

# Treasury Committee

## Oral evidence: The UK's economic relationship with the European Union, HC 453.

Tuesday 5 June 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Mr Alister Jack; Alison McGovern; Wes Streeting.

Questions 665 - 794

### Witnesses

[I](#): Benoit Rochet, Deputy CEO, Port of Calais; Joachim Coens, CEO, Port of Zeebrugge; John Keefe, Director of Public Affairs, Getlink (formerly Groupe Eurotunnel).

[II](#): Jon Thompson, Chief Executive and Permanent Secretary, HM Revenue and Customs; Jim Harra, Deputy Chief Executive and Second Permanent Secretary, HM Revenue and Customs; Karen Wheeler, Director General Cross Government Border Delivery Group, HMRC.

## Examination of witnesses

Witnesses: Benoit Rochet, Joachim Coens and John Keefe.

Q665 **Chair:** Good morning. Thank you all very much for being here and for travelling over, if you have been travelling this morning or yesterday. We are very grateful to you for coming to give evidence this morning as part of our inquiry on the UK's economic relationship with the European Union. We have people watching online as well as those who are in the room, so I am just going to ask you all to introduce yourselves.

**Joachim Coens:** I am Joachim Coens. I am the CEO of the Port of Zeebrugge.

**John Keefe:** I am John Keefe. I am director of public affairs for Getlink, the owner of Eurotunnel.

**Benoit Rochet:** I am Benoit Rochet, deputy CEO of the Port of Calais.

Q666 **Chair:** Thank you all, as I say, very much indeed. I have a broad opening question to all three of you. I wonder if you could give the Committee an idea of the scale of movement of cargo between your ports—and, obviously, Eurotunnel—and the UK and an approximate idea of the economic value of that trade. I am sure those are figures that you have already covered, perhaps, in evidence, but it would be very helpful to hear from you orally.

**Benoit Rochet:** The Port of Calais has two major clients; we have lorry drivers and we have tourists. The most important clients here are our drivers. In 2017, 2 million lorries crossed the Channel via Calais, 1 million each way; the figures are almost symmetrical. It is an important number of lorries, and in the whole Dover Strait, including Getlink, there are about 4.6 million lorries per year. About two-thirds of the traffic crosses the Channel via the Dover Strait, Calais, Dunkirk and the Tunnel.

Q667 **Chair:** What value is that, roughly?

**Benoit Rochet:** Maybe you can say, because you have just updated your study.

**John Keefe:** Yes, it was published yesterday. Through the Channel Tunnel directly, it is about €138 billion worth of goods every year. If we take that down into pounds, it is somewhere in the region of £120 billion, depending on which exchange rate you use. The Port of Calais adds about the same amount, so we are talking about £240 billion worth of goods traded between the UK and the EU 27 through the short strait.

The short strait is a particularly important route, because that is about 26% of all the trade that we do between the UK and continental Europe. Most of it is truck-based. Our part of it is 1.6 million trucks per year. The importance of the route is because of the speed of crossing, the



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frequency of crossing and the ease of access to markets. It fits very well with the organisation of the economic model that operates across Europe these days. That is, one of just in time, often of just in sequence, and because a very important part of the trade is postal, courier, express delivery, internet retail trade, it is the bit that is becoming known as “just when I need it”. It is going into consumers and it is going into supermarkets and direct distribution centres.

On top of that, there are about 2.5 million passenger cars going through and, in total, about 20 million people, if you combine those who go through the Channel Tunnel on the shuttle services and those who go through on Eurostar to Paris, Brussels and now Amsterdam.

Q668 **Chair:** Mr Coens, could you give us an idea of the size and scale of the operation at Zeebrugge?

**Joachim Coens:** Yes. The Port of Zeebrugge is a UK port. 45% percent of our traffic is linked to the UK, so that is very important for us. In that, we have all types of goods, mainly automotive equipment, chemical products, food products and textiles, which come from our region. Our region is importing and exporting together about €50 million of goods to the UK, and what is very important for us is, in total, we do 2.8 million cars out of which 1 million relate to new cars for import and export to the UK market. We have about 70 sailings a week to the UK, which is 10 a day, so just deliveries is very important. In comparison to Calais, 95% of our goods are unaccompanied freight, meaning that freight arrives at the port, goes into the vessel and continues its traffic in the UK with no driver on it.

Q669 **Chair:** You also handle non-EU freight as well.

**Joachim Coens:** Yes, we have a lot of non-EU freight.

Q670 **Chair:** Could you talk us through the differences, broadly, in view of time, between how non-EU and EU freight is handled?

**Joachim Coens:** The difference is, of course, the checks, controls and papers, but, to be frank, the non-EU is quite smooth also. It goes to the Far East or wherever and a lot of that cargo is digitalised and so we have paperless terminals, like the COSCO terminal, which is the Chinese terminal. They go through that. There are controls on that, which is apparently 1% to 5% of the physical checks, which is not, of course, the case for the UK cargo, which passes through within the customs union for the moment. If we had checks with all this, it would create an amount. We have about 4,000 trucks a day and if you aligned them, it would be about an 80-kilometre line and quite some hectares to store them. Of course, we are not expecting every truckload or container-load to be checked. We suppose that it would be similar to the non-EU traffic now.

Q671 **Chair:** That is very helpful. Talking about trucks and delays, what work has the Port of Calais done in terms of if there were to be checks on lorries and drivers? On your side, how quickly would it take for things to



slow down?

**Benoît Rochet:** The first thing is just to remind you that if our clients come to the Dover Strait, it is because it corresponds to what they need. John Keefe talked about the just-in-time logistics; the main asset of the Dover Strait is the speed of the crossing, the flexibility and the frequency. In Zeebrugge, you said you had 70 crossings a week. We have 50 crossings a day, so it is not the same thing.

**Joachim Coens:** On a shorter distance.

**Benoît Rochet:** Yes, it is shorter. We have very few controls, except the controls done by the UK BF and the port about the migrants issue, but today there are very few customs checks and there is no sanitary inspection. Tomorrow, if the United Kingdom becomes a third party, there will have to be controls on goods. The main issue would not be goods going to the United Kingdom from the European Union, because you would be in charge of doing these controls in the United Kingdom. I would say the main issue would be carrying out controls on lorries coming from Dover. French customs told us that the physical control will be about 1%, so if a ferry can carry about 100 lorries, it means that on a particular ferry there would just be one lorry controlled per crossing, so it is not a very big deal. Most important is the sanitary inspection, because if there is no particular deal between the European Union and the United Kingdom, there will be very frequent controls of all the lorries containing or transporting meat, fish and I do not know what. That could be a problem.

Q672 **Chair:** Exactly. The sanitary checks are perhaps of more concern to you than the customs checks.

**Benoît Rochet:** Yes, but we have to implement a system and we have to give customs all the information they need in order to target the right lorry they want to control.

Q673 **Chair:** Before I hand over to the MP for Dover, who I know is going to have lots of questions on this, inevitably, the last question is just about the common transit convention. How important is that for all your businesses and what discussions, if any, have you had about the UK's continued membership of the convention?

**Benoît Rochet:** It is important to us because, as Joachim said, in Calais, about 5% of our traffic is unaccompanied trailers, so drivers come, they leave the trailer in a carpark in the port and then the port handles it. More than 95% of goods are accompanied lorries, which means that you have the trailer, the tractor, the lorry and the lorry driver. We need to be sure that the lorry driver will be allowed to cross. We need to be sure that even if he is a European citizen—if he comes from France or Poland, for example—with all his driving licences and things like that, that he will be allowed to drive with these licences in the United Kingdom. Otherwise that could be very painful for the traffic.



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**Chair:** That is very important.

**John Keefe:** If we look at the volume of traffic, 95% of all the road-borne traffic that goes through the route, a lot of it is also groupage loading, which means that it is picking up at different points of the journey. It is not simply origin to destination; it is often making a series of stops and the ability to make stops in different countries, so to go freely through the whole of the European area is vitally important. This is in a situation where things that are moving quickly, because often the instruction to pick up a load comes during the journey and so a diversion is made to pick up a load part-way through. The ability to be able to have a driver who is based in one country driving a truck that comes from a second country, picking up goods in a third country and carrying them on to a fourth or fifth country is vital in both directions. It is particularly important to note the circularity of the whole system. People are coming into the UK, dropping off goods, picking up other goods, going back out and dropping them off again at various different destinations. That whole ability to move freely across all the countries that we are trading with is vitally important.

Q674 **Chair:** Mr Coens, would you agree with that?

**Joachim Coens:** Yes, the smoother you can get it the better and it is not only in food products. For instance, Honda UK needs 2 million components to build its car here in the UK and the stock time is only one hour, so they need just-in-time delivery and the smoother it can continue the better.

Q675 **Charlie Elphicke:** On the short sea route, it is critical that you get fast turnaround and that has been the case for many years. We are now nearly two years on from the referendum to leave the European Union. What guidance have any of you received from the Treasury or the Home Office on preparation for Brexit from our Government's side of things?

**Benoît Rochet:** We have had several meetings with the Port of Dover, but the most important problem is we know that there is Brexit, but we do not exactly know what Brexit means.

**Chair:** You are not alone.

**Benoît Rochet:** Obviously, we are working on several scenarios in order to be prepared for the worst, but today it is a bit hard to see where we will go and at what time we will reach this target. We work, first, with Dover, with HM Customs, but we also work with French customs, because they will be a major actor in this new system. We have also already met the administration that will be in charge of sanitary inspection, in order, first, to tell them what the traffic is on the Dover Strait, because Paris is a bit far from the north coast, and then we work with them to see what the best organisation could be to allow free flow of traffic as smoothly as possible.

Q676 **Charlie Elphicke:** Mr Keefe, have you heard from the Treasury or the



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Home Office, or had guidance from them?

**John Keefe:** We have been working with the British Government, across Government, through the Border Delivery Group mainly. We have spent an enormous amount of time ensuring that everybody understands how our business works, how important the Channel Tunnel is to the UK economy and to the rest of Europe. We have had a lot of exchange. We have worked on a number of different possible scenarios. We are still waiting, as everybody is, for the clarity of the final agreement, because in order to make our contingency planning we need to have a direction to go in. At the moment, we are discussing different directions that lead to different solutions, and that means that we can be prepared to follow one of those routes, but we cannot go any further than that at this stage.

Q677 **Charlie Elphicke:** Nearly two years on from the referendum, have you had guidance on preparing for a so-called no-deal scenario? Are you clear on what you are to do?

**John Keefe:** We have had very clear guidance on what might happen in a no-deal scenario and we are preparing for that as much as we can. The real thing that we are missing is the clear specification, the absolute detailed specification, of what inspections might be required and what kind of volume of inspection could be introduced. It is from that specification that we can move on to making our own contingency plans.

Q678 **Charlie Elphicke:** Let us say the day after the referendum orders had gone out from the Treasury and the Home Office to immediately prepare for all scenarios and prepare for no deal whatsoever, would we have been in a position from March next year to be prepared for every eventuality? Do you think we could have done that?

**John Keefe:** It all depends on what the requirement is at the time. The specification is where we are at the moment. Once we have that specification, as in industry we are very flexible. We are adaptable and we work across international borders; that is part of the world we are in. The important part is knowing which way to invest and the specification becomes everything.

Q679 **Charlie Elphicke:** With a clear specification for Brexit and what is expected of you, you would say, "We can deliver".

**John Keefe:** Absolutely.

Q680 **Charlie Elphicke:** What guidance have you had from the Home Office on maintaining border security in all scenarios?

**John Keefe:** Border security at the Channel Tunnel is amongst the best in the world. We have come a very long way in a couple of years. You will remember the immigration crisis of 2015 very well. That was a very good example of industry adapting to a changing set of circumstances. In security terms, we have worked very well with the Home Office, with Border Force and the authorities in France as well, and we have adapted to the very different situation that we are in. That gives us a great deal



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of confidence that once we have a clear idea of where we are going in the post-Brexit world, we will adapt similarly.

- Q681 **Charlie Elphicke:** Mr Coens, you do a lot of non-EU, WTO-type business. We have been having a little debate in this country about how much it costs to do customs clearance, whether it is 10% of the cost, £20 billion, or whether it is more like 1% of the cost, which would be effectively £1 billion. What is your experience of the cost, as a percentage of consignment value, of customs clearance and where the level might be?

**Joachim Coens:** It is difficult to say, depending on the product, but what I do know is that we are a bit spoilt by the customs union that is there. I do believe that the digitalisation of the flows that are happening on the non-EU cargo passing through our port now can be transferred to UK cargo now. We have a process that we have started since the referendum to try to digitalise every piece of information. Of course, that is a process that has start-up costs, but finally will also have some revenue at the end of the day, so I believe the cost of that would not be a big issue.

- Q682 **Charlie Elphicke:** More towards 1% then, the cost for non-EU into the EU.

**Joachim Coens:** Yes.

- Q683 **Charlie Elphicke:** That is very helpful. I imagine you will be making preparations for Brexit. What preparations have the Port of Zeebrugge been making? Can you tell us about the work you have been undertaking?

**Joachim Coens:** There are a lot of preparations, as other colleagues have also said. There is creating awareness with companies exporting in our region, because they are not aware. They do not know or they have only partly cargo to the UK, so I believe there will be a lot of changes. There will be consolidation in the sector, especially in the transport sector, trying to talk to the different public authorities on the continent, on the European side, on the Belgian side, to customs, to the inspectors about how to prepare and how to do that, and of course also here.

There is then a need to look into the contingency plan to see where we can store capacity, if required, or border inspection posts, to prepare parking lots for that, so that is also important, and to attract people and to prepare, so customs have new people there.

What is most important for us, though, is what I said just now: to create a platform, which we call Rx/Seaport, which links all our needed information so that we can have paperless customs in the future. That is a setup we are doing with the private sector and the public sector and, on that, we also talk to our colleagues on the British port side on a different platform, because they have different community systems, depending on the port, to link borders. For us, the most important thing that should happen, and there is a bit of waiting, is about the question you asked





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about talks with authorities. Yes, in the UK we talk to the continent, but the British and the EU and Belgian customs should prepare practical things. They are waiting too long to do that. They are not allowed or whatever is happening, but they should start, because all customs ask really practical questions. You have to transit with your goods; if there is a hanging system, does that also have to be declared? If it goes back and forth however many times, do you have to declare the same thing? All these are simple things and nobody can answer them.

**Q684 Charlie Elphicke:** Finally, what information have customs officials in France and Belgium provided ahead of Brexit to French and Belgian port operators?

**Joachim Coens:** They all say, "Prepare for the worst", and they say, "Yes, we will try to prepare for the worst", but they do not know the details of even that, and that is the point. Everybody knows what the decision is, but let us start to prepare on practical things. That should be started immediately, because even the transition period is not certain. They speak about transition and it is more or less decided, but we do not know if it is really decided or not, so that is also a problem.

**Q685 Stephen Hammond:** Good morning, gentlemen. Thank you for coming to give evidence this morning. Mr Keefe, can I ask you a few questions about your written evidence to us? In your written evidence to us you say, "The most significant issue at present is there is no pre-existing model of relationship with the EU that completely mitigates disruption and the need for border checks". There is, of course; it is called staying in the customs union or a customs union, but assuming that is not an option for us, we know *max fac* is effectively dead because it would involve a hard border, so what is the model you would see? What is the model you would suggest to the British Government?

**John Keefe:** The situation with the Channel Tunnel is slightly different, because we are not a port. We are a terminal of entry with a land border and then a rolling motorway that takes people across the Channel after they have been through juxtaposed border controls. The juxtaposed nature of the controls means that you do outbound and inbound controls on the same side. Coming into the UK, that happens in Coquelles, the village next door to Calais. You roll through French controls, you roll another 100 metres and you roll through the UK border controls.

If you are leaving the UK, it happens in Folkestone. As Mr Elphicke well knows, the geography of the local south of Kent is quite tightly constrained by the downs, the white cliffs, and then by the high speed railway link that leads to London, by the M20 motorway that serves both the Channel Tunnel and the port and then by, in our case, the town of Folkestone; in the ferries' case, it is the town of Dover. There is very little space available to do anything in the terminal environment, and that means that goods leaving the UK, being controlled particularly by France on behalf of the EU authorities, will be controlled in Kent. That is the issue that we have to resolve: how to get a smooth-flowing control





system that allows traffic to continue to move at the rate that it does today.

Q686 **Stephen Hammond:** In your evidence you also said to us, “The Government’s commitment to a frictionless border can be achieved with the right investment in technology”. “Smart border technology is essential in ensuring frictionless trade” is another statement you made, which is broadly what you have just said. The obvious question is what the right technology that needs to be put in place is.

**John Keefe:** The answer to that, I am afraid, is down to the specification that is given. Around the world there is a lot of very good smart border technology. Various different countries, whether they are, say, between Canada and the USA, between Sweden and Norway—

Q687 **Stephen Hammond:** Both of those are hard borders.

**John Keefe:** Absolutely.

Q688 **Stephen Hammond:** Both of those require something like 20% of the lorries being stopped.

**John Keefe:** I am not suggesting those methods. I am talking about the technology. There are elements of that technology that could be used in a smart border environment anywhere. We have been looking at smart borders for something in the region of five to six years. We believe it is the way to go because of traffic growth, never mind the relationship that we have. We believe it is the way to go both in immigration terms and in the movement of freight.

We need the specification, certainly. We need to be looking at the opportunities that exist around the world where the technology has been tested. Once we have that, we can build something, but we are in a bit of a vacuum at the moment, because we do not know what the specification is.

Q689 **Stephen Hammond:** Also in your evidence, you describe, presumably, this process of introducing technology as “a complex and lengthy process”. You go on to say that it is already too late to envisage it being in place by March 2019. Assuming that you did have a specification—let us just make that broad and bold assumption—how long would that complex and lengthy process last and when, on that basis, would it be in place post-Brexit?

**John Keefe:** I am not avoiding the question, but it does depend on what the specification sets out. If it is, “Let us not change anything”, then that is very simple. If it is, “We will have to inspect or control, in some way, every vehicle that goes through”, then it is an across-the-industry type of technology adoption, and that is from the goods at their first point of production if it is agricultural goods. If it is goods being packaged, it is at the first packaging point. If it is express parcels, it is at the first point of ordering. In many of those industries, there are already tracking



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systems that are very sophisticated and very effective, so, again, it really depends on the specification and how we pull it together. That is where we need to get to first.

**Q690 Stephen Hammond:** In response to Mr Elphicke, you did say that you were getting guidance or working with Government across Departments. Have they not given you any guidance as to what you might prepare for in terms of the specification required?

**John Keefe:** At this stage, while we are still waiting for clarity in the negotiation, we can only discuss different scenarios and then take note and be ready because one of them might be the eventual solution.

**Q691 Stephen Hammond:** I will take that as a polite way of saying no.

Mr Coens and Mr Rochet, could I ask you a question, if I may? Mr Keefe has just talked about tracking processes already being in place. In the partnership model, the Government's proposal is that you track goods to their final destination in order to determine the tariff rate, if any applies, and presumably also rules of origin certificates as well. Two weeks ago, when Mr Thompson, the head of HMRC, gave some evidence, he told the Committee that he no longer believed that goods tracking was essential to the functioning of that system. Could you explain to us, if that were so, what administrative processes you would have to put in place to make that system work if tracking was not essential?

**Joachim Coens:** Why would tracking not be essential?

**Q692 Stephen Hammond:** I am just saying that, two weeks ago, he said that he no longer believed that goods tracking was essential to the functioning of the processes. He thought it could be achieved through administrative processes. I am asking you whether you think that is right and, if so, what administrative processes you would need to put in place to make it work.

**Chair:** It sounds as if you are saying that you do think tracking is essential.

**Joachim Coens:** Yes, I do.

**Q693 Stephen Hammond:** Okay, that is fine. I assume that is the same for you, Mr Rochet.

**Benoît Rochet:** Today, we do not track our goods a lot, because the United Kingdom is part of the whole single market, but tomorrow we will have to.

**Q694 Stephen Hammond:** Of course, but if we were third country status, you would track.

**Benoît Rochet:** Definitely, we would have to.

**Q695 Mr Clarke:** Mr Coens, in the Zeebrugge 2017 annual magazine, which has been provided for us, you are quoted as saying that you hope that



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the European Commission and Parliament will understand that creating problems for the UK is also creating problems for you. Do you think the European Commission and Parliament fully grasp, if you like, the consequences of a difficult divorce and unnecessary obstacles being put in place between our two countries?

**Joachim Coens:** It is clear that there are different parts in Europe and, as a region, we are historically linked with the UK. We trade with the UK and we want to continue that, not only just as a port, because it is passing through our port, but because our industry is exporting and looking forward to continuing that in the future. That is quite different, of course, the deeper down you go in the European Union and they have other interests, so definitely there is a difference in approach or in affinity with the trade relations with the UK from different sides of Europe. That is also part of what I assume to be my job: to provide awareness in the whole of Europe and to say that trade with the UK is important whatever the context is.

Q696 **Mr Clarke:** How proactive do you think the European authorities have been in trying to resolve some of these issues in terms of making sure that whatever option is decided upon will work?

**Joachim Coens:** At the end of the day, I believe that both parties will do it and it will happen, but the point is they do not put it at the first point of negotiation. They put other things first.

Q697 **Mr Clarke:** In terms of the discussions you have had with the Belgian and, Mr Rochet, the French customs authorities, are you able to set out what advice you have been giving them about the options that are available and the concerns that you have? That applies to both of you, in terms of the precise nature of the conversations you have been having with your respective national authorities.

**Joachim Coens:** We want a free trade agreement and we want to have as smooth trade as possible. That is clear.

Q698 **Chair:** Have they asked you about contingency planning?

**Joachim Coens:** Yes, "Prepare for the worst".

Q699 **Chair:** Are they asking you for regular updates? Are there plans that you are having to update them about in terms of how you are preparing?

**Joachim Coens:** No, they just ask what we are doing, like you are asking.

**Chair:** Not a detailed case.

**Joachim Coens:** No, not the detail.

Q700 **Mr Clarke:** Are your discussions with them in a better place than they are with our own authorities? Have the European authorities been asking more probing questions?



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**Joachim Coens:** The authorities on both sides are really good partners to talk to, but they should talk to each other.

**Chair:** I can see why you are in business.

**Benoît Rochet:** The meetings we have with customs are technical meetings where we explain what we do and what the traffic is. I said Paris is quite far from the north coast of France, but we have trade with a lot of different countries, so they are not specialists in this kind of traffic, the short sea route to the United Kingdom. That is the first thing.

The second thing is just to see how that could work tomorrow and we prepare for the worst, but then you have political issues and the meetings we have with customs are just technical meetings and that is it. We say that we would be very happy if there was a good agreement that was signed between the EU and the UK, but that is it. It is just a wish.

Q701 **Mr Clarke:** This follows on from Stephen's question earlier about the extent to which it would be possible to try to facilitate frictionless trade by the UK adjusting its risk tolerance and trying to allow goods to pass with as few checks as possible. Do you agree that that only has limited scope to reduce delays and bottlenecks unless the EU side reciprocates in that way?

**Benoît Rochet:** It depends on the agreements that are signed. Once you become an independent country outside the EU, you will be allowed to choose the risk level you want to implement. In France, we will have to adopt the European rules and they will be the same in Belgium. Once again, it is more a political aspect of this topic and I do not know what will be chosen by the European Union, but we will have to do what is chosen.

Q702 **Mr Clarke:** We have HMRC representation in the room today and one of the topics that we touched upon with those officials two weeks ago was the discussions that they had been having with port authorities. They mentioned they had spoken to 12 of them. Has HMRC spoken to either of your respective ports as part of those discussions?

**Benoît Rochet:** Yes, we have met Karen Wheeler several times, for example, but once again the most important question on our side is about what the EU will choose. It is not a problem with HMRC. HMRC is a British problem, because you will control what you want to control and the frequency you want to control it. We will have to apply European rules, so it would be good if there was a European customs authority that could be our reference, but that is not the case today. There are political discussions and then national customs administration, so every port tries to talk to its own administration...

Q703 **Mr Clarke:** Indeed, that is very clear; you are waiting for your steer. Finally—you may well think this is a political aspect too—to what extent do you think it would be desirable for the UK to retain some form of membership of the European Sea Ports Organisation after Brexit?



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**Joachim Coens:** I do not think there is a problem with that.

**Mr Clarke:** You would anticipate that we would.

**Joachim Coens:** You are still part of the European world.

**Mr Clarke:** Yes. I am just asking whether that is factored in to your expectations.

**Joachim Coens:** I expect a lot of things. For us, the security issue of Europol is there as well, which is also very important, in my opinion, for the migrant problem. That is another issue, of course, but ESPO, yes, why not?

Q704 **Mr Clarke:** That essentially is the prevailing assumption, you would say, at this point.

**Joachim Coens:** Yes.

Q705 **Alison McGovern:** You have all mentioned, in passing, just-in-time logistics. I wanted to probe a bit more about that, specifically as it relates to manufacturing and the manufacturing supply chain. Could all the witnesses give some general information about how much of your business relates to that particular aspect, by volume or by value or whatever?

**John Keefe:** I would say that pretty much all our business is just-in-time or time-sensitive and that is why people choose the Channel Tunnel route. We can go up to eight departures per hour for truck shuttles. That means that a truck turning up at our terminal, even if it misses a departure, will only have to wait a few minutes for the next one. It is a rolling motorway, it keeps the traffic flowing and nobody loses time. It means that when delivery deadlines are set to be within a one-hour or a two-hour period, a transporter can guarantee to his end customer that they are going to make that delivery.

The just-in-time nature, in manufacturing terms, has gone to another level now and it is not only just in time; it is also just in sequence. That is a whole different ballgame, because it means that the goods have to arrive in the order of the production line itself. The example in the car manufacturing industry is the red car is followed by the blue car, which is followed by the green car, and when the truck arrives, the wing mirrors come off red, blue, green and they go on to the cars in that order. If that truck is delayed, the production line is thrown into disruption. If you then take it into the food world, we are delivering fresh produce on to shelves 24 hours a day. Supermarkets are open 24/7 and customers expect the goods to be there when they want them, through the year. Strawberries at Christmas-time is now a norm and people expect that to be delivered by road from Spain through the Channel Tunnel and on to the shelves.

The "just when I need it" side is the internet retail revolution that has happened over the last 20 or so years, where people can now order goods for next-day delivery and even same-day delivery. This continuous



flow means sometimes a driver is going backwards and forwards through the Channel Tunnel two or three times per day, bringing deliveries in from warehouses in Belgium or Holland or the north of France and delivering again and again, and also taking goods out from the UK into those northern European countries too. What people pay for is a premium for time, and customers in the transport industry and across all sectors—manufacturing, distribution, retail, pharmaceuticals—are very happy to do that, because it gets their produce to the customer when the customer wants it.

**Joachim Coens:** For us it is different, because we have unaccompanied freight and a lot of automotive, which are, of course, sometimes in vehicle holding centres in the Port of Zeebrugge, waiting for a buyer in the UK, to be sent off to the UK. Then just-in-time is different, because we have warehousing and storage capacity in the port and are only delivering at one time. We have a lot of intermodality, though, and that is also an important issue, because this intermodality goes by train from Italy, dropping cargo in the Port of Zeebrugge and then bringing it the next day not only to the London area but also to the Humber, to the north, to Teesport and even to Scotland. That is a different chain from the Calais-Dover route, but it is also just in time to be able to do that intermodality.

I believe that with Brexit intermodality will become more important, because truck drivers are found less today in Europe already and will be less in the picture. To avoid that, you will have more unaccompanied and more intermodality, which is interesting as a development: to see how we can more use the combination of train, truck, even barge and, of course, the ferry.

Q706 **Alison McGovern:** The point there is that the just-in-time-ness is not to do with a manufacturing process, but rather to do with the chain of the transportation.

**Joachim Coens:** It is to do with the logistics chain, but of course some are linked to the manufacturing process. I mentioned earlier the Honda production factory here using components, spare parts, whatever. They have only a stock of one hour, so they have to have just-in-time, but to be able to do that, the chain has to also be efficient.

**Benoît Rochet:** That is how factories work today. We talked about strawberries and things like that, and it is important for us, obviously. That is the whole business of different car factories or chemical factories. That is how they work. That is how they have to work, because that is how it works all over the world. If they can no longer work like this, they will have to buy longer stocks and it will be very expensive for them. There might be stops in production, which would be very important, so they would be less competitive. As you know, if a factory is less competitive there is a risk of it reducing in size or changing and sending it to the continent, so it is vital for the UK economy.





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**Q707 Alison McGovern:** None of the firms in the UK that this affects would want to volunteer that this is an existential issue for them, but given your experience in working with these firms, would you say that it was?

**John Keefe:** Something that has become apparent in the last 20 or so years is that warehousing has disappeared, apart from in the Port of Zeebrugge. In manufacturing chains, the warehouse is rolling on the road; it is moving all the time, because that is the most productive and efficient way to do it. If that highly complex logistics chain does not operate efficiently, it immediately adds costs into any process. Whether it is the process of retailing fresh produce to consumers or of making something, you have to store goods and storing goods costs money. In the manufacturing process that money is then added on to the end product. If it is in fresh, the product is losing value every moment that it is stored. Every moment between picking and eating the quality of the product is going off and, in some cases, it cannot be delivered fresh, so the range of choice disappears. In every sense, adding disruption into the logistics chain that supplies time-sensitive goods—

**Q708 Alison McGovern:** Even a relatively small margin of time might be make or break.

**John Keefe:** In the EY report that was published yesterday, it said that fresh produce is going off at 5% per hour, so in terms of value it is losing that as it is being delayed between picking and delivery.

**Q709 Alison McGovern:** I also want to ask about the balance between risks in terms of time and delay that arise from leaving the customers union and risks that arise from leaving the single market. What additional risks does leaving the single market raise, just in terms of the rules of origin checks, for example, or other regulatory requirements? We have already somewhat mentioned sanitary standards, but would anyone like to comment a little further about what leaving the single market implies?

**Joachim Coens:** Adding to what has been said and trying to answer your question, costs are an element. If you have to add checks, control and storage, in a certain way it is adding value, but value has to be paid for and so somebody has to pay. I use the example of Honda, but it can be anyone. If Honda has to wait longer, it means there is a cost for them, which makes the products more expensive. If we suppose there is no trade agreement, then they have duties or taxes or whatever, which is an extra cost and that is not good for both sides, in my opinion. That should be avoided, because it makes products more expensive here, which is not of interest, but it also makes European products more expensive, which is not good for European exports. Costs are a risk to increasing the final product cost.

**Q710 Alison McGovern:** Do you think the potential tariff cost is a greater problem than the potential for spending time dealing with complicated rules of origin checks?

**Joachim Coens:** It adds all to each other.





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**John Keefe:** Anything that adds time to this equation, whether it is time filling out documents at the point of despatch, needing more people to complete information that is required, whether it is ensuring that a process is documented properly and information is exchanged at the right time, it is a system or people, and all of those things are time somewhere. Anything that physically stops the flow of traffic can be considered to be a failure in the warehouse; the goods are not being delivered.

The impact is not necessarily on the transporter or on the cross-Channel carrier, because the goods will still be going backwards and forwards, but there is a creeping impact on industry, because they are not getting goods in a timely manner, or on consumers, because they are not getting the choice and the quality of goods that are expected. The "just when I need it" is "I need it now, not in two or three days and I have become used to getting it now, so there is a cost to me in terms of quality".

The place that we need to be is ensuring that whatever the specification that is given in the agreement, when it is eventually reached, it allows all of those things to be dealt with so that we are not delaying goods, we are not causing disruption to the economic chain. At the end of the day, it is the factories and the consumers that are the beneficiaries of the way this process works.

**Alison McGovern:** Basically, your message is that time is money and the more checks and regulatory involvement there has to be, the more time that will take.

Q711 **Chair:** Mr Rochet, if there were to be sanitary checks, that would require border inspection posts. Am I right in thinking that there are no such posts at Calais at the moment?

**Benoît Rochet:** They do not exist.

Q712 **Chair:** You would have to put all that in. Mr Coens and Mr Keefe, in terms of automotive, have any automotive companies spoken to you? We have talked a lot about government authorities and organisations, but have any individual companies spoken to you about contingency planning, how they would get the parts they need when they need them, in the event of there being no clear agreement and no deal?

**Joachim Coens:** The automotive sector is very into the subject, talking to everybody to avoid problems. We have a common interest in players like Toyota producing in France or in the UK. How it will go and how cargo in transit will work is very uncertain for them. It is a very important sector.

Q713 **Chair:** Mr Rochet, would you agree with that?

**Benoît Rochet:** Yes.

Q714 **Chair:** Are any of them talking about potentially completely changing



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where they manufacture goods, on the basis that they do not want to cross the UK-EU border?

**Joachim Coens:** They have many aspects. If they have to produce here but all their elements come from the continent and there will be import duty on that, their final product will be more expensive and that will be difficult, because they produce here not for the UK market but for export. On the other hand, with the logistics, they might have some direct calls here—that is also a possibility—and that is not good for us. It may be for the British ports, if they have the space to do that. There are many uncertainties on that for them.

**Benoît Rochet:** They have factories on the continent that are maybe not totally busy, so they may be able to change their way of producing things. Some parts cross the Channel three times.

Q715 **Chair:** Are you aware that some companies are looking at moving manufacturing back to the continent?

**Benoît Rochet:** Not directly, but we know they are worried. It is the same thing for Airbus. I read an article about that.

Q716 **Rushanara Ali:** Good morning. You will be aware that the UK Government have proposed two options for how customs regimes might work post-Brexit. The first option is the highly streamlined customs arrangement, also known as max fac, not to be confused with a makeup company. The other is the new customs partnership. Mr Thompson, the head of HMRC, who will be giving evidence shortly, told this Committee that one of the risks of the highly streamlined customs arrangement is that there is no guarantee that EU ports, such as Calais, would have implemented the necessary arrangements in time, even if the agreement was there between the UK and the EU. Do you think you will be in a position to implement the sorts of changes required by the highly streamlined customs arrangement by January 2021, Mr Rochet?

**Benoît Rochet:** We will have to anyway.

Q717 **Rushanara Ali:** But would you be able to?

**Benoît Rochet:** Today, Calais is a tiny port. I do not know if you have already crossed the Channel via Calais. We are building a new port, so we will have some spare space. There is also a factory that was dismantled a few years ago close to the port, so we will be able to find some land. It is a question of land. We will then have to build things on this basis. The first thing is just to find the appropriate space in order to build halls and things like that, so that customs and sanitary inspectors are able to do their job.

Q718 **Rushanara Ali:** You can do that within the timeframe.

**Benoît Rochet:** Time is running, so we need to have the—

Q719 **Rushanara Ali:** I hear words like “we have to” and “we need to”, but will



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you be able to? Can you give us a commitment that you can absolutely do that, yes or no?

**Benoit Rochet:** We will have no choice. We cannot close the port, so we will do what we have to do.

Q720 **Rushanara Ali:** In terms of costs, do you have an idea of what that would cost?

**Benoit Rochet:** Once again, it depends on the solution that is found, but it will definitely be expensive. Again, we are building a new port and the plans were drawn up before Brexit, so we had not planned anything for extra controls for lorries coming from the UK, so it cannot be included in the work and the cost will be at least €20 million.

Q721 **Rushanara Ali:** This is for everyone. In terms of the breakdown of the administrative burden, where do you see that going between Government, business and the port authorities? Who will bear those costs?

**John Keefe:** The consumer will bear the costs.

**Rushanara Ali:** It will be passed on to consumers.

**John Keefe:** At the end of the day, whichever route is chosen to pay for the costs upfront, they get passed down through the chain. The bigger the cost in developing, the more that will eventually find its way through. There is no other way to look at this. Businesses can absorb a certain amount of additional costs from additional legislative requirements and do on a regular basis; that is part of the arrangement. At the end of the day, if the impact is across the whole of the supply chain and across the whole of the economy, inevitably at some point that gets passed down to the consumer.

Q722 **Chair:** The costs that we are talking about for the ports, that is something obviously the three of your organisations and other ports have to absorb. Again, you would expect eventually to recoup that in terms of people paying to access your services.

**John Keefe:** Again, it is part of the process. We will constantly be looking for the time advantage. We will constantly be looking for the best technology or the best solution to ensure that our customers can get across as quickly as possible. Our customers want that speed and they are prepared to pay the premium for it, but the premium just changes.

Q723 **Rushanara Ali:** HMRC recently told us that it had been sharing with ports the technical specifications underpinning its highly streamlined customs arrangements, so that they can think in advance of the changes they need to make. Has anyone had sight of these?

**Benoit Rochet:** A meeting is planned at the Port of Dover on 4 July.

Q724 **Rushanara Ali:** At this stage, do you think it is possible or likely that the partnership model will be ready for implementation without extending the



transition period? I know you said that you have to do it within the deadline. It would be interesting to know what others think as well. Do you think that that period is sufficient to make the adjustments for the new period?

**Joachim Coens:** A transition period of two years is fine provided that we know from the beginning of that period what we have to do. If the transition period means uncertainty during the transition period, we will never be ready—never. It is not possible. You say that it is already two years, but we do not know yet what has to be there. If we know what has to be there, then a transition period of two years is fine to prepare.

Q725 **Rushanara Ali:** In summary, it all feels very complex and overwhelming to those listening. Would it not just be better to stay with the customs union? Would life not be a lot easier for everybody and the cost would be mitigated?

**Joachim Coens:** It would definitely be easier.

**John Keefe:** The business we are in relies on keeping traffic moving. We are in the transport industry; we move things from A to B. We help service the whole of the logistics supply chain that serves industry and consumers on both side of the Channel. It works when it flows smoothly.

Q726 **Rushanara Ali:** Mr Rochet, do you want to add anything?

**Benoît Rochet:** That is a very good conclusion.

**Rushanara Ali:** Life would be easier. Thank you.

**Chair:** Thank you very much indeed. Thank you to those who have provided written evidence as well. If there is anything further that arises after you have left today and you want to make any further points or anything in further evidence, please do feel free to write to the Committee. We would be very grateful to hear from you. There are lots of things still to be sorted out, as you have highlighted in your evidence this morning, so as they perhaps become clearer it would be helpful to hear from you again. For this morning, we are very grateful to you for your time. Thank you very much for making the effort to be here.

## Examination of witnesses

Witnesses: Jon Thompson, Jim Harra and Karen Wheeler.

Q727 **Chair:** Good morning. Thank you very much indeed for being here. I know you sat through the previous session as well. We are going to pick up from where we left off last time and you have also just heard the evidence that was given as well, and I am sure there will be questions about that. Just for the sake of those watching and not in the room, I am going to ask you to introduce yourselves. Ms Wheeler, can we start with



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you?

**Karen Wheeler:** Karen Wheeler. I am the director general in charge of Border Delivery Group.

**Jon Thompson:** Jon Thompson. I am the chief executive of Her Majesty's Revenue and Customs.

**Jim Harra:** I am Jim Harra, Second Permanent Secretary in HMRC.

Q728 **Chair:** I want to start with something that came up in the last session, which is the lack of specification in terms of the Ports of Zeebrugge and Calais, but also in terms of Getlink being able to make preparations. I just wondered, Mr Thompson, if you would like to comment on that. Is it a fact that the specification cannot really be given to ports until the political agreement has been negotiated as to the end state relationship?

**Jon Thompson:** It is worth differentiating and then probably Karen ought to very specifically answer your question, because the specification only arises for the witnesses you just talked to in the event of implementing the highly streamlined customs partnership. Under the new customs partnership, those ports would largely be unaffected and have very little to do, because the options are mutually exclusive. I believe we have reached the point where we have a draft specification, but Karen may be able to give you more information.

**Karen Wheeler:** I guess it just depends what specification you are talking about.

Q729 **Chair:** When we talk about "specification", what would you be expecting that to mean from HMRC's perspective?

**Karen Wheeler:** Jim will probably be the more authorised version of this, but it is the specification for how a system would operate for the ro-ro ports in particular, but in that there is an equivalent specification that is needed for Eurotunnel, which is obviously different. That specification is not a technical specification but it is written down as a requirement of what we expect the ports to try to achieve. It is not a technical system specification per se. It is written down. It has been shared and made available to the UK ro-ro ports, and those discussions are starting to happen with individual ports. HMRC is having individual discussions with Dover, Portsmouth and other ports.

**Chair:** UK ports.

**Karen Wheeler:** UK ports, yes. That has not been made available to member state ports, because obviously it is not their job to build those systems. What we are trying to do in some of the conversations we have had with Mr Coens in Zeebrugge and Benoit in Calais and so on is to just talk about how we see it working on our side, so that we can make sure that we are trying to work together and collaborate, where we can, in terms of common approaches that come together at the border. Jim, you may want to add more detail on that.



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**Jim Harra:** We made that detailed requirement for the new ro-ro service available to ports in April in draft. Since April, we have been engaging with them to make sure we have a common understanding of that requirement, to make sure we have an understanding of what the impact of that requirement is on each port and how each port would go about meeting it. I would expect that to be an iterative process. They will think about how they are going to meet it; we will think about how we maybe need to change the requirement to reflect their needs. That is very detailed and is in place. That covers both the types of systems and data that we will require to enable us to maintain fluid clearance for customs, but we are also engaging now, port by port, on what the physical infrastructure requirements are as well, so any bricks and mortar that we require for temporary storage or for inspection purposes.

Q730 **Chair:** I want to move on to looking at figures again. Last time, you created just a couple of headlines, Mr Thompson, when you gave us a figure of cost to UK business annually of between £17 billion and £20 billion for the highly streamlined arrangement. I just wanted to go back into those in more detail. Thank you very much for the letter as well that you have written to us. I know you have also replied to a letter from Mr Clarke, who has some questions on this as well. The letter that you have written to us has been published this morning, before this session. Starting with the cost of customs declarations, in the letter it says between £15 and £55. Could you just talk us through the sources of those figures?

**Jon Thompson:** There are three independent reports. One is by Ipsos MORI, from July 2015, called *Understanding tax administration for businesses*. There is a second report, by KPMG, in January 2018, conducted for the Dutch Government, called *Impact of non-tariff barriers as a result of Brexit*. Thirdly, there is one from Nottingham Business School, from September 2013, called *Trade and customs procedures: the compliance costs for UK meat imports*. All three of those reports give ranges, and essentially they give ranges because, in our assessment, there are five different sorts of businesses involved in this.

Those that would be at the lower end are high-volume traders that have in-sourced the administration of customs and, therefore, are very familiar with the process. They would employ people to do it and they may have invested in the necessary technology; they would be at the lower end. You have high-volume traders that outsource it. Those are above the VAT threshold, but it is still relatively low volume and they would outsource it. Under the VAT threshold, you now have small businesses that are doing some sort of export and then, separately, you have to consider the question of parcel operators. The way we see businesses is in those five categories. We have done quite a lot of work with those five businesses about what it costs. Our own work then supports the various ranges.





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If I were to summarise the three independent reports, Ipsos MORI concluded, in July 2015, that the average agent's fee is £41 per declaration, so that is well within that range I gave you, or, if you are completing it in-house, it takes between 63 and 150 minutes, so it depends how you value the cost of the time. KPMG's view is that it costs between €32 and €62 for an export and between €40 and €65 for an import, and they settle on various averages, but again both well within the range. Nottingham Business School concludes that it is between £25.70 and £55. You have three references there.

Q731 **Chair:** The £32.50 figure that you took as an average was literally just an average between the high and the low.

**Jon Thompson:** It is a weighted average, but yes. You can argue somewhere in that range, but £32.50 feels, to us, about the appropriate amount.

Q732 **Chair:** You talk about the different types of businesses, but presumably different industries might have different costs. Is that included in your calculations as well?

**Jon Thompson:** Not per se. The various studies that I quoted to you are in different sectors. The Nottingham Business School work is specifically in relation to the meat trade; the KPMG work is for a range of different businesses across the Netherlands; and our work is across 151 businesses and 81 agents across a range of different sectors. We have not then tried to further split this by what it would be between manufacturing or food or chemicals.

Q733 **Chair:** We touched on the cost of rules of origin and you talked about several billion pounds. Is there any more detail that you are able to provide on that?

**Jon Thompson:** No, I cannot be as specific in the calculation as that which I set out in answer to Rushanara Ali's questions from two weeks ago, because there are multiple different ways in which you can satisfy the rules of origin requirement. For any free trade agreement between any two countries, rules of origin are a requisite for the tariff differential, so you will need to be able to demonstrate that these goods are from the country of origin in order to be able to access lower tariffs under a free trade agreement.

Q734 **Chair:** Have you been challenged on those figures either before two weeks ago or since you appeared before the Committee, by Government Departments, by Ministers or by Downing Street?

**Jon Thompson:** There has not been much debate within the Civil Service. Clearly, there has been some reaction to what I—

Q735 **Chair:** I am not talking about media. I am talking about within Whitehall, within the Civil Service or from ministers, to you or to your senior officials, on those figures.





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**Jon Thompson:** I am looking at Jim to see whether there has been much debate, but the estimate we have given has been in ministerial papers.

**Jim Harra:** Those figures have been shared across Whitehall, because they obviously underpin various pieces of advice that have been given. They went through an internal validation and challenge process within Whitehall before we firmed up on them. I am not aware that, in the last two weeks, there has been any challenge or any difference to them.

Q736 **Chair:** The reason I am asking this question is because those figures were described, after your appearance before, as “speculative”. Would you refute that description?

**Jon Thompson:** They are speculative in the sense that the Government still have a number of different policy options on the table. They have been professionally queried by a couple of economists. I am happy to respond to the alternative methodology that Mr Elphicke asked a question about of the previous witnesses.

**Chair:** If you can, that would be helpful, yes.

**Jon Thompson:** There are two ways in which you could try to estimate the cost. One is top-down, which is the example that you gave, which was a percentage of the value of trade. Alternatively, you can do it bottom-up on the basis of how many declarations there are and the cost of a declaration, which is the evidence that I set out two weeks ago.

The reason that we do not believe that the top-down estimate of attaching a percentage value to the value of trade is sound is because it assumes that the nature of trade between the United Kingdom and the rest of the world is similar to the nature of trade between the United Kingdom and European Union states. As you heard from previous witnesses, the very nature of just-in-time logistics and groupage—two particular features here—would indicate fairly clearly to us, and indeed to a number of other European Union tax authorities, that the value of intra-EU trade is lower, on average, but it is of much higher frequency. Roughly, you have the same value of trade between the United Kingdom and the EU and the United Kingdom and the rest of the world, and I can give you all those statistics if you want, but, in general, intra-EU trade is lower value, higher volume than the rest of the world because of the nature of just-in-time logistics. Quite often, goods are crossing over multiple times in the production chain and so on and so forth.

Q737 **Chair:** We heard that from Mr Rochet before, who said about some automotive components crossing the Channel three times in terms of manufacture.

I just want to go on. You talked about the recurrent cost to Government of the new arrangements being about £250 million a year for highly streamlined and £180 million a year for the partnership model. Are there any more details? Can you explain the key drivers of those costs?



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**Jon Thompson:** I think I was really clear with you that that was a very early estimate because the nature of negotiations with the Treasury is such that it is being done year by year, in accordance with the negotiations. I also said to you that if I had been the Treasury that is the way I would have done it.

The fundamental difference in terms of the administration for HMRC is the fact that the new customs partnership would require no customs declarations, whereas the highly streamlined customs arrangement does require customs declarations. Currently, we have a national customs hub in Salford that processes the 55 million customs declarations that are required for the rest of the world. That employs almost 750 people or thereabouts. We would have to expand that under the highly streamlined customs arrangement and that is the main driver for the additional cost in the highly streamlined.

In the new customs partnership you do not have that, but alternatively you do have the administration of the dual tariff and the administration of the repayment mechanism. All round, for us, we think that would be a lower cost. As I said, that is a very early estimate from us. It almost certainly will change, but it is reasonable to think that, in administrative terms, highly streamlined would be slightly more expensive.

**Q738 Chair:** The £17 billion to £20 billion is for the highly streamlined arrangement. What about a figure for no deal at all, crashing out and ending up on WTO-type terms? Is that something that has been able to be calculated?

**Jon Thompson:** We need to be really clear that is definitely not the Government's preferred option. It is not the Government's plan and the Government have been very clear about where they are. Nevertheless, if we move to WTO rules that would definitely require customs declarations and so it would be similar sorts of cost.

**Q739 Chair:** I want to ask about VAT as well, at the borders. Obviously, after Brexit imports to the UK will become liable for import VAT, which has to be paid before goods can be released into free circulation. I just wondered what work HMRC had done on that in terms of looking at costs and impact on customers, particularly for things like imports of components. Could you talk us through where you are on that?

**Jon Thompson:** Jim will lead, but I just want to remind the Committee that we exchanged some correspondence about this. We do not believe this is a quantum problem but rather a timing challenge. I am sure Jim can get you further into that.

**Jim Harra:** At the moment, VAT on imports from the rest of the world is administered through the customs procedures. Those import declarations are used not just to calculate any customs duty that may be due but also to calculate the import VAT and that is normally payable by the 15th day of the following month. For intra-EU movements, there are no customs



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declarations, so that is not the procedure that we use to calculate the VAT on those movements.

Instead, we have a simplified process that applies right across the EU, where if you have a business-to-business movement, the business in the exporting state will zero-rate that movement, the business in the receiving state will then have to account for that VAT on their VAT return. If they are then also entitled to treat that as an input tax, they put that on the VAT return as well and it cancels out.

If import VAT were to be introduced on a rest-of-the-world basis when we leave the EU, clearly you can see that there would be a cash flow impact on businesses that does not exist today. The Government have recognised that and in the Autumn Budget statement the Government said that they recognised the importance of that simplified arrangement to business and the cash flow advantage that it provides, and that the Government will, of course, take that into account when considering any potential changes following EU exit. We are aware that it is an issue. The Government have not yet announced what their decision is on that, but they have made it clear that they are aware of the cash flow disadvantage and they want to work on that.

**Q740 Chair:** On the quantum of imports, leaving aside businesses having to get used to a new system and cash flow implications, could the HMRC systems cope with VAT having to be levied now on intra-EU trade?

**Jim Harra:** Yes, because if we move to an import VAT system, it is the customs declaration that drives that, so we are scaling up our customs system, both the new customs declaration system and the existing CHIEF system, to cope with the increased volume of customs declarations that will result. We estimate that that will go up from 50 million or 55 million to about 255 million, and that will work for both customs and for the VAT process. That scaling is built into our plan.

**Q741 Mr Clarke:** Thank you all very much for coming in. Thank you, Mr Thompson, for your letter to me in response to my queries. I am going to refer to your letter to the Chair in regard to the costing of all the different options. In that letter, you set out there is going to be some additional 205 million customs declarations for the intra-EU trade that we currently see, which is roughly valued at £357 billion and that works out, therefore, at one customs declaration for each £1,800 worth of trade. That compares to the 55 million customs declarations for the £339 billion of non-EU trade, which works out at one customs declaration for each £6,200 of trade. You say that reflects the different nature of the consignments that travel between, say, Britain and France compared to, say, between Britain and America. Would you expect an adjustment in the way in which those consignments are packaged up, as it were? That is to say, would you expect people to consolidate consignments in such a way as to try to mitigate the frequency of those transactions, or of those shipments?



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**Jon Thompson:** It is possible. To be really clear about the estimate, the estimate is what is called a "static estimate", so it assumes no changes in behaviour. It is, of course, possible that businesses might change their behaviour. They might package up consignments to make up larger consignments and so on and so forth, but this is a static estimate on the basis of current patterns of trade and trade values.

Q742 **Mr Clarke:** I think of countries like Japan and Korea, which have quite integrated economies and they must have just-in-time supply chains over there, and the extent to which they manage this. Obviously, they do not have a formal customs partnership and so I just want to try to understand how other highly developed market economies in close geographical proximity manage this kind of situation without massive additional cost to business.

**Jon Thompson:** If we have done that, I am not aware of it.

Q743 **Mr Clarke:** I would just be interested to know whether there are any precedents outwith the European area about how countries manage this, because it does seem to me that there must be ways that you can at least mitigate.

**Jon Thompson:** There may indeed be ways in which it can be mitigated. You could package up the goods into a smaller number of consignments with a higher average value. There are consequences of that, as you heard from some of the earlier witnesses, about what that means in terms of warehousing. What the just-in-time system does, of course, is absolutely minimise the working capital that is tied up in ordering goods in your supply chain. There are aspects of the flows of trade within the European Union that, even so, may still not suit that, because they are, for example, fresh food. It is difficult to envisage that you can package up more than one truck of fresh produce from Spain or whatever. Nevertheless, it is perfectly possible and one would expect businesses to act economically rationally, look at what that additional cost is that is presented to them and then respond.

There is one thing that has possibly not come across, which is the multiplier. When we gave evidence last time, we said it was £6.5 billion and then you had to multiply it by two. The thing that is possibly not as explicit as it should be, both in terms of the evidence we gave you last time and, indeed, the letter, is that that additional £6.5 billion occurs on the other side. It is £6.5 billion for UK businesses, but it is £6.5 billion for EU businesses, because now they are having to do import and export declarations to the UK. Just to clarify the point you made, the £13 billion does not fall entirely on the UK side of it. This issue is explored in the KPMG report for the Netherlands Government, which estimates that the cost impact to Dutch businesses is between €390 million and €630 million a year. That is, if you like, their fraction of the estimated £6.5 billion.

Q744 **Mr Clarke:** Does that not, therefore, mean that the cost of the max fac arrangement, rather than being £17 billion to £20 billion, is more



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£11 billion to £14 billion, if we are talking about purely the cost for British business as opposed to in toto?

**Jon Thompson:** You could argue that. It is also possible to argue it the other way around, which is that those costs might be passed on.

**Jim Harra:** The reason we have calculated it in the way we have is that we have looked at the total additional costs on the whole of trade, because in terms of its macroeconomic impact that is relevant. It is falling on the trade somewhere. Even if it is on an EU business, that still has an impact, but you are right that, in terms of the incidence of the cost, some of it will be on UK businesses and some of it will be on EU businesses.

Q745 **Mr Clarke:** In terms of the role that freight forwarders and customs agents can play in helping people to manage these costs as sensibly as possible, the HMRC website observes that customs agents “may use their experience to lower your transport costs by processing your goods as part of a larger consignment”. To what extent do you think they can accelerate this process?

**Jon Thompson:** Agents are a vital part of the ecosystem here and the work that Ipsos MORI did in 2015 worked with 81 agents to talk about their role and how much they charge, and there is quite a wide range. In relation to the highly streamlined customs arrangement, we believe that the market would need to expand. As part of our considerations with Ministers, we have highlighted the fact that the market would need to expand. There is a question about whether the Government might stimulate that market expanding or whether the market will just naturally expand because there is increased demand. We absolutely agree with you that it is a vital part of it. They offer a wide range of services. It is all freely available and it is fairly easy to find out that they will package up different things in different ways, some of which will be that they can complete your customs declarations for you for a fee.

Q746 **Mr Clarke:** Finally, I just want to touch on the constituent elements of max fac. In the first page of your letter to the Chair, you set out some of the key aspects of that, which is very helpful, thank you. When we spoke about this at the last evidence session, I was hoping almost for a checklist that we could do this definitely by January 2021 or this one perhaps by 2022. In the letter, the only one that you specifically highlight that you do not think will be ready in full by January 2021 is the arrangement surrounding ro-ro. Is that the only element that you think overruns the transition period, if that is in fact secured?

**Jon Thompson:** The implementation of the technology required in order to operate the ro-ro for the mutual aspects of highly streamlined on both sides—so, for example, Dover to Calais—is the one that has the longest lead time in our plan. The reason that I am being careful is because in previous sessions either of this Committee or others, the way I have tried to explain the risk is that the risks basically fall into three groups: those



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that are directly controllable by the Government, for example the implementation of a customs declaration service; those that are with UK businesses; and those that are beyond the United Kingdom—in other words, they are with the European Union or member states of the European Union. If you like, our influence over it diminishes as you go from 1 to 2 to 3. The Government can directly control some risks and have a significant influence over the second set. We can influence what ports do, but in the end it will be for the colleagues who you saw to take the necessary action with the European Union or their member states or whatever Governments they have. We are all being careful with Ministers that that is an aspect over which we and the Government do not have control.

**Q747 Mr Clarke:** I appreciate that. That is an eminently reasonable position. Finally, given that the EU is a signatory to the WTO agreement on trade facilitation, is the EU not under international legal obligation to implement large parts of max fac anyway?

**Jon Thompson:** I have to admit that I have not thought about that question.

**Jim Harra:** You are right that WTO rules mean that all members of WTO are supposed to facilitate trade. I do not think that requires them to agree specific simplifications, either bilaterally or multilaterally, which is why all of these would be subject to negotiation with the EU in terms of a jointly implemented solution. In going into negotiations with them, I would expect that they are mindful of that requirement and also mindful of the interests of their own member states, but I do not believe it translates into meaning that I can say, “You are legally obliged to implement simplification X or simplification Y”.

**Chair:** If there are any further thoughts on that after the session, it might be helpful to hear them.

**Q748 Mr Jack:** I want to move on to the Irish border, but before we do that, when we spoke a few weeks ago, Mr Thompson, you said to me that under any new customs partnership and the rules of origin, for goods coming to the UK to go to Europe, we would have to pick up the tariff and pass it across. You did not believe that the EU would want to reciprocate that arrangement; “reciprocate” was the word you used. The question I wanted to ask you then, but we ran out of time, was about whether you have an idea of the figure of what the UK would collect in tariffs to pass to the UK and vice versa. I am going to bring the question to one head and ask whether, if so, an offset system would potentially work to solve that problem. Do you have an idea of the amounts, first and foremost, from either side of the border?

**Jon Thompson:** You are correct that that is the answer I gave you, but I think Jim then corrected that answer in the session we had to say it was being negotiated. I think I was too definite with you that we did not





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require the reciprocation, but in fact it was being negotiated. Is that right?

**Jim Harra:** Yes. Reciprocity is one possibility and that will be subject to the negotiations. We are doing some work to look at, if there was not reciprocity, how you would mitigate some of the risks associated with that in relation to the UK if, for example, we operated higher tariffs or had different trade remedies from the EU.

In terms of the amount of the tariff that the UK would collect that it would retain for itself or that it would pass on to the EU, that is a matter for the negotiations with the EU, so I do not have any figures that I can give you at this time.

Q749 **Mr Jack:** On the Irish border, with regards to the max fac model, in order to remove the need for customs infrastructure, when we last spoke you said you believed this could be avoided through the use of administrative procedures. I just wondered if you could elaborate specifically on what those administrative procedures would involve.

**Jim Harra:** Yes. In the two papers that the Government published last year in August, and then in the White Paper in October, we set out some information on this. We believe that the vanilla, highly streamlined customs arrangement in itself would not remove the need for a hard border in Ireland. Therefore, if you implement the highly streamlined customs arrangement you have to have a further specific arrangement in place in Ireland in order to achieve that, so we have suggested a couple of things. First of all, for the large number of very small businesses trading in what is in effect a local economy across the border you would relieve them from any customs responsibilities, so their goods would not have to move under customs control and they would not have to complete any declarations.

Q750 **Mr Jack:** That is the trusted trader scheme and the small trader exemptions.

**Jim Harra:** Yes.

Q751 **Mr Jack:** If the EU rejected those, what would the implication be on the model?

**Jim Harra:** Both the UK and the EU are committed to there being no hard border in Ireland, and the aim would be to achieve that through whatever the general economic partnership is between the UK and the EU. If it was decided to negotiate something like the highly streamlined customs arrangement, then we would both be looking to build into that either general features that apply across the UK that would work in Ireland or specific measures. The UK has put forward what it thinks would be required. It would be for the negotiations with the EU to come up with something different if that is not the way it would be done.

Q752 **Mr Jack:** How burdensome do you think that would be? The burden is





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going to fall on business. Is there a number that you have worked out?

**Jim Harra:** The aim of that would be to relieve businesses from burden. Small businesses would be completely relieved from the obligation to complete customs declaration and to comply with any customs processes. That would not only mean that there is no need for any checks or infrastructure at the border, but it would also mean that they would not be subject to the kind of administrative costs that John was talking about in his evidence.

Q753 **Mr Jack:** On the backstop arrangement, the Irish Foreign Minister, Simon Coveney, has said that there will be no withdrawal treaty if there is not a backstop dealing with the Irish border, and that the negotiation of the long-term customs arrangement would take a lot of time. Do you agree with him that the backstop arrangement is a more urgent priority?

**Jim Harra:** We work on all of this in parallel. The UK Government and the EU both remain committed to what they agreed in December, which includes the need for an operative backstop in any withdrawal agreement. The proposal that the EU has put forward is one that the UK Government have said will not be acceptable to the UK, and they have said that the UK is committed to producing an alternative proposition and entering into a withdrawal agreement that includes a backstop in accordance with the December agreement. That is all part of the negotiations for the withdrawal agreement, all of which will need to be in place.

Q754 **Mr Jack:** When do you think the backstop agreement would need to be agreed? What is the cliff edge, if you like?

**Jim Harra:** That is not really for me to say. It is for those leading the negotiations. The Government are committed that in the withdrawal agreement there will be an operative backstop.

Q755 **Charlie Elphicke:** Good morning. I am quite interested, first of all, in a letter I received from Treasury Minister Mel Stride. He said that the aim was to keep VAT as close as possible to the European Union rules as it is now. Is that your understanding?

**Jim Harra:** It is our plan that at the point when we exit the EU there will be minimal changes, both for VAT and across all the processes that we operate, so that on day 1 things are as familiar as possible to people. However, the Government are clear that when we leave the EU we will be recovering sovereignty over our tax policy and that it is open to them to change that policy in the future, subject to any negotiations with the EU. The Bill that is going through Parliament at the moment gives us the ability to start on day 1 with processes that look very similar. Therefore, our aim would be to change those on day 1 to the minimum required to cope with exit, and then thereafter it would be for UK Governments and UK Parliaments to decide what they want to do.

Q756 **Charlie Elphicke:** At the moment, half of our trade is with the rest of the



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world under so-called WTO terms. What is the average overall cost, percentage-wise, of the value of the trade in goods of customs compliance in that connection?

**Jon Thompson:** It is somewhere between 1% and 3%. The value of trade between the United Kingdom and the rest of the world in goods in 2016 was £393 billion. That required 55.5 million customs declarations, plus various rules of origin documentation. It is estimated that that cost was between 1% and 3% of the trade value—the £393 billion.

**Q757 Charlie Elphicke:** Last time you said it was going to cost £20 billion, which is about 10%, or was it 10% to 15%?

**Jon Thompson:** I do not understand how anyone has got to 10%. The value of trade between the United Kingdom and the European Union goods is £382 billion.

**Q758 Charlie Elphicke:** Effectively that would be 6%.

**Jon Thompson:** So £17 billion to £20 billion is somewhere between—I am trying to do the maths quickly—4% and 7%. The reason for that, in answer to the Chair's question, is to do with the nature of the flows of trade within the European Union having a lower value and a much higher frequency because of the integrated supply chain across the European Union.

**Q759 Charlie Elphicke:** Let us just look at that, because you have mentioned groupage. If you had an accounting system where the hauliers or authorised economic operators were responsible for accounting, very much like employers are responsible for accounting PAYE, would that not bring the costs down, and would that not make sure that effectively you could bring the accounting costs down with a technique like that?

**Jon Thompson:** One of the easements that we have explored is whether we could have more authorised economic operators and whether they could adopt a self-assessment scheme for aspects of this, but that does not remove the fundamental about the WTO rules, and I will speculate that the European Union will require customs declarations if the UK is going to comply with WTO rules. We think it is a reasonable assumption to assume that we would also like customs declarations for a range of different reasons.

**Q760 Charlie Elphicke:** Looking at the new customs partnership, that depends on robust rules of origin being effectively accepted by our European Union trading partners after leaving the European Union. Can you realistically provide that level of assurance without using the blockchain system?

**Jon Thompson:** You have leapt from reassurance to a potential technology solution. One does not necessarily flow from the other. To answer your primary question, yes, we would need to provide assurance to the European Union in relation to the rules of origin of the goods that are entering the United Kingdom that would then freely flow across the



border into the European Union. How exactly that would be done is still a matter on which we are talking to the industry. Blockchain may be an answer in highly automated, highly digitalised systems, but you should not assume that that is the very nature of all of business between the United Kingdom and the European Union. For high volume businesses, it is possible that might be a technological solution, yes. It would not be for us to decide, if we are being honest about it. It would be from the industry, as you heard from some of the earlier witnesses.

**Q761 Charlie Elphicke:** Do you not think that it is pretty critical, if you are going to float a new customs partnership, which you have been, that you know how it is going to work and you have a clear idea of how you are going to be able to provide assurance on origination? You cannot just go in there with a half-baked scheme.

**Jon Thompson:** I very specifically split your question into two to give you the assurance that we would have to provide rules of origin in the way that we do now. Rest-of-Europe trade that arrives at Felixstowe is quite often unloaded at Felixstowe, put on the back of a lorry and travels around within the single market. Those sorts of rules of origin arrangements will continue.

The second half of your question, where you have leapt to, "And therefore the technology solution is X", is not necessarily the case. If we switch back to highly streamlined and the question of the specification, the specification may well conclude that it would be for individual ports to decide what is the best solution for them and not for us to say, "You shall do X, Y and Z", because with the greatest of respect those people know their businesses better than we do.

**Q762 Charlie Elphicke:** Just heading back to this issue of the costs, which you say under max fac could be 5%, Douglas McWilliams, founder of the Centre for Economics and Business Research, thinks that you have muddled together consignments and containers. Do you agree or disagree with that?

**Jon Thompson:** There have been numerous comments from other professionals about the number I gave. What they are doing and what you are doing is saying, "The value of trade is X. The cost must be a percentage of X", and that is a methodology. It is sound in relation to the rest of the world, where you have a very clear cost base and where you can do the maths, but what I am advancing to you is that we did it in a different way, which I explained at some length previously and which I explained in answer to the Chair's questions. As illustrated by Mr Clarke, our extrapolation of dividing all of the businesses into five groups is that approximately 205 million additional customs declarations will be required for that flow of £382 billion worth of trade, because they are lower value and higher frequency.

I know that some people may not agree on that. We have looked at some work that the French tax authority also did and they have come to



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the conclusion that you do get between a three and fivefold increase in customs declarations, so our estimate of just under four times looks sound in comparison to that. It is based on quite a lot of additional work, research and talking to businesses.

**Q763 Charlie Elphicke:** I will just say that I have looked at what JML says. That is an international trade organisation. It says customs declaration is about 1%. The Port of Zeebrugge said this morning it is about 1%. The World Bank *Doing Business* report published earlier this year said it is about 1% to 1.5%. You do seem quite out of line with pretty much everyone else.

**Jon Thompson:** You continue to advance a methodology for doing it and you continue to appear to ignore what I am suggesting, which is that we did it bottom-up on the basis of the number of declarations, which reflects the very nature of the flow of trade. Let me give you a real example. There is a well-known chain of chemists whose distribution centre for the south of England is in northern France. It is not in the United Kingdom. The nature of distributing those goods, therefore, around that well-known chain is that it crosses over Dover-to-Calais on a very frequent basis. That is a fundamentally different flow of trade than packaging up a container from South Korea full of electronics and sticking it on a ship for three weeks. The very nature of it is because of the geography.

I am trying to say I understand the alternative methodology that you are advancing and that that has been advanced by other professionals. Our methodology goes back to the fundamental of what is the flow of trade, how many customs declarations would there be, and what the cost is of that and, therefore, that is how you get the estimate that we explained last time.

**Q764 Charlie Elphicke:** I was also looking at the KPMG report that you referenced for the Dutch Government. Table 1 there also shows 1% of costs as well. Why is it that that report seems to take a 1% figure rather than a 5% figure?

**Jon Thompson:** You have it in front of you.

**Charlie Elphicke:** I have.

**Jon Thompson:** It shows a wide range, all the way up to 1.9%, depending on—

**Q765 Charlie Elphicke:** For meat it is 0.7% to 1.9%, for cut flowers 0.8% to 1.3%, for paints 0.4% to 0.6%, and communication equipment 0.4% to 0.7%.

**Jon Thompson:** If you go into the detail of it—I cannot remember the page number.

**Q766 Charlie Elphicke:** It all seems quite low. It does not seem to be 5%, Mr



Thompson.

**Jon Thompson:** I have not brought my copy with me but I know where it is. In the detail of it, it says that the cost of completing an export declaration for Dutch businesses is between €32 and €62 at an average of €57, and for imports between €40 and €65 per declaration at an average of €50. Again, it is about an alternative methodology. We think our methodology is sound on the basis of our work looking at the flows and it is supported by some work done by the French. It is supported by all three of those, but I can understand that people have alternative methodologies, which we do not believe are reflective of the very nature of the trade between the United Kingdom and the European Union.

**Q767 Charlie Elphicke:** What about adapting systems so that they will work most efficiently for trade between the UK and the EU? What has HMRC done about that, to make sure that, first of all, systems are ready on day 1 and secondly that they are efficient and take into account the way consignments and customs declarations are done to provide maximum efficiency, minimum costs and the most frictionless border?

**Jon Thompson:** Are you asking me about the customs declaration service or in general about the highly streamlined?

**Charlie Elphicke:** End to end.

**Jon Thompson:** In relation to the HMRC's implementation of the Customs Declaration Service, it has been reviewed 15 times. It remains on track. We begin the rollout to traders and the migration in August. We have consulted very heavily with the industry about how we should roll that out for traders, so it will be done in three tranches to de-risk it. Some is in August, some is in November and the final element in December. We are also scaling up the CHIEF system, which is the current system, so that it will be a full contingency if something happened to the Customs Declaration Service. We believe that we are on track to have a fully functioning Customs Declaration Service by January 2019, which is the fundamental element of this for HMRC. The rest of it then depends on which option we choose.

**Q768 Charlie Elphicke:** Finally, many colleagues on this Committee are on the "remain" end of the spectrum and others are on the "Brexit" end of the spectrum, but there is a level of consensus across this Committee that the level of preparation for Brexit, wherever you stand, by the Treasury and by the Home Office has not been what it ought to have been. Do you not think it is incredible that two years from the referendum we still do not know what system we are going to be using?

**Jon Thompson:** You will have to judge it however you want to judge it as politicians. The Government are clearly in negotiations. The Government have been really clear about what their policies are in relation to customs. They published them openly. There is an ongoing negotiation. When the Government have concluded those negotiations



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then they will say which option we are to implement and then we will implement it.

**Q769 Rushanara Ali:** Good morning. I have a supplementary question to the answer you gave to the Chair about the numbers that have been shared across Whitehall. You said the estimates have been in ministerial papers and there has been an internal validation, Mr Thompson. I just wondered if you could elaborate on which Ministers and which Departments have had sight of those numbers and around what timeframe.

**Jon Thompson:** I do not have that information.

**Rushanara Ali:** Would you be able to let us know later?

**Chair:** You can share that with us. We do not need the details.

**Q770 Rushanara Ali:** Just the names. Did the Minister for International Trade know about these numbers? Did the Defra Secretary or the Foreign Secretary? Did it go to the Cabinet? It would just be helpful to know.

**Jon Thompson:** I do not know whether we can or cannot give you that information. One of the questions one of you asked last time is in relation to this. I know everyone is really focused on what the customs option is, but we are only one Department involved in this. There is the Department for International Trade, DExEU and the Treasury and so on, and there are a range of different options.

Depending on which customs option you choose, it impacts on things like regulatory alignment of freedom, it has impacts on trade and free trade agreements and so on and so forth. There are a wide range of Departments. We are not the primary author, therefore, of their papers. Although we have access to those papers, we are not the primary author, nor are we the primary distributor, so I am not sure that we would be able to answer your question.

**Q771 Chair:** Would you be able to tell us which officials in Departments have seen the papers? Would that be an easier question for you to answer?

**Jon Thompson:** It might be. I will have to have a think about it.

**Chair:** It would be helpful to hear from you if you can come back to us, because it may well be we will have to take it up with the Cabinet Secretary.

**Q772 Rushanara Ali:** I asked this question because remarks have been made about your evidence and that it is speculative, so it would be helpful to understand, given what you have said, who has seen it and why their response and Number 10's response has been as such. I look forward to hearing from you at some point.

Moving on to cross-governmental working in more depth, a couple of weeks ago you said, Mr Thompson, that you believed we could have a functioning border by January 2021, despite the two customs options





being proposed by the Government taking at least three to five years to implement. You said the way to achieve this would be to compromise on one of the Government's three border objectives: security, revenue and trade. Is it fair to describe a course of action that results in the failure of one of the Government's core objectives as a functioning border, if something has to give, Mr Thompson?

**Jon Thompson:** It is a good question. Sorry, I am just trying to buy myself a few seconds. I also said to you that it might not be optimal, so there is a difference between it functioning and it being optimal. It depends on which option comes about and so on and so forth, but we do believe there will be a functioning border in January 2021. If we got to the autumn of 2020 and we could not have a fully optimal border in January 2021 then Ministers would have to prioritise between those three objectives, but that scenario only occurs in the autumn of 2020 if we cannot deliver our fully optimal border. It is worth remembering that the five years on NCP is primarily driven by building the tariff reclaims system. You do not need that to operate the border in January 2021.

**Q773 Rushanara Ali:** If I understand it correctly—apologies if I have not—one of those objectives is sacrificed, we cannot compromise on security, can we? We cannot compromise on trade, can we? It will be revenue, will it not, and if it is revenue that is the least worst thing to compromise on, what might be the cost implications of that or do you feel it is already—

**Jon Thompson:** We cannot answer your question. You are asking me two hypothetical questions, one built on the back of the other, so we cannot answer your question. If this situation occurs, Ministers would face a choice and they will make a choice.

**Rushanara Ali:** Okay. We will ask the Ministers.

**Jim Harra:** I would point out that in any customs regime at any point in time you are always balancing those three objectives in any event. In the customs regime today, we do not stop and search every container coming into Felixstowe. You are balancing compliance risk and security and trade fluidity, and what Jon has said is there is a possibility that on day 1 it will not be at the optimal level that we intend to get it at. Therefore, for a transitional period you will have to make some prioritisation choices, but it is inevitable indefinitely that you will always be balancing those objectives.

**Q774 Rushanara Ali:** Ms Wheeler, on discussions you have had with other Departments can you say a bit more about the Departments involved, such as border agencies presumably, the Home Office and the Department for International Trade? Can you reflect on some of their tolerance for slippage on their objectives?

**Karen Wheeler:** We have a border planning group, which includes 20 Departments and agencies that meet regularly to discuss all of those issues. We started out to look at the various commodities, processes and





controls that each of those Departments has that it takes responsibility for at the border and have been working through those very systematically. The areas that have the biggest activity that happens at the border are HMRC, the Home Office, the Border Force, which polices and manage the border, and after that it is Defra and FSA. There are activities in other Departments as well, but they are simply less significant compared to those Departments.

You have heard from HMRC. The Border Force has security checks and processes, and its security checks and processes are not fundamentally changing as we leave the EU, so from that point of view there is no compromise that we would be expecting associated with any type of slippage that you are suggesting. Their activities to prepare are focused on ensuring that they have enough staff and that they are ready, trained and capable to police and manage the borders. They are confident and we are collectively confident that they will be ready.

Defra has a large number of products—plants, foods, animals, live animals, pets, fish, equines; there is a long list. We have been through and they have been working through exactly how they are planning to manage all of those activities. For a large degree of those activities, the planning assumption we are working to is one of a risk-based assumption, i.e. to not be implementing large numbers of extra checks and processes for EU goods because the risk does not change on day 1. As a result of that, they are very confident that they will be ready in the light of those scenarios, certainly for an implementation period. Generally speaking, other Departments are in a good place for being able to deliver at the end of the implementation period.

**Q775 Rushanara Ali:** Is the working across Departments going smoothly, as opposed to in silos, which Whitehall has always had issues with?

**Karen Wheeler:** Every organisation has its silos, as you can imagine, but there has been a very high degree of co-operation and collaboration between Departments.

**Q776 Rushanara Ali:** How does this all sit with the recent revelation in weekend reporting? The word “armaggedon” was used, in the reporting of how trade and exports and imports would operate in the worst-case scenario. Has it caused some concern? You will appreciate that the public will be very concerned about reports like that. There is an internal report in Whitehall setting out some of these major concerns of the worst-case scenario. How does this group working across Government think about the way these issues are dealt with, with these big issues of anxiety?

We have heard a lot about business uncertainty, but consumers and our constituents are very concerned and anxious about the worst-case scenario. God forbid it does not happen, but if those reports by Whitehall are coming out and people do not know the full picture, how do you deal with those sorts of issues and ensure that Whitehall is providing



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reassurance as well?

**Karen Wheeler:** It is not a report I recognise or have seen. Our job is to avoid and mitigate the worst impacts that might be there for any of the scenarios. We are working across all the different scenarios for when we might leave the EU and under whatever circumstances, so the two that Jon has described but also all of the others that exist.

Our job is to try to work not only with Departments across all of those scenarios, but also with the people who operate the borders and the ports and, indeed, that is why we have talked as well to member state colleagues, as you have been talking to this morning. Our job is constantly to look at those risks, but try to manage them, deal with them and avoid them, so that we do not face those issues.

Q777 **Rushanara Ali:** Do Mr Thompson or Mr Harra want to add to any of this?

**Jon Thompson:** We would not recognise those words. Certainly, if there is such a report in some physical report, none of us have ever seen it. I have certainly never seen those words.

Q778 **Rushanara Ali:** Maybe it will appear in the Committee. Somebody will post a copy to us if we are lucky. I have one final question, which is about working with local government. Mr Thompson, you mentioned that the majority of interventions happened at the local level last year. In the cross-governmental work how much attention is being given to the very localised work?

**Karen Wheeler:** Shall I take that? In addition to all of our work, as you will understand, the changes that we are trying to do and plan for in Government crystallise at a local level at the port, and there are many different players at Eurotunnel, at ports and at airports. There are many different actors who have to be involved in that and, indeed, local authorities have a significant role in there. They often operate the port health authorities, who manage the activity associated with the agricultural and food type checks that happen.

Q779 **Rushanara Ali:** That is all happening. You are confident and satisfied that that is happening.

**Karen Wheeler:** That is all happening and we have been talking to the local authorities who represent and support the major ports and airports that we have been talking to, so that we have made clear what our expectations are.

Q780 **Rushanara Ali:** Do you anticipate any additional cost to local authorities? I am asking because local authorities have faced unprecedented cuts over the last eight years. If Brexit is going to be costly, as we have seen in terms of predictions elsewhere, have you got anything to say about that?

**Karen Wheeler:** Our working assumption is that there are not costs that are naturally going to be transferred onto local authorities. Clearly, there



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are different costs in the system associated with this, but one of the biggest areas of work that local authorities do associated with border activity is port health activity and controls of food and agriculture, and in the scenario that I have described to you we do not believe that there will be significant extra activity they will have to pick up.

**Q781 Chair:** I have a couple of questions I want to ask and perhaps probe a little bit further on a couple of things that we have talked about. In view of time we are probably not going to get on to economic crime today, so we may invite you back. I am sure you will be looking forward to that, but it will not be on this dreaded subject of Brexit. I am going to bring in Mr Streeting, because I think he has a couple of questions on something else just at the end.

Perhaps finishing where we just did there, Mr Harra, we talked earlier on about there being no checks needed—I think it was you and Mr Thompson—on the customs partnership borders, but presumably you are talking in terms of customs checks. There are other checks to do with sanitary products or potentially rules of origin or regulatory standards, which I appreciate may not be within HMRC's responsibility, but in the case of the customs partnership there could still be other checks needed at the borders.

**Jim Harra:** From our point of view, when we talk about the new customs partnership we are talking about customs controls in relation to fiscal matters. The new customs partnership means that for UK-EU trade we would not need any declarations or any movement of goods under customs controls for the purposes of tariff or VAT administration.

**Q782 Chair:** Just building on that, in relation to the question asked about VAT earlier on, I think you said it was not a quantum problem but a timing challenge, and you talked about a cash flow impact on business. One of the things that we have discovered was that potentially Royal Mail apply an £8 handling fee on packages. That could be that, or Mr Clarke was talking about agents and others who could help businesses.

**Mr Clarke:** Freight forwarders.

**Chair:** Freight forwarders. The fees that those sorts of organisations pay could have an additional cash flow impact on businesses who previously had not had to worry about paying import VAT.

**Jim Harra:** You are right that parcels move between the UK and the EU at the moment without customs procedures. In effect, if you are a consumer and you have bought goods from a company in France, they will have accounted for the VAT in France and you will just receive your parcel and there are no customs procedures. In the future, if we apply third-country rules then there would be import VAT due on such parcels. As things currently stand, you would expect to see the kinds of charges that you have mentioned.



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However, both at the EU level and internationally, we are looking at how to reform the way that taxation of parcels works and the EU has already announced that in 2021, which coincides with the end of the proposed implementation period, it proposes to move to a new model for parcels, where payment of import duties or VAT would be the responsibility of the sender rather than the recipient. The UK has supported that and is engaging in that, so we are still working on how we can ensure that kind of impact does not arise.

**Q783 Chair:** Even despite Brexit, that may be the sort of thing where we do want to be following EU rules or working with them, because that could be of benefit to consumers.

**Jim Harra:** It is the international direction of travel as well, at OECD level too, so there are signs that that might all be coming together at the right time.

**Q784 Chair:** The other point we touched on two weeks ago was about discussions that you were having, in terms of technical discussions with the EU, and the difficulty of having some of those discussions. We talked about this a little bit with the ports and Getlink earlier on. I just wondered if anything had moved on and if you had had any further permissions, if you like, from negotiators that those sorts of technical discussions could start.

**Jon Thompson:** We continue to request—and the Government agree with us—that we should have technical discussions with respective customs and tax authorities, as was discussed with your previous witnesses.

**Chair:** We talked about specification, yes.

**Jon Thompson:** We agree with that, but at the minute the negotiations are with the EU. They are not at individual tax authority level. We continue to request that; it is part of the ongoing dialogue with the EU.

**Q785 Chair:** Again, we explored the common transit convention two weeks ago and said that the Government's view is that the UK would want to remain part of the common transit convention. Has there been any progress on that?

**Jim Harra:** The UK has written to the secretariat of the convention applying to re-accede to the convention when we leave the EU, so that is in train.

**Q786 Chair:** We are waiting for a reply from them basically.

**Jim Harra:** Yes, and then I would expect there to be a negotiation on that.

**Q787 Chair:** The other issue we touched on two weeks ago was about jobs and the number of people that HMRC would need to recruit, so I was, I have to say, a bit surprised to then see that there was a *Times* article just after



that saying that HMRC is employing 2,000 fewer staff than on the day of the referendum. I just wondered if you could talk us through from which parts of HMRC those jobs have been cut, as opposed to where you are going to need to recruit to deal with new customs checks and customs issues.

**Jon Thompson:** In the spending review in 2015 that my predecessor agreed with the Treasury, there was an assumption that in digitising services and providing services with a wide range of digital services there would be a reduction in traditional means of contact, i.e. forms, letters and phone calls. I think I have described that assumption in other places as overly aggressive. It assumed that there would be a 70% reduction in contact by traditional means. In the financial settlement that was reached in 2015 that money was removed from the baseline of HMRC over the four years of the spending review.

We have had great new digital services. We are seeing reductions in demand, but not at the rate that was assumed. Where people are, as it were, leaving the organisation is in customer services and we are recruiting extra largely in customer compliance, so that is in avoidance and evasion. You previously had some evidence or the sub-committee had some evidence from a couple of our colleagues in that area. It is the customer services group where the numbers are reducing.

Q788 **Wes Streeting:** Good afternoon. You will be aware of the concerns that I raised at this Committee with the Chancellor about HMRC's response to French authorities investigating the affairs of Lycamobile, in particular the reference to Lycamobile being the largest donor to the Conservative Party. I saw your reply to the questioning from my colleague, Meg Hillier, on the Public Accounts Committee. I wonder if you would just like to first outline how it was that donations to the governing party were deemed relevant by a HMRC official or officials when replying to the authorities in France. Secondly, hopefully you have had the time by now to look in depth at what went wrong. You referred in response to Meg that you had asked the general counsel in charge of the legal department to look at any systemic lessons. What findings have arisen?

**Jon Thompson:** The review by general counsel has concluded. We asked her to go through every single one of the requests for mutual assistance from other tax authorities, so there was the Lycamobile reported one—forgive me, I do not quite remember exactly how many there are in the course of a year. It may be in that evidence that you have before you. Two-hundred-and-sixty-something is the number that I recall.

We asked her to go through all of those to see whether, in any of the responses to the others, there were any references similar that to with Lycamobile. She has concluded that there are not. She has also supported the line I believe I gave to the Public Accounts Committee, which was there is a simple mistake. It is clear that was an error by one



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of our colleagues, who otherwise over three pages gave a rather excellent response to the French.

Q789 **Wes Streeting:** When replying to requests like this, what grade of official would be involved in drafting the reply and who would sign it off?

**Jon Thompson:** Off the top of my head I cannot remember, but I will happily provide you with that information.

Q790 **Wes Streeting:** That would be helpful. You have just made reference to an otherwise excellent response. I have to say it was not just the reference to donations to the Conservative Party that I found troubling, though it is deeply embarrassing for HMRC and for the Government as a whole. The same correspondence between British and French officials noted that Lycamobile is a large multinational company with "vast assets at their disposal" and would be "extremely unlikely to agree to having their premises searched". Why should the size of Lycamobile, the assets of the Lycamobile and the willingness of Lycamobile to be subjected to search be at all relevant when replying to requests from the French authorities?

**Jon Thompson:** They are not.

Q791 **Wes Streeting:** Why is it in there?

**Jon Thompson:** I made it clear to the PAC that there are two sentences. If you have the correspondence between ourselves and the French in front of you, those two sentences about the donations to the Conservative Party and its respective size are together. Both of those sentences should not have been there.

Q792 **Wes Streeting:** It does not give a very good impression, does it? My reading of that letter was that HMRC quivers in front of multinational companies with vast assets and deems these kinds of, as far as I am concerned, totally irrelevant factors as relevant when replying to requests from foreign authorities? Did the investigation by your general counsel look at not just the party-political references but those other irrelevant factors that were cited in this case?

**Jon Thompson:** The response that our colleague gave to the French was an excellent response that essentially sets out that we cannot just do whatever other tax organisations want us to do. We have to abide by the law as defined by Parliament. Therefore, what the letter does is say, "Thank you very much for your request. The requirements of HMRC are to comply with the law. These are the requirements of the law. There are specific aspects of your request that do not comply with UK law and, therefore, we cannot obtain a warrant, which you would like to. Here is how we would suggest you could give us the evidence that we could advance the case for you if you would like us to". That is why it is an excellent response.





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Our response to large businesses is extremely good. We clearly are delivering multi-billion pounds of additional revenue to the Government as part of the overall compliance target, which last year was another record of more than £30 billion.

**Wes Streeting:** I am interested. As the Chair indicated, we will come back to the issue of economic crime at a future session, but your final part of your answer there is interesting to me, because your 2016-17 annual report has only one mention of money laundering, where it refers to cost recovery, and the word "crime" only appears five times. That suggests a seeming lack of focus from HMRC. In relation to your responsibilities, particularly in supervising money service business, which the NCA identifies as high risk when it comes to anti-money laundering activity, it seems that HMRC is the weak spot in AML supervision and your reply there about revenues suggests to me that HMRC's focus is largely about simply securing revenues rather than being more concerned broadly about anti-money laundering activity and properly tackling economic crime.

**Jon Thompson:** I have no idea how you got to that conclusion whatsoever. There are 25 regulators in relation to anti-money laundering. You have one sentence in one letter that I have told you is a mistake in relation to one case. Now you have gone to there being some systemic problem. I do not understand how your evidence flows from one to the other. I will happily answer whatever questions you have about our anti-money laundering, our role in economic crime, the fantastic partnership we have with the NCA and various others and so on and so forth. I am very happy to do that. In fact, I went back and learned the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 in anticipation that you might ask me.

**Chair:** Do not worry; I promise you that revision will not be for nothing.

**Jon Thompson:** I would really be grateful if you did, but there you go. Let us be really clear. We are very heavily involved on economic crime. We have an excellent record. We took the trouble this year to produce an annual report specifically in relation to our activities in this area, which went public fairly recently. I am happy to come back and give you some further evidence about that. If you like, I will bring the lead officials on that too.

Q793 **Wes Streeting:** That would be welcome. My concern and the reason I wondered about the systemic culture at HMRC was, as I said, in relation to your annual report, where there was only one mention of money laundering, where, as I said, it referred to cost recovery, and the word "crime" only appeared five times. I know you have a report on anti-money laundering activity. My concern was whether the appearance of that report as separate from the annual report suggests that this is a bolt-on activity for HMRC rather than core business reflected appropriately in your annual report.



**Jon Thompson:** That is an interesting question. If we are being frank about it, the executive committee has looked at all of its activities that are not primarily about raising revenue and proposes in the spending review of 2019 to have a conversation about the extent to which you actually want HMRC to do this. You picked on anti-money laundering. There is the national minimum wage. Remember, we are still administering tax credits, child benefit and so on. There is an interesting question about whether the primary purpose of HMRC is to collect the revenue that pays for public services, which has a fantastic resonance with colleagues—these other activities are undoubtedly important, but are they best aligned with us or might they be best aligned with someone else? Our plan is to have that conversation in spending review 2019.

Q794 **Wes Streeting:** Thank you. I welcome your candour about that last point, because that is an interesting and important debate. On a more positive note, I am sure we have all received over the years a significant number of emails offering refunds from HMRC on our tax only to find, for those who are stupid enough to click on the link, that unfortunately HMRC is never proactive in giving money back and that those people have been victims of phishing. I did note HMRC's significant success in this area and sadly I do not get so many emails these days offering tax rebates, but I wondered if you might want to report to Parliament about your particular work around phishing.

**Jon Thompson:** Thanks for the opportunity to do that. We have now managed to strike a world-first: we worked with the various internet service providers so the emails never reach your inbox in the first place. We worked with an organisation called DMARC. Our estimate is that with them we have prevented 500 million malicious HMRC-branded emails getting into people's inboxes, and in the course of the last year we have also managed to close down 14,000 alleged HMRC websites. We are pushing away at the boundary, because the next big wave is in relation to SMS, which gives you a link back. We are working away at what we can do about that. We have done some innovative work in the UK. That has reduced that by 90%, but we need to keep pushing away at this because the criminals find different ways in which to do it.

We have done a world-first on email and some great work on websites and SMS, but people should be really clear that unless they signed up in their personal tax account to receive emails from us, then we will not email them and we will not send them an email that has a link in that says, "Click here to get your refund". We never do that; that is absolutely my advice. I have received them too, which I thought was a fascinating thing. These people are completely indiscriminate and people should never click on it. As *The Sun* said recently, if it is too good to be true then it almost certainly is.

**Chair:** Thank you very much indeed. As I say, we will return to the subject of economic crime, hopefully in a Brexit-free session, but we all thought it was worth exploring borders and customs properly this



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morning. We will do that, but for now thank you very much indeed, all of you, for giving evidence this morning.