the sector to make these changes?
- What impact has the Coronavirus pandemic had on wider preparedness for new customs border arrangements and what support could be offered the help the sector adapt?
- What additional sanitary and phytosanitary procedures and regulatory checks may be required on goods moving between the UK and the EU? What impact could these new requirements have on trade flows and supply chains? What steps could both sides take to reduce these requirements?
- What must the Government, ports and businesses do between now and the end of the Transition Period if the new arrangements are to work successfully? What lessons can be learned from current practices trading beyond the EEA?
- Do all checks have to take place at the border? What impact will changes have on current border customs systems and how prepared is the sector to make these changes?
- What infrastructure will be required to facilitate the new customs and clearance arrangements? How soon can this be put in place? How should such changes be funded?
- Will the arrangements be different if the Transition Period concludes without a deal between the UK and the EU? What would be the main challenges of this outcome? How prepared is the sector to deal with this?
- The Government anticipates that an additional 50,000 customs officers will be required to oversee the post-Transition arrangements. How many of these additional officers have been recruited, trained and deployed? How many do you expect will be in place by the end of 2020?
- To what extent has the Government sought your views on the customs border arrangements it is pursuing? Have your views been suitably represented? How does the Government update your sector on the outcomes of negotiating rounds?

The Committee staff will be happy to discuss the inquiry, any issues raised, or the process for submitting written evidence. You can contact them at freu@parliament.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Hilary Benn". The signature is written in a cursive, slightly stylized font.

Hilary Benn
Chair of the Committee