

Business, Energy and Industrial Strategy Committee

Oral evidence: Businesses and Brexit preparedness, HC 1001

Tuesday 8 December 2020

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

[Watch the meeting](#)

Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Richard Fuller; Paul Howell; Mark Jenkinson; Charlotte Nichols; Mark Pawsey; Zarah Sultana.

Questions 1 - 51

Witnesses

I: Ian Wright, Chief Executive, Food and Drink Federation; Miles Celic, Chief Executive, TheCityUK; Lloyd Mulkerrins, Policy Manager, Society of Motor Manufacturers and Traders; Philip Law, Director-General, British Plastics Federation.

II: Joe Marshall, Senior Researcher, Institute for Government; Jessica Sargeant, Senior Researcher, Institute for Government.

Examination of witnesses

Witnesses: Ian Wright, Miles Celic, Lloyd Mulkerrins and Philip Law.

Q1 Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee. Today we have a one-off session on business preparedness for Brexit. We set this session with a little anticipation that there might be some detail of a deal to talk about, but, in the absence of that, we are going to be talking to a number of sectors in our first panel about preparations for 1 January. In the second panel, we will be talking to the Institute for Government.

In our first panel this morning, we are delighted to welcome Ian Wright, the chief executive of the Food and Drink Federation; Miles Celic, the chief executive of TheCityUK; Lloyd Mulkerrins, the policy manager at SMMT for the automotive sector, and Philip Law, the director general for the British Plastics Federation. Good morning to all of you.

As a Committee, we will be diving into each of your sectors with some detailed questions in due course. For an opening question from me, I am keen to hear from you about the cumulative impact that has been faced by your sectors, dealing with Covid and now having to prepare for the end of the Brexit transition period. Has that made it harder for your sectors to prepare for 1 January?

Ian Wright: Thank you for having us today. There are two separate ways of looking at this. One is the complete assault on people's headspace of having to negotiate Brexit, Covid-19 and, in the case of the food and drink industry, the Christmas rush all together. The toll it takes on our teams, staff and colleagues is really enormous. It is important to understand, and I am sure members of the Committee will be aware of this, that, for many food and drink companies, Christmas, or rather the period normally between Halloween and Chinese New Year, will account for 60%, 70% or even 80% of profit in a normal year.

It is important also to note that, for the last couple of years, Halloween has been a bigger deal in hospitality and celebratory food than New Year's Eve. We have already lost out on the first part of our biggest earner and that will continue, I suspect, because Christmas is not going to be anything like as recognisable. There will not be the sustained celebration of the occasion that we see normally. That does not just mean Christmas parties for the office or the workplace. It means at home as well. New Year's Eve is still completely uncalled for in many areas and we will see what happens there.

The financial toll of Covid is enormous at this time of year. The cumulative toll is the same as for everybody else in the country. It has been the most enormously difficult period, both financially and mentally, for our teams. Our members have been working throughout, 24/7, since the start of the crisis. Then to layer on top of those two, Covid and Christmas, there is the Brexit uncertainty. With just 14 days to go, we have no clue what is going to happen in terms of whether we face tariffs.



HOUSE OF COMMONS

That is not just a big imposition; it is a binary choice as to whether you do business in most cases. My members will not know whether they are exporting their products after 1 January or whether they will be able to afford to import them and charge the price that the tariffs will dictate.

In Northern Ireland, it is even worse. The Northern Ireland protocol is a complete shambles. The idea that you can prepare for something as big as the change that is going to happen—that is to say, everybody doing business in Northern Ireland is, in effect, exporting to the EU, many of them for the first time—is ridiculous. It is a massive toll. Financially, it is a big imposition, but the bigger concern is the level of confusion and chaos that we potentially face.

Q2 Chair: We will come back to you on some of those points in further questions. Miles, from TheCityUK, for professional services and the financial sector, what is the cumulative impact of Covid and the ability to prepare for the end of the Brexit transition period?

Miles Celic: Thank you for the opportunity to appear before the Committee. On Brexit, the industry has been preparing for this moment pretty much from the day of the vote back in June 2016. The nature of what we do, the risk of disruption and the highly regulated nature of the industry means that teams were put together very quickly to plan for any eventuality on the Brexit talks. We have said in the past that, throughout this process, we have hoped for the best but prepared for the worst.

We worked extremely closely with the regulators here in the UK and, indeed, in the EU, and with Governments as well, to ensure that there is a minimum amount of disruption and that companies were, as much as possible, well prepared for any Brexit eventuality. That brings with it cost, the risk of disruption and the risk of friction in the relationship. Because of the long lead time of a highly regulated industry such as ours, a lot of this work was in place, given also the point of departure from the EU and the nature of the way the talks developed. We were supposed to have started the transition period back in March 2019. We have always operated on a very cautious timescale.

When Covid came along, it was obviously an additional cumulative effect, but a lot of the work that needed to have been put in place had been done. Regulatory licences had been applied for. Capital, where required, had been moved. If people needed to be moved or hired, that had taken place. With the vast majority, certainly of the larger companies in our industry, that process was well underway or in some cases near to completion.

Covid brings additional capacity and resource demands on top of that. It has had an impact in terms of the regulators and Treasury here in the UK, but also their counterparts in the EU. At this stage I would say that, certainly where Brexit is concerned, we are as well prepared as we can be, in terms of things that are within the industry's control. There are certain things that ultimately are outside the industry's control and will



HOUSE OF COMMONS

depend on what happens in the talks between the Prime Minister and the President of the Commission over the coming hours and days.

As regards Covid, the industry has stepped up. It has played its role. It has sought to support companies through loans and elsewhere, again working with the authorities. We have been keen to be part of the solution there. Covid has acted as an accelerator of trends for us, particularly digital and technological trends. That may be outside the scope of this particular inquiry and session, but it has acted as a sort of dynamo for change within the industry, change that was already well underway in many cases.

Q3 Chair: Lloyd, from the SMMT, for the automotive sector, how has the cumulative impact of Covid and Brexit affected your members in preparing for the end of the transition period?

Lloyd Mulkerins: Thanks to the Committee for having me today. Through the first half of 2020, we have seen the industry surviving the immediate-term economic shock from Covid-19. For all intents and purposes, global markets closed, which we export to. If we look at UK car production alone, year to date we are down roughly a third on last year's production figures. That is on a subdued market from last year as well, given we had a number of shutdowns in the run-up to no deal. We have lost almost 400,000 units from UK car production this year already.

If you look at the registration side of things, a similar amount, in percentages, has been lost. We are down about a third on the registration front, but lost about 660,000 units from registrations as well, because we have seen the first lockdown shutting manufacturing for a short time before Government confirmed it could be opened again, but retail remained closed. In the second lockdown, retail closed again. Our showrooms, which are the release for all our manufactured goods, were not open, which has really challenged the industry. Why produce vehicles when, certainly at home, you have nowhere to sell them? The industry has adapted slightly on that front in click and collect, but it has by no means made up for the volumes we have missed.

If you look at April alone, we were down 99.7%. Only 197 units were built in that month, compared to over 71,000 that time last year. We were shut. As a result of that as well, we had tens of thousands of people in the industry, both in manufacturing and in retail, furloughed. In member surveys we have done, we have had almost 50% of members saying they have had to move key personnel away from supporting the end of transition and preparedness on to Covid tasks, coming back to the first point, because they have been trying to survive today, tomorrow and next week, and not having that slightly shorter to medium-term look at what is coming down the track in six months.

Since around July time, we have seen a bigger focus on the end of the transition. That will be partly driven by Government's "Check, Change, Go" campaign. We had a bit more bandwidth as the economy opened up



HOUSE OF COMMONS

slightly and manufacturing returned. It is vitally important that we do not focus on just what happens next month but we continue importing and exporting on 1 January.

Q4 Chair: Philip, what has been the cumulative impact of Covid on Brexit preparations for the plastics industry?

Philip Law: It has been pretty heavy. We have just carried out a survey and 63% of our members say that the preoccupation with Covid has impaired their ability to handle upcoming issues with Brexit. The industry had to devise and introduce new safety guidance. In some instances, it had to repurpose manufacturing to provide PPE. There were staff absences through isolation. That was on top of a pre-existing shortage of technical people in the industry and shopfloor staff.

The downturn caused by Brexit affected most sectors. Packaging volumes were down significantly. Automotive was down. Aerospace was down. Construction was particularly badly hit, although it is clawing its way back at the moment. All these introduce weaknesses that make it difficult for the industry to withstand further shocks.

In addition to Brexit, we also have the impending tax on plastics packaging, which is likely to be about £200 a tonne on materials that do not contain recycle up to the tune of 30%. Packaging is probably about 35% of all plastics consumed in the UK, so a large number of companies are going to be affected by that as well. Of course, we are preparing for that alongside Brexit.

Chair: We are now going to come to each of you to dig a little deeper in terms of actual preparations for the end of the transition period.

Q5 Mark Pawsey: My questions are to Ian about the preparedness of the food and drink sector. I wonder if you could help us by giving us a little bit of context to start. What percentage of the UK's food is imported?

Ian Wright: Across the year, it is 40%, but right now that figure would be probably significantly north of 60%. The reason for that is reasonably obvious. We import a lot of fresh food in the period when we are not growing it ourselves.

Q6 Mark Pawsey: What percentage of our food imports come from the EU?

Ian Wright: It is by far the most significant percentage. More than two-thirds of it comes from the EU. The largest single player in that would be the Republic of Ireland.

Q7 Mark Pawsey: You mentioned that our levels are higher at the moment because of fresh food. What proportion of that food that we import is perishable?

Ian Wright: Of the fresh food, almost all of it.

Q8 Mark Pawsey: No, in total.



HOUSE OF COMMONS

Ian Wright: What, of the total we import or the total we consume?

Q9 **Mark Pawsey:** The total we import. Both stats would be helpful actually.

Ian Wright: If you said that now 60% of our food is imported, I would think something around three-quarters of that, so somewhere north of 50%, would be perishable. The other thing to remember about the current situation, which is completely unique, is that the delays that have been caused across our container ports, famously a lot at Felixstowe but also Southampton and London Gateway, as a consequence of Covid more than most other factors, mean that even ambient food is arriving so late that some of it is potentially going to go out of time.

Q10 **Mark Pawsey:** In the context of those numbers you have given us, how important is it to have some certainty over the movement of food between the EU and the UK?

Ian Wright: That is the really critical question. We cannot be absolutely certain about the movement of food from EU to UK after 1 January for two reasons. One is the uncertainty caused by the new, although much planned for, imposition of checks at the border. The other is the question of tariffs. The problem with tariffs is that we do not know what they will be. We do not know that they will be imposed, with 14 days to go. The issue there is that that becomes a binary choice for the operator, the importer. The question is whether I can afford to pay for this product with the tariff and whether I will get my price from the shopper. Although people will have modelled that, they will not be able to act with very much certainty.

The second part of this, which is even more concerning, is the question of what you do in Northern Ireland. We have never had this situation before.

Q11 **Mark Pawsey:** I will come on to Northern Ireland. When Miles was talking to us, he told us that, when Covid came, it did not significantly affect their preparations because much of their planning had already been done in the financial services sector. Why could you not have done that in food and drink?

Ian Wright: A lot of the planning has been done, but the trouble with the planning is that it requires us to know exactly what the regulations are and exactly how the trade flows will work. The trade flows are entirely variable because we do not know what checks will be imposed, how quickly they will be imposed and how effectively they will be imposed on imports coming through Calais. Whereas Miles has a degree of certainty, and I am not remotely trying to minimise the difficulties in financial services or, indeed, any of my other colleagues' industries, for us this is all about lorries with the right paperwork getting in through a particularly small number of ports.

More than 10% of the total of our food comes through Calais and the Channel Tunnel every day. The key fact is not whether I am prepared but



HOUSE OF COMMONS

whether the person driving the lorry in front of me is prepared. If I am behind that person in the queue, I have no control. I have no idea when I will arrive.

- Q12 Mark Pawsey:** Can I ask you about warehousing? You told us that it would have been helpful to the food and drink sector if the transition period had not been coming to an end coinciding with our Christmas period. That is essentially what you said, but we are where we are with that. What evidence is there of a shortage of warehousing space to hold additional stocks, to compensate for the fact that there might be some delays in the way you have just outlined?

Ian Wright: The availability of warehousing to stockpile is differential according to where you are. On the mainland of Great Britain, there is a shortage of both general ambient warehousing space and cold-chain storage. That is structural, because there was a big explosion building up to 2008, but after 2008 the property crash meant that very few people developed those facilities speculatively. The facilities that exist are entirely tied to normal market flows, so trying to find space for additional stock is very difficult. It is similar in Northern Ireland and I know of one very major brand that has taken and created its own warehousing space in Northern Ireland because it is so worried about it.

It is probably easier to stockpile exports over the other side of the channel. A number of businesses will have done that. The problem of stockpiling in the UK is partly availability. It is partly that, first, you are at Christmas, and, secondly, everyone else is doing it. If you are looking at ambient space rather than specialist space, every other industry is trying to stockpile as well.

- Q13 Mark Pawsey:** You have told us about the problems of importers. What is the position with regard to UK food exports? Have food producers been able to retain markets and orders into the new year?

Ian Wright: We have seen a number of our colleagues across the industry begin to lose their customer base as a consequence of the uncertainty and the question marks over supply. We have seen quite big companies lose orders in the EU with a relative degree of regularity over the last six to eight weeks.

- Q14 Mark Pawsey:** Would you be able to give us a figure on that decline? Do you expect a sales loss of 10% or 20%?

Ian Wright: The reason that is difficult to answer is that we know, at the moment, that it is in the low single digits. The problem is that, if there is any disruption to supply, you lose your customer pretty quickly and do not get them back. The problem for our members is that they still cannot be absolutely certain on what basis they are exporting and on the way in which the checks will work.

I am pretty confident that Kent and Operation Brock will work reasonably well. I expect that to be an 85% to 90% success. I am far less confident



HOUSE OF COMMONS

about what happens at Stranraer, Holyhead or the other ports serving Northern Ireland. Do not forget: that will now count, effectively, as an export market, because we have to go through all the same checks that we have to go through for the EU.

- Q15 **Mark Pawsey:** I was going to ask you about that. You said earlier that the Northern Ireland protocol is a shambles, but you have also, I think, gone on record as saying that some UK manufacturers will choose not to supply to Northern Ireland. What evidence do you have for that?

Ian Wright: We surveyed our members last week and 43% of those who supply Northern Ireland said they were not going to do so in the first three months.

- Q16 **Chair:** I want to follow up with a quick question on the basis of your last two sets of answers. You set out how, because of Covid, a lot of your members are losing significant amounts of their profit for this year. Do you have any insight into the viability of businesses in your sector? If they have a significant drop in profit because of Covid and then have to deal with warehousing costs, tariff costs and pricing pressures from supermarkets, are you concerned about bankruptcies and insolvencies going on in the food and drink sector?

Ian Wright: I may take a minute to answer that. It looks a bit odd to say that members are concerned about their profitability when you have one of the few industries that have continued working throughout the Covid crisis. As has been widely reported, our members are producing over 100% of normal supply.

The issue here is margin. Normally, 70% of the products that food and drink manufacturers produce go to retail, whether that is supermarkets, convenience channel or other mechanisms. About 30% goes into what we might call away from home. That includes hospitality, contract catering and what I call food to go, which is sandwich shops and so on. Most of that 30% has disappeared for a large chunk of this year. If you look at the figures from a whole range of businesses, or just walk down your own high street or round central metropolitan districts, you will see that food to go has been really badly hit, even when it has been allowed to open.

Kate Nicholls of UKHospitality has said this far more eloquently than I can. Hospitality has been more than decimated. It has been absolutely poleaxed. Even contract catering has been hit because workplaces famously do not have people working in them. That is the higher-margin part of the business.

I can give you one anonymised example. A very big international business, which you and all the members of the Committee would have heard of, has about 60% of its business in retail and about 40% of its business in that away from home. That is the more profitable part of the business. The retail business is up very low single digits on the year. The away from home is less than 5% of its business this time last year. No



HOUSE OF COMMONS

business, even the most brilliantly organised and wonderfully funded, can absorb those sorts of shocks without a massive hit to profitability.

Will we lose many businesses? I certainly hope not. Are we in as dire straits as the hospitality industry? Absolutely not, although those businesses that are pointed only at hospitality, providing specialist services to restaurants for example, are very, very, very precarious.

Q17 Paul Howell: I will start with you, Lloyd, talking about the preparedness of the different elements of the business. There are various tiers within automotive. I wonder if you can give us an insight as to the different levels of that.

Lloyd Mulkerrins: I would class automotive businesses as being roughly in one of three buckets. You have those large businesses, which tend to be multinationals, that would say they are as ready as possible. They have done everything in their control to prepare for the end of the transition period. That said, when you start looking at what their confidence in the supply chain looks like, it is much less certain. They are confident that they have what they control in place. Clearly, they are much more nervous about the uncontrollable.

In the second bucket of the three, we have some businesses that have taken some steps to prepare for the end of the transition period, but they may not have done absolutely everything. It is likely, if we look at things such as customs declarations, which will be needed, that they have made attempts to complete them, but the information may not necessarily always be correct.

In the final bucket of companies, we have the ones that have done very little, if anything at all. The awareness among them of the changes that are going to come is quite low. I will give you one example. Less than a week ago, a business, a member of ours, got in contact to ask, "What impact will there be as a result of us having suppliers in Europe? Do we need to be setting up agreements with the suppliers? Do we need to be making contact with customs?"

These are the businesses that, as I mentioned under the Covid point, have been grappling and fighting to survive during Covid. They are now having to turn their attention, quite late in the day, to preparing for the end of the transition period. Many of them will have engaged with Government through this process, but in reality it is going to be exceptionally complicated, deal or no deal, to trade in the new trading environment with our biggest and largest partner for automotive. We may think of customs as simply a border, but there are so many processes, procedures, systems and data requirements behind the scenes. That is an exceptionally large amount for businesses to do in an exceptionally short period.

Q18 Paul Howell: Exploring that a little further, clearly your tier 1 guys, the big manufacturers, are the ones that will be looking at the export side.



The tier 2s and tiers 3s that feed into them as suppliers are more likely to be caught up in the import concerns that are there. Then you are starting to discuss about warehousing and potential for supply of stock in the system. Are we in a perverse situation where the low demand levels you are seeing because of Covid mitigate the risk there, in terms of holding the supply chain together as we go through the Brexit transition? Is there at least some sort of bizarre link there that helps you in that?

Lloyd Mulkerrins: As you mentioned already, we have the larger vehicle manufacturers and global suppliers. They will do both import and export. If you think of the large vehicle manufacturers, they can have up to 400 suppliers directly supplying them. Sometimes the vehicle manufacturer will take control of that import into Great Britain. They will also take control of the process for the finished vehicle, whether it is exported or not. To some extent, it is the same on the supply chain. Many of them will be involved in both the import and the export sides of things.

Though volumes are slightly down, we are seeing some vehicle manufacturers move upwards of 80 lorries a day full of parts and components into the UK. The production might be slightly lower, but you are still moving a huge volume of parts and components for import and finished vehicles for export in and out of the country every day. We have a number of vehicle manufacturers that are planning to do that over the end of the transition period and, indeed, start production up early in the new year as well.

We have seen members taking some steps to mitigate the impact where possible. We have over 60% of members saying that they have either stockpiled already or plan to stockpile for the end of the transition period, but the number of days varies greatly. Some of them have planned to stockpile for one day's worth. We have others that are stockpiling for up to two weeks' worth of materials. Some of that will be held on their own production sites. Some of it they would have asked suppliers to stockpile as well, but that is only a very short-term mitigation measure. At some point, they are going to have to bring in more parts and components for production and, indeed, export the vehicles as well.

It is the same on the shipping and logistics routes. We have 55% of members that are trying to adjust those, potentially looking at those busier ports in the short straits that may become congested exceptionally quickly. Can they move away from them to other ports that are either closer to their facilities or less likely to be congested? We are expecting the volumes of movements in and out every day to still be high through January next year.

Q19 **Paul Howell:** I come out of industry and have spent time as a logistics director, so I understand some of the loops and hoops that people have to go through on this side. I have also been into some of the local vehicle manufacturing plants in the Sedgefield constituency or around. People like Nissan are not a million miles from us and I have a number of industrial estates. My experience of these guys is that they are exemplars



HOUSE OF COMMONS

of supply chain management. That is what a lot of the car companies do. Do you think there has been enough, or has it just been impossible for the tier 1s to manage what the expectations are into tier 2 and tier 3?

Lloyd Mulkerrins: That is where it gets hard for the vehicle manufacturers. They have exceptionally good relationships with the suppliers that supply directly to them. Some of the largest UK-based manufacturers have 400 suppliers. In itself that is a mammoth task, to manage the relationship with every single one of them and ensure they are prepared, let alone to then look at the next tier below that, where there may be two or three tier-2 suppliers into a tier-1 supplier and then up to the vehicle manufacturer.

You quite quickly run into the tens of thousands of suppliers, which pyramid to the vehicle manufacturer at the top. While they are doing everything they can, as I mentioned at the beginning, they are only confident in what they can control and understand, and that is their own processes. Quite quickly, you get to the processes that are outside the vehicle manufacturer's control. That is where the uncertainty comes in and why, where possible, mitigation actions have been taken, but, as I say, they are only very short-term measures.

Q20 Paul Howell: Yes, so the problem is the explosion of suppliers as you get further down the chain and the number of little guys who need to be prepared on that. In terms of things you need to see delivered and sorted, my understanding is that you have problems on the detail on rules of origin and things like this. Do you want to expand on that and anything else that is particularly critical that needs to be sorted out for clarity?

Lloyd Mulkerrins: We have a couple of pieces here. We have some preparedness actions that need to take place, deal or no deal. Then we have actions that need to be taken especially and specifically in a deal scenario. If we look at those that are deal agnostic, so needed in either scenario, a lot of the systems for both GB-EU trade and GB-Northern Ireland trade are not yet out there. We do not have an end-to-end process, as an industry or as companies, of exactly how movements are going to take place from 1 January.

A big one for us is the goods vehicle movement service, which will be needed for those transit movements from 1 January. While we have seen it in a PowerPoint form and what the process should look like, none of our businesses or members have engaged with that service at all, so we have no idea what it looks like or how it functions in practice. Though hauliers will be inputting the information, it will be us, as automotive businesses, that have to provide that information to them. We simply do not know what those data requirements are at the moment.

It is the same for "check an HGV is ready to cross the border". While the demo has been up, it is by no means the final system we will be using. At this stage in the game, what are the data requirements that businesses



HOUSE OF COMMONS

are expected to put in? It is mandatory if you are moving through Kent on 1 January, so we are nervous that we could have some unexpected data requirements put on businesses at a very late stage in the day.

As you mentioned, on the rules of origin piece, the obligation for a supplier to supply a vehicle manufacturer with a long-term supplier declaration is based on the legal text of a free trade agreement. In effect, at a high level, a vehicle manufacturer will go to its supplier and ask, "Could you confirm whether your goods qualify under the terms of this free trade agreement?" We do not have that legal text at the moment, so that solicitation and consultation process that vehicle manufacturers need to do to understand whether their goods qualify under the terms has not been able to happen yet.

That normally takes place several months before the upcoming calendar year. If you look at some European vehicle manufacturers, that would have been done at the beginning of this year for the likes of the CETA agreement. The danger we are in is that, from 1 January, companies cannot prove that they meet the rules as set out in the free trade agreement. If you cannot prove that you meet the rules at this stage, you would have to pay the tariff.

One of the key requests we have been working on with ACEA and CLEPA, our sister associations, is about providing that grace period where tariff-free trade can happen for up to a year. Then, after that year's grace period, the vehicle manufacturers have six months to alter their origin declaration requirements. If they find out that they meet the terms, they have not paid the tariff and they will not. If they find out that their goods do not qualify under the agreement, they would pay the tariff. That grace period is essential for us to be able to access tariff-free trade if a deal is agreed from 1 January.

Q21 Paul Howell: That was very comprehensive. I appreciate that. Moving across, Philip, it is a different structure to your industry, but with the same context about the different tiers of a supply line. Could you elaborate a bit on that?

Philip Law: It is a large and complex industry, as you have indicated. We supply into every sector of UK manufacturing and distribution. As I mentioned before, in terms of volume, the biggest is packaging, at about 35%. Construction is about 26%. Something like automotive would be about 8%, but of course it is high in value. About 80% of our member firms are actually exporters. We are big importers of plastics raw materials. About 55% of the materials we use are brought in from overseas, largely through the EU. Even if they are coming from the Middle East, they tend to be channelled through Rotterdam because of the chemical storage facilities there.

Q22 Paul Howell: Can you give us a context on that as to what proportion? You said "largely". Is largely 60% or 90% that is coming through Europe and Rotterdam?



HOUSE OF COMMONS

Philip Law: It is 90% coming through. The big shadow that casts its darkness over us on Brexit is the proposed tariff arrangements where there will be 6% tariffs on raw materials coming in from overseas. That will be a big threat to the competitiveness of the industry and very difficult to deal with and plan for.

In other respects, the industry is pretty well prepared. Virtually all of them have EORI numbers by now. They are quite well prepared in terms of customs documentation and so on. The areas they are less well prepared for are the Northern Ireland protocol, in terms of understanding it and working with it; the arrangements for UKCA marking and how it applies to different products, particularly in the building sector, for example; and the arrangements for chemicals registration in the UK. In the EU, it is the REACH system: registration, evaluation and control of chemical hazards. That will be transposed into the UK, but will pose difficulties for recyclers, which were previously exempt from its requirements in the EU.

We need clarification on what rules of origin will be. Because of the complexity of our products, we would support the broadest possible definition of rules of origin. We would emphasise that, once it is agreed, the industry needs to be educated in how to prove the conformity of its products in the most cost-effective manner.

Q23 **Paul Howell:** There are different complexities in different supply chains. Is there a mirror in your chain in the same way that Lloyd had, in that the big boys might be well prepared and the little boys are not? That could elaborate up into things. A lot of the other things you have said are similar problems, in terms of legalities, not knowing what the lorry in front of you is going to be doing at the port, et cetera. Could we try to keep it tight, because I am already getting hard stares from the Chair?

Philip Law: That is true in all the categories I mentioned before. The responsiveness of the smaller firms is less. Maybe they are faced with too much information and too many webinars. They want someone at the end of a telephone to give them a quick answer on the most cost-effective way of solving a particular problem they have in their hands at that moment, rather than making an academic study of the thing. They do not have the time or resources to dedicate to fully understanding and appreciating the ins and outs of all the issues.

Q24 **Paul Howell:** Your industry will have such a radical difference in terms of the situation of companies. If you are making plastic sheeting at the moment, you are probably in a very good place because there are more plastic sheets in the country than you would ever have seen before. If you are putting plastic bits into the motor industry, you will not be in the same place. It has to impact in different ways.

Philip Law: Even before Covid, that was flat on its back. Yes, absolutely.

Q25 **Mark Pawsey:** I wonder if I could follow up Lloyd's evidence. What is the



impact likely to be on the volume of sales of manufactured vehicles to Europe if there are tariffs applied under no deal? By how much would the SMMT expect sales to fall?

Lloyd Mulkerrins: We have had some independent forecasters look at this and we would be in the ballpark of sub-1 million UK-produced vehicles if there were tariffs applied on the bilateral exchange of goods between the UK and the EU. For comparison, over the last couple of years, production volumes have been around the 1.3 million to 1.6 million mark. They are likely to be sub-1 million this year and there is a potential that they would stay subdued, if not get slightly worse, if there were tariffs on both finished vehicles and the parts and components, which we should not forget. There would be a 10% tariff on UK exported vehicles to the EU and the same on EU imports into the UK. For parts and components, we are expecting an import tariff of between 2% and 4%.

Q26 **Mark Pawsey:** Okay, so a sales decline of 20% to 30%.

Lloyd Mulkerrins: For production volumes we are talking at the moment. We will be looking in and around the 800,000 mark for UK production.

Q27 **Mark Jenkinson:** My questions are to Miles Celic on preparedness of the financial sector. I wondered if you could set out the key challenges and contingency preparations required for the financial and professional services sector in preparing for the end of the transition period, for example the end of passporting.

Miles Celic: We have known for some time that passporting would not continue. Passporting is connected to single market membership and so, self-evidently, we could not rely on the passport. We looked at a variety of different options and equivalence is clearly the mechanism that otherwise one would fall back on. We very much welcome the unilateral approach that the UK Government took on granting equivalence from the UK side. We have not seen that in its totality on the European side, which we think is unfortunate, and it adds to uncertainty.

To the answer that Ian gave earlier, the difference between his industry and my industry is that, to a degree, we can create certainty, up to a point, within financial services, but that comes at a cost. The industry, as I mentioned earlier, has hoped for the best and prepared for the worst. It identified very early on, working very closely with the regulators and the authorities, the decisions that needed to be taken to minimise disruption and ensure that we could keep serving customers or, in some cases, for companies to determine whether serving customers would remain economically viable.

There was a series of decision gates that were taken. There would be the initial analysis. Then you would look at what regulatory licences you would need to set up a European operation, how you would need to capitalise that and which people, staff and roles you would need to have in there. That is what we have seen and that comes at an economic cost.



HOUSE OF COMMONS

About 20% to 25%, so roughly somewhere between a fifth and a quarter, of the activity that takes place in the UK industry is related to the EU. In a worst-case scenario, up to about 40% of that would dissipate.

I have a couple of quick things. The interesting thing is that we have not seen this vast shift of jobs and activity into the European Union. To be honest, we never really anticipated that would happen. Instead, we are seeing companies, in much the same way as we have seen with Covid, using Brexit as a strategic accelerator, a catalyst for strategic decisions that might have been taken over a longer period. The risk has always been, in a no-deal or low-access Brexit for financial and professional services, that the big winners are places like New York and the emerging Asian centres. To a degree, we have seen that.

Moving beyond financial services for a moment, you can see the same sort of situation in professional services. Companies have restructured to ensure that they can continue to serve customers. One of our legal services members had a branch in Paris. It has now restructured and set that up as a standalone entity. That brings with it costs, tax implications and additional management requirements and costs. We have sought to do that. We have prepared. We have put the contingencies in place. We have minimised, as much as we can, within our own control, the impact on companies and customers, but this all ultimately comes at a cost and with the friction that is created.

Q28 Mark Jenkinson: You have partially answered my next question, which was about your assessment of the number of jobs and assets that have moved from the UK to the EU. What element of that was strategic and might have happened anyway or has been accelerated by the Brexit decision? Interestingly, most of that, from what I can see, happened prior to 2019, when, if I am honest, there had probably been more expectation of closer alignment going forward than there might be today.

Miles Celic: It is a really critical question. As I touched upon earlier, the industry took March 2019, the original point of departure of the UK from the European Union, as the end date, and then worked back from there. We did not count on a transition period, although that was one of our big asks and we were delighted when that was agreed. We worked back from March 2019. The additional time has been helpful, of course. It has been helpful in minimising disruption and being able to implement a lot of these plans, but we had worked back from March 2019.

In terms of the amount of jobs that have moved, I have always thought that jobs have been a little bit of a red herring. The EY Brexit tracker, which is probably the foremost analysis of the announcements that have been made, has identified somewhere between 7,000 and 10,000 jobs that have left the UK related to Brexit in some form. The challenge here is that some further jobs may shift over time. The initial analyses that we looked at went out to five years post-Brexit, so we need to see how this works through. Exactly as you have identified, there is often a lot of



HOUSE OF COMMONS

churn in terms of jobs moving between the UK and the EU anyway. How many of these are related specifically to Brexit is often difficult to unpack.

The bigger factor is the number of assets that have moved. The EY analysis shows that that is somewhere in the order of £1.2 trillion. The bigger risk here, and this is something we have stressed throughout this entire process, particularly in the engagement we have had in Brussels and in member state capitals, is that we are potentially going to see a reduction of the whole European financial and professional services ecosystem. The UK industry works extremely closely with its European counterparts. It is, as I say, an ecosystem.

The risk is that, as a result of the way Brexit has been handled and the fact that we have seen a really regrettable politicisation of what ought to be technical decisions on the European side—so the equivalence process has unfortunately become politicised—companies will look at this and consider that there is uncertainty. They will consider that there is cost. Particularly with some foreign companies, they may decide that, for now, the United States or Asia is a better bet, certainly in the short to medium term.

Q29 Mark Jenkinson: There are 24 days to go. What can happen between now and then? What would you like to see happen between now and then? If a decision on equivalence is not made by the EU before 1 January, what impact might that have on the sector at this late stage? Has preparation been done for no equivalence?

Miles Celic: The preparation has been made. I would particularly like to see two things, one on a macro basis and one on a more micro basis. On the micro basis, it is a data deal. I see that, this morning, there is speculation that there may be some progress on data. The way the data adequacy decision has been caught up and is potentially being used as leverage in the negotiations is enormously unhelpful. That is not specific solely to financial and related professional services. I am sure it has impacts on everybody on this panel. It is particularly regrettable that that seems to feed into an international trend, which Covid may have again accelerated, of regulatory fragmentation or protectionism and isolationism. Data localisation is particularly detrimental for customer interests.

On a macro basis, it is a deal. Having a deal in place is beneficial to our clients. Ultimately, we are here to serve our clients. It also makes an acrimonious, or a more acrimonious, Brexit less likely. It would be really helpful if, over the years ahead, we continue to deepen the relationships between the UK and EU. When you think of a lot of the major public policy and socioeconomic challenges that the EU faces, they are similar to the challenges in the UK: ageing population, infrastructure renewal and sustainability. These are all areas where this industry has a role to play. A less acrimonious Brexit, a deal that allows the best possible position in terms of economic and commercial co-operation, makes it easier for us to



HOUSE OF COMMONS

work together on those shared challenges and the prosperity that is in the interest of both sides.

Mark Jenkinson: Let us hope we can get something sorted in the next few days, then.

Q30 **Alan Brown:** I will return to border delays, which have already been touched on. Ian, you mentioned that you think Operation Brock will be pretty successful. Overall, have the Government done sufficient mitigations to avoid disruption and delays at the border on 1 January? Assuming there could be issues, what is the potential cost that border delays could have for the food and drink sector? What would be the likely impact on the supply of goods?

Ian Wright: The question of borders applies to the UK-EU border, so Kent predominantly, but not only; the EU-UK border, so around Calais, with the question of goods coming in and the preparedness on that side; and then, as I have rather laboured over the last hour, Northern Ireland. The question of how you prepare for supplies to Northern Ireland is not in the gift, by and large, of the Government in Westminster. It is at least a joint effort with the Government in Holyrood and through Cairnryan and the Welsh ports, Holyhead and Fishguard.

I am not criticising the Welsh Government for this, but it is interesting that only yesterday morning were the arrangements for the traffic flows at Holyhead announced. There are only 15 days to go. I do not want to be trivial about it, but it's too late, baby; it's too late. It is really too late. All these arrangements are just too late for people to prepare. The consequence of that is the figure I gave to your colleague, Mark Pawsey, just now. Our members are saying, "It is too risky, I do not know whether I will be participating in Northern Ireland, in a market where there could be tariffs, for example, and we do not know what the checks will involve. We will stay out for the first two weeks, three months or whatever it is". That restricts the choice for Northern Ireland shoppers.

To answer your first point, there will be delays. In my personal opinion, informed by everything I have seen over the last three years, there are more likely to be delays from GB to NI than there are from UK to EU. It is pretty difficult to know what the delays from EU to UK will be, because you are dealing with people who are not simply coming to Calais but are coming from 27 other countries. There is a bit of a concern about EU haulage drivers, particularly in relation to the backload, the load they take back from the UK, which is a key part of their profitability. It is very difficult to assess the costs.

I can tell you what the main impact will be, which is that goods will arrive late. They will arrive potentially tatty because some of them are not built for longer periods on the haulage. There may be interruptions randomly in supply because, particularly coming EU to UK and GB to NI, as I keep saying—and I am sorry to keep repeating this—if the person in front of you in the queue does not have the right paperwork, you will be



HOUSE OF COMMONS

penalised, even though you may have all the right paperwork and have done all the checks.

It is more about interruption of supply in those first three or four weeks where we will be hit. To me, that is a big concern, because it will erode the confidence of the shopper in the supply chain. It is a supply chain that, at the moment, has really done well over Covid. Shoppers will expect the same thing over the Brexit process and they may not see it.

Q31 Alan Brown: In terms of checks on incoming goods, the UK Government have said that the main checks will not come into play until 1 July. Are we over-focused on 1 January? Is 1 July another date that causes risk, or does that help spread the risk?

Ian Wright: Certainly EU to UK it spreads the risk, but all these things happen from 1 January as relates to Northern Ireland and as relates, almost certainly, to UK to EU. Let me illustrate one thing. We asked Defra 175 questions about the way these processes for both trade flows will work. Defra has played an extremely active and very helpful part in informing the industry. I think the Chancellor of the Duchy of Lancaster would accept that there are large numbers of questions in his part of the forest, on Northern Ireland, that simply have not been answered yet, even given the good meeting they had yesterday. We still have not had over 40 of those questions properly answered. I am sorry to keep repeating it, but there are 14 days to go. How on earth can traders prepare in this environment?

Let us hope there is a deal. If there is a deal, it is almost impossible to believe that anybody who is trading under the terms of that deal will have been able to read and absorb its terms by the time it comes into effect. It will not have been translated and published into all the relevant languages, almost certainly, before 31 December. That will impact border delays for those coming in from the EU to the UK, because they are not focusing on this deal as much. It is much more peripheral to many European providers, suppliers and haulage businesses. As a consequence, they may not know the terms of the deal. That will impact delays.

Q32 Alan Brown: That takes us almost neatly, unfortunately, to how ready your sector is for the eventuality of no deal. What would no deal mean for your sector in terms of jobs and consequences?

Ian Wright: There is a bit of a structural question here. If you look at those who are importing products into the UK, a very large number of food manufacturers across the UK, big and small, import products from the EU. Some of them import finished goods. Some of them import big chunks of their portfolio. Some of them import crucial ingredients. There is a wide amount of importing going on.

On the other hand, only about 30% of our members export. If we were asked to name a food firm, many people would say Tesco. If we asked for a food manufacturer, we would probably say Coca-Cola, Kellogg's,



Weetabix or Mondelēz. I obviously have another 800 members that I should have mentioned in that list, so I apologise to them. Most of the big firms make here for here, make near to the market, so are not exporters. For us, the exporters are the next tier of businesses. The major exporters are as ready as it is possible to be for both eventualities. The concern is the myriad of small players who simply do not have the headspace or, indeed, necessarily know. I think that was said earlier: smaller players, SMEs, are, by definition, less likely to be prepared for this.

You asked for costs. If there are tariffs, food and drink faces an average tariff of about 18% on food across the board from the EU. That is an extra cost of £6 billion. Then you add to that the extra tariffs on things like packaging and so on. Our annual exports are worth about £14 billion and probably face a tariff of 20% to 25%. Something about 23% is probably an average. That makes it a binary choice for the exporter: "Will my customer bear that cost? Can I take that into my margin? If I cannot, I will not trade". That is true about most tariffs. It is not a decision about how much extra comes on the cost. It is often a decision of whether I trade or not. If I do not trade, the customer, consumer or shopper in the European market or, indeed, on this side of the channel has a much restricted choice.

Q33 Alan Brown: Lloyd, you have already said that 60% of your members have been stockpiling to do some sort of preparation. How long a delay could your members withstand if delays come in on 1 January? What preparations has your sector done for the no-deal eventuality. What would the reality of no deal mean for the sector?

Lloyd Mulkerrins: Starting on the cost of the border delays, we have to remember that, as an industry, we are competing against other countries, in terms of how productively and efficiently, and at what cost, we can produce cars, vehicles, parts and components. Border delays could cost the industry up to £50,000 a minute, which translates into about £70 million a day for the industry. We run on tight margins, between 2% and 4% at the moment. As I mentioned earlier, some businesses have done stockpiles and some have not. Therefore, the impact will vary from day one significantly from company to company, but it is by no means going to see them through the whole of January or any further than that.

In a worst-case scenario, we would see parts not arriving on time to the production site, if stockpiles have been used. You cannot produce cars if you do not have all the parts. If a steering wheel is missing, it is not a complete car. Therefore, manufacturers may be in a position that they have to stop production if they cannot get the supplies of key parts and components.

You mentioned no deal and how we have been planning. In terms of how you move your goods across the border, deal or no deal, the actions that businesses are expected to take are very similar. We have seen upwards



HOUSE OF COMMONS

of 70% of members applying for the GB EORI numbers. We have seen almost half of members applying for EU EORI numbers, roughly 50% or so employing a customs broker to actually make the declaration on their behalf and around 40% agreeing Incoterms. We are seeing that companies are taking steps to prepare. These actions are needed deal or no deal, but that by no means solves all the problems.

As Ian already touched on, a company or, indeed, a whole industry could be as prepared as possible, but it is the weakest link in the chain that stops all the movements from taking place. As we saw in the Cabinet Office's reasonable worst-case scenario, we could be facing two days' worth of delay just at the GB border. There are only so many lorries a manufacturer has in circulation. If you are not getting the goods back into the EU 27 to refill the empty lorries with parts and components, you cannot bring them back in, hence the potential for production delays.

On no deal, to expand on what Mr Pawsey also asked, I mentioned production volumes petering out to maybe 800,000 next year. They go even lower over the next consecutive years to potentially 600,000 units produced here. It would cost the industry almost £50 billion, between the UK and the EU, over the lifetime of this Parliament in a no-deal scenario. We would see costs go up for UK-produced vehicles sold into the EU by roughly £3,000 on a car and £2,000 on a van. On import, we would see consumer prices go up for those who want to buy cars here by roughly £1,800 for a car or van.

The knock-on effects take place physically to manufacturing, because it could, in a worst-case scenario, not be supplied with components and stock, but the tariff is a huge element. As I mentioned at the beginning, to remain competitive we need to be highly productive and compete with plants across Europe. That is why a tariff wipes out profit margins.

Q34 Alan Brown: You mentioned GVMS earlier on. How confident are you that that is going to be up and running properly in a suitable fashion for the movement of goods come 1 January?

Lloyd Mulkerrens: GVMS will not be needed for all movements from 1 January. If you are looking to move under transit, which some of our members will be, it will be needed from 1 January. I am not confident that it will be ready and businesses will be able to supply all the information from 1 January. That is just one system that is needed. The other thing we are trying to start to talk about with Government is, if the systems are not up and running, what the contingency plan is. What are we falling back to in order to trade? It is not yet clear to us, if plan A does not work, what plan B is from the Government's side and whether we, as an industry and companies, are able to deliver what would be required in a plan B.

Q35 Alan Brown: Presumably you need plan B already. If you do not know what plan B is going to be, it is a real concern.



Lloyd Mulkerrins: Yes, exactly.

Q36 **Paul Howell:** I would like to come back round and talk about a subject we have partially covered, but look at it from a different perspective. We are getting incredibly tight on time. I am going to start with Philip and then, if Lloyd and Ian can think whether there is anything they want to complement that answer with, rather than repeating anything, that would be brilliant.

Philip, I am looking at the support the Government have put in to try to help with this situation. We have talked a lot about the small businesses being the problem in the supply chain because there are so many of them and they can therefore cause frustrations. Have the Government done enough? What sort of feedback are you getting on the latest "time is running out" campaign. Start with that and embellish as you need to.

Philip Law: Our main contact has been with BEIS. A lot of help has been provided by BEIS. We have had civil servants play a part in some of our key meetings, meetings of our BPF board for example. They have come to our Brexit task force meetings. We availed ourselves of a grant from the business readiness fund, which was very helpful and enabled us to produce some industry-specific guidance. It also funded a legal helpline for companies.

If anything, probably the Government have produced too much information in too many different mediums. I go back to my comment that small firms want pretty quick fixes to problems. They are not wanting to make an academic study of something. They have raised the awareness, including "time is running out". Nevertheless, companies still have to have the resource to see how these general principles apply to their particular products. These are often unique situations that require a lot of time to work through.

Ian Wright: The work of Government in trying to get as much information out as possible, particularly, in our experience, Defra and the devolved Administrations, has been pretty good. We run a weekly round table for all the trade associations in food and drink. We have Defra, BEIS, DIT and almost everybody you could imagine on it. The difficulty is that there is only a certain amount of lipstick that you can apply to the pig if you do not know the answers to the questions.

If the deal had been negotiated in a timely fashion, both for the EU and for Northern Ireland, an information campaign could have been incredibly effective, even reaching those small businesses you talked about. If you are still trying to negotiate the deal 14 working days before it is supposed to come into effect, even the most brilliant communication is not going to work. You would need a Vulcan mind meld to make it work, if it was going to work in time.

Lloyd Mulkerrins: The business readiness fund was extremely useful last year in us being able to get out and engage with companies that had



HOUSE OF COMMONS

not engaged on the topic previously. What is still feeding through is that the biggest barrier to supporting preparedness is the fact that we do not know whether we are going to be leaving the transition period with or without a deal. We have had almost 90% of members say that the lack of clarity on what the future relationship is has hampered preparedness.

While "Check, Change, Go" and the campaign around that has raised awareness, it is not telling companies, "If you are going to go away and do two things today, this is what they will be". It is asking you to go to GOV.UK and work out what you need to do from there. It is extremely complicated. These are not simple actions that businesses have to take. The £84 million that was put into the customs intermediary sector has been useful to a handful of automotive companies, allowed them to upskill or reskill individuals in house to prepare to make customs declarations, but it has by no means helped everybody.

The most useful actions taken were when Government blanket gave everybody a GB EORI number if they did not already have that. They need to look to do similar things with access to systems, which is the position we are at now, having to apply and register for the systems. Companies should be auto enrolled in all this. Take the pressure off them. Government know what the basics are that businesses need to do, and therefore they should offer a helping hand in doing that.

Miles Celic: The engagement we have had with officials from Treasury, BEIS, MoJ and ministerial colleagues within those Departments has been excellent throughout this. The Bank of England, the PRA, the FCA and the various legal and other regulators have been excellent. There are the temporary permissions that have been put in place. All this has been extremely welcome.

It is on the other side, certainly in our case, that often we run into these difficulties. We have touched on equivalence being politicised. We have touched on data. There is the Lugano convention on civil and commercial legal co-operation. In certain areas, there is something of a patchwork quilt, almost a sort of Heath Robinson arrangement in some parts on the European side. That has been problematic. I do not think we could complain about the engagement we have had from Ministers, officials or regulators.

Paul Howell: To summarise that, I am hearing that the Government have done everything they can to help in terms of the comms, support and things, except for the fact that they have not got the actual deal itself done, which gives you the clarity to move on. Maybe a bit more auto-enrolment in different things would have been useful.

Q37 **Mark Pawsey:** We all want a deal. We understand that there are still things being negotiated. We have heard a lot from our witnesses. I wonder if you could tell us very briefly what a deal must contain, as far as you are concerned, for it to be acceptable. Each of you has told us some of those things. Is there anything you have not told us already that



must be within the deal as far as you are concerned?

Ian Wright: First, it must be clear. Secondly, it must also give a speedy resolution to the issues in Northern Ireland. Thirdly, it must absolutely nail the issue of tariffs and rules of origin for us. Those two are the big concerns. If we can get rid of tariffs and have very clear and generous rules of origin, we can work reasonably effectively within the deal that will come.

Miles Celic: In terms of the wider relationship, in the interests of time I will not repeat everything I have said so far. I would talk about equivalence, data and Lugano in particular.

Lloyd Mulkerrins: Rules of origin provisions are absolutely essential, ensuring that they are ambitious and go beyond precedent, and that there is a phase-in to allow for adaptation, across internal combustion engines but also the new technology. We need both sides to commit to being pragmatic at the border and the customs authorities themselves to support the flow of goods. There is regulation as well. We have been aligned for the last 40 years. We have worked as one community. Moving forwards, the UK and the EU 27 industry need to continue to work together on regulation.

Philip Law: We need alleviation of tariffs on plastics raw materials coming in and a wide interpretation of rules of origin that can be cost-effectively applied.

Q38 **Judith Cummins:** Recognising the uncertainty of immediate circumstances and with the Government and Treasury focused on managing the economic response to Covid, are your members in support of a period of adjustment being implemented? If so, for how long?

Ian Wright: You might be surprised to know that members are a bit divided about this. Everybody would like certainty, as I have probably made clear. The concern about a further transition is this: a transition to what? If there is a clear destination and a clear deal done, grace periods to implement the mechanics of doing that will be very welcome. In fact, they will be essential. For example, if you have shipped your goods to Northern Ireland or, indeed, to the EU already, and the labelling requirements or registration of products—such as a food business operator address—change, you will not be able to change it because it will already be there.

The question of a clear definition of goods on the market is also important. We are seeing the EU being reasonably constructive about that idea and about the fact that, if a product is in the market or has already been placed up for sale in the UK and would normally go to the EU, or of course Northern Ireland, which is part of it now, for practical purposes, that will be fine. It is no to transition periods, but periods of grace to get us the chance to adopt the new regulations or the ones that are already in force in different territories are essential. Even if they are



HOUSE OF COMMONS

not specified, they are going to happen anyway. It would be better to have them properly codified and organised.

Lloyd Mulkerrins: As I mentioned already, on rules of origin we definitely require that grace period if the UK and EU agree a deal on rules of origin. Because the vehicle manufacturers have not been able to do that solicitation process with suppliers, based on the legal text of the UK-EU free trade agreement, no company can say with certainty whether they will meet the conditions as set out. Therefore, we are asking both sides to agree a one-year grace period on rules of origin, where the declaration does not need to be provided. Following that one-year grace period, there is then a six-month period for those companies to alter and amend their origin declaration submissions. Therefore, if they qualify under the terms, they do not pay the tariff. If they do not meet the rules, they would pay, in the case of finished cars, the 10% tariff.

On customs, the UK Government have introduced a unilateral six-month phased approach to customs controls. We need both sides to do something similar if a deal is agreed and be pragmatic at the border. As I mentioned right at the beginning, a lot of companies that have tried to prepare themselves, especially in the area of customs declarations, are likely to get it wrong. We need to facilitate trade, help the goods keep flowing and then work with the companies throughout the next year to make sure that they are providing the correct information.

Philip Law: Opinion in the industry is probably divided. In my personal view, there is going to be a narrow gap between the conclusion of the negotiations and the date, as it were. We are in the middle of winter. We are going to be in the middle of a holiday. We are in the middle of an upswing in world trade bouncing back from Covid, which is causing all these problems in the ports. Some period of grace is worth considering.

Q39 **Chair:** The last question for this panel is focusing on Operation Kingfisher, which I think was announced before Covid arrived. It was a project from the Government to provide support to businesses, including financial support, to deal with the transition. I want to ask each of you what your view is on Operation Kingfisher. What will your sectors be looking for from that in a situation where we have a deal but the transition period might be difficult, but also if we have no deal?

Ian Wright: This has come up today, with the Government promising extra help. Any help that the Government can offer in mitigating the difficulties of the very short timescales we have to implement this deal, if there is one, or no deal if there is not, is going to be welcome. It will be much more welcome if it is targeted. All businesses will welcome it, but it is a little like the rate relief issue for retailers. If the support is targeted to those most in need, so particularly to exporters in the UK to the EU and those dealing with Northern Ireland, that will be particularly effective.

Q40 **Chair:** Philip, what would you be looking for from Operation Kingfisher?



HOUSE OF COMMONS

Philip Law: I am more interested in the overall recovery plan for the UK following both Covid and Brexit. The Government should keep their nose to the grindstone on all their promises on infrastructure. We need to have a very strong focus in the coming months and years on getting foreign direct investment into the UK. I was heartened by the rather low-key opening of this new office for overseas investment in the UK earlier in November, which I thought was quite good. Investment in defence is needed as well, not just because of the hardware but also the buildings and everything else that goes with that. Together, hopefully that would act as a driver of recovery.

I always look back to what I regard as the golden age of plastics processing in the UK, back in the 1990s, which was brought about by encouraging an awful lot of Japanese investment into the UK on the back of a very attractive package of benefits, which the regions were able to offer Japanese manufacturers to come here. That had an enormous impact on UK manufacturing. If we can do something like that again to replicate a groundswell of manufacturing in the UK to make us fit to compete in the brave new world, that would be fantastic.

Q41 **Chair:** Lloyd, is there anything specifically from an Operation Kingfisher perspective, bespoke support for the automotive sector for the transition or if we end up with no deal?

Lloyd Mulkerrins: Fundamentally, the industry is looking to remain competitive and for the UK to remain a globally competitive country in which to build and sell vehicles at this stage. To date, we have been focused, with Government, on ensuring that we secure that deal with the EU and can use that as a springboard, through predominantly the driver of a new and refreshed industrial strategy next year, to signal to investors that the UK is open for business. We are a manufacturing hub and we want to grow that, and especially the automotive industry.

Q42 **Chair:** Miles, is there anything from Operation Kingfisher for your sector?

Miles Celic: The important thing is that this is looked at holistically, as my fellow panellists have talked about. We should consider not just the impact of Brexit but the recovery from Covid, where lots of firms will be looking for recapitalisation and support for addressing the adaptation as we merge into the recovery. It is important that it is sectoral, but also that we look at this from a regional and devolved perspective. There will not be a one-size-fits-all approach across the UK. From a levelling-up point of view, the more that can be considered in whatever support is put in place, the more welcome that would be.

Chair: Thank you, all of you, for your evidence this morning. We wish the negotiating teams on both sides of the channel well in concluding a deal, which is the overriding interest from all of you this morning. Some of your evidence on over 10,000 job losses in the financial services sector already, potential food shortages and increased pricing for food, up to £70 million cost per day for delays to the automotive industry—and that



is even with a deal—shows the difficult job you and your sectors have to do over the coming months. I imagine we will probably welcome you back in the new year to see what more we can do to be of assistance. Thank you to Ian Wright from the Food and Drink Federation, Miles Celic from TheCityUK, Lloyd Mulkerrins from SMMT and Philip Law from the British Plastics Federation for your evidence this morning. Thank you so much.

Examination of witnesses

Witnesses: Joe Marshall and Jessica Sargeant.

Q43 Chair: We are welcoming Joe Marshall and Jess Sargeant, who are both senior researchers at the Institute for Government. I am sorry that we are running a little late, but we are pleased to see you both on the screen. Thank you for being with us this morning. My opening question to both of you is to try to help us understand how Covid has impacted Whitehall's ability to prepare for Brexit. You have hopefully heard the evidence we had in the first session. Civil servants often get moved around from priority projects to other priority projects. Ministerial time has to be focused on Covid. Are we sufficiently prepared for the end of the transition period from a Whitehall perspective?

Joe Marshall: Thank you very much for having us this morning. Covid has certainly had a big impact on the Civil Service's ability to prepare for Brexit. Many of the themes that were discussed in a previous session about bandwidth, moving staff, the sense of fatigue and having to run both streams simultaneously definitely chime with what is happening in the Civil Service.

We know that there were staff movements between Departments and within Departments, particularly in the first stage of the pandemic, from mid-March into June, where around 4,000 staff were moved in the Civil Service, using the central HR Civil Service function, which had been developed as part of Brexit preparations. In BEIS, for instance, around 160 staff were reprioritised. There is a similar picture across Whitehall. At one point, around 9 June, around half of Department for Transport staff were working on Covid, either directly or indirectly. We know that there has been movement of resource.

Since that initial period of the pandemic where, quite understandably, so much of the Government's focus was on the Covid response, I think the Government's hope has been to run both streams concurrently and avoid having to smooth resources too much. In some senses, moving those resources made sense in the fact that, as in businesses, people working on Brexit preparations with project management skills and a good overview of Departments' operations were well placed to go into Covid. Some of that makes sense.



HOUSE OF COMMONS

You are also right to pick up on the bandwidth point. During that initial period in particular, ministerial and political bandwidth was taken up with Covid. We know that some of that contributed to delays in Brexit preparations. For instance, the border operating model, which sets out how the GB to EU border would work on the British side, was originally due to be shared with industry in March and go through three rounds of iteration until September. In reality, it was shared with industry in June, published in July and a second round published in October. Likewise, some of the interaction with industry on IT systems and various other things was, inevitably, delayed. A number of weeks were definitely lost in preparations.

Overall, while we have seen similar themes for Government as with business, in having to deal with both crises simultaneously, the Government have been better placed and better able to handle both than many businesses have been able to. The Government have been able to make progress on lots of Brexit preparations throughout this year.

We need to be aware that many people have been working flat out on no-deal preparations last year, then Covid, then back on to Brexit preparations. We are bracing for January and the early part of next year being a very busy time, not just for the Civil Service at Whitehall level but for local authorities, which are perhaps less resilient and have less spare capacity, in having to deal with the impact of Covid, disruption from Brexit, the possibility of lots of non-compliance with rules if businesses are not prepared, the risk of other winter crises and the huge logistical operation of rolling out a coronavirus vaccine. It is certainly true that Covid has had a big impact, in many ways similar to businesses, but hitting slightly differently and with perhaps slightly more resilience in being able to respond to it.

Q44 Chair: You will have heard in the first session that, even if a deal is secured, because it is so late in the day, the detail is not going to be consumed, understood and implemented properly until we get into the new year, from the sectors we heard from this morning. Is that true also from a Whitehall and local authority perspective? Are they going to have to take months to figure all this out and put processes in place?

Joe Marshall: Uncertainty as to the outcome of negotiations has hindered preparation, specifically on the business side. It is worth saying that, because of the nature of the kind of Brexit deal the Government are pursuing, many of the preparations are the same, deal or no deal. In terms of having to put in place processes at the GB-EU border, having to prepare for implementing the Northern Ireland protocol and having to look at new regulatory regimes in different areas, a lot of that is the same, deal or no deal.

Some of those details will change. Some of the things the Government need to get business to do around rules of origin and how the remaining issues of the Northern Ireland protocol are resolved will need to be communicated to business. It will need to make sure it is ready to comply



HOUSE OF COMMONS

with those. It is worth saying that we are in quite a complicated picture, particularly on the UK side. A lot of changes will come into effect on 1 January, deal or no deal, but the UK has also unilaterally phased in lots of changes, both at the border on GB imports and across lots of different sectors in the regulatory space. For instance, EU standards in certain areas will be recognised temporarily or there are grace periods for registering with new UK regulatory authorities.

It illustrates quite a complex patchwork. Some of that takes away a bit of the pressure on preparations for January, but creates further complications for the Government and business in continuing to push that preparedness message and continuing to prepare well into next year. It is not the case that getting a deal, analysing that deal and working out what changes provides a final endpoint to the Brexit preparations. They will continue well into next year.

Q45 Chair: You mentioned the border and preparations for GB-EU movement. There has been a lot of debate going on about numbers of customs officials and technology solutions. We heard earlier from the automotive sector that it has seen a PowerPoint of a platform it has to put information into, but it has not actually seen the platform yet. It does not know what information it has to put into it and now it is very late in the day. Do you have any insight into how the Government have performed in scaling up capacity for the border to deal with these issues from 1 January?

Joe Marshall: Echoing some of the points made in the earlier session, generally our view is that the Government are just about on track to deliver the IT systems, the people and the infrastructure they need for January at the GB-EU border, where they have made progress. The problem is that a lot of this on the Government side has been delivered quite late, particularly some of those systems people were talking about, such as GVMS but also the CDS, which will be so important to Northern Ireland.

Some of these systems are being developed and shared with industry quite late in the day. We know that GVMS is not going for full, end-to-end testing until 14 December. The registration system for the "check an HGV" service to try to prevent unprepared lorries arriving at the border is still undergoing development and has not been properly published. A big problem comes not necessarily from the Government delivering the systems but delivering them with enough time for businesses, customs software developers and others who have to interact with them to make the preparations they need. We know in Northern Ireland that was a part of why the trader support service, for instance, was introduced.

It is a really important indicator that, to make the border of GB-EU, but also Northern Ireland, work, it is not just about Government preparations. There are a lot of moving parts. It is a very complicated picture and we need businesses to prepare. There are lots of private sector actors. It is not just the traders, but also, for instance, the fact



that we need the private customs sector to expand its capacity. The focus there is less on reaching this 50,000 figure but whether there is the capacity to meet the demand. There have been concerns and reports that businesses have not been able to get that capacity.

The Government have largely left it up to the private sector and market forces to build that capacity, albeit with some targeted financial support. Likewise, there are private sector vets who need to be available for export health certificates and lots of other private sector actors that need to be in place. One of the challenges for the border is that the Government can be relatively confident on things within their control and how they are going to deliver them, but they do not have direct oversight of a lot of those private sector actors. They have survey evidence of preparedness and a sense from their conversations with businesses and business groups about where that level of preparedness is.

They ultimately do not know how all businesses are going to respond to changes in January and how they might change their trade flows, so the extent to which they might move away from the short straits where there is capacity. They do not know the extent to which some businesses, perhaps with smaller footprints in the EU, may choose not to trade with the EU, at least initially, because they do not want to focus on preparations now. There are lots and lots of moving parts. I do not know if it is worth letting my colleague, Jess, mention anything particularly on the Northern Ireland protocol, because she is our expert on Northern Ireland.

Jessica Sargeant: Thank you very much for having me here today. The key point to make on the Northern Ireland protocol is that, as Joe mentioned, a lot of the preparations for the GB border that the Government are making can be phased in, and that is what the Government intend to do. Because, in the circumstance of the Northern Ireland-GB border, the UK Government will be responsible for applying EU law, they do not have as much discretion about the timing or the manner in which they implement those checks.

A lot of those systems that Joe was talking about, like GVMS, will have to be rolled out in Northern Ireland a lot earlier than they will be for the rest of GB. That means, to some extent, the Northern Ireland-GB trade route will be a kind of guinea pig. A lot of the teething problems might be ironed out. We know that these systems will need to be used and be almost at full capacity in just 25 days. A lot of the readiness issues that are present for both the GB-EU and Northern Ireland-GB border are intensified in Northern Ireland. That is where we might see the most disruption come 1 January.

Q46 **Alan Brown:** I will try not to repeat what you have just covered there, Jessica. From what you are saying, timescales are short. Have the Government done enough to allow the Northern Ireland protocol to be implemented on 1 January? I am conscious of what Joe was saying about



HOUSE OF COMMONS

the GB-EU border, where you have private actors as well, but have the Government themselves done enough to allow the protocol to come into play?

Jessica Sargeant: We can probably be fairly confident that the protocol will not be fully operational by 1 January. As we mentioned, there are some things that the UK are responsible for, in terms of customs procedures, where there has been progress. As Joe was saying, there has not necessarily been enough time to make sure that all these different IT systems work together and are tested with end users.

The real problem for the Northern Ireland protocol on 1 January is going to be in the agri-food sector and with the agricultural checks that are required. As a devolved issue, that is mostly the responsibility of the Northern Ireland Executive. The Permanent Secretary at the Department of Agriculture there, DAERA, has said that delivery of the full implementation of all the planned infrastructure is basically impossible at this point. I believe that the contracts were awarded just a few months ago. As far as I am aware, no work has been started on scaling up the infrastructure that is needed to the capacity that will be required for agricultural checks.

Basically, it will be contingency measures and trying to work around things. In that case, EU law will be applied, so there is a real question as to how this border is going to be managed on 1 January. Ultimately, UK and Northern Ireland officials are going to have to make a trade-off between compliance with EU law, as is required under the protocol, or the flow of goods, basically waving things through without the full manner of checks, to ensure that the supply chains continue to work.

That creates all sorts of problems, not least because the application of EU law under the protocol is subject to oversight by the European Commission and ultimately the jurisdiction of the European Court of Justice. If it is not applied properly, we could see the EU launch infringement proceedings or something similar. In our recent report that we published, we argued that the EU should be flexible on that issue, just as a matter of pragmatism, knowing that border arrangements are not going to be ready. In summary, to answer your question, it is quite unlikely that the Northern Ireland protocol will be fully operational on 1 January. That will cause a whole manner of problems for that trade route.

Q47 **Alan Brown:** You probably heard in the first session that Ian Wright was quite scathing about the protocol. He was saying 60% of the Food and Drink Federation members are looking at not exporting to Northern Ireland come 1 January onwards for a period. Is there any way to assess where the biggest impact is going to be, in terms of goods moving to Northern Ireland? What are the biggest impacts, potentially, from GB to Northern Ireland? What will the issues be from the Republic into Northern Ireland? Given that you said about waving things through, would that make a difference in that flow of goods from either GB or from Ireland being the preference?



HOUSE OF COMMONS

Jessica Sargeant: As you say, it is the agri-foods sector that will be most impacted by the protocol, in terms of its readiness at that point. The point that was also made by Ian this morning is the amount of uncertainty surrounding a huge number of these processes. If you look at the Government guidance on the Northern Ireland protocol, there are still quite a large number of parts where it says, "Further guidance on this is coming" or "We are still engaging with business on this matter". With 25 days to go, it makes it really difficult for businesses to understand how they can comply and, therefore, probably means they are more likely to just decide that it is not worth supplying that market.

Some of the actions the UK Government have taken, in terms of the United Kingdom Internal Market Bill, have compounded that uncertainty. Businesses are left in a position where the whole of the protocol and its purpose of avoiding a hard border on the island of Ireland could potentially be reopened.

It is not clear exactly what will happen in terms of the different trade routes between GB and Northern Ireland, or potentially the transit route through the Republic of Ireland. As I understand it, the transit procedure will be available. If goods are coming from Great Britain to Northern Ireland through the Republic of Ireland, they will still have to undergo agricultural checks, but they can use the simplified customs procedure, as they would not be able to do if those goods were going to end up in the EU. There is still a huge amount of uncertainty about that, particularly around tariffs.

As you know, one of the big issues at the joint committee is determining this at-risk criteria of which goods going from Great Britain to Northern Ireland will be subject to tariffs. We still do not know. That puts a lot of businesses in a very hard position. Even if we do get those criteria in the coming days and weeks, which a lot of people are hoping we will, to be able to comply with those criteria and prove that their goods are not at risk, businesses will need to provide certain information about the destination of their goods and the type of goods.

It is quite similar to the rules of origin issue that we heard about in the last session. Even if these facilitations are there to potentially remove tariffs in some circumstances, it is difficult to know whether businesses will be able to take advantage of that, given how late we are in the day. There is also a big question about whether goods entering Northern Ireland via the Republic of Ireland will be able to qualify for at-risk tariff-free access at all. There is a huge amount of uncertainty. That uncertainty is ultimately what could interrupt supply chains and potentially the integrity of the UK internal market in that sense.

Q48 Alan Brown: You mentioned the internal market Bill. Did yesterday's proceedings clarify anything, where the Government are saying they might disapply some of the Northern Ireland clauses in the internal market Bill? Does that provide any clarity for businesses?



Jessica Sargeant: That has been welcome by a lot of businesses. There are specific issues on which the UK Government have taken powers in the United Kingdom Internal Market Bill and are proposing to do so in the taxation Bill tomorrow, although we have not seen that. All those issues could be resolved, either through discussions in the joint committee or through the future relationship. The hope is that, if we have a deal, those issues can be resolved.

There are also huge questions as to what happens if we do not have a deal and agreement on these issues in the joint committee and what position that will leave businesses in. They will be potentially operating in an environment of legal uncertainty, where UK law says one thing but international law says the other thing. That could intensify some of the problems we have seen about businesses not even knowing how to comply with the law.

Chair: It sounds like a complete mess. That is not a technical phrase or a question. It is merely a comment, but it sounds wholly unsatisfactory.

Q49 **Paul Howell:** I would like to come back to businesses' preparations for coping with the border operating model, et cetera. I am sure, if you were listening to the earlier session, you will have heard about the complexity and the number of small businesses, and the criticality of those small businesses in supporting big business supply chains and in terms of potentially causing the frustrations at ports. Joe, would you like to comment on how you feel that position could be playing out?

Joe Marshall: Small business preparedness is definitely the major area of concern. We know that business preparedness overall is one of the Government's key concerns for January. Small business is definitely within that. As we know and we heard from the previous session, business preparedness is not a uniform picture. It varies between sectors and sizes of business. It varies depending on, for instance, whether firms have experience of rest of the world trade, have had to do customs procedures before and all of that.

Many small businesses will be doing customs procedures for the first time. Something like 100,000 non-VAT registered firms currently trade with the EU but have never traded with the rest of the world. They are the market of people who might be having to do customs procedures for the first time. Within that, there are lots of concerns, with the general point that coronavirus has robbed them of lots of their bandwidth to follow the Brexit process, let alone take steps to prepare.

There is also the point that many of these firms will be reliant on other private sector actors to help them prepare. They will likely not be doing their customs procedures themselves, but will be contracting with a customs agent or intermediary to do that on their behalf. They have to make sure they can find a company that is able to take on their custom and provide the services they need. It is not as easy as contracting out your new tasks and problems. Those businesses will need to make sure



HOUSE OF COMMONS

they are ready to provide all the additional information that is needed to their customs agent to complete those formalities.

We also need to be aware of the economic impact this year of coronavirus and other problems. Some firms are less able to take measures that could mitigate the disruption. For instance, firms could have tried to stockpile. We heard from Lloyd and SMMT about the differences across the sector in how that is happening. Some firms simply do not have the cash flow. They may have less stockpile than they might have had ahead of a no deal last year. They will find it quite hard and difficult.

The level of trader readiness, particularly small trader readiness, and where that leads us is quite an unknown question. A lot of the Government's preparations for the GB-EU border have been not only about being ready to implement new checks and procedures, but about being able to mitigate disruption. It is inevitable that there will be some disruption because of the scale of the changes coming and the fact that getting to 100% readiness is unlikely, both in the timeframe and just in the nature of changes coming. A lot of it will come down to how effectively the Government's plans to keep unprepared traders away from the border and to keep traffic flowing work, and the extent and speed with which those who are perhaps unprepared initially become prepared later on. There are some quite big questions there.

A lot of this is on the Government, in terms of their communications and getting businesses to prepare, but it is in the interest of lots of big firms to help look down their supply chains. We have seen a lot of that sort of discussion happening. There is not always the visibility there of how prepared firms are. One of the issues with firm preparedness is that we know, for instance, from a survey EY did in October that only around 29% of firms said they had a good understanding of what was changing at the end of the transition period.

One problem that is emerging is that firms might think they are relatively prepared, but, as they look into issues and turn to focus on Brexit because they are shifting their attention and they know the deadline is near, they may find that they are less prepared. More problems might emerge that they have not foreseen. There is also this question that judging preparedness is incredibly difficult. It leads to a lot of uncertainty about exactly what level of disruption we might see and how long it might last for.

Q50 Paul Howell: One of the debates we had in the earlier session was about the amount of information the Government are giving, in terms of what needed to be done. The obvious conclusion was that, until you knew the specifics of the deal, you did not know everything about what needed to be done. In that context, how well do you think people are prepared on the bit that they could be prepared on, as opposed to the bit they are still waiting for? Are businesses in some ways doing this and saying, "I do not know the full details, so I am not going to do anything"? What is your



sense on that?

Joe Marshall: It is a real challenge. The Government have been trying and, particularly in more recent times, making more explicit this point that a lot of the changes coming apply, deal or no deal. They have been trying to set out a list of no-regret actions that businesses can take, regardless of the outcome of a deal.

One problem is that, while you can try to get that message across, to some extent, the Government were only making that message quite late in the day. The earlier part of the comms campaign focused too heavily on the opportunities of Brexit, rather than trying to make clear the real changes that were coming and the consequences of not being prepared, using clear language, the language of Brexit, not the end of transition, and pointing people to concrete steps to take. That was challenging.

One big concern with the ongoing uncertainty about Brexit in general is something that the CBI has raised as a major concern with its members. Because of the ongoing uncertainty, the pervading sense that we do not know what is happening and Brexit talks are continuing, getting across the message of what you can do to prepare and to act now is really difficult. There is this sense that getting a deal might unlock an ability to outline clearly what is changing and what is going to happen. To an extent, that is not an ideal position to be in, because some of those changes take a lot of time to put in place. There is not going to be very much time between a deal providing some of that certainty and it needing to be implemented.

The Government have been reluctant to make clear that the kind of Brexit they have pursued and chosen to pursue means that huge changes are coming, deal or no deal. Therefore, a deal is not going to save the day and prevent a lot of this preparation. There is going to be a big adjustment. Some firms may have to change how they operate. There are going to be new costs and barriers in doing trade with the EU that firms are going to have to adapt to if they want to continue trading. There is a sense that that message is only cutting through recently.

Some of that is by design. We know that the Government always thought businesses would focus on Brexit late in the day and, therefore, upped the campaigns as time was running out, late in the day. Some of that perhaps underestimated the effect of Covid throughout autumn and winter still taking up the bandwidth and taking a lot of time. We need to make sure that this message cuts through to firms, and it is clear that it has not in many cases, particularly those small businesses.

Jessica Sargeant: The key difference between business readiness on the Northern Ireland-GB trade route and GB-rest of the world is this trader support system that the UK Government have established. That was in part to address these big concerns about business readiness and the customs capacity in Northern Ireland to be able to help firms, which potentially have only ever done internal UK trade, to fill out things like



customs declarations and comply with these new requirements. That is a very welcome development. It will be very helpful to allow businesses to understand what they need to do. It will also have a role in raising customs declarations and helping businesses fill in that form.

There are concerns about the readiness of the trader support system itself. The tender was only awarded around September time and it has only had a few months to scale up the capacity that it will need to deal with the volume of, potentially, most traders trading between Great Britain and Northern Ireland, on behalf of which it will be filling out customs forms. We will not really know until that gets tested, at the end of the year, whether that has been a successful intervention.

The other thing to mention with the trader support system is that it will not do everything. Particularly, it will not do export health certificates, which is the paperwork required for those agri-food checks. As we have heard previously from Ian Wright of the Food and Drink Federation, that is one of the big concerns. I think it is people who trade in food and drink who are most concerned about the implications of the protocol. We have heard that there is a similar scheme coming from Defra, because it is GB-based businesses that will need to comply, but we have not had details of that scheme. As I have to regularly remind everyone, we only have 25 days or so until 1 January.

As a general comparison between the GB and Northern Ireland readiness and GB-EU, there are some positives, in terms of the steps the Government have taken. There is still a huge amount of work to do and not very much time to do it in.

Q51 Charlotte Nichols: My question is about enforcement. The Institute for Government report in November 2020, *Preparing Brexit*, identified a risk that businesses may inadvertently find themselves acting illegally come January, by failing to fill out the right customs paperwork or not complying with new regulations. What steps should the Government and regulators take to balance enforcement with maintaining business activity?

Jessica Sargeant: I will speak specifically from the Northern Ireland perspective, because that is my main area of interest. The enforcement for the Northern Ireland protocol is slightly different to other enforcement mechanisms. Here, the UK or Northern Ireland officials are applying EU law. How they apply it is not necessarily, in a strict legal sense, in their discretion. There is some flexibility, for example in customs declarations, checks and processes. To some extent, that is based on risk, so there is some discretion that officials can determine which vehicles are more risky.

If goods are going between Great Britain and Northern Ireland and originating in Great Britain, the UK customs officials can probably be a bit more confident that the goods that are entering are not part of a smuggling operation or anything, if they have intelligence in Great



HOUSE OF COMMONS

Britain. In other areas, like agri-food checks, that is quite prescriptive. The frequency of those checks is set out in EU law. It is 100% for identification and there are physical inspections, which vary slightly, depending on the type of animal. It is about 30% for things like minced beef. In that case, according to the letter of EU law, that should be the frequency with which officials are applying it.

Given that the facilities for agri-food checks are not ready and there are problems on the trader readiness side, if Northern Ireland officials were to apply that strict level of checks, we would see some really serious trade disruption. Officials will have to make that trade-off I was talking about earlier between compliance and flow. It might be that if, for example, the Republic of Ireland applies a similar level of discretion in terms of compliance, the risk that the GB-NI route becomes a route to circumvent agricultural checks more generally into the EU decreases slightly. There are logics that you can apply to make that slightly less problematic.

Officials in the UK and in Northern Ireland will be relying on the grace of the EU and the attitude that it takes towards enforcement and compliance. That is why we say that the EU should be flexible. In order for it to be willing to do that, it is going to want to know that this is just a matter of timing, that things just are not ready and that there will be work towards getting into a position where full compliance checks can be done. If the provisions of the United Kingdom Internal Market Bill still stand, it is quite difficult to see a situation in which you can create that atmosphere, where the EU sufficiently trusts the UK that it is just a matter of timing.

Ultimately, there is going to have to be this trade-off between compliance and flow. It is a non-ideal scenario. The best thing the UK Government and Northern Ireland officials can do in this situation is to make clear that they will fully adhere to the protocol and to have a very clear plan, if things are not ready on 1 January, for how they will be ready on 1 June or something similar.

Joe Marshall: I will add a few quick points on the GB and EU side. It is clear that, on the Great Britain side, in some areas the Government are planning to enforce the rules and penalise those who are not. For instance, we know that, at the border, if traders and lorry drivers do not have the right paperwork and they try to go to the Kent ports and enter Kent, there could be fines. People will be turned away from the border if they do not have the right documentation and are not able to trade. Likewise, it is expected that EU authorities would not allow in lorries that do not have the correct paperwork. In some areas, enforcement will be quite strict.

There is also this very complicated picture where enforcement of regulatory changes in other areas might be less clear cut. We know that many businesses might simply be inadvertently not complying with



HOUSE OF COMMONS

different regulations. Lots of checks, on product standards and various other things, are not carried out at the border but are carried out by market surveillance authorities within Great Britain and the EU. There will not necessarily be the clear point at which it becomes obvious that those things have happened.

The UK side has phased in lots of changes. There are various grace periods in different areas. That will buy a bit more time and help prevent some of that illegality happening. In other areas, we know that some regulators in financial services, the Civil Aviation Authority and others have powers in place where they are able to waive or moderate requirements on businesses in certain circumstances. They might be able to do that if they feel the need to.

The big question will be, as Jess was alluding to, on the EU side, where a lot will depend on how the EU and member states applying EU law operate. For instance, the Belgian authorities have suggested that they might not fine people for honest mistakes on customs declarations for the first couple of months. In some areas they are limited in how much flexibility they have, because member states are applying EU law and have to act within the limits of that. Many of the changes on the EU side at the moment are due to come into effect on 1 January. That is probably where the greatest immediate risk of non-compliance comes from.

Part of how authorities respond to that and whether they take a light-touch, informative approach, where they try to ensure compliance in future, compared to the heavy-handed approach, comes down to the scope that individual agencies have to do that. Part of it might also be affected by the tone of the political relationship. If we have a deal, there is a friendly, harmonious relationship and a sense that both sides want to make this work, the enforcement atmosphere could be slightly more favourable and less strict and to the letter.

With no deal, if there is an acrimonious breakdown, we could see the opposite and, therefore, this could be more of a problem. There are lots of moving parts and it will be very difficult for businesses. It is that point that, because of where we are and the state of preparations, readiness will not end on 1 January. There will be a lot of people who need to become compliant next year.

Chair: I am afraid we have run out of time, so we are going to need to bring this session to an end. I am afraid you have both depressed me about the amount of problems we have as a country, even if we have a deal, let alone if we do not have one. Clearly, there is going to be plenty of work to do when we all get back from a few days off for Christmas. To Joe Marshall and Jess Sargeant from the Institute for Government, thank you for your time and evidence this morning. We appreciate it. I will now bring this session to an end.