HOUSE OF COMMONS

Welsh Affairs Committee

Oral evidence: Brexit and trade: implications for Wales, HC 176

Thursday 8 October 2020

Ordered by the House of Commons to be published on 8 October 2020.

Watch the meeting

Members present: Stephen Crabb (Chair); Tonia Antoniazzi; Simon Baynes; Virginia Crosbie; Geraint Davies; Ruth Jones; Robin Millar; Dr Jamie Wallis; Beth Winter.

Questions 112 - 149

Witnesses

I: Professor Peter Wells, Director, Centre for Automotive Industry Research, Cardiff Business School; Dr Kathryn Ringwald Wildman, Steel Industry Analyst; and Dr Richard Greville, Director, Wales Cymru & Distribution Supply Chain, Association of the British Pharmaceutical Industry.

Examination of Witnesses

Witnesses: Professor Peter Wells, Dr Kathryn Ringwald Wildman and Dr Richard Greville.

Q112 **Chair:** Good morning and welcome to this session of the Welsh Affairs Committee in the House of Commons, continuing our inquiry into the impact on the Welsh economy of post-Brexit trade agreements. I am delighted that we are joined this morning by three distinguished industry experts, representing three very important fields for the Welsh economy: life sciences, steel and the automotive sector. I am going to ask each of the panellists to briefly introduce themselves, and then we will press on with the questioning.

Professor Wells: Good morning. I am Professor Peter Wells, and I am based at Cardiff Business School, which is a constituent school within Cardiff University.

Dr Greville: Bore da, good morning. Thanks for the opportunity to provide evidence to the Committee. I am Richard Greville, and I am one of the directors of the Association of the British Pharmaceutical Industry. I have geographical responsibility for Wales, and I have responsibility for the wider supply chain to the UK.

Dr Ringwald Wildman: Good morning. I am having a little trouble with my sound quality this morning, so I may not be able to manage the camera all the time. As an international business studies academic in south Wales, I developed an interest in the steel industry more than 20 years ago. Since then I have been an analyst on the Welsh steel industry in its national and international context.

Q113 **Chair:** Thank you very much. Before I bring in fellow Committee members to ask specifically about Brexit and trade impacts, could I ask each of the panellists very briefly, as concisely as possible, to set out how they see their particular sectors within the Welsh and UK economies at this time? Of course, we are looking at the impact of post-Brexit trade arrangements, but I do not think we can be ignorant of the fact that industry across the country is still coming to terms with the impact of Covid as well. You might want to refer to that and give us a snapshot, please, of how you see the health of your particular industry at the moment.

Dr Greville: The Association of the British Pharmaceutical Industry exists to make the UK the best place in the world to research, develop and use new medicines. It is important to understand the context in which I will be answering some of the questions today. We represent companies of all sizes who invest in discovering the medicines of the future. Our members are the ones who supply the cutting-edge treatments, branded medicines, if you like, that improve and save the lives of millions of people across the world. We work in partnership with Governments and the NHS so that patients can get new treatments faster and the NHS can plan how much it spends on medicines, both aspects that are critical and important.

The pharmaceutical industry has always said that a negotiated outcome with the EU is essential, and from day one we have urged both sides to conclude an agreement that covers the vital areas of medicine supply, patient safety, science, research, people and customs. Hopefully the perspective that I will bring to the table today will be wider than perhaps a lot of other sectors, just because of the nature of the pharmaceutical industry.

While we have always been clear that getting a comprehensive trade deal is the best outcome for patients and the industry in the UK and EU—and, of course, in Wales—with time running short, there is now an urgent need for technical agreements that can benefit both sides.

I think we are in the last chance saloon, a strange term at a time of lockdown, but it is nevertheless true. The technical solution that we would propose as being most critical at this time is that of agreeing a mutual recognition agreement so that there is alignment and co-operation in terms of the regulation of medicines. Specifically, then, for some supply issues to Northern Ireland, there needs to be resolution and further clarity on the impact of the Northern Ireland protocol, which may or may not be of direct interest to the Committee.

Q114 **Chair:** Thank you very much for that. We will get into the detail of how particular trade deals may impact your sector a bit later. Peter, a snapshot of the health of your sector at the moment in Wales would be very useful.

Professor Wells: To preface this, I am not in any sense a lobbyist or spokesperson for the automotive industry. I am an independent academic, and I have researched the automotive industry for 35 years. I have an expertise in the global structure of the industry, sustainability issues and technology change. My research has covered all aspects of this industry, literally from the steelworks, which are a concern for Kathryn, to the scrapyards, of which we have plenty here in Wales.

I am coming to this as a neutral, so to speak, and obviously there are bodies that articulate the automotive industry view here in the UK, most notably of course the SMMT. It has been fairly consistent in its view that the decision to leave the European Union was a very poor decision as far as the industry is concerned and that events subsequently have not helped.

Before I answer the detailed question, I want to put the industry in some kind of context. There are essentially four things going on right now, one of which is obviously the decision to leave the European Union. The other three are also very important and cannot be totally disentangled. First, there has been a widespread and very profound restructuring in the industry in terms of ownership and so forth, but also in terms of location.

Broadly speaking, that is putting a lot of financial stress on various parts of the industry, and there is a shift away from production in Europe towards other markets and a general contraction in the industry is likely. That is a background economic problem.

Secondly, as you are perhaps beginning to be aware, there is a huge amount of technological change in the industry right now, not just in terms of electric vehicles, but in things like connectivity, autonomous vehicles, new business models, new ways of working and so on. The digitisation of the industry from top to tail all the way through the supply chain is a profound issue. Dealing with the technology change concerns is itself very important. In parentheses, one of the issues that Wales faces is that we are somewhat outside the cutting edge of a lot of that technology.

The third issue is obviously the pandemic. The transport sector generally was heavily implicated in the pandemic and, of course, the whole process of restricting movement and restricting travel has had a profound effect on the industry as well. Markets have more or less collapsed over a short period of time, and they are not recovering very quickly.

Those three additional background factors put the whole debate around the decision to leave the European Union in a clearer context.

Q115 **Chair:** Thank you very much. You mentioned at the start of your answer that there is a trade body for the sector, the SMMT. It put out a statement last month with some fairly dire figures for what is going on within the industry: big drops in production, as you just referred to. As someone who has followed the sector and studied it for a long period of time, do you see any light at the end of the tunnel for Welsh and UK automotive manufacturing?

Professor Wells: Not at the moment. It is always a matter of timing to some extent for the individual companies, in the sense that it depends where they are in their investment cycle and what kind of products and models they have available, but the news I am seeing is all about retrenching on forward model development programmes, which as far as I am concerned is a concern. Basically that means they are not all that interested in overinvesting, shall we say, in future models and future technologies. That means there is an even greater level of caution now than there was previously.

Q116 **Chair:** Do you think we should be bracing ourselves for further significant job losses in the sector in Wales?

Professor Wells: Yes. The brief answer to that has to be yes.

Q117 **Chair:** Kathryn, can you give us a perspective of the steel industry in Wales? It is obviously an industry with huge historical and emotional importance for the Welsh economy and Welsh society. Where are we at the moment?

Dr Ringwald Wildman: We have to wind the clock back. To determine where we are now, we have to look back to 2015, before the decision to leave the European Union was made. At that time, the steel industry in the UK was in crisis. In fact, it has been described as the worst crisis in six decades for the industry. When the vote to leave Europe was announced, that simply delayed the resolution of many of the uncertainties that existed.

At the moment the steel industry, particularly in Wales, is in dire need of massive investment in a number of ways. In terms of the industry in its context, if we look at the steel that is produced in Wales, we produce around 4 million tonnes of steel, which contributes to the 8 million tonnes of steel that the UK produces. That is within the context of Europe, with 162 million tonnes of steel. China produces 808 million tonnes, and globally 1,709 million tonnes are produced. Although in global terms—and this is very much a global industry—the industry in Wales is small in volume, it is central to our industrial strategy and to manufacturing, so it is important to us. If we look at exports and imports in relation to the UK, 52% of our steel exports go to Europe, so it is a very important market for us.

As you said, it has emotional connections with Wales. It is very important to us. To the communities where steel is important in Wales, it is the lifeblood. It is the major industry. It employs some 7,000 people directly. Indirectly there are a number of different figures quoted for the wider employment impact, anything between 10,000 and 20,000 people are employed with strong connections to the steel industry in Wales. It is vitally important. The jobs in the steel industry in the UK are also above the national average for wages, with excellent training. They are skilled jobs. They are the sorts of jobs that are very difficult to replace if we lose them.

Unfortunately, at the moment we have a great deal of uncertainty. We are all aware of the imports from China, the supposed dumping and the measures that have been taken to prevent or to offset that. Of course, we also have problems of rising and uncompetitive costs compared to our European competitors.

Now the Covid epidemic has drastically reduced the market in all sectors and, as Peter has said, in the automotive industry significantly. It is in a desperate state and, again, time is of the essence. The decisions around steel and the investment that is available to support it are significant right now.

Q118 **Chair:** Kathryn, thank you very much. That is very helpful. You said in your answer that the steel industry is in dire need of massive investment. The chairman of Tata said at the start of this year, before the onset of the pandemic, that the Indian company cannot, "keep funding losses" at Port Talbot. I think that was his exact quote. Given the position of the family and the Tata company and what you say about the massive need for investment to keep the steel industry in Wales going, where is that investment going to come from?

Dr Ringwald Wildman: Of course an application was made through Project Birch for £500 million to contribute towards the greening of the plant, the conversion from blast furnace to arc. That comes with consequences, but certainly there needs to be significant investment to bring us up to the level of competitiveness where we can compete on a global stage and where we can have sustainability in the long term.

You are absolutely right about the comments from Tata. They are significant. No company can continue to make losses, as Tata is now. Only this weekend we have seen reports that Jingye, the company that bought the Scunthorpe plant in March of this year, seems to be interested in Port Talbot and is having preliminary talks. There is very little known about that at the moment, but if they were to make an offer for Port Talbot, it would certainly be of interest to Tata, I am sure, but it would need to come with promises of significant investment from Jingye and also from the UK Government, which may involve an equity stake in the plant.

Chair: I am sure members will want to pick up on some of that in later questions. Thank you very much for that scene setting from the panel.

Q119 **Simon Baynes:** Thank you to all the panellists for giving up your time this morning. It is greatly appreciated by us. The first question I wanted to ask, and it has been touched on already, is how heavily your sectors depend on EU exports and imports. I will spare Kathryn having to speak again, but she gave a figure of 52% for the steel industry to the EU. I will come back to her later.

Professor Wells: If you look at the Wales position, the situation essentially is that the Welsh automotive components industry is primarily still supplying into the UK. There are some assembly plants in England. Therefore it is an indirect relationship in terms of exports to the European Union.

In broad terms, before Covid appeared and we had all these structural issues, the United Kingdom had run a trade deficit in automotive with Europe and, indeed, with the world for a very long time. That is because there is a structural gap. That is to say the market in the UK has always been bigger than our production, and it has been like that for a good many years. Although it is true to say, as the SMMT often does, that the United Kingdom exports over 80% of finished vehicles around the world, of which maybe 50% of total production is exported to Europe, we are still importing even more.

There is an interesting problem there. There has been some opinion voiced that maybe the European Union is more dependent upon us than is currently thought in terms of the automotive market—we are a big market for Europe—so perhaps it will be prepared to negotiate better terms when it comes to a deal between the UK and the rest of the

European Union. However, although it is a big market, it is still not big compared to the rest of the European Union. We are still in a more vulnerable position vis-à-vis trade talks with the European Union.

It is true to say that some of the vehicle manufacturers, notably Nissan and JLR, have, with some success, tried to reduce their dependence on the European market. They have sought other markets around the world, and they have done quite well with that, but it has not significantly changed that structural position.

Q120 **Simon Baynes:** You have touched on a point that I was going to move on to. I was going to talk about the non-EU countries, but I will come to that as a second question. Thank you very much for that.

Professor Wells: Could I add something else?

Simon Baynes: Yes, go on.

Professor Wells: Typically for the components industry, they are increasingly individual plants within big groups. The issue there is it is a double-edged sword. On the one hand we have seen, particularly here in Wales, that sometimes when these new companies come in and take over a business in Wales, it has been beneficial. They have put in more investment; they have put in capital; they have trained workers. We have seen that in a number of plants, particularly the old Llanelli Radiators plant, for example, and the press shop in Llanelli. They both benefited from that sort of event.

However, in the current context, the way this works is that, as new business becomes available to the group, the plants within the group all have to compete to win that business. This is where those plants become vulnerable because other plants, if they are already inside the European Union, are in a much stronger position to win that European Union business. Within the group, before you worry about anybody else that you might be competing with, the plant has to become the best plant in the group to win that business, and that is where the problem will lie in the future.

Q121 **Simon Baynes:** Dr Greville, could we move on to the pharmaceutical industry and the same question?

Dr Greville: I will start off by reflecting on the life sciences sector in Wales to give a feel for the value of the life sciences sector here. According to Welsh Government figures, we employ about 11,000 people and we export just under £1 billion-worth on an annual basis. Looking at the pharma industry across the UK, again you are looking at a critical industry that operates out of about 860 sites across the UK. The number of people employed by the industry is over 60,000 in roles, and over and above that there is an additional 24,000 people involved in the critical aspect of research and development. We invest more in R&D than any other sector. We invest on an annual basis of the order of £4.5 billion.

Moving on to your question about exports and imports and the relationship with the EU, Simon—I have not forgotten, honest—in 2019 just over 40% of UK pharma exports went directly to the EU. That is of the order of just under £10 billion. For the same year, for the same period, about 80% of UK pharma imports are from the EU. As you can see, there is large movements of pharmaceutical products from and to the UK from Europe. An often-quoted reference is about 45 million packs a month move from the UK to Europe and 37 million packs move the other way, from Europe to the UK. I hope that gives you an outline of the footprint.

Q122 **Simon Baynes:** That is very helpful. Do you have any feel for what the Welsh proportion of that might be, or is that difficult to break out at this stage?

Dr Greville: It is always difficult to break out, Simon. However, we have two prominent ABPI members in Wales with important global manufacturing sites. We have Norgine in Hengoed in south Wales, and we have Ipsen just outside Wrexham in north Wales. Both contribute significantly and have global manufacturing sites there that would certainly supply Europe and further afield.

Q123 **Simon Baynes:** Dr Wildman, can I come back to you? You have already given me the figure of 52% of steel exports to the EU. Do you want to add any comments to that?

Dr Ringwald Wildman: Yes, 50% of our steel is used in domestic markets so, of course, they are very significant, but the EU is certainly our largest export destination. We also import 69% of our steel imports from Europe, so again the balance there is obviously in favour of the European Union, as things stand.

In Wales, the picture is slightly different. If you look simply at the steel produced in Wales, we export £1 billion-worth of that per year, balanced against imports of £400,000. Of course it is perhaps artificial to look at it as just a Welsh thing, because those products go all over the country and further afield. It would certainly be a concern, given that the automotive industry, as Peter has outlined, is also suffering a considerable crisis and downturn in demand, that that picture across Europe could affect our exports to Europe in the near future.

Q124 **Simon Baynes:** I will move on to my second and final question, which is to turn the picture around and look at the trade with non-EU countries and, linked into that, the ability for those non-EU countries to become more important trading partners. To what extent do you feel that opening up markets elsewhere in the world might help to compensate for any diminution in trading with the EU?

Professor Wells: It is an interesting problem. First, exporting cars is not a great thing. We once did a report on this. We called it "shipping air," and this is really what you are doing. In shipping terms, a car is like a feather. It is a bulky product that is very easy to damage, particularly on external surfaces. Long-range shipping of cars, although it happens and it happens a lot, is not the ideal solution in many respects. A more local assembly and manufacturing operation is preferred. That is why we see the proliferation of vehicle assembly plants around the world.

Of course there is still a question of how much investment you put into each plant and how many markets you are trying to reach with that plant. What we have seen over the years is that the United States has long been a significant market for some UK-produced vehicles, particularly JLR, Rolls-Royce and those sorts of companies. It varies. It does go up and down. Jaguar famously had a very poor-quality reputation in the US, for example, where the standing joke was you always had to have two because one was always in the garage. These are issues of brand, reputation, model design and positioning, and so forth, that are extremely fluid, extremely flexible, very variable, in very competitive markets. The US in particular is a very difficult market to make money in.

The problem for UK-based manufacturing is that to reach those non-EU markets is going to be more difficult and more expensive. In some cases, for example, in China, we are already seeing significant investment going in there to support local manufacturing of the products. Bear in mind also that, as the manufacturing and vehicle assembly processes move, so too does the component supply side. Again, it is better to be reasonably proximate to the final assembly location when you are shipping components and materials into the plant.

I think the hope that you can offset the reduction in sales in Europe by reaching other markets is probably misplaced. I do not see that there is going to be enough opportunity in enough places of sufficient scale to offset the probable reduction in sales that we will have in Europe. That reduction in sales will come not just because of some future taxation regime but because of the change in sentiment towards UK-built vehicles. We have already seen evidence of this: news reports in the automotive industry and news sources talking about consumers not wanting to buy British. Because we have turned our backs on them, they will turn their backs on us. I do not see a lot of hope for a significant uptick in exports to non-EU countries arising in the next two, three or four years.

Dr Greville: Looking at the rest of the world, I gave figures earlier about our relationship with Europe, and if you expand that you can work out the relationship with the rest of the world. It is still very important: 60% of UK exports, for example, go to the rest of the world, so that is certainly an important market for us. In the same way, we import 20% of our pharmaceuticals from the rest of the world, predominantly America, of course. That is a critical supplier of both imports and exports, a very important market.

How important is it? It is really important. We are very encouraging of the UK Government to develop as many free trade agreements as they possibly can with the rest of the world. For medicines, it is really important to have mutual recognition agreements included in those free trade agreements. It is emphasising the importance of regulation that I touched on earlier, and a critical way forward for such a highly regulated industry as the pharmaceutical industry.

It may be useful to reflect on the overriding principles that we hold for free trade agreements, and perhaps you will be able to understand where we are coming from by my relating these overriding principles. That is that patients have uninterrupted supply of medicines and fast access to new medicines. That applies to all trade arrangements that the industry will be supportive of. Secondly, to safeguard high global regulatory standards and co-operation—it is absolutely critical to have that level of co-operation. Thirdly, that the UK remains a global leader in life sciences and benefits from the co-operation that can be developed with countries internationally. That is the rest of the world, as well as Europe. Our ambitions continue, albeit perhaps more in hope now with Europe than with the rest of the world, but the relationship and the ambition for free trade agreements has to be profound.

Dr Ringwald Wildman: I totally agree with what Peter has said. Echoes of his comments relate to the steel industry. It is not tariff barriers that will prevent us from doing business in other countries but, like automotive, steel is an expensive product to take long distances. Our best markets are always those that are closest to home.

Our other problem is, very significantly, that there is an overcapacity in the steel industry, and there has been for some time. Anti-dumping measures have been taken by the European Union to prevent some of the damage that is doing within European markets, but it is not going to change any time soon. That excess capacity in the industry will not only affect our ability to exploit markets outside the EU, it will also determine the price in the market, and that will inevitably be going down.

Simon Baynes: Thank you very much for your answers, panellists.

Q125 **Dr Jamie Wallis:** I would also like to echo Simon's comments about thanking the panellists for coming today. It is great to see you all here. My question is about a potential Canada-style agreement with the EU. If we were to achieve that, what would that mean for your sectors of interest?

Professor Wells: My understanding is that in principle, if we could adopt a similar approach, it would certainly help in the sense that it reduces some of the cost and complexity of moving components to and fro across the borders between the United Kingdom and the European Union. As you may appreciate, automotive components are aggregates. They are made in turn from many other elements that are put into the total finished product. Sometimes those products can move a surprising way, and certainly a surprising number of times, as they go from one process to another and pull in different manufacturers in different locations.

Something that would enable us to simplify that and to avoid the possibility of paying multiple tariffs over multiple cross-border movements would certainly be advantageous, not just to us, but probably to the European industry as well. I think that, in principle, it could help.

Dr Greville: It is a great question. Certainly a comprehensive agreement is what we asked for from day one. We continue to ask for a comprehensive agreement, although we recognise that both sides, the EU and the UK, have red lines that make a comprehensive agreement challenging. A Canada-level agreement would be a second best, but it would be an acceptable level of agreement. Again, I reiterate the reason why the Canada agreement would be an acceptable way forward is primarily because it also includes a mutual recognition agreement of regulations. That is the critical aspect that the pharmaceutical industry will have and does have for any future agreements that are finalised, so Canada would be good.

Dr Ringwald Wildman: I agree that it would certainly be an advantage for us, particularly for the steel industry in relation to its customers where, as Peter has said for the automotive industry, the arrangement across borders would be a great advantage. If they can remain competitive as a consequence, so the steel industry will benefit. Of course we always wanted a comprehensive agreement, so we would be very pleased to see that.

Q126 **Dr Jamie Wallis:** Could I go back to Professor Wells to ask about the EU's reported stance on the rules of origin for car components? What does its current reported stance mean for the automotive industry in the UK?

Professor Wells: This is both the heart of it and a complete nightmare, so a top-quality question. In broad terms, the idea behind rules of origin was always to try to ensure there is sufficient added value within the recipient market in order to offset the cost of bringing products, components or whatever into the market. That is not just automotive, that applies across the piece. While we were inside the European Union, the rules of origin were very simple. We simply had to have a sufficient European content, and that could be UK, Germany, France, Italy, wherever, it did not matter.

Two things have complicated this picture. One, of course is the decision around exit. In that case, the European Union is probably looking at having, say, 60% local content for a vehicle to be considered European, in other words exempt from any sort of tariff coming into the market. That is surprisingly difficult to achieve, certainly now, because the industry was structured around the movement of components and materials, and so forth, across Europe in all sorts of ways, and to disentangle all of that is very complex.

There has been a second thing that has emerged, and it has made discussions a little more complicated. That is the transition into plug-in hybrid and battery electric cars. At the moment the European Union does not have a lot of capacity in this area, particularly in terms of the underlying componentry, the hybrid engines, battery engines and battery packs. Those are really expensive items. If, for example, Toyota brings a hybrid powertrain into the UK to put on to a vehicle assembled in the UK, that absolutely means it will not have sufficient local content, either for a UK market or indeed a European one. The German manufacturers are in the same boat. At the moment they are bringing in those expensive components because they do not have the local European capacity. It is being developed, it is being brought onstream bit by bit, but it is not there yet. This has made the negotiations a little complicated.

However, I think that will resolve itself. That would mean, in the end, that the UK is again in a very difficult position. I cannot see us being able to achieve 60% European content while assembling in the UK and then exporting back into Europe.

Q127 **Ruth Jones:** I am going to take the panellists from the somewhat positive Canada-style agreement to the other end of the spectrum and ask about a no-deal Brexit. In terms of your particular sectors, what are the consequences of a no-deal Brexit?

Dr Greville: The consequences of a no-deal Brexit are particularly challenging because, if nothing else, it will introduce a level of complexity to the supply routes of medicines. I reference you back to my repeated mentions of a mutual recognition agreement. That is the bottom line of what would be deemed acceptable from an agreement with Europe currently, and that is why we have been so strongly encouraging the prioritisation of medicines during these negotiations. Disappointingly, we have not come to a resolution, but we cannot make it a stronger statement. Without a mutual recognition agreement, the complexities that would bring to the supply of medicines to UK patients would be significant.

For example, with a mutual recognition agreement, medicines that were manufactured in Europe would be tested at the factory gate to make sure that appropriate standards, consistency and quality are maintained. Without a mutual recognition agreement, the same pack of medicine, if it entered the UK market, would need to be retested. The costs, delays and additional complexity involved are significant.

Let me give you an example of another step. Say that pack of medicine made its way to Great Britain and needed to be retested in Great Britain. If it made its way over to Northern Ireland, it opens the prospect of having to be retested in Northern Ireland. Every time a medicine crosses a border it potentially adds complexity, duplication and, inevitably, costs to the processes that are obliged on manufacturers by the regulators. It is certainly not a space that we would want to see.

Professor Wells: Just to preface the precise answer, one of the issues here is the uncertainty that, in effect, underpins these questions. In other words, ever since we had the vote and had the decision to leave, we have had a massive amount of uncertainty as to what the outcome will be and what regime we will be working under in the future. As Richard has just indicated, there is a considerable amount of disquiet about potential outcomes such as this.

What that has meant is that, for the last three years or more, there has been a slow death by underinvestment. There has been an unwillingness to take risks under these circumstances, and I would say it is not just about financial investment. It is also about the people in the industry as well. The automotive industry has to compete for people as much as anybody else. Particularly in some of the high-skill areas such as software, which is becoming increasingly important to the automotive sector, it is getting very difficult to bring people in. Where there is more uncertainty around the prospects for a sector, and the prospects for some of the big companies involved, that makes it much harder to recruit. The ramifications can echo out across society and across the economy in all sorts of ways.

In terms of no agreement, that is going to be extremely bad news for the industry at many levels. Obviously if we are looking at having tariffs on incoming vehicles, either coming into the UK or going into Europe, that is going to affect trade. It is going to affect production in the UK. It will also affect quite strongly, I think, sales and distribution in the UK. There are more people employed in that sector than there are employed in manufacturing, so you will see significant closures in franchised dealerships, independent repair garages and so on, with knock-on effects across the industry.

The relationship between tariffs and sales figures is never precise. A lot depends on what models you have, how competitive they are, the strength of the brand and so on. It is not a perfect equation. Generally speaking, the more you are in the volume part of the market, the stronger the risks and the less able you are to take changes in price. That means some of the volume manufacturers we have here—Toyota, Nissan, the Vauxhall plant—are the ones that are going to be most vulnerable to any non-agreement.

The other issue that is going to be in there is what happens to type approval. As you are probably aware, every vehicle has to be approved as a type before it is sold in the European market. Of course for many years we have had a system whereby, if a vehicle is tested in any one country and is approved, then that approval applies across all the countries. The industry’s position is that it basically wants to keep that system in place. That will be important because, as Richard has identified, if you have to test the vehicles for every single market, that becomes an enormous cost, especially for the automotive industry.

These are big products. They are expensive products. It takes a lot to get them through the type approval process. It is important that the type approval is organised. It is probably more important, I would say, than worrying about tariffs. If you can get at least a level playing field in mutual recognition of type approval, the rest of the situation could perhaps be managed. If we do not have type approval agreed and established, then we have a problem.

Ruth Jones: Thank you very much. That is clear. I will move on to Dr Wildman, please.

Dr Ringwald Wildman: The steel industry would not be affected as much as other sectors if we had to trade on WTO arrangements without a deal, though the steel industry would much prefer to have a deal. Direct tariffs on the steel industry would not be a major impediment, but it is the impact it would have on our customers that would be of greatest effect, as Peter has outlined.

Another major user of steel is the construction industry. Post-Brexit, if we left without a deal, it would be more difficult to exploit the non-EU market, as I have explained, because of this huge surplus of steel on the global market. At the moment we have protection from Europe-wide measures that have been taken, but were we to leave without any sort of deal, that protection would not be there and the UK Government would have to put something in place to replicate that to protect our UK industry from the surplus steel flooding into the UK. That would need to be avoided.

Again, it is difficult to stimulate demand for steel if it is not down the line serving the automotive industry or in construction. You cannot just encourage people to buy more steel, because there has to be a purpose for it. There is also always a time lag. Even if we make a major investment—HS2, for example, will be a great user of steel—the decision has to be made and it is some years before the market for that steel actually emerges. It is difficult to see how we can immediately stimulate the market without a deal.

Q128 **Ruth Jones:** Professor Wells alluded to the fact that, since 2016, there has been a great deal of uncertainty. Would you like to outline the challenges you have had since the decision and how your industry is preparing for and overcoming these challenges?

Dr Greville: It is very difficult to overcome uncertainty. I think that is the point that industry as a whole has perhaps been trying to make over the last three years. Peter was quite correct to identify the uncertainty as being an ongoing challenge for industry, and it remains to a large extent. We are still awaiting some critical guidance, for example, from the UK regulator as to how medicines will be regulated at the end of transition.

There certainly isn’t any clarity at the moment and, because of the lack of clarity, as Peter suggested, it has been very challenging to make appropriate investments and even plan for what the new arrangements are. In any project management, you need to know what you have to encounter and overcome. That is the challenge we have had. We still have it within the pharmaceutical industry. We are still awaiting critical guidance. We are looking for critical guidance from the regulator. We are also looking for critical guidance even in the border operating model. We know we have had a border operating model to explain how goods will move from Europe to the UK, but we are also aware that when that model was published it was not comprehensive. It had gaps and we still await those gaps to be filled.

Professor Wells: One of the things the automotive industry has to worry about is the physical movement of products, particularly the finished vehicles, but also components and the like—mostly, of course, through Dover. That has been a concern. Last year that started to emerge with strategies for stockpiling, emergency warehousing and things like that. We do not know yet how that is going to work out, but certainly on the logistics side it is a big concern. In the middle of last year, for example, when there was an expectation that we might just leave and there would be no deal at all, at that point the automotive industry was producing a lot of vehicles in order to store them in fields in the anticipation that there would be disruption to their supply lines in and out. It is not just about the bureaucracy, the new form filling and all the rest of it. It is also about the physical logistics.

Dr Ringwald Wildman: I would like to comment on the issue of uncertainty. It has been a problem for the steel industry, without a doubt. As I said earlier, in 2016 the industry was in crisis. Nothing has changed towards the resolution of the crisis, but extra uncertainty has come. The deal or no-deal issue still has not been resolved.

There are other decisions that have been deferred as a consequence. For example, the Project Birch issue and the funding from that has been deferred. Tata has been looking for a buyer since the potential merger with thyssenkrupp was brought to a halt. It is very difficult to attract a buyer when so much uncertainty exists and when the Government are not yet saying, "If you find a buyer, we will give the support." Again, it has been uncertain.

Now the Government have commissioned two reports, one looking at the Project Birch issues for Tata, and the other from McKinsey looking at the future of the steel industry and the steel industry's place in the industrial strategy. It seems quite late in the whole process for yet another report. We do not have the outcome of that, and it looks a little like kicking the can down the road to see how other things turn out before those commitments are made. I can understand that to a certain extent. The Government will have to think very carefully about investing in the steel industry with competing pressures from other industries and other areas, but for the industry itself it is critical, and time is certainly running out.

Ruth Jones: Thank you to all three of you.

Q129 **Tonia Antoniazzi:** I have a supplementary question for Dr Greville. One of the things you notice when you go to the pharmacy is that the shelves are not as full as they used to be. One of the things I have noticed personally is that, over the last couple of years, there is an issue with certain drugs that are available, particularly HRT. This may or may not be directly because of leaving the European Union and the last few years of uncertainty that you have spoken about, but what impact is leaving the EU, and having left the EU, going to have on the supply of drugs such as HRT, which is very important to women of a certain age?

Dr Greville: Yes, very important all round, I think. A very good question. There is no point pretending that you do not get shortages of medicines on certain occasions. You get shortages of all sorts of goods if the supply does not quite match up with demand. That is what happens on occasions. It can be compounded by regulator inflexibility, if you like. It can also be compounded by manufacturing failure and, to be honest, the system has had to evolve to manage shortages over the years. In fact, there is now a well-established system within the NHS in the UK that covers England and all the devolved Administrations to make sure that shortages can be managed in a suitable way.

On occasion, that means the identification of alternative suppliers or it means the identification of alternative medicines. There is a system in place that tries to mitigate against any shortage situation that arises, and certainly the industry works very closely with the Department of Health in England, which operates on a UK-wide basis to ensure the management of shortages in that way.

In terms of whether Brexit has caused any shortages to date, no, it probably hasn't. The causes will have been due to other things: as I mentioned, demand outstripping supply, manufacturing failures and suchlike. Brexit, to date, has not been the cause, but inevitably, looking forward to the end of the year—so in only three months' time—if your car or your delivery of steel does not arrive for a couple of months it is perhaps not the end of the world, but with medicines it is critical that supply continuity is maintained for individual patients.

The pharmaceutical industry has been taken up the Brexit hill quite a few times and has been led down the Brexit hill quite a few times over the last period of time. However, now we are engaged fully again with the Government to make sure that the supply of medicines is prioritised. We have done that in a multi-layered approach. There is never a single solution to the many complex problems that face us, and we recognise that in terms of the ongoing supply of medicines.

We have agreed a multi-layered approach with the Government, which looks at three particular aspects, and I hope it gives reassurance. The first bit is to ensure that the industry is trader ready, that it understands that paperwork changes will happen no matter whether there is a deal or not at the end of this year. The industry is getting its head around the requirement for this new administrative burden, bearing in mind that, obviously, it has not had to face it in the past. So trader readiness is one aspect.

Another important aspect is that we are told by the Government that they expect disruptions at the short strait crossings, so the industry has been working with Government to ensure that, where appropriate, the longer strait crossings from Europe are used preferentially. Again, the Government themselves have supported that by bringing in their own ferry capacity, which the industry will be able to pick up and utilise from the middle of November onwards. We look forward to that additional flexibility, which will be over and above any individual arrangements that companies make in this space.

Finally, it is insurance in terms of the stocks that are available in the UK and on UK territory at the end of the year. There is a Government ask of industry to ensure it has six weeks' stock on UK territory at the end of the year to provide that little bit of important buffer for the first few days when there is inevitable disruption at border crossings. Industry is working with Government. It is working hand in glove with Government, because it is an issue that affects all of us.

Chair: Thank you very much for that very comprehensive answer.

Q130 **Virginia Crosbie:** Good morning, everybody. I am the MP for Ynys Môn, and I have Holyhead port in my constituency, so this session is very significant. I want to drill down from what Tonia and Ruth mentioned. In terms of full disclosure, I should say I was a pharmaceutical analyst in my previous life, so it is great to meet you, Dr Greville. My inbox has a lot of e-mails with concerns about radioisotopes and continuity there. How concerned are you about supply chains and the impact from increased border checks and customs processes?

Dr Ringwald Wildman: Yes, we are concerned. The steel industry trades internationally constantly. It has been well aware of the potential difficulties it could face, and it has been looking at the supply chain vulnerabilities and the needs of customers to tide them over this period.

I think the steel industry is well prepared to deal with the immediate issues but additional costs are going to be incurred for a number of reasons, and the impact it will have on customers is, again, crucial. Rather than incur any of the delays that we have read about that are anticipated to occur at ports, it may well be that continental European customers may decide that, rather than risk involvement in that, they will buy closer to home. That is certainly something we cannot avoid, we cannot mitigate against, but it is a realistic concern. I am sure the steel industry will be trying to help in any way it can to maintain the relationship it has with customers but, yes, it certainly is going to be an issue. Again, it is uncertainty. We do not know yet exactly how bad things will be. We read very worrying reports and some that are more optimistic. We have to hope for the optimistic, but it may cause significant delay.

Professor Wells: To put this into context, when a vehicle manufacturer is thinking about buying components and materials, it is essentially a risk analysis. They have a great big matrix with a bunch of criteria along the top, and then they go through it. That risk analysis covers all sorts of things. It covers the financial health of the business, it covers the capabilities in technologies and so forth, but it also covers their logistic position and what might happen to disrupt any kind of logistics activities.

For example, if you are supplying into Europe from the Republic of Ireland, you have to go across the Irish Sea. It is often very rough; sometimes crossings are cancelled. You have to have in place a mitigating strategy: what are you going to do "if"? That is all because the industry works like a massive synchronised machine with the components and materials delivered more or less just in time. The shorter the amount of time you have in moving components around, the lower the cost, the more efficient the business.

The problem we will face in the emerging situation, with more bureaucracy and more delays at ports and so forth, is that that clearly gets in the way of this very tightly integrated, finely tuned machine. That puts the entire UK components industry at a disadvantage. In the risk analysis position, you look at that situation and you do not know how long things are going to be delayed, you do not know what the longer-term consequences will be. You are not going to want to put business into those companies in the UK if you can put it somewhere else for more or less the same cost but with a lower risk.

This whole issue is very significant. In terms of finished cars, it is also important because, once you have built a car, you have value tied up and you have to start to release that value. It is very expensive to have these things sitting around not being sold. The quicker you move cars through the system and into the market the better. That is why vehicle manufacturers have increasingly gone into customer order systems. They are not just building cars on spec; they are trying to get specific order allocations against specific customers and then deliver to that customer. Again, more delays in the process just makes that more difficult, in both directions, it has to be said.

Q131 **Virginia Crosbie:** That is very helpful. Dr Greville, what about the pharma sector?

Dr Greville: I probably pre-empted some of your questions earlier in answer to Tonia, so apologies if I am repeating myself. I will try to cover different aspects and reinforce—

Virginia Crosbie: I was encouraged by your saying that Brexit has not caused any shortages.

Dr Greville: Absolutely, and that is certainly encouraging. Our aim and ambition is to make sure that that happens. We will not stop our efforts to make sure that that is the case, Virginia. However, we have to understand that not everything is in the control of individual companies. We will have to make sure that, as the arrangements at the border and various custom arrangements become clearer, the industry not only mitigates internal challenges but is also aware of the potential challenges that may come from others. Queues at the border crossings come to mind immediately. Again, we are not in control of everything we do, but we will do everything we possibly can to ensure continuity of supply of medicines.

I want to touch on your point about borders and customs and reiterate that all of this is new. Inevitably, our members in the UK will have had quite little experience of border arrangements and will have very little experience of the challenges that may arise on the practical side of crossing borders into the future. However, all of those can be resolved through third-party logistic providers. Our members will very much be looking to customs agents, hauliers, freight forwarders and suchlike to advise on the actual practicality of it.

It may well be that the paperwork of the border and customs can be overcome. However, the challenges remain if there is a discrepancy in the regulations from one side of the border to another. At the moment, I suppose the classic example is that of Northern Ireland, where the Northern Ireland medicines regulation will be fundamentally different to that of the EU medicines regulation. That has a clear impact in terms of onward supply of goods to Northern Ireland.

Q132 **Virginia Crosbie:** That is very clear. How do you see the introduction of tariffs and quotas on goods affecting your sector?

Dr Greville: I was aware that I had not mentioned tariffs up until now, so thanks for your question, Virginia. Tariffs are not necessarily a challenge or a difficulty for medicines and pharmaceuticals. Even in a no-deal scenario, most medicines are covered by zero tariff under WTO rules, so that is particularly helpful. There are various components of medicines that may incur tariffs, but that is a minor consideration in the overall challenges that we face, for us anyway.

Professor Wells: If we go to WTO rules, there is a 10% tariff on finished cars and, I think, 4% on components. Obviously, neither of those will help the competitive position of the industry vis-à-vis the European Union. It is unlikely to be manageable, shall we say, in terms of depreciation of sterling against the euro. I do not think that will be a sufficient enough compensating factor. This is an industry that has been remarkably efficient at driving out cost, but that means there is very little efficiency room to play with when it comes to this sort of additional pressure.

In net terms, I would expect in a no-deal scenario, with WTO rules, to see tariffs coming in, and that would reduce exports from the UK. It will also reduce imports into the UK, assuming we also apply tariffs in a similar way, so fewer BMWs running around. I guess it is possible that the UK manufacturers could reorient some production to the UK market, and there is an area of uncertainty there. It is difficult to know how far consumers would be prepared to buy a UK-built product. There is always a local loyalty effect, but it is not strong. Certainly in the UK, we no longer have enough of an indigenous-owned presence to make that matter. Even JLR, as you know, is owned by Tata Group, so I am not expecting a lot of compensating sales in the UK in that sense.

Dr Ringwald Wildman: The steel sector is not going to be greatly affected directly by tariffs, with or without a deal. It is more the customers downstream and the impact it will have on them that will be significant for us. However, in the longer term, quotas may become an issue because the overcapacity in the industry is causing Governments everywhere to consider taking protectionist measures. The US has done it. As Europe, we have done it against the flood of imports from China. It may be that if circumstances become serious in Europe, it may consider applying modest quotas to steel coming in from the UK if it feels it can make it within its domestic industry. Again, there is a lot yet to be determined, but this is something we cannot ignore.

Q133 **Virginia Crosbie:** My last question is to Dr Wildman. What still needs to be done to ensure that the steel industry is ready? If we get a deal in the next few weeks, in October/November, is there sufficient time for the steel sector to adapt?

Dr Ringwald Wildman: The steel sector's exports to Europe and beyond will continue in the same way. Obviously there will be different documentation, and there will be other things that the industry has been mindful of. It is the other uncertainties surrounding this that are causing greatest concern. Planning has been done, but with a lot of decisions still not made, such as on the funding for research in the steel industry. We know we are going to be leaving the European organisation that funds and manages research, but as yet there has been no commitment to anything to replace it.

One of the things that is going to be very important to the success of the steel industry going forward is its ability to meet the challenges that are required. We are talking about electric cars. We are talking about a whole range of new and developing industries that will change the demand for steel, and we have to be sure that we can be at the forefront of development, so funding for research will be important. There are a lot of almost side issues to tariffs and barriers that have yet to be resolved, but they will be significant in the overall wellbeing of the industry.

Q134 **Virginia Crosbie:** Dr Greville, how prepared is the pharma sector for what more needs to be done? If we have a deal in the next few weeks, in October/November, is there enough time?

Dr Greville: There is never enough time, Virginia, is there? That is always going to be the challenge of getting a late deal in place. However, we are prepared for various scenarios, and that includes a no deal. We are well prepared, or as well prepared as possible, bearing in mind my earlier caveat that not everything is within our control. The industry is prepared to step up to the plate and manage the situation as it arises from the negotiations, with their fingers crossed that at the very least we come out of the negotiations with a mutual recognition agreement, which, as I have mentioned quite a few times now, is absolutely critical to our ongoing longevity and continuing supply to patients.

Q135 **Virginia Crosbie:** Professor Wells, what about for the auto sector?

Professor Wells: For the automotive industry, the big concern now, as these delays continue and as we layer into this whole Covid situation, is cashflow. This is an industry that is burning money. It is an extremely expensive industry to be in, and cashflow is critical to the sector. In the last financial crisis in 2008-09, that was the thing that brought the industry to its knees for a long time. They simply ran out of cash to run their business. That means they cannot afford to buy components anymore, they cannot afford to finance the vehicles going out in the market and so on.

I think the UK industry is now in a very dangerous position because of that, and if we go into this period where we are still not out of the woods with Covid, we are going to have layered on to it this whole problem with the exit from the EU, the uncertainty, the way the markets are reacting generally. It means there will be less money coming back into those businesses, less cash flowing back into those businesses. They are going to have to retrench even further, I suspect.

The cumulative effect is therefore very important. We have already seen, as I mentioned, the cancellation of various model programmes. I think we are going to see much more going on now, into the future, to try to rein in cash expenditures in all sorts of ways, and that is going to have impacts particularly here in Wales on the components industry.

Q136 **Tonia Antoniazzi:** I have three quite factual questions for each of you. We will start with Dr Greville. How much support have you received to date from the UK Government to prepare for trading at the end of the transition phase?

Dr Greville: As I captured a bit earlier, Tonia, we have worked very closely with the Government all through the preparations for Brexit, bearing in mind the challenges that we face and the importance of medicines. That level of engagement continues. I mentioned earlier a joint multi-layered approach to the continuation of supply of medicines to the UK, and that remains critical of course. The Government have been very supportive in ensuring trader readiness within the pharmaceutical industry. We have worked with them to arrange various webinars to inform our members as closely and as well as possible as to the arrangements that are needed. That includes webinars from HMRC and the Border and Protocol Delivery Group, for example, on the operational details at borders. So that work continues.

We have also worked with the Government on the practicality of moving goods from Europe to the UK via various ferry capacity, and we are also in ongoing discussions at a company-by-company level as the Department of Health tries to ensure there is good supply of medicines right across the board, particularly in relation to essential medicines, and then with the overlying challenge that Covid has brought to the table. So a good level of support and a good level of engagement that we hope will continue, and that we hope will reap rewards in terms of a negotiated outcome, even if that is eventually.

Professor Wells: It is a good question, Tonia. The answer is that I do not know in this specific area of detail. I do not know what the Government are doing with the industry in terms of the forthcoming events and cross-border issues.

I would say this, though. Across Europe, most of the major markets have responded to the Covid crisis by increased stimulation of the battery electric vehicle segment in all sorts of ways, trying to support that market and support its production. Some of them, particularly France, have been very nationalistic in the way they have developed these programmes and sought to help their own sector. The UK Government have been quite conspicuous in not doing that, and the line of argument is that there is not much point in our doing this sort of thing; all it will do is help more sales of European-built cars in the UK. There is some truth in that.

At a political level at least, I see somewhat of a lack of support for the UK automotive sector, but the detail that you are asking for I am afraid I do not know.

Dr Ringwald Wildman: The steel industry in Wales has received great support from the Welsh Government, tireless support. The Welsh Government were the first to sign up to the UK steel charter last year, which outlined the needs and the prospects for the industry. That was great, and others have now signed up. Certainly the Members of Parliament in Westminster from steel constituencies have, again, been very vocal and consistent in their support for the industry, as has UK Steel, the body that represents the steel industry manufacturers. The union has been supportive. There has been a lot of dialogue but few decisions, so uncertainty prevails. I think it is promising that the conversations are open, but it is disappointing that they have not resulted in anything that is concrete yet. Hopefully that will come in the very near future.

Q137 **Tonia Antoniazzi:** Thanks, Kathryn. While you are still there, I will move on to my next questions. What more could be done to support the steel industry? You have outlined the Welsh Government support you have had so far, but what do you need moving forward?

Dr Ringwald Wildman: The Welsh Government are very supportive and very helpful. It is much appreciated, but they do not have the delegated power nor the resources to address some of the issues.

First, the Government need to acknowledge that they want a vibrant steel industry, that they see the steel industry as a central part of their industrial strategy. They need to work a lot more closely with the industry to meet the objectives of that charter, and time, again, is of the essence. They need to work in advance with the steel industry to enable them to meet the demands of future projects in the public sector, infrastructure and the defence industry. The industry needs to know well in advance what the Government are going to want so that we can be more than ready to produce that.

Secondly, they need to take steps to help steel companies in the UK compete with their European counterparts. We know in particular the arguments about energy costs, business rates and so on. Small steps have been made, but these steps need to be much bigger to get nearer to the destination.

Finally, the Project Birch decisions need to be advanced. They need to address the consequences. If we do not have a traditional blast furnace capacity in Wales, will that affect the markets we can fulfil in future? If that is a consideration, how is that being addressed?

Let me make sure I cover this point because it is important. The Government pledged support for the sale of Tata earlier in their dealings, but now they are going to have to back that with financial support if a deal goes ahead. We would want to know quite early—to encourage a potential deal, if that is possible—that the Government are still willing to make that kind of commitment.

One word of caution I would say about approving and applauding the deal with Jingye is that it will make them the owners of all the blast furnace manufacturing in the UK, with Scunthorpe and Port Talbot. There is no suggestion that they are not happy to operate both, but down the line, if markets continue to be oversupplied, there may be thoughts of rationalisation. Those ideas at least need to be addressed and discussed before we get too excited about the possibility of a future for Tata.

Q138 **Tonia Antoniazzi:** Peter, what more can be done to support the automotive sector, and what support have Welsh Government provided?

Professor Wells: It is a very interesting question. The key to me is that support is thinking about it in the wrong way. The efforts need to be focused much more on what kind of industry you want, given this is an industry going through an enormous technological change at the moment. So far the Welsh Government have done a bit. For example, the Welsh Government have been supporting Riversimple, one of my favourite companies. It is a tiny little business, but with fantastic ideas and great technology. They could make a difference in the cutting edge of where this industry is going.

Looking forward, I know there have been discussions around potential investment by Britishvolt in battery manufacturing. I do not know if you guys know any different, but I have not seen that investment confirmed yet. That would be a very important lynchpin investment to take the industry here in Wales into the emerging direction that the rest of the automotive industry is going. We do not have enough independent capacity in battery manufacturing in the UK.

There is a lot of investment going on across Europe. If we miss the boat now, to be honest, I think we will miss it forever. It is a very important investment to catch. If we can get that, all the other things will come around. The anode manufacturing, all the cooling systems, the software, the battery management devices and so on are all part of that very high-value business. Just as we lose Ford Bridgend, if we can get the next generation future replacement, that would be fantastic.

Other than that, my concern is that we do not know enough, and I do not think it is just me. I do not think we know enough about where the industry is positioned in Wales. There has not been enough attention paid to it in that sense. We are not keeping track of investment. We are not keeping track of which customers this industry is supplying, who is vulnerable, which models they are supplying, what technologies they have that are positioned for the future. Historically, the Welsh automotive components industry has been too biased towards the old technologies, the metal-bashing technologies, and we need to be part of that future.

It is not just about the support; it is about having a direction of travel and looking to capitalise on that. Some of that is going on. We have the Astute programme. That is important. We are picking up some of the battery research work that is available via the Faraday Institution, so that is important. We need to get more of that, and we need to build a critical mass around these alternative technologies, fuel cells and battery vehicles. Once we have that capacity, we can develop more indigenous manufacturing capabilities in small-scale manufacturing of high-value products, not just cars but other things as well.

Q139 **Tonia Antoniazzi:** Richard, what more could be done for your sector, and what support have you had and what support do you need from Welsh Government?

Dr Greville: We have talked a lot about the trading environment already, haven't we? It is important to recognise that the trading environment for medicines is impacted by a lot of other things that we probably haven't touched on today. Some of that will be in the influence of the Welsh Government. Use of medicines by NHS Wales is obviously top of the list, but alongside that remember the broad list of areas of interest of the ABPI that I mentioned earlier. We are looking at science strategy; we are looking at R&D incentives and collaborations; we are also looking at the availability of data, skills and trained workforce in this space.

All of those will have a direct impact on the positive trading environment for medicines, and the Welsh Government could contribute significantly in several of those areas. That is an area on which we will continue our discussions with the Welsh Government. Most of what we have discussed earlier has been at the UK Government level, but there certainly is a role for the Welsh Government here, an important role.

Finally, I mentioned two important manufacturing plants in Wales, two companies that have a prominent global manufacturing presence here. I would hope that the Welsh Government are in steady and constant contact with those manufacturers because, obviously, it would be a great shame if any of that current manufacturing base was lost because of lack of contact and lack of engagement with the Welsh Government.

Q140 **Geraint Davies:** Professor Wells, we all know that state aid has been a critical part of the negotiations. What do you feel is the scope for financial interventions and state aid in your sector, with or without a deal, and is it desirable? What should and can the Government do, with or without a deal, to help your sector with state aid?

Professor Wells: It is a good question. State aid is obviously a very important topic for the automotive industry generally and, of course, in international trading relationships. Certainly in the present situation there is no way, in my view, that the UK Government can unilaterally define a new state aid regime and expect trading relationships with the European Union to remain intact. They would meet a very strong response, I suspect.

There has to be a negotiated settlement. There has to be an agreement. It seems to me unlikely that the agreement would be significantly different from the rules currently available on state aid, but I detect some interesting developments in other sectors, which might then apply to automotive. What we have seen with the pandemic situation is that in some other areas of business, notably airlines, there has been a willingness for other Governments to take shareholdings in troubled companies as a tiding over strategy and enabling them to have some cashflow and help them out.

That is an interesting one because the idea of renewed state ownership in an industry like automotive is probably very far off the negotiating table as far as the current Conservative Government are concerned, but it is something that might come up in the future if, say, the owners of JLR or the Nissan Group decide that manufacturing in the UK is becoming too problematic. In those circumstances I can see some scope for a change in the way in which the state intervenes in the sector, other than the usual available help within the rules of normal state aid negotiations.

Q141 **Geraint Davies:** In terms of level playing fields in motor manufacturing, there is quite a significant amount of state intervention in France and Germany already, and in airlines of course. If we do have a deal, I assume we can match the French and Germans in their level of intervention to reboot into a green future, but without a deal we are under WTO rules. Is it not the case that our level of intervention will be less so that we will face unfair competition from the EU because they will have more intervention if we do not have a deal? Is that right?

Professor Wells: You are essentially correct. The situation is complicated by existing ownership structures in the big players in Europe, particularly Volkswagen Group and Renault. Effectively that means Volkswagen Group is virtually immune from takeover, and that has to be a consideration in these situations. This is real politics, it is not just about the economics of the situation.

I think you are right, there is a real risk that there is more scope, shall we say, for companies within the European Union to be supported by their Governments or by the European Union itself than we will have isolated outside and in a WTO rules situation. You are right.

Q142 **Geraint Davies:** Dr Ringwald Wildman, on steel, the same questions: namely, will we have more or less opportunity to intervene to support steel with a deal or without a deal? It strikes me that, if we are without a deal, the Europeans can intervene in their own steel industry more than we can in ours and we will lose out. Is that correct?

Dr Ringwald Wildman: In some sense that could be a scenario. However, looking at what happens with state aid at the moment, the British Government do not use the full potential of the existing state aid regulations in the same way as some other countries do. For example, the UK Government are spending 0.4% of GDP on state aid compared to an average of 0.7% across Europe. Almost three times as much, roughly 1.2% or 1.3%, is spent in Germany. Even within what are often described as quite restrictive state aid rules at the moment, the UK Government could do more if they wished. If we were to have a deal and if state aid regulations were to stay roughly the same, for reasons that Peter has just explained, you are not going to get a free trade deal if you have a very different state aid regime.

I would say if the state aid regime is to stay similar to what it is now, we would be looking to the Government to make more and better use of that. Without a deal, and if we were trading on WTO rules, there is some argument that state aid regulations are less restrictive and certainly more could be done, but they are also considered to be relatively ineffective in operation. The preferred option would be to have a deal, have state aid regulations that both sides—the European side and ourselves—can agree to, and then use them wisely and constructively in support of where it is needed most.

Q143 **Geraint Davies:** Finally, in terms of steel, if we had state aid and we did not have a deal, are we more vulnerable to United States retaliatory tariffs than if we had a deal with the EU and we do our state aid within their guidelines? As you have pointed out, we only spend 0.4% and Germany do 1.2%. What is the impact on steel tariffs with the United States? If we want to do more, as you have suggested, in state aid for steel, and if we were outside a deal, presumably we would be more vulnerable to retaliatory tariffs than if we were in a deal applying state aid to steel. Is that correct?

Dr Ringwald Wildman: At the moment the European Union have collectively put in place safety measures, retaliatory measures, against the United States, which are fairly minimal, but certainly against the flood of cheaper imports from other countries. If we were to have a deal that retained those collective measures that are in place, we would have the protection not just related to the size of our own country, but as a trading bloc altogether. If we go out with no deal and we are not protected by the retaliatory measures that are already in place, the UK Government would have to put in place safeguards that safeguard the market for the UK steel industry.

Q144 **Geraint Davies:** Dr Greville, regarding medicine supply and state intervention, there has been concern that if we had a no deal there would be medicine shortages. We know from the Covid experience that there have been shortages of PPE and various things in any case. How do you think state aid should be used on the medicine side? I am aware, as you will be, that in Europe overall we do not produce that many basic drugs. The last paracetamol in Europe was produced in France in 2008. Most of it comes from China and India. If there are going to be restrictions, border controls and delays, do you think we should be rebuilding our indigenous medicine supply with the help of state aid to stop shortages in Britain, particularly during pandemics?

Dr Greville: You have covered a large tranche of area there, Geraint. Do come back to me if I miss components of it. The fundamental view of the pharmaceutical industry is that it is important to be competitive and ensure incentives are in place. What those incentives are and how they are put in place is down to Governments to decide.

We know currently, as Kathryn alluded to, that the level of state aid in the UK isn't at the level of Germany and France, for example. Certainly there is no broad call from the pharmaceutical industry to increase state aid, but there is a call from the industry to be specific in its support. We are calling for capital grants for advanced manufacturing, for example, which again may touch on your question about onshoring. Onshoring is not the answer for everything because, basically, if we produce paracetamol in the UK, with our current understanding, it may be available at a price the NHS would not want to pay.

Before people jump on the possibility of onshoring as an answer to medicine shortages, or perhaps threats of medicine shortages—I think we have to bear that in mind—bear in mind the resilience of the medicine supply chain through Covid, when demand for some medicines increased tenfold in a matter of weeks. I think what we will find on reflection is that the supply resilience of the pharmaceutical industry has been remarkable over Covid wave 1. Fingers crossed that we can maintain a consistency in the supply through Covid wave 2. It is really important there.

In terms of the advanced manufacturing, you are absolutely right that there are some benefits, and clear economic benefits, to attracting manufacturing to the UK, certainly in certain areas. Advanced medicines is as good an area of advanced manufacturing as we can possibly aim for. Over and above that, in terms of Government support, we are also looking at a modernisation of R&D tax credits. Again, I mentioned earlier the level of investment that the pharmaceutical industry makes in R&D, so tax credits in this space could again be used as a very useful incentive.

Q145 **Geraint Davies:** Sorry to interrupt. Very briefly, my understanding is that, if we end up without a deal on WTO rules, the rules on patenting are more strictly enforced and drug costs to the NHS will go up. Would that be an argument to self-develop more specialised drugs and, in particular, perishable drugs that go off in a few days? There have been concerns about diabetes drugs that we get from the Netherlands, for instance. Paracetamol and the like we can keep on the shelf longer, but is there a case for a differentiated approach to public sector production of key drugs for the NHS?

Dr Greville: There is certainly a role for supporting and encouraging manufacturing of advanced medicines because of the intellectual rigour, innovation and economic benefits that inevitability brings to the UK. We know at the moment that Germany, Switzerland, Ireland, America and Singapore are all heavily investing in this space, so we understand that it is not quite a level playing field at the moment in terms of attracting advanced manufacturing to the UK. That is certainly an area we would be very supportive of.

It is often very easy to forget how effective the NHS is in controlling the price of medicines. We have probably all heard of NICE and the role that NICE plays in the cost-effectiveness of medicines and their overall affordability evaluation. Here in Wales we also have the All Wales Medicines Strategy Group, which has an important role to play as well.

Over and above that, you have very effective NHS procurement practices that ensure the efficiencies that are possible for medicines are achieved by the NHS. Then overlying that, for branded medicines you have a voluntary pricing agreement that the ABPI has negotiated on behalf of the branded pharmaceutical industry. That makes sure there is a cap on expenditure by the NHS on branded medicines. Every quarter a rebate is made directly to the UK Government to make sure that cap is maintained on an ongoing basis. Some of that medicine flows into Wales. Last year there was a rebate of the order of £45 million that came into Welsh Government coffers on the back of the voluntary pricing and access scheme.

Geraint Davies: Thank you very much for those answers.

Q146 **Chair:** We are coming to the close of the session. A quick question to the three panellists on something that is connected to the discussion we have been having, perhaps indirectly. That is around the impact of change to free movement rules and the move to a new immigration system. Is that going to throw up any particular challenges or, indeed, opportunities in the three sectors you are involved in?

Dr Greville: I mentioned skills and people earlier, and that certainly is an area that the pharmaceutical industry considers to be critical. Because we generally work on the cutting edge of innovation, we need to attract the high skill level and academic excellence to make sure that the pharmaceutical industry can function to its optimal in the UK. We are very encouraging of an immigration scheme that allows that to be satisfied at the higher end of cutting-edge technology, which is where the pharmaceutical industry sits currently.

Q147 **Chair:** Do you believe the Government's proposals meet the aspirations of your industry?

Dr Greville: Again, I am not that familiar with the Government's proposals, so I had better reflect on that, Stephen, if I may.

Q148 **Chair:** Thank you. Peter, in the automotive sector, are there any particular concerns around this at the moment?

Professor Wells: It is a very important issue for the industry. It is a multinational industry, and one of the UK's biggest advantages is the ecosystem of skilled individuals that is available in this country, particularly engineers around the motorsports sector, around the high-end manufacturing that we have, the local producers. In fact, it comes partly as a consequence of having shredded much of our own industry. You see so many ex-Rover people roaming around in the industry, working in different companies and so on. That is a fantastic resource. These are engineers who are brilliant problem solvers, and they have such rich and diverse experience that they are able to answer new problems in innovative ways. That is partly why F1 is such a big business here in the UK.

All of that depends upon people, and a lot of people are pulled in from around the world. Anything that gets in the way of that is a problem. Not just in terms of direct recruitment, but also in the sector I represent, the university sector. There is a massive concern that we are sending out the wrong messages to potential students at all levels: undergraduates, postgraduates and researchers, and so on. That could also have a long-term consequence for the industry in the UK and for our economy. It is a big concern.

I worry that the Government think they know best on some of these issues, that they can define what an appropriate skill is and who is going to be a good bet for the future, and so on. That is probably misguided given the pace of technological change and the way in which we do not know what that future is going to be. It is a very dangerous business once you start saying, "Yes, this person has the skills we want." They do not know, and I do not think they will ever know. That is my concern.

One other thing to flag up before I go. Exit costs, we have not talked about this much. One of the features, it seems to me, of the difference between the UK and the European Union that has been talked about a lot in the automotive industry is how we regulate employment and workers, how we deal with issues around redundancy and so forth. It has long been said that it is easier for companies to rationalise their businesses in the UK than in, say, Spain.

To close a vehicle manufacturing operation is of the order of $1 billion. It is an expensive business, all the site remediation, the redundancy payments and all the other things that have to go on. We need to think about this. To some extent it plays to the UK now, that it is hard for these big multinational companies simply to close a plant. It is going to be extremely difficult for a business like Nissan to walk away from its UK operations. That is something to hold on to. They want to make these businesses work, they want those plants to work and they will work very hard to ensure that is the case. I do not think we should lose sight of that.

Q149 **Chair:** Peter, thank you very much. That is very useful. Kathryn, issues around free movement and the immigration regime in the steel industry in Wales, does that impact upon it at all?

Dr Ringwald Wildman: In relation to free movement, the industry is not as dependent on mass movement of workers from one country to another. However, I would echo Peter's point that, in order to succeed, we are looking to be at the leading edge of what we do and we will want the best engineers, the best materials technologists and those capable of doing research at the cutting edge of our industry. In that regard, it is extremely important that we have access to the best people, wherever they are in the world. Particularly we have had fruitful co-operation with our European counterparts, and we want that to continue.

One more point I would like to raise, following what Peter has said about the cost of withdrawal from the industry, is that the cost to downsize, let alone decommission, in the steel industry is substantial. There are significant environmental consequences as well. It is a big decision to make and, even though investment is required to see the industry survive, the alternative is not an obligation-free option and needs to be borne in mind when we are considering the outcome post-Brexit.

Chair: Thank you very much, Kathryn. Thank you to all our panellists. It has been a really useful and insightful session. I am grateful to you all for your time today, and for the input of my colleagues on the Committee for helping make this a really important session. Thank you all.