

# Committee on the Future Relationship with the European Union

Oral evidence: Progress of the negotiations on the  
UK's future relationship with the EU, HC 203

Wednesday 13 January 2021

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Members present: Hilary Benn (Chair); Joanna Cherry; Mark Eastwood; Sally-Ann Hart; Antony Higginbotham; Rupa Huq; Stephen Kinnock; Nigel Mills; Mr Barry Sheerman; Dr Jamie Wallis; Dr Philippa Whitford.

Questions 1207 - 1239

## Witnesses

I: Stephen Phipson, CEO, Make UK; Andrew Opie, Director of Food & Sustainability, British Retail Consortium; Ian Wright, CEO, Food and Drink Federation.



## Examination of witnesses

Witnesses: Stephen Phipson, Andrew Opie and Ian Wright.

Q1207 **Chair:** Good morning and welcome to this final evidence session for the Committee on the Future Relationship with the European Union. Can I begin by asking our three witnesses to introduce themselves for the record?

**Andrew Opie:** Good morning, all. I am Andrew Opie. I am the director of food and sustainability at the British Retail Consortium, which is the trade association for retailers in the UK.

**Stephen Phipson:** Good morning, everyone. I am Stephen Phipson, the chief executive of Make UK, formerly the Engineering Employers' Federation, which represents manufacturing in the UK nationally.

**Ian Wright:** Good morning, everybody. I am Ian Wright. I am the chief executive of the Food and Drink Federation, which represents manufacturers of food and drink products in the UK. Just for the record, I am also co-chair of the Food and Drink Sector Council.

Q1208 **Chair:** On behalf of the Committee, can I thank all three of you for giving up your very valuable time, especially given all the things that you have to deal with, to give evidence to us this morning? Can I begin by asking each of you to set out briefly for me, because we will explore these questions in more detail as I turn to colleagues, what are the biggest problems that your members and your sector are facing at the moment as a result of the end of the transition period and the implementation of the new agreement that has been reached with the European Union?

**Ian Wright:** First of all, we welcome the chance to give evidence and, given the Committee's title, it is really important that we all understand that food manufacturers, and I am sure the food supply chain generally—Andrew can speak much more to retail—really welcome this chance, but we also want to be clear that we want a really good relationship with our biggest customer and our biggest supplier going forward. A productive and effective relationship with the EU is our aim.

The biggest problem we face with the agreement that was published on Christmas Eve is that it was very late. The consequence is that members and all of the players in the food supply chain, whether they are exporting or importing between the United Kingdom and the EU or between Great Britain and Northern Ireland, have had very little time to get to grips with the provisions of the agreement and are still exploring them.

There are numerous grace periods, formal and informal, being operated by all sides in this quadrangle of regulation and enforcement, and it is important to understand that the enforcers are as clueless about the provisions of some of the deal as those who are operating under it. Our



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biggest single problem is that nobody absolutely has had the chance to work with this deal and rehearse how to do checks.

I will give you one example. One of our biggest companies, which was very well prepared and is a very well-known global company, was trying to do a consignment of product out of the UK to the EU at the start of this week. The nature of the paperwork is that it is very varied and there were very many elements to the consignment. A job that normally took them three hours before the deal was done has taken them five days so far, such is the nature of the impenetrability of the paperwork.

That is our biggest problem, and the subsidiary problem is that the settlement itself, particularly on rules of origin, is not as generous as we might have hoped and is, therefore, replete with difficulties, hidden away in the documentation, that are still being assessed. That is the simple position we are in. We were not ready, but we could not have been ready, because nobody knew what the deal said until almost the moment it was implemented.

**Q1209 Chair:** You said from three hours to five days. How much of that is teething troubles? When things settle down there will still, however, be an increase in cost and paperwork, will there not, because your member firms are having to do things that they did not have to do up to 31 December? Is that correct?

**Ian Wright:** Yes. This was a consignment between the UK and the EU, but, similarly, it could have been a composite consignment of multiple manufacturers going to Northern Ireland and it would have faced the same problem. I am sure all members of the Committee have seen the issue of groupage mentioned in the press. This is this issue where there are multiple elements to a particular load, and that is a good leitmotif for the whole thing, which is that we now have to treat every different bit of a consignment and every different product with the same approach that we might have previously done to whole lorryloads.

What is going to end up happening here is that unless the deal changes in some material way, we are going to see the re-engineering of almost all the EU-UK and GB-NI supply chains over the next six to nine months. There will be easements, there will be fixes and there will be workarounds, but, essentially, if nothing changes in the composition of the deal, we will have to see a significant re-engineering, which in the short term means that there will be costs and time wasted for supply to reach the shelves, and in the long term there will be costs and fairly significant changes to the way in which manufacturers in the UK and in the EU interact when they are producing product.

**Q1210 Chair:** Will that lead to more jobs in the UK, or fewer jobs?

**Ian Wright:** That is a good question. There will probably be different jobs and it will be disruptive. In the end there will be fewer jobs in the part of the supply chain that supplies the EU, and it is possible that there



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may be extra jobs in the part of the supply chain that only supplies the UK. It is difficult to unravel that against the background of the current economic difficulties, because you will not be re-engineering in a period of expansion in the UK market. You will be re-engineering in a period of, if not contraction, consolidation.

Q1211 **Chair:** That is really helpful. Can I turn to you now, Andrew, and can you, in your answer, just touch on where there are shortages of some products, including on shelves in Northern Ireland? Why is that?

**Andrew Opie:** I will return to that. Just returning to the original question to begin with, currently the main issues that UK retailers are facing are if they are exporting into EU countries, so they have supply chains installed in those countries, or those retailers that are sourcing from Great Britain into Northern Ireland; I will touch on that in a moment. I say “currently” because all retailers are watching very closely developments at the cross-Channel ports to see if there will be the disruption that we were anticipating and how bad that disruption would be, but at this stage it is fair to say the impact on British consumers—I stress British—is very limited by the end of the transition period.

Northern Ireland is a particular problem—there is no doubt about that—and a particular problem for UK supermarkets. The shortages have just about been addressed now; we get the data. The reason we had some shortages is really the uncertainty that Ian mentioned going right up to the wire. We did not get the final confirmation of how products could move until 31 December for a 1 January start. The inevitable consequence of that was that both retailers and suppliers, manufacturers that supply directly to retailers in Northern Ireland, took a relatively cautious approach to the borders and, therefore, some products had more of a problem or were held back for the supply into Northern Ireland until retailers themselves and some manufacturers got to grips with the system and understood it.

Those shortages have been overcome now pretty much, but we should absolutely put the ongoing relationship between Great Britain and Northern Ireland clearly on the agenda for today. I am sure members of the Committee would have seen the letter that went from all the major supermarkets, which we co-ordinated this week, to the Chancellor of the Duchy of Lancaster, stressing that we need a long-term sustainable solution to how we move product from Great Britain into Northern Ireland to avoid significant disruption coming particularly from 1 April onwards. We are pretty confident that we have overcome the problems that we had, but, absolutely, if we do not find a workable solution for retailers in the next couple of months, we face significant disruption in Northern Ireland.

Q1212 **Chair:** That is because the grace period on things like export health certificates will come to an end then, unless it is rolled forward.



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**Andrew Opie:** That is correct. We currently have two grace periods from the EU, which were arranged as part of the deal. The first is a three-month grace period, which exempts full certification for all products of animal origin. Then we have a second grace period, which allows us to continue to export products to Northern Ireland that we cannot export into the rest of the EU. These are fresh meat preparations, so things like beef mince, sausages and products like that. Both of those are time-limited and coming to a close.

Interestingly, for the first one on export health certificates, which we can talk about later, our members who are exporting into the Republic of Ireland, and therefore have to follow the full certification, have experienced problems with the system as it stands. We consistently said to both the EU and the UK that the system of import and export for food is not set up for a supermarket just-in-time type of system. Frankly, it is more set up for something like New Zealand lamb, which is coming a long distance, and there is plenty of time to send certification to the port where it is arriving. You know what is on it and it is very simple. There are probably two or three certificates for a boatload of New Zealand lamb.

A lorry moving currently from a depot or a port in Wales to the Republic of Ireland probably has in excess of 100 different certificates for all of the different products. They have to give 24-hour notification to the Irish authority that that consignment is arriving. The way that supermarket supply chains work is that the stores send information back to the depots on a daily if not hourly basis to say, "We need these products", so those lorries are generally moving well before the 24-hour period. They do not know what needs to be in the lorry, frankly, and yet they are expected to tell the authorities what is going to be in the lorry. They also need an exhaustive process of certification and bureaucracy, including vets to sign off all the products that are going to currently the Republic of Ireland or the rest of the EU.

It is pretty much an unworkable system for supermarkets. The supermarkets operating in the Republic of Ireland have adapted to it, but even there we are seeing some categories are not getting through. People are trying to rationalise their supply chains along Ian's basis, in terms of whether there are products that need to be sourced direct from the EU rather than GB. It is not a workable system for supermarkets and that is why we need to think about Northern Ireland. We should not be just simply trying to apply the same processes that apply for the EU into the Great Britain-Northern Ireland agreement. We need a workable system that reflects just-in-time delivery.

Q1213 **Chair:** That is very helpful and we will explore this in more depth with colleagues in a moment. Just finally from me, Stephen, from your members' point of view, briefly, what does the deal look like, and in particular what about the rules-of-origin aspects of it?



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**Stephen Phipson:** Thank you for the opportunity to speak today. Generally, the first sentiment you get from a cross-section of all the different manufacturers in the country is a sense of relief that we are not in a no-deal scenario, which many consider to be quite catastrophic and you will have seen some of the press reports around that, with things like the automotive sector, et cetera.

Then we focus into the short-term challenges, which have been as described previously around the customs arrangements and making sure that happens. It is worth just bringing out that we have a community of around 50,000 manufacturers that only trade with the EU. That is their business. It has been for decades. Their businesses are set up to be part of the just-in-time supply chains backwards and forward across the Channel. For them that trade before we finally left the EU was internal trade. There was never any paperwork. There was never any requirement to do things like rules-of-origin calculations, so there was no record-keeping in that respect.

That group of companies is proving particularly difficult to get ready for these changes. Often they are smaller companies that see a lot of additional cost, a lot of bureaucracy and are worried about being competitive in the future, as they are entering a very short supply chain into Europe. The thing goes in both directions as well. That is pretty important.

Specifically on rules of origin, we have bilateral cumulation. We do not have diagonal cumulation as far as the deal is written at the moment. Where we have parts coming in from other free trade agreements we have outside the EU, they are not counted as part of the cumulation for UK content. We do have a lot of companies in the sector that are taking in materials and doing transformations to them, sometimes not substantive transformations, doing quite a small amount of work and then moving it on to another stage of the process. It does not feel like exporting finished goods very often. You are exporting part of an engine, doing a crank shaft or doing the final machining on an aerospace part.

The rules of origin become very important, because substantially for those companies that is not UK content and they cannot claim tariff-free rates across the Channel. That is causing a lot of concern for people around whether that can be competitive into the future or not. There is a case to be made about whether we can broaden out some of those free trade agreements.

Q1214 **Mr Sheerman:** Can I push Stephen a bit? I have known Stephen a very long time, so I do not have to push him too hard, I hope. We are going back to your question, Chair, on small and medium-sized enterprises in the manufacturing sector. Huddersfield, my constituency, is made up of many small and medium-sized enterprises. Stephen, I understand the big boys, the Fords, British Aerospace and the big people have big teams and they are sophisticated. Are they reaching down to help their supply



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chain? Where are the SMEs getting their support and help in this really challenging new environment?

**Stephen Phipson:** The honest answer to that is that it is a mixed picture. In some cases, we have seen some very good evidence of larger companies helping their supply chain because it is in their interest to do so, to make sure those supply chains can work, where they have the answers to it. We still have some areas where we do not have really specific answers. No doubt we will come on to some of the other challenges outside of the customs and rules-of-origin challenges.

There is a large cohort that are really just trading directly with their European customers. We have one really interesting SME, for example, in Huddersfield, which is making LED lenses for cars, and their customer is the Italian automotive industry. They are bringing in materials and transforming them, and they have made a very successful business out of doing that. For them it is about just-in-time delivery, so any kind of customs paperwork and rules-of-origin calculations for them are very difficult. They are operating on lower margins. They are operating typically on a 4% margin, so as soon as you start adding this bureaucracy into it, it adds up in terms of cost.

The most common thing I hear, Barry, from many SMEs is, "How am I going to afford the cost of all this extra bureaucracy?" and, "I cannot find any customs agents because there are not enough of them out there to advise me with the expertise to navigate the system". It is those two things that we are grappling with constantly at the moment in this early stage.

Q1215 **Mr Sheerman:** Thank you, Stephen, and thank you for the example of something firmly in my own patch. Can I come to Ian and Andrew? We are going through this dreadful period with this dreadful disease. Someone said to me the other day that at least when the French produced the new regulations when they were frightened that the new strain of Covid would come from the UK across to France, it was a dress rehearsal in terms of the pressure on ports. We learned some lessons. We have not seen what people predicted with these long tailbacks of trucks at the moment. Is that because we have solved the problem, or will that get worse as we go on? Could I ask either of our expert witnesses on that?

**Ian Wright:** Will it get worse? Yes, it will get worse because volumes are so low at the moment. Andrew and I just came up off a call with Secretary of State Eustice, who incidentally has been an absolutely indefatigable supporter of the industry throughout all of this. I have many differences with George about his individual views, and so do my members, but he has been just superb, as has Defra, in helping us through this period of getting ready and then trying to find adjustments through the last few days, as they have through Covid. I should just say that up front.



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It will get worse, because currently volumes across the short straits are at about 2,000 lorries and they should be around 10,000, so the opportunity for the scale of concerns to rise is huge. Secondly, the traffic across to Northern Ireland and to the Republic of Ireland for those who supply Northern Ireland through Dublin is also very light, so we have not had a proper test of this.

To your question about whether the Dover issue was a dress rehearsal, I would just expand that a bit. I can only talk about food. Andrew can talk about the other products retailers sell. At the start of the run-up to 11.01 pm on 31 December, a lot of people suggested that the fact that food had kept flowing was a good example of how Brexit would be relatively straightforward to accomplish.

While there are lessons from the continuing free flow of food and drink both ways from the early part of the Covid crisis last spring, and it is a triumph for the systems that have been put in place that by and large supply has kept flowing, they were not a dress rehearsal for the EU exit, because nobody had to do any of the paperwork. The change in terms of the documentation is the key change. None of the customs checks, border checks, driver checks, animal health checks where the product has animal content and the whole panoply of bureaucracy was in place until 11.01 pm on 31 December, and that is the big difference.

The Dover example tells you one thing, which is that it only takes a relatively small amount of time for the system across the short straits to get into difficulties. The imposition of the Covid checks was a rehearsal for that. Certainly, the Manston thing and the way in which the authorities handled it was pretty speedy.

One thing I would say, though, is that at one point one Minister said that the number of lorries in the queue was—I cannot remember what the number was, but it was a lower number. The truth was that the vast majority of hauliers had stayed out of the Kent cordon, because they knew that they would not get access to food, water, toilets and places to sleep. They had parked up in the south-east of England, so the backlog was still being cleared on New Year's Eve and we should not kid ourselves that it was not.

**Q1216 Mr Sheerman:** The two of you know about retail. A lot of people will know about these questions. How do we help the small and medium? I have said this to Stephen in terms of manufacturing. A lot of people in Britain produce food. There is a very famous producer of yoghurt in my part of the world, and of honey. There are all sorts of small and mediums. I know that the big supermarkets have the staff, the resources and all the rest. Are they helping the smaller producers in that sector? Who do these SMEs turn to if they are trying to export? It is their livelihood. Who do they pick up the phone to? Who do they send an email to? What is your advice?



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**Andrew Opie:** First of all, just to pick up on your original point, Barry, you are right in some ways around whether we got some learnings from Covid. I will come to that. Ian is absolutely spot on. We never had any problems, even at the height of Covid, bringing food into the UK. Even Italian pasta manufacturers increased their supply to the UK during the worst of their outbreak in Italy and we know how serious that was. Ian is absolutely spot on that it was actually a problem logistically in the UK where our industries, both Ian and ourselves, really stepped up to the plate to make sure that customers got the food that they needed. But that was the challenge. It was an internal challenge, not an external challenge, and that is why this throws up a completely different point.

Just to finish on the learnings from Dover, one good learning, which you may have seen yesterday, is that the Government are currently consulting on whether empty food lorries should be prioritised should we have the problems of Operation Brock. We identified very quickly and let the Government know in that period before Christmas that the problem is often empty food lorries going back to Spain, Holland and Portugal to pick up the next consignment of fresh produce to bring it back to the UK, particularly at this time of the year.

It is encouraging that they would be prioritising those lorries if we did see the queues in Kent. I understand about a third of the lorries that cross the Channel going towards France are actually empty, and most of those are going to pick up food for British consumers. That is a good learning.

On your point around SMEs, of course we continue to support our SMEs, which are a key part of our supply chain here. The problem, realistically—this is more one of Ian's members' problems—is that not that many UK retailers operate outside the UK. We are pretty much closed in terms of UK businesses and therefore we can offer support for those companies operating in places like the Republic of Ireland, France and other countries, but our influence is relatively limited to help them with their problems, which is really exporting out of the UK, rather than continuing to operate within the Covid problems.

Q1217 **Mr Sheerman:** Is it the Government that these businesses should turn to for advice? Is it George Eustice and Defra? Who are you going to call? You know the Ghostbusters. Who are you going to call when you are in real difficulty?

**Andrew Opie:** I will hand over to Ian in a minute, but certainly the Government have tried to help those types of companies, looking again if I come back to the Great Britain-Northern Ireland scheme. There is the Trader Support Scheme. There is the Movement Assistance Scheme as well, which was actually really geared at the type of companies that you are talking about, Barry, to help them to get into Northern Ireland. I am sure Ian would want to comment more in terms of exports into the EU.

**Ian Wright:** With my best Bill Murray hat on from "Ghostbusters", I would say there are three places you can go. One is you can go down the



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supply chain. If you are Nestlé or Mars, you are already helping your suppliers because it is in your commercial interests. You are bringing your expertise to bear. The second one is there is good Government help, but there is lots of it and some of it is quite confusing and not market-specific or industry-specific.

The third is that you can come to people at the FDF. We are spending virtually all our time at the moment advising members on these issues. We are advisory and advocacy. We probably know more about rules of origin than most and, yes, we are helping and we are not just helping our members. We are helping those across the industry.

**Q1218 Stephen Kinnock:** Stephen Phipson, I suspect you will not be too surprised that my first questions will be directed to you. I have the largest steelworks in the country in my constituency, the Port Talbot steelworks, and steel is the backbone of our manufacturing sector, not least the automotive sector, which is hugely important.

The European Union accounts for about 70% of steel exports from the UK, and it is a really interesting area in the context of this Trade and Cooperation Agreement, because it gives the lie to this idea that there are no tariffs and no quotas in the TCA. In fact, trade remedies measures apply—anti-dumping measures, effectively—and we are now facing a system where the EU can impose anti-dumping measures on our exports of steel if we exceed our quotas. Quotas are in place. The minute you exceed your quota every tonne of steel is subject to a 25% tariff from the European Union. Given the challenges that the UK steel industry faces, this could potentially be the straw that breaks the camel's back.

What is particularly concerning is that exports of steel from Great Britain to Northern Ireland are included in the quotas, which takes us much closer much more quickly to our quota. Many predict that we will be hitting the maximum of our quota in the coming months, and we will start to see the 25% tariff being applied.

Can you just set out what steps Make UK and UK Steel, with whom I work very closely, by the way, are doing to engage with Ministers on this extremely serious issue? I have a fantastic working relationship with Gareth Stace and his team; they are doing a brilliant job. How confident are you that we will be able to get these quotas dropped?

**Stephen Phipson:** It is an ongoing debate and you are quite right; we have weekly meetings with the Ministers and UK Steel, which is part of Make UK. We work on this constantly with all the steel manufacturers. The issue around exports to Northern Ireland counting as part of the quota is one that has been of the greatest concern to start with, and there has been a lot of work to try to mitigate that to try to get that removed from the agreement. That is something that is ongoing at the moment. There has been some real movement on that over the last few weeks, but we are not there completely yet. There is a lot of work going on with that. Making sure that we continue to be in the supply chain of Europe is vital.



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The other thing to bear in mind is that we have to watch out on this cumulation point, where the EU has cumulation agreements with other countries, in terms of the steel content from the UK still being counted as part of that cumulation for its exports out. That is particularly important in the European car industry, where we are supplying steel there and the UK steel content there would be 5% of a vehicle content. We have to make sure that stays within the rules of origin, so that we can continue to export.

There is quite a lot going on. The logistics part of it is another thing of concern when we think about exports of steel to the countries and making sure that we can do all the correct paperwork, et cetera is right, but the major point, you are right, is the one about quotas and that is the one where the focus has been.

We have good engagement from the BEIS team on this. This is a weekly discussion. All of the support is in place. There is a weekly steel meeting and we are making progress. Again, it is difficult to predict, but it is a very important issue for the sector.

**Q1219 Stephen Kinnock:** Of course getting engagement with the UK Government is important, but do you get a sense that the European Union is prepared to engage on this issue? How much leverage do we have now, now that the TCA is done?

**Stephen Hipson:** You are right. In fact, it is not just on this, but on many other areas there are some fixes here that are relatively simple to do, which would help enormously with some of these easements. In the first instance, the European Union seemed quite reluctant to put some of those easements in place. I suspect there are political reasons for doing that, but we have to keep on pressing the points. It is vitally important for those steel manufacturers, but also for manufacturing in general, that some of these easements are agreed as early as possible. Ian mentioned a patchwork of easements that we have at the moment.

There are many other issues on the list here, not least of which are around where we are with conformity assessment, chemicals under REACH and things like that, where further easements are going to be required. We need to make sure that the Government are fully engaged with the EU in trying to push those easements forward.

**Q1220 Stephen Kinnock:** I just wanted to ask a question broadly to all three of our witnesses, which is about this issue of the linkage between rules of origin and zero tariffs and quotas. Were your members aware of the fact that zero tariffs and quotas would only be forthcoming if rules-of-origin rules were being complied with?

**Ian Wright:** It depends what you mean by "aware". They knew, but it is whether they had absorbed that message, given the hugely technical nature of rules of origin and what Stephen said much earlier about the fact that so many of our manufacturers only traded with the EU.



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There are three stages of awareness here. One is many of those players trading with Northern Ireland had no idea that the rules were going to change on 31 December, and they did not know what these changes would be. It is illogical, captain, that Northern Ireland would be treated differently unless you are really closely following this stuff. Many of them had lots of experience of trading with the EU, but no experience of the outside world, so it is only if you had experience of trading beyond Europe that you would have known about rules of origin in your daily work. That is the difference, Stephen. The big difference is, if you do this all the time, it becomes second nature; if you have never been asked to do it for 45 years, however much you are aware of it, it is very difficult to understand just how really difficult it is going to be.

**Andrew Opie:** From our side, yes, many were aware because they have global supply chains trading at the moment, but they could not really assess the full impact until we saw the confirmation of the deal, which came very late in the day and the release of the actual rules themselves.

We had been talking to the UK Government about our preferences for rules of origin, because not only does it affect products for consumers, particularly outside the UK as we tend to be a hub and then export from here, but there is a potential problem with things like GSP and the preferences for developing countries, for example, where those preferences would be lost if that product came into the UK and is then re-exported to a shop in the EU. We could not believe that either the EU or the UK would have wanted that to be the case, frankly, because why would we want potentially to harm the growth from trade from developing countries? Yes, we have made the points clear, but it was tied up in the deal and we could not do anything until we saw the rules.

Q1221 **Stephen Kinnock:** Stephen, could you maybe also just say a bit about what you think about the impact of the failure to secure diagonal cumulation in rules of origin? I do not know if you have quantified that or you intend to. What impact could that actually have, in concrete terms, on our manufacturing sector?

**Stephen Hipson:** Larger companies in manufacturing, yes, are quite aware of rules of origin, particularly those that are exporting globally, as was mentioned before, but you have, as Ian said, this cohort of companies that have been built up on nothing but trade with the EU and that is an internal business for them. Those companies, I can tell you, largely do not even know how to spell "rules of origin". For them you are starting with a zero level of knowledge.

The other issue around diagonal cumulation, just to focus in on that and give some examples, is, for example, we have a very strong electronics manufacturing sector now. It is one of our fastest growing areas in the UK in terms of our manufacturing output, which has been very pleasing to see over the last few years, but a lot of the material for the electronics manufacturing is coming from countries outside of the EU and the UK. Semi-conductors, electronic components and all of that type of material is



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largely now—it is quite a complex area—not counted as cumulative for a zero-tariff deal with the EU.

Very often these companies are building electronics that are not finished products. They are control boards. They are industrial controls. They are shipping to Siemens in Germany. They are a sub-contractor building parts of a system. They are importing this material from outside of the UK-EU bilateral cumulation arrangements, and so for them they have to do quite complicated rules of origin calculations, which before they have never had to do. Many of them are not reaching, in their first brush, the de minimis level for tariff-free access, so the 40% level. It is those sorts of companies that will be affected by this.

Most of them did not realise that. There was a hope generally we would have a much more comprehensive cumulation agreement with the EU, particularly normally including the ones that are, if you think about it, the free trade agreements, which are virtually continuity agreements, very similar to the EU ones, but we have not got that. For those sorts of businesses that are reliant on materials coming from outside of the block, they are the ones that have to do the calculation. Very often they have never had to do that calculation before and they certainly have not kept records on it.

The easement here is we get 12 months run-in, but you are required to maintain the records now, so they have to work through those calculations on day one as of now. That is going to be the big issue. That is where we are applying a lot of work. We are fielding around 2,000 calls a day to our helplines on trying to explain Brexit matters and basically rules of origin for smaller companies is the big question.

**Q1222 Sally-Ann Hart:** I apologise if I go crackly; I keep getting a notification that my bandwidth is low. I just wanted to look at the vital roles for customs, et cetera. We have heard in previous evidence sessions about the shortage of customs agents, the need to increase the numbers of customs agents, et cetera, and also about some firms poaching staff from others. I know Stephen Phipson has highlighted this morning the shortage of customs agents being reported by members. I just wanted to know where you thought the gaps were in the vital roles in order to manage the procedures needed in the new trading relationships. Are they in the private sector? Are they in the public sector? I do not know who would want to answer this first, perhaps Stephen.

**Stephen Phipson:** I can talk very much about the private sector to start with. There was an encouragement to get a lot more customs agents on board. The Government, from memory, had a target of 50,000 additional customs agents. I am not sure where we have got to as a country now in terms of that, but we were down at the low level of 11,000 or 12,000 last time I looked at the data. The challenge there is that those people are exactly the right experts you need to be able to advise those smaller companies.



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They come to us, the Food and Drink Federation and other bodies and they try to work through the rather complicated Government guidance, but for many of them the answer is to pick up the phone and talk to a customs agent about getting things on track, and they are finding that extremely difficult to do. If you look at it from a small business's point of view, you have, "I cannot find someone to talk to who is a customs expert or they are telling me, 'I cannot take you on because I have too much work on at the moment. Sorry, we cannot have you'".

At the same time, we are also seeing freight costs going up quite considerably, so they are looking at this dual effect of lack of advice or not finding the right on-the-ground advice for their particular activity because they cannot find a customs agent, and then at the same time they are seeing quite a large escalation in freight costs. That is worrying a lot of them.

**Ian Wright:** I agree with what Stephen said. The number was 55,000 that Michael Gove thought we needed. I suspect that was right, but we have not got anywhere near that in terms of provision. There has been a bit of a problem for the customs agents. I am absolutely not an expert, so rather like you, Sally, my bandwidth is going as well on this issue. I used to work in this world when I worked for both Boots and Diageo some years ago. We were always being told that products were lost on the dockside at somewhere exotic and we were always told that this was the fault of the local authorities.

One of the concerns that I would have about those customs agents, who are doing a very hard job right now, is that they are working at an intensity, because of the totally integrated nature of the EU-UK trade, that very few of them have worked at before. Not only do we have a shortage, but we do not have the accumulated experience of working at something that is so intense for so many people over a 24/7 period. Getting up to speed with that is going to be very important.

For example, one of the things that I am looking at is whether the FDF should buy a customs agent or start one, because that would allow at least our members to have direct access to those people not simply to fill in the forms, but to provide advice as well. We are actually looking at that right now. I wish I had done it in June or July, but because of Covid we did not have the chance to do it. There is public sector information available. The Government websites are full of information, but it is quite difficult to navigate your way through.

**Andrew Opie:** I will not add anything on customs. Both previous speakers have got that spot on. The two things I would add is vets is a big problem and will become a big problem, particularly if we need the full certification to go to Northern Ireland. There is a shortage in the UK. We are just about holding it together at the moment, but that is a real issue.



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The second point is really building on Ian's point. What our members are telling us is that they have been surprised at the level of sheer bureaucracy that is involved here. Even just the manual inputting of information into customs declarations actually takes longer than you might anticipate. Not only is there a shortage, but actually the bureaucracy is surprising. It is not particularly digitised. There is a lot of manual inputting, so there is a lot of resource being required simply to support customers.

**Q1223 Sally-Ann Hart:** We need more customs agents and vets, but it is not just training them; it is the experience as well. Are you saying, Andrew, that we need more vets, or do we need vets to go and work some of the time at the customs?

**Andrew Opie:** It really depends where we go with Northern Ireland. If we find a simplified system around authorised supply chains, there is more of a trusted system and the Government have started to edge that way with things like the Groupage Export Facilitation Scheme, which can operate for food retailers, then there is a potential to reduce that, but we have had conversations with the Government about vets. They have looked, for example, about whether they can release vets who currently work in the public sector to support private sector exports. We know it is high on the Government's agenda, but the fact that they are looking at potentially needing to release public sector vets to support the industry shows to me that there is a shortage of vets in the country.

**Q1224 Sally-Ann Hart:** There are opportunities for people to train up, but it is not a short-term solution. It will be a long-term solution, so we need to reduce the bureaucracy.

**Ian Wright:** It takes seven years to train as a vet. You are not going to get vets, or indeed customs agents, quickly and this goes back to the point about the short period between the deal being done and being implemented. The simple truth is that we had a year-long transition period that was supposed to be a transition period from the deal being done to it being implemented. Instead, it was a transition period from not knowing to knowing over about a 24-hour period right at the end.

**Q1225 Sally-Ann Hart:** We knew we would need more customs agents anyway, deal or no deal. Looking at the IT systems, Andrew Opie mentioned about the bureaucracy and perhaps the IT systems. How far have the Government IT systems gone for the movement of goods cross-border? Are they ready and working as expected? Andrew said that there are issues with supplies for supermarkets. Are the IT systems up and working, or do they need time to embed?

**Andrew Opie:** The IT systems as they currently operate are not causing us major problems. We have had some specific issues that have been raised with HMRC around CHIEF in terms of exports of very complex consignments, particularly around parcel deliveries, where you have thousands of parcels all going in the same lorry. HMRC has been very



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helpful in trying to resolve those issues. That apart, we have not seen a major problem with IT.

Our concern is really looking forward to April onwards, when we will start to operate our own import controls and we will require export health certification for all of our food products of animal origin that are coming in from the EU. We do have the system IPAFFS, which is up and running already, but it will not be dealing with the kind of volumes that we are expecting to see from April. We have not seen rollout of tests of that with our members yet to see if it works effectively or really had the reassurance that that IT system will not fall over in April. It may well not and it may be resilient, but our main concern going forward would be around IPAFFS from April, which controls imports into the UK.

**Stephen Phipson:** Just to add to what was on CHIEF and CDS following on from that, yes, it is working okay. HMRC has done a good job at some of the modifications that have been required. What we have not yet seen is the scale. We will start to see that at the end of the month. We need to bear that in mind, because we hear a lot of things in the media about, “We have not seen the problems at the border that everyone thought there would be”, but, as Ian said right at the beginning, the volume of traffic, particularly on the Dover-Calais crossing, is very low indeed at the moment because a lot of people took contingency before the end of the year to make sure they had product in stock. They were stockpiling and those sorts of things. We are very interested to see the performance of CHIEF and the other systems once the volume reaches the right level. That is going to be quite interesting to see.

Q1226 **Sally-Ann Hart:** As far as you are all aware, have the Government IT systems integrated or interacted with those of your members, or have you not really been able to assess that yet?

**Andrew Opie:** The systems are not integrated at the moment. For example, export health certification is not synchronised with the customs declaration part of it. There is not currently that co-ordination, which is again—I am sounding like a stuck record—one of the things we are calling for in Northern Ireland. You could have HMRC systems linked to Defra and DAERA’s systems in turn, so you have one system and all of the necessary documentation that you require is loaded up at one time, and that is it. The co-ordination across the piece is the bit that is missing.

**Stephen Phipson:** The IT systems are really working on the Government side of the process. Businesses still have to do an enormous amount of bureaucracy and manual paperwork, even with those IT systems in place. It is not the perception that the IT system has in some way digitised the process. There is a lot of manual process around every single transaction, and of course there is a cost associated with that.

Q1227 **Dr Whitford:** Turning to the thorny issue of sanitary and phytosanitary checks, I represent a fishing constituency on the west coast of Scotland. It is mostly langoustine and lobster, and 85% of it goes to the EU. The



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fish harbour is in the small town I live in, and the boats are tied up. They have not managed to successfully export anything since the beginning of the year, as far as I am aware, because it has gone from loading up at midnight to delivering the next day to taking about three days. It does come to all of this bureaucracy.

At the moment prices have crashed and boats are tied up. There is real concern. Of course, we export to NI. As you said, there are almost the same problems there. The threat to our onshore industry is that on the east coast we are having big boats taking fish directly to Denmark and some of my fleet are talking about registering their boats in NI. That would kill our onshore industry.

How could we mitigate this? What are the things that need to be done going forward? It seems to be particularly around the export health certificates and the issue of environmental health officers and vets. I know that something like 95% of abattoir and certification vets are EU citizens. That may become more of a challenge. How do we get more of them? How do we get it smoother? How do we shorten that down? There has actually been a huge amount of produce that has been dumped. I will start with you, Ian, and then go to Andrew. I am not sure whether it applies to you, Stephen, but let me know if there is anything you want to comment on.

**Ian Wright:** First of all, there is this issue of groupage, as we talked about. As you know, a number of hauliers have just given up for the moment.

Q1228 **Dr Whitford:** Yes, they have stopped. They have just told the local companies, "There is no point. Do not bring us anything. Stop fishing".

**Ian Wright:** It is true that the three major players who move these kinds of products have all basically taken that view in one form or another. That may be a temporary thing while they get to grips with the level of the bureaucracy.

I go back again—rather like Andrew, I am sounding like a stuck record, if anybody knows what they are now—to a point I made earlier. Had we had longer to practise the bureaucracy, many of these issues would not have occurred. That was the point of the transition period. Having the deal so late is just really challenging.

The first thing is that it may be that some of this stuff can be assayed by speedier use of the bureaucracy and it may be that it can be solved and we have to find some kind of easement in the interim. The second thing is that you do need, in these sorts of cases, a positive will on both sides to resolve these problems.

I am one of those who regards the European Union as a hugely successful adventure, just to be very clear, but in some of these negotiations and in the last few weeks, the Commission has behaved in some ways in a way that does not most aid itself and its own image. A practical engagement



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would be a good thing. I believe that is beginning to happen. We have seen some signs of improvement in those conversations. Of course they are going to defend the interests of their members, and we decided not to be a member. Those are the facts, but we now need to have a positive will on both sides to resolve some of these issues. It is doing nobody any good. It will not do European consumers any good to be denied access to fantastic langoustine or other seafood products. There is an area there to be addressed.

The third thing we need to do is take a producer view. We need somebody from the Government and somebody from the Commission to come and stand with your fishermen, walk the journey through and just experience how bloody the process of filling in some of this stuff is. Imagine you are doing it. I say this with no hint of criticism, but you are not doing this with the same people every time. You are doing it with different lorry drivers, different firms and different nationalities. This is not something where the same person drives this stuff across the border on a regular basis. Sometimes the people who create these rules forget that. I do not know whether Andrew has anything to add on that.

**Q1229 Dr Whitford:** Before moving on to Andrew, let me highlight one of the issues we have. Obviously, DFDS is running a central hub for the stuff going to Europe, but here on the west coast we export to Northern Ireland. That would normally be quite small haulage companies. As I said, this stuff is landed at 11 pm and it is on a lorry at midnight, but to get the export health certificate, which they also need for Northern Ireland, it takes 24 hours. As you say, it goes in different directions. It is not all one big system where you can then say, "By the end of February it will be fine". Once we have the same friction on importing, our staff are going to be spread even more thinly.

**Ian Wright:** The resource it takes for a small business is the same as the resource it takes for a big business. One person in a business of 20 is 5%; one person in a business of 200 is 0.5%. People forget that. It is more difficult for some to attract those sorts of staff. As we have just said with customs agents, we do not have a profusion of people with that cast of mind.

The other thing, which is not terribly encouraging, is that, as these easements fall away and permanent systems are put in place, it is very likely that the permanent systems will catch more products than the easements are designed to deal with. On products of animal origin, we will see an expansion of the need for that bureaucracy, although it may become much simpler to do.

**Andrew Opie:** Just adding to that, the biggest difference that could be made would be on notification, at least for us. This would be not requiring 24-hour notification for consignments. I was really encouraged because there was a piece in one of the Irish papers yesterday that suggested the Irish Government were looking to reduce that period. They can do that, as long as they can show a risk-based approach to the Commission. I



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really hope there is more flexibility and that you do not have to send things 24 hours ahead, knowing what is going to be on the consignment.

Frankly, the problem remains that the European system, as I said right at the outset, is not very easy to adapt to. It is extremely complex. It treats every consignment as if it is the first time you have sent it to that country. There is no real recognition of a trusted-trader approach or the fact that these companies are well run, with traceable products that they are using every day and sending to the same consumers every day. There is very little in it that allows any flexibility.

If we think about composite products, sending a lasagne from Great Britain to the Republic of Ireland is so complicated. You have to have authorisation going up through the chain. The vet at the end has to sign it off and has to see all the authorisation. The Government have tried really hard; they have introduced a certification scheme that can take away one level of the bureaucracy there. Even that needs to be renewed every month, and you have to go through the process with your suppliers every month.

The problem remains that this system is not very adaptable to a retail or FMCG-type approach. It is just not designed for our kind of supply chains. We can do everything we can, but we really need the EU, probably, to move to a more digitised service that allows trusted traders and recognises that companies are auditing their own supply chains rigorously and robustly. That would ease the friction for every time you move a product, which currently is not there.

It is a major problem. I have been speaking to retailers who are working in the Republic of Ireland. They have been surprised at how difficult the process has been. As Ian says, these are large businesses. These are not SMEs, people who do not know how to trade, or people who do not have customs agents in-house. It is a complex process.

**Q1230 Dr Whitford:** Obviously, the problem with premium food and drink is that it is actually dominated by small and medium-sized enterprises and often craft producers. As you say, this has a bigger impact on them. In the formal trusted trader schemes that exist, it normally takes quite a lot of time before you are recognised as a trusted trader. You see that in Norway, et cetera. Is that on the cards? Is it just a matter of the time? How will we actually cope when we suddenly have it going in both directions?

At the moment, the friction is completely around exporting to the EU or exporting to Northern Ireland, but when it starts to be from the Republic of Ireland to UK and mainland Europe to UK, how can we prepare for that? The first level is in three months' time and then the full whack is in July.

**Andrew Opie:** I am more encouraged by the approach on imports. I know they do not come in until April and full border checks do not come



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in until July, but the discussions I have had with Government have been much more enlightening in terms of looking for a border process that is fit for the digital age and that recognises that there are large companies moving products around.

Even considering the approach to the risk-based stopping of vehicles, my hope or my guess is that it would be more progressive on this side of the Channel currently. The problem remains that we would need both the EU to change its process, frankly—again, that is a negotiation, so it might want something for that—and, secondly, to agree that we will follow their process, which of course comes back to some of the issues that were a problem in the original negotiation of the deal. The EU can set up a system and say, “That is fine, but you have to follow this regulation if you want to benefit from this process”, and that will be a big decision, I am guessing, for the UK Government.

As we go through this year and the border plan for 2025, the Government have given a clearer indication that they want to take a progressive approach to imports, and that is to be encouraged. Our hope would be that the Commission would look at that and maybe take the same direction of travel for exports into the EU.

**Q1231 Dr Whitford:** I have a couple of quite specific questions. Have you had any specific issues regarding the border inspection posts? The other one that kept coming up was the issue of the pallets. Has that been an issue for any of you? It was discussed a lot over the last year. That would apply to any of you. Are you conscious of that as an issue?

**Andrew Opie:** We have not. The stoppages have really been for paperwork rather than for the ISPM15 pallets. The problem with the pallets is that the price of the heat-treated pallets is still higher than it is for the standard pallets, if I can call them that. Of course, we do not know what approach the French or Irish will eventually take to inspection of that. They are clearly not prioritising that at the moment, which is a good thing to see, because there is still a shortage of heat-treated pallets. We are getting there in this country, but we are not there yet. They are not stopping vehicles yet on that basis.

**Q1232 Dr Whitford:** I do not know whether Ian or Stephen have any other comments. Obviously, what this all adds up to is cost.

**Stephen Hipson:** It does. There is only one comment I might make. Ian and Andrew are the experts on the particular sectoral issues, but the point is that the deal that we have is a starting position. We need to see the Government proactively working to improve these conditions. It is not just here. There is a whole list of these areas, as you can tell, where things are not very clear.

What would be very helpful—this is something we will continue to press people like Michael Gove on—is transparency on the list of these areas where we are continuing to negotiate, continuing to improve and



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continuing to have broader trusted trader arrangements or whatever it might be. Now is the time that we need to start doing that. It is very important that we are.

**Q1233 Nigel Mills:** I was going to come back to trusted traders, or authorised economic operators, as the agreement refers to these things. There were provisions in the agreement for those. Are you saying that they are not good enough or they will not go far enough, or are you saying that we do not have enough of those accredited yet to make this work? I was not quite sure which the problem was.

**Andrew Opie:** It is twofold, really. The AEO only covers certain parts of the process. This goes back to my point about the movement of food in particular. That is not part of the scheme, and therefore you do not get the benefit.

Frankly, we have a number of members who are signed up as AEOs. It is actually quite a complex and lengthy process, if anybody wants to go through it. They are not really seeing much benefit to date of being an AEO. The problem is that it is difficult to give benefits until the system of exports, particularly into the EU, is much more digitised. You can then just follow the process. Stephen was right to point out the amount of paperwork that is still involved, even for those who are an AEO.

We are getting feedback from our members that they were encouraged to get AEO status and they went through that process, but they are not really seeing the benefit of it. The second point is that it does not cover all of the problems, particularly for food exporters.

**Ian Wright:** There is massive potential in these schemes both ways and on both borders, but we need to get over the teething problems and have a relationship of trust with the bureaucracy. By that, I mean we need the Commission to believe that those who are navigating the border with Northern Ireland are doing so with the appropriate checks, and they can then repose trust in those things happening. As Andrew said, we need a pretty significant expansion in the digitisation of the border checks. Things like prenotification may be got round by trusted trader schemes, but it needs a leap of faith from both sides to accept that they are not necessary. That is what I mean by trust.

There is a big opportunity in these schemes. If you look at the way they operate across other borders, in the Australia-New Zealand partnership it is all done on the basis of trusted trader schemes. Those sorts of programmes are an opportunity, but they will only come a bit later down the track.

**Q1234 Nigel Mills:** Are you saying that the best way for progress is perhaps for HMRC, the Irish Revenue Commissioners and their French equivalent to try to produce joint working arrangements and shared practices that can mitigate the processes, rather than trying to have a new negotiation with the Commission on a governmental level, which might take a hell of a



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long time and produce something even more complicated? Is this fixable just by better practices on the ground and working together better?

**Ian Wright:** Yes, a lot of it is fixable if all sides are prepared to do it. It makes great sense. First of all, the shoppers and consumers in France, but particularly in the Republic of Ireland and Northern Ireland, are the ones who will be disadvantaged by this if it does not work, because they will receive fewer products, have less choice and see higher prices.

I do not want to be too pollyannaish about this. I hate being the bearer of bad news in this way, particularly to my own members, but there has to be some fundamental reengineering of supply chains here, unless we see very fast movement back to the negotiating table to remove friction. That potential is definitely there with this deal: there is a huge amount of potential to go back in the less friction direction. In the absence of that happening quickly, members are going to have to reengineer their supply chains in quite substantial ways once the dust has settled and we see what fixes, like the one you have just mentioned, can be put in place.

Q1235 **Nigel Mills:** When you say “quickly”, is that this quarter or this year?

**Ian Wright:** It is this year.

**Nigel Mills:** They will lumber on with the problems, see if they are fixed this year and then have to start making decisions.

**Ian Wright:** Towards the end of this year, those decisions will be made.

**Stephen Phipson:** To expand on that, the point you made about local easements is a good one. Can we have local agreements between the French authorities and the British authorities, for example? As Ian said, though, some of these things are in EU regulation, and it is those that are more difficult. The requirements for some of the certifications that we are talking about are part of EU legislation. There is a combination here. There is something that we can do locally. I know that customs officials are working away at those ideas to try to streamline this, but there is a hard core of things that are in legislation, which would require some EU-type changes to happen here.

The work on trusted trader schemes and digitisation is where we should be putting our focus, to try to get them as streamlined as possible. Even though we talk about these large Government computer systems, they are not really addressing the issue of the bureaucracy for all these companies. That is the real challenge.

Q1236 **Nigel Mills:** Yes, it is a pity we could not spend the last four years trying to find a way of making the rules that we knew would work most easily rather than arguing about them, I suppose, but we are where we are. To switch to a slightly different topic, the mutual recognition of professional qualifications, is that proving to be a problem for any of you? Is the stuff in the deal of any use or do we need to go a lot further on that?



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**Stephen Hipson:** Let me kick off with some examples. There is a lot of concern around things like service technicians and service engineers. We have a lot of transits of service engineers. The UK is used as a base, particularly by American companies, to service manufactured goods that are then sold into the EU. In some cases, particularly where they are regulated, for example if an aircraft engineer is servicing an aircraft engine, the mutual recognition of qualifications becomes an important point, because you have to make sure those qualifications are registered in each individual state to be able to perform the function.

To give you an idea of scale, overall we are looking at around 10,000 service engineer transits per month to the EU from the UK. It is a big part of what a lot of businesses do. A lot of manufacturers, especially capital goods companies, are reliant more on their service revenues than they are on selling the actual product in the first place. The service revenue part becomes quite important. There are a lot of concerns around that. People are working through what it means on the ground. They are just trying to get to grips with it at the moment. That is one example of where this is of concern to a lot of companies at the moment.

**Ian Wright:** I just have one comment, which is slightly expanding your point, Nigel. We are thinking about this process in three waves. The first is borders. That is going to take some time to get to grips with, as we have just said, but it might become clear after the first six months. The second is the detail of the deal, and in particular rules of origin. That is going to take a long time to come to terms with and may require the reengineering of supply chains. The third is the regulatory settlement that has been left, which includes professional qualifications.

As the year goes on, there will be divergence in all sorts of forms of regulation, in regulatory issues and in the way in which regulations are devised. Therefore, businesses will have to deal with the different regulatory environments in Northern Ireland and, to some degree, elsewhere in the devolved Administrations. They will have to deal continuously with our bigger customer in the EU as well as the UK regulatory environment, which is under the FSA for our industry. That is going to be a big challenge. The different qualifications and mutual recognition of them are a very good metaphor for that difficult minefield that we are going to have to navigate.

Q1237 **Chair:** I have a few questions just to conclude. You have all spoken about the need for changes or easements. You have used a variety of phrases to describe the things you are looking for. What happens if your sectors do not get them? I suppose part of the reason for asking that question is this. What is the incentive for the EU to offer them, given that some of what you described, Ian, as the reengineering of supply chains might be to the benefit of the EU countries as opposed to the United Kingdom?

First of all, what happens if you do not get them? Secondly, how significant a change to the way in which things are done are we likely to



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see, because leaving the customs union and the single market—you have described the consequences thereof—is a very big change?

**Stephen Hipson:** We have just completed a national survey that asks some of these questions of thousands of manufacturers. On the first point about what happens if we do not get these changes, if we have a very complicated and bureaucratic environment in which to trade with our largest business partner, with all these non-tariff barriers in particular, it comes out quite strongly that it hits investment. That is the real concern. People think about investment.

Last year, as a sector, we saw a 22% decline in investment in UK manufacturing. That was largely pandemic-driven, but people were also wondering where the arrangements with the EU were going to end up. Of course, investment is critical to manufacturing and it is a long-term activity. If they cannot get these easements right and they have to move and relocate parts of their supply chains, people worry that investment will suffer as a result.

To your second point about why the EU should be bothered about this, we are very integrated. We have a lot of large EU companies in the UK. If you think about the automotive sector, we have BMW and people like that. We have a whole range. Siemens is a very good example. There are lots and lots of very strong multinational EU companies with very large investments in this country. They lobby very hard from the other direction to make sure the EU is open to some of these changes to make trading easier.

This is not a short-term investment. These investments go back many decades. It is not a straightforward question of UK companies versus EU companies. We have a lot of integrated EU companies here in the UK. They are a very large part of the infrastructure in some of our most important areas as well. If you look at the defence sector, we have Thales and Finmeccanica. These are French and Italian businesses with enormous investments in the UK. There is a great incentive in my mind, and in the mind of many manufacturers, for the EU to help with the process of making this easier.

**Ian Wright:** On Northern Ireland, all the easements are necessary. If I can use a hackneyed metaphor, we do not want Northern Ireland to go from colour TV to black and white in food availability. Nobody is suggesting that there will not be a television service, but it might lack the quality of the one they currently have in terms of the metaphor there. It is in the EU's interest to grant all easements in Northern Ireland and to ensure that Northern Ireland consumers and shoppers have access to exactly the same amount of food at the same price points and with the same fantastic array of choice that Andrew's members in the convenience channel currently give them. That is what is in it for the EU there.

If you look at it the other way around, as Stephen said, 25% to 30% of the largest players in the UK food market are European companies.



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Anything that damages their supply chains damages their profitability, so you would think the European Union would be looking out for its own business sector to make sure this continues.

The ultimate point is that, in food and drink, we are the EU's largest partner and the EU is our largest partner. It makes no sense for either side to cause difficulty to that relationship. With that said, fixes in the short term are not massively helpful for the long term, although they ease the immediate pressure. People come to get used to them and then they get really cross when they are removed. If they do not get changed and we do not see progress, costs will rise, choice will erode and quality will dissipate, and that cannot be good for anybody.

**Andrew Opie:** Yes, I would agree. I will park Northern Ireland; we have heard from Ian about that, which is fine. It is really more about their consumers in the EU. We have not talked about online today, for example, but there is already friction in terms of how UK companies operate into the EU. We know the UK completely overtrades in online, and European consumers benefit from that choice, variety and affordability.

There is definitely something in there for their own consumers. In some countries like the Republic of Ireland, physical stores are quite dependent on UK retailers as well. There is a direct impact in terms of cost. It will vary across Europe for physical stores, but online applies across Europe. It is in everybody's interests that we keep those channels open as much as possible.

On the supply chain, 80% of our food imports come from Europe so it is in their interest, as Ian was suggesting, to have a positive relationship in terms of the way we trade both ways with Europe, for the benefit of European consumers and suppliers.

**Q1238 Chair:** On the short straits, you have mentioned that the volumes are extremely low at the moment. Given all you have said about problems with paperwork, forms and so forth, what is your anticipation about what we might be seeing in a month or two months' time? Will people gradually get used to it? Will the disruption that concern has been expressed about still happen? In other words, is it going to get worse before it gets better?

**Andrew Opie:** Unfortunately, that is my concern. It will get worse before it gets better for two reasons. On the food side in particular, all perishable food is still moving across the border. While retailers did stockpile ahead of the end of the transition and for COVID around Christmas time, we need to replenish those stocks. We are expecting normal trade with the EU to resume and a lot of those lorries are carrying food for British consumers. We expect that to increase.

We know that the French are stepping up their checks, and we know that companies here are still not 100% prepared for it. We are anticipating



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problems. We are hoping they would be relatively minor and consumers will not notice a difference. We are certainly hoping it does not get to the worst-case scenario.

This is our peak import season. We should stress that this is probably the worst time of the year to be trying to manage disruption on the short straits. If we could find a way to magic our way to June, when we really pick up most of our fresh produce from farmers here in the UK, that would be so much easier for us. We will really be looking from this week and onwards to see what the impact is on products across the Channel.

**Q1239 Chair:** That is really helpful. Thank you. The final question from me is this. How stable a future does this agreement provide? I suppose it is a question about future investment. I completely take the point about those who have invested a lot in the country at the moment from outside wanting to make sure that can continue to be productive, but there are provisions in the agreement for reviews. There is the level playing field. If there is divergence, the EU might make use of the ability it has under the agreement to impose countervailing measures. Then there is the fisheries question. After the period of five and a half years, I think it is, if there is no satisfactory agreement from the EU's point of view beyond that date, there is a possibility that certain parts of the agreement could be terminated.

In the rush there has been to understand the immediate implications, do you have any sense from your members or your own thinking about whether they look at the UK and think, "This is going to be a stable agreement for the years ahead on which we can base our future investment decisions"?

**Stephen Hipson:** From our recent work with the manufacturers—what I am about to say applies more to the larger companies than the smaller ones—concerns have been raised about the investment time horizons. Basically, where we are with this deal, it looks like a five-year deal with a one-year termination clause in it. It is that sort of time horizon.

If you think about large-scale manufacturing investments, a production line for a car or capital goods, you are talking about an investment horizon of between seven and 10 years for those. There is a real question there around whether the deal on its own is enough to enable those companies to make those longer-term investments.

That is question one. It is often followed by question two. The way to mitigate that uncertainty is to have a proper long-term industrial strategy alongside this. You need something that is investable. Bear in mind that what we have here injects a degree of uncertainty that we never had before on EU-related investments in the UK because of the potentially short-term nature of it. It depends on whether it was ever terminated or renegotiated.



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A proper long-term industrial strategy is what you hear consistently across the piece now. Alongside this, hand in hand, what do the next five or 10 years look like in terms of the industrial policy of the country? That will enable businesses to invest in that as a way of mitigating the risks that sit in this deal.

**Ian Wright:** It is important to understand that we have had 45 years of stability, albeit with lots of debate about the relationship. Anything that follows is going to be different. One concern I have is that the break clause, to use Stephen's analogy, comes just around the time of the next election. We could have a prolonged political period focused on this issue. To some degree, the Brexit issue had been put to bed and we knew the direction we were going in, even if not all of us loved it. The truth is that we could go back to some kind of debate on what sort of relationship we should have around the time of the next election. Strictly speaking from an investment point of view—never mind the democracy of it—that is not particularly helpful.

On the other hand, this is an island with 70 million consumers. Certainly in food and drink, it has the richest supply chain and the most access to consumers and shoppers of any market anywhere in the world, and therefore it will continue to be attractive for those who participate in it simply for its size and scale. It is a difficult question to answer, but there are concerns about the long term. We should not underestimate the value and excitement of the market itself.

**Andrew Opie:** Five years-plus of not having tariffs, particularly on the products we tend to import and sell to consumers, was the vital part of the deal. We knew there would be a high level of friction and that is what we are experiencing. Retailers are adept at finding new ways to adapt to that, as Ian has already suggested. That is what we will do. The key thing for us is avoiding the 40% or 50% tariffs. That is the really key thing, and that is the area where we will continue to look to Government to maintain a zero-tariff deal with the EU.

**Chair:** Thank you very much indeed. That concludes our questions to you. On behalf of all the members of the Committee, can I thank you, Stephen, Ian and Andrew, for giving up your valuable time—clearly, you and your members have a lot of things to be dealing with at the moment—to enlighten us today? It has been a very useful session.

I also take this opportunity to say that this is the final evidence session of this Select Committee, because we cease to exist in three days' time. One of the consequences of that is that we have not been able to take evidence from Lord Frost, who negotiated the agreement. As we discussed this morning, the deal was agreed on Christmas Eve. We produced a very quick report looking at the headlines, but, as today's evidence session has demonstrated, there are a lot of consequences to the deal that we are discovering.

I very much regret that we will not be able to take evidence from Lord



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Frost. I am sure that the House of Commons and Parliament will find other ways of scrutinising what will continue to be a really important and close relationship between the United Kingdom and the other countries of the European Union.

I would like to take this opportunity to thank, first of all, the members of the Committee present and past, for serving on the Committee for their constructive contributions. At times there have been slight differences of view, but we have always striven, where possible, to reach consensus. I would also like to thank the staff of the Committee, who have been frankly brilliant. I know that all members of the Committee on this Zoom call today would like to echo that thanks. I would like to thank all of the witnesses—and there have been many of them over the time since we were established in October 2016—who have given up their time to give evidence to this Committee and its predecessor. Without that contribution, we would not have been able to do our job of holding Government to account.

Finally, I would like to thank the members of the public who have followed our proceedings, and some who have spent their Wednesday mornings watching our evidence sessions. We really have appreciated your interest in our work.