Shanker Singham – Written evidence (FFT0027)

Opening Comments

The key opening question is what are non-tariff barriers? NTBs cover an array of different things that can be characterised as follows:

1. Customs and Trade Facilitation issues
2. Regulatory Divergence barriers
3. Anti-Competitive, trade distortive regulations and laws.

It is not possible to look at these issues in a vacuum, as EU-UK impacts must be offset against UK-X (where X is a new FTA partner country) and consequent domestic regulatory changes which become possible after the UK leaves the EU. Clearly there will be costs as we leave the EU because we are leaving a customs union and single market. The internal logic of Brexit therefore requires the UK to maximise the basket of opportunities which lie only in the external trade policy and domestic regulatory policy agendas. This is because anti-competitive, regulatory barriers can be solved in FTAs through Good Regulatory Practice ("GRP") and Regulatory Coherence ("RegCo"), as well as modern competition policy chapters.

A recent Cebr agency based model study (see here) showing global output reducing for a two party system by 37% in the case of maximised behind the border barriers and 11% for maximised at the border barriers. The OECD has also noted that there is a 10-12% GDP potential gain for developing countries, and a 5-7% GDP potential gain for developed markets from regulatory reform. These orders of magnitude increases are much larger than the regulatory divergence cost. An ideal FTA would try to solve for both.

Some examples on the domestic regulatory improvement front follow. It is important that the UK does not use its newly found regulatory powers to make regulations more anti-competitive and trade restrictive than they already are. Examples include:

UK REACH - Major Industry Concerns

One of the benefits of Brexit will be the ability to escape unnecessarily burdensome, bureaucratic, and costly regulation that the EU has sometimes developed. EU REACH is one of these regulatory structures.
But in developing an alternative version – UK REACH – Defra risks creating something for the UK that could be just as disproportionate in terms of its costs, bureaucracy, uncertainty and propensity to cause huge damage to UK businesses while having no benefit to human health of the environment.

The obvious approach would be to recognise fully all those chemicals that have been submitted fully to the EU REACH system and have a system of data sharing between the UK and EU regulators. This would avoid all of the problems and would be a solution that will work well and would be welcomed by industry and other stakeholders.

But this does not appear to be where DEFRA is currently headed. DEFRA's position – especially in a WTO Rules scenario – would involve all of the companies putting chemicals on the market submitting full data to UK REACH within 2 years. The problem is that the companies do not own the data that was submitted to EU REACH – it is owned by large consortia of chemicals and other companies who own

the data and who may not release it for any purpose other than for EU REACH and who may either refuse to provide it or only provide it at disproportionate cost.

If companies cannot get the data from the consortia as would seem to be the case, they will be forced either to stop using the chemicals in the UK or they will have to reproduce the massive sets of data themselves at huge cost and resource in terms of time and money. They may need to do unnecessary animal experiments to produce the same quality of data which would clearly be unacceptable. There is huge concern in the industry about unnecessary costs, expense and the impact on UK investment, jobs and on consumers.

There are many ways in which burdensome regulation can be avoided while maintaining all of the necessary protections for human health and the environment that are vital. UK REACH can get the summaries of all of the data findings on all of the chemicals from ECHA's website as it is publicly available and a legal power could be given to UK REACH to force companies to produce more data at short notice if there was any health, safety or environmental problem that required it. On top of that, it would be hoped that ECHA and the UK REACH regulator would be able to share further data in the interests of human health and the environment and indeed ECHA is legally obliged to do so if it has a confidentiality agreement in place with other regulators around the world.

EU SPS Regs

There have been recent communications in the WTO from 31 developing countries, and a broad group including Canada/India/US/and Latin America expressing strong concern about the direction of travel of EU SPS regulations. The UK could certainly improve things here for UK farmers. Many EU SPS regulations, as well as being WTO violations (in the case of beef hormones and GM) are also anti-competitive and have a significant impact on trade.

Other FTAs have sought to deal with regulatory issues through GRP, RegCo and competition chapters. CPTPP, but earlier NAFTA going back to 1994 had provisions on Regulation and Competition. NAFTA investment rules with provisions limiting actions tantamount to expropriation ensured that there were some disciplines on regulations that amounted to regulatory takings. Note EU is quite new to this process and EU-Japan has RegCo for first time, and UK-EU would be the EU's first GRP agreement even though GRP is recognised by the TBT Committee as an important part of ensuring technical regulations around the world that do not damage trade.

The OECD has also done significant work in this area – in its competition assessment regulatory toolkit.[1]

I would point out that in 28 years of advising companies on market access issues, including almost twenty years as head of the practice in two global law firms, while some clients have raised customs issues as barriers, it has been no more than 5-10% of the complaints – most raise other NTBs/regulatory issues etc.

Cost of Customs

[1] See Plan A Plus at https://iea.org.uk/publications/plan-a-creating-a-prosperous-post-brexit-uk/ for a comprehensive analysis of regulatory issues and economic aspects.

I referred the Committee to a Tate and Lyle Case Study which was our paper, Brexit, Movement of Goods and the Supply Chain.[2] The paper contains some case studies on costs of customs – the Tate and Lyle case study suggests that the cost of customs is 0.055% of the value of the product. All global customs is managed by 2 people. Given that these people perform other functions in the company, the real cost may be as low as 0.01 or 0.02% of the value of the product.

There are some absurd numbers being suggested as the cost of customs (£7bn in one estimate, £13bn in another). This assumes that a certain number of declarations will be necessary, and multiplies this by the cost of one declaration as if the party had never filed one before and was not take advantage of a range of simplifications that actually exist. In fact, as I point out at https://globalvisionuk.com/the-true-cost-of-customs-the-uk-should-not-be-afraid-of-its-own-shadow/, the true cost of customs will likely be much lower because parties can use simplifications, trusted trader, periodic declarations, self-assessment and simply using a Community Systems Provider (CSP) can be significantly lowered. If you do customs in-house in this fashion the actual cost of a declaration can be as low as 50p. In any event it is quite possible the actual cost is about 30% of the £7bn number suggested, making it 0.1% of UK GDP.

Rules of Origin

The UK wants more liberal and open rules of origin ("RoO"). Its offer would allow both cumulation and diagonal cumulation. The reason for this is that it is an important way of protecting the UK-EU27 supply chain. Consider a car supply chain, where RoO's include local value content rules. Unless there is cumulation, in the automotive sector, it is possible for the product produced in the UK involving non-UK content (but EU-27 content) not to qualify for the preferential treatment of the UK-EU FTA. Where there is content from non-UK, non-EU27 countries, you would need diagonal or regional cumulation (with other countries both parties have an FTA with) to ensure all of this content is deemed originating for the purpose of the preference. The EU's draft suggests much more limited rules of origin. In addition, many UK and EU companies will want either substantial transformation or change of tariff classification to ground when a product is deemed originating. RoO have become modern trade barriers, and good practice would be to keep them open. There will be a challenge on RoO with respect to the UK-US FTA. Example: All the cars in Honda Swindon were destined for the US, prior to its closing. If the UK-US FTA leads to a zero tariff, it is likely based on the USMCA precedent, the US will ask for more closed RoO. There will be challenges squaring these two RoOs that will have big supply chain effects.

UK should ask for RoO that focus for most sectors (if not all) on substantial transformation or change in tariff classification. Local content rules are present in automotive, and this is a barrier to trade which we should be trying to oppose.

The increasing complexity of RoO is becoming a serious trade barrier. For example, RoO in USMCA include not only high local content rules (75% in automotive), but also labour content rules. Just at this critical time, the RoO WTO group has not been very active and it would be worth the UK as the new trade policy player pushing in this group for improvements, and for more liberal rules of origin.

Note: The Aus-NZ Productivity Commission advised no nuisance duties because RoO formalities would be so great many traders do not bother with the preference in these cases. The new UK global tariff has removed nuisance level tariffs for some

[2] See here at Annex

products which is good. If the EU were to reciprocate that would be very helpful.

PEM Convention

PEM gives diagonal cumulation, because there is a network of FTAs among all the members. It requires the RoO to be identical between countries, and that is the issue with the UK's different proposed RoOs. Of course, if there is no UK-EU FTA deal then there are no RoO issues to consider.

The PEM plan is to have a single instrument for all PEM members which includes

- The participants in the Barcelona Process (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine (This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.), Syria, Tunisia and Turkey),
- the participants in the EU's Stabilisation and Association Process (Albania, Bosnia and Herzegovina, the Republic of North Macedonia, Montenegro, Serbia and Kosovo (This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.),
- the Republic of Moldova.

Origin is proved using a movement certificate EUR1 or EUR-MED.

The issue for the UK is whether the PEM RoO will be in conflict with the UK's more open RoO with its FTA partners. This will be an issue with the US. Admittedly, the PEM secretariat is seeking to have more liberal PEM rules, but some members are pushing back against this, and the track record of PEM is quite limited in embracing more modern approaches.

That said, specific things which PEM is seeking to do to be more liberal is more liberal regional cumulation, allowance of duty drawback, increase in tolerance from 10% to15%, and more use of accounting separation techniques. This is particularly useful in the case of commodities like sugar which might be coming in from multiple markets and which needs to be separated for the purpose of origin calculations.

The concern is if PEM is seeking to set up a zone which is a closed preference area with high barriers to the outside world, just as the concern on autos are very illiberal RoO in the case of the USMCA revisions.

Regulatory Cooperation

You would need, as the parties have agreed in their respective mandates a strong GRP chapter.

Attempts to deal with regulatory barriers in FTAs is not new. The NAFTA Investment chapter (1994) sought to deal with expropriation as well as actions tantamount to expropriation which covers some regulatory takings and therefore deals with regulatory barrier cost.

However this area is new to the EU. Whereas in other countries GRP chapters have been around for a long time, the EU-UK FTA would be the EU's first agreement with GRP. The RegCo chapter in the EU-Japan FTA is the first example of a RegCo chapter in an EU FTA. You would want to see a significant GRP and RegCo chapter which goes beyond what is generally found. Reduction of distortions on both sides of the

Channel would help facilitate trade.

It would be important in this discussion to integrate best practice in the area, including the OECD Competition Assessment disciplines, and the OECD regulatory toolkit, as well as the learning from the TBT and SPS agreements.

In an ideal world, because of the unique starting point of regulatory identicality, a divergence management mechanism would be preferred as described in my draft UK-EU FTA (see here).

If not, then you would want disciplines on regulatory promulgation that mirror the OECD and ICN thinking on these issues. This could form part of the assessment of equivalence. If both parties are adhering to GRP, and their regulatory goals are objectively the same, equivalence should generally be granted. Here it is to be hoped that the UK and EU would be more ambitious and seek to build on existing best practice. This would be a major contribution to global trade.

Importance of Mutual Recognition of Conformity Assessment

This is very important to companies on both sides. Given the fact the EU routinely grants MRAs for conformity assessment with others, it is mystifying why they don't with the UK. The stated reason that they want to avoid the UK exporting conformity assessment seems a narrow mercantilist reason which will actually harm EU firms.

Given the fact that this is an area that both UK and EU firms want, firms should be lobbying both London and Brussels. I don't see much evidence of lobbying of Brussels.

While companies lobbying seems to stop at the door of London, they need to lobby Brussels since it is Brussels not London which is blocking a more extensive set of MRAs.

WTO Implications of EU Refusal to Grant MRAs for Conformity Assessment

There are three levels of MRAs – conformity assessment ("CA"), standards, and product regulation ("PR") itself. CA is the most basic, PR the most advanced. The EU has granted countries all three – MRAs on underlying product regulation in CETA and with NZ on meat products regulation in the NZ-EU Veterinary Agreement. That is important because it lowers the amount of physical checks required for SPS from 100% to 2%. There is no WTO obligation to grant MRAs, although certainly granting them where possible is strongly encouraged by the TBT agreement. Even on technical regulation equivalence, Article 2.7 says members shall give proper consideration to granting equivalence. On Conformity Assessment, the TBT agreement at its Article 5 seeks to ensure that conformity assessment processes are not more burdensome than necessary and do not constitute barriers to trade. Following that logic, under the TBT (Article 6.1), members shall ensure that the results of conformity assessment in other bodies are accepted where possible, even where processes differ from their own. Prior consultations may be necessary, but the UK and EU are uniquely positioned to engage in those consultations now. Elsewhere (articles 6.3 and 6.4), members are encouraged to enter into MRAs.

Standard setting bodies in countries should use international standards where they exist or where they are imminent (Annex, TBT Agreement).

Customs and Trade Facilitation

I have drafted a sample Customs and Trade Facilitation chapter for a UK-EU FTA.[3]

A good customs and trade facilitation chapter includes things like a commitment to single window, so that traders do not have to deal with multiple agencies. At the moment there are many agencies a trader needs to deal with, HMRC, DEFRA, Home Office, Border Force. We have suggested in the past creating a Minister for the Border, and it is hoped that the new Border and Protocol Delivery Group ("BPDG") can accomplish that from the Cabinet Office but this is not yet clear. Fully inter-connected single window systems such as you have on the Sweden-Norway border do exist and provide useful precedent.

The goal should be to go much further than the WTO Trade Facilitation Agreement and make the border as smooth as possible. You would want things like exemptions from duties for low value shipments (something the EU is pushing back on) to facilitate digital trade, for example.

Enhanced customs cooperation.

There should be a commitment to simplified procedures including allowing people to remove goods from customs control before procedures are complete. This will be particularly necessary for RoRo at Dover Calais. The proposed GVMS system will be interesting to see implemented, but any integrated drive through border will be an important simplification. Similarly, the parties should maximise risk-based methodologies, such as AEO, trusted trader and mutual recognition of trusted trader, and the use of inland clearance and in-facility checks.

The UK has a commendable goal to have the best border in the world by 2025. It has a huge opportunity to leapfrog old technologies and design a border for the 21st century. In this context, the UK should take advantage of its opportunity to have its own customs rules, and not simply default to the UCC. Clearly the UK's own rules, or UK Customs Code would draw heavily from the UCC but it should include best practice from other countries also.

There are many improvements which could be made some of which I list below.

1. **Use of the "First Sale Rule" for Customs Valuation of UK Imports:** Historically the use of this facility had been in practise since the late 1970s.

   In international trade, transactions of goods are often triangular (or quadrangular, etc.) in nature. For example, a UK firm may place an order for goods with a firm in Taiwan, which then commissions a Mainland Chinese firm (manufacturer) to produce the goods, and finally delivers the goods to the UK buyer. In traditional valuation work, when goods are imported into the UK, the basis for calculating their dutiable value on import is the price the importer pays the intermediary. But if the "first sale" valuation method is adopted; the dutiable value of the goods can be determined using the price in the transaction between the manufacturer and the intermediary. In other words, the dutiable value of imported goods will not include the intermediaries' gross margin, thereby lowering the goods' dutiable value, and consequently reducing the customs duties and other indirect taxes that have to be paid on them.

[3] See https://competere.co.uk/uk-eu-fta for a general treatment and for the full UK-EU FTA; Chapter Three; Customs and Trade Facilitation

The legal basis for the abovementioned "first sale" valuation method originates in the WTO's Customs Valuation Agreement (the "CVA") - in particular, its definition of "transaction values".

According to Article 1 of that Agreement, the customs value of imported goods should be their transaction value, and what is termed transaction value is "the price actually paid or payable for the goods when sold for export to the country of importation". In indirect trade situations, "selling for export" can be interpreted as being the transaction between the manufacturer and an intermediary; that is, the "first sale" in the entire supply chain.

The "first sale" valuation method has widely been accepted by customs authorities in the US and EU countries. As for Asia, since many countries have scant experience implementing the CVA, a comparatively reticent attitude has been shown towards adopting the "first sale" valuation method. If a firm wants to adopt the "first sale" method to declare the dutiable value of goods, it must meet all of the following conditions:

(i) Both sides of the transaction must carry out real sales.
(ii) When the manufacturer sells goods to an intermediary, it must be certain that the goods are to be imported into a country in order to ship them to particular targets.
(iii) If the buyer and seller are affiliated enterprises, then the transaction price must not be affected by the special relationship between the two parties.

A**bolition of "First Sale for Export" FSFE – rule**

The Union Customs Code (UCC) came into effect on 1st May 2016 and replaced the Community Customs Code. The UCC has brought along significant changes in the customs rules which has impacted importers in the EU. Amongst the most relevant issues are the increased taxation of royalties and the abolition of the so-called 'First Sale for Export'-rule (FSFE-rule). This should be amended in any new UKCC.

2. Comprehensive Customs Guarantee (CCG):

Requirements for the application of Customs Guarantee/s have increased financial burden on businesses under the UCC and must be reviewed urgently to simply the application process and to reduce the level of guarantees required - under new UK Customs Code/Law.

Example:

(i) Trader importing goods for **"Free Circulation"** under different Tariff Codes with appropriate duty rates applicable i.e. ranging from 1.6 % - 12%. Under the current UCC rule, trader is required to calculate potential duty / debt at the highest duty rate applicable.

The impact on the trader can be illustrated thus:

Total import value per month = £380,000

a. Product Y CIF value £200,000 at 1.6% Duty Rate = £ 3,200.00
b. Product X CIF value £100,000 at 3.7% Duty Rate = £ 3,700.00

c. Product Z CIF value £ 50,000 at 5.0%	Duty Rate	= £ 2,500.00
d. Product N CIF value £ 30,000 at 12%	Duty Rate	= £ 3,600.00
	Total Duty	= £13,000.00

Duty Deferment required on actual amount £13,000 x 2 = £26,000.00
Rollover 2 months as Duty for the month of import is not debited until 15th of the following month.

HMRC Requirement under the UCC

Duty applied at the highest rate at 12% would be £45,600 x 2 = £91,200 as supposed to £26,000 (actual) as shown above.

(ii) For a trader importing goods, stored under the **Customs Warehouse** facility and removal for **"Free Circulation"** (using same amounts as 1 above) and equal amount of stock valued at £380,000 with a potential (actual) duty £13,000.

HMRC Require guarantee:

Duty Deferment **£ 91,200** plus additional guarantee of **£45,600** on potential duty at the highest rate.

URGENT REVIEW AND REMOVAL OF FINANCIAL BURDEN

A. Duty Deferment guarantee amount/s should be based on true rates of duty applied on each product imported (not the highest rate applicable).

B. Additional financial guarantee (Potential duty) on goods stored under Customs Warehouse facility should be abolished.

Large organisations have a huge amount of stock stored under Customs Warehouse facility with a potential duty of £1m+

3. Royalties:

Under the old customs legislation (CCC), royalty and licence fees were only dutiable if they relate to the imported goods and were paid as a "condition of sale" of those imported goods. Under the UCC, the condition of sale requirement is assumed to be met in the absence of evidence to the contrary. Under the UCC, royalties and licence fees are considered to be paid as a condition of sale for the imported goods when any of the following conditions is met:

(i) the seller or a person related to the seller requires the buyer to make this payment;

(ii) the payment by the buyer is made to satisfy an obligation of the seller, in accordance with contractual obligations; or

(iii) the goods cannot be sold to, or purchased by, the buyer without payment of the royalties or license fees to a licensor.

Specifically, the third condition increases the number of situations in which royalty and license fees become dutiable as it focusses primarily on the

obligations of the buyer (instead of the requirements of the seller) and the licensor may even be a third-party (i.e., unrelated to the seller). Moreover, under the current rules additional more stricter conditions apply specifically to trademark royalties. Under the UCC, the distinction between trademark royalties and other trademarks have been removed and the exception for trademark royalties has been abolished.

Require changes:

HMRC should consider 2 options:

(i) Apply Duty on Royalties and Licence fees where there is "Condition of Sale" as it is was in the past under CCC and currently under the UCC.

(ii) NO Duty applicable where it can be proved that it is NOT a "Condition of Sale" under the WCO - list in Advisory Opinion 4.8 CASE STUDY - see attached Annex FC

4. Inward Processing Relief - Duty Drawback:

This regime was available up until May 2016 and widely used by many small - large traders in different sectors of business.

Customs duties, excise duty and import VAT paid when the goods were entered to IPR Drawback procedure. Authorised traders could claim the import duty back when they exported the goods or products, transfer them to an IPR suspension authorisation holder or dispose of them in eligible method of disposals. The authorised trader could reclaim the duty on drawback goods or discharge IPR liability on suspension goods, dispose of the goods in one of the following ways:

- Declare the goods to another customs procedure e.g. customs warehousing, free
  zone or temporary importation (TI)
- Move the goods to another Member State for entry to another customs procedure (export)
- Move the goods to an approved customs use such as export shops, armed forces, NAAFI, an embassy, ships stores/bunkers, commissary stores
- Use of aviation fuel for third country or intra-EC flights

Re-introduction of this regime would be welcomed by many traders and would assist traders to look into exporting the goods with confidence that they would be able to re-claim duty in order to be competitive in the export market.

5. Inward Storage Relief (ISR) - a proposal for a new customs regime

This was discussed at length in the recommendations of the Alternative Arrangements Commission (see https://www.prosperity-uk.com/aacabout/) and has general application.

Introduction

ISR is a hybrid of IPR and customs warehousing procedures designed for re-export of goods in the same unaltered condition as imported. It is intended for trusted traders but could also provide facilitation for smaller and medium size businesses as a first customs regime. This has also been checked with the senior officers of customs agencies of EU member states, and the strong indications are that this is workable on the EU-side.

How would it work?
Authorisation is for both the trader and the site. The goods are declared to free circulation on import, and the goods are stored in the approved location but not under strict customs control. The goods are exported using normal export procedures followed by a duty drawback / reclaim in the form of a schedule lodged with HMRC within 30 - 60 days of export, provided all conditions are met.

Conditions for using ISR
The trader must be a trusted trader, but not necessarily an AEO. The goods must be checked on receipt against the purchase order to ensure the correct description and quantity of goods received. The goods must also be unused and must be exported in the same condition as imported. Approved warehousing / premises must be secured, and goods must remain at the approved site with no time limit on the storage of goods.

Duty re-claims process
To reclaim import duty paid at import, a trader must retain definitive evidence of import and export, including goods departure notification. The trader must be able to clearly identify goods through customs records and/or commercial systems.
The trader must reclaim duty within two months of export, and repayment is made within a specified period that is acceptable to both HMRC and the trade (this should not be longer than two months after submission).

Benefit to HMRC
The benefits of using ISR for HMRC would be less management than customs warehousing.
Only for "trusted traders" means lower risk since customs duty is repaid rather than suspended and there is a lower fiscal risk. ISR could be a bridge to other customs authorisation that carries a greater level of risk.

Benefit to trade
The benefits of using ISR for trade would be more flexible than customs warehousing, no customs warehousing declarations are required thus eliminating removal entry or any specialist software costs for reporting to HMRC. ISR would be more accessible for smaller and medium-sized businesses but could very well be useful for large distributors / traders. ISR will have no throughput period limits, is clearer than using IP for storage and is less burdensome to manage for businesses without customs experience or skills.

Why not just use Inward Processing Relief (IPR)?

Businesses have used IPR to achieve the same benefits in the past; this is however not what IPR is designed for. IPR is a processing regime, whereas ISR is instead designed specifically for storage.
IPR introduces some restrictions in the area of the customs commodity codes (HS) that can be used, restrictive throughput period, and bills of discharge to clear / discharge any customs debt. ISR is therefore designed to be simpler to use, and reduces the paperwork required compared to IPR.

ISR – Risks
The customs authority may have less control than customs warehousing; there will be increased customs resource in the management of the procedure. There may be less intake of tax for Treasury, and lack of understanding may lead to mistakes, but the impact would be mitigated through a duty reclaim process instead of suspension. However, the risk is reduced in comparison to other customs regimes as the tax is paid and then reclaimed.

Phasing of the Border

If the phasing approach sets up a different position as between non-EU and EU exporters as would seem likely, then this would be a WTO violation because customs processes would
differ between the two groups of traders. That is why it is so important that opportunity is given to traders who are ready to submit information from day one. There will also be pressures on the customs IT platforms (Chief) if TSPs are used and then full declarations are
all submitted at the same time. Any declarations that can be made earlier would be very advantageous. If the TSPs were to apply to all parties, the EU would object because the porous IE/NI border would allow any products to enter the single market via Ireland without proper processes. Any WTO violation could be mitigated if there was a legal date certain for the end of these arrangements. This could be put into UK primary legislation and this would give comfort to the UK's trading partners.

HMG should definitely want to make sure that any traders who are ready on Jan 1, 2021 should be able to interconnect to whatever system the UK then has so that they can be removed from the "unready" category. They can then fill in any forms, but be eligible for deferral of payment so they are not penalised for being ready versus traders who are not ready.

Unilateral Recognition by UK

The UK could act unilaterally and should recognise EU standards. I understand the UK might very well do this for traders who primarily sell products produced in the EU into UK markets, or for those who manufacture in the UK using raw materials which are brought in from the EU. It is of course only half the problem. UK negotiators will also fear that this sort of signal removes their negotiating leverage.

Trader Readiness

The most important thing for business is to recognise that the transition period will end on December this year. To be fair, the government has been crystal clear on this point. Trade needs to now take this seriously. Government engagement with the trade has been sparing. The Government should also avoid a situation where traders who are ready are in effect penalised for being ready, and those

who did not prepare were rewarded.

There is a group of traders who are ready already and have not waited for the government to come up with its border operating model. These traders should benefit from their state of readiness and not be penalised for it.

For example, the big retailers, like M&S already have operating models they would like to share with the government (indeed both governments) and can develop further support from industry.

Readiness of Customs Broker Industry

The UK needs to have a more developed customs broker industry to support trade. HMRC already has a Customs Academy which is already training people. It was put in place by HMRC working with KGH and the Institute of Exports. It needs to be more widely advertised.

There is also a need to ensure that more UK firms register as Authorised Economic Operators ("AEO"). The current number is around 500 or so versus 6,000 in Germany. We must make UK AEO system more user friendly and increase the benefits because many companies do the cost benefit analysis now and do not think it is worth it.

We will need MRAs for AEO programmes, but these can be done quickly and could be done outside the ambit of any FTA, as standalone MRAs between the UK AEO programme and that of the EU.

14 July 2020