HOUSE OF LORDS

Select Committee on the European Union

Goods Sub-Committee

Corrected oral evidence: Beyond tariffs: facilitating UK-EU trade in manufactured goods

Monday 15 June 2020

10.40 am

Watch the meeting

Members present: Baroness Verma (The Chair); Lord Berkeley; Baroness Chalker of Wallasey; Lord Faulkner of Worcester; Lord Inglewood; Baroness Kramer; Lord Lamont of Lerwick; Lord Lilley; Lord Russell of Liverpool; Lord Shipley; Lord Turnbull; Lord Wood of Anfield.

Evidence Session No. 3 Virtual Proceeding Questions 20 - 39

Witnesses

I: Helen Foord, Head of Government Relations and Public Policy, Groupe PSA UK; Jill Adamson, Head of Financial Reporting & Tax, Alexander Dennis; Neil Fryer, Vice President, Aftermarket Global Product, Marketing & Strategic Planning, Delphi Technologies; Paul Everitt, Chief Executive Officer, ADS.

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Examination of Witnesses

Helen Foord, Jill Adamson, Neil Fryer and Paul Everitt.

Q20 **The Chair:** Good morning to our witnesses. This is a public session and is broadcast live. We have had all your biographies sent to us beforehand and have given you notice of the questions that will be asked. There may be supplementary questions. It would be most useful if you would make a very brief opening statement to set the tone for the Committee. The transcript will be sent to you once the session is over. If any changes or corrections need to be made, please send them back as quickly as possible.

We would like to welcome Helen Foord, head of government relations and public policy at Groupe PSA UK; Jill Adamson, head of financial reporting and tax at Alexander Dennis; Neil Fryer from Delphi Technologies; and Paul Everitt, chief executive officer at ADS. May I ask you to start with a brief introduction?

Helen Foord**:** Thank you for the invitation to give evidence today. I represent the brands Vauxhall, Peugeot, Citroën and DS in the UK. We have two manufacturing sites, in Luton and Ellesmere Port.

Jill Adamson**:** Good morning. I represent Alexander Dennis Ltd. We are the world's leading manufacturer of double-deck buses. We have three manufacturing sites in the UK, at Guilford, Scarborough and Falkirk. We are grateful for the opportunity to present to the Committee today.

Neil Fryer**:** Good morning and thank you for the opportunity to participate today. I work for Delphi Technologies, a supplier to vehicle manufacturers, producing propulsion systems for petrol, diesel, hybrid and electric vehicles. We have six sites in the UK, covering manufacturing, engineering and aftermarket.

Paul Everitt**:** Good morning, everyone. I am the chief executive of ADS, the UK's national trade association for aerospace, defence, space and security. For us, trade with our European Union partners is a very high priority.

The Chair: How will non-tariffs barriers affect your businesses, or the businesses you represent, at the end of this transition period? How much of an obstacle could they be for the future of EU-UK trade?

Helen Foord**:** The automotive industry is heavily regulated. From a technical perspective, we start in the same place as the European Union. For the minute, all the regulations affecting the vehicles we sell are the same in the UK as in the EU. We type-approve vehicles to sell on the market. Without that type approval, you cannot sell a vehicle on the market. As we leave the EU, it is critical for our industry that we keep that regulatory alignment from a technical perspective.

As soon as we diverge from those regulations, we enter an unprecedented scenario for our sector from a European point of view. All that does is add cost to our vehicles. Potentially, we would have to replicate the crash testing that we do in Europe for the UK, for exactly the same vehicles. That adds tens of millions in cost, just from a type-approval perspective. Further down the line, there is greater possibility of regulatory divergence on anything from autonomous vehicles to crash testing. Having slightly different rules means that vehicles have to be adapted at additional cost to sell on the markets.

***Jill Adamson*:** Alexander Dennis's main concern is about the administration of imports and exports that will replace the acquisitions and dispatches with the EU. We do not currently sell many products into the EU, but 20% to 30% of our supply base is from the EU. A single double-deck bus contains around 10,000 components, and to organise the paperwork for all those components will be a significant burden to us. Compared to the likes of Peugeot, we are a relatively small company, and we have a small trade compliance team at the moment that we would need to triple or even quadruple to meet these requirements.

***Neil Fryer*:** Maybe I can focus on the part of the business I am responsible for, which is the aftermarket. As with vehicles, we are heavily regulated, and many components we sell require safety regulation, particularly brake parts. If there were a divergence of regulation between the UK and the EU, we would have to test thousands of parts twice and get certification twice, which would be complex and costly for our business. Yes, we would like to see a continuance of the same regulations with the EU to avoid that course.

***Paul Everitt*:** There are two key issues for us. One is definitely regulatory alignment. The UK is part of the European Aviation Safety Agency, which has governed all aspects of aircraft and aviation, both design and use, over the last 15 or 16 years. When we complete the transition period, it is essential that that relationship is sustained and that we do not create a situation where, as others have mentioned, we have to undertake twice the certification processes for our parts and whole products.

More importantly, we need to be part of shaping the future rules and regulations for our industry. Aviation is an international business. The key drivers for regulatory development are in Europe, the US and, perhaps coming up more quickly, China. Shaping those regulatory regimes is one way we can access not just the European market but a much broader global market.

The second key concern for us is friction at the border. The customs arrangements, as well as the management of the border, will be crucial for us in minimising future costs.

Q21 **The Chair:** The Government have said that lots of work has gone on in the past few months to address a number of the issues that businesses such as yours have raised. If you had an opportunity to put one question directly back to the Government, what would it be? Administration costs are coming up quite frequently as a discussion point, but so is the alignment of regulations.

***Paul Everitt*:** We would want to understand the Government's rationale for not seeking to continue to be part of the European Aviation Safety Agency. We have been told by the Government that they are not, but there is no established safety case as to why we should not continue. We believe that through the current negotiations we can achieve an outcome that is good for UK industry and its long-term prospects as well as meeting the Government's concerns about ECJ jurisdiction and a number of other things.

***Neil Fryer*:** Similarly for us the question is whether we will continue to have the same regulations as Europe. As a supplementary question to that, when will we know? We need to make preparations if that is not the case.

***Jill Adamson*:** I have nothing further to add. When will we know, to be prepared?

***Helen Foord*:** When will we know? Absolutely, that is critical. We have to plan and we have less than six months. Either way, we need to know.

Q22 **Lord Turnbull:** We were talking about regulations as part of the suite of non-tariff barriers. I will come to what some people think is the most difficult issue, rules of origin. How important are the negotiations on this for your businesses? Supposing rules of origin were applied now and you did the calculation of UK content, how far adrift would you be of where these regulations might end up? How much adjustment might you have to make?

***Jill Adamson*:** The supply base in the UK for our components is fairly limited. Many of our vehicles are bespoke and the components required are requested by our customers, the bus operators. As a result, 30% to 40% of the components of a UK bus are from the EU, with others from elsewhere in the world. If we were looking at the percentage of regional value content, we would struggle to get to the 40% to 60% that is in some free trade agreements.

***Neil Fryer*:** We are really focused on UK content. We would have to cumulate that with the EU to really understand, and I do not have that detail with me today. In many cases, the products we finish in our UK plants have components that come from around the EU. From our point of view, in the future it will be important to be able to say whether we are selling a UK or an EU-produced component. We would need to come back to you with some detail on that.

The Chair: That would be very helpful. Thank you.

***Paul Everitt*:** Aerospace is slightly different. There is a long-standing plurilateral agreement on the sale of aircraft and aircraft parts, which is predominantly about removing tariffs but also addresses rules of origin. For the overwhelming majority of transactions, rules of origin have not been a limiting factor, and we do not believe they will be. Some partfinished parts and raw materials may be slightly nuanced in that, but it has not been our biggest focus of concern.

***Helen Foord*:** For our business and UK automotive as a whole, meeting the rules of origins that are determined is critical to ensuring that our products benefit from a 0% tariff. The industry is used to global supply chains, and we have a very complex supply chain system. The majority of our suppliers are currently based in the UK and the EU, but, as we move to battery electric vehicles, lots of those major components are sourced in Asia.

To take one step backwards and look at the content of our vehicles, we first count the UK and EU content, because our assumption is that we will have that bilateral cumulation. From an industry point of view, we would look at levels of 50% or 55% of originating content between those two countries. If it is set at that level, we believe that the majority of our vehicles will benefit from the 0% tariff.

When we apply that argument to a battery electric vehicle, the battery, which is a high-value part, tends to come from the Asian market, and as the European and UK markets start to develop their battery technology it will fall foul of the rules of origin levels and could incur a 10% tariff unless we have a bespoke arrangement for the battery itself. That is very important.

Lord Lamont of Lerwick: What you said about batteries and electric cars in Asia was very interesting. Will any of your supply chains in Asia have been altered by the pandemic? I have read that in some newspapers.

***Helen Foord*:** To my knowledge, now that our manufacturing facilities have restarted in Europe, we are still producing our battery electric vehicles. So far, from a Groupe PSA perspective, we have not seen any impact on those supplies coming in to date.

Q23 **Baroness Chalker of Wallasey:** Can I follow up, starting with Helen, in view of what she has just said? I wonder how the rules of origin will affect the business decisions about which country to locate activities or source components in. It seems to me that this has big implications for the integrated supply chains that we are used to, including supply chains with other third countries like in Asia, which Helen has just remarked on.

***Helen Foord*:** When we source a component, we have to undertake a variety of analysis on where it has been sourced from, the free trade agreements, and whether it alters the rules of origin for our key markets. Going forward, that has to be a focus for our organisation. An engine, for example, is a high-value part that has the ability to tip the rules of origin one way to another, depending on where it comes from. If we currently source those engines in Europe and change to source them from elsewhere, all of a sudden our vehicles will not meet rules of origin.

For certain models, that will a key element as the lines and levels of rules of origin are determined. If your vehicle is on the cusp of that, any small purchasing decision could move your vehicle either way, so it might not meet rules of origin and then incur a 10% tariff. It is a very complex picture that constantly changes in automotive. We are constantly looking at sourcing alternative parts as we look, from a carbon point of view, to move major components closer. We have recently announced heavy investment in battery manufacturing facilities across Europe.

Baroness Chalker of Wallasey: I wonder whether any of the others have views, because I would have thought that was the same across all industries.

***Neil Fryer*:** We supply components to Groupe PSA. We have around 24 manufacturing sites globally and a customer’s rules of origin requirements could cause us to move production of a particular component from one plant to another in a different location. For example, if we were making a component for an engine and it might tip the balance of where our customer could say the vehicle was produced, we could move to another plant in a different location, from the UK to the EU, but equally from Asia to the EU, where it made sense to do so and helped us to satisfy our customers. Those things will drive some decisions, maybe not in the situations for plants themselves, but in what is produced where as we go forward.

Lord Turnbull: In a perverse way, could this benefit the UK? One of the choices you would have is to take production somewhere else in the world, such as Malaysia. You could bring that into the EU, or the UK, and improve your rules of origin score. It might add to your costs, but it would divert production into the UK.

***Neil Fryer*:** You have to look at individual cases, but for us at least the UK is a relatively small customer base. We have 87 global customers for our products, in terms of original equipment supply, only two of which are based in the UK. In the management of a global business, these decisions are much more finely balanced. If the UK had such an advantageous trading relationship with many other geographies, maybe we would make that decision. At the moment, it remains to be seen exactly what those trading arrangements will be.

***Jill Adamson*:** There are two issues. There is the timing issue of the investment required in the UK to build up the supply base, which will take time. The other timing issue relates to existing free trade agreements. The import duty into the EU on a completed bus is 16%. Under the new global tariff, the average import duty on components into the UK is between 2% and 4%. The completed value of our double-deck buses is maybe £250,000. It is a large percentage of a big value.

If we think that by manufacturing in the EU we could benefit from other free trade agreements, such as with Canada or Mexico, that will influence where we wish to manufacture in the future. That is why I highlight timing, because these free trade agreements with the EU took many years to negotiate. To replicate that out of the UK, supply base percentage aside, takes a lot of time and therefore a lot of cost between now and when those free trade agreements are concluded.

***Paul Everitt*:** The new customs arrangements with the European Union and their costs will inevitably impact how people understand and re-plan their supply chains. There will doubtless be situations where we win, but the biggest concern is that there are probably more places where we will lose.

Q24 **Lord Russell of Liverpool:** From all the evidence we have heard to date, it is very clear that the rules of origin barrier is incredibly complex. I imagine that each of you in your businesses has made some rough estimate of the cost associated with proving rules of origin. How would that compare with what it costs your business to trade under the EU's existing external tariffs on the materials and products your businesses use?

***Helen Foord*:** Yes, there is an administrative burden in proving the rules of origin, but it is thousands of pounds, whereas the risk of the tariffs associated with our products, whole vehicles as well as parts, runs into hundreds of millions of pounds. By far the most important point for our organisation is to get the rules of origin correct, as you can see the vast difference. We will happily pay a few hundred thousand pounds for the admin to save hundreds of millions of pounds on tariffs, which is an additional cost to our business across Europe, and not just the UK.

Lord Russell of Liverpool: Jill, would that be the same for you?

***Jill Adamson*:** Yes, it would, very much so. I would add, though, that sometimes suppliers cannot prove the origin themselves, so they are unwilling to provide a certificate of origin. So while we would like to do all the admin—as Helen has said, on a cost-benefit analysis it is very worthwhile—sometimes it is impossible.

Lord Russell of Liverpool: Paul, how does that apply to aviation and defence?

***Paul Everitt*:** For aerospace, there is a pre-existing plurilateral agreement, which means that rules of origin are not such a major concern for us. For defence, there are other regimes, such as export controls and export licensing, which are more significant in determining access to the market and the opportunities for our industry. As I said at the beginning, rules of origin have not been our biggest focus.

Q25 **Lord Russell of Liverpool:** One of the suggestions to get around some of the complexities of rules of origin is for the UK Government to join the pan-Euro-Mediterranean regional convention on rules of origin. Have you looked at that as an option, and is it realistic?

***Helen Foord*:** PEM gives the opportunity for additional cumulation. It does not replace the need for rules of origin between the UK and the EU, but, as we have already described, we are very much a European supply chain. We have a manufacturing facility in Morocco, which is within the

PEM region, and we have supplies from Turkey. Applying the same rules that are applied to PEM to the UK-EU definitely helps with the administrative burden.

***Neil Fryer*:** Yes, we have manufacturing and suppliers in Turkey, so it would help us if there was alignment.

Lord Russell of Liverpool: Jill, I saw you nodding when Helen was talking.

***Jill Adamson*:** I completely agree with both Helen and Neil.

Q26 **Lord Inglewood:** My question is addressed to each of our witnesses. It is based on the premise that there will be some kind of UK-EU trade agreement. Given that, first, what specific regulatory provisions are most important to each of you and your businesses? Secondly, in the event that there is some form of regulatory co-operation, how would you like to see that operate in areas such as testing, certification, compliance and even creation?

***Paul Everitt*:** The UK aerospace industry wants to be closely aligned with Europe on aviation safety. We have been part of the European aviation safety regime for a long time and that has worked extremely well. In the current negotiations, the UK is negotiating what is known as a bilateral aviation safety agreement. Our ambition is for equivalence and recognition of that arrangement, so that something certified in the UK would be recognised as appropriate in the EU, and vice versa. That is the basis on which we would wish to pursue bilateral agreements with other key markets.

Our challenge is that a bilateral aviation safety agreement is normally negotiated separately from a free trade agreement. It is quite a specialist area. Generally speaking, it is not regarded as competitive. This is about ensuring that the aviation sector works efficiently, effectively, and, most importantly, safely. Because there has been little progress in the current negotiations, we fear that we will not get the time. That poses a very significant risk short term, but, longer term, if we do not have a level of mutual recognition, that will add cost to UK operators. In aviation, like other areas, we are looking at decarbonisation and the road to net zero, so we will be looking at faster rates of development. If we had to develop and then test and certify in the UK and in other key markets, that would limit our opportunity globally.

Neil Fryer: The important thing for us is harmonisation in regulation. For example, many of the components that we produce in the UK are built into systems that are then supplied to vehicle manufacturers that need to meet emissions regulations. If there is significant divergence, it means additional testing for our products to make sure they meet the standards and it makes our life much more complex.

Similarly, as I mentioned before, in the aftermarket, safety-critical products such as brakes have a regulation. If there is divergence between the UK and the EU, that will add cost and complexity to our business too.

At a minimum, we are looking for mutual recognition of standards, if not the same standards.

Helen Foord: I would agree, starting from the point of view that we have full alignment. Keeping that will be exceptionally beneficial in preventing that duplication of crash testing and therefore any additional costs to customers in the UK. While a lot of vehicle legalisation is set at a United Nations ECE level, making sure that we have full alignment with the rest of the regulations that currently come from the EU will be critical for us. The UK has put forward a technical annexe for the automotive tier to the free trade agreement. That is one way in which you can govern how that relationship continues over time. We hope that that regulatory annexe will enable us, from an automotive perspective, to have that alignment with the EU going forward.

Jill Adamson: Conforming to regulations is not quite as important for us. The double-deck bus is a very bespoke vehicle, and we have to meet requirements for different customers and different specs all the time. We are not so worried about that. We are very concerned about ensuring mutual recognition of conformity assessments. Without that, we would have huge additional costs.

Lord Inglewood: The case for Brexit was that, if we left the European single market, there would be other markets that we could go into and align ourselves to, and that would be good for business in Britain. Does proximity to your adjacent market matter to your businesses, as they are established in this country?

Helen Foord: Yes. We build and sell for a European market. The US and Asian markets are different, and you build and sell for those markets. Say, for example, that we were going to have a free trade agreement with the US. If I take the testing of airbags as an example, in the EU, from a UK point of view, we test an airbag assuming that the driver is wearing a seatbelt. In America, they test the airbag assuming that the driver does not wear a seatbelt. The tests are different, so there is regulatory divergence. That means that any products we sell on the US market would have to change fundamentally to comply with their requirements. That is an additional cost.

Q27 **Lord Lamont of Lerwick:** All the witnesses have repeatedly made the case about the need for alignment. We all understand that, although there may be a basis on which the Government can say, “We will align but we wish to have a degree of freedom to alter over time”. Helen, what do the Government say when you put these points about alignment to them?

Helen Foord: The important communication that we have is through the Department for Business, Energy and Industrial Strategy and its negotiating team. We are talking here very specifically about technical regulations impacting the actual vehicle itself. When we explain to them the issues that we have from a technical point of view, they fully understand the implications of divergence and the cost to our business.

That is perhaps why the UK put forward a technical annexe specifically for automotive, to help address our concerns. They have taken those concerns into consideration

Paul Everitt: We do not have a UK market for aerospace products. There is effectively a duopoly with Airbus and Boeing, certainly for large aircraft. We are a supplier of high-value parts to those businesses: wings, engines, landing gear, avionics, a whole range of things. There is only one international market for aerospace. Having a UK-tailored approach does not add any value or offer any new opportunities. We have presented those arguments to government at various different times. On a technical level, we are in agreement. However, for political reasons we are going down a route of divergence, which certainly our industry feels is not in the UK's best interest.

Q28 **Lord Lilley:** Helen, I understand that, ahead of a potential departure without a withdrawal agreement in March and October last year, one or more British manufactures had their type assessments recertified in Sweden. Was this general? Was it done by all companies for all models that sell in the European market? If so, how long will that be valid?

Helen Foord: As we have left the European Union, and at the end of transition, we will have to have a UK type approval to sell any cars on the UK market. Equally, we have to have an EU type approval to sell any EU cars on the EU market. Going forward, we will have to have separate UK type approvals and EU type approvals. We are seeking to use permissible evidence from testing that we may do in Europe for our UK type approvals. Physical crash testing of a vehicle is exceptionally costly. It adds millions of pounds to our business if we have to replicate those exact tests twice in the UK.

I cannot speak for any other manufacturers, but our EU testing has always been undertaken in continental Europe. We had not changed anything going forward. When we leave the EU, a UK type approval number will be given to us by the Department for Transport. Over time, they will develop their own UK type approval system, because that will be temporary.

Lord Lilley: If we unilaterally accept the type approval testing on the continent, that does not aggravate things for you.

Helen Foord: Like I said, we would still have to have a UK type approval, but using that evidence would be a lot easier for us, yes.

Q29 **Lord Wood of Anfield:** The question I wanted to ask has partly been answered. Jill raised the question of mutual recognition, specifically of conformity assessments, which I was interested in. More broadly, I would like to ask Helen, but also Jill and Paul, from the aviation and bus sector points of view, whether there are specific examples of mutual recognition agreements elsewhere, maybe EU or non-EU trade deals with third countries, that have worked particularly well and might serve as an example in the kind of deal you are looking for.

Helen Foord: Talking specifically about technical barriers to trade, in the EU-Japan agreement there is a technical annex relating to automotive. It is relatively new, but the understanding is that that agreement addresses a lot of the concerns. There are some examples out there. It is the same with EU-Canada. There are some areas in that agreement that address those concerns, so it is possible.

Lord Wood of Anfield: Sorry to push you a little, but can you give me a couple of examples of what is in those annexes that is so helpful to you specifically?

Helen Foord: I apologise that I do not have the technical or trade knowledge to understand those annexes fully, but we can get back to you afterwards.

Paul Everitt: Bilateral aviation safety agreements are part and parcel of the way the industry operates. The EU and the European Aviation Safety Agency have a variety of bilateral agreements with other major markets. Clearly, the UK has benefited from those. In doing the no-deal planning last year and the year before, we worked closely with the Department for Transport to put into place those sorts of bilateral agreements with some of our major markets, the US, Canada and Brazil, among many others. There is a framework there. Our challenge is that it is a negotiation and our European partners do not necessarily have to agree to all the things we would like to see.

Q30 **Lord Faulkner of Worcester:** I would like to ask about UK-EU customs checks, which may come in at the end of the transition period. I know the SMMT has gone on the record about the possibility that every minute of delay could cost approximately £50,000 in gross value added to the industry, totalling over £70 million per day. That is a staggering figure. Do you agree that that is a realistic assessment for the automotive industry? Is there an equivalent figure for aviation? I think there is an ADS estimate of around £1.5 billion per year. If these figures are correct, what should we be doing to try to prevent it?

Paul Everitt: We did some early work when we were looking at the priorities for the future relationship. Friction at the border was one of the issues for our sector. We are not quite as just-in-time as the automotive sector. For aerospace, we are an international supply chain. Many of the parts we produce are quite complex. They involve quite a lot of what we term surface treatment, so there are a certain number of journeys and a limited number of places where those activities can take place. There are a number of borders that get criss-crossed on a regular basis.

For us, ensuring that we minimise the friction at the border comes down to our customs processes. It is also linked to our earlier discussion about regulatory alignment. One reason why goods may need to be checked is to check that they are compliant and able to be put on to that market. Ensuring that we limit the reasons why there need to be significant checks at the border and that much of the process can be done away from the border are high priorities.

Helen Foord: I agree with Paul. Having some operational simplification at the border to enable goods to move freely and then to undertake some of those checks away from the border, or at a later date, is essential. You referred to the figure from the Society of Motor Manufacturers and Traders. From a company point of view, with just-in-time, some of our parts can have a 30-minute delivery window. We operate just in time and it means just in time. If there is any delay to that process, production line stoppage is measured internally in minutes. It is a significant amount of money, each minute production is stopped, for an unplanned stop. Yes, it is critical to our business to ensure that we maintain those flows of goods to feed our just-in-time process.

Lord Faulkner of Worcester: I expect that you keep making that point to the Government.

Helen Foord: Yes, absolutely.

Q31 **Lord Lilley:** On average, over the last 20 years, Operation Stack has been in force for 11 days a year. In 2015, it was in operation for 23 days more or less continuously, which means that there are holdups across the channel. I know, because I travel back and forth. They are very painful and I am sure they cause some disruption to car factories and so on. At the time, and looking in the press, there have never been any reports of factories closing down or complaints that when the fishermen blockade Calais it costs you £70 million a day. What happens in practice when there are delays across the channel?

Jill Adamson: I refer back to March 2019, when we thought there might be a hard Brexit and stockpiled for that period. We stockpiled between three and four weeks' worth of components—£20 million worth—for three months. That cost us about £200,000 in additional working capital.

Lord Lilley: In the past, when there have been these delays across the channel, has that had the same effect?

Jill Adamson: No, they have not been as significant.

Helen Foord: Calais is not a major route for us. We have some goods going through there, but we can also divert and use other ports. That is what we did at that time. We had an issue at our facility in our Luton plant, so we diverted parts through other ports. That is the route we took. For a hard Brexit, from an automotive point of view we have thousands of parts coming in every day. We would probably have space to stockpile only for a number of days. It is exceptionally costly for our business and practically impossible to have the physical space to stockpile those parts.

Neil Fryer: I hear exactly what Helen and Jill are saying. From the point of view of the supplier, if we fail to supply and thereby stop the production line in a plant, we are subject to fines from the vehicle manufacturer as a result of stopping production. We have to find ways to get the products to the plants on time in order to meet that 30-minute delivery window. In many cases, where there was something like

Operation Stack, we might well have resorted to flying parts in to avoid stopping production lines. That is a significant cost for our business, but probably less than the fines we would receive from our customers if we stopped their production.

In the longer term, we may have to start thinking about setting up inventory very close to our customers' plants in Europe, of the parts we send from the UK, to buffer against friction in border crossings. That is a cost, of course. Coming back to the discussion we were having before, in the long run, that might make us decide that it is easier for us to produce these parts in Romania and supply them to Sweden than to produce them in the UK and supply them to Sweden, for example, because we can eliminate that risk and we will not need to pay for that additional inventory and storage.

Lord Faulkner of Worcester: I would like some confirmation. Presumably, there is a difference between a temporary interruption to supply, caused by, let us say, a dispute in the fishing industry in Calais, and the imposition of new customs checks that will apply at all border crossings into the UK. That will be a permanent problem for the automotive industry in particular to deal with. Is that a fair assumption?

Helen Foord: Yes. We are looking for some kind of simplification at the border. The UK, only last week, talked about easements at border control, which we hope will provide some operational easements. We are yet to see the detail to know for certain if they will deliver enough for the industry and for anybody bringing goods into the country.

Q32 **Baroness Kramer:** I was going to ask about stockpiling and I still have a follow-up question. I believe it was Helen who talked about the use of flexibility at the moment. If, for example, there is a strike on the Calais route, you divert products through various other ports. How much more complex is diverting between different ports in a post-Brexit scenario? I ask, because I remember conversations in which it was sometimes almost impossible to adapt the paperwork to record a different route, so I would like to explore that a little.

Helen Foord: If you forgive me, I am not a customs expert. My understanding is that, when we have done that temporarily in the past, the paperwork was pretty much the same. I can confirm this in writing. Going forward, the issue will be the import declarations at the border and the paperwork you have to show at the border. There will have to be something, and it is about how we can reduce that friction by proving that at a later date—with a 30-day clearing window, for example.

Baroness Kramer: It was going forward that I was asking the question about. Historically, that has not been an issue. Anything you could tell us about that would be extremely helpful.

I would like to ask you and Paul whether you have looked at the various likely scenarios involving customs checks and costed what each scenario in particular might add. Could you give us a sense, from your best likely case to your worst possible case, of the scale of what we are looking at?

Paul Everitt: We have not done any work on various different scenarios. We just looked at some work that had been done previously and what that might mean for the UK. We got a 10% to 15% increase in costs for transport and potential costs for administrative burden. We have a lot of businesses that are large operations and very experienced exporters, not just to the EU but to a variety of other nations. We have a high number of relatively small businesses that, probably for the last two to three decades, have not had to deal with the customs regimes, the paperwork, the planning and the logistics that they are likely to have to deal with. It has not been practical for us to put those into place.

We have not really had any scenarios to plan against. We have not had a great deal of clarity from the UK Government on all their plans. There has been lots of talk about the various ways in which we can try to ease those burdens, but we have not got as far as being able to plan with any degree of certainty or even do scenario planning. I am sorry about that.

Q33 **Lord Berkeley:** I would like to ask Neil and Helen in particular about the extent to which they, or their suppliers or transport logistics people, make use of the authorised economic operator system which the Government have mentioned. Paul mentioned the involvement of SMEs, which, on the whole, I think, are not using it. How much is that going to cause delay and cost to these particular operators? As you have all said, the materials and the parts often go backwards and forwards several times.

Following on from Baroness Kramer's question, how much of all this, in addition to the issues of rules of origin and type approval, might make your businesses move away from the UK to the EU, or anywhere else, in the future?

Helen Foord: We are an authorised economic operator. Vauxhall Motors has AEO status, because we currently import parts from the rest of the world. I have to be very clear: my understanding is that AEO does not negate the need for operational easements. We still have to have an element of import declarations at the border, so there is a paperwork exchange at the border, but the AEO means that we , Q33have a 30-day window to declare the goods and pay the necessary tariffs. AEO is not the answer to everything, unless perhaps the Government said, "To take advantage of operational easements at the border, you need to be AEO-authorised". That is the only way we could see that operationally working.

You mentioned moving the business away from the EU. In the last couple of years, we have invested in our plant at Luton. It is no secret that we are due to make an investment in our plant at Ellesmere Port, but we need to understand the trading arrangements in which we are making that investment. Once we have clarity about what Brexit looks like, we will make a decision.

Paul Everitt: From an aerospace point of view, as Helen has said, some of our larger companies have AEO status, but it is quite an onerous process to go through. When we have raised the issue with HMRC, it has effectively said, "If it wasn't useful to you before the Brexit negotiations, it's unlikely to be useful to you after". We too had been hoping for a much more widespread use of that mechanism to ease some of the burdens and potential checks at the border. The advice we received from HMRC dissuaded people from pursuing that route.

Lord Berkeley: Neil, to me, all this means there will be longer delays at frontiers. You are not the only sectors that have the same problems; there is food and drink, fresh vegetables and other things as well. Can you see problems with delays at frontiers that could compound what Baroness Kramer talked about—the need to stockpile or move elsewhere?

Neil Fryer: Yes. If there are delays at the border, it will require us to add inventory to our business, either in the UK to buffer against products coming in or in other locations where we need to supply customers with products we make in the UK. It is difficult for us to estimate what that will be at the moment, as we do not know what the extent of the delays might be.

On the AEO question, my understanding is that it can reduce the delays but it cannot protect us from our obligations with regard to customs and anything else border-related. It may be an easement, but it will not be a complete solution.

Jill Adamson: AEO, as you say, is incredibly complex. As a company, we have been looking at trying to implement it for the last three years, without any success. We have made some progress towards meeting the requirements of HMRC, but they are very exacting. For a company of our size, with a very small trade compliance team, it is very difficult. You balance that against the fact that AEO has very few tangible benefits. We still need to comply with all the paperwork, as Helen said. There are some reductions in bonds and guarantees, but other than that there are very few tangible benefits. Perhaps if, under AEO, there were dedicated customs checkpoints and a faster flow of goods, more companies like us would make the investment to put it in place.

Q34 **Lord Lilley:** Are there any unilateral measures the UK could take to reduce non-tariff barriers to UK trade, such as recognising EU regulatory standards or streamlining customs checks, and how effective would they be? I think Helen has already answered that.

Paul Everitt: There are things we can do. Obviously, if the UK accepts the European standards on aviation safety, that is a good thing. That reduces one element of the challenge. We export over 90% of what we produce in the UK. For us, it is what the rest of Europe and the rest of the world do in relation to what we do. While it is good that the UK is easing the burden, the bigger challenge is getting the deal right with the European Union.

Lord Lilley: You have mentioned today, and in evidence to a previous Select Committee in the Commons, a figure of £1.5 billion as the costs of non-tariff barriers at the border if we have customs checks or even if we are a free trade area. That is 15% of your exports to Europe. It seems an extraordinarily high figure. How did you acquire it?

Paul Everitt: The work we did was based on a series of studies undertaken by a variety of other international bodies. In the work they did, they looked at how costs are reduced when you introduce various customs easements and the normal benefits of free trade agreements, which reduce the level of friction at the borders. The work we did took the benefit that comes with reducing these things and made some assumptions about how it might impact on the way we do business, given that we are effectively putting these same measures back in place.

Lord Lilley: You said in your evidence to the other Select Committee that you got it from an OECD report entitled *The Costs and Benefits of Trade Facilitation* in 2009. I looked that up. It does not mention the aviation industry. It says that trade transaction costs may reach as much as 15% of the value of traded goods in some cases. That 15%, which is far higher than any of the other studies it did, came from a particular study carried out by the European Community, out of the single market programme in 1989, on the cost of trade between European countries and how it would solve that by introducing the single market. Can you confirm you have just applied 15% to £10 billion, to get £1.5 billion, and it came from this source?

Paul Everitt: We have always said that it is a range of figures. That is one of the sources to include that range, yes. We have not tried to pretend that we have an exact number, but we have always given it as an indication of the likely cost. We would love to see other people's work.

Lord Lilley: It came from an irrelevant report, 20 or 30 years ago, which did not mention aviation. You have put this £1.5 billion figure in public. It got into our briefing for this meeting, but it actually has no basis in the experience of companies in your industry. It does not come from evaluating their costs.

Paul Everitt: We have worked very closely with our members on the challenges they face. That is a piece of the evidence that we had available and shared with people. We asked people whether that was reflective of their own experience, both of working here in the UK and when exporting to all parts of the world. A third of what we export is to Europe, but two-thirds is not. Our members have quite a good understanding and experience of the processes they have to comply with in those circumstances. We think it is a reasonable basis. We would welcome clarification, or indeed evidence, from others on what the actual costs will be. If you listen to most of our colleagues, in both the transport industry and other sectors, I do not believe it is that far away.

Lord Lilley: None of the other 12 studies covered by the OECD mentioned a figure remotely like 15%. The Japanese one, which was the most recent, put it at 0.8%. I just mention that.

Q35 **Lord Shipley:** I would like to ask a general question of everybody, but perhaps it is best answered by Paul Everitt first. The general question is whether there are any areas where it would help your business if the UK, or the EU, was more ambitious in its negotiating position, including co-operation with specific EU agencies.

Paul Everitt, in reply to Baroness Verma's first question you said that you wanted to be part of the European Aviation Safety Agency. I think you said that you need a relationship with the EU to be sustained and you want to be part of the future shaping of policy. In reply to a question from Lord Russell, I think you said that the European Aviation Safety Agency has worked extremely well. I wondered if there was anything specific you wanted to add to the importance of working closely with specific EU agencies.

Paul Everitt: Yes. To confirm, our No. 1 priority for the last four years has been to seek the UK's continued membership of the European Aviation Safety Agency. We believe it is one of the most important mechanisms to secure future success. Sadly, that is not the Government's or the European Union's ambition. However, we believe that it could and should be, and indeed it would be possible to meet both sides' concerns and established red lines. There are at least some existing precedents that suggest that some of the challenges being laid out, particularly ECJ jurisdiction, could be addressed.

Lord Shipley: Is this a matter of current negotiation, to your knowledge?

Paul Everitt: It is not. The UK Government say that they are not willing to seek membership and that the European Union does not want them to.

Lord Shipley: What would be the damage to the UK then?

Paul Everitt: For us, as we have talked about, there are obviously cost implications if we have to do dual certification. It is more that in the global aerospace industry there are two, perhaps three, drivers of future regulation: Europe and the US, and potentially China. Within the European Aviation Safety Agency, the UK, and more importantly UK industry, has a direct voice in shaping new regulations and particularly how we adapt regulations to potentially new types of aircraft, new propulsion systems, a whole range of things. We are currently, or were, instrumental in shaping those. We will not have that opportunity going forward.

Therefore, irrespective of what we do in the UK—we may well do some great work, some great R&D, and establish some great products—we will always be tailing the implementation of those regulations in those other, more internationalised, regulatory bodies.

Lord Shipley: Could I ask Helen, Jill and Neil to respond to the general issue and say whether you have similar problems? Are there specific EU agencies that you are concerned about continued membership of?

Helen Foord: Specifically for automotive, there are not, no. The areas that are relevant to your question for our industry relate to REACH and other such agreements. As I have already said, it is also important for us that, when we have UK type approval, testing that we have already undertaken in the EU is recognised as permissible evidence.

Neil Fryer: I have nothing to add to that. Helen has summed it up.

Q36 **Lord Lamont of Lerwick:** How prepared are your businesses for the new trading arrangements at the end of the transition period on 31 December? Along with that—I know the answer to this question—what do you need from government to support you in this process? From what you have said, you need to know what the situation is and what you are required to conform with.

Helen Foord: Our organisation has looked at the benefits and done risk assessments of Brexit since the announcement that the referendum would be held. For a number of years, we have looked at the implications across the business. We are now planning for two scenarios, one where there is a free trade agreement and one where there is a hard Brexit. We have a European team that is dedicated to undertaking that work, because it fundamentally changes the way we can do business between the UK and the EU. As we have already explained, there is lots of cost associated with it for our organisation.

If there is a free trade agreement, it is quite important for our industry that those agreements are phased in over time. That is not unusual in free trade agreements which the EU has negotiated before.

We have already discussed rules of origin today. We would like to see a loosening of the rules of origin restrictions for the first year, so that we as a business can get the necessary long-term supplier declarations from our supply chain to prove rules of origin. If, for example, we started at a higher level than where we would like to end up, with maybe 60% or 65% non-originating material, and then reduce that over a number of years to the agreed level, that would be really helpful for us, as a business and as an industry, in adapting to the new ways and rules.

Paul Everitt: We have been looking at this issue for some time. A lot of businesses did an awful lot of planning, and indeed contingency building, in the run-up to a previous potential no-deal scenario. Those focused predominantly on two areas. One was building inventory to ensure that if there were delays or disruptions, business could continue. The other was to move some registrations into Europe, so that it would continue to be effectively third-country approval under the European Aviation Safety Agency's regime. We tried to mitigate the impacts of leaving without a proper arrangement. We are still awaiting the detail in a number of areas. Clearly, as Lord Lamont has said, that is a well-known fact.

The challenge for us is that, over the last three to four months, with the impact of the Covid crisis, the buffers we had put in place, particularly inventory building, have been run down. Indeed, the general impact on aerospace and aviation has significantly weakened the supply chain here in the UK.

Jill Adamson: Given our size, we do not have a dedicated team to scenario plan for the implications of Brexit. We have done a couple of things, such as stockpiling inventory. The reality is that we cannot say whether we are prepared, because we do not know what we are preparing for. Ideally, we would want a 12-month notice period following the publication of the finalised non-tariff measures, so we can prepare properly.

Neil Fryer: I would echo what Jill says. It is difficult for us to prepare when we do not know what we are preparing for. We have taken measures within our business, as we had to last year, with the possibility of a hard Brexit, so we can dust those things off. We really need the clarity to understand where we are going. Then we can start to make the preparations. A transition period of 12 months would be extremely useful to help us do that.

It is not just us; it is the complete supply chain. We may be ready, but if our suppliers are not ready, things will not work in the way they should do. We also need the time to make sure the complete supply chain can work with whatever the new framework may be.

Q37 **Baroness Kramer:** We are now well into the negotiations. If there was a choice between no deal, but therefore certainty in the next few weeks, and continued uncertainty, potentially leading to a free trade agreement, which is more important for your business to be able to cope?

Paul Everitt: As the aerospace industry, our focus is still that we would like a deal. That is in our long-term best interests and would create the best future for us as a country. Unfortunately, we have all become somewhat used to having to deal with more uncertainty than we would have ideally liked, but we would prefer to live with that uncertainty a bit longer if it meant we ended up with a comprehensive and successful trade agreement.

Helen Foord: I agree with Paul. The priority for us is to have a comprehensive trade agreement. If I am honest with you, in the planning we do as a business, on top of our day jobs, for a hard Brexit and an FTA Brexit, some of those actions are the same. From an automotive industry point of view, the free trade agreement which the UK Government want is a very firm form of Brexit, so some of the planning is not too dissimilar between the two.

Paul Everitt: I do not really have anything to add. We would prefer a comprehensive ambitious agreement to a hard Brexit.

Jill Adamson: Yes, we would prefer a comprehensive agreement.

Q38 **Lord Lamont of Lerwick:** In the interest of brevity, I will put the question to Helen and Mr Everitt. All the witnesses have stressed the importance of alignment and, in the case of Mr Everitt, expressed scepticism about any need for divergence. I am sure the Government understand that. As for the idea that the Government would impose divergence on industries that do not want it, that will not happen. It is surely possible to imagine a degree of agreement on alignment, on a voluntary, political or temporary basis, accompanied by conformity assessments or equivalence arrangements. The Government are then given the chance, down the line, to alter the agreements if they wish. Surely that is perfectly possible. I understand you are looking after your own interests, as you must, but an agreement on this is not impossible.

Helen Foord: No, you are quite right. It is the UK Government's priority. As I said, we have been working with them on that position. The issue we see is that it is not a priority for the European Commission. Agreement on regulatory alignment on those other areas, such as level playing field provisions—state aid, taxation and environment—is currently holding everything else up. Until there is movement on the regulatory agreement on those provisions, we are prevented from having sector-specific discussions.

Paul Everitt: That is exactly the situation. We can propose lots of different things. Ultimately, this is a negotiation between the UK and the European Commission. At the moment, the European Commission is unhappy with other aspects of the negotiation and, therefore, is not spending the time or allowing progress in the more detailed areas that our members are most interested in.

Lord Lamont of Lerwick: That is their negotiating position now.

Q39 **Lord Turnbull:** Can I raise the question of dispute resolution? Suppose a UK-based business earns a major contract, how do you deal with a case where a disgruntled loser in that tender process goes to the Commission and says, "They say this met regulatory requirements. They say this met rules of origin. We don't think it did"? Who will judge the truth of that in a world in which the Commission is working for them? It is no longer working for us. In many of these areas, on equivalence and so on, the Commission has reserved for itself the right to be the arbitrator. Is that a satisfactory position?

Paul Everitt: On broader matters, I am not sure. In the area we are most concerned about, which is aviation safety, colleagues assure me there have been almost none during the existence of the European Aviation Safety Agency. It is a well-respected body. We have participated in shaping the rules. They have worked exceedingly well.

The Chair: Given time, I have to draw this evidence session to a close. I would like to thank our witnesses very much for coming in. This is not the easiest way to conduct an evidence session, so thank you very much for your perseverance. It has been a very interesting session for us all. You will get the transcript. If there are any corrections, could you put them in as swiftly as possible? The Committee appreciates you coming to the meeting this morning and giving us a real wide perspective of the challenges, but also the opportunities that face us. Thank you very much indeed.