House of Commons

Business and Trade Committee

Oral evidence: Export-led growth, HC 289

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Watch the meeting

Members present: Liam Byrne (Chair); Douglas Chapman; Jane Hunt; Ian Lavery; Anthony Mangnall; Julie Marson; Andy McDonald; Mark Pawsey.

Questions 242 - 269

Witnesses

II: Emily Fry, Senior Economist, Resolution Foundation; Catherine McBride, Senior Fellow, Centre for Brexit Policy.

Examination of witnesses

Witnesses: Emily Fry and Catherine McBride.

Chair: Welcome to the second panel of this morning's hearings on export-led growth. I am delighted that we have two brilliant witnesses joining us. Ian Lavery will open the bowling.

Q242 **Ian Lavery:** I want to start the first question by quoting the current Prime Minister, the right hon. Rishi Sunak. In August 2022, during the Conservative leadership contest, Mr Sunak said that the trade deals we sign are not and should never be one-sided. During the same contest, Mr Sunak said that the trade agreement with Australia negotiated by the then Trade Secretary Liz Truss was one-sided, to the detriment of UK farmers. He later said—this is three times that I am quoting Rishi Sunak—that the UK should not "sacrifice quality for speed when it comes to trade deals". How right was Mr Sunak? Catherine, do you want to start?

Catherine McBride: Unfortunately, one of the problems with letting politicians decide trade deals is that they are always going to be playing to their electorate. I believe Mr Sunak represents an agricultural area of the UK. Agriculture is not what we do.

Rarely do I agree with David Henig, but I do agree that if we are ever going to follow an example, we should follow New Zealand's. After being dumped by the UK, which used to trade a lot with New Zealand before it joined the EU, New Zealand had to work out what it could do effectively and who it could sell to. It had to invent products that would sell in those markets. That includes the kiwi fruit, which is actually a version of a Chinese gooseberry that they developed and marketed internationally and that people now think is something to do with New Zealand. New Zealand does agriculture very well. It exports only nine agricultural things. It is very good at it.

If you are looking at trade—I know this is going off your question, but it is the most important thing that you can do—you have to look at what you can do well and what you can export effectively. The UK is brilliant at doing that. You have been doing it for hundreds of years. Suddenly, this last generation—unfortunately, Sunak is very young—think that it is all about Europe. It never was. In the 1820s you were importing cocoa and sugar and making chocolate. Cadbury's became the biggest exporter of food in the world until it was bought out by Kraft.

You are very good at that. What you do is not farming. One of the reasons that you do not do farming is that you are about the same size as New Zealand and you have a very similar climate, but you have almost 70 million people and New Zealand has 5 million. It can export excess food. It can make as much food as we make here in the UK and export it to America, China and Japan and all over the world.

The UK eats pretty much everything that it can make and imports a lot more. The idea that this trade deal was one-sided is the most absurd thing I have ever heard. It is so dumb. If Rishi Sunak represented someone in the midlands, he might know that UK exports of cars to Australia have doubled in one year purely because of this trade agreement. Not one car made in Australia has come to the UK—not one, because Australia, like New Zealand, had to work out what it was good at making. It realised that it was not cars, so it does not make cars any more; it imports them. It now imports them from the UK.

The idea that the UK can somehow compete with Australia in beef is so stupid. The average size of a beef herd in the UK is 28 cows. Those 28 cows can produce only 28 calves. They do not have multiple births, or very rarely. Often they do not have a birth at all. That means that after three years of feeding that herd, you can make only 28 times 300 times the price of a kilo. The average beef herd size in Australia is 800 cows. You cannot compete with Australia on beef. All you are doing is keeping UK people poor. Lamb in the UK now costs £50 a kilo in the supermarket. That is outrageous. That is over 100 Australian dollars a kilo. If you tell someone in Australia that, they laugh at you. They do not believe you. They think you are making it up.

I do not understand this country. Accept what you can do and do it incredibly well. That is plane engines. You sell them all over the world. That is one of the biggest exports in goods.

Chair: Catherine, I am just going to move us on, because the clock is slightly against us.

Catherine McBride: I am sorry. This is the most ridiculous thing a Prime Minister has ever said. He has obviously never looked at what the UK trades. Every year we import 300,000 tonnes of beef from Ireland. We cannot produce enough food to feed our population, yet he thinks that this is a one-sided trade deal.

Q243 **Ian Lavery:** That was one of the questions, but he did say that we were "sacrificing quality for speed when it comes to trade deals". Emily, do you want to come in?

Emily Fry: Yes, absolutely. Thank you so much for inviting me to speak to you guys today.

In absolute terms, the Australia trade deal is relatively small economically. It is notable that the trade deal did go further in liberalising agricultural tariffs than has been done in the past. Having said that, it is a relatively small amount of trade that the UK is opening up to and there are gains across a number of sectors, including machinery and cars, which, as Catherine mentioned, are much closer to our competitive advantages in the UK and are much more important sectors for us.

Overall, however, because Australia is very far away, it is not necessarily a country that we are trading with a lot, relative to a lot of other countries. It does mean that the overall economic impact is relatively small.

There are some other areas of the Australia trade deal that are worth highlighting to this Committee, in particular around its services provisions, which were also relatively innovative. For example, as part of the trade agreement, a two-year regulatory dialogue was set up between the UK and Australia around particular services sectors.

An example is the legal services industry. There have been discussions just last month between the Law Society in the UK and the legal services professions in Australia to try to overcome specific services barriers that those professions face, like the mutual recognition of professional qualifications. There is really good legal training in the UK. If we could help Australia to accept UK lawyers and allow them to operate in Australia, that would be an important development for the profession. We could also help the ease of doing business with "fly in, fly out" rules within the UK and Australia.

That is part of the ongoing regulatory dialogue. We would expect that to take a lot of time. As part of the Australia trade deal, that was a very important new mechanism that was set up.

Q244 **Andy McDonald:** I was going to ask you a bit about that. It was in the report that you co-authored last year. You said that the UK should play to its strengths by pursuing services trade agreements rather than conventional FTAs. Is that what you are talking about? Is that the sort of precedent that you are referring to in the Australia deal? Should we have a services-only trade agreement with Australia, or should we be looking at other models? Can you say a little more about that?

Emily Fry: One of the key things that we have heard already this morning is that the UK's services exports have been bigger than the UK's goods exports for five years now. We are definitely a services superpower. This is something that we should really be focused on.

We know that free trade agreements are not very good at the liberalising services trade. They boost goods trade by 50% to 100%. They boost financial services trade by about 10%. There is a lot of scope for us to develop specific types of services agreement that could help us to overcome the specific barriers that we face in services trade.

What is also very important is that this is really hard. It is not something you can do overnight. It requires a lot of trust between different regulators, if you are going to another country and saying, "We trust your regulatory regime. We are happy for you to regulate your industries as you see fit, and we will regulate our industries as we see fit." If we were able to make decisions around things like professional qualifications or the ability to do business in different countries and to have financial services-specific agreements, there could be a real benefit.

There is a really good example of this from Switzerland. Back in 2016, a really long time ago now, we set up a council to discuss a financial mutual recognition agreement there. Just last year, we agreed the Berne financial services agreement, which enables, across a number of financial services industries, frictionless trade. If you are a client adviser in the UK, for example, you are able to go and advise clients in Switzerland without necessarily registering a business there. Switzerland is also introducing a requirement for non-Swiss firms to establish a base in their country before starting to trade there. The UK is the only exception to that rule: we do not have to establish a base in that country to conduct particular types of financial services trade.

This could be incredibly important for our services industries. We need to focus on the idea that this is of strategic importance for the UK. We should accept this as part of our trade strategy. We should focus on services and outline that, to make it clear to our partners that services is where we can liberalise and where we are up for having these very long dialogues with regulators. We have the capacity to do that, and there is a lot of opportunity there.

Q245 **Chair:** Where would you target, Emily? If you were drawing up a shortlist of target countries for those kinds of arrangement, which ones would be on the list?

Emily Fry: It is very important to focus on countries that have equally high regulatory regimes. We have a really good regulatory environment, and we should celebrate that. We also need to focus on countries where there is perhaps lower migration risk in particular. Often with services trade you are travelling to another country, perhaps for a short period of time or perhaps for a longer period of time, in order to do business there.

Some of the countries that we might want to think about are countries that we already have an FTA with. These countries are familiar to us, including places like Australia, Canada, Switzerland, Japan and Singapore. These are the countries where you can liberalise and set up those dialogues.

Q246 **Chair:** If you look at countries such as the US, where we have struggled to get an overarching trade deal done, is there an opportunity to pursue a services-only agreement or not?

Emily Fry: The US is a very interesting case. If you look at the types of tariffs that it has put in place in the past, they have often been quite goods-focused. If you look at the type of industries that the US is supporting through the IRA, those are also quite goods-focused. There is an opportunity for us to open up those dialogues with the US, which is the biggest exporter of services in the world. We are second; the US just beats us.

Q247 **Chair:** If we do not get a full all-singing, all-dancing deal done with India, what about India as a potential target for a services agreement?

Emily Fry: We would have to consider India for a longer period of time. Even in terms of delivering an FTA, India is a high-risk, high-reward country. It looks like it is growing over the next 30 years or so. It looks like there are a lot of complementarities between the types of thing that we like to export and that India has to import, but there are some important things like labour rights enforcement where we should be on the front foot. Even in the UK, we could improve the ways in which we enforce labour rights. Thinking about that from an India perspective will also be important.

Q248 **Mark Pawsey:** Sticking to the theme of playing to our strengths, Catherine, does the UK know what its strengths are? If it does, should other policy directives such as the advanced manufacturing plan inform our trade policy?

Catherine McBride: First, I want to say something about services, which is our strength. I came out of the financial services area. I know about trade because that is where I was. We do four times as much service trade with the United States as with our second-biggest customer, which is Ireland. We have done all that without a trade agreement with the United States.

The key thing with services is having a common language, a common accounting system, a common legal system and a common financial services system. Selling services into India is probably good because it uses English as one of its official languages and it has adopted our legal and accounting system to a degree. Right now, a lot of UK services firms are using call centres in India. We are already using them. India is already providing us with a service, rather than us supplying it with a service.

Q249 **Mark Pawsey:** Do we sometimes forget about services because it is not a box or something that somebody can be photographed with? It is not tangible. Does it get left on the shelf?

Catherine McBride: Yes. Sometimes I think that the services industry is like that because the less Government are involved, the better it is. You would be amazed how often I have rebutted things written by the *Financial Times* or even the Resolution Foundation that talk about trade as though it is just goods.

Our biggest export sector is the services sector. We are selling more of what are called "other business services", which is legal and accounting services, than we are in the transport and machinery sector. That is lumping together both cars and planes, which is what we do, in terms of machinery.

Q250 **Mark Pawsey:** Should our policy have much more of a services focus than it has right now?

Catherine McBride: I am not sure what policy you would put in place. Exports happen by having really good companies. You get really good companies first nationally. There was talk in the last session about SMEs. Most SMEs are catering to a local environment and are happy doing so. Very few want to become multinationals. Starbucks started with one coffee shop in San Francisco; McDonald's started with one hamburger joint in Chicago. They became national companies long before they became international companies.

It is very good for people to talk about SMEs, but you have to drill down and ask, "What are these companies? What are they making? Could they possibly export?" My local hairdresser is fantastic, but he cannot export. He is not in the business; he is not interested. He is full all the time. A lot of our SMEs look like that.

Q251 **Mark Pawsey:** There may be a business manufacturing a product on an industrial estate that does not know about the opportunities to export in a way that the hairdresser never will. Do we communicate with those SMEs? It is easier for them to grow their business, given the new methods of logistics, and to get those goods out there in a way that was not the case perhaps 10 or 20 years ago.

Catherine McBride: It is easier for people to get goods out there than it was 10 or 20 years ago.

Mark Pawsey: That is my point.

Catherine McBride: The trouble is that the UK has quite a big population. Most SMEs can survive quite well just selling to the UK population. A lot of multinationals start in countries with a small population. IKEA started in Sweden. To get big, it had to get international, because the Swedish population was not big enough to grow and get the benefits of economy of scale. You have to look at whether companies want to do that and why they are not doing that.

For things like machinery, you need cheap energy. China did not become a major supplier of parts and machinery by having a lot of green rules that made its energy expensive. It made its energy cheap. It has a labour structure that probably would not go down well in the UK. It has a lot of things that made companies move their production lines to China. Interestingly, a lot of that production is now moving to the Philippines and Indonesia. It is not a one-way street.

Q252 **Mark Pawsey:** You are making a strong case for the carbon border adjustment mechanism, but—

Catherine McBride: No, I am not. I say that that is wrong, in fact. The one that we have proposed is not the same as the EU's. We have included two products, though I have no idea why. The UK's last fertiliser production facility closed two years ago. We are importing all the fertiliser that we use here. Why have we decided to put a tax on that? It is insane. You cannot drive industry—

Q253 **Mark Pawsey:** You said earlier, "Focus on what you are good at; play to your strengths." If it is not making fertiliser, it is not making fertiliser.

Catherine McBride: It is not making fertiliser because we have made our oil and gas very expensive and difficult. At the same time, if you need to import it, do not put a tax on it.

Right now, we have temporarily taken off the tariffs on orange juice, almonds, tofu and a whole lot of other things that we do not really make here. Why did we ever have tariffs on those things anyhow? We have to work out what we need to import and take those tariffs off. We have to work out what we can export and then encourage those businesses first to become national.

Chair: It is good that we are encouraging tofu eating with the reduction of tariffs.

Q254 **Ian Lavery:** On 11 April, the UK unilaterally suspended tariffs on 126 goods. That included car parts and fruit juice. Catherine, you have praised the decision to suspend those unilaterally. Is there scope to go a lot further than this?

Catherine McBride: This is a two-year suspension. If big companies are going to move their supply chains, they will probably want to know that this is going to be a continuing suspension. You are not going to go to a lot of trouble to start importing something new if it is temporarily suspended and in two years' time you have to go back to your old supplier and say, "Sorry about that. You're now cheaper than the people in Brazil, so I'm coming back to you."

I would like it to be permanent, but there are a lot of other things that we do not make that they did not take the tariffs off. The reason that these tariffs were taken off these products is that they did a consultation and asked companies to give them a list of the tariffs that they wanted removed.

Some of the companies that applied were not even UK companies. A Dutch flower transporter was one of the companies that applied to get the tariffs taken off cut flowers. That was interesting. We do not have a lot of tariffs on cut flowers because most of the countries that supply them are already under one of the many trade agreements that we have. In the back of the truck somewhere there are probably some dried flowers from China or something. They applied to get those cut, so they have now been cut. It will now be much quicker for those pantechnicons to bring flowers in from the Dutch market.

There are literally millions of tariffs—I go through them every time I have to scrutinise a trade deal—that we really do not need, on things like coconut oil, rice and rice flour. There is no point in our putting tariffs on rice. We do not grow rice. We have never been able to grow rice. We do not have tariffs on soy beans because we cannot grow them. We do not have tariffs on corn because we do not grow it. For some reason we have a tariff on rice, even though we cannot grow it.

Q255 **Ian Lavery:** You are basically saying that there is lots and lots of scope for further unilateral liberalisation of trade by the UK, in so many words.

Catherine McBride: Yes, there is lots. The trade process that we picked up from the EU was to try to bring in tariff-free raw materials generally, except for rice and a few others, and keep the higher-value development in the EU. That does not work for us now that we have left, because often that higher development was not happening in the UK. There is no reason for us to continue to protect the coffee roasters of Germany, the starch processors in Poland or whatever.

We are not doing it ourselves, so why not let the people of Brazil or India do that processing? It helps them to move up the value chain. They get to move from growing the raw materials to grinding them or refining them. It also means that the transport is cheaper. A lot of people say, "Transporting things halfway around the world is silly." Then let them do the development and processing, and just send us the end product.

Q256 **Jane Hunt:** Emily, the UK has kept protectionist measures on agrifood products while Australia has done the exact opposite. What should we learn from Australia?

Catherine, you said earlier on that agriculture is not what we do, but I have a few farmers in Loughborough who would disagree with you. Do you mean that we should just try to satisfy our domestic market with our own production? If so, what would the impact be on other export sectors?

Emily Fry: When you look at some of the modelling around what happens when you put trade barriers in place, it is sometimes a little unexpected.

Earlier we talked about fisheries in the UK. The modelling that we did around the TCA suggested that fishing output would shrink quite substantially in the UK as we shrink the size of the export market to which the UK has access. Meanwhile, on the agricultural side of things, we expected that agriculture might grow because the import restrictions from the EU meant there was less domestic competition in the UK. Sometimes the ways that trade can manifest around the different types of liberalisation that you do can be a little bit nuanced.

I want to draw attention to non-tariff barriers, which are increasingly important in trade. When traders talk about the issues that they face, they often talk about these behind-the-border or at-the-border barriers, such as checks on imports, the types of documentation that you need to bring when you are delivering exports or imports to various places or the regulatory regimes that you need to agree to or not agree to.

We should focus our efforts on thinking through how we can resolve some of those at-the-border and behind-the-border barriers. It is encouraging to see the UK's target border operating model, but a lot more would need to be done to reduce those at-the-border and behind-the-border barriers significantly, which are quite a lot bigger than some of the tariffs that we put in place.

Q257 **Jane Hunt:** What one thing could we do to resolve that? What is the No. 1 priority to resolve the border issue?

Emily Fry: There are some things that we can do domestically and that do not require collaboration, but a lot of it will involve international collaboration.

In our research, we have talked about how we could look at other countries that have relationships that are similar to our relationship with the EU. If we look at Canada and the US, or Australia and New Zealand, they have quite deep arrangements. They look across different regulations and decide, "Are we happy to agree on these types of regulations? Do we agree with your approach? Are we therefore happy to secure the same regulations in those particular areas?"

That does not necessarily apply to all areas, and there are carve-outs, which is also very important, but if we are looking for a macroeconomic impact on goods trade, we have to look to much bigger policy plans. The only way to remove those at-the-border and behind-the-border checks would be to consider things like customs unions and having a single market for goods. There are some things that you can do, but it is pretty challenging to have these macroeconomic impacts.

Q258 **Jane Hunt:** Catherine, what about my farmers?

Catherine McBride: I have brought these documents with me. It intrigues me. You probably know I am on the Trade and Agriculture Commission, which means I have to read the trade deals. I read chapter 2 because I have to go through and predict what we will buy and will not buy. When people say that farmers are not protected, you should wave chapter 2 of the Australia deal and chapter 2 of the New Zealand deal at them and force them to read it. The only industry that we have protected, to the detriment of consumers in the UK, is farming.

Every year, DEFRA produces another fantastic document, which I did not bring for you, about farm income. If you look through that, you can see that some of our farmers are brilliant. Our dairy farmers are fantastic. We have exported milk every year for as long as I have records for. We produce enough to supply UK demand and enough to export. The really unfortunate thing is that we export it to Ireland, where they make it into butter and cheese, and sell it back to us at five times the price we sold the milk for.

Jane Hunt: That is very interesting.

Catherine McBride: I would like to see our farming sector go up the value chain. There are things that we are not doing because we always relied on someone else to do them. That does not make sense any more.

Other farmers have just never got with the programme. I suspect it is a lot to do with the way the subsidies were handed out, which was based on land rather than on production. Because of the tax advantage—it is not affected by inheritance tax or stamp duty—a lot of people who are not farmers invest in farmland. That has driven up the price of farmland, to the point where real farmers cannot afford to run farms. That is part of our problem.

It is not that farming is not what we do. The exporting of agricultural products is not what we do. If you look at the proportions, beef is 0.07% of our exports. Both beef and dairy exports make up about 0.5% of our exports. Beef is about a quarter of all the meat that we export. Most of what we export are the offcuts that we do not eat ourselves.

There is another very good group that I would really suggest you talk to, which is the International Meat Trade Association. It can run through all the cuts. We are exporting beef shins because we do not really eat them, but there are countries that do. It is liver, kidney, tongues and tripe. We are exporting all of that stuff. We are keeping the prime cuts: we are eating the fillet steak ourselves.

When people talk about exports of beef, they are usually talking about exporting the leftovers. We are a very affluent nation. We can afford to eat this. A lot of the people we are trading with are less affluent. They are eating what we would put in the garbage. That is something that you have to consider. It is not all one big block.

Q259 **Chair:** I have a lot of ground to cover in seven minutes, so I am going to move on. On the border target operating model, we have an estimated cost of £330 million. Is that a good cost to impose on UK consumers? Could the cost actually be higher?

Emily Fry: I have not looked into the specific figures around it. It is important to note that the EU implemented import barriers on day one when the UK exited the EU. We have an asymmetry between the UK's import barriers and the EU's import barriers at the moment. It is not wrong for the Government to look to introduce import barriers over time.

You are right that having import barriers does have a cost to consumers. I am not sure what that cost will look like.

Q260 **Chair:** There is going to be a cost to UK consumers.

Emily Fry: I would expect there to be a cost from applying import barriers, yes.

Catherine McBride: It has been costed by Julian Jessop. It is very low. It is based on the idea that we continue to import things from the EU. This is people looking at food coming across the channel.

If you start lowering the tariffs on other countries that can produce food more cheaply—those are countries that have always been checked at the border—you may find that the cost goes down. It is only if you retain what we have been doing forever and add cost to it that the cost will go up, though Julian says it will be very small.

I recommend that you drop the tariffs on non-EU producers, because they are all a lot cheaper. The EU is not known for its cheap food. Even now, when people say, "We rely on the EU for so much food," they are using value rather than volume. It is because we are paying over the top for EU food that it looks like we are importing a lot and we rely on it for our food. We do not. If you drop the tariffs, you do not have to worry so much about the cost.

Q261 **Douglas Chapman:** Emily, the Resolution Foundation published figures last year regarding the obvious impact of Brexit on goods trade. It looked at the OBR figures as well. How much is the drop in trade down to Brexit? Have you done any further investigation into that? What did the figures reveal, in terms of the service sector in particular, that might be more optimistic?

Emily Fry: When we look at trade in the UK, the key question is how it is performing: are we up, are we down or are we about the same? What you can see in services trade is that the UK has been growing in both imports and exports over the last five years. Meanwhile, we have reduced our goods trade quite substantially. We are now at about the same level in volume terms for goods trade that we were at back in 2015. There is definitely a reduction in goods trade.

We might say that that is fine and that we are happy to have a reduction in goods trade, in particular because other countries have been experiencing similar things. We all know that there have been massive global shocks around the pandemic and the energy crisis that have had an impact on trade. But if you look at other countries that are similar to us in the OECD or the G7, their goods trade has been increasing over time while ours has been shrinking. Our exports and imports are by far the weakest across the G7, which is our preferred group of countries to compare with.

There are also more sophisticated ways to do this. You can look at synthetic models that use pre-Brexit referendum trends to align what the UK's goods trade looked like before the Brexit referendum happened. From those, you can see that the UK is really underperforming where you would have expected the UK's goods volumes to be.

Q262 **Douglas Chapman:** Is there any evidence to suggest that when we are dealing with exports, we should be looking at the proximity of countries?

Is it easier to trade with Germany than with Guatemala, or with Belgium than with Bolivia? As far as I can see, a lot of the trade deals that have already been struck are of relatively low value compared to the potential trade if we had still been within the European Union.

Emily Fry: About half of our goods trade is with the EU. That is a lower number for services. You might argue that that is because for goods trade you really need to be transporting those goods. If we are talking about food manufacturing, you do not want a mouldy pizza delivered to you. You want a fresh pizza, so it really matters that it is close.

It also matters for things like supply chains. If you want to do just-in-time supply chains, if you want to import parts for cars and then convert those cars into a final product or a more advanced product, and then export them back to Germany, say, you really need to have that proximity. There is a large body of research that suggests that distance does matter for goods trade. It also matters for services trade, although slightly less.

Q263 **Douglas Chapman:** Catherine, on a slightly different tack, I know that you take a different view on the Brexit issue.

Catherine McBride: I am just going to tell you that our trade is with wealthy countries. It does not matter whether it is Germany or America. Of the 27 countries in the EU, we only trade with nine. They are the rich nine. They were mainly already members when we joined, or they joined with us. All the new members hardly buy anything from us and 90% of our exports with the EU go to the rich countries.

If you look at the other rich countries in the world, so Japan, Korea, Canada, the US, Australia and New Zealand, that is who we sell to. It is nothing to do with distance. It is cheaper to transport stuff on a boat than it is by road. It is 12 times cheaper. It has nothing to do with distance and everything to do with whether they can afford the stuff that we sell.

Q264 **Douglas Chapman:** We are running out of time, but earlier we discussed having a proper trade strategy. Is that something that is missing from the toolbox that the UK should be looking at to boost our trade? If we are looking for easier and smarter ways of doing trade and having a more pragmatic and focused trade policy or strategy, is that something that we should be seriously looking at? Can we just bumble along in the way we are doing at the moment, with the odd trade deal, and try to work our way through that?

Catherine McBride: The best thing we can do as a strategy is to drop our tariffs unilaterally, especially on stuff that we do not or cannot make in sufficient quantity. Things like parts come from China and Mexico. They are not coming from the EU. Like us, the EU is a car assembly plant these days. It is not manufacturing the bits.

The other thing we should do is trade deals wherever possible, but you have to help your companies to become good companies in the UK. We have to look at how we are taxing them and how we are making the things they need more expensive, such as electricity. Our commercial electricity, not retail, is more expensive than France and Germany. It is about three times more expensive than the US.

Q265 **Douglas Chapman:** Would that sit well with an industrial policy that looks at things like skills, costs and productivity as well?

Catherine McBride: Definitely, yes. You will not become a good export company unless you are a good national company. We are making it very difficult for companies to remain in the UK. We have to look at that. I would suggest we start with the energy costs because we are lumbering on to our businesses an energy cost that the French and the Germans are not. That extra network cost makes all the difference. I wrote a paper on this about steel; I put in a graph on how they differ. You cannot expect to be a big exporter if you are strangling companies at birth, which we have done.

Chair: We are slightly over time, but we have just a couple more questions.

Q266 **Mark Pawsey:** I just want to pick up the point that Emily made about regulatory alignment. You said that Canada has arrangements with the US, and New Zealand with Australia. We did have regulatory alignment with the EU, particularly to take advantage of just-in-time supply chains. Catherine, you said that many of the components came from outside the EU, but an awful lot was being made in Slovakia and other such countries and was coming into the UK to be assembled in UK automotive.

Is there anything we can learn from those other countries? My impression is that we have made it harder to get goods into and out of the UK because we have tightened up on declarations. Do we need to undo those to have any significant impact?

Emily Fry: When we are coming up with regulatory strategies and plans, one clear way to think about this is to do a cost-benefit analysis. Will it benefit us more to have our own regulation in this area?

Q267 **Mark Pawsey:** I visited a car plant where they were manufacturing product for the US and the European market, including the UK at that time. I said to the car manufacturer, "Once we are out of the EU, you will be able to make a third variety of car, which will be made to a UK specification rather than an EU specification." The car manufacturer looked at me like I was an idiot. He said, "The UK will get the same car as the EU." There is alignment anyway, is there not?

Emily Fry: In some areas there is alignment. Sometimes there is passive divergence, as well as the UK making domestic decisions. We need to be conscious of that. As time goes by, it is more likely that there will be some passive or active divergence from EU regulation. It is something that is worth considering now, as we are relatively close to what the EU is doing.

Q268 **Mark Pawsey:** If we continue to do stuff in the same way as the EU did, where is our Brexit freedom?

Emily Fry: To your point about whether you want to build a wing mirror that is 1 cm bigger or smaller than your largest trading partner's, the obvious answer is that you probably do not.

What can be beneficial from having much more formalised regulatory discussions is that you are able to shape those discussions much more actively. In the case of the US and Canada, both parties are shaping those discussions and deciding what areas should be aligned and what should not.

Catherine McBride: While we are on the car industry, we made over 1 million cars last year. Only 20% of them were for the UK market, so 80% of the cars we make are exported; 60% of the value of the cars we export goes not to the EU, but all around the world. This idea that the EU is our largest market is just rubbish.

Chair: Andy McDonald is going to ask our last question.

Q269 **Andy McDonald:** I just want to put something to Emily. It has been put to us that rejoining the single market would be the most effective way of stopping the rot. Do you agree with that? Would rejoining the single market be an effective way of addressing some of the deficits that we discussed today? You cited those figures from 2015.

Emily Fry: It is a strategic decision for the UK. The UK needs to decide whether we want to have a macroeconomic benefit from that trading relationship. We would not necessarily want to consider joining the single market for services, which would require freedom of movement for people. If you think about things like the single market for goods and some of the regulatory alignment pieces that we have been discussing today, that is something that we could consider.

Catherine McBride: The drop in exports of goods has nothing to do with Brexit. It has 100% to do with the fact that our largest trading partners, many of which are in the EU, are in a recession at the moment. They are not buying as many goods. If you look at their trade statistics, you will discover that they are in exactly the same boat. This idea that we can magic our way back to 2015 by rejoining the single market is not true. The single market is in a massive hole, which is going to get worse. We are well out of it.

Machinery and transport, which are our biggest sectors, were both up by 9% last year, both imports and exports to both EU and non-EU countries. It is not true. They like to mash all these figures together, but if you look at the individual things, you will see that it is not as bad as it looks.

Andy McDonald: There is a conflict in the evidence. That is right.

Chair: That concludes our panel. We are slightly out of time. Thank you so much indeed for your evidence and for your time today. It is hugely appreciated.