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for Exiting the
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Baroness Verma
Chair, EU External Affairs Sub-Committee
House of Lords
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19 February 2018

Dear Baroness Verma,

Thank you for your letter of 2 November regarding the Government response to the report *Brexit: trade in goods*. I am grateful to members of the EU External Affairs Sub-Committee both for the report and for their consideration of the Government response.

Your letter asks for further detail on a number of issues set out in the Government response. I will address each of these in turn.

Firstly, with regards to trade agreements, the Government is working to secure continuity of the effects of existing EU free trade agreements and other EU preferential arrangements before the provisions of these agreements cease to apply to the UK. The timing of this will take into consideration the arrangements of any UK-EU implementation period. This will provide the greatest amount of certainty, continuity and stability in our trade and investment relationships for businesses, consumers and partner countries.

Secondly, you asked about the customs arrangement model referenced in the Government response. You will know that the EU is taking a phased approach to negotiations and is engaging with the UK exclusively through Task Force 50. Consequently, direct engagement with EU Member States on future customs arrangements has been restricted. However, the Government is confident that negotiations will soon move on to matters relating to the future relationship with the EU, and that all Member States will see the benefits of frictionless trade and engage constructively on solutions which will help achieve it.

Additionally, in the *Future customs arrangements: a future partnership paper* and the Customs Bill White Paper, the Government acknowledges that leaving the Customs Union will result in additional burdens for traders. The specific impact on business of the two proposed future customs arrangements will depend on the details of the regimes, which are subject to the negotiations with the EU. Shortly, the Government will legislate for a future Customs, VAT and excise regime. The Government is undertaking an extensive programme of analysis and will provide further detail on impacts to Parliament, with secondary legislation which will enact changes to the regime.

Regarding staffing at HMRC, the additional 3,000 to 5,000 staff you referred to is an estimate based on contingency planning for a no-deal scenario. HMRC will not know the exact resourcing needs until the outcome of the negotiations with the EU become known. This estimate is based upon an extrapolation of an increase of around five times in customs declarations. HMRC would of course look at all resourcing options including redeployment of existing staff and use of existing reserve lists, to fill new posts before recruiting externally.

In terms of the future import of goods, the Government continues to engage with industry and is looking at ways to mitigate the impact from our future customs arrangements on traders. These include implementing technology-based solutions that will ensure our customs procedures are as facilitative as possible, whilst continuing to improve our import and export performance to deliver as frictionless a customs border as possible. These mitigations will look to minimise the scale of examinations and inspections carried out at, or away from, the border.

Your letter also refers to the Customs Declaration Service (CDS). HMRC remains on track to deliver CDS by January 2019, and are hitting these critical milestones. HMRC's plan has always been to phase in the implementation of CDS to minimise the risk of any disruption to the service we provide for our customers. It is important to note that this has always been our plan and is not a direct consequence of EU Exit.

Since the result of the referendum was announced, HMRC has made it clear that CHIEF will remain as a contingency option if CDS is not ready by January 2019. HMRC has detailed contingency plans that involve being able to scale CHIEF to deal with increased volumes of declarations. This meets one of the Government's key priorities to ensure the free flow of trade post-Brexit.

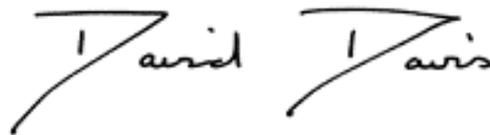
Finally, in regards to trade promotion, the Department for International Trade runs an annual business planning process in order to prioritise how the Government deploys its trade promotion resources. This process is led by DIT staff across across the globe, working with DIT's UK based sector teams, who explore the commercial opportunities overseas and cross reference them against where the UK has industrial capacity which can exploit these opportunities. DIT provides support for export and inward investment opportunities where the Government can have the most impact. Often the support is provided through High Value Campaigns which are market-sector combinations, for example China/Healthcare or USA/Aerospace.

In 2015, UKTI undertook unpublished desk research looking at export promotion agency practices in Australia, Denmark, Finland, France, Italy, Japan, Netherlands, Norway, Sweden, and the United States. An updated review of competitor trade promotion organisations, drawing on the latest available data, is currently being commissioned externally by DIT, and outputs from this exercise will be delivered in Spring 2018.

The resources available to the Department for International Trade for trade promotion were set at the 2015 Spending Review by HMT. The 2015 Spending Review required efficiencies to be found across government, and trade promotion was not an exception.

Details of additional departmental funding will be set out as part of the 2017- 18 Supplementary Estimates process in the usual way. The Budget sets aside a further £3 billion to ensure that the government can continue to prepare effectively for EU exit. Furthermore, £1.5 billion of additional funding will be made available in each of 2018- 19 and 2019- 20.

I trust these responses will prove helpful to the Sub-Committee. If there remain any outstanding questions, I would of course be happy to answer them.

A handwritten signature in black ink that reads "David Davis". The signature is written in a cursive style with a large, sweeping initial 'D'.

RT HON DAVID DAVIS MP
SECRETARY OF STATE FOR EXITING THE EUROPEAN UNION