Sir Jonathan Thompson  
Chief Executive and Permanent Secretary  
HM Revenue & Customs  
100 Parliament Street  
London SW1A 2BQ  

11 March 2019

Dear Permanent Secretary

**Brexit and the UK Border: Progress Review**

Thank you for your evidence to the Public Accounts Committee on 4 March 2019, both in your capacity as Chief Executive of HM Revenue & Customs, and as the co-Chair of the cross-government Border Planning Executive Group. Thank you also to your colleagues Jim Harra, Karen Wheeler and Kevin Franklin. My Committee has taken evidence on the government’s preparedness at the border for leaving the EU on several occasions. This subject will remain of significant interest to us as events unfold ahead of 29 March 2019, and beyond.

We are pleased that government has progressed with its preparations for ‘no deal’ since we last took evidence from you in November 2018. However, there is still a risk that government would not be ready for ‘day one’ at the border, even though it has already made some pragmatic decisions in order to keep trade flowing. In particular, government’s three most significant risks in the event of ‘no deal’ remain the same: the arrangements that will be in place for trade across the land border between Ireland and Northern Ireland; the potential for disruption from EU member states operating full customs and agri-food controls from ‘day one’; and the readiness of traders to meet their new obligations. With just over two weeks to go until the UK is set to leave the EU, this letter sets out our observations on government’s preparedness at the border and the areas on which government should continue to focus its efforts.

**The readiness of critical systems**

You now plan to use the existing Customs Handling of Import and Export Freight (CHIEF) as the primary system for customs declarations in the event of ‘no deal’. We welcome your confirmation that work has been completed to ensure CHIEF can deal with the expected increase in the volume of customs declarations, and that testing has confirmed that the system is “robust and sufficiently ready”. We understand some changes still need to be made to CHIEF, including to accommodate changes
required for roll-on, roll-off freight and postponed accounting for VAT. However, you
told us that you were “very confident” that CHIEF would be ready on ‘day one’ in the
event of ‘no deal’. You are currently in negotiations about extending the contract for
CHIEF with your commercial supplier, which currently costs around £8 million a year.
While recognising the uncertainty of the situation, we expect any new contract
entered into to represent value for money for UK taxpayers.

We welcome your progress in bringing CDS into live service with no significant
issues identified so far. However, we note that only a very small population of four
traders has migrated from CHIEF to date. Delays have meant that CDS has not yet
been fully built, with export functionality only expected to be ready at the end of
March. This means that you now do not expect to complete the migration of
importers from CHIEF to CDS until September, and exporters until the end of 2019.
CDS remains the primary system on which traders will make customs declarations
once it is completed as CHIEF is “not sustainable” in the long term. We urge you to
not lose focus on the importance of implementing CDS and expect to review your
progress again in the future.

We are concerned that the NAO memorandum shows that there are still six critical
systems which are needed in the event of ‘no-deal’ which the Border Delivery Group
(BDG) assesses as being at risk of not delivering on time and to quality. We note
that, of these six systems, BDG considers the Department for Environment, Food &
Rural Affairs’ (Defra’s) Import of Products, Animals, Food and Feed System
(IPAFFS), which will record the outcome of biosecurity and food safety checks on
imported commodities, and the Automatic Licence Verification System (ALVS), which
joins up IPAFFS with CHIEF, are the “most high risk systems”. We understand that
manual and system-based contingencies are being developed in case IPAFFS is not
ready in time. However, we are concerned that the NAO highlighted that the
implications of a failure of IPAFFS for ALVS and CHIEF are still to be worked out.

You told us that it takes around six weeks to manually build the necessary tariff
database for CHIEF and seven hours to load it into the system. This is critical for
your ability to calculate customs duties from ‘day one’ in the event of ‘no deal’. As a
result we are concerned that with so little time remaining until the UK leaves the EU,
tariff rates have not yet been publicly announced. It is therefore sensible that you
have already undertaken work “at risk” to prepare a tariff file based on your
understanding of what the Government’s policy is likely to be. You told us that you
have capacity to alter that fairly quickly, however we remain concerned that there is
a risk to implementing the tariff file in CHIEF on time if, as you mentioned, “the
Government decide to change their tariffs policy late on”. We note that you are
confident that you will be ready to operate the tariff file in CHIEF from ‘day one’.

The introduction of ‘easements’
We were pleased to hear that you have brought in measures to reduce the additional burdens that traders and others would face in the event of 'no deal' (so-called 'easements'). You told us that you have announced a 'major simplification' for key roll-on, roll-off freight locations, notably Holyhead, Dover and Eurotunnel, to help the flow of traffic. This will allow businesses registered with HMRC to keep a customs declaration in their own records, and defer the submission of the declaration and payment of the associated duty to the following month, when using these locations. This means that, in the event of 'no deal', businesses would not need to wait for clearance from HMRC before bringing goods into the UK. There would also be no systematic stopping of trucks at the border to check whether they have complied with their obligations. Other 'easements' announced in the event of 'no deal' include a six-month phased introduction of entry summary declarations in response to concerns from traders, and postponed accounting for VAT to remove any cash-flow disadvantage for VAT-registered businesses.

We recognise that this is a pragmatic approach but are concerned that it carries some risks, in particular in relation to the potential loss of revenue. You told us that government has always intended to prioritise flow in the event of 'no deal' and acknowledged that this brings a level of risk to the Exchequer, however you are unable to model the financial impact until the UK's tariff policy is announced. We expect you to monitor this closely as tariff policy is agreed.

You told us that transit procedures simplify the process for moving goods into and out of the EU and you expect there to be a high-demand for transit in the event of 'no deal', especially for exports. We were, therefore, pleased to hear that the UK has been successful in its application to accede to the Common Transit Convention (CTC) in its own right, ensuring UK businesses can continue to make use of this simplification for cross-border trade. We note your assessment that the implementation of the transit scanning solution is "not particularly high risk", and the overall IT delivery is rated Amber. However, we were concerned to hear that work is still required to secure physical sites, known as offices of destination and departure, where the necessary formalities can be discharged, especially at roll-on, roll-off locations. We note that you have identified primary sites for key locations, but, in some cases, still need to finalise contracts and undertake testing to ensure that these would work. Given the "considerable uncertainty" in your volume forecasts of the number of traders that will take advantage of transit procedures, you confirmed you would still need overflow capacity beyond these primary sites and that these would need to be resourced by Border Force. We are concerned that these critical sites are not ready at this late stage, and whether there is time to implement the necessary resources and processes for when they are needed.
Trader readiness and engagement

In our previous letter to you on this subject we noted that we were extremely disappointed that more had not been done to support businesses to prepare. Since we last reported you have made some progress communicating to traders the changes they need to make to prepare for ‘no deal’. For example we heard that you had published four versions of your ‘partnership pack’ which is targeted specifically at different sectors of the economy; held events both in the UK and Europe; and engaged with around 2,000 organisations to date in face to face events. However, you told us that your biggest concern is communicating with the 95% of smallest traders who are not going to come to events, and that you are reliant on approximately 90 trade organisations and larger companies to try and direct them to relevant information. You acknowledged that out of a potential population of 240,000, by 22 February there had only been 46,616 new registrations for an EORI\(^1\) number, even though this should be the starting point for businesses’ preparations and the number one thing that you recommend businesses should do to prepare.

In terms of compliance we heard that you intend to differentiate your approach between those businesses who are making an attempt to comply and those who are not. We also heard that you intend to use a combination of simplified procedures and the use of Border Force staff to educate people about the processes they need to follow to keep trade fluid. In addition you told us that the government has announced a £8 million fund to expand the supply side of training for customs agents and traders. If this funding proves insufficient we would encourage you to seek an increase, as you indicated you could, given the importance of ensuring that agents and traders are as prepared as is possible. We are glad that, through a combination of factors including easements, increased communications, and funding for training, you are seeking to reduce the complexity of the preparations that traders and others need to put in place. However, there is no doubt that some traders, and in particular small businesses, are likely to find it impossible to understand and put in place the necessary preparations by the 29 March and we expect you to do everything possible to support them both before and after that date.

Northern Ireland

The government has acknowledged that the cumulative impact from a ‘no deal’ scenario is expected to be more severe in Northern Ireland than in Great Britain, and to last for longer. We note that the government has still not announced a detailed policy decision regarding whether and how to implement customs arrangement at the Northern Ireland and Ireland land border in the event of ‘no deal’ but has said that it will, “shortly publish further details on its immediate, temporary, arrangements.

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\(^1\) Having an Economic Operator Registration and Identification (EORI) number allows traders to: trade goods in or out of the UK; submit declarations using software; and apply to be authorised for customs simplifications and procedures.
for trade between Northern Ireland and Ireland in a no deal scenario”. ² Your main worry for day one was that there is insufficient time for traders who wish to comply to get ready and that, even if a decision on processes were announced tomorrow, there would not be time for traders and others to prepare. You were less concerned about the potential for criminals and others to exploit the movement of goods across the border because you already manage fiscal risk in relation to cross-border VAT and cross-border excise. Despite this, we are very concerned that the lack of an agreed border regime means that organised criminals and others may be quick to exploit the opportunities which may be presented. This is of course of broader concern for the UK border in the event of 'no deal', as we have previously highlighted.

**EU Member states imposing controls on trade from the UK to the EU**

You told us that the EU and member states intend to treat the UK as a third country, and to undertake checks on traders crossing the border into the EU from the UK. We also heard that under the “reasonable worst case scenario” this could result in a 80% reduction in flow for a short period and that flow could be very significantly restricted for several months. You were aware that preparations were underway in the Channel ports to try to keep flow going but you were not clear how these were likely to work in practice. You explained that the Department for Transport was putting in place arrangements to prioritise the flow of some vital goods through issuing tickets on pre-reserved ferry capacity on alternative routes other than across the Channel. However, we are still concerned that the arrangements in place to prioritise important medicines and other goods in the event of significant disruption may not be sufficient.

We welcome the progress that has been made in the face of challenging political circumstances. We recognise that the government has focused on putting in place the minimum necessary requirements for ‘day one’, and that it believes it is largely on track to deliver these. In the case of resources we note however that this may be at the expense of stopping or delaying some other activities. However, there is still a lot to do, within a changing political context and we are very concerned that, with so little time left, there are still some areas where important decisions are yet to be taken.

Parliament will vote this week about the manner in which the UK leaves the European Union. In the event that we leave without a deal you have told us previously on several occasions that the operation of the border will be ‘sub-optimal’ but that you expect the government to move to a new operational model for the

border over time. We recognise the necessity of this approach but, if this comes to pass, we encourage you to ensure you have a full understanding of the scale and nature of the associated risks, and remain alert to those which may emerge, so that you can address them promptly. As we noted in our previous letter, if a deal is reached, we expect you to learn the lessons from the past months of preparation and use the implementation period wisely. In either situation our interest in this subject will continue.

Yours sincerely,

[Signature]

MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS