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<b>Title of meeting:</b>	Cabinet
<b>Subject:</b>	Portsmouth International Port – preparations for the new Border Operating Model post EU Transition
<b>Date of meeting:</b>	03 November 2020
<b>Report by:</b>	Mike Sellers, Port Director
<b>Wards affected:</b>	N/A

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### **1. Requested by**

The Leader of the Council, Councillor Gerald Vernon-Jackson.

### **2. Purpose**

To update the Cabinet on Portsmouth International Port's (PIP) preparations for handling EU trade when the transition period ends on 31 December 2020.

### **3. Background**

The UK left the EU on 31 January 2020 and entered an 11 month transition period during which the UK and the EU will negotiate arrangements for the future relationship between the UK and EU, including any trade deal. During the transition period the current rules on trade, travel and business for the UK and EU will continue to apply.

The transition period will end on 31 December 2020. On the 13 July 2020, the Government announced a three phased Border Operating Model from January 2021 to July 2021 to facilitate trade and ease new border requirements over this period. This was to recognise the challenges ports, traders and hauliers have had in preparations due to the COVID-19 pandemic.

PIP has more ferry routes to Europe than any other port in the UK including Caen, Le Havre, St Malo, Cherbourg, Bilbao and Santander. Some of these routes are recognised by the Department for Transport as critical freight routes for carrying medical supplies, fresh produce and other high category freight. This has again been highlighted recently with Brittany Ferries contracted by the Government to carry high priority imports from Le Havre to Portsmouth from 31<sup>st</sup> December 2020 for a period of 6-months.

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The EU have been clear that UK goods would be treated as Rest of World (ROW) trade from day one and have prepared and implemented appropriate border infrastructure over the past two years.

PIP is recognised by the Government as a high impact port and a resilience port (to the short crossings in Kent) and has, therefore, been engaged in extensive Government discussions over these plans.

This report is to update members on PIP's engagement plans and preparations to date.

#### **4. The Border Operating Model (BOM)**

The Government announced in July 2020 a number of easements for border operations to facilitate imports and exports from the EU through UK ports in a phased approach, as follows:

- a) January 2021 – high value goods such as alcohol and cigarettes from the EU will require customs entries. Other goods will require a full trading inventory to be held by traders, with delayed summary declarations made by the 1 July 2021, with no formal customs clearance procedure until July 2021 avoiding the need for checks at ports until this date.

Safety & Security declarations are required from this date for all exports as well as customs declarations for inbound transit movements of cargo. It is expected this can be automated for the most part, with a new system from HMRC.

- b) April 2021 – documentation checks at borders will take place on goods of a plant or animal origin.
- c) July 2021 – border infrastructure will be required either at ports or at an inland facility (if the port's footprint is unable to support this). Full customs declarations also required on all goods. Safety & Security declarations are required for all imports from this date.

The BOM is effective regardless of the status of any free trade deal with the EU after the transition period. The type of deal impacts on tariffs for certain goods and not the border operations at the port. Certain ports may be impacted by these tariffs but at this stage it is unclear if this will impact on PIP.

#### **5. Port Infrastructure Fund (PIF)**

In addition to the announcement in July 2020 the Government also announced that £470 million is being made available for critical border infrastructure including customs compliance and border control points (BCP). This is being split as £200 million at ports and £270million at inland sites under a PIF.

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The criteria for applying to the PIF was issued on the 2 October 2020 and bids are expected to be submitted by the end of October 2020. The Government are hoping that port infrastructure will be built and operational by July 2021. All ports, including PIP, have highlighted that this is an extremely ambitious date and is highly unlikely.

An advanced information document was issued on 17 September 2020 to give ports provisional information about the PIF. Examples of qualifying in-scope elements include:

- Import/export infrastructure – core requirements under the BOM.
- Ancillary infrastructure – required to support core entry infrastructure such as staff and driver welfare areas.
- Access infrastructure – access improvements and traffic management.

PIP has engaged with Royal HaskoningDHV to provide the details around design and costs of infrastructure changes, alongside other development works, which will include:

- BCP (for DEFRA commodities) – new infrastructure and modifications to existing buildings.
- Land acquisition adjacent to port land to provide part footprint for the new building.
- Live animal compound and facilities.
- Extension of freight gates to improve access adjacent to the major motorway access to the city.
- Modifications to internal access gate to assist in the movement of the freight between RoRo port and inspection facilities.

Although we do not have an accurate cost estimate at this stage, we anticipate that this will be greater than £20 million.

The challenge that PIP faces is to achieve funding, land acquisition, procurement, planning, construction and operation within this very tight timescale.

Furthermore, if this funding is not approved the port will be unable to provide the infrastructure required for the BOM. Neither is the Council in a financial position to provide any funding for the necessary works required given the serious financial deficit that the Council is endeavouring to manage as a consequence of the additional costs and losses of income arising from the COVID-19 pandemic plus any further financial consequences that may arise as infection rates continue to rise.

Of particular concern would be the need for health checks for products of a plant or animal origin which accounts for 30% to 50% of the roll on roll off freight. This would have serious implications on the existing routes from France and Spain to Portsmouth and the viability of the port for our largest customer, Brittany Ferries.

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## **6. HMRC requirements**

There are a number of requirements under the port approval process with HMRC to achieve the BOM.

HMRC are working on a pre-lodgement model for ports that are unable to hold cargo for significant periods (such as RoRo ports) using the new Goods Vehicle Movement System (GVMS). This will be designed to fit just in time, roll on roll off freight movements such as goods flowing through PIP to/from the EU.

The UK will also be required to comply with the Common Transit Convention (CTC) as a contracting party. The CTC is an international convention that allows goods to move between or through EU Member States and Contracting Parties, under suspended duty.

To facilitate this, working with local Border Force officers on behalf of HMRC, the Port will become designated as an Office of Destination & Departure and also operate 'Transit' moves. The establishment of a 'Public Counter' office within the terminal will enable International Trade officers of Border Force to process all the required documentary checks to meet our obligations under the CTC.

The Port will also continue to accommodate 'Rest of World' trade to enable movement of cargo to/from the Channel Islands and will expand our Wharf Approval to enable Temporary Storage capability. There may also be some continued cross over of EU trade that will require Temporary Storage, so this would back up the just in time, Goods Vehicle Movement system.

## **7. Trader Awareness**

At this stage trader readiness is anticipated to be at 50-70% for large businesses and 20-40% for SMEs, and the Government have commenced a communication campaign in preparing traders for the process at the end of the year.

The BOM is designed to control all trade with the EU (imports and exports), however, there remains concerns that ferry operators will be unable to load exports without the permission to proceed from the EU member states.

PIP is working with Hampshire and Isle of Wight Local Resilience Forum (LRF) with plans to stand up Op Transmission in order to avoid any impact to traffic on the M275 and local roads if there were to be delays at the port.

The LRF has asked the Government for funding support for the first 12-weeks of Op Transmission which is expected to cost £3.8million. If this funding is not forthcoming and Op Transmission is not stood up then there could be inevitable delays at the freight gates with impacts to traffic on the surrounding area.

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## **8. Customs Agents**

Portico Shipping Ltd, an independent trading company wholly owned by PCC, provide a comprehensive range of import & export customs formalities for any goods being imported or exported to/from the UK. The Customs Agency is currently undergoing a considerable expansion in resource to take full advantage of the new Customs regimes that will come into force from the 1 January 2021.

There are already a wide range of new customers that have requested to use Portico Customs Agency as their chosen customs intermediary. These enquiries are coming in daily. With these current agreements in place there is a predicted forecast for the Customs Agency clearances to increase from around 11,000 per year to 250,000 per year if the correct resource is in place to manage these volumes. At the national level it is anticipated that there will be 400 million extra customs declarations needed annually, the extra paperwork will add about £13 billion of costs to UK - EU trade annually. This is an excellent opportunity for Portico Customs Agency to take full advantage of selling their expertise in these services.

## **9. Freeports**

Throughout the EU negotiations, Brexit uncertainty and COVID-19 outbreak, the DFT have recognised the critical importance to a number of trade routes served by PIP.

As one of the UK's major ports, PIP will no doubt provide some resilience to the challenges faced by the short crossings in Kent. Additionally, PIP provides a hub for fresh produce arriving from West Africa and the Caribbean before being exported to the EU.

The Government are expected to announce a criteria for up to 10 UK Freeports in order to simplify tax and custom arrangements. It would be hugely beneficial to PIP if we are one of these 10 Freeports and with this in mind have been working very closely with the Solent LEP who are planning to bid on a regional basis. To date this has been a challenge to PIP, the LEP and the other ports in the region given that the Government have yet to outline the criteria on which the UK Freeport model will be based.

## **10. Conclusion**

- PIP are working towards the new BOM with very challenging timescales and will require PCC support and Government funding to achieve this.
- Operation Transmission will be required to support trader readiness and avoid impact on the M275 and local roads.
- PIP is recognised as a port providing resilience to the challenges faced in Kent around the short crossings.
- The BOM will provide income opportunity for Portico Customs Agency and all other existing custom agencies trading in the UK.

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- Freeport status will be hugely beneficial for PIP
- In the event that Government funding is not provided for the necessary costs associated with the BOM or Operation Transmission, the Council is not in a position to provide the necessary funding, and the consequences would be very severe

Mike Sellers  
Signed by (Director)

**Appendices:**

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<b>Title of document</b>	<b>Location</b>
N/A	