

Exiting the European Union Committee

Oral evidence: The UK's negotiating objectives for its withdrawal from the EU, HC 815

Wednesday 30 November 2016

Ordered by the House of Commons to be published on 30 November 2016.

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Members present: Hilary Benn (Chair); Alistair Burt; Maria Caulfield; Joanna Cherry; Mark Durkan; Jonathan Edwards; Michael Gove; Peter Grant; Mr Peter Lilley; Karl McCartney; Mr Pat McFadden; Craig Mackinlay; Dominic Raab; Emma Reynolds; Stephen Timms; Mr John Whittingdale; Sammy Wilson.

Questions 124-236

Witnesses

I: Dr Virginia Acha, Executive Director for Research, Medical & Innovation Association of the British Pharmaceutical Industry (ABPI), Gary Campkin, Director for Policy and Strategy, TheCityUK, and Fergus McReynolds, Director of EU Affairs, EEF, The Manufacturers' Organisation.

Examination of witnesses

Dr Acha, Gary Campkin and Fergus McReynolds.

Q124 **Chair:** Good morning. Welcome to the Committee. I welcome Dr Virginia Acha, executive director for research, medical and innovation of the Association of the British Pharmaceutical Industry; Gary Campkin of TheCityUK; and Fergus McReynolds, director of EU affairs at the Engineering Employers Federation. Thank you very much indeed for agreeing to give evidence.

This question is for each of you. To help our deliberations, could you set out, succinctly to start with, the principal things that you would say if you were having a conversation with the Government today and they said, "We are thinking about our negotiations. What are the things that concern you most, and the opportunities you see most? What is it you want us to do to ensure there is the right outcome as far as your members are concerned from the process of leaving the European Union?"

Dr Acha: Thanks for the chance to appear today before the Committee. As some of you may know, the Association of the British Pharmaceutical



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Industry represents the research base of the pharmaceutical industry. We have, among our members, companies that provide the NHS with up to 80% of the branded medicines we use today and, critically, most of the pipeline of new medicines. That very much frames the way we approach Government on in the issues of leaving the EU.

With the focus of the Committee being on giving guidance to the objectives for that, first and foremost, could we ensure that we focus on the needs of patients in that negotiation process and the way that we can discover and develop and manufacture but also move medicines so that they reach patients when they need them? So, having life sciences at the centre and then understanding how we can ensure that provision of medicines is contained through a point of co-operation around the regulation that supports that.

Q125 Chair: Just to be clear, because you are putting patients at the centre of this, what is it that you worry might happen if what you seek does not happen?

Dr Acha: What we have been focusing on: as some of you may know, even on the Friday following the vote, we had issued our own manifesto on the issues, and internally within our membership we started our process for analysis and understanding. So many factors affect the way we can develop a medicine for patients, which are bound up in 30 years of experience of working within the EU regulatory system and our own very integrated supply chains across Europe, that we need to be ready for day one.

So that success for us really means that, on day one, patients here in the UK do not miss a beat with regard to their medicines. They have the medicines they need; they do not notice. This is a key focus for us, as the complexity and scale of the issues we are describing are fairly significant.

Q126 Chair: To summarise, you are saying that you would not want to see a change in the current relationships, regulatory arrangements and so on?

Dr Acha: No, not that. We understand that we need to consider a range of scenarios and, in fact, what we were working on in the summertime with our membership and in partnership with Government was to understand what are the different scenarios. So all we can be very clear on is our needs for how to get a medicine discovered, registered and then delivered, and then from there think about what are the different scenarios under which we can best achieve that.

Chair: Thank you.

Gary Campkin: TheCityUK, as I hope Members will know, is the business representative body that looks after financial and related professional services—that is the banks, the insurers, the asset managers the lawyers, the accountants and the business advisory, which is about 12% of the economy. It is a significant taxpayer—2.2 million people employed across the country. So it is an important industry and an industry whose success is fundamental to the UK's success and fundamental not just in and of



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itself, but also as the enabler for the wider economy. We do not make things, we do not grow things, but we enable those functions to happen.

The industry is really quite clear that it wants the right Brexit, and for us that is right for the United Kingdom but also right for the EU 27 and right for global stability. I am sure as we go through the discussion we will unpick some of those issues, but it is important that it is right for the UK, right for the EU 27 and right for the global economy.

We have identified five key principles that we have transmitted to Government. The first is deliver clarity and stability to the extent possible. Secondly, to defend the UK's pre-eminent position in financial and related services. Thirdly, map out an exit from the EU that maintains access to key markets while safeguarding future relations. Fourthly, moving swiftly to advance trade investment opportunities with the rest of the world, both in developed and emerging economies. Fifthly and lastly, develop an even deeper partnership between business, Government and regulators.

Q127 Chair: Okay. What is it that worries you most—if there is something—about what might happen?

Gary Campkin: It is not getting the right deal. Not getting the right deal for us means a deal that undermines global stability and undermines the critical importance of financial and related professional services to the UK economy as a global financial centre, as Europe's financial centre and as a major contributor to the UK economy.

Q128 Chair: How important is maintaining passporting, or its equivalents, to you and your members?

Gary Campkin: Passporting is a term that requires a bit of unpicking, because it is not just a simple, single thing. It is an important part of what the industry is looking for, and it is an important part of market access. The way that I would respond, quickly, is to say that maintaining market access in terms that are as closely as possible aligned to those today is important for the industry.

Chair: Okay, thank you very much. Mr McReynolds.

Fergus McReynolds: EEF—we are the representative voice of the manufacturing sector across the UK, representing businesses from every region, from a number of key manufacturing sectors and businesses of all sizes. For us, access to the market is one of our key asks. If we look at our trade, 50% of what we export in manufactured goods is destined for the EU market, so access to the market for goods and for services—an increasing area of our sector—in the EU and beyond would be our key priority; ensuring a level of regulatory stability and regulatory certainty, so we understand the regulatory environment in which we exist—one set of rules is preferred; and addressing some of the issues around the UK skills gap—so the access to labour for our manufacturers.

There are also elements of domestic policy and ensuring that we have the right platform to allow us to access global markets and the EU market competitively.

Q129 Michael Gove: Thank you very much for coming here. I wanted to ask you, Mr McReynolds, first of all, about the reach of organisations that the EEF represents. Is it the entire manufacturing sector, or are there significant parts of manufacturing that seek representation elsewhere?

Fergus McReynolds: As EEF we have 5,000 direct fee-paying members, and that represents manufacturers of all sizes, from a number of the household brand manufacturers—but our membership is actually 80% SMEs. A classic EEF member would be in the range of about 50 to 400 headcount, and they would be traditionally in supply chains for engineering, aerospace, automotive. As EEF we also chair the Manufacturers Alliance, which represents a wider pool of manufacturing and a number of other key sectors as well, bringing that number to about 20,000 companies.

Q130 Michael Gove: How do ensure that the positions that you take and the policies that you advocate are consistent with the wishes and concerns of your members? What mechanisms do you use to keep in touch?

Fergus McReynolds: We have regular member contact through a variety of different mechanisms, from our internal policy committees, which meet on a quarterly basis, through to each of our regional offices. We have nine regional offices, each of which has a regional advisory board made up of manufacturers in their region—and, again, a good cross-section across the different sectors and the different sizes of business. Alongside that we have a series of surveys, which go out on a quarterly basis—a number of those surveys—and which really draw down into members about their key priorities. It is on the basis of that and the basis of that sound evidence that we put our positions together.

Q131 Michael Gove: Have you done any surveys since 23 June?

Fergus McReynolds: We have. We surveyed quite extensively over the summer in June, July and September, and we have our series of ongoing surveys in the field at the moment as well.

Q132 Michael Gove: I know that one of the surveys that you conducted before 23 June had 500 responses.

Fergus McReynolds: That is correct.

Q133 Michael Gove: So that 10% of your membership. Of those who responded, they were defined as senior decision makers. What does that mean? What was a senior decision maker, and how could you be certain that a self-selecting sample of just 10% of members was actually an accurate representation of what the manufacturing sector believes?

Fergus McReynolds: In terms of the definition, it went to the senior decision makers within businesses—so the chief executives or the key members who take decisions within our manufacturing members. In terms



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of the representation of the sample, we were very confident that the sample was representative of the members and the survey in question, which you mentioned, was conducted independently. We also had independent analysis of the robustness of that study.

Q134 Michael Gove: Who conducted that independent analysis and how can you be certain that it was robust?

Fergus McReynolds: I believe the organisation was GSK, but I will confirm that with you in the Committee. We worked in partnership with the organisation to ensure that we were getting a robust sample of opinions and views from our members.

Q135 Michael Gove: One of the other things that I believe your survey work has brought to the fore is concern about EU regulation. Can you say a little about what your survey work has revealed about what your members think about EU regulation?

Fergus McReynolds: Absolutely. In the period running up to the referendum and in the period since the referendum, we have consulted our members widely on regulation. In the first instance, their key priority is regulatory certainty. For us, it is about ensuring that we have a level playing field of regulation across the markets that we trade in. It is important for our members to understand and to reduce, as much as possible, the burden on businesses. That is a key priority. We have been very heavily involved in many of the better regulation campaigns here in the UK and with the red tape challenge in Europe—part of the business taskforce contribution. For us, it is about enabling manufacturers to grow, reducing the burden on manufacturers and enabling them to employ, grow and be competitive.

Q136 Michael Gove: According to your February 2016 survey, 72% of respondents cited EU red tape as one of the main disadvantages of being in the EU. What work have you done to identify which particular regulations, directives or other aspects of being in the EU should be repealed or amended when we leave to provide your members with a more attractive environment in which to do business?

Fergus McReynolds: Some of that work is still ongoing. We are continuing to consult our members to identify those key pieces of legislation that they feel would enable them to be more competitive. There are some areas in health and safety, employment legislation, environmental legislation and climate change legislation that have been identified as key areas for us to investigate further. Possibly—when we speak to our members—a number of these issues have actually already been incorporated into day-to-day business, so there is a challenge that wholesale change is not attractive to our members because many of those things are either in contractual arrangements or existing business models. For us it is about identifying, in a comprehensive way, what the key burdens are and, in relation to our future relationship with Europe, what we can achieve to make that process easier.

Q137 Michael Gove: In some of the research work that the EEF has published



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before, you said that “the most oft-cited regulatory nightmare by manufacturers in our consultation exercise was the registration, evaluation and authorisation of chemicals regulation—REACH. This is the EU’s flagship regulatory regime.” What work have you done in order to analyse what the damage is that REACH does and how, in the future, a better regulatory regime could be designed?

Fergus McReynolds: It is a flagship piece of European legislation and it has been one of our key concerns, as an organisation and as a sector, over a number of years. We have worked with both the UK authorities and the European authorities to ensure that our concerns, particularly in the area of SMEs and ensuring that there is a better route to compliance with the REACH regulations for SMEs—we are quite happy that a number of those recommendations have already been taken on board by both the UK authorities and the European authorities.

Q138 **Michael Gove:** I am sure that your members are grateful that you have ensured that the current regime works better, particularly for SMEs. Now that we have the explicit opportunity, on leaving the European Union, to set up our own regulatory regime, is anyone in your organisation attempting to work out what would be better than the current REACH regime?

Fergus McReynolds: We are looking at a number of different options, which include everything from continuing with the current framework to understanding whether there are advantages to us from having our own legislative environment. That work is ongoing, but, as it stands, we do not have a position on that.

Q139 **Michael Gove:** Who is undertaking that work? How urgent is it and how much resource are you devoting to it?

Fergus McReynolds: That will be taken forward by our policy team in the climate, energy and environment team. That is currently a team of four individuals, who will take that forward.

Q140 **Michael Gove:** When do you expect to have a position, so that you will be able to say to Government that on leaving the European Union this would be your preferred approach to amending, maintaining or repealing the UK legislation that gives effect to the REACH directive?

Fergus McReynolds: I think that we will be in a comfortable position in the early part of next year to have a number of recommendations across all our policy areas, of which one will be climate, energy and environment policy.

Q141 **Michael Gove:** Do you think that there is a significant stock of additional regulations or directives that you could also see being removed or amended to ensure that your members are in a stronger competitive position?

Fergus McReynolds: We have advocated a comprehensive regulatory review in a period in the future when we understand what our relationship with the EU looks like. There will be a number of pieces of legislation that



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our members will still be bound by if we are to access the single market. For us, it is trying to understand what our future relationship looks like, and once we have established that, to do a comprehensive regulatory review to understand what pieces of legislation we can amend or repeal to make the business environment in the UK more attractive and more competitive.

Michael Gove: Thank you very much.

Q142 **Sammy Wilson:** One of the constant things we have had so far in this debate has been the impact of uncertainty on various sectors of the economy. Can each of you indicate whether you believe that we are beginning to see any negative effects of that uncertainty, which many commentators have claimed is already damaging the UK economy?

Dr Acha: To start, on uncertainty for the biopharmaceutical industry—an industry in which investments are 10-years-plus and billions of dollars—you would obviously like to have a good understanding of where your future lies. That is why, as a trade association, we have taken this very seriously as part of our role to help to address some of the questions that are coming through not only from our direct members, but from associations outside the UK—our international representative bodies in the US, Japan, Europe itself and Switzerland. We have actively engaged with them throughout the summer to at least open the channels and explain what we are working on right now, as part of the life sciences sector, working with the Office for Life Sciences, to help to address the issues as much as we can.

We don't expect to get a running commentary; that is not likely or even sensible. We understand that what we need to do is work together to help to understand the scenarios that are facing us. Obviously, there is always uncertainty. To some extent, our industry, maybe better than other sectors, has a tolerance for understanding that there are some things that you may not be able always to know 100%. Having the best process for getting the information as and when you can is something that our companies very much appreciate, and that is what we have been aiming to establish. We do think that that is helping.

Gary Campkin: As I mentioned in the opening response to the Chairman, stability and certainty, to the extent possible, is a key issue for the financial and related professional services industry. The exit process must be orderly, with a clear-eyed view of the UK's withdrawal agreement, and indeed the new framework agreement with the EU. That is essential for financial stability in the UK, but also for the EU 27. As you probably know, London and the UK is Europe's financial centre as well as being a global financial centre. The UK needs to continue to focus on policies that deliver stability to markets over the longer term. Like Virginia said, we have had an immense amount of interest from colleagues and, indeed, Ministers, ambassadors and high commissioners. We discuss our views and we explore those issues quite openly. Related to article 50, we did say that it was important for the Government to take stock and have a period of consultation with stakeholders before they trigger article 50. That, we



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believe, is the right thing to do. Again, as Virginia said, we wouldn't expect a running commentary as the negotiation process continues.

The other thing I would say is that it is important to look at bridging arrangements. That is one of the key, important issues of the moment for the industry that I represent. It is important to ensure that there is a continuity of service provision to customers and clients, and the way to do that is to ensure that there is a bridging arrangement between where we are now and where we will be in the future.

Fergus McReynolds: In the manufacturing sector we have seen little difference, in terms of the planned investment within the sector—60% of manufacturers are planning to invest the same or less in the next two years, which is slightly up on the 54% from our survey this time last year. There are spikes in political uncertainty—a number of companies citing political uncertainty as a factor in holding back. Investment has spiked, with a quarter of our companies, when surveyed, citing political uncertainty as causing consequences to their investment. That's up, in comparison to February this year, from 6%. So there has been a significant concern raised.

However, manufacturers are pressing ahead with existing investment plans, because they need to fulfil their current customer orders. So there is an issue of, "In the current environment, we are continuing to invest."

We haven't seen any wholesale re-evaluations of plans for the next two years. I think it's fair to say there is some anecdotal evidence that beyond that timeframe there are harder decisions to be made, but our members are very conscious of key trigger points over the course of the next two years, which may have a significant impact on their investment and how that uncertainty plays into that continued investment.

Q143 **Sammy Wilson:** So it would be fair to say, then, that the pre-referendum predictions that were made, for example, by EEF and, to a lesser extent maybe, by TheCityUK have not—there is no evidence of those to date, and that it's not desirable to give a running commentary of the short-term effects of the referendum.

In light of that, do you feel that the continued commentary that we have from some industry leaders, some of the so-called representative groups and in the media as to the impact of uncertainty is not founded on fact, and, secondly, that it probably is damaging, in so far as it talks industries down?

Fergus McReynolds: We would never want to be in a position of talking our industry down; in fact, we do very much the opposite. We like to talk our industry up. I think it's fair to say that in the current environment there aren't any significant changes in investment, because many companies are investing to continue their day-to-day business.

The messages we are receiving from our members is that they continue to invest to continue to meet the current demand, but there are concerns of the future and a number of key triggers. The concern they have over

entering a period of great uncertainty in terms of future investments—it is probably the future investments that is the greater concern at the moment than perhaps the current investments to date.

Q144 Sammy Wilson: Though to be fair, would you accept that the decisions of Land Rover this week, for example, to look at the long term for electric vehicles, and Nissan and its commitment to the UK for the longer term, are an indication that, even looking to the longer period, there is still significant confidence in the UK economy, whether we're in the EU or out of the EU?

Fergus McReynolds: I won't specifically mention or comment on individual members' decisions themselves, but there certainly have been some positive announcements made in the automotive sector and in a number of other sectors, including the chemicals sector. These are very positive and they show that there is a desire by our industry to find a good course—to find an orderly exit from the EU—that allows us to continue to invest in the UK and to continue to make the UK a place to invest.

Q145 Sammy Wilson: That leads me on to the next question, then. In the absence of negotiations starting, what kind of assurances from the Government would each of you see as helping to create a more stable situation for the sectors that you represent?

Dr Acha: Just to spend a little time on what we worked on over the summer, we were asked to undertake, on behalf of the life sciences taskforce, a bit of work to start to map out what the opportunities would be on leaving the EU. We did that in partnership, not just as pharmaceuticals but across our life sciences sector. So we worked with our colleagues in med-tech, in diagnostics—again, people may not recognise all the aspects of medicines. We obviously have our colleagues in generics, our colleagues working in the over-the-counter area—the ibuprofen you're buying at Boots, for example—and they are also representing the animal health industry. So, again, you may not recognise that animal medicines are as much regulated as we are.

With that process, we started working through all the issues and key needs to see where we aligned and where we didn't, and to understand where the real pinch points would be. Now, we have delivered a first view of our four priorities—this had huge endorsement across the sector—ensuring that we could continue co-operating on regulation, ensuring that we could continue moving our medicines and med-tech appropriately, ensuring that the UK could continue with the important research funding and collaboration in the life sciences, and, finally, ensuring that here in the UK we are able to access to best and brightest people from wherever they are in the world. Those priorities were synonymous across the life sciences sector. What we are doing now to create that reassurance is helping people to understand how it is progressing and where we are on understanding what regulation will need to be changed in the great repeal Act. Where will that be? How is it already possibly reflected in UK Acts? What will we do on day one? What will be the day-one situation?



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Just to give you a bit of flavour, a typical listing for our medicines, for which we would currently have to assign a comparative licence structure in the UK, would be around 5,000. That is a significant number that we will have to get transferred across. The scale of work is clearly large and needs managing, but by starting now to understand how we can prioritise that and how we can do it as simply and easily as possible, we are starting to give people an understanding, "Here's what I need to do as a company to prepare myself for day one." In the circumstances, I believe that is what people are expecting. They don't expect an answer or a clear, "This is how we are going to do it two years from now." What they want to understand is, "How will I engage in the process? How will I know in enough time to prepare for my own work to be managed so that I can ensure the medicines continue to be available here in the UK from day one?"

Q146 **Sammy Wilson:** Can I just press you on that? Perhaps the other two witnesses could say something, too. Given the issues that you have raised, do you see that there may be a need for some kind of transitional arrangements after we have exited?

Dr Acha: The challenge for medicines is that it is no good telling somebody that we'll have the paperwork ready for them on the medicines in a couple of months' time. It has to be there on day one. The pressures we have as an industry mean that we have to be ready for day one. In terms of getting to an arrangement, I think we are very clear in our discussions with MHRA, the UK national regulator for medicines and med-tech, that we need to get our systems ready, up and planned for day one, which is the focus.

Then it is important to be thinking about what comes after. What is the horizon for the UK? Where does the UK want to be in life sciences development in 10 years' time? As I mentioned, our investments are not for next year; they are for the decades to come. I am happy to see that, even in last year's figures, we are not only still the largest R and D spender here in the UK as an industry, but we have increased our expenditure, which is a vote of interest and confidence in the UK that I would like to see continuing to grow. As much as we are focusing on day one, we are also thinking about the longer-term picture of where the UK will see itself in 10 years' time as part of the life sciences.

Chair: Thank you.

Sammy Wilson: The other two witnesses haven't told us what they see as the important things.

Chair: Sure, but could they do so succinctly? I need to get everybody else in.

Gary Campkin: For financial and related professional services, likewise. We have been doing a huge amount of work to identify the issues, both the potential risks and the potential opportunities. I hope that members of the Committee have seen the work we commissioned from Oliver Wyman,

which focused just on financial services—straight FS—rather than the broader ecosystem. The work calibrated what is potentially at risk from a spectrum of options. Again, in the interests of time, if members have not seen that work we can provide it afterwards.

Of course, it is not just financial services. Legal services, too, has issues. Enforcement of judgments is an issue that needs to be addressed. There is dispute resolution and focusing on ensuring that one of the jewels in the British legal crown is protected and continues to deliver—what it delivers is really important. There is also practice rights and recognition of professional qualifications. All these things are important.

From the opportunities scenario, even the EU itself says that 90% of global growth opportunities will take place outside the EU in the future. We are focusing on what an independent UK trade and investment policy will look like, and on getting a balance of relationships with developed and emerging economies, and so on. The key thing I would say about the right outcome—the positive outcome—is that it is about minimum disruption to customers and clients. That is what the industry is focused on.

Fergus McReynolds: We would echo a similar message: that it is about minimum disruption to our current trading relationships, ensuring that the complex supply chains within which our members operate are impacted as little as possible. In terms of understanding the process, for us it is about understanding that we can get the evidence about these key impacts into the right place at the right time so that when key decisions are made, they are made in light of the full evidence of the impact that they could have on our sector. For us, that is very important. In relation to your question about transitional arrangements, for us what is key is to achieve an orderly and smooth exit from the EU. If that requires a transition period to allow us to answer and understand in a timely fashion where those impacts are and how they are best managed over time, that is something we would support.

Chair: Thank you.

Q147 **Joanna Cherry:** Good morning. May I start with you, Mr Campkin? Earlier this week, the head of the European Central Bank, Mario Draghi, expressed his belief that Brexit was a root cause of uncertainty in the economy. Would you agree with Mr Draghi, and how do you think that uncertainty over Brexit is manifesting itself in the financial sector?

Gary Campkin: We did a piece of work, which we started before the referendum campaign, looking at the challenges and opportunities for the financial and related professional services industry in the future. That piece of work was launched in August. Again, I am happy to provide that to the Committee. What is clear is that there are a number of things that we identified in that piece of work that needed to be addressed anyway in terms of competitiveness for the UK. What the vote—the decision to leave the EU—has done is accentuate the need to address some of those challenges. Again, some of the things that are important connect globally. The UK is a major trading nation, the second largest provider of foreign



direct investment in the world and the home to the second most important amount of foreign direct investment inbound. So it is an incredibly internationally focused economy. The EU is an important market, but other markets are also important. Regarding access to talent, we all agree that this is an important issue. This is not just an EU issue; it is about access to global talent. Of the IT wizards in Silicon Valley, 40% are non-US citizens. If you are looking at the issues and challenges for my industry, FinTech and RegTech present an incredible challenge, but they also present incredible opportunities. So the way to look at this is that, as with any economy, we have risks, threats and opportunities. The key thing is to unpack all those and address them in the right way.

Q148 Joanna Cherry: Indeed, but do you disagree or agree with Mr Draghi that Brexit is a root cause of uncertainty in the economy?

Gary Campkin: Well of course, if you are looking at future business plans, a business will scan the horizon and it will look at issues that it has to address. We need to have as much clarity and certainty as possible; we need to understand the landing zone of where the Brexit negotiations will be. That is an issue for the EU27 too, not just the UK Government.

Q149 Joanna Cherry: Do you have clarity and certainty from the Government at present?

Gary Campkin: The Government are doing the right thing at the moment, which is to reach out to stakeholders to understand the issues, some of which are incredibly complicated, so that in March it can be in a position to negotiate in the best interests of the UK when it triggers article 50.

Q150 Joanna Cherry: A hard Brexit, with what the Prime Minister has described as a fall off a cliff edge, could see us operating under WTO rules and having to make bilateral agreements to replace trade to the single market. As I understand it, the WTO has much more stringent requirements for trade agreements that address the exchange of services, like financial services. Is that correct?

Gary Campkin: What do you mean by "more stringent"?

Q151 Joanna Cherry: More stringent requirements for trade agreements that address the exchange of services, like financial services. What is your opinion on how achievable a trade agreement is outwith the single market that could deliver for the financial sector in particular?

Gary Campkin: Can I start by being clear that the UK is currently a WTO member? We have had a lot of conversations, particularly with international colleagues, about that, but we are currently a WTO member. I was in Doha when the WTO was launched, as the business representative in the UK delegation. It is true for the financial and related professional services industry that non-tariff barriers, regulatory issues and issues relating to services generally have lagged a little bit behind in terms of global rules. That has been a frustration for me over my career. Most of my background is in trade and investment negotiations. We have to find a way of getting global rules to catch up with the way that business is being done now.



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There is a phrase—it is a clunky one, and I apologise for using it—called “servicification”, which looks at the different ways in which you can measure the value of trade. The important point here, though, is that Brexit gives an opportunity for the UK, with an independent trade and investment policy, to be at the forefront of negotiating next-generation trade and investment agreements that cover new issues like data and regulatory coherence, which are of crucial importance to financial and related professional services.

Q152 Joanna Cherry: Thank you. You recently gave evidence to the House of Lords EU Select Committee and said that other parts of the UK are driving dynamism, economic investment and high-value jobs inside the financial sector. You mentioned in particular the city of Edinburgh, part of which I represent. You made the point that Edinburgh is a huge centre for asset management. That is correct, isn't it?

Gary Campkin: That was my colleague, Miles Celic.

Q153 Joanna Cherry: Are you aware, Mr Campkin, that the Scottish asset management sector as a whole is bigger than that of Frankfurt and Paris put together?

Gary Campkin: We are obviously delighted to be representing UK-based financial and related professional services. We have very close links with our members in Scotland and Scottish Financial Enterprise. We are talking to them very closely about the importance of Scotland and other regional centres across the United Kingdom. As I said, it is a UK-based national asset. Of the 2.2 million people who work in the industry, two thirds of them work outside London, so it is a national footprint. Of course, Scotland has some key and important centres in asset management. Insurance is another big asset for Scotland.

Q154 Joanna Cherry: Mr McReynolds, your organisation's report “Britain and the EU: manufacturing an orderly exit” notes on page 17: “The UK Government must move quickly to confirm the status of EU nationals in the UK and UK nationals living or working in other EU states.” That is correct, isn't it?

Fergus McReynolds: That is correct.

Q155 Joanna Cherry: Do you agree that more needs to be done to end this uncertainty for EU nationals living in the UK, now that we are five months on from the referendum?

Fergus McReynolds: A key concern for us is ensuring that we understand the position of EU nationals or EEA nationals in the UK and, equally, of our nationals in other member states. It is part of the broader understanding of how we manage our labour market, and we have seen some anecdotal evidence from a number of our members that decisions are already being made by some of these EU nationals. Certainly a number of our larger companies are looking at the questions being asked of them by their EEA national workers. It is a key concern, and we need to have both those issues addressed quickly.



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Q156 Joanna Cherry: The Government appear to have given Nissan some sort of special deal and reassurances. Are you aware of any other businesses in the manufacturing sector that have been given, or that are currently in discussions with the Government about, a special deal or reassurances?

Fergus McReynolds: I would not comment about any individual member and I honestly could not tell you the content of that agreement.

Q157 Joanna Cherry: One final question. The Prime Minister and her Cabinet colleagues keep telling us that Brexit means Brexit. As a lobbyist on behalf of your industry, in your discussions with the Government, have they revealed any details about what their plans are?

Fergus McReynolds: As Gary mentioned, at the moment we want the Government to engage with us to ask us the right questions and to understand what the impacts of this process will be. For us, it is key that we have the evidence from our membership, and from a broad membership, that is capable of feeding into those debates, identifying where those risks and key impacts are likely to be, and understanding what we can do to best mitigate those.

Q158 Joanna Cherry: But have you actually been given any details on what the Government's plans are?

Fergus McReynolds: For us at the moment, it is about identifying where the issues are that we know will exist for our members; where the issues are that we do not know will exist for our members; and some issues around the customs union and access to the single market. It is about identifying the key impacts for and concerns of our members, and feeding those into the Government—

Q159 Joanna Cherry: I understand that. I am just wondering whether the Government have spoken to you and given you any indication of their plans.

Fergus McReynolds: They have not given us any indication at all of what the ultimate plan is.

Joanna Cherry: Mr Chairman, may I just ask Dr Acha one question? I am conscious of not overrunning my time.

Chair: If you are quick, yes.

Q160 Joanna Cherry: Dr Acha, I just want to ask you about the life sciences industry, which you mentioned earlier in your evidence. You will be aware that the life sciences sector in Scotland comprises more than 600 organisations and employs more than 30,000 people. That makes Scotland one of the largest life sciences clusters in Europe. Is that correct?

Dr Acha: Yes, it does.

Q161 Joanna Cherry: Would I be right in thinking that the effect of a cliff-edge scenario with the consequent withdrawal of access to the funding that life sciences in Scotland get from the European Union would be felt



particularly acutely in Scotland?

Dr Acha: The good news is that last week we had the announcement of the £2 billion funding for R and D, which is extraordinarily welcome. It is something that we have been asking for precisely. As I said, one of our priorities is the continuation of support for funding. To extend the point, it is not just a matter of money. It is about the collaborations. Your excellent groups in Scotland—Scotland is very well served in the life sciences in its universities and in the NHS—will need to continue to co-operate. Beyond the funding, we need to ensure that they continue to be at the forefront of international research. We would like to play our part, as industry, to ensure that that continues. Of all the four priorities, that is certainly one that we are pursuing to continue. I am sure that Scotland will figure large in that. In fact, we published some work earlier this year that showed that, of all our collaborations this year, particularly on industrial placements and PhDs, the highest number were with the University of Strathclyde. It is certainly an area where we will continue to invest.

Q162 **Emma Reynolds:** Thank you for coming to give evidence to our Committee. You have all stressed the importance of an orderly and smooth exit from the European Union. Perhaps we could have a little more clarity about what you think that means. If we were to leave the EU in March 2019 and revert back to WTO rules and tariffs, what would be the impact on your members? Would that look like a smooth and orderly exit from the EU?

Dr Acha: In the case of the movement of medicines, it is obviously an issue for customs duties, tariffs and so on. Many of you many know of the zero-for-zero initiative that the WTO holds for many nations—not all. It does not include all medicines, of course. I think the last full review was in 2006. There are still updates to be done. It covers a wide area and we would look to the UK, as a member of the WTO, to ensure that list of pharmaceuticals and pharmaceutical products in that zero-for-zero initiative was updated and kept timely.

To us, tariffs and duties are a way of introducing delay and challenge, but, equally important—perhaps even more so—is the regulatory overlay. It is not just a question of the tariff you pay; it is the fact that every time you cross a boundary you will have to have a regulatory review. That is, if anything, more prescient in our planning because that is where delays will occur and where the real impact on patients will follow.

We are looking for a process for change so that when we leave the EU there will already be measures in place to ensure that we minimise any transition effects of that sort, both regulatory and trade duty. An example that was given by one of my members to the Department for International Trade is a typical case for one of our medicines. Because of our integrated supply chain, it will cross between EU member states, the UK and Switzerland at least four times before it completes. It is not just a case of moving at its point of completion; it is a case of moving different elements in the development of a medicine, and indeed in use for investigating medicines for clinical research.

This is a huge priority for us and we are very grateful that the Government are now working with us to come up with a deep review of how we will manage that so that we do not have those delays from day one.

Q163 Emma Reynolds: When we leave the EU and if the UK also leaves the European Medicines Agency, how would that impact on your members?

Dr Acha: Some of you have not had as much familiarity with the European Medicines Agency. First, in science—it was interesting to hear Gary's comments on finance—and in the case of medicines, regulation is converging quite a lot globally. We have been progressing that over the last decade and a half through the International Conference on Harmonisation and other different authorities that contribute to that—for example, obviously, the World Health Organisation. If anything in medicines, we have been using science to help us to converge to the best possible standards to develop medicines safely and efficaciously.

The EMA has been a critical voice in that process and perhaps I may add that the MHRA within the EMA has been a critical voice in that process. Actually, the regulations we have today are where we have global agreement. For a global industry like mine, it is obviously important to keep to that.

My second point is that the EMA is not an agency that acts as a monolith. It is already a network of co-operation. The MHRA and other member state regulators contribute to the EMA network, which delivers the actual evaluation and review that patients and companies rely on. In that case, the precedent is there for co-operation, and indeed there is already a precedent of countries that are not members of the European Union being able to work through that co-operation. We would like, wherever possible, to be able to continue within that global, regulatory agreed process and to keep that co-operation as part of the network in a bespoke way. It is not something we have seen before, but given how important the MHRA has been for the EMA and for the global community, we are very hopeful that that can be agreed.

Q164 Emma Reynolds: May I ask you, Mr McReynolds, about the impact on your members of leaving the EU and falling back on to WTO terms?

Fergus McReynolds: From our members' perspective, they are very clear on this. The vast majority have stated that returning to the WTO fall-back position would have a negative impact on their business and the vast majority of those also said it would have a serious negative impact on their business. In the absence of a trade deal under WTO, the sector would face an average tariff rate of about 3.5%.

It is important to understand the impact that falling into a WTO relationship would have on non-tariff barriers. In trade, non-tariff barriers are increasingly important in regulation, as my two colleagues mentioned, but also in standards and understanding how we continue to have that trade.



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Many of our members exist in complex supply chains across the EU. Many of those have developed business models and business plans, and have grown up as businesses as part of the single market and of the customs union. Their day-to-day business is to be able to exchange goods and services across those borders freely. A day one scenario of WTO would be significantly unfavourable to them.

Q165 Emma Reynolds: Have you assessed the impact on decisions coming up on investment and jobs and so on? Could you be a bit more specific? You have mentioned a 3.5% tariff rate, but what would that mean in reality?

Fergus McReynolds: We are still working with our members in terms of trying to understand the full impact, independently, on some of those members. For large members, we are talking about tens of millions of pounds additional to their annual expenditure arising from that type of tariff barrier. There is also an uncoded impact, in terms of time to market, of any controls that might be placed on borders.

Q166 Emma Reynolds: Does your organisation have a position on whether we should remain or leave the customs union? What would be the impact for your members—particularly those SMEs in the supply chain for automotive and aerospace?

Fergus McReynolds: We have surveyed our members again to ask them and, again, two thirds of them see a negative impact of coming out of the customs union. At the moment we are working on forming a key understanding of what things they are most concerned about. There is some evidence of concerns on rules of origin calculations and understanding how they would have an impact on trade. There are also some concerns about the administrative burden of customs controls and understanding how we eliminate or reduce those as much as we can. I think it goes back to that complex supply chain. It isn't a single trade in one direction. Our members are importing components and parts, and they are part of a larger supply chain that exists across Europe and has grown up over the years of our membership of that, and their business models are integrated into that model of trade.

In terms of that deeper understanding, that is the work we're doing at the moment: drilling down to understand the key impacts, and we want to understand how we can overcome those. I think what we need to look at is understanding whether we are in a customs union, or at least a mechanism by which we can eliminate those barriers to trade. It is that perspective that we are looking at this from—understanding what the barriers to trade are and how we can best eliminate them.

Q167 Emma Reynolds: That is really helpful. You talked earlier about regulatory certainty. When we leave the EU, is it not the case that your members that export to the rest of the EU, which you said was significant, will still need to abide by the regulations and directives at the EU level, regardless of whether we're in the EU or not? For example, Michael Gove mentioned the REACH regulations.

Fergus McReynolds: About 90% of our members trade directly with other member states, or indirectly if they are part of those supply chains that trade into other member states. Absolutely, for some of the product directives and in terms of standards, which also has to be considered very differently from the regulatory environment, there will still be a large amount of compliance in order to service that market.

Emma Reynolds: Thank you.

Gary Campkin: Let me just answer that by referring to the work that Oliver Wyman did for financial services. According to their analysis, if the UK moved to a third-country arrangement with the EU without regulatory equivalence, and its relationship with the EU was defined in WTO terms, about 50% of EU-related activity—in quantum terms that is about £20 billion in revenue to the UK—would be lost, as well as up to 35,000 jobs related to that and about £5 billion of tax revenues per annum. To put that into context, the overall value of financial services to the UK economy is about £200 billion. That gives you some sense of those issues.

Two other dynamics apply to financial and related professional services. First of all, as a service industry with customers and clients, it matters what happens to manufacturers, it matters what happens to pharma and it matters what happens to other clients, too. For the industry itself, as I mentioned before, non-tariff barriers and regulatory issues are really important. Much of the financial services industry is governed by global agreements, and I think it is really important to focus here on issues such as mutual recognition. Essentially, what that means is that the overall final impact has been agreed at global level, but the way in which you get there may be slightly different, depending on jurisdiction. What matters is that the end result is the same, and I think that is probably the same for other industries too. I noted that there was a letter sent earlier this week by 10 Governments of the European Union, including the United Kingdom, on the issue of completion of the single market in services, which as you know is not yet complete. They used a phrase about mutual recognition being of enormous benefit. We would agree with that.

Emma Reynolds: Thank you.

Q168 **Chair:** From you and your members' point of view, does the Oliver Wyman worst-case analysis that you have just described to us seem plausible, if the circumstances of relying solely on WTO rules turned out to be what happened?

Gary Campkin: The Oliver Wyman work is rigorous. It has been discussed with Government and others and the figures do seem to be very much respected and within the ball park. So, yes, for financial services only, we would stand by and recognise those figures. There is of course no attempt at dynamic modelling there, so there is no ecosystem impact in that model, but the figures that I cited and the rest of the figures, which we will happily provide you with, are—

Q169 **Chair:** Did the research say whether 35,000 jobs would go? Would they disappear altogether or would they go to other countries?



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Gary Campkin: Chairman, you raise a really quite important issue because one of the things that it is clear that both the UK Government and the EU27 need to think really carefully about is precisely that issue. As the industry looks at dealing with exiting the European Union and what that might mean, it may well be that functionality will be moved around. Contingency planning, as everybody in business knows, is a part of life. That is what business does. There is a really big threat that some functions will leave the European Union altogether—we believe that the biggest beneficiaries could be New York or Singapore—and some functionality from some operations would just be withdrawn back to their home jurisdictions, because it just won't be possible to deal with the additional costs and burdens of operating. There is a real risk for the European economy as a whole in this respect and it is one that negotiators on both sides of the table need to focus in on.

Q170 **Chair:** Do you think the 27 member states understand the potential impact on them as well as our concern about the impact on us?

Gary Campkin: This is a big journey. I think that the EU27 will need to calibrate, in the same way that the British Government are doing, about what is really at stake. Obviously, by the time that article 50 is triggered, we would hope that the EU 27 would be in a position to engage in deep and meaningful negotiations on those sorts of core issues.

Chair: Peter Lilley, I think you wanted to raise a particular point. I was going to take Alistair, but I will take your question now.

Q171 **Mr Lilley:** A very quick point to Mr McReynolds: when you asked your members what the impact of this average tariff of 3.5% would be, did you ask them to take into account the 15% improvement in their competitiveness following the exchange rate changes since 23 June? How does 15% relate to 3.5%?

Fergus McReynolds: In terms of the exchange rate, for our sector that is a double-edged sword. There are sectors that are very export focused, where there has been an advantage in terms of the depreciation of sterling, but equally there are a number of our key sectors that are quite import-intensive in terms of their inputs. We have seen a much sharper rise in input cost than we have in terms of export prices. For the sector, it is understanding that the—

Q172 **Mr Lilley:** Does it not make domestic production more attractive than importing?

Fergus McReynolds: Sorry?

Q173 **Mr Lilley:** Does it not make it more attractive to produce things domestically rather than to import things from abroad?

Fergus McReynolds: But the members are part of established supply chains—

Q174 **Mr Lilley:** But then if it is going out again, the 15% cancels out, doesn't it?



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Fergus McReynolds: That's a fair point.

Alistair Burt: Do you know what the exchange rate is going to be in two years' time? No, I didn't think so.

Mr Lilley: Do you think that actually it may well go up and this decline attributed to leaving will disappear?

Chair: I think we can all agree we don't know.

Q175 **Alistair Burt:** Who knows? We don't know. There are those who believe that the complexities and difficulties being associated with negotiations by various sectors in leaving the EU is partly influenced by a sense of stringing it all out—particularly if, like the Governor of the Bank of England, you believe a transition period will come afterwards and therefore the process can be extended ever longer. There would therefore be advantages in a quickie divorce, making it very clear that there is a very short timescale, to provide clarity. Do you believe that? Do you see any advantages to those you represent in being very clear about a quickie divorce? Would that be a better process than stringing it all out?

Dr Acha: I mentioned this earlier and I will say it again. The problem for us is that it is not really in our liberty to be able to say "Okay—I am going to take an extra long time about this, or do this a bit quicker." I have to make sure that the medicines that are available from day one have all the right regulatory support, the right supporting approvals, the right labels and the right patient information leaflets. This is all bound up in law, not just for the sake of doing it but because patients are depending on us to make sure that we have it right on day one. Unfortunately for the life sciences, or at least for the pharmaceutical sector, this is not really an option. We have to work back to what is achievable.

We are working with the Government now to get clarity on what that day one list will be and how we are going to get there. If there are challenges or ways through that allow us to do it better, great. If we see challenges in the road or problems ahead, we will signal that as quickly as we can, because it is in all our interests to make sure that those medicines are there and available from day one. Otherwise, the real penalty will be paid by the lady in Strathclyde or the gentleman in Hove, where I live, who cannot get the medicine that they need and they were reliant on for their health. That is just not something that we can play around with.

Gary Campkin: I go back to the need for the industry to continue to provide services to its customers and clients, whether those are business or individuals and whether that is about exporting, investing and creating jobs or saving for your future through pensions, products and other instruments. The reality is that these issues are hugely complicated and it is right that the Government is taking its time to think through what the issues are and to engage in a process that addresses them. If there need to be interim agreements to enable businesses and business planning cycles to adjust effectively without disruption, which we believe is the case, then that is important. The key thing is confidence, stability and continuity.



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Fergus McReynolds: We would echo those sentiments. It is about getting to a position where we have overcome all the hurdles we see in front of us, and identifying some of those hurdles we do not see in front of us. It is a hugely complex negotiation. There will be elements of it which are very technical and elements of it which are very political. It is trying to understand and take away from it those elements which are political and those elements which will require some transition. They will require a period of being able to manage the change from the current relationship that we are in to a future relationship that is positive for both the UK and the EU.

Q176 **Alistair Burt:** I want to probe you on the political in just a second, but before I do, could you very briefly outline something to us? We talk a lot about the supply chain issues and the ability to move things around. Is there any way you could explain what it is particularly about the single market that enables that process to be done so easily now? How is it that that could not be done if we were outside the single market, as those who export into the EU have to do?

Fergus McReynolds: As I mentioned earlier on the question on the customs union, many of our manufacturers and manufacturing models have grown up with this process. Over the last 30 or 40 years they have developed business models that mean that they are reacting and deploying goods and services very swiftly into multiple markets. In the complexity of those supply chains and of goods coming backwards and forwards, there is a difference between the single market, which in itself is a greater free trade area that allows for a level of regulatory co-operation—that is the key element of the single market, that agreement on, not only the regulatory co-operation that exists in other free trade agreements, but full regulatory sharing, which creates one set of rules for an entire market—and the customs union, which has other issues and where we have to understand any controls or stops that might take place at a border or a border transition. There are elements of both of those that we would like to see prevail into the future to enable us to have that swift access and to be part of those supply chains.

Q177 **Alistair Burt:** May I pursue one further thing? It is about the tone of negotiations and everything else. I presume you are in contact, all of you, with counterparts on the continent of Europe about this process, because negotiation is not just being done on behalf of the United Kingdom solely for the United Kingdom's interests—there are two sides to this. So, Mr McReynolds, do you talk to manufacturers in other places?

Fergus McReynolds: We do, absolutely. Currently, our CEO, Terry Scuoler, is chair of our European association, CEEMET, which is the confederation of European employers in the metals, engineering and technology sectors, so we have sister organisations across Europe and we are in constant communication with them.

Q178 **Alistair Burt:** Again, it is sometimes said in relation to these negotiations that because people sell a lot of goods to us—in particular, say, German manufacturers sell us a lot of cars—when push comes to shove, those



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mercantile interests will trump everything else. In other words, the manufacturers will go to Mrs Merkel and say, "Look it will be good for our business to conclude a deal that is good for us for manufacturing, and for the British for manufacturing. That is really the most important thing." On the other hand, there are those who say that if the Chancellor of Germany is concerned about cohesion in Europe, issues of contagion or the wider political issues, she will go to the manufacturers and say, "I'm very sorry, but actually this trumps your business sense." The mercantilists say, "No, it will always be business that trumps", but others say other things. Do you have any evidence for a view one way or another on that particular balance of arguments?

Fergus McReynolds: The German Government have made it very clear that their priority is the continued unity of the 27 and ensuring the EU in the future. We know from conversations and discussions we have had with a number of European partners that ensuring the stability of Europe is a key priority in these negotiations, yes.

Q179 **Alistair Burt:** Have they given any indication that that trumps other business interests?

Fergus McReynolds: They are aware that that is a key issue for them, which will need to be considered in this negotiation, yes.

Q180 **Alistair Burt:** Do either of you have a view?

Dr Acha: The clear point that we have been making, and indeed agreeing, with our colleagues internationally is that in Europe in particular the impact of the changes around regulatory co-operation will affect all patients in Europe. The MHRA is a significant part of the current MA network of delivery of the regulatory reviews that we have, and that is something that is a benefit to all, so having that additional strength of the MHRA helping to review and evaluate is something that benefits a patient in Poland as much a patient in the UK. So we have a very strong argument within the European community to say that regulatory co-operation in medicines is in everyone's interest to continue. That is something that we feel has real potential to land.

Gary Campkin: From my industry's perspective, obviously we are talking quite closely—as colleagues are—to counterpart organisations and businesses in the EU 27. We have a series of Anglo dialogues with some of the key EU member states, at which we discuss these issues. I hosted an event with the deputy heads of mission of all the EU 27 embassies and high commissions in London recently as part of our outreach programme, and we see a lot of international visitors.

The other point that I would make is that this is of course not just an EU 27 and UK issue. There is a lot of international interest. We have had a lot of dialogue with the United States, Japan, India, China and other countries.

On focusing in on common interests—Chairman, if you will forgive me, a member of the Committee may ask this later on, but it is pertinent here—



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passporting and passporting rights are important for my industry and also important for the customers and clients. Passporting is an important part of how the industry achieves market access. It is a key reason why a lot of international investors come to the UK, and it is part of the reason why the ecosystem here in the UK is such a rich one for my industry. For the EU corporates, quite often they do not understand the way in which it also impacts on the way that they get to do their business.

A German manufacturer, for example, will go to its local bank to build another production line, to export something or to make an investment. More often than not the financial element of that will come back to London, whether that is the financial wrapper or the advice surrounding it. They will not see that in terms of their client relationship with their bank, but it is a service that is provided via access to London and the UK. Again, it is really important that as we think about these issues, mutual market access is an important part of moving forward.

Q181 Mr Lilley: My question is for Mr Campkin. Why is it that the City, the financial services sector, does so much better at exporting to countries with which we do not have passports than at exporting to the EU with which we do?

Gary Campkin: The last time I looked at the statistics, the importance of the European Union for financial and related professional services exports was significant. We are a global industry. At the end of the day, it is a global marketplace. London is one of the two most important global financial centres, and I would argue it is probably the most international financial centre. It is the place where the world comes to do business. It is a national asset. Part and parcel of that is having the passport. Well, you know as well as I do that there is no such thing as a single passport. A passport is a complex series of instruments that are spread across a range of directives. But at the end of the day, it is part of the dynamics of giving market access that helps secure London's position as a global financial centre.

Q182 Mr Lilley: There is an interesting article in today's *Telegraph*, which reminds us of the Treasury paper produced during the referendum that said the trade in goods was 73% higher between the EU member states than it would be where countries just have a free trade area, whereas the trade in services was just 16% higher. Again, why, if passports have been such a brilliant success, has our trade in financial services with Europe not done better?

Gary Campkin: Forgive me, but I have not seen that article.

Q183 Mr Lilley: But you saw the original Treasury paper?

Gary Campkin: I honestly cannot recall. Is it services as a whole or financial services—

Q184 Mr Lilley: Services as a whole.

Gary Campkin: I think that goes back to the point I made about the fact that the single market in services is not complete. There are barriers to



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services providers in the EU. But, as I say, we will provide a note to the Committee that gives all the figures from our research work. I think that those will show that the financial services and related professional services side have an important market in the EU 27.

Q185 Mr Lilley: Oliver Letwin has recently said that, taking your point, passporting and equivalents are very important to the City and that we should be prepared to make a continuing contribution to the EU to maintain those rights. I am sure that Mr McReynolds' and Dr Acha's members would not like to pay for that. Would the City firms be prepared to pay a levy for that? What price would they put on it? How much would they value it?

Gary Campkin: That is not an issue that I have an answer for now. I am certainly happy to go away and consider it further. The key thing is that this is a negotiation. As someone who has been involved in negotiations, I know that the key thing is to understand, first and foremost, what your issues are, then to understand what the issues are for the people you are negotiating with, and then to agree the landing zone. I think we all agree on the panel that we would not expect a blow-by-blow account of the way the negotiations go. All we can do is respond to the questions that the Government is asking us in the best way we can and to point out some of the other issues that are arising as a result of our work to best inform the British Government and best equip it for the negotiations it will face.

Q186 Mr Lilley: You mentioned the report that you commissioned from Oliver Wyman. As I read that report, it worked out the value of our exports and trade in different sub-sections of the financial services sector, and then it considered steps that could be taken to preserve that. All those steps were steps by Government, were they not? There were not any suggestions about how the industry, which is amazingly adaptable and flexible, would itself adapt to protect its business on the continent.

Gary Campkin: One of the things about contingency planning is that you look at the threats, risks and opportunities, and you look to mitigate or take advantage of them. Business planning is thinking through some of those really deep issues. One of the interesting things about the focus on passporting is that, for understandable reasons, for a lot of businesses these things have been taken for granted. To understand precisely how the passport works, in which specific area it works—there are some areas in financial services where there are no passporting arrangements, as you know—and what measures can be taken to mitigate a potential loss is a work in progress. If I can talk for my colleagues, these are complicated issues that need to be thought through. Of course, business is adaptable, but we want the right result for the UK, for the EU 27 and for local stability.

Q187 Mr Lilley: I'm not quite sure I detected an answer to my question. The Oliver Wyman report evaluates what the effect would be with and without a Government response, but, as you rightly said, it doesn't take into account the fact that business itself would respond and adapt. Am I correct in that?



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Gary Campkin: The Oliver Wyman research focused on the potential issues relating to a range of scenarios, and it did some analysis, on the basis of those scenarios, of what could be at risk. That was what it was intended to do; that was the scope of that particular work. We are now doing some additional work, which we hope will be available early in the new year, looking at the legal ramifications of those scenarios. I am sure some of those issues will be addressed at that time.

Q188 **Mr Lilley:** I think that means that my interpretation of the report is correct.

Gary Campkin: We can send the report to the Committee. It sets out the basis upon which it was put together.

Q189 **Mr Lilley:** Finally on passporting and equivalence, if it is so important, are you advocating that we should negotiate similar arrangements with America, Switzerland, India, China and Australasia?

Gary Campkin: In areas where it operates, passporting allows a product that is licensed in one jurisdiction to be available to customers and clients in other jurisdictions. I want to get away from the word “passporting” and talk about something I mentioned before: regulatory coherence and mutual recognition. We have done a lot of work—again, I am very happy to provide it to the Committee—on the importance of having regulatory coherence in TTIP. One of the things that is really important there is to focus on the mutual recognition and the coherence of regulation, because that is what allows companies—corporates—to best serve their clients at the best cost while keeping regulation high. Again, may I take this opportunity to say that the industry is not calling for a bonfire of regulation out of the Brexit process?

Q190 **Mr Lilley:** I have one final, slightly different question related to what I asked the Prime Minister about last Wednesday. The European Banking Authority’s proposal to raise the reserve requirements for lending against house building by 50% would make it more expensive for our banks to lend on house building than on unsecured credit cards. Is the industry lobbying against that?

Gary Campkin: I am not aware that I can give an answer now, but we will write to the Committee afterwards.

Chair: Jonathan Edwards.

Q191 **Jonathan Edwards:** Diolch, Chairman. There are a number of different potential models for the UK Government as we approach Brexit. You could stay in the single market and the customs union; you could do the Norway model and stay in the single market but be outside the customs union; you could be like Turkey and be inside the customs union but outside the single market, and there are also the deals that have been done by Switzerland, Canada and Ukraine. If you were in the UK Government and responsible for the interests of your sectors, which one of those deals would be the best for you? It can be a very short answer; it does not have to be long.



Fergus McReynolds: We have assessed all the individual models and different types of association with the EU that exist, from the Norway model to the Switzerland model to the Turkey model, and there are facets of each of those models that are very positive for our sector, but there are equally facets that we do not think are compatible with the direction of travel. What we are keen to see is the right deal for the UK. The UK is a significantly larger economy than the economies that we have mentioned, and in fact its relationship with other EU member states has grown up over decades, so I think this will be a deal for the UK.

Q192 **Jonathan Edwards:** Is that view shared by both of you—a bespoke deal?

Gary Campkin: A bespoke deal—absolutely.

Q193 **Jonathan Edwards:** And if that is the case—you have probably answered this in response to various questions that have been asked by colleagues during the session—what would be the three key components of any bespoke deal for your individual sectors?

Dr Acha: I can kick off that one. Again, bespoke—yes. This goes to my point about looking to the future: “In 10 years’ time, where does the UK see itself in life sciences?” You are really looking at a continuum of opportunity. You can organise regulation in various ways, and indeed other regulatory authorities around the world are starting to look for different models of how they want to operate.

For us, what matters is that the deal mirrors the global convergence around science and meets where the trend in science is going, because we develop medicines for the world, not for a particular country. It must do what it can to make sure that we deliver the right safety and efficacy for patients in the most efficient way possible. The third component is keeping up to date with the science as it progresses. We are at a very exciting time in the life sciences; we are looking not just backwards at the past 30 years of development even just of biologics, but at what the future is for gene therapies and cell-based therapies. We need something that is going to be future-ready in science.

Gary Campkin: From my perspective, against the wrapper of global financial stability and making sure that the UK remains the world’s leading global financial centre, the components are mutual market access, regulatory coherence and access to talent.

Fergus McReynolds: For our sector, it is about continued, uninterrupted trade with one of our existing key trading partners, but also opening up further trade opportunities outside the EU. It is about operating in a single regulatory environment and ensuring that we understand how manufacturers are regulated. Manufacturers want to make single products for multiple markets rather than multiple products for multiple markets. The other component is being able to access a wide pool of skills and deploy across borders.

Q194 **Jonathan Edwards:** To follow on from that and add to Alistair Burt’s question—and perhaps to put it a bit more bluntly—to what degree do



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you think the UK Government are going to be able to negotiate those aims and a “have your cake and eat it” deal, as it were?

Fergus McReynolds: I am sure there have been many conversations on cakes over the last 24 hours. We all want everyone to enjoy great British baking, I am sure. In terms of what is achievable, we want to set out our key priorities and to identify what the key barriers and key concerns are—where are the things that will have the greatest impact? It is a question of working with the Government to supply them with that evidence, to say, “In x years’ time, we are in a good position because we have addressed these key issues.” That, for us, is the way to approach this.

Gary Campkin: I would just add something that I said before, which is important in this context. The UK will have, I believe, a fantastic opportunity, with an independent UK trade and investment policy, to be world leading and to reflect UK priorities as it reaches out beyond the EU 27. Looking at creating cutting-edge agreements will be really important. The UK is already a leader in thinking on these issues. This is an opportunity to pursue those to fruition.

Dr Acha: For medicines, in the future we are looking for—it is about how you frame co-operation. We are still existing in the region of Europe. We still have important relationships with our European partners, which will continue. It is about how we want to frame the future. That should be a priority in our planning. It is certainly what we are thinking about as an industry. In terms of the catchphrase for us, it is not a cake; it is about whether patients can have their medicines and actually use them. That is very much a point where we should find commonality with our European partners.

Q195 **Jonathan Edwards:** Lastly, following on from that, if the UK Government decide to leave the customs union, we have opportunities to negotiate international trade deals. To what degree is the Department for International Trade now discussing with your sectors what those deals should consist of?

Gary Campkin: As I say, we are almost concluding—it was just signed off by the board last week—what we believe an independent UK trade and investment policy looks like. Again, we are happy to provide that to the Committee. We have had some very good discussions with the Department for International Trade, and, as I would expect them to, they are doing scoping out and futurescaping. It is important that they understand industry priorities, and it is very encouraging that those dialogues are ongoing.

Dr Acha: Likewise, we have already had a scoping meeting with the Department for International Trade, as well as with BEIS and the Department for Exiting the European Union, to start to plan out how we are going to move this conversation.

Fergus McReynolds: We have had interactions with the Department for International Trade, feeding into their evidence, and we continue to survey

our members, to understand where their key priorities are and where their key opportunities exist.

Q196 Stephen Timms: You have said a couple of times that it is quite complicated to set out the impact on UK financial services of the loss of passporting. Can you tell us a little more about where you have got to so far in assessing what that impact would be?

Gary Campkin: The figures that I have quoted a couple of times related to Oliver Wyman are the standing piece of work that has been done. There is some other work being done around legal dynamics, as I mentioned, but the figures that Oliver Wyman did are, we believe, the best set of figures that can be produced at this moment, and we stand by them.

Q197 Stephen Timms: So your best estimate of the impact on UK financial services of the loss of passporting is 35,000 jobs. How widely shared is that view? Would you describe that as a consensus view in the City, or is it a minority view? What is the degree of agreement around it?

Gary Campkin: The Oliver Wyman process was a mix of their own information and a significant number of conversations with the industry. We believe it was a robust piece of work. They have been quite clear about their process in arriving at those figures, so we believe those are as good as the figures get.

Q198 Stephen Timms: You said that for financial services it was very important that some bridging arrangement is introduced. Can you tell us what sort of arrangement that might be and how it might mitigate the threat to the 35,000 jobs?

Gary Campkin: Part of the issue with the bridge, of course, is that one doesn't know what is on the other side of the bank. Indeed, that is one of the reasons why it is really important that, if you look at two bits of bridging, the first is something that takes us from the end of the negotiation up until the point where the new arrangements start, and then there needs to be an adjustment period for the new arrangements. This is particularly important for industries that are regulated. For example, to get a regulatory permit in a new jurisdiction takes two to three years. That is a business reality, and those are the sorts of timescale that one would probably overlay on the bridge, but again it goes back to the importance of continuity of service to customers and clients.

Q199 Stephen Timms: Could the threat to the 35,000 jobs be entirely resolved if regulatory equivalence could be agreed between ourselves and the EU? Would an agreement on equivalence solve the problem?

Gary Campkin: Equivalence can take you a long way, but of course equivalence is also a political decision. There is a technical assessment of equivalence and then there is a political overlay, and that can be withdrawn at any time. So the answer is yes and no. That is why I think phrases like "mutual recognition" are stronger. It recognises the integrity of the process on both sides; you get to the same point and you respect that process. That would have a lot more certainty, and that is what the industry will be looking for.

Q200 Stephen Timms: Are there precedents for mutual recognition between the EU and other jurisdictions, and if so, what are they?

Gary Campkin: Yes, there are. There is a recently agreed agreement between the EU and the United States, for example, on a particular issue, but we will send you a full list afterwards.

Q201 Stephen Timms: So you think the model of the agreement with the US would be a good one for the UK Government to seek to replicate.

Gary Campkin: It is certainly a very, very good starting point. The UK, as you can imagine in this area, had a strong hand in its crafting.

Q202 Stephen Timms: You made the point earlier that the risk, including to Europe, would be that a lot of the 35,000 jobs would go not elsewhere in Europe, but to the US or Singapore. May I press you on the Singapore point? Singapore seems to be doing well. What are the arrangements that Singapore has in relation to the EU that would enable it to take business from London?

Gary Campkin: There is an EU-Singapore free trade agreement. One of the issues that we will all have to face in relation to when the UK exits the European Union is that market access is currently determined in large part by those agreements, so the UK will have to find a way of ensuring that it can replicate its market access through the network of EU trade and investment agreements.

The specific issue, which is the real question for the European economy as a whole, is that this activity, currently vested in the global financial centre in London, will go to where there are large capital pools and where the costs of providing services are more effective for the customer and client. That means that the loss is not just to London and the UK; the ability to have access to as much, in current terms, would be diminished. Again, if I'm looking at international providers from certain countries, they may well have a look and say, "We don't want to put the resources into Europe to re-regulate; we don't want to deal with the increased costs of doing business here," and just retrench to their national markets or to other jurisdictions.

If you accept the fact that we have the world's leading international financial centre here in London and the UK and that it is also Europe's financial centre and a European asset, both sides in the negotiation need to be really careful about how they proceed.

Q203 Stephen Timms: Can I ask you about the specific point of the possible loss of the ability to do euro-denominated clearing in the UK after we leave the European Union? How big a part of the overall 35,000-job threat is connected to that particular issue?

Gary Campkin: I haven't got those figures to hand. I will check and write, if I may, with a follow-up, but clarity is important here for your question. There is no regulatory or economic reason why euros cannot continue to be cleared in London under any paradigm in the future. Essentially, as Sir Jon Cunliffe said, it will be a political consideration.



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Practically, it is difficult to see how it will be unpacked anyway, because if the EU 27 were to say, "Euros cannot be cleared in London", they would also by definition have to exclude New York and other financial centres from those clearing arrangements. A move to bring clearing back into the eurozone—note "back into the eurozone" and not into a location within the EU 27 that is outside the eurozone—would make it very difficult to have a London-specific clause related to that. The difficulty of all this would be that costs would increase for clearing. The economic impact would be felt in European competitiveness as well. These are issues that the EU 27 need to think about very carefully.

Q204 Stephen Timms: Given that the US, as you have told us, has achieved mutual recognition with the EU, might that not protect US clearing?

Gary Campkin: Again, when we write, we will provide the specific detail, but it is one specific area of financial services, not the breadth of financial services covered.

Q205 Stephen Timms: Just one final point, if I may: you said that the view that 35,000 jobs could be lost is fairly broadly agreed. Are there parts of the financial services industry that can see potential benefits from being separated from EU financial services regulation?

Gary Campkin: The way to look at this is that most regulation in the industry is derived from global standards. That is as true in the EU as it is in the United States and elsewhere. There are particular issues for the insurance industry. My colleague from the Association of British Insurers made that point very strongly when he gave evidence before the House of Lords, but at the end of the day what really matters is ensuring that regulation is coherent, so that there are not duplicative costs or conflicting requirements. If it is not coherent, that will mean that the customer and the client will either not be able to get the product they want at the price they want, or it will increase the cost of doing business significantly, and that is not in the competitive interest of the European economy.

Q206 Stephen Timms: Are you saying that there really are not big opportunities for some bits of the financial services industry from leaving European regulation?

Gary Campkin: I hope I have been clear throughout my testimony that there are some important opportunities for the UK, not least of which is the opportunity to have an independent trade and investment policy that will open up markets and allow more opportunities to be generated—not only for the industry I represent, but for my colleagues' industries, too.

We have an opportunity to take forward some important issues that will help competitiveness. We would like to see some examination within the regulators of the need to have competitiveness as part of their remits. That is currently the case in Singapore, but not here. There is a whole range of things that could be looked at under the banner of competitiveness. We are about to embark on a piece of work that will try to define what the world will look like for the industry in 2025. Again, we will provide more details of that work.

Q207 Stephen Timms: Finally, are your members drawing up contingency plans at the moment for this potential loss of passporting?

Gary Campkin: Again, as I said a little bit earlier, business has to deal with contingency planning. Corporates of all sizes have contingency plans on a range of issues, and this will be one of them.

Q208 Chair: Following up that last question from Stephen Timms, what sort of lead times are we talking about? If we take the worst potential outcome, as you described it—the Oliver Wyman research described it as out on WTO terms, 35,000 jobs—you can't just move things like that. The contingency plans that you have just referred to have got to work backwards. There was a reference: the British Bankers' Association talked about people with their fingers hovering over the relocate button.

It would be very helpful for the Committee to get a sense of when, if people are not at all sure about what the outcome is going to be, they actually have to start acting to protect themselves and their business. When might that be in the process? We are here going towards what could be the end of negotiations in March 2019.

Gary Campkin: We tend to call it low-access scenario, the worst case scenario.

Q209 Chair: That's your version of the cliff edge.

Gary Campkin: In effect, it could be that. Business planning currently or generally takes two to three-year cycles, perhaps five at the outside. The key thing in a regulated industry is that you need to apply for regulatory permissions and permits, and that generally is about two-plus years.

Why the bridge is important and why certainty is important to the extent possible is that it allows companies to continue operating under current conditions until the new set of circumstances are known, and then have time to adjust. That is the thing to focus in on.

It is about bridging from where we are now into futurescape and providing certainty, so that those fingers do not press the button. People are here in the UK for a reason. They are here because it is a great place to do business, because it is an international financial centre and because they want to stay.

Chair: Okay. Thank you. Maria Caulfield.

Q210 Maria Caulfield: My questions are for Dr Acha because I want to focus on pharma industries and life sciences. I worked in research and development for more than 10 years and you are quite right that hosting and sponsoring clinical trials in the UK have huge benefits for patients, particularly for the NHS. A hospital taking part in a pharma study can get paid £10,000 per patient, depending on the trial, can get access to innovative drugs that may not be available to the NHS for many years and can also draw global researchers who want to come here to study and conduct research.

I was surprised that when you talked about EU regulations you did not



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mention the clinical trials directive, which has been hampering clinical trials in this country and across the EU. I think that is recognised by the EU. Could you outline the issues around the current clinical trials directive and the benefits to moving to the proposed clinical trials regulation?

Dr Acha: Of course, with all regulation—and the past 20 years give very nice examples—you can always do things better. In the case of the clinical trials directive, it was recognised that things that could be done better, should be done better. Hence the development of the clinic trials regulation, which again is where the UK and particularly the MHRA continue to have a fairly leading hand in how that process will work.

The point with clinical research is that we need to have the right environment to be able to deliver it in terms of the regulatory framework. That is without a doubt. However, one of the bigger challenges, or opportunities, is how well that process works on the ground practically in those very hospitals you are describing. My members speak of it in terms of time and target. When are you getting to completion of the full-trial process? Getting to time and target is the global metric that people look to when they are considering where to place their clinical research around the world.

The good news I can share with you is that, actually, especially over the last three years, the increase in clinical trials undertaken in the UK has been remarkable—there has been very good progress. That is partially to the credit of our colleagues at the National Institute for Health Research, who have done an excellent job of creating that local delivery system that makes it very easy for commercial sponsors to get a study up and running and delivered. That has also been mirrored in other parts of the UK in the devolved nations.

In particular, I co-lead an industry forum in Scotland that, again, has been very effective in getting improvements year on year on this, which is shown in the numbers. We are now very competitive at all stages of research, but specifically at phase 2 and phase 3. That was at a time when people thought, “Well, you’re never going to win the phase 3s”. Actually, we are winning the phase 3s. It is not just about the regulatory framework, although that is very important, but that critical local delivery and the engagement with the patients, so that people want to be part of clinical research.

Again, I think this is where the UK could distinguish itself. We have a unique opportunity in the NHS to really deliver an environment that welcomes innovation and incorporates it as part of its everyday work. Again, that is if we are looking to the future and not just getting to day one. We are also looking at day one issues with regard to clinical research because, as you know, the regulation will come into force during that period. We will have to make some practical arrangements for how you go in and go out again if that is the case. What would be the follow on from that? How can we continue to make sure that, for a sponsor, it is easy to lock into UK opportunities? That is what we’re working on now for day one ideas.



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For the future, we are thinking about what the added value we could have here in the UK is, and particularly thinking about the impacts of the current investments that have been made in genomics—you know the 100,000 Genomes Project very well. This is also a case of looking at the academic support for early-stage or translational research and, critically, how people feel about being part of that frontier of science. To be honest, that is where everyone in the world is trying to compete for clinical research at the minute. The real win will be for the country that understands how to put it all together and deliver it, and I think that is a great opportunity for the UK to think about.

Q211 Maria Caulfield: Thank you. On the point you made about the UK starting to lead again in clinical research, my sense from the industry is that that is despite the EU clinical trials directive, not because of it. Having it gold plated in 28 different countries has certainly led to research that is not as robust, in terms of validity and reliability, compared with other countries like China or the US, which can run a study and just have one set of rules to follow, so a trial can be rolled out quickly.

Dr Acha: That was clearly the driver behind the clinical trials regulation—to get to a single review process. The challenge is usually always in the ethics committees, which are very much bound, understandably, in wanting to have a local reflection of what people think is right and proper to be done in their hospitals, with their patients and with their communities. That will always be an issue, but getting it to be as quick as possible is really the right standard.

From the list you gave, the US continues to be a dominant force in clinical research. I was looking at the phase 1 data, which are very early-stage studies and, again, the US's share is phenomenally large. I think that is something that we can work on. I think it is an area of opportunity for which we need to learn and adjust. What is also driving that process in the US is, again, the reception of that healthcare system to new and innovative products.

Nobody ever makes a decision on one issue—they are thinking about it in the round. Our companies are exactly the same. They are thinking about not only where to place their research, but whether that place will use those medicines when they are finally available. Ultimately, they want a clinician or research nurse and a patient group that are going to be able to make the most of that research as it progresses to use. Otherwise, that is a fairly deflating experience for a patient, I am sure, and is not something that really helps to keep our clinicians at the forefront of research. We need to think about it in the round, and I think we can.

Q212 Maria Caulfield: My final question is to ask your opinion. Obviously, the regulation was published in 2014. It was supposed to be out there this year; it is now likely to be 2018. It could be pushed back further, because it has to come into force six months after the IT portal is functional. Given that we may be out of the EU at that point, I understand that there are several options on the table.



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First, other EEA countries are looking at whether to join that regulation. You don't have to be a member of the EU to be part of it. Another option is joining the US approval system. Finally, as we will still be abiding by global ICH GCP as a country, we could stand alone. Which of those three options do you think are viable?

Dr Acha: We are looking through all of them. Technically, we already have a national regulator in the MHRA. It is fully able to do all the things we need it to do. The question is what would make the most sense for being able to ensure we have medicines delivered to patients and that they have early use of the medicines wherever possible. Those are the scenarios we are looking at now, as well as the different merits and challenges of each.

To some extent, clinical research can be seen as a little outside of that process in so far as we do clinical research around the world, so a given trial will include a number of jurisdictions. For a company, having multiple jurisdictions involved in a clinical trial is not a deal-stopper. That is fairly normal, especially if they are all aligning towards the international standards I mentioned—the ICH clinical research standards.

Q213 Maria Caulfield: Given that the clinical trials directive was so cumbersome and held back or delayed opening studies and recruiting patients, does your industry have a preference about which of those three options the UK should pursue, in an ideal world?

Dr Acha: It is more than three options. You can look at a variety within that. Obviously, our preference has been for keeping things as aligned as possible within the global convergence we have around regulation. It makes sense that where we have already agreed on a way forward, we continue with that.

If we can continue to work with the co-operation we have established under the EMA network, that makes it quicker and easier. In fact, use of the portal would be useful, especially since we have invested quite a lot of time and energy in putting it together. But all those things may be not within our gift, so we need to think about all the opportunities. At the end of the day, we have to make sure that the research happens, that the medicines get delivered and that this is all followed up with the pharmacovigilance safety monitoring system, which ensures the information is shared. The information we have in the UK is valuable, but it is more valuable still when it is connected to the vigilance system we have established.

Q214 Chair: I want to be clear about the answer you just gave. The Science and Technology Committee had evidence from the British Pharmacological Society and the Life Sciences Steering Committee, both of which drew attention to concerns they had about us not being part in future of the EU clinical trials regulations and the impact that would have.

Do I understand, from what you just said, that you would prefer that we continued to be part of those arrangements—either mirroring them or joining, as Maria Caulfield outlined in one of those options, other EEA



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nations in being part of them? Would that be the preferred route? If that is the case, is it because you can see adverse impacts on patients getting access to medicines, us being a place where clinical trials take place and so on? That would be the consequence of not being part of the new regulations.

Dr Acha: Not being part of the current regulations would put us in the same bucket as any other country that would be pitching for the work. On the clinical research piece, being part of it within Europe makes it much easier, because we already have the systems in place to do it. If you have to do it separately, you can, but it is a lot easier to stick within the arrangements agreed.

Q215 **Chair:** Can I ask you one other question about the role that the presence of the European Medicines Agency in the United Kingdom has in attracting companies to come and do research and other work here in the UK, as opposed to elsewhere? Is that, in your view, a significant factor? Does it follow that if the European Medicines Agency ups sticks and goes somewhere else, that would have an adverse impact on what happens in the UK?

Dr Acha: When people look to the UK today, it is one of the factors that gives them extra reassurance that this is the right place to be investing in their bricks and mortar. Without it, there are still plenty of other reasons to be here, so I would argue that companies never make a decision on where to invest simply on where the regulator is. In my own country of origin, not everybody is based in Bethesda. You have to have good relationships with the regulator, without a doubt, but some companies can manage that next door or from more of a distance. What really matters is whether this is a good place to be invested because it is the right place to recruit your staff. Do you have the right people available to you that you can bring in to do the key jobs you do?

Our industry in particular has a very high gross value added per employee. That is because the calibre of the jobs that we offer is very high level. We need very skilled people. Our industrial placements are typically undergraduate level. We need research-able individuals. The UK is a very strong country for the research in life sciences and as long as that remains so, I think there is obviously a very strong reason to be here. The NHS could be the real driver for bringing that investment here above all, so of course the EMA has made huge contributions and that is why you have—whatever—seven or eight countries now bidding for it. Is it the only reason why people are here? No. It is never the only reason why anybody would be based in the UK, so it is not going to be the only reason why somebody leaves.

Q216 **Craig Mackinlay:** For many years, across higher skilled and lower skilled employment sectors, there has been this ongoing debate that we need to have free access of people from the EU, as if it is the only place that we can draw skills from. That perhaps indicates that we have a skills problem in the UK, but that is a question for another day. I think we need to be looking a little bit more carefully at those other EU countries. The country



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that I am particularly familiar with is Hungary.

I had meetings with members of the Hungarian Government recently. They are increasingly concerned that there is a brain drain from their own countries. Their own economies are expanding quite well. In pharmacy, Lilly and Teva are there, which are quite powerful companies. You have a growing IT industry. A lot of manufacturing has moved over; Bosch and German companies have relocated to Hungary. They have a massive demand for their own skills. Perhaps the diet that UK companies have had of this limitless pool of skilled labour from the EU is not quite as limitless as we once thought.

Outside the EU, if we so wish—it is a desire of mine—we would perhaps be more open to international skilled people. We have imposed some artificial barriers over the last few years because of worries about immigration numbers, as it is the one group of people that we have been able to put some limits on. From your own experiences in your own businesses, how complicated is it under current arrangements to obtain either short-term or long-term working visas for non-EU citizens coming to the UK? Has that been a barrier that has actually stopped you from doing what you want to do? Would more flexibility, which would perhaps mirror arrangements for EU citizens of the same skills base, be helpful to you?

Dr Acha: For the life sciences sector, I totally welcome your point about the fact that we want to look for talent to bring to these roles wherever it is in the world. I am going to borrow a bit from the fact that we had this work over the summer with a range of our partners, including the BIA, which represents the smaller SME spin-outs. For them in particular I know that it is a key issue. They would like to see easier procedures to make valuable individuals able to be brought into roles in the UK. That would help them.

The larger companies that we represent in the ABPI, the big multinationals, have quite a lot of machinery internally to help deal with this, but obviously anything that limits that challenge and delay is very, very welcome. There are other countries in the world that are a lot more difficult for organising visas and require a lot of planning, so at the minute it is not that the UK and Europe is the hardest place on the planet to organise these things. But you can always do better and we would hope that this was an opportunity to think about how we could do this better.

Q217 Craig Mackinlay: My question was, how difficult is it? Is it proving a barrier?

Dr Acha: Not for the largest companies. For the smaller ones—again, I am interpreting my colleagues—it can be.

Q218 Craig Mackinlay: The City obviously has similar skills, and it needs skilled people from the EU. I think that a lot of the skilled people in the EU are more likely to stay in their EU countries. How would more flexible arrangements globally help the City?

Gary Campkin: The way I would characterise it—

Q219 Craig Mackinlay: You must have a lot of US citizens come to work in the City, for instance. It must be quite complex.

Gary Campkin: Yes, there are over 200 foreign banks operating in London and over 200 foreign law firms from 40 jurisdictions. They are here for a reason. We have always said that it is the global talent pool that is important. If you accept the fact that we have an international financial centre here—the leading global financial centre—that requires a deep pool of global talent. That is one of the assets that we have here. It is a competitive advantage for the UK, and we need to look at those issues and make sure the policies that surround them are the right policies for retaining that status.

The other point I would make about people is that there are also opportunities for UK-headquartered firms to move their people into operations elsewhere in the world to gain from experiences there and to broaden out their career experiences and dynamic. It is not just a one-way street, so it is a very important issue.

Q220 Craig Mackinlay: Manufacturing?

Fergus McReynolds: Absolutely. The statistics in the sector speak for themselves. Three quarters of our manufacturers have been struggling to fill engineering roles in the last three years. There is clearly a skills gap, which needs to be addressed. From speaking to our members, they are not keen to see what happens with the European workers being modelled on what we currently have in place for non-EU workers. That would lead me to suggest that we are not particularly pleased with that arrangement. I am very happy to follow up to the Committee with our key concerns about the issue of employing workers from outside the EU.

Q221 Craig Mackinlay: Are you finding that the pool of talent in the EU, which is perceived to be limitless, is not there anymore because it is being used in those countries—particularly eastern countries—as their economies expand and do better in many competitive fields that we have here?

Fergus McReynolds: We are certainly seeing some evidence of slowing, in terms of EU nationals applying for roles in the UK. At the moment, it is about quality, but also quantity. A number of our members are finding that it is difficult for anyone to apply for the vacancies that they have.

Gary Campkin: Can I make one follow-up point on the nature of the skills and talent that one needs? Let me give you an example. FinTech is an area that is hugely important to the UK. With California, we are right at the top of FinTech, but it requires a particular type of skill set. The sorts of skills that the industry needs and the profile of people that it needs are different. As I said earlier, 40% of the people in tech development in Silicon Valley come from outside the US. We need to have not just access to a global pool of talent, but the right-skilled people, who may indeed be outside the EU 27.

Q222 Craig Mackinlay: Can I make a couple of points about pharmaceuticals? Under current arrangements—this is not something I am totally familiar



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with—there are three types of non-EU countries that we may deal with. You have those that are friendly but similar, in terms of ideas, law and regulatory regimes, like the US; you have countries like South Korea, with which we have a free-trade agreement through the EU; and then you have growing economies—say, Nigeria. What are the financial and non-financial, non-tariff barriers in each of those markets to, say, a unique and new drug that the UK has developed? Would there be financial tariffs, or would there just be some non-financial barriers in those three? One is very friendly, one we have a free-trade agreement with, even though it has a completely different way of doing things, and one is an up-and-coming, growing economy.

Dr Acha: That is a good example of why the world is changing fast in this area. South Korea may not have been considered a stringent authority a couple of years ago, but they have advanced quite a lot. Within their own Asian-Pacific regulatory group, they are the lead for biologics, so if I had a biological medicine, it would be quite a good place to take it. They would have a very similar evaluation approach to looking at that medicine to the one we have in Europe.

The world is changing fast and convergence is a very real promise, but in terms of financial tariffs to go in, of course those trade arrangements matter. If we have a free trade arrangement, it is not an issue; if it is within the “zero-for-zero” programme—let’s imagine with the US—and it is on the list, it should be fine.

Q223 **Craig Mackinlay:** So we have zero with the US on—

Dr Acha: For some products. You have a “zero-for-zero” initiative under the WTO arrangements, and you would have no problems sending that medicine and some goods, but you would still have regulatory review. I would send it in, but it would still have to go through evaluation. We are working on mutual recognition arrangements on plant sites and inspections, but there is still regulatory review, so simply sending it in—it is going to go through a check. Going through the arrangements for regulation—the FDA has its own approach. Again, global convergence is there, but every authority has what I would almost describe as their philosophy on the way they develop and pursue, and this is something that companies are very familiar with.

Q224 **Craig Mackinlay:** What about growing or advancing—

Dr Acha: Nigeria is a good example. The WHO’s biggest challenge right now in these markets is regulatory strengthening. Most of them have weak regulatory authorities; they just do not have the scale and size to be able to deal with it, and particularly if you are bringing in a very new drug, they may not have had the experience behind it.

Q225 **Craig Mackinlay:** What I am seeing is that there are very few barriers to a UK pharmaceutical company getting access to, say, the Nigerian market.

Dr Acha: In terms of delivering the medicine, at that point you would just have to go through whatever procedures were normally in place. That is



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true whether you are a UK-based pharma or a US-based pharma—it is the same procedures going in. I used to support the Middle East and Africa, particularly on regulation. It really depends on the country. In some of them, you will have delays, and there is not a lot you can do about it; they are there. That would not be unusual coming from a UK-based pharma as opposed to any other place. It is the local conditions that are shaping that impact more than anything else.

Q226 Craig Mackinlay: Can I just finalise on a couple of points I have picked up this morning on the City? I am concerned about the Oliver Wyman report. Are we really meant to believe that the City of London, now the biggest non-Asian renminbi clearance centre, is suddenly going to lose euro clearance capability? What countries in the world actually have imposed such barriers when there is good quality, a low price and a very stiff and certain legal regime? Has anyone actually withdrawn this type of clearing facility from a third country? Probably more importantly, can they? If the market decided to clear Australian dollars through London, could anyone stop that? Wouldn't it be rather an odd move for the euro countries to take on some similarities with—I would say—North Korea? Do you think it is rather an odd and unusual and unlikely outcome when you have Singapore equivalence and all of these things? Jersey is not in the EU or the UK, yet I understand that the MPs' pension fund is administered through there. These things are eminently possible.

Gary Campkin: These functions are regulated functions. Currently, within the EU, there is no geographic limitation on where euro clearing happens, and in our judgment, as I said, there is no reason why that should stop, because as you rightly pointed out, dollars are cleared here, RMB are cleared here—global currencies are cleared here. It will be a political decision. Apologies for repeating myself, but practically, we do not see how this can easily work. It will not be easy, if the EU 27 wish to go down this path, to carve out other financial centres and just focus on barring London and the UK from clearing euros.

Q227 Craig Mackinlay: Why is it being raised as a rather peculiar spectre? You still hear it in certain quarters.

Gary Campkin: It is a political issue. It is a totemic political issue, but I hope once the dynamics and practicalities, the costs engaged and the economic impact of such a move are calibrated properly, EU corporates too may begin to talk to their Governments about why it is important for such functions to remain in what is, in effect, Europe's financial centre too.

Q228 Craig Mackinlay: Finally, we don't hear much about the City's thoughts on the direction of travel that the EU seemed to be moving in. It seems to have drawn back from some of its more left-of-centre ideas, such as the Tobin tax and those type of things, which would have been very damaging to the City. We don't seem to hear from many commentators, freed from those type of constraints, of the dividend to the City. It always seems to be the sort of slightly negative edge to things. I rather wish that the City would think, "Well, we're out of that very uncertain place, with its Tobin taxes and more regulation." I think some of your reports to the



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Foreign Affairs Committee just this year were concerned about the path the EU was on. I would have thought that the path we have now taken would be a source of great enthusiasm, and I would like to hear a bit more of that from the City.

Gary Campkin: As I said, there are risks and threats, but there also opportunities from leaving the EU, and we have focused our work on calibrating both and addressing both. As more of that work comes through, we will certainly provide it to the Committee.

Q229 **Chair:** Thank you. I have one final question, continuing the theme that Craig Mackinlay has raised about staff. A number of firms have said it is really important to them, whatever else happens, that they can continue to transfer staff within companies, because of the nature of operations in global business and European business. Can I just check with each of you that the continued ability to do that—for staff to move to other places in Europe within companies—would be important to your members?

Fergus McReynolds: Yes, absolutely. I think it is part of the debate that hasn't had as much air time as it needs. The ability to deploy into other member states is very important for our members, and not just internally for training and education purposes within companies, but for the delivery of services. Many of our members are now looking at goods plus service-type models—trading goods on long-term service conditions. An example might be in the medical devices sector, where we would supply a scanner to a hospital on the basis of a 10-year service contract. For our ability to get someone into that hospital to repair that machine within a number of hours, rather than a number of weeks, it is going to be vital to ensure that free movement.

Gary Campkin: I absolutely agree. Intra-company transfers are important.

Dr Acha: The same, and even outside of Europe. Again, it is not just a question of Europe; it is a global thing.

Chair: Three Members have just caught my eye. I call Michael Gove first.

Q230 **Michael Gove:** Thank you. I have a question for Mr Campkin. Some 80% of exports from the UK are services and, as you pointed out, financial services are a significant part of that. We heard evidence last week from Mr Shanker Singham, a trade negotiator who now works for the Legatum Institute. He has written that, "every services negotiation is an agreement on domestic regulation, and agreements on domestic regulation require trading partners to be able to put their own domestic regulation on the table for negotiation. If the UK is bound by EEA Regulation—", in other words, within the single market, "then it will not be able to negotiate its own domestic regulation." Mr Singham is clearly saying that, if we want to have improved access for financial services to other parts of the world, being outside the EEA will help us.

I think it is also the case that in a recent report TheCityUK cited research by the European Commission itself acknowledging that 90% of global economic growth in the next 10 to 15 years is expected to be generated



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outside Europe. Does that not rather blow a torpedo through the Oliver Wyman report and its pessimistic assumptions?

Gary Campkin: I am not sure that I would link those things in quite the way you've done. What I think is absolutely right—I don't have any issue with what you just said; technically it is correct—is that the Oliver Wyman report was designed and commissioned to look at the best available data to give a view to Government as to what potentially a spectrum of outcomes would mean for the industry. Those figures have been generally accepted by the industry as being as close as possible to estimates. You are right about opportunities for the UK, particularly in areas such as trade and investment policy, embracing regulator coherence issues, mutual recognition and next-generation agreements, which I spent a lot of my career arguing for. This is their place in the sun, and this is part and parcel of what we need to aim for.

Q231 **Michael Gove:** Will you commission someone to do some work on exactly what new opportunities exist? I ask that because the Oliver Wyman report was all about potential losses from the existing status quo, not potential benefits from a new dynamic environment.

Gary Campkin: We will come back to the Committee on that point.

Chair: I will take Mark Durkan, Peter Grant and then finally Alistair Burt.

Q232 **Mark Durkan:** Thank you, Chair. Mr McReynolds, going back to the point about the REACH regulation and previous questions from Michael and Emma, there are issues with the different perceptions of some of your members on REACH—I know you won't talk about specific members. I have had experience of a plant of a multinational firm that was particularly worried about changes to REACH that were going to have adverse implications for its potential to secure a future generation of investment from its company, because it was going to mean that EU regulation was going to be more capricious in future. Licensing could be revoked at any time, in which case they were possibly going to not win investment in future.

That was avoided, not least through the good work of the UK Government and the Irish Government. But the same plant would be equally concerned that they might not be in a position to win a future generation of investment in the company if they cannot guarantee that that plant in Northern Ireland will then have full access to the EU and the wider European market. Mr McReynolds, is that an example of where even one member of your organisation could see both positives and negatives? This would mean that there are upsides and downsides in these situations, and that we will not achieve the upsides unless we avoid the downsides.

Fergus McReynolds: That is absolutely the case, particularly in the area of regulatory convergence—or regulatory co-operation—that we would like to see going forward in our relationship with the EU. It is important for us to be involved in that process in some manner. That is why we are calling for a regulatory review after we understand what the relationship is. There



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will be parts of European legislation that will be applicable into the future to a number of our members, purely in terms of market access. REACH is a good example, and it is also a type of legislation whose principles are being adopted outside the EU as well.

Q233 Peter Grant: I have a couple of questions for Mr McReynolds that are based on the report "Britain and the EU: manufacturing an orderly Brexit", which was published by your federation recently. Picking up on the last question on REACH—the EU regulation on the registration and safe use of chemicals—the report indicates that the majority of your members involved in this industry would, given the choice, prefer to continue to operate under the EU regulations rather than move to some homemade UK system. Could you explain why that is the case, given that you commented earlier on the administrative burden? Is it simply that having gone so far down the line to comply with one set of regulations, it does not make sense to start again with a completely new set? Or is it to do with the points raised by Mark, related to having to comply with EU regulations because we want to continue to sell to the EU market?

Fergus McReynolds: It is a combination of both. In the short to medium term, what our members are calling for is the grandfathering of current legislative environments, so that in the short and medium term we have that regulatory certainty. Once we understand what the implications are going to be, and what the full nature of our relationship is, then at that point we can review the legislative environment and take away those bits that impact on our competitiveness, but retain those pieces that are required for market access. Your point is valid: once we have legislation in place, these generally become parts of business models and day-to-day practice. The axeing—or the complete repeal—of legislation is something that should be avoided and is much more of a concern than looking at this in the round and reviewing it carefully.

Q234 Peter Grant: Thank you. The second area I want to look at is something that all of you have raised: continued access to the free movement of labour. Mr McReynolds, you raised some very interesting points in that report about the reasons why you don't want the rules to be based just on salary level or formal qualifications, because that is not what matters for a lot of your members. I am interested in the comment about one size not fitting all. Can you expand on what you mean? For example, are you detecting different views from different subsectors within your membership, and different views geographically across the United Kingdom that might indicate that some kind of differentiated migration policy would be beneficial in future?

Fergus McReynolds: There are varying views across different regions and sectors. We need to address those individual concerns and understand how to create a system that allows access to a wide labour market from both the EU and outside.

Q235 Alistair Burt: When we were talking about the movement of people into the UK, and skills and the like, you made reference to the fact that you have found it slightly more difficult recently to recruit and that the pools



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were tightening. The United Kingdom's decision to leave the European Union has been portrayed in some quarters as evidence of a rather unwelcome attitude to people coming here from abroad to work. Is there evidence that that feeling of unwelcomeness surrounding Brexit has had an impact on people, whether they now want to come to the United Kingdom and indeed whether any of those who are employed from the European Union are now thinking of going?

Fergus McReynolds: There is anecdotal evidence from our members that there is a great deal of concern among their EEA workforce about the uncertainty they currently reside in. There have been many questions to our members from their workforce about understanding what that means. We have seen evidence that recruiting from other EU countries and the number of those applying in open applications in our sector is slowing.

Gary Campkin: From our industry's perspective, it is important that reassurance about the status of EU nationals currently working in the UK should be given urgently, and it is right that similar assurances are given to UK citizens in the EU 27. The key thing from my interest perspective is the focus on competitiveness and having access to global talent that facilitates the UK's competitiveness. That will be a key part of future scope and there needs to be some deep thinking about how to deliver it.

Dr Acha: Our experience is similar in that it is anecdotal. It is partly my responsibility in the trade association to help my companies give reassurance when we can and to ensure that whatever can be communicated continues to be communicated. To some extent, there is always an understanding, especially in the global pharmaceutical industry, that we are an international industry and people will move around. As long as people can see that future for the UK, I think that is what they are wanting to understand. There is a lot to be done in the short term to show that although we don't have the answers, we have a process for getting there.

Q236 **Chair:** Dr Acha, Mr Campkin, Mr McReynolds, on behalf of the Committee, I thank you for coming and giving evidence today. You have been most helpful.