House of Commons

Business and Trade Committee

Oral evidence: The work of the Department for Business and Trade, HC 450

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Watch the meeting

Members present: Liam Byrne (Chair); Antonia Bance; John Cooper; Sarah Edwards; Alison Griffiths; Sonia Kumar; Charlie Maynard; Gregor Poynson; Mr Joshua Reynolds; Matt Western; Rosie Wrighting.

Questions 1-90

Witnesses

I: Rt Hon Jonathan Reynolds MP, Secretary of State, Department for Business and Trade; Gareth Davies CB, Permanent Secretary, Department for Business and Trade.

Examination of witnesses

Witnesses: Jonathan Reynolds and Gareth Davies.

Q1 **Chair:** Welcome to today's session of the Business and Trade Select Committee. We are delighted to be hearing from the Secretary of State for Business and Trade, in his first appearance before the Select Committee in this Parliament. You have very kindly brought along your permanent secretary, Gareth Davies, with you; thank you very much indeed, Mr Davies, for joining us too.

We will jump straight in, Secretary of State. This is the first session in our engagement inquiry, where we are going out to the community of business, trade unions and consumer groups to understand what they would like us to focus on in our work plan for the next five years. We thought we would start first with your good self to understand your priorities and the strategy that you are pursuing.

The manifesto on which Labour Members stood was premised on a big promise, which was to deliver the fastest growth in the G7. The Budget forecast does not show that. The last forecast that we saw from the IMF showed that we have perhaps the third highest growth in the G7, not the highest. Just help us understand what you are doing to fix that.

Jonathan Reynolds: It is a privilege not just to appear before the Committee for the first time, but to come back to it as someone who used to be a member of a predecessor Committee of this fine institution. It is wonderful to be here.

You are right, Chair, to say that that is the aspiration, and every bit of my Department's work is based around that growth mission. The work that we do is not the totality of the growth mission—of course, that covers all of Government—but the specific workstreams that are directly relevant to that are, first, the creation of a cross-Government industrial strategy, which has to cover all of Government but is led by this Department.

Secondly, the plan for small business covers a whole range of particular policy issues within the Department. Things like late payment and the announcements already made on that are part of it, but there is also an aspiration to co-ordinate the wider impact of Government policy on small business across Whitehall. The retail crime announcements in the Budget are very much part of that.

The third is the trade strategy, linking together not just the work on the free trade agreements and the negotiations taking place, but, of course, trade facilitation. Fundamentally, it is about getting more British businesses exporting.

Fourthly, specifically, is the plan to make work pay—the employment rights package of what we call the new deal for working people.

I would ask you to think of those four workstreams as the forward-looking offer and the fundamental changes that we are trying to make as a Department. Of course, you will all know that alongside that there are a whole range of issues that we have to deal with on a daily basis—things that transpire and come up, whether that is in the steel industry, shipbuilding or the automotive sector today, which are all done through the lens of that growth mission.

Q2 **Chair:** Why do those strategies not add up to the fastest growth in the G7 yet?

Jonathan Reynolds: The first thing that I would say is that you will be aware that the OBR upgraded the growth forecast for this year from 0.7% to 1.1%. Secondly, the most fundamental bit of analysis that the OBR did was to talk about how the changes to the fiscal rules that the new Government have promote the long-term productive growth of the economy by 1.4%. The Chancellor deserves credit for making decisions that will affect not just this Parliament but beyond.

Of course, you will be aware that in terms of the totality of the Government's package—particularly those supply-side reforms to planning, to skills, to regulation, to trade, to industrial strategy and to grid connections—the OBR cannot model those yet. What you have seen in the Budget is a very strong foundation being put in place for that growth mission, but of course no one in Government is satisfied with that forecast. It is through the impact of all those different policy areas that we will see that mission realised.

Q3 **Chair:** When will we hit the fastest growth in the G7?

Jonathan Reynolds: You will be aware that any relative measure is partly going to be delivered through what is going on in the rest of the world. It is fair to say that there are a lot of concerns about the future of the global trading system coming out of some of the commitments in the US presidential election, so there is a considerable variable heading into next year.

First of all, you are right to say that we are third in the G7 at present. The forecast for next year is third as well. You will see, first of all, throughout this Parliament, a measurable improvement in living standards through the measurement of real disposable wages. You will also be able to judge the Government's package by the end of this term, but I would imagine and hope that you will see real improvements in the performance of the economy as a result of those very practical, deliverable measures that we are committed to in the short term as well.

Q4 **Chair:** I am looking at the IMF forecasts that take us out to 2029, when we are still third, so is the aspiration that you are setting before this Committee that you are going to try to beat those IMF forecasts, where we are not in first or second place? We are in third place, with growth of about 1.35% by 2029.

Jonathan Reynolds: It is absolutely the commitment of this Government to outperform all of those forecasts, based on the combination of measures that we are committed to. Of course, our position in the G7 is a relative one, but the kinds of changes that this country needs—particularly to things like the planning system, which we all recognise, but there has not, to date, been a political coalition in power that is able to deliver upon them, and I believe this Government can deliver upon them—will result in that tangible difference being made.

Fundamentally, the new Government brings a return to political stability in the UK, which we have not had since the Brexit referendum. It brings an openness, particularly in being willing to rebuild our relationship with the European Union, as well as to pursue opportunities around the rest of the world. It brings the ability to use a significant mandate to improve the business and investment environment in the UK through those supply-side changes and the wider commitments that the Government have already put forward.

Q5 **Chair:** Just to be really clear, you are saying to the Committee that by the end of the IMF's forecast period in 2029, your goal is to be above third place.

Jonathan Reynolds: Yes.

Q6 **Chair:** The productivity growth numbers are not great. Back in the glory days of new Labour, when I was a Minister, productivity growth was really high. Now the forecast is that it is going to be not as high; it is going to be much lower. Why has the OBR forecast productivity growth to be quite as anaemic as it is forecasting?

Jonathan Reynolds: The drop-off in the UK productivity figures from the end of the financial crisis is directly attributable to the challenging position that we find ourselves in, by which we can look back at over a decade and a half now of low investment, low productivity and anaemic growth. If you strip all the politics and partisanship out of our usual exchanges in Parliament, that is the big question that this Parliament faces. The question is, "How can we make a difference to that?" If we do not have the ambition to make a difference to that, we are talking about a fundamentally different type of politics and a different type of position in the world from the one that most British people are used to.

The focus on growth from the Government is the big question, and it has to be the priority, which it is. Fundamentally, the attraction of greater amounts of private capital to the UK economy is central to that. Our productivity problem cannot be attributed, as it sometimes is, just to the relative structure of the British economy. This is the argument that we are an economy with a much greater services composition than manufacturing, and there is an argument that somehow that relates to the figures. That does not stand up, because the composition has not fundamentally changed to that degree since the end of the global financial crisis.

For me, it is about those supply-side areas, where we know and recognise that the constraints have been there. There has not, to date, been a political coalition that can tackle those, particularly around planning. The lack of political stability has been a major drawback in terms of business confidence and investment.

The fiscal rules, to date, that were changed by the Chancellor in the Budget have led to a situation where, not just in infrastructure but across all of public services, there has not been the long-term capital investment alongside investment in the revenue budget. That is why, for instance, the last Government, near the end, put a lot of money, relatively speaking, into the health service, but got very little back because of that. These are the fundamentals that need to be addressed.

Q7 **Chair:** Let us turn to the Budget, which did in theory try to help with some of these challenges. You are right to say that the Budget put the growth numbers up, particularly in the short term. When did you see the Chancellor's tax proposals?

Jonathan Reynolds: The Chancellor and I are strong friends and allies, so we were able to have a conversation about some of the challenges that we faced as a new Government relatively early on in office. Just looking at this Department, for instance, and the things that were attributed to that Treasury reserve that was overspent—Post Office compensation, steel industry money or the advanced manufacturing plan—none of this was allocated to the Department at this stage.

When you realised that across Government you had things like infected blood that had not been accounted for, and then the news that the public sector pay settlements had been effectively put through a process and then kept in a drawer, it was clear that there would need to be a substantial amount of money raised, not in the traditional sense of a budget to meet new priorities but to meet the existing commitments. You could see the frustration that that would cause pretty early on.

Because of the commitments that we had quite rightly made in the manifesto—particularly about protecting working people, with the promise on income tax, on VAT, on employers' national insurance and, of course, for corporation tax stability, given the number of changes that we saw in the last Parliament—some degree of pressure on employers' national insurance was pretty evident from the beginning.

Q8 **Chair:** So it was not the day before that you learned about it.

Jonathan Reynolds: No.

Chair: Like me, you were probably following events at the CBI conference quite closely yesterday. Salman Amin said, "We would like to continue to be a major investor going forward. It's becoming harder to understand what the case for investment is". Rupert Soames, chairman of the CBI, lamented that business was being milked as the "cash cow". We had a number of other comments in the same vein—that the increase in national insurance was not necessarily anticipated. It was quite hard to find people who said that it would help increase the employment rate or the investment rate. When you look at it in the round, do you think the Budget helped you achieve your ambitions to deliver the fastest growth in the G7 or not?

Jonathan Reynolds: There is no platform that we could stand on as a country unless those foundations were fixed. I have said before, on national television, that I recognise that for a lot of businesses this is difficult. To be frank, I feel a sense of anger that what we inherited was not a position where the commitments of the previous Government were properly accounted for, and I recognise the frustration that that will cause.

I would point the Committee to a specific and very substantive part of the Budget, which is the doubling of employment allowance, and then the threshold being taken off that, so all employers who pay employers' national insurance get the benefit of that. That is fundamentally why you have a situation where a million, in the main, smaller businesses will pay in national insurance contributions less than or the same as they would have paid before the Budget.

That particular need to recognise the impact was part of the Chancellor's plans from the beginning, but I recognise that the ideal would be a situation where you did not have to make that kind of decision because of what you inherited.

Q9 **Chair:** The Chancellor has now said that there will be no further taxes on business, but we have learned that there is going to be a £100 million levy on the gambling community. When is a tax a levy and when is it a tax?

Jonathan Reynolds: I am not fully aware of that proposal for the gambling industry, so I cannot comment on the specifics of it. What the Chancellor was saying at the CBI yesterday was to make clear that that need to fix the foundations is a one-time deal. There will not be a further ask of the business community comparable to what we had to do at the beginning of this Parliament, and the envelope is set.

People recognise that the foundations need to be fixed. They recognise, particularly when it comes to public services, the scale of the pressure that they are under, but the task is to spend that money well on something like the health service, to make sure that it is having the impact that, to be frank, some investments near the end of the last Government did not have on the scale necessary to make sure that it was being spent in the right way.

Q10 **Charlie Maynard:** Good afternoon. Thank you for being here. UK goods exports have declined every year for the past five years. The OBR gave us a briefing yesterday, which we appreciate. It was very negative on the outlook for goods exports from the UK. In our briefing pack, page 57 shows the 5% gap in investment between the UK and the average of the G7 investment numbers. That is consistently there. Being outside the single market and the customs union is a massive disincentive for global business to be investing in the UK, and we have seen the UK de-linking from all of those trade networks with Europe. You talk about fixing the foundations of trade, which is the bedrock of our economy, being absolutely critical. I do not see any action to do that, and it really worries me.

Jonathan Reynolds: In terms of the position that you have articulated, the figures speak for themselves. Services have done better than goods since we left the European Union. Within services, you arguably see a distinction between services such as advertising or management consultancy, and, for example, financial services, which have more relationship to the single market. I recognise that.

The Government's twin-track trade agenda, which is to pursue opportunities around the rest of the world and rebuild that relationship with the European Union, includes, I would argue, some real, substantive measures that would make a difference. For instance, the SPS agreement with the European Union would be very significant for food and agriculture. Mutual recognition of professional qualifications would be a substantial part of that. It will not be the same as being a member of the European Union. We just have to be frank about that.

I would also argue, however, that the commitments that Labour Members gave in their manifesto were clear not to relitigate the arguments of the past. Those problems that we have had in the last few years come from a fundamental change in our trading relationships, but in this argument something that is sometimes missed is the level of political uncertainty that hung over the UK from that referendum result, in terms of not knowing what it would really mean, what the Government would pursue or what they would be able to get, with the arguments—I know that it is a relatively new Committee—and the indicative votes that we had in this Parliament sometimes finding no result, despite going through all the options. That in itself is a problem.

I really believe that if we had a Government committed to going over that old turf, it might never end. There is not an explicit consensus in the country for changing the result of that referendum. Focusing on the future in a practical, realistic, trade-based way, rather than some of the constitutional questions, is, for me, genuinely a better way forward.

Q11 **Charlie Maynard:** I have a small, practical follow-up. Do you favour maintaining regulatory alignment with EU standards so that we can sell products and services into the EU effectively? Where it is beneficial to diverge, we do so. As a principle, is just staying aligned, which will make our manufacturers much more competitive in Europe, a good principle to follow, unless it is in our clear interests not to do so?

Jonathan Reynolds: As a country and as an economy, we are too big and too important to outsource the regulation of any part of our economy to another body. If you want that to be setting the rules, you have to be part of the organisation that sets the rules.

There are sectors where there is no economic or business demand for or interest in deviation from EU standards, because of the integration of supply chains or the crucial markets. There are some sectors where it is a little bit different, so you are right to say that it is a sector-by-sector consideration, but I have always felt that this argument about being a little bit in or a little bit out comes back to the fact that if you want to have a body that is setting the rules that govern how your economy works, you have to be part of that decision-making process; you cannot just outsource it. Ultimately, you get back to the same question we went round and round many times as a Parliament during that period after the referendum.

There are real, practical things that can be done that would make an improvement, but we should recognise that a decision was made, which, of course, has consequences in terms of leaving something like the European Union.

Q12 **Sonia Kumar:** Thank you for being here today. The OBR says that growth in imports and exports will be "weak over the medium term", which will reduce the productive potential of the UK economy. What contribution do you expect trade to make in delivering the fastest growth in the G7?

Jonathan Reynolds: Trade is an absolutely proven way to make a practical, tangible and positive impact on the economy. We are an extremely globally oriented, trade-intensive economy—much more trade-intensive than some comparable G7 members. We have to understand not just how we approach the issues of trade; the global trading environment that we are in will have a significant impact on the performance of the UK economy. The trade strategy that we are pursuing, whether that is the relationship with the European Union, the trade talks that we have under way on a customs union such as that with the GCC in the Gulf, or our aspiration to be back in the room with India for the next round of negotiations in the new year, offers some real, exciting potential.

It is always important to say that trade policy is a lot more than free trade agreements. For instance, the geographic indicator for Scotch whisky in Brazil is exactly the kind of practical improvement in our trading terms that I want to see.

Fundamentally, what the UK needs is an increase in the number of smaller businesses exporting, both for the benefits that that brings and how we know that that will improve their performance within the UK more widely. I launched a pilot in Greater Manchester last Thursday, which is about bringing together national and local resources such as the growth hub, the Greater Manchester chamber of commerce, the combined authority, the export academy that DBT runs, and international trade advisers, trying to provide a more cohesive service. That is something that we need in terms of exports. It is an important part of how we need to evolve small business support more generally in the UK.

To go to the heart of your question, there is no doubt that the trading relations that we have and the activity of businesses in the UK around trade are fundamentally important. Of course, there may be some challenges coming next year to the global trading system that we will have to see, and that has been a significant priority for the Department across Whitehall. I do not know whether you want to say a little bit about our preparations around that, Gareth.

Gareth Davies: On your broader point on trade, we know that all the evidence shows that as you increase the trade intensity in an economy, that helps drive productivity and growth. That has certainly been one of the consequences of reducing trade intensity with Europe. There has been a focus on how we can drive our exports, both through free trade agreements and through trade facilitation. The work of customs to share data, make it simpler and reduce some of the paperwork can be just as important as free trade agreements.

In terms of reducing behind-the-border tariffs, I was in China two weeks ago speaking to colleagues there about customs around agricultural exports. A lot of the evidence shows that those sorts of behind-the-border changes can have four times the impact of a free trade agreement. It is important to push on all things, but your central point on this is absolutely critical.

On the question of trade headwinds, the thing that I always say in the Department and across Whitehall is that it is not the 1990s any more. In the 1990s, global trade was growing at two times the rate of global GDP. Since the financial crisis, it has pretty much stalled. Digital trade is growing rapidly, but overall trade levels have been relatively static. There are a lot of headwinds that we are facing, and that is before you get to some of the geopolitics.

What the Department has been doing in Whitehall is leading work on the analysis of trade flows and of the protection measures that have been brought in by different countries around the world. We have also been understanding some of the choices and trade-offs and trying to get, essentially, a price menu around options for Ministers in terms of where to put their efforts and where we will make the biggest impact, all focused on the north star, which is the Government's central mission of being the fastest-growing economy in the G7.

Q13 **Sonia Kumar:** When are we expecting the Government to tell us when the trade strategy is going to come out?

Jonathan Reynolds: I always wanted the trade strategy to follow the industrial strategy. After 2016, a lot of trade policy discussions in Parliament, maybe for understandable reasons, were done through the lens of leaving the customs union, and almost a sense of quantity and of equality. CPTPP is a good agreement and is a good place for the UK to be, but sometimes when people posit that as an alternative to the single market it is not particularly helpful. We should judge any agreement by its merits. The lack of an overarching strategy that the country could point to in relation to that was a problem.

We want to do the industrial strategy first. We want the trade strategy to follow that. With where we have got to, it would have been a mistake to do it before the presidential election, because of some of the directions that the global trading system may go in or may come under pressure within. The industrial strategy is coming along very well. There is a desire to coincide that with the beginning of the spending review for the longer period going into next year, and the trade strategy will follow it.

Q14 **Sonia Kumar:** Can you give us a little bit of what the content in the trade strategy will be?

Jonathan Reynolds: Maybe for this Committee, I would be tempted to do a sneak preview. I want it to be hard-headed and practical, not boosterish and not pretending that the UK is going to dominate every market across the world—the kind of thing where, if you are in business, you look at it and say, "This is real. This is helpful. This looks at the nuts and bolts of how we get help to businesses to learn about new markets and to export more, and how we provide them with the expertise and how the Board of Trade functions as part of that."

I want it to set in place some clear policy steers as to what we are seeking. As a services-led economy, what we would be seeking is no secret, in terms of the provisions in a trade agreement that would most suit the United Kingdom. It would recognise that despite the fact that manufacturing is a smaller percentage of our economy than it is in some comparable countries, it has a much bigger, outsized impact on our export, so we have to get that side of things right as well.

When I talk about the trade strategy coming after the industrial strategy, that does not mean that it has not started. We are already really quite under way with the preparations around that and the work that is being done to make sure that that is ready to follow consistently in place after it.

Q15 **Sonia Kumar:** Are you intending to keep the "race to a trillion" export goal in your White Paper?

Jonathan Reynolds: After a period of significant inflation, £1 trillion is a bit less than it was a few years ago. We will publish the metrics as part of that. That will be part of the answer. Fundamentally, I want more UK SMEs exporting.

Q16 **Chair:** There were two key targets last time around. One was about getting FTAs to cover 80% of free trade, and the other was this "race to a trillion" by a date that was a bit questionable. What are the stars that you are going to steer by in this strategy? What are the big numbers that you will take aim at?

Jonathan Reynolds: I would not necessarily want to reveal this at this stage, Chair, but, if your focus is on quality over quantity, I am not necessarily sure that a percentage of our trade being covered by FTAs tells you a great deal. You could cover them with quite poor FTAs if you did not negotiate them well enough or you went for pace around that.

Q17 **Chair:** That 80% number is dead. You are not reviving it. You are not giving it CPR today.

Jonathan Reynolds: You would have to wait until the strategy is published for the targets within it, but it is helpful, in an esteemed group of colleagues such as this, to have a practical conversation about what is a genuine measure of our success in this area. Some of the most important trading relationships, such as those with the Gulf, are, at present, ones that do not have any comprehensive FTA covering them. We have some bilateral investment treaties, but there is currently no correlation between where treaties are and the depth, intensity or importance of those trading relationships.

I want them to be practical. I definitely want something based on the number of SMEs exporting and that being a tangible, practical, deliverable target that we can realise.

Q18 **Alison Griffiths:** I hear what you say about wanting SMEs to be exporting, but would you agree that the measures in the Employment Rights Bill and the Budget work in absolute opposition to that? I have heard from so many successful small businesses that are exporting. Every single one of them is speaking to me about their concern about those measures, when they have just come off the back of a very challenging period, with covid and then the global energy crisis. They are not in a position where they can absorb those costs and be looking externally. How are you going to tackle that? Your commentary is ignoring the discussion that we have just had during the earlier questioning.

Jonathan Reynolds: I would push back very strongly on what you have said there. The measures in the Employment Rights Bill are measures that have been in the public domain and have been put forward by the Labour party for many years now. The Employment Rights Bill is not the totality of those packages. They are not all employment rights measures, but there are no surprises there. There has been nothing that would take anyone by surprise in what we have put forward.

Those measures are proportionate. Take, for instance, the points on zero-hours contracts, where it is the employee who gets to decide if they want that zero-hours contract and, if they do not want it, gains the right to the number of hours regularly worked. That is not just a way of tackling insecurity and injustice where it exists; it is a way of making sure that the regulation of the state is proportional to that.

To be frank, although it is of course a manifesto commitment from the Labour party, the motivation for making sure we bring forward a package like that is on a personal level. I remember being on this Committee, sat where you all are now, when we had the inquiry into Sports Direct. You might remember that significant, high-profile inquiry. When we had the evidence sessions with the employees themselves, despite being in perhaps this very room, it had to be done in secret, because of their working conditions and the fear that they had. I do not think anyone on this Committee, regardless of politics, or any mainstream business wants that as the basis for success of the British economy.

Alison Griffiths: We are talking about the—

Jonathan Reynolds: Just let me finish this important point. The vast majority of businesses in the UK operate to a far higher standard than even the floor that will be raised by this Bill. It is just very important that we do not couch this in negative language, and that we make clear that the basis of the success of the British economy should be not just security, but dignity and respect for everybody.

Q19 **Alison Griffiths:** I just wanted to make the point that, first of all, the businesses that I am speaking about are absolutely operating at the highest end of the spectrum. We are also talking about the Budget measures in combination. This is a tsunami of different measures, and the Budget measures, particularly around ERNIC, were not expected. They have come completely out of the blue. When you combine those with the minimum wage for 16 to 20-year-olds going up, which removes an incentive for employers to employ people at the very start of their career, and you consider the seasonal businesses that rely on zero-hours contracts because they are at the mercy of the weather, some of those businesses cannot survive.

The wider point that I am trying to get to is around exports. If we put more pressure on small businesses exporting, first, we will be reducing the number of jobs that can be provided by those businesses, and secondly they will not be able to export, because they will just be trying to survive.

Chair: It is about cost pressure and export performance.

Jonathan Reynolds: The aggregate impact of all aspects of Government policy is something that we not only consider within DBT, but champion within the collective write-round process by which decisions are made. Often another Government Department will be proposing something, and I see it as the duty and the role of DBT to be able to put that case forward.

In terms of the combination of the two things that you mentioned—the employment rights package and then the measures to fix the foundations based on inheritance—you are right to say that the first was in the public domain. With the employment rights package there are no surprises there, but the sheer scale of the inheritance produced, yes, a greater degree of pressure in order to fix that. That, I can tell you from the Treasury's perspective, was absolutely at the forefront of their mind, and that is why the doubling of the employment allowance and the removal of the threshold is such a significant measure. It is probably one of the relatively few times where a Chancellor has exceeded the request of business groups in terms of the scale of the change being put forward.

Also, the measures in the Budget around things like retail crime or the doubling of the budget for Made Smarter for SME manufacturers were all cognisant of the need to put more in to compensate for some of those pressures. I recognise that for some businesses this is a situation that we did not want to be in, because of the inheritance that we had, but that does not undermine the aspirations on exporting. We should not abandon our ambitions around exporting. When you talk to businesses, the practical things that they say will make a difference are the support packages that we are putting in place through the pilot that we launched in Greater Manchester, and our aspirations for the rest of the country.

Chair: We are going to come back to small business in a second, but I want to round out the trade story, and we need to come to America.

Q20 **Matt Western:** Very briefly, Secretary of State, on trade strategy, this links to small and medium-sized businesses. As part of that strategy, do you see an opportunity to replicate in some way the German model, where they help small and medium-sized businesses to set up trading arrangements in-country? They have this network, with not just an embassy but an absolutely business-focused facility in those countries.

Jonathan Reynolds: I am always in the market for ideas that I can steal from countries that are doing a good job. There are parts of our industrial strategy where, to be honest, I have been inspired by the Choose France strategy, which has been fairly successful when it comes to making a practical difference to exports. We are always interested in those ideas.

Fundamentally, the thing that inspires most businesses to export in a way they have not considered before is the peer-to-peer leadership of other businesses that have been in that market and can give them that reassurance. The Government can do a significant job of facilitating that. We can do a good job of co-ordinating what, at times, is a lot of support but may be a little bit confusing for businesses to navigate. Ideally, it would be someone else coming along and saying, "This is my story of what I did in Brazil," or "This is what I did in Switzerland," or the practical example that comes from that.

As an institution, the Board of Trade should perhaps be about a bit more of that practical peer leadership than the policy or ambassadorial advisory capacity in which I perceive it as having worked in the past. I will ask Gareth to say a little bit about some of the practical things that we have brought together.

Gareth Davies: The point about the support that Germany brings is a really good one.

Just to give you a flavour of what the Department already does and where we can build from, our teams are not just based in London; they are based right the way across the country and in the devolved nations. We have people who have worked in business—trade advisers—whose role is to work with small businesses in the UK, across the UK, and to advise them on some of the practical steps of how to export.

Globally, we have 1,500 people based, typically, out of embassies, again with a trade background. They will have two roles. The first is around helping to identify market opportunities for exporters from the UK, and we can connect them up. The second is to work with and support people who want to invest in the UK. That network is incredibly important in landing some of our biggest investments. For example, when we are working with Nissan to agree some of their investments in new products in Sunderland, it will be a combination of the automotive team in the UK and my local team in Sunderland, plus the team in the Japan embassy in Tokyo, working with headquarters. It is that triangle that works to help drive success for the UK, both on inward investment and on some of the trade exports.

Q21 **Chair:** The OBR forecast has upgraded the contribution of trade to GDP, and we have some progress on the EU relationship, but what we have heard is that you want to see more SMEs export. The EU relationship is mission-critical to that. Just crystallise for us what is going to change in our relationship with the EU, given the cage of red lines that we have.

Jonathan Reynolds: It is important for me to say that the specific negotiations around the EU reset sit with the Cabinet Office, as it is more than just a trade question: it relates to security and some other aspects that are fundamental to the relationship between the UK and the EU.

We have a set of aspirations that, again, are mostly in the public domain: professional qualifications, SPS, and work on what is catchily entitled mutual recognition of conformity assessments. These are all things that are specific trade-based improvements that would make a significant difference and that I believe are achievable. I would never portray them as being equivalent to being part of a customs union or single market—that is a different proposition—but these are things where we can improve our terms of trade with our European partners, which are still by far our biggest, closest and most significant set of trading relationships. There have been reasons in the past why those were not necessarily possible to achieve. I believe that they are possible now, but I would not want to be seen to be giving a running commentary on the state of those negotiations.

Q22 **Chair:** By the sound of it, it is a strategy of sweating the small stuff, with lots of little niggles getting in the way that you want to try to break through. Is that a good characterisation?

Jonathan Reynolds: I would not portray them as little niggles. For instance, the fact that we still have the same food and agricultural standards or SPS standards as the European Union, yet we have a whole range of bureaucracy that now stands in the way of smooth and easily facilitated trading, is quite a substantial thing that could be improved. It is not as if the question is a policy one for the standards that we operate in the United Kingdom. We have these comparable standards, but we were not able to reach that point.

To be honest, I would not describe professional qualifications as an area where it is a relatively small deal either. There are significant potential gains for the UK from being able to employ European nationals who we know are trained and qualified in nearly every case. Sometimes there are specific additional things that you ask for. The architects' agreement with the EU has this, where you add a little bit more. These are quite significant things; I just would not compare them to being part of a single market. It is not the same thing.

Q23 **Charlie Maynard:** I have a question about the remit of the Board of Trade. Sweden has a very good board of trade, which is well recognised. To get some impartiality in the mix, would you favour having something similar to the OBR, impartially assessing the UK's trade performance worldwide, focusing on how to minimise trade barriers and having an external view, saying, "We can do better—this is where we are falling down and where we are improving"?

Jonathan Reynolds: I am familiar with the Swedish board of trade. It operates within a very different remit, historically, from how we have operated in the UK. I want to change the Board of Trade. I want it to be a set of people who can have that ambassadorial role to UK business and bring with them expertise, knowledge of the markets and the kinds of experiences that would be inspiring and help people practically with that export story. It needs to change. That is not necessarily a proposition that is comparable to Sweden. I would broadly describe the Swedish model as a trade OBR. That is not what we have in mind.

Q24 **Charlie Maynard:** I have just one follow-up—it may be a nitty-gritty bit, but it is quite a near-term nitty-gritty bit—on emissions trading systems. We have quite a big problem if we do not get that alignment in place. Is it a priority for you to align our emissions trading systems with the EU's? Is that something that you are working towards?

Jonathan Reynolds: You are right to highlight the obvious potential problem of a carbon border, essentially, between us and the European Union. The commitment that the Government have inherited and have renewed to a UK carbon border adjustment mechanism, which is technically a tax policy under our system rather than a trade one, would pose some obvious questions, particularly around Northern Ireland, because of the Windsor agreement. That is very much being considered.

It is important to recognise that there are winners and losers for different parts of British industry in terms of alignment and how that is done. Those need to be properly assessed before coming to a decision, but when we look to potential future challenges, you are right to highlight that as a particular one that has to be got right.

Q25 **John Cooper:** We have all seen President-elect Trump's decision to bring in a new tariff regime rattle the markets this morning. You talk about headwinds; this has the potential, I think you will agree, to become a full-force gale. I would imagine that you are also doing risk assessment and things like that just now. I wonder if you could perhaps talk about how we might approach this. Do we plough our own furrow and look to do a deal with America ourselves, or do we throw our lot in with Europe and with Brussels?

I wonder if you could also possibly tell me about the situation with Crawford Falconer, the chief trade negotiator. As I understand it, you are dispensing with his services, with no plans to replace him. To use an American sports phrase, is that not sacking your quarterback on the morning of the Super Bowl?

Jonathan Reynolds: Let us take the first bit of the question first. You are right to say that this is the big question facing global trading relationships. There has been a great deal of interest, as there always is, in the US presidential election, where it is fair to say that trade conversations about tariffs and the role of the US in the global trading system have played a significant role in the campaign of the President-elect.

The first thing that I would say is that there are a whole range of areas where we as a country could and should welcome closer trading relationships with the US. The US is a fundamental ally of ours. We have an incredibly strong trading relationship as it stands. When I look to areas like services, technology or critical minerals, if there were the opportunity to work more closely together, I do not think that anyone should turn around immediately and say, "We are not interested in that."

Q26 **Chair:** Will we try to get a free trade deal with the United States?

Jonathan Reynolds: The second part of that sentence is that we would all recognise the challenges as to why such an agreement does not exist either between the EU and the US or between us and the US, particularly around areas like agriculture, where there would be a pretty profound conversation to have in the UK if we were willing to change, for instance, our SPS standards to the ones that the US operates. I am not denigrating their standards; it is just a different relationship to have in place.

The crucial thing for this Committee—and, to be honest, for everyone in Parliament—is that this cannot be considered just as a question about the trading relationship between the UK and the US. Fundamentally, it brings into question what the relationship is between the UK and the EU, and also between the UK and China. For an economy like ours, each of those three markets is absolutely vital, where we have a whole range of supply chains, but also very successful export performance that we have to consider. If anyone is proposing anything in one of those markets, it will have a knock-on effect for the other markets. You have to consider that in the aggregate.

We do not know, at this stage, what any potential offer might be from the US. There are definitely things that we should talk about, but it is not really helpful to speculate on hypotheticals until we know what that is. Let us be clear-eyed about where our national interest lies and how we would resolve some of the questions that might come our way.

The other thing I would say is that we should always be willing, on a cross-party basis across Parliament, to be advocates for open, transparent and free trading relationships around the world. It is true that if any country imposed tariffs on UK companies exporting, it would hurt our companies, but let us also remember that it also hurts the consumers in whatever country who are being asked to pay those tariffs. There is an inflationary pressure; there is an impact on the cost of living.

In terms of some of the speculation, I would say that it is important to remember that the US does not have a trade deficit in manufactured goods with the UK. The criticisms that I have seen of some European countries in that presidential campaign do not apply to us, so we can be pretty confident in putting the case forward ourselves.

Going back to that wider case, as a very trade-intensive economy, what the UK really stands to lose from is a fragmentation or a disruption to that global trading system. We have to really understand that.

On your specific question about Crawford Falconer, Crawford's contract is coming to an end. There has been no change from the new Government in terms of those contractual relationships. As I understand it, being new to being Secretary of State, the history of that is the changes to the business Department and the merger with international trade. That predated the new Government and resulted in the structure of the permanent secretary and the second permanent secretary.

Crawford is a remarkable person, and a brilliant person to talk to on trade. His job has been to fundamentally build up the capacity of the Department, which I have a lot of confidence in and now exists. There is no conscious decision by me as Secretary of State or by the new Government to sack anyone. It is simply that those arrangements have come to the end of their contractual position. From an HR position, is there is anything else to add?

Gareth Davies: You have summarised it really well. Crawford was brought in in 2017, because, coming out of the European Union and the customs market, the UK Government and civil service did not have the capability and capacity to negotiate trade deals at that time. Crawford's responsibility then was to build up the trade team.

This is a team sport. These negotiations are not just one person. This is the whole team. We now have over 500 people in the Department who have significant experience of multiple deals that have been negotiated over the last five years, most notably CPTPP, and seeing those through. We have an excellent director general in Amanda Brooks, who leads on our trade negotiations. Crawford, as I said, was originally brought in for a five-year contract; it was then extended to cover out the period of wrapping up the CPTPP process. As the Secretary of State says, that comes to an end at the end of this calendar year.

Q27 **John Cooper:** There is no suggestion that anyone has been sacked at all. I understand that the role is effectively being done away with, which seems a bit strange. I understand what you are saying about the strength of the team now, but surely someone would come from that team and take over as the head of that team. It goes back to my sporting analogy.

Gareth Davies: Amanda Brooks is the director general who is our trade lead now.

Q28 **John Cooper:** But the title of chief trade negotiator no longer exists. Is that right?

Gareth Davies: I had not really thought about the particular title, but the person who is responsible for building the capability and leading our negotiations is her.

Jonathan Reynolds: It is also very important to say that the chief trade negotiator does not negotiate the trade deals. Each trade deal has a specific person allocated. It would be quite a remorselessly hard job, to be honest, if you just had to cover them all in that way.

Gareth Davies: The formal title is "chief trade negotiation adviser", to be clear.

Q29 **Chair:** What will be the impact of US tariffs on the UK economy? Let us say that tariffs are implemented at the number that has been in the debate, which is about 20%. What will happen to the UK economy if that happens?

Jonathan Reynolds: The long-run position would be a negative impact on GDP. I do not want to share the specific figure.

Q30 **Chair:** The NIESR figure is that it will halve our GDP growth. Is that roughly in the right ballpark?

Jonathan Reynolds: I would not do it as a percentage of our GDP growth. It would perhaps be more useful to look not at the long-term impact on our growth, but at the position that we would otherwise be in were it not for tariffs. There is a negative impact from that. The key question alongside that is what degree, if any, of retaliation we would wish to take against US products entering the UK—specific, targeted or blanket, depending on where we might be, or whether we want to go down that route.

The other element is what that might also contain that would, for instance, be a request of the UK to change its trade policy in relation to other key markets such as the EU or China. I think of it as a prisoner's dilemma of different choices and how they interact.

Again, I would just say that as a country it is not helpful for us to speculate on hypotheticals at this stage, given how sensitive some of this is, but it is a statement of fact that you would all recognise to say that tariffs on UK products entering the US have a cost to them.

Q31 **Chair:** Have you worked out, or have your officials told you, how big the impact on UK GDP growth would be if there is a 20% US tariff?

Jonathan Reynolds: It would be reasonable for the Committee to start from the premise that every potential outcome of the US presidential election has been prepared for.

Q32 **Chair:** Is it a big impact if those tariffs are implemented?

Jonathan Reynolds: Any impact expressed as a percentage of UK GDP is not insignificant when you are a G7 economy. You also have to bear in mind that the long-run position in itself, or the figure there, disguises what can be a disproportionate impact on certain parts of the country or certain sectors, and that the short-term period of disruption can be greater.

You also have to model trade diversion, as any activity by one country can result in trade flows changing around the world, and there is sometimes a surprising picture that comes from that, but the position that we can all agree with is that any imposition of tariffs in any part of the global trading economy comes with costs.

Q33 **Chair:** You have modelled the impact; it is not insignificant. Have you readied the options that the UK will take in response to those tariffs, if they are implemented?

Jonathan Reynolds: Again, I would not want to speculate, but the Committee should assume that all eventualities have been prepared for.

Q34 **Chair:** Presumably those options include doing nothing, retaliation and negotiation.

Jonathan Reynolds: Those are always the options in any trade dispute. A key question for any European country is to what degree any conversation about tariffs would be as part of a negotiation around closer trading relationships, rather than necessarily a standing item of policy. If you follow the intellectual basis for some of these discussions in the

United States, they come from a perception in the US that global trading arrangements have somehow been unfair to the US. There are things that are seeking to be corrected as part of that imposition of tariffs, which, again, is not an argument that can be applied to the UK in terms of our trading relationship with the US.

Q35 **Chair:** That is true. So it is not a do-nothing option or a retaliation option. It sounds like a negotiation option.

Jonathan Reynolds: Again, given how sensitive this is, there is a level of discretion that is required in answering, but the relationship between the UK and the US on a country-to-country basis of trade, security and intelligence co-operation is clearly a very strong one. There are areas where I absolutely believe we could see a really positive set of closer arrangements, without being naive about some areas that would be just much more difficult to come to.

Given that the impetus for this conversation has come from the US, the question really is, "What are the parameters of that discussion?" We would all accept that from any position, a close ally seeking closer trading arrangements would always be something that we are willing to discuss. There is nothing to lose from that discussion.

Q36 **Chair:** Politico reported this morning, "The UK has retaliatory tariffs on iconic US goods including Harley-Davidson motorbikes ready to be immediately deployed in case of a trade war with Donald Trump". Is that true?

Jonathan Reynolds: In recent history, we have had some disputes. If you think about the steel tariffs that we had imposed on the UK, that report covers some of the measures comparable in the past. Again, you would expect this Department to prepare for every eventuality, but we should just be a little bit sensitive at this stage about speculating on how we would respond to something that has not happened.

Q37 **Chair:** I think that I am right in decoding what you have said when I summarise that you think a US-UK free trade deal is, at best, very difficult.

Jonathan Reynolds: We are all aware of the questions that have come up in the past, but at this stage, why would we limit our ambitions or conversations before any offer has been made to us or any negotiation has begun? In areas such as agriculture, which is a particularly good example, history tells us that we have very different systems to reconcile, but we would all recognise that trade negotiations can be about things where there are mutual interests. There certainly are mutual interests in terms of services, technology and critical minerals that I could see quite a positive relationship coming from. We have to wait and see, but let us always make the case for a fair, open and transparent global trading system.

Q38 **Chair:** You are not ruling it out.

Jonathan Reynolds: I do not see the need at this stage to rule anything out or in, but we need to be realistic about where our national interest lies and frank with the Committee about the fact that any negotiation in any major principal market that we might do has to be considered not in isolation, but in terms of its relationship to other key markets, and what the consequences of that negotiation would mean for business and trade in those areas.

Q39 **Chair:** Stephen Moore says that we have to choose between Europe and America. Do you think that there is a binary choice that our country has to make?

Jonathan Reynolds: No, I do not.

Q40 **Mr Joshua Reynolds:** What would you be prepared to do to avoid Trump's tariffs? Would you accept poorer-quality goods or chlorinated chicken?

Jonathan Reynolds: Mr Reynolds, it is nice to see you. I wondered, just after the election, why I was receiving correspondence about Maidenhead, and you probably had a bit about Stalybridge and Hyde, I imagine.

You highlight in that question the kinds of issues that have been in the public domain in the past, when conversations have occurred between the UK and the US, including when we were part of the EU, on trade. It is just not helpful to speculate on hypothetical positions. In any trade negotiation, it is not particularly helpful to give a running commentary, because you always have a bit of give and take. I recognise that you are right to highlight some of the high-profile issues that have sometimes been part of that conversation, but you will understand that I would never reveal my negotiating hand as a Secretary of State, given how important these negotiations are to the country.

Q41 **Matt Western:** Secretary of State, you have touched on the threats to UK economic security. What do you see as the greatest threats to UK economic resilience? What needs to be done to improve that resilience?

Jonathan Reynolds: That is a really significant question. There are some well-known and well-recognised vulnerabilities that people are well aware of, so it is quite acceptable to talk about them in terms of, for instance, the supply chain in semiconductors or critical minerals. Sometimes, what these conversations lack is the recognition that, for the UK, in any key commodity market, what we would always be seeking is not to have ownership of resources, but simply an open, transparent trading system where we can access the goods and services that we need in order to secure those supply chains.

The other part of economic security would absolutely relate to the threat of espionage and intellectual property theft from sectors of the UK economy that are recognised to be world-leading, whether that is life sciences or defence. That is very much an aspect of our day-to-day work that we have in the directorate of economic security, which a lot of people are not quite aware of.

One of the most interesting things about the Department for Business and Trade is that it is the intersection between the bit of the state that is interested in security and in trade and investment. Historically, those have been in quite different places in Whitehall. It is the bit that brings together everything from your local high street hospitality business to these big geopolitical questions. The economic security element specifically is a very significant aspect of the day-to-day work of the Department.

Q42 **Matt Western:** It is about intellectual property. Going back to my earlier point about small and medium-sized businesses, the concerns that they have about Europe were pretty straightforward, and they understood it and so on, but going further is a great challenge. There are real concerns, particularly from certain nations, which I will not go into right now, about intellectual property theft.

I just want to pick up on the point that you mentioned about critical materials and semiconductors. Within your thinking, are you looking at what strategy there might be for onshoring in relation to the EU or one of the other trading blocs? In the EU, we have seen the move with semiconductors, recognising that they need resilience in Europe, but what about the critical materials that you were just talking about in relation to, say, North America?

Jonathan Reynolds: That is a great question. One element that is very much in my mind, which I do not think is always fully understood in Parliament or discussed in the media, is that there are, for instance, certain supply chains that have not a vulnerability but a greater degree of risk, just because of where they originate from.

A key question for us as a country is, where we have some of those supply chains, whether we would prefer them to be onshored in the United Kingdom, despite some of the questions that have come from Chinese investment into the UK, which is already quite significant in terms of what we have inherited. Would we prefer to have those based geographically in the UK? Is there an element of security that comes from that? In some cases there is, but you have to do it on a case-by-case basis to get that right.

You always have to consider, in this conversation about economic security, that cost is an element. If you think about our vulnerability to the energy crises when the illegal invasion of Ukraine began, the fundamental vulnerability was that we set our electricity price benchmarked against gas. That impact on gas was what led to that incredible negative impact on households and on businesses and, in some cases, energy-intensive businesses not being able to function. You have to consider the economic as part of that consideration around security.

Particularly when I see some of the activity around semiconductors that has been onshored or reshored in the West as opposed to eastern countries in the world, I look at the cost element and wonder whether you can really have economic security if your unit cost for a semiconductor is four, five or six times what it is currently being produced for in Taiwan. You have got to consider those things very much together.

Partly as a result of what happened in Ukraine, but also because of the changes in the pandemic around consumer consumption and the pressures that that put on the system, I have seen car factories in the UK shutting down because they did not have access to key bits of the supply chain that were going into personal computers, for instance. You have to take that element into consideration as well, and a lot of businesses are already doing significant things to de-risk and diversify their supply chain.

It is not necessarily that something has to be Government-led, but Government need to be aware of the risks, working very closely with the Cabinet Office on mapping potential Government initiatives around the support that we can offer. UK Export Finance or the British Business Bank being a partner in some of that is definitely something that we are looking at.

Gareth Davies: As you know, there are multiple dimensions to economic security. One is just overdependence or overreliance on a single country, which can be an issue because of the potential hold-up problems. What we saw through covid in particular, but also in some of the consequential work from Brexit, was some of the brittleness of supply chains. Even when you speak to some of the major corporates, while they may have an understanding of their first or second-tier suppliers, they are often, as you dig deeper, not aware of all the risks that they are sometimes carrying.

Dual use is an increasing problem. 10 or 15 years ago, in export controls, you knew where you were focused: you were focused on tanks and missiles. It was very obvious that these were the areas that you needed to control. Now, in the world of algorithms, consumer technology and drone technology, there is much more of a blurred line around dual use and much more specialism needed in that.

Then the crucial point that the Secretary of State touched on was that improving economic security does not always mean that you have to have sovereign capability in the country. There are different ways to have more resilience in your supply chains, and one is just ensuring that you do not focus on a single market.

Having multiple suppliers and making sure that you can have supply from trusted allies is an important part of it. There is a reason why supply chains have evolved in the last 20 to 30 years in the way they have: it is because it is incredibly efficient. It has pushed down the cost of goods and procurement, which is important for the cost of living. There will be consequentials to plan in and manage for more resilience in those systems, but looking at that in the round is absolutely critical.

Q43 **Rosie Wrighting:** I know that you have said that it is not helpful to speculate at the moment, but UK-based businesses will be importing and exporting, and the US will be vital to their supply chain. What advice would you give them at the moment, at this uncertain time?

Jonathan Reynolds: I understand that. While it is not helpful to speculate, you cannot help people speculating when something is so prominent in the news. I would reassure them by saying first of all that the UK has a strong sense of its own national interest. We have a strong case to make, while being able to make it, for an open, fair and free trading system. Some of the critiques that I have seen of some European countries do not apply to the UK, but our strength as a global trading nation can come from the diversification in markets that we can seek as well.

If we could make a tangible improvement, as we have discussed in this Committee, to the relationship with the European Union; if we could, for instance, have a trade deal with the Gulf Cooperation Council, which would be a competitive edge over some other peers; and if we could progress the Indian deal, we would be in a position that I would not necessarily say is a sweet spot, but one that is genuinely seeking to get the best possible terms for the UK. As I say, we would do that in a way that does not compare to things that we have done in the past, but is genuinely forward-looking and thoughtful and perhaps an attempt to deliver modern trade arrangements, particularly when it comes to services and data and things that just were not material to negotiations even a decade ago. It would ensure that the UK is in the maximally beneficial position that it can be in.

I can say without any hesitation that this is a Government that will always be committed to working with friends and allies around the world on a global trading system that delivers fundamentally what most British businesses need.

Q44 **Mr Joshua Reynolds:** Your Parliamentary Under-Secretary said last month that "revitalising our high streets is a priority for this Government". How does reducing the business rate relief for retail, hospitality and leisure from 75% to 40% revitalise our high streets?

Jonathan Reynolds: We did not reduce it. Just to be absolutely clear, that 75% reduction, which comes broadly to a cost to the Exchequer of £2.6 billion, was a one-year recurring measure that was not put into the national accounts. The starting position for this Budget, even though it would not be felt by businesses, was no business rates relief at all. The 40% in the Budget, while not as generous as 75%, is a substantial improvement on the position that we otherwise inherited.

Q45 **Mr Joshua Reynolds:** You can understand why high street businesses in

Maidenhead are telling me that they feel let down, when you have said that your aim is to have the fastest rate of sustainable growth in the G7 and that you want to be a pro-business party. A small restaurant chain in my constituency has told me that the change from 75% to 40%, plus other Budget measures, is going to cost it £150,000 a year and stop it opening new sites over the next 12 to 18 months.

Jonathan Reynolds: You should tell it that you share that frustration and that you have come to Parliament regardless of party and are demanding a better, more mature and more sustainable approach to how we do budgets and national finances. Short-term measures—effectively, a bit of a trap for any incoming Government by not accounting for that change properly—are exactly the short-term, harmful and unprofessional way in which too much business was conducted under the last Government. I am not saying that from a partisanship point of view, but it is just not a proper way to behave to put those kinds of systems in there.

What the previous Government did was substantially generous—£2.6 billion is not a small amount of money to spend on a relief—but they were not even giving businesses the ability to have that long-term planning for that by putting that properly into the national accounts. I share that frustration, but we have just had a conversation about the limits on tax raising that are possible, and there is a balance between those two things.

The wider Government aspiration and the Treasury's aspiration to business rates reform remain. I want that to be as significant as possible. You have seen the small business multiplier frozen in the Budget as part of that and the discussion paper on longer-term reform.

As I see in my own constituency, the relative health of UK town centres and high streets is a major issue. It is an outsized measure of how people feel about their local economy and how they relate to it. It is an issue of pride, community and place, as well as a straightforward business and economic issue. The work that we are doing as a Department—the Ministry of Housing, Communities and Local Government is the key partner on place-based economic policy like this—is to deliver that.

For instance, in just a week's time we will proceed with the high street rental auction measures, and we will be able to tackle vacant buildings as part of that. You have the commitment to business rates reform. The measures around things like retail crime are a key part of that. Last year, on several occasions, I was in a high street supermarket where you walk in and people just visibly commit shoplifting and perhaps put staff at risk. You will have seen our changes to remove the threshold for summary offences for shoplifting. My local USDAW branches and shopworkers tell me that that has been a major driver of shoplifting. That change has to happen, as well as the specific measures against violence against shopworkers, which we will continue.

All these things have to be considered together, but the future of town centres and high streets is a major issue for the country and will be a major issue for this Department.

Q46 **Chair:** Does the timetable for landing the business reform change? Will we learn more about this on the spending review? Presumably it is the next fiscal event that is the target for implementing this.

Jonathan Reynolds: You will know that it is often not always wise to speak on behalf of His Majesty's Treasury.

Q47 **Chair:** What is your point of view?

Jonathan Reynolds: I want business rates reform as soon as possible, and I want it to be as expansive as possible. Businesses will say, quite rightly, that they have been subjected to perhaps more consultations on business rates than anything else, but the kind of conversation that we want has to cover not just the future structure of business rates, but wider points such as the problems around avoidance and the classic case of buck shifting that people will be familiar with. The commitment to consult on a general anti-avoidance rule is a really important part of that.

I really recognise, Chair, just how significant this is for all of us. Regardless of where you represent, the health of high streets and the future of business rates are a major part.

Q48 **Mr Joshua Reynolds:** The high streets taskforce has said that footfall in 2023 is still 9% down on where it was pre-covid. What work are you seeing as vital to being able to get that footfall back up to support these struggling high streets?

Jonathan Reynolds: The first thing that I would say is that it is a combination of all those measures, whether that is business rates, crime, or tackling blighted buildings, which I see as a major issue in my town centres. I am always keen to stress, when I talk about the future of town centres, that I am not being nostalgic. We will not bring back, in a constituency like mine, classical market towns with everyone working in manufacturing, paid in cash and walking to the market ground on a Friday afternoon. That is gone.

We cannot be yearning for something from the past, but town centres are fundamentally important in bringing people together. The focus has to be much more of a leisure offer. A greater degree of housing has to come into those town centres, so it is a wider regeneration as well as a business and place-based story. Even though we all probably admit to buying a few Christmas presents online as we get close to December, when anyone says that the era of that place-based aspect of local communities no longer applies, I just do not recognise that at all.

Q49 **Rosie Wrighting:** Long-standing high street retailers just cannot compete with the selling prices of online retailers that have come about in recent years, such as SHEIN, AliExpress and TikTok Shop. How can we increase footfall in high streets with such a change in consumer habits and price sensitivity?

Jonathan Reynolds: It is a fundamental change in consumer habits, and we have to recognise that the one thing—

Q50 **Chair:** Do you think it is an unlevel playing field when it comes to companies like SHEIN?

Jonathan Reynolds: The unlevel playing field comes from, in the main, things like business rates. I can detect a reference to the de minimis VAT/duty threshold as part of that. That is something that Government are looking at. There are also British businesses that benefit from those provisions, so you always have to work out where the locus of interest lies in any change in tax policy like that. We have to recognise that there has to be a more level playing field.

This is straying a little bit out of the portfolio, but I am not keen on things like a pure proposition of an online sales tax, because the risk is that you might hit businesses twice: you might hit businesses that still have a high street presence but have diversified and are also selling online. You just have to be very careful about exactly what you are proposing. A level playing field on business rates is a very strong proposition.

Q51 **Charlie Maynard:** If you are not keen on an online tax, and we recognise that it is a completely unbalanced playing field, what are we going to do about making sure that online players are on a level field from a tax perspective? I do not have a particular recommendation, but we all recognise that huge problem, which is eating our high streets alive. We have to get level, so what do you think are the best steps?

Jonathan Reynolds: The most important bit for this Department, as opposed to maybe Treasury colleagues, is consideration of the wider role that town centres and high streets play. In terms of the relationship between housing, leisure and retail, there is a specific question as to how to balance those things. To be honest, I have strayed a little bit into Treasury policy already as it is, which can be a difficult position to find yourself in.

Chair: You are very welcome to stray into Treasury policy here, Secretary of State.

Jonathan Reynolds: You can recognise how significantly consumer habits have changed. Let us be clear: if you are selling something online, your fixed costs are in many cases going to be much lower than a high street presence in order to do that. At the same time, some of those online marketplaces have also allowed businesses with physical premises to diversify into their market, so we just have to consider the question from both angles.

Without getting too anecdotal, when I was doing some Christmas shopping quite recently in Manchester city centre, it was absolutely packed. When you get that experience and that retail offer that people want, it can be very successful. In my mind, I felt the regeneration of the big northern cities, which really began under the last Labour Government. The challenge for this Labour Government is much more about towns such as Hyde and Stalybridge, and many of the ones that people here will represent. It is not going to be quite the same, but there are definitely lessons that we can learn from that.

Q52 **Sarah Edwards:** Thank you very much for coming today, Secretary of State. I have been listening to some of what has been said, and people have brought up a lot of the challenges that businesses have raised. One of the areas that consistently gets raised with me is around business energy. I thought that we could time-travel back to when you visited Tamworth town centre and saw some of those businesses for yourself.

Cornwall Insight has estimated that an average business will pay around £13,264 a year in energy bills by April 2025, which is about £5,000 more than during the energy crisis. I have a boutique hotel that tells me that its bills were £20,000 and are now almost £80,000. I have a small café that is currently being threatened with closure by a business energy provider, and we are in dispute over that one. It seems that business energy is not only a massive challenge to budget lines, but there is also the conduct of business energy providers. I hear this consistently from businesses across the community, and I have spoken with various sector organisations as well.

I wonder if you could explain how you might be able to use your role to support businesses that are facing these types of challenges, and what you will be laying out in your work to look at some of these areas, which are real cost pressures that are a real barrier to growth.

Jonathan Reynolds: First of all, I very much remember—and appreciated—that trip to Tamworth. In terms of my role specifically, rather than wider Government policy, you will understand DESNZ's lead on all aspects of the energy market. I would absolutely cite it as one of the most significant pressures on businesses of all sizes. There have been some specific issues around third parties and energy brokers and, particularly coming out of the energy crisis, some of the deals that were offered and signed up to, which turned out to not be advantageous to businesses in any sense. There are some specific issues there.

To be frank, the most specific role for DBT is around the international competitiveness of things like our energy intensives. You will know that we have one of the highest business and industrial energy costs of anywhere in the G7. The need to make that more competitive is very much in our thinking on the industrial strategy. Looking at what we have inherited, there was a relatively positive direction of travel with the British industry supercharger policy under the previous Government, but it is still relatively high.

My principal concern is that if you look at a whole range of sectors that are very exciting for the UK, particularly around the zero-carbon transition, they are incredibly intensive in electricity use, such as data centres, gigafactories or electric arc furnaces for the steel industry. It is just incredible: the level of consumption is massive. I have absolutely no doubt in my mind that we need a more competitive offer in that space.

The wider issues for those smaller businesses that you mentioned and the regulation of the energy market in relation to them will sit with DESNZ.

Q53 **Alison Griffiths:** You have mentioned various elements of this, but if we can encapsulate it in one place, the Government have promised to publish a small business strategy next year. Can you give us some more detail on the reforms that you are planning and when businesses can expect them?

Jonathan Reynolds**:** Yes, absolutely. The aspiration around the small business strategy is not just the specific elements of DBT business policy that directly apply to them. You will have seen our announcements on late payment, which we worked on with the Federation of Small Businesses. I am really excited by that. It is a really solid package of measures that will make a difference in a really significant area. It also covers areas of Government policy that sit beyond this Department but are fundamental. We want that co-ordinating role. Procurement in the Cabinet Office, regional crime and crime against businesses are key parts of that.

Going back to trade and exports, I am really interested in how we look at the huge amount of support that this Department offers and the significant amount of support that sometimes sits in other Departments—for instance, there is a programme in DESNZ for small business decarbonisation—and how that can fit in with the good work that goes on in local areas, mainly through the growth hubs. In many areas, there are a whole range of really quite good private sector offers from banks or the other big digital companies around digital skills.

How can we bring all that together? How can we have the kind of branding that gives a common entry point, so you know what you are looking for, and that is delivered in conjunction with local areas and local economic leadership?

I mentioned the pilot scheme around exports being launched in Greater Manchester last Thursday. That is an example specifically around export support, but I wonder whether that could be the model for the outcome that we want: to make things much easier so that no matter where you are in the country, you know where to go if you need advice to start a business or you want to find specific information about exporting to a certain market, particularly around the regulatory concerns you might encounter by hitting a certain threshold. How we do all that better is a really interesting conversation for the UK. I want that to be included, as well as some of those specific policy areas, in the small business strategy.

Q54 **Alison Griffiths:** What are the key barriers holding back growth for small business?

***Jonathan Reynolds*:** In my mind there is no doubt that it is the scale-up stage. We are an incredibly entrepreneurial country. The ideas and the energy that sit behind business formation in this country are fantastic.

We are all broadly in agreement. We need to provide additional expertise and support in helping those smaller businesses that either might not get to that point of success or need help to scale up and be bigger. That scale-up challenge is crucial. You have already seen some of this in the Government's early work. There is the British growth partnership. In this case, we are stealing an idea from the French about how to use the British Business Bank to bring together private capital and public money for the first time. The start-up loans programme that already exists has got additional funding within the Budget.

That stage is the fundamental one for us to crack. You cannot ever say that there is just one thing you want to crack, but if you asked me to focus on something, that one would be of interest to me.

Q55 **Alison Griffiths:** Some of those points were covered in the Kalifa review some years ago and have already been progressed, but it is good to hear that you are taking that forward.

Finally, right across different sectors, but particularly in fintech and technology more widely, there are barriers to women and ethnic minority groups starting businesses and getting the finance that they need. How will you seek to address those?

***Jonathan Reynolds*:** First of all, on business investment there have been some welcome changes. It is almost 100 years since the Macmillan Committee looked at business investment. It is a long-standing problem. There has been some good progress recently, but we are still the country at the bottom of the G7 table for business investment. There are a whole range of factors. It is not just the specific availability of capital. We have to be self-critical and talk about the political stability of the country and the policy certainty that is necessary, all of which we want to crack.

Your last question is a great one. Without any doubt, these are huge mainstream business and economic issues. This is about the absolute disparity in where some of that capital is going, to certain groups in the UK, and the economic opportunity that could come from cracking that.

As a Department, we have been incredibly supportive of the Invest in Women taskforce. For understandable reasons, the Chancellor is fronting up the Government's engagement there. For this Department and the British Business Bank, we were able to put £50 million into that initially and provide a role with some of our private sector contacts to galvanise some of the asset managers and other institutional investors to support that.

I am really excited by that. I want to see public and private sector collaboration to tackle a key problem, supported by Government but led by industry, as the model forward on that.

Alison Griffiths: I look forward to seeing that.

Q56 **Matt Western:** I want to come in briefly on the point about growth for small businesses and so on. I totally agree about how good we are at innovative new businesses, but all too often they cash out too soon. I am thinking of what happens in Germany with the Mittelstand and the family businesses that dominate so much of its economy. What needs to be done to ensure that those family businesses and others stay in for the long term? Is it the fiscal incentives or do you have any thoughts on a strategy?

***Jonathan Reynolds*:** I spend most of my days talking to businesses that are in that space. You have to recognise that we are talking about a very diverse group of people in terms of their aspirations. You have the entrepreneur who wants to make something, make a success of it, exit and start something new. You have serial entrepreneurs, who want the buzz of the new creation. You have some people who get to a certain size and then, to be frank—you get less of this now—they worry about a loss of control from growing bigger. It is not so contemporary, but certainly after the financial crisis and the scandals around banks and lending, which were well documented and had to be compensated for, there were some concerns about diluting ownership or going into a relationship that they perceived might lead to an adverse position for them.

Some of our most successful businesses in the UK are family businesses. There are those success stories that are part of that. It is difficult to put a specific prescription on, given the diversity of the problem.

Going back to the earlier question about what is worth devoting Government attention and time to, if we think about that scale-up point more generally, leading all the way through to the health of UK capital markets and the need to regenerate them, broadly speaking the measures that would rejuvenate the capital markets are an area of cross-party agreement and support. That is where Government attention is best placed on that story.

Chair: I am really sorry, but we are moving a bit too slowly and we have a lot still to cover.

Q57 **Antonia Bance:** Secretary of State, it is nice to see you. The Labour party was elected on a pro-worker, pro-business platform. Over the last 14 years, we have seen enormous wage stagnation, the explosion of insecure work and a real sense that too many of the jobs in our economy are not of a good enough quality. How is the pro-worker bit going?

***Jonathan Reynolds*:** First of all, let me say that pro-business, pro-worker does not mean we just do a very successful international investment summit one week and then a few weeks later we publish a workers' rights Bill.

You correctly articulate the challenge. We have all been through a Parliament that was historically the worst for living standards. We have seen the stagnation in pay. It is a story I see reflected in my own family as well as the community that I have represented here in Parliament for a decade and a half. If we want to fix that, that will require a combination of things. Greater business investment is not just pro-business; workers need it too. Let us be frank about that. We need more private capital. It is not a particularly sexy message to put on a leaflet or a Facebook ad, but this country needs more private capital attracted at all stages, whether that is infrastructure or business development, across the board.

At the same time, let us be candid. It is conceivable—again, we have lived through periods of recent British history like this—that the economy can grow on a macro level quite well, but people do not feel that. That may be because of a regional disparity, either perceived or real, with one part of the UK growing strongly but that not being felt in other parts of the country. If the economy is growing, some people in insecure jobs—over 1 million British workers are still on zero-hours contracts, for instance—are not going to feel that. These conversations reflect exactly what my own constituents have told me.

The pro-worker, pro-business agenda recognises both. I take pride in the fact that we have put forward a very good set of proposals in the Employment Rights Bill and at the same time we attracted £63 billion of inward investment through that commitment to openness, stability and shaping the business environment. The two things go together.

We made a commitment to present the Employment Rights Bill within the first 100 days. That was a considerable achievement by officials in this Department. Not only was it a satisfying and important achievement, but given that all of those workers in those insecure jobs had been promised an employment Bill in the past that had not materialised, it was very important to demonstrate to them that this growth mission is about them, that we care about them, that we want them to have the good life we want for everybody in the economy, and that we will take steps to deliver that.

Q58 **Antonia Bance:** One of the key things that many workers want to see is the wage rises that they have been waiting so long for, but the OBR is forecasting 0% real wage growth over 2026-27. What are you going to do in your Department to make sure that wages start growing again?

***Jonathan Reynolds*:** The only way that we will correct this trajectory and this challenge is through attracting greater business investment and supply-side reforms that will make the difference to the performance of the economy over the long term. The OBR's finding that the new fiscal rules and the greater focus on public investment do grow the potential of the UK economy over the long term is absolutely crucial. The nature of

OBR forecasting and the short-term assumptions that it has to make under that model—it cannot take into account this wider reform agenda—produce that.

One of the things that I want this Government to be judged on is real disposable income and real wages over time. That is fundamentally people being better off. That is what I want this Government to deliver.

Q59 **Antonia Bance:** A key way to raise wages is to increase the coverage of collective bargaining and trade union membership. What actions will your Department take to ensure that trade union membership rises and the coverage of collective bargaining rises?

***Jonathan Reynolds*:** You are right to say that, but we also have to say that businesses have to be successful in the first place and make money. Again, those two things—pro-worker and pro-business—go hand in hand.

Part of the Employment Rights Bill, as you know, is a recognition that what we have inherited—in the last Parliament, a significant number of days were lost to industrial action; it was a real record, unfortunately—shows that you need to change the culture from that perhaps adversarial approach that the previous Government had. There is a better way forward.

I am always keen to make the case that some of this country's most successful businesses and sectors are ones that have significant trade union membership and density. In many cases, I have found sometimes those unions have argued harder for the future of those businesses and industries than some of the political conversation has always covered. It should not be seen as an adversarial relationship.

We know that respect for the workforce and engagement has real economic benefits. As you will know, in the Employment Rights Bill there are measures recognising the historic and important role that trade union representation can play, if workers want that, in their workplace and making sure that the overall framework for industrial relations is a modern one that is fit for purpose and gets away from the failures of the past.

Q60 **Antonia Bance:** Yes, if workers want that. In a number of large companies operating in this country, workers want trade union representation and have fought hard with the deck of cards stacked against them. What will you do as Secretary of State to ensure that workers can be recognised by the union of their choice and that the unlevel playing field that exists currently for workers such as the GMB members at Amazon is ended?

***Jonathan Reynolds*:** Everyone, regardless of politics, would recognise collective representation as a fundamental human right. Where people do not want that in their workplace, unions, in my experience, accept that. Of course, they will make the case for the benefits that they could bring, but it is really about people having the ability to choose that. The

Employment Rights Bill has set out proportionate measures to recognise that.

Without being specific to any company, we would all be familiar with cases where there have been accusations of fair ballot recognition not occurring in the way that we would expect under the spirit of the existing legislation. The changes put forward in the Bill are about simply allowing people to make that decision in the free and fair way that we would expect to be permissible and to happen.

Again, I do not see this as an attempt to look to any other European country or look to the past. It is about what we need for a modern, fair and well-functioning industrial culture in the UK. The Bill takes a step towards that.

Q61 **Alison Griffiths:** I have a quick question on your last point. "Productivity" is a word that you have not mentioned in any of the answers you have just given to my colleague Antonia Bance, and yet it seems absolutely fundamental to attracting investment into the UK. The scene seemed to be set with train drivers being given a 22% pay rise without any productivity requirements. When is productivity going to be part of the equation to driving up growth?

***Jonathan Reynolds*:** I do not want to pull you up a little bit, but we did have a conversation about productivity, low investment and low growth. Fundamentally, in the section on the Budget, we talked about the need for public investment and capital investment to occur on the basis it now can occur under this Government. If you look to the past, the money put into the health service under the previous Government did not produce any productivity improvements. At the end of the last Government, the NHS was treating fewer people than before that last bit of cash was put into it.

Alison Griffiths: That was during covid.

***Jonathan Reynolds*:** That is not true. Generally, the recognition on a cross-party basis would be that the significant amount of money that went in at the end did not produce that.

The public sector pay deals are, again, slightly beyond the remit of this Department, given that we principally deal with the private sector. There was a process. The previous Government asked the working people in those public services to sign up to that process. They did that. The findings were made. That was not revealed to the public until after the election. The new Government have not done anything other than honour the process that we asked those workers to sign up to themselves.

When I go into my local public services, particularly schools, the public sector workers there are not living it large. They are under quite a lot of pressure. They are doing quite a lot with limited resources. Particularly if we are using the example of teachers, certainly the state schools in my constituency today get better results and function better than when I was a pupil at state schools.

Chair: We could relitigate this for a while, but we are going to move on to industrial policy.

Q62 **Gregor Poynton:** I want to take you back slightly to one of the things you talked about with Antonia Bance, the unsexy bit that you do not put on a leaflet about driving private capital. Over the Parliament, the OBR expects that higher public investment will crowd out rather than crowd in private investment. Is that a fair assessment or is that too pessimistic?

***Jonathan Reynolds*:** It is too pessimistic. Without getting too technical, in its forecasts the OBR assumes that the economy is at capacity at present and that the output gap between the potential size of the economy and the size of the economy will always narrow at the end of the forecast period. If it believes that the economy is at capacity today, it will assume that higher interest rates will crowd out higher spending and produce that outcome.

We have to break out of this doom loop of low investment, low productivity and low growth. That requires, for instance, the public investment that the Chancellor has committed to. I find that the most significant and important part of the OBR's analysis of the Budget is the point that there is a 1.4% increase in GDP in the productive potential of the UK economy.

That is an academic analysis, but in my constituency I think of the TransPennine line that needs funding and needs to be upgraded. I think of the Mottram bypass, which is just about to start construction. People tell me all the time that they know they are in my constituency because they are driving between Sheffield and Manchester and they get stuck in a traffic jam. If you go to other countries, you can see, to our detriment, how far our infrastructure has fallen behind.

It is too pessimistic. I understand the process by which they come to that account, but the commitments that the Chancellor has made are essential to the long-term growth forecast for the UK economy.

Gregor Poynton: You talked about the new fiscal rules and infrastructure. There are big spending and investment plans, but much of that spending is not in your Department. How do we make sure that the funding that is allocated and announced in that Budget does drive growth?

***Jonathan Reynolds*:** That is a really—

Q63 **Chair:** Let me just add a word to this. The Departments that are growth-enhancing are Defence, Science, Transport, Energy, including carbon capture and storage, and Business and Trade. That is the £11.8 billion increase in CDEL.

If we ask the OBR, "Why have you made a forecast that shows that this is not increasing the supply side?", it would say, "The Government have not told us how that money is going to go into the economy". This is such a critical question. How are you going to design this spending in a way that is going to crowd in, not crowd out, so that the multipliers set out on page 83 of the OBR forecast are on the upside scenario rather than the downside scenario?

***Jonathan Reynolds*:** You are right to say that a challenge for industrial strategy in the UK is, first of all, that there are lots of pots of Government money that, without any question, constitute components of industrial strategy that are spread beyond the Department for Business and Trade.

Chair: The least of it is in your Department.

***Jonathan Reynolds*:** Certainly historically, but the major issue is bigger than that. As a country, a much greater amount of support for business comes from the tax system, as opposed to grant funding. When you hear about Macron or the EU spending x amount on their plan for green industrial strategy, that is because there is a real inherent difference in how we do it. If you want a like-for-like, you need to add up the tax and spend as a percentage of GDP. It is a real question that we are very much considering in terms of the consultation responses to the industrial strategy. I do not intend or want the industrial strategy to be some sort of DBT takeover of a whole range of things that are done by different Departments. *[Interruption.]* He is smiling.

Chair: Your permanent secretary is smiling at you.

***Jonathan Reynolds*:** You cannot put into the Business Department everything that affects businesses. That is not how Whitehall is structured. Skills is a good example in the Department for Education, though historically it has been in this one.

How you co-ordinate that is the question. As a country—this is a question in every bit of spending that we do—how do we get the maximum impact? That requires analysis through the industrial strategy that we are putting forward.

Q64 **Chair:** When will you answer that question?

***Jonathan Reynolds*:** The focus on eight sectors in the industrial strategy is important. If you want the highest growth in the G7, you have to recognise that a disproportionate amount of UK growth over the last 30 years has come from a relatively small number of sectors. It is extraordinary that since 1990 half of GDP growth in the UK has come from financial and professional services, ICT or advanced manufacturing. You have to make that prioritisation. After picking those sectors, you have to look at what the Government are currently doing for them. I would not say that it is sometimes contradictory, but it is sometimes not co-ordinated in terms of the impact of those things.

This question goes to the heart of why the country needs an industrial strategy and how it needs to do policy better in a whole range of areas. I understand why the media judge industrial strategy by the quantum of the price tag of the investment attached to it, but it has to be about doing things better as a country.

Q65 **Chair:** The question is how you crowd in the money. What are the lessons you have learned? How are you going to get the design of these instruments right so that private sector investment is crowded in and not crowded out?

***Jonathan Reynolds*:** The strong evidence in our work shows how we will do that. First of all, there is the sheer sum of money that has come in through the international investment summit, which we did.

If you look at some of the specific questions around the steel industry, the steel industry cannot hit the multiplier that we would ideally like, but fundamentally the money we are putting in from this Department—we are giving £500 million to Port Talbot, for example—is leveraging in a much greater degree of private sector investment. We are getting more and more, as a plan, from that than we inherited on day one of the job.

That is the challenge. When we talk about higher public investment or the work of the national wealth fund, it is specifically around the kinds of initiatives, whether that is gigafactories or green steel, that will trigger and bring in that greater amount of private investment. The test of that is, "Is it a good deal?" Some of those questions have to be answered on a deal-by-deal basis.

Q66 **Gregor Poynton:** I just have a couple of quick follow-ups. You talked about the investment piece and the bit about co-ordination, and you touched on skills. You have also talked about planning, the stability piece, tax, regulation and political stability. Again, these things are not necessarily part of your Department's remit, but will we see in the industrial strategy an attempt to co-ordinate across those areas?

***Jonathan Reynolds*:** Yes, absolutely. I sometimes think of DBT as a box-to-box midfielder, joining up other bits of Government and always being here to help.

I have talked about the relationship to other Cabinet members. I am serious when I say that one of the reasons that we should be so excited about the future of the UK is that I do not think that there has been a time in history when we have had the relationship between the Business Secretary and the Chancellor or across the Cabinet that we have today in order to get this right.

I was at Pinewood Studios last week. The creative sector is over the moon to be part of the industrial strategy. The Secretary of State for DCMS sees this as a key part of what she wants to do. The fact we have defence as a sector is really important for the future of the UK and for

European and world security. That is something strongly supported by the Secretary of State for Defence.

Because we have this growth mission, all Government Departments are asking how they can make a contribution to it. Industrial strategy is one aspect, but it is a great way to co-ordinate all of these aspects of Government policy in a way that is cohesive, clear and understandable. That is why it is so essential that we have one.

Q67 **Antonia Bance:** If you are a box-to-box midfielder joining up everything, one of the key things that needs that join-up—you have mentioned it—is skills. Employers are worrying about the lack of continued purchase on the skills agenda. The remit of Skills England is slowly emerging, but I would very much like to hear a commitment from your Department that you will hold feet to the fire on behalf of the skills needs of our employers and our workforce. For me, this feels personal because I represent a place where 30% of adults have no qualifications.

***Jonathan Reynolds*:** I happily give that commitment to the Committee. First of all, the fundamental policy change is the change from the apprenticeship levy to the growth and skills levy, which will give businesses much more flexibility. It is a policy that was designed very much in conjunction with businesses in order to do that. Skills England is therefore the key body in terms of approving what that resource can then go into.

The Government's commitment to devolution is also a key part. If you think about my area, Greater Manchester has never been able to specialise its FE provision because we have never had the necessary infrastructure. The key enabler has been re-regulation of the buses in order to put in place a transport system that can do that.

I do a series of CEO calls from the Department: I ask anyone who wants to join to come on the call, and we talk about a particular area. I am planning the next one to be on skills and I am getting the Secretary of State for Education along.

For any business, a skilled workforce is going to be one of the crucial determinants of success in whether it makes an investment decision or in whether it expands or continues to be based in the UK. The introduction of the apprenticeship levy was a really interesting innovation under previous Governments, but we have seen a drop in apprenticeships since it came in. The case is very strong in terms of where we need to go to.

The institutional architecture—by the way, there will be a relationship between Skills England and the Industrial Strategy Council in order to do that—is definitely very important.

Q68 **Antonia Bance:** The Green Paper said that past industrial strategies have been held back by weak co-ordination and delivery. How are you going to avoid that happening again? I appreciated your mention of devolution in the last answer. I would particularly add that this Committee has a heavy preponderance of west midlands MPs, who are very keen to ensure that the industrial strategy delivers for the advanced manufacturing of our area, particularly automotive.

***Jonathan Reynolds*:** The first thing to say is there is no tension between a national industrial strategy and greater devolution. Look at the arrangements that work quite well in most countries. That example of skills is a really strong example of how a national framework and local delivery can work really well together. I have forgotten the first bit of the question, Antonia. What was it?

Antonia Bance: It was about co-ordination.

***Jonathan Reynolds*:** The industrial strategy that existed briefly—I have said this publicly—under Greg Clark, when he was the Conservative colleague in charge of it, got to the heart of what an industrial strategy should be. It was not nostalgic. It was not some sort of protectionist attempt. It recognised that we have sectors of the economy that we need to grow, defend and be more competitive in; that other countries want a slice of some of the things that we are good at; and that, as a country, we do not co-ordinate locally, nationally or across Whitehall sufficiently to do that. The relationship between local and national was part of that strategy.

There were two big areas where it needed to be done differently. The first was in the longevity of it, to state the obvious. That was not because of the people who were the authors of it. The Industrial Strategy Council is an attempt to recognise that and to say, "This is going to be a permanent body in UK life, and therefore we are not going to fall into the kind of short-termism that people are worried about."

The second area, which is perhaps the most important bit, is that point about co-ordination and this being a cross-Government thing. It is led by DBT, but it is not just a DBT strategy. It will not work in that regard. I said that to the Cabinet in one of the first weeks: I said, "Whatever I do, this will not work unless you have all bought into it." I have the support of the Chancellor, the Prime Minister, the Deputy Prime Minister and all the principals covering those sectors in a way that no Business Secretary has had, certainly in my time in Parliament.

Q69 **Antonia Bance:** On the point about co-ordination, you would expect me to say this as a champion of manufacturing and of automotive, but for months and years we have been hearing the problems that our motor manufacturers are having with the electric vehicle mandate. Is there going to be change on that soon? I certainly hope so.

***Jonathan Reynolds*:** Yes. This is a very significant priority, and you will almost certainly be aware by now of the news from Stellantis and Ford last week. This is a very difficult day for Luton particularly.

I will say a bit more on this. I am at the SMMT's annual dinner this evening. We cannot in any way undermine the transition that we know we have to make, in this case around electric vehicles. The intervention from the previous Prime Minister and the impact it had on consumer confidence were very regrettable. We have to make sure that the policy is working in a way that gets us there. I do not see any tension between being committed to that transition and to UK manufacturing.

I have said repeatedly that decarbonisation cannot mean de-industrialisation. I have no interest in the country hitting its climate targets by shutting down jobs and industry. That is just not the way to do it. It has to be about that transition. I work very closely with the Transport Secretary around this. We are looking at the ZEV mandate to make sure it is operating in such a way that allows British manufacturing to get to that destination. There will be a consultation announced in due course on an expedited timescale that allows us to consider whether that policy is currently operating as anyone expected it to. I do not think it is. I get the seriousness and the urgency of the situation.

Q70 **Chair:** Are you saying that the timescale that has been set previously may change?

***Jonathan Reynolds*:** Different OEMs have different issues, particularly if they are in both van and passenger vehicle manufacturing. Everyone agrees on the destination, but, without in any way changing how many EVs there will be on the road, we have to analyse whether the UK environment for automotive manufacturing is going to get us to the destination in a way that keeps those jobs and that industry in the UK.

Green industrial policy should not be protectionist, but at the minute—let us be frank—we have inherited the opposite. We are incentivising imports over domestic production. That is not a kind of special pleading from the industry, because we have seen the scale of what is happening. Stellantis is part of that. We know what is happening across Europe in terms of overall demand. As a Government committed to both the industrial strength of the UK and the transition, we have to be willing to work with industry and ask ourselves whether the specific provisions of that policy are working as they should do.

Q71 **Chair:** We need a bit of a pragmatic rethink.

***Jonathan Reynolds*:** We have to be willing to do it. We do not want to undermine the destination, but let us look at what it has meant and what it means right now for British vehicle manufacturing. Right now, it is not working as anyone intended.

Q72 **Matt Western:** I would love to stay on that subject, but we must move on. I want to talk about dynamic pricing. There is a lot of concern out there. The CMA introduced its review 10 or 12 days ago. Anyone who has tried to buy anything online—particularly airline tickets, travel tickets or, dare I say it, Oasis tickets—will have suddenly experienced a rise in price just as you are about to click "purchase". What is your view on dynamic pricing?

***Jonathan Reynolds*:** I will keep this relatively short, because I know there are a couple of issues you want to cover before we finish.

First of all, the UK and this Department have a strong tradition of defending and regulating consumer markets where there are things that we are concerned about. I see competitive markets in these areas as being part of that pro-business pitch. There are particular concerns not just about dynamic pricing, but around secondary ticketing, which is the principal objective of the Government's consultation. We have a piece of work under way to look at that market and whether consumers are getting a fair deal.

That is an important thing to be looking at. We are all aware of just how our constituents feel about how parts of the market are working at the minute.

Q73 **Matt Western:** With the background of the cost of living crisis and rip-off Britain, there is perhaps increasing evidence of price gouging. Depending upon the outcomes of this review, what do you expect your Department to do in response to that?

***Jonathan Reynolds*:** You can get yourself into trouble if you pre-empt a consultation. As a Secretary of State, I have enough judicial reviews against me on a day-to-day basis. We are committed to tackling any area where we think the British consumer is not getting a fair deal. People just want to know that if they play by the rules and do things in the right way, they are not going to be ripped off. Where action is necessary to do that, that is where our focus and attention will be.

Q74 **Chair:** We have five very brief topical questions, so we will try to rattle through them as fast as we can. On Royal Mail, is it your assumption that the universal service obligation will stay as it is?

***Jonathan Reynolds*:** A universal service obligation is essential. We are all aware of the fundamental decline in letters and what that means. I am pragmatic about the future, as is the union. I want there to be a universal service obligation. It is something that binds the country together. It is a really important part of our national life. Of course, I am aware of the economic problems of Royal Mail. I have to be aware of that. Fundamentally, I want a strong, prosperous Royal Mail at the centre of national life.

Q75 **Mr Joshua Reynolds:** We know that the takeover of Royal Mail by Daniel Křetínský's EPH has been called into Government to face scrutiny on national security issues. Would you confirm why that review is taking so long and assure this Committee that his previous business dealings with Russia are being fully scrutinised?

Jonathan Reynolds: The first thing I would say is that I cannot comment on that timescale or give commitments because it is a Cabinet Office responsibility as part of the machinery of Government that we inherited when we took over on 4 July.

Mr Křetínský is the principal shareholder in Royal Mail and has already been through a National Security and Investment Act process. If there were anything of the like that you describe in terms of links to Russia, I would have hoped that that would not have resulted in him becoming the principal shareholder. I would question the evidential basis of those particular claims about Russia. He is a legitimate business figure who has a number of business interests in Europe and the UK.

I cannot comment on the process that sits beyond my responsibilities, but in any situation like this there are undertakings that I would want as the Secretary of State. That is not just pertaining to a proposed takeover, but what it means further down the line for people who might—at a future point, five or 10 years down the line—then become the owner of Royal Mail, if it goes in this direction.

Fundamentally, Royal Mail is a business that is incredibly important. It has an incredibly dedicated workforce. It has had a very difficult period, in terms of its own industrial relations and its own market share. The fundamental test has to be whether anyone, if they are proposing to take it over, comes up with a business plan and a set of assurances to the British state that makes sure it will go on to be in a stronger position than it is in now.

From the economic and business point of view, that is the test. The National Security and Investment Act process is something different. I do not know whether you want the permanent secretary to come in on that or whether you want to ask any other rapid-fire questions.

Q76 **Chair:** Time is against us, I am afraid. On Harland & Wolff, are you now renegotiating with Navantia? Are you ultimately going to have to give them more money and bigger contracts to keep that business going?

Jonathan Reynolds: Harland & Wolff was one of the flashing red things on the dashboard as we walked through the door following the election. It should have been dealt with by the previous Government—there is no doubt about that. It was clear that any state guarantee would be a very poor use of public money. The Department had an open book with Harland & Wolff at that stage. To be frank, the decision that I made should have been made earlier, which is to say, "This requires a market-led solution, and any public money would not be well used if it were put into this process." We would effectively lose any guarantee that we were given.

I want all four shipyards to be kept together. That is the basis of the Navantia bid. They are in talks around that. I will not comment on some of the specifics around that. To be frank, they relate mainly to the relationship to the MoD and the contract for the fleet support ships.

Q77 **Chair:** On Stellantis, you have said you are going to have a think about how we ensure that we do not de-industrialise the country as we decarbonise. What further support will there be available for Luton?

***Jonathan Reynolds*:** The first thing to say is that it was less than 10 days into the job when we were first told by Stellantis that the consideration to close the Luton plant was what they wanted to do. We have met many times with them since then. It is something that we have fought back on very heavily because of what it will mean for people in Luton.

Their request was to look at some of the specific aspects and some of the flexibilities around how the ZEV mandate works. The Secretary of State for Transport and I were willing to have that conversation. The whole industry has concerns, as I say, because of how it is operating. We are willing and have moved further in that direction, but we were told this morning that the decision has been made.

To rationalise operations at Ellesmere Port is, to be frank, a better outcome than it could have been, because Stellantis has significant overcapacity, as you will know, across this European footprint. We could have lost those two key lines to a different factory. They are going to Ellesmere Port, and I understand that there is going to be a £50 million to £60 million investment in the paint shop to do that.

That bit is good news, but I would not want to give any other impression than that I believe that this is a very difficult day for people in Luton. The Department will be giving them full support, as will all of Government, and we will do everything we can to help those people in that position.

Q78 **Chair:** On British Steel, are we effectively at the point now of renationalising the facilities in Scunthorpe? What extra money is going to go into British Steel and Scunthorpe?

***Jonathan Reynolds*:** No, the new UK Government have a specific commitment to a green steel fund. Again, Committee members will know that if you look at any developed country's transition to green steel, the cap ex need is so overwhelming that it has to be a public and private collaboration. That is the commitment and the new Government have brought in that money.

In relation to Port Talbot, by the way, we have not put more money in yet, but we have got a much better deal for the £500 million and we are working with Tata on future investments. We had to make the decision on the electric arc furnace for Port Talbot simply because, had that decision not been taken, they would have missed out on the order slot, as I described when I gave a statement to Parliament a few weeks into the job.

In relation to Scunthorpe and British Steel, we are in ongoing negotiations with British Steel about a public and private package that would be the transition to electric arc furnaces. It is a live negotiation. Again, there is considerable resource that sits behind that policy commitment from the UK Government, but I cannot pre-empt those negotiations at this stage.

Q79 **Antonia Bance:** We are all looking forward to the steel strategy in the spring, but in the meantime the Government could have done more to improve the business environment for the steel industry, such as by uplifting the electricity network charging compensation from 60% to 90%, as recommended by UK Steel. Of course, we had the disappointing response on the UK CBAM, which is going to leave the steel industry exposed. Will the steel strategy turn this around to make sure that we still have a home-grown steel industry?

Jonathan Reynolds**:** I am personally committed to a UK steel industry. As you know, we are an outlier as a major developed economy in terms of the relative size of our steel industry compared to the size of the economy. You would usually expect a direct correlation, and you see that in every country except the UK.

I am always keen to stress that steel is not some sunset industry; it is fundamental to a modern economy. There are opportunities to grow the UK steel industry, if we get it right. You touch on a couple of specific policy issues there that relate to some other Government Departments, which need to be part of that steel strategy. I would absolutely welcome the support of this Committee on a comprehensive steel strategy that addresses some of those issues.

Q80 **Chair:** On the Post Office, Alan Bates has now come out of his recent meeting with sub-postmasters and said that their plan is to go back to court if there is not significant movement on settling the GLO scheme and the victims therein by Christmas. What is going to change for Sir Alan Bates and the other victims who are still seeking redress by Christmas?

Jonathan Reynolds**:** You will be aware, Chair, of comments I was able to make at the Sir Wyn Williams inquiry in relation to this. I know that Sir Alan's request is for a deadline by which the GLO claims have to be submitted. I understand Committee members will be aware that the problem is effectively those claims not being received yet and therefore cannot be processed through the system. Of course I am listening to that. My concern is this: can you imagine a situation in which a deadline resulted in a position where the injustice was compounded for people who are not in a position to get those claims in?

Q81 **Chair:** What will change by Christmas so that Sir Alan and others do not need to go back to court?

Jonathan Reynolds**:** Despite these doubts—I am being open about my thinking in this area—if I felt that by Christmas there had not been a substantial improvement in those coming in, I am willing to consider any course of action that would do that.

Specifically, I have written to the advisory committee, which we would all recognise has played a really positive role in this, Lord Arbuthnot and now Lord Beamish, formerly known as Kevan Jones, in giving their advice as to the way forward. There are some different views and they have to be reflected.

We want those claims to come in and we want to get on with them. As you know, many of the recommendations of this Committee, on the timeline to respond to claims, we implemented in the changes that we have made since the election to a whole range of areas. The compensation is up considerably since the election. We are committed to doing this at pace, but I want to make sure that no one has the injustice that they have experienced compounded by any action that we take.

Q82 **Mr Joshua Reynolds:** You spoke about the response to claims in that answer. Several weeks ago we spoke to Dewi Lewis, who is currently going through the Horizon convictions redress scheme. It took seven weeks for his initial payment to be received, which coincidentally only arrived the day after he was confirmed that he would be coming to speak to this Committee. I am a bit of a cynic. Are you a bit of a cynic too?

***Jonathan Reynolds*:** No, because I know the scale of what we have been able to do, certainly since the election, whether that is the creation of the Horizon convictions redress scheme or the work I was able to do on a cross-party basis as the shadow Secretary of State around the legislation to get those convictions lifted. We should not underestimate the scale of the constitutional innovation that that represented. We took that responsibility very seriously.

You can look at the appeal scheme for the Horizon shortfall scheme, the changes that were made on some of the timeframes and the fixed-sum awards that we are able to give. Everything that I am asking my officials to do to resolve this scandal, at pace, is being done.

You will understand that Ministers do not get directly involved in particular cases, in terms of the compensation that is awarded, but if there is any case for which this Committee feels the timeframe is not sufficient and you want to highlight that to me so I can take it away, that offer is always there.

Q83 **Mr Joshua Reynolds:** That was one where the interim payment was meant to be done within a few weeks and it took seven. That was longer than the initial timeframe for his interim payment.

***Jonathan Reynolds*:** I am more than happy to look into that, but from the evidence that I am seeing, there has been an increase in compensation payments—both full and comprehensive claims and interim payments. By the way, that has not been at any expense of accuracy, in terms of some of the more complex claims in the process that they have gone through. I am absolutely committed to justice being delivered at pace.

Q84 **Chair:** The Post Office is still employing some of the investigators who investigated the sub-postmasters. Should they still be employed at the Post Office?

***Jonathan Reynolds*:** The Post Office requires fundamental reform. I would not want to comment on anyone's particular employment circumstances without knowing the full nature of their engagement within that. Clearly, people who played a major role in the scandal should be playing no role within the Post Office.

As I said at the inquiry, justice in this area is not just about getting these payments out to people and about people who are eligible for them being recognised and brought into the schemes; it is also a recognition that the deal that sub-postmasters get at present is not good enough. They have to earn more money. Too much of the money that is made in the Post Office goes to the centre, to the head office.

Again, I do not want to see anyone lose their job, but we will not have a healthy, robust, successful and prosperous Post Office going forward unless we get more remuneration to people on the front line. That is part of the business case and the culture that needs to change in response to the scandal.

Q85 **Gregor Poynton:** I will keep it quick, given the time. You have talked in the past about your ambition for audit and governance reform. When can we expect to see that Bill, and what will be in it?

***Jonathan Reynolds*:** I am pleased. Sometimes audit reform does not get the public attention it deserves.

Chair: That is not true on this Committee, Secretary of State.

***Jonathan Reynolds*:** I am pleased to see that the Committee focuses on that. Coming here, I reflected that when I was a member of this Committee, whether it was the Sports Direct inquiry, the Carillion inquiry or our work on industrial strategy, many of the things that we looked at as a Committee have found their way into the policy agenda of this Government, which speaks very highly for the work of Select Committees generally and particularly the history of this one.

Around audit reform, I am very clear that this must be handled sensitively around the burdens that we put on business. It is a work of unfinished business. I do not really understand why the previous Government announced the Bill and did not continue. Some of the bigger things, such as the separation in terms of the big four of audit and consultancy, have broadly already happened.

You ask what is in it. There are some fundamental things that we all recognise, like the accountability and regulation of directors or the fact that primary legislation is required to take forward a new regulator.

This is really important. I am very proud that we got four Bills in the King's Speech. This is a really important set of proposals. It has to be handled in a very constructive way. I am cautious of putting in place anything that is burdensome to businesses, but this is a piece of unfinished business that should be completed.

Q86 **Chair:** The car crash that is ISG appears to provide fresh evidence that this Bill needs bringing forward. Do you have a sense of what the timetable is?

***Jonathan Reynolds*:** I believe our intention is to present it to the Lords first. I do not have that timescale to hand, but I agree. You see some of this in the big corporate failures, and it reminds you of the core case. It is important to say that audit reform is not an insurance policy against corporate failure; it is about the transparency and confidence that people have in financial reporting. The case for that is strong.

Q87 **Gregor Poynton:** I have one last question on that. You talked about the accountability of directors. Will that be all directors, not just those with professional qualifications?

***Jonathan Reynolds*:** Yes, that is right. That is the intention of the Bill.

Q88 **Charlie Maynard:** I want to ask a related question about the implementation of the Economic Crime and Corporate Transparency Act 2023 and the transformation of Companies House into a register that demonstrates the ultimate owner of property and companies. I would love to get a sense of a timeline for when that is going to be enacted, because it is really important to make sure that the UK is not a nexus of dirty money.

***Jonathan Reynolds*:** Yes, absolutely. I strongly agree on the case for this. There has been a really welcome coalition in Parliament in previous years that we need to continue on this. I do not have that information to hand, but I can write to the Committee.

***Gareth Davies*:** The only thing I would add is that we have already increased the resources for Companies House. They are now recruiting and growing their teams to strengthen and improve the quality of the register, because we know how important that is. Some of the changes have already been enacted, but some of it will be around the capability and capacity that they have over this coming financial year.

Q89 **Matt Western:** I have a very quick question. I just want to pick up on the Chair's opening line of questioning. Secretary of State, the extraordinary achievement of getting £63 billion of inward investment was an excellent result and a real vote of confidence in the UK. Last week, we saw the PMI indicator coming in at less than 50. Is this just a blip? What is your thinking on how we are going to pick that up?

***Jonathan Reynolds*:** I have absolutely no hesitation in saying that the UK is and will be one of the very best places to invest your money going forward. We should look at the stability that comes from the general election result; our openness to Europe and the rest of the world at a time when too much of the world is retreating into isolationism and protectionism; the new Government's willingness to use the scale of the mandate that we have to do things that we know need to be done, such as building houses and infrastructure and sorting out grid transmission; and how we are genuinely looking at the experience of the private sector and the investors coming into the UK, whether those are domestic businesses or international investors.

We should have some confidence in the UK going forward, notwithstanding the challenges. We are not naive about those—of course there is a lot going on around the world and it is challenging—but we should have some real confidence in what we are good at as a country, what we are going to improve and how we are going to be that beacon on the world stage. I have no doubt about the positive message that I want people to take away. I am really genuinely excited about what the next few years could hold for the UK.

Q90 **Chair:** As we digest your answers, we have to draw conclusions on which big areas of scrutiny the Select Committee should focus on. As you know from your time on the Committee, our role is unique in that we try to find the overlapping consensus between parties here in Parliament about where progress can be made. In which areas can the Select Committee add most value through its scrutiny work?

***Jonathan Reynolds*:** First of all, the history of this Committee is a really recognised and prestigious one in terms of the contribution it has made to the public debate in these areas. The fact that you can draw threads from Committee reports in the past to some of this Government's agenda tells you something very positive indeed.

First, we need to make sure that industrial strategy is everything that it could be. That is going to be quite a big deal. There are things that we can learn from other countries. This could be a great forum to bring people in and do that.

There are questions of regulation. Again, they might not always dominate the public consciousness, but there is a question of—to use the Chancellor's phrase from her Mansion House speech—how you regulate for growth rather than regulating in such a way that you take out risk because you are not doing the activity that you need to. That is a really big part of that.

I detect a huge interest in Parliament around high streets and town centres and how we can work across Government on that. You might have some different Government Ministers coming in to give evidence together around that.

There is no doubt that trade is going to be a very significant issue into 2025. How we balance those different interests is going to be a key part of it.

Alongside those really important thematic pieces of work, I have always thought that there is a great opportunity on some more specific issues. Good examples of that would be steel or the future of the automotive sector. If we are being honest, this is a better place to get into some of the detail, which is really important, than the traditional opportunity given to a Minister standing at the Dispatch Box.

Chair: You have been very generous with your time. Thank you very much indeed. Mr Davies, thank you very much indeed for coming along. I am sorry that we were not always able to get the full measure of your answers because time was so short, but we are very grateful to you both.