



House of Commons  
Home Affairs Committee

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# Home Office delivery of Brexit: customs operations

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to the report*

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## Home Affairs Committee

The Home Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Home Office and its associated public bodies.

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Committee reports are published on the Committee's website at [www.parliament.uk/homeaffairscom](http://www.parliament.uk/homeaffairscom) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Carol Oxborough (Clerk), Phil Jones (Second Clerk), Simon Armitage (Committee Specialist), Harriet Deane (Committee Specialist), David Gardner (Senior Committee Assistant), Mandy Sullivan (Committee Assistant) and George Perry (Senior Media and Communications Officer).

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# 1 Introduction

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1. The Home Office has significant operational responsibilities in delivering the changes which will occur as a result of the UK's exit from the EU in March 2019. These changes will affect the Home Office in three main categories: customs operations, immigration, and policing and security cooperation. This will be the case whether the UK reaches an agreement with the EU on Brexit arrangements or in the event of there being no deal, although of course the nature of the task will depend to quite a large extent on the precise terms of any deal and the timetable for change.

2. We decided that we should prioritise examining the Home Office's capacity to deliver Brexit as one of our first inquiries of this Parliament, because, with only 16 months to go before the UK leaves the EU, there is only a very short period of time for decisions to be made and effective arrangements to be put in place.

3. This report on customs is the first stage in this overarching inquiry. It looks at the possible operational challenges, particularly for the Home Office, the risks that need to be addressed and the additional contingency planning that needs to be done. While the Government has indicated that the UK will leave the EU customs union after Brexit, the Prime Minister has stated that she still wants the UK "to have a customs agreement with the EU", although it is not yet clear what this will mean in practice.<sup>1</sup> The practical challenge involved in changing customs and border arrangements is significant and potentially costly: imports and exports are worth billions of pounds and involve a vast number of businesses and intermediaries. HM Revenue & Customs (HMRC) has estimated that Brexit could lead to an increase of up to 360% in the annual number of customs declarations in the UK, from the current total of 55 million to 255 million, if the arrangements after Brexit require declarations for UK trade with EU countries; and more than double the current number of traders may have to go through customs processes.<sup>2</sup>

4. Moreover, as the Government has acknowledged, customs arrangements are potentially a "cliff edge" issue, where change could happen suddenly; in the absence of an agreement which ensures continuity, or transitional arrangements, the introduction of border checks between the UK and the EU will need to happen on the first day of Brexit, as well as new documentary and excise and duty requirements<sup>3</sup>. It is the Government's intention to avoid this cliff edge, but how this will be achieved is still unclear. Furthermore, the Government's stated policy is for a bespoke customs arrangement with the EU during any transition, which suggests the need to model a range of operational responses to what could be—even in transition—changed customs arrangements.

5. When we took evidence from the Home Secretary last month, she told us that "irrespective of any of the outcomes" from the Brexit negotiations, dealing with post-Brexit immigration policy and delivery would result in "little change as long as we get our estimates right, as long as our technology is right and working correctly". However,

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1 Speech by the Prime Minister: [The government's negotiating objectives for exiting the EU](#), 17 January 2017. See also The Telegraph, [13 August 2017](#), Britain will not stay in EU by the back door, Philip Hammond and Liam Fox jointly declare

2 NAO, [Customs Declaration Service](#), July 2017, HC 241, Key Facts and p 6; and NAO, [The UK border: Issues and challenges for government's management of the border in light of the UK's planned departure from the European Union](#), HC 513, October 2017, pp 8 and 27

3 HM Government [Future customs arrangements: a future partnership paper](#), August 2017, p 2; and Institute for Government, [Implementing Brexit: customs](#), p 3

she acknowledged that this was not the case with customs arrangements: “I do think the challenge is much more on goods”. Ms Rudd was clear that “We will make the necessary minimum structural preparations to ensure that, whatever the outcome, we are ready on day one” and “we will make sure that we have something in place so that we can continue to operate”; and she indicated that the emphasis would be on “technological investment, so we can make sure that we can have advanced customs preparation, as we already do for non-EU matters”. However, she accepted that “it may not be perfect on day one”.<sup>4</sup>

6. HM Treasury is the Government Department with responsibility for customs; its agency, HM Revenue & Customs, delivers this policy and is responsible for collecting duty and excise. The Home Secretary emphasised to us that the Home Office’s “primary responsibility is on immigration, not on customs”.<sup>5</sup> However, the Home Office does have a significant interest in customs operations in that one of its agencies, Border Force, is responsible for securing the border and managing flows of people and goods. Border Force officers work at 140 sea and air ports across the UK and overseas. In relation to customs, its responsibilities include: searching baggage, vehicles and cargo for illicit goods or illegal immigrants; patrolling the UK coastline and searching vessels; gathering intelligence; and contributing to the protection and collection of customs revenues for trade crossing the border.<sup>6</sup> The Home Office also took over from HMRC responsibility for storing goods held prior to the payment of customs duties, evidencing the joint role performed by Border Force staff in the operation of both immigration and customs procedures.

7. Our predecessors took oral evidence on post-Brexit customs arrangements in January 2017 from witnesses representing freight and road haulage organisations, a leading logistics company, and a ports operator.<sup>7</sup> The witnesses expressed serious concerns about the level of preparation for post-Brexit border and customs arrangements and were clear about the scale of the delivery challenge for the Government, in terms of the volumes and complexity, the potential impact on importers and exporters, the urgent need for infrastructure improvements at and around ports, and development of new IT systems. This evidence remains valid, despite 10 months having elapsed since it was taken, because little has changed in terms of the detail of the Government’s intentions, or any action being taken to begin laying the foundations for a new customs system, beyond the publication of position papers and consultative documents (discussed in Chapter 3).

8. We have not assessed the options for customs or trade policy after Brexit; this report is instead focused only on operational delivery and Government preparedness for changes at the border as a result of the UK’s future customs relationship with the EU. We have been able to draw on a recent report from the Institute for Government on *Implementing Brexit: Customs*, (“the IfG report”) which provides a detailed and comprehensive examination of the current system and the challenges faced in leaving the EU customs union, and proposes some potential solutions. The National Audit Office’s (NAO) recent reports on *The UK border*, which looks at the range of challenges for the Government in managing the border in the context of Brexit, and on HMRC plans for a new customs declaration IT system, have also been a very useful resource.<sup>8</sup>

4 Oral evidence taken on [17 October 2017](#), HC 434, Qs 13, 15

5 Oral evidence taken on [17 October 2017](#), HC 434, Q13

6 Gov.uk website, [Border Force: About Us](#) [accessed 23 October 2017]

7 Oral evidence taken on [25 January 2017](#), HC 494, Session 2016–17

8 Institute for Government, [Implementing Brexit: customs](#), September 2017; NAO, [The UK border](#): Issues and challenges for government’s management of the border in light of the UK’s planned departure from the European Union, HC 513, October 2017, NAO, [Customs Declaration Service, July 2017](#)

9. We have not rehearsed the wealth of detailed information which is already in the public domain about current UK and EU customs arrangements. Instead we have sought to inform the ongoing public debate about how best to deliver any required changes, and to help shape the Government's approach to putting in place post-Brexit customs arrangements which will meet the needs of UK business with the minimum of disruption, and preserve the free flow of international trade, including with EU countries, while at the same time ensuring that UK trade is adequately protected from illicit, dangerous or unfairly priced goods coming through the border. The way in which Border Force operates means that the practical implementation of immigration and customs policies are currently interlinked. We plan to monitor the Home Office's delivery in meeting these operational challenges over the next 16 months.

## 2 Current customs arrangements

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### The scale and complexity of UK customs operations

10. Customs involves more than the collection of tariffs on traded goods: customs policy determines which goods can be traded and how these goods are dealt with by the responsible authorities; and customs operations ensure these rules are applied. The IfG report points out that the high volumes of goods in transit between countries today means that modern customs systems must strike a balance between providing security and facilitating the flow of goods.<sup>9</sup>

11. In 2015, goods worth £696 billion crossed the UK border; imports were worth £411 billion and exports totalled £285 billion. The value of goods traded between the UK and the EU was £382 billion in 2016, compared with £393 billion traded with the rest of the world. About four million goods vehicles cross the Channel each year, with 2.5 million passing through the port of Dover alone in 2015; and 40% by value of the UK's international trade moves in lorries.<sup>10</sup> Currently, HMRC collects £3 billion in customs duties annually; 80% of which is passed to the EU.<sup>11</sup>

12. Approximately 141,000 traders currently make customs declarations for trade outside the EU. HMRC has estimated that an additional 180,000 traders will need to make customs declarations for the first time, assuming the UK leaves the EU customs union. In addition, there are around 8,700 other users and intermediaries in the customs system, including freight suppliers, customs agents and software providers.<sup>12</sup>

13. As we have noted, HMRC is the lead government agency for customs arrangements, with Border Force providing the operational arm. However, a vast range of other government departments and public bodies also have a role: the IfG report identified 36 organisations involved in customs policy or operations. The NAO provides examples of the variety of organisations involved—including the Department for Business, Enterprise and the Industrial Strategy, the Department for Environment, Food and Rural Affairs, the Department for International Trade, the Department for Transport, local authorities and trading standards, the Driver & Vehicle Licensing Agency, the Export Control Organisation, the Forestry Commission, the Medicines and Healthcare Products Regulatory Agency, and Port Health Authorities.<sup>13</sup>

14. The private sector also plays a key role: ports in the UK are entirely privately owned; and the users of customs services are thousands of private companies including manufacturers, distributors, hauliers, freight-forwarders and import and export companies, as well as specialist customs handlers.<sup>14</sup>

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9 Institute for Government, [Implementing Brexit: customs](#), pp 8–9

10 Institute for Government, [Implementing Brexit: customs](#), p 12

11 Public Accounts Committee, Oral evidence taken on Brexit and the Future of Customs, [25 October 2017](#), HC 401, Q21

12 NAO, [Customs Declaration Service](#), July 2017, Key Facts; Oral evidence taken on [17 October 2017](#), HC 434, Q125; and Institute for Government, [Implementing Brexit: customs](#), p 12

13 NAO, [The UK border](#), p 12

14 Institute for Government, [Implementing Brexit: customs](#), pp 15–16; and NAO, [The UK border](#), p 12

## The EU customs union

15. A customs union is an arrangement whereby a group of countries act collectively to impose the same customs duties and apply the same trade regulations for goods entering from third countries; and do not charge customs duties between themselves. Customs unions reduce administrative and financial trade barriers, such as customs checks and charges. Customs is an exclusive EU competence which means that UK customs arrangements have been determined by the EU since the Single Market was created in 1993.<sup>15</sup>

16. There are no customs duties at the EU internal borders including with the UK, and very few checks of EU goods are carried out on the border. All goods not under customs control are in “free circulation” within the EU customs union area, whether they are made in the EU or imported from outside. The Common External Tariff means that any goods coming into the EU from outside pay the same tariff no matter which country they enter through. The Union Custom Code (UCC) underpins EU customs arrangements and sets out the arrangements which have to be adhered to when EU member states trade with third countries.<sup>16</sup>

## UK customs operations

17. Witnesses explained that goods vehicles entering the UK from the EU “undergo virtually no customs interventions at all” and generally simply drive straight through the border. At Dover, for example, where the goods are predominantly “roll-on, roll off” (RoRo), there is little “dwell time” (where a load is stopped and checked) and lorries arriving are not routinely subject to any checks. In contrast, lorries carrying non-EU goods may be subject to a range of checks at UK border entry points. Witnesses stated that, at the very least, vehicles have to wait for about an hour at the border for a decision to be made on whether a documentary check is required, which means the vehicle will need to park in the port area. If customs do decide to carry out a documentary check, the delay at the border might be around three hours; and a physical inspection means a delay of up to five hours.<sup>17</sup> Ninety-nine per cent of non-EU freight passing through major UK ports is comprised of containers. By contrast, only 24% of EU freight is comprised of containers; 69% is lorry traffic.<sup>18</sup>

18. The NAO notes that, due to the high volumes of freight and traffic and the infrastructure constraints, such as limited numbers of searching bays, border officials are only able check a small percentage of traffic. A risk-based, intelligence-led system is used to determine which goods and vehicles are checked.<sup>19</sup> As a result, documentary checks of non-EU goods are carried out on less than 3% of imports (compared to less than 1% of lorries arriving at Dover or through the Channel Tunnel).<sup>20</sup>

15 Institute for Government, [Implementing Brexit: customs](#), p 6

16 Institute for Government, [Implementing Brexit: customs](#), p 11

17 Oral evidence taken on [25 January 2017](#), Qs 130, 135

18 Institute for Government, [Implementing Brexit: customs](#), p 13

19 NAO, [The UK border](#), pp 11, 18 and 30

20 Institute for Government, [Implementing Brexit: customs](#), pp 9 and 13

19. Even if this small percentage is maintained, the sheer volume of UK trade with the EU means that the number of checks is expected to increase substantially after Brexit. If there is no agreement with the EU before Brexit, vehicles carrying goods to and from EU countries are likely to become subject to the checks currently reserved for non-EU goods.<sup>21</sup> We discuss the many implications this has for government systems, infrastructure, businesses and supply chains in Chapter 4.

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21 Oral evidence taken on [25 January 2017](#), Qs 130, 135

### 3 Brexit negotiations—transition and the implications of ‘no deal’

20. As previously noted, the Prime Minister has indicated that she wants the UK “to have a customs agreement with the EU”. The Government has further stated that it is seeking a “deep and comprehensive” free trade agreement with the EU which will allow for “the freest and most frictionless trade possible in goods between the UK and the EU”, whilst allowing the UK to negotiate its own trade agreements with third countries.<sup>22</sup> The EU’s position is that frictionless trade outside the Single Market and the Customs Union is not possible; and the European Parliament’s coordinator on Brexit, Guy Verhofstadt, went as far as to say that it was “a fantasy”.<sup>23</sup> There are also specific concerns around the future operation of the border between Northern Ireland and the Republic of Ireland (see Chapter 4), and the maritime border between Wales and the Republic of Ireland, that have been raised by the Government, the European Commission and the Irish government.

21. The IfG report states that “there is no pre-existing model of relationship with the EU which would completely mitigate disruption and the need for border checks”. The agreements which the EU has with most of its major trading partners, including Canada, Japan and the USA, seek to facilitate customs arrangements but they do not remove “friction”. So the UK would be seeking an agreement with the EU which is different from anything previously achieved by a third country.<sup>24</sup>

22. The NAO notes that a “bespoke” trade deal of the kind the Government is seeking might require new or amended border arrangements; and such agreements might allow some products to be sold in the UK, or exported from the UK, which are not currently permitted under EU regulations. It points out that these changes might also bring opportunities to improve the use of data and technology, including streamlining the way in which importers and exporters interact with government clearance systems.<sup>25</sup>

23. The Government published a position paper on future customs arrangements with the EU in August which proposed two possible models for post-Brexit arrangements. These were described as:

- A streamlined customs arrangement between the UK and the EU underpinned by the continuation of some of the existing agreements and under which the UK and EU would trade with each other as third parties. Such an arrangement is essentially an agreement to reduce, as far as possible, customs checks. Such agreements are common and can be included as part of customs union or free trade agreements.
- A new customs partnership with the EU which would align the UK approach to the customs border in a way that removes the need for a UK-EU customs border. This would be achieved by operating a regime for imports that aligns precisely with the EU’s external customs border for goods consumed in the EU market and requiring the same tariffs and rules of origin as the EU to be applied.<sup>26</sup>

22 Speech by the Prime Minister: [The government’s negotiating objectives for exiting the EU](#), 17 January 2017; and HM Government [Future customs arrangements: a future partnership paper](#), August 2017, Executive Summary

23 The Guardian, [15 August 2017](#), ‘A fantasy’: EU leaders dismiss UK’s post-Brexit customs plan

24 Institute for Government, [Implementing Brexit: customs](#), pp 17–18. See also IfG, [Frictionless trade; what Brexit means for cross-border trade in goods](#), August 2017

25 NAO, [The UK border](#), p 29

26 HM Government [Future customs arrangements: a future partnership paper](#), 15 August 2017, paras 27 and 38–42

24. In October, the Treasury published a White Paper and a draft *Customs Bill*, which provides some more detail on the Government’s view on possible future arrangements.<sup>27</sup> The Government says that it will “look at options to reduce the pressure and risk of delays at ports and airports”, including by:

- The use of Authorised Economic Operators (AEOs) to enable faster clearance of AEOs’ goods at the border. [This is a “trusted trader” scheme, which reduces the need for documentary checks and physical inspections at the border.]
- Bilateral implementation of a technology-based solution for roll-on, roll-off ports which could consist of pre-arrival notification of consignments on a port IT system, linked to customs declarations and vehicle registration numbers so that vehicles are not required to stop at the border, enabling traffic to flow smoothly.

These proposals are broadly modifications or expansion of existing systems. We assess their merits and limitations in Chapter 4.

### A transition or implementation period

25. James Hookham of the FTA told our predecessors that “customs and other organisations need to invest sufficiently to preserve as closely as possible the levels of service and reliability through our ports that we have at the moment”. He warned that in moving to new customs arrangements, “we are starting from a blank piece of paper”. He believed it would be “a nightmare scenario” if the negotiation process resulted in traders being given very little time to deal with customs changes and were “confronted with a matter of days” before new systems were implemented.<sup>28</sup>

26. Andrew Baxter of Europa Worldwide Logistics argued that “if you had to make those infrastructure things happen in two years, you would have your work cut out. To make them happen in a year—that is not enough time”. He believed that it was possible to achieve the necessary change but that that would require “fast reaction from the Government to make sure we are properly prepared for Brexit”.<sup>29</sup> He was very clear that “you can’t have Britain leave the customs union unless customs are ready to deal with the things they need to deal with”. The implications of not achieving this and having queues at borders was unthinkable; and “it doesn’t have to happen. Government just needs to act in order to prevent that problem”.<sup>30</sup>

27. More recently, Mark Corby, Chair of the BEIS-sponsored UK Trade Facilitation Expert Panel, has stated that the UK could be ready to operate a new customs system by 2019 but also warned of the prospect of “total chaos” if the necessary preparations are not made in good time. He has argued that to get to a position where the system does not collapse on day one of Brexit, decisions are needed now, but he feared that this was unlikely to happen.<sup>31</sup>

27 HM Treasury, [White Paper on the Customs Bill legislating for the UK’s future customs, VAT and excise regimes](#), October 2017

28 Oral evidence taken on [25 January 2017](#), HC 494, Qs 137, 147, 186

29 Oral evidence taken on [25 January 2017](#), HC 494, Qs 137, 144, 147

30 Oral evidence taken on [25 January 2017](#), Q184

31 BBC Radio 4, Today, [20 October 2017](#)

28. In advance of longer term arrangements being implemented, the Government has suggested there might be an interim time-limited arrangement based on a model of “close association with the EU Customs Union” using a shared external tariff, and without customs processes or duties between the UK and EU member states.<sup>32</sup>

29. In October, the five leading UK business organisations (British Chambers of Commerce, CBI, EEF, the Federation of Small Businesses and the Institute of Directors) wrote to the Brexit Secretary to warn that the UK risks losing jobs and investment without an urgent Brexit transition deal.<sup>33</sup> The CBI had previously welcomed the Government’s proposals for a smooth transition but warned that “to secure frictionless trade, negotiations on regulation, tariff and non-tariff barriers will have to take place. All efforts should be made to deliver a single-step transition, so that businesses don’t have to adapt twice.”<sup>34</sup>

30. From the Home Secretary’s evidence to us last month, it appears that much of the Home Office’s planning is predicated on there being a transition or implementation period.<sup>35</sup> Were there to be no deal, and therefore no transition, as the Prime Minister and Cabinet Ministers have suggested as a possibility, some of the consequences for customs arrangements would be out of the UK’s control. Planning by the Home Office is required for goods *entering* the UK from the European Union and *departing* from the UK to the European Union.

31. Given that there are only 16 months to go until a transition arrangement or implementation period would need to start, there is a worrying lack of clarity about whether the Government intends to preserve existing policy and operational practices during the transition, or whether there will be substantive differences in customs arrangements. It is also unclear when the Government intends to clarify this. This is a concern, given that there are significant lead times and costs involved; for example, in recruiting and training new Border Force officials (as explored in Chapter 4). The Brexit Secretary has stated that he wants agreement with the European Union on transitional arrangements “in the first quarter of next year”.<sup>36</sup> The Prime Minister, by contrast, has suggested that any transitional arrangements cannot be formally agreed until the UK’s future trading relationship with the European Union has been agreed.<sup>37</sup> It has been reported that EU officials now envisage a transition period of 21 months; and the EU’s lead negotiator Michel Barnier was quoted as saying “it makes sense that [the transition] covers the financial period, so until 2020”.<sup>38</sup>

32. Mark Corby, chair of the UK Trade Facilitation Expert Panel, has stated that “You need three to five years, taking the transition up to 2025, to put in place the untried, streamlined systems ultimately envisaged.”<sup>39</sup> Similarly, Anastassia Beliakova, head of trade policy at the British Chambers of Commerce, said that “A transition period should be at least three years. This is important not just for businesses to prepare, but also for new IT systems to be put in place, for [HMRC] to hire and train new staff, for new infrastructure to be built.”<sup>40</sup> Jonathan Roberts, the UK Chamber of Shipping’s Director

32 HM Government [Future customs arrangements: a future partnership paper](#), 15 August 2017, para 6

33 BBC News, [23 October 2017](#), Brexit: Business lobby groups call for transition deal clarity

34 CBI Response to the Customs Union Partnership Papers, [15 August 2017](#)

35 Oral evidence taken on [17 October 2017](#), HC 434

36 Select Committee on Exiting the EU, oral evidence taken on The Progress of the UK’s negotiations on EU withdrawal, [25 October 2017](#), HC 372, Qs 41–42

37 HC Deb, 23 October 2017, [col 30](#)

38 The Guardian, [26 October 2017](#), Brexit transition period likely to be limited to 21 months, EU officials say

39 Financial Times, [18 October 2017](#), The case for a longer Brexit transition

40 Financial Times, [18 October 2017](#), The case for a longer Brexit transition

of Communications, has emphasised that companies are keen to begin working to adapt to the post-Brexit scenario, which he envisages will include significant development of port infrastructure, but they need to know what transitional arrangements they will be required to move towards before action can begin.<sup>41</sup>

**33. The outcome of the Brexit negotiations which would cause the least upheaval for ports, points of entry, and traders doing business with EU Member States would be the preservation of the operational status quo for customs arrangements and remaining in the customs union. The Government should aim to agree transitional arrangements with the EU which involve no practical change to customs operations either in the UK or the EU, and especially at the Irish border, including the maritime border with Wales.**

**34. If it is not possible for the Government to reach a deal with the EU that results in no changes to customs and border operations in the transition period, then businesses and haulage operators urgently need details of what those changes will be. At a minimum, the options under consideration should be published so that these organisations and the public sector can make the necessary plans and investments for those operational changes.**

**35. Given the lead times for changes in staffing, technology and infrastructure, Border Force, HMRC and other public sector agencies also need clarity rapidly if any such changes will be required for the transition. The Government must make sure that all affected agencies have contingency plans in place to introduce new systems and capacity over the next 16 months. The Home Office should also set out its own urgent assessment of the additional costs of the options for each scenario.**

**36. The Brexit Secretary has stated that he wants to reach agreement on transitional arrangements in the first quarter of 2018. This timescale already poses immense difficulties if significant changes are required. If there is any further slippage to this timetable it will be extremely damaging to the smooth operation of the border regime, including to trade and security operations, and to businesses which will struggle to make major changes in such a short period of time.**

### **The implications for customs of no deal on Brexit being agreed**

**37. The IfG report argues that failing to reach agreement with the EU would mean that UK customs would experience “the greatest amount of change in the least amount of time, with a huge increase in demand on capacity and capability at the border. New systems, staff and infrastructure would need to be in place for 29 March 2019”.<sup>42</sup>**

**38. When the Brexit Secretary updated the House on the October round of negotiations, he made clear that, although the Government was “straining every sinew to get a deal” and that that was regarded as “the best outcome”, it was necessary to prepare for the eventuality of no deal being achieved, for two reasons: “The first is that it is a negotiation with many people and it could go wrong, so we have to be ready for that. The second is that in a negotiation you always have to have the right to walk away: if you do not, you**

41 BBC News, [29 September 2017](#), blog posts

42 Institute for Government, [Implementing Brexit: customs](#), p 20

get a terrible deal”.<sup>43</sup> The Home Secretary was giving evidence to us on Brexit delivery at the same time as Mr Davis was making his Statement. She told us that “our planning assumption is that we get ready for having a deal”, although planning would also take place for a no deal scenario.<sup>44</sup>

39. The White Paper on the draft Customs Bill set out the contingencies being considered in the event of there being “no deal”: the Customs Bill will make provision for the UK to establish a stand-alone customs regime from Brexit day, which will include setting tariffs and quotas, and establishing a goods classification system in line with the UK’s WTO obligations. The UK would apply the same customs duty to every country with which it does not have a trade deal or otherwise provide preferential access to the UK market. The level of this duty would be decided by the Government, and set out in secondary legislation before the UK leaves the EU. The Government has not yet set out a timetable for when those duties and processes would be set.

40. In the event of no deal, businesses which currently trade only with the EU will become subject to customs declarations and checks for the first time and imported goods would become liable to customs duty and import VAT. Certain goods may require import or export licences, and traders exporting to the EU would have to submit an export declaration. The Government says that it is “actively considering ways in which to mitigate the impacts on traders [ ... ], and the Customs Bill will make provisions that would allow the government to implement such facilitations”. This will include traders needing to be registered, which would then provide them with an Economic Operators’ Registration and Identification System (EORI) number.<sup>45</sup>

**41. If no deal is reached on customs arrangements, it will result in all those involved in customs in the UK experiencing a huge amount of change in a very short time, with a vast increase required in capacity and processes at the border, with the risk of either significant delays at ports of entry, or of inadequate checks taking place. A major contingency plan is therefore needed for the border which sets out the volume and nature of checks that the Government would expect to operate in the event of no deal. It should include plans for extra staff, additional infrastructure and new processes for businesses, and set out the costs of these plans. The long lead times that these changes require mean that, even if negotiations on a transitional arrangement continue throughout next year, the country cannot afford “no deal” arrangements to be left until the last minute. Therefore, Ministers need to set out early in the New Year the timetable they will follow for decisions, including when extra staff will start to be recruited and trained on a contingency basis, and what the costs and funding arrangements will be. The Government will also need to provide detail to businesses on the checks they can expect on goods at the border in the event of no deal, so that they can put in place their own contingency arrangements.**

42. We set out more details of the issues that need to be addressed in the next Chapter.

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43 HC Deb, 27 October 2017, [col 736](#)

44 Oral evidence taken on [17 October 2017](#), HC 434, Q15

45 HM Treasury, [White Paper on the Customs Bill: legislating for the UK’s future customs, VAT and excise regimes](#), October 2017, paras 5.10, 5.27–5.29

## 4 Infrastructure and capacity challenges

43. This chapter looks at the practical issues that need to be addressed in the event of changes to customs arrangements being required, whether as a result of the transition period, a long-term trade and customs deal, or no deal being in place.

44. When our predecessors took oral evidence on post-Brexit customs arrangements in January 2017, the witnesses representing hauliers, logistics companies and ports described the potential practical problems which were likely to occur if the customs requirements which currently apply to non-EU goods were applied to EU goods after Brexit.<sup>46</sup> They were particularly concerned about the impact of delays caused by additional customs checks, especially in relation to supply chains and where perishable goods were involved.

### Costs

45. The IfG report states that the introduction of customs declarations on EU trade could cost traders between £4 billion and £9 billion a year, based on an estimate of £20–£45 per declaration and an expected 200 million additional declarations after Brexit. The extra costs go far beyond this because traders are also charged for checks on goods: the cost for a physical examination by port health authorities ranges from £106 to £600 per container, depending on the test requirements. Some goods have to be transported to a specific location to be tested, which adds a further £30 for every two containers.<sup>47</sup> Mark Corby has estimated that the additional cost is likely to be between £19 and £26 billion a year as a result of losing the customs and trade facilitation and duty benefits which EU membership offers.<sup>48</sup>

46. Jon Thompson, the Chief Executive of HMRC, told the Public Accounts Committee in October that the estimated cost to HMRC would be between £300 million and £450 million in the “most extreme” scenario of the UK leaving the EU “with no ongoing special relationship”, and between 3,000 and 5,000 additional staff would need to be recruited.<sup>49</sup>

### Complexity

47. As we have noted, delivery of customs policy is a cross-government process, involving a wide range of public agencies as well as a number of Government Departments. Customs operations also impact on and require the cooperation of a vast array of private companies. In addition to the businesses buying and selling goods, the IfG report lists freight forwarders, hauliers, customs handlers, customs clearance agents, community system providers, port operators and ferry companies as some of the key players.<sup>50</sup> The Home Office Permanent Secretary explained the multi-faceted nature of customs in the following terms:

My experience of any work at the border is that questions [on future arrangements] need to be addressed through a partnership, so typically

46 Oral evidence taken on [25 January 2017](#), HC 494 (2016–17)

47 Institute for Government, [Implementing Brexit: customs](#), pp 4 and 39

48 BBC Radio 4, Today, [20 October 2017](#)

49 Public Accounts Committee, Oral evidence taken on 25 October 2017 on [Brexit and the Future of Customs](#), HC 401, Qs 14–18

50 Institute for Government, [Implementing Brexit: customs](#), pp 15

it is a private sector party, the port or airport operator, who has control over the physical infrastructure. You need to see a partnership between the different agencies in Government, of whom HMRC and Border Force are two—there are others. DEFRA, for example, has an interest in movement of animals, food and bio products, and you need to see a partnership between the Government and the port operators.<sup>51</sup>

## Capacity at and around ports

48. A number of key stakeholders have pointed to the challenges the UK may face if post-Brexit arrangements require more checks on goods and vehicles to be carried out at UK border entry points. At some ports, including Dover, as much as 99% of traffic relates to trade with the EU; witnesses told our predecessors that a no deal scenario might therefore result in effectively 100% of trade becoming “non-EU”, leading to a hundredfold increase in the number of customs declarations.<sup>52</sup> This would be an unprecedented delivery challenge to UK border operations. The IfG report states that the resulting increased requirement to make declarations would inevitably result in more checks being carried out on vehicles trading between the UK and the EU, with the accompanying risk that this will lead to long delays at points of entry.<sup>53</sup> As noted above, these checks can cause delays of up to five hours.

49. James Hookham of the FTA told our predecessors that “we should absolutely and categorically try to avoid physical checks on vehicles at ports” because they “simply don’t have the physical space” and “that is where the pressures are”; this was particularly a problem for Dover. Similar issues also applied to airports.<sup>54</sup>

50. Infrastructure improvements will be required at ports to deal with the potential increase in the number of vehicles carrying EU goods, which will need to be parked at ports to await clearance, rather than “driving straight through” as is currently the case. In addition to increased parking capacity and more specialist border inspection posts for animals and animal products, improvements to road and rails links in the vicinity of ports are likely to be needed. One of the main constraints on expansion at some ports, including Dover, is that their geographical location prevents this—the position of the port at Dover between the cliffs and the sea-front does not allow for an increase in size. Even at present, clearance for lorries arriving via Dover or the Channel Tunnel which do require customs checks takes place six miles away at a lorry park off the M20 that currently has 82 spaces.<sup>55</sup>

## Impact of delays in ports across the Channel

51. If new customs checks are required, additional systems and infrastructure will also be needed at the Channel ports in France and Belgium (and in Ireland—see separate section below) where the UK Government has no control over the timetable for change and new

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51 Oral evidence taken on [17 October 2017](#), HC 434, Q14

52 Oral evidence taken on [25 January 2017](#), Q144

53 Institute for Government, [Implementing Brexit: customs](#), p 20; Oral evidence taken on [25 January 2017](#), HC 494, Q144

54 Oral evidence taken on [25 January 2017](#), Qs 137, 187

55 Institute for Government, [Implementing Brexit: customs](#), p 14

investment. The FTA stated in evidence that whatever “frictionless arrangements” the UK put in place would need to be “reciprocated [ ... ] by the EU in Ireland, France and Belgium” to avoid long delays.<sup>56</sup>

52. An example of the potential consequences of delay across the Channel was demonstrated in July 2015 when a strike by French ferry operators resulted in huge delays and traffic jams in Kent and the activation of ‘Operation Stack’ to try to mitigate the worst impacts. Operation Stack is a way of managing traffic during disruption to Eurotunnel or ferry services in Kent; when activated it enables lorries waiting to use Channel services to queue on the M20 and all other traffic is diverted to other routes.<sup>57</sup> The IfG report notes that the requirement to implement Operation Stack in 2015 resulted in businesses losing £21 million in stock and the economy in Kent losing £1.5 million a day. It also points out that, although Kent County Council has plans to construct a lorry park on the M20 as an enhancement to the facilities available under Operation Stack, building will take nine months to complete once it begins and construction is currently on hold after a judicial review.<sup>58</sup> In the event of significant changes to the UK’s customs arrangements, an operation on a larger scale than Operation Stack would bring huge challenges for the UK Government, UK businesses, Kent Police and the people of Kent.

53. If parallel preparations and investments are not in place in ports across the EU the associated costs and delays will increase substantially after March 2019, in the event of no deal. Andrew Baxter suggested in oral evidence that the key question was what customs “are doing at the local level in countries all over Europe”, with the consequence that “a significant proportion of our exports will get delayed if customs clearance is introduced.”<sup>59</sup> Jack Semple of the Road Haulage Association (RHA) indicated that there were specific challenges in Belgium and Northern France, where trade with the UK accounts for a large proportion of customs processes.<sup>60</sup> The IfG report pointed to the particular potential challenge for ports such as Dublin and Holyhead to expand their customs capacity at short notice.<sup>61</sup>

54. Another potentially increased risk arising from delays in French and Belgian ports is that of illegal immigration. The French ferry operators strike in 2015 exacerbated the existing problem of people illegally boarding lorries waiting to cross to the UK, with migrants attempting on a number of occasions to block port approach roads and to enter the Channel Tunnel. Our predecessors took evidence in 2015 from the Mayor of Calais, Kent Police, Eurotunnel and haulage companies about the serious problems this was causing on both sides of the Channel, including loss of life of migrants, during that period. Their 2016 report on the *Migration Crisis* summarised their concerns and the steps being taken by the UK and French Governments to address these issues.<sup>62</sup>

55. The IfG report notes that an expansion programme has been underway at Dunkirk since 2014, which includes expanding customs and border inspection capacity. Capacity for checks increased from 1,000 to 5,000 consignments per year but this work took 11 months and cost €2 million. In addition, a new car terminal opened in March 2016 which

56 Oral evidence taken on [25 January 2017](#), Q137

57 Kent Police website, [Operation Stack](#) [accessed 31 October 2017]

58 Institute for Government, [Implementing Brexit: customs](#), pp 22, 30, 40–41

59 Oral evidence taken on [25 January 2017](#), Q140

60 Oral evidence taken on [25 January 2017](#), Q137

61 Institute for Government, [Implementing Brexit: customs](#), p 14

62 Home Affairs Committee, Seventh Report of Session 2016–17, [Migration Crisis](#), HC 24, paras 13–16

took a year to build at a cost of €14.9 million. The Port of Calais began an expansion programme in 2015 (after a five year development period). It is estimated that this will cost €862.5 million, with works not due to be completed until mid-2021. The IfG report points out that the Port of Dover is “functionally very similar” to Dunkirk and Calais, and so the challenges, costs and timescales faced by those ports in seeking to increase capacity are likely to be mirrored at Dover.<sup>63</sup>

## Potential impact of delays on supply chains

56. The witnesses who gave evidence in January were particularly concerned about the impact of delays and blockages at ports on time-sensitive and perishable goods, and on carefully constructed supply chains. James Hookham of the FTA noted that the economy was based on current assumptions about transit and dwell times for goods and that there would be a “shock to the system” if different customs processes were implemented at short notice. That shock needed to be avoided because it risked bringing “supply chains to a halt” which would result in “serious disruption of the economy”. He said that that is clearly “not what the public expect to happen, as well as costing a lot of money and inconvenience”.<sup>64</sup>

57. Andrew Baxter emphasised that “having a secure supply chain is massively important to our customers, as is knowing that goods that are supposed to get to them in 48 hours actually do”. Graeme Charnock of Peel Ports Group said that manufacturers who operate a “just in time” delivery process would probably have to carry additional stock to prevent running out, which would be likely to increase costs. James Hookham of the FTA was clear that perishable and time-sensitive goods “simply cannot tolerate” interventions that would lead to delays at ports. At container ports, where containers selected for inspection can be delayed for between two and four days, the need to carry out such checks on EU imports would pose a significant additional burden.<sup>65</sup>

58. “Agri-food” products provide a good example. The IfG report points out that UK rules on meat imports from non-EU countries currently result in 20–50% of shipments being checked by food health agencies at the border. Agri-food products cannot generally be taken to inland inspection posts because of the risk of disease, so they have to be checked at ports. Currently, 70% by value of the UK’s food imports come from the EU and are not subject to any checks. In addition, EU trade agreements with third countries can significantly reduce the inspection requirements; for example, the EU-New Zealand trade agreement reduces this to only 2% of shipments being randomly sampled. The UK could decide to continue these arrangements on a bilateral basis in the event of no deal; however, EU rules would require UK exports to be treated in the same way as those from any other third country with which the EU does not have an agreement.<sup>66</sup> This would potentially result in serious delays for UK meat and agricultural products at the French and Belgian borders.

**59. Decisions are needed as a matter of urgency on improvements to port and transport infrastructure that may be needed as a result of Brexit. The Government should significantly increase its coordination with the privately-owned ports sector to ensure**

63 Institute for Government, [Implementing Brexit: customs](#), p 30

64 Oral evidence taken on [25 January 2017](#), Q187

65 Oral evidence taken on [25 January 2017](#), Qs 132, 137 and 143

66 Institute for Government, [Implementing Brexit: customs](#), pp 19–22

that the necessary preparations for any changes required during the transition period begin immediately. Such preparations must also include anticipating any changes affecting border regimes in EU Member States, particularly France and Belgium.

60. Any new arrangements put in place at UK ports will need to be replicated at the Channel ports in France and Belgium. The French ferry operator strikes in 2015 clearly demonstrated how quickly delays and backlogs can build up when the flow of traffic is interrupted at ports, and the dire knock-on effects this can have in the UK, particularly in Kent on the approach roads to Dover.

## The Northern Ireland border

61. The IfG report emphasises that the Northern Ireland border constitutes one of the UK's major trade routes with the EU, with 200 crossing points and a “continuous daily flow of lorries” which at present encounter no customs controls, and RoRo ferries carrying significant amounts of goods between Dublin and Holyhead.<sup>67</sup>

62. In August, the Government published a paper which “outlines the UK's position on addressing the unique circumstances of Northern Ireland and the land border with Ireland”, including the way the customs union issue affects the island of Ireland.<sup>68</sup>

63. The Brexit Secretary told the Committee on Exiting the EU last month that “one of my aims in this is to try to get an outcome that does not do harm to Ireland”. He confirmed that it remained the Government's intention to ensure that there is no physical border and no infrastructure at the border. He also pointed out that Ireland is the EU country most dependent on the UK for trade with a value of “about a €1 billion a week” in both directions, and through the UK to the continent.<sup>69</sup>

64. Witnesses giving evidence in January were clear that the Northern Ireland border presents particular challenges for post-Brexit customs arrangements. Jack Semple of the RHA said that the companies he represented struggled to see how the proposed models for post-Brexit customs arrangements could work on the island of Ireland and that “we cannot see [ ... ] an easy solution”. His view was that the problem was exacerbated because “the economic integration of trade” between Northern Ireland and the Republic “is at a far more advanced level than it is between the UK and continental Europe”.<sup>70</sup>

65. **This inquiry has not taken separate evidence on options and arrangements for Northern Ireland. However, it is clear that the impact on border and customs operations at the Northern Ireland border with the Republic of Ireland will be severe in the absence of specific solutions to the very complex Brexit issues affecting the island of Ireland. Decisions on the way forward are needed as a matter of urgency including on infrastructure improvements, systems and capacity.**

67 Institute for Government, [Implementing Brexit: customs](#), p 14

68 HMG, [Northern Ireland and Ireland—position paper](#), August 2017. See also HMG announcement, [16 August 2017](#), Pledge to protect Belfast Agreement and Common Travel Area in new position paper.

69 Select Committee on Exiting the EU, Oral evidence taken on The Progress of the UK's negotiations on EU withdrawal, [25 October 2017](#), HC 372, Qs 105, 147–148

70 Oral evidence taken on [25 January 2017](#), Qs 155 and 178

## Possible mitigations and solutions

66. Andrew Baxter suggested in evidence to our predecessors that the use of “approved warehouses” could help to provide a solution. These currently allow clearance checks to be carried out away from borders and points of entry and therefore help avoid bottle-necks and delays at ports. The option for businesses to apply for authorisation to operate these facilities is open to “modestly sized organisations” as well as big operators, as long as they meet the required standards. Specifically in relation to the Northern Ireland border, Andrew Baxter suggested that it would be possible for a company based in Belfast to carry out its trade with the Republic via Dublin by doing all the necessary clearance using authorised warehouses, rather than actually at the border.<sup>71</sup>

67. As referred to above, the Government’s recent White Paper suggested that the use of the “trusted trader” Authorised Economic Operator (AEO) system could be expanded to reduce the need for documentary requirements at the border, as a mitigation of the impact on ports. James Hookham of the FTA advocated greater use of this system as having the potential to “lighten the load considerably”.<sup>72</sup> The Brexit Secretary confirmed that use of AEOs was certainly being considered in relation to solutions in Northern Ireland.<sup>73</sup> However, the IfG report pointed out that the current EU process to accredit AEOs can take up to six months for businesses to complete. The 180,000 traders who will potentially be required to make customs declarations for the first time would need to be able to apply; and early guidance for traders would therefore be needed on the application process and using the AEO system for EU imports.<sup>74</sup> No such guidance is yet available and there is no sign that the Government has made the decisions needed for this system to work.

68. Andrew Baxter noted that the customs office in Tilbury closed daily at 4pm, and therefore only goods arriving before 3pm can be distributed the following day. If such arrangements were preserved, he believed this would result in “a very substantial proportion of goods having an extra day’s transit time”, with the associated costs and burdens on storage facilities.<sup>75</sup> More flexible and timely customs and border operations would therefore be of considerable benefit to future procedures at the border.

**69. The Government’s plans for expanding the use of the “trusted trader” Approved Economic Operator and approved warehouses schemes seem sensible and are welcome. They could also help address some of the specific challenges at the Northern Ireland border. However, the Government needs do much more immediately to inform traders about what this might mean for them in practice and to develop the registration and accreditation processes so that businesses can start the process now. The Government should also ensure that it has the capacity in place to register a high volume of traders in a short period of time.**

## IT systems

70. The IfG report notes that “information sharing is the key enabler of modern customs”. The UK is currently able to access over 20 EU systems, which provide a variety of functions,

71 Oral evidence taken on [25 January 2017](#), Qs 179–180

72 Oral evidence taken on [25 January 2017](#), HC 494, Q153

73 Select Committee on Exiting the EU, Oral evidence taken on The Progress of the UK’s negotiations on EU withdrawal, [25 October 2017](#), HC 372, Q148

74 Institute for Government, [Implementing Brexit: customs](#), pp 32 and 38

75 Oral evidence taken on [25 January 2017](#), Qs 137, 150 and 156–167

including tracking goods and vehicles, and storing details about goods and suppliers. EU systems are supplemented by member states' internal IT systems.<sup>76</sup> In the UK, HMRC is replacing the current customs system used to administer customs declarations (known as CHIEF) with a new Customs Declaration Service (CDS). The CDS programme began before the EU Referendum took place and therefore before the Government was aware that it would need to put new customs arrangements in place from March 2019.

71. CHIEF is designed to process about 60 million customs declarations a year; the pre-Referendum planning for CDS had a capacity aim of 150 million declarations. However, HMRC itself has estimated that Brexit will result in an additional 200 million declarations, meaning that the new system will need to be capable of handling at least another million declarations a year beyond the planned capacity.<sup>77</sup>

72. The NAO published a report on the progress of the Customs Declaration Service programme in July 2017.<sup>78</sup> It points out that the planned completion date for the programme is only two months before the March 2019 EU exit date and that government IT projects routinely overrun. It emphasised that there is still a significant amount of work to complete, and concluded that there is a risk that HMRC will not have the full functionality and scope of the CDS in place by March 2019.

73. It also points to the uncertainty for the programme which arises from “the unknown outcome of the UK/EU negotiations”, which had resulted in no changes yet being made to the scope of the CDS programme to reflect the UK's decision to leave the EU. The NAO concluded that any future changes which need to be made to accommodate the outcome of negotiations with the EU “would increase the risk of additional cost or delay to the programme”.

74. When the report was published, the head of the NAO (the Comptroller & Auditor General), Sir Amyas Morse, was reported as saying that the new system threatened to become “a horror show” and that it may not be flexible enough to cope with new rules after Brexit. He was quoted as going on to say:

What's unique about these circumstances is there can't be a drift in timescale. Normally if you have this project and it took another six months to be a working project you'd say this is a pretty successful project. But this is not like that.<sup>79</sup>

75. The Public Accounts Committee took oral evidence from the Chief Executive of HMRC, Jon Thompson, on 25 October during which the risks to the delivery of the CDS were explored. He acknowledged that it would be “catastrophic” if the system was not operational on Brexit day. Mr Thompson confirmed that the programme was currently meeting its milestones, and he stated that he was “reasonably confident” that it would be delivered by January 2019. However, he was clear that there were four major risks, which he identified as:

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76 Institute for Government, [Implementing Brexit: customs](#), p 19

77 Institute for Government, [Implementing Brexit: customs](#), p 26

78 NAO, [Customs Declaration Service, July 2017](#)

79 The Independent, [13 July 2017](#), Brexit: Government's new customs IT system heading for £34bn 'horror show', watchdog warns

- integrating the eight components of the CDS with the rest of HMRC;
- testing volumes and the performance of the system against the predicted 250 million declarations per year;
- migration from the existing CHIEF system to the CDS; and
- user readiness.<sup>80</sup>

76. **Updated IT systems will be fundamental to the effectiveness of any new customs arrangements. By far the most important of these is the HMRC Customs Declaration Service (CDS) which is due to be in place by January 2019, to replace the existing CHIEF system. It is deeply worrying that any slight slippage in the CDS programme risks it not being available by the time the UK leaves the EU at the end of March 2019. The Chief Executive of HMRC has acknowledged that it would be “catastrophic” if the new system is not operational on Brexit day. We endorse the NAO’s recommendations on the actions the Government needs to take to ensure this scenario is avoided. We expect the Government to prioritise contingency planning for the eventuality that the CDS system is delayed or lacks full functionality. We also look forward to the further recommendations which our colleagues on the Public Accounts Committee plan to make on this issue, following their recent hearing with HMRC officials.**

## Home Office capacity

### Staffing

77. The Home Office Permanent Secretary, Philip Rutnam, was not able to tell us how many of the current total of approximately 7,600 Border Force staff work specifically on customs operations. He explained that this was in part because: “the way that the Border Force operates is essentially increasingly multi-skilled. You will have somebody who may be capable of doing customs work or immigration work”.<sup>81</sup>

78. Mr Rutnam was able to tell us that he was recruiting 300 additional Border Force officers who would be in place by September 2018 and trained by March 2019, “to ensure that we can deal with the consequences of leaving the European Union with a deal or without a deal”. This would amount to an increase of approximately 4% in Home Office staff working at the border. Contingency planning would be kept under review, including the total number of additional staff who might eventually be required to deliver the agreed arrangements or a no deal outcome.<sup>82</sup>

79. However, in a 2013 report, the NAO noted that Border Force has previously struggled to forecast its overall staffing needs accurately which resulted in “substantial reductions in staffing in one year being followed by very significant increases in the years immediately following”. Border Force had subsequently developed a detailed model for forecasting resources through to 2016, but had itself identified limitations in this model, including

80 Public Accounts Committee, Oral evidence taken on Brexit and the Future of Customs, [25 October 2017](#), HC 401, Qs 38, 46, 48, 54

81 Oral evidence taken on [17 October 2017](#), HC 434, Q125

82 Oral evidence taken on [17 October 2017](#), HC 434, Q125

failing to take account of changes in aircraft and port capacity and future port openings or closures. This meant that Border Force did not regard the model as sufficiently accurate to inform operational planning.<sup>83</sup>

### *Operational challenges*

80. The NAO points to the challenges which Border Force faces in its customs operations: “Although HMRC and Border Force have a partnership agreement, it is not always straightforward for government as a whole to prioritise the various activities involved in managing a safe and effective flow of people and goods, and the collection of revenue”. The NAO also suggests that, given that Border Force is also responsible for immigration at the border, it could “struggle to deal with the training, workforce, financial and prioritisation challenges” arising from so many changes to operations arising from Brexit in a short space of time.<sup>84</sup>

81. As we have noted, physical inspections are carried out on a very low percentage of goods, due to the use of IT systems and the intelligence-led approach, which enables Border Force and HMRC to focus on the most high-risk goods and traders. However, checks and inspections are an essential part of the customs clearance process and seizures of illicit and illegal goods are a key element in preventing such items as guns, drugs and fake goods coming into the UK. If the capacity of Border Force staff is stretched by a post-Brexit requirement for an increased number of checks and inspections to be carried out on previously exempt EU traffic, there is likely to be a higher risk of illegal goods penetrating the border and in excise, customs and duties not being collected. The multi-skilled aspect to Border Force roles may also contribute to this: if staff are required to fill operational gaps related to customs, for example if there is no deal or if customs planning proves inadequate, this might leave fewer staff available to work on border security.

82. In addition, if the new border regime results in longer waiting times and holding arrangements for lorries in Calais seeking to enter the UK, this will carry a consequential risk of increased clandestine and irregular arrivals and increase the need for more checks for illegal immigration.

### *Queen’s Warehouses*

83. The Home Office is responsible for the storage of goods which are seized or detained by Border Force, HMRC and the National Crime Agency. Queen’s Warehouses are used as secure storage locations for this material, which includes such items as excise goods (cigarettes, tobacco and alcohol), firearms and prohibited drugs. Queen’s Warehouses are geographically spread across the UK and some have responsibility for the storage of specific goods.<sup>85</sup> Clearly, if more goods are subject to customs checks after Brexit, and there are more seizures or delays as a result, then increased capacity will be needed in these secure storage facilities.

83 NAO, [The UK border](#), p 23; and NAO, [The Border Force: securing the border](#), September 2013, HC 540 (Session 2013–14)

84 NAO, [The UK border](#), pp 11, 18 and 30

85 Independent Chief Inspector of Borders and Immigration, [An inspection of how Border Force deals with seized drugs, tobacco, alcohol and other materials](#), June 2014, paras 1.1–1.2. These storage locations are known as Queen’s Warehouses because when goods are seized they become ‘forfeit to the Crown’.

84. The Permanent Secretary told us that the Home Office was in the process of reviewing Queen’s Warehouses, including “the stock of property that we have”.<sup>86</sup> However, we were not given a timetable for this review work to be completed or any indication that the Home Office has plans in place to increase warehouse capacity before the end of March 2019.

**85. The Home Office is not the lead department for customs but Border Force staff provide an essential function in carrying out checks of vehicles and goods at border entry points. The NAO has raised concerns that Border Force may struggle to cope with the combined demands of a greatly increased number of checks being required for both people and goods entering the UK after Brexit. These risks include fewer seizures of illicit and illegal goods at the border. The Government needs to provide reassurance that there will be a sufficient number of Border Force officials in place and that they will be properly trained in any new customs processes required for the transition period or the UK’s future partnership with the EU. Border Force may well require more locations to hold goods or conduct searches and assessments, yet the Home Office could not provide specific details about any post-Brexit planning that is under way. We request that these details are set out in response to this Report.**

**86. Urgent coordinated staff planning is required between HMRC and Border Force. HMRC has stated that it will need up to 5,000 additional staff in place by March 2019 as a consequence of Brexit. The Home Office has stated that an extra 300 border staff will be in place by March 2019, a 4% increase. We find these plans for such a small increase in border staff completely unconvincing, particularly given the current uncertainty and the need for contingency planning. If new customs arrangements require a substantial increase in customs capacity which cannot be delivered in time, then there is a significant risk that Border Force staff will be diverted from crucial security functions, including preventing smuggling, the seizing of dangerous goods and immigration processes. The Home Office needs to plan for a significant further increase in border staffing and to ensure that arrangements are in place to prevent large numbers of staff being diverted away from other critical areas. The Government must not allow failures in operational planning, HMRC recruitment, or the implementation of new customs arrangements to jeopardise UK border security. We will return to consider further the relationship between the immigration and customs functions which Border Force and HMRC staff carry out, and whether any changes need to be made.**

## Co-ordination and leadership within Government

87. The complexity of the customs landscape, in addition to the volumes of goods involved, exacerbates the difficulties in identifying and implementing a new customs system which will work in the best interests of all, or at least not damage or impede their business. The approach the Government is taking in relation to leading the process to construct post-Brexit customs policy, and to co-ordination of the multitude of interested parties, are clearly intrinsic to its success.

88. As we have noted, lead responsibility for customs within Government lies with the Treasury, which has oversight of HMRC. The Minister responsible for HMRC is the Financial Secretary to the Treasury, currently Mel Stride MP.<sup>87</sup> The Home Office Permanent Secretary explained that, although the Treasury has primary responsibility

86 Oral evidence taken on [17 October 2017](#), HC 434, Q18

87 [Gov.uk website](#) [accessed 26 October 2017]

for policy, Border Force's operational role meant that the Home Office is "very closely tied into the work that is being led by HMRC". He said that the department is part of a special working group where the Home Office Second Permanent Secretary and the head of HMRC "consider these issues".<sup>88</sup> The Home Secretary is a member of the Cabinet Committee on EU Exit and Trade.<sup>89</sup>

**89. We were not satisfied with the answers we received to a vitally important question about planning for post-Brexit customs arrangements: who is in charge? The Government's approach seems to us to lack focus, urgency and above all leadership. Any progress seems to rely on working groups of government officials, with no meaningful ministerial leadership. This is particularly worrying given that the costs involved would appear to be significantly higher than the existing Brexit contingency funding requested by the Home Office and even higher than the total envisaged by the Prime Minister for the whole Government. Moreover, the fact that multiple government departments and agencies are involved in delivering customs means that a fully joined-up approach from the Government is urgently needed, as well as proper coordination with the private sector. The impetus to achieve this is only likely to come from a named senior Government Minister taking responsibility, who can then provide regular reports to Parliament on the Government's plans. In addition to the ongoing cooperation between the Treasury, the Home Office and other departments with a direct interest, we recommend that a Minister of State should be named as the lead Government Minister responsible for delivery of post-Brexit customs arrangements.**

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88 Oral evidence taken on [17 October 2017](#), HC 434, Q14

89 Institute of Government blog, [27 July 2017](#)

## 5 Conclusion

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90. The current absence of clarity on the UK's future customs relationship with the EU, and what this will mean in operational terms, is creating huge uncertainty for businesses. We understand the complexity and sensitivity of the Brexit negotiations and the underlying principle that there is a sequence for making progress on each of the many issues. However, customs is unusual in that it is a "cliff edge" issue. The UK will leave the EU customs union on 29 March 2019 and if no agreement is reached on the UK's future customs arrangements with the EU, or at least on a transition period, customs checks will be required on all goods exchanged with the EU on day one of Brexit.

91. The Government needs to act now to provide a much greater degree of certainty for the many stakeholders involved in UK trade, as well as the public officials who implement customs policy and administer the processes. The areas where decisions are needed as a matter of urgency clearly include port and transport infrastructure, where the Government needs drastically to increase its co-ordination with the privately-owned ports sector, to ensure that the necessary contingency preparations start immediately.

92. From an operational point of view, remaining in the customs union would cause the least disruption but, in any case, a transition period is essential so that businesses can plan for the new border regime, for ports and private sector freight operators to invest in new systems in the UK and Europe, and for public sector organisations including HMRC, Border Force and regulatory bodies to design, invest in and implement new systems.

93. Much more urgency is also required from the Government to prepare for the consequences of a no deal scenario, or a 'no deal, no transition' scenario, and the associated costs. While we support the Government's intention to achieve a deal, the scale of the upheaval required in relation to customs and border operations is such that considerable contingency planning is needed. The scale of planning should be substantially increased, and should accelerate if there is no agreement on a transition deal, as the Brexit Secretary hopes there will be in the first quarter of next year.

## Conclusions and recommendations

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### A transition or implementation period

1. The outcome of the Brexit negotiations which would cause the least upheaval for ports, points of entry, and traders doing business with EU Member States would be the preservation of the operational status quo for customs arrangements and remaining in the customs union. The Government should aim to agree transitional arrangements with the EU which involve no practical change to customs operations either in the UK or the EU, and especially at the Irish border, including the maritime border with Wales. (Paragraph 33)
2. If it is not possible for the Government to reach a deal with the EU that results in no changes to customs and border operations in the transition period, then businesses and haulage operators urgently need details of what those changes will be. At a minimum, the options under consideration should be published so that these organisations and the public sector can make the necessary plans and investments for those operational changes. (Paragraph 34)
3. Given the lead times for changes in staffing, technology and infrastructure, Border Force, HMRC and other public sector agencies also need clarity rapidly if any such changes will be required for the transition. The Government must make sure that all affected agencies have contingency plans in place to introduce new systems and capacity over the next 16 months. The Home Office should also set out its own urgent assessment of the additional costs of the options for each scenario. (Paragraph 35)
4. The Brexit Secretary has stated that he wants to reach agreement on transitional arrangements in the first quarter of 2018. This timescale already poses immense difficulties if significant changes are required. If there is any further slippage to this timetable it will be extremely damaging to the smooth operation of the border regime, including to trade and security operations, and to businesses which will struggle to make major changes in such a short period of time. (Paragraph 36)

### Implications of no deal on Brexit

5. If no deal is reached on customs arrangements, it will result in all those involved in customs in the UK experiencing a huge amount of change in a very short time, with a vast increase required in capacity and processes at the border, with the risk of either significant delays at ports of entry, or of inadequate checks taking place. A major contingency plan is therefore needed for the border which sets out the volume and nature of checks that the Government would expect to operate in the event of no deal. It should include plans for extra staff, additional infrastructure and new processes for businesses, and set out the costs of these plans. The long lead times that these changes require mean that, even if negotiations on a transitional arrangement continue throughout next year, the country cannot afford “no deal” arrangements to be left until the last minute. Therefore, Ministers need to set out early in the New Year the timetable they will follow for decisions, including when extra staff will start to be recruited and trained on a contingency basis, and what the costs and funding

arrangements will be. The Government will also need to provide detail to businesses on the checks they can expect on goods at the border in the event of no deal, so that they can put in place their own contingency arrangements. (Paragraph 41)

### Infrastructure Challenges

6. Decisions are needed as a matter of urgency on improvements to port and transport infrastructure that may be needed as a result of Brexit. The Government should significantly increase its coordination with the privately-owned ports sector to ensure that the necessary preparations for any changes required during the transition period begin immediately. Such preparations must also include anticipating any changes affecting border regimes in EU Member States, particularly France and Belgium. (Paragraph 59)
7. Any new arrangements put in place at UK ports will need to be replicated at the Channel ports in France and Belgium. The French ferry operator strikes in 2015 clearly demonstrated how quickly delays and backlogs can build up when the flow of traffic is interrupted at ports, and the dire knock-on effects this can have in the UK, particularly in Kent on the approach roads to Dover. (Paragraph 60)

### The Northern Ireland border

8. This inquiry has not taken separate evidence on options and arrangements for Northern Ireland. However, it is clear that the impact on border and customs operations at the Northern Ireland border with the Republic of Ireland will be severe in the absence of specific solutions to the very complex Brexit issues affecting the island of Ireland. Decisions on the way forward are needed as a matter of urgency including on infrastructure improvements, systems and capacity. (Paragraph 65)

### Possible mitigations and solutions

9. The Government's plans for expanding the use of the "trusted trader" Approved Economic Operator and approved warehouses schemes seem sensible and are welcome. They could also help address some of the specific challenges at the Northern Ireland border. However, the Government needs do much more immediately to inform traders about what this might mean for them in practice and to develop the registration and accreditation processes so that businesses can start the process now. The Government should also ensure that it has the capacity in place to register a high volume of traders in a short period of time. (Paragraph 69)

### IT systems

10. Updated IT systems will be fundamental to the effectiveness of any new customs arrangements. By far the most important of these is the HMRC Customs Declaration Service (CDS) which is due to be in place by January 2019, to replace the existing CHIEF system. It is deeply worrying that any slight slippage in the CDS programme risks it not being available by the time the UK leaves the EU at the end of March 2019. The Chief Executive of HMRC has acknowledged that it would be

“catastrophic” if the new system is not operational on Brexit day. We endorse the NAO’s recommendations on the actions the Government needs to take to ensure this scenario is avoided. We expect the Government to prioritise contingency planning for the eventuality that the CDS system is delayed or lacks full functionality. We also look forward to the further recommendations which our colleagues on the Public Accounts Committee plan to make on this issue, following their recent hearing with HMRC officials. (Paragraph 76)

### Home Office capacity

11. The Home Office is not the lead department for customs but Border Force staff provide an essential function in carrying out checks of vehicles and goods at border entry points. The NAO has raised concerns that Border Force may struggle to cope with the combined demands of a greatly increased number of checks being required for both people and goods entering the UK after Brexit. These risks include fewer seizures of illicit and illegal goods at the border. The Government needs to provide reassurance that there will be a sufficient number of Border Force officials in place and that they will be properly trained in any new customs processes required for the transition period or the UK’s future partnership with the EU. Border Force may well require more locations to hold goods or conduct searches and assessments, yet the Home Office could not provide specific details about any post-Brexit planning that is under way. We request that these details are set out in response to this Report. (Paragraph 85)
12. Urgent coordinated staff planning is required between HMRC and Border Force. HMRC has stated that it will need up to 5,000 additional staff in place by March 2019 as a consequence of Brexit. The Home Office has stated that an extra 300 border staff will be in place by March 2019, a 4% increase. We find these plans for such a small increase in border staff completely unconvincing, particularly given the current uncertainty and the need for contingency planning. If new customs arrangements require a substantial increase in customs capacity which cannot be delivered in time, then there is a significant risk that Border Force staff will be diverted from crucial security functions, including preventing smuggling, the seizing of dangerous goods and immigration processes. The Home Office needs to plan for a significant further increase in border staffing and to ensure that arrangements are in place to prevent large numbers of staff being diverted away from other critical areas. The Government must not allow failures in operational planning, HMRC recruitment, or the implementation of new customs arrangements to jeopardise UK border security. We will return to consider further the relationship between the immigration and customs functions which Border Force and HMRC staff carry out, and whether any changes need to be made. (Paragraph 86)

### Co-ordination and leadership within Government

13. We were not satisfied with the answers we received to a vitally important question about planning for post-Brexit customs arrangements: who is in charge? The Government’s approach seems to us to lack focus, urgency and above all leadership. Any progress seems to rely on working groups of government officials, with no meaningful ministerial leadership. This is particularly worrying given that the costs

involved would appear to be significantly higher than the existing Brexit contingency funding requested by the Home Office and even higher than the total envisaged by the Prime Minister for the whole Government. Moreover, the fact that multiple government departments and agencies are involved in delivering customs means that a fully joined-up approach from the Government is urgently needed, as well as proper coordination with the private sector. The impetus to achieve this is only likely to come from a named senior Government Minister taking responsibility, who can then provide regular reports to Parliament on the Government's plans. In addition to the ongoing cooperation between the Treasury, the Home Office and other departments with a direct interest, we recommend that a Minister of State should be named as the lead Government Minister responsible for delivery of post-Brexit customs arrangements. (Paragraph 89)

## Formal Minutes

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**Tuesday 7 November 2017**

Members present:

Yvette Cooper, in the Chair

Stephen Doughty          Stuart C McDonald

Sarah Jones              Naz Shah

Draft Report (*Home Office delivery of Brexit: customs operations*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 93 read and agreed to.

*Resolved*, That the Report be the First Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 14 November at 9.00 am.]

## Witnesses

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One session of the oral evidence taken by the previous Committee in the last Parliament in its inquiry into [Implications of the UK's exit from the European Union](#), HC (2016–17) 494, is relevant to this report, as set out below.

Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Wednesday 25 January 2017

*Question number*

**Andrew Baxter**, Managing Director, Europa Worldwide Logistics, **Graeme Charnock**, Chief Financial Officer, Peel Ports Group, **James Hookham**, Deputy Chief Executive, Freight Transport Association, and **Jack Semple**, Policy Director, Road Haulage Association.

[Q125–187](#)

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

### Session 2017–19

First Special Report	The work of the Immigration Directorates (Q1 2016): Government Response to the Committee's Sixth Report of Session 2016–17	HC 541
Second Special Report	Asylum accommodation: Government Response to the Committee's Twelfth Report of Session 2016–17	HC 551