ENSURING ECONOMIC GROWTH

TRADE FACILITATION COMMISSION

Policy and Practicality in Partnership

The need for growth is not a party political issue

> I said before the election - and I say again really clearly today: GROWTH. And, frankly, by that I do mean wealth creation.... is the number one priority of this government."

Sir Keir Starmer, 27th August 2024

EXECUTIVE SUMMARY

Why Now?

There are four critical reasons why the work of the Trade Facilitation Commission (TFC) is urgently needed now.

1. **The UK along with other G7 countries is in an economic growth crisis as we have stalled growth since at least the Global Financial Crisis.**
2. **Traders seeking to access EU markets in particular, are dramatically down as the new processes between the UK and EU take effect.**
3. **We urgently need to understand our supply chains because of a multiplicity of external threats and the Covid lockdown taught us that we do not yet understand them.**
4. **Much greater complexity in trade processes is coming, especially from the EU. If we do not grip the current processes and make them easier, we will have no chance of doing so when more complex processes are in place.**

Our question for the government is this: **Will you use trade facilitation tools to achieve your economic growth objectives?**

The Prime Minister has rightly stated that economic growth is the highest priority, and all government decisions will be evaluated based on their contribution to this objective. Customs and regulatory administration do not exist in a vacuum. It is part of the overall economic policy approach of the UK which is constrained by the need to maximise growth opportunities by maintaining independent trade policy and maximising regulatory reform to maximise wealth creation. Within overall trade openness, our economic models tell us that trade facilitation is a key and often underestimated driver, with models indicating that it could generate up to £3,500 per UK household by improving trade openness and border processes.

’Smart Border Partnership programme’ (SBPP)?

We propose a partnership in a tiered approach with access to pre-arrival supply chain data, smart container data and supervision with self-assessment, compliance and security cooperation in exchange for streamlined border processes. This is modelled on but different from classical trusted tiered programmes .

EXECUTIVE SUMMARY

Trusted Trader Schemes as a Border Management Tool

Trusted trader schemes are increasingly recognised as a vital component for modern border management, promoting both trade facilitation and security. These schemes, such as the Authorised Economic Operator (AEO) model, help streamline the movement of goods by pre-qualifying compliant businesses for fast-track processes at borders. Trusted traders, who consistently meet compliance standards, can benefit from reduced customs delays, faster border crossings, and lower transaction costs, all of which contribute to economic growth.

In the UK, however, the adoption of such schemes remains limited, with only 1,200 traders currently holding AEO status and only 20 new applicants last year. The UK's scheme needs to be modernised and expanded to cover not just customs but the entire government, including agencies like Border Force and DEFRA, to ensure that goods crossing the border are secure, without unnecessary barriers. A tiered trusted trader system, where different levels of compliance receive different benefits, is proposed to encourage participation from both large and small businesses.

Supply Chain Data vs. Customs Declarations

Instead of relying solely on traditional customs declarations, which can be cumbersome and costly, the objective is to harness real-time supply chain data. This data-driven approach would allow border agencies to conduct better-targeted risk assessments, identifying low-risk goods and traders more effectively. By doing so, the UK can simplify its border processes and reduce administrative burdens, particularly for frequent, low-risk trade flows. This shift to data would also support more advanced customs simplifications, such as simplified declaration procedures and Entry into Declarant's Records (EIDR), which allow for more aggregated customs filings and faster border clearances and should be extended to UK exports.

Smart Borders and Digital Trade Corridors

The UK should work towards the creation of smart borders that utilise digital trade corridors to facilitate smoother and safer cross-border trade. These intelligent digital corridors would rely on technologies like automated vehicle recognition, container tracking, and data sharing between businesses and border authorities. This system could monitor goods throughout the supply chain, providing early warning signals for potential risks while ensuring that compliant traders and goods pass through quickly. Smart borders move many checks away from the physical border, allowing for pre-arrival data and post-border audits to maintain security without compromising trade flows.

The UK's desire to digitise and modernise its border processes is seen as critical in maintaining a competitive international trade environment while safeguarding national security. The government's goal is to develop a fully operational Single Trade Window, simplifying interactions between traders and government agencies by allowing them to submit all required documentation and data in one place.

In summary, leveraging trusted trader schemes, supply chain data, customs simplifications, and smart border technologies will enable trade facilitation and border security, all aimed at supporting the broader goal of economic growth.

Table of Contents

UK not in the top 25 in terms of GDP per capita	6
UK's Approach to Trade and Regulatory Policy	8
Trade openness	10
Impact of Trade Facilitation on GDP per capita growth	11
Trusted Trader schemes and benefits	14
UK's current AEO and trusted trader programme	17
Trusted Trader status for SPS goods	19
One Government at the Border	23
Illicit Trade and links to crime	27
Customs and Border Single Windows	28
Target benefits of Single Trade Window	31
Smart Borders	32
Digital Trade Corridors (iDTC)	33
Border Trade Demonstrators and the iDTC	34
Benefits for Government Border Operations	36
The importance of data and not replacing red tape with green tape	37
Trade is getting harder	40
Rules of origin, cumulation and the PEM Convention	42
Data not declarations case study	43
GB export declarations (and transits)	45
Northern Ireland and The Windsor Framework	47
VAT as the control mechanism	48
Trader education and support	51
Steps the UK could take to lead the way	54
Recommendations	55
About the Trade Facilitation Commission	57
Glossary of terms	59
Annex I – the SRB econometric model	65

> “If it promotes economic growth, it’s in the YES column — if it is inhibiting growth, it’s in the NO column. The number one priority of this government is economic growth and all decisions will be made against that objective.”
>
> Sir Keir Starmer, 17th September. 2024

Speaking in Rome on the 17th September 2024 during a recent visit to Italy, the Prime Minister expanded : “If it promotes economic growth, it’s in the YES column — if it is inhibiting growth, it’s in the NO column. The number one priority of this government is economic growth and all decisions will be made against that objective.”

The government’s five missions firmly place economic growth as a high priority:-

1. Kickstart economic growth
2. Make Britain a clean energy superpower
3. Take back our streets
4. Break down barriers to opportunity
5. Build an NHS fit for the future

The Trade Facilitation Commission asks the question what contribution can trade facilitation make to economic growth and what measures should be prioritised?

We start by looking at what the current situation is for UK GDP per capita compared to other countries to give a sense of the urgency of economic growth.

UK not in the top 25 in terms of GDP per capita

According to the IMF (September 2024) and measured in USD, UK GDP per capita stands at 51.0K and places us outside the top 25 in world performance. By comparison:-

- USA 85.4K (6th)
- Australia 66.6K (11th)
- Germany 54.3K (23rd in the world)
- France 47.3K (also outside the top 25)

UK GDP per capita is currently lower than the poorest state in the US (Mississippi @ $53.1K) and the trend is downward, as can be seen from this comparison with the US since 2000.

GDP per capita, current prices (U.S. dollars per capita)	2018	2019	2020	2021	2022	2023	2024
Luxembourg	$117,993	$113,860	$117,616	$134,925	$126,598	$129,810	$131,384
Ireland	$79,183	$80,609	$85,777	$101,966	$103,291	$104,272	$106,059
Switzerland	$85,547	$84,474	$86,106	$93,707	$93,677	$100,413	$105,669
Norway	$82,606	$76,304	$68,275	$92,955	$108,439	$87,739	$94,660
Singapore	$66,841	$66,082	$61,467	$79,601	$88,429	$84,734	$88,447
United States	$63,165	$65,505	$64,367	$70,996	$77,192	$81,632	$85,373
Iceland	$75,365	$69,137	$59,401	$69,952	$76,284	$79,998	$84,594
Qatar	$66,422	$63,008	$50,962	$65,401	$80,573	$78,696	$81,400
Macao SAR	$82,695	$81,051	$37,101	$45,330	$36,361	$69,080	$78,962
Denmark	$61,724	$59,679	$60,927	$69,467	$68,132	$68,300	$68,898
Australia	$56,434	$54,396	$53,253	$64,327	$65,575	$65,434	$66,589
North America	$48,130	$49,697	$48,344	$53,748	$58,319	$61,644	$64,581
Netherlands	$53,225	$52,673	$52,222	$58,961	$57,428	$62,719	$63,750
Australia and New Zealand	$54,203	$52,415	$51,280	$61,768	$62,592	$62,491	$63,612
Major advanced economies (G7)	$51,212	$51,969	$50,839	$55,978	$57,110	$60,221	$62,413
San Marino	$49,477	$48,044	$45,641	$54,733	$52,542	$57,259	$59,405
Austria	$51,234	$50,192	$48,837	$53,696	$52,484	$57,081	$59,225
Sweden	$54,296	$51,694	$52,706	$61,203	$56,114	$56,225	$58,529
Advanced economies	$48,191	$48,481	$47,476	$52,853	$53,562	$56,243	$58,258
Belgium	$47,685	$46,783	$45,636	$52,026	$50,259	$53,659	$55,536
Finland	$50,032	$48,668	$49,168	$53,610	$50,847	$54,008	$55,127
Canada	$46,618	$46,431	$43,573	$52,521	$55,613	$53,548	$54,866
Germany	$47,961	$46,810	$46,712	$51,461	$48,756	$52,727	$54,291
United Arab Emirates	$45,592	$43,982	$37,649	$43,439	$52,625	$51,909	$53,916
Hong Kong SAR	$48,310	$48,278	$46,446	$49,849	$48,002	$50,030	$53,606
Israel	$42,249	$44,155	$44,684	$52,278	$54,967	$52,219	$53,372
Other advanced economies	$44,129	$43,034	$42,672	$49,583	$49,455	$49,696	$51,507
United Kingdom	$43,275	$42,713	$40,246	$46,704	$45,730	$49,099	$51,075
Western Europe	$43,630	$42,586	$41,312	$46,833	$45,395	$48,622	$50,254
New Zealand	$42,757	$42,274	$41,341	$48,861	$47,284	$47,537	$48,531
France	$43,061	$41,925	$40,529	$45,161	$42,306	$46,001	$47,359
Euro area	$39,866	$39,014	$37,938	$42,587	$41,062	$44,463	$45,826
Andorra	$42,230	$40,688	$36,974	$41,807	$41,379	$43,785	$44,900
European Union	$36,020	$35,290	$34,516	$38,950	$37,659	$41,129	$42,443

Trade openness is the key to economic growth – your shop won't succeed if the door is too hard to open (no matter what your prices)!

We model the impact of trade facilitation using the Singham-Rangan-Bradley model as refined, and this econometric model tells us that trade facilitation has a very significant impact on economic growth (the biggest mover in the trade pillar).

The Prime Minister has also emphasised the EU reset, and many of our proposals relate to that and specifically what the new government can ask from the EU with an indication of their negotiability. In making these recommendations we refer to the core Constraining Principle we set out below, as clearly any ask must be consistent with the PM's desire for wealth creation.

UK Approach to Trade and Regulatory Policy

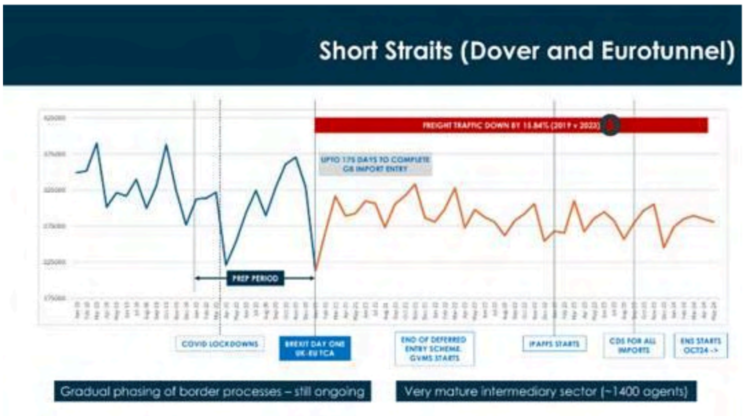
Our recommendations are based on ensuring the UK has maximum flexibility to secure the greatest possible gains from its external trade policy and improve its domestic regulatory system. We make recommendations within those constraints in order to maximise GDP per capita growth. This is a constraining principle because the economic effects of domestic competition and regulatory reform are double those of trade improvements which are of a similar order of magnitude to property rights protection. **In order to maximise economic growth, we need to make sure that we do not suggest something that limits the UK's ability to generate GDP per capita in other areas.**

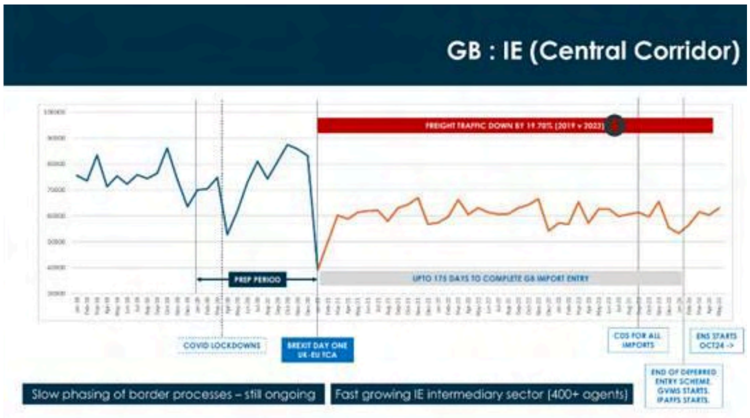
Detailed work by the Growth Commission has shown that trade openness can grow the economy by £3,500 per household. (For full details of the model and how it works see the Annex).

But does trade facilitation jeopardise border security by making it 'too easy!'. Quite the reverse. A simplified border is easier to police. In this paper we will show innovative ways to simplify the customs and border processes many of which are, perhaps crucially, without cost to the Government and within the UK's gift.

Trade openness is consistent with the UK's desire to have the 'best, most modern, border in the world', although, right now, that aspiration seems far away and we are in danger of merely digitising the current processes rather than finding ways to improve them first. Currently the UK is not in the top 20 in the Logistics Performance Index (LPI) which measures, amongst other things, global border efficiency and ease of trade across worldwide ports and borders.

A great deal can be learned from the GB-NI challenges and the need to operate a free-flowing dual process depending on the type and destination of the goods and/or the trader involved. Freight flows between GB and NI grew after BREXIT, despite nearly all of the processes being applicable from day one. Whereas the freight volumes on the short straits and the central corridor between GB and IE both fell by more than 12%, despite the full customs processes being gradually phased in. A process which is still ongoing.



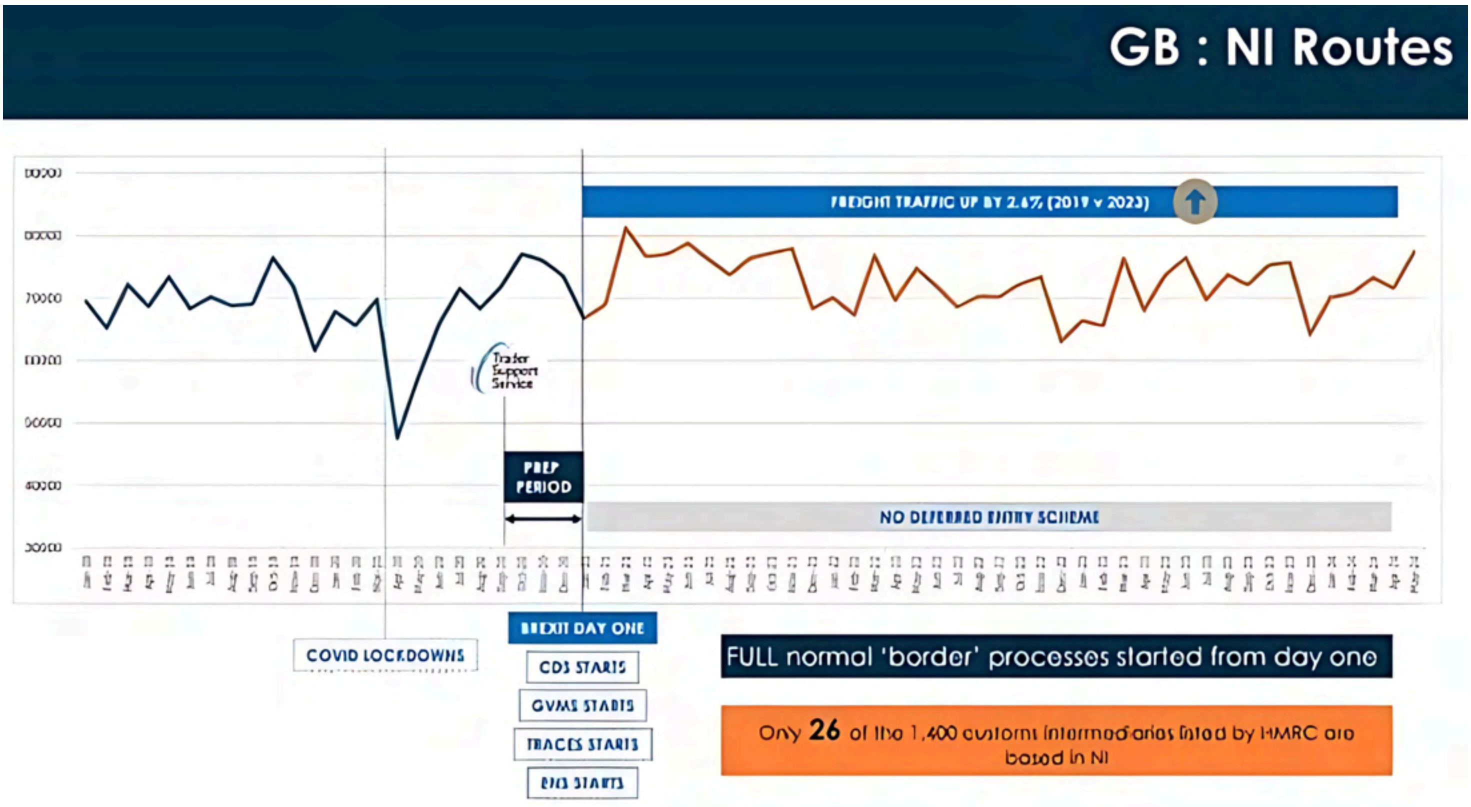


The processes used in Northern Ireland are centred largely around customs simplifications and involved full CDS functionality from day one as well as GVMS, ENS (safety & security declarations) and SPS controls. Even accounting for some trade diversion, this is quite a stark contrast.

This was possible because it was designed with practical knowledge and experience and a significant willingness from HMRC (and other agencies) to 'think outside the box' and conjure up solutions that were effective without being disruptive. It should be noted that processes were designed and then digitised – it was not possible to digitise existing processes, simply because there were not any – Northern Ireland (and the Protocol as was), is unique. This ability to design from the ground up was and still is fundamental to the success of the TSS service.

The growth in freight traffic is proof of the success of these collaborations particularly when compared to the short straits where market innovation and readiness is perhaps lacking.

It should be noted that the NI processes are amongst the most complex in the market, largely due to the variety of choices; at risk, not at risk, state aid, preferential duty, internal market movements, returned goods relief......the list goes on.



£3,500 per household through trade openness

In calculating true economic growth, the Trade Facilitation Commission (TFC) has used the ACMD model spanning 118 countries and 10 years of panel data developed by Singham, Rangan and Bradley (the "SRB Model") as refined over time. This Model enables us to determine the GDP per capita impact of improvements to the trade openness of a country, how pro- competitive its domestic regulation is and also how well it protects property rights.

As can be seen from the table below, trade facilitation accounts for 57% of the open trade pillar.

This by itself is an interesting discovery. Traditionally, it has been assumed that the biggest gains in trade are in the area of tariff reductions and securing trade agreements. The model shows that bigger gains can actually be achieved by trade facilitation than a combination of tariff and market access improvements.

International Competition Index

Sub component	Source	Weights	Factor
Timeliness indicator	Logistics Performance Index	11%	57%
International shipment indicator		36%	
Customs indicator		10%	
Trade Freedom score	Index of Economic Freedom	29%	29%
Freedom of foreigners to visit	Human Freedom Index	8%	13%
Freedom to own foreign currency		4%	
Capital controls		1%	

The model allows us to calculate the gain in GDP per capita when the International Competition (IC) score increases by 1 point to be up to 7.75%. If the UK were able to optimise its IC pillar score, through effective trade facilitation, this would generate an increase in 1.4 points, equivalent to **£3,500 per household**. These are gains solely attributable to UK domestic improvements and do not include improvements to the UK if the EU (for example) enhances its trade openness.

Impact of Trade Facilitation on GDP per capita growth

Agencies frequently make the error when analysing the impact of trade facilitation of not looking at the issue in wider context.

In the case of the UK; leaving the EU has created a set of border disruptions which the government must do what it can to mitigate, but has also afforded opportunities to improve its own economic competitiveness through, amongst other things:-

- an independent trade policy and
- allowing it to improve its regulatory system to improve domestic competition by reducing Anti-Competitive Market Distortions (ACMDs).

It is impossible to properly calculate what border mitigation policies should be employed without knowing their impact on the above two key factors. We believe this is where the TFC is of most value to the government.

The economic model which we rely on can tell us the impact of trade facilitation specifically on GDP per capita. This refers to how open the UK border is and how facilitations at the UK border can improve economic performance. The model also tells us what impact on GDP can be gained through, for example, improving domestic competition and property rights protection.

A live example of this is the debate about whether the UK should align itself to EU regulations to reduce border disruptions. The long-term impact of such a choice is rarely considered in full. All of these can be quantified.

? Will the proposal actually lead to disruption reduction and if so, precisely how?

? What other options exist and at what cost?

? What impact will that proposal have on domestic regulatory distortion reduction?

? What will its impact be on the UK's external trade policy agenda?

Dynamic alignment initially sounds promising but would not affect the need for customs processes and paperwork. It would also not avoid the need for regulatory checks as the EU would have no way of knowing if a given tradeable product satisfies its own regulations without such checks. It is likely that the intensity of physical checks from GB to the EU would reduce and this would bring some benefits. The UK could lessen both regulatory controls and physical checks, and could lower some of the customs burdens for EU goods traded into GB. But dynamic alignment violates the constraining principle which informs this report which is to do no harm to the UK's domestic regulatory reform and independent trade policy where the economic growth gains actually lie.

The impact of SPS dynamic alignment in addition to the problems referred to above is that there are areas now where the UK's SPS rules go above and beyond EU rules. For example the UK maintains a live animal export ban which the EU does not. The UK bans sow stalls which the EU does not. Indeed much of our bacon comes from Denmark where sow stalls are used. So not only would be precluded from improving our SPS regime in pro-competitive ways and bringing it more in line with sound science as the WTO requires, but many animal welfare concerns of the UK would be unable to be addressed.

However, similar benefits to physical checks in GB can also be achieved through unilateral recognition of underlying EU product market regulation, without the need for the UK to forfeit the right to decide its own regulatory future. The UK's unilateral recognition of medicine standards from the US, EU and Japan without the need for additional UK approval (through the MHRA) is an excellent example of what can be achieved. If this can be done for medicines, it can be applied for any product.

To answer question 2, we would need to quantify what the current level of distortion associated with UK regulation actually is. The ACMD model suggests that this could be significant and that improving the Domestic Competition pillar score by 1 point could yield as much as a 13.3% gain in GDP per capita. The significant gains in GDP from regulatory improvement go hand-in-hand with trade facilitation.

The UK currently has agreements with Australia, New Zealand, CPTPP and Japan beyond the EU agreements it has rolled over. All of these include disciplines on domestic regulations that have trade effects. All of them require the UK to have control of its domestic regulatory process. It would be difficult for the UK to continue to comply with these agreements if it forfeited control over its own regulatory system by embarking on a 'quick-fix' alignment approach with one single trading partner, being the EU.

The UK intends to negotiate agreements with India and the Gulf (followed perhaps by the US). In all cases, these trading partners will want to see improvements in goods regulation. For example, India will want to see the UK bring its SPS regime in line with WTO standards, as currently India is negatively impacted by the EU's SPS regime which the UK has ported over into its regulatory rulebook. The Gulf countries will do likewise. The US has also raised and won WTO cases on the EU's SPS regime and will want to see changes to the UK's regime which could be impossible if it dynamically aligns with EU regulation.

In order for the UK to receive significant market access for its export-led industries, it will need to be able to offer the sorts of benefits to its trading partners that are implicated by its regulatory rulebook choices. The less it is willing to change, the less likely it will be to get what it wants in terms of market access abroad. Thus, the need to self-determine is critical to long-term economic growth.

It could be difficult for the UK to remain in the deals it has already negotiated with Australia, New Zealand and the CPTPP if it loses control of its regulatory rulebook. It will also be extremely difficult to negotiate a deal with the US, the Gulf countries or India if it cannot change its goods market regulations.

It is not impossible for the UK to negotiate trade deals even if it loses control of its regulatory rulebook, but it will be difficult to negotiate deals that offer significant market opening to UK exporters. For example, the Swiss who voluntarily align with EU regulations, can negotiate trade deals but they have little leverage and the deals tend to be tariff-for-tariff deals with limited deep liberalisation.

The TFC believes that the disruption reduction goals for trade between the EU to the UK can be achieved through unilateral recognition of EU regulations, both at the conformity assessment and market surveillance level as well as at the product and market regulation level, as well as seeking mutual recognition from the EU side, where possible. Indeed, trade between the UK and EU will still be more disrupted than before Brexit, but this can be steadily reduced as confidence and trust grow and mutual recognition agreements in a variety of product market sectors are allowed to develop.

The UK needs to decide whether it wishes to take advantage of its regulatory freedom by securing the economic gains referred to in the ACMD model. If it does not, logic would dictate seeking re-entry into the customs union and internal market of the EU. However, that would mean exiting the arrangements the UK has so far concluded, including most importantly its signature trade policy achievement over the last several years, accession to the CPTPP.

Fortunately, there is a way of preserving the gains of external trade policy and domestic regulatory reform while at the same time minimising border disruptions. Border disruptions and trade friction can be significantly reduced through a combination of trusted trader schemes and Digital Trade Corridors that leverage the flow and visibility of data across supply chains. Digital trade should not merely be seen as an effective way of digitising the existing trade requirements, but as a way we can reward compliance and professionalism by recognising traders that can be trusted and easing the burden for them and by being able to identify those that are perhaps ‘not-trusted’ or at least not trusted to the same degree.

It has been proven internationally that incentivised trusted traders are important allies for border agencies in supporting security and compliance of the supply chain, using industry systems for early warning signals, risk detection and supervision - making such schemes an important instrument for future border management and trade facilitation.

Trusted Trader schemes and benefits

Modern Trusted Trader Programmes (TTP) are a VIP pass to international trade. They have proven to be one of the most efficient instruments for creating safe and secure border processes and generating trade facilitation benefits across the globe. The UK is behind the curve here when it should be innovating and leading the way.

TTPs are based on the World Customs Organisation (WCO) SAFE Framework of Standards, are backed by the WTO Trade Facilitation Agreement, and are strongly promoted by the international community, almost without exception. The SAFE Framework has been adopted by 172 countries around the world and there are now TTPs operating in more than 155 of these countries. This WCO model, known as the Authorised Economic Operator (AEO) model, generally includes both security and compliance elements combined with trade facilitation benefits. Modern and comprehensive TTPs cover all border agencies and supply chain stakeholders, are fully digital and more cost efficient.
The WCO is now working to include various new ESG (Environment, Social Protection and Governance) supply chain regulations in the scope of TTP/AEO to recognise low-risk operators that are compliant with sustainability regulations. One of the challenges in modernising TTPs are legacy programmes that have not been updated with new benefits. New programmes today have a wider range of benefits available for all stakeholders involved in international trade and supply chains. TTP benefits for the private sector are categorised into four groups:

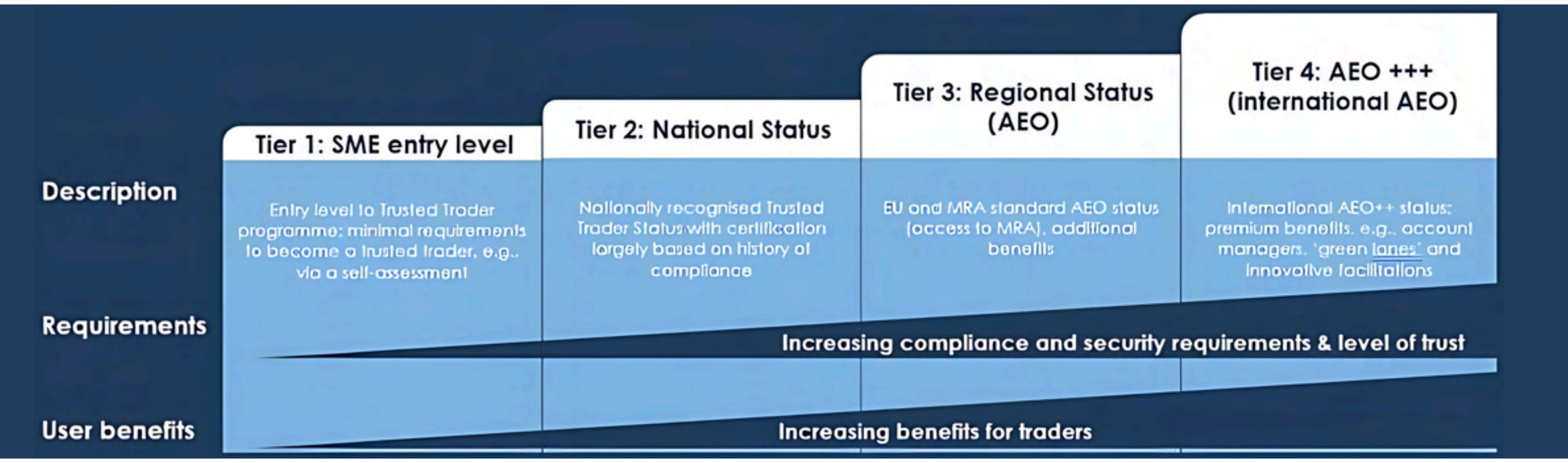
- Predictability – fewer delays and better planning
- Speed – through use of fast-track lanes and simplified border processes
- Cost – lower costs for guarantees and fast-track applications (licences, approvals etc)
- Administration – aggregated and/or consolidated reporting.

There are also significant cashflow gains, lower carbon emissions, less food waste and more efficient use of storage and warehousing as the need for built-in dwell times is significantly reduced. For governments, TTPs mean improved risk management and improved compliance. There are many international examples of how modern Trusted Trader programmes can revolutionise border processes offering trade facilitation and simplifications for approved and low-risk traders that have a proven track record of compliance and professional obligation.

Best practice countries provide examples of over fifty benefits that could be included in a new TTP and offered to UK businesses based on international conventions and within existing UK legislation. These trade facilitation benefits and simplifications would have a positive impact on international trade and the cost of doing business for UK companies.

To illustrate the potential of a modern TTP, one should look at the AEO programme in Brazil. A study from the National Confederation of Industries in Brazil showed that the benefits provided to certified AEO companies led to savings of USD 1.5 billion. These savings are expected to increase to USD 17 billion by 2030. This money can be ploughed back into AEO companies, allowing them to grow, which in turn creates jobs and promotes economic growth. The study also found that the AEO Brazil programme will have added more than USD 50 billion to Brazil's GDP by 2030.

One of the first steps when implementing a modern TTP solution is to develop a tiered Trusted Trader concept. This means different levels of benefits representing different levels of compliance and trust. Smaller companies can then take advantage of Trusted Trader status at a lower cost while allowing larger businesses to benefit from the additional resources they can apply to compliance.



Trust is not given, it is earned and there is sometimes a misunderstanding in the enforcement community that the use of TTPs has a negative impact on border controls. Research and documented results from TTP/AEO programmes from recent decades shows that TTPs enhance all aspects of the border environment, including enforcement, security, and safety. TTPs should be intelligent, multi-layered control systems that complement transaction level inspections and controls. They should include self-assessment as well as system based data-driven controls. Modern TTPs increase safety and security while contributing to improved compliance levels, better targeted inspections, and smarter risking.

A new tiered TTP should be fully digital to avoid additional bureaucracy for both companies and government agencies, including HMRC, Border Force, DEFRA, FSA etc.

The current trend is towards Trusted Trade Lanes, (interconnected) intelligent Digital Trade Corridors, Trusted Supply Chains, and Trusted Value Chains. In these concepts, TT status is connected with existing commercial supply chain data, supply chain stakeholder mapping, the supervision of goods through the use of smart containers and the official reporting through different declarations. Connecting TT status with this information creates a 'Trust Badge', providing a 'passport for goods' level of approval.

Another benefit for government agencies through the application of Trusted Supply Chains is access to voluntary commercial source data early in the trade process. This leads to more effective risk management, including having access to early warning signals from trusted traders in supply and value chains. When trade compliance records are generated, this source of information can be an essential element for efficient border management and creates a "tell us more, so we can intervene less" concept which senior border officials have stated to us more than once.

A demonstration of how Trusted Trade Lanes can work was the UK Ecosystem of Trust (EOT) pilots which are now being further developed as part of the UK government's Border Trade Demonstrators (BTD).

This is the future of border management and is already here. A modern border should be designed using a tiered trusted trader programme to optimise the requirements for growth through international trade for all types of companies. This can be further enhanced with a progressive Mutual Recognition programme so trusted UK exporters can carry that trust with them as they explore new opportunities globally.

UK's Current AEO/TT programme

Many government departments are sceptical about trusted trader schemes for fear of letting in products that could be dangerous. This is especially true of SPS goods. It is an understandable view; the current UK AEO scheme is not effective aside from certain guarantee waivers associated with customs simplifications and/or authorisations. Aside from that, the practical benefit is currently very limited and the adoption of a true trusted trader scheme is feared by many officials as they have perhaps failed to appreciate (a) the tiered nature of trust and (b) the benefits which can be derived from an effective scheme. Trusted trader schemes are also powerful compliance tools enabling agencies to have more visibility into goods movements and more intervention points.

Trade and particularly short distance EU trade is largely repetitive, involving large, professional and mature organisations. There is no need to clutter the border process with this legitimate trade but, equally, there is no need to completely abdicate the ability to risk profile these flows. The current 'catch-all' trusted trader approach is perhaps too much too soon for the UK and thus is often left on the shelf. It does not need to be this way.

The UK only has roughly 1,200 AEO approved traders and/or intermediaries and freight forwarders. Perhaps more significantly, there have only been 20 new approvals this year. Germany has 6,300 AEO approved firms and the EU as a whole (including the 75 in Northern Ireland) has over 17,000.

Right now, in the UK, AEO is an accreditation with little or no impact on the ground and little appetite from the relevant authorities to adopt a trusted trader programme as is.

Rather than moth-balling the scheme or, at best, placing it in the 'nice-to-have' tray, one should look closer to home to see how a dual process can exist and be effective. We refer, of course, to the Northern Ireland process whereby traders and goods can move either 'at risk' or 'not at risk' (more commonly referred to as the 'green lane', although not its official term). The NI process has been designed to recognise the difference between an internal market movement and one that could, potentially, be a GB to EU movement. Substitute 'internal market' with 'trusted trader' and you very quickly have the framework for a process that recognises the trader, the goods and the need for a smoother process in some… but not necessarily all, cases.

Unless the UK AEO scheme is correctly attached to simplified procedures, cost savings and real practical benefits it will never gather any true momentum. Roughly 50% of the current UK AEO accreditations belong to freight forwarders and/or customs agents, two groups who have much to gain in terms of the financial waivers and the least to gain in terms of facilitation at the frontier.

Similarly, unless the scheme can be multi-layered it will lack support from relevant government agencies as it will be viewed as too far reaching and thus too risky, at least at the moment and perhaps indefinitely. There is no need, if one has a vibrant tiered trusted trader scheme to require the UK to be inside the EU's safety and security zone. The UK should remain outside the EU's Safety and Security Zone because this gives it more freedom over its own customs processes, and regulatory controls and does not require it to follow EU customs approaches in areas like trade remedies. However, given the data that can be acquired by governments based on trusted trader schemes and digital trade corridors as we note elsewhere, we question the necessity for an Entry Summary Declaration at all. We certainly question its need for internal market movements between GB and NI.

Trusted Trader Status for SPS goods

SPS goods are perhaps the most challenging element as the risk to UK health and farming is often greater and more immediate. Proof of this is the recent outbreak of African Swine Flu and the unilateral measures which the UK have been able to employ. DEFRA could be justifiably concerned that a trusted trader scheme could weaken this response and protection mechanism and they would be right to seek comfort in this respect.

That does not mean that trusted status cannot be applied to SPS goods (particularly fast moving EU goods) only that it needs an innovative approach. Currently all low, medium or high risk SPS import goods require at least a Simplified Frontier Declaration (SFD) at the border and an IPAFFS declaration to notify DEFRA of the imminent arrival. Taking flows arriving via Dover or Eurotunnel; those SPS goods that are selected for documentary or physical examination are directed to the BCP (Border Control Post) at Sevington and are not allowed to leave until the controls have been satisfied. DEFRA introduced a Common User Charge (CUC), despite market engagement showing that trade was very much against the idea. In addition to the CUC there are also charges levied by Ashford Port Health (APH), regardless of the control applied to the shipment at Sevington. There are no additional charges for examination as these are covered by the standard CUC and the APH fees which apply whether or not a physical inspection is required.

The charges are based on the type of product and the associated risk profile. For example, cheese made from pasteurised milk is LOW risk whereas cheese made from unpasteurised milk is considered MEDIUM risk. These risk categories have a major impact on the process and costs involved and this is precisely where the need for a better, more innovative and intuitive solution is called for.

A summary of the charges is below:-

Commodity	Risk Category	DEFRA elements		Ashford Port Health Charge (APH) elements			
		GB imports	GB transits (landbridge)	GB imports**	GB transits (landbridge)**	Fish & Aqua IUU LOW	Fish & Aqua IUU HIGH
POAO Products of Animal Origin	LOW	£10 per CHED line subject to max £50 per CHED	£10 per CHED line subject to max £50 per CHED	£10 fixed fee to verify risk category per CHED	Min £109	Min £28.00	Min £56.00
	MEDIUM / HIGH	£29 per CHED line subject to max £145 per CHED	£10 per CHED line subject to max £50 per CHED	£11 per tonne (or part thereof) fixed charge subject to minimum of 6 tonnes per CHED	Min £109	Min £28.00	Min £56.00
HRFNAO – High Risk Foods (and feed) Not of Animal Origin	HIGH	£29 per CHED linesubject to max £145 per CHED	no charge	£69 fixed fee for documentary check – inspection and sampling fees may also apply	Min £109	-	-
Plants and plant products	LOW (no IPAFFS)	no charge*	no charge*	No APH charge but might be fees from APHA	No APH charge but might be fees from APHA	-	-
	MEDIUM/HIGH	£29 per CHED line subject to max £145 per CHED	no charge*	No APH charge but might be fees from APHA	No APH charge but might be fees from APHA	-	-

Importers of SPS goods and specifically POAO and HRFNAO (products of animal origin and high risk foods not of animal origin) come in all shapes and sizes. The Border Target Operating Model (BTOM) introduced the ATTS scheme (Accredited Trusted Trader Scheme) with the following associated text:

Further modules are being considered as part of the Accredited Trusted Trader Scheme, one of these will consider how supply chain data and technology already utilised by businesses could be drawn upon to provide biosecurity and public health assurances. This will build on the findings from our Ecosystem of Trust pilots.

Initially, it will be considered whether a module could be designed which draws upon environmental sensor data from devices which record the temperature, humidity and carbon dioxide levels, as well as smart seals, which can track unlocking events and location, to determine whether journey assurance evidence can be utilised as part of sanitary/phytosanitary controls.

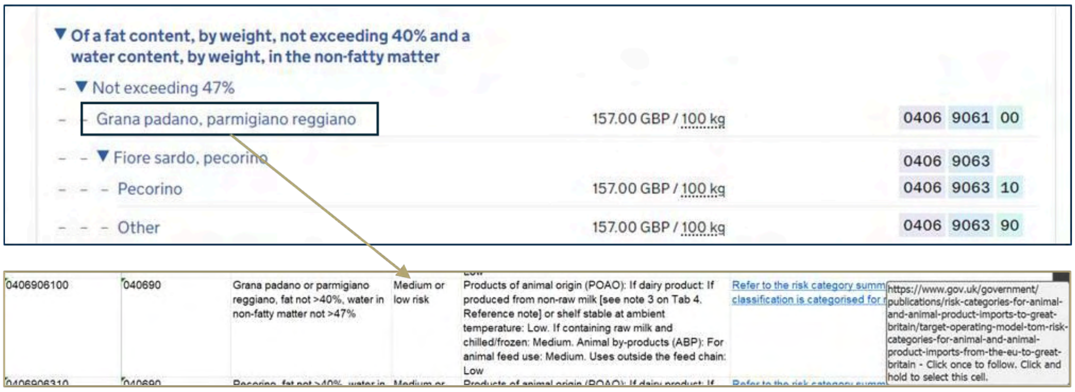
The precise benefits associated with this module would need to be determined as part of the co-design and pilot phases, but we initially envisage a proportionate reduction in the level of checks based on the assurance secured via the relevant technology.

Over time there is scope for the technology module of Accredited Trusted Trader Scheme to be expanded, to utilise technological advancements as they become available to provide further benefits to traders, and when the Single Trade Window has full functionality.

Whilst this is a welcome development it may face implementation challenges. Since it is the process, not just the physical checks that impede trade flows, we will need to ensure that any tiered offering minimises process as well as lowering the intensity of required checks.

As it currently stands, most traders are considered the same, ie NOT trusted and the risk levels associated with SPS goods are equally binary and not specific to a particular commodity code. LOW risk is a far simpler process than MEDIUM risk so it is important to know which risk category your products fall into.

We looked at a common scenario; parmesan cheese (Grana Padano) and Reggiano – very similar looking products, both Italian hard cheeses protected by geographical provenance. The commodity code is the same for both : 0406 9061 00. Looking at the DEFRA risk categories we see that this commodity code can be either LOW or MEDIUM, depending on the type of milk
used.



Having this confusion over the relationship between commodity code and risk category creates real issues on the ground. The product could be LOW or MEDIUM. If MEDIUM, an export health certificate is required – should it not be present does the broker or logistics provider assume:-

1. That the exporter has assessed the need and decided that it is LOW risk (not requiring an export health certificate) or
2. It is actually MEDIUM risk but the trader has failed to obtain a health certificate

It is dangerous to assume either and therefore requires further contact with the trader to ascertain the exact risk category and therefore the documentation required. All of this introduces cost and delay which could so easily be avoided. Better use of commodity codes (the last two digits can be used by the UK as we see fit) would prevent confusion. Grana Padano is LOW risk, Reggiano is MEDIUM – the last two digits of the commodity code could have been used to establish the differential and avoid the confusion over risk category. A consignment of Grana Padano would require an IPAFFS only and incur a £10 CUC charge and a £10 APH charge to confirm the risk level. Whereas the MEDIUM risk Reggiano would require an export health certificate (circa £200), a CUC charge of £29 and an APH fee of £66. Clearly a huge difference; £20 versus £295.

The DEFRA risk categories are also too simplistic and do not reflect the reality of trade. Better to have a staged risk score (which can be amended as risks emerge, African Swine Flu for example). Say for example LOW risk was scored at product level from 1 to 10 and MEDIUM from 11 to 20. Grana Padano might be 5 for example and Reggiano 15.

The UK has stated it has moved from a hazard-based to a risk-based approach to SPS issues, but what is being rolled out looks more like a modified hazard-based system. A genuine risk-based system would seek to understand the nature of the risk from the product, the country where it is coming from and the trader who is bringing it and would aggregate these different trust/risk levels in a composite score that properly evaluates the risk presented.

We suggest the following. The trader should be risk-scored so that trusted status is multi-layered and not simply off or on. Each trusted trader is also given a score depending on their level of trust. The trader score, the product score and the country score can be aggregated in order to calculate an overall risk score. Suppose we have a trusted trader bringing in cheese from France on a trust scale of 1-10 where 10 represents the highest level of trust, the trader trust score is an 8, the product score is a 5, and the country score an 8. The aggregated trust score is 320. Compare this with an unknown trader bringing cheese from India. We assume a trader trust score of 2, a product score remaining at 5, and the country score of 3. Now the overall trust score has dropped to 30, clearly in the zone for higher scrutiny. This formula can be adjusted to reflect the different weightings between these three categories of trader, country and product.

We have included this example to show the value of tiered trusted trader schemes and the ability to incorporate the tiers at the trader and individual product levels. This would be the first of its kind and immediately elevate the UK to the innovative standards-setting status that our skills and experience should offer.

One Government at the Border

Governance of the UK Border is complicated. Although the UK Border Force (in the Home Office) has primary responsibility for clearing people and goods at the UK Border, there is a myriad of different Departments and Agencies involved in the process which can lead to confusion over priorities and governance.

The "One Government at the Border (OG@B)" Programme was an initiative led by HMRC in collaboration with the Cabinet Office in 2015/2016, which sought to address this. The programme ran an initial 'Discovery' phase, followed by a series of technology and operational pilots. However, after the EU referendum in 2016, it became clear that the work required to support the UK's exit from the EU would have to take priority over the evolution and delivery of the OG@B initiative. The work done by the OG@B programme was documented and passed to the Cabinet Office Border Delivery Group, eventually being used as a source of information and evidence as the UK Border Strategy developed.

OG@B was supported by the Permanent Secretaries at HMRC and the Home Office (HO), and by the Cabinet Office (CO) Minister at the time.

The programme included HMRC, Border Force, HO, CO, BEIS (Department for Business, Energy and Industrial Strategy), DEFRA, FSA and the DfT (Transport).

As now, there was a compelling case for change in the way Government Departments operate at the UK Border and the business case centred on the following:

- Operations for managing the UK border are complicated and challenging with over 11,000 miles of coastline, over 200m movements of people in and out of the UK and £700+bn worth of international trade every year.
- The UK border is a complex matrix of multiple modes of transport (maritime, rail and air) and juxtaposed control points. Government resources are stretched across over 150 ports and airports and thousands of small airfields and marinas.
- The UK Government faces a challenge to facilitate legitimate international trade, which is vital to support economic growth, whilst at the same time protecting society from increasing threats of terrorist attack and organised crime.
- The UK Border Force is answerable primarily to the Home Secretary. As such the main focus of its activity relates to immigration control and border security. The Home Office has several key Departments and Agencies involved in this area in addition to UKBF including the Homeland Security Department, the National Crime Agency, the Small Boats Operational Command, Immigration Enforcement, and the Security Services (including the establishment of the new Border Security Command to tackle human smuggling gangs). Inevitably, areas such as Customs and Trade Facilitation have received less attention given other pressures on the Border.

The first step of the OG@B initiative in the discovery phase was to assess views from traders and civil servants working at the UK border.

The OG@B team consulted 40 businesses (large and small and a mix of buyers, sellers, intermediaries, software developers, CSPs); and 160 civil servants from a range of Government Departments and from policy, operations and technology delivery disciplines.

The terms of reference set out to identify problems and solutions; identify opportunities that could be exploited to benefit trade without compromise to compliance or border security; bring together border-related strategies, processes, policies and technologies to deliver integrated border controls and a single, secure service experience for people moving goods in and out of the UK to:

- Support the UK's economic growth agenda;
- Improve border security;
- Increase revenue collection; and
- Deliver operational efficiencies.

The key findings were:

- 26 Government Departments and Agencies were operating at the UK border;
- over 80 isolated systems owned by different Departments; over 400 regulations, statutory instruments and laws governing the UK border and generating policies developed by individual Departments (this included EU legislation at the time and therefore the number of regulations is now being reduced. However, we do still see policies being developed within individual Departments, even under the overarching UK Border Strategy 2025).
- 3,000 pages of guidance for businesses to navigate to ensure compliance with legislation.
- 60 authorisations (including permissions, registrations, licences, certificates and notifications required to import and export goods). 17 border processes were identified that require action by the border industry and Government Departments.

These were:

Business planning	Universal guidance	Tailored advice
Permissions and Entitlements	Sales agreement	Commercial assurance
Notifications	Port management	Logistics management
Shipping	Intelligence gathering	Data architecture
Directing and targeting	Inspections	Sanctions
Revenue collection	Consumer protection	

OG@B consultation with traders revealed the following:

- **Complexity abounds –** multiple legal provisions cover the work of multiple government departments/agencies operating at the border, which is converted to thousands of pages of guidance on gov.uk and is a minefield to navigate for inexperienced international traders. Some small businesses give up trying to export their products simply because of their fear of not being compliant with government regulations, considered too complicated to understand.
- **Submission of the same data multiple times** – a major challenge for business is having to deal with several government departments/agencies There was a strong voice for a Single Trade Window to reduce business costs and time delays (this was first identified as a need 10 years ago).
- **A shift from transaction-based declarations at the border to enhanced trusted trader schemes** - effective Customs and Border Authorities should operate as part of a connected ecosystem along with traders, carriers and ports, aligning capabilities to the services required to deliver a seamless and integrated customer journey.

At the same time, Government Departments operating at the UK border were looking to access and analyse data from across supply chains to reduce burden on trade whilst improving intelligence and targeting capabilities to enable more precise and efficient interventions for compliance and law enforcement purposes.

The OG@B programme generated a very real desire within Government Departments to join-up their approach to border management and the following opportunities for future border change projects were identified:

- **Trusted relationships** – rewarding businesses and border operators for compliance.
- **Data and transparency** – improving, sharing and making more effective use of better data.
- **Simplify the experience** – make regulatory processes and border controls less complex for all users and provide better support for modern commercial practices.
- **Joined-up operations and capabilities** – removing duplication and improving capability to respond to security threats, driven by new technologies.
- **Intelligence and targeting** – sharing quality data and intelligence for more effective targeting and border interventions.
- **Business confidence** – encouraging small businesses to trade internationally by making it easier for them to understand what to do and how to do it.

This paper covers each of the above and offers ways in which these objectives can be achieved using practical and extensive experience offered by The Trade Facilitation Commission.

Illicit Trade and Links to Crime

Notwithstanding wider interest across Whitehall in movements across the UK Border, the Home Office and its Agencies still retain primary responsibility for crime prevention, public safety, and national security. The UK Border Force therefore retains strong links with other law enforcement agencies including the police, the security agencies, the National Crime Agency and the National Counter Terrorism Security Office (NaCTSO) in risk assessing people and goods crossing the UK Border.

Although the new plan for immigration - including the requirement for advanced digital permissions - should help the Border Force to improve advanced risk assessment & identification of passengers (and therefore fluidity on arrival, with perceived benefits to business and tourism), there remain concerns that more needs to be done to enhance checks on goods (whilst simultaneously facilitating trade).

Investment in advanced technology for screening goods at the UK Border has fallen some way behind that deployed for passenger clearance, and indeed some way behind many other countries.

In order to redress this balance – and to deliver long term economic gain to the UK economy – the Border Force is seeking investment in new and emerging technologies to enhance border screening technologies including image capture, analysis, networking and artificial intelligence to improve detection rates of harmful and illicit goods.

For example:

- The detection of harmful drugs and firearms at the UK Border, with potential savings of £25.6 billion costs of crime with a border element.
- The detection of alcohol, cigarettes, tobacco and other dutiable goods with potential to raise an additional £3.4 billion in Excise duty revenue.
- Enhancements to biosecurity and public health checks at the border, to prevent significant financial loss (such as £13 billion in the 2001 Foot and Mouth Disease Outbreak)
- Improvements to Customs Facilitation by making it easier to import and export goods to and from the UK, thus significantly increasing the UK's rating as 30th in the world in terms of border timeliness.

Obviously Trade Facilitation is an important component of any border strategy. In order to improve it, the government will need to take note of the much wider network of Departments and Agencies with an interest in the UK Border – and establish a clear set of priorities – under a cross Whitehall co-ordinated structure.

Whilst the trade can develop solutions, mostly without cost to Government, there effectiveness is greatly improved (and thus there take-up much more far reaching) if facilitations and simplifications are supported and encouraged by Government – as they have been, for example, with GB to NI flows and the need to keep internal market movements flowing freely.

There is still a view in Whitehall that although the Border Force leads on clearance of people and goods (immigration and customs), HMRC are the lead agency for Customs policies (not the Home Office). Therefore, the focus at the Home Office on facilitation has been primarily about passenger clearance rather than customs clearance. In that regard the UK has a good story to tell – we move more people through e-gates than any other country in the world and we are moving rapidly towards digital permissions to enter (e-visas and electronic travel authorities) – all under the auspices of the Home Office "Future Border and Immigration System" (FBIS).

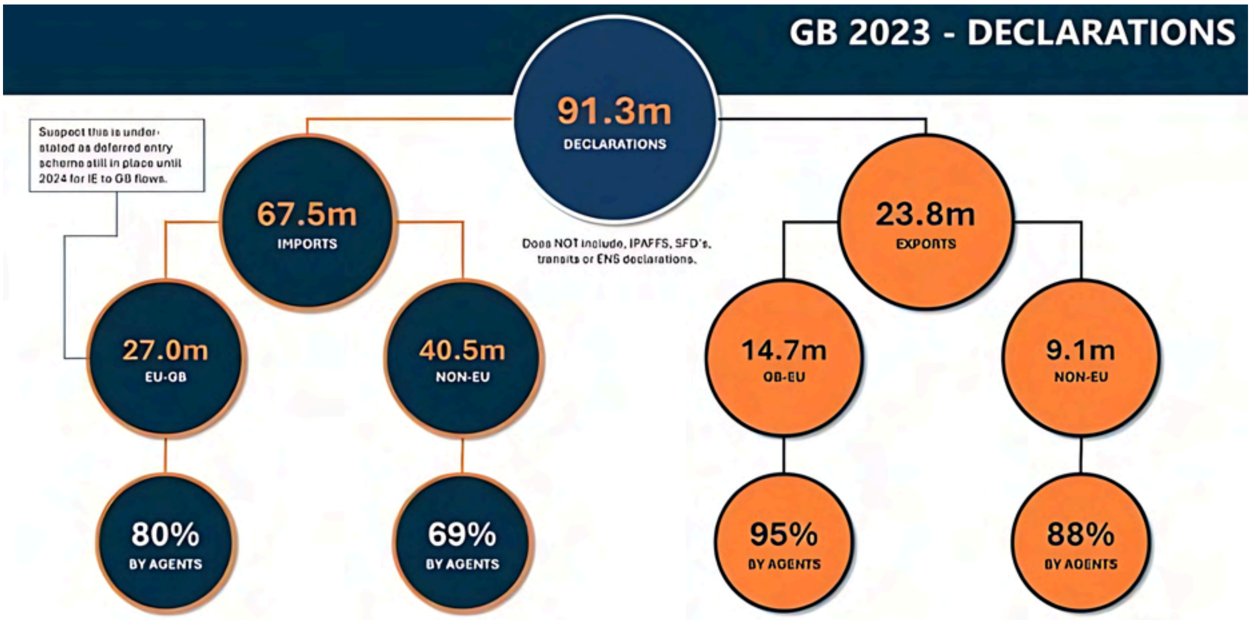
Goods clearance is beyond the scope of the FBIS project and there have not been any similar investment in automating goods clearance processes / better use of scanning technology / artificial intelligence and so on as can be seen in other countries (such as the US). In order to deliver better Trade facilitation and economic growth, the government will need a more comprehensive approach to Border Management that transcends the Home Office via a wider Border Innovation Programme.

Customs and Border Single Windows

Many countries already have single windows for customs and border processes. Fifty countries or so have Single Windows of one kind or another in place, but the number of countries which have fully interconnected all systems is still quite low. They are a proven way for trade to be expedited, and therefore for economic growth to be derived. It is for these reason that the customs and trade facilitation chapters of almost all modern trade agreements contain hortatory language recommending the countries adopt single windows. The UK's move to single window has been slow and fitful at best. However, there is a real opportunity now with the development of a Single Trade Window in the UK.

The UK Single Trade Window

The STW is an integral component of the UK Border Strategy; without it, the transformation objectives set out in the strategy are at risk. Before studying the costs and benefits it might be worth setting the scene by looking at the current customs and trade environment.



The Government is committed to delivering a world leading STW to enable UK traders to take advantage of business opportunities following the UK's exit from the EU, including the evolution of Freeports and the trade facilitation provisions within newly signed free trade agreements.

The STW will eventually provide a secure gateway to traders to allow them to meet their border obligations by submitting information to Government in one place. The target completion date is 2027.

The STW will unify border-related data sets and will continue to draw in additional data sets over time, including Entry Summary Declarations (ENS) for safety and security purposes and used by the UKBF for targeting purposes.

The World Customs Organisation (WCO) defines an STW as a

- *facility that allows parties involved in trade and transport to lodge standardised information and documents with a single entry point to fulfil all import, export, and transit-related regulatory requirements.*

Single window can be a critical component of international border and trade modernisation programmes. They can assist in promoting economic growth by enabling greater trade facilitations while reducing administrative burdens.

The UK has initiated a programme to develop and introduce a STW as an essential component of its plans to deliver its future Border Target Operating Model.

The risk, as already highlighted in this report, is that the opportunity to modernise the processes themselves is lost within the project. Digitising processes which were created in the 1990's is not the way forward – had we done that in Northern Ireland the ports would have been full and the ferries empty.

Similarly it is essential that any of these projects maintains an effective responsibility matrix in the back-end. For example, the ability to upload data once and create, for example:-

1. An export declaration
2. A transit document
3. An import declaration
4. An ENS safety and security declaration
5. A port pass, be that GVMS, PBN, PortBase etc

The concept is good (although one wonders why a declaration is required at transaction level) but the party responsible for the process is not the same. The import for example, is the responsibility of the importer (who might not be established in the UK), the export is down to the exporter (who might be the same as the UK importer but only if the incoterms® are DDP (delivered duty paid), the ENS, transit, GMR etc are the responsibility of the carrier. This obviously begs the question: who is the STW for? If it is for the trader (at least mostly) one needs to consider the control and influence that the carrier has.

The below table illustrates these points.

INCOTERM	WHO IS THE EXPORTER?	RESPONSIBLE FOR EXPORT CUSTOMS CLEARANCE	RESPONSIBLE FOR EXPORT HEALTH CERTIFICATE	RESPONSIBLE FOR LOADING ON TRUCK	CARRIAGE TO PORT OF EXPORT	TRANSIT DOCUMENT, IF REQUIRED	SAFETY & SECURITY DECLARATION (ENS)	EXIT PORT SYSTEM (eg PBN)	ENTRY PORT SYSTEM (eg GMR)	FREIGHT or FERRY TO PORT OF IMPORT	WHO IS THE IMPORTER?	RESPONSIBLE FOR IMPORT HEALTH DECLARATION IPAFFS or TRACES	RESPONSIBLE FOR IMPORT CUSTOMS CLEARANCE	WHO IS RESPONSIBLE FOR IMPORT INSPECTION FEES AT BORDER	WHO IS RESPONSIBLE FOR IMPORT DUTIES	WHO IS RESPONSIBLE FOR IMPORT VAT	CARRIAGE TO DELIVERY
EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Carrier	Carrier	Carrier	Carrier	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Seller	Seller	Seller	Seller	Buyer	Carrier	Carrier	Carrier	Carrier	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CPT	Seller	Seller	Seller	Seller	Seller	Carrier	Carrier	Carrier	Carrier	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
CIP	Seller	Seller	Seller	Seller	Seller	Carrier	Carrier	Carrier	Carrier	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
DAP	Seller	Seller	Seller	Seller	Seller	Carrier	Carrier	Carrier	Carrier	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
DPU	Seller	Seller	Seller	Seller	Seller	Carrier	Carrier	Carrier	Carrier	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
DDP	Seller	Seller	Seller	Seller	Seller	Carrier	Carrier	Carrier	Carrier	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller

In the event of full load vehicle movements, the trader can often choose who and how to do the customs paperwork (but not always). We have many examples where the LSP (Logistics Service Provider) are carrying full load movements but insists on including the customs paperwork so they can control the trailer effectively. This also has routing complications, for example, the trader expects the trailer to arrive, driver accompanied, via a GVMS port such as Dover – whereas the carrier is planning to ship the trailer unaccompanied via a North Sea port, perhaps using a port inventory process. Wrong import declaration. This leads to the wrong location and wrong import declaration.

When the trader is shipping part loads or groupage they rarely have the power to choose who does the customs paperwork. The carrier decides, otherwise, it is almost impossible to complete the GMR if/when there are multiple agents involved. Similarly, the carrier will soon have to complete an ENS declaration also – they need data for this so often control all aspects of the border – including the customs declaration(s).

A good example of this is the ferry industry (including Eurotunnel) – their account customers are not traders. They work almost exclusively with the carrier. The only exception is perhaps when the trader also owns the freight vehicle but this is normally only when specialist vehicles are involved (computer carriers for example).

The carrier has considerable power over the process (more than the trader often). This is exacerbated if the groupage trailer is consigned to an inland clearance location (TSF – Temporary Storage Facility) where a particular badge is required for that inventory system. The trader is almost forced to use the carrier as they cannot access the goods location without using the owner (the carrier) or without setting up new badges, which takes time, money and effort. We have seen pricing tariffs from LSP's that include a fee of £95 for a C21 inventory release should the trader wish to handle the import documentation themselves. It would be cheaper to have the LSP handle the clearance.

Efficiencies come from the effective movement of data rather than the effective creation of a declaration.We will cover this more in the Digital Trade Corridor section.

Target benefits of STW

The UK government intends that the STW will bring benefits to traders, government and the wider economy. The STW is targeted to deliver quantifiable benefits of £2.77 billion, which include

- £2.48 billion in direct benefits to UK traders and hauliers through a decrease in the administrative effort required to move goods across the border, and
- £250 million in benefits to the government through better data collection and sharing.

The STW will provide a new IT platform for Traders that will reduce bureaucracy and provide easier access to trade simplifications, such as EIDR.

The STW services will include;

- Reducing time and cost to complete trading documentation and procedures;
  - Fully digital service for all declarations and licencing requirements a Single sign-on to access all government trading systems, enabling data to be entered once and shared as required across multiple systems to avoid multiple repeat entries of the same data. For example, Declarations (from Commercial Invoices) -> Permits & Licences -> Safety and Security -> GVMS etc.
  - 'Smart' online guidance to guide traders through requirements for imports /exports which is specific to each submission, derived from key consignment attributes such as Origin, Commodity Code and seller/buyer locations and details.
  - Support for 'Self-Service' capability where businesses may complete their own trading documentation from commercial invoicing information using smart front-end systems - likely cover the majority of trade requirements and guide traders to additional support for more complex consignments.
  - And in addition to the business the STW will facilitate greater coordination of Government border agencies and departments to optimise actions and interventions on goods movements.

The last point is probably the most important. One of the benefits of a joined up STW approach is that it creates a catalyst for Government agencies to indeed become more joined up. This probably has more value than a process designed to replace existing customs software and customs clearance procedures – particularly considering our points above.

In the lead up to BREXIT, Sir Jonathan Thompson, the then Permanent Secretary of HMRC was asked what this would all cost. He replied “£7billion”. His calculation was simple : 200 million (being the estimated increase in customs declaration volume) multiplied by £35 being the average customs clearance charge. Last year HMRC reported 100m declarations overall, meaning the additional BREXIT volume is closer to 50million. Thus the correct figure should have been more like £2billion. This is the context for analysing potential STW benefits.

That said, the concept is good – only, at the moment, it is not configured correctly. The front end should be data and decision engine modules rather than a declaration led approach. The objective to make authorisations and approvals easier to access and manage is very welcome and should not only allow traders to apply for simplifications and authorisations but also to suggest facilitations based on their trading data and requirements
.
Whatever the saving STW should not be analysed in a vacuum but is part of a much wider concept, that of Smart Borders which we analyse in the next section.

Smart Borders

In 2017, the European Parliament Policy Department for Citizens' Rights and Constitutional Affairs commissioned a concept paper for the post-Brexit border environment. The concept paper presented a new model for managing borders - Smart Borders 2.0. The basic principle of the new model was based on long-standing best practices at the border between EU (Sweden) and Norway and has subsequently been used by France in the post-Brexit solution for Eurotunnel.

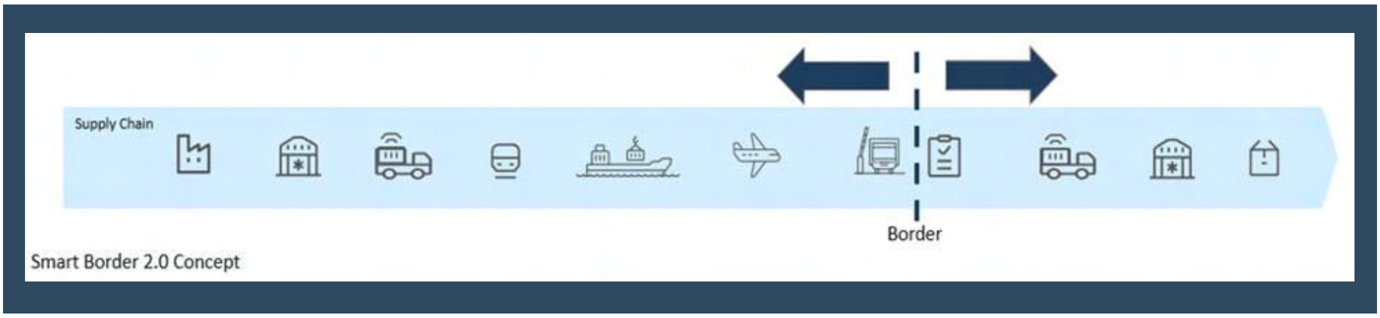
In 2019, the WCO made the Smart Borders concept an international best practice. The WCO encouraged its members (including the UK) to find technology solutions that facilitate the flow of people, goods, and conveyances at borders while following the guiding principles for SMART borders: Secure, Measurable, Automated, Risk Management-based and Technology-driven.

The basic principle behind Smart Borders is moving border procedures to before and after the border. This is done by utilising technology, data, and proven trust through documented compliance records. This allows smarter risking and makes the border safer, faster, and more predictable. It requires pre-arrival data and information for risk management so that different control programmes can be applied in new and more efficient ways.

It removes the out-of-date approach of the border being a line on a map and replaces with the end-to-end movement of goods across frontiers. The ingestion of data rather than the single submission of two-dimensional transaction data.

When a pre-determined level of compliance has been established for a trader, all controls can then be carried out before or after the border. This process will make use of self-assessment, self-inspections, goods supervision and smart containers (track and trace of goods), alternative control and inspections sites (e.g., enroute, at destination, or at the traders' premises).

These methods are supervised and audited to maintain and increase compliance levels. The border crossing is simplified using smart technology such as tried and tested bar code scanning, automatic vehicle number plate recognition, and container and vehicle scanners.



Smart Borders are digital borders, that make borders safer and more secure. They reduce cost and the risks of delays, making domestic trade more competitive internationally.

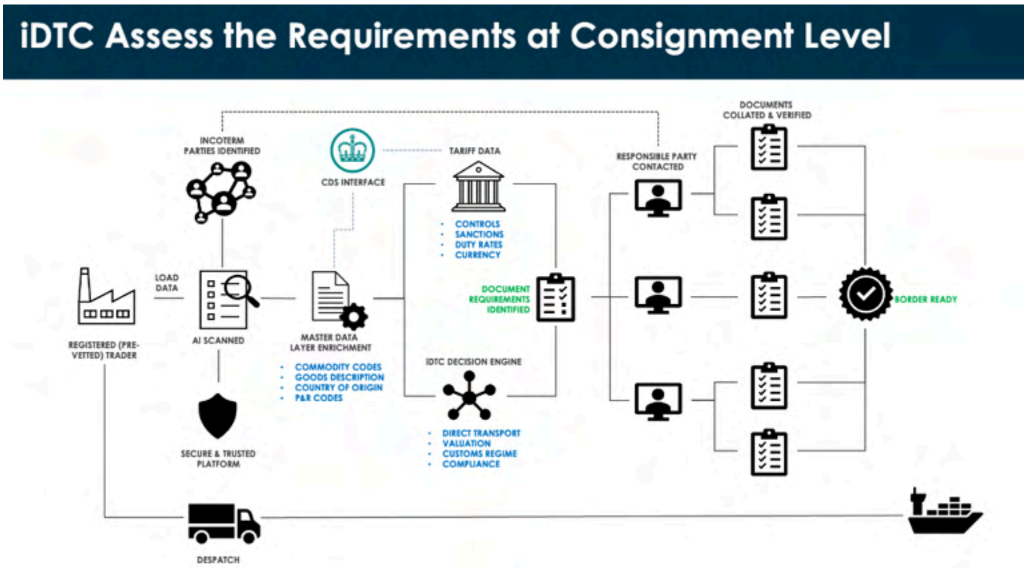
Digital Trade Corridor (iDTC)

Related to Smart Border, we have also seen the development of an end to end way for traders to move goods from A to B using so-called digital trade corridors (DTC). A DTC needs to be intelligent otherwise it risks becoming no more than a repository for international documents. The desired concept is to profile the trader, the movement, the type of goods, the controls that exist and the pitfalls that should be considered and/or avoided. An approach that is led by "tell me about this movement.." will enable the decision engine to ascertain what is required and what elements may require clarity – the iDTC will then establish what documents are required, who is responsible for them (see earlier section about incoterms®), and what areas need further clarity. Some examples of questions the iDTC might ask of traders include:

1. Is the country of preference the same as the country of despatch and if not have the goods remained under customs control (GSP goods, for example, will lose their preference status if cleared in the EU prior to arriving in UK, even if we also have a preferential trade agreement with that DCTS(formerly GSP preferences)country
2. Is there a conflict on the VAT rate to be applied and if so the iDTC should flag this an qualify the data at input.
3. Is there a potential for RGR (returned goods relief) and if so trader the trader have the original export MRN (Movement Reference Number) or copy documents.
4. Are SPS controls applicable and if so what level:-
    a. Low, medium or high risk
    b. Organic products – perhaps requiring soil certification
    c. Cites, for example Sturgeon Caviar (which is more common than you might think).
5. Are the buyer and seller related and has this influenced the price?
6. What prohibitions, restrictions and/or sanctions apply to the goods being moved.
7. Are you using simplifications?
8. What evidence of preference are you using? (avoid importers' knowledge).
9. Is a REX statement needed? Is the REX valid?

Collecting data is easy – identifying and collecting the right data is key. Furthermore, the iDTC should be on a continuous improvement path, learning from previous errors and updating to prevent these errors again. For example, incorrect duty calculation, wrong importer according to incoterms®, high (or low) value for the commodity code used.

Once the profile is established, the iDTC will create the document pockets which must be completed prior to being 'Border Ready'.



Border Trade Demonstrators and the iDTC

The Cabinet Office has established a BTD programme to determine how SIGNALS from the supply chain may be received by UK government border agencies and used to support their border management and risk assessment processes. It could be considered as an extension of the Ecosystem of Trust pilots that were run previously.

A SIGNAL is any information data set which may inform border agencies on the nature of consignments, their location, transport route and conditions and key EVENTS such as health checks, departure location and times, entry and exit details into and out of Ports etc.The BTD is analysing use cases of consignments of Chilled Poultry products from the EU to the UK.
TETA provides a Freight Forwarding service using their advanced technology platform, collecting supply chain data and documents, arranging transport, scheduling health inspections, and completing import declarations. This rich set of information is shared with the iDTC creating one view across the consignment end to end journey.

The iDTC makes use of the TWIN (Trade Worldwide Information Network) to host information from Signals and other associated supply chain documents and events. TWIN is based on IOTA's distributed ledger technology which provides a the technical infrastructure to enable information to be shared in a highly secure manner.

Throughout the consignment journey TETA uses sensors to monitor the consignment location and the environment temperature in the container.

Consignment and journey information are sent in the form of 'SIGNALS' to the Cabinet Office Data Hub for onward distribution to other Border Agencies. The iDTC is able to capture any Signal and associated data generated in the supply chain.

The BTD trials are focused on three categories of signals;

DISPATCH – A SIGNAL is sent to the cabinet office on dispatch of the vehicle carrying goods from the warehouse in the EU. This signal includes information on the nature of the goods, transport details and any associated documents such as invoices and packing lists. This may be used to provide advanced notice to the planned UK Port of Entry providing authorities with a rich data set to support advanced risk assessments and intervention planning.
HEALTH TESTS – The poultry supply chain is subject to legally specified testing for Salmonella. The iDTC is able to capture such in-market test results and publish the results via the Cabinet Office. This provides insights into the quality and health status of the associated supply chain.
JOURNEY – Key transport events are collected on the iDTC to further monitor and verify the integrity of the supply chain. These journey signals currently include date, time and place of dispatch, and are being extended to include port of exit, port of entry dates and times. Additional journey events such as environment temperature monitoring may also be captured in similar ways.

Benefits for Government Border Agencies and Port Operators will include:-

Security
“I am able to access Safety & Security Declarations (SSD) to identify consignments of interest. Using iDTC I am able to search additional associated supply chain information to corroborate information on the SSD and deepen my risk evaluation. For example, I can see the original Commercial Invoice to confirm which organisation provided the goods, and I can see all journey details to verify against the declarations."

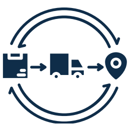
Health & Safety
"The iDTC is currently building interfaces into Port inventory systems which will enable - "I can use the Port Inventory System (CSP) to see which consignments are scheduled to arrive into my port. Using the CSP system I can 'click through' to the iDTC and access more comprehensive information about the consignments which are of interest to me. This greatly reduces the potential for delays by supporting more accurate intervention decisions"

HMRC
"I can find supply chain documentation such as commercial invoices to review against declarations including confirming origin and preferential tariff claims without delaying the entry clearance"

There are also obvious cost saving benefits to the supply chain

Predictability
"I know where my vehicles are at any one time and able to identify and react quickly to any delays."

Information
"If one of my vehicles is called for inspection I know the driver can show digital copies of the supply chain and declaration documents, ensuring they are not held up due to missing documentation." *[The introduction of the recent Electronic Trade Documents Act paves the way for acceptance of digital documents]*



Supply Chain Visibility
"With access to iDTC I can find out when my order has actually left the warehouse and what its estimated time of arrival will be. If it is delayed at a port or misses a ferry crossing I can be alerted and prepare contingency plans for the delayed stock."

Reduced Spoilage/waste
"I ship fresh food products so any delays at Ports of entry could spoil the whole consignment costing me thousands of pounds. iDTC ensures any required documents are always available for inspection to help minimise any potential delays."

Benefits for Government Border Operations

The pilots delivered a range of technology and business process innovations designed to show how the border operating model can be improved, covering different trade routes, commodities and customs procedures. In terms of change to the border operating model, three critical features emerged:

- Innovative technologies are required to assure Government Departments that transport is secure and can be monitored throughout the goods journey.
- Trusted Trader schemes are essential to simplify border processes and reduce the need for transaction-based controls at the border.
- Accessing and capturing supply chain data through technology channels to allow this data to be shared with Government Departments will enable better compliance with legislation and more risk-based interventions at the border.

Each of these components supports Government objectives on both trade facilitation and compliance/law enforcement. Overall, the Cabinet Office evaluation of the pilots found:

- There are benefits to the Government that come from access to supply chain data, resulting in better targeting and improved decision-making, which in turn reduces the number of checks required at the border. Supply chain data improved the UKBF targeting teams' confidence in their decision-making and showed a potential to decrease the time taken to make those decisions.
- The use of innovative technology improves the border experience.
- There is now a better understanding of interoperability between Government and Industry systems.
- Evidence to support the shift from transaction-based processing to better use of trusted trader schemes, eventually moving away from formatted declarations.
- That Departments do see the benefit of working as "One Government" at the border.
- The new operating models evaluated are not yet ready to replace declarations.
- Government cannot take full advantage of new data because the industry has yet to be incentivised to develop the appropriate technical infrastructure to make it available in the right (machine-readable) format at scale, and Government has not yet adequately determined the most effective ways to use or collect it.

Current processes at the border are in the main transactional and can be cumbersome for traders and Government Departments. At every stage of the cargo movement process, there is a requirement to provide information or to make checks to proceed to the next stage. Often traders (and those providing data on behalf of the trader) are required to submit the same or similar data to different entities within the Government; and be subjected to delays whilst physical checks are conducted (even for compliant traders).

Border processes can be costly, complex and time-consuming for the trader. These factors can lead to an incomplete or disjointed picture of border flow for Government Departments, leading to suboptimal risking and inefficient checks.

The border is an integral part of international trade supply chains and this means it is critical to use technology to exchange data in a secure environment to enable more efficient movement of goods. At the same time, better use of data by Government Departments will make the controls necessary to protect society from harm more effective. Building an operating model that includes improved supply chain management by traders and Government Departments is key to transforming the way in which goods are moved across the UK border.

The border industry's capability to share additional data with HMRC at potentially negligible cost to traders creates potential opportunities. HMRC would benefit from receiving additional data that increases its confidence in the classification, origin, destination and valuation of the goods. This links to HMRC's ambition to improve its risk management capabilities and intercept revenue fraud and/or illicit trade.

The importance of data and not replacing red tape with green tape

Data is the key to future trade development and growth. As a prominent trading Nation it is essential that UK takes a leading role in trade and customs digitalisation to foster safe, secure and resilient international trade growth.

A leading trend in international trade is Supply Chain Visibility (SCV). There is a strong need for increased SCV to provide resilience and predictability of increasingly integrated international supply and value chains. Disruptions to international trade in recent years resulting from trade wars, conflicts, protectionism, pandemics, and black swan incidents have caused ripple effects of delays, additional costs, and enormous challenges for international trade. The goods transport industry is already transforming itself to meet these challenges and to manage continued globalisation, constantly adapting to changing international production patterns and new consumer behaviours.

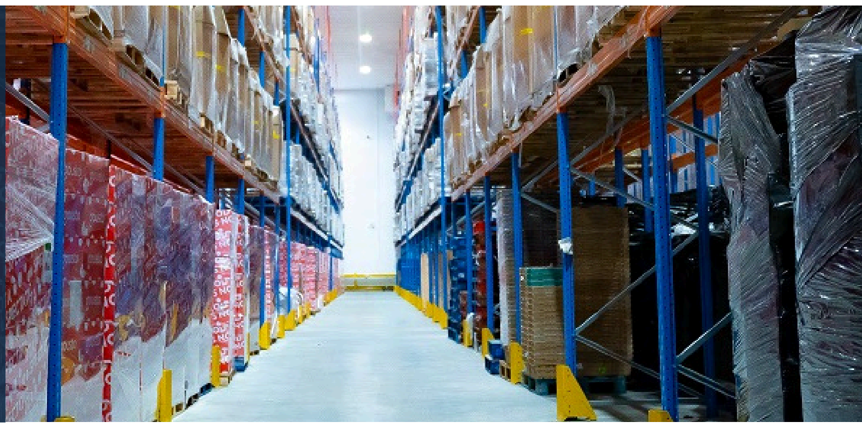
Disruption to trade flows has been the driver for an acceleration in trade digitalisation. We are the first generation that can turn problems into opportunities through technology and data handling. Initiatives such as the UK Electronic Trade Documents Act and the introduction of key data elements like the eBill of Lading (eBL) are driving this trend.

We are at the beginning of a paradigm shift towards digital trade, Global Trade 2.0. We are already seeing the use of big data, machine learning, and artificial intelligence in the management of international supply and value chains. These are trends that will accelerate in the coming years. As trade data becomes more digital, it is important to re-engineer trade process before attempting to digitise it. A huge opportunity will be missed if the process merely turns a poor procedure in to a digital one. Many trade documents currently in use are obsolete in the digital age and should be eliminated rather than digitised. This will make trade simpler and more efficient for all stakeholders.

The international transport industry is already collecting data directly from sources across all stages of global supply chains. The data is validated, refined, analysed, used and re-used throughout the supply chain, providing consistent and compliant reporting. These commercial trade data pipelines are, in turn, shaping the foundations for Trusted Trade Lanes, Trusted Supply and Value Chains, and intelligent Digital Trade Corridors that involve all stakeholders.

The next step is connecting these commercial data pipelines and to government agencies to maximise the predictability and resilience of safe and secure supply chains.

> *Trade isn't about goods. Trade is about information. Goods sit in the warehouse until information moves them."*
>
> C. J. Cherryh



In the past, there have been doubts as to whether the private sector is willing to share more non-obligatory data with governments. There are however many examples today of how, with the right incentives and benefits in place, the safe and secure exchange of data is possible and encouraged.

Smart Containers provide 24/7 data on goods container parameters, including access history, temperature, movement, and humidity. These efficient track and trace systems offer real time supervision of goods and digital audibility. When these supervision systems are twinned with commercial supply chain visibility data from all stakeholders, a trust badge – a passport for goods – is created. This information could and should be voluntarily shared with government agencies to enhance the risk management process and access to simplifications before the border, at the border, and after crossing the border.

This also means that digital compliance records are being created by industry. It means there is the opportunity for automatically generated early warning signals to border agencies when something is wrong or 'looks a bit odd', creating a new environment for smart border application at UK borders and improving trade facilitation.

Voluntary access to supply chain visibility data creates a new paradigm for smarter risking at borders. As a result, borders become safer, more predictable, and more resilient. This means both big businesses and SMEs can engage in international trade at a lower cost, more competitively, and with a smaller carbon footprint.

Supply chain data is also needed to comply with new supply chain ESG regulations, including the US Forced Labour Act, the EU Supply Chain Due Diligence Act, the EU Carbon-Border Adjustment mechanism (CBAM), and the EU Deforestation Regulation. Similar regulations are also coming into force in other jurisdictions, including Canada, the United Kingdom, and Australia.

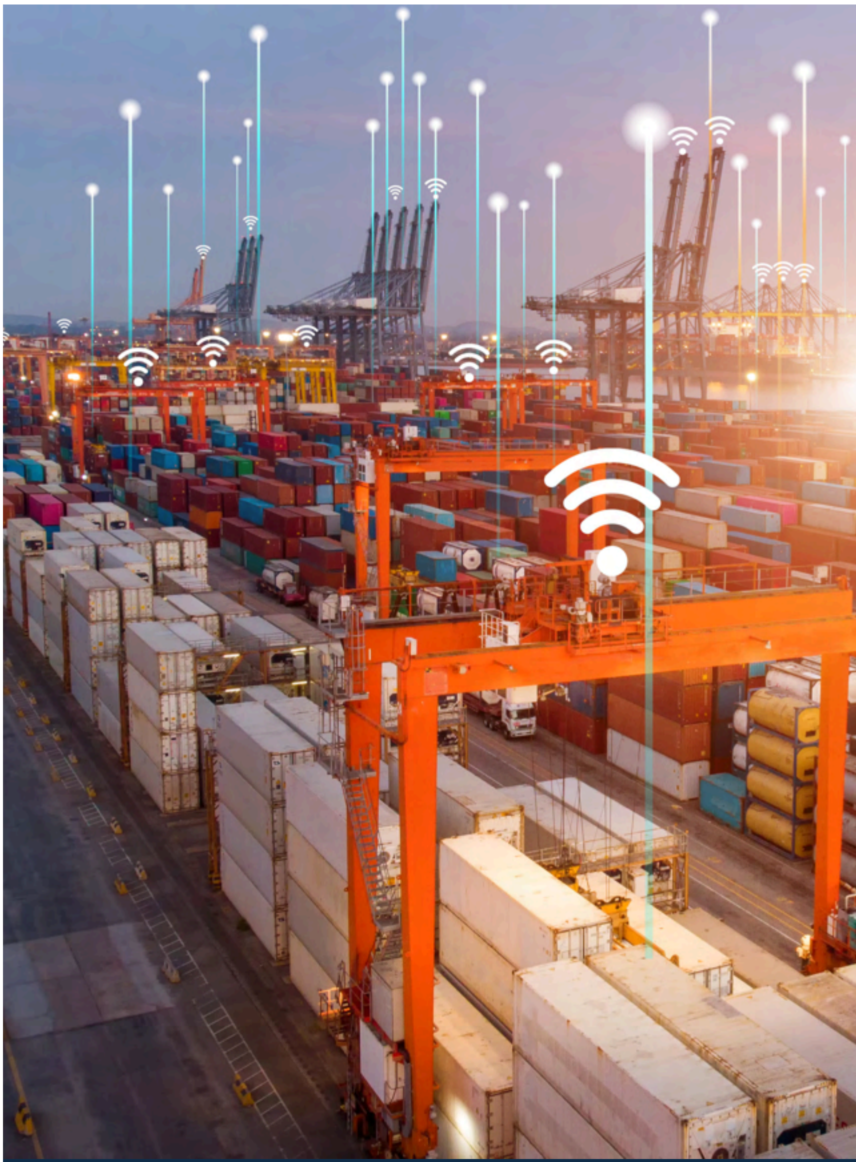
From a trade facilitation perspective, it is crucial that these new ESG regulations are designed and applied in a way that generates maximum ESG impact with minimum impact on international trade and the cost of doing business. If not designed and implemented correctly, these regulations risk becoming costly burdens on UK trade and even blockers for SMEs to export or be sub-contractors in production and international value chains. We do not want to replace red tape with green tape!

We need smarter systems to tackle important ESG challenges and trade can become a decisive factor if trade digitalisation is used as the bridge for business. Business can actively contribute to a better world through inclusive participation in growing international trade. This also means that a new tiered UK Trusted Trader programme should impact ESG reporting in a favourable. way. The UK government should actively seek mutual ESG recognition through technical agreements for authorised traders with documented systems in place with all major trading partners.

We need smart ESG trade solutions. This is possible and we still have time. The proposals in this report makes that possible.

If UK businesses are early adopters of trade facilitation compatible ESG regulations this can become an important differentiator for important markets such as the EU and US.

It is also clear that trade complexity is increasing as more regulations are introduced – this needs to be turned into a reset opportunity. If we do not facilitate smoother trade currently it will remove the option to mitigate some of the increased burden with positive enhancements elsewhere. ESG and other developments also create a catalyst for data standardisation and a requirement beyond making the border easier to negotiate. In short, rather than suggesting the trader does more in order to benefit from facilitations, the developments mean they will need to do more anyway and thus more useable data is more readily available for border functions.



Trade (especially with the EU) is getting harder

Customs and border processes are constantly changing. The world is constantly changing and this filters down to frontier processes. The emergence of e-commerce (turbo-charged by the COVID-19 pandemic) has forced the EU and others to review their duty-free thresholds. The EU has chosen to respond to climate change challenges by adding a significant burden to the regulatory process and adding tariffs, for example, the Carbon Border Adjustment Mechanism. Concerns about deforestation have led to the EUDR (EU Deforestation Regulation) All of these have the capacity to burden trade, lower GDP per capita and increase friction.

We recommend that our NI Regulatory Look Ahead tool be expanded to form an early warning system for traders and an action plan for process designers (such as the TFC). In particular, the EU pipeline of new regulation is very significant. An example of the EU pipeline elements is shown below and its wide scope is apparent:-

- EU Sustainable Packaging
- EU CBAM
- VET medicines issue from GB to NI
- EU Digital Passport
- EU Mercury Ban
- "Not for EU" Food Labelling
- NCTS phase 5
- Protected Geographical Indication (GPI)
- Fuel EU Maritime
- ViDA
- EU Small Business VAT Scheme
- NIMAR
- EU Deforestation regulation
- Product Safety and Metrology Bill
- EU 2024/785 BEVs from China
- Supermarket Grouping (Article 177)
- Marketing standards for Eggs
- Steel antidumping
- Import Control System 2
- EU migration regulations
- Products made with forced labour to be banned from EU single market
- EU-Framework for ensuring a secure and sustainable supply of critical raw materials
- EU Cosmetic Labelling Regulations
- EU-Maximum residue levels for bifenazate
- Proof of Union Status
- EU AI act
- EU Regulation over Digital Platforms
- EU Fluorinated greenhouse gases
- EU Binding Valuation Decisions (2024)
- EU Anti-Coercion Instrument
- EU protection of species of wild fauna and flora
- EU Customs Strategic Plan (MASP-C).

Options and regulations create confusion and require expertise. We created a matrix of the various options when dealing with the EU or NI – the complexity is obvious:-

Direction	Goods	HMRC Lane	SPS Lane	EAD	ENS	IMP	H8	EHC or PHYTO	TAD	IPAFFS	TRACES	BCP	DUTY	GMR	PBN or similar
GB to NI	Non-controlled	Red	-		✓	✓							Possible unless UKIMS	✓	
GB to NI	Controlled	Red	Red		✓	✓		✓			✓	✓	Possible unless UKIMS	✓	
GB to NI	Controlled	Red	Green		✓	✓		NIRMS			✓	✓	Possible unless UKIMS	✓	
GB to NI	Non-controlled	Green	-		✓		✓						UKIMS	✓	
GB to NI	Controlled	Green	Red		✓		✓	✓			✓	✓	UKIMS	✓	
GB to NI	Controlled	Green	Green		✓		✓	NIRMS			✓	✓	UKIMS	✓	
GB to NI via IE	Non-controlled	Red	-		✓ IE	✓			✓				Possible unless UKIMS	✓	✓
GB to NI via IE	Controlled	Red	Red		✓ IE	✓		✓	✓		✓	✓ IE	Possible unless UKIMS	✓	✓
GB to NI via IE	Non-controlled	Green	-		✓ IE		✓		✓				UKIMS	✓	✓
GB to NI via IE	Controlled	Green	Red		✓ IE		✓	✓	✓		✓	✓ IE	UKIMS	✓	✓
NI to GB	Non-controlled	-	-										-		
NI to GB	Licensable	-	-	✓									-	✓	
NI to GB via IE	NI qualifying	Green	Green	✓									-	✓	✓
NI to GB via IE	Non qualifying, non-controlled	-	-	✓	✓ GB	✓							Possible	✓	✓
NI to GB via IE	Non qualifying Controlled	-	-	✓	✓ GB	✓		✓		✓		✓ GB	Possible	✓	✓
GB to EU direct	Non-controlled	-	-	✓	✓ EU	✓							Possible	✓	✓
GB to EU direct	Controlled	-	-	✓	✓ EU	✓		✓			✓	✓	Possible	✓	✓
GB to EU indirect	Non-controlled	-	-	✓	✓ EU	✓			✓				Possible	✓	✓
GB to EU indirect	Controlled	-	-	✓	✓ EU	✓		✓	✓		✓	✓	Possible	✓	✓
EU to GB	Non-controlled	-	-	✓	Oct24	✓							Possible	✓	✓
EU to GB	Controlled	-	-	✓	Oct24	✓		✓		✓		✓	Possible	✓	✓

BLUE = available through TSS

Note : GB-EU-GB added for comparison purposes only. GB-EU direct is where the arrival Member State is the same as the destination (ie GB to IE). Indirect is where the arrival Member Sate and destination is different, ie GB to DE via FR.

Further complexity is created by the applied rules of origin, according to the trade deal being accessed and the cumulation rules agreed.

A simple to understand, easy to apply set of origin rules would be preferred.

Rules of Origin, Cumulation and the PEM Convention

By joining the Revised PEM, the UK would not only increase the opportunity for exporting to these markets but also have identical rules of origin across 24 trade agreements which will reduce administration time and costs for UK businesses, that now have to read 24 different agreements with differing rules. Very often, they will use the worst case scenario to assess if their goods qualify for preference to reduce time and costs. This means often companies cut themselves out from taking advantage of a UK FTA.

Consideration should be given to the UK joining the newly revised Pan-Euro-Mediterranean Convention (PEM). At the time of EU exit, the UK decided not to stay within the PEM agreement, now known as the Classic PEM, as it would mean the UK would have to align to the EU trade agreement terms and conditions, 25 UK trade agreements, including the new agreement with the EU. Since 2020, the European Commission has been updating the PEM agreement with the first changes coming in from 1 September 2021, called the Transitional Rules. Alignment to the Transitional Rules was staggered with Bosnia and Herzegovina and Ukraine not aligning until December 2023 and 4 countries remaining under the Classic PEM rules: they are Algeria, Morocco, Syria and Tunisia. At the end of December 2023, a new single PEM convention was adopted. All but one of the PEM member countries, Syria, have accepted the Revised PEM agreement which comes into effect from 1 January 2025.

These changes within the revised PEM means that it is a single agreement now so it is easier to control, update and bring new members on board. There is no requirement to amend existing trade agreements to harmonise individual agreements. In essence, the UK could retain the current trade agreement with countries such Türkiye and Morocco as well as join the PEM Convention. This would be similar to the way the UK has joined the CPTPP and yet retains individual FTAs with, for example, Australia and Japan. The Revised PEM also brings the agreement closer to certain areas of the UK-EU TCA in that for a majority of goods, the non-originating material content allowable has been increased from 40% to 50%, full cumulation has been included across all PEM signatory countries, duty drawback is now permitted for most goods and direct transport rules have been replaced by non-manipulation rules with transit and storage permitted in any of the PEM countries without the loss of preferential origin.

Members of the Revised PEM, all but Algeria have an existing trade agreement with the UK, but cumulation of origin rules vary. By joining the Revised PEM, the UK would not only increase the opportunity for exporting to these markets, but also have identical rules of origin across 24 trade agreements which will reduce administration time and costs. Plus it will open up the countries from which UK manufacturers can source goods while still be able to utilise the trade agreement.

Albania	Algeria	Bosnia & Herzegovina	Egypt
European Union	Faroe Islands	Georgia	Iceland
Israel	Jordan	Kosovo	Lebanon
Liechtenstein	Moldova	Montenegro	Morocco
North Macedonia	Norway	Palestine	Serbia
Switzerland	Tunisia	Türkiye	Ukraine

Data not declarations : Customs simplifications

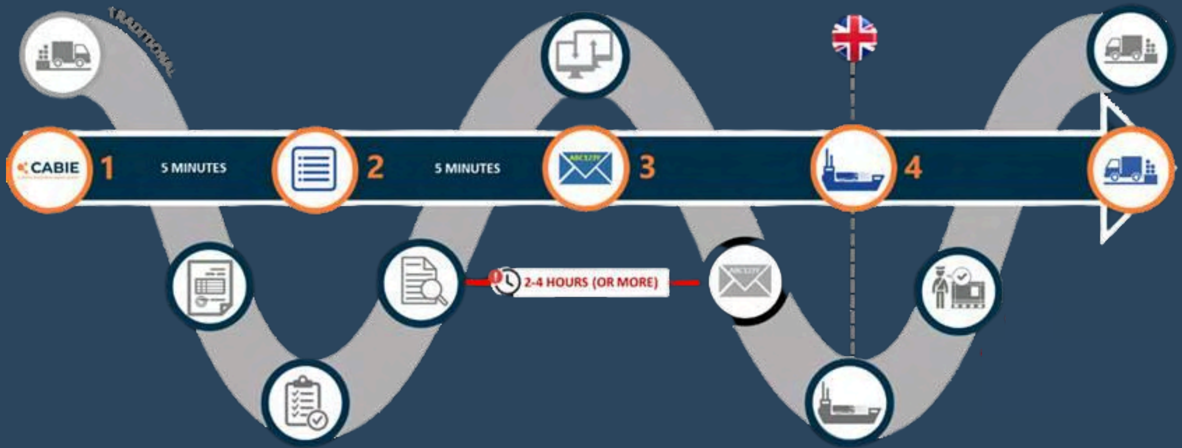
The UK post-Brexit Case Study

In the build-up to BREXIT, as traders grappled with the new requirements and the sudden need for customs paperwork for traders that previously had no exposure to these processes, saw many traders, turn to Trusted Trader status as a way to reduce the immediate risk of BREXIT to their business. We argued then that the current UK AEO process had no practical advantage on the ground. The more beneficial approval was (and to many, still is) SCDP (Simplified Customs Declaration Procedure, formally known as CFSP, Customs Freight Simplified Procedure). The trusted trader programme needs to expand on this concept, particularly for fast moving, repetitive, European trucking flows.

SCDP comes in two shapes/sizes :-

- SDP – Simplified Declaration Procedure which required a simplified frontier declaration (SFD) to initiate the process and a supplementary declaration to close it off.
- EIDR – Entry in declarants records requires no formal customs entry at the frontier, just a record in the trader's (or approved persons) system followed by a supplementary declaration after the event.

In both cases, if so approved, the supplementary declaration can be aggregated for repetitive flows in the same period, thus avoiding the need for a declaration for each transaction, instead having an aggregated return at the end of the period. The period is either a prescribed 10 day block or a full calendar month, depending on the level of trust and type of approval granted. Controlled goods (weapons, nuclear material etc) and goods with controls (SPS goods for example) are not eligible for full EIDR treatment. At least an SFD is required at the frontier.



So, taking non-controlled goods (ie widgets from Belgium), flowing at the inbound rate of say two trucks per day, using EIDR this would only require one declaration for 10 days, containing the load details of all twenty trucks. Instead, what tends to happen is that the customs broker completes one declaration per truck and charges roughly £40 for the work done. 20 trucks creates a customs clearance cost of £800 when it could be less than £100. Clearly wider use of SCDP is required.

The broker community have not made as much use of SCDP as they might, as they tend to see it as a threat to the status quo of doing full frontier declarations. On the contrary, the flows from GB to NI, supported by Trader Support Service (TSS) are predominantly using SCDP and whilst it may create post movement administrative functions it allows goods to flow smoothly and actually makes the supply chain more predictable whilst, at the same time, creating more time for compliance without delaying the truck or goods. Critically this removes pressure from the frontier.

Better use of simplifications removes the dependence on declarations and also shifts the commercial model. Currently the customs clearance charge for one pallet of widgets is the same as 33 pallets of widgets (assuming on one truck). This stifles growth. Using simplifications and particularly aggregation means customs handling charges can be more closely aligned to the quantity shipped. Customs brokerage fees based on a per pallet or per 100kilo rate should be the norm.


CFSP

AN IMPORTING TODAY SUPPLEMENT PRODUCED IN ASSOCIATION WITH HM CUSTOMS AND EXCISE

CFSP stands for Customs Freight Simplified Procedures. If you import goods from outside the EU, then you need to know about this initiative.

Preparing for the 21st century

INSIDE

Your questions answered

There is evidence that there are some changes to the groupage model as a result of new processes. We understand that groupage movements have shifted to once or twice per week as opposed to the daily pre-Brexit norm for EU to UK-movements. One particular operator reported that pre-BREXIT the average consignment was 700 kilos, now it is 3,500 kilos as traders ship more quantity less often in order to minimise costs. One pallet per day for 5 days would invoice 5 full customs entries using the traditional broker model, whereas with simplifications it could be one entry at the end of the week covering the entire 5 pallets.

SCDP (or CFSP as it was previously known) is not new. It was created in 1994 and is perfect for fast-moving European goods – yet many traders still insist on full single declarations per truck, largely because consultants and brokers tend to favour the status quo.

Many traders confuse SCDP with the deferred entry scheme which was originally used in 2021 to ease the BREXIT transition. When it ended in 2022 traders were confused about whether it still existed as a facilitation.

SCDP is an extremely useful tool for simplifying GB imports, particularly for non-controlled goods and particularly for repetitive flows but the benefits offered by SCDP for imports are not readily available for GB exports.

As it stands today, it is still easier to import into GB than export from GB and that cannot be good for the UK exporters and the UK economy.

GB export declarations (and transits)

Presenting one (retrospective) import declaration for multiple inbound truck movements is clearly an efficient and cost-effective way to meet one's customs and compliance obligations. Not being able to do so for GB exports creates cost, time pressure, additional process and damages the desire for predictable flows. Since leaving the EU it is already more difficult to import GB goods into the EU, there is absolutely no sense in also making it harder to actually send the goods in the first place, by perhaps unnecessarily complicating the initial export process.

The export declaration is mostly for trade statistics and VAT controls – exports are zero-rated for VAT and the export declaration is the proof that the goods left the UK. This does not have to be at transaction (truck) level and could easily be handled as with EIDR for GB imports, including the need for a more formal declaration in the event that controlled goods are involved (such as dual use, restricted and/or goods subject to export licence control), but only then.

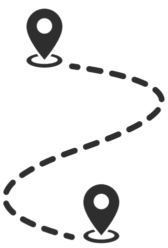
It is worth noting that HMRC SCDP approval at trader or intermediary level is per product type, a trader for example could be approved for simplifications for product A but not product B – thus the framework of a tiered or layered trust trader status has already formed elsewhere and could be incorporated into a modern TT programme.

In identifying processes that could be simplified (or digitised), one must first challenge the need for the process at all. The GB export declaration is clearly one of those cases where the very need for a single, transactional declaration needs to be challenged, tested and alternatives modelled. It simply cannot be easier for a GB trader to receive goods than it is to send them.

Proof of delivery rather than proof of exit. The same challenges existed with EU acquisition VAT reverse charge so are not new.

This also leads to the transit declaration. Another, unpredictable, and unnecessarily complicated process that could so easily be streamlined, as it is in Holland. Currently and in most cases, the transit declaration is framed up by the customs broker but cannot be issued as it must first be presented at an Office of Departure or similarly approved place. This creates a weak system that requires trucks to divert and drivers to rely on Local Reference Numbers (LRN's) issued by up-country agents, matching the record at the Office of Departure so the full transit declaration can be authenticated and issued. If problems occur they are invariably outside of normal office hours.

HMRC declaration process already includes risk profiling. In simple terms, for example, an import entry is routed in three main ways:-



Route 1 – additional paperwork check required prior to full clearance

Route 2 – physical examination of the goods required prior to full clearance

Route 6 – instant clearance, no need for documentation or physical checks

Roughly 85% clear route 6 but there is always the option to apply more controls should HMRC or other agencies so decide.

The same principle should be applied to transit documents. The broker should be able to create the transit and transmit it to the NCTS5 system (the central transit processing system). If low risk it achieves route 6 status and is immediately authenticated ready for release and without the truck or driver having to change their journey.

Transit route 1 would require a document check prior to authentication. This could take place virtually or require the truck to exceptionally report to the nearest IBF (Inland Border Facility) for further processing (as happens today with nearly all transits, regardless of risk profiling).

If the goods are selected for physical examination they should report directly to the nearest IBF and the transit only issued once the examination has taken place and HMRC are happy to proceed.

This, risk based, process will avoid queues at IBF's and surrounding areas yet still have the ability to scrutinise certain loads as and when required.

Northern Ireland and The Windsor Framework

The Government has confirmed their commitment to support the Windsor Framework. In terms of freight, the key benefits of the WF were originally listed as:-

1. No need for full customs paperwork for internal market (not at-risk) movements
2. No need for commodity codes for internal market movements (although the EU press release on the same day confirmed that they would be required)
3. Ability to use and upload normal commercial documents rather than customs border declarations

Obviously there were strong political motivations driving these objectives and particularly the need for the UK internal market's integrity to be properly preserved.

However, the objectives of the WF are significantly weakened by other requirements. We are NOT referring to SPS controls and the ill-conceived suggestion that closer regulatory alignment will fix everything but rather to the continued requirement for the ENS (safety and security declaration), even for internal market movements. This is made worse by the EU upgrading to ICS2, which requires at least a six-digit HS code (commodity code) on the declaration when one of the WF benefits was clearly to remove the need for commodity codes.

Rather than trying to solve SPS issues (which could be better fixed by expanding NIRMS (Northern Ireland Retails Movement Scheme)) by forfeiting our own regulatory autonomy, the time would be far better spent approaching the EU and challenging why an ENS is required for internal market movements (NI is in the UK customs territory, albeit applying EU customs rules in some but not all cases). Removing the need for ENS (except for the 'red' lane) would be a major advantage to trade and particularly the carriers who otherwise see no benefit from the WF proposals and are suggesting higher fees for the WF 'express lane' since they could be required to do more work in the process flow, or at least more pre-shipment than they do now.

Agreeing to continue with the ENS for internal movements needs to be urgently addressed – more so than SPS concerns.

There is also significant scope for an iDTC approach on GB-NI flows and this would further support the removal of the ENS for internal movements since supply chain data would be available any way.

VAT as the control mechanism

TUV MP, Jim Allister has recently repeated a call for a "mutual enforcement" approach to avoid any controls on the Irish Sea (instead placing them firmly on the island of Ireland). The challenge with this approach is that free circulation exists on the island of Ireland, and as long as it does some control mechanism is needed on the GB-NI boundary in order to determine which goods remain in the UK internal market and which do not. This is complicated by the volume of trade from GB to the island of Ireland which cannot benefit from the free trade agreement between the UK and EU (the "TCA") because they do not satisfy the TCA rules of origin.

The Revenue Commissioners in Ireland report that customs duty receipts last year were over £ 600 million (up from £270m pre-BREXIT), they also handled in excess of 50 million declarations compared to 1.8m pre-BREXIT). Clearly, there is a lot of trade shipping directly from GB to IE and a significant proportion of this trade does NOT qualify for duty-free admission under the TCA (UK-EU Trade Cooperation Agreement). The figures do not include GB-NI at risk movements which are essentially the same as an EU import entry presented in Ireland. The duty receipts on 'at risk' movements entered in NI and, potentially, destined for IE stand at ~£50million although this figure is significantly lower than expected as currently possible to handle duty via a de minimis scheme (NIAID).£50m is the duty paid excluding the duty offset against state aid. Given the fiscal position, the implications of allowing goods from GB to enter the Irish market because of a lack of control mechanism on the boundary is severe (for the EU).

Without such a control mechanism, the level of trust required from both parties would be higher than any other two markets (including the NZ-Australia Mutual Recognition Agreement). It is unlikely that the EU and UK would have that type of relationship for a very long time, if ever. A process without a control mechanism is not a process at all.

We have explored alternatives and there is a control mechanism which could be used for VATable goods. You could use the generation of a VAT requirement (which would occur if goods flow into IE) to trigger a customs requirement if HMRC VAT and customs functions were linked. This would allow a control point which could be used to generate a customs requirement for goods moving to IE. Such a control mechanism would not work if goods are zero rated or subject to processing and could not be used to monitor compliance with EU SPS rules which would need to continue to use the control mechanism at the boundary which currently exists.

However, the underlying driver of the proposal is that GB to NI trade should be able to flow as it would in the rest of the UK and only becomes a 'problem' if and when it is destined for the EU and specifically the Republic of Ireland... without the need for border control points or any other tangible restriction. This can be more effectively established by building on the Windsor Framework and by creating a tiered trusted trader mechanism consisting of a UKIMS ++ layer where traders have specific and real time knowledge about the movement of their goods. This could be accomplished for some traders using concepts like the intelligent Digital Trade Corridor discussed herein.

Some historical support can be found for this VAT control as in 1993 when EU customs paperwork effectively came to an end, it was the change to VAT controls that allowed that change.A large part of the customs process concerns cross-border VAT, ironically less so in NI when actually it could solve (a large part of) the immediate problem.

How does one differentiate between internal market trade and UK-EU trade and at what stage does that control cease to exist? VAT controls cover both of these aspects, for a large proportion of goods at least.

Mechanics of a VAT Control Mechanism

Trade between GB and NI is VATable as a domestic movement. Trade between GB and IE is zero rated at export and positive rated at import (which is either paid at importation or accounted for using postponed accounting and handling the VAT on the trader's next VAT return).

Trade between EU member states (and include NI here) is managed through a process known as Acquisition VAT reverse charge. Both parties must be VAT registered, both parties are then obligated to account for the VAT on their next return. The seller does not charge VAT but rather quotes the VAT number of the buyer, who is then obligated to account for the VAT on their next return.The buyer's VAT number must be valid and the onus is on the seller to confirm this – using the EU VAT verification system known as VIES.

Additional statistical data is provided monthly via a process known as INTRASTAT which gives origin and commodity code information and greater detail without being at the level of detail normally associated with a customs entry (even a simplified one such as the H8).

So, using VAT as the control mechanism would 'remove' the need for a 'border' process and could be summarised as per the table below:-

1	GB : NI	Seller charges UK (domestic) VAT. Movement is controlled by VAT returns from sender and buyer. Seller records output, buyer shows input. Add Retrospective INTRASTAT as a second level control. No formal import declaration required.
2	GB : IE	Seller zero rates VAT as export. Importer accounts for VAT on import entry.
3	NI : NI	Seller charges UK (domestic) VAT. Movement is controlled by VAT returns from sender and buyer. Seller records output, buyer shows input. No customs declaration required.
4	NI : IE	NI seller does not charge VAT but uses the reverse charge VAT rules. Quotes IE buyer's IE VAT number having verified it on VIES. NI seller accounts for VAT in next returN as an EU sales, IE accounts also account for VAT on the next return. This would trigger the potential need for a customs declaration which can be An 'at risk' entry in NI.

In summary: GB to NI involves VAT. NI to NI involves VAT. Wherever VAT is present a customs entry is not required (although intrastat could be used for more comfort). NI to IE involves reverse charge VAT and therefore requires an entry or further information at least.

- VAT : no other paperwork, aside from intrastat perhaps
- No VAT (acquisition VAT reverse charge) : customs entry required*
- No VAT (export) : export declaration required.

These transactions would be very visible in the trader's VAT records and it would be easy to control, in fact this control could be way beyond the first movement and could actually cover all trade between NI and IE generally. So, in essence, using VAT as a control covers all NI to IE trade even the flows that did not pass through GB initially.

This creates a catch-all (providing VAT involved) process that makes it easer to highlight WF flows and also captures other flows beyond those currently controlled by the WF process.

**When acquisition VAT reverse charge is used it would trigger a requirement for a customs declaration or proof that no declaration is required, ie goods originated in NI*

How ready are traders generally and how can we help them?

The context for the Government's transformation of the UK border operating model has come from ongoing demands from the border industry (freight forwarders, customs agents, express operators, software developers, road hauliers, carriers and community system providers) and of course, from the UK leaving the EU.

As the pressure of the post-Brexit transition subsides and the new border operating model beds in, we need to ask the question what next? We know the border industry demands:

- Planning certainty
- Early consultation and communication on changes to the operating environment
- Removal of overly complex laws, policies, procedures and processes
- A single interface with Government at the border
- More digital solutions
- No interruption to legitimate business
- Easing business burden through the avoidance of duplication across Border Agencies
- The facilitation of trade with new partners
- Reduction in the costs to be compliant with the government regulations.

Over 3 years, since 2021, we have looked at how businesses experience the border as a process rather than a line on the map. We surveyed 300 businesses about their experience, assessed the most recent trade statistics and interviewed select decision-makers in depth about their experience of trade with the UK.

In 2023, we found:

- Businesses have added 10 days to their maximum estimated delivery time across all UK international supply chains. Not all of this will be due to border delays but a significant proportion is:
  - 40% link extended delivery times to difficulties moving across the UK border
  - Businesses importing from the EU to the UK (where the border is newest) were nearly twice as likely to report increased delivery times than those importing from the rest of the world (58% vs 30%)
  - Businesses that export to the EU were also significantly more likely to report increased delivery times (54% vs 33%).
- Overall experience has improved since 2021: 54% experienced delays, against 58% in 2022 and 83% in 2021. But this is because
  - Traders are adapting: half have increased delivery times (down from 59% in 2022 and 70% in 2021), 39% hired staff and purchased software, and 44% increased inventory
  - Traders are growing more confident in themselves: 60% described are very confident in trading with the EU, versus 53% in 2021
  - Traders are more confident in advice from UK government sources: 48% expressed confidence in 2023 versus 40% in 2021. Logistics providers remain the most trusted at 60%.
- There is little evidence the border itself is improving: the same number cited the UK border as the reason for longer delivery times in 2023 as in 2021 (41%).

We can now see a clear pattern in how businesses prepare for changes to a border regime. While our survey started too late (2021) to pick up the early preparations for Brexit, our data does capture some of the 'in-flight' changes that respondents reported as they adjusted to a UK/EU trade border. We also capture preparations for the introduction of the UK's full import regime in 2024.

- Businesses were aware of changes in both cases: only 12% knew nothing about 2024 UK import changes
- The most common responses to new rules in both cases were:
  - About ⅓ increased inventory
  - About ⅓ increased delivery times
  - About ⅓ invested in staff and training
  - About ¼ did nothing

Traders only adapt to change when they have to. Larger businesses can invest in staff and processes but smaller businesses cannot. A significant proportion ignore the problem, stop trading or hope to wing it.

Any effort to support traders must do 2 things:

1. Consider the border process as they experience it
2. Materially improve the cost/benefit equation vs the existing process.

Support for traders should consider that the border is simply a source of risk for a business. It is a step in the supply that businesses cannot control. It therefore adds cost and time no matter how good the process. Support should therefore focus on:

1. Simplifying information requirements by, for example:
   a. Sharing data between government departments to reduce requests
   b. Facilitating early/in-flight checks and error correction
2. Minimising the number of touch points with supply chains by, for example,
   a. combining import and export controls where possible (eg juxtaposed immigration controls at Dover/Calais)
   b. Coordinating checks between agencies at the border Incentivising compliant behaviour, for example: Clearer guidance
   c. Trust schemes

Furthermore, a recent report by Deloitte entitled 'Attitudes to Trade' had the following headlines:-

- A majority (54%) of respondents view the government's FTA programme as beneficial to their business - an increase of 12% on last year's survey.
- Businesses are positive about the major new FTA opportunities, such as with India, the GCC and CPTPP, and consider them more favourably than at the time of our last survey.
- Around half of survey respondents believe that the new FTAs in force with Australia and New Zealand could be beneficial to their businesses.
- Almost three quarters of survey respondents were aware of the MoU programme with US states, with 61% stating they could prove beneficial for their business.
- Over half of respondents (54%) are experiencing or anticipate experiencing greater competition from cheaper imports as a result of the UK's FTA programme.
- Two thirds of businesses represented in the survey ensure they are always claiming the correct rate of duty available under FTAs, with a third of respondents stating that their business does not always ensure they are paying the correct [duty] amount and may therefore be overpaying. It is possible that some businesses could be suffering from resource or knowledge scarcity in the mitigation or recovery of duties, or in complying with rules of origin.

When you consider ESG requirements, CBAM, de-forestation, EU Customs reforms and all of the other elements in the regulatory pipeline it is clear that trade, if anything, is getting harder. Action is required now to even maintain the status quo – but it also offers the opportunity to reset and design a modern future proof border. The TFC is available to assist in that process and has the practical experience to make that as effective as it can be.

Steps the UK could take to lead the way

It is important to review the status of the UK Border Strategy, in terms of its delivery progress to date as well as what can be done to accelerate the progress of major programmes such as the STW; and the transition towards EcoSystem of Trust operating models. It is also appropriate to look at the Strategy's level of ambition, four years since it was published.

There are a number of strategic shifts that have yet to be delivered in full and yet would improve the border experience for traders, whilst at the same time support Government security and efficiency objectives, including:

- Tailoring services for individual customers rather than systems applied to customer segments; reducing cost to business; and cross-border integration to promote economic growth.
- The introduction of more sophisticated analytics-based risk targeting; moving physical checks at the border to digital/physical checks along the trade journey; and extending tiered trusted trader schemes across supply chains to facilitate trade and improve national security.
- A move to self-assessment of customs duty and tax; self-serve and flexible payment options to collect and protect revenue.
- The creation of efficiencies for Government by moving a multi-agency landscape to a single interface with the border industry; increasing partnerships with the border industry; and simplifying operations using automation where appropriate.
- A simplified and coherent approach to Government authorisations, notifications and permissions. HMRC is looking at how it can rationalise over forty customs authorisations and this needs to be extended cross Government Departments.
- Government Departments being able to access commercial supply chains to enable better use of data for declaration and compliance purposes. This will provide Departments with the assurance required to build the confidence that new trade facilitation measures will not compromise compliance or border security.
- The use of innovative technologies that enable secure monitoring of goods movements, which in turn reduce the need for physical interventions at the border that cause delay and create business cost.
- Improved risk analytics (systems and data) to support better intelligence and targeting that means more precise Government interventions in commercial supply chains and less interruption to legitimate goods movements.
- Delivery of the STW and connections with other countries, creating digital trade corridors that reduce cost to trade and maintain border security.
- The legal frameworks to enable sharing of data between Government Departments and with the border industry.
- A "one government" approach to border policies, strategies, systems, procedures and processes, preferably led by a single Border Minister.

The UK has the opportunity to lead the world in terms of trade facilitation, border design and data management. That opportunity is now and the longer one ponders the possible (or lets perfect get in the way of good) the more obvious it will be that the UK is not where it should be and certainly not leading the way.

Core Recommendations

- Where it can, the UK should negotiate mutual recognition agreements with key partners not just at conformity assessment, and market surveillance levels but also with respect to underlying product regulation.
- Where this is not possible, it should consider unilateral recognition of trusted partners' standards such as initially the US, EU and Japan, as it has already done for medicines. This can take out a lot of complication regarding border processes.
- The UK should design, develop, and implement a new national digital tiered Trusted Trader Programme (TTP). This program should incorporate existing sub-programmes into a one-stop-shop for trade facilitation providing simplifications for low-risk traders, while improving border management, border controls, safety, and security.
- Apply trade facilitation simplifications at borders enabled by a national digital tiered TTP, in combination with improved resilience and predictability, this will increase compliance, reduce cost for business and increase UK exports, especially for SMEs.
- We recommend to use the establishment of Trusted Trade Lanes (TTL), Trusted Supply and Value Chains, and interconnected intelligent Digital Trade Corridors (iDTC). Early adoption and leadership in digital trade, together with the implementation of Smart Borders and Trusted Trade Lanes, will give the UK a leading position in international trade, will increase UK exports, generating jobs and significantly support the economic growth strategy.
- We recommend that the UK adopts a Smart Border strategy and transforms border management into an intelligent digital border before 2030. The trade facilitation benefits of Smart Borders will have a considerable positive impact on the UK economy. This includes genuine One Government at the Border approaches and a single Minister in charge of the border in all its aspects. We therefore recommend continuing with the STW programme but making it much more trader focused and linked to digital trade corridors focussing on data ingestion rather than the creation of declarations.
- We recommend the UK join the PEM Convention to ensure supply chains involving PEM countries like Morocco and their supply chains through the EU and including the UK are protected.

We do NOT recommend

- We DO NOT recommend agreeing a veterinary/SPS agreement with the EU unless it is a NZ style mutual recognition agreement.
- We DO NOT recommend applying mutual enforcement as a solution to the challenges to the GB-NI boundary.
- We DO NOT recommend the UK seeking to be part of the EU's safety and security zone.
- We DO NOT recommend giving up full control of your regulatory rulebook.

Additional Recommendations

- We recommend that UK government seizes the opportunity to achieve high-levels of ESG compliance with minimum cost to business through trade digitalisation in combination with a Trusted Trader Programme. This will make ESG a differentiator for UK businesses instead of a trade barrier. There is an opportunity to use the data, not just for ESG compliance but as a support for supply chain mapping and visibility.
- Avoid digitising any process without first reviewing, updating and amending it.
- Learn from the GB-NI experiences and the positive effects of close collaboration and joint design to achieve multiple objectives.
- Embrace the importance of trade openness and the positive effect it can have on economic growth. Prioritise trade facilitation and challenge any cumbersome, out-dated or overly-complicated process that hinders its progress.
- Avoid looking at any one trade deal / relationship in isolation. There is nearly always a ripple effect, for example, a quick fix as part of an EU reset could seriously damage the good work done in forming new trade relationships or maintaining their effectiveness.
- Consider resurrecting the OG@B programme to bring together the various agencies and departments to form One Government at the Border.
- Move away from transaction based declarations in favour of enhanced tiered truster trader schemes and the efficient use of supply chain data.
- Re-visit the UK AEO programme so the benefits are also at the border and not just the back-office. Make the scheme more beneficial to traders as part of the trusted trader evaluation and accreditation approach.
- Explore the use of SPS trusted trader schemes using product and trader dimensions which are able to react to health scares as and when they arise, whilst maintaining a trusted trader programme across various product types.
- Align SPS risk categories to 10 digit UK commodity codes, so the risk is clearly defined by the product classification rather than by supporting text, not always well understood by foreign exporters (or UK importers).
- Widen the scope of the Accredited Trusted Trader Scheme to include authorised logistics hubs, thereby creating inland BCP's.
- Explore better use of the UK commodity codes to remove areas of uncertainty such as the SPS risk categories mentioned above and VAT rate conflicts when a classification could be standard or zero rated.
- Improve the use of customs simplifications such as SCDP EIDR to reduce the dependence on declarations and consider widening the scope to export EIDR.
- Re-visit the authorised consignor/consignee process for transits so the truck and goods do not have to divert to a customs station unless specifically required to do so.
- Develop the existing BCP/IBF locations (including Holyhead) into full freight stations, capable of handling cargo and including truck and driver facilities and a central control point to assist visitors and up-country agents.
- Provide targeted support for UK firms that have exported and no longer do so and to those firms who manufacture in the UK and have perhaps never exported.
- Maintain a regulatory look-ahead tool to prepare traders, agents and border agencies in advance of new legislation (UK and foreign) that will impact trade flows or alter the requirements.
- Windsor framework : concentrate on the internal market movements and simplify these further by removing the need for a safety and security declaration for such movements so that the WF benefits are there for the carrier as well as the trader.
- Windsor framework : explore alternatives such as using the domestic, cross-border and intra-EU VAT rules as the control mechanism to reduce the need for a proportion of the existing controls.

About the Trade Facilitation Commission

The Trade Facilitation Commission is an independent group of leading customs, border and trade policy experts covering the movement of goods and people. Many of the TFC have served in senior positions in government in the UK, Europe and USA.

The group has been convened under the Chairmanship of former Treasury Minister, Lord Agnew to advise the incoming government on the policy options and recommendations available to it to increase UK exports and lessen trade disruptions at the UK border to enable goods to flow more easily.

Our economic modelling suggests that significant GDP per capita gains are possible if trade can be facilitated in the ways that we suggest. Furthermore, that trade openness has the single largest impact on GDP per capita and provides an achievable route to economic growth.

Authorship

This paper has been principally prepared by the entire Trade Facilitation Commission, who have given it their approval following due discussion and consideration.

LORD AGNEW
CHAIRMAN

Former Minister of State at the Cabinet Office (2020-2022) responsible for border readiness related to UK's exit from the European Union.

ROBERT HARDY
CO VICE CHAIRMAN

Founder and CEO of the EORI Group of companies, specialising in simplified customs processes. AIBF UK-Irish Business Person of the Year 2023 and 2024.

SHANKER SINGHAM
CO VICE CHAIRMAN

One of the World's leading experts on international trade, competition and regulatory reform. Co-Chair of the Growth Commission.

About the Commissioners

LARS KARLSSON

Global Head of Trade and Customs at Maersk. Former Director of World Customs Organisation and Director General of Swedish customs.

SANDRA STRONG MBE

Managing Partner at Strong & Herd. Specialises in UK customs compliance and British exporting. Awarded an MBE for exceptional service to British exporters in 2023.

KEVIN FRANKLIN

Former Director of Customs Transformation at HMRC. Associate of the Cabinet Office infrastructure and projects authority.

ANA HINOJOSA

Former Federal Senior Executive Leader with over 34 years of experience in law enforcement, international trade, international policy development and standard setting.

CHRIS SALMON

Former senior advisor to Michael Gove MP on Brexit Border Readiness. Co-founder of clearBorder a firm specialising in trade training and readiness

AIDAN REILLY

Aidan Reilly is a retired former HMRC director. During his 33 years in HMRC he undertook many senior tax and customs policy roles. In his last five years he was the director of Custom Policy and Strategy.

TONY SMITH CBE

Former Director General of UK Border Force and Director of Borders Canada. Awarded a CBE for vital role in delivering 2012 London Olympics. Chairman of IBMATA (Int Border Management and Technologies Association).

DAVID GLEDHILL

Former senior Executive at three of the world's major Ports (Salalah, New York and Felixstowe) and led internationally significant investment projects in each of them.

FRANK DUNSMUIR

Leads the Digital Transformation team at IOE&IT, projects include Kenyan Single Trade Window, UK EcoSystem of Trust, Freeports as well as projects working with Europoort in the Netherlands.

KEVIN SHAKESPEARE

Director of Strategic Projects and International Development at IOE&IT (Institute of Export and International Trade). Dean of the UK Customs Academy.

Shaping the future of customs simplifications and border processes to enhance trade efficiency

GLOSSARY OF TERMS

ABF		Australian Border Force
ABP	Animal By-Products	ABPs are animal carcasses, parts of animals, or other materials which come from animals but are not meant for humans to eat.
ACMD Model	Anti-Competitive market distortions	Assessing market distortions that lessen competition
AEO	Authorised Economic Operator	Internationally recognised standard that shows a business's role in the international supply chain is secure as well as having compliant customs procedures and processes
APH	Ashford Port Health	Port Health Services provided by Ashford Borough Council at Sevington Inland Border Facility, designed in April 2024 as one of the biggest facilities in the UK
APHA	Animal Plan Health Agency	APHA is an executive agency of the Department for Environment, Food & Rural Affairs, and also works on behalf of the Scottish Government and Welsh Government
ATTS	Accredited Trusted Trader Scheme	ATTS will help businesses that import medium-risk products, as defined by the Border Target Operating Model to GB
Badges	Port Badges	Freight arrival at ILP cannot be claimed nor a customs entry submitted without the customs agent having a badge with the CSP. Obtaining port badges is expensive and takes time
BCO	Beneficial Cargo Owner	an individual or company that takes responsibility for a shipment of goods from origin to destination
BCP	Border Control Post	A place where animals, plants, and their products coming into the UK from the EU and other third countries via seaports or airports are checked. These inspections are carried out to ensure that regulations are complied with and animal, plant, and public health are protected.
BEIS	Department for Business, Energy and Industrial Strategy	Department in charge of putting together the policy that affects business, industry, research, innovation, energy and climate change
BF	Border Force	BF secures the border and promotes national prosperity by facilitating the legitimate movement of individuals and goods, whilst preventing those that would cause harm from entering the UK
BTD	Border Trade Demonstrators	Cabinet Office programme to determine how signals from the supply chain may be received by UK government border agencies and used to support their border management and risk assessment processes
BTOM	Border Target Operating Model	BTOM sets out a new approach to security controls (applying to all imports), and sanitary and phytosanitary controls (applying to imports of live animals, animal products, plants and plants products) at the border
C21	Customs Clearance Request form	The C21 form is used to request the release of goods at a location with an inventory system
Carrier		The company that owns the means of transport for transporting passengers and goods for hire
Cash Account		A way of paying import duty and VAT introduced under CDS. It permits traders or intermediaries to set up an account with HMRC from which take claim funds to covering import taxes.
CBAM	Carbon-Border Adjustment Mechanism	A tool to access a carbon tariff rate to pay based on the carbon emitted during the production of carbon intensive goods such as steel, cement and some electricity. The aim is to encourage cleaner industrial production.
CDS	Customs Declaration Service	UK electronic system for submitting import and export customs entries
CofO	Certificate of Origin	A document that verifies a product's country of origin. It states where the product was produced, manufactured or processed
CFSP	Customs Freight Simplified Procedures	Old name for the UK customs system to speed up release from the border for import arrivals. It utilised release by a simplified customs entry (SFD) with later fuller declaration being made. Now known as SCDP
CHED	Common Health Entry Documents	Documents used to pre-notify the import of a consignment subject to health checks, eg animals, animal products, plant and plant products

GLOSSARY OF TERMS

CIP	Carriage & Insurance Paid to	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. CIP the seller pays for the transport and purchases transit insurance on behalf of the buyer.
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	An international agreement between governments that aims to ensure that international trade in specimens of wild animals and plants does not threaten the survival of the species.
CO		Cabinet Office
Commodity Code		Internationally recognised numbering system that identifies goods for customs purposes. Based on the 6digit HS Coding system, each country can add its own national endings as required
Common Transit		extends the use of transit facilities to non-EU member states. The country must be a member of the Common Transit Convention (CTC)
CPC	Customs Procedure Code	7 digit code used to identify customs and excise regimes for both imports and exports
CPTPP	Comprehensive and Progressive Agreement for	Free trade agreement between Australia, Brunei Darussalam, Canada, Chile Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam that comes into force for the United Kingdom on 15 December 2024
	Trans-Pacific Partnership	
CPT	Carriage Paid To	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. CPT the seller pays for the transport but risk of loss or damage is the buyers.
CSP	Community Service Providers	Commercial entities that directly interface with HMRC frontier systems, including CDS and manage port inventory systems.
CTC	Common Transit Convention	See also, transit, union transit, common transit and NCTS5
CUC	Common User Charge	Charges incurred at import for certain risk products to support vital biosecurity checks at the Border Control Post at Sevington
Cumulation		Clause within trade agreements that permits the use of material sources from multiple countries to be used when manufacturing goods to qualify as preferential origin.
Customs Regimes		General term for the different types of import and export procedures. Many require prior authorisation by HMRC
Customs Routes		Customs declarations at both export and import are automatically allocated to a route, the code of which indicates what further checks are required prior to customs clearance
DAFF		Australian Department of Agriculture, fisheries and Forestry
DAP	Delivered at Place	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. DAP the seller pays for the transport and beard the risk of loss or damage to the named place in the buyer's country.
DDP	Delivered Duties Paid	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. Like DAP, the seller pays for the transport and beard the risk of loss or damage to the named place in the buyer's country but under DDP the seller has to undertake the import formalities in the buyer's country and pay any import duty/taxes.
DE		Country code for Germany
DEFRA		UK Department for the Environment Food and Rural Affairs
DFT		UK Department for Transport
DTC	Digital Trade Corridors	Establishing a digital sharing of shipment data and other relevant information between airport/port/customs at one local with similar organisation in another location.
DPU	Delivered at Place Unloaded	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. Like DAP, the seller pays for the transport and beard the risk of loss or damage to the named place in the buyer's country but under DPU the seller must organise and pay for the unloading of goods at the named destination
Duty rate		The amount of tax charged on the import of goods. The amount is determined by the type of goods (commodity code), the value, the reason for import.
DVP	Digital Verification Platform	Australian initiative to create and verify digital trade documents
eBL	eBill of Lading	Bill of Lading is a transport document specific to sea freight shipments. It details a list of the ship's cargo in the form of a receipt given by the master of the ship to the person consigning the goods. It is a special document as it indicates title to the goods. The eBL is a digital version of the paper document

GLOSSARY OF TERMS

EHC	Export Health Certificate	An official document that confirms your export meets the health requirements of the destination country (typically for products of animal origin (POAO) and high risk foods not of animal origin (HRFNAO)
EIDR	Entry into Declarants Records	Use of EIDR reduces costs and time needed for UK traders to receive/transfer goods under special customs procedures by eliminating the need for customs declarations.
ENS	Entry Summary Declarations	Pre-arrival information required for safety and security purposes on imports. Information is used by the UKBF for cargo risk assessments and targeting purposes
EOT	Ecosystem of Trust	The EOT project aimed at testing whether the use of supply chain data, alongside technologies such as smart seals and smart containers, could be integrated into government systems to improve border processes
ESG		Environment, Social Protection and Governance
EU		European Union
EUDR	EU Deforestation Regulation	Controls on goods such as cattle, cocoa, coffee, palm oil, soy, timber and rubber, as well as derived products to check they don't come from land deforested or degraded
Excise		Additional duty charged on specific goods such as tobacco, alcohol and hydrocarbon oils
EXW	ExWorks	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. Under EXW all obligations and risks are the buyer's responsibility
GB	Great Britain	England, Scotland and Wales
FCA	Free Carrier	One of the Incoterms ® rules that divide transport, costs and risk obligations between buyers and sellers. Under FCA the seller undertakes the responsibility to free the goods for export but all other obligations and risks are the buyer's responsibility.
FOCBS	Federal Office of Customs and Border Security	The border customs and border management agency in Switzerland
FR		Country code for France
Freeports		Specials areas created by governments to boost investment into that part of a country and to encourage trade by providing financial benefits, for example with regard to the treatment of taxes.
Freight Forwarder		A company that organises the movement of goods on behalf of a trader. Generally they are not the carrier
FSA		Food Standards Agency
FTA	Free Trade Agreement	An agreement between two or more parties to reduce barriers to imports and exports. Generally the FTA includes preferential treatment for goods that comply with the terms of the agreement, which includes reduction, often to zero, of any import duty rates.
GDP		Gross Domestic Product
GPI		Geographical Protected Indication
GMR	Goods Movement Reference number	A number generated under GVMS that links together all customs declaration for a particular shipment
GSP	Generalised Scheme of Preference	A unilateral trade agreement provided reduced import duty rates for a list of beneficiary countries when exporting to the EU. Replaced in the UK by the DCTS – Developed Countries Trading Scheme
GVMS	Goods Vehicle Movement Service	UK government border control information technology system for coordinating the movement of vehicles.
H8	UK Customs declaration type	Advanced, prelodged simplified declaration
HMRC		His Majesty's Revenue & Customs
HO		Home Office
HRFNAO	High Risk Foods (and Feed) Not of Animal Origin	Such as nuts and seeds
HS code	Harmonised System Code	HS Coding system was created by the WCO to provide a single harmonised system for coding goods for customs purposes. The 6-digits form the first part of a country's tariff schedule

GLOSSARY OF TERMS

IBF		Inland Border Facility
IC		International Competition
ICS	Integrated Cargo System	Australian real-time function for industry notifying ICS system degradation and outage
ICS2	Import Control System 2	Safety and security systems used by the EU, Switzerland and Norway at external borders for pre-arrival information to be received to enable risk assessment of cargo
ICT	Information and communication technology	a set-up consisting of hardware, software, data and the people who use them
iDTC		Intelligent Digital Trade Corridor
IE		Country code for the Republic of Ireland
ILP	Inventory Linked Ports	Import customs declarations cannot be submitted at these ports without claiming the inventory from CSPs. To do so, port badges are required.
IMF		International Monetary Fund
Importer's Knowledge		A way of claiming a lower import duty rate under a preferential trade agreement whereby the import holds all the required evidence relating to the manufacture of the imported item
Incoterms ® Rules	International Commercial Terms	A set of standard rules created by the International Chamber of Commerce (ICC) to harmonise the understanding of the buyers' and sellers' obligations when moving goods. Allocates responsibilities related to costs, risk and delivery of goods. Legally binding when included in a contract
Intermediary		A company that links together traders, with customs and carriers to facilitate customs declarations and enable the export or import of goods
Intrastat	Intra-Community Commercial Terms	System applicable to the EU Member States and Northern Ireland when trading internally. No customs declaration are required for internal trade of free circulation goods, and therefore statistics cannot be collected at the border. Intrastat makes it the obligation of the EU/NI trader to supply monthly trade statistics to the national customs authorities
Inventory Release		Authorisation to declare goods held in a ports inventory system to customs for importation
IPAFFS	Import of Products,	System used for notifying GB authorities of movements of live animals, their products and germplasm into to GB from countries outside the EU and EEA
	Animals, Food and Feed Systems	
IUU	Illegal, unreports and unregulated	IUU catch certificates are required for fish and some products that contain wild caught fish to confirm the shipment is legal and safe to import
	fishing	
LRN	Local Reference Numbers	It is the declarant's unique number for a consignment and cannot be duplicated. Each transit declaration requires a separate LRN
LSP	Logistics Service Provider	An outsourced company that provides supply chain management services such as transportation, warehousing or distribution services
MASP-C	Multi-Annual Animals, Food and Feed Systems	EU Customs Strategic Plan
MHRA		Medicines and Healthcare Products Regulatory Agency
MoU	Memorandum of Understanding	Used in the UK to acknowledge special and simplified procedures for certain intermediaries, such as fast parcel operators
Motis FSA	Freight Services Agency	A Inland Border Facility, Dover. It is the largest freight, customs, and parking facility in the UK, of its kind
MRA		Mutual Recognition Agreements
MRN	Movement Reference Number	A customs reference number issued via a customs service, eg CDS to enable the management of the shipment process and serve as a primary reference number for customs declaration
NaCTSO		National Counter Terrorism Security Office
NCA		National Crime Agency
NCTS	New Computerised	In use for 20 years, NCTS is the EU's central transit processing system
	Transit System	
NCTS5		The most recent version of the EU NCTS transit system
NI		Code for Northern Ireland
NIRMS	Northern Ireland MHRA Authorised Route	New scheme established under the Windsor Framework to move pre-packed agri-food retain goods from GB into NI

GLOSSARY OF TERMS

NIRMS	Northern Ireland MHRA Authorised Route	New scheme established under the Windsor Framework to move pre-packed agri-food retain goods from GB into NI
OOA	Office of Arrival	The official arrival point for goods being moved under Transit
OOD	Office of Departure	The official departure place for goods being moved under Transit
Operation BROCK		Operation Brock is the traffic management system in Kent, England, used to supplement Operation Stack during cross-Channel traffic problems. It was originally developed for use in the event of a no-deal Brexit and the name is derived from Brexit Operations across Kent
OTT	Online Trade Tariff	UK online service providing information relating to import and export regulations against the commodity code/ tariff number of the goods
P&R Codes		Code entered on customs declarations to identify Prohibited & Restricted goods and any relevant licences or approvals
PBN		Pre-Boarding Notification
PEM	Pan-Euro-Med	Preferential trade agreement between the EU and 24 other countries based in the Euro-Med region.
PHILIS		Port Health Interactive Live Information System
PHYTO	Phytosanitary certificate	An official document that confirms your export meets the health requirements of the destination country (typically produce, plants and plant products)
POAO		Product of Animal Origin
PortBase	System that generates a port pass	The Dutch port community system digitally connecting to the Port of Rotterdam Authority and the Port of Amsterdam
Preference/ Preferential		Term used to indicate that a trade agreement applies between the exporting and importing country and that the goods being shipped meet the conditions for them to be given preferential duty treatment at import
Regime 42		EU customs procedure code 42 relates to goods cleared into the EU at the entry place for immediate movement to another EU country of final destination. Also know as Onward Supply Relief (OSR) it means that import duty is paid on arrival, so the goods can cross the EU as free circulation goods, and import VAT will be accounted for by the receiving party.
REX statement	Registered Exporter Scheme	EU scheme applicable to preferential trade agreements. It is a registration scheme that means exporters can make statements on commercial documents that goods qualify as preferential origin rather than requiring the purchase of special certificates
RGR		Returned Goods Relief
Risk Category		DEFRA assessment of the risk associated to certain imports, eg animals, animal products, plants, plant products
Route 1	Customs entry risk route	additional paperwork check required prior to full clearance
Route 2	Customs entry risk route	physical examination of the goods required prior to full clearance
Route 6	Customs entry risk route	instant clearance, no need for documentation or physical checks
SAFE Framework	Safe and Fast Environment	The WCO SAFE Framework creates, amongst other things, the conditions for securing international trade, but also facilitates and promotes international trade. This encourages and makes it easier for buyers and sellers to move goods across borders.
SCDP	Simplified Customs Declaration Procedure	Previously known as CFSP, these are UK customs procedures that can be used by authorised entities to simplify the customs processes and the payment of duty/VAT
SCIM		Australia: Streamlining Cargo Intervention Model
SCV		Supply Chain Visibility
SFD	Simplified Frontier Declaration	A short-form declaration used to release goods from borders by authorised SCDP companies. Full information of the imported goods is provided post clearance
SD	Supplementary Declaration	See SDP and EIDR can be aggregated for repetitive flows in the same period, thus avoiding the need for a declaration for each transaction
SDP	Simplified Declaration Procedure	Uses a simplified frontier declaration (SFD) to initiate the customs process and a supplementary declaration to close it off
Smart Borders	Secure, Measurable, Automated, risk Management Based and Technology-driven	2019, the WCO made the Smart Borders concept an international best practice utilising technology solutions that facilitate the flow of people, goods, and conveyances at borders by moving border procedures to before and after the border
Smart Borders 2.0		European Parliament concept paper presented a new model for managing borders

GLOSSARY OF TERMS

SPS		Sanitary and Phytosanitary measures
SSD		Safety & Security Declaration
STEPS	Simplified Targeting and Enhanced Processing System	Australian initiative will make cargo clearance faster, simpler and support biosecurity
STS	Simplified Trade System	Australia system to establish a simpler, more effective, and sustainable cross-border trade environment
STOP24		Stop24 Folkestone Services, located at Junction 11 of the M20, is the closest motorway services to the Channel Tunnel and Port of Dover
STW	Single Trade	critical component of international border and trade modernisation programmes. facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfil all import, export, and transit-related regulatory requirements
	Window	
TAD		Transit Accompanying Document
Tariff		The official list of goods, using commodity codes, and related to import duty costs and import/export measures and controls
TCA	Trade Cooperation Agreement	EU-UK trade agreement
TFA		WTO Trade Facilitation Agreement
TGP	Trader Goods Profile	being suggested for NI flows under the Windsor Framework
TLIP		Trade and Logistics Information Pipeline
TRACES	Trade Control and Expert Systems	European Commission's online platform for animal and plant health certification required for the importation of animals, animal products, food and feed of non-animal origin and plants into the European Union, and the intra-EU trade and EU exports of animals and certain animal products
Traders		The companies that commercially import and export goods as part of their business strategy
Transit		A customs fiscal facilitation that delays customs import declarations and duties when goods move across borders
Trusted Trader		A customs or other government department an endorsement scheme that recognises reputable traders within the supply chain
TSF	Temporary Storage Facility	A facility authorised by customs to store goods imported for up to 90 days before an import customs entry and the payment of duty/taxes is required.
TSVC		Trusted Supply & Value Chains
TTL		Trusted Trader Lanes
TTP		Trusted Trader Programme
UKBF		UK Border Force
UKIMS	UK Internal Market Scheme	An authorisation that allows you to declare your goods 'not at risk' if they are brought into Northern Ireland for sale or final use by end consumers in Northern Ireland
UN/CEFACT		United Nations Centre for Trade Facilitation and Electronic Business
Union Transit		This applies to goods that are moving within or between EU member states.
USD		Currency code, US Dollars
VAT		Value Added Tax
ViDA	VAT in the Digital Age	European Commission has proposed ViDA as a framework aimed at modernising the existing VAT system to adapt to the digital landscape by 2028
VIES		EU VAT Information Exchange System
WCO		World Customs Organisation
WF		Windsor Framework
WTO		World Trade Organisation

Annex I – the SRB model

We model productivity as a function of factors which have a direct impact on productivity in a country. We estimate a reduced-form model to determine the factors which affect productivity. These factors are themselves influenced by the scores for Domestic Competition, International Competition, and Property Rights Protection. In later iterations of the model we have greatly simplified the approach to correlate GDP per capita movements with movements in each of the three key pillars individually. We control for health outcomes, and also the size of the state (using years of schooling, and government expenditure as a percentage of GDP, as control variables. This version of the original SRB (Singham-Rangan-Bradley model), the SRB-γ model is different from earlier iterations as previous models attempted to correlate GDP per capita with all the indices at the same time which created endogeneity problems and model instability. The SRB-γ model does not have such problems as it attempts to correlate only with individual pillars. While this makes the model stable and removes endogeneity concerns it is also likely an underestimate of the actual GDP per capita impact across the pillars.

Specifically, our model takes the form:

$$gdppc_{it} = \beta \boldsymbol{X}_{it} + \gamma_i + \delta_t + \epsilon_{it}$$

Where:

- is the natural log of GDP per capita for country i, at year t
- represents the independent variables
- are the country-specific fixed effects
- are the year-fixed effects
- is the error term

The dependent variable is the natural log of GDP per capita. The independent variables include the index (property rights, international competition, or domestic competition), government expenditures, and expected years of schooling. We estimate the model separately for each index (hence, three sets of results as shown below). By including country fixed effects in the regression models, we ensure that the estimates of reflect only the within-entity variation, thereby providing robust insights into the relationship between changes in GDP per capita and changes in key measures of the competition and innovation environment, namely, property rights, international competition, and domestic competition.

A country fixed effects model allows us to control for unobserved and observed time-invariant characteristics that might otherwise bias the estimates. A limitation of the country fixed effects model however is the inability to estimate the effects of time-invariant variables. Also, there is a potential for endogeneity if time-varying variables are correlated with other unobserved time-varying variables.

For each index, we estimate the basic model with four different specifications. The specifications differ by the covariates included such as education and government. We cluster all standard errors by country.

Results

Our fixed effects OLS regression results indicate that each index—property rights, international competition, and domestic competition—each has a positive and, in most cases, a statistically significant relationship with GDP per capita. The results are fairly robust across specifications. The magnitude of the estimated relationship mostly depends on whether year dummies are included. The relationship between property rights and GDP per capita is positive and statistically significant (tables 1 and 2). With the year dummies, the results suggest that a one unit increase in the PR index is associated with a 5.7% to 6.8% increase in GDP per capita. Without the year dummies, the estimates are roughly double in magnitude and a one unit increase in PR is associated with a 12.2% to 16.1% increase in GDP per capita. These results are highly significant at the 1% level.

The relationship between international competition and GDP per capita is also positive and statistically significant in some cases (tables 3 and 4). With the year dummies, the results suggest that a one unit increase in the IC index is associated with a 1.0% to 1.4% increase in GDP per capita although the results are not statistically significant. Without the year dummies, a one unit increase in the IC index is associated with an 8.7% to 13.6% increase in GDP per capita and the results are highly significant.

We note that the statistical insignificance of the estimate on international competition when including year dummies in addition to country dummies may reflect the specification is simply too demanding for our relatively short panel over nine years. Further, given our data, the approach that includes year dummies may result in overfitting and thus an increase in standard errors and a reduction in statistical significance of the estimated coefficients.

The relationship between domestic competition and GDP per capita is positive and statistically significant (tables 5 and 6). With the year dummies, the results suggest that a one unit increase in the DC index is associated with a 9.7% to 11.4% increase in GDP per capita, and the results are highly significant. Without the year dummies, a one unit increase in DC is associated with a 11.7% to 16.8% increase in GDP per capita. These results are highly significant at the 1% significance level.

The objective of this exercise was to gain quantitative insight into the relationship between GDP per capita and each key index: property rights, international competition, and domestic competition. The results are meant to be interpreted as illustrative rather then precise, and the estimated coefficients are best interpreted as the association between these economic variables rather than conclusive evidence about a causal relationship. As noted above, there is a longstanding robust literature about these important relationships. Our objective was merely to estimate the relationship between these key economic variables using recent data in a consistent manner across all 133 countries. The results are consistent with the literature and suggest: (i) a robust relationship between a country's property rights regime and its GDP per capita, and (ii) a robust relationship between country's domestic competition environment and its GDP per capita. The results also suggest a nontrivial relationship between a country's international competitiveness environment and its GDP per capita but further analysis should be conducted at a more detailed level. As noted in the literature, the relationship is complex and depends on complementary policies, institutions, and the overall economic environment, not all of which can be captured in a fixed effects model.

Results

Table 1. Models for Property Rights Index (with year dummies)

	lngdppc		lngdppc		lngdppc		lngdppc	
Property rights	0.066	**	0.057	**	0.068	**	0.058	**
	(0.019)		(0.020)		(0.019)		(0.020)	
Gov expenditure (% of GDP)			-0.003				-0.003	
			(0.002)				(0.002)	
Expected Years of Schooling					0.012		0.012	
					(0.010)		(0.010)	
Intercept	8.477	**	8.604	**	8.296	**	8.433	**
	(0.079)		(0.120)		(0.155)		(0.171)	
Number of observations	1219		1116		1209		1106	

** p<.01, * p<.05

Table 2. Models for Property Rights Index (without year dummies)

	lngdppc		lngdppc		lngdppc		lngdppc	
Property rights	0.161	**	0.149	**	0.136	**	0.122	**
	(0.025)		(0.027)		(0.022)		(0.023)	
Gov expenditure (% of GDP)			-0.005				-0.004	
			(0.003)				(0.003)	
Expected Years of Schooling					0.066	**	0.067	**
					(0.010)		(0.010)	
Intercept	8.177	**	8.372	**	7.351	**	7.542	**
	(0.105)		(0.160)		(0.147)		(0.181)	
Number of observations	1219		1116		1209		1106	

** p<.01, * p<.05

Table 3. Models for International Competition Index (with year dummies)

	lngdppc		lngdppc		lngdppc		lngdppc	
Intl Competition	0.014		0.010		0.014		0.010	
	(0.021)		(0.021)		(0.020)		(0.021)	
Gov expenditure (% of GDP)			-0.003				-0.003	
			(0.003)				(0.003)	
Expected Years of Schooling					0.011		0.011	
					(0.011)		(0.010)	
Intercept	8.684	**	8.801	**	8.524	**	8.640	**
	(0.093)		(0.144)		(0.171)		(0.190)	
Number of observations	1219		1116		1209		1106	

** p<.01, * p<.05

Results

Table 4. Models for International Competition Index (without year dummies)

	lngdppc	lngdppc	lngdppc	lngdppc
Intl Competition	0.136 **	0.127 **	0.096 **	0.087 **
	(0.024)	(0.025)	(0.023)	(0.024)
Gov expenditure (% of GDP)		-0.004		-0.005
		(0.003)		(0.003)
Expected Years of Schooling			0.063 **	0.064 **
			(0.011)	(0.011)
Intercept	8.211 **	8.396 **	7.516 **	7.683 **
	(0.111)	(0.160)	(0.170)	(0.202)
Number of observations	1219	1116	1209	1106

** p<.01, * p<.05

Estimating Weights

To calculate the scores for each policy are we took the data points for the WEF GCI and the World Bank's Doing Business Index and rearranged them into subcategories in each policy area (See the appendix for the exact subcategories and data points). We then estimated the models for each productivity factor (which are functions of the scores, as shown above) repeatedly, adjusting the weights of each variable and subcategory each time. The fitted values for the productivity factors as a function of these scores were then used as the data points for the productivity model. The predictive power (estimated as the mean absolute prediction error) of the productivity model was recorded and the process was repeated using new weights for the data points and subcategories. We assigned a random weight to each potential indicator in each subcategory and a weight for each subcategory in each policy area. Then, the equations for FDI stock, domestic credit stock, health expenditures, and school persistence were estimated using OLS regressions. The fitted (or predicted) values for each regression were then used to estimate the regression for GDP per capita. The mean absolute prediction error was calculated as a percent of GDP per capita. Then, the program assigned a new weight to each value and subcategory, re-ran the regressions, and then predicted GDP per capita using the new fitted values. We repeated this process in order to minimise the distance between the mean absolute prediction error and perfect predictive power (0 prediction error). The resulting weights predicted GDP increases with 93% Information Classification: General accuracy, using the simple regression set up, and now predict GDP increases with 96% accuracy using the current framework. See the Appendix for the structure of the index and the weights for each subcategory and variables within the subcategories. The goal was to minimize the mean absolute prediction error of the productivity model, while maintaining statistically significant explanatory power of the scores themselves in the models of productive factors as functions of the scores. The program would throw out any scores which did not yield any statistically significant coefficients in the models for productive factors. We also restricted the weights to be integer percentage values (ie, 1%, 2%, 3%, etc., but not 1.5% or 2.5%, for example) and did not allow any of the data points or subcategories to hold no weight. In the end, the scores which generated fitted values for the productive factors which then yielded the smallest mean absolute prediction errors for the model of productivity were chosen and the weights associated with these scores used.

TRADE FACILITATION COMMISSION

Policy and Practicality in Partnership

Shaping the future of customs simplifications and border processes to enhance trade efficiency

contact@facilitation.trade

www.facilitation.trade