

Business, Energy and Industrial Strategy Committee

Oral evidence: UK plc 2050, HC 1120

Tuesday 28 February 2023

Ordered by the House of Commons to be published on 28 February 2023.

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Members present: Darren Jones (Chair); Alan Brown; Mark Jenkinson; Jane Hunt; Ian Lavery; Andy McDonald; Charlotte Nichols; Mark Pawsey.

Questions 42 - 67

Witnesses

I: Dr Richard Torbett, Chief Executive, Association of the British Pharmaceutical Industry; Caroline Keohane, Head of Industry Growth, Food and Drink Federation; Mike Hawes, Chief Executive, The Society of Motor Manufacturers and Traders.

Examination of witnesses

Witnesses: Dr Richard Torbett, Caroline Keohane and Mike Hawes.

Q42 Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee for our second of two hearings about the future of the UK economy and the prospects for economic growth.

We have two panels today. The first panel is on goods and manufacturing and the second is on services. The industries we have called to speak to us today are, I understand, based on the data, the industries that have driven economic growth over the last decade in your respective sectors.

For panel one, we have Dr Richard Torbett, who is the chief executive of the Association of the British Pharmaceutical Industry; Caroline Keohane, who is the head of industrial growth policy at the Food and Drink Federation; and Mike Hawes, who is the chief executive of the Society of Motor Manufacturers and Traders.

To begin with, I would like a general update on prospects for your sector in the UK economy for the decade ahead. Dr Torbett, do you want to go first?

Dr Torbett: Good morning. I would be very happy to. The pharmaceutical industry has been one of the big strengths of the UK life sciences sector. The life sciences sector in this country very much came to the fore during the pandemic. Over a number of years, we have been the largest investor in research and development throughout the UK. Our activity goes on throughout the country, as does our manufacturing. We have over 600,000 jobs and, critically, £36 billion worth of GDP.

There is optimism in the sector for the future. We think there is every prospect of growing the sector. We have worked very closely with political leaders around the life sciences vision, which is the industrial strategy for the sector. If that is fully delivered, we think there is the potential to add around £68 billion of GDP from R&D alone over the next 30 years. There is optimism; there is potential.

How is it going? I would say not brilliantly at the moment. For the last decade, we have had a number of very important headwinds. If we look at more or less every indicator of the health and the competitiveness of the industry, at the moment it is heading in the wrong direction. We have lost 29% of our manufacturing volumes. The UK has lost over 40% of our commercial clinical trials, which is where we test medicines with the NHS. That creates income for the NHS; 40% of that has been lost.

When it comes to R&D, although we have maintained the level of investment at around £5 billion, because the rest of the world has been growing more rapidly, we have lost around a third of our global share in R&D. That is a real concern for the future because what we look to do is to make sure we are maintaining our share of new investments as they come through to keep pace and to keep the UK at the cutting edge.



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The biggest single challenge we have right now is the voluntary scheme for branded medicines pricing and access, which is the five-yearly voluntary agreement the industry has with Government. "Voluntary" is a slightly unusual word to use. It is voluntary, but it sits alongside a statutory scheme. In a sense, there is not much voluntary about this. Under the scheme, the industry pays back a certain percentage of its revenues—not profit but revenues—back to the Government. In the last couple of years, that scheme has got completely out of control. The industry was paying back around 5% of its revenues in the early days of the scheme. That went to 15% and is now sitting at 26.5%, which is very substantially away from any other country in the world.

That is a massive source of concern for the industry right now. We are in a year where we are due to start negotiations imminently with the Government around the next five years. It is critically important that we are able to get back to a position that is internationally competitive, if we want to be able to start the UK back on a path where we are able to compete and realise the potential I just mentioned. I will pause there.

Caroline Keohane: First, I would like to say thank you for this opportunity to talk about growth in the food and drink sector. It ties in really well with our new campaign about how food and drink powers our nation. That really looks at how we create delicious, safe and nutritious food, creating good jobs, driving trade and investment and working with our supply chains to become more sustainable.

Food and drink is the UK's largest manufacturing sector. We employ nearly 500,000 people across every part of the country, and we contribute £30 billion to the UK economy. Our food and drink exports are doing pretty well. In 2022 they rose by 23%, close to £25 billion. Again, there is a real sense that there are some huge opportunities for growth and boosting productivity in food and drink manufacturing.

Having said that, there are some challenges. Food price inflation is at 16.8%, slightly down from the previous month. Manufacturers expect input costs to increase around 10% on average this year, yet they expect their selling prices to rise by around 7%. Again, there are real cost pressures and tight margins there, which impacts their ability to invest.

High energy costs are very much causing that. They are running 22% higher than last year. It was around 12% last year. We have significant labour shortages. Our vacancy rates are around 7%, which is double that of the manufacturing average and the UK average.

Poorly designed regulation is adding additional costs into the industry. Take the extended producer responsibility regulations, for example. While we agree with the ambition to drive up recycling in plastics and packaging, we do not believe the regulations will deliver the stated aims. That could potentially cost an additional £2 billion to the industry. There are definitely opportunities to boost productivity and growth, but the



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uncertainty around the regulatory environment is preventing businesses from making investments in the UK.

Mike Hawes: Good morning, everyone. How would I describe the automotive sector at the moment? It is at a crossroads, not just in the UK but globally. It is shifting to a new technology, which I am sure we will get into. That is not so much once in a generation; it is once in a century. You have to go back over 100 years since the industry faced such a fundamental change.

Whenever you have such a technological shift, there are opportunities and threats. If we look at the past decade coming out of the financial crisis, we attracted a huge amount of investment. Every major plant in the UK attracted investment. We were competitive. We were increasing productivity. The inherent strengths of the industry were still to the fore.

For the last five to seven years, it has been a very different situation. There has been instability and uncertainty, both as a result of global issues such as Covid and supply chain shortages and, yes, because of Brexit. That has made the UK very difficult to invest in. There have been some structural changes going on as a result.

Where are we now? In terms of production output, we are about 40% below where we were in 2019. It is recovering, and there is a degree of optimism for this year. We will look a bit countercyclical this year, both in terms of manufacturing outputs and, indeed, new car sales. If you think about the market, we will probably be 10% to 15% up on last year. We are still below where we were going into the pandemic.

When I say there are opportunities and threats, this is a technological transformation. The UK's strengths have been built on the internal combustion engine for many years. That is a technology that is now being superseded by electrification. We need to make sure the UK is attractive for that investment. That is the prize to be won. To be able to achieve that, yes, we need to make sure we are globally competitive.

If we look at some of the challenges we face, energy costs going into the latest spike were some 50% or 60% higher than the EU average. We do not just compete with the EU, but that is one of our major competitors. Always remember that we are an export-led industry. About 80% of what we sell goes abroad, the majority to the rest of Europe, but not in its entirety. Energy costs are particularly challenging.

The level of incremental cost that arises from some of the levies that are put on us is higher than elsewhere. Like you heard from other witnesses, there are skill shortages and labour shortages. That is a challenge that befalls all manufacturing. Attracting people into manufacturing is very difficult. We generally pay good wages. On average, the wages are about 25% higher than regional averages, wherever in the UK we are based. Like others, we are based across the UK. With the technological



transition, you need a skills transition. I am not sure the framework to support that transition is fit for purpose.

There is also regulation. The UK wants to move at pace to decarbonise and to deliver net zero. The industry is fully behind that, but regulation must be good regulation. It must be deliverable. That is where we have some uncertainty. We view the shift towards electrification as an opportunity, but you need to have the framework right for investment in terms of manufacturing and the transition of the market. The two go hand in hand. If you are looking to invest, you want to make sure your domestic market is vibrant and growing. Otherwise, you would just be totally exporting, so why would you be based here?

In terms of the overall role, what is the message you are sending potential investors? Most recently, we have got the UK back on global boardroom agendas. We are under consideration, but whether we are yet in a prime position for that investment is still undecided.

Q43 Chair: All of you have spoken a bit about regulation, forms of taxation and the relationship with the Government in terms of strategies. Some of you have had sector deals.

On the political side there is a debate about whether the best thing for the state to do to move the dial on economic growth is either to get it out of the way and let you guys get on with it or to form a new partnership with your sectors so that you can work together to try to understand the optimal outcome. What is your view on that debate? If you had to change the current relationship with Government, what would be the best way of doing that, Richard?

Dr Torbett: It has to be a partnership and a very deep one at that, particularly in the pharmaceutical industry. We are very heavily regulated for very good reason. This is not a sector saying, "We want less regulation". It is all about making sure the regulation is as appropriate as possible. The most important thing, absolutely the top priority, is that patients and the public have trust and confidence in the way in which medicines are regulated and in the medicines their physicians and doctors will prescribe.

When we look at the broader regulatory landscape around how the Government support the sector, there needs to be much more joined-up thinking, candidly. A huge percentage of the total Government budget is spent on health. Over recent decades very little thought has been given to how that significant percentage of Government budget can not only be used to support the health of the nation but can also be used to support the productivity and growth of the economy.

It is an important part of the economy. Too often we find a disconnect between the thinking that goes into health decisions with the broader objectives of Government around economic growth, productivity and trade.



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Caroline Keohane: I would agree with Richard. For us there are some big strategic challenges, whether that is net zero, sustainability or the health of the nation. There is no one party that can solve that on their own. We need to work in partnership. We are really keen for industry and Government to come together and create a long-term strategy for how best we can do that. Whether that is driving up exports, net zero targets, upskilling our people or boosting productivity around automation and technology, we really want to work closely with Government on that.

We have the Food and Drink Sector Council. Again, that has a role to play. To your point, Richard, it is also about connecting Government Departments and devolved nations together so we have a joined-up approach and we ensure we are not taking action over here that has a negative impact elsewhere.

Mike Hawes: We are a trade-intensive sector. We compete globally, and the playing field is seldom level, so you have to play on that particular pitch. That means matching what other destinations and investment locations are offering.

If we look at where we are at the moment, I mentioned the massive investment that is going in, in terms of electrification, on a global level. The US has its Inflation Reduction Act, which is coming on the back of the CHIPS Act. If you put that together with a number of other things, about \$2 trillion is on the table. The EU had its Covid recovery plan, and it is now looking at its net zero response. These are competitive destinations before we even start thinking about China and its managed economy. We have to play in that field.

To do that you need to make sure you are playing to your strengths. We do have a lot of strengths in automotive in the UK, but you need to have a framework that allows you to make the most of that. That is about working with Government. We have had industrial strategies in the past. We have had sector deals. They caused international businesses to take notice. The investments they were considering were not necessarily being matched but they were being welcomed and supported for the long term. There was a commitment to long-term support of manufacturing. They could see the policy strategy.

Where we are at the moment, there has been a lot of change and a lot of uncertainty. Until you re-establish that reputation, it is harder to attract that investment. It is not impossible, but it is harder. As I said, we still have a lot of strengths, but you need to make sure, as the other witnesses have said, that the policies coming from the Treasury in terms of fiscal policy, R&D incentives and things like that align to trade policies, trade relationships and the regulation that, in our case, might be coming out of the Department for Transport.

Indeed, what is the role of the new Department that brings together business and trade? We hope that will align some of these things even better because, as I said, when you are exposed to that global



competition, you need every element of those policy measures to come together.

Q44 **Andy McDonald:** Mike, you have touched upon an awful lot of the things I wanted to talk about, particularly around net zero. To all the panel, I would be interested in your thoughts as to how that has impacted on your particular industries. It might be a little bit more obvious to see in the automotive sector, given the transition. Given that some elements of this are global, what have our internal targets done in terms of the impact it has had on your industries? Do you have any commentary around how those deficits, if they exist, could be ameliorated? Perhaps we could start with Richard.

Dr Torbett: Yes, certainly. It is a very important question. It is almost entirely global. All of the organisations that are members of the ABPI are global organisations that are taking the net zero debate extremely seriously. Just like many organisations, the challenge in turning around practices is only partially in control of the companies themselves. To get to net zero requires very extensive partnerships with suppliers and customers as well.

To give you a couple of examples, there are 10 pharmaceutical companies looking to decarbonise the pharmaceutical supply chain under something called the Energize programme, which has been launched recently. Companies such as GSK have very clear targets to have 100% renewable energy by 2025. It has just put £50 million into secure renewable power at a facility in Irvine.

Other groups of companies are looking to streamline the delivery of clinical trial operations. Companies are looking at manufacturing processes and the application of green chemistry in order to reduce the use of chemicals, power and water in the creation of medicines. There are lots of examples.

There are two things I would point to. First, there is an opportunity in the UK because the NHS is showing some really important leadership on the issue of how it procures in a green way. There really is an opportunity for such an important global health system to partner with the industry.

Again, regulators have to be part of this conversation. The number-one priority for anyone is patient safety at the end of it. Sometimes a particular chemical, plastic or whatever is used because it happens to be incredibly important or essential for patient safety. That is not to say there is no room for innovation, but that innovation needs to be hand in glove with the health system, the company and the regulators to ensure we are doing it in the right way, also with an eye to doing it for a global market.

Caroline Keohane: The food and drink manufacturing sector has committed to net zero by 2040. That is alongside our food chain partners, the retail sector and farming. We are very much in the process of helping



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businesses to understand their emissions footprint. You cannot manage what you do not measure. We are working with the Food and Drink Sector Council, WRAP and others to come up with a common set of standards and metrics.

FDF is also providing practical support. We have developed a net zero handbook. We are helping businesses look at the way in which they source ingredients, their manufacturing processes and their heating technologies. This is also about looking at more of that supply chain element.

Yes, there is already work underway, but we have a long way to go. This goes back to the point around working in partnership in order to deliver our targets. For a lot of SMEs in particular, they are not necessarily in survival mode, but they are under a lot of pressure at the moment. Taking that longer-term strategic view around net zero can be quite challenging when you are dealing with day-to-day issues. There is something around the investment that is needed.

We would welcome more investment like the industrial energy transformation fund. We are awaiting the phase 3 announcement on that in particular.

Mike Hawes: The entire global industry is on this path to net zero, or absolute zero in many cases. If you look at the UK policy framework's legal requirements around this, you will not deliver net zero for the UK unless you decarbonise road transport. Doing that is not just about setting the ambition. Given that in many respects we are a consumer-driven marketplace, you have to help the consumer make that transition. You would normally say that is a combination of carrot and stick.

Where we are at the moment, the timescales are incredibly tough. Yes, we want to decarbonise the market; we want to decarbonise road transport. We also want to make sure the UK industry can prosper under that approach and framework. You need a degree of flexibility in that requirement. Whilst everyone is behind it, everyone is looking for a degree of flexibility not in terms of achievement but how you get there.

We have before us a proposal for a zero-emission vehicle mandate. Bear in mind that we have to ensure that all new cars are net zero emissions by 2030 to 2035 and all new trucks by 2035 to 2040. Buses will probably come earlier, in the latter part of this decade, because it is an easier technology to transfer.

This mandate is due to take effect on 1 January next year. We have not seen the consultation yet, never mind the regulation. Global businesses will not make decisions on the basis of a consultation. They will make it on the basis of a regulation, when you can see exactly what is coming. The timescale is really squeezed. I accept the reasons for it, but we need to give industry the ability to respond in good time. The UK, quite rightly, should be leading this transition, as far as we are concerned. We are a



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relatively small market, geographically. We are relatively affluent. There is the scale that would allow the conditions for investment in infrastructure, which is a requirement. That is behind the curve relative to where it should be.

As a nation of consumers, we tend to adopt new technologies. These types of technologies are liked by those who make the transition, but you need to have a set of policies that work together to move not just the industry but the market.

Q45 Andy McDonald: Given that it is a consumer-driven sector, cost and price to the consumer is surely key. Is enough being done around that area, given that purchasing a new electric car seems to be beyond the vast majority of people?

Mike Hawes: It is a concern. This is a new technology. New technologies always cost more money. If we look at the prices of raw materials or at the price of batteries in particular, they are going up rather than down despite economies of scale coming in. It is about affordability.

Yes, the mandate will deliver an increasingly decarbonised new car and new van market, but how big will that market be? We do not have any consumer incentives for the private purchaser anymore. The plug-in car grant went last June. For business, fleet buying, which is about half the market, still benefits from more beneficial company car tax.

The last Budget, or economic announcement, put VED back on electric vehicles. That is fair enough, but putting the expensive car supplement on this makes it more expensive. You need to move the market. Other markets still have incentives in place. We are choosing to go down a regulatory route, which is fine, but you need to make sure there is an element of affordability to that. As you say, you do not want the new technology to be the preserve of the most affluent. As a country and as an industry, we need to move the entire market.

Q46 Andy McDonald: For my next question, I will perhaps stick with Mike and then cascade back down. This is about the issue of skills. In your opening remarks you mentioned that the framework was inadequate. We hear this consistently about the lack of available skills coming through, not just in the young people coming through the education system but also in retrainers. We also hear about the difficulties in getting people to come from other jurisdictions.

Mike, you said this was deficient. Can you pinpoint where those deficiencies are? What should we be doing to put them right? I will start with you, Mike, and then come back down again.

Mike Hawes: There are two issues we face. The first is a skills challenge, but there is also a labour challenge. We do not have the numbers of people. I was talking to one manufacturer who described just that. In some regards it has ceased being a skills challenge; it is now a labour challenge because you just cannot get the people.



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To a certain extent, it is the responsibility of the industry to be competitive and attractive and to pay as much as we can whilst remaining competitive. It is also about setting out a pathway and ensuring it is an attractive career. I firmly believe that is the case.

In terms of skills, we need to upskill. Some 80% of the people we currently employ will still be there come 2030, when we are electrified. You need to shift everyone's skill levels away from internal combustion engines to these new technologies, high-voltage systems and so forth. For that, we need to make sure we have a framework that works.

We need short-course training. Yes, everyone talks about the apprenticeship levy. Invariably we pay out more than we get back in by some considerable distance. We cannot use it in the way we would want. You cannot use it to upskill, for instance. It is not all about apprenticeships. It is about upskilling. Yes, it is about making the STEM technologies more attractive in schools—that is where you start it—but, above all, it is about making sure there is a skills framework that allows people to take their existing highly talented people and meet that challenge.

That is not just for the big OEMs but especially the supply chain. Their pockets are not as deep as the OEMs. They are very much part of this transition as well.

Caroline Keohane: Food and drink manufacturing is quite unique, in that we are in every part of the country. People can find a good job in their local area and build a great career.

Having said that, as I said earlier, we are facing skills and labour shortages. Our vacancy rate is at 7%, which is double that of manufacturing. Employers are doing a lot in this space. They are looking at increasing wages and looking at benefits. We are also introducing more creative shift patterns and shorter shift patterns to broaden out the talent pool and attract people in who may potentially have caring responsibilities.

We have also come together to develop the Food and Drink Careers Passport. This is a pre-employment training programme, where an individual can get health and safety and food safety qualifications. The industry is supporting that by guaranteeing interviews at the end of the passport training. Yes, there is a lot happening. Employers are taking the initiative, but, having said that, there are things that can be done.

We are awaiting the independent review into labour shortages in the food supply chain. Defra is leading that particular review. I know that is looking at upskilling domestic workers and the role of migration and automation. We are really keen to see what recommendations come out of that, which will probably be around the spring time.



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In the meantime, yes, one of the things we are looking for would be flexibility around the apprenticeship levy. Having more short-term modular training could be a short sharp intervention and boost productivity. Having flexibility to spend the levy on that sort of training would be really welcome.

We do have examples of where labour shortages are holding back growth in our sector. One of our manufacturers in the East Midlands managed to secure an 18-month project to create a new production line in their factory, but it has still not gone live yet because they just cannot get the people. There is something around the geographical spread of manufacturing. We are everywhere, but there are particular parts of the country where we are just unable to get that labour.

Where you cannot automate overnight and you cannot get domestic workers, we would want a targeted migrant scheme. Looking at the shortage occupation list could be a solution. Again, we are waiting for the Migration Advisory Committee to undertake its review of the shortage occupation list. Again, we would like to see the list be reviewed more regularly so it can really respond to businesses' needs. We would like its scope to be widened. It should not just look at the mid-to-high skill level but at all skill levels.

Dr Torbett: I will try to keep it short. There is a lot of consistency. Demand is massively outstripping supply. We spend a lot of time working with companies to understand skills needs. I would be very happy to send our latest report to the Committee, if that is of interest, with evidence on this.

There are some things I would pick out of that. A lot of the skills that our companies come to us and talk about are skills that many other sectors are also trying to seek: data skills, digital skills, computation skills, statistical skills, quantitative skills and that kind of thing. Everyone is looking for really good people with that sort of skill mix. That is one thing. That is also the case with very sector-specific skills for us as well. For things like clinical pharmacology, again, demand is outstripping supply and has been for quite a long time.

The final thing to say is that all three of us are talking about the levy. All of the major sectors are saying, "We have businesses that really want to invest in people. We want to take on apprenticeships, but we also want to make sure our existing workforce is up to speed and still at the cutting edge. We do not have the flexibility to do that". Our companies got 24% of the money they put into the levy back. It feels like a no-brainer. Companies are really willing to invest.

Q47 **Jane Hunt:** Richard, these questions are for you. First, I just want to say that the pharmaceutical industry is extremely important to this country, no less so than in the last few years. I would like to thank your industry for everything they did to help this country. I have three questions. I am going to put them all into one, but I will talk through each of them. What



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I am really asking is what is standing in the way of your members growing their business and remaining within the UK.

The first one is around price controls and growth. You published your report "False economy?" this week, in which you looked at more stringent price controls on the sale of medicines. Can you explain the impact of this and the growth in the industry? This is not just about price controls but other controls that we may have in this country, like the list of medicines that are available in this country as opposed to others. Is that a restriction to you?

Secondly, on trade balance and competition, since 2010 we have gone from fourth to 98th in terms of global competition against other countries. Why? What could we do to improve that? How could we get more investment going on in the UK and not British businesses investing elsewhere instead?

Thirdly, R&D has declined over the past decade. It has been longer than that, because AstraZeneca left Loughborough in 2010, for example. What is the impact of this in the pharmaceutical industry? How can we promote R&D in the UK?

Dr Torbett: Thank you very much for your questions. The report we published this week looked at trying to understand what the impact would be of keeping the rebate rates I mentioned earlier at the level they are today into the future.

The scheme is under the level of medicines pricing. It is really important to take a step back and say that the UK has probably the most sophisticated system in the world for allowing the NHS and the Government to negotiate individual medicines prices. We have the National Institute for Health and Care Excellence. It crawls over all of the clinical data on medicines and there is a negotiation that takes place. When individual medicines get a stamp of approval from NICE, the NHS can have a lot of confidence they are value for money. It has been widely recognised that the UK has some of the lowest prices in the world.

In addition to that, there is this scheme, which requires companies to pay back a certain amount of revenue. The report we published this week says that, if you compare keeping the rate at historical levels, i.e. under 10%, to keeping the rate where we are today, between 20% and 30%, there would be a loss of £50 billion in GDP over the next 30 years.

That is the crossroads we are at. We have heard that other industries are at crossroads at the moment. If we get the policy mix right, we think we could add £68 billion to this country over the next 30 years. If we get it wrong, we think we could lose £50 billion.

The other very important part of this report is that it goes into some detail on the Government's impact assessments of policy changes. This is a really important point that I want to make. Over many years, we have delivered evidence and proven that, when it comes to investment



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decisions, all things being equal, the commercial operating environment for the companies in the country does have a bearing on investment decisions.

Over many years, the evidence we have put forward has been systematically dismissed or ignored by officials, who believe there is no connection between the commercial operating environment and the decisions that companies make to invest. With a lot of confidence, officials have usually said, "We can be extremely tough on the commercial environment and the money will come here anyway; the R&D investment will come here anyway". We have had a lot of years of this now. As you say, we talk about the last decade in our report but it goes back longer than that. The numbers speak for themselves. We have had a one-third loss in our global share. We have had many issues we can point to. Even this week, on the day we published our report, I saw quotes from officials again dismissing the validity of the claims we are making, which is really disappointing in a year when we should be negotiating a new scheme.

In essence, the biggest single challenge is that countries like Spain or Ireland, which is a significant player in the pharmaceutical industry, also have these payback schemes, but they are around 7%, not 26.5%. This puts the UK at a massive disadvantage.

I want to address a couple of your other questions, and I will try to do so briefly. We used to have the fourth-largest trade surplus in the world in the pharmaceutical industry. Again, over the last decade we have gone from fourth to 98th. The commercial operating environment is one of the factors. It is the biggest single sector-unique factor I would point to.

Of course, there are other framework conditions. Do we have a competitive fiscal environment? Do we have the right capital grants and incentives? All of that matters as well, but the voluntary scheme is the big thing I would point to.

Q48 Jane Hunt: The voluntary scheme is one thing. I get that. What else is standing in your way?

Dr Torbett: The fiscal environment needs to be competitive. Those are the factors you would point to across this. The bottom line is that the country needs to get to a level playing field as quickly as possible. We are where we are, but let us get to back to a level playing field.

On the regulation side of things, again, since we have left the European Union, the regulatory changes have been very complex for the pharmaceutical industry. Our regulator, the MHRA, is brilliant—I want to make sure I am saying that really clearly—but it is also really struggling. They have great leadership, but they have lost an awful lot of money. They have lost a quarter of their staff.



They need to find their way in the new post-Brexit world. Part of that is identifying those areas where the regulator has globally leading expertise. They have the right strategy and they are on the right track, but we need to make sure they are delivering quickly when they do that.

Q49 **Jane Hunt:** What about R&D? Forgive me for pushing you.

Dr Torbett: On R&D, it is the same package of things. It is about regulation and the fiscal environment. We have great universities. We have to make sure we have a skilled workforce, to the point that was raised earlier in the conversation.

Ultimately, there is an ethical question for companies. Companies are often not willing to test and research new medicines in a country if they do not feel there is a realistic prospect of patients being able to access that technology when it finally gets regulatory approval at the end of the day. That is a real challenge here. There are examples where companies have said, "We are not going to bring trials to this country if we do not think patients are going to get the medicine at the end of it".

Jane Hunt: That is very interesting.

Q50 **Charlotte Nichols:** I just want to come back on this point about R&D and price controls. A quite regular criticism of the pharmaceutical sector, particularly from organisations like the European Alliance for Responsible R&D and Affordable Medicines, is about the fact you basically have a patent-based system that affords companies a fixed-term monopoly once they have developed something for a certain amount of time. That incentivises price-setting beyond the actual cost of development and manufacturing.

We are looking at how to balance the needs of the sector, which you represent, and the wider questions around ethics, aid and support for the global south. How do you reconcile those two things as a sector when making the case for what sounds like even greater investment in R&D and even lower price controls and so on?

Dr Torbett: These are really important questions, and I am happy to discuss them. The core of the business model of the sector is that companies put an enormous amount of money at risk.

Let me take the Covid vaccine story as an example. There is often a survivorship bias in pharmaceutical innovation. We remember the two or three vaccines that we all used during that period of time. We sometimes forget the 140 vaccine candidates in development that failed. Many companies at that time were putting money at risk, not just in R&D but in manufacturing operations, before they even knew whether something would work.

The Covid vaccine story is an example where the whole industry downed tools overnight and put all their investment into trying to create a vaccine. We only ended up using two or three. What you do not see is the



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large amount of investment that went on those that failed. That is business as usual for the pharmaceutical industry. That is exactly how it works. The industry spends about \$200 billion a year globally on research and development. A lot of that fails. Some of it succeeds, and the stuff that succeeds needs to pay for all the failures.

What does that mean for how much a medicine should be priced? It absolutely does not mean that pharmaceutical companies can charge what they like. It is really important that there is proper scrutiny on whether or not the price being charged for a medicine is appropriate given the benefits the patient will receive.

That is what the National Institute for Health and Care Excellence does. It looks at how well the medicine works and how much the pharmaceutical company is charging for that medicine, and it makes a recommendation. Is it value for money or is it not value for money? I would say the system in the UK is a really good one.

We have an additional control through the schemes I have just described. The industry has collaborated on these schemes since the 1950s. NHS spend on medicines has been substantially declining as a share of NHS cost over that time in this country. We are now saying that the scheme genuinely has gone out of control over the last couple of years. We just need to bring it back to something that is internationally competitive.

Q51 Mark Jenkinson: I have some food and drink sector questions for Caroline. We have touched on labour shortages and the fact you have twice the vacancy rate of manufacturing. The Food and Drink Federation's state of industry report said that labour shortages remain a significant brake on the industry's growth. What can we do specifically in your sector to address some of those shortages? Is there anything specific to your sector that would address those shortages?

Caroline Keohane: This goes back to some of the points that I made earlier around flexibility in the apprenticeship levy, looking at the shortage occupation list and targeting areas where it is really tight and we cannot get the domestic workers.

In other areas, there is also the role of automation, which I have not necessarily touched on. End-of-line manufacturing processes are one example. A lot of businesses are unable to secure people to help pack boxes. That is a particular area where you can automate. For many SMEs—97% of the sector are SMEs—that can be quite a difficult investment with limited resource. We work on very short-term contracts with retailers. They last three to six months. It is quite difficult to take that longer-term view in terms of capital investment.

More could be done to help businesses de-risk investments in automation and robotics. We have launched what we are calling a Food and Drink Innovation Gateway. Basically, we are connecting food and drink manufacturers with universities and the Catapult Network so they can



provide expertise and funding opportunities. We are trying to help businesses where we can, but, if Government worked with us to boost productivity, automation and robotics, it would ease some of the labour shortages.

Q52 Mark Jenkinson: Do you see signs of the Government working with you to address some of those things?

Caroline Keohane: Again, we are working with the High Value Manufacturing Catapult. We are starting to see some partnership there, but there is more that can be done. Yes, we could have more of a focus on food and drink manufacturing. Again, Made Smarter has seen some really positive developments with food and drink manufacturers. Again, there is more we could be doing.

Q53 Mark Jenkinson: How are cost pressures such as energy price increases impacting the food and drink industry? What is the context there? What is the international context there? To what extent is it an international issue?

Caroline Keohane: As I mentioned earlier, there is an international element to food price inflation. We source our ingredients globally, but we are expecting food price inflation to remain for some time; we are expecting to have cost pressure. Again, there have been increases in energy prices. Ingredients that are produced in the UK are now 18% higher than they were last year. Imported ingredients are running at 31% higher than last year. Again, there are further input cost pressures to come. It can take around seven to 12 months for that to filter through to the final consumer price. It is having a huge impact on businesses.

If we look at insolvency rates, we had double the number of insolvencies in 2022 compared to 2019.

Q54 Mark Jenkinson: That is specifically in your sector.

Caroline Keohane: That is specifically in our sector. When you compare that to manufacturing, it was around 15% higher, whereas we are at double. That is really having a massive impact. Again, the Government could help by looking at the cost of doing business and easing labour market shortages.

We welcomed the support that we got as part of the energy bills discount scheme. It was great to see food and drink manufacturing included, although, having said that, there are some subsectors that have been omitted from that, such as coffee manufacturing, soft drinks and pet food. Again, we would like the Government to look at that and think about why those particular subsectors have been left out. They are energy-intensive and trade-intensive in some aspects.

Going back to my point about regulation, poorly designed regulation is putting an additional cost on to industry. The extended producer responsibility was the example I gave earlier.



Q55 Mark Jenkinson: How is current trade policy impacting investment in innovation in the UK? What can we do to encourage more growth and investment?

Caroline Keohane: We are doing pretty well exports-wise, as I said earlier. Our latest trade snapshot suggests that our exports in 2022 were close to £25 billion. Exports to non-EU markets broke the £10 billion barrier for the first time. There was strong growth in the US, Singapore and India. That is really positive news.

Having said that, that does mask some of the challenges that businesses are having; SMEs, in particular, are struggling to export. There is more we can do. Exports, imports and investment are very much linked. We would like to see a strategic approach to all three areas and not necessarily just a focus on exports. To your point about trade policy, we would like to see more of a focus on imports. We need ingredients to supplement and complement our domestic production.

On investment, there is something around broadening the eligibility for R&D tax credits to food and drink. We do a lot of innovation work in terms of reformulating products. It is difficult to say whether you will always be successful with a claim for R&D tax credits.

We would also like to see more of a permanent capital allowance. The first-year capital allowance is known as full expensing. The super-deduction was welcome, but many of our members were unable to take advantage of that because of the two-year window. It takes time to develop a business case and put that investment together. We would like to see something a bit more permanent to support businesses in that area.

Q56 Mark Jenkinson: An extension of super-deduction would be welcome, then, would it?

Caroline Keohane: Yes. We would prefer something permanent, so a first-year capital allowance.

Mark Jenkinson: That is full expensing.

Caroline Keohane: Exactly, yes. Full expensing would really help.

Q57 Mark Jenkinson: Would you want that to be permanent?

Caroline Keohane: Yes. It might not get to 100% overnight, but we could set out how we might get there. That would really help businesses with their cashflow in terms of that first-year investment.

Q58 Mark Jenkinson: What does a focus on imports look like for your sector?

Caroline Keohane: When it comes to UK trade policy, there are great things happening in terms of exports. We welcome the Food and Drink Export Council. We have eight new agri-attachés being put into markets. We would like to see a similar emphasis on imports.



Q59 Mark Jenkinson: This is about helping SMEs access imports directly rather than going through third parties, for example.

Caroline Keohane: Yes. It is easing the trade process so that we can source ingredients domestically, with a strong, competitive agricultural base in the UK, but we are also able to source globally. It is supporting businesses with that.

One of the things we are looking for is a dedicated trade information portal to support businesses on the export side and in terms of sourcing ingredients on the global market.

Q60 Mark Pawsey: I want to ask Caroline a quick question. Caroline, you have referred to the Extended Producer Responsibility. I must declare my entry in the Register of Members' Financial Interests. You have said that the EPR is poor regulation, but the industry accepts that it has a responsibility for both the goods and the packaging it places on the market. I know it wants to do the right thing. Could you tell us how the EPR proposals could be improved to make things better?

Caroline Keohane: On EPR, there are some great best practice examples. Belgium has introduced an EPR scheme at very low cost. We would encourage the Government to review the current regulations and look at what is already out there. We are really keen to work with Government on that.

In terms of some of the things that we are looking at, a producer-led scheme administrator would be really welcome. We would ask the Treasury to look at the mass balance accounting methodology, which would help investments in chemical recycling and support the driving-up of recycling in plastics and packaging. I can provide further detail in writing.

Mark Pawsey: That might be helpful.

Caroline Keohane: We do have a paper setting out a number of areas where we would like to work with Government to co-design a successful EPR scheme.

Q61 Ian Lavery: Mike, I want to touch on the Britishvolt situation. The automotive manufacturing industry seems to be in a bit of freefall at this moment in time. There are big dangers with the proposed production of EV batteries in the future. With the collapse of Britishvolt, will the UK ever be able to compete internationally in the manufacturing of EV batteries? If so, I would be interested to know how you think that could be the case. I am going to try to put two or three questions into one because I am very mindful of the time. Do we have the talent pool or the right talent in the UK to do that?

In terms of the innovation and investment in the automotive manufacturing industry, the likes of Britishvolt were looking to get £100 million from the Government with heavy caveats. That represented 2.3%



of the build. When you compare that with other international competitors, we have CATL in Germany. There were granted €750 million, 22.8% of the costs. Northvolt in Sweden were granted €505 million, 17.1% of the cost. In North America, GM received \$2.5 billion, which was 36.2% of the cost. Tesla received \$1.3 billion, which was 26%. The list is absolutely endless.

If we want to be up there, if we want to be manufacturing these batteries, there has to be more investment from the Government. If we want eight or nine gigafactories by 2040, the Government have to get on to the pitch. They have to be in there discussing how they can support the manufacture of these EV batteries.

Mike Hawes: I will try to wrap those up as quickly as I can. Yes, the collapse of Britishvolt disrupts some of that ambition. It does not derail it. I still firmly believe the UK can compete and needs to compete, but the window for competition is closing fast because those international investments are happening now. They have been happening over the past four or five years. We have not been at the forefront of competitiveness to attract that investment.

People are looking at the UK, where traditionally you see those strengths. I still firmly believe we have those inherent strengths, especially in the people, but the instability, because of uncertainty and so forth, mitigates against investment. Everyone knows that businesses abhor uncertainty. We need those investments.

We do have certain benefits. You have mentioned the Britishvolt site. The fact there was competition to take over that particular site and that it was resolved relatively quickly, if we are to believe what we read in the papers over the past 24 hours or so, demonstrates that there is still keen interest. Whether that will translate into automotive investment is a more difficult question to answer right now in terms of that particular site. If you look at some of those examples you gave, what you are seeing there is Governments recognising that the future of the automotive sector depends on this transition.

Every country wants an automotive industry because of the value it adds, the exports it delivers, the employment it delivers and the improvements in productivity it will lead not just in the sector but across the economy. Those things make it very attractive industry to attract. We need to make sure we attract it. That goes back to the understanding of that level playing field. We need to look not so much at the numbers but at the proportion of investment.

I am not suggesting that the Government should hand over cash and say, "Come hither". It is about linking that to the delivery of certain stages of a project. We have the ability, as a country, to determine our own framework within the bounds of WTO. That needs to be a competitive framework. We have that flexibility; let us take advantage of it.



We need to make sure we have frameworks in place that are easy to access, first and foremost. The process we have at the moment is incredibly complicated, with ERGF and so forth. Look at what other countries are doing. I talk to some of these potential investors. They like the fact we are an attractive place for manufacturing. We have very strong R&D capabilities, which helps. We have 20 or so dedicated R&D facilities. The links to universities are fantastic. You can see in this technological evolution the strengths that we have.

The site you are talking about specifically is a good one. It is not just about whether you can build there but what other things go with it. Other countries will say, "There is money on the table. We will put the infrastructure in. We will look at some of your input costs", energy being the most important one for electrification, "and see what we can do to give you an assurance that they will be competitive at least over the medium term, despite global things".

The bottom line in all of this is to make sure we have a demonstrable policy that shows we are supporting manufacturing in the way we have done for decades in this country. We still need to make sure that continues. It is ever more important when it comes to electrification because the global competition is fierce. You can see what is happening in the US, Europe and China.

On the point about our trade framework, this goes back to what I said in my opening comments about the relationship between business and trade. The commercial environment must be important. The trade environment goes hand in hand with that. When we are talking about this particular technology, rules of origin are fundamental to how you trade. With the relationship with the EU under the TCA, the rules of origin for electric vehicles get tougher next year. They get so tough that, unless you have that investment, you may not be able to meet them. That goes for both sides.

Certainly, in terms of accessing those international markets, which you want to exploit, you need to make sure you meet those rules of origin. Batteries will become the most important import part in a new vehicle.

Q62 Mark Pawsey: Can I follow up on Ian's point? If we are not into volume battery manufacture, are we ever going to remain in volume automotive assembly?

Mike Hawes: Given that batteries become the most expensive part of that new vehicle for the foreseeable future, you need to have a relatively local supply.

One of the strengths of the UK automotive industry has been its diversity, from small-volume, high-value performance and luxury vehicles through to volume and so forth. You need to make sure each of those segments are able to access those particular products.



You are part of a global supply chain. Each of those companies, depending on their ownership and their needs, will want a specific type of batteries. You need to have that volume, that scale here, to support volume manufacture and to support the supply chain that goes with it.

Q63 Mark Pawsey: What happens to automotive assembly in the West Midlands, which is our historic heart of automotive manufacturing, if we do not get a battery plant?

Mike Hawes: There is still a future for it. I am not going to be Cassandra, but it is about how competitive you can be. We want to grow the industry. It is not just about keeping what we have. We want to do that, but we also want to grow the industry.

If you want to attract that investment, increasingly you need to have those new technologies made here because these are expensive commodities. They are difficult and expensive to transport. If we have them here, if we have the capability here, we are building on the existing strengths we have.

Q64 Mark Pawsey: Have we been too focused on numbers of units? I am looking at a chart here that shows the record high was nearly 2 million vehicles back in 1972. We were close to that in 2016, but we are at half of that now. In value terms we are doing rather better, are we not? We are not making low-cost, low-margin vehicles. As you have just pointed out, we are making very high-quality and expensive vehicles. Are we too fixated on the number of units?

Mike Hawes: You need to have that scale to support a supply chain. Yes, we have a world-leading variety of small-volume manufacturers, but increasingly they are dependent on domestic supply chains as well. Those domestic supply chains also need the volume.

That is why it is essential to have the Nissans, the Toyotas and the BMWs here, as well as the scale Jaguar Land Rover puts out. That is fundamental to the framework that is there and the strength behind the industry.

Q65 Mark Pawsey: At one point you spoke about how we need to compete with the incentives that are being provided by other countries. Do we have the right framework? Are we sending out the right signals to say we are competing on the same playing field as other advanced economies?

Mike Hawes: The jury is out, given the change in approach to international trade and how you set about attracting inward investment. We have an opportunity, and that needs to be a competitive offering.

The first thing manufacturers say is, "What is your approach?" If you look at the Japanese, when they invested in the 1980s and 1990s, they were here for what they described as the long term. That is not 10 or 15 years; it is up to 50 years. Manufacturers will ask, "Do you support manufacturing investment? If I am about to make that investment over



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the long term, can I be sure that my investment is safe and that it will be competitive?"

There was a lot of discussion in 2016 about the future for the UK. We talk about trading internationally, and we are fully supportive of that. That trade has to be fair and as free as possible. To access that, you need to make sure you are internationally recognised as a safe and secure place to invest and you need to make sure you will be competitive not just now, when manufacturers are about to make their investment, but over the long term.

- Q66 **Mark Pawsey:** I was going to ask you about the longer-term competitiveness of supplies, particularly energy. We know battery manufacture is very energy-intensive. You have already told us that energy costs are 50% higher than in Europe. Is there any long-term prospect of a battery manufacturer being able to compete on energy supply 10 years from now?

Mike Hawes: Battery manufacture will qualify as energy-intensive. We would argue that you need to make sure all automotive manufacturing has access to price mitigation through climate change agreements and ideally, because we are so trade-intensive, through the extension of the energy-intensive scheme.

Secondly, where are we in that shift to renewables? The UK is not at the end state, but we are not bad. Again, if you are about to make green vehicles, you do not want to be putting brown energy into making them. You need to look at that whole lifecycle. You have to make sure in terms of the input cost, the decarbonisation of the input of energy, as well as the ultimate disposal as well. We have a lot of things that are advantages, but we need to take advantage of them, and quickly.

- Q67 **Mark Pawsey:** Very finally, you spoke about strengths of the industry. Remind us what those are.

Mike Hawes: Its strengths are diversity, engineering excellence, a strong international reputation, heritage, a skilled and flexible workforce, the relationship with universities and the R&D capabilities we have. I am conscious of time. I could be here all day.

Chair: Thank you very much. We are now going to move on to our second panel. Thank you to all three of you for your contributions this morning.