



HM Revenue
& Customs

Research report

Exploring SME interaction with UK Customs

Qualitative research with SMEs and
intermediaries

Prepared by TNS BMRB
November 2014

Customer Insight & Knowledge Team

Exploring SME interactions with UK Customs

About HMRC UK Customs:

HMRC is the UK customs authority. It is responsible for the:

- development and delivery of UK and EU customs law, and its application as operational policy at the UK border;
- supporting the UK economy by ensuring that facilitations and simplifications are available and widely used;
- enforcement of the UK’s strategic export and trade controls, UN/EU sanctions and embargoes and EU controls on goods infringing Intellectual Property Rights;
- compilation and provision of the UK overseas trade statistics, including the assurance of customer-provided Intrastat data.

Contents

Research requirement (background to the project)3
 When the research took place3
 Who did the work (research agency)3
 Method, Data and Tools used, Sample4
 Main Findings5
 Context: SMEs and intermediaries5
 Dealing with non-EU countries.....6
 Main issues and suggestions for improvements7
 Non-UK Customs7
 Issues with UK Customs8
 Issues with other UK agencies9
 Commercial and infrastructural10
 Conclusions11

© Crown Copyright 2014 - Published by Her Majesty’s Revenue and Customs.

Disclaimer: The views in this report are the authors’ own and do not necessarily reflect those of HM Revenue & Customs.

Exploring SME interactions with UK Customs

Research requirement (background to the project)

The Government intends to increase UK and EU economic growth by helping to promote trade in goods across international borders, particularly through growing exports from the UK to outside the EU. SMEs can face particular challenges with growing imports from, and exports to, countries outside the EU.

HMRC's challenge, in response to the Government's trade and security agenda, is to further facilitate trade in goods across international borders by reducing barriers and burdens for SMEs, improving customer experience, and identifying cost-effective improvements for the SMEs and intermediaries that utilise customs services.

This research aimed to uncover the current barriers and challenges that SMEs perceive and encounter at all stages of the process of importing and exporting, to help inform targeted improvement of services.

The specific research objectives were:

- To understand SMEs' perspective and experience of importing and exporting goods *outside the EU*, focussing on the extent to which commercial and customs processes are seen to be integrated or disjointed, and how they could be brought together;
- To explore a range of SME customer journeys to understand the time, cost, and administrative burdens faced, including the different agencies involved, and why;
- To understand the drivers and barriers SMEs experience and perceive upon entering, and subsequently growing in international trade and working across international borders;
- To understand the impact on SMEs of customs controls on the import / export of goods;
- To understand the benefits and drawbacks of intermediary involvement, including any regulation that may be needed;
- To explore any changes or improvements SMEs would like to see in either EU or UK customs law, and/or operational delivery.

When the research took place

All interviews were conducted by TNS BMRB researchers between 21st July and 5th September 2014.

Who did the work (research agency)

This research project was carried out by TNS BMRB Ltd.

Exploring SME interactions with UK Customs

Method, Data and Tools used, Sample

The study involved three stages of fieldwork.

Phase 1 was an initial scoping element and comprised:

- an introductory researcher briefing concerning the Customs Handling of Import and Export Freight (CHIEF) system, which is the UK's customs declaration processing system and the processes involved in importing and exporting;
- ten telephone interviews (seven with SMEs, three with intermediaries) to construct skeleton journeys and identify components for different types of SME (and where services are typically outsourced to intermediaries);

Phase 2 comprised:

- two consecutive online communities (16 participants) in the first community, 15 in the second) to refine and build on the findings and skeleton journeys generated from Phase 1; identify ways to mitigate barriers and inefficiencies and to elicit views about how to improve services going forward;

Phase 3 comprised:

- three focus groups (two with SMEs, one with intermediaries), which enabled a further refinement of the journeys and an opportunity to gauge SME / intermediary views on how HMRC could better facilitate their import/export needs.

The sample covered a range of SMEs in terms of size, turnover, and age of business; importing/exporting different types of goods; trading in a range of markets; and covering both sea and air routes. Six SMEs out of the 41 in the sample were not using intermediaries. The sample also included 17 intermediaries (mainly freight forwarders), servicing a range of SME sizes; across different markets; with a mix of direct and indirect representation.

This report first discusses the SME experience of **entering** import / export markets outside the EU, the reasons for their reliance on intermediaries, as well as briefly exploring the intermediary market landscape. It goes on to explore the perceived barriers to **growth** in non-EU countries. The rest of the report details the **main issues encountered** by both SMEs and intermediaries when undertaking trade between the UK and non-EU countries, with **suggestions for improvements** detailed within each section.

It is important to note that the methods employed in this research were qualitative in nature. Qualitative findings do not purport to reflect the views and experiences of the population as a whole, or measure their extent numerically; rather they define and describe the range of emergent issues and explore linkages. Verbatim quotations are used throughout the report to illustrate the points made, referenced according to their quota information.

Exploring SME interactions with UK Customs

Main Findings

On the whole, experiences at the UK border were viewed positively by both SMEs and Intermediaries in the research with barriers to trade perceived to be originating primarily from interaction with non-EU customs. For SMEs, this was in part driven by a lack of awareness of individual country requirements and communication and language barriers, as well as a general lack of visibility of the import / export journey. As some SMEs felt their core business related to the sale or manufacture of goods they traded in, rather than in the *movement* of goods, they paid comparatively little attention to understanding the import and export process. Consequently, SMEs in the research had very little knowledge or understanding of the import / export journey and commonly outsourced the majority of the process to intermediaries such as freight forwarding companies. As such, SME priorities related to information provision and support to help them navigate unfamiliar and complex territory, whereas intermediaries identified more specific improvements to processes they were more closely involved in.

Whilst the majority of issues encountered related to non-EU countries, SMEs and intermediaries identified several potential improvements for UK Customs and border agencies. These primarily related to a lack of timely notification for importers/exporters when goods were held, difficulty contacting customs experts, and a need to improve inter-agency communication. Commercially-driven barriers to trade were also highlighted by respondents, such as inadequate infrastructure both in the UK and overseas.

Context: SMEs and intermediaries

The decision to enter the import / export market outside the EU was driven by the opportunity for growth and increased profit margin, but it was not without its difficulties.

"Our decision to import from outside the EU was revenue based, to compete with our competitors" (SME, import and export, 0-49 employees, use Freight Forwarders, China and India)

Recognising that the import / export market was complex, there was a tendency for SMEs in the study to follow a prescribed process that they had learned over time, often through dealing with a single commodity or one non-EU country. With the import / export process viewed by some SMEs as simply being a means to an end, there was generally little stated desire amongst them to know more about how the end-to-end process worked. Intermediaries also reported this lack of engagement amongst some of their SME client base. Where SMEs had wanted to expand into other markets they had found it very hard to find the relevant information. As a consequence, developing their business into new non-EU markets was slow, with SMEs learning by trial and error, and at times making costly mistakes.

Exploring SME interactions with UK Customs

"I do not really understand the process and it isn't something that I would concern myself with, like most business owners I follow the required process and expect because I do this that the process is followed from despatch to delivery." (SME, import only, 10-29 employees, use FF, USA)

Intermediaries were in general agreement about the pitfalls that unwary SMEs may encounter in the import / export process. With their knowledge of the many differences between non-EU markets, intermediaries were keen to undertake as much of the import / export process as possible and had a universal preference for direct representation which together minimised their liability and maximised their control over the entire process.

Both SMEs and intermediaries commented on the variable level of professionalism within the freight forwarding market. Though broadly satisfied with their current provider, some of the SMEs had in the past experienced very poor quality service. Intermediaries themselves commented on the lack of formal qualifications required and the low cost of entry into the freight forwarding business meant that it was easy for 'rogues' to set up and devalue the market. With a desire amongst intermediaries to 'professionalise' the freight forwarding business, both intermediaries and SMEs called for a minimum entry requirement and some form of regulation.

"In reality the entry cost to be a freight forwarder is incredibly low...it's about what you know, and having a phone and internet connection...there are a lot of companies that just open up and they go bust the next month." (Logistics Company)

"I can honestly say that since we started using this firm, I've never had a problem with them, it's the relationship we built up with them that is good. They have a cost, but they're your team. They're your people." (SME group, Liverpool).

Dealing with non-EU countries

Those SMEs in the sample that had moved into new non-EU markets found that every market was different and had its own rules and difficulties. Typically, the lack of country-based import / export information was viewed as problematic. Cultural and language barriers were also seen to make negotiations difficult, with SMEs claiming that dealing with contractual and quality issues was a part of the steep import / export learning curve. In the light of the difficulties experienced, and often as a direct result of the negative experience of attempting to manage import / export internally, most of the SMEs in this research used an intermediary to manage all or part of the import / export process.

Intermediaries were very aware of the differences between non-EU export markets pointing out a wide range of country-specific issues, including: the need for different types of licences and documents required for different markets; some countries requiring original

Exploring SME interactions with UK Customs

documentation and not accepting electronic documents; high levels of bureaucracy; very strict adherence to rules; inherent delays in some countries due to insufficient staffing or poor infrastructure; and local un-written arrangements. With in-depth country knowledge and contacts in local ports, intermediaries felt that they were far better placed to anticipate and deal with problems than SMEs.

“Without an “agent in the know” it wouldn’t be possible to export to some countries.”
(Logistics company)

Main issues and suggestions for improvements

Non-UK Customs

Although this research focussed specifically on any issues encountered when dealing with UK Customs and border processes, proportionally more problems were reported by respondents in relation to dealing with non-EU countries and their border agencies, particularly for export. Some of these issues mirrored the problems encountered in the UK, though were exaggerated by a lack of understanding of what was required, communication and language barriers, and outdated, manual systems. Some of the SMEs and intermediaries in the research felt that there could be better communication between UK and non EU ports, with some suggesting a UK presence in non-EU ports to improve communication and trade.

“We don’t usually get an actual reason of why goods are being held, it really can be for a number of things. It could be a random inspection for example. As a lot of our export destinations don’t speak English it would be hard to find out a reason why the goods are being held and it is usually left to our customers to sort.” (SME, import and export, 0-49 employees, use Freight Forwarders, Far East, AUS, USA, China)

Both SMEs and intermediaries considered that exporting into certain non-EU countries was complicated by strict bureaucratic processes and the severity of their application. This occurred not only at the border as goods entered the country, but could take place at later stages of the journey, as goods moved between provinces or states. The checks, and the agencies undertaking the checks, were often unknown to SMEs and unexpected. The strictness of non-EU rules was one of the main drivers behind the administrative burden for exporters in terms of the time and resource allocated for the verification of documents. SMEs felt that country-specific guides, detailing specific requirements and common issues encountered would help them better prepare in advance and avoid unnecessary delays, alongside improved communication with non-EU customs.

Exploring SME interactions with UK Customs

Issues with UK Customs

Overall, SMEs and intermediaries reported positive experiences when dealing with UK Customs, particularly when exporting outside of the UK, where problems at the UK border were rarely encountered. Importing into the UK also tended to run smoothly, although when problems did arise, it was felt that Customs could improve experiences in three ways – by providing prompt notifications when goods are stopped, improving communication, and issuing definitive guidance on commodity codes. These are discussed in more detail below.

“99.5 per cent of what they do it isn’t bad and it’s consistent...it’s quite a good simple, straightforward, well worked process.” (Freight Forwarder)

The negative impact of delays when goods were held was a commonly cited issue by SMEs, carrying both cost and reputational impacts. Costs were particularly significant for SMEs attempting to manage shipping without the support of an intermediary, given their limited access to haulage networks. SMEs commonly reported that not knowing when goods would be released could result in having to pay for trucks to wait at the port, on top of port storage charges and having to offer discounts to customers whose goods were late. SMEs often remained ignorant of the fact that their goods had been stopped until contacted by their customers whose goods had not arrived. Though notifications are currently provided through CHIEF¹, almost all the SMEs that took part in the research did not access CHIEF directly, outsourcing Customs declarations and other dealings with the system to their intermediaries. Notably, some of the smaller intermediaries did not directly use CHIEF either, due to the infrastructural set up costs required. Both SMEs and intermediaries consequently wanted a proactive and timely notification when consignments were stopped, detailing the reason the goods were being held, and the likely length of the delay. This would allow them to reduce the cost of delays, for example by reorganising haulage and managing customer expectations.

“If you know about it then you can deal with it, but if you don’t and you’re sitting there twiddling your thumbs...then you’ve got a problem.” (SME group, London)

A call for improved communications with Customs came primarily from the intermediaries, as the SMEs in this research rarely contacted them directly. The main issue raised was the difficulty getting beyond generic guidance in order to speak to an expert. The process of navigating to the right person was reportedly time-consuming, involving numerous steps and re-directions. These barriers were exacerbated by the limited opening hours of Customs helplines, and difficulty getting through. A clearer contact structure, with more direct access to Customs experts to deal with more complex queries, was suggested.

¹ *Customs Handling of Import & Export Freight (CHIEF)*, the electronic system providing processing and communication between Customs and traders.

Exploring SME interactions with UK Customs

Commodity codes were raised as a source of potential error and occasional frustration. The SMEs commonly struggled with the complexity of the commodity codes system and found it very difficult to determine the correct codes for goods without the help of their intermediary. Whilst they understood the requirement for accuracy, few had grasped the pertinence of codes, or understood what was driving the complexity. Those SMEs handling shipping in-house felt commodity codes represented a point of contention between themselves and Customs, believing any challenge to a classification by HMRC to be driven mainly by a desire to increase revenue rather than accuracy. Intermediaries on the other hand had a much better grasp of classification. The only issue raised in this regard was that of the occasional lack of definitive guidance from Customs on new or complex goods, as intermediaries felt Customs was too reticent in providing 'black and white' decisions.

“Many of the importers we work with...have no real understanding of international trade, commodity codes, VAT etc. so we really have to talk them through the whole process. We usually end up having to advise on the correct commodity codes to use, as they simply lack any ability to classify their own shipments.” (Freight Forwarder)

Some SMEs also complained about the need to provide original documentation to Customs, which was viewed as outdated and unnecessary.

Issues with other UK agencies

The extent of integration between border agencies was considered a significant contributory factor for the reduction of burden on importers / exporters. Although there was some evidence of a lack of joined up communication between some UK government departments, both intermediaries and SMEs in particular had very little contact with any of the agencies at the border. The SMEs did not knowingly encounter any other agency at the border beyond Customs, and as discussed above had minimal contact with them.

Intermediaries' key issues concerned inter-agency communication, as well as the difficulties faced in making contact with different departments. Communication between various border agencies and the National Clearance Hub² (NCH) was reportedly poor, as they found that agencies would not necessarily notify NCH of consignment clearance status. In these instances, intermediaries were themselves acting as 'middlemen' to ensure the transfer of information. It was also reportedly difficult to get in contact with the right person at NCH who held information about a particular consignment, and hard to track documents sent there.

Other agencies at the border frequently did not publish telephone numbers and were much more difficult to contact than Customs. As such, the intermediaries disliked having to contact each agency separately in order to track the status of their goods, and suggested

² The National Clearance Hub (NCH) is a centralised clearance hub responsible for processing goods transiting the European Community (EC).

Exploring SME interactions with UK Customs

the introduction of a more defined contact structure when goods were stopped, and ideally having a single point of liaison rather than several. An automated, integrated communications system between all agencies and NCH was also put forward as a way to improve experience.

“I would personally say that none of them [UK border agencies] are that easy to deal with in the sense of getting any information. Nine times out of ten the person you contact doesn’t really know the situation.” (Freight forwarder)

Specific concerns were raised by intermediaries in relation to Port Health Authorities, whose policies differed depending on the port (driven by Local Authority differences). Some intermediaries found the lack of standardised approach problematic as they felt they did not know what to expect and were unable to predict which shipments might be stopped.

Commercial and infrastructural

Some of the concerns raised related to the commercial processes of import / export, and the ways in which existing infrastructure facilitated or inhibited trade. Fluctuating shipping costs were a source of difficulty for most of the SMEs as the reasons for cost variability was poorly understood, making it difficult to justify or manage this with their customers. They suggested the introduction of a flat rate or simpler way of determining costs. They also noted the lack of consistency in the quality of packing materials used by non-EU suppliers, which could result in goods being damaged or potentially stopped and checked by Customs. Low quality packaging was known to either raise suspicion amongst border agencies, or fail to meet EU requirements – both resulting in a delay. The introduction of minimum international standard for packaging was suggested as a possible remedy.

“Costs vary every shipment...but I can’t say to [my customer] I’m sorry there’s been an increase...[Items] which were £80 last month, they’re now £100.” (SME, import and export, 0-49 employees, use FF, USA and China)

Inadequate infrastructure occasionally hampered the efficiency of import / export journeys. Several non-EU countries were regarded as having poor infrastructure both at ports and in road networks. In the UK specifically, two main issues were raised by both the SMEs and the intermediaries that were felt to demonstrate a lack of integration between commercial and border agency processes. Firstly, it was deemed unhelpful that 24 hour ports were only staffed by border agencies during the day, leading to periods where support was unavailable. Secondly, a specific issue was raised concerning the lack of haulage at certain ports, resulting in a bottleneck of goods. SMEs and intermediaries in the research called for additional staffing hours at ports and on helplines, as well as investment in port infrastructure.

Exploring SME interactions with UK Customs

Conclusions

SMEs wanted more accessible information and guidance for importing and exporting to help them avoid mistakes and consequent delays. They appreciated the complexity of the processes involved and were content to continue to outsource to accredited intermediaries – but felt they would benefit from country-specific guides and introductory information, better preparing them to grow their business in non-EU markets. SMEs attempting to undertake the process themselves were interested in training opportunities.

Despite overall positive experiences, SMEs and intermediaries participating in the research pointed to several issues that could result in inefficiencies. They felt these could be alleviated through the establishment of an integrated contact offer and improved communication between agencies at the UK border, as well as better tracking and prompt notifications for when goods were held. Although issues driven by non-EU countries were recognised as beyond the UK's control, respondents suggested that a UK presence in overseas ports could help facilitate communication and supply chain visibility.