

November 2017

CBI Response to the HMT white paper on customs

Introduction

The CBI welcomes the opportunity to respond to HM Treasury's call for input to the white paper on customs. Across the UK we speak on behalf of 190,000 businesses of all sizes and sectors which together employ nearly 7 million people, about one-third of the private sector workforce.

For members across every sector that makes up CBI membership, the EU is currently more important than any other international market, with around 44% of UK products exported to the EU and 53% of UK imports from it.¹ For many companies, that means major suppliers, customers, contractors and components are based in the EU and makes free and frictionless trade – as far as is possible - economically crucial.

Summary

Over the summer the government took some welcome steps towards clarity, with the publication of two papers on customs, as well as the delivery of an extensive outreach programme to engage business on the critical issues surrounding a new customs regime.

The CBI welcomes the strategic objectives that the government has described, including the need to avoid a hard border between Ireland and Northern Ireland, the renewed focus on the UK's global economic relationships, and the importance of trade with the EU being as frictionless as possible.

More widely, business has identified the challenges most significant to the delivery of a new customs border. These issues include:

- The need to maintain the overall competitiveness of UK business
- The monetary investment, time and resource that businesses need to prepare for a new UK-EU border
- The monetary investment, time and resource that governments in both the UK and EU27 need to prepare for a new UK-EU border
- The importance of delivering a functioning ICT system to deal with customs declarations
- The need to prepare the UK's port, air, and road infrastructure for changes

However, while government is clearly considering some of these issues closely, businesses have yet to see the detailed, joined-up solutions that will be required to deliver trade that is "as frictionless as possible". There remain serious questions over the government's capacity to implement new systems and infrastructure with the time and resource currently available and – subsequent to that – to support businesses through the same changes. Additionally, while the ambitions and principles the government have laid are the right ones, most rely on successful negotiation of an unprecedented comprehensive customs partnership with the EU. Without this, the proposals the government has so far presented will not be sufficient to support the competitiveness of UK businesses trading with the EU, or their supply chains.

Companies are eager to continue the discussions begun with government to help deliver an approach that provides answers across all of these issues. The CBI will continue to facilitate cross-sectoral consultation between business and government, and encourages departments to continue joined up working on this important issue.

¹ ONS, UK Perspectives 2016: Trade with the EU and beyond

This submission argues that:

1. **A transition period will be essential to provide businesses with sufficient time to prepare for a new customs arrangement**
2. **The majority of businesses believe that the UK government should seek a highly streamlined customs arrangement with the EU and companies can support the introduction of facilitations to achieve this**
3. **Irrespective of the approach that government takes there are certain issues that will require resolution. These include questions around: the UK's infrastructure; government ICT systems; business readiness; links to EU counterparts; regulatory equivalence.**

1. A transition period will be essential to provide businesses with sufficient time to prepare for a new customs arrangement

Businesses are pleased that the government has acknowledged the need for a “status quo” transition phase once the UK has left the EU. This will be instrumental in allowing companies in both the UK and across EU Member States – as well as their respective government bodies – the time to make the required adjustments to staffing levels, training and systems for a new UK-EU customs arrangement.

However, the details behind the government's plans for such a transitional phase remain unclear and will need to be negotiated with the EU. Specifically, the business community will need the UK to maintain full participation in the single market and a new customs union agreement with the EU on the exact terms as at present until a new deal is in force. The UK government's current commitment to ensuring companies only have to undertake a single adjustment is therefore welcome.

This transitional arrangement must be of absolute minimum two years duration. This will give businesses the time to make essential adjustments to customs systems and processes, which, as at Exhibit 1, take substantial amounts of time, even for small changes. Critically, a transitional period will also minimise the significant cost entailed in such adjustments by ensuring companies only have to make one adjustment to a new customs system, not iterative changes to adjust to multiple new arrangements over time. It must be remembered that businesses will not only be making changes to their customs processes during this implementation phase, but also to their HR procedures, governance processes and potentially even corporate structures. Sufficient time to manage this burden is therefore vital.

CASE STUDY 1:

A prominent automotive manufacturer who export a huge number of tractors each year have concerns about the impact Brexit will have on their supply chain and customs. They import components which cross the channel several times. Brexit uncertainty has led the senior team to question their investment in the UK. The company is currently considering relocating to the

EXHIBIT 1:

Revision of the **Union Customs Code** procedures, which is the framework regulation for customs, required a manufacturing company to add a number of extra fields to each of its databases. However, this update had to be done manually, and as result a small change took 9 months to complete.

The issue of transition to a new customs arrangement is not just imperative for changing business systems, it is equally crucial for upgrading government systems and capacity. For customs to work smoothly, a complex and therefore time-consuming process will need to take place to ensure that the

new systems and infrastructure put in place by business are fully aligned with the equally substantial alterations within government systems and processes. Not only does HMRC need to invest further in upgraded systems capacity, but an expected seven-fold increase in transactions and declarations will mean an urgent need to recruit and train border and customs staff at a rate not seen before.² Given that all these changes require substantial lead-in time, government simply needs more time for implementation to ensure confidence in the system from its business users.

Many businesses are already diverting resource, time and money to examine the impact of a new customs regime on their company. Of these, the majority are clear that, without absolute certainty around the final details of a new border regime it is not feasible to plan a strategy in response to it. This is problematic for the many companies who need to make imminent sourcing decisions. Where possible, some companies are already forming plans to deal with the implementation of a customs regime. For instance, there has been a 34% increase in organisations achieving AEO accreditation since the referendum result.³ For these companies, there is a clear opportunity cost to prioritising such activity now. In contrast, a third group of businesses, often at the smaller end of the scale, are yet to engage in any discussion, planning or strategy to deliver a new customs regime.

Consequently, a transition period is vital to ensure that government and businesses of all sizes have the time to plan and develop strategies, processes and capacity for the implementation of new customs arrangements. Given the length of time it will take both government and companies to be ready, and the importance of certainty to investors and trading partners, the agreement of such a transitional period by year end is absolutely vital.

2. The majority of businesses believe that the UK government should seek a highly streamlined customs arrangement with the EU and companies can support the introduction of facilitations to achieve this

The government has put forward two options for UK-EU customs arrangements post-Brexit:

- 1) A highly streamlined customs arrangement between the UK and the EU
- 2) A new customs partnership with the EU

Businesses are pleased to see the government developing options for debate and would like to engage in further, detailed discussions about the UK's future trading arrangements. The CBI will continue to facilitate cross-sectoral consultation between business and government to help achieve this.

The business response to option 1 – a highly streamlined UK-EU customs arrangement

Leaving the EU's customs union and the single market means that frictionless UK-EU trade is an impossibility, and there are realistic limits to what can be done to smooth trade. Businesses urge the government to seriously consider the impact of the re-introduction of customs duties between the UK and the EU, as well as the knock on effects that the re-introduction of import and export formalities will have on businesses and customers.

CASE STUDY 2

A US SME automobile company has stressed if goods from the UK are subject to tariffs and delays through border controls, they believe European customers will simply buy from other EU members. This scenario would force the business to move their EMEA office out of the UK market.

However, given the Government's stated intention to leave the customs union and the single market, the majority of businesses consider a highly streamlined customs arrangement between the UK and the EU to be the most practical solution to the UK's exit.

² House of Lords European Union Committee, [Brexit: Trade in Goods](#), March 2017

³ Statistic compiled using data from European Commission Authorised Economic Operator Database

This option is in line with existing planning to implement the Union Customs Code (UCC) across all EU Member States, and would therefore offer a degree of certainty to businesses that already understand the UCC framework and have been developing compliance in line with it.

Businesses agree with the government's suggested areas of focus to help deliver a highly streamlined UK-EU customs arrangement and would like to work with HMT to discuss these in more detail, as well as the addition of further simplifications. However, the majority of the suggested facilitations rely on successful negotiation of an unprecedented comprehensive customs partnership with the EU. Without this, the proposals the government has presented will not be sufficient to support the competitiveness of UK businesses trading with the EU, or their supply chains.

Simplifications to the movement of goods across borders

HMG's proposals to simplify the requirements for moving goods across borders include the negotiation of a continued waiver from the requirement to submit entry and exit summary declarations for goods being moved between the UK and the EU. Businesses are very supportive of this proposal, as it will help prevent delays at the border.

Similarly, businesses welcome the government's proposal to maintain membership of the Common Transit Convention (CTC). This would simplify border crossing for goods in transit across EU Member States, avoiding the need to carry out import and export declarations across individual borders and making clearances easier at key ports and airports. It would enable use of the New Computerised Transit System (NCTS) to simplify transshipments across the UK, EU27 and EFTA countries, avoiding the need for new systems.

Businesses are clear that both of these proposals would be of huge benefit, but it is evident that they will need to be agreed with EU counterparts via negotiation.

Options to reduce the pressure and risk of delays at ports and airports

The government has identified the current AEO scheme as a potential means to reduce the pressure and risk of delays at ports, by offering faster customs clearance to businesses with AEO accreditation.

Companies understand the importance of having such a scheme in place, and welcome the government's commitment to negotiate mutual recognition of AEOs to enable smoother trade flows across the border.

However, with estimates that 95% of AEO applications in the UK fail, firms of all sizes have been dissuaded from gaining accreditation due to the complexity and cost of the application process.⁴ Existing holders of AEO also recognise the administrative burden involved in accreditation, with companies re-counting lengthy processes to seek re-validation. One business, for instance, described having to provide the same information to authorisers on multiple occasions, devoting far more resource than initially expected, with the process lasting over two years. At the same time, many companies fail to see the benefits of holding AEO status, and some firms who currently hold it have yet to see a return on investment.

Consequently, of the UK's 326,000 businesses trading internationally, just 608 are currently AEO-accredited.⁵ This is far below the number of companies registered across other EU Member States, such as Germany, the Netherlands, and France.

If UK regulatory authorities wish to promote AEO status as a tool to smooth trade with the EU, government must provide far greater detail on the benefits that the government foresees for companies with AEO accreditation. Meanwhile, the government must streamline existing accreditation and revalidation processes to ensure that they involve less cost and complexity for companies. Business would like to see improvements made to the HMRC support available to companies seeking accreditation, such as the inclusion of template forms and face-to-face guidance. However, it should

⁴ CBI member input, October 2017

⁵ Statistic compiled using data from European Commission Authorised Economic Operator Database

be noted companies are clear that any simplifications to this process should not inhibit mutual recognition with the EU's AEO or US C-TPAT and other AEO programmes globally.

Since the referendum there has been a steep rise in the number of companies applying for AEO status, and the average number of accreditations has grown from 3 per month in 2015, to 10 per month in 2017.⁶ In line with this upsurge anecdotal evidence has emerged that the length of time taken to gain accreditation has increased and is now taking up to one year.

There is therefore an urgent need for the government to address simplifications to and support for the application and re-authorisation process. Equally, with the rise in future applications likely to number thousands, it is vital that the government invest in greater staff and infrastructure to deliver accreditations before the UK leaves the EU. There have been positive indications that this is something that the government intends to do in short order.

Reductions to the time and costs of complying with customs administrative requirements

In addition to those areas which require negotiation with the EU, there are a number of facilitations that the government can deliver unilaterally to enable smoother UK-EU trade. As referenced in the Customs White Paper, these include the potential for self-assessment to allow trade to calculate their own customs duties and aggregate customs declarations.

Businesses would strongly support the idea that approved UK-based companies could submit a monthly return covering all their import declarations in that period, avoiding the need for individual declarations at the point of entry. This would take pressure off infrastructure pinch points and make it easier for companies to deal with just-in-time deliveries. It would also be of particular benefit to smaller companies likely to have heightened challenges around cashflow, who would otherwise face costs of be £20-60 on the basis of filing individual declarations.⁷

However, the government has suggested that it will only be companies with AEO status who may be granted self-assessment for customs declarations. As it is taking twelve months to gain accreditation, in the worst case scenario of a no deal,⁸ companies will therefore need to begin registration now in order to gain AEO status ahead of March 2019. Even if companies can become accredited in time, if there are tailbacks at any border pinchpoints, both companies that are AEO accredited and otherwise will be affected.

Elsewhere, businesses are clear that a streamlined customs arrangement with the EU must be reliant on digital, data-driven solutions wherever possible. These will help to minimise journey times for goods travelling across the border and enable border agencies to make more informed, risk-led interventions. References in the White Paper to the utilisation of technology-based solutions to address the risk of delays at ports and airports for ro-ro traffic are therefore particularly welcomed by business. But companies would like to discuss these solutions in more detail, as well as to understand to what extent the government is examining more ambitious ideas. Thus far, companies that have the potential capability to deliver these solutions have not been able to seek a detailed enough specification to start building them.

The business response to Option 2 – a new customs partnership with the EU

The majority of companies support the ambition behind a new customs partnership and are in agreement on the benefits to avoiding a physical customs border, especially given its potential to help mitigate some of the challenges around the UK-Irish border.

However, with so little time to prepare for changes – and the impossibility of preparing for two very different scenarios simultaneously – this option is likely to prove seriously challenging for businesses to deliver in the limited time available, even with the inclusion of a transition period long enough to allow adaptations.

⁶ Statistic compiled using data from European Commission Authorised Economic Operator Database

⁷ CBI member roundtable, November 2017

⁸ CBI member interviews, October 2017

Businesses have identified a number of key concerns surrounding this option. In particular, companies have highlighted the difficulties inherent in delivering a tracking mechanism, with imports to the UK tracked until they reach an end user. For the many organisations with extensive supply-chains across Europe, who operate a criss-cross flow of components between the UK and Member States, this proposal would be difficult to manage and incredibly costly to implement.

Existing examples from other sectors, such as the tobacco industry, demonstrate some of the likely difficulties in delivering such a system. For instance, under the revised Tobacco Products Directive companies will be obliged to track the movement of cigarettes from initial production to end user. This is projected to result in 600 billion transactions a year within the EU, and annual running costs of £50million for individual businesses.⁹

Meanwhile, a repayment mechanism also poses significant challenges, especially to small and medium sized businesses. These companies would be more likely to suffer from significant cash-flow challenges if they must pay a higher duty rate up front and seek settlements later. A reimbursement mechanism could also lead to a situation whereby non-trading SMEs, such as customers of wholesalers, have to handle the complexities of customs processes, having had no previous experience of doing so. Consequently, if this option is to be pursued the government would have to explain how SMEs could be protected. Meanwhile, irrespective of business size, a repayment mechanism would also be extremely difficult to implement from a technical perspective, with most Enterprise Resource Planning systems unable manage two tariff options at the UK border.

3. Irrespective of the approach that government takes to future customs arrangements, there are certain issues that require resolution. These include questions around: the UK's infrastructure; government ICT systems; businesses readiness; links to EU counterparts; regulatory equivalence.

Regardless of the final arrangements that the government puts in place there are certain areas that businesses across all sectors and of all sizes have highlighted as critical challenges and in which businesses would like to see more clarity. These areas have to be considered in parallel with customs issues as part of the overall solution required to facilitate UK-EU trade, and business would like to see greater acknowledgement of these in future government policy on customs.

Infrastructure and physical capacity

As the government has acknowledged itself, the UK's exit from the EU customs union will lead to a seven-fold increase in the number of transactions that HMRC will need to process, with 350 million customs declarations to clear each year.¹⁰ This will have significant knock-on effects for the UK's border, with additional space and infrastructure requirements across the country's airports and ports.

With freight handling likely to take longer more space and infrastructure will be required. This takes time to deliver and build, not least because of planning permission requirements. Airports and ports cannot always easily provide additional facilities on-site, with some airports already short on space and operating freight sheds outside the airport perimeter.

In particular, businesses are highly concerned about infrastructure at Dover, where the customs border infrastructure was dismantled when the EU's Single Market was formed in 1993. At present 98% of the freight moving through the port is UK-EU trade and less than 1% of the lorries arriving in the UK via Dover or the Channel Tunnel need customs checks. Consequently, there are no facilities at either terminal and customs clearances take place six miles away at a truck stop with just 82 parking spaces for lorries.¹¹ But Dover is a critical point of entry and exit for UK-EU trade, handling a fifth of the UK's trade in goods, or £122 billion annually.¹² The introduction of a customs border will see a hundred-fold increase in customs declarations required, potentially necessitating huge changes to local and regional infrastructure.

⁹ CBI member input, October 2017

¹⁰ House of Lords European Union Committee, [Brexit: Trade in Goods](#), March 2017

¹¹ Institute for Government, [Implementing Brexit: Customs](#), September 2017

¹² Bloomberg, [Brexit Threatens Dover](#), October 2017

The fate of the UK's ports is a serious concern for both trade within the EU and internationally, as a large amount of US-bound freight is trucked via ports to the UK for onward flight connections, while Latin American, African and Asia-bound freight from the UK is often trucked to European airports, depending on who has the better connections to those countries.

The government must therefore ensure that it has analysed and planned its response to those areas of physical infrastructure likely to see the greatest pinch points. In cases such as these, government should begin detailed discussions with business on the best possible options and start to lay the groundwork and essential investment for improved physical capacity now, as well as to ensure that these checks can take place away from the border.

Elsewhere, government should begin immediate investment in the recruitment and training of customs and border staff. As we anticipate a sharp increase in the quantity of customs declarations and companies needing to engage with HMRC, the government will require an accompanying increase in HMRC staff to ensure processes run smoothly. It will take time to identify and train these individuals to the right standard and as this effort will require up to 5000 additional personnel, business expects to see government act on this now.¹³ It's important that the government shares information on its strategy and planning around these issues as soon as possible to help drive up confidence among those companies who are currently making investment decisions and planning for changes at the border.

Systems capacity

The government has been transparent in the progress it is making to deliver a new Customs Declaration Service (CDS), which it aims to make ready by March 2019.

However, despite reassurances from HMRC that it is on track to deliver by January 2019, businesses remain highly concerned about the development of the programme. First and foremost, given that CDS was designed prior to the referendum result, it is not clear if it will be able to manage the volume of customs declarations that the UK will need to process upon Brexit. This is exacerbated by the short timelines for delivery of the project. At present HMRC has allowed two months to complete the transition to CDS between January and March 2019, leaving no contingency time for testing or delays to the programme in the case it overruns. In the event of the system not being ready on time, and the UK leaving the EU without a deal, there would be a huge risk of delays and tailbacks at ports across the UK.

Delays also have an impact on businesses themselves, who require 12 months at the very least to align their systems to be compatible with CDS, as well as lead-in time to upskill staff.¹⁴ HMRC must take action now to ensure that this system is delivered before Brexit and that it has the capacity to cope with the increased number of declarations, as well as putting in place back-up measures.

Business readiness and usability for small business

The Government has long stated support to boost exports among small and medium-sized enterprises. These companies have significant export potential to grow internationally and already make up a vital part of many supply chains that underpin the British economy.

However, it is estimated that there are 180,000 traders who will be required to process customs declarations for the first time when the UK leaves the EU.¹⁵ A high proportion of these constitute SMEs who currently trade solely across the EU. This means that these firms do not have the experience or the required resource to deal with customs processes. Making sure that all of these companies are ready in time, and that the cost and burden involved remains manageable, will be a huge challenge. The government will need to engage in a highly targeted communications campaign to prompt and guide these companies to prepare for new customs arrangements, well-ahead of the UK's exit from the EU.

¹³ HoC Treasury Committee: [Oral Evidence: HMRC Annual Report and Accounts](#)

¹⁴ CBI member interviews, October 2017

¹⁵ Institute for Government, [Implementing Brexit: Customs](#), September 2017

Elsewhere, companies of all sizes will need to put in place higher numbers of staff to deal with the increased number of customs declarations they will be required to process. Customs officers, in particular, can expect to be in high demand immediately following Brexit, but with a dearth in existing levels of expertise businesses will need to hire and train significant numbers of additional customs officers. These can typically take six months to train, and companies will need to plan the details of their training and budget for capacity well in advance.¹⁶ Consequently, businesses are already considering how their volumes of customs declarations will change and engaging with customs brokers in the run-up to Brexit to ensure their shipments are cleared efficiently.

Links to EU counterparts

Cross-border solutions and close co-operation with EU counterparts to ensure that systems can function across jurisdictions will be a vital component in enabling a streamlined customs arrangement.

While the white paper highlights the need for a close working relationship with the EU in the area of security in particular, this will actually be vital across a much wider range of customs issues. For example, engagement with customs authorities across Member States will be critical from an early stage in order to avoid disparities between UCC implementations and any new UK customs system.

Equally, the government should be working urgently and visibly with those Member States who receive a high proportion of UK imports, such as France, Belgium, Germany and the Netherlands, on initiatives to build the physical and procedural capacity to deal with customs clearance of goods from the UK. It is estimated, for example, that there are 32,000 firms based in the Netherlands that trade with the UK and the EU but do not trade with the rest of the world.¹⁷ These will face many of the same challenges as the 180,000 UK businesses that do not trade outside the EU.

Even if the UK were to refine a perfect new set of customs systems and infrastructure on time, a lack of capacity at destination will still result in severe costly delays and strains on our infrastructure as goods are held at port. Meanwhile, UK Border Force and British regulatory agencies should actively work with their European counterparts to improve risk-led interventions in order to smooth the flow of legitimate trade in legal goods.

Regulatory equivalence

Businesses have constantly requested the government prioritise the UK's relationship with the EU over other international markets. Companies therefore welcome proposals to seek regulatory equivalence with the EU in the area of agri-food. Such commitments to regulatory cooperation do reduce the UK's flexibility to independently agree free trade deals with countries which do not subscribe to the same regulatory standards. Therefore, businesses wish to be reassured of cross-departmental agreement to this and are seeking an open discussion with government as to how it plans to balance regulatory equivalence with future UK trade policy objectives. The establishment of a Cabinet sub-committee to manage cross-departmental views on international trade is therefore a welcome initiative.

Conclusion

The Government's current position is that the UK will leave the EU customs union and the single market, leading to the introduction of a wide range of import and export procedures. While the government has begun efforts to provide solutions on this issue, businesses have yet to see the detailed, joined-up solutions that will be required to deliver trade that is "as frictionless as possible". This is a particular concern for the future of trading relationships on the island of Ireland, as solutions provided so far have not been sufficient to ensure the government can deliver on its principle of no hardening of the border there.

Given the government's current position, businesses foresee a highly streamlined customs arrangement as the only feasible option. With little time to prepare for the extensive operational

¹⁶ CBI member roundtable, November 2017

¹⁷ CBI meeting with external stakeholders, October 2017

changes required, businesses are now looking for government to move immediately from its high-level ambitions to the detail-orientated discussions on implementation plans as a matter of necessity.

Companies are urgently seeking greater certainty on the feasibility and detail of a potential transition period which would give both business and government the essential time needed to design these new systems, invest in personnel and infrastructure, and implement the new customs arrangements.

Business will continue to partner with government to help refine the detail of these future solutions, but government must not lose sight of the critical role it must play in helping thousands of smaller businesses to prepare for these changes which are hard to fathom on the basis of the information currently available.

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