

Customs Capacity Study within Service Providers

Full Report

Department for the Economy

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Customs Capacity Study

Ronan McDonnell, The Logistics Consultants

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Summary

Government is continuously seeking to develop its evidence base required to ensure that decisions related to EU Exit affecting Northern Ireland are as well informed as possible. In that regard, it is important to understand the capacity of the private sector in Northern Ireland to complete customs declarations, and, in particular, the capacity to take on new clients. So, Department for the Economy (DfE) and Invest NI commissioned this study, which is based on a series of interviews with Service Providers in Northern Ireland (including Customs Clearance Agentsⁱ and Freight Forwardersⁱⁱ) to gain an understanding of the capacity within the local economy to complete customs declarations.

There are very few specialist Customs Clearance Agents currently operating in the local market, and these businesses have been very conservative in terms of scaling-up for Brexit, with little recruitment during 2019 despite recurring threats of "No Deal" outcomes. A key finding is that service providers and their clients will require clear guidance from Government to understand the practical implications of the revised protocol on Ireland and Northern Ireland in order to put the necessary plans in place for customs administration. Given that the sector estimates it takes six months to train new recruits to a reasonable level of capability, recruitment would need to commence in the first half of 2020. Third Party Logisticsⁱⁱⁱ operators, and, in particular, those involved in Groupage^{iv} operations are likely to experience the greatest increase in customs-related activity as a result of the revised Withdrawal Agreement, so these operators should be involved in scoping out the capacity requirements to complete customs declarations in Northern Ireland post-Brexit. With clear direction from Government, potential exists to create employment due to the anticipated increase in the number of consignments requiring customs clearance. Further focus is necessary to understand the training needs of Customs Clearance Agents and other service providers processing customs declarations. In terms of the broader economy, businesses in Northern Ireland trading with Great Britain will need to seek out service providers before the end of the transition period to ensure they have solutions in place for processing customs declarations. These customs procedures will lead to increased costs for local business, both in terms of set-up costs and on-going transactional costs.

Introduction

The establishment of the EU Single Market facilitated the free movement of goods and meant that UK businesses trading with the rest of the EU were not subject to routine customs controls and import duty was not payable. This also led to a major reduction in the number of specialist Customs Clearance Agents operating in Northern Ireland as they were only required to process customs declarations relating to trade with Third Countries beyond the EU.

Since the UK decided to leave the EU Single Market and Customs Union, much of the Brexit planning in Northern Ireland through 2019 was focussed on the potential impacts on cross-Border trade with the Republic of Ireland, as well as on trade with other EU countries. For many businesses, this meant having to contend with customs procedures for the first time, and they experienced difficulties in finding Third Parties to process customs declarations on their behalf. The revised protocol on Ireland and Northern Ireland included in the Withdrawal Agreement of October 2019 has significantly shifted the focus from preparing for a customs border on the island of Ireland to determining the implications for trade between Northern Ireland and Great Britain. Businesses in Northern Ireland must now ensure they fully understand these implications and put the necessary processes in place to manage the administrative, logistical and financial challenges. Similarly, those Third Parties providing customs clearance services will also need to prepare for the changes to be implemented at the end of the transition period.

This customs capacity study undertaken by The Logistics Consultants was based on a series of semi-structured interviews with service providers, including Customs Clearance Agents and Freight Forwarders, currently processing customs declarations on behalf of businesses in Northern Ireland. An initial list of Customs Brokers and Freight Forwarders was compiled from sources including:

- Belfast Shipping Agents Association
- British International Freight Association (BIFA)
- International Federation of Freight Forwarders Associations (FIATA)

The Northern Ireland Chamber of Commerce provided some insights and helped validate the list of candidates to be approached to participate in the study.

A total of forty-eight companies were contacted to establish whether they were suitable candidates for inclusion in the study (i.e. to confirm they provide customs clearance services) and to ascertain whether they would be prepared to do an interview. Sixteen interviews were completed between November 22-December 12 2019, including fourteen telephone interviews and two face-to-face meetings.

A set of questions was used to direct the semi-structured interviews, covering topics including:

- The range of services provided by the participants
- Numbers of staff working specifically on customs procedures
- Scale of operations (e.g. which territories serviced, which ports/airports serviced, numbers of declarations processed)
- Profile of their Northern Ireland client base
- Assessment of their level of preparedness for Brexit
- Perspectives on recruitment criteria, induction and training
- Rates charged for processing export and import declarations

Profile of Respondents

Services Provided

Nine of the participating companies described themselves as specialist Customs Clearance Agents or Freight Forwarders. Others indicated they provide a broader range of services, with three respondents providing Port Services, while two others described themselves as Shipping Agents, and two Global Transport Companies made up the remaining interviewees.

Table 1: Number of Staff Processing Customs Declarations

| Number of Staff | Number of Companies |
|-----------------|---------------------|
| >10 | 1 |
| 5-9 | 4 |
| 3-4 | 3 |
| 1-2 | 5 |
| 0 | 3 |
| Total | 16 |

In terms of the numbers of staff processing customs declarations at each of the companies, one company currently has 15 staff processing declarations in Northern Ireland, four companies have between 5 and 9 such staff, three companies have either 3 or 4 people processing declarations, while five of the respondents currently only have 1 or 2 people providing this service. It should be noted that three of the companies included in the study currently avail of services provided by a sister company to process declarations on their behalf.

Most respondents said that they currently provide services to a wide range of companies (from large to small) in Northern Ireland, although six said they mostly work with, or exclusively work with SME's.

Approximately half of interviewees are primarily involved with processing bulk shipments such as Oil, Coal, Animal Feeds, Tyres, Scrap Metal, Timber, Steel, Biomass, etc. The other half process documentation relating to a much wider range of products that includes Food and Drink, Manufactured Goods, Chemicals, Pharmaceuticals, etc.

Scale of Operations

Most of the interviewees are based in the Belfast area, although one company operates exclusively at Foyle port and another is based in Warrenpoint. Fifteen of the sixteen participants' process consignments through Belfast Port, while five respondents also process customs declarations for consignments through the airports in Northern Ireland. Four companies mentioned processing consignments through Larne port, with a similar number mentioning activity through Warrenpoint and Foyle ports.

Table 2: Territories Serviced by Respondents

| | NI | GLOBAL | ROI | GB | ROI AGENT | GB AGENT |
|--------------------|----|--------|-----|----|-----------|----------|
| 4 companies | ✓ | | | | | |
| 3 companies | ✓ | | | | ✓ | ✓ |
| 3 companies | | ✓ | | | | |
| 2 companies | ✓ | | ✓ | ✓ | | |
| 3 companies | ✓ | | ✓ | | | |
| 1 company | ✓ | | | ✓ | ✓ | |

Seven companies operate exclusively in Northern Ireland, although three of these explained they have relationships with agents in the Republic of Ireland and Great Britain, and a fourth has the capability to process customs declarations in both the Republic of Ireland and in Great Britain on behalf of clients. Three described themselves as being part of a global operation. Of the remaining companies, two have operations in both the Republic of Ireland and Great Britain as well as in Northern Ireland; three have operations in the Republic of Ireland while one company has a presence in Great Britain.

Current Levels of Activity

When asked to estimate the number of customs declarations they currently process on a monthly basis, one service provider put that figure at more than 1,000 declarations per month. A further three companies process between 500-1,000 declarations per month, while a similar number process between 250-500 declarations on a monthly basis. Six of the participants process fewer than 250 declarations per month. As mentioned previously, three of the companies included in the study currently do not process customs declarations in-house but use a sister company.

Table 3: Number of Declarations Processed Monthly

| Number of Declarations | Number of Companies |
|------------------------|---------------------|
| >1000 | 1 |
| 500-1000 | 3 |
| 250-500 | 3 |
| <250 | 6 |
| Use a sister company | 3 |
| Total | 16 |

When profiling the companies, certain indicators made it possible to distinguish the specialist Customs Clearance Agents from other companies providing customs clearance services as part of a wider service offering. The "Specialists" typically process multiple customs declarations on behalf of multiple clients across a wide range of sectors. "Non-specialists" provide a range of Port Services (e.g. Shipping Agents, Stevedores, Port Agency, etc.) for particular clients or sectors, and these service providers typically process far fewer declarations than the specialists.

One of the "Non-specialists" explained that they don't necessarily expect to make a profit from processing declarations; rather it is a service they must provide if they are to win and hold onto larger contracts. For example, the importer of a bulk cargo of animal feed is likely to have a requirement for a wide range of Port services to facilitate the docking and unloading of the ship and might also require warehousing and haulage services. So, a company providing all of these services will also process the import declaration as part of an overall suite of services.

On the other hand, a "Specialist" customs clearance agent might face significant complexity in processing the separate (and complex) declarations required to clear a groupage trailer through customs. The following table summarises the attributes of the "Specialist" Customs Clearance Agents and "Non-specialists".

Table 4: Comparing Attributes of Specialist Customs Clearance Agents versus Non-specialist Service Providers

| Criteria | Specialist | Non-specialist |
|---------------------------------|-----------------------------------|---------------------------|
| Importance of Customs Clearance | Primary Focus | Value-adding Service |
| Number of Clients | Many | Few |
| Range of Clients | Multiple Sectors | Limited Scope |
| Number of Declarations | Many | Few |
| Complexity of Declarations | Complex Entries/Multiple products | Bulk Cargo/Single product |

Brexit Perspectives

Anticipated Level of Activity Post-Brexit

Each of the respondents experienced an increase during 2019 in the number of enquiries for services relating to customs procedures, with two-thirds registering a significant increase. Terms such as “huge”, “crazy” and “massive” were used to describe this increase in activity.

For some of the participants, enquires mainly came from their existing clients, while other interviewees highlighted the number of calls received from small businesses with no previous experience of customs procedures, and looking for information or advice. Enquiries peaked in the run-up to the March and (to a lesser degree) the October deadlines, and were predominantly related to cross-border trade between Northern Ireland and the Republic of Ireland.

It must be noted that the interviews were carried out during the 2019 General Election campaign when there was still a lot of uncertainty around the ultimate shape of Brexit, and, in particular, in respect of the implications for trade between Northern Ireland and Great Britain.

All the interviewees anticipate that the number of enquiries will increase significantly as the changes resulting from Brexit become clearer. Given that the Withdrawal Bill will nullify most of the cross-border issues that were previously anticipated, it is likely that East-West issues will predominate once businesses in Northern Ireland are fully briefed on what they will face in respect of additional documentation, payment of tariffs, rebates, etc.

Two of the companies primarily operating in the haulage sector provided some perspective on the anticipated scale of activity post-Brexit, with one describing how the number of declarations might rise from 500-600 per month to

hundreds per day; while another described 3,500 consignments per day being handled by its groupage operation from Northern Ireland throughout the island of Ireland, to Great Britain and into continental Europe.

Level of Preparedness

A paper published by The Institute for Government entitled *Implementing Brexit: Customs* points to the fact that customs clearance agents based in the south-east of England currently manage non-EU trade coming through Dover and the Channel Tunnel, and this makes up about 1% of total trade through the Channel ports. To scale these organisations up to the point where they have the capacity to manage 100% of trade would require new systems, staff and infrastructure. The report concludes that for organisations that currently employ around 20 people, a hundredfold increase in work would be completely incompatible with their current business model⁹. Similarly, one would expect that service providers in Northern Ireland should be anticipating a step change in demand as a result of Brexit; but that was not the response from most interviewees.

From our survey, there appears to be a correlation between the type of service provider (i.e. as identified in Table 4) and their perceived level of preparedness. Groupage operators and other specialist Customs Clearance Agents have already put significant time and effort into their Brexit preparations and have a good understanding of the likely impact of the NI Protocol on the local economy. These operators are quite concerned over the prospect of having to process numerous customs clearances after the end of the implementation period. For example, one interviewee said that his company is anticipating it will have to cope with an additional 1 million customs entries' annually across its UK and Ireland network post-Brexit. These businesses recognise there will be a requirement for recruitment and training to prepare for the likely impacts of Brexit on the local economy. On the other hand, Non-specialists are primarily preparing for an incremental increase in activity from their existing clients as a result of Brexit; and they consider that this increased level of activity will be manageable.

There is a belief in the sector that service providers will respond once they know exactly what they will face post-Brexit and they offered the following reasons to explain why they are not yet fully prepared for Brexit:

- Lack of clarity from Government on the final Brexit outcome makes planning difficult
- We did not risk employing staff until the outcome is clearer
- There is a lack of available suitable personnel
- Cost of resources (people and IT)
- Customers not appreciating what will be required

Resourcing for Brexit

One third of interviewees said they have recruited additional staff in the past 12 months to work on customs procedures, and a further two companies said that recruitment had taken place within their GB customs operations in preparation for Brexit.

A small percentage of companies said they had considered recruiting during 2019 or else had made enquiries to recruitment agencies for suitable candidates in the lead-up to the March and October deadlines.

Overall, the increase in numbers within Northern Ireland was modest, with most service providers adopting a wait-and-see policy until they have greater clarity as to the actual implications Brexit will have on the local economy. The authors of *Implementing Brexit: Customs* published by The Institute for Government made a similar finding when they stated that “these private sector organisations will want assurances that they are not spending money in vain.” They went on to state that service providers require clarity from Government, together with sufficient time to prepare for the specific outcomes of Brexit.

Recruitment Criteria

There was a divergence of opinion in relation to the educational qualifications and other attributes required in personnel processing customs declarations. Although 20% of companies specified a requirement for third level qualifications, a similar number said they preferred to recruit bright school leavers. There was general agreement that candidates require numeracy, literacy and IT skills, and must have an eye for precision. Ideally, they should also demonstrate an understanding of geography, international trade and currencies.

Above and beyond formal qualifications, this sector is looking for personnel with relevant experience or transferrable skills (e.g. with some background in Shipping, Operations, International Trade or Accounting). However, there was general agreement among the interviewees that it is extremely difficult to find suitable candidates with the right skills.

Responses in respect of recruitment tended to mirror opinions on training requirements. For example, where there was a preference for recruiting bright school-leavers, training tended to be “on-the-job”, and the role was primarily viewed as involving “data input”, with new recruits expected to be processing declarations within weeks of taking up the role. On the other hand, another cohort of interviewees described a role requiring 6-12 months mentor-led training plus ongoing training to keep up with changes to Incoterms and IT systems.

This divergence of opinion might be explained by the fact that processing certain type of customs declarations is repetitious (e.g. processing declarations for a small number of regular clients who regularly import similar consignments). On the other hand, complicated declarations can involve working with multiple commodity codes,

multiple weights, different countries of origin, different customs procedures, etc. Once again, this finding can be tied back to the two broad classifications described in Table 4 (i.e. Specialists versus Non-specialists). Whereas specialist Customs Clearance Agents face a variety of challenging tasks, others regularly repeat similar processes.

Training Methods

Although some interviewees suggested that new recruits should be able to process basic customs declarations within days or weeks (with supervision), the consensus was that it can take 3-6 months before recruits become reasonably competent. One respondent suggested that new recruits should be 75-80% independent after 6 months and 100% proficient after 12 months. A common response from interviewees was that it takes years to become proficient, and, even then there is a need for ongoing training to keep up with changes in the sector.

Overall, respondents expressed a preference for training new recruits in-house, although two of the companies recommended external training courses provided by the British International Freight Association. A significant number of respondents recommended the establishment of practical third level training programmes to prepare students for a career in Customs, while two of the respondents suggested that a Customs module be integrated into existing Logistics degree programmes.

Requests for Training Services

Half of the companies interviewed have been asked to provide training or support to other businesses in Northern Ireland. These requests were quite varied in nature, and included:

- One specialist customs agent being asked to provide training for freight forwarders
- Two companies approached to assist existing clients wishing to handle more of the customs process in-house.

Another service provider described the information, checklists, recommendations, etc., it has provided for clients via its website.

All of these factors indicate that post Brexit there will be a need for intervention directly with business on customs capacity training.

Salaries

The industry indicated that the average starting salary for new recruits should be £18-19k. Responses ranged from one interviewee suggesting a starting salary as low as £16-18k to another suggesting a figure in excess of £20k. For

more experienced recruits, figures were mentioned from the mid-£20k's to £30k; although there was a consensus that it is very difficult to find experienced recruits and/or they are too costly to employ.

Opportunities for Job Creation

One participating company, with operations throughout the UK, is planning to centralise its Customs department in one location in the near future and believes that the Belfast operation has the potential to make a successful bid for this Centre of Excellence. Two of the other respondents also recognised the possibility to make significant investments in the local economy to take advantage of the anticipated demand for processing customs declarations as a result of Brexit.

Rates Charged for Processing Customs Declarations

Service providers were asked to provide details of the rates they charge for processing customs declarations in the Northern Ireland marketplace. Not all providers charge a set rate with some presenting a spread of rates charged to clients – this spread can be explained by factors including the complexity of the declaration or the fact that different rates are agreed with different clients.

Nine companies provided details in relation to the rates they charge per export declaration, of which three companies quoted fixed rates (i.e. £20, £20 and £30 per declaration). The other six respondents quoted a spread of rates (i.e. £15-30, £20-30, £20-30, £25-30, £30-35 and £30-40). Assuming that the average rate is charged by these six companies, the overall average rate a basic export declaration among the nine companies is £26.40. This compares with a UK-wide figure of £30 contained in a report published in October 2019 entitled *HMRC impact assessment for the movement of goods if the UK leaves the EU without a deal (third edition)*^{vi}.

Eight companies provided details in relation to the rates charged for processing an import declaration, of which four quoted a set rate (i.e. £35, £40, £42.50 and £45). The other four companies quoted a spread of rates (i.e. £25-50, £25-50, £30-50 and £40-50). Assuming the average rate is charged by these four companies, the overall average rate quoted for a basic import declaration is £40.30. This compares with a UK-wide figure of £40 contained in the same HMRC report referenced above.

Charges for import declarations tend to be higher than for export declarations as these require more data input than for export declarations, and there is also a financial aspect to processing import declarations relating to the payment of tariffs. For consignments to clear customs, service providers often pay tariffs on behalf of their clients using their deferment account, and one interviewee said that a standard import declaration requiring the use of their deferment account would cost the client £50-60.

It is important to state that many of the respondents also levy additional charges for more complex declarations – typically an additional £2.50 if there are more than 4-5 line-items on a customs declaration.

Seventy per cent of respondents indicated that their rates are open to negotiation based on the client's volume of business, while the other thirty per cent said that they offer little or no flexibility in their rates.

There were varying perspectives in relation to possible changes to rates due to the anticipated increased volume of business post-Brexit, with a similar number of service providers providing the following answers:

- Rates will increase (due to demand, requirement for out-of-hours service, etc.)
- Rates will broadly stay the same
- Rates will decrease (due to demand, improved IT systemisation, etc.)

Over and above the rates charged by service providers for processing customs declarations, importers/exporters also face additional costs in this regard. In its calculations, HMRC estimated that traders will incur internal costs for one hour's administration per customs declaration (estimated at £16 per hour). HMRC also flagged one-off costs to businesses that currently trade only with the EU who will need to familiarise themselves with how to complete customs declarations for the first time. Further training costs will be incurred as businesses upskill their workforce to process customs administration.

Initiatives Recommended by the Sector

Two thirds of participants in the study had applied for funding supports from HMRC, although some were still awaiting funding or had experienced difficulties with the system for obtaining HMRC supports. One company had availed of funding from InterTradeIreland.

Funding from these sources was used by various service providers for specialist software, IT hardware or for recruiting staff.

When asked to suggest measures that might be implemented by the authorities to ensure the sector is prepared for Brexit, responses included:

- A clear decision from Government so businesses can prepare during transition/implementation period
- Extend the deadline for HMRC funding supports (due to expire January 2020)
- Provide supports for induction/training of recruits (given that this can take 6 months)
- Provide incentives to employ staff

- Publish a listing of registered Customs Clearance Agents (e.g. on Invest NI/InterTradeIreland portal sites)
- HMRC should provide online seminars in customs procedures
- Provide short term moratorium on customs declarations to ensure good will flow post-Brexit
- Ensure that infrastructure at Belfast port is in place for customs procedures
- Improve internet speeds at Belfast port

Conclusions

Service Providers in Northern Ireland (including Customs Clearance Agents and Freight Forwarders) have already put considerable effort into their Brexit preparations, although this was mostly focussed on solutions to manage cross-border trade with the Republic of Ireland. They must now consider the implications for trade between Northern Ireland and Great Britain; and they will urgently need clarity in relation to the processes, systems, etc., to be implemented. Similarly, all importers and exporters in Northern Ireland will need to understand the practical implications of the revised protocol on Ireland and Northern Ireland included in the Withdrawal Agreement of October 2019, in order to put the necessary plans in place for customs administration.

There are very few specialist Customs Clearance Agents currently operating in Northern Ireland due to the current volume of consignments requiring customs clearance from Third Countries. To date, Agents have been very conservative in scaling-up for Brexit with little recruitment during 2019 despite recurring threats of “No Deal” outcomes. These operators are extremely unlikely to start recruiting until there is sufficient clarity around issues such as the proportion of GB-NI consignments requiring customs clearance, the exact nature of the documentation required to clear customs between GB-NI, whether tariffs will apply, etc. Given that the sector estimates it takes six months to train new recruits to a reasonable level of capability, recruitment would need to commence in the first half of 2020.

A large proportion of the service providers currently processing customs declarations in Northern Ireland believe that the increased volume of administration post-Brexit will be manageable. However, many of the companies that expressed this opinion operate in sectors that will not see a significant increase in customs-related activity due to Brexit.

Third Party Logistics operators, and, in particular, those involved in Groupage operations are likely to experience the greatest increase in activity as a result of the revised protocol on Ireland and Northern Ireland. Government agencies should work closely with the logistics sector to ensure that these implications are fully understood. Given the lack of capacity in the market, Third Party Logistics operators might need to make contingencies to process customs declarations in-house.

Although only three of the interviewees discussed the potential for significant scaling-up in terms of employment, the impending changes due to Brexit could lead to the development of Northern Ireland as a centre of excellence in customs procedures.

Further work is necessary to fully understand the training needs of the Customs Clearance Agents and other service providers processing customs declarations. This study highlighted both short-term requirements to prepare for the immediate impacts on the sector post-Brexit, but also to train and retrain specialists into the future.

The impact on local businesses having to process customs declarations for the first time should not be forgotten. As well as payments to service providers for processing customs declarations, local businesses will also face additional administration costs, IT systems costs, training costs and other one-off costs to familiarise themselves with how to complete customs declarations for the first time. If there is not enough capacity in the marketplace for service providers to take on new clients, local businesses might need to put systems in place to process their own customs declarations in-house.

Ronan McDonnell, The Logistics Consultants

For further information or queries please contact ronan@thelogisticsconsultants.com

ⁱ See Glossary

ⁱⁱ See Glossary

ⁱⁱⁱ See Glossary

^{iv} See Glossary

^v Owen J, Shephard M and Stojanovic A (2017) Implementing Brexit: Customs, Institute for Government.

https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_Brexit_customs_WEB.pdf

^{vi} HMRC impact assessment for the movement of goods if the UK leaves the EU without a deal (third edition)

<https://www.gov.uk/government/publications/hmrc-impact-assessment-for-the-movement-of-goods-if-the-uk-leaves-the-eu-without-a-deal/hmrc-impact-assessment-for-the-movement-of-goods-if-the-uk-leaves-the-eu-without-a-deal-third-edition>

Glossary

Customs Clearance Agents are parties authorised by international customs authorities to certify and manage consignments between countries. Also called customs brokers.

A **Freight Forwarder** acts as an agent when he performs functions on behalf of, and under the instructions of, the principal (the exporter or importer). As an agent, the forwarder will procure the services of third parties who will perform the packing, storage, transport, handling and customs clearance of the goods.

Third Party Logistics (abbreviated as 3PL) in logistics and supply chain management is an organization's use of third-party businesses to outsource elements of its distribution, warehousing, and fulfilment services.

Groupage involves the combining of shipments from multiple customers to form a single groupage shipment. By filling the truck with other freight, the costs of this groupage shipment can be shared.