The Select Committee on the European Union

External Affairs Sub-Committee

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

Thursday 20 October 2016

11.30 am

[Watch the meeting]

Members Present: Baroness Verma (Chairman); Baroness Armstrong of Hill Top; Baroness Brown of Cambridge; Lord Dubs; Lord Horam; Earl of Oxford and Asquith; Lord Risby; Lord Stirrup; Baroness Suttie; and Baroness Symons of Vernham Dean.

Evidence Session No. 2 Heard in Public Questions 18 - 34

Witnesses

I: Fergus McReynolds, Director of EU Affairs, Engineering Employers' Federation; and James Selka, Chief Executive Officer, Manufacturing Technologies Association.

Examination of witnesses

Fergus McReynolds and James Selka

Q18 **The Chairman:** I would like to welcome Mr McReynolds and Mr Selka this morning. Thank you very much for coming. The session is in public. There will be a transcript, and the transcript will be given to you after the session. If there are errors to be corrected, we will happily do that.

I would like to open the session by inviting you to give an overview of the importance of trade with the EU to your particular sectors, your industries. Mr McReynolds, would you like to start?

Fergus McReynolds: Thank you, Chair. I am Fergus McReynolds. I am from EEF, the manufacturers' organisation. We represent the manufacturing sector in the UK through various affiliate organisations. We represent about 20,000 companies, with about 6,000 companies in direct membership of EEF. If we look at the statistics on our trade with the EU, they tell their own story: 45% of UK goods exported are destined for the EU market, and for manufacturing it is far greater, with 51.6% of total manufactured exports by value going to the EU. That figure comes from the last 12 months to April of this year.

Some 90% of EEF's members trade either directly or indirectly with the EU. That is, they either place products on the market in other EU countries or they are part of supply chains where the products themselves are destined for sale within the EU. Some 73% of our members' companies see an advantage from one set of trading rules and one set of regulation with the EU. It is our biggest market, it is on our doorstep and it is essential that we continue to trade with it.

James Selka: My name is James Selka. I am the Chief Executive of the Manufacturing Technologies Association. Thank you for inviting me to speak today. Manufacturing technology is basically what people put in factories to make advanced engineering-based products, anything from trains, satellites, smartphones—you name it. In fact, you could really call us the mother technologies. These include specifically machine tools, software, 3D additive manufacturing machines, measuring equipment, tooling, robotics, automation, the whole range that would require to be in an advanced factory, and very much not forgetting the digital enterprise aspect, which is the componentry needed for the fourth industrial revolution.

I would be very grateful if I can make the point that often we are perceived as hardware, capital-based equipment suppliers. This, as for Rolls-Royce, is simply not true. We are very much a services-based industry which is wrapped around hardware. Our membership is well over 300 companies, and they have a varying degree of both size and business model. We have UK-based manufacturers, and we have UK-based importers that re-export after adding value through a service-based offering.

We have a long history as an association of doing export. In the last couple of months we have escorted members to the States, to Germany and to Turkey. We are also the owner of the largest industrial show by a country mile in the UK, which is held at the NEC and called MACH, and this has very much an international flavour. The technology change that we are experiencing in the manufacturing industry at the moment is breathtaking; it is exciting, it is very fast-moving, and we believe it presents a massive opportunity—a once in a generation chance for the UK to re-industrialise by becoming an early adopter of these technologies.

My background is in industry. I ran a company in advanced engineering, and I know that top-class people combined with top-class technology gives you a really good chance of excellent success. I cannot stress enough the importance of the health of the manufacturing technologies industries, which are interconnected and totally global with the health of the UK manufacturing industry. There seems to be increasing evidence, particularly from a recent report in the US, that its economic importance has been understated—that is, the multiplier factor. Thank you.

Q19 **The Chairman:** Thank you very much, Mr Selka. If I may follow up on that, I would like to hear from you about your members' views on the impact of currency fluctuation currently; how your members are preparing to adjust their own business models fiscally to be able to work outside the EU; the opportunities that you gauge post-Brexit by working with new partners; and where you see your future market strengths in those developments, given that you will not now have to reside with many of the stringent EU regulations that abound across the industry.

James Selka: We look at it slightly differently. The global nature of our business, the fact that 45% of our exports go into the EU, and the complex and interwoven supply chains, mean that our members do not see it in that respect at all. The key to continuity and the ability to trade, not just from a fiscal point of view—obviously any tariffs or additional cost of bureaucracy, et cetera—is speed. We are living in an accelerated world, and if we fail or we slow down the developments that have been made in the UK so far which make the UK such an attractive place to manufacture, we will have an enormous impact on our competitiveness.

With exchange rate fluctuations there are obviously winners and losers. Our members deal with it in different ways but, frankly, we think that the ability to move people and equipment of a very advanced and high-level nature is absolutely critical, with reference to my comments on the service-based model.

Fergus McReynolds: I agree with James's analysis. Members of our organisation are in global supply chains, interconnected supply chains. Particularly on the issue of currency fluctuations, it is a double-edged sword for our sector. We import as well as export. The nature of modern manufacturing today is not a simple model of one factory in the UK which makes something and then it is exported to one destination. As we add value in the sector, we bring in components from other countries, which would be affected by changes in the exchange rate, and they have to be managed. The volatility in particular has been very difficult, and rapid changes in that, particularly the rapid nature of our markets, which our members are grappling with at the moment.

Q20 **Lord Stirrup:** Mr McReynolds, perhaps I could start with you. The EEF's briefing paper, *Britain and the EU: Manufacturing an Orderly Exit*, said that "the exit negotiations must ensure access to—not necessarily membership of—the EU's single market". I would be interested in knowing where in that retreat, as it were, from all the various aspects of full membership you would want to stop. What elements of access, in other words, are most important to the sector? What would you really not wish to give up as we relinquish membership of the EU?

Fergus McReynolds: The key element of the negotiation for us is to create as little disruption to trade with our largest trading partner at the moment. On tariff-free access, tariffs will be a key part of that. We would like to see tariff-free access to that market, but, increasingly, global trade and trade with our partners around the world are dominated by non-tariff barriers. We have to keep in mind when we look to our future relationship those non-tariff elements of barriers to trade and look at regulatory co-operation as well, understanding that there should be as little disruption as possible to the current trading relationships that we have with the EU. Some 71% of our members in the most recent survey saw that membership of a single regulatory and legal environment reduces the cost of doing business, and we would like to avoid anything that has an upward impact on our competitiveness. We need to understand in completeness the impact of various non-tariff barriers, various regulatory barriers and full tariff barriers for our future relationship and we would like to see as little disruption to that as possible.

James Selka: We entirely echo that, and would give some specific examples, such as the machinery directive and the data adequacy framework which has been hard won and could have an enormous impact, if not necessarily quite as obvious as European standards within our industry for machinery. As I say, the ability to exchange data will be absolutely key.

Lord Stirrup: If I can just follow up, if I have understood correctly what you have jointly said, Mr Selka in particular put much greater emphasis on speed than on tariff differences. Although that might be unwelcome, nevertheless, it seemed to me speed was the critical element in all that, and presumably that has to do with integrated supply chains as much as anything else. Presumably, businesses in this country are part of the integrated supply chains of businesses elsewhere in Europe, so this is not a one-way street. To what extent do you see scope for negotiating satisfactory arrangements for movement and speed, given that there is a great deal of mutual interest involved here?

James Selka: That is an excellent question. Absolutely; it works both ways, but just to give an example, one of our UK-based companies that imports material, engineers it and re-exports it into Europe, has told me on a number of occasions in no uncertain terms that he is looking to relocate outside of the UK because if he cannot give the service support and engineering to his customers throughout Europe in the advanced engineering sector and he needs to find a way to do that. It is not just about obtaining spares overnight anywhere, et cetera; it is about the ability to embed people accordingly throughout his marketplace, as well as the supply chain.

Lord Stirrup: Except to say that, of course, there are lots of non-EU countries that do that. For example, there are American companies that operate here in the United Kingdom and provide support for their products and all the rest of it, and have a way of doing that. Are we not able to find a similar model ourselves, working into the EU?

James Selka: It would be very much something we have been talking about internally, as you might imagine, and we think there could well be an opportunity for us to be more creative, particularly for UK-trained students, for example, from India to be allowed to remain in the UK, et cetera, not just as part of the easing of the skills gap. Again, this is a really important interaction for making sure our members can give the service and capability they need to.

Q21 **Earl of Oxford and Asquith:** Mine was almost the same question—a corollary, really. I know the EEF wants a bespoke model for whatever new relationship there is between the UK and the EU, and you are keen to get away from talking about Switzerland, Canada and Norway, which I can understand. Is there some existing model of access into the Single Market from countries or industries not members of the Single Market that you would particularly advocate or want to promote?

Fergus McReynolds: It is fair to say that we have made it very clear that we do not think the existing models individually themselves are the model for the UK. The value and the nature of our relationship in trade with other European countries simply draws that conclusion itself, but there are elements of those relationships that warrant further investigation to truly understand the benefits of each. With each of the relationships that exist—the Canadian model, the Norwegian model, the Swiss model—there are trade-offs which need to be taken into account. What we need to understand is, where there are positive relationships, let us build on those. Let us not throw away positive elements. It is about creating as little disruption as we can achieve while delivering other elements of the deal.

We recognise that free and unfettered access to the market will be conditional on a number of other pertinent issues, not least free movement, as has been echoed by other Member States. It is about understanding what we can create and what we can borrow from existing models to provide us with the undisrupted relationship we have at the moment.

Q22 **Baroness Symons of Vernham Dean:** I just wanted to ask Mr Selka, who said that one of his members told him he was going to be relocating outside the United Kingdom: is he an isolated case or are you having these sorts of reactions from a number? Maybe you could both answer the point. One does not sound compelling, but if you were telling us that 10% or 15% of your members were thinking in those terms, that would be a rather compelling point.

James Selka: Yes. In this case it is anecdotal but indicative of the larger picture, which is the good news that existing and committed investment is carrying on. That is great, because it feels to me a bit like September 1939, for a number of reasons—a bit like the phony war. On future investment, obviously, investment is made in a completely businesslike, rational way for global companies. The EU is one of many options that they have. Keeping their word and carrying on with planned investment that is going on at the moment is absolutely the case. As regards future investment, I have had to explain, on several occasions to my international peers and their principals. I have to go to Japan in November to do the same. There is an enormous interest and alarm about this among overseas-owned members, of which there are many, and the reason I picked up the UK-sovereign company was because I thought it was unusual and perhaps unexpected. I wanted to highlight that as a real example. He has not said he is going to relocate but he has been talking seriously about considering it.

Fergus McReynolds: I echo James's comments on that. There is anecdotal evidence that EEF members are looking at options. As it stands with current investment, and certainly in the short period since the referendum result, many of our members are in their existing investment cycles of 12 to 24 months, and they are continuing to invest to meet the current market demand. For that long-term investment there will be harder decisions, and they will take account of the negotiations. There is uncertainty. We are seeing a brake on decisions on investment in the long term, and we are, over a very short period, producing our investment survey, which will shed a little more light on that. We are very happy to share that with the Committee.

Baroness Symons of Vernham Dean: It is pretty important to share it, if you would not mind. It is also pretty important that the Department for International Trade is fully aware of these sorts of developments and where the particular pinch points are.

Q23 **Lord Horam:** Could we come back to the issue of non-tariff barriers? We have already touched on this. Would I be correct in thinking that you were saying that, in many ways, these are more important than tariff barriers? If so, what are the sticking points? Is it the regulations or the rules of origin? What is the critical thing in this area for you?

Fergus McReynolds: It is fair to say that in modern trading relationships and modern fair trade agreements there has been a shift towards non-trade barriers as tariffs have been reduced around the world. They are still very important in some sectors but there are others where the tariffs will be less of a concern. You are absolutely right; you have picked on the major issues. When we have asked members, the regulatory environment, regulation, is the key concern. That is the number one issue on non-tariff barriers. They are also concerned about product standards, and I would have those as two very separate issues, regulation on one side and standards as a separate issue, and rules of origin as well.

Q24 **Lord Horam:** Some of the people who accept that we should be outside the Single Market, or outside the customs union, argue that there are these regulations. At the moment we have no influence on how they are formed because we are inside the European Union. If we are outside, we will not have any influence. Nonetheless, we have to accept them. We would probably not be diverging that much from what we do in any case, so how do we lose out? Could we not be outside the European Union without too much damage?

Fergus McReynolds: I think it is fair to say inside the regulatory co-operation that we have as members of the Single Market, our influence is felt, and it is not to be underestimated that we have an influence over that process. Our members have been clear on the regulatory environment that we would see grandfathering of EU regulation as a priority in the short to medium term if we came out of the Single Market. When we have asked them, there are niche areas of change that we could see, but, to access that market, it is inevitable that our members will be bound by EU regulation into the future, and some level of regulatory co-operation with the EU in the future is essential.

Lord Horam: That would also apply to product standards presumably; you have to have good product standards to sell your products in the world, so that would not change.

Fergus McReynolds: Absolutely, that would not change. Our members want to be in a position globally and with our biggest market of producing one product to a single regulatory environment, one product to a single set of standards. They do not want to be in a position of producing multiple products for multiple markets. We want to see as much convergence as we possibly can.

James Selka: We would totally echo that.

Q25 **Baroness Brown of Cambridge:** We have covered most of the things I was going to ask about, both standards and regulation. Are there participants at the European Committee for Standardization (CEN) and other standards bodies who are not members of the European Union? Could we continue to participate outside the Union?

Fergus McReynolds: Yes, the membership of the CEN committee, in particular the committee of standards, includes non-EU members. The exact nature of their involvement in the decision-making process is limited by the nature of the relationship they have. There are EU Member States, non-EU member states who are members of the committee, and then affiliate members. We are working very closely with the British Standards Institute (BSI) to understand the standards question in much more detail, and want to support it. It has been a very keen partner in this.

Baroness Brown of Cambridge: Of course, we have a very strong history on standards with the BSI. Are we a particularly strong contributor to European standards in these areas?

Fergus McReynolds: Yes.

Baroness Brown of Cambridge: Would they miss us?

Fergus McReynolds: We would have to ask them, but certainly my colleagues and counterparts in other organisations feel they would miss the UK's influence in the EU in a number of different areas.

James Selka: Again, I have nothing to add to that. It is very well stated. Thank you.

Q26 **Lord Risby:** We have pretty comprehensively covered the whole area of tariffs and non-tariff barriers but there are just two more aspects to this. First, are there specific industries within your industries, in a sense, that you feel are most sensitive, particularly from a supply chain point of view? Secondly, can I reverse this situation slightly? Obviously we are interested in analysing the needs and difficulties that this whole situation has brought about, but it would be constructive to offer some solutions, if possible, based on your experience. Therefore, if you were advising the Government in this process—I know your thoughts are very important—what fundamentally, post-Brexit, would be the things that the Government needs to do, given that, for example, as we heard in the last session, three-quarters of owners or headquarters in the pharmaceutical and chemical industries were abroad? Many of them came here for access to the Single Market, as we have been talking about. What would be the key elements to make this attractive, including tariffs and taxation, in your experience? It would be very constructive if you could share any thoughts on that subject.

James Selka: I think we share a lot of similarity with the chemicals industry in that respect. There are household names such as Nissan in the car industry. I do not know if everyone is aware that in the UK we make twice as many engines as we do cars. It is a very high-value export. Because of the relatively narrow margins that they work on, we believe it would have a very large effect on their future investment plans if tariffs were to be introduced between Europe and the UK. Those remain to be seen. That would have a massive effect, obviously, on our members, who provide the manufacturing technology for them to be able to carry out that activity. In isolation, our industry perhaps is slightly less sensitive to some of the tariff issues. We have seen a huge movement in the exchange rate, for example, so it would be unhelpful for me to pretend that tariffs would have the same effect as volatility of currency. However, if we look at it in the overall business sense, it could be absolutely catastrophic.

Lord Risby: Yes, I understand the trade-off between tariffs, and of course, the 10%, for example, on motor vehicles has been taken care of, to use a loose word, by the collapse in the currency, although the supply chain aspect is, of course, a powerful element of the balancing of that weakening in the currency. Really, if we are in the situation in which we are likely to be, you are really saying that to minimise any kind of tariff or non-tariff element that may be discriminatory for your industries is absolutely at the core of what the Government's objective must be.

James Selka: I would say that is absolutely part of it, but it is not just about free movement of advanced goods and intellectual property—we mentioned data—but also people being able to provide the service-related aspects within the European market. I know it has been mentioned that there are arrangements with US companies and so forth, but we believe that the arrangement we have with the Europeans works very well.

Q27 **The Chairman:** Within your membership there will be innovators—new companies coming in. Have you seen a distinct difference between their approach to us leaving Europe and the approach of those who have been used to years and years of working within the Single Market under a range of regulations?

James Selka: That is a very good question. Perhaps surprisingly, not really. Some of the really cool, innovative, small, start-up companies that are innovating a lot of this technology, for example, around automation or software or 3D metal-based printing—a lot of it, as you know, is developed in the UK, sometimes coming out of the Catapult programme—are obviously very sensitive in different ways. All that research funding that is potentially at risk longer-term is of great concern to them, but it is also to do with attitude. Is this a great environment? At the moment it seems an absolutely brilliant environment for generating intellectual property. We have a worldwide reputation for doing it well. That is a major part of inward investment, but a lot of the 'traditional' companies that have been operating in Europe for the last 30 years are overseas-owned, and therefore already have a global view of things, such as the intertwined supply chain. So their attitudes, funnily enough, as well as their alarm and concern are similar.

Fergus McReynolds: I would echo that. There are issues around the barriers to trade, as Lord Risby pointed out. The interconnectedness of those supply chains is very common; if you track a component within the European manufacturing sector, which we are part of, the goods, the individual components, may cross borders a number of times. It may be something originally manufactured in the UK, which is sent to France, which becomes part of a larger component sent to Germany, and then sent back to the UK. Each time it crosses any potential barrier, there is an implication for cost, time and additional administrative burden. Particularly, I would add not just the tariff issues; we have to fully understand the implications of the customs controls that would potentially be introduced, and understand the time and any barrier that might introduce.

Q28 **Baroness Symons of Vernham Dean:** At the time of the big WTO negotiation, the Doha Development Round, intellectual property was one of the stickiest issues that I remember dealing with. One of the real frustrations was operating constantly through the European Union and in partnership with the European Union. If we were to be free of all that on leaving the European Union, what would you see as the main opportunities, as well as the challenges, that would arise from no longer being part of the European Union team?

Fergus McReynolds: It is a good question, but at this stage it is still something we are picking up with our members. I am not in a position to answer that just yet, but perhaps James might be able to.

James Selka: We would simply echo what your previous witnesses said on the subject. We would urge caution against rushing into ratification of the unitary patent at this stage, until the Brexit process becomes much clearer, so that we avoid any unpicking that would need to be done after the event.

Q29 **Baroness Armstrong of Hill Top:** I come from the north-east. Both your organisations are very active there. One of the big issues that arose on steel—which I had to learn more about than I ever thought I would need to, as well as the automotive industry—was the whole issue of dumping from China and so on, and the EU regulations or the EU regime around that. What do you think the new regime for us, as a country outside the EU, would need to be? Would we need one, and what would be the implications if we did not have one?

Fergus McReynolds: Speaking with the steel sector in mind, what we want to see is free trade, but we also want that trade to be fair. We need to look to the positions that the EU has been taking, particularly in very recent history. This week there has been another announcement on trade defence instruments. We cannot be divergent from our partners on this issue. We need to be in a position where we can deploy mechanisms which prevent unfair trade. We need to look to the models that exist in the EU but potentially also to the models that exist in the US as well. When threatened by unfair practices by countries such as China, the US is very quick to deploy measures at a level which truly has an impact on the trade in the very short term. The EU is improving its mechanisms but there is still a long way to go. We need to look at both of those, and understand how we can deploy measures that ensure fair trade but keep free trade open.

Q30 **Earl of Oxford and Asquith:** We have covered with previous witnesses the issues of relocation of international companies, for example, from the United States and Japan, who have representations in the headquarters. What sort of implications do you see either for the relocation of companies as a result of Brexit outside the UK or for obstacles to research or disincentives to investment?

Fergus McReynolds: It draws back to investment and where companies choose to invest. Certainly, a number of our members who are global organisations have opportunities to invest in a number of countries, of which the UK is one. We need to ensure that we are creating in the UK the right business environment that attracts that. We have historically done that well. We need to continue to do that, but ultimately it will be the nature of the final relationship that will govern those decisions. At the moment, as you have heard, investment cycles of 12 to 24 months are continuing, but there will come a stage where, as the negotiation is ongoing, those longer-term investment decisions will take account of all the various elements we have talked about, be that the impact of tariffs, the impact of regulatory divergence or of customs controls, et cetera. These are hard-headed business decisions that many of you, I am sure, will have been part of and are still part of. They will look at these issues and decide where it is in the best interest for that investment to take place. There will be investment that will take place in the UK, I am sure, but there will be decisions, some of them quite tough decisions.

James Selka: We would echo that, and, again, a lot of our members are overseas-owned, as we have said. We do not see them relocating overnight, but there are elements that will not perhaps have been so obvious. For example, on EU-owned manufacturers in the UK, one conversation I had with one of those companies involved concern about dealing with the German unions, because if we are outside the EU, that may well influence the unions' position on investment that could be going into Germany in this case, rather than the EU. That is worth considering, because a lot of our members are EU-owned but non-UK. As I say, the ability to put an effective industrial strategy in place, like our international peers, is very much welcomed, and very important, because, as we know, uncertainty is the enemy of investment, and that is what we are dealing in in manufacturing. That would be massively welcomed, and we are very willing to help in any way we can to do that.

Q31 **Baroness Suttie:** You have to a very large degree just answered my supplementary. Anecdotally, which EU Member States seem particularly attractive if they were going to relocate out of the United Kingdom?

James Selka: I would say, from history, as opposed to the future, Germany has always been a very attractive place to locate, particularly for Japanese companies. I do not know if you are familiar but there is an enormous community around Düsseldorf. They respect the Germans' attention to detail on engineering excellence, but they also appreciate the UK's approach. Around Milton Keynes there is, again, a very large Japanese community in the UK. As I said, I had to make phone calls and write letters the day after the decision was made, particularly to Japan, because there was such a sense of alarm, because they love to invest long-term, which obviously is advantageous when we are talking about such large numbers.

The Chairman: Would you feel the same with other countries, such as China, which again is quite a prominent investor in the UK?

James Selka: Quite possibly, but I do not have any specific evidence on that front.

Q32 **Lord Dubs:** I would just like to ask you about free trade agreements.

The EU has free trade agreements with quite a number of third countries. How important do you think these are? Which countries would be the most important for the UK to negotiate FTAs with post Brexit? Are there any particular barriers to trade the Government should tackle in these agreements?

Fergus McReynolds: Our position on the existing free trade agreements that the EU has with third countries is, where the UK is a signatory to those agreements, we would like those to be rolled over. As with the trade with the EU, we would like to see as little disruption as possible to the trading relationships we currently benefit from. On priorities, our members have been very clear that economically advantageous countries such as China, Russia, India, the United States and Australia are priority countries, but we recognise that these trade deals are likely to take a significant amount of time to negotiate. We have only to look to the negotiations which are ongoing between the EU and the United States and Canada, which have been some years in development. We would also look to some of the emerging markets, south-east Asia, and the Mercosur group in South America.

James Selka: We would obviously echo that but our priorities of those who already have an EU FTA, to return to the specific question, would be Switzerland, South Korea, Turkey and Mexico.

Q33 **Lord Horam:** Just coming back to the immediate prospect, obviously there is great uncertainty at the moment, and the Government tend to say, "We don't want to reveal our negotiating hand too much because we have to negotiate, and therefore we don't want to say publicly what is going to happen", and the Prime Minister says she does not want to give a running commentary on what may happen, because obviously it will evolve over time. This could go on for quite a long time; we are talking about two and a half years or something of that kind, which is a very long period for investment and so forth. On the other hand, some people say you really ought to give some certainty; there ought to be some obviously stated transitional arrangements which we should publicly adhere to, so there is a fall-back plan B if things do not work out. What do you think the Government would be best advised to do, from your members' point of view, in this medium-term period of two and a half years? What would be most helpful to you?

Fergus McReynolds: I think we recognise that in a negotiation it is difficult to show your hand, so we recognise that there will be an element of this which will remain closely guarded. For us, it is essential that the Government approach us, and we are willing to offer as much information and as much advice as we can on the potential positions.

Lord Horam: Proper consultation.

Fergus McReynolds: Proper consultation, feeding into government—exactly. On transitional arrangements, take regulation, for example. We have recommended that that should be adopted, grandfathered across in most areas. There are opportunities, we feel, looking at the regulatory environment for UK businesses, but that should take place once the negotiation has concluded, because many of the pieces of legislation will be conditional on what the ultimate relationship looks like. We see the opportunity in the future of a comprehensive regulatory review that really looks at these issues and understands that, but that has to wait until we have an understanding of the relationship.

James Selka: I would again echo that, but I would add to that advocacy. The international stage is so important for the UK, and obviously many other countries. We would like the Government to add to our reassurance that we are open for business, and that we would like to continue and grow relationships. It would help a lot, even if it is not material support, if we were all singing from the same hymn sheet. On even deeper consultation or working together, because a lot of the technical expertise does not lie within certain government areas, organisations such as ours would be more than happy to help achieve the best possible outcome for the UK.

Lord Horam: So there is a big public relations job to be done, with everyone is singing from the same hymn sheet, if possible?

James Selka: Yes, please.

Q34 **Baroness Brown of Cambridge:** May I ask you two very quick questions? The first is: do you think there are particular implications that we should be thinking about for companies that have moved from a product to a service-based business model? Is this more complicated, and will this therefore inhibit that kind of strategic change? Secondly, if I might be really provocative, given our very poor productivity in the UK compared with many of our European colleagues and the US, would we be better off focusing on improving our productivity rather than worrying about tariff barriers?

Fergus McReynolds: Taking those in order, as we look towards more service-based models—or goods plus services models, which a number of our members are in at the moment—the ability to and the ease of deploying UK nationals into the EU will be an essential part of the renegotiation, as will understanding how we allow for the free movement of individuals into the EU to carry out those service activities. That will be part of this in that service space. On productivity improvement, it will vary as the tariffs vary, but we would be happy to follow up that with more information.

James Selka: We would again echo that but we would add to it that the two things are interlinked, because unless we can provide the technology and the skills, we have no chance of upping our productivity to where we need to be to continue to be competitive. One of the things we continue to work with the Government on is developing an environment that is friendly and encourages investment, which is so vitally needed.

The Chairman: Do you feel that is retracting currently?

James Selka: Yes. The uncertainty surrounding the current environment is absolutely the enemy of investment.

The Chairman: Thank you. Members, are there any other questions we would like to put to our two witnesses?

Lord Dubs: It is all a mess, is it not?

The Chairman: Mr McReynolds and Mr Selka, thank you very much for coming here this morning. The transcripts will be sent to you. If there are errors in the transcript, there will be an opportunity to correct them. It has been very useful for us to hear it from a very different perspective. Also, thank you very much for your very candid approach to giving this evidence.

James Selka: Thank you for listening.