

Exiting the European Union Committee

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

Wednesday 7 December 2016

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

Questions 237-345

Witnesses

I: Carolyn Fairbairn, Director General, Confederation of British Industry; Frances O'Grady, General Secretary, Trades Union Congress; and John Longworth, Co-Chair, Leave Means Leave, and former Director General, British Chambers of Commerce.

Examination of witnesses

Witnesses: Carolyn Fairbairn, Frances O'Grady and John Longworth.

Q237 Chair: Good morning. Welcome to anyone who has suffered the travails of the District line this morning—we feel for you. Let me welcome Frances O'Grady, general secretary of the Trades Union Congress, Carolyn Fairbairn, director general of the Confederation of British Industry, and John Longworth, formerly of the British Chambers of Commerce. You are all very welcome, and we are greatly looking forward to your evidence.

Let me begin by asking you this, Carolyn Fairbairn. The Government have now committed to producing a plan—we have a debate on this in the



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House later today—for the negotiations to come. What would you, as a representative organisation, wish to see in that plan?

Carolyn Fairbairn: First, thank you for giving me the opportunity to come here today. The CBI is a large, broad-based business organisation. Just to say more about who we are, our members employ 7 million people in the UK—a third of all private sector employees. What we have been doing since 23 June is consulting very deeply and very widely across our membership network—in fact, we have just had a round of consultations involving 1,000 businesses. We have set out what we believe are the objectives that run across business. What we are seeking to do in the CBI is present a whole-economy view. There are specialist organisations within different sectors.

May I set out the five principles that we believe should underpin the negotiations, from the point of view of our members? The first is barrier-free access to the single market—both tariff and non-tariff barriers. The second is the access to skills and talent that our businesses need. The third is regulatory equivalence—the ability to trade under known and certain regulatory principles and laws within the European Union. The fourth is the best possible trade deals around the world—we can talk a bit more about any of these. The last is protecting the economic and social benefits that we currently enjoy from European funding. Those are the five principles that we believe should underpin the negotiations.

Q238 **Chair:** On the first of those, does the CBI have a view on whether we should remain within the customs union?

Carolyn Fairbairn: We have been consulting on this. There are pros and cons and we have not yet taken a view. The pros are the ability to conduct our own trade negotiations, and we have many members who have a lot of interest in that. However, our members have serious concerns about the red tape, the bureaucracy, the return of customs barriers and rules of origin reporting. There are pros and cons and we are very happy to set out evidence about how that differs by sector.

Q239 **Chair:** Do you think it would be fair to say that the concern about red tape, rules of origin and the other things you have just mentioned is as great an issue for your members as the question of tariffs themselves?

Carolyn Fairbairn: For some sectors, I would say it is almost as great or is as great. To give some examples, manufacturing exporters, who are used to being able to cross the borders easily in terms of imports and exports, are having to consider what kind of new warehouses they would have to establish either side of that border and what kind of working capital they would have to hold. The cost of doing business is made up of several components: tariffs are one and non-tariff barriers are another. But that red tape and bureaucracy has become a very significant concern for many of our members in recent months.

Q240 **Chair:** Frances O'Grady, what do you want to see in the plan?

Frances O'Grady: Thank you very much for the chance to give evidence. The TUC represents 50-plus unions, representing 6 million workers across



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all walks of life. Our job, as always, is to put the interests of working people first, regardless of which way they voted in the referendum, so our concern is that we should see a plan that prioritises people's jobs, wages and rights at work.

We are very conscious that since the financial crash, workers' wages in Britain have dropped further than in any other country bar Greece. As unions have exposed in companies like Sports Direct, ASOS and Uber, there are many workers who feel deeply insecure and exploited at work and who are worried about the future of their children. There are parts of Britain that have suffered from the absence of an active, intelligent industrial strategy that puts decent jobs at its heart. So there is lots of work to be done. Whatever deal is negotiated, we want to see jobs, wages and rights at the heart of it.

There is also a growing concern in the trade union movement that we do not want to see workers in Britain falling behind workers in other EU member states. We don't want Britain to become the bargain basement capital of Europe.

Q241 Chair: Assurances have been given by Government Ministers about employment rights that are derived from our membership of the European Union. They said that all of those rights will be maintained. Are you satisfied with those assurances? Do you have any concerns about that?

Frances O'Grady: We welcomed the assurances and promises that were given by the Prime Minister, David Davis and others. As a trade unionist, I like promises, but I prefer guarantees. Of course, the Prime Minister also promised not just to protect rights but to enhance them, including by putting workers on boards, for example. As I say, those promises are welcome, but we would like to see them in black and white and guaranteed.

More than that, we are concerned about what will happen to workers' rights in the future. For example, the EU is currently considering improving posted workers' rights and family-friendly rights. We do not want to see workers in Britain miss out on those new protections. The principle, for example, that workers who are doing the same job in the same company should get the same pay and treatment is very important to us. We think it would also help to deal with some of the understandable fears that people have about the undercutting of wages, from whatever source. We would like workers, whatever passport they hold, to be on a level playing field and to be treated fairly across the board.

Q242 Chair: Thank you very much. Mr Longworth, what do you want to see in the plan?

John Longworth: First, I should say that I don't want to see the plan. If I were a businessperson going into a negotiation, I would be very keen to keep my cards close to my chest. I think, however, that the Government ought to declare a direction of travel so businesses can prepare and plan for Brexit day. I think it is important that the Prime Minister declares that



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the Government is minded to leave the internal market and the customs union so businesses can plan for that. That would also substantially strengthen the Government's negotiating position, because it will then become apparent very quickly to the European Union that it doesn't really hold all the cards.

In terms of the plan itself, although I don't actually want to see it, I hope the Government have in mind that the real benefits of Brexit are primarily concerned not with the internal market and the customs union, but with crystallising the good things that will come from leaving the EU. For example, during this period of negotiation, we ought to be spending some time deciding which particular European laws should be deregulated. Deregulation in itself will be equivalent to a tax cut for business.

Open Europe are not known for being Brexiteers—in fact, the head of Open Europe became David Cameron's adviser on the negotiations—but they said in a report that deregulation could benefit the UK economy by between 0.7% and 1.2%. The Treasury's own figures from 2005—the only year in which it really looked at the cost of European regulation—show that it is very substantial indeed. If you take 10% of the Treasury's figures and 10% of the benefits of deregulation, it comes out at about the same number, so I think it is not an unreasonable number to work from.

Secondly, leaving the European Union and the customs union enables us to formulate trade deals around the world. I would like to see the plan include signature-ready trade deals for Brexit day plus one, and conversations should be going on in the meantime.

Tariffs, of course, are a very substantial benefit to the economy. The Minford group of economists pointed out that the removal of tariffs unilaterally would boost the economy by in excess of 4% of GDP. Clearly, it is difficult politically to do that, and we may want to use some of the tariffs in terms of our negotiating position, but the Government's direction of travel should be free trade—a tariff-free United Kingdom. Some industries will require support in that regime, but the cost of the support will be minor by comparison with the huge benefit of the removal of tariffs. Of course, the industries that require support will be those that are strategically important for the security of the nation. We have to clothe and feed people, we have to be able to build armaments, and so on.

Then, of course, there is the repatriation of the net contribution to the European Union, which itself will benefit the UK economy by 0.5% of GDP. All those things together have absolutely nothing at all to do with the internal market and the customs union. Those benefits of Brexit can be crystallised as quickly as possible without any regard to the internal market or the customs union.

Q243 Chair: Can I just ask one follow-up question, with a brief answer, if possible? You have talked about your wish to see deregulation and fewer obstacles. How do you square that with the view that Carolyn Fairbairn has just expressed on behalf of the CBI that a lot of CBI members are worried that leaving the customs union may actually result in more



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bureaucracy, obstacles, delay, certification, rules of origin, and so on and so forth?

John Longworth: First, of course, people who trade around the world will know that we comply with regulations in Japan, China, Taiwan, the United States, Malaysia, and so on. In order to export to countries around the world, we have to comply with different regulations. I was chair of CIES, the international standards organisation for trading consumer and food products, for a considerable period of time when I was a director at Tesco and Asda. One of the things that was happening very rapidly even in those days—10 years ago—was that standards and regulations were becoming global, not simply concerning individual nations or blocs of nations. That is the direction of travel of those standards.

In relation to the customs union, curiously—I do not know whether the Committee is aware of this—all the export and origin documentation issued in the UK is issued by chambers of commerce. There is a 1922 treaty whereby goods can be transported globally without containers having to be broken open and the goods examined. They carry a chambers of commerce certificate, which enables the free movement of goods, in customs terms, around the world. That is already in place.

Chair: That is very helpful.

Q244 **Peter Grant:** Good morning, everyone. Could I start with you, Carolyn? The CBI sent an open letter to the Government on 7 October with a list of three key asks. Essentially, you want free access to the single market, you do not want to see us moving straight to WTO terms, and you say there needs to be a transitional period between leaving and it all falling into place. Have you had any reassurances from the Government on any of those three priorities since you sent that letter?

Carolyn Fairbairn: First of all, the background to the letter: many of our members are very concerned about moving very rapidly to WTO rules—that cliff-edge set of conditions—and that is something we were reflecting very strongly in that letter. We have seen a recognition by the Government that these cliff-edge conditions are real, so there needs to be some consideration of an adaptation period whatever we end up moving to, because a two-minutes-past-midnight change in regulation that might not emerge until quite soon before that period, would be extremely disruptive to business. We have seen some recognition of that.

Q245 **Peter Grant:** How confident are you that we would be able to negotiate meaningful deals on free movement of services, as distinct from manufactured goods? I know, for example, that you have—or have had—associations with Lloyds, which is headquartered in Edinburgh. How easy or difficult would it be to negotiate a lot of bilateral deals to allow us to continue to access the market for financial services—asset management services and those kinds of services—in countries outside the EU?

Carolyn Fairbairn: Outside the EU or within the EU? Sorry; I want to make sure I understand your question.

Peter Grant: Feel free to answer on both of them.

Carolyn Fairbairn: Okay, either. The financial services industry in the UK has benefited from the passporting arrangements with the European Union. Five thousand passports exist, and 250 firms in the UK benefit from them. These are privileged rights to compete that have been valuable to the UK. Can some alternatives be found? Undoubtedly, and financial services firms are looking at those alternatives right now. But what we have heard from our members is that there would undoubtedly be some effect on the ability of the UK financial services sector to compete as strongly as it has in the past and that it is privileged access to the European Union that is really worth fighting for. That is the first thing to say.

In terms of outside the EU, I think this really is an interesting opportunity for us to consider new services arrangements. Services are notoriously difficult to negotiate deals around. We hear financial services firms talking optimistically about the opportunity that we may have in the future, but we must not underestimate, in terms of what we are hearing from our members, the benefits that they currently receive from the passport into the European Union.

Q246 **Peter Grant:** Can I move on to you, John? We heard Frances say that she welcomes the assurances that the Government have given that there will not be a significant withdrawal of workers' rights as a result of Brexit. Do you welcome that as well?

John Longworth: I think we ought to go through a process of reviewing the totality of European legislation and take a view on what will actually benefit both the UK economy and the British people—of course, the British people are workers. We can take a view. There is lots of legislation that it would benefit the economy to remove; it would be equivalent to a tax cut for business. You are looking at workers' rights. In my view, one of the reasons why we have a low-productivity, low-wage economy is that we have an unlimited supply of cheap labour from the European Union. The fact is that, while that persists, we are unlikely to develop a high-wage, high-productivity economy, because there is no incentive for businesses to invest.

Q247 **Peter Grant:** You have said just now and in a number of speeches recently that the deregulation after leaving the European Union will be equivalent to a significant tax cut for UK businesses. Which specific EU directives and regulations are on your list for repeal on Brexit day plus one?

John Longworth: It is up to the business community in general to propose legislation for repeal, and it is for Whitehall and the Government to actually look at individual pieces of legislation. I could give you a long list of stuff. The REACH directive needs to be reformed. The ergonomics directive produces ludicrous, over-burdensome regulation for businesses. The agency workers directive I would target personally, but the conclusion may be that actually we don't want to do anything about that. That is not



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about zero-hours contracts, by the way; it is concerned with people being able to work flexibly. There are things that prevent workers from choosing to work overtime. There is a host of legislation—I am quite happy to provide the Committee with a long list if you wish—that we could address.

Q248 Peter Grant: Are you aware that last week, the Engineering Employers Federation told us that one thing they definitely do not want to see is an immediate drawback of the REACH regulations, because having put in a great deal of time, effort and money to comply with them, the last thing they want is to have to put in a great deal more time, effort and money to comply with a new set? Have you actually spoken to businesses?

John Longworth: Yes, of course. I have spent most of my career speaking to businesses. There are lots of adjustments that could be made to individual pieces of legislation that would be of benefit, without actually removing the whole piece, which could be dramatically of benefit. I will give you a good example in that area. If you speak to flavour houses or perfumiers in the UK, they will say they have major problems and major costs—making them uncompetitive in world markets—in complying with the legislation that you refer to, because they are forced to ask the suppliers of minor ingredients for dossiers on the minor ingredients, and of course if those suppliers are in, say, Japan or the United States, where those requirements do not exist, they cannot afford or in fact be bothered to provide the information, so it causes major difficulties for UK businesses to be able to compete. That is a small example of a particular circumstance, but such examples are legion.

Q249 Peter Grant: You have also said that you want to see signature-ready trade deals—I think that was the phrase you used earlier today—to be implemented immediately after Brexit. Clearly, it will not be realistic to have them ready with every one of the 150 other countries in the world. Which countries would be your priorities? Which would you expect us to look to sign significant trade deals with as soon as we leave the European Union?

John Longworth: Again, you can choose a long list of countries that you might wish to do trade deals with. Clearly, we ought to target markets where we have the most opportunity to sell products and services. If you were to put them in a pecking order, you would probably choose those that have an English law basis and that have the English language as a major business language. However, the latter defines most of the world's markets. We have a huge opportunity. Clearly, the United States and Commonwealth countries would be important. There is a long list of emerging markets where there are significant opportunities.

When I was in my British Chambers role, we set about setting up 41 business groups around the world in the very markets I am talking about. So I would say start with the 41 that the British Chambers actually set up the business groups in.

Q250 Peter Grant: I am aware that my time is limited, so we will move on. You are a non-executive director of Nichols plc and you sit on the audit and



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remuneration committees. Can you confirm that your annual report for 2015 reveals a 10% increase in average payments to directors and also that HMRC is currently pursuing the company for £3.5 million in tax, which it claims it was underpaid from an incentive scheme for senior managers? Is that correct?

John Longworth: There was an incentive scheme that was approved—let me say first of all that I think it is improper for me to talk about a company of which I am a non-executive director. But simply in relation to the accounts, there was an incentive scheme that was approved by the auditors, which the Inland Revenue appear to have decided is ultra vires, and Nichols is adjusting its position.

Q251 **Peter Grant:** One final question, if I may. In response to the Austrian presidential election, Arron Banks, who was a major funder of the Brexit campaign, has suggested that the reason Austria rejected a far-right anti-immigration president was because they have not had enough people raped and murdered by immigrants yet. How do you feel, having been part of a Brexit campaign that was substantially funded by somebody who held those views?

John Longworth: I was not part of the organisation that was funded by that individual.

Q252 **Peter Grant:** So you are saying there were two different Brexit campaigns.

John Longworth: There were several. The campaign for leaving the European Union was a popular campaign among the people of this country. There was not an organised institutional approach, unlike in the remain campaign. You were therefore bound to have a number of individuals and organisations who were passionate about leaving the European Union.

Q253 **Peter Grant:** How do you know which of those various campaigns the 17 million people voted for?

John Longworth: What I can say is that, as far as I can see, all of the people who put forward economic and business arguments in relation to the leave campaign were basically saying the same thing, which is that we should leave the customs union and the internal market and crystallise the enormous benefits of Brexit as soon as possible.

Chair: If we can try and stick to the post-referendum matter at hand, that would be helpful. Anyway, thank you very much. Dominic Raab is next.

Q254 **Mr Raab:** Thank you all for coming. In October, the Prime Minister said that the UK would not be subject to free movement rules, nor the jurisdiction of the ECJ, and that she wanted Britain to be able to negotiate our own free trade deals globally. We have taken evidence already from the Legatum Institute, Chatham House and Open Europe, and they all agreed that if the Government holds to that position—although it may take a different view—it is inevitable that we will be coming out of at least membership of the single market and the customs



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union. I wondered whether anyone on our panel disagreed with that conclusion.

Frances O'Grady: The conclusion about what the Prime Minister thinks, or—

Mr Raab: No. If we come out of free movement and ECJ jurisdiction, and if we want to strike our own free trade deals, inevitably the logical conclusion is that we are coming out of the single market and the customs union as a formal member. Because we have taken evidence and so far had almost unanimous agreement from the experts, I wondered whether, from your different fields, anyone disagreed with that.

Frances O'Grady: Certainly, on the part of the TUC, our view is that the way to approach this is to start with prioritising what is best for the working people of this country and what arrangement suits protecting jobs, rights and wages.

Q255 **Mr Raab:** My real point is this: do you know of any country that has stayed out of free movement and ECJ jurisdiction and negotiated FTAs, but stayed a member of the customs union or the single market? Do you know of any country that has done those things? I am trying to work out what is reconcilable and what is not.

Frances O'Grady: What I think we could do is manage migration much better. What is clear is that many people, in areas where there has been rapid and large-scale migration, are worried about—

Q256 **Mr Raab:** Sorry, with respect, I just wanted to know whether you know of any example in practice of a country being able to do those two things.

Frances O'Grady: I think it is worth this Committee looking much more closely at the different interpretations of freedom of movement in different countries. Different countries have different arrangements, for example in respect of pulling an emergency brake, individuals registering, different income requirements—

Q257 **Mr Raab:** That is a valid point, but it does not answer my question. Carolyn Fairbairn, do you agree with that position? If you come out of or are not subject to free movement, are coming out of the jurisdiction of the ECJ and want to negotiate your own free trade deals, it is impossible to reconcile that position with being a formal member of the single market or the customs union. Of course, there is the whole question of access and degree of access, but I just wondered if you accepted that logic.

Carolyn Fairbairn: What I completely agree with is that there is no precedent—that is factual. There is no precedent, so that is absolutely right. What I would say, though, is that it is very helpful to think about outcomes. What kind of outcomes are we trying to achieve for the economy and the country? We are talking about barrier-free access to the single market, because that is what really matters for our businesses—

Q258 **Mr Raab:** As distinct from being a formal member.



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Carolyn Fairbairn: I think you need to look at what being a formal member brings you, and it brings you very good barrier-free access. If we are in a position of having to make trade-offs, which I think is where your question is going, we would prioritise barrier-free access, both tariff and non-tariff.

Q259 **Mr Raab:** Understood. John Longworth, I wondered whether you had a view on that reconcilability of coming out of free movement and ECJ jurisdiction, and negotiating free trade, with the basic question of membership of either the single market or the customs union.

John Longworth: For me, it is crystal clear that if we do not leave the internal market and customs union, we will not in fact have left the European Union, in the sense that we will still be subject to the four freedoms and the ECJ rulings. Actually, I believe that the people of the country voted to leave the European Union, and they voted to leave the four freedoms and the ECJ rulings. The people decided not to be ruled by a foreign power or dictated to by a foreign court. Whatever the economic arguments are, in order for us to have left the EU we have to leave those two institutions.

Q260 **Mr Raab:** As a matter of fact and evidence, you are not aware of any country that has managed to come out of free movement and the ECJ jurisdiction and to negotiate its own free trade deals, and yet stayed a formal member of either the customs union or a single market.

John Longworth: Yes, that is correct.

Q261 **Mr Raab:** May I move on to another issue, which is the EU's track record on negotiating free trade deals? It has had a rather chequered history, in recent practice with the US, the Latin American trade bloc Mercosur, India and others. Carolyn, on "The Andrew Marr Show" on 21 November, I noticed that you struck quite a positive tone, saying that businesses were full-steam ahead to get the best from Brexit, and I felt that was an important and positive message. You also talked about specific trade opportunities in China and India from your recent visits there. Would you amplify the opportunities you identified from those two big markets?

Carolyn Fairbairn: I am very happy to do that. We are in the business of getting the best from Brexit. Our members hugely value their European trading relationships, but they are also interested in establishing new trading relationships. I was in Beijing about six weeks ago. The growing middle class there is extremely interesting. The provinces are extremely interesting and quite independent. I found that there was a pragmatic approach by many Chinese businesses to wanting to trade more with us. There are real challenges because market access into China is challenging and has been anyway. I think we should really be considering what more we can do there, and gearing up in terms of DIT and our embassies to ensure that we are equipped for that.

India is very interesting. Again, there has been market access enhancement in recent years under Prime Minister Modi, which we



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welcome. I thought there was an appetite again. It is true that there has been relatively slow progress by the European Union.

The only thing I would say, though, is that there needs to be a note of realism here about the scales and the arithmetic, because 50% of our trade is with the European Union. Gravity laws in trade are still applicable. They can be proven globally. We need to understand and calibrate the pace of the ramping up of international deals if we do real damage to our European trade. Our members would say, "Let's do both but let's understand the calibration and how important our European markets will remain for us for many years to come."

Q262 Mr Raab: I think our level of trade is now 45% with the EU, and declining year-on-year, but I take your point that it remains an important trading partner. Before coming to Frances, may I just ask Carolyn and John one question about regulation? The UK is rather different from many continental countries. According to the Enterprise Research Centre, 85% of new jobs in this country are being created by small businesses. What particular advantages for small businesses—you have both previously represented a range of businesses including small ones—can you see of removing EU regulation? Would either of you identify any particular measures?

Carolyn Fairbairn: We ask this question all the time. We ask our members the benefits that they see from potential deregulation, and we get a few answers. There are some interesting areas of environmental regulations that were not adapted for the UK.

Q263 Mr Raab: Can you give an example?

Carolyn Fairbairn: Okay. A particular example is mollusc control in parts of the midlands. We have different environmental conditions from mollusc control at the European level. We do not have an endangered mollusc population. That is a very small example. But I have to say—I'm going to be really honest here—that that is not what most businesses are talking to us about at the moment. They are more concerned about the stability and certainty of the trading environment in the foreseeable future.

Q264 Mr Raab: I get all that. I am just trying to laser in. I know the CBI gets accused of being the representative of big business—

Carolyn Fairbairn: We represent many small businesses.

Mr Raab: I know. I am giving you an opportunity to flesh out the answer, if possible. I was out with the Federation of Small Businesses on Saturday, talking about some of the things its members have been discussing. From your experience of small businesses, what are the possible deregulatory advantages from coming out of the EU? You may say there are none. You may want to reflect on that and send us something.

Carolyn Fairbairn: I will do that. They are not talking about those as their first priority at the moment.

Mr Raab: I understand that.

Carolyn Fairbairn: But I can come back to you if there are any particular issues that we have picked up in our conversations.

Q265 **Mr Raab:** Thank you. John Longworth?

John Longworth: I have to say that from talking to businesses that are involved in the British Chambers of Commerce and, for example, colleagues in the Federation of Small Businesses, they would probably find a different result than the one Carolyn has just suggested. Deregulation was often top of the list for small businesses. There are legion examples. You have just inspired me by talking about molluscs. I remember talking to a particular company based in Essex that had a special squad to fill in holes as soon as they appeared for fear that the hole would fill with water and immediately be populated by newts. The European regulations on endangered species, of course, immediately prevent any development of the business if any endangered species is present. The absurd thing about that is that while newts might be endangered in the European Union, we actually have a massive population of the newts concerned in the UK. We have got them all and that prevents developments. That is just an amusing example of the way in which businesses would like things deregulated.

One of the fringe benefits of Brexit in my view is that the Government will now be in a position where they are forced to make the UK into an enterprise economy. The Treasury will at long last not be able just to focus on the City—not that it is not important. It will no longer be in a position where it focuses purely on the City, but will have to look at the wider economy and deregulating for small businesses to grow.

Q266 **Mr Raab:** Can I ask both of you and Frances O’Grady to send a list of measures that you think should at least be considered for amendment or repeal as they relate to small businesses given the job creation.

I have a final question to Frances O’Grady. You mentioned that you did not want Britain to become the bargain basement for workers’ rights in the EU and I totally share that. Believe it or not, I was looking at article 1 of the European Social Charter that spells out, top of the list, the right to work. That is the first right in that charter.

Putting to one side for the moment the question of entitlements and protections when in work, do you agree that with eurozone unemployment at 10%—double the level in the UK—that Britain has done rather better than Europe in guaranteeing that top-priority right, the right to a job?

Frances O’Grady: The right to a job is clearly important, but so is the right to a good job, and I—

Mr Raab: No, sorry, I’m very happy to—

Frances O’Grady: I wonder if I could come back on John’s comment on deregulation.

Q267 **Mr Raab:** Can you answer my question first? This is a Committee and we



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ask the questions. I understand that you want to make some points about workers' protections, but on the key question of a right to a job, actually Britain is doing better than the eurozone—

Joanna Cherry: Chair, can I make a point of order?

Chair: We can't end up with three people talking at the same time.

Joanna Cherry: The witness was not allowed to finish her answer to the first question. It seems to me that she was in mid-sentence and interrupted. Is that in order?

Chair: Let Dominic finish his point and then Frances O'Grady can answer the question in the way that she wishes. All right? Dominic, have you finished your point?

Mr Raab: I think it has been made clear, thank you, Chairman.

Chair: Right. Frances O'Grady.

Frances O'Grady: I think we would absolutely share, I would hope, the goal of full employment. I think many of us share that goal. Clearly, different countries have performed better. However, increasingly, what is important to ordinary people out there is not just a job, but a good job that you can build a life on and raise a family on.

I would like the opportunity to point out that some people's red tape is other people's rights that they depend on. One reason we are really worried about the future is that there are very strong lobbies and vested interests who have argued consistently to weaken agency workers' rights and working time rights, and to reduce rights in a whole range of other areas.

If you are a driver working long hours, that working time directive makes a real difference to your life. If you are an agency worker at ASOS, that agency workers directive makes a real difference. I am sorry if this is saying the bleeding obvious from the TUC perspective, but it is really important that this Committee recognises that, whichever way people voted in the referendum, you will be hard pushed to find an ordinary working person who voted for worse rights. They don't want to fall behind German, French and Italian workers and end up as cut-price labour.

Mr Raab: I understood that and you made the point very clearly.

Chair: Can we move on now?

Q268 **Mr Raab:** Can I just check that I have understood? You are not struggling to say that it is better to have unemployment at 10% as in the eurozone than at 5% in the UK. You don't struggle with that basic equation. Clearly, the unemployment level in the eurozone is double what it is in this country. That must be hugely important to your members.

Frances O'Grady: Neither do I struggle with the fact that it is really important for people to have high-skilled, well-paid, secure jobs in the parts of Britain that need them desperately.

Q269 **Mr McFadden:** Good morning everyone. I want to ask a few questions about the nature of the negotiations and some of the timetables and parallel processes and so on. I'd like to begin with you, Carolyn, if I may. You referred in one of your earlier answers to the concept of a cliff edge. The Secretary of State for Brexit said last week that it was the Government's aim to complete not only the divorce negotiations under article 50 but an agreement on the future relationship between the UK and the EU—all within the two-year article 50 period. If that doesn't happen and we don't have any kind of transitional agreement in place, that is what you refer to as the cliff edge. I'd like to explore with you why you think that is a problem. What is the problem with simply leaving the EU and trading with it as any other WTO member does?

Carolyn Fairbairn: Absolutely. The cliff edge that we are referring to is exactly as you say: it is the leaving of the European Union. I think the date that has been set by Mr Barnier is now October. What happens the next day? The cliff edge issues fall into a number of categories. One of them is the tariffs that would immediately have to be applied under WTO rules. The question that our members are asking is how to prepare for that. If you are talking about—we have had these conversations with our members—a nine-month to a year lead time to be able to gear up to the very different working capital requirements, the rules of origin-type regulation and, in terms of the public sector side of that bargain, the border officials and just the gearing up, the question is how that can happen if the decision to move to that is taken probably quite late in the day and overnight.¹

The second issue is around regulatory uncertainty. Even if we have the great repeal Act—which is welcomed by our members because it provides a certainty about the framework going forward—there is a difference between those regulations translating into UK law and then being recognised by our European partners for trading partners. There is a difference, because a number of the regulators of those laws sit in the European Union. We have a number of members saying to us, "We don't know how we would trade that next day, whether our products would be legal or whether our health and safety certificates are valid. We just don't know how we would trade."

The third aspect of the cliff edge is the market access—the issue we were talking about before—which affects financial services and also creative industries. It actually affects any of our sectors that are trading with Europe under market access rights—the right to compete. They would not know the next day if they had access to customers. For example, broadcasters broadcast into the European Union under directives that give

¹ Clarification from witness: the nine-month to a year period is an example and not decisive. Example used with the intention of explaining that the period of adaptation has to reflect the level of change.

them the right to broadcast. They would not know if that was legal the next day.

Those are the kind of cliff edge issues that we are talking about, which is why we have made a strong case for an adjustment period. Even if we know what we are trading under at the end of the two-year period, it is absolutely normal, as part of trade negotiations, for there to be a period of adjustment for businesses to be able to make the investment, to be able to prepare and to be able to plan, so that you don't have that sudden change in trading conditions that would be so bad for jobs and for investment in this country.

Q270 Mr McFadden: Let me explore this with you a little bit further. You set out several consequences there of what has been referred to as the cliff edge. In those questions and their answers about trade, we often hear about tariff and non-tariff barriers. Can I ask you a bit about this? I will come to non-tariff barriers in a minute, but in the event of trading under WTO rules, what kind of tariffs are you worried about? Can you give us any specific product or industry examples that might illustrate why you are concerned?

Carolyn Fairbairn: Certainly. We know that the WTO schedule is published, and I think we can infer from that. The tariffs on dairy products, for example, are 36%. The tariffs on cars are 10%. On food and drink they are 20%. On clothing and textiles they are between 10% and 20%. Those are the kind of tariffs that would come into play if we were to move in to WTO rules.

I would just like to add another important point about our trade with the European Union, which is the integration of supply chains. That has come to light particularly strongly because of the currency movements, because many firms have had to work out that balance of imports and exports. Even our exporters are quite often importing heavily from Europe to be able to make their products. What you have in addition to the export barriers is those goods that are crossing borders several times before they are eventually exported from the UK—the automotive sector is a case in point. Those are the non-tariff barriers and that friction that you have at the border would affect the supply chains very significantly.

Q271 Mr McFadden: It has been put to us that as an economy dominated by services, non-tariff barriers are in some ways the more important area—in a sense, common regulation. It has also been put to us that as an economy dominated by services, there could be a trade bonanza for us under the WTO rules. What is your response to that?

Carolyn Fairbairn: I don't quite understand that logic. First, I would say yes, our economy is strongly services based, but the manufacturing sector is about 17% of the economy and still matters greatly, so we should care about the tariffs.

In terms of the bonanza from WTO rules, I think our members are struggling to understand what that would be, because although the European single market has not completed in services—it is one of the



things where it had a way to go—market access is none the less guaranteed for financial services, and I have talked about creative industries already. There are elements of the market for services that work very well in the European Union, so it is hard for our members to understand where that bonanza would come from, because we would be going backwards on privileged access. Then what you would have to be looking for is privileged services access in other trade deals that we would be trying to strike. That is an interesting thing to talk about it, but it obviously would require serious negotiation in the years to come.

Q272 Mr McFadden: Just to finish on this theme, do the concerns that your members have about tariff and non-tariff barriers lead you as an organisation to conclude that there is a need for this transitional agreement in the event that we do not get a trade deal wrapped up within that two-year period? Why is that transitional agreement so important?

Carolyn Fairbairn: There are two different kinds of transitional agreement that one might talk about and I think it is worth separating them. One is where we do reach a deal in two years and then we need time to be able to move to it, for all the cliff-edge reasons that I have just run through. The second is if we do not reach a deal. What then happens? What does no deal look like? Businesses are saying to us today, “We’re contingency planning. We’re trying to work out what decisions we might need to take. We want to understand what might happen if there is no deal.” In either of those circumstances we would see an adjustment period as being necessary—that might be a better form of language—because of the need for smoothness and continuity for businesses to be able to continue to operate effectively.

Q273 Mr McFadden: Thank you. If I have time, Mr Chairman, I would like to just ask Mr Longworth a question about something he raised in one of his earlier answers. You referred to regulation as effectively being a tax on business. Now we could say that about any regulation in terms of this discussion about employment rights. If you abolished maternity pay, you could see that as a tax cut for business, but those kinds of things are costs to employers. Are you in favour of abolishing rights like that or cutting them back in a post-Brexit world?

John Longworth: What I actually said was that removing 10% of the regulations would be equivalent to a tax cut on business, which would amount to around about 0.7% to 1.2% of GDP, which would be a huge benefit in terms of boosting employment and job security and so on. What is actually going to be cut is a matter for business and the Government and representatives of the people such as yourselves to decide. I remember that the British Chambers used to keep a tracker—before I became director general—of the cost of EU regulation. They stopped producing it when it got to £80 billion a year back in 2011. They stopped producing the tracker because nobody was listening. The answer that constantly came from Government was, “We can’t do anything about this because it is EU jurisdiction.” We now have an opportunity to do something about it.



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Q274 **Mr McFadden:** If your target isn't the employment rates that Frances O'Grady and many others are concerned about, what is it?

John Longworth: Some of it will be to do with employment and, as I said before, some of it will be to do with the fact that people are not allowed to do the overtime that they might wish to do—the very truck drivers we were hearing about earlier tell me that they are really angry that they often can't do overtime. The fact of the matter, however, is that there is a lot of legislation that has nothing to do with employment rights whatsoever but causes cost to business. That legislation can be very pernicky. The ergonomics directive, for example, requires small businesses to keep a ledger of checks on the positioning of computer screens and chairs in the office. The bureaucracy surrounding that sort of stuff is a cost to business. The business costs are legion, although not necessarily in relation to employment rights.

Q275 **Mr McFadden:** Frances, I will give you the last word. Of course, employment rights are in a sense a cost to business, but your organisation has received many assurances from Government that that is not their target in coming out of the EU. How do you feel about those assurances in terms of the coming great repeal Bill and the security of those employment rights going forward?

Frances O'Grady: I am not complacent about employment rights, because we know they are so important to ordinary people. We know that people are very clear that they want to keep them, and they want them improved. Some may describe them as a cost, but for many ordinary workers they are a benefit, and they are a benefit for business, too. I have talked to many business leaders who value a level playing field. Let us be clear that these are minimum standards that countries have the sovereign opportunity to improve. They are just minimum standards, so there is nothing to stop the UK building on them.

Frankly, it is a real worry, because we hear lots of voices saying that they would like to take the opportunity not only of leaving the EU but of leaving the single market in order, as they believe it, to remove the costs on business. Actually, the international evidence is very clear that where countries treat their workers fairly and give them strong rights and a voice at work, those countries tend to perform better. I hope that we would all want to avoid a race to the bottom. Frankly, I am not reassured by the process of a great repeal Bill, as I worry that there would not be sufficient time and opportunity to scrutinise issues, like employment rights, that are so important to ordinary people.

Q276 **Mr Whittingdale:** Can I stay on this issue of the burden of regulation? John Longworth has just referred to the British Chambers of Commerce tracker, which I recall very well. I had not realised that you had had to abandon it, but could you say a bit more about how you see the overall total?

Particularly to Carolyn, to what extent has the CBI examined the opportunities that may exist to reduce the burden of regulation and the costs on business and to improve our competitiveness? Are you working



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on an analysis of potential repeal or reduction to present to Government?

To Frances O'Grady, I quite understand that the TUC is going to fight to protect employment protection rights, and you have made that very clear, but to what extent do you see that regulations are imposed from Europe that have nothing to do with employment rights—they are in other areas for which it is difficult to see any justification—but are increasing costs and, therefore, potentially destroying jobs in this country? I wonder whether the TUC has looked at that.

John Longworth: The first thing I would say in answer to your question is that if we come to the conclusion that in order for the UK to leave the European Union, we have to leave the internal market and the customs union and that, in any event, in order to crystallise the enormous benefits that Brexit will provide, we have to leave the internal market and the customs union, we are in danger of wasting a lot of time in Government in negotiations in the next 18 months. What we should be doing is directing Whitehall to spend time having conversations to create trade deals and to draw up a shortlist of regulations that can be removed on Brexit day plus one and thus crystallise part of those benefits. That is what we really should be spending the next 18 months doing. If the Government make it clear that the direction of travel is that they are minded to leave the internal market and the customs union, business will have 18 months in which to plan for that and there will not be a need for any transitional arrangements after the event. That is what we should be doing in order to crystallise the benefits of deregulation.

The opportunities for deregulation are legion. I will just give you another amusing example. We had a manufacturer of smoked salmon that had to relabel the smoked salmon that they were producing because the European Union required that manufacturer to put on the label, "May contain fish". That is actually a considerable cost to that business because they have to produce new artwork, they have to employ people to make sure that it is put in the right place on the pack and in the right format and then they have to produce the actual packaging. That sort of stuff happens all the time in European legislation. When we have control of our own affairs we can choose what we want to do. It will be a considerable saving of cost to business by removing some of the silliest of the regulations. We can easily find 10% of the regulations to remove that will reduce the cost to business without attacking major parts of employment law.

Carolyn Fairbairn: We ask our businesses all the time about the impact of regulation—European and UK, I have to say—and we get a lot of answers. At the moment, the biggest concerns about regulation from our small businesses are still around business rates, the complexity of the tax system and planning regulations. Those are at the top of the list.

John raises examples. We have to be very careful not to be anecdotal and just pick the silly, funny examples because there will always be some. We have had the road haulage and labelling examples. Can I pick up on both of those, because they are really important? Road haulage does have



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some quite complex and detailed regulations about the hours that drivers can drive. They were invented by the UK. They are welcomed by the UK. They have enabled a road haulage system in Europe that is absolutely fantastic, because drivers can work under exactly the same worker protection rights throughout Europe and you don't have dangerous cowboys coming in from outside Europe. Actually, when this was highlighted as an example of silly European regulation, the Road Haulage Association—one of our members—got in touch and said that it is not understood how valuable this is in terms of a level playing field.

I have to say that many of our members would say the same thing about labelling. What common labelling allows you to do, if you are a small business—we have Wyke Farms, a really fantastic small business cheese manufacturer in Somerset, and they are hugely concerned about divergence in labelling. Labelling is one of their biggest costs and they value greatly the fact that they have got a level playing field within Europe.

We have got to be really careful not to pick silly examples and that, as the great repeal Bill goes through—as I said, our members welcome it—there is proper consideration of the costs and benefits, and the benefits of standardisation and a level playing field in the European Union, which has been of great benefit to many of our businesses.

John Longworth: Of course, level playing fields for big corporations can be barriers to entry to competition as well. Big corporations often like regulation for that very reason, whereas small and medium-sized businesses hate it because they want to be able to grow and prosper, and they cannot afford the large departments to deal with it or to lobby Brussels in a way that provides competitive advantage. I am providing examples, by the way, only because the Committee seems interested in examples.

The fact of the matter is that it is quite possible for us to find a tranche of legislation that businesses will be happy with. I spoke to one road haulage company that was incandescent about the road haulage regulations at a European level. It said that there is unfair competition from European drivers, which has practically destroyed the road haulage industry in the UK, because some of the European member states are not applying the rules.

Frances O'Grady: We believe very strongly that the issue is better regulation. It is not about whether we have regulation, but about the quality of the regulation. In a whole range of areas—including employment rights—simplicity, plain language and understandability are often really important, because that is the way you get enforcement of and adherence to regulations.

Like Carolyn, I am a little sceptical about the volume of noise on some of these issues. When you dig a bit deeper, as the TUC did on health and safety, which came under sustained criticism for being bureaucratic and having a lot of red tape, very often those stories prove to be untrue. There



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were real benefits, in terms of protecting workers' health, safety and wellbeing, from those regulations.

Secondly, I am not sure what the alternatives are. Please correct me if I am wrong, but I understand that Liam Fox was talking to the WTO about a replication of the EU arrangements. Again, it is about quality of regulation and who gets a voice around the table.

Thirdly, just so you are aware, the TUC has established a panel of conveners from workplaces across the country to get a voice from the shop floor and views on how this process is developing. Their key concerns are about uncertainty, investment decisions, future corporate decisions about where plants will open or close, and so on. Regulation isn't the No. 1 issue.

Q277 Mr Whittingdale: This may be wildly optimistic, but I am going to try to get all three of you to agree to a proposition. There are examples of European regulations that have been strongly opposed by this country, but we have lost through qualified majority voting. I can think of one, in particular, which is going to come into effect very shortly: the general data protection regulation. I recall that the impact assessment said that the net effect on British business would be over £100 million, and that the impact on small business would be several hundred million pounds. We could see no benefit from that. That is not to say that we don't need data protection regulations, but we could draw up our own data protection regulations, which would deliver the kind of protection that is desirable without that kind of unnecessary cost.

Do you accept that the great repeal Bill—or, as it was better described to us, the great continuity Bill—gives us the opportunity to seek out, exactly as Frances O'Grady said, better regulation that will reduce the cost on business and make us more competitive, but not undermine the protections that we think are still important?

Carolyn Fairbairn: Yes, I think that is absolutely the right thing to do. My only caution is about the timing. One of the things that our members are really focused on at the moment is having the certainty that that is going to be the *acquis*, and that the regulations that we are going to see when the great repeal Bill is introduced are the inherited frameworks from the European Union. Then we can get to work.

To be honest, if there were a suggestion now that there will be a lot of uncertainty about what might come into force on that day, I think you would unsettle a lot of businesses that are now comfortable with the idea of that being the framework that we then move forward from. My answer is yes, but be sensitive to the timing.

Mr Whittingdale: Frances, do I get a yes?

Frances O'Grady: I have a similar view to Carolyn. To provide certainty and confidence, continuity is going to be really important over the next period. Again, it is about being clear, almost regardless of the EU, about what is best done at an international level and what is best done at a

national level. That is the principle of subsidiarity, which is at the heart of the EU, and it is a good principle for the future.

John Longworth: Emphatically, yes. But we—that is to say the business community and the Government together—should spend the next 18 months to two years drawing up a list of the legislation that can be repealed after Brexit.

Q278 **Seema Malhotra:** Could I start by asking Mr Longworth to respond on the issue of costs? You have talked about how you see costs coming down as a result of leaving and reducing regulation, and you have focused so far, as I interpret it, particularly on employment rights. Do you see any risks of increasing costs to business as a result of leaving the single market and particularly trading with the EU under WTO rules, which I understand Leave Means Leave has argued in your report we may need to do in the event of a hard Brexit?

John Longworth: Yes, there may be increased costs for business of trading with the European Union once the UK has left the internal market and the customs union, but the benefits that can be crystallised by doing that outweigh the costs considerably.

Q279 **Seema Malhotra:** Sorry, can I just ask you to go through where you see the costs coming from?

John Longworth: There may be costs in relation to tariffs that are applied by EU countries. There may be some additional costs in relation to monitoring the regulatory changes in the European Union, although of course businesses do that now anyway, so I would imagine those costs will be marginal.

Tariffs are an interesting question. The average tariff in the European Union is 3.5%. That is actually a rounding error in a currency movement, if you consider the fact that the pound has dropped in value by 20% in the past 12 months and 15% since the referendum. Even if the EU applied tariffs, UK goods would trade at a more competitive value in continental Europe now than they were trading a year ago. Therefore, UK goods will be attractive to European purchasers irrespective of the tariffs. Of course, the tariffs themselves may not arise, because it may be that the UK achieves a free trade arrangement of some description during the negotiations or post Brexit.

Q280 **Seema Malhotra:** Can I push you on whether British goods would be more competitive? Is that assuming that there are no extra costs from, for example, increased regulatory checks?

John Longworth: As I stated earlier, there is a lot of misconception about the customs union and the movement of goods around the world. As it stands at the moment, there is free movement—in relation to origin checks, for example—of goods around the world generally, because it is actually covered under a 1922 Geneva treaty in relation to the certification of goods. Those certificates are issued by chambers of commerce around the world. Origin checks and the breaking open of containers and so on do

not take place, because there is already free movement through that method.

- Q281 **Seema Malhotra:** I just want to push some arguments that others have made to challenge this and get your view. Would you see us losing influence and involvement in the setting of regulations and standards, and would that potentially result in greater costs of compliance for British businesses?

John Longworth: I think the UK will actually improve its position in terms of setting standards, because international standards are increasingly set at the global level. The chair for the setting of those standards is currently occupied by the European Union, and the UK will be able to reclaim its chair at the table for those discussions. We are now in a bizarre situation, for example, where New Zealand has a place at the table on setting the standards for sheep meat in terms of international trade, but the UK does not.

- Q282 **Seema Malhotra:** If we roll forward to Brexit day plus one and the scenario that you outline of where you think we need to go, would there be a situation whereby manufacturers, for example, may have to comply with the same standards as the European Union—almost half of our trade has been with the EU—but testing houses and regulatory agencies that we use no longer recognise them, resulting in border checks that could result in greater costs?

John Longworth: No, first of all, let us be clear about this: a small proportion—about 9%—of the UK economy is directly dependent on exports to the European Union. About 11% of the economy is related to exports to the rest of the world. The remainder of the economy is domestic, and yet the whole of the economy has to comply with European legislation. The domestic part of the economy is the biggest driver of GDP growth. Therefore, freeing up that part of the economy from European legislation will boost economic growth.

In relation to the exports themselves, because the UK exports more to the rest of the world than it does to the EU, UK manufacturers and service providers have to comply with a multitude of different regulatory regimes. They have to comply with Japanese standards, Taiwanese standards, US standards and Chinese standards. However, many of those standards are now coalescing into global standards, and that will increasingly be the case. So post-Brexit, we will simply have to treat the EU the same as we treat all these other countries that we export to and whose standards we have to comply with. The monitoring of those standards is meat and drink for business; that is what business does.

- Q283 **Seema Malhotra:** But would there not be any extra costs that British businesses and manufacturers would incur with our largest trading partner? This is about being very clear so that businesses can plan.

John Longworth: I have been very clear. If there are any extra costs, they would be from the application of tariffs by EU member states. The regulatory costs would—and should—be about the same as they are at the

moment, because we have to monitor and comply with those regulations anyway.

Q284 Seema Malhotra: Would there be any extra testing fees? Can you see there being delays in getting our products into the European markets?

John Longworth: There should be no additional testing fees because we already have to test. As far as the delays are concerned, there should be no additional delays, because if the products comply with the regulatory regime, there is no reason for any further delay.

Q285 Seema Malhotra: So you do not believe that there would be any identifiable, significant extra costs or time delays for us in trading with our European partners, compared with what we have now?

John Longworth: There ought not to be any additional costs and time delays in relation to technical matters, but there may be additional costs in relation to tariffs applied by the EU on British goods. That is assuming, of course, that we do not get any free trade arrangements with the EU, but if that happens and we have reciprocal tariffs, there will be a shift in trade towards domestic production and away from EU products at the margins, which could actually boost UK manufacturing.

Q286 Seema Malhotra: Thank you. Could I push you on some points you made about labelling? You made those comments in relation to the potential cost to business. Will you comment on whether there might be a disbenefit to consumers of not having consistent labelling? For example, I have a niece who has a nut allergy, and it is helpful to know and have consistency of labelling from a consumer perspective. Others may have fish allergies. Can you see any downside for us as consumers from not having consistent labelling?

John Longworth: The labelling will be internally consistent within the UK, because it will be determined by UK regulators, so a consumer in Birmingham will see the same label as a consumer in London. We will decide as a nation what goes on the label. I cannot imagine for a moment that we would want to remove allergen labelling from food products.

Q287 Seema Malhotra: I have one final question for Frances O'Grady. I believe the TUC published a report today, "Brexit: a new deal for working people". Part of it referred to enforcing the highest standards in Europe for employment, consumer and environmental protections. Will you talk a bit further about what you would be concerned about us losing, particularly relating to consumer and environmental protection?

Frances O'Grady: Obviously, our main focus is on workers' rights, although we share concerns about what it means for consumers also, not least on increased tariffs and prices, at a time when, as we all know, we have had the longest squeeze on wage packets since Queen Victoria was on the throne. Prices, consumer standards and environmental issues also matter, and they matter to industry and jobs.

Our key concern is that working people should not pay the price of Brexit. Whichever way they voted, working people are very clear that they want



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their rights and jobs protected. We commissioned a report from Michael Ford, QC, which we issued earlier, to look at the rights that could be vulnerable on leaving the EU and if, having left the EU, the UK decided no longer to comply with EU employment law. It is a very long list, which I am happy to supply to the Committee, and it is about the role of the ECJ and compensation levels. It is not just about rights; it is also about the enforcement of rights.

Clearly, there are huge issues to discuss in this Committee, but I hope that the test, "What does this mean for ordinary working people?", will be key when so many people are feeling insecure, their wages are not growing, and we are seeing some vivid and frankly ugly examples of bad treatment of workers.

Q288 Mr Lilley: I want to discuss the impact of free movement of labour on pay, shortages and skills, which is quite an agenda to get through in 10 minutes. The UK has a lower proportion of working age people with technical and vocational skills than Germany, Switzerland, Japan and Korea. Mr Longworth has already answered this question inadvertently, but could I ask the other two witnesses whether access to cheap skilled labour enabled and tempted companies in this country to continue to rely on imported cheap skilled labour, rather than equipping their own workforce with the vocational and technical skills they would have had in Germany or Switzerland?

Carolyn Fairbairn: One of the defining issues of our times is low productivity and low wage rates. The CBI has focused hugely on that and we published a report last week trying to understand the drivers of regional productivity differences across the UK because it is so profound and the differences are so great. We must be very careful to diagnose correctly.

Some of the drivers are absolutely fundamental—education is absolutely fundamental; skills and training are fundamental. One of the real challenges of the next 10 years is to get that right. Businesses are committed to that. They spend £45 billion a year on training, but they can do more and they want to do more. That is part of the picture.

Other major productivity drivers in terms of low wage growth include connectivity between our cities to open up labour markets; exporting, which is a source of higher productivity growth; and, frankly, management practices in our companies. Those are all issues.

Has immigration had a major effect? Studies tend to suggest it has not. In fact, some of the work for the study we published last week shows that the highest-productivity parts of the country are those with the highest immigration. We need to be very careful not to misdiagnose this very serious issue of low productivity.

What I think we do need to focus on is an environment where we are equipping our young people for the jobs of tomorrow, and are becoming a higher-skilled nation. Our PISA results are still a real challenge—that starts



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in primary school and goes on from there. These are huge, enormous challenges, but I think immigration and the contribution of immigration need to be properly understood.

In terms of my conversations with members around the country in my first year at the CBI, skills shortages are a real issue—they are there in engineering, they are there in construction, they are there in the care sector—and we must be very careful that we do not exacerbate those by whatever it is we do next, because that will have a negative impact on people's lives and a negative impact on productivity.

Frances O'Grady: There are a range of different examples. If you take the car industry, for example, in BMW you will have British workers going to work in Germany and German workers coming to work in Cowley. There is a gold standard of investment in apprenticeships and skills. It is a great story. Migration is a positive in respect of that skills story.

In the public services, where unions collectively bargain for workers, clearly we are trying to ensure that all parts of the workforce get a fair share of the training budget. Our key concern there, for example, is the cut in bursaries that help many working-class people in particular to get into professional jobs like nursing in the NHS.

Then you have stories of real displacement and exploitation, where clearly there are cases of employers in a whole range of areas, from care to hospitality to construction, using migrant workers as a cheap alternative to investing in training up a workforce from people in the local area. But we have very clear proposals for how we could manage migration better, how we could have an industrial policy that delivers those better, higher-skilled jobs closer to home in the parts of Britain that need them most, how we could crack down on that kind of exploitation and undercutting—it may be a minority but it is a problem, and good employers are as keen to work with us as anyone else because it undercuts them, too—and how we could use the £2 billion that migrant workers contribute to the Exchequer to provide better services in areas under pressure, including—

Mr Lilley: At the risk of cutting you off, I did not want a complete dissertation on immigration; it was a specific question—

Frances O'Grady: But ESOL classes are important too.

Q289 **Mr Lilley:** You mentioned undercutting. Has the large net inflow of people to this country depressed pay in any sectors a lot, a little or not at all?

Frances O'Grady: The academic research suggests that overall that is not the case, but as unions we know of particular workplaces and companies where that has happened.

John Longworth: I will just say first of all the productivity question is a knotty question that has a lot of factors feeding into it, including Government policy on access to finance and investment, for example. It is something that has been with us for some time, but it is a bit of a red herring as well in some senses. Productivity per hour worked is not as



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good in the UK as it is in some European countries. GDP per capita growth, for example, has been exceptional in the UK, largely of course because productivity per hour worked does not include the unemployed. Spain has a very good record on productivity, but 25% unemployment, so we have to get these things in perspective.

Secondly, on the free movement of people, it is more economically rational for businesses to access cheap, better-skilled labour from overseas than to train home-grown talent and pay people more money. I would be very surprised if businesses were not doing that.

The third thing is that there is a dearth of evidence on migration. It is almost as though Governments are wilfully avoiding the question. The one that struck me was one that our current Prime Minister made a speech about two years ago, which was the all-party House of Lords report on immigration. That report looked at the studies that had taken place and concluded, in broad terms—from memory—that migration has actually been a net disbenefit. At best it has been marginally beneficial to the economy, but to sections of the population it has been a disbenefit, largely because of the cost of migrants themselves, pressure on public services and the depression of wages. The other House concluded that, in fact, migration was a problem.

Q290 Mr Lilley: The usual justification given for needing access to labour from the European Union is that we have labour and skills shortages generally or in specific areas. The US Senate Judiciary Subcommittee on Immigration and The National Interest said that there is something problematic about the idea of a shortage in a free market economy. Normally, pay will rise to match the level of demand and supply in any sector. What do you think the symptoms of a shortage are, and would you agree that one is rising or high pay?

Carolyn Fairbairn: It's complicated. The idea of just supply and demand in a spot labour market does not take account of the fact that, for example, we have attracted FDI to the UK, which has been really powerful over the past decade. That is partly because we are a very attractive place to do business, partly because we are able to attract talent from around the world. I will give you a couple of examples. One of the things that we have been very good at is creating jobs, so our unemployment rate is relatively low.

Q291 Mr Lilley: I'd be grateful if you would focus on the question, which is: what are the symptoms of a labour shortage? Is it high and rising pay or something else?

Carolyn Fairbairn: I was just coming to an example. In the west country at the moment, unemployment is about 0.8%. To give an example of a symptom of a labour shortage there, I was with a number of SME food and drink companies in Exeter a couple of weeks ago and they placed adverts in the paper for people to work for them. One example was a cake manufacturer, who got two replies. He interviewed them and only one was good enough, but he needed to fill 14 roles.



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Q292 **Mr Lilley:** How much was he offering?

Carolyn Fairbairn: Well, certainly the national living wage.

Q293 **Mr Lilley:** Would you get enough accountants and lawyers if you offered the national living wage? Is there a shortage of people trained in British law and accountancy, which you cannot get from anywhere else, in this country? Is there more of a shortage than of people packing food?

Carolyn Fairbairn: I completely agree with you. Of course, your example is correct for the spot market.

Q294 **Mr Lilley:** It's not a spot market. You can pay these people for a year at a time.

Alistair Burt: And how much does the cost of business go up if you start paying a lot more in these circumstances?

Mr Lilley: I want to pay more to low-paid people. You may not, Alistair—well, I know you do actually, because you are a good man.

Carolyn Fairbairn: And so do our businesses.

Chair: Hang on, I think three people were speaking at one time, and that is slightly difficult for those who are trying to transcribe our very interesting deliberations. Could we do it one at a time? Carolyn, I think you were speaking.

Carolyn Fairbairn: If I can go back to my example, there are businesses that want to grow, are ambitious and want to export, but they need to be competitive as well. They want to be able to train more people to grow. But this is an economy that has to be competitive. In this environment that we are heading into, where we are going to be competing globally and we want to be a strong trading nation, competitiveness does matter. That is why you need to think about the whole economy.

Q295 **Mr Lilley:** That's a very sophisticated way of saying that they can only compete on the basis of cheap labour and they have to import cheap labour to do so. Isn't that what you are saying?

Frances O'Grady: Can I surprise John by agreeing with him that there have always been employers who will search out the cheapest labour, not necessarily abroad. They have used part-time women workers in that way. Young workers of course do not get the higher national minimum wage; they get a lower rate. There will always be employers who attempt to do that. As far as I am concerned, the responsibility is on Government to make sure that workers are protected from that kind of unscrupulous behaviour.

Another key factor is the extent of collective bargaining coverage, because I detect real differences in people's views. If they know people are getting the same pay for doing the same job, people are much more relaxed about where workers come from. If they see workers being recruited, not just from other EU member states but from particular parts of the workforce, on a lower rate and there is no union to collectively bargain to



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get them a fair rate, that is when it becomes a problem. Governments can make policy choices about tackling exploitative employers, who, if they are exploiting migrant workers, are probably exploiting local workers, too.

Q296 Chair: Thank you very much. I want to pursue one question on this point, and it's to you, Carolyn Fairbairn. The Government have made it clear they want to control EU migration. Ministers have also said that no one wants to see labour shortages in key areas. Can you briefly tell us what you are saying, on behalf of your members, to Government about how that control should operate in the future? Peter Lilley has just taken one example of areas where there are difficulties in recruiting people. Can you deal with other, highly skilled occupations and then the question of intra-company transfers, which was referred to earlier?

Carolyn Fairbairn: The first thing that I would like to say is that businesses really do understand the public concern. Everywhere I go, there is an understanding of what messages came from the referendum and that this issue needs to be addressed, and they are thinking very hard about what kind of contribution they can make to this debate that will help the right decisions to be made. I just wanted to say that first.

I think it is right to think about the different kinds of issue, and Frances set them out. There are issues about international companies wanting to move people around very easily. That is incredibly important, particularly in a service economy. The moving of skilled people around to work on projects—critical intra-company transfers—is something we need to protect, or we will be less attractive to those multinational companies.

The second issue is skilled graduate people—engineers and so on. That is really important. Thirdly, we must not forget non-graduate labour, particularly in the construction sector and the care sector. I have a number of members who feel very uncomfortable about saying this, because it is so unpopular, but they are really worried about the viability of their businesses if they are not able to bring in people who are able to work seasonally and in particular areas of shortage.

In terms of your question, Chair, the kind of contribution that the business community want to make is evidence-based. They understand that there will be changes. What is important is flexibility, speed of response where there are shortages and making the process easy. The outside-EU system is cumbersome. The visa application process can take months and months and months, and it is very disadvantageous for smaller firms, which do not have the big departments to do it for them. The system should be easy and responsive, recognise skill shortages across those different ranges of graduate and non-graduate, and allow mobility within companies.

Chair: That is very helpful; thank you very much.

Q297 Andrea Jenkyns: Are you confident that the UK can negotiate to leave the EU, and its future with the EU, within two years of article 50 being triggered? I would like to go to Carolyn first.



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Carolyn Fairbairn: That is really hard to predict, isn't it? The evidence from historical trade deals is that they take a really long time. We have just seen the Canadian example; after seven and a half years, we are just about there.

The thing that I think makes it easier is that you are starting from something that exists. Even though there is obviously going to be a lot of debate around it, there are benefits on both sides from what we have now, which may make it easier. To be honest, I think we should give it our best shot, because the idea of getting certainty quickly—parallel tracking these negotiations—makes sense. But we have to be prepared for the fact that history tells us that trade deals can take a very long time.

Frances O'Grady: I am worried about the impact of uncertainty on investment decisions in particular. Without doubt, we are hearing concern on that front. But ultimately it is more important to get it right than do it fast.

Q298 **Andrea Jenkyns:** Do you think it can be done within the two years, then?

Frances O'Grady: I think that will be pushing it.

John Longworth: I think that we should stop worrying about it. As I said earlier, the real benefits of Brexit are in crystallising things that have nothing to do with the internal market or the customs union. We can make major progress on conversations with countries around the world on trade arrangements during that process so that—to say “signature-ready” is obviously an exaggeration—we have signature-ready trade deals for Brexit day plus one.

I also think that we overplay the whole issue of trade arrangements. Tariffs, at 3.5% on average, are not huge. The vast majority of the world's trade takes place without any trade arrangements or so-called access to any market. There is no gatekeeper on the internal market. If there is a willing buyer and a willing seller for goods of the right quality at the right price, trade will happen. The United States and China sell billions of pounds' worth of stuff to the European Union every year without any trade arrangements, without any so-called access and without being members of the internal market.

Q299 **Andrea Jenkyns:** Many businesses in my constituency are telling me that they want to see article 50 implemented sooner rather than later. They want certainty in their business so that they can plan for the future. Any plans to stall article 50 beyond March 2017 will do more harm than good for business. What are your views on that? What opportunities do you see for business in leaving the EU quickly?

John Longworth: I think it would be very helpful if the Prime Minister were to indicate that the Government are minded to leave the internal market and the customs union. If she were to say that soon, it would enable businesses to plan for that eventuality. We should get on. I agree with Barnier that we should get on and leave as quickly as possible. If he is giving us the possibility of leaving in 18 months, fantastic.

Q300 Andrea Jenkyns: What do you see as the opportunities of leaving quickly?

John Longworth: The opportunity of leaving quickly is that the sooner we leave, the sooner we can crystallise the benefits of leaving, which are not to do with the internal market. If we stop obsessing about the internal market, we can concentrate on preparing to crystallise those benefits and preparing for the possibility of agreeing some sort of free-trade arrangement with the EU either before Brexit day or after Brexit day. Once we get to a position where the EU begins to realise that we are not worrying about the internal market and the customs union, I imagine that businesses in those EU countries will be demanding that their Governments start to talk turkey in order to get access to the UK market.

Carolyn Fairbairn: Speed is good. We heard the same thing from our members, which is "Get on with it, but also get it right." A speedy conclusion would be welcome, as long as it is the right one. The adjustment period is also crucial. An exit with a cliff edge is not something that any of our members want, but a speedy exit with an adjustment period is something that our members are looking for.

Frances O'Grady: I think the Prime Minister has set her timetable, but from a TUC perspective, before article 50 is triggered we want to see a real plan for jobs in industries that we know could be vulnerable. I am not saying that they will be vulnerable, but we know that they could be. There are huge issues for a whole range of industries.

Q301 Andrea Jenkyns: Do you have any evidence?

Frances O'Grady: There are big, big questions for aviation, the car industry and a whole range of industries and jobs, and in particular parts of the country. We want to see a plan in place. I can forward more information to the Committee without boring you with our entire set of tests, but I am concerned that Ireland has not yet been mentioned in this hearing. We have a particular interest in that, and we worked very hard with the Irish Congress of Trade Unions and many other parts of civic society to support the Good Friday agreement. It is important to look on that front.

Andrea Jenkyns: I think we're going off on a tangent. The question was on the opportunities of moving quickly.

Frances O'Grady: That was the second part of your question. I guess it's "No more excuses," isn't it?

Q302 Andrea Jenkyns: Thank you. Article 50 talks about taking account of the framework for the future relationship with the Union. It is not clear at the moment what is going to be included in the framework. What would your organisations like to see in it? We will start with Frances.

Frances O'Grady: As I think I said at the start, we want jobs and rights to be centre stage and the key test of a successful Brexit and agreement with the EU.



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Carolyn Fairbairn: We would like to see barrier-free access to the single market. We would like to see a plan for regulatory equivalence so that our businesses can continue to trade knowing that they are compliant. We would like to see some response in terms of the guarantees around the economic and social benefits we get from EU funding programmes, Horizon 2020 being a very major part of it.

Those should have been thought through for the different sectors: automotive, financial services, aviation, creative industries. We have analysed 18 sectors and they all have different sets of concerns. It is absolutely right that there needs to be a plan in place at that point of exit that addresses the concerns of each of those sectors.

John Longworth: You have heard that I think we should simply leave. There will of course be areas where there need to be some conversations around things such as open skies, visa arrangements, arrangements for workers, residency rights and so on. Those things need to be ironed out.

If we can arrange a free-trade arrangement with the EU, all to the good, but it is not the end of the world if we can't. No deal is better than a bad deal. We should spend our time looking at how we can crystallise the benefits of leaving, which are almost entirely not to do with the EU itself. That is the sort of framework I would like to see.

Q303 **Andrea Jenkyns:** Just to summarise, having listened to what you are all saying there is a sense that you all agree that it is better to trigger article 50 sooner rather than later, but making sure we have a plan in place that looks at workers' rights, creative industries and so on, the niche industries, to ensure we get it right first time, but sooner rather than later to end the uncertainty. Would you agree?

John Longworth: I do, absolutely—also, if we decide, as should be our long-term objective, the removal of tariffs unilaterally. It may be that we can't do that in one stage; we may have to use it as a negotiating tool, but our ultimate objective should be tariff-free trade for the UK. That will have an impact on certain sectors, which we need to plan for. Of course, it will also make the cost of living for people in this country much lower in terms of food, consumer goods, footwear and clothing.

Frances O'Grady: Our position is no undue delay but we want to see the plan that we have now been promised address these real issues about how we protect jobs and industries through uncertainty, which without doubt, as many of us agree, are vulnerable. I agree that there are also practical issues on the right to remain. We are being contacted by thousands of people who are worried about their future, whether they are Brits abroad or migrant workers here. We owe it to them to guarantee their future.

Andrea Jenkyns: Carolyn, did you want to add anything?

Carolyn Fairbairn: Our members are very concerned about the "just leave" approach. On the timing, as I have already said, speed matters but not if we do not have those plans in place around the issues that I mentioned. I would like to support Frances's last point about the huge



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importance of guaranteeing the right to remain for EU workers here today. It is of huge importance. Our members believe it is something that we should give unilaterally. They should not be used as negotiating—

Michael Gove: Chips.

Carolyn Fairbairn: That's the word, thank you. This is a really important point that needs to be resolved as quickly as possible.

John Longworth: And Leave Means Leave has also put forward its position on that, which is exactly as Carolyn said.

Q304 **Andrea Jenkyns:** I have one final little question to put the cat among the pigeons. I agree that we need to ensure we have plans and look at implications. Do the CBI and TUC have a plan for what happens if they lose funding from the EU? I understand that the TUC has had £1.8 million and that the CBI has had more than £1 million funding from the EU. Do you have a plan for ensuring that you do not put that cost back on to your members if you lose EU funding? You are all talking about planning so I wondered whether you as organisations look at that.

Carolyn Fairbairn: Let me be absolutely clear that we are funded by our members—by the businesses of the United Kingdom who join as members. We offer our data services to a number of organisations—the EU is one, Bloomberg and Thomson Reuters are others—but it is 0.5% of our revenues.

Q305 **Andrea Jenkyns:** Do you have a plan if you lose that money?

Carolyn Fairbairn: We will be absolutely fine.

Frances O'Grady: For the TUC's part, I can give you an accurate figure. We have received €367,000 over the last five years. That has been overwhelmingly for Unionlearn, where we work in partnership with employers to train up workers, predominantly those who do not have the basic skills that Peter Lilley was highlighting earlier. Many of us would be sad to lose that money but we will do our absolute best to ensure that workers still get the training and learning opportunities that they deserve.

Q306 **Alistair Burt:** We are all very grateful to you all for being here, but I want us to be very clear because it makes a difference to how we assimilate the answers. There is a difference between the three of you. Carolyn and Frances represent organisations, but John now does not—you represent a campaigning organisation, pure and simple. Is that right?

John Longworth: I am here representing Leave Means Leave, but I was invited along as a former director general of the British Chambers of Commerce, bringing with me my knowledge and experience of that organisation and business in general—I have been in business for more than 35 years.

Q307 **Alistair Burt:** That is absolutely right, and that experience is very helpful. We appreciate that that is the background to your answers, but you now represent an organisation with very clear aims that are set out on a



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website. We have to judge the answers bearing in mind that campaigning position.

John Longworth: Yes, and of course that is true of all organisations. Some organisations registered to campaign for remain, for example.

Q308 **Alistair Burt:** That is true, but that was before the referendum, and those organisations are now operating in a different atmosphere.

John Longworth: I would hope that we are all working positively towards leaving the European Union.

Q309 **Alistair Burt:** I am sure we are, but you definitely are, because your campaign makes it very clear what it is. At the time you left the Chambers of Commerce—

John Longworth: Are you not yourself working towards that?

Alistair Burt: No, I am part of a Committee that is trying to—

John Longworth: Stop us leaving?

Alistair Burt: Look at what the opportunities are. At the time you left the Chambers of Commerce, despite everything you have said about the concerns of business and all that, it did not have a defined view on whether we would leave or stay, did it? It did not come out one way or the other.

John Longworth: No, quite correctly the British Chambers of Commerce took the view that we should inform the debate but not campaign for either side. Effectively, they were not neutral because they were prepared to inform the debate, but we did not campaign.

Q310 **Alistair Burt:** The most contemporaneous public survey of your members at the time you left said that 60% would have wished to stay in a reformed EU.

John Longworth: No, that is not correct. The survey that the British Chambers of Commerce conducted about six weeks before the referendum date was a stratified sample survey, which showed that the majority of companies that export only to the European Union wanted to remain in the European Union, but that the majority of companies who operated only domestically or who exported outside the European Union wanted to leave.

Q311 **Alistair Burt:** I appreciate the clarification. Can I come back to migration and pick up on the points that Peter mentioned? We hear an awful lot about the benefits of free movement for skilled occupations and we can all understand the need for companies to recruit the highest-skilled, but the issue in many areas is about low-skilled work done in companies—there is an issue about wage levels, the competitiveness of businesses and the like. How serious an issue is it for companies to recruit low-skilled labour across the board? Is there not a danger that, in concentrating on the need for migration and free movement of high-skilled workers, we miss the point that an awful lot of companies now are operating in areas where there is almost full employment—certainly in



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the south of England—and that it is difficult for them to recruit unless they are able to recruit relatively low-skilled workers to come and work here?

John Longworth: First of all, we have a shameful level of unemployment among under-25s in the UK, which is very concerning. The number of unemployed under-25s in the UK is, from memory, in excess of 650,000 people. Why are we recruiting people from continental Europe to do this work? That is the first answer I would put to your point.

The second thing is that nobody is in the position of saying that we should have no foreign labour in the UK. Clearly there will be a need for skilled workers for particular roles where it is, in the short term, not possible to provide trained people from the UK indigenous population. We have always had unskilled labour in the UK for certain sectors. We used to have farm labour that came over as seasonal workers, but then they would return to the countries from which they came. There is no reason why that could not be reintroduced in the future.

The real question is what the House of Lords all-party report addressed when it said that in terms of the overall economy, there was at best a marginal improvement from migration, but in terms of the people who were already here, they were worse off—so the overall economy might grow as a consequence, but the wealth of individuals in the economy would actually be depressed as a consequence. Why are we in a position where there are large numbers of people coming to the UK who have not actually got a job and who are not being brought in by companies in order to fill a labour gap, but are simply coming here to look for work and are therefore competing with people who are already here?

Carolyn Fairbairn: I think this is a time to be really listening to what businesses are saying on the ground. In terms of the conversations that we have had, there are parts of the country where unemployment is really very low. I accept John's point about long-term unemployed young people, and that is a real challenge, but to go back to my Exeter example of a cake-making company, many of the young unemployed people are the other side of the country and they are not going to come down to Exeter to work in his factory, and they don't. There is a realism around the challenges that we are facing.

The other sector that is very significant for us at the moment is the construction sector. We have some really exciting plans as a country to invest in transport infrastructure, to build more houses and to create a new airport. These are incredibly important sectors for our industrial strategy and our future economy. These are non-graduate jobs—I prefer the word “non-graduate” to “unskilled” because I think that everybody has skills. The recognition of what it would mean for our ability to thrive as a country in these areas where we want to grow and build—care workers have already been mentioned. That is another area where there is real challenge. We have an ageing population and a real demand for people who are happy to come and care for our ageing population. These are important sectors. Perhaps it is time to move off the theory, if you like,



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and on to the understanding of where we have these stresses and strains in our labour market.

Frances O'Grady: You are right. We have got high employment; we have also got high under-employment—lots of people working two jobs or more, or not getting enough hours a week to make ends meet. The root cause of this problem is that there are too many low-paid jobs in Britain. There are 6 million people in Britain earning less than the real living wage. They are not all migrants, by the way; there are lots of people suffering from low pay and insecurity. The real solution to that is investment and improving our productivity—creating higher skilled jobs. As long as there is this perverse incentive of employers being able to get away with low pay and rubbish rights, I'm afraid this problem will continue.

Q312 **Alistair Burt:** It's not a simple equation that if you stop people coming in, you can deal with these problems of low pay and skills shortages.

Frances O'Grady: No, I think—not to repeat myself—we have already talked about different kinds of migration including high-end and low-end, and it is more complicated than that. Frankly, where there are migrant workers being exploited on their hands and knees in fields, there are plenty of other local or settled workers who are doing similarly low-paid, insecure work.

Q313 **Alistair Burt:** May I just ask a third and final question? If we are looking at the objectives we should be setting out—now we are able to make a statement about what we think and now that the Government have agreed that they will make a statement about what their negotiating high-level objectives may be, but not the details—what would be your objectives for the manufacturing industry?

Frances O'Grady: In terms of the deal?

Alistair Burt: Yes.

Frances O'Grady: It is important to us because we know that jobs in exporting sectors such as manufacturing tend to be the better jobs. It is a real priority for us to get a good deal for manufacturing, and an equal priority for us to get an industrial strategy in this country that helps us accelerate the success of manufacturing and ensures that we are not held back by slapping a 10% increase on the price of a car, for example, which would be bad for workers in that industry.

Carolyn Fairbairn: I completely agree with Frances. The great thing about manufacturing—we are still very good at it—is that these are good, high-productivity jobs. I would say three things: we should be barrier free, tariff and non-tariff, which is more important for manufacturing than for many sectors because of the shared supply chains with the European Union; there should be access to skills, whether it is in the UK or globally; and there should be regulatory equivalence, so that the regulation that our manufacturers are trading under in Europe remains understandable, standardised and easy to work with.



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John Longworth: My priority would be to make the UK the best place in the world to do business, to make us a truly enterprising economy and for manufacturing to benefit from the things that come out of crystallising Brexit so that the good things that come from crystallising Brexit can feed back into the manufacturing economy to boost and rebalance the economy. As I said earlier, for the first time in my lifetime, the Treasury will have no hiding place. They cannot simply focus on the City. They will have to look at the wider economy.

Q314 **Alistair Burt:** It will be important that they do not just focus on the City, but go wider. You also quoted earlier, with approval, the Minford group of economists. Of course, during the referendum campaign, Patrick Minford said that one of the consequences of Brexit would be that manufacturing would be virtually eliminated. Is that your view and, if so, is that part of the future after Brexit?

John Longworth: First of all, I don't think he actually said that.

Q315 **Alistair Burt:** He did. I have the quote if you want it.

John Longworth: *The Sun* quoted him as saying that. If you look at the actual reports that Minford wrote, it would only happen if you were to remove all tariffs unilaterally. I think we are highly unlikely to do that because there would be a need to support certain sectors, as I have already referred to. Manufacturing still represents half of exports, so it is still a very important part of the UK economy.

Q316 **Alistair Burt:** So when he said it would be virtually eliminated and we shouldn't be scared of it because we would be moving to industries such as design and marketing, you would strongly disagree and think that should not be a consequence of Brexit.

John Longworth: I think we should continue to see manufacturing as important although, in principle, what Minford says is, of course, correct. Removal of tariffs would be a major boost to the UK economy.

Q317 **Alistair Burt:** Just bad luck for manufacturing.

John Longworth: Manufacturing has been shrinking as a proportion of the UK economy for a very long time, but there is no reason why we cannot re-engineer it to be a modern manufacturing sector and that it should not thrive.

Q318 **Sammy Wilson:** Frances, can I start with a comment you made—I think it was a throwaway comment—that, so far, Northern Ireland had not been mentioned in this discussion? You said you had some concerns around stability. Coming from Northern Ireland, I think it is one of the more disgraceful arguments that has been used by those who have been trying to make the case for remaining within the EU. Although there are huge difficulties and differences within the Executive, it has never been more stable, with Sinn Féin and the DUP working closely on the programme for Government.

The evidence we have had so far from civil servants has been that the



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Irish Government has been co-operating almost to the point of breaking the EU directive that there should be no negotiations before article 50 has been triggered, and that the Irish Government has made it quite clear that it wants an arrangement whereby we do not have a hard border, etc. On what do you base your fears that there could be instability as a result of our negotiations? *[Interruption.]* That is the Irish Government on the phone just to confirm it.

Frances O'Grady: I listen to the voices of union representatives in Northern Ireland and in the Republic, and I have also met Charlie Flanagan and others to swap notes on ensuring that any Brexit happens in a way that is good for people in Ireland and Britain.

My response to the question on the triggering of article 50 is that the TUC set out a test. We want to see arrangements and confidence in place so that prosperity, jobs and the peace of Ireland and Britain are protected. There are real and complicated issues—you will know this better than me—about how those arrangements are put in place. Yes, the work and dialogue are happening, but you will find that many voices other than mine see it as a big priority.

Q319 **Sammy Wilson:** But you would accept that, despite the arguments about when it should be triggered and what the terms of the negotiations should be, there has been no suggestion that as a result of either early or late triggering of article 50, regardless of the kind of stance the UK Government may take, there is a threat from any of the major players in the discussions within Northern Ireland or the Irish Republic that would place jeopardy on the institutions of the Good Friday agreement, the working of those institutions or the co-operation that is taking place? Indeed, that co-operation will probably be necessary, and will probably be strengthened, because of the common interest of both the Irish Government and the Northern Ireland Executive in relation to the arrangements after Brexit.

Frances O'Grady: Even those on different sides of the referendum debate are united in a commitment to ensuring peace and prosperity. We know that peace is very often built on jobs, and there are some important decisions to be taken. There is wide consensus on the need to avoid a hard border and the need to avoid complacency about the practical arrangements that will be put in place, which might impinge on issues such as free movement and the customs union. All sorts of big, practical, detailed decisions have to be taken. It is massive, and I am sure you would not underestimate the size of the job.

Q320 **Sammy Wilson:** But it doesn't impact on the stability of Northern Ireland. That is the point I want to make.

Frances O'Grady: I think it is about getting it right and not being complacent. Those of us who are old enough to remember—

Q321 **Sammy Wilson:** Since we're on the border and immigration, you have all said that the impact on wages is a complex issue. One of the objectives that you have set out, Frances, is to ensure that any plan does not



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damage workers by reducing either their wages or their working conditions. You have accepted that in certain sectors—you attributed it to unscrupulous employers, but I think it might go beyond that—immigration has put pressure on wages and working conditions, etc., and that there needs to be some control of migration. You have not spelled out what those controls might be, and I think everyone today has indicated that there needs to be some change to the way we allow people to come into the UK. That being the case, do you accept that, whatever controls we put on, our membership of the internal market—the single market—is therefore not compatible with that particular objective of putting some control on migration to deal with the issue of wages and working conditions?

Frances O'Grady: As you'll have heard, I observed that different EU member states have different arrangements, which I think are worth examination. My key priority is control over those bad employers who exploit workers, including by using migrant workers to undercut other workers. I have seen that on building sites and in food manufacturing companies we have visited, and we know that one of the best answers to that problem is winning union recognition and collective bargaining coverage to give those workers a fighting chance of getting a fair deal at work. That is an essential ingredient of controlling the effects of migration where they end up with workers being undercut.

Q322 **Sammy Wilson:** But with immigration rules as a standard present, regardless of what the ideal may be about unionising workers, we are always going to have that pool of people coming into the country and people who are prepared to exploit them. Unless we have some degree of control, do you accept that there will always be the danger of that exploitation of workers?

Frances O'Grady: I am not aware of any mainstream organisation or party that is looking to take immigration to zero, so the question is how we ensure that that is not used as a way to undercut workers. Far more focus needs to be on the employment practices that have allowed that to happen. This isn't theoretical stuff. As I said, we've got ASOS, Sports Direct, Uber, Deliveroo and a whole range.

Q323 **Sammy Wilson:** I remind all three of you that the question was, if we have some degree of immigration control, do you accept that that is not compatible with staying as part of the internal or single market?

John Longworth: It is simply not compatible with remaining in the customs union or the internal market. The European Commission itself has made it very clear that it is not compatible to have curbs on the free movement of people. The sooner we recognise that and start from that position at the beginning of the negotiations, the better.

Carolyn Fairbairn: I said before to Dominic Raab's question that there is no precedent for those two co-existing, and that is absolutely correct; it is one of the reasons why we talk about barrier-free access to the single market as the key priority. But just because we recognise that incompatibility, that does not mean that we should not continue to value



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barrier-free access going in both directions and make as strong a case for it as we possibly can, because it has been very good for jobs and growth on both sides of the channel.

Q324 Sammy Wilson: Carolyn, one of your objectives was to make the best possible trade deals around the world, and of course that seems to be where trade is moving as far as the United Kingdom is concerned. We have now reduced our percentage of trade with the EU; I think it is 43% now and it is going down further. Achieving that objective is not compatible with being part of the customs union either.

Carolyn Fairbairn: If we were to remain in the customs union, we would still have the objective, within the European Union, of trying to really accelerate those deals. If we do leave the customs union, yes, you are absolutely right: it is going to be about those bilateral deals where we have seen some opportunity.

Q325 Sammy Wilson: I have just one last question. Carolyn, you mentioned—I think Frances may have mentioned this as well—that there may well be a need for transitional arrangements, because we couldn't have this cliff edge if we got to the end of the two years. There seems to be a contradiction here. A lot of witnesses have given us that answer as well. On the one hand, they say that the desire is to get a quick deal to get certainty. On the other hand, they say, "But if we can't get a quick deal, we need to have transitional arrangements." How much time during the two years do we spend negotiating transitional arrangements, rather than going for a quick deal? Is there not a degree of contradiction here? Do we prepare for not succeeding and, in doing so, spend a whole lot of time negotiating transitional arrangements, or do we go for the best deal we can in a quick period to give us the certainty that you say your members require?

Carolyn Fairbairn: I take your point. On how our time is used, I think it is potentially going to be quite a speedy process. Even if we negotiate a deal in two years—as I said earlier, I think that kind of parallel tracking would be ideal—there will need to be a path to the new deal. Unless it is completely identical to what we have now—many of our members would like that, but the chances of it being completely identical to what we have now is unlikely—you will need a path to it. Some time will have to be carved out in the negotiating period to get a really good adjustment period for businesses, almost regardless of the outcome at the end of the article 50 process.

Chair: May I say something at this point? My apologies to the witnesses, but the aforementioned Mr Flanagan is in town on a visit and I am due to meet him now. I am going to vacate the Chair, but three other Members—Jeremy Lefroy, Emma Reynolds and Stephen Timms—have caught my eye and have therefore caught the Vice-Chair's eye. They want to ask the witnesses quick questions before we release them. Will the witnesses forgive me if I fulfil my commitment and Michael Gove comes into the Chair for the final three questions?



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Sammy Wilson: I have to go to Northern Ireland questions. I am sorry.

Chair: That's fine; we understand that entirely.

In the absence of the Chair, Michael Gove took the Chair.

Q326 **Jeremy Lefroy:** We heard from a witness earlier—forgive me, I have forgotten who it was—that there is not absolute clarity over what freedom of movement means. It seems to mean different things in different places. Freedom of movement is somewhat more difficult in Belgium, for instance, than it is in the United Kingdom.

Just this morning I read in *The Times* that the Dutch Deputy Prime Minister, who is a member of the Dutch Labour party, has called for a work permit scheme to prevent Dutch people from being pushed out of their jobs by cheap foreign labour. He is quoted as saying, "Support for free movement is crumbling when people see that it turns out to be so unfair". That was the Dutch Deputy Prime Minister—the Dutch are not known for being incredibly Eurosceptic, at least in Government circles.

We talk about the incompatibility of our view of the free movement of labour—or the lack of free movement of labour—with the single market, and I wonder whether anybody knows what free movement of labour means now and what it will mean in two years' time, and whether they know what the single market will be in two years' time and, therefore, what our relationship to it will be?

Chair: That is a question to all three witnesses.

Frances O'Grady: I agree that there are different arrangements that require more study. I also make the point that this is not just like a business negotiation; this is a political negotiation and there are real events and real citizens—not just in this country but in other countries—who will want to have a view. It is too late to reply to Sammy Wilson's point, but I do not think it is as simple as saying that we do not need to prepare for a transitional arrangement, because the reality is that nobody quite knows how these negotiations are going to pan out. I would like to see a clearer explanation of what our negotiating objectives are, but that does involve a political dimension, and that is right and proper in any democracy.

Carolyn Fairbairn: Forgive me, I haven't seen the press report today about the Dutch Prime Minister, but I do think there are different interpretations of the word "immigration" across Europe. I have been very struck by the conversations that I have had with sister federations—BDI in Germany and MEDEF in France—about how different our interpretations are. The concerns that they have about immigration tend to be from outside the EU.

In my experience, the commitment to the principle of freedom of movement is very strong. That is not completely universal, but I have come across almost a lack of understanding of what we mean by EU migration, because it is not a term that our European partners use. I would like to hope that there is scope for some negotiation about that,



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because I think that would make a lot of things possible. My experience in conversations across Europe with my counterparties have led me to think that that commitment to freedom of movement within the European Union is held very strongly.

Q327 Jeremy Lefroy: Just to be precise, it was the Dutch Deputy Prime Minister. He said that EU migrant workers from central and eastern Europe should be licensed before being allowed to work in the Netherlands.

Carolyn Fairbairn: So there may be some beginnings of movement.

John Longworth: From my point of view, I agree with what Carolyn is saying. It is ironic: as I understand it, the definition of free movement is free movement of workers, not free movement of people per se. However, it is clear that it is central to the European project that people should be able to have free movement—the European project being effectively to create what is, to all intents and purposes, a single state. I think it is highly unlikely that we will get any movement on that particular point. On your point about predicting what the EU might look like in two years' time, we probably have about as much chance as macroeconomists have of predicting growth rates in the economy.

Q328 Emma Reynolds: I have two quick questions, the first of which is to Carolyn. Would you agree that the EU single market is much more than a free trade area, because of the non-tariff barriers that have been brought down as well as the tariffs? Therefore, is the priority for the members that you represent to have better access than other countries around the world, such as the US or Japan?

Carolyn and Frances, I want to give you the opportunity to respond to the view strongly expressed by John that it would be beneficial for the UK unilaterally to withdraw tariffs. What would the impact be on your members if the UK unilaterally withdrew, brought down tariffs, and there was no guarantee that other countries around the world would do the same?

Carolyn Fairbairn: The point about what the single market really is has been brought home recently, when we have really understood how deep the supply chains are that go into the EU. I think that businesses have treated the EU as a home market, and they have therefore built factories, opened offices and created supply chains.

It is a very deeply integrated system and ecology. I think we are seeing that with the exchange rate movement. I said that earlier, because it is incredibly complicated to work out the impact of the exchange rate movement on our different businesses because of how highly integrated they are. That is different from our relationship with Canada or the US, or China or India, where I have been recently, where we have export and FDI relationships but we don't really have deep supply chain relationships. That is a really important point.



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We are trying to protect something that is a very, very big domestic market, and we have treated it as such. That is why I think this emphasis on what happens when you create a border is so significant, because one product could have moved across that border six or seven times before it eventually gets exported or consumed in the UK. I completely agree with that. When we talk about barrier-free access to the single market, that is exactly what we mean; that those supply chains could continue to operate and flourish. That is what we should be fighting to keep and, indeed, improve.

I will come on to the point about the withdrawal of tariffs. Our members have real concerns about that. It links into one of the conversations we were having earlier about regional productivity and the fact that we have huge regional differences between parts of the country. We would have to recognise that a sudden disappearance of tariffs—the tariff zone that exists around the EU—would have disproportionate effects on some parts of our country overnight.

I talked earlier about the 36% tariff on dairy products, so we would immediately need to think about constituencies with dairy farms. There is the 10% on cars. We know how concerned our automotive industry is. There is 10% on food and drink and textiles. What we would have to do is work through all of those different constituency impacts—and they would be highly regional—and work out how we would protect the people there, reskill them and retrain them.

We would have to do that incredibly quickly because John is talking about those tariffs disappearing overnight. Again, there is the adjustment period that we would need to care for those people and retrain them. It would be an exacerbation, frankly, of an issue that we are already seeing, which is the disproportionate effects of globalisation on different parts of the country. We would need a really significant investment plan to be able to cope with that scenario.

Frances O'Grady: It is worth adding that about 90% of our exports either go to the EU or are traded through agreements made through the EU. The only other point I would make is that it is easy to gamble when it is not your job on the line.

John Longworth: First, I have to disagree with Carolyn on supply chains. There is a huge amount of supply chain activity in Asia for UK manufacturing and service sector businesses. Supply chains are not unique to the European Union in any way. I also think it is rather ironic in a way that the leavers are often portrayed as being protectionist, and here we have a leaver arguing for global free trade and the CBI arguing for protection, which is rather curious. I didn't actually call for the removal of tariffs in an instant; I said I thought it ought to be the objective of the Government to lead to the removal of all tariffs ultimately and that there would be a need, for strategic reasons, for certain sectors of the UK economy to be supported. Of course, when we are free of the EU state aid rules, we can do that in a better way.

Q329 Emma Reynolds: But you did mention unilateral withdrawal of tariffs.

John Longworth: I said that in an ideal world the unilateral removal of tariffs would boost the economy by at least 4% of GDP. It would be a massive boom in the economy, but clearly in practical terms, we may need to have those tariffs in order to negotiate certain arrangements, particularly with the European Union, because they become a bargaining tool. We should seek to remove tariffs where we can, as soon as we can, and we should have the long-term objective of removing all tariffs. Countries that have gone down that route benefited greatly from it. Tariffs are not the biggest issue in trade deals.

Q330 Emma Reynolds: So there would be no impact on jobs or certain sectors that Carolyn mentioned if we just remove tariffs and other countries do not.

John Longworth: Countries have done that, and they have had a huge benefit, because the boost in the economy more than compensates for any disruption to certain sectors. But of course, you would have to protect and/or support sectors during that process.

Q331 Emma Reynolds: I would be interested in any examples that John wants to supply us with.

John Longworth: New Zealand, for example, is a country that removed all tariffs.

Chair: Thank you very much, John. I am sure we will follow that up.

Q332 Stephen Timms: I have a short question for Mr Longworth. You told us at the beginning that you used to work for Asda and Tesco. I wonder whether you have any sympathy for the position put to a number of us by the British Retail Consortium yesterday. Retailers, of course, are struggling with increased costs because of the fall in the value of the pound. They are very worried about the consequences of the price rises that they will have to pass on to their customers before very long. The BRC said yesterday that the very last thing they want is tariffs to be added as well. Do you sympathise with the concern they have about the real, damaging consequences, from their point of view, of tariffs on goods imported from the EU?

John Longworth: There is a huge opportunity to remove tariffs on things like foodstuffs. There are a lot of products that we cannot produce enough of in the UK. There are also products that are seasonal, which we cannot produce at particular times of the year, and that we cannot produce because of climate. If we were able to remove tariffs on those foodstuffs, the cost of living for UK consumers would go down considerably.

At the moment, there is a misconception about the European Union. The European Union is not a free trade area; it is a protectionist zone. The European Union causes us to apply tariffs on the importation of goods from around the world. In the area of food and clothing, for example, tariffs are quite high. In food, the tariffs are often in excess of 30%, and sometimes as much as 50%. If we were able to remove those tariffs, the



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cost of living for UK consumers and the cost of goods in the shops would go down. Companies such as Tesco and Asda—I used to work for the Co-operative Wholesale Society as well, so I have worked for the full political spectrum—will be able to source products much cheaper for their consumers.

Q333 **Stephen Timms:** But you can understand why they are worried about the prospect of tariffs being introduced on goods from the EU.

John Longworth: I can understand why they might be concerned about that. The sooner the Government make it clear that we are leaving the customs union and the internal market and that we were minded to make the UK the best place in the world to do business, including a long-term vision of removal of tariffs, the better.

Q334 **Chair:** Thank you. I am going to exploit the prerogative of being in the Chair to ask a couple of questions. Carolyn, your organisation has direct and indirect members. How many direct members does the CBI have?

Carolyn Fairbairn: We very much think of ourselves as a federation, because that is what we are—that is how we were formed 50 years ago. We talk about ourselves very much in terms of the 190,000 businesses in the UK that we speak for and the 7 million employees of the businesses who are our members.

Q335 **Chair:** And those 190,000 businesses are the people who are full members of the organisation in accordance with your royal charter?

Carolyn Fairbairn: They are members of trade associations who are our members and whom we consult regularly all the time. They are an important part of our consultation process.

Q336 **Chair:** But there is a distinction between members of trade associations and those who are full paying members of the CBI, isn't there?

Carolyn Fairbairn: I wouldn't call them full members; there are just different ways of contributing to the CBI. We are absolutely clear that we have corporate members and we have trade association members, and together that is 190,000 firms in the UK, with 7 million employees.

Q337 **Chair:** My understanding is that your royal charter makes it clear that only direct corporate members of the CBI are full members of the organisation, according to the royal charter of 1965. So how many full, direct members do you have?

Carolyn Fairbairn: As I say, we don't talk about ourselves in those terms. It is very important, and it is the way that we operate, to speak on behalf of those companies in the UK that contribute to our consultation and are part of our organisation. So that is not a number that we talk about. We don't think it is the relevant number in terms of what the CBI is.

Q338 **Chair:** But you do have a record of having direct members, in accordance with the royal charter.



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Carolyn Fairbairn: Yes, I am clear that we have two different types of member, but it is not a number that we talk about, it is not how we think about ourselves, and it is not how we operate in terms of how we consult. So I think it is very important that we talk about the relevant numbers.

Q339 **Chair:** I quite understand. This Committee can take a view about the relevance of the numbers. Just to be clear, you are not willing to share with this Committee the number of direct members you have?

Carolyn Fairbairn: We talk about ourselves in terms of the 190,000 and the 7 million employees.

Q340 **Chair:** So you are not willing to share that information?

Carolyn Fairbairn: It is not a number we disclose.

Q341 **Chair:** Okay. You are very clear; you don't disclose that number.

Carolyn Fairbairn: I will reiterate that for really important reasons we are a federation representing a very wide range of businesses across the UK. That is the important point for who we are and who we speak for.

Q342 **Chair:** You have been very clear on that point. I just wanted to ascertain that there is a class of member called direct members. They are the people who have full membership rights under your royal charter, and you would prefer not to share the number of direct members with this Committee.

Carolyn Fairbairn: It is not the relevant number in our view.

Q343 **Chair:** In your view; that's fine. Secondly, Marc Bolland and a number of other business people were invited by the Government to conduct a review of EU red tape, under the coalition Government. Have you had a chance to read that report?

Carolyn Fairbairn: I haven't.

Chair: You have not.

Carolyn Fairbairn: No.

Q344 **Chair:** In that report is a list of directives, including the ergonomics directive that John mentioned earlier, that British businesses had expressed concerns about. Would you be able to write back to the Committee with a view that your members have—whether direct or other members—on those directives and their own current assessment of what the applicability or scope for reform of those directives might be?

Carolyn Fairbairn: We would be very happy to do that. As I said earlier, it is a question we are constantly asking our members, about the regulatory burden. That is something they talk to us a lot about. They talk to us a lot about UK regulation and European regulation, so I would be delighted to do that for the Committee.

Q345 **Chair:** One of the helpful things that Marc Bolland and his team of business people did was to list every single EU directive then in



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operation, which members of your organisation and other businesses have expressed concern about. In a way, rather than casting your net and asking, "Is there anything about which you are concerned?", there is already an existing list. Would you commit to letting us know, on behalf of the CBI, the view of your members on each of the directives in that list?

Carolyn Fairbairn: Yes, I will. I haven't seen the report to understand the scale of that workload, but I would be delighted to do that.

Chair: I am very grateful. On behalf of the Committee, we are very grateful to you. You have withstood more than two hours of questioning from our members. We thank you very much for your courtesy in coming along today.