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House of Commons  
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I am writing in relation to your Committees' evidence sessions today with Ministers from the Department for Exiting the EU and the Chief Executive and his Deputy from HMRC. In following up the discussion of government's two options on the UK's future customs arrangements, I thought it would be worthwhile updating you on our latest cost estimates and analysis for our sectors: aerospace, defence, security and space. We are concerned that implementing either of the two customs options proposed would cause substantial disruption and cost to industry and supply chains.

Our latest assessment suggests that the government's maximum facilitation (max-fac) option would potentially cost our sectors up to £2.3 billion after Brexit, up from our previous estimate of £1.5 billion last autumn. The OECD has estimated that new customs barriers could impose costs of between 2% and 15% of value of UK exports to the EU, depending on precise arrangements adopted. Our updated cost assessment has risen due to the increase in the value of exports to the EU in our four sectors in 2017. This reflects global growth and the critical role UK companies play in highly integrated European supply chains.

Analyses published by Oliver Wyman and the CBI suggest that the two customs models under consideration could add costs to the UK aerospace supply chain, directly hurting our sectors' ability to compete for global export opportunities.

It is our view that a customs union combined with a high level of regulatory alignment between the UK and EU is necessary to minimise new costs, maintain industrial competitiveness, and protect the high value jobs our sectors provide.

The government's maximum facilitation option is inadequate and the new cost burden of up to £2.3 billion would be highly damaging to our sectors. Customs are only one reason why goods would be stopped or inspected at the border. The option does not cover rules of origin, regulatory compliance checks or the continuity of road haulage licenses. As indicated by the latest European Commission slides on customs controls there are a range of security and safety as well as other financial and market surveillance requirements in the trade of goods between the UK and EU.

Having the best physical and IT infrastructure to handle customs procedures would not prevent compliance checks and queues at the border. If the UK is no longer a member of the Single Market, not in the EEA or in a customs union with the EU, then the EU would need to protect the integrity of its internal market by checking regulatory compliance at the UK-EU border.

Improved facilitation of trade by relying on technology and other elements such as “trusted trader” schemes including Authorised Economic Operator (AEO) designation falls short and would not guarantee fast track movement across the border. AEO is a complex and heavily administrative scheme that does not suit all companies, particularly smaller suppliers. As such, ADS does not see trusted trader models as sufficient in ensuring customs clearance for just-in-time supply chains.

The government’s proposed customs partnership model appears to be a hybrid model (between a customs union and the highly streamlined customs arrangement) designed to minimise friction with the EU border and meet the government’s negotiating objective on trade policy.

This proposal, as set out in papers published last summer, is untested and presents several issues. The track and trace elements would be onerous given both the volume of parts and the integrated nature of our industry and supply chains. The repayment mechanism would see companies claiming back the difference between duty rates, which presents concerns for suppliers, especially SMEs, in facing a cash flow hit and affecting their ability to compete. To definitively determine where a component part is destined or “consumed” would require huge system changes and result in prohibitive costs, higher than paying the difference in duty. There is significant complexity in any version of this model.

We continue to believe that a customs union between the UK and EU provides a pragmatic solution that would minimise new costs to a far greater extent than the two customs models currently proposed.

I would welcome the opportunity to discuss with you our assessment on customs in more detail and update you on our views in relation to other key regulatory issues that our industry is facing.

**Paul Everitt**  
Chief Executive

Cc: Rachel Reeves MP, Chair, Business, Energy and Industrial Strategy Select Committee