

Business, Innovation and Skills Committee

Oral evidence: Business views on the EU Referendum, HC 88

Tuesday 14 June 2016

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Members present: Mr Iain Wright (Chair), Richard Fuller, Peter Kyle, Amanda Milling, Jonathan Reynolds, Amanda Solloway, Michelle Thomson, Kelly Tolhurst, and Chris White.

Questions 71 - 149

Witnesses: **John Longworth**, Chair of the Business Council of Vote Leave, and **Roland Rudd**, Chairman, Business for New Europe, gave evidence.

Q71 Chair: Gentlemen, good morning. Thank you for coming to give evidence to our inquiry about the EU referendum, EU membership and the impact upon business. For the purposes of the record, would you mind telling us who you are and which organisation you represent, starting with you, John?

John Longworth: I am John Longworth. I am a former Director General of the British Chambers of Commerce. I have been in business for 35 years. I have done business in every continent except Antarctica. I also co-founded a science and technology business in 2010, which employs over 300 people. I am a volunteer; I volunteered to support the Vote Leave campaign. In that sense, I am speaking in a personal capacity.

Roland Rudd: Good morning. I am Roland Rudd. I am Chairman of Business for New Europe. I am also Treasurer of Britain Stronger in Europe and I am Chairman of Finsbury.

Q72 Chair: This is a question to you both. Have you been happy with the quality of the debate?

Roland Rudd: The debate has been robust and it has been good in the sense that it has engaged people. I am obviously concerned about people being turned off when they feel that untruths are being told during the campaign and when they are being scared about issues, and that has been disappointing.

John Longworth: I would say a similar comment. A lot of people say to me, when I go up and down the country, "This is a really difficult decision. I am quite frightened to make that decision, because I do not have enough information. How do I make the decision?" One of the issues, of course, is that a lot of the coverage and the format of enquiry tends to be very

Punch and Judy, with soundbite stuff. It is not necessarily the fault of the campaigns, but simply the way in which people like the information presented. It is not very edifying for the public though.

Q73 Chair: What about businesses? Again, this is a question to you both: have the voices of business been adequately heard in this referendum debate?

John Longworth: I did a series of podcasts in a debate format, which lasted hours and hours and hours, for the regional groups of the Federation of Small Businesses, for example, along with a rather Punch and Judy debate yesterday. At least the podcasts certainly had some information. Some of the business groups have tried to inform their members. It should always be remembered, of course, that if you add up all the major business groups in the UK, they only represent about one in five businesses. There is a silent majority of four in five businesses that are simply not represented by the CBI, the Federation of Small Businesses, the British Chambers of Commerce etc. put together.

Roland Rudd: Quite often, businesses are loth to get into a debate they see as political. The thing that has been interesting about this debate is that they have realised they have no alternative but to take part, because it is such an important issue for the country. I would say that it is unprecedented to see so many FTSE 100 chairmen and chief executives, on behalf of their company—not in a personal capacity, which is what they have done previously—come out and say that it is extraordinarily important for the future of Britain that we remain in the European Union. These large businesses employ 10 million people. It is 40% of all employment and over 50% of all turnover of business in Britain, but not just big business. Small businesses are also in support of the European Union. We have seen probably more businesses get involved in this debate than we have ever seen previously.

Q74 Chair: Roland, I will start with you, but I would like your view on this as well, John. Is there any correlation or pattern here? You mentioned FTSE 100 companies and large companies perhaps favouring remain, but obviously there are smaller companies related to that that could perhaps be in the supply chain. We found in our earlier session that size does not matter in this regard; it is whether you export or not that could be the big factor. Could you tell us in your view, Roland—and, again, I would like your view, John—whether there are any patterns in terms of whether business owners would support remaining or support leaving?

Roland Rudd: It is interesting, because one of the fallacies is that only large companies are in favour. It is so obvious that the FTSE 100 is in favour, but we must not underestimate those 10 million jobs. I would also say that, if you look at the Federation of Small Businesses, you see a third are either exporting or importing overseas, and a quarter are exporting or are part of the supply chain of other companies that are exporting. Around 80% of those exporting sell to Europe, so this is a big issue for them as well.

While every business survey of the lists here has shown a majority in favour, it is true that the majority in favour of small businesses is not as large as the majority of big businesses. The British Chambers of Commerce, which John used to run, was in favour by 54%. The Federation of Small Businesses and all those small businesses that have been surveyed by independent organisations have also come out in favour of remaining in the European Union. It is more uniform than perhaps people realise.

John Longworth: I would agree with what Roland has said, in the sense that it is not necessarily related to size, but I would take completely the opposite view. The fact of the matter is that the business community is split. The Federation of Small Businesses big survey, which was done quite a while ago, towards the end of last year or beginning of this

year, showed that the business community was split almost 50:50, slightly in favour of remain.

When the British Chambers of Commerce carried out its latest big survey, and of course they do the biggest surveys in the UK, they found that there had been a very significant shift in the survey overall towards leave. There was still a majority for remain in the overall survey, but it had a disproportionately high number of exporters to the European Union within it. It was disproportionate to the proportion of exporters to the EU within the UK economy. As they are quite a smart organisation, they broke it down into groups. We saw from that survey that, among businesses that only operate in the UK, the vast majority wanted to leave the European Union. Among the businesses that only export to the rest of the world outside the EU, the majority wanted to leave the European Union. The only group that had a majority in favour of staying in the EU were the ones that only export to the EU, and that was not uniform. A proportion of businesses in that wanted to leave as well. The two groups I mentioned a moment ago—the ones that export only outside the European Union and the ones that only operate within the domestic economy—in the economy as a whole make up 87% of GDP and 94% of all businesses.

It is a much more nuanced picture than you would imagine. Of course, the Business for Britain group within Vote Leave, which I am chairing and which has been going way back to the campaign to stop us joining the euro and abolishing sterling, has over 500 business owners and entrepreneurs signed up to it. City for Britain also wrote an open letter representing 100 people within the City of London, so it is simply not true to say that business is, in any way, in favour of staying in the EU.

Q75 Chair: Before I bring other colleagues in, can I push the central point? Why do businesses and business leaders think like this, whether it is leave or remain? What are the specific criteria by which they come to their judgment? You will have views, John, and you will have views, Roland. Why have they come to those views? What are the costs and benefits to British businesses of EU membership?

Roland Rudd: The huge benefit is membership of the single market, which they see as a British invention. They see it as not just eliminating tariffs across 28 countries but eliminating rules and regulations for one set, right across goods, partly for services and now with the prospect of extending it for all services. This is a huge prize that business has been in favour of for decades.

At the core of it, it is about jobs and it is about lower prices. A company like EasyJet literally says it would not exist if it were not for membership of the single market, because of open skies. There is no other area in the world that has the open-skies policy that the European Union has. That is why they want to be part of it, and Ryanair is the same. When you see roaming charges fall by 75% and abolished next year, that is all part of the single market. That is why they want to be part of it.

When it comes to cost, it is so small in the extent of our contribution, which is tiny in comparison with what we pay overall; but also in terms of regulation, they certainly want to see smarter regulation, but of course you need certain regulations. You need regulation of the banks; you need gender regulation; you need regulation on climate change, all of which are things Vote Leave economists have said we should abolish. That would be a huge mistake. Most businesses recognise there are good regulations that are needed to have the single market function properly.

John Longworth: There are a variety of views, depending on the nature of the business. In my time with the British Chambers, a legion of the businesses I visited up and down the country that export only outside the European Union said to me, “I believe that the

EU is making us less competitive in the world market and I want to get rid of the burden, because it has no benefit for me.”

Q76 Chair: What sorts of burdens would those be?

John Longworth: Just let me answer the question. There are four buckets that cause businesses to worry about the European Union. One is the net contribution, which is nearly £10 billion a year that could otherwise be used for stimulating economic growth. Whether it is invested in public services infrastructure or business assistance directly, it is still economic growth and therefore would benefit domestic businesses in particular.

There is the cost of regulation. Open Europe said that the cost of regulation was £33 billion a year. The Treasury said it was £125 billion in their report in 2005. The British Chambers of Commerce, when it stopped measuring regulatory costs because nobody was listening in 2010, before my time, said it was £80 billion. Open Europe said that a reasonable saving from regulatory cost could be £12.5 billion. That is about 10% of the Treasury's estimate of the overall cost. If you add the £12.5 billion to the £10 billion net contribution, it is a nearly 1.1% of GDP. That is a huge number when we only have 2.1% GDP growth per annum. That is a huge number that would benefit businesses and the economy.

The third area, of course, is the four fifths or the silent majority of businesses that are not members of any business group—sole traders, tradesmen and so on—who are facing competition from migration, with which they cannot compete. You have just over a million people with national insurance numbers who are here temporarily, operating and sending money home, trading against somebody who is a painter and decorator or a plumber. It drives them out of business, because they cannot sustain their livelihoods.

Finally, as you will know yourself, as you were at the Tata presentation of the foundation industries report, you have various industries in the UK like steel, metals, basic chemicals and high-energy-use industries that will disappear from the UK, because we are prevented from doing anything to protect them in any way from unfair competition from without the EU and from within the EU. There is unfair competition within the EU as well. The reasons that businesses say that it is bad to be in the European Union are various and it depends on the nature of the business concerned.

Roland Rudd: Chairman, I just want to say that I have never come across a businessman who has mentioned to me the £7.1 billion net contribution as being a problem. The Open Europe report very clearly spelt out that the benefits outweighed the costs.

John Longworth: Open Europe gave a range of numbers for economic growth, of course.

Q77 Chris White: I just want to ask you, John, a bit of a philosophical question. You have raised the Chambers of Commerce survey in your responses to the Chair. As you said in your opening statement, you resigned as the director general. Is it your personal philosophy that, if you do not like the direction that an organisation is taking, you would advocate leaving it or advocate changing it from within?

John Longworth: I will try to deal with philosophy, but I am just a simple businessman. Do not forget that I did not make a speech at the British Chambers of Commerce saying I am resigning and going off to do something else. I made a speech that set out what I believed was the truth of the matter.

The reason I made that speech was twofold. One is that 12 months ago the British Chambers of Commerce had written an open letter to the Prime Minister, setting out what we thought, on behalf of our businesses, were the minimum achievements that he should come back with from his negotiations. In the beginning of the year, the British Chambers of Commerce issued another letter saying that we felt he had fallen far short of our expectations.

In fact, I personally would put it that he achieved practically nothing of any value. Given that situation, the logical conclusion for the British Chambers, in my view, and the logical conclusion for the Prime Minister, to be perfectly frank, was that the recommendation to the UK should be that we leave the European Union. In fact, the Prime Minister chose not even to present both sides of the argument but to reduce the Government to a campaigning organisation. I felt it was very important to raise the matter at the conference.

The second reason was that he embarked on what was a fear campaign, which I thought was pretty outrageous. That is why I made the speech. I knew that it could be a risky thing to do, but I had no idea what the outcome would necessarily be. I was receiving telephone calls from Number 10 even before I made the speech, just by being on the radio that morning, but that is another story. I then offered to our president that I would resign if, in fact, it became too difficult for them. It did not happen immediately, because there was quite a bit of sympathy within the organisation for what I was doing. There is no philosophy in it; it was purely a practical matter. For me, the logical conclusion of the process was that we should now be deciding to withdraw from the EU, not having achieved any reform.

Chris White: I might come back in later.

Q78 Jonathan Reynolds: Good morning, gentlemen. In my experience, the referendum campaign has changed quite substantially from the beginning to where we are now. In the beginning, it was very much an argument about the single market, about the pros and cons of the single market and about the kinds of terms we might get if we left. Where we are today, in my experience, is very much a conversation about immigration, the effects of immigration and how that might change if we leave. That is entirely understandable, because immigration is very high, a record high, but I am interested in a conversation about the credible ways in which that might change, depending on what relationship we have with the European Union, particularly from a business perspective, because skills shortages in the economy are a major driver of immigration. If we take away non-EU immigrants, which are obviously the biggest part of our immigration figures, we are left with 184,000 EU immigrants coming to the country, on the latest figures. Do we envisage that those people will stop coming to the UK if freedom of movement ends? Presumably, we think that some of those people would make it through the non-EU visa regime that we have at the minute. What is the effect, particularly on business, of changes to the status of those people coming to the UK?

Roland Rudd: The first thing to say about immigration is that we must remember the benefits. From 2001 to 2011, UCL showed very clearly that they made a net contribution of £20 billion to the British economy. There are 250,000 immigrants working in the health service, schools and social care, and they pay more in taxes than they take in benefits. They tend to be younger, hard-working, better educated and they are incredibly important to the British economy.

There are concerns about immigration, but the interesting thing is that Vote Leave has made a lot of play about how we need to have more people from the Commonwealth, how we need to have more Indian doctors, etc. It is clear that immigration is not just going to end if we leave the EU, but there will be a lot of uncertainty and concern.

We also have to think in terms of the NHS, when we look at where quite a lot of Britons live abroad. When they are in Spain, they are using the Spanish health service. If some of those came back here, it would be a further drain on the NHS here. We would be replacing the younger immigrants, who are working hard and treating us, for older Brits who are coming back, putting a further strain on the health service. What has been lost in this debate is the contribution that has been made.

There is no easy silver bullet that Vote Leave has somehow conjured up. They have this contradiction of saying more people are going to come from the rest of the world, which as you rightly say, is running slightly higher than net immigration from Europe. They cannot deal with this contradiction, except to insinuate that, somehow, we are going to be overrun by millions of Turks who are about to join the EU, which is patently nonsense.

John Longworth: On the cost and benefits of immigration, the evidence is very thin all round. I remember doing quite a bit of research on this last year, at the British Chambers, because I wanted to find out what the facts are—not that many reports have been produced. I do not know whether it is a deliberate policy of the Government not to look into it too much, but there were certainly not that many reports at that time. One of the crosses I had to bear as director general was having to go to all the political party conferences.

Jonathan Reynolds: I can see why you resigned.

John Longworth: I do remember at the Tory party conference Theresa May giving a speech about immigration that was very interesting, because she referred to a House of Lords report that identified that migration was, at best, of marginal benefit to the UK economy and only in the short term. It certainly stuck in my mind that this was the conclusion she had come to.

One of the things that concerns me about immigration, and I had this discussion with the Governor of the Bank of England a number of times last year, is the downward pressure on wages in the UK. At this point in the economic cycle, they should be rising. For people in the country, that is one of the big concerns.

Secondly, it has also had an impact on skills training. We have over 500,000 unemployed under-25s, which is a national scandal. A lot of corporates really gave up on training. If you have an unlimited supply of cheap labour from the EU, you do not really need to bother training people.

Thirdly, on investment, you do not get productivity improvement unless you invest in businesses. If you can operate off cheap labour, that is a problem. There are potential directional issues there, where the economy is moving towards a lower wage, lower skill, lower productivity economy, which is exactly what we do not want.

The tradespeople and sole traders in the UK worry from a personal point of view, from the point of view of people substituting for them in their businesses and putting them out of business, especially people who are here temporarily. They of course worry at a personal level about their families' access to the NHS, schools, housing and so on.

On the Turkish thing, by the way, it amused me on Andrew Marr this weekend that the Prime Minister refused to say that he would use the veto in relation to Turkey. He refused to say that Turkey should never join the EU. I was also fascinated to read a report recently that said that the European Parliament had voted in April to make Turkish an official language of the European Union. You have to wonder what is going on in this space. I am not here to comment on Turkey, because I am just a businessman.

Q79 Jonathan Reynolds: Trying to keep it on the impact of skills and immigration on the sectors of the economy, you may be aware that this BIS Select Committee sits with a number of other Select Committees on thematic issues, such as the joint one with the Work and Pensions Select Committee that is doing work on BHS. Also, some of us sit on a Committee with the Education Select Committee, looking at skills shortage. We met last week, I think, when we were looking at that issue of skills shortages and investment from big corporates in skills shortages. To be honest, from the data, it looks like a sector like construction stopped training enough people to fulfil retirements in the sector even as long ago as the 1980s. Eastern European accession was not on the agenda, because it was still part of the Soviet Union.

John Longworth: There are a variety of issues on skills that have contributed to the sorry state we are in. One of them is mass migration. Having a balanced approach to migration is very important, because the unlimited supply of cheap labour from the European Union, without let or hindrance, distorts the economy. At the same time, we are short of 65,000 engineers, because there is an artificial cap on accessing skills from outside the EU in order to keep overall migration down.

Actually, a lot of the skills we need in the UK economy are not in the EU; they are outside the EU. Having a balanced approach would be a much better outcome for business. What level you can get migration down to depends on the needs of the economy and can be flexed according to economic need. Of course, Governments make promises and then do not keep them.

Roland Rudd: The odd thing about this debate is that, when John was director general at BCC, he made some fantastic speeches about why we need immigration, why immigration did not put our social services under pressure and why we benefited from having this access to a large pool of skilled workers. He was completely right. The problem is it is like listening to Boris Johnson, too, who made very positive statements for migration as Mayor of London. He was the only politician willing to stand up for migration. When they get into Vote Leave, they go down this tunnel of “immigration is bad” and making the big issue about immigration, which they have done over the last 10 days.

I think people will see through that. People will realise that there have been benefits. Yes, there are concerns about social services that need to be dealt with, but there are benefits and we should not lose sight of them. The benefit for the economy has been enormous.

John Longworth: As you referred to me, I ought to respond to that. I cannot recall ever saying in a speech that immigration was not a problem for public services. I wrote a very good article in *The Guardian* last year, on behalf of the British Chambers, which somebody might want to look up. It was a very balanced approach to migration. I hope that is what I have put forward now. It was policy, when I was at the British Chambers, that we should have a points system for migration.

Q80 Jonathan Reynolds: What I am trying to get to is that, if we recognise that surely some proportion of those 184,000 EU immigrants coming to the UK would still be required by our economy and would still be accepted by our economy and our country if we left the EU, in some ways by making them undergo the non-EU regime we have at the minute, we are adding to the regulatory burden and the red tape on businesses. To get a cost-benefit analysis of whether that is worth the burden we will put on to businesses, we need to have a sense of how many of those 184,000 people would still be required by our economy, if you see what I mean. Do we have any sense of that at all? Is there any reliable information that we could look to in order to get a sense of that? Presumably, we are not saying that those 184,000 people would no longer come to the UK.

Roland Rudd: Business would be deeply concerned with the type of hard regulatory approach that Vote Leave is putting forward. They need access to skilled workers. People are coming here to work. The idea of either having an Australian points system, when Australia, as we all know, has more migration per head than we do here, is just going to create another regulatory burden for business, which they do not want to see. We do not seem to have any idea of how big the net migration is from the rest of the world. We just hear that we want more people from the Commonwealth from Vote Leave, but they have not given us a number.

John Longworth: Simply, the way in which migration policy is operated at the moment is the worst of all worlds, because we have an unlimited supply of cheap labour from the European Union, of which a significant proportion is looking for work, not coming here

having already been offered work. That is an indication of the economic need versus surplus cheap labour, and we cannot get access to the skills we need, because we cannot get access to the rest of the world: overall migration is too high; the public believes it is too high; and it is putting a strain on public services. The whole migration policy is out of kilter. We cannot resolve that problem while we are members of the European Union, because we have no control over migration from the European Union.

Q81 Jonathan Reynolds: Just to clarify, John, you are saying that because, politically, the figure is high, you think politicians are prevented from getting the skills. You think immigration could be higher, but it is about political courage. We are too afraid, because of EU migration.

John Longworth: I am saying that the migration levels we have at the moment risk social cohesion issues and they put a strain on public services, to the extent that they are too high. In order to try to manage that, we are also restricting migration from outside the European Union, which is again distorting the economy. The current regime has been bad for business, and it cannot be resolved while we are members of the European Union.

Q82 Jonathan Reynolds: There is a contradiction I cannot quite get my head around when I look at comparable systems in other countries. We all admire the German skills system, their engineering and their approach not just to skills but youth unemployment, which is in low proportions, and it is quite impressive. How can those countries that essentially have a better skills system than we do still take higher levels of migrants than we do?

John Longworth: Are you asking me?

Jonathan Reynolds: It is to both of you. It seems a contradiction there.

John Longworth: In a sense, you ought to ask Germany that. Germany has a lot of things to answer for within the European Union and that is probably one of them.

Roland Rudd: Germany is extremely good at it. It has an enviable skilled workforce and it has also managed to absorb immigration. The point here is very interesting, because John will not say what the net immigration should be from the rest of the world, just that it should be higher. That is an interesting indication.

John Longworth: I did not say it should be higher; I just said it should be better quality.

Roland Rudd: Is 188,000 the right number then?

John Longworth: It depends on the need of the economy.

Roland Rudd: Okay, so it could be higher. It could be higher. I do not think it is an easy way of dealing with immigration: having one set higher, one side lower and bringing in arbitrary regulation to deal with it. It is not what business wants.

Q83 Jonathan Reynolds: The Chair is indulging me with one more question here and it is quite an important one. If we move to a system that is all points-based—it is Australian or it is our non-EU regime but for everybody—are there sectors of the economy that require unskilled labour, such as agriculture or some aspects of construction perhaps? Are there sectors of our economy, in terms of the businesses you are talking to, that are saying, “We understand where you are coming from on the need to raise the skill levels of immigrants, but we require low skills.”?

John Longworth: Of course there are. We used to have a regime in the UK called seasonal labour. In the agriculture sector, people would come over during the summer and then leave.

Jonathan Reynolds: It seems that they will come from the EU, in my experience.

Q84 Michelle Thomson: Just picking up on this point in terms of immigration, in Scotland our issue is not immigration; our issue is emigration. We are consistently thwarted by policies that seem to fit other areas of the UK and do not work for Scotland—for example, the removal of the post-study work visa. I just wondered, in both of your organisations, what cognisance you were giving to the separate considerations for Scotland or, when you speak for British business, is it London and the South East?

Roland Rudd: No, it is not just London and the South East. You make some really interesting points about the need for migration. Businesses we represent that have been supportive of membership of the European Union are also businesses that have proper, large workforces in Scotland and believe very strongly in the need for migration. It is across the board. It is a very interesting point that, if you have an arbitrary cut-off point like that or you try to regulate with a blunt instrument, it stops some businesses in terms of getting the skills they want. It does not help deal with the overall issue.

John Longworth: As somebody who lives in Harrogate, I am well aware of the fact that UK policymaking and the perspective of the UK can be very London-centric. I remember when I became Director General of the British Chambers of Commerce. It was just at the beginning of the recession. Journalists and people within this building, for that matter, were asking me, “Do we have any manufacturing? Is there anything out there?” They had no idea what the rest of the country’s economy looked like. That can be a problem in terms of policymaking overall, I think.

Q85 Michelle Thomson: Specifically, in terms of immigration, you commented or suggested that it was about the EU causing issues in terms of this balance of skills and resources available when, in reality, from my perspective, it is nothing to do with the EU. It is central to UK structures.

John Longworth: The overall position for the UK is that we have the worst of all worlds in terms of migration policy, at the moment, because there is an unlimited supply of cheap labour. If that cheap labour chooses not to go to Scotland, that might be something to do with the Scottish economy. If there is an economic pull, that will be where people choose. They may not like the weather. Who knows? That is somebody who lives in a place that is pretty cold and windy in the winter, as opposed to Suffolk, where I used to live, where it was very dry and warm. People make decisions for all sorts of reasons, but the fact of the matter is, if there is an economic pull, that is where we are going to draw people. If there is an open door for an unlimited supply of cheap labour into the UK, that cheap labour will migrate to wherever they can find work. As it happens, of course, we have tens of thousands of people from within the EU, in the UK, who are out of work.

Q86 Michelle Thomson: I will disagree on the weather; it is wonderful. Just a follow-on then to both of you: to what do you attribute the higher percentage of businesses in favour of remain, in Scotland? The Scottish Chambers of Commerce just recently had a poll that showed 68%, and that was on 1 June 2016. What is it that is significantly different that is happening with business in Scotland?

Roland Rudd: They also see the benefit of the single market. They can see the benefit of being within the European Union in terms of trading and they do not want to be isolated and cut off. They do not want to see it in terms of the economy, because if we leave it could lead to a recession, which would have dire consequences for less well-off people, but also in terms of opportunities looking forward in terms of services. They can see that quite strongly. That survey that you mentioned, which I have read, is very clear about the benefits.

John Longworth: It is a very interesting question. I am flying up to Aberdeen tomorrow to speak at the oil and gas conference there, and I would be very interested to hear

the perspective of that industry and its supply chains on the European question. It could be down to the fact that the Scottish economy is structured slightly differently, although it is not that much different from the rest of the UK, from my knowledge of British Chambers surveys, for example. It could simply be a political factor that, when all is said and done, it is people who vote, not businesses. The people of Scotland might have a different perspective.

Michelle Thomson: They are more pro-European in general, I think.

John Longworth: They might be. We will see. It will be interesting to see on 23 June. We will not know until the rubber hits the road, so to speak.

Q87 Chair: Gentlemen, has free movement of labour been a net benefit or a net cost to British businesses and the British economy?

John Longworth: It is difficult to say. Theresa May and the House of Lords report said it was of marginal benefit in the short term. One of the issues about free movement of labour is that, if it remains, it gets old and starts to draw upon public services more than it contributes. Then taxes rise and so on and so forth. You also have the situation of over a million people who are here temporarily with national insurance numbers, who are competing unfairly with people who are trying to build businesses and raise families.

Q88 Chair: John, do you agree with what Roland said earlier on: that people who are older might retire to sunny Spain and be less of a drain on public services? The influx of young talented skilled migrant labour would have an impact.

John Longworth: It is not quite like that. I personally did quite a lot of work on this last year to try to get to the bottom of this issue. When you look at the flows, we are always talking about net migration, which is over 300,000. Gross migration was nearer 700,000 into the UK. When you look at the structure of flows, one of the biggest groups leaving the UK is British citizens who are well educated. They are going to Asia and North America, and only half of them are coming back. That number is much bigger by far than the number of people going off to sunny climes to retire.

Roland Rudd: I would say that it has unquestionably been a benefit to the British economy. As the ONS report makes very clear, it is likely to come down to around 185,000 net migration by 2021. I do think this is important for the Committee. John keeps saying that he has never been in favour before. He did say in the balance of competences report in July 2013 that, "As a result of EU migration to the UK, employers providing health and social care services have benefited from access to a large pool of skilled workers". I think he put it beautifully.

John Longworth: That was skilled workers, yes, not unskilled.

Roland Rudd: Yes, but it was EU migration.

Q89 Amanda Milling: Morning, gentlemen. We are going to move on to exporting, if you do not mind. It is well known that our export performance has historically been poor. The Government have recognised this. They have targets in place, in terms of £1 trillion exports by 2020 and 100,000 new exporters. Putting aside whether or not these are achievable in whatever kind of world, I would like to understand what impact a leave vote would have on our ability to improve our exporting position and get somewhere near those targets.

Roland Rudd: It would be devastating, because I cannot think of any problem for which the solution is recession. It is simply not going to help. Of course we are exporting more to emerging markets, because their populations are growing faster than in the EU. When Germany trades four or five times to India what we do, it shows you can be a member of the European Union and have large growth to India or China. It is not one or the other.

Our exports to the Commonwealth have grown by about 10% over the last five or six years, which shows that we can do that while being in. We can only really get to those targets, or anywhere close, if we have a strong economy. As the Governor of the Bank of England says, if we leave, we risk a recession. As the IFS has said, it could be £40 billion worse off by 2020. We are never going to get anywhere close to that in a recession.

John Longworth: One of the things that is at the root of the question around membership of the European Union is the whole single market question. There is no other trading bloc in the world where people have to join a political project and pay a fee for membership in the way that the European Union demands for single market access. There are a lot of fallacies around that. First of all, as a member of the single market, the UK's trade position has deteriorated year on year and is at one of its worst ever points now. Our current account balance is unsustainably high, so we are not doing very well in the single market. In fact, a Civitas report suggested that the UK has benefited least of all apart from Luxembourg from the single market. The countries that have benefited most were not even members of the single market, like the United States, for example.

Secondly, there is the cost of the single market to UK business, whichever gross figure you take. Open Europe said regulatory costs were £33 billion a year. They said you could save at least £12.5 billion. If you add that to the membership fee, the £10 billion, you are talking about 1.1% of GDP. Even if you had no access to the single market, you would have an immediate benefit of 1.1% of GDP. What is not to like about that?

On the whole business of whether you need a trade arrangement at all anyway, one of the fallacies of the single market is that the vast majority of trade that takes place in the world takes place without any trade arrangements, because trade takes place between people and between businesses, not between Governments. They just get in the way. The fact is that the average tariff for the single market is 3.5%, but they apply 20% average tariffs for foodstuffs. We cannot produce everything we need in the UK because of seasonality and climate, and we cannot produce enough of what we need in the UK. What the single market does, as a protectionist zone, is add cost to the importation of food to the disbenefit of a lot of people in the UK. There are all sorts of reasons why the single market has been very bad for us, as a country, not least the fact that it prevents us from making trade deals with other countries around the world.

Q90 Amanda Milling: Just coming back to the question I asked, it was the impact on our exporting position and our ability to improve our exports. What would the impact of a leave vote be?

John Longworth: We would be able to make trade deals around the world. Countries like Australia have made trade deals with very significant markets in just over a year. It is possible for us to do that then. I went to Brussels last year to ask the internal market, trade directorate generals and the commissioners personally what the situation would be, and the answer I was given was that, in terms of the trade deals that the EU currently has with third countries, it was up to the third countries to decide whether they continue that deal with us or not. It is not the European Commission; it is not in their locus to do it. They are unlikely to unravel a trade deal with a country that has the fifth largest economy, especially when most of those countries are smaller than we are. The making of deals with third countries would then be possible.

I think we are in a very strong position, having started with a net benefit of over a percentage point of GDP growth additional to what we have at the moment, then to be able to make trade deals with other countries. Most trade in the world takes place without trade deals. We have a trade surplus in services with the United States, with which we have no trade deal, which is nearly twice as large as the trade surplus in services we have with the EU.

That is because, of course, there is no single market in services in the EU to speak of, apart from wholesale banking. Services constitute 90% of the UK's private sector economy. It is not designed for us. The single market is not designed for the UK.

Roland Rudd: There is somewhat an irony here with John. One point is that we have apparently done so badly out of the single market, but we are the fifth largest economy in the world, in spite of that. To the point about the US, we trade four times as much with the EU as we do with the US. We should remember that it took us four years to do a trade deal with South Korea, and seven years with Canada—still not signed. Then there are the other 50 trade deals that we would have to resign and redo. It would be a decade of uncertainty. When you have nine out of 10 economists, out of the 639 who were surveyed, saying we would be worse off, we are talking about a 90% chance of being worse off, a 5% chance of it being the same and a 5% chance of it being better. I just do not think those are very good odds.

Q91 Amanda Milling: Just a bit more on this: in terms of our EU membership, what are the advantages and disadvantages in our ability to export globally?

Roland Rudd: The advantage of exporting globally is that, being part of the single market, we are a stronger economy. We are indeed exporting more to the Commonwealth at the same time, which is what we should be doing. We should export more to India and China, but we do not have to crash our economy or somehow find the 44% that we trade with the EU going down significantly to be able to trade with all the other parts of the world. This is the conundrum that I just cannot understand with Vote Leave. Why would you change something that is working so well for the largest part of our exports, the vast largest part of our exports, to try to get exports up elsewhere? I simply do not understand it, and John did not understand it when he was working at the British Chambers of Commerce, but he does now.

John Longworth: I am not sure what that comment meant, but anyway we will put the sniping to one side. The single market has not been very good for the UK. We have benefited least from the single market among all the members of the European Union apart from Luxembourg. It is because the structure of our economy is very different from other European countries. The vast majority of our economy, and one of the fastest growing and best areas of the economy, is services. The barriers to services in the single market are legion, so we are not able to make as much progress as we ought to in that area.

On goods, we have a massive trade deficit with the EU. It is beneficial to the EU in a big way. What the EU does then prevent us from doing is making trade arrangements with other countries around the world. The EU has been singly bad at doing trade arrangements, because they are trying to boil the ocean. They are trying to create trade deals for 28 different economies when, as a single economy focusing on what is important to us, we would be much more fleet of foot. That is the balance-of-trade benefit.

Then there is an economic benefit for the UK. According to the ONS, 87% of the UK economy is not associated with exports to Europe. That part of the economy is also burdened by the cost of the EU. We would have a benefit to the economy as a whole by leaving the European Union.

Q92 Amanda Milling: Would we be better leaving the European Union, or would we be better off getting those companies that are not exporting to export to the EU, so that they get the benefits, rather than just the disbenefits, through regulation?

John Longworth: Since 90% of the economy is not goods but services, it is quite difficult. It is a very bizarre situation that we do better in exporting services to the rest of the world than we do to the European Union. In the insurance market, for example, only 12% of exports of insurance services go to the EU. The rest of it goes to the rest of the world. How do you explain that if the single market is so great? If the single market is so great, how is it

that the European economy has fallen in the last 25 to 30 years very significantly, as a proportion of global GDP? How is it that in countries like Spain, Portugal and Greece, there is massive unemployment? It just does not stack up.

Q93 Kelly Tolhurst: I would like to talk a little bit or get your views on regulation. We have heard a lot discussed about regulation over the last few weeks and months. Does EU regulation hinder UK businesses' competitiveness and can you give me specific examples of where it has?

John Longworth: EU regulation puts a cost burden on the UK economy and on UK businesses, which then makes them less competitive in the domestic economy and the world market. There are lots of regulatory examples. There are silly examples. One of the problems with EU regulation, of course, is that there is a myriad of regulations that add up a big number—small things that are burdensome. The House of Commons Library says up to 67% of law in the UK comes from Brussels, if you include the comitology process, which has produced regulations that are directly applicable to the UK, designed by technicians and not impacted by the democratic process at all. If you look at the directives alone, it is less than 10%, but they are very significant numbers in terms of the way in which the directives operate, because there are usually big costs.

The working time directive prevents people working overtime. The temporary agency work directive prevents flexible working. The British Chambers estimated that was £8 billion a year of cost. There are the REACH regulations. I remember visiting fragrance houses and people who produce flavourings for food products, for example, who were having to get dossiers from suppliers of very small ingredients. They are perfectly safe, because they are tested, but they have to have the dossiers. The people supplying them from outside the UK, like the United States, would not supply the dossiers because they do not have that requirement and they cannot be bothered to do it for fragrance houses in the UK. It puts them at a competitive disadvantage. There is a whole myriad of those sorts of regulations that cause problems. The ergonomics directive required businesses to produce dossiers.

Q94 Kelly Tolhurst: Within the implementation of EU regulation in the UK, how does British implementation affect our competitiveness in EU regulations? Are we in control of some of our own implementation?

John Longworth: There is this whole thing about gold-plating, isn't there? One of the default positions of the Remain campaign is always to say that it is not the EU's fault; it is the British civil servants, who are always gold-plating things. The fact of the matter is that the original legislation comes from the European Union. Whether the civil service in the UK likes to gold-plate things or not, it comes from the European Union. Many of the regulations are directly applicable, so they do not touch the sides of the civil servant. They come directly from Brussels and are directly applicable to the UK.

Q95 Kelly Tolhurst: I just want to come back on that. You mentioned earlier Britain being less competitive within the European Union. Is that down to the EU, or is that down to the way that we have implemented our own regulations here?

John Longworth: I said that these regulations were adding cost to British businesses domestically and making them less competitive in the world market, where they are competing with competitors that do not have that burden.

Q96 Kelly Tolhurst: I have some examples where, in the UK, the way that we have implemented EU regulation has made us uncompetitive within Europe.

John Longworth: Of course it has.

Kelly Tolhurst: That is what I was trying to ascertain.

John Longworth: We need to sort out the UK civil service as well, but that is not a reason not to leave the European Union.

Roland Rudd: I was going to say that not all regulations are bad. We have to remember that, if we are going to have a single market with one set of rules and regulations, rather than 28, that is a good thing. There are also regulations to do with the banks, to do with gender equality and to do with climate change, all of which I think are incredibly important and which Vote Leave has suggested we sweep away. That would be a huge mistake.

It is naughty to compare apples and oranges. It is fine to say, when you add in every rule and every regulation, even those that do not affect us, that you come up with this 60%. The important number is that 15% of primary and secondary legislation is effected from the EU. That is the important point. Of course, everybody from Westminster to Brussels can sometimes over-regulate. It is important that the number of new regulations from Brussels is coming down. The number of new legislative initiatives has been reduced by about 80% compared with the previous Commission. It is good to be more focused on help to small business as well, as another important aspect. We could definitely do with less of some regulation, but that is true of any political body. We must not lose sight of the fact that some regulation is also important.

John Longworth: I would agree with that; some regulation is important. The figure I was floating around, the £12.5 billion of savings, was about a 10th of what the Treasury estimate was and what the Open Europe report said was achievable. That is a proportion of the legislation. It is not an unreasonable target, frankly.

Roland Rudd: Open Europe was also equally clear that, despite the cost of some regulatory burden, the benefits outweigh it. I think the benefits do outweigh it, because ultimately the benefits of being in the single market are so enormous.

Q97 Kelly Tolhurst: Just to follow up with one last point, if we were to leave Europe, would we get rid of all EU regulation?

John Longworth: No, I have just said that a reasonable target would be a 10th of the Treasury's estimate or what Open Europe said was achievable. Of course, Open Europe did say in their report, which was one of the things that influenced me very greatly when I originally read it some time ago, that if we did not have meaningful reform within the European Union and we had a Government that adopted the right policies, we could get additional growth in the UK economy by leaving the European Union.

Roland Rudd: The benefits outweighed the costs. That was the key bit I took from that report. There would be a real danger on this regulatory issue that, if we left, we would sweep away regulations that underpin the type of society we are. We would sweep away all regulations in the financial sector. We tried that before and it did not work in 2008. We would sweep away regulations on climate change, which are incredibly important. There would be a real danger that the type of Britain that we live in would change dramatically by trying to get rid of regulations that are important to society.

John Longworth: I would say that you could reduce the cost on business quite substantially by simply removing the legislation that is bureaucratic and does not add any value, so we will disagree on that.

Q98 Richard Fuller: For the record, I have known Roland Rudd for 30 years, over which time we have agreed on many things, just very rarely about anything to do with politics, so I will start with you, John, if I may. We talked earlier on about the difference between exporters in business and non-exporters, between big companies and small businesses. Is it not the case, John, that when it comes to the question of the European Union,

the big divide in business about the European Union is between the bosses, whose pay packets have increased, and the workers, who have seen their wages squeezed?

John Longworth: It is undoubtedly the case that very large multinationals are more likely to favour remaining in the European Union than private businesses, entrepreneurial businesses and small businesses. There is that divide, as well as of course where the market is for those businesses, domestic and so on. I have worked in corporates; I know how they operate. They spend huge amounts of money in Brussels.

Richard Fuller: Could you just answer the question? My question is: is it not the big divide that, under the EU, the pay packets of the wealthy leaders of business have gone up and the workforce wages have gone down? That is core to the difference in business, isn't it?

John Longworth: It is undoubtedly the case, whether it is the EU or not, that the pay packets of bosses have gone up disproportionately, as we have seen the figures. I have made a number of speeches and written articles over my time on corporate governance and how damaging it can be for society for the bosses of larger organisations to decide to increase their pay packets disproportionately to the average wage, which is of course what has happened in the last 25 years.

Q99 Richard Fuller: Roland, can I ask you a question that is specific to my constituency of Bedford? In the town of about 100,000, we have 10,000 people who have Polish ancestry, 6,000 from India, 4,000 from Bangladesh, 4,000 from Pakistan, 3,000 from various countries of Africa, 3,000 from across the Caribbean and so many Italians that we have our own consulate. Under the EU, for family members or people who they know who want to come to the UK to study or to work or to marry, there is one set of rules for people from within the European Union and another set of rules for those from outside. Is that fair?

Roland Rudd: The thing I would say about that is that the Government have been clamping down on sham marriages. It has become tougher. We have made changes in terms of migrants coming here to work. You have to pay in before getting full access to benefits over four years. The tightening in terms of procedures is important.

Q100 Richard Fuller: On the specific question, if you have two equally talented people, is it not discriminatory to say to someone, "We will not let you in because of where you are from."?

Roland Rudd: I have to say that the benefits of being part of the single market, which insist on free movement of people, trump that example. To come out of that would be madness, because we would end up with a recession.

Richard Fuller: In order to have economic benefits, perpetuating discrimination for people to come into this country is fair, in your view. That is the view that Alan Johnson put forward today, by the way.

Roland Rudd: Absolutely. You cannot have membership of the single market without the free movement of people.

Q101 Richard Fuller: John, back to you, I looked at ONS statistics; I have stopped looking at Treasury information until 24 June. If you looked at the trade balance in goods and services in 2000 and then in 2015, and you looked at our trade balance with countries in the EU and then with countries outside the EU, in the year 2000 we had a trade deficit of £10 billion with both of those—with countries in the EU and those outside. By 2015, that trade deficit for our trade with EU countries had gone from minus 10 to minus 60 but, for non-EU countries, it had gone from minus 10 to plus 30. Do you not think that our future as a trading nation would be better if trading with the whole of world, on our own terms?

John Longworth: Thank you for that leading question, because obviously I am going to agree with that. Yes.

Q102 Richard Fuller: Thank you very much. I appreciate the answer. Roland, you talked earlier on about some of the negativity of this campaign. All of us, on all sides—I am here on my own, on my side—would say that negativity is not a good thing. There is a positive case for business, isn't there? Let's say we get to 24 June and your side of the argument has won. What would you say would be the sorts of positive visions you would like to see the United Kingdom taking up in Europe from the perspective of business?

Roland Rudd: There is a real opportunity that, if that happens, we can genuinely take a leading role in Europe, rather than leaving. Britain is already the second-largest economy in Europe. It is going to be the largest economy in Europe. We have already seen the European Union change over the last decades, and two of its greatest achievements were British initiatives, both the single market and enlargement, ensuring that the rule of law, fairness and human rights were underpinned with the new countries that had been part of the Soviet Union. That was a phenomenal achievement. We can go on and take a leading role in the European Union, making it more liberal, competitive and outward-looking, accentuating the importance for human rights, and of course in facing down the threat from Putin.

Chair: Gentlemen, thank you very much for your time. We are very grateful.

Examination of Witnesses

Witnesses: **Jennifer Brown**, Managing Director, pampeano, **Paul Kahn**, President, Airbus Group UK, **Pam Watts**, Financial Director, SWEEEP Kuusakoski, and **Guy Schanschieff**, Managing Director, Bambino Mio, gave evidence.

Q103 Chair: Good morning. Thank you for attending. I am very conscious that we have a lot to get through and we are keen to hear from you, as much as possible. Could you tell us who you are, what your business does and also whether you are in favour of leaving or remaining, starting with you, Guy?

Guy Schanschieff: My name is Guy Schanschieff. I own a company, Bambino Mio. We are based in Northamptonshire. We are the market leaders for washable nappies. We have sold in about 50 countries worldwide, both in Europe and outside Europe, and we also import our goods, working with factories in the Far East, in Europe and in the UK.

Chair: Are you in favour of Britain leaving or remaining?

Guy Schanschieff: I am in favour of leaving.

Pam Watts: I am Pam Watts. My husband and I started a company down in Kent, next to Kelly Tolhurst, which recycles waste electronics and is governed by the European WEEE directive. We currently process 80% of the WEEE collected in the South East. We recover 98% of the commodities from it. We export those commodities across the world. We need the support of our Government to do that and we feel that we are not having that, at the moment. We have Finnish partners and we have partner plants in India, China and the United States. I am in favour of definitely leaving.

Paul Kahn: I am Paul Kahn. I am President of Airbus Group in the UK. We employ 15,000 people in the UK. We have a turnover of around £6 billion. You will know us for our aircraft, where we make the wings in the UK. We are also a large defence and space company, where we have a secure communications business, and we make satellites. We are also a leading supplier of helicopters. I would like to thank the Committee for the invitation to come and give evidence today. We think it is certainly contributing to the level of the debate. Airbus Group is very much in favour of remaining in the EU.

Jennifer Brown: My name is Jennifer Brown. I am the MD of pampeano, a luxury leather goods company based in Oxford, and 27% of our sales are to Europe and I am very strongly in the Remain camp.

Q104 Chair: This is a question to you all but, Jennifer, may I start with you? How specifically—and I do stress “specifically”—does Britain’s membership of the European Union impact upon your business?

Jennifer Brown: There are three main factors: one, currency; two, people; three, goods. With regard to currency, as we import most of our goods and pay in dollars, a depressed pound makes our goods much more expensive. At the moment, we are absorbing those costs, so they are much more expensive. It is a cost to our business that we are not passing on to our customers. Obviously, if we sell to Europe, we sell in euros, so you could argue that there is a hedge, but we are finding that the weak pound means that a lot of people are choosing to pay in sterling, so we getting doubly hit by that.

With regard to people, we have people on our team who are from Eastern Europe who are extremely capable and motivated people. I would be very sorry if we were have any difficulty or a barrier to employing such people. We are able to travel freely to Germany for trade shows to build our European business.

Thirdly, the cost of shipping goods to Europe is as easy as shipping goods around the UK. We have no barrier to do so. If I compare it with shipping goods to Switzerland, for example, which is the best proxy for us, it costs us about 4% more in terms of the administrative burden and the additional cost of the actual shipment with the couriers.

Paul Kahn: For Airbus Group in particular, the EU provides the regulatory environment that we work within—we work to a single set of standards and a single set of regulations—and then the single market is fundamental to how we operate. We make use of the free movement of labour, of goods, of resources, of capital, of intellectual property, of ideas, so we cross borders all the time. We run a very integrated business between our four home nations of France, Germany, Spain and the UK in particular, and so that is how we live and breathe.

Pam Watts: This here is probably why I want to leave the EU. This is a piece of lead, which we recovered from waste.

Chair: It is not dangerous, is it? Is it like kryptonite? Should we be moving away?

Pam Watts: It is not, unless you want to eat it. We invested £2 million of our own money in British innovation, my husband’s innovation, in a plant that recovered this waste stream, in accordance with the WEEE directive. We had Michael Fallon open the plant. We had David Cameron down. We had everybody and their dog down. Hardly had we got going when the Netherlands decided to interpret the same rules—the same directive—to a lower standard and allowed their processes to undercut ours. In the past year, we have just written off a £2 million investment of private money. We have made nine skilled jobs redundant. To me that is Europe for you. It is an uneven playing field. On the one hand, it drowns us in regulation and, on the other hand, nobody pays any attention to the regulation except us. I beg the question: what is the point in having the regulation in the first place?

Guy Schanschieff: For us, it is all about trade. As I said earlier, we trade in the UK, throughout Europe and worldwide. We have seen in the last few years our trade grow very well in the UK and very well outside the EU but stagnate and go backwards with a lot of European countries that we deal with. We see the real opportunities outside the EU for our business, and the opportunity to do trade deals that are relevant to the UK would be of significant benefit, in terms of us growing our business.

Q105 Kelly Tolhurst: Thank you so much for coming. It is really good to have a mixture of businesses at the Select Committee, so I am really interested to hear what you have to say. If you heard the last panel, regulation has been an interesting topic throughout the debate for me. I would like to ask maybe for a bit of elaboration on how you see EU regulation has particularly impacted your business but really just get your views on how you see it moving forward. What is the best situation? Are there particular examples of where EU regulation has made British firms particularly uncompetitive, or are there examples of where it has being beneficial? I am sure there are some examples. It is to all of you.

Paul Kahn: Perhaps I can start. The most significant part of EU regulation is that it creates a single regulatory environment. It is stating the obvious perhaps that, when an aircraft takes off from the UK, it has to land somewhere else. When you are in Europe, it is landing somewhere where that aircraft also has to be regulated. We have gone from potentially 28 sets of different standards and regulations to one single set of standards and regulations. If we take the aerospace industry globally that means we operate against two sets of global standards, one of which is US and one of which is European. We would very much like to see one set of global standards, and in that sort of situation the EU negotiates for us. To leave the EU, where you introduce a British set of standards, makes life more complicated and is going very much in the wrong direction. Going towards one set of standards is very important.

In that context, it is important that we participate in that. We have genuine influence on what is going on inside the EU, and I would disagree with John Longworth in the comments that he made earlier, because the British Government and the British civil service are effective. It does touch the sides of the EU. We do make a difference and we are highly regarded by other member states within the EU for our voice within the regulatory environment, in particular within aerospace.

Q106 Kelly Tolhurst: On that particular point, you are obviously representing Airbus and a significant size of business. Do you think that there is maybe a disproportional voice in regard to large businesses impacting on EU regulation, versus a small organisation, such as mine before I became a Member of Parliament, which was not even a fraction of the size of Airbus?

Paul Kahn: I do not think there is such a big divide between large businesses and small businesses as people are making out. If I take the survey of ADS, the UK trade body for Aerospace, Defence, Security and Space, about 70% of the membership want to remain in. That does not vary that much. There are just a few percentage points' difference between large businesses and small businesses. Some 82% of the ADS members export to Europe, so the SME community in aerospace and defence is engaged with Europe and does not suffer disproportionately, compared with everything else. Within that, Airbus and other large companies run integrated supply chains. Small businesses are accessing that integrated supply chain, which goes right across the EU.

Pam Watts: Can I answer that, because I completely disagree with you there? You are saying that we have influence, but we have no influence whatsoever. Particularly with this case, were we a democratic country and in charge of the people who are meant to represent us, we could have taken this case up via our MP, Gordon Henderson, to the Environment Agency, which governs us, and would have been able to make them understand that somebody up the road was breaking the regulations. We would have had a place at the table.

Instead, we did that; we got to the Environment Agency, which agreed that their hands were tied under free trade and there was nothing they could do to stop the poorer processing in the Netherlands. If we wanted to take it up, we would have to go to the European Commission. We duly did that. We went to our MEP, who told us that it was a complete

waste of time talking to him, because he did not really have any influence anywhere and that the way to go about it is to employ a lobbyist. That is fine for Mr Airbus, but not so fine for us. They wanted £12,000 just for a meeting, and a monthly retainer, to have that much voice. What was the point? We just came home, put a dustsheet over the £2 million, and called it quits. Instead, we are taking that same investment, that same British innovation and those same British engineers out to the States, where we know the rules we are playing with.

Q107 Chris White: Just to Pam and Jennifer, and I will come back to the question for Jennifer, first of all I would like to say how sorry I am to hear your story. I am sure the Committee has great sympathy, not least in terms of the investment and the fact that you had to meet all these people and everybody celebrated your innovation. You are clearly not impressed with Europe. If Britain were to leave Europe, how would that change your business?

Pam Watts: I want to see engagement with the globe. We are trading across the globe. I totally agree with you: we do not have a single trading agreement with any large economy outside the EU—not one. It is a disgrace that the EU has not managed that in its 40-year history. That is holding back companies like mine. I am sending stuff to China, Taiwan and Japan every week, and we have no trade agreements with them. How can that be in a global economy? I have a feeling that the Remain campaign, honestly in their heads, thinks that the world stops at the Med. They have no idea of the potential we are missing and it is an indictment to how we are treating our young people.

I happen to really believe in our young people. Our education system is one of the best in the world. Our universities lead the world and our young people should be out there engaging with the world, not with this dying bloc down the road with 50% unemployment. What use is that to our young people? We need to be out there, and companies like mine need your support. We can only get that support if we take back control and the dog starts wagging the tail. At the minute, there is no point in talking to you, because you have no influence. I need you to respond to what we need, not some bureaucrat in Brussels telling me what I must do.

Q108 Chris White: Thank you for that answer. Can I ask you, Jennifer, what you think it will look like for your business if we were to leave?

Jennifer Brown: I am very concerned, because we are going to have a higher administrative cost. Do we pass that on to our trade buyers in Europe, or do we absorb it, hitting our bottom line directly? Or we can increase the costs for our buyers and therefore become less competitive, again hitting our bottom line. I am convinced that the net effect is going to be negative.

Q109 Jonathan Reynolds: I am sure you are aware that there is a passionate, heated debate going on about immigration in particular and freedom of movement. I would be very interested to know if any of you employ EU nationals. If so, has that been to fill particular skills gaps? How might it affect you if employing those EU nationals was done in essentially the same way as we currently have in regulations for non-EU nationals? Jennifer, seeing as you mentioned some of that in your introduction, can I start with you?

Jennifer Brown: We have one. We are a very small business; there are just nine of us so, as a percentage, yes, it is a big percentage. She is phenomenally good and I would be very sorry if there was any question mark hanging over her. I also have various friends with their own small businesses and have spoken to all of those that have a goods business. One in particular has a food company that produces its goods in Hull. All were unanimous in their fear of leaving the EU. For this particular business in Hull, his view was that he has to have

low-skilled factory workers to do a lot of the processing work. He said, “I just cannot get the employees that I need without using European workers.”

Paul Kahn: For Airbus, about 3% of our British workforce are EU nationals from the continent and a similar number of British nationals work in the rest of Airbus Group on the continent. It would have a profound impact, and structurally so. Let us take apprentices, and we are a large employer of apprentices. One of the things we like to do is to give them a little bit of inter-cultural experience. To be effective within the Airbus Group, you need to be able to work well as a part of cross-cultural and multinational teams. Going and spending a week or two as an apprentice abroad is an opportunity for our apprentices. For our graduates, sometimes we like slightly longer placements. They just get on a plane, off they go and they come back. There are no visas required or anything like that.

As soon as you start introducing paperwork, bureaucracy and control into that, it will have an impact. It will have a cost at the very least, but it means it is much less likely to happen. As soon as you start to lose that experience, it means you are less able to progress in your career. We have a former apprentice from Glasgow who is the chief operating officer of Airbus globally today, so he has benefited from that sort of experience. To get that job, which he has won on his own merit, not because he is British or German or French but because he is really good at the job, he has to have that experience.

To take my own experience, before this job, I was running a large business in Canada, which was also part of a multinational. There, one of the MDs from the UK rang up and said, “Please can I send a graduate across for a six-month placement?” Of course the answer was yes from a business perspective, because that was an international experience that she was looking for, but the Canadian authorities said, “Yes, of course she can have a visa, but next year,” because the quota for training visas had run out. It will impact on the day-to-day life of young people and the future of our business. They will not have that international experience and they are less likely to be leading the business in the future, as a result.

Guy Schanschieff: It is quite interesting from our business’s point of view because, a few years ago, we worked very hard to bring a lot of business and manufacturing back from China into Europe to embrace the EU. We worked with a factory in Lithuania, which we have worked with for a number of years. We are experiencing a lot of growth at the moment, but what is quite interesting is that the factory is unable to respond, because the people who would have been there sewing our products have come to Western Europe for lower paid products. It is still very difficult, if not impossible, for us to find the sorts of factories to manufacture our products in the UK, but our biggest challenge is within Europe. In the Eastern European countries, the skilled labour just is not there for them, because the free movement of labour has brought those skilled workers into Western Europe.

Jonathan Reynolds: That is quite an interesting perspective, Guy. You are saying that the principal impact on you of freedom of movement is that, in other countries where you want the skills, they are not available because they have moved to other European countries.

Guy Schanschieff: It is not up to me. I am not here to interpret what that means in terms of the whole of Europe and how that operates, but logic would suggest that it must provide challenges for the economies in those countries if they are to be building those up.

Q110 Jonathan Reynolds: Do you yourself employ EU nationals? Is there any employment aspect in the UK that affects you?

Guy Schanschieff: No, we do not employ any EU nationals at the moment, but we have done and we will do in the future.

Q111 Amanda Milling: Good morning. I discussed exports in the previous session and you are all exporting. The Government have targets to meet in terms of increased

exports, both in terms of value and volume. I would just be interested to understand, from each of your perspectives and your businesses, what impact leaving the EU would have on your ability to increase your levels of exports and why this is.

Guy Schanschieff: If I just give one example, I talked in the opening statement about opportunities outside the EU. We know that there are big opportunities in South America for our product, but the deals that exist or do not exist at the moment mean that there is around 80% duty on our products, which makes us non-competitive. A trade deal with South America, along with many other countries outside the EU, would be a fantastic opportunity.

As far as Europe is concerned, where our business is stagnating, it depends on the rhetoric that is going on now among European Governments and how they respond should the UK decide to leave Europe. One would hope, looking at the trade figures, looking at the trade that Europe needs and what the UK needs, and the fact that the infrastructure is in place, that forming a way of trading with Europe post any Brexit would be a lot easier than is being put to us at the moment by those who want to remain.

Q112 Amanda Milling: Just so that I am clear, from your perspective any risks are outweighed by the potential opportunities globally.

Guy Schanschieff: That is correct.

Pam Watts: For me, there are not really any risks from leaving the EU. If you want to improve exports and reach your targets, knock down the Hadrian's Wall that is the protective inward-looking European Union and let us step out into the bigger world. You step out with us and support us by getting those trade deals and we will deliver for you, but we cannot do that unless we can collaborate directly with you, rather than having to collaborate with an anonymous EU, and without those trade deals. Either we are maxing out as it is without the trade deals, which begs the question of why then we are paying £10 billion a year for membership of a trade deal in Europe, or the trade deal in Europe is amazing. In which case, what are we missing out by not having trade deals abroad?

I am also in the environmental sector. We seriously need to start thinking not as little Europeans. David Cameron is convinced that it is better for the environment to stay in Europe. I have given you a very good example of how that is not working. A lot of waste is passing out of this country to be processed to a much lower standard in Europe. If we had control back, you could limit that; you could stop that from happening.

I also do not get the argument that, to better the environment, we need to do it through Europe; the Remain campaign says that climate does not stop at the shores of Britain. It does not stop at the shores of the Mediterranean either. We need to be part of global panels environmentally. Our industry is very technology-driven, and it is absolutely essential for us to be sitting at the table and collaborating with the techies in Silicon Valley, the engineers in India and the manufacturing bases in China. We need to work globally. Environmental issues do not work in a small way; they are global issues and you have to be sitting at the global table. Doing it as a subordinate to the EU just does not work for me at all—certainly not for my industry.

Amanda Milling: We could go down that avenue, because I would like to ask some questions, but I am conscious of time.

Paul Kahn: Exports are fundamental to our business. We export all of our wings from the UK. Leaving the EU will put at risk future investment, and I say that very seriously, because we have to be globally competitive. That is what Pam is talking about. She is suffering from global competition and Airbus is benefiting from global competition. We have taken that fight to Boeing in particular.

Pam Watts: Paul, can I just say that I did not say I was suffering from global competition? I am suffering from EU regulation.

Paul Kahn: Okay, that was my observation that you are suffering from global competition.

Pam Watts: You have got it wrong.

Paul Kahn: By working together within Europe, we have gone from 18% worldwide market share, when we were individual companies before we came together, to about 50% worldwide market share, by making globally competitive products that people want. That is how you succeed in exports. The EU and EU regulation have helped us to do that, because we have one set of standards in France, in Germany, in the UK and in Spain. That is vital for doing our business effectively.

Q113 Amanda Milling: Those are the benefits of the EU. If on the 23rd the public votes to leave the EU, what will the impact be on your exporting position?

Paul Kahn: It puts future investment at risk. We announced investment of about £100 million at the end of 2014, which is going into fundamentally improving the productivity of our business in the UK. We have to compete for that investment globally. That investment could have gone elsewhere, in particular to China or to Germany, but it came to the UK because the UK was the most attractive place to do that. There is a whole set of reasons for that, including skills and the workforce, including existing investment, but in particular that whole tariff-free integrated industrial operation that we run across our four home nations. You put that future investment at risk, and then that could go elsewhere. It will not happen overnight, but it is a risk for the future.

Q114 Chris White: First of all, back to one of Amanda's questions, you have spelt out quite clearly about investment, but can you spell out further how, by not being part of the EU, you could potentially lose that investment?

Paul Kahn: The reality is that we do not know what being out of the EU will look like. That is the big unknown. There are different models that are being suggested, from a Norwegian model, a Swiss model, a Canadian model or just WTO, but without being able to explain what out looks like, you are increasing uncertainty and we cannot take a clear position on that. We really do not know what out will look like and, therefore, we cannot say exactly what is going to happen.

I can say very clearly that the risk of that investment not coming here goes up. It is my job, and I certainly look to the Committee and to the UK Government, to help us make the UK operations the most attractive possible to attract that inward investment, to attract that global capital, which is mobile and can go anywhere, in the EU or outside the EU. The EU helps to make UK operations a more attractive place to invest and, therefore, to make us more competitive.

Q115 Chris White: You are a very important organisation. How would you feel if we were to leave the EU? What planning are you putting in place for that eventuality?

Paul Kahn: We have the same plans for in or out, which are fundamentally about improving our productivity and making the UK operations as competitive and as productive as possible. In that sense, because we do not know what out will look like, we do not have any specific contingency plans for out. We will deal with that situation if that is what the British electorate chooses.

Q116 Chris White: I assume you have done various projections, modelling and forecasts. You have suggested that you could lose investment. What would that mean to your workforce?

Paul Kahn: The risk is future investment. For our current workforce, the short-term impact would be very minimal. Without knowing what out looks like, it is very difficult to make a model, so any contingency planning would be based on whatever assumptions we made, which are very difficult to forecast. In particular, it means that the impact is greater on our workforces and communities that we support, on their children and their children's children, because it is a long-term impact. It will have a significant impact on our future competitiveness and productivity.

Q117 Chris White: Thank you for that. Jennifer, in your opening remarks you talked about employing immigrants. If it were the case that we did not have free movement of people, what impact would that have on your business? Can I ask a more difficult question, perhaps? Why do you employ immigrants?

Jennifer Brown: There is a lot going on in there. The free movement of people is really significant, not only in being able to employ someone from Eastern Europe. I employed her because she was the best candidate for the job. She was very capable, very motivated and she came with excellent references. It was nothing to do with where she came from, and for the people who did not get the job, it was nothing to do with where they came from. It was down to her abilities that she got the job.

With regard to the free movement of us as a group to travel, particularly into Germany for trade fairs, there is a really key point that ties into your question as well, which I did not quite get the chance to answer. Since 2012, we have seen double-digit growth in our top line and our bottom line. This is, in large part, as a consequence of our exports. In 2012, we did not export to Europe at all and now it is 27% of all of our sales. In fact, 30% of all our revenue is coming from selling overseas, so the extra 7% is from rest-of-world sales. The only way we have achieved that is by travelling as a team, in part or in whole, to Europe to be able to participate in European trade fairs. If we exhibit in London or Birmingham, our main centres for trade fairs in the UK, we do not get the international buyer base that we get if we travel to Europe.

The Government have supported small businesses like mine to be able to attend these European fairs to quite a significant financial level. They have given us money to be able to go; they have given us a dedicated UKTI representative to facilitate any paperwork and the logistics, as a small business, of how I export in Germany. That sounds a bit daunting but the process has become very easy as a consequence of the support we have received from the Government. As a result, 30% of our business is now from overseas and we have tripled our workforce as a consequence of that as well.

Chair: Can I just say thank you on behalf of the Committee? That has been really helpful and really informative. We are very grateful for your time. Thank you.

Examination of Witnesses

Witnesses: **Stephen Kon**, Senior Partner, King & Wood Mallesons, **Alex Depledge**, former CEO and founder of Hassle.com, **Julie Price**, Insurance Broker, Julie Price & Co Ltd, and **Phil Eckersley**, Managing Director, Bridgewater Home Care, gave evidence.

Q118 Chair: Thank you very much for attending. Again, we are very grateful for your time. As I did with the panel that was talking to us about goods, I would like you to introduce yourselves, tell us which company or organisation you are representing and whether you are in favour of Britain leaving the EU or remaining, starting with you, Alex.

Alex Depledge: Hi, my name is Alex Depledge. I am the former CEO and founder of Hassle.com. Hassle.com is an online, digital business that provided cleaners for people across

the UK, Ireland, Germany and France. We started in 2012 and really got running in 2013. Eventually, I sold the business on 1 July 2015 for quite a considerable amount, more than I ever thought anyway, and now I am the Chair of Coadec, which is the Coalition for the Digital Economy. I am obviously in.

Chair: Thanks for coming back and can I say, on behalf of the Committee, congratulations on being awarded the MBE in the Birthday Honours List? It is very well deserved.

Alex Depledge: Thank you. It was a big shock, but a lovely surprise.

Phil Eckersley: My name is Phil Eckersley. I am the Founder and Director of Bridgewater Home Care. We provide care services to people in their own homes, domiciliary care. Our specialism is dementia care, but we support all adults with vulnerabilities in conditions that may hamper their day-to-day activities. I am on the leave side.

Julie Price: I am Julie Price, Julie Price and Co Ltd. I have been employed for nine years, then self-employed for 27 years. I am in a unique position, not only regarding my own business, which has five staff, who have been fairly constant over 20 years, but in that I also insure many small businesses, from one person to 20 to 30 people, and have done over that period. I have seen some come and go, and fail, so I have quite a wide background there.

Chair: Are you in favour of leaving or remaining?

Julie Price: I am in favour of leaving.

Stephen Kon: My name is Stephen Kon. I am a Senior Partner at King & Wood Mallesons. It is a global law firm. I am the Senior Partner on Europe and the Deputy Chair of the firm globally. I am also on the steering committee of Lawyers – In for Britain, so I am in. By background, I am an EU competition lawyer.

Q119 Chair: Stephen, may I begin with you? It is the question I asked the previous panel. How specifically—and, again, I do want to stress “specifically”—does Britain’s membership of the EU impact upon your business?

Stephen Kon: It is pretty significant. About 40% of our people in Europe are EU or EEA nationals. About the same percentage of our business is generated from the EU and, generally, we are a firm that has offices in most principal commercial jurisdictions in other EU member states, and the single market has a very important role to play in the operation of those businesses.

Julie Price: I will have to answer more generally. As it is a small office, I deal only with health and safety and perhaps employment law, but I do have a unique position. I insure lots of very similar small businesses and it impacts them to a greater extent, if they are exporting, importing and what have you. It does have an impact, possibly more on the regulation side.

Q120 Chair: What does that mean when you say “regulation”? Are you concerned that EU regulation is dragging you down and, if so, what regulation?

Julie Price: Any regulations start to crush or lessen business growth, and that is a fact. For a one-man band, it is very basic when you are on your own and you are trying to make your business grow, trying to pay your rates and income tax. Then you incorporate, so you have corporation tax and various other things. Regulation tends to cost you money, because it is very complex, such as employment law, which has become highly regulated and very complex. It keeps changing. Health and safety is the same. We are ending up with more and more consultants, if you like, which goes across the board for all types of businesses.

It has dampened down what we can do. It does. It also reflects on how you run a business, day to day, because there are various other things pulling you in different directions when you are in business. What you think is just one little aspect ends up being another little

nail in the coffin of “Shall I sell?”, because we all have offers at various times, or “Shall I finish and shall I start another business? Am I in the wrong business?” You start thinking, “I am in the wrong business here.” There are all these pressures.

Q121 Chair: I am sorry to interrupt. I am trying to get a sense of the regulatory burden. I understand regulation can very often be a burden on business. To what extent does that regulation derive from Europe or derive from this place?

Julie Price: The problem with regulation is you are not quite sure now which part is UK and which part is Europe. It is getting all foggy and misty. I am now told that the increase in paternity leave is purely UK. All the extras that are given out without consultation to employment again impact the little businesses. There are 5.4 million of us. We are employing 15 million people, which is about 60% of the private sector, but we just get on with it as much as we can. Behind the scenes, you are changing the whole area, because 75% of businesses are not employing anybody now. Yes, there is an impact. All the extra regulations are crushing us.

Q122 Chair: Thank you. Phil?

Phil Eckersley: Is this in regard to regulations?

Chair: It is not specifically about regulation, but in terms of what impact Europe has on your business.

Phil Eckersley: Europe does not really have any impact on my business, but the European Union does. The concern for me is things like the working time directive and the EU procurement rules that we have to work by. For the procurement rules and the larger tenders, usually just the big companies can meet those demands under that regulatory framework. We are a small business; we do not have a head office, where we have tendering teams or anything like that, so we find that the larger providers and plcs are able to tender much more easily and much quicker, which gives them the advantage and, I would say, stifles the innovation and creativity that small and medium companies can offer in tendering for large contracts.

My concern on the regulatory side is the kind of one-size-fits-all approach of the European Union’s regulations and directives. The European Union can create some legislation or regulation because of some issue that happened in Italy or what have you, which impacts the UK. It is not responsive to local market conditions and pressures.

Q123 Chair: Do you have direct experience of that? Has that impacted on your business now?

Phil Eckersley: I believe that being a part of the European Union is uncertainty. I do not believe that leaving the European Union, for me, is going to create any uncertainty. The uncertainty, concern and worries, for me, are the future impact of EU regulation on the service industries and on my industry as well. That for me is completely uncertain, because the vote to remain is not a vote for the status quo, and some people may confuse that and not really understand that that is a part of the deal when people are voting to remain. For me, a vote to leave is more certainty.

It will allow small businesses like mine to be more responsive to local demands and allow you in Westminster to also be more responsive. We have the baby boomers coming up; we are going to have more older people and we need to be responsive to those conditions and those market conditions, whereas EU regulations in other countries in the EU will not have the same pressures and the same issues. We need it to be more local. Having legislation come from Westminster, we will be a lot more responsive to those challenges in the future.

Alex Depledge: If you would indulge me, I would like to give you three reasons why, if we were not part of the EU, my business would never have existed. We formed in 2012 and we pivoted our business model in 2013. In 2013, we were five employees and, by the time I sold, we were 70 employees across four countries. In two and a half years, we had managed to achieve something like 400% year-on-year growth. There are three reasons that we would not have been able to do that without the EU.

The first is market. The UK domestic market for high-growth digital businesses is just not big enough, if we want to compete on a global stage. We need access to the 500 million consumers who exist throughout the European Union. I was able to take advantage of that relatively easily. It was not completely pain-free, but I have great hopes that the DSM or digital single market initiative that is currently being looked at by the Commission should hopefully help alleviate some of those problems even further.

The second reason that I strongly believe that I would not be here if we were not inside the EU is capital. London forms a bridge between the US and Europe for the inflow of venture capital. Some of the best and most high-profile VC investors, Accel Partners, invested \$6 million into my business. They were the early backers of Facebook and they chose to headquarter their practices in the EU. The same goes for Index, which is also a Silicon Valley company. I can rattle off about 30 other venture houses. Those guys are really worried that, if we come out of the EU, they are going to have to move. For efficiency's sake and access to the greatest possible market, you are looking at Berlin as a rival centre for them to move their companies to. We will bypass that flow of American capital completely.

The third thing is talent. This for me is the most important thing. We are facing a skills crisis—not a gap, a crisis—in the UK, where we do not produce the right level of talent for the changing, dynamic economy in which we live. Let me give you a really simple example. I have an engineering team of 10 people. It took me, on average, six months to fill a role. We were only going two and a half years, so you can imagine that six months in the lifespan of the business was an incredibly long time. Of those 10 people, we had one Italian, two Greeks, one from the Canary Islands, one from Poland, one from Ireland, three from the UK and one from Israel. In the end, the guy from Israel we had to let go, because it took me six months trying to get the right visa for him and a lot of money. In the end, I just gave up.

This is just to make the point that only 50% of immigration into this country comes from the EU; the rest of it comes from outside the EU. The fact that we can close our borders is a huge myth. If we believe that and we go ahead and do that, all we will do is kneecap the economy and move the centre of digital creation and innovation from London to Frankfurt, Berlin or Paris, because they are ready and they are waiting with open arms.

Chair: On the question of talent, I think Johnny will want to come in.

Q124 Jonathan Reynolds: Yes, that was a point I was seeking. I am effectively going to ask you the same question I asked the previous panel, which is about how freedom of movement affects you. Do any of you employ EU nationals and, if so, have they been around particular skills shortages? How would it affect you if there was a greater regulatory process to do that? I should warn you that I have to leave immediately after you answer, but please be assured I am not storming out. I have a meeting at half 11. Alex, could you maybe say a little more about that? Then we will go through the rest of the panel.

Alex Depledge: My business offered work for both UK and EU nationals on the platform, in the form of cleaning. Also, I think I worked out that we employed something like 60% EU nationals and 40% UK. Like the lady on the previous panel, we hire whoever is the best person. Unfortunately, although I know that we have put coding on the curriculum and that is a great stride forward, coding is only half the answer. That will also take generations to come.

What is really lacking from our educational institutions right now is digital literacy, so it is not just about development in engineering. It is about product management. It is about performance marketing. It is about data analytics. For all of those three titles, I have just given you, if I asked a 16-year-old on the street if they are interested in those jobs, they would have no idea what they are. Some 50% of my engineering team was self-taught. That means they went and got a book, sat in their bedroom and taught themselves how to do it. Our institutions are not keeping up with the changing environment, and it is not just us; it is the world over. The US has this exact same problem. We are in a global race for talent here, not in a European or even a domestic one.

Phil Eckersley: I would just like to make an important point. I believe that we do have a skills shortage in the UK. It is an important point to make that we have gross immigration to the country of 600,000 a year, let us say, and 300,000 leave. My big concern is that a lot of my friends who are doctors have left. I see an influx of low-skilled or unskilled people coming to the country and a real brain drain of people who have skills that we need—engineers, doctors, medical professionals.

Q125 Jonathan Reynolds: Is that the case for your business, Phil?

Phil Eckersley: It just adds to the pressure. Importantly, social care is the vital bridge between somebody who is beginning their journey through care to the NHS. Social care and the NHS are intrinsic. This is why there is a lot going on about emerging budgets and working closely together. It is something that needs to happen at a local scale, but we are losing people in the NHS, which is putting pressure on the NHS, which is then putting pressure on social care.

Even in the area in which I operate, at least three social care providers have closed down, because the budget is not there. Can we blame the EU for that? Maybe, because we give such a high net contribution, but there may be local pressures as well. But that is having an impact on social care. Social care companies are closing down, which means that there is bed-blocking happening at an even greater scale in NHS hospitals and people cannot be discharged, because there are no carers there to look after them.

I am in favour of immigration. I really do not believe that the Leave campaign is about closing the borders. It is nothing to do with that. It is about controlling the quality of the people who we get into the country. One issue that we have, which we have had to combat and has cost us money, is the recruitment process. We will have people coming from Commonwealth countries who have English as their first language. They are great; we train them up and they are able to complete care plans. They are literate and they can communicate with the clients who they deal with on a day-to-day basis, on a personal level. Often that communication can be idiomatic, with local words and things like that, but those are from the Commonwealth countries.

With EU migrants, we have had difficulty where, for example, we will receive an application form from an EU migrant. It will look fine; it will look great. We will interview them verbally and take them through the training process, only for us to find that they have no literacy skills in English. An example in point is an individual we had who was just copying what an English speaker had previously written. It took us some time to find out that was happening and we have put things in place to stop that from happening in the future. People have to come in and fill in the application form themselves, because we were finding that they were taking them home to get somebody else to do them. That is a real big concern for us and it costs us money in the recruitment process. Immigration is not the issue here; it is the level and quality of immigration that are so important to us.

Q126 Chair: May I just interrupt very briefly on this, Johnny? What proportion of your workforce is paid the national living wage?

Phil Eckersley: All of them are.

Q127 Chair: Is it at a premium to the national living wage, or is it at living wage level?

Phil Eckersley: We pay all our care staff £7.20 an hour, but, on top of that, they have their national insurance and their holiday pay. They get paid mileage and they get paid their time travelling as well.

Q128 Chair: What proportion of your workforce is British-born or from the EU?

Phil Eckersley: Because of the demographics of the areas where we provide services, it is quite low. We do employ EU migrants, probably around 5% or something like that. It is not a huge amount, but enough for us to notice. Do not get me wrong: when we get good ones, they are great. But it is just like in any line of business. You employ somebody; they can be a British citizen or an English person who could be absolutely rubbish or they could be great. You have that anywhere you go, but the issue is the language, the cultural barriers and the understanding of the client themselves. Often EU migrants are very transient and very short term. It is very difficult for us to progress the continuity of care for our clients when people come and work for six months, we train them up, invest all that time and then they leave, go to a different part of the UK or go home. That represents a challenge to us and it does add cost to our service delivery.

Q129 Jonathan Reynolds: It is a very good example. I will just persevere for one more question, if I may. The key issue we need to try to get into as the BIS Select Committee, trying to get the business voice, is we obviously cannot make that process for Commonwealth citizens easier. We cannot have freedom of movement with a Commonwealth country, so how does adding to your regulatory burden when you might employ someone from the European Union affect you? Surely, the very valid challenges you have just set out will be there whether there is freedom of movement or not for those people applying to work for you.

Phil Eckersley: Again, when you say freedom of movement, it is quality control. In 2014, we had the issue with Dr Daniel Ubani who, it was found, did not have a grasp of the English language. Since 2014, the NHS has been able to vet for English language. They have that option. As far as I understand, almost half of applicants into the NHS from the EU have been denied, because they do not have English language capabilities. That just speaks volumes to me about the quality aspect of people coming in to work in our country, particularly in the NHS and social care sector, because it is so important to have excellent communication skills.

You are dealing with people's lives. If one of our clients is saying to somebody that they have a sore throat or whatever else, and they use a term that is not familiar to an EU migrant, something important could be lost there and it could be the difference between ending up in hospital or just simply us getting in touch with the doctor in the pharmacy and giving them some basic medication. That is my concern; the welfare of our older people is my main concern.

Q130 Chair: With the greatest of respect, Phil, that is down to your recruitment procedures and the rigour of them, rather than anything that Europe is somehow imposing.

Phil Eckersley: This is the thing. This is the difference: we have one rule for EU citizens and another rule for people across the rest of the world. In my understanding, people

who come in from outside the EU have to go through certain citizenship tests. They have to have a basic English language proficiency. We do not have those same tests in the EU, so all that burden is held by small businesses like mine. I have to do all the kind of vetting procedure, making sure that they can speak English, making sure that they understand the issues of the local population. That burden is being put on small businesses.

We have so many burdens at the moment anyway, where the social care fund is being cut. We are being told that we have to meet the national living wage and that the future living wage is going to be £9 in 2020, for example, but there is no scope for us to increase our hourly rate. How can that work when we have an extra burden on top of us? It is just putting a lot of pressure on businesses, not just mine but across the sector.

Q131 Jonathan Reynolds: What we are broadly concerned about is that you can stipulate English language capability on a job application. To just complete the panel, Julie and Stephen as well, is this relevant to you at all?

Julie Price: It is probably not so much immigration. I have some clients that have successfully used people in boot and shoe, which is quite strong in the Leicestershire area. They have lost a lot of local skills, but they have found that Polish people have come in and they are very good at it. My IT man is Polish. My dentist is Romanian and very successful.

The point is that certain skills are ideal, but it seems to be en masse, and we are left to pick. There is no help and it costs money to interview, certainly in personal time. I must stipulate that I am talking with my small business and FSB hat on here, as a lot of us are very small here. We are one person, three people or five people. Suddenly, you are interviewing. You have to take time out of your business, so your figures drop. It is probably not quite what you think at all. I do not know if you have ever sat in a small business or started a very small business, but it is very basic. To do all these jobs is an extra burden.

The long-term trend I am seeing in 27 years is that small businesses are saying, "I am not employing anybody." There should be warning signs, because the PAYE levels must be dropping—and I know that, because I have to collect the PAYE numbers for employers' liability insurance. There are probably one in five who will give me a PAYE number now. I know that there are people about, because I have to do the liability.

There is a long-term problem building here and it is to do with regulation. You will say it is not EU and it is not that, but we have to bring it down locally and we have to be flexible. The danger is that we will have unemployment like in France, as you probably saw on the TV a month ago. There have been riots in France to do with trying to deregulate some of their employment law. There is 10% youth unemployment. You get civil unrest. That is where it comes from.

Q132 Jonathan Reynolds: Julie, these are all national issues. France has a labour market completely different from ours.

Julie Price: Again, we are not employing because there are too many burdens. We are saying, "Oh, this is all right. It is all right for plcs that have shareholders' money and all that, the big companies and the civil service." We are talking about very small, basic businesses, but we are a large proportion. We do earn money. We are the seedlings; we grow from nothing. I have clients who have had tremendous growth. I would prefer it to be long term. I know that this lady has had a very successful business and she will probably have another one as well. My clients are very long term. They are dealing globally. They are dealing where they can. A large proportion of them are not dealing with Europe, and I know that because I do marine insurance. When I look at my figures, it is less than 20%. They are dealing with America, Brazil, South Africa and all over.

Stephen Kon: As far as we are concerned and the legal profession generally is concerned, contrary to what was suggested in an earlier session, the freedom to provide services is obviously a fundamental freedom in the EU. We have our lawyers, both partners and of course associates and trainees, going to Europe to provide their services on a very regular and consistent basis.

To give you one example of the counterfactual, we tried to get a visa for one of our trainees to go to Australia, because we have a big Australian practice. We were told it would take six months to get that trainee a visa, by which time her training contract would have expired. Those are the sorts of barriers that we are going to encounter if we leave the EU, and we will not benefit from the freedom to provide our services, as well of course as the difficulties for our clients. They would expect us to be able to advise on EU law matters across the EU, and we would no longer be qualified to do so in certain key areas.

Q133 Peter Kyle: I just have some areas of follow-up. Julie, you have mentioned youth unemployment in the continent three times now. Is the EU directly responsible for creating youth unemployment?

Julie Price: I am not the expert; you probably are there. All I can say is that if you have people who are sitting there, regulating all the time, not consulting properly—

Peter Kyle: So, in your opinion, yes.

Julie Price: Yes, I do not think we get consulted.

Q134 Peter Kyle: Do you know what the EU average for youth unemployment is?

Phil Eckersley: It is higher than the UK.

Julie Price: Sorry, say that again.

Peter Kyle: Sorry, this is to Julie. Do you know what the EU average is?

Julie Price: I understood it was about 10% for youth.

Q135 Peter Kyle: It is 20% for the continent of Europe. For two out of the last five years, it has been 20% in America as well. Does the EU cause youth unemployment in America?

Julie Price: No, America has its own problems.

Peter Kyle: The same goes for Australia, too.

Julie Price: I am saying we are better than this. You seem to think we are all the same, and we are not the same. I deal with people and I think we are very entrepreneurial.

Q136 Peter Kyle: You are making the contention that the EU is causing social harm, including youth unemployment. In the Czech Republic, for example, youth unemployment is about 2%. In Germany, it is about 5%. Across most Scandinavian countries, it is less than 6% or 7%. Is that because of the EU?

Julie Price: I do not know. I know that people are full of statistics. If you went to some businesses and talked to them, they want out of the EU.

Q137 Peter Kyle: My point is that, if the EU is responsible for creating negative things, such as high youth unemployment in Spain, Italy and Greece, is it not also responsible for creating low unemployment in the Czech Republic, Germany, Scandinavia and Britain?

Julie Price: I really think it will sit there. It will not stay as it is. It will keep legislating. It will keep regulating.

Peter Kyle: You are not going to answer the question. That is fine, but do not answer a different question.

Julie Price: That is right, because it seems to be a loaded question. I am telling you that we are best out. Britain is better than that. The problem is I deal with it all the time with small businesses. All they tell me is that regulation reduces what they do.

Q138 Peter Kyle: Just to follow up on another point about employment law, we have been doing an inquiry into Sports Direct. It is very clear that, if you are an employee of Sports Direct, you are given insecurity. There is harassment in the workplace. Staff are feeling bullied. The contracts that some staff are on have led to huge insecurity in their lives, which has had terrible consequences, both in the workplace and in individuals' lives. You are saying that there is too much employment regulation. Where is the employment regulation for those people who needed it?

Julie Price: That would be typical. What did I say about there being a difference between small businesses and plcs? They have sections for HR. They have people who will be advising them all the time: "Do this. Do that." We are working alongside our employees. There is not the bullying that you see there. There is a bit more basic.

Q139 Peter Kyle: There is no bullying in the small business sector. There is no bullying, harassment, exploitation or asking you to work too long.

Julie Price: You really are pushing a point; the majority of employers in small businesses work very well with their employees and they value them. There is no doubt about it, because you do. When you get to plc, you lose control and that is what he admitted, didn't he? I did see that bit. He is over there and he does not see the day-to-day. That is the problem with big business. There is a massive difference. You obviously have not run a small business.

Q140 Peter Kyle: You obviously have not checked my CV, because I have. I set up my own small business. I set it up in my lounge and it is now employing 12 people and doing fantastically well. I set two charities up as well, but this is not about me. I am asking the questions here; this is how this format works.

I am just going to move on. Phil, your sector employs 191,000 EU nationals and there is a shortfall of employees in your sector. There will be an additional need by the end of this Parliament, because of the ageing population, for an additional 200,000 people to work in your sector. Where are they going to come from?

Phil Eckersley: Absolutely. As I said before, I am a believer in immigration, but we need to manage the quality. I do want to come back on youth unemployment.

Peter Kyle: Please do not. Answer the question I asked.

Phil Eckersley: It is just the quality element. We do need immigration and it does not matter where it is from. We just need highly skilled people. We have Filipino migrants who work in the NHS and they are fantastic. They have excellent qualifications and they work well, but that is recognised by the NHS. We need some kind of process where we can control the quality of people we need.

Peter Kyle: That means each individual who comes to the UK must now go through a visa application process to make sure that they are of the right standard to come into our country.

Phil Eckersley: It needs to be fair.

Peter Kyle: Your point is that you say that, at the moment, it is unfettered. You want it to be fettered. You want to check the people who are coming in.

Phil Eckersley: It needs an element of control.

Peter Kyle: "Control" means tests of the people who come in.

Phil Eckersley: If somebody comes into the country, they have to have some kind of proficiency in the English language.

Q141 Peter Kyle: It is quite a simple question: in order to check that they have what you want, the skills you want, including language, that means you want each individual who comes into our country to be tested.

Phil Eckersley: I believe that we should have a fair system of immigration and it should apply to all people across the world, whether they are from Australia, China or Germany.

Peter Kyle: Therefore, every individual who wants to come to our country needs to be tested to see that they have the right skills.

Phil Eckersley: I am not a creator of policy. That is the Government's job.

Q142 Peter Kyle: Can you tell me how you can allow people to come into the country and guarantee they have the right skills, without meeting them and testing them first?

Phil Eckersley: I am saying that we have one rule for one group of people and another rule for another group of people.

Peter Kyle: You want one rule for every group.

Phil Eckersley: It needs to be fair. The rules that we have for the other group mean that it is costing my business and businesses across the country more money in the recruitment process. As you will know from having a small business, in the first two or three years, you are literally doing everything yourself.

Q143 Peter Kyle: We are drifting away from the question, and I am surprised you cannot answer quite a straightforward question. If we have to test the 600,000 to 700,000 people who are coming into the country, is that not going to cost an absolute fortune? Will we not, as a country, have to put in enormous resources to establish a visa system where we can have the bureaucracy in place, so that somebody can apply and every EU national who wants to come here needs to apply to have a test to see if they have the competencies that you are talking about, before they can come in? If one of the reasons why you want this system is because, at the moment, EU membership is costing us a fortune, what you are suggesting is replacing it with a system that is very narrowly focused on skills and will cost us broadly the same.

Phil Eckersley: It is not about having a narrow focus. It is about having an understanding of the quality of the people who are coming into the country. Australia do it and they have done it for years.

Chair: Peter, I am going to move on.

Phil Eckersley: Think of the saving to companies if you take that burden out from their recruitment process.

Peter Kyle: Australia has higher rates of immigration than we do.

Q144 Chair: Peter, I am going to move on, because I am very conscious of time. We are overrunning. Alex, you started off by saying that you need to attract talent. There is a skills crisis. How does our membership of the EU help us address that skills crisis?

Alex Depledge: In the long term, it needs to be done through education, and I do not mean just by primary and secondary school. I mean all kinds of branches of education. That is going to take generations to come through and to fix. In the short to medium term, I am at a bit of a loss as to how we continue to staff up our high-growth businesses and our tech businesses. By the way, I am not just pro-European immigration; I am pro-global

immigration, because that is the only way that I see us being able to grow our businesses and plug that skills gap.

First of all, we need to admit that we have a skills gap, and I do not see that much ready admittance coming in the public arena. I just want to preface this with the fact that I did run a small business. It was five people and I managed to grow it to 70. Regulation is regulation, and the confusion sitting round here about regulation is that people feel that that regulation comes down from the EU when a lot of it comes from our national Government. The European Union does not have a monopoly on burdensome, cumbersome, ill-executed regulation. We have done a great job, a ham-fisted job, of that ourselves. The European working time directive was issued in 2003. We have an opt-out for that, which we used in my business. I do not get this whole “encumbered by red tape”, because we were not.

To put this into perspective, between 2010 and 2013, we had 3,000 scale-ups contribute £59 billion to this economy. That is the fine line between recession and recovery. I feel for small businesses; they have a tough job in or outside the EU, because it is hard when you are a small company. But if we do not want to cut our legs off on the recovery of our economy, powered by our digital and technical businesses, then we need to stay in the EU.

Q145 Richard Fuller: Alex, just to pull you up on something, you talk about a skills shortage in the technology sector. The world’s most successful technology sector is the United States. They have a skills shortage, which they fit by bringing in people from China, India and other countries, but they do not seek to impose a supranational system of government over the United States, do they?

Alex Depledge: They have a federal Government as it is.

Richard Fuller: They do not say, “Oh, we need people from India and China for our technology sector, so let’s create a supranational Government,” do they? You are mixing things up, Alex.

Alex Depledge: I am not, sorry.

Richard Fuller: You are, because the skills shortage, which we all accept, is important to solve. There is an example, which is the world’s most successful technology sector, which is your sector. They solve it, but they do not create a system of government that requires them to have rules that are the same rules for India and the same rules for China. Why do we need that here?

Alex Depledge: Let me unpack your question for a second. Number one, the US has a skills shortage, too. The whole world has a skills shortage in technical and digital skills, and so they have immigration. They have lots of groups that lobby very hard for more visas into America to try to solve the skills shortage, and I am saying exactly the same thing.

Richard Fuller: No, you are not. Your argument is in favour of the European Union, not in favour of the skills shortage. You are conflating the two. America does not and it is more successful than we are.

Alex Depledge: I am saying that one way that we are combating some of that skills pressure in the UK right now is by sourcing talent from across the EU, which is easy to do, because we do not need to go through a burdensome, expensive visa process to get them in the country, which I have been through, trying to get someone from Israel in here. I am saying that 90% of my technical team came from across the EU and it cost me nothing to bring them here. I am not arguing for a supranational state over the US. I am saying that what we have now is working to alleviate it somewhat, but we need to do more.

Q146 Amanda Milling: This is a question to Phil and Julie. You have both talked about regulation and the impact on your businesses. What impact will leaving the EU have? Will the regulatory burden reduce?

Phil Eckersley: Personally, I do not see any upsides to being part of the European Union. I really do not. With Brexit, you might have a bit of a temporary disruption, but it is not going to affect my business. However, it will give our country control to respond to local demands, local issues, and local population and demographic issues, which cannot be responded to by EU regulations made in Brussels, when they do not know our local markets.

Q147 Amanda Milling: Back to my question, you have talked about various regulations and the regulatory burden. I hear this a lot from small businesses. Do you think that this regulation is all going to disappear on 24 June, or maybe 25 June, as a result of a leave vote?

Phil Eckersley: It depends what we do: if we have Article 50 or we just rescind the European Communities Act. It depends what we do. I imagine that we will keep the EU directives and phase in our own forms to replace those, in the benefit of the country and local issues. Just coming back on the points I have made in this meeting, it is about our country being able to respond to the demands on it. There are huge demands in the social care sector. The EU is not a responsive institution and Westminster is not either, but at least it is a bit closer to home and they have an understanding of local issues and local governance. I do not see how the EU can make my life better, as a business owner in the social sector, or my clients' or my carers' lives better. Our workers' conditions are leading in the world and we have not needed the European Union to have those.

Q148 Amanda Milling: Julie, you talked about health and safety, and various different kinds of regulations that affect small businesses. What impact do you think leaving the EU will have?

Julie Price: It will not be an immediate impact. To even suggest it is obviously is ridiculous. Again, I would rather talk long term. A lot of this is short-term fix, short-term fix. Long term, we are going to have to be a bit more responsive and flexible for employment. You really cannot do it with people that you cannot see or when you do not know how it works. At least here we can try to change things.

I have sat on the FSB for health and safety regulatory reform. They were sending stuff through saying, "Can you comment on this very quickly?" We did our best and that has only just started. It is the first time I have seen the Government send it to somebody at small business level to have a go, and we have. We have commented on various things that are going through. We get them very late. They are huge piles of paper, but we are trying and we want more of that. We need to be very competitive.

It has gone global. It is beyond Europe with the internet, and that is the feedback I am getting back from my clients, who are dealing with the world. To have that extra layer just fogs it up. We are not quite sure who to go to and how to reverse. Reversing things is almost impossible. It is very difficult. I am a true believer that we can do it. That is all I see. You have to understand it. That is all I have seen in 27 years: local businesses. I do not mean just high-tech, but tradespeople. We probably have the best electrical standards in the world. You know that it is 40 years and we are still on two plugs when you go to the continent. We have the best electricians; the electrical contractors will tell you that.

Q149 Amanda Milling: In a post-Brexit world, would you not have a sense that Westminster would create the regulation that might otherwise have come from the EU and that things are not going to change from a regulatory perspective?

Julie Price: We have already for even the simplest things. You know these plastic bags; did you not notice that they are not chargeable for small businesses? We have already

started, as small as it sounds. Treating little business as consumers for utilities is FSB-led. We are trying. That is me with my FSB hat on; we are trying. It is because small businesses do not really have a main voice, but they are so important.

Chair: Can I just thank you for your time? It has been really informative and we are very grateful. Thank you very much.