

The Select Committee on the European Union

External Affairs Sub-Committee and Internal Market Sub-Committee

Corrected oral evidence: Brexit: Future trade between the UK and the EU

Thursday 15 September 2016

10.05 am

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Members present (External Affairs Sub-Committee): Baroness Armstrong of Hill Top (Chairman)¹, Lord Balfe, Baroness Brown of Cambridge, Lord Dubs, Lord Horam, Earl of Oxford & Asquith, Lord Stirrup, Baroness Symons of Vernham Dean

Members present (Internal Market Sub-Committee): Lord Whitty (Chairman), Baroness Donaghy, Lord Green of Hurstpierpoint, Lord Lansley, Lord Liddle, Lord Rees of Ludlow, Lord Wei

Evidence Session No. 4

Heard in Public

Questions 30 - 39

Witnesses

Professor John Manners-Bell and Dr Christos Tsinopoulos

¹ Baroness Armstrong of Hill Top was chairing in place of Baroness Morris of Bolton, who was unable to attend the meeting.

Examination of Witnesses

Professor John Manners-Bell, Chief Executive, Transport Intelligence Ltd, and Dr Christos Tsinopoulos, Senior Lecturer, Durham University

Baroness Armstrong took the Chair.

Q30 The Chairman: Good morning everyone, and welcome to our two witnesses. I just remind the witnesses that this is a public session, so it is on the record and there will be a transcript, but we hope that will not make you feel that there are things you cannot say. I would also just say that inevitably in sessions such as this, Members come but then need to leave, as there is other business going on in the House. If people leave, that is not about you as witnesses but because they have other commitments. We get used to it, but very often people who are visiting wonder what is going on, so I just thought I would mention that.

We are trying to get a better understanding of the challenges in renegotiating trade in both goods and services. The External Affairs Committee is looking particularly at goods, while the Internal Market Committee is looking mainly at services. Inevitably, as we have just been hearing, there is some crossover, and we come together so that we can deal more effectively with the whole issue. That will be reflected in the reports that come out. This is a learning exercise for everyone. It is not that we expect you to have the answers; it is that, if nothing else, we need greater clarity on the right questions to be asking the Government.

As you know, we have a range of questions. Members will come in to ask particular questions, but I wanted to start by asking what you think the overall effect or impact of Britain's decision to leave the European Union will be on the supply chains of the UK's non-financial services industries and of UK manufacturers. Perhaps you could just give us an example so that we can understand it more easily. Which procedures of trade—tariffs, administrative procedures, non-tariff barriers, rules of origin, customs controls and so on—would be the most burdensome, if we have to change? We are happy for either of you to answer. Because we are fairly short of time, if one person has said what you would like to say, we hope you leave that, but we are happy for you to both come in and contribute.

Professor John Manners-Bell: Thank you very much Lord Chairman, and the other members of the Committee, for allowing us this opportunity. Before I answer the question, I will say very quickly that I have worked in supply chains rather than in trade, and the two, as you will all know, are very different. The supply chains that we are used to in the industry are hugely fragmented virtual networks. Over the last 20 years, there has been an unbundling of industrial processes, and outsourcing of them, right around the world, not just within Europe. So the supply chains that we recognise are already very globalised. If you look at the figures that are available from Eurostat or other trade statistics bodies, you will see that probably a third of inputs of

intermediate goods are coming from around the world. So, in fact, supply chains are already operating very effectively both in the EU and outside it.

My colleague will probably talk a little bit about the automotive sector, but that has a range of different structures in place, including domestic suppliers supplying the automotive sector, European suppliers and, especially in the case of the Japanese manufacturers based in the UK, suppliers from Japan, China and the US. So the logistics and supply chain industry in the UK is already hugely flexible, very agile, and able to make decisions and to work within the structures that are being provided.

Over the last 20 years, or beyond that, right the way back to the beginning of the WTO, we have seen tariffs being reduced. We do not see tariffs as a particularly major issue at the moment—although we may come back to that later in the session—but non-tariff barriers are the key concern for everybody.

You asked about the areas in which we would like to see some sort of clarity or some sort of solution. We certainly do not want to see non-tariff barriers such as rules of origin or other areas of standardisation being rolled back, but I do not believe that is going to happen, because European standards are already in line with international standards, and manufacturers that move goods around the world are already working in line with those international standards, as are UK manufacturers. I may have a rosier and more confident picture than many, but as to where we are in forging a new relationship with the EU, we already have everything in place when it comes to customs procedures and harmonisation and standardisation for products. I see negotiations probably being a lot easier, if the will exists, than many people think.

Dr Christos Tsinopoulos: Thank you very much for inviting me. My views on the overall assessment are not far from those of my colleague's here. The UK sector has in general built up significant strengths over the last few years. I have been visiting various companies—I am an academic, so I tend to visit companies rather than doing what my colleague does—and their main concern has always been about tariffs, barriers, challenges to trade and so on.

The UK's strengths come in several sectors. I am going to talk about the automotive sector because in preparation for this meeting I talked to several of my contacts at manufacturers in the automotive sector. They have their own concerns and views but I presume those will come up later in the questions that we will be asked. The point I would make, however, is that we are talking about supply chains, which tend to be as weak as their weakest link. Sometimes the weakest link is in the UK, sometimes it is outside the UK; sometimes it is in the EU and sometimes outside the EU. The issues like those suggested by my colleague are important: about standardisation and making sure that you can identify where, for instance, that weakest link exists and what you can do to build on it. But all my comments in the past, which very much echo those of my colleagues, were that those aspects of standardisation in common legislation that goes across is something that a lot of the manufacturers I have spoken to see as a significant benefit.

Another key aspect, which again echoes some of the comments that my colleague made, is associated with the degree of integration of global supply chains. One thing that many supply chain managers would tell you is that, when a supply chain is well integrated, it performs better.

If you want part of my overall assessment, it is that if that integration is compromised then there is the potential for a hit on competitiveness. I am also optimistic—this is my guess—that this is not going to happen. There will not necessarily be a hit on the weakest link in the integration aspects of the supply chain.

The Chairman: Can you give us any direct examples of where you think there might be problems that we should look at?

Professor John Manners-Bell: As I mentioned before, there may be on the rules of origin and other elements of non-tariff barriers. Having said that, to give a little summary of the rules of origin, they would mean that any parts or components which are imported into a country would have to have some sort of certificate if they are to be re-exported to the EU. For example, if they were to come into the UK from any country around the world, such as China, then that part may need to have a certificate of origin and if the overall amount of imported goods from non-EU countries made up more than a certain proportion of that particular good, it would have a tariff imposed on it. The problem with that is that, if the system becomes very bureaucratic and administrative, it can add a large amount of costs to the overall process of the export of the good. I think that some people have estimated it as anywhere between 5% and 15%, in which case the exporter may decide that it is easier to accept a tariff rather than go through all the administrative burden of getting certificates of origin for all the different parts of these products, which are then assembled and re-exported. So in theory—this is what a lot of the literature has been warning about the impact of Brexit— that could be a major cost. However, we could look at a trade deal with South Korea. The negotiations for that started in 2007 and ended in 2009, so there were only two years of negotiation, and it then came into force two years afterwards in 2011. But rules of origin and non-tariff barriers were all integrated into that agreement. It can be done. We are always thinking about it from the UK perspective, thinking that others will insist on this burden, but to be honest it is more an issue for EU exporters to the UK because of the trade deficit. So if they insisted that we must have rules of origin—other non tariff barriers (NTBs) on our goods—presumably the reverse would apply as well. In which case, there would be bigger hit for EU exporters. I cannot see that being an acceptable state of affairs for the major European manufacturers such as BMW, Mercedes and the like.

Dr Christos Tsinopoulos: The only thing that I would add that is that they are looking to expand into the same areas as well, so maybe they will see the same levels of growth elsewhere. However, I would add that the manufacturers and supply chains I have spoken to seem to have two levels of concern. One is the immediate one associated with things such as the exchange rate, for instance. That has been a blessing for some and a curse for others. That is clearly not only an issue of Brexit. Fluctuations happen all the time so it is not something that should be of immediate

concern, but it is of immediate concern to those who are in it at the moment. Some love it and clearly some hate it. So one thing is the exchange rate fluctuation. The other is the uncertainty over these past months. You were asking about manufacturers and the motor manufacturers in the north-east. Some contracts are coming up for renewal, for instance. There is a concern that they have to make long-term decisions in a state of uncertainty. For instance, decisions have to be made by Christmas and they do not know what the rules of the game will be. Those are the immediate concerns. The longer-term concerns are very much associated with tariffs. Tariffs are the main thing people have spoken about. They do not want any tariffs or any kind of barriers associated with trade. They have been used to low-tariff trade. The other thing that has been mentioned a few times—and you have probably heard this on various occasions—is associated with free, easy movement of labour, particularly skilled labour. You have probably heard this story again and again but there is a real shortage of skills, particularly engineering skills. A lot of engineering companies are doing a lot to fix that, but that is a long-term process of engagement and quite often the free movement of labour has allowed people to sort this out. That is another message that I am receiving. There are shorter-term problems such as exchange rates, and the level of uncertainty that we have at the moment, but also longer-term problems with what to do about skills and tariffs.

- Q31 **Baroness Brown of Cambridge:** Thank you. I would like to explore a little more with you which sectors you think might be most and least affected. Of course, you have already mentioned the automotive industry and I would be interested to hear a little more about that. We would also clearly be interested in aerospace, which is particularly critical to us. Offshore wind is an interesting area where we are rapidly developing the world's largest installation base for offshore wind and looking to become a significant part of the supply chain for that—many of the suppliers being Siemens in Europe. Will it affect our ability to bring in jobs and investment in support of that industry? You have already mentioned the north-east and I am also interested. As a result of some of this, are there any particular geographical areas in the country that could be more significantly affected? I have lived for many years in Birmingham where we make a large percentage of the engines for the European automotive industry. If there were a problem there, it would have a big impact on the West Midlands economy. Are there other particular areas of concern? Sorry, that is quite long and complex, but if you could address parts or all of it, I would be delighted to hear more.

Professor John Manners-Bell: I will certainly let my colleague here deal with some of the automotive industry, as he is an expert on that particular sector. For my part, I have taken two sectors that he did not mention which I think will be most effective. The first is on the agriculture side—food products, for example. As a country we import 40% of our food requirements; a large proportion of that comes from France and Ireland. So any change in the trade system would obviously have a significant impact. On the world market, agricultural food products are much lower than they are available within the EU due to the barriers around the edges of the EU, so I imagine that if we are moving to free-trade areas with

certain big producers such as Brazil or the USA in some sort of hypothetical post-Brexit scenario, we will see far more intercontinental movements of goods, which will have some major benefits for shipping lines. It will also have a major benefit for airlines in the movement of perishable goods, and the refrigerated movement of goods will increase. We will see consequent impacts on ports and airports, which will become the gateways to these intercontinental movements of goods.

On the flipside, it will impact on cross-channel movements, in particular on the movements at the moment between the UK and France, where we will certainly see fewer volumes in this particular scenario. If we see tariffs imposed on food products coming from the EU—to go back to my original point, I do not think that we will—this may well be of benefit to UK domestic producers. So overall there would be some major changes, not only to agricultural supply chains but to the logistics providers that serve them, and to the transport infrastructure that will be required to facilitate the movement of these goods.

Baroness Brown of Cambridge: In the context of us needing to reduce our CO₂ emissions to meet our climate change targets, and of course the significant challenge that both aviation and shipping deliver in that area, do you not think that increasing costs associated with the CO₂ emissions from those modes will be a problem?

Professor John Manners-Bell: Yes, that is an excellent point, which I did not raise because I was not sure whether it came within the remit of this Committee. Yes, that will certainly lead to higher CO₂ emissions from the shipping and air cargo movements. This is already a major issue for those motor transports, and it would be exacerbated.

Dr Christos Tsinopoulos: I tried to prepare for this question and to identify a number of sectors that might be more directly affected. I would touch on some sectors specifically, but there is another aspect, which is some of the research that we have done in Durham. I would like to go back a step and focus on some of the ways in which the supply chains are structured. Many of us think of supply chains as streamlined and that they produce a high volume of goods, and all that kind of stuff, and of course that is a big factor in supply chains. But a big proportion of supply chains do not do that. They are based on projects; they make large, project-based equipment, such as the construction of a house or a building. Looking at it like that, I would not consider quite a few of the project-based supply chains a threat, because they are largely based on location; you are trying to supply customers who are relatively close to you. For instance, many of the manufacturers that we have done a lot of work with in recent years supply construction companies in London, for example, so they are not necessarily affected directly by decisions like this. I guess your question is more about the high-volume supply chains such as those in the automotive industry—fast-moving consumer goods and that kind of thing. Whether and how those would be affected would depend not just on the location of the factory but on the decision about where, or where not, to produce a new product. I do not have a personal prediction about any immediate decision by any company to shift production elsewhere simply because the UK has voted to leave the EU. My concern would be

about a decision being made at some point in the future about where to produce a new model. These are already very competitive decisions. Even within the EU, they are significant competitive decisions. When a decision is made within the EU, it is usually based on the economics; now, you have politics in there as well, and I do not want to go there.

Baroness Brown of Cambridge: So what about the Nissan situation?

Dr Christos Tsinopoulos: Yes, the Nissan situation is just such a decision, and a lot of those will be coming up in the future.

There is another question which I am sure you are asking, which is: how long will it be before we see the impact? I think that that question should be answered by looking at the life cycles of the products that are manufactured across the UK. They will vary across sectors and across different situations. I am not necessarily pessimistic but that would be my immediate concern—whether, in the current environment of uncertainty, a manufacturer would simply say, “I want to go to a more certain environment”. It is about decision-making more than anything.

To summarise, focusing on sectors is of course important but you might also want to focus on the different structures that different supply chains have—project-based supply chains versus high-volume supply chains, and new products versus older products—and maybe deal with them in a slightly different fashion rather than have one monolithic approach to supply chains.

Q32 **Lord Wei:** I just want to follow up on that with a hypothetical scenario. For example, where the negotiations are not really completed in time, we go to a WTO scenario and industry gets affected by tariffs as we export into Europe, could the Government put in place emergency temporary measures to unilaterally remove tariffs on import materials for our manufacturers, such as our car manufacturers—for example, on imports of steel or whatever—such that they could try to cushion the impact of immediately having tariffs imposed on exports to Europe?

Professor John Manners-Bell: Obviously, as the Committee members are very well aware, there would be no punitive measures by the EU because that would be against WTO rules. So far as I can see, the UK Government could do whatever they wanted. If they wanted to lift tariffs on a particular commodity, acting unilaterally, there would be no issue with that. Straying on to the political side of things, if they did that they would throw away whatever leverage they had in terms of passing on the pressure to European producers to force the hand of the EU negotiators. So the European manufacturers have more to lose in this than the UK manufacturers. We have to be very confident and assertive on this in our future trade relations and trade negotiations with the European Commission. That is the nature of trade with this country—we have a trade deficit; they need us more than we need them. I do not think that it would come to that.

Going back to the South Korean example, South Korea managed to negotiate a deal from scratch in two years where there were large tariffs in place—really significant levels of duty were imposed. There were also

significant non-tariff barriers, which they needed to come up with a new way of reducing, and they did that in two years. As far as I can see, we need to move on to this stage very quickly.

I just want to come back to the point about confidence and certainty, which my colleague has been talking about. We need to move on. The worst thing about this whole situation is the lack of confidence and certainty that has been created. If we were able to move on to the negotiations and give manufacturers and retailers in the UK and elsewhere some sort of timeline, that would help them with their investment decisions.

Dr Christos Tsinopoulos: I would not disagree with that although I have a slightly different take on it. I think your question also implies whether you need a plan B in case such things do not work. A plan B is always a good strategy. I teach project management, where they all talk about contingency planning. I would also like to go a little bit on to the university sector, where I come from. There was an announcement last month saying that we will cover any money lost from investment on research. That is important because it gives confidence to the education sector, for example in universities and research, that you can continue investing, recruiting people and looking for talent even though that money might not be needed—I imagine that as a result of the negotiation we might have access to, for instance, EU funding. So some sort of confidence-boosting plan B that is known to a degree to the wider public and industry would not necessarily be a bad idea.

Q33 **Lord Stirrup:** Professor, I am very glad that you mentioned the wider trading interests throughout Europe. Far too often we tend to concentrate on just what this means for us and what the difficulties are for us. As you say, there is a lot of mutual self-interest involved in this whole issue. In light of that, and of the fact that sometimes politics, particularly within the EU, can tend to trump industrial self-interest, what do you think would be the most appropriate relationships for us to retain with the EU to be able to get the best solution to all of this that satisfies everybody's mutual self-interest? That is without asking you to predict or specify particular institutional arrangements. What are the most important parts of the relationship that would allow us to drive this forward and instil the sort of confidence you are talking about as quickly as possible?

Professor John Manners-Bell: If you are in the supply-chain industry, one of the most important things for you as a business is inventory and being able to keep inventory levels as low as possible. For that to take place, you must have frictionless movement and slick transportation, so any barriers to the cross-border movement of goods will impact on inventory levels and that will impact on companies' competitiveness. So we would need to retain movement of goods without being stopped at borders. Given that goods from right the way round the world come into the UK and in many cases are not stopped at borders but go on to a distribution centre, I think that is achievable. Most clearance and documentation will take place due to new IT systems introduced over the past few years. So the process is really technology-driven. To come back to the system or future trading relationship that we have with the EU, I think we have to

retain some level of free trade agreement, which is one step on from the WTO. At the same time, to return to the non-tariff barriers, we must go back to a place where both sides agree to standardisation and some level of homogenisation of regulations. As I say, because most regulations are internationally agreed, I do not see that being a problem either. We could put together some sort of loose free trade agreement which, at the same time, would allow us to trade with the fast-growing and emerging markets around the world and strike our own deals with those countries.

If we look further, people talk about the Norway arrangement or agreements such as the one that Turkey has with regard to being part of the customs union, but that comes with many other disadvantages as well. We would have rules and regulations imposed on us by the EU but without having any influence on actually setting them. At the same time, we would have to pay; in Norway's situation as part of the European Economic Area, for example, it has to pay a substantial amount of money for that privilege. Although it is not for me to comment on the political situation, if we had that level of integration with the EU, which in the case of Norway and Switzerland also includes the free movement of people, it would probably be politically unacceptable given the result of the referendum. So what I would envisage if I was put on the spot, which I am, is some sort of loose free trade agreement in terms of eliminating tariffs or ensuring that no tariffs come back into the structure, as well as harmonising standards or keeping them harmonised as we move forward but allowing us to trade with the rest of the world at the same time.

Lord Stirrup: Perhaps I could put you on the spot a bit further. This might be slightly unfair, but I am just asking you for speculation. In your view, would the major manufacturing companies in Germany that export to us feel that that solution would be in their best interests?

Professor John Manners-Bell: I think they would accept it. I do not see why it would not be in their interests; they would have everything that they already have at the moment. They would not want the extra burden of any tariffs or problems with moving the goods on a just-in-time basis between their suppliers across Europe and their manufacturing plants in the UK. If we avoid that, they will accept it.

Q34 **Lord Liddle:** This is addressed to Professor Manners-Bell. The key assumption underlying your confidence is that the harmonisation of standards is already there, and that this harmonisation will be retained. There are a couple of points there. First, at present the EU is a global standards setter so, when you talk about global regulations, a lot of this is the rest of the world following standards that the EU has set. We will no longer have any influence over those standards if we are outside the EU. I know of recent instances in the car industry where you get a situation where the French and German manufacturers are setting standards in their interests without British-based manufacturers having any say. Is that a concern for you?

Secondly, a lot of the political argument about coming out of the EU—and many distinguished people, like Lord Lawson, make these arguments—is that the real opportunity of Brexit is for us to go through another wave of

Thatcherite deregulation and set our own much looser standards in order to make our economy more competitive. Presumably, though, if that strategy were to be adopted by the British Government, the confidence that you have would completely disintegrate because we would not be able to maintain global access in the same way.

Professor John Manners-Bell: Coming back on the first point, yes, obviously the EU has been ahead of the game in setting international standards. To return to the South Korean scenario, one reason why negotiations could be concluded within two years was that South Korean standards were very close to EU standards, and both related to international standards. In electronic machinery, for example, in which South Korea is an important global manufacturer, those standards were very close to those already in place in the EU, so not much in the way of harmonisation was required. The issue was that products should not be tested once in South Korea and again when they got into the EU. If you are a South Korean manufacturer, you certainly do not want your product having to meet the requirements of different standards for the USA and around the world, so you have a variety of different products. That is why bringing them into line with international standards is so important.

I stress that it is all about international standards. If the EU has been at the forefront of developing them, that is all to the good, as long as they are adopted internationally, and in many cases—not in all, but in many—they are.

In terms of loosening standards, the vast majority of UK manufacturers never export and look to their domestic UK market, but at the moment they have to conform to EU standards. If there was some sort of Thatcherite revolution, as you put it, burning all these standards, regulations and bureaucracy, that would be one area it could look at, but I, for one, have not seen any appetite for that at the moment. I would envisage that the standards will remain the same for a significant time.

Dr Christos Tsinopoulos: I have a different angle on that. If you look at the EU emission standards, they are set by and for the European Union, and they are at the forefront of technology, so they are not just standards for operating procedures but for manufacturing cars to be produced and sold in the EU, so I sympathise with that argument. At the moment, the UK does have a say in what the EU emissions standards are; perhaps later, it will not.

Let us go back to the trade deficit argument, because I have heard it a lot and partly agree with it. Clearly, the argument that they need us more than we need them exists, but it is also temporary. The reason they need us more than we need them is that they make BMWs and Mercedes, which are good cars that we want to buy that are at the forefront of innovation. I am not saying that the UK does not have that, it does. I spent the whole of last week in a Jaguar and it was a brilliant car. The point is that this is shifting, and perhaps we will need them more than they need us. That will change over the years. Simply trying to second-guess the other person's negotiating position on the basis that they will need us more is short-termist.

Lord Lansley: On them needing us more than we need them and the South Korea analogy, first, on the point that we buy more from them than they buy from us, there is the question of the extent to which what is bought is substitutable by other products within the same market. If the terms of trade and the relative competitiveness shift, in a market of 500 million consumers, even if it goes down to 440 million, the likelihood of there being substitutable goods is relatively high compared to inside the United Kingdom, where there may not be alternative producers for that type of good. Therefore it has to be imported, and the question is where it comes from, and the EU would have a similar basis for trade as other countries. Does that point to a shift over time?

Secondly, on South Korea, how far does that agreement extend into trade in services? From the EU countries' point of view, if they continue to sell us goods, that is great; if we cannot sell them services so readily, that may also be great, but it may not be great from the British point of view.

Dr Christos Tsinopoulos: Sorry, what is the question?

Lord Lansley: First, is the issue of substitutable goods a reason why things might shift over time? Secondly, with South Korea, what does the analogy say to us about services in arriving at a two-year agreement?

Dr Christos Tsinopoulos: I think there is an area of substitution that can happen; I would not disagree with that. I guess that my point is more that we should go back a step. One thing that I am hearing again and again in the UK supply chain is that the engineering sector is great at doing things. I am judging for an award, for instance, and I see some excellent manufacturers around the UK. If we take that a little bit further, if they are as good as they say they are—and I believe that they are—they would like to export. So we would like to be in the situation where we export more to Germany more than Germany exports to us, in which case we need them more. If we do well and innovate, and the supply chain innovates and is creative and makes excellent products, it will be the other way around—and that would be a great position to be in, because you export more than you import, and that is what everybody aspires to do. On the exciting, high-end and high-value products—the Jaguars, Land Rovers and all that kind of stuff, which people want to buy, it is not easy to substitute. But when you go down the value chain, the substitution is a lot easier to make—I would not disagree with that.

Professor John Manners-Bell: I know that South Korean services were included in the agreement with South Korea. Perhaps I can call on a personal example. I run a consultancy, and we consult all over the world. We have no problems—we have worked with South Korean companies before, and we work with Chinese companies and companies around the world, providing them with consulting services. We sell reports all over the world. The most difficult region for us in selling our reports is in the EU, because of some of the more recent VAT regulations that have come through, which is bizarre in many cases. At the moment, as an exporter, I imagine that about 80% of our revenues are generated abroad, and we have no problems there; there are no challenges to doing business for us. Services are obviously hugely important for the UK, and they have to be

part of any sort of free trade deal. But it is not the same level of issue that is impacting on the trade and movement of goods.

The Chairman: Thank you very much. I am going to have to ask colleagues not to ask so many supplementary questions, because we are miles behind time.

Baroness Donaghy: This is a question for Dr Tsinopoulos. You have been quoted on the importance of common legal frameworks and standardisation within the EU for the development of integrated supply chains. What impact would Brexit have on those common legal frameworks and standardisation, in your view?

Dr Christos Tsinopoulos: We have discussed common legal frameworks and standardisation to a degree already—but a nice analogy, which I have used with my classes over the last few months, is with the driving licence. I had a Greek driving licence and I could use it here, but I swapped it eventually with a UK one, because I had been here for long enough—but it is easy to do. There is no burden or problem associated with that. The same applies, to extend that a little further, to hauliers, who can just travel around the UK; the logistics industry knows that well. Another, more sophisticated, example is the one that I mentioned earlier about the European car emissions standards, which allow automotive manufacturers to focus on the same standard across Europe. My concern is that, if that changes, the UK has no say in it—but, more importantly, if there are different standards in the UK versus the EU, which is a possibility, that creates significant complexities. I was talking to one of the automotive companies via a colleague yesterday, and one of the things that he told me was that this was a concern. At the moment, it is relatively simple, but if you look at what has happened for us trying to export to Japan, which has different standards, you see that that creates complexities in the supply chain. They are happy with that—it is not an issue. They have two or three different parts of the world to which they export, and they have two or three different standards. But if they had more of those, it would create significant complexity across the supply chain, which we would like to avoid. That is the rationale for my comment.

Q35 **Lord Wei:** You have said that “the most pressing trade agreement should be one that prioritises access to innovation”. Could you please elaborate on that? How would the UK lose or retain access to innovation through Brexit? What does innovation entail? Could your answer focus on financial services and areas the UK is particularly strong in or reliant on?

Dr Christos Tsinopoulos: I come from a business school with a strong reputation for finance work. Although I am not in finance myself, I hear some of the arguments. I would like to answer by bringing in a couple of examples. Example one is Nissan and example two is JLR. Although Nissan has research and development in the UK, based in Cranfield, for instance, a big part of its research and development of new cars—cars that the UK economy sometimes does not see—comes from Japan. It develops a car in Japan, asks you to make it here and sells it here. It is a little more sophisticated and complicated than that because they did some development here. The Qashqai, for instance, was designed in the UK, but across the product ranges that is not always the case. At the other end of

the spectrum we have JLR. JLR designs a car in the UK and works closely with the likes of Warwick, Birmingham and Coventry Universities. They retain the R&D here in the UK. The consequence of that is a lot of knowledge spillover in the economy. For instance, PhD students and engineering students are being trained on high-production technologies and so on.

My point is that any free trade agreement should acknowledge that and allow access to, for instance, institutions that have knowledge. The frequent comparison is made with Germany and quite rightly so. Germany has an excellent university sector that is very well and closely linked with industry. If the prioritisation is based on trade and trade alone and forgets there is a knowledge spillover that happens across the board, it is potentially a short-termist view that misses some of the key points.

To give an additional point, coming from a research-based university, I think that one of our major concerns is we are going to lose the input we have on Horizon 2020. I use this as an example. It is not to moan about not being able to get money from Horizon 2020 in future, but more about the access to innovation that happens through Horizon 2020. Any free trade agreement should acknowledge the fact that this innovation happens at the high end and find ways of integrating further down the supply chain. That is the rationale for my comment.

The Chairman: That is very interesting, thank you.

- Q36 **Lord Horam:** Obviously, post Brexit we hope many of the supply chains will remain in place because it is in people's self-interest that they should do so. But, as you have emphasised, they might change. For instance, there might be some change in agriculture, although France has big advantages in keeping it the same, as do we. How quickly and easily can a supply chain be changed?

Professor John Manners-Bell: It really depends on the type of supply chain. Some of the supply chains that my colleague has been talking about, such as the automotive sector, have required large amounts of investment, for example in new facilities. Maybe those are the sorts of judgments or decisions that are being delayed.

Lord Horam: So they would be quite difficult to change. You would not want to do it unless you really had to.

Professor John Manners-Bell: Exactly. But a large proportion of supply chains are much more flexible and agile than that. For example, retail and fashion supply chains are being changed on almost a weekly or even a daily basis depending on a whole range of different factors in terms of cost and quality as well as risk, which is increasingly factored into these sorts of decisions. Those are really flexible at the moment and they will reach out not just to Europe. For the majority, if we look at fashion, they will be looking at north Africa, south-east Asia and China. The supply chain managers in those companies will be making their decisions very frequently and the factors will change a lot. They will be changing all the time and therefore their decision-making on what goods to buy from

which sources has to be flexible to meet the requirements of a fast-changing market.

Lord Horam: So to a degree it depends on the complexity of the supply chain; that is, whether it can change quickly or not.

Professor John Manners-Bell: Yes, and I would say that over the last 10 to 20 years supply chains have become much more complex than they were. Supply chains now rarely mean goods being manufactured vertically in one location and then moved to another export market or whatever it might be. You have fragmented ecosystems that have built up in which there are many different parties and tiers of suppliers, in many cases all supplying each other as well. Especially with technological advances in terms of visibility throughout the supply chain, you need to be able to make decisions very quickly and flexibly. The supply chains that you see in the electronics, fashion and retail sectors are the ones that will be making decisions tomorrow. If there are any more tariffs, that will be one of the additional factors, or if a non-tariff barrier is imposed, that is another factor. But I would say that they are not the key factor. There may be another 10 before you get to that.

Q37 **Baroness Symons of Vernham Dean:** You have answered the question about changing supply chains in terms of the sector you are dealing with. Obviously it is easier if you are dealing with children's clothes than it is if you are dealing with complex engineering. You have referenced several times the EU-South Korea free trade agreement during the course of your evidence. Of course UK business currently has access through EU free trade agreements with South Korea, Mexico and so on, but how difficult is it going to be? Will we on behalf of our business be able to conclude bilateral preferential agreements with other third countries—perhaps India or China? How difficult will that be and, if we are able to do it, what are the implications for non-tariff barriers?

Professor John Manners-Bell: Obviously we are getting into areas of supposition.

Baroness Symons of Vernham Dean: And politics.

Professor John Manners-Bell: Yes, and politics. It will be as difficult as we want to make it. In a lot of the countries which already have some sort of agreement with the EU, you could say that everything is already in place so it is just a case of finding out whether the country we will trade with unilaterally would want to enter into a free trade agreement. I cannot see why not because we are a big and important market. Consequently, if there is a free trade agreement in place that covers all the different headings and details which have been negotiated by the EU, does it meet our needs? If it does, I do not see why we cannot just transfer those types of agreement across, if there is the will to do so on both sides.

In terms of doing a deal with India, there is certainly already the will. If we look positively at the decision which has been made to break with the EU, we have to look for opportunities on a worldwide basis. If we ignore

them and we make putting these trade deals into effect more difficult, we will be shooting ourselves in the foot.

- Q38 **Lord Balfe:** A big part of the UK economy is focused on adding value to products, which requires highly skilled labour. I live in the city of Cambridge and at the moment we are constantly getting representations from industry about the difficulty of getting visas for high-skilled labour to come into the country. If value chains are interrupted as a result of Brexit, would you expect this to wash over into the high-skilled labour market? Also, do you have any words of caution about people who see Brexit really just in terms of stopping foreigners coming to Britain, given that this brain pool is a vital part of our future economy?

Dr Christos Tsinopoulos: I can answer that question on many levels. As someone who works in a university, I can say that we have this challenge all the time. We struggle to recruit people internationally because of the issues associated with visa problems. That is the experience from within the university sector. That is something that I am also hearing when it comes to engineering and the skills associated with that sector. It is actually very difficult to recruit people. There is always a preference to take people from the EU because it is easier to recruit them. Often, people who come from the EU are highly skilled and highly educated and, of course, are welcomed by many of these organisations. I have to be careful here, but my prediction is that there will be an immediate spillover. But the other thing I should say—maybe because I am from the university sector—is that the UK has an amazingly strong university sector, with a lot of knowledge kept here. So in the longer term my prediction may be a little more positive—that in effect there will be the skill base, assuming that the university has the appropriate capacity to build the skills locally. But in the immediate aftermath of Brexit, if once that happens we ask for a visa from everybody who comes from the EU, for instance, I do not see how this issue would not be with us.

Lord Balfe: To follow that up, you would confirm then that we need a reasonably liberal visa regime for continuing to bring in highly-skilled workers?

Dr Christos Tsinopoulos: If you ask me, I think it should be expanded across the world, not just within the EU. But, yes, I would agree with that.

Professor John Manners-Bell: Perhaps I can focus on a slightly different area, the low-skilled sector, because to my mind this is the biggest threat to the logistics and supply chain of anything, putting tariffs and non-tariff barriers to one side. At the moment, the logistics and supply chain sector is powered by employees who are largely migrants who come in from eastern Europe. I am sure that you watched the Sports Direct inquiry with interest. You would have seen that of the 1,000 people working in that distribution centre, the vast majority—I think 800 or 900—were eastern European migrants. That is the same throughout the industry. If that supply of people willing to work on a very low-paid basis were to dry up, it would have a very significant impact on costs—more so, I feel, than many of the other things that we have been talking about

today. It is the same in the transport industry. Everyone knows that the e-commerce sector has really taken off over the last few years, and that has meant there has been a huge demand for van drivers. A lot of those van drivers come from eastern Europe. They are fulfilling an essential part of the industry's function and they are doing it very cheaply, to put it bluntly. It is the same for the agricultural sector as well, I know. But certainly we have to take into account the people who are staffing those warehouses and driving those vans, because if that huge supply were to dry up it could really push up costs, and that would make UK manufacturing and retailing uncompetitive.

Dr Christos Tsinopoulos: It is a major concern. I have examples of manufacturers that are first tier suppliers with 60% of people not from the UK. We had a project with a local business recently but no one from the UK applied. If we had a regime where we asked for visas we probably would not have been able to fill the post. What the reasons were for that is another matter – we would have to make a guess.

The Chairman: A huge issue. Lord Green, your question has sort of been answered, but is there anything you would like to follow up? We are nearly at the end of our time.

Q39 **Lord Green of Hurstpierpoint:** The question as stated has sort of been answered, or we have at least covered a lot of the ground. Since we all agree that the automotive and aerospace industries have particularly deeply embedded supply chains across Europe and we have seen the Japanese Foreign Affairs Ministry recently produce a 15-page treatise on the subject of the supply chain and the danger of disruption, I would be interested in any comments that you can make about the automotive sector, in particular, and anything that the Government should be wary of with regard to automotive and aerospace as they go into negotiations.

Dr Christos Tsinopoulos: I will have a go at giving my view on that. I find that we did not touch on aerospace as much as I would have liked, but I see the aerospace supply chain as being slightly different from the automotive supply chain. The aerospace is largely European or in the UK—there is one in the UK. It is highly competitive and linked with universities here, so I would be very surprised if anybody talked about this supply chain having a high level of risk. The automotive supply chain is considerably more fluid and much easier to move. To echo the point that my colleague made—or to contradict it; I am not sure if I want to echo or contradict it—it is relatively easy to move the automotive supply chain. Yes, it would take a while, and yes, it is a big decision, but there is spare capacity across the world, or so we hear. So it is relatively easier but I would not treat the two supply chains—aerospace and automotive—in the same way. The aerospace is much higher in value and is very much dependent on what we were saying before about innovation, the universities sector, and the knowledge sector. It does apply across the whole of the automotive supply chain; it applies, but not across the whole of the supply chain.

Professor John Manners-Bell: I do not really have anything to add to that other than to say that an increasing amount of components used in

the automotive sector are high-tech components and they will be increasingly sourced from Asia. I think this is a trend that we will see in a number of other sectors as well.

Dr Christos Tsinopoulos: Brexit or no Brexit.

Professor John Manners-Bell: Yes, absolutely.

The Chairman: Baroness Brown, I think we have covered most points. We have come to the end of our session, so I say thank you very much. Is there anything that we have not asked you that you would like to say now? If you think of anything later, do write to us, but do you have any concluding remarks?

Dr Christos Tsinopoulos: No.

Professor John Manners-Bell: No, I think that we have covered a lot of ground. Thank you very much to the Committee.

The Chairman: We have not lost everybody from here yet, so thank you very much indeed. We will have our private session now.